

CALIFORNIA IDEAS IN ACTION

SAN FRANCISCO'S HOMELESS CRISIS: How Policy Reforms and Private Charities Can Move More People to Self-Sufficiency

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Key Points

- While California accounts for only 12 percent of the U.S. population, 25 percent to 30 percent of the country's homeless population are found in the state.
- The number of homeless in the state has spiked in recent years.
- Health care workers estimate there are 10,000 homeless in San Francisco.
- Roughly 34 percent of the homeless in San Francisco are homeless due to direct economic factors, such as evictions and job losses. Another 12 percent became homeless when they lost the safety net of family or friends.
- About 15 percent are due to drug addiction or substance abuse.
- San Francisco could make great strides in relieving its homeless crisis by encouraging and supporting private-sector involvement while making policy changes that will invite a homebuilding boom.

Introduction

Arguably, California has the worst homeless crisis in the country. The precise number of homeless Californians is hard to quantify. The U.S. Department of Housing and Urban Development estimates that California has approximately 130,000 homeless people,¹ while the *New York Times* reported in December 2017 that the number was about 114,000.² Whichever number is correct, most parties agree that California has a disproportionate share of the nation's homeless population. While accounting for only 12 percent of the U.S. total population, California accounts for between 25 percent and 30 percent of all homeless people.

Also agreed upon is the sharp increase in the homelessness problem in recent years. Between 2016 and 2017, California's homeless population jumped 13.7 percent, according to the *San Jose Mercury News*.³

Tragically, far too many of California's homeless are considered chronically homeless, a person with a disabling condition who has been continuously homeless for one year or more. More than 32,668, or 49 percent, of the nation's chronically homeless were located in California.⁴ Of that number, 27,811, or 85.1 percent, were unsheltered. Only in Hawaii (86.8 percent) does a higher portion of the chronically homeless go unsheltered.

While accounting for only 12 percent of the U.S. total population, California accounts for between 25 percent and 30 percent of all homeless people.

Within California, the homeless crisis in San Francisco stands out as exceptionally problematic. Visitors sometimes don't know if what they're seeing on the streets is normal or if they wandered into a bad part of town. The city's estimated homeless population is about 7,500, although health care workers say it is nearer 10,000.⁵

Like the rest of California, following a decade of a stable homeless population that began in 2004, the city's homeless population expanded by 17 percent between 2013 and 2017.⁶ Today, no other city has a greater portion of its population on the streets, according to federal data.⁷ For every 100,000 San Francisco residents, there are 492 homeless people. In Los Angeles, there are 424 per 100,000. Seattle is third with 250 per 100,000. New York City is sixth, with only 45 per 100,000.⁸

Similar to the trend in California, San Francisco also suffers with the problem of chronically homeless. By 2018, San Francisco had 1,732 chronically homeless individuals, 91 percent of them unsheltered.⁹

Problems Created by Homelessness

Homelessness produces profound difficulties for both the homeless themselves and the communities they inhabit.

The homeless suffer from chronic and acute diseases, as well as threatening health conditions due to a lack of care and treatment from health professionals and family members. One study determined that 85 percent of homeless individuals have chronic health conditions.¹⁰ Disorders include cardio-respiratory diseases, tuberculosis, skin problems and infections, HIV/AIDS, bronchitis, pneumonia, nutritional deficiencies, and drug dependency. The homeless are also vulnerable to physical and sexual assault, experience sleep deprivation, and have higher mortality rates than the non-homeless.

Homelessness also puts the public at risk. This is particularly true in San Francisco, where the “streets are so filthy,” reports National Public Radio, “that at least one infectious disease expert has compared the city to some of the dirtiest slums in the world.”¹¹ One resident who lives in the South of Market neighborhood has documented an increase in Methicillin-resistant *Staphylococcus aureus* “on the streets of San Francisco.”¹²

NBC Bay Area surveyed 153 blocks in downtown San Francisco and reported in February 2018:

The Investigate Unit spent three days assessing conditions on the streets of downtown San Francisco and discovered trash on each of the 153 blocks surveyed. While some streets were littered with items as small as a candy wrapper, the vast majority of trash found included large heaps of garbage, food, and discarded junk. The investigation also found 100 drug needles and more than 300 piles of feces throughout downtown.¹³

Within that space were “popular tourist spots like Union Square and major hotel chains,” as well as “City Hall, schools, playgrounds, and a police station”.¹⁴

Complaints made to the city about the volumes of human waste in the streets have increased as the homeless population has risen. As Table 1 summarizes, there were 1,748 complaints made in 2008. By 2017, the complaints had grown to 21,000. Through October 2018, there were 20,400. Complaints of discarded needles have grown sharply, as well.¹⁵

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Addressing these problems will not come cheap. San Francisco’s new mayor has proposed adding an additional \$13 million to the city’s current \$65 million street-cleaning budget.¹⁶

Table 1: Complaints of human waste and needles on San Francisco streets¹⁷

	Human waste	Discarded needles
2008	1,748	132
2009	5,771	290
2010	5,852	223
2011	5,606	286
2012	6,266	445
2013	8,822	748
2014	10,700	1,938
2015	13,400	2,974
2016	18,600	4,242
2017	21,000	6,363
2018	20,400*	7,537*

*Through October 2018

San Francisco’s High Cost of Living Is a Core Driver of the Homeless Crisis

There are many factors inflating the homelessness problem. Many lose their homes due to foreclosure; poverty; diminishing work opportunities; a decline in public assistance; unaffordable housing; lack of affordable health care; domestic violence; mental illness; and substance addiction, according to the National Coalition for the Homeless.¹⁸ While all of these factors are driving the homelessness problem in San Francisco, economic dislocations are especially problematic. (See Table 2.)

Table 2: Primary causes of homelessness in San Francisco¹⁹

Lost job	22%
Alcohol/drugs	15%
Argument/family or friend who asked them to leave	13%
Eviction	12%
Divorce/separation	10%
Illness or medical problem	7%

More than a third – 34 percent – of the homeless are on the streets in San Francisco due to direct economic reasons. Twenty-two percent became homeless because of job loss while 12 percent were evicted. When adding those who’ve become homeless due to losing the safety net provided by family or friends, the portion of all who have become homeless because of economic factors swells to 47 percent in San Francisco.

Economic factors are driving the homeless problem because the city’s high salaries pale in comparison to the region’s high cost of living. For example, the Bay Area pays its tech workers an average annual salary of \$142,000 – nearly \$1,000 higher than the global average.²⁰ Incorporating the Bay Area’s high cost of living and workers in the region are actually earning less than their peers. Illustrating this problem, in its annual *State of Salaries* report, Hired (a job matching company), asked: “If every city had the same cost of living as San Francisco, how much would tech workers’ salaries be worth?” The average tech worker in Austin, for example, would need to earn an additional \$84,000 “to maintain their current standard of living in San Francisco.”²¹ Table 3 illustrates that once adjusted for San Francisco’s cost of living, tech salaries in the Bay Area go from the highest to next to the lowest.

Table 3: Annual Average Tech Salaries Adjusted for Cost of Living²²

	Before adjustment	After San Francisco adjustment
Austin	\$118,000	\$202,000
Los Angeles	\$129,000	\$182,000
Seattle	\$132,000	\$182,000
Denver	\$112,000	\$177,000
Chicago	\$113,000	\$173,000
San Diego	\$108,000	\$166,000
Boston	\$117,000	\$150,000
Washington, D.C.	\$116,000	\$148,000
Bay Area	\$142,000	\$142,000
New York City	\$129,000	\$136,000

The Council for Community and Economic Research Cost of Living Index ranks San Francisco as the second-most expensive city to live in, behind only Manhattan, not a city but one of the five boroughs of New York City. The rankings are based on measures of “regional differences in the cost of consumer goods and services, excluding taxes and non-consumer expenditures.” More than “90,000 prices covering almost 60 different items,” from “housing, utilities, grocery items, transportation, health care, and miscellaneous goods and services” are collected as indicators.²³

Due to the imbalance between San Francisco’s pay premium versus its high costs of living “there’s still a large differential between what’s needed for a comfortable life versus what people earn” due to the “sky-high living costs.”²⁴

A single person needs to earn at least \$110,000 a year “to live comfortably” by the Bay.²⁵ More than half of that sum (\$61,634) is to pay for necessities such as housing, groceries, healthcare, utilities, and transportation.²⁶ As an example of these excessive costs, residents “pay the highest premium for groceries” in the country, “almost \$500 a month.”²⁷

Programs to Reduce Homelessness Today

The homeless crisis requires policies that will address the problem immediately, even if these solutions are provisional. In short, San Francisco needs a plan that will help transition as many homeless persons off the streets as soon as is practical.

There are a number of private homeless shelters in San Francisco, as well as institutions that treat addiction and mental illness. But connecting the homeless to the shelters is not an easy task. It sometimes requires an intermediary.

A Role for Law Enforcement

No group, organization, or institution comes in contact with the homeless population more closely or more frequently than law enforcement officers. But they are limited in their capacity. According to Doug Wyllie, a San Francisco resident and law enforcement trainer writing for *Police Magazine*:

In the fight against homelessness, police have been thrust onto the front lines of a war they are ill-equipped to win.

Police in America need help in solving the homeless problem. Sadly, in most places, the help they need is not forthcoming, or when help is there, it's not effective enough.²⁸

He continues:

We cannot fix the problem of homelessness through enforcement actions alone. Police are the people being called to deal with the issue at a street level, but they are not the people who have the capabilities to address the root causes of chronic homelessness — the two most common being mental health issues and substance abuse.²⁹

Police can become an invaluable resource that can help alleviate the homeless problem in the short-term, if their “front line” knowledge is connected to the private institutions who have the knowledge and resources to help.

Police officers on the street “are great at divining truth amid a murky morass of lies,” says Wyllie, “but they cannot inherently know that the building down on Third and Main has a clinic offering mental health counseling to underprivileged individuals.”³⁰

The municipal government plays a pivotal role bridging this gap between law enforcement officers and private groups. It is not simply the responsibility of city hall, however. Private groups themselves “should be actively reaching out to law enforcement to let them know what they offer,” says Wyllie.³¹

There are examples of this public-private-partnership working across the country. Law enforcement has partnered with homeless services providers in Fargo, North Dakota, to great success. When the officers on the streets encounter homeless persons who are new to them, the officers connect them with the Homeless Health Services Clinic, which offers primary health care, case management, and outreach.³²

HOST Program

In Santa Rosa, the city’s Homeless Outreach Services Team (HOST), operated by Catholic Charities, collaborates with the Santa Rosa Police Department to move the unsheltered homeless into services and housing.³³

Table 4: Homeless persons sheltered by Santa Rosa’s HOST program³⁴

	Number Contacted	Placed in safe shelter (safe parking, hotel, campground, emergency shelter, reunified)	Placed in permanent or transitional housing
2015-16	745	128	76
2016-17	875	659	163
2017-18	2,012	1,098	396
2018-19*	137	137	31

*first quarter only

Kelli Kuykendall, Santa Rosa’s housing and community services manager for homeless services, credits the program’s “many successes” on its “ability to connect highly vulnerable individuals living on the streets with shelter and housing.”

“People that would not have normally reached out for resources or stopped by the drop-in center now have access to our system of care, if they so choose,” Kuykendall says. “This requires assertive engagement on behalf of HOST where they continue to engage with individuals and coordination with law enforcement. In terms of being a solution, I think HOST and street outreach in general are part of a bigger strategy to resolve homelessness that must include a continuum of services.”³⁵

The city of Petaluma launched its own HOST program in 2016. It was shut down in 2018 due to a “ongoing staffing shortage.” Toward the end of 2018, the Petaluma *Argus-Courier* reported that the city’s homeless crisis was growing worse. One of the two officers from HOST told the media the 33 encampments the officers had contact with had been completely disbanded, but then returned only a few months later after the program was halted.³⁶

“The program was a success, with every camp eliminated inside city limits,” said the *Argus-Courier*. “The two officers emphasized respect and civility, and took pride in remembering the names and stories of everyone they made contact with.”³⁷

A message from the Petaluma Police Department’s Nextdoor page, posted Jan. 24, 2019, says “we fully intend to assign” both officers back to the HOST program “when staffing allows.”³⁸

Costa Mesa’s Effort

A facilitating role goes beyond the police force as, well. The municipal government should also become directly involved with connecting the homeless populations with private organizations that can

help. The Costa Mesa City Council in mid-January 2019 approved a plan to partner with the Lighthouse Church of the Nazarene to “expand what is an already existing inclement weather shelter into a high-security temporary solution to offer shelter beds to those in need,” according to the city. The facility, intended to be a bridge to permanent housing, will almost immediately take 50 homeless persons off the streets.³⁹

Reuniting Homeless with Families

Police officers are also well-situated to facilitate reunifications, in which they reconnect the homeless with their families or with those who were previously providing them services. A report from the California Police Chiefs Association says “Santa Barbara, Santa Monica, and other agencies have been successful in reuniting families using this approach.” The Anaheim Police Department “also works toward reunification and utilizes a non-profit to fund the transportation costs. The non-profit then conducts the follow up with the client to insure a successful transition and alleviate the police department resources.”⁴⁰ Research shows family connections are successful in preventing individuals from returning to homelessness.⁴¹

Immediate Shelter

San Francisco’s administration has plans to add 1,000 new shelter beds by 2020, which is approximately enough to house most of the people currently stuck on the nightly waiting list.⁴² While creating more beds is imperative, 2020 is too long to wait. To bridge this gap, the city should consider the San Diego approach.

San Diego uses large tents that serve as transitional housing for several hundred clients in order to fulfill people’s immediate shelter needs. San Diego’s homeless tent shelters house about 700 people a night and cost roughly \$11.3 million a year.⁴³

If used in San Francisco, this transitional housing could help people move off of the street immediately. Since transitioning the homeless population into these temporary shelters will mean that fewer funds will be needed for sanitation, these tents can be financed by reallocating the city’s street-cleaning budget, which has increased from roughly \$35 million in the 2016-17 fiscal year to \$54 million in 2017-18, (a \$19 million increase) due to “one of the worst homelessness crises in the country.”⁴⁴ Clearly, it is a better use of the city’s scarce funds to increase the availability of temporary shelters than spending the funds on cleaning up problems created by homelessness.

While fulfilling the immediate needs for shelter is an important step, immediate shelter is only the first step toward permanently solving this crisis. Policymakers must increase their focus on establishing permanent housing once many of the people currently sleeping on the streets are housed in shelters.

The administration can help expedite this strategy by streamlining the building permit and building-code approval processes. Freeing developers from the encumbering statutes, ordinances, and regulations that discourage building lessens the need for government-managed affordable housing programs. The Legislative Analyst’s Office says that “building new housing indirectly adds to the supply of housing at the lower end of the market” even though “new market-rate housing typically is targeted at higher-income households.”⁴⁵

Private-Sector Solutions

There is a long history of private-sector success in overcoming homelessness. Private organizations are typically better equipped than the government to make real differences in the lives of the homeless. They can tailor programs to specific needs and can adapt where government cannot. University of Tennessee researcher Mindy Nakamura says the private sector moves faster than government, as the politics of the policymaking process “slow down decisions.”⁴⁶ When discussing the advantages of state and local public services over federal efforts, President Obama acknowledged that “nonprofits, faith-based and community organizations, and the private and philanthropic sectors are responsible for some of the best thinking, innovation, and evidence based approaches to ending homelessness.”⁴⁷

Andy Helmer, CEO of Vienna, Va.-based nonprofit Shelters to Shutters, insists that “robust partnerships between private businesses and non-profits” are central to the solution for homelessness. “These partnerships,” he says, “also need to be about more than just housing or just job placement. The solution truly needs to be about both.”⁴⁸

His organization has worked with apartment management companies in Nashville “to place people experiencing situational homelessness in onsite, entry-level jobs and provide them with housing at the same communities at which they work.”⁴⁹

There is a long history of private-sector success in overcoming homelessness.

While staying in a shelter after being evicted from her North Carolina home, Odessa Moore was introduced to Shelters to Shutters. Through the program she secured an interview for a leasing agent position at one of the apartment complexes that partnered with the organization.

She was hired, CNN said in a June 2018 report, and eventually became an assistant manager at another complex. But for Moore, there was more than just a job involved. Before participating in the Shelters to Shutters program, she had been looking for “some reason to keep my head up.”⁵⁰ Gaining employment allowed her to regain dignity and feel like “Wonder Woman.”⁵¹

Nakamura studied the work of the Crossroads Welcome Center, a non-profit organization in Knoxville, Tennessee. She found it to be “a safe place and a starting point for people who are homeless and need a place to stay during the day, as well as a hub where the needy can come and be assessed and get in contact with the correct organizations to help them.”⁵²

Crossroads offers bag storage, transportation, email and Internet access, and a sitting room, and performs triage to assess personal circumstances to determine how urgent clients’ problems are. It also writes referral letters that often result in additional private-sector services.⁵³

“If not for a day room service like this one, there would be an extra 200 people out on the streets every day,” says Nakamura, who believes the “Crossroads business model can be adapted and replicated in any city across the country.”⁵⁴

Given the success private-sector institutions have achieved, as well as their advantages over public services, city officials, both elected and unelected, should do all they can to support, encourage, and expand the private sector's role in eliminating homelessness.

Dealing with the Mentally Ill and Substance Abusers

Many homeless people struggle with mental illness and addiction. Estimates vary between roughly 15 percent of San Francisco's homeless population being on the streets due to drug addiction or substance abuse⁵⁵ to between 30 percent and 40 percent of the homeless population being afflicted by both mental illness and/or substance abuse.⁵⁶

Addressing this need is an integral part of an effective strategy to help transition these individuals off of the street. As previously referenced, this segment of the homeless population is in frequent contact with law enforcement. These law enforcement officers, when equipped with the proper knowledge, can direct the mentally ill and substance abusers to the appropriate institutions where they can receive treatment and care in safe facilities off of the streets. In particular, connections to private organizations that have a history of successfully helping these individuals is an essential part of the strategy.

Also suggested above is a funding mechanism to expedite transitions from the street to shelter. As the homeless are placed into facilities for care and treatment, they will leave less debris on the streets and sidewalks, which will allow the city to shift resources from the street-cleaning budget, which exceeds \$50 million due to recent increases in sanitation problems produced by the homeless, to those efforts.

Addressing San Francisco's Housing Unaffordability Problem

Sustainably addressing San Francisco's homeless problem requires policies that fix the city's housing affordability problem. But the benefits of affordability will only be realized in the long-term. It is not possible to sufficiently expand San Francisco's housing stock in the short-term. Nor is expanding the housing stock a comprehensive strategy for addressing San Francisco's homelessness problem. Addressing San Francisco's homelessness crisis also requires a short-term strategy that focuses on providing the current homeless population access to shelters and services that will help them transition off of the streets. These strategies were discussed above.

While the city's high costs go well beyond rent and mortgages, housing is a primary cause behind San Francisco's cost-of-living problems. Living in San Francisco is so expensive that a program known as Rapid Rehousing, which helps families with rent assistance and is also employed in other cities, has to send families out of the city to place them in affordable housing. "The families are moving to Oakland, Richmond, Vallejo and, increasingly, to the edges of the Bay Area and beyond, such as Stockton or Sacramento," the *San Francisco Public Press* reported in March 2018. In fact, "sending people out of San Francisco has become a key part of the city's effort to address homelessness."⁵⁷

In the 2017 San Francisco Homeless Count & Survey, homeless respondents were asked what prevented them from obtaining housing. The majority (56 percent) reported that they could not afford rent. One third (33 percent) reported a lack of job or income, followed by 25 percent who reported that there was no housing available. Most other respondents reported a mixture of other income or access-related issues, such as difficulty with the housing process (18 percent), and lack of money for moving costs (16 percent).⁵⁸

Indeed, unaffordable housing is a unique driver of San Francisco’s homeless problem. “We now know that there is a very close connection between housing costs and homelessness,” said Margot Kushel, director of the University of California San Francisco Center for Vulnerable Populations.⁵⁹ Research funded by real estate listing database Zillow supports Kushel’s claim. Zillow found that in “communities where people spend more than 32 percent of their income on rent can expect a more rapid increase in homelessness.” In areas where “income growth has not kept pace with rents,” the result is “an affordability crunch with cascading effects that, for people on the bottom economic rung, increases the risk of homelessness.”⁶⁰

Unaffordable housing is a unique driver of San Francisco’s homeless problem.

Compared to the 32 percent benchmark, San Francisco households paid 39 percent of their income on rent in the third quarter of 2018. The figure peaked at 44 percent in the third quarter of 2015 after sharply climbing from 37 percent in the first two quarters of 2013.⁶¹ Thus, based on standard affordability metrics, San Francisco’s housing is clearly unaffordable. Additional evidence that housing in San Francisco is unaffordable include:

- Real estate data provider Property Shark reports that nine Zip Codes in San Francisco are among the 100 most-expensive Zip Codes in the country, which is tied with New York City with the most.⁶²
- The median price of a single-family home in the Bay Area is nearly \$950,000, according to U.S. Census Bureau data.⁶³ That is five times the national average.⁶⁴
- The highest single-bedroom median rent in the country, \$3,950, is in San Francisco. The second-highest is \$3,340, in New York City.⁶⁵
- Nearly 7,000 people applied for homes in Natalie Grubb Commons, a subsidized, affordable-housing apartment project in downtown, during the fall of 2017. Only 95 units were available.⁶⁶

In an environment of inflated housing costs, it is the lowest-income renters who are most at-risk “of falling completely off the housing ladder if their rents rise even a small amount.”⁶⁷

Why Is Housing So Expensive?

The pivotal role that unaffordable housing plays in driving San Francisco’s homeless problem begs the question, why is housing so expensive? While economic factors matter, several state and local policies are the primary factors. These include: The California Environmental Quality Act; rent control; and the excessive burden created by San Francisco’s compilation of zoning regulations, costly and time-consuming permitting processes, and miscellaneous regulatory red tape.

California Environmental Quality Act (CEQA)

A large number of analyses have linked CEQA to higher housing costs across the state. As noted by the nonpartisan Legislative Analyst’s Office, CEQA limits “the amount of housing – both private and subsidized – built in California.”

Loren Kaye of the Hoover Institution has called CEQA a “tool for abuse.”⁶⁸ The law is often maliciously applied by NIMBY’s – those who say “not in my back yard” – to halt development. The Pacific Research Institute has also cited CEQA’s value to anti-development efforts, noting:

Initially an effort to protect the environment, CEQA, passed in 1970, has become by far the biggest regulatory impediment to new housing. . . . The law broadly favors opponents of development. They use it to litigate construction shutdowns when they are able, and to delay projects when a full halt isn’t feasible.⁶⁹

A University of California-Berkeley Law School study found that CEQA environmental reviews are often triggered by local land-use laws, and indicated that the application of CEQA is more stringent in San Francisco relative to the rest of the state. In many cases, “cities appear to impose redundant or multiple layers of discretionary review on projects.”⁷⁰ Some of the report’s findings are specific to San Francisco:⁷¹

- It is the only city of the five studied that has no exemptions from discretionary reviews of residential developments.
- Approval times for projects tend to take longer in San Francisco than in other cities.

When cities use state law provisions to facilitate environmental review, the process takes 23 months in San Francisco, but just seven months in Oakland. This is because “cities apply the same environmental review provisions in different ways – with significant variations in the timelines for entitlement.”

CEQA, consequently, increases the cost of development and reduces the supply of available housing. The result of rising costs and declining supply should be unsurprising to anyone with a basic understanding of economics – higher costs and supply shortages.

Rent Control

San Francisco is one of 15 California cities where the government limits the amount property owners can charge tenants. In buildings built before June 1979, “which describes about three-quarters of the

city's existing rental properties,"⁷² landlords are not free to increase rent by more than the rate of inflation. During the year beginning March 1, 2010, and ending February 28, 2011, for example, they were able to raise rent by only 0.1 percent, with rent increases limited to 2.2 percent in 2017-18.⁷³

Rent control laws are a tremendous obstacle to growth. They strip away the profit motive to build additional housing, or invest in necessary property improvements. In practice, they have been consistently linked to declining housing quality and increased housing shortages.

A 2018 paper produced by Stanford researchers who studied the effects of San Francisco's rent-control laws found that "rental supply in San Francisco decreased by 6 percent as a result of the rent control expansion."⁷⁴

Anthony Downs of the *Brookings Institution* similarly noted that "stringent rent controls reduce new construction of rental units in the long run."⁷⁵ Gunnar Myrdal, a Nobel-Prize winning economist, has gone so far to argue that "rent control has in certain Western countries constituted, maybe, the worst example of poor planning by governments lacking courage and vision."⁷⁶ Assar Lindbeck has argued that "in many cases rent control appears to be the most efficient technique presently known to destroy a city – except for bombing."⁷⁷

There is little doubt that rent control is an important contributor to the Bay Area's chronic housing shortages and unaffordable housing costs.

Zoning, Permits, and Other Red Tape

San Francisco also burdens potential developers with a litany of zoning regulations, expensive permitting processes, and regulatory red tape that discourage property development. For those projects that do go forward, these excessive regulatory costs are built into the costs of housing (e.g. housing is more expensive).

Starting with zoning regulations, these laws can be categorized as inclusionary and exclusionary.

Inclusionary zoning requires builders to set aside a portion of their developments for affordable housing. The lost potential revenues create a large disincentive for builders. A Reason Foundation report found that in the 45 Bay Area cities from which data were available, the production of new units fell from an average of 214 the year before inclusionary zoning laws were enacted to 147 units the following year, a decline of 31 percent.⁷⁸

When extending the comparison to seven years both before and seven years after inclusionary zoning was enacted, 10,662 fewer homes were built in the 33 cities from which data were available.⁷⁹ Researchers further found that after Bay Area cities passed inclusionary zoning ordinances, they produced on average "fewer than 15 affordable units per year."⁸⁰

Exclusionary zoning is a "legal practice" that has been used "for decades to keep lower-income people – disproportionately racial minorities – out of wealthy and middle-class neighborhoods across the country."⁸¹

San Francisco residents have exploited their local control “to make development as difficult as possible by lowering building-height limits, expanding zoning regulation, and increasing the veto power of homeowners”.⁸² According to Randy Shaw of BeyondChron, San Francisco’s exclusionary zoning laws prohibit the construction of new apartments across roughly 63 percent of the city.⁸³

As CityLab noted, changing zoning regulations is “the biggest thing cities can do to improve housing affordability”.⁸⁴

Obtaining **permits** in San Francisco can take years, and the process is “notorious for being confusing, expensive, and impossible to predict.”⁸⁵ A San Francisco planning permit costs roughly \$5,000 per home,⁸⁶ far beyond the national average of about \$1,000 for a building permit.⁸⁷ This significantly adds to the cost of housing – not coincidentally, San Francisco has the second-highest construction costs in the world⁸⁸ – and crowds lower-income residents out of the market.

Construction costs are higher only in New York City, where the cost is \$354 per square foot, \$24 more costly than in San Francisco. Much of San Francisco construction costs are “driven by local decisions and processes that are within the control of city agencies.” The city’s permitting processes are considered by focus groups that participated in a university study to be “the most significant and pointless factor driving up construction costs.” They also noted that “additional hoops and requirements seem to pop up at various stages in the process” and that developments are subject to “re-interpretation of the codes throughout the permitting process.”⁸⁹

Miscellaneous red tape issues that increase housing costs include:

- San Francisco’s land-use and environmental impact regulations that are among the most complex and costly in the country.⁹⁰
- San Francisco’s environmental-review process is “one-sided,” according to Harvard economist Edward Glaeser. “The surest way to a more equitable housing market,” he says, “is to reduce the barriers to building.”⁹¹
- “On top of the red tape, there are no checks and balances in place to ensure that the planning department works with permit applicants,” says Hans Hansson of the *San Francisco Examiner*, “so San Franciscans have come to view the planning department as a deterrent, further impacting development in The City.”⁹²
- Many of the rules in San Francisco’s planning code “are aimed at disallowing the creation of additional units,” according to Livable City.⁹³
- “One reason we have a housing shortage is developers are rightly terrified of entering into the maw of the San Francisco development process,” says Patrick Kennedy, owner of Panoramic Interests, a San Francisco developer.⁹⁴
- “The process and planning code are so complex in San Francisco that developers need to hire a knowledgeable lawyer to guide them through the process,” Bisnow Bay Area’s Julie Littman has reported.⁹⁵

The Unintended Consequences of Prop. C

Proposition C was passed with nearly 61 percent approval in November 2018. Prop. C imposes a tax on San Francisco city and county businesses to raise as much as \$300 million a year to “help homeless people secure permanent housing,” as well as for the “construction, rehabilitation, acquisition, and operation of permanent housing with supportive services.” Revenue is also to be directed toward “programs serving people who have recently become homeless or are at risk of becoming homeless.”⁹⁶

While Prop. C’s intentions are unassailable, in practice Prop. C will likely make things worse. The higher business taxes will harm incomes and reduce the economic opportunities necessary to sustainably address the homeless problem. In fact, due to the negative economic impacts from the tax, San Francisco Mayor London Breed opposed the measure. She foresaw the “inevitable flight of headquarter companies – and jobs – from San Francisco” and believed the initiative could exacerbate the city’s homeless problem.⁹⁷

While Prop. C’s intentions are unassailable, in practice Prop. C will likely make things worse.

While San Francisco was debating Prop. C before the election, the Seattle City Council repealed a \$275 per employee tax to fund homeless programs less than a month after passing it. It’s reasonable to conclude council members saw economic harm ahead due to the “tax on jobs.”⁹⁸ “External observers” predicted the tax would discourage economic expansion and job creation in the city.

“Larger firms will locate new business elsewhere . . . and all employers will worry about what new taxes and restrictions Seattle may impose in the future,” said Paul Guppy, vice-president for research at the Washington Policy Center. “Basically, the head tax sends a signal that Seattle is not friendly to job-creators and has a political dynamic that is hostile to business owners, investors, and innovators.”⁹⁹ Not every company would have fled Seattle. But many that remained would have been forced to make business decisions that would hurt those the tax was intended to help.

“Other firms may have decided to eschew low-wage workers and contract out to other firms to avoid the tax,” writes Charles Hughes, a Manhattan Institute policy analyst. “Most of these maneuverings from affected companies would have reduced the number of opportunities for workers in Seattle, many of them lower-wage workers who are also grappling with the high cost of housing in the area.”¹⁰⁰

The problems with Prop. C are not just on the tax side, however. Excessive spending also creates a moral hazard problem. Kevin Corinth of the University of Chicago Department of Economics summarized the moral hazard dilemma, succinctly stating that “more desirable programs increase demand, which increases costs and potentially homelessness.”¹⁰¹

Ingrid Gould Ellen and Brendan O’Flaherty argue that “moral hazard is the issue: if you reward people for staying in shelters for a long time, some of them will do so.”¹⁰² William N. Evans, James X. Sullivan of the University of Notre Dame and Melanie Wallskog of Stanford University, summarize the problem by noting how:

A substantial expansion of temporary financial assistance programs may adversely affect the behavior of those who are potentially eligible – for example, by encouraging more individuals to seek assistance. . . . Policymakers should take into account the potential for these sorts of moral-hazard responses when deciding whether to expand homelessness prevention programs.¹⁰³

Due to the moral hazard problem, as the government increases its relative generosity, it encourages homeless from other regions to migrate to San Francisco.¹⁰⁴ The outcome is an increased incidence of homelessness in San Francisco, and higher costs on the people of San Francisco. Such concerns are not merely theoretical. Writing in *Nonprofit Quarterly*, Jennifer Amanda Jones says that “problems migrate” and nearly 40 percent “of San Francisco’s homeless population became homeless in a city other than San Francisco.”¹⁰⁵

Experience from Vancouver, Canada, further substantiates these concerns. “Significant increases in service use over a 10-year period” coincided with significant migration of the recipient population into the region.¹⁰⁶ A similar effect occurs in Washington state where there is “evidence that some homeless people come to Seattle and King County looking for help.”¹⁰⁷ King County’s former “homeless czar” has even said “I do think we have a magnet effect within” the county.¹⁰⁸

The same “magnet effect” applies to San Francisco, which has been known as a city that is welcoming to the homeless. The *San Francisco Chronicle*, for instance, has acknowledged that there is a “perception” that the city “is a sanctuary for people who are unwilling to participate in programs designed to get them off, and keep them off, a life in the streets.”¹⁰⁹ That perception is based in part on the city’s reputation for failing to enforce laws as forcefully and consistently as it should against trespassing, aggressive panhandling, tent encampments, blocking sidewalks, and defecating and urinating in public places.

While it’s been said the third rail of homelessness in San Francisco is the “magnet theory,”¹¹⁰ many maintain there is no evidence that the city’s services attract more homeless. But if it is indeed a “third rail,” City Hall is obligated to determine the facts, particularly with the implementation of Proposition C.

“We have moved as a city from a position of compassion to enabling street behavior,” former Mayor Mark Farrell has said.¹¹¹ Barbara A. Oakley of Oakland University has cited the unanticipated harm of “pathological altruisms,” which “can be conceived as behavior in which attempts to promote the welfare of another, or others, results instead in harm that an external observer would conclude was reasonably foreseeable.”¹¹²

Policy Suggestions

While private-sector charities are better positioned to directly help homeless people, policy changes are also required. Specifically, elected officials should eliminate the policies driving the region's housing shortage and artificially inflating housing costs. These include:

Engaging Law Enforcement. Policies should enable law enforcement to connect homeless persons with the public and private organizations that can help permanently transition them to permanent residences.

Expanding shelters. Policies should focus on creating shelter programs that work, such as San Diego's large tent program or Santa Rosa's Host program. These programs can be financed by reallocating expenditures from cleaning up the streets to these expanded shelter programs.

Speeding up the housing permit process. Mayor London Breed has pledged to streamline the administration of building permits. The goal is to cut the time by half. This needs to be pursued as aggressively as possible.

Embracing private-sector solutions. Programs that empower private charities, or reunite homeless people with their families, have had great success transitioning people off of the street and should be leveraged by the city.

Publishing a comprehensive report on program and provider quality. Stephen Eide of the Manhattan Institute believes that we should be able to openly debate the merits of homeless-services programs and providers. "Not all providers are equal," he writes. Provider outcomes should include "how well their education and jobs programs work and how compliant their substance-addicted and mentally ill clients are with treatment regimens," writes Eide.¹¹³

Determining what works, what doesn't. Whenever public resources are used on the homeless, every dollar spent must be tracked so that its efficacy can be properly evaluated. Providers should be judged on the number of people that move on to become self-sufficient members of the community, rather than the increasing numbers of homeless they serve.

Eliminating rent control. This would ignite a mini building boom, increase the housing stock, and push down costs.

Reforming zoning laws. Restoring the profit motive for builders in a market where the demand is so high would also set off an explosion of development. This includes moving to an "as-of-right" system in which the bureaucracy cannot block a project as long as it meets all zoning requirements.

Considering the Minnesota solution. The Minneapolis City Council adopted in late 2018 an ordinance that allows developers to build duplexes and triplexes in neighborhoods previously zoned only for single-family homes. It is the first major city to pass this type of ordinance.¹¹⁴

Pressuring state lawmakers to overhaul CEQA. This state law is the biggest barrier to homebuilding in California.

The mayor and board of supervisors can also help enact government policies that directly help those people currently experiencing homelessness by:

Embracing granny flats. Building smaller second houses on the same lot as current homes will boost the housing stock.

Embracing tiny homes. Small houses about the size of parking spaces grouped together is a better option than tent encampments.

Fostering a YIMBY (yes in my back yard) attitude across the city. Adopting this mindset would allow San Francisco residents to express their tolerance and compassion.

At the same time, city leaders need to reconsider policies and attitudes that enable and increase homelessness. They should think in terms of dignity rather than dependency, and realize that massive expenditures of public funds have failed to solve the crisis.

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