Senate Budget and Fiscal Review—Holly J. Mitchell, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Richard D. Roth, Chair
Senator Steven M. Glazer
Senator Scott Wilk

Thursday, April 27, 2017
9:30 a.m. or upon adjournment of session
State Capitol - Room 2040

PART A

Consultants: Renita Polk and James Hacker

Vote Only Calendar

Items Proposed for Discussion

Public Comment

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VOTE-ONLY CALENDAR

2240– Department of Housing and Community Development (HCD)

1. **Headquarters Lease Amendment.** The budget requests an ongoing budget augmentation of up to $517,000 from various funds, including $31,000 in General Fund resources, to lease additional office space at the current headquarters location. HCD's staffing has grown from 451 headquarters staff in 2013-14 to 508 in 2016-17, and to date has accommodated this growth by converting storage and temporary space to office space, but has indicated that such an approach is not a feasible solution for recent staffing increases related to several new and expanded programs, such as the No Place Like Home Program. The requested augmentation, which will be phased in over five years, will enable HCD to expand its existing headquarters space to accommodate additional staff.

2. **Mobilehome Registration (AB 587).** The budget requests $360,000 from the Mobilehome Manufactured Home Revolving Fund and four three-year limited-term positions to implement the requirements of AB 587 (Chau), Chapter 296, Statutes of 2016. AB 587 established a three-year tax and penalty abatement program for owners of mobilehomes who are unable to properly register their ownership interest with the Department because of past dues and fees. In doing so, it is likely to create an increase in mobilehome registration applications for HCD to process. During consideration of AB 587, HCD estimated a fiscal impact that closely aligns with this request.

3. **Regulations for Water Submetering (SB 7).** The budget requests $151,000 per year for two years from the Building Standards Administration Special Revolving Fund for one two year limited-term position to implement the requirements of SB 7 (Wolk), Chapter 623, Statutes of 2016, which requires, as of January 1, 2018, that individual water meters, also called submeters, be installed on all new multifamily residential units or mixed commercial and multifamily units, and requires that landlords bill residents for the increment of water they use. It also establishes comprehensive tenant protections and landlord rights regarding the submetering. During consideration of SB 7, HCD estimated a fiscal impact that generally aligns with this request.

Staff Recommendation:
Approve as budgeted.

Issues Proposed for Discussion

0850 CALIFORNIA STATE LOTTERY COMMISSION

Overview. In 1984, Proposition 37 amended the California Constitution to authorize the establishment of a statewide lottery. As an initiative statute, the California State Lottery Act of 1984 created the California State Lottery Commission and gave it broad powers to oversee the operations of a statewide lottery. The purpose of the act was to provide supplemental monies to benefit public education. The lottery is overseen by a five-person commission appointed by the Governor and confirmed by the State Senate.

In 2010, the act was changed to allow the lottery flexibility to pay out more money in prizes and reduce the administrative cost limit to 13 percent of total revenues. Along with that flexibility, the new law requires the lottery to meet minimum levels of contribution to public education. Revenues to education are placed in a special fund, known as the California State Lottery Education Fund.

Budget. The lottery is supported solely by the sale of lottery products and does not receive any financial support from the state and the state is not liable for any obligations of the State Lottery Fund. During fiscal year 2016-17, the commission is expected to take in $1.5 billion after prizes, gaming costs, and operating expenses have been deducted. Of this $1.5 billion, $1.1 billion will go to the Department of Education for K-12 education, $226.8 million will go to California Community Colleges, $55.4 million to California State University, $36 million to the University of California system, $129,000 to other public colleges and universities, and $382,000 to miscellaneous educational institutions.

Issue 1: Informational Reports Trailer Bill Language

Budget. The budget proposes to remove the commission from the budget act (Item 0850-001-0562) and provides trailer bill language (TBL) that codifies reporting requirements in statute.

Background. The lottery is a non-appropriated item in the budget act, and receives no support from the state. Since 1986-87 a special display showing the lottery's statement of operations has appeared in each Governor's budget. The lottery submits its annual operating budget to the commission for approval each June. This budget process is outside of the legislative budget process.

Prior to Assembly Bill 142 (Hayashi), Chapter 13, Statutes of 2010, the lottery was required to return a fixed 50 percent of total annual revenues to the public in the form of prizes and to return 34 percent of total revenues to the benefit of public education, with no more than 16 percent of total revenues to be used for administrative costs. AB 142 provided flexibility for the lottery to pay out more money in prizes. It required the lottery to return at least 87 percent of total revenues to the public in the form of prizes and net revenues to benefit public education and limited administrative costs to 13 percent of total revenues. In the 31 years since sales began, the California State Lottery has raised nearly $31 billion for public education, including $1.59 billion in FY 2015-16. Because of the inherently variable nature of lottery ticket sales, revenue estimates for 2016-17 and 2017-18 cannot be made with certainty.

Trailer Bill Language. The proposed TBL would require the director of the California State Lottery to provide specific informational reports to the Department of Finance, the Joint Legislative Budget Committee, and the budget committees of the Legislature. The reporting details are listed below:

- No later than January 10 of each year, the director shall provide a copy of the proposed administrative budget for the fiscal year beginning the following July 1.

- No later than June 1 of each year, the director shall provide a copy of the proposed administrative budget and expected sales revenues for the fiscal year beginning the following July 1. The report should include any detail on any administrative funding that is proposed to be used to supplement the prize pool of any lottery game.

- No later than June 30 of each year, the director shall provide the final budget and revenue projections for the fiscal year that begins the following July 1.

Staff Comment. In the 1999 Budget Act the Legislature included an item of appropriation (reflected as a non-add) for the lottery, along with a provision requiring the lottery to report on its proposed administrative budget, revisions to that budget, and a comparison of estimated administrative costs to budgeted administrative costs. Since then, the lottery has remained in the budget act. Removing the commission from the budget act will have no impact on the display in the Governor's budget, as it will continue to appear in the Governor's budget. Since the commission's budget process is already outside of the legislative budget process this TBL makes no substantive changes and staff has no concerns with the proposal.

8260 California Arts Council

Overview. The California Arts Council (CAC) consists of eleven members; nine appointed by the Governor and one each appointed by the President pro Tempore of the Senate and the Speaker of the Assembly. The council establishes general policy and approves program allocations.

The council is statutorily required to:

- Encourage artistic awareness, participation, and expression among the citizens of California.
- Help independent local groups develop their own arts programs.
- Promote the employment of artists and those skilled in crafts in both the public and private sectors.
- Provide for the exhibition of art works in public buildings throughout California.
- Enlist the aid of all state agencies in the task of ensuring the fullest expression of artistic potential.

Budget. The Governor's budget includes $20.1 million ($8.3 million General Fund, $1.1 million Federal Trust Fund, $2.5 million special funds and $8.2 million reimbursements) and 19.2 positions to support the council and its programs.

Issue 1: Overview of Programs, Impact and Funding

The following is an informational item to provide the subcommittee with more detailed information about the CAC, its programs, and funding.

CAC Initiatives and Grant Programs. The CAC invests in California nonprofit organizations through competitive grant programs. CAC grants fund local programs that support arts education; underserved communities; veterans and their families; youth in juvenile justice settings; recently incarcerated individuals; local economic development; community development; recent immigrant; native communities; rural communities; and various arts service organizations. In 2015-16, the CAC awarded a record number of grants to California nonprofits, totaling $8.7 million. In 2016-17 the CAC will invest close to $15 million in more than 1,000 direct grants in fourteen unique, competitive grant programs. The table below provides examples of some of the initiatives and programs funded by the CAC.

Program	Description
Local Impact	Revitalizing California's underserved and rural communities through the arts.
Veterans Initiative in the Arts	Enriching the lives of veterans and their families through arts programming.
Artists in Schools	Supporting projects that integrate community

	arts resources into arts learning at school sites.
Poetry Out Loud	Helping students master public speaking skills and build self-confidence.
Creative California Communities	Transforming communities through the arts and economic development.
Artists Activating Communities	Supporting sustained artistic residencies in community settings.
Professional Development and Consulting	Provides opportunities for arts organizations to grow and thrive through professional development.
State-Local Partnership	Fostering arts and cultural development through local/county agencies.

Program impact. Research studies have shown arts programs have a proven positive impact on public safety, public health, and community well-being. Participants in the Arts in Corrections program demonstrated improved social competence, emotional control, active initiative, and self-confidence. Teenagers and young adults of low socioeconomic status (SES) who have a history of in-depth arts involvement show better academic outcomes than do low-SES youth who have less arts involvement. They earn better grades and demonstrate higher rates of college enrollment and attainment. Veterans who engage in the arts demonstrate an increased ability to cope with some of the most pervasive and devastating combat-related health issues, including post-traumatic stress, traumatic brain injury and major depression. Research has also shown that community-based arts programs have a positive impact on reducing dependency and maintaining independence in aging adults.

Funding. Funding for the CAC is provided through four primary sources: General Fund; the National Endowment for the Arts; proceeds for sales and renewals of California's arts license plates, and donations from the "Keep Arts in Schools" voluntary contribution fund. The 2016-17 budget provided $12.8 million in budget-year augmentations as follows: $6 million to increase arts programs in underserved communities; $800,000 to establish a reentry grant program; $2 million in ongoing reimbursement authority for the Arts in Corrections program; and $4 million to expand the Arts in Corrections program partnership with the California Department of Corrections and Rehabilitation. The CAC budget also includes $1.1 million in annual federal support from the National Endowment for the Arts (NEA), and approximately $2.5 million in annual funds from sales and renewals of California's Arts License Plate and voluntary state tax return contributions to the Keep Arts in Schools Fund. According to the National Assembly of State Arts Agencies, California now ranks 40 out of the 50 states in per capita state arts funding.

Staff Comment. Arts funding in California faces significant challenges this year. During the 2016-17 budget process, the Senate approved a total of $14 million in ongoing funding for the CAC. However, $6.8 million of that funding, for reentry programs for former inmates and programs for underserved communities, was changed to one-time later in the budget process. Additionally, proposed funding cuts to the NEA on the federal level present a threat to arts funding in California.

The CAC has not been able to hire two positions it was authorized for last year, as it did not receive permanent funding to support annual salary and benefit costs. The loss of the $6.8 million and/or federal funding will require the CAC to cut back on some of its programs and functions. Elimination of that funding will lead to the following:

- Artists in Schools extension grants that currently provide funding for 137 arts organizations to hire close to 1,000 teaching artists to serve over 20,000 students across California will be lost.

- Artists in Schools exposure grants that allow another 71 arts organizations to serve more than 1,778 schools across California will also be eliminated.

- All re-entry programs for former incarcerated individuals to help them transition back into their communities and prevent them from being incarcerated again will be discontinued.

- Critical grant programs supporting the development and growth of organizations rooted in communities of color, recent immigrant and refugee communities, or tribal groups will cease to grow.

- Of all 50 states, California will return to the bottom of the list in arts investment per capita.

Given the current national political climate with the new administration, CAC state funding may be more important than ever. The federal budget put forth by the Trump Administration proposes to eliminate the NEA. The NEA awarded $8.6 million in direct grants in California last year; $1.1 million was granted directly to the CAC for an annual state partnership agreement. These critical funds are used in conjunction with state dollars to support grants and services across the entire state. Grants and services supported by NEA and the CAC provide access to the arts, employment, arts education, community well-being, and cultural heritage in communities of all sizes across the state. If NEA funding is eliminated the public would undoubtedly look to the state and the CAC to fill this substantial void in vital arts funding.

Staff Recommendation. Informational item. No action is necessary.

2240 CALIFORNIA DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

The Department of Housing and Community Development's (HCD's) mission is to preserve and expand safe and affordable housing opportunities and promote strong communities for all Californians by (1) administering housing finance, economic development, and community development programs, (2) developing housing policy and advocating for an adequate housing supply, and (3) developing building codes and regulating manufactured homes and mobilehome parks. HCD also provides technical and financial assistance to local agencies to support community development.

The California Housing Finance Agency's (CalHFA) mission is to create and finance progressive housing solutions so that more Californians have a place to call home. The agency is financially self-supporting, setting loan interest rates slightly above its costs and charging fees to cover investments related to bond proceeds. Since 2013, pursuant to the Governor's Reorganization Plan No. 2 of 2012, CalHFA has been displayed within HCD's budget and reports to the Business, Consumer Services, and Housing Agency.

Governor's Budget: The budget provides $644.3 million and supports 835 positions at HCD in 2017-18, including roughly $40 million and 274 positions. This is a reduction of roughly $296 million from 2016-17, mostly due to Affordable Housing Sustainable Communities Program funding carried over from 2015-16 to the Current Year.

3-YR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2015-16	2016-17	2017-18	2015-16*	2016-17*	2017-18*
1660	Codes and Standards Program	196.2	203.9	199.9	$31,093	$32,789	$32,545
1665	Financial Assistance Program	177.1	195.7	218.3	334,566	832,673	571,038
1670	Housing Policy Development Program	15.3	17.3	19.3	29,447	37,208	2,867
1675	California Housing Finance Agency	251.7	273.6	273.6	39,682	39,689	40,013
1680	Loan Repayments Program	-	-	-	-14,200	-1,944	-1,944
1685	HPD Distributed Administration	-	-	-	-141	-141	-141
9900100	Administration	126.4	123.1	124.1	13,684	15,158	15,859
9900200	Administration - Distributed	-	-	-	-13,684	-15,158	-15,859
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**766.7**	**813.6**	**835.2**	**$420,447**	**$940,274**	**$644,378**

Issue 1: Overview of Affordable Housing in California

Governor's Proposal: The Administration's budget proposes a total of $3.2 billion for a variety of affordable housing programs. This includes $262 million for the No Place Like Home Program; $1.25 billion for the California Housing Finance Agency's (HFA) Single Family 1st Mortgage Lending Program; roughly $340 million in both federal and state Low Income Housing Tax Credits; and $75 million for veteran's housing. This does not include the $355 million in General Fund debt service for previously-approved affordable housing bonds.

Additionally, the 2017-18 budget proposes the following resources for the various programs within the Department of Housing and Community Development:

Affordable Housing Sustainable Communities (AHSC) Program. HCD has awarded $289 million in 2016-17; however, due to significant revenue uncertainty, HCD cannot predict the amount of funding for the next round of applications provided by the Greenhouse Gas Reduction Fund.

Proposition 46 & 1C: In 2017-18, $48.1 million that has reverted from projects that underspent their awards will be used to make awards for the Multifamily Housing Program – Supportive Housing and Infill Infrastructure Grant programs. Barring any additional unspent funds, these will be the final awards for Propositions 46 and 1C.

No Place Like Home (NPLH). Authorized by AB 1618 (Committee on Budget), Chapter 43, Statutes of 2016, the new NPLH Program uses $2 billion in revenue bond proceeds to develop permanent supportive housing for persons who are in need of mental health services and are experiencing homelessness, chronic homelessness, or risk of chronic homelessness. The bonds will be repaid by revenues from Proposition 63, the Mental Health Services Act.

Proposition 41 – Veteran's Program. In June 2014, voters passed Proposition 41, the Veteran's Housing and Homelessness Prevention Bond Act, which redirected $600 million from Proposition 12 (2008) bond authority to fund multifamily housing for veterans. HCD has awarded $179 million and will be making its third round of awards in May 2017, which includes budget authority of $75 million, with $10 million set aside for transitional housing projects.

California State Emergency Solutions Grant (CA ESG) Program. The new state-funded ESG program will complement the existing federal ESG program by providing grants to assist individuals and families who are unsheltered, operate emergency shelters, provide services for homeless individuals and families, rapidly rehouse the homeless, and prevent families and individuals from becoming homeless. HCD will make its first round of awards in the fall of 2017.

Federal Programs. Although combined federal funding for three major programs (the Community Development Block Grant, or CDBG program; HOME; and the federal ESG program) has been reduced by 34 percent over the past ten years, in 2017-18 HCD will be making $10 million in National Housing Trust Fund (NHTF) awards.

General Fund Revenues. In 2016-17 the Manufacturing Housing Program estimates collection of $2.6 million from the Registration and Titling Program. The budget act allows HCD to keep the first $1.8 million collected from program operations, with the excess collections deposited into the General Fund.

Background: California's high cost of housing is well documented. The Department of Housing and Community Development (HCD) estimates that California built an average of 80,000 new homes a year over the last ten years. However, the department projects that the state will need to produce 180,000 new homes a year between 2015 and 2025 to keep up with housing demand. This undersupply, combined with a growing economy, has pushed housing prices upwards and created a significant affordability gap for many Californians.

The Housing Affordability Gap

Housing affordability depends on both housing prices and household income. According to the US Department of Housing and Urban Development (HUD), housing is considered affordable when a person pays no more than 30 percent of income for housing costs, including utilities. When a person pays more than 30 percent of income, they are considered housing cost-burdened; when they pay more than 50 percent, they are considered severely housing cost-burdened. Income categories are used to analyze housing affordability because they allow an analysis of similar households adjusted for regional variations. HCD's analysis uses an area's mean income (AMI) to analyze housing affordability. Low-income households are defined as less than 80 percent of an area's AMI (with extremely low-income households having 0-30 percent of AMI); moderate income households as 80 – 120 percent AMI; and above moderate income households as greater than 120 percent AMI. The figure below quantifies the number of households in each category experiencing rent burden in California.

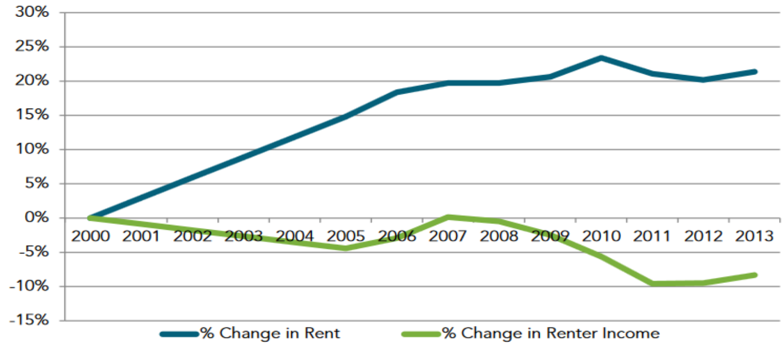
Percentage of California's Renters Experiencing Rent Burden
By Income Category

Income	Total Renter Households (million)	% Rent Burdened	% Severely Rent Burdened
Extremely Low-Income	1.27	90%	80%
Very Low-Income	.95	87%	51%
Low Income	1.11	65%	18%
All Lower-Income Renter Households (80% AMI and below) **Subtotal of above**	3.33	81%	51%
Moderate-Income	1.03	35%	4%
Above Moderate-Income	1.54	8%	0%
All Renter Households Total	5.9	54%	30%

Source: 2016 National Low-Income Housing Coalition tabulations of 2014 American Community Survey Public Use Microdata Sample (PUMS) housing file.

Despite the economic recovery that has occurred since the 2008 financial crisis, incomes have not kept pace with housing costs. This issue is particularly acute among renters, who are typically lower income than homeowners. This dynamic has increased the proportion of Californians who are either housing cost-burdened or severely housing cost-burdened. The figure below highlights the growing gap between income and rental costs.

Renter Income vs. Rental Costs
2000 through 2013



Source: California Housing Partnership analysis of 2000 Decennial Census and 2005-2013 American Community Survey 1 year data. 2001-2004 are an estimated trend. Graphic recreated by HCD.

The affordability issue has become a national problem over the last several years. The National Low Income Housing Coalition estimates that, nationwide, the supply of affordable rental homes can only accommodate 31 of 100 extremely low-income renter households. In California, the current supply of rental housing can only accommodate 21 of every 100 extremely low-income renter households.

The increasing rental burden in California is mirrored in homeownership, where median home prices have increased from $370,405 in 1991 to $526,580 in August of 2016 (adjusted to 2015 dollars). This has resulted in a significant decline in home affordability. According to HCD, as of the first quarter of 2016, California Association of Realtors estimates that only 34 percent of households in California can afford to purchase the median-priced home in the state. The California homeownership rate is currently 53.7 percent, the lowest since the 1940s.

Current Housing Policies

A variety of federal, state, and local policies aim to help close the housing affordability gap in the state. These normally take one of three approaches to the problem: (1) increasing the supply of affordable housing, (2) paying a portion of household rent costs, and (3) limiting the price and rents property owners may charge for housing.

- **Increasing the Supply of Affordable Housing.** The federal and state governments both provide a variety of direct financial assistance, typically tax-credits, grants, or low-cost loans, directly to housing developers for the construction of affordable rental housing. The largest of these programs is the federal and state Low Income Housing Tax Credit (LIHTC), which provides tax credits to affordable housing developers. The LAO estimates that the LIHTC subsidizes the construction of roughly 7,000 units of new housing per year.

- **Paying a Portion of Household Rent Costs.** The federal government makes payments to landlords, known as housing vouchers, on behalf of low-income households in California. These payments generally cover the portion of a renting household's monthly cost that exceeds 30 percent of that household's income.

- **Limiting the Price and Rents Property Owners May Charge.** Some local governments have policies that require property owners to charge below-market rate rents, or that limit the amount landlords can raise rents by in any single year. In most cases, these housing units are then limited to low-income renters. About 15 cities in California currently have such rent control laws, and the California Housing Partnership Corporation estimates that 478,654 such “deed-restricted” affordable units exist in the state.

Previous affordable housing programs have been largely bond-financed. The state continues to pay debt service on the Housing and Emergency Shelter Trust Fund Act of 2002 (Proposition 46) and the Emergency Shelter Trust Fund Act of 2006 (Proposition 1C). The proceeds provided by these bonds have largely been expended for the construction or rehabilitation of roughly 80,000 affordable housing units. However, the state will also pay roughly $355 million from the General Fund for debt service for these bonds in 2017, part of the estimated $10.7 billion in total debt service for these bonds over their life. Recent state actions have also funded a variety of affordable housing programs, including the No Place Like Home Program, which provides $2 billion in bond authority for housing for the chronically homeless and mentally ill, supported by Proposition 63 Mental Health Services Act funding. Several housing-related bills were approved in 2016, including bills that streamlined approvals for accessory dwelling units and provided density bonuses for affordable housing developers.

Staff Comment: The Governor's budget proposals move away from the 2016 Budget Act proposal to set aside funding for affordable housing. Additionally, the Governor's budget replaces a “by-right" proposal with a set of principles to collaborate with the Legislature through the policy process, while highlighting legislative measures that were enacted last year. The Subcommittee may wish to consider various approaches will result in reaching the goal of producing more housing in California.

Staff Recommendation:

Informational Item, no action required.

Issue 2: Veterans Housing and Homelessness Prevention Program

Governor's Proposal: The budget proposes a baseline increase of $903,000 (Housing for Veterans Funds) and six permanent positions for the Veterans Housing and Homelessness Prevention Program (VHHP). Local Assistance funds are proposed to remain constant at $75 million.

Background: In 2008, California voters approved the Veteran's Bond Act of 2008 (Proposition 12), a $900 million general obligation bond to help veterans purchase single family homes, farms, and mobile homes through the CalVet Home Loan Program. As a result of various factors, including the 2008 economic crisis and the state's housing downturn, the program did not experience the projected demand.

In 2013, AB 639 (Eggman), Chapter 727, Statutes of 2013 restructured the Veterans Bond Act of 2008, authorizing $600 million in existing bond authority to fund multifamily housing for veterans with 50 percent serving extremely low-income veterans. HCD continues to work with the California Housing Finance Authority (CalHFA) and the California Department of Veterans Affairs (CalVet) to explore different models that include capital funding to construct housing projects and provide operating or rental subsidies to reduce rents to a level affordable to extremely low-income and homeless veterans.

VHHPP projects follow a lifecycle that includes the origination phase (Notice of Funding Availability, or NOFA) and the award process), the construction loan closing stage, the permanent loan closing stage, the project's initial operating year, and long-term project monitoring. VHHP currently has 10 positions associated with it, including six positions for program administration and one attorney for project origination.

Staff Comments: HCD has indicated that the proposed increase in the VHHP from 10 positions in 2016-17 to 16 positions in 2017-18 is based on workload associated with VHHP project lifecycles. HCD plans to make $75 million per year available for eligible projects, and estimates that the construction loan close phase will begin for 15 percent of projects in the second year, 60 percent in the third year, and 25 percent in the fourth year. Following this, the department estimates that 15 percent of projects will reach permanent loan closing in the fourth year, 60 percent in the fifth year, and 25 percent in the sixth year, at which point they will enter the long-term monitoring phase. This suggests that there is likely to be growing long-term workload for the department to administer the program.

The current staffing level for the VHHP does not include staff to develop and revise program guidelines. HCD has instead absorbed the required workload by temporarily diverting staff from other work. However, HCD has indicated that guideline development and revision is required for each of the four upcoming NOFA rounds. The department is therefore requesting one position to perform this work.

Issue 3: Community Block Grant Program Workload Adjustment

Governor's Proposal: The budget requests one position and $157,000 (General Fund) ongoing, to meet the federal match requirement for California's Community Development Block Grant (CDBG) program and streamline the CDBG program in response to reduced federal funding levels. This proposal includes trailer bill language.

Background: The CDBG program was established by the federal Housing and Community Development Act of 1974, and subsequent legislation and regulations enabled states to administer the program for smaller cities and counties. HCD began administering CDBG for smaller cities and counties in 1992.

According to HCD, 70 percent of the annual CDBG allocation must benefit low-income families and individuals. HCD makes those funds available each year to eligible jurisdictions through both a competitive process and a process for economic development projects.

HCD receives about 429 million in federal CDBG funds annually to provide CDBG awards to small cities and counties throughout the state. The CDBG program allows the state to spend no more than three percent of its federal allocation from CDBG on administration, and requires that all money spent after the first $100,000 be matched by state funds, either directly or in-kind.

Staff Comments: Funding for the program has declined 43 percent over the last eight years, yet program administration expenditures have not decreased accordingly, in part due to extensive statutory requirements that dictate program structure. Additionally, HCD has indicated that CDBG funds are very slow to reach grantees for two reasons. First, large amounts of "program income," the gross income received by the grantee and its subrecipients directly generated from the use of CDBG funds, delays the drawdown of new CDBG funds. Second, the small, rural jurisdictions with relatively fewer resources that are eligible under the California program lack the capacity to put CDBG funds to work in a timely manner.

CDBG has proposed trailer bill language to streamline the program to address some of these issues. Specifically, HCD proposes to provide more flexibility to allow for the efficient redesign and streamlining of the program, given new lower funding levels. This includes reducing the set-aside for economic development projects (which are often undersubscribed), speeding the redistribution of unused funds, and clarifying the uses of program income (income generated and returned to local governments after initial project award), as well as reducing the number of activities eligible for funding.

In 2014-15, nine three-year limited-term positions were authorized to address the CDBG workload. These positions are set to expire on June 30, 2017. These positions completed workload associated with resolving HUD audit findings, oversaw HUD funding obligations, and reduced backlogged workload.

Issue 4: National Housing Trust Fund Workload Adjustment

Governor's Proposal: The budget proposes three positions and $10.4 million in federal funds ($423,000 State Operations and $10 million Local Assistance) to administer the National Housing Trust Fund (NHTF) Program for this year and ongoing. Additionally, this proposal includes trailer bill language to clarify that HCD is authorized to expend up to 10 percent of the federal award on administrative costs.

Background: In 2008, the Housing and Economic Recovery Act established the NHTF to provide states an ongoing source of funds to support the production of affordable housing targeted to extremely low-income and very low-income households. On December 16, 2014, the Federal Housing Finance Agency issued an interim final rule setting forth requirements related to allocations by the government-sponsored enterprises (Fannie Mae and Freddie Mac) into the NHTF. The first allocations from the NHTF to states were announced in the summer of 2016. California was awarded $10.1 million to be allocated by HCD to affordable housing projects in the state.

Legislative Analyst's Office (LAO) Comments: The LAO has reviewed this request, and provided the following comments:

> HCD's increase in workload to administer the NHTF allocation justifies its request for three additional staff in 2017-18. The need for these staff on an ongoing basis, however, is somewhat unclear given lack of certainty about future NHTF allocations. The LAO suggests the Legislature ask HCD for its assessment of the likelihood of future NHTF allocations. Should future allocations appear unlikely, the Legislature could consider approving the $432,000 but not the three permanent positions. HCD instead could fill these staffing needs by filling three previously authorized but vacant positions.

Staff Comments: The state budget relies on the continuation of federal funding in many areas. With the change in the federal Administration and Congress, many programs are vulnerable to federal action. Many housing programs, in particular, are facing significant budget cuts in recent proposals. However, it is unclear at this time how or when these changes will be implemented. HCD has indicated that the NHTF will receive funds for at least one additional year, though further out-year funding is uncertain. This suggests that permanent ongoing resources for this program may be inappropriate.

The proposed trailer bill language seems generally reasonable, as it aligns HCD's administrative funding with recently-updated federal rules and regulations. The committee may want HCD to clarify what activities it intends to count as "reasonable administrative expenses."

Issue 5: California Emergency Solutions Grant Program Workload Adjustment

Governor's Proposal: The budget proposes that the remaining fund balances in the Emergency Housing and Assistance Fund, along with five positions, be used to administer the California Emergency Solutions Grant (CA ESG) Program for a total of $2,785,000 (local assistance and state operations programmed in 2017-18 and 2018-19). These funds will be combined with the $35 million General Fund appropriation from the 2016 Budget Act for CA ESG.

Background: In 1983, the Emergency Housing Assistance fund was established to provide grants to local governmental agencies and nonprofit organizations to provide emergency shelter to needy persons. The remaining balances for the fund include $2,660,000 in local assistance and $125,000 in state operations for a total of $2,785,000.

HCD currently administers the federal ESG program, which provides grants to (1) assist individuals and families who are unsheltered, (2) operate emergency shelters providing service for homeless individuals and families, (3) rapidly re-house the homeless, and (4) prevent families and individuals from becoming homeless.

The 2016 Budget Act included a trailer bill, SB 837, which created the CA ESG Program that appropriated $35 million to support rapid rehousing, emergency shelter, and other services to address homelessness throughout the state.

The CA ESG Program expands on the federal program for purposes of addressing the state's unique homelessness challenges. The purpose of the state program is to build local capacity, provide technical assistance for federal Continuum of Care program point-in-time homelessness counts, apply for federal Continuum of Care program funding, and coordinate entry into housing and services vulnerable populations.

Staff Comments: As measured on a single night in 2016, California had the nation's highest number of individuals experiencing homelessness: 118,100, or 22 percent of the nation's homeless. California has over one third of the nation's population of chronically homeless, which is the most costly homeless population.

The CA ESG program is intended to be a California-focused, flexible program that is available to "entitlement areas." Currently, HCD can only serve non-entitlement areas with federal ESG funding. This proposal would transfer the remaining balances of the Emergency Housing Assistance Fund into the newly created CA ESG program. Transferring the funds from an outdated program to the newly created ESG program will allow California to align its goals with the federal ESG program and complement the proposed work included in the No Place Like Home Program.

Issue 6: Bond Appropriation Requests

Governor's Proposal: The budget requests a reappropriation of $22.2 million for the Infill Infrastructure Grant (IIG) Program; a reappropriation of $10 million in local assistance funding for the Veterans Housing and Homeless Prevention (VHHP) Program; and a liquidation period extension for the Housing Related Parks Program (HRPP). This proposal includes budget bill language.

Additionally, the Administration requested further appropriations of $28.6 million for the IIG, including $22.2 million in monitoring funds that are no longer necessary and $6.4 million in savings from previously-funded projects.

Background: California voters approved the Housing Emergency Shelter Trust Fund Act of 2006 (Proposition 1C), authorizing $850 million for the IIG program and $200 million for the HRPP program. AB 639 (Pérez), Chapter 727, Statutes of 2013, restructured the Veterans' Bond Act of 2008, authorizing $600 million in existing bond authority to fund multifamily housing for veterans with 50 percent serving extremely low-income families.

The IIG program provides grants to fund infrastructure improvements that facilitate new housing development in residential or mixed-use infill projects. In 2012, the Legislature authorized HCD to reappropriate IIG program funds, including any funds returned to HCD from disencumbrances of projects during the 2012-13 and 2013-14 fiscal years. The 2016 Budget Act appropriated $22.2 million in previously disencumbered funds in the IIG to allow HCD to make new IIG awards. HCD anticipates that it will not be able to award all the IIG funds in the current fiscal year. With $22.2 million available, HCD normally seeks to issue a NOFA concurrent with another complementary loan and grant program. However, HCD has not yet determined the viability or anticipated success of a small IIG NOFA, and it may not be feasible to award all the IIG funds by June 30, 2017, encumbrance deadline.

Originally, HCD set aside funding for long-term monitoring of IIG projects, as is standard for housing programs. The unobligated monitoring reserve is currently $22.2 million. However, because IIG funds infrastructure projects that facilitate housing projects, rather than housing projects themselves, the program does not require typical HCD monitoring. All IIG projects also receive funding from other HCD programs or from the Tax Credit Allocation Committee, all of which have their own reporting requirements. HCD has determined that the reporting requirements fulfill the IIG reporting requirements, and that the unobligated reporting reserve can therefore be used to fund further IIG projects. Additionally, the department has identified $6.4 million in recent disencumbrances related to project savings that can be reprogrammed to future IIG projects. Because $6.4 million is too small to warrant its own standalone funding round, HCD is proposing to combine this with the $22.2 million in reporting funding for a total appropriation increase of $28.6 million.

The HRPP provides grants for the creation, development, or rehabilitation of community or neighborhood parks to cities, counties, cities and counties. HCD awarded the build of its $200 million in the last three fiscal years and plans to make the final award of $34.5 million in 2016-17. HCD is requesting a liquidation period extension to accommodate a request by a grantee (Sacramento County) for more time to complete a project. This is the first grantee under the HRPP program that has requested an extension and is a one-time request. Due to the anticipated end of the awarding phase in 2016-17, HCD does not anticipate accommodating any future liquidation extension requests from HRPP projects at this time.

The VHPP program provides loans to fund acquisition, construction, or rehabilitation of affordable multifamily rental, supportive and transitional housing for veterans. Provisional language in the budget act authorizes local assistance to be awarded in excess of $75 million based on proposed awards, subject to legislative notification and approval by the Department of Finance. For VHPP, AB 1622 (Committee on Budget), Chapter 44, Statutes of 2016, specified that $10 million of appropriated funds should be made available for loans to counties and/or private nonprofit organizations for the construction or rehabilitation of transitional housing or shelter facilities that provide services to homeless veterans. HCD and stakeholders are concerned that the one-year encumbrance period will not be met.

Staff Comments: The requested reappropriations are consistent with actions taken by previous subcommittees. Staff generally concurs with HCD's assessment that IIG monitoring funds could be better spent on project funding.

Issue 7: Housing for a Healthy California

Proposal: The Corporation for Supportive Housing (CSH) and Housing California requests $90 million in one-time General Fund resources to create a "Housing for a Healthy California Program." This would leverage federal and county funding for a pilot program to match services with rental assistance to end chronic homelessness for between 1,200 to 1,500 Californians. This proposal is identical to a proposal that was included in the 2016-17 Governor's Budget, but which was rescinded by the Governor.

Background: Homeless individuals are estimated to cost California public systems an average of $2,897 per month, two-thirds incurred through the health system. Californians experiencing chronic homelessness incur, on average, between $40,000 and $80,000 per year in health care costs alone.

In 2015, the Department of Health Care Services (DHCS) proposed using Medi-Cal to fund rental assistance and housing-based services to address the health needs of beneficiaries experiencing homelessness and chronic health conditions. The Federal Centers for Medicare & Medicaid Services (CMS) approved a final 1115 Medicaid Waiver that included the Whole Person Care (WPC) pilot program to fund services, but disallowed use of federal Medicaid dollars for long-term rental assistance.

Though CMS rejected using federal Medicaid dollars to pay for rental assistance in the final 1115 Medicaid Waiver, the Whole Person Care pilot terms acknowledge state dollars could fund rental assistance, and match that assistance with Whole Person Care services. New York, for example, currently uses state dollars to pay for rental assistance based on estimates of Medicaid costs saved by moving high-cost beneficiaries into supportive housing.

Staff Comments: This request accompanies AB 74 (Chiu) which would establish the Housing for a Healthy California Program and is currently pending in the Assembly Appropriations Committee.

The committee may want to consider how this request fits into the broader state approach to affordable housing and homelessness, and how the proposed pilot could help inform future policy decisions.

0650 Office of Planning and Research

The Office of Planning and Research (OPR) assists the Governor and the Administration in planning, research, policy development, and legislative analyses. OPR formulates long-range state goals and policies to address land use, climate change, population growth and distribution, urban expansion, infrastructure development, groundwater sustainability and drought response, and resource protection. OPR maintains and updates the General Plan Guidelines, the California Environmental Quality Act (CEQA) Guidelines, and operates the CEQA Clearinghouse. OPR also houses and supports the Strategic Growth Council (SGC).

Budget Overview: The Governor's budget proposes $335.5 million and 38.9 positions to support OPR in the budget year, as shown in the figure below. This is a decrease of 1.5 positions and $52 million, mainly due to a decline in Greenhouse Gas Reduction Fund resources and an expiration of certain limited-term funding sources.

3-YR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2015-16	2016-17	2017-18	2015-16*	2016-17*	2017-18*
0360	State Planning & Policy Development	19.1	12.5	11.0	$8,837	$13,935	$3,856
0365	California Volunteers	16.8	21.9	21.9	28,507	31,749	31,754
0370	Strategic Growth Council	9.0	6.0	6.0	1,833	341,879	299,878
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**44.9**	**40.4**	**38.9**	**$39,177**	**$387,563**	**$335,488**

FUNDING		2015-16*	2016-17*	2017-18*
0001	General Fund	$8,716	$13,499	$3,343
0890	Federal Trust Fund	27,328	27,988	27,916
0995	Reimbursements	1,003	4,037	4,037
3228	Greenhouse Gas Reduction Fund	1,833	341,737	299,736
9740	Central Service Cost Recovery Fund	297	302	456
TOTALS, EXPENDITURES, ALL FUNDS		**$39,177**	**$387,563**	**$335,488**

Issue 1: State Clearinghouse Federal Grant Administrator

Governor's Proposal: The budget includes trailer bill language clarifying that the Office of the Federal Grant Administrator, within the State Clearinghouse, shall not be created until an appropriation for that purpose in the annual budget act.

Background: The State Clearinghouse was created within the Office of planning and Research by Executive Order in 1973. It coordinates the state-level review of environmental documents that are prepared pursuant to the California Environmental Quality Act (CEQA). Operation of the Clearinghouse is governed and defined by the *CEQA Guidelines* (California Code of Regulations, Title 14, Sections 15000-15387), which describes the Clearinghouse's roles and responsibilities regarding environmental review.

The Clearinghouse also functions as the "State Single Point of Contact" for coordinating state and local review of applications for federal grants or loans under select state programs pursuant to Presidential Executive Order 12372. In this capacity, the Clearinghouse coordinates state and local review of federal financial assistance applications, federally required state plans, direct federal development activities, and federal environmental documents. The purpose of the process is to afford state and local participation in federal activities occurring within California. The Executive Order does not replace public participation, comment, or review requirements of other federal laws, such as the National Environmental Policy Act (NEPA), but gives the states an additional mechanism to ensure federal agency responsiveness to state and local concerns.

AB 1348 (Irwin), Chapter 444, Statutes of 2016, established within the Clearinghouse a federal grant administrator, to serve as the primary point of contact for information of federal grants related to community, economic, and local development. It also required that the federal grant administrator prepare a summary of federal grant funding to the state on or before January 1, 2018, and annually thereafter.

During consideration of AB 1348, OPR estimated that implementing the requirements of the bill would require up to two permanent positions and $200,000 to $300,000 in General Fund support. However, the Administration has yet to request additional position authority to implement the requirements of this bill.

Staff Comments: While AB 1348 was passed, signed, and chaptered, OPR has yet to request budget authority for the associated positions or resources. This makes it impossible for OPR to meet the January 1, 2018 reporting requirement included in the bill. Taking action to extend this deadline until such time as OPR is properly resourced to meet it is therefore an appropriate step.