Senate Budget and Fiscal Review—Scott Wiener, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Stephen C. Padilla, Chair
Senator Roger W. Niello
Senator Lola Smallwood-Cuevas

Thursday, March 14, 2024
9:30 a.m. or Upon Adjournment of Session
State Capitol - Room 113

Consultant: Timothy Griffiths

ITEMS FOR VOTE ONLY

1700 Civil Rights Department 3
Issue 1: Reduction in Community Conflict Resolution and Conciliation Funding 3
2240 Department of Housing and Community Development 5
Issue 2: Additional Staffing to Administer Federally-Funded Programs 5

ITEMS FOR DISCUSSION

1700 Civil Rights Department 7
Issue 3: Reduction in Enforcement, Investigation, and Conciliation Enhancements 7
2240 Department of Housing and Community Development 9
Issue 4: The Governor's Proposed Housing Spending Reductions in Context 9
Issue 5: Reductions to the Regional Early Action Planning Grants (REAP) 2.0. 13
Issue 6: Reductions to the Multifamily Housing Grant Program (MHP) 16
Issue 7: Reductions to the Infill Infrastructure Grant (IIG) Program 17
Issue 8: Reductions to the CalHome Program 18
Issue 9: Reductions to the Veterans Housing & Homelessness Prevention Program (VHHP) 20
Issue 10: Elimination of the Housing Navigation and Maintenance Program 21

Issue 11: Reductions to the Foreclosure Intervention & Housing Preservation Program (FIHPP) 22
Issue 12: Additional Staffing for Administration of the Permanent Local Housing Allocation Program 24

Public Comment.

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ITEMS FOR VOTE ONLY

1700 CIVIL RIGHTS DEPARTMENT

Issue 1: Reduction in Community Conflict Resolution and Conciliation Funding

Governor's Budget Proposal. The Governor's January 2024 Budget proposes to eliminate $883,000 General Fund previously committed to the Civil Rights Department's (CRD's) Community Conflict Resolution and Conciliation efforts in 2024-25.

Background. As part of the 2022 Budget Act, CRD requested and was allocated temporary funding to conduct Community Conflict Resolution and Conciliation efforts. Specifically, CRD asked for "$889,000 General Fund in 2022-23 and $883,000 General Fund in 2023-24 and 2024-25 to provide resources and training to communities facing hate incidents or other conflict over discriminatory practices."

In its proposal, CRD wrote that:

> [T]he temporary funding would allow [CRD] to fund 3 positions and operational funding to develop and run a community conciliation program, modeled in part on the U.S. Department of Justice's Community Relations Service. These staff members would, among other responsibilities, identify opportunities for intervention and travel around the state to provide conciliation services to communities facing hate incidents or other conflict over discriminatory practices. Specifically, [CRD] would provide – free of charge to communities – facilitated dialogue, mediation, training, and consultation to assist these communities to come together, develop solutions to the conflict, and enhance their capacity to independently prevent and resolve future conflict.

CRD reports that the resulting Community Conflict Resolution Unit (CCRU) has exceeded its initial goals:

	BCP Goal 2022-2023	BCP Goal 2023-2024	October 2022-Present
Community Conciliation Opportunities Explored	5	10	**23**
Community Conciliation Sessions Conducted	2	5	**8**
Community Engagement Sessions/ Meetings Conducted	10	15	**52**
Trainings for Local Leaders	2	4	**4**
Facilitated Meetings	N/A	N/A	**21**
Technical Consultations	N/A	N/A	**10**

As examples of CCRU's work, CRD notes that the CCRU has:

- provided facilitation services to the California Truth and Healing Council Subcommittee on Status & Identity twice a month;
- assisted in designing, planning, and facilitating dialogue for community leaders of a city to improve human relations, especially among LatinX and Black residents
- provided consultation for the head of a university related to responding to a campus tensions related to Israel/Gaza;
- worked with rural communities to address concerns related to disability access;
- assisted the Commission on the State of Hate with community forums and listening sessions, such as one with religious leaders; and
- published or will soon publish: a guide for human relations commissions, a university student resource guide, and de-escalation strategies for transit users confronted by hate speech, among other resources.

Although the Governor's January 2024 Budget proposes to eliminate the final year of the funding for these efforts, CRD indicates that it hopes to fund CCRU activities in 2024-25 using savings achieved in other areas.

Staff Comments: In an era in which diatribe seems to trump dialogue in civil discourse, the CCRU's mission arguably takes on heightened importance, and the unit's track record so far suggests that it is over-performing its targets. Although it appears that the CCRU will be able to continue its work next year in spite of the budget reduction proposed by the Governor, it remains unclear what will happen to the unit in the years beyond that.

Staff Recommendation. Approve as budgeted.

2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Issue 2: Additional Staffing to Administer Federally-Funded Programs

Governor's Budget Proposal. As part of the Governor's January 2024 Budget, the Housing and Community Development Department (HCD) requests authority to add 10 staff positions in 2024-25 and ongoing which would be assigned to administer U.S. Department of Housing and Urban Development (HUD)-funded programs.

Background. One of HCD's key functions is to operate as the state-level manager of a variety of federally-funded housing programs. HCD has a special unit dedicated to administering these programs called Division of Federal Financial Assistance (DFFA).

Within DFFA, the Home Investment Partnership Program (HOME) has been "the primary federal housing program in the state of California since its establishment in 1992," according to HCD. The HOME program:

> provides formula grants to states and localities that communities use—often in partnership with local nonprofit groups—to fund a wide range of activities including building, buying, and/or rehabilitating affordable housing for rent or homeownership, or providing direct rental assistance to low-income people. HOME is the largest federal block grant to state and local governments designed exclusively to create affordable housing for low-income households. HCD awards HOME funds annually as formula grants to participating jurisdictions. The program's flexibility allows states and local governments to use HOME funds for grants, direct loans, loan guarantees or other forms of credit enhancements, rental assistance, or security deposits.

Currently, 13 staff operate the HOME program from within DFFA: seven in the HOME Program Unit and six in the HOME Projects Unit.

HCD reports that recent developments have increased the HOME Project Unit's workload, leaving it understaffed. Specifically, those developments include:

- changes to the program's federal regulations in 2013;
- a realignment of duties in 2015;
- changes to HOME's Notice of Funding Availability (NOFA) in 2017-18;
- a HUD monitoring audit and subsequent findings in 2018; and
- increased federal allocations.

To address these workload challenges, HCD now seeks authority to hire 10 additional staff in the DFFA unit. Seven would be detailed to the HOME Project Unit, where they would establish a Loan Closing and Transactions Unit. The other three would support the administration of DFFA more generally.

HCD explains that all of the new positions would be funded through the federal programs that DFFA administers.

According to HCD, these new positions will enable DFFA "to make timely NOFA awards and provide DFFA with the necessary resources to effectively handle complications and unexpected workload additions."

Staff Comments: As the additional staffing proposed by this item is federally funded, approval will not negatively impact the state's General Fund.

Staff Recommendation. Approve as budgeted.

ITEMS FOR DISCUSSION

1700 CIVIL RIGHTS DEPARTMENT

Issue 3: Reduction in Enforcement, Investigation, and Conciliation Enhancements

Governor's Budget Proposal. The Governor's January 2024 Budget proposes to eliminate $1.4 million in 2024-25 General Fund previously committed for the enhancement of the Civil Rights Department's (CRD's) enforcement, investigation, and conciliation capacities.

Background. As part of the 2022 Budget Act, CRD requested and was allocated temporary funding to enhance its enforcement, investigation, and conciliation capacities. Specifically, CRD asked for "$1.4 million General Fund in 2022-23, 2023-24, and 2024-25 to decrease the wait time between complaint intakes and investigative appointments, and to increase the number of complaints successfully conciliated and settled by investigators."

At the time, CRD explained that these temporary enhancements were needed because a surge in discrimination complaints had pushed up the average wait time from complaint submission to intake interview. While these delays do not impact CRD's statutory deadlines for investigating cases because those deadlines only begin to run after the intake interview, having to wait can be disillusioning for victims of civil rights violations and may jeopardize the availability of witnesses or evidence. In addition, CRD hoped that temporarily supplementing intake resources would free up capacity for CRD to resolve more of the discrimination complaints it receives through mediation.

CRD data appear to indicate that its initiative has been successful thus far:

CRD Enforcement Division Team	FY 2022-23	FY 2023-24
Employment	Wait time – Goal: 60 days Wait time – Actual: 113 days Conciliations – Actual: 92	Wait time – Goal: 30 days Wait time – Actual: 98 days Conciliations – Actual: 150 (thus far)
Housing	Wait time – Goal: 50 days Wait time – Actual: 103 days Conciliations – Actual: 132	Wait time – Goal: 30 days Wait time – Actual: 70 days Conciliations – Actual: 149 (thus far)

Nonetheless, in light of the budget shortfall, the Governor's January 2024 Budget now proposes to eliminate the final year of the funding for these enhancements.

Staff Comments: Given the demonstrated success of this modest infusion of resources in reducing waiting times, the Subcommittee may wish to inquire whether CRD believes that it can maintain its progress if the last year of funding is rescinded. If not, the Subcommittee may also wish to ask

CRD whether it might be able to make alternative budgetary, staffing, or logistical adjustments to prevent the loss of this progress.

Staff Recommendation. Hold open.

2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Issue 4: The Governor's Proposed Housing Spending Reductions in Context

Governor's Budget Proposal. The agenda items that follow this one provide detail on a series of reductions and reversions in the state's spending on housing proposed in the Governor's January 2024 Budget. Specifically, if adopted, the Governor's January 2024 Budget would:

- Revert $952.5 million in General Fund dollars previously allocated to several of the state's housing programs including the Multifamily Housing Program, the Infill Infrastructure Grant Program, CalHome, and the Regional Early Action Planning Grants 2.0, and the Veterans Housing and Homelessness Prevention Program.

- Reduce a total of $261.2 million in General Fund previously committed to other state housing programs for allocation in future years including the Foreclosure Intervention and Housing Preservation Program and the Housing Navigators program.

Background. Taken together, these proposals represent about a $1.2 billion drop in state spending on housing. In light of the state's affordable housing crisis, this number is concerning. Combined with the exhaustion of existing housing bond resources, the absence of any new allocation to the state's supplemental Low Income Housing Tax Credit program, the cuts will almost certainly lead to an eventual decrease in affordable housing production in the state. In a letter to the Subcommittee opposing these proposed cuts, a "broad multi-sector coalition of affordable housing, homelessness, and housing justice Advocates" estimates that the overall impact would include the loss of $1.6 billion in federal housing resources that the state dollars would otherwise leverage and, ultimately, the production of 4,600 fewer units.

At the same time, a nuanced assessment of these proposed cuts requires consideration of a number of contextual factors. These contextual considerations cut both ways: some of them will likely mitigate against the impact of the proposed cuts; others are likely to exacerbate the cuts' effect.

Specifically:

- **Exhaustion of Existing Bond Funds.** The proposed cuts coincide with the exhaustion of existing housing bond funding. The last state housing bond, SB 3 (Beall, Ch. 365, Stats. 2017) was approved by the voters in 2018. Among other things, money from that bond provided $1.5 billion to the Multifamily Housing Program, $300 million to CalHome, and $300 million to the Joe Serna Farmworker Housing Program. HCD is currently awarding the last of these bond funds as well as vestiges of housing bonds from 2006 (Prop. 1c) and even 2002 (Prop. 46). Consequently, absent passage of a new housing bond – such as that proposed by AB 1657 (Wicks, 2023), for example – the amount of bond money available to support affordable housing production will shrink close to zero next year. While the exhaustion of previous housing bond money is independent of the Governor's

proposed cuts and would have taken place regardless, the potential convergence of the two would result in more precipitous drop in state affordable housing funding than either would cause by itself.

- **Absence of Further Funding for Supplemental LIHTC.** At the same time that the Governor's January 2024 Budget proposes to cut various affordable housing funding programs, it also proposes to break a five year streak in which the state invested an additional $500 million into its state LIHTC program annually. The state LIHTC program attracts private investment to low-income housing production by offering tax incentives to investors. This enables developers to secure what is often a critical portion of the funds they need in order to make affordable housing construction financially viable in spite of the low rents that will be charged. By statute, the California budget includes a baseline allocation to support the state LIHTC program each year. (Rev. & Tax Code § 17058). Set initially at $70 million per year in 2001, the baseline statutory LIHTC allocation grows each year in to reflect inflation. The 2023 allocation was about $120 million. Since the 2019-20 budget, California has supplemented the statutory baseline state LIHTC allocation with a further General Fund augmentation of $500 million. The Governor's January 2024 budget does not include any such augmentation for 2024-25.

- **Other Sources of State Housing Funds.** There are two other sources of state funding for affordable housing production. The Greenhouse Gas Reduction Fund (GGRF) pays for the Affordable Housing and Sustainable Communities program (AHSC). GGRF funding for AHSC fluctuates annually. In recent years, it has ranged between a low of $394 million and a high of $865 million. Separately, SB 2 (Atkins, Ch. 364, Stats. 2017) funds affordable housing through a fee assessed whenever someone records certain documents associated with real estate transactions. SB 2's contribution to the state's support for affordable housing also varies each year, recently ranging between about $234 million and $467 million. The Governor's January 2024 Budget leaves both AHSC and SB 2 fund funds untouched for now, meaning that some these sources of state affordable housing development money will continue to flow even if General Fund allocations fall away almost entirely, as the Governor's Budget proposes.

- **Federal, Local, and Philanthropic Inputs.** State funding is only one source of government support for affordable housing production. Federal and local resources are also major contributors. While the exact amount fluctuates somewhat annually, federal sources have accounted for roughly two thirds of state-administered affordable housing spending over the past five years, factoring in the impact of tax credits. It is reasonable to anticipate that California will continue to receive at least the same level of federal support in the coming years and the Administration states that it is exploring additional ways to draw down federal support for the state's affordable housing efforts. Local and philanthropic spending also contribute to affordable housing and there are some indications that local spending may soon increase, at least in some areas. For example, the Bay Area is currently exploring

the possibility of putting a $10-20 billion local bond to support affordable housing projects before its voters.

- **Timing.** There is a lag of several years between the availability of government assistance for affordable housing and the actual production of units. For this reason, the impact of the proposed cuts on the number of affordable units available will not be felt immediately in most instances. Indeed, since the state has made historic levels of investment in affordable housing in recent years and existing housing bond resources have been available until now, the overall number of affordable housing units coming online will probably continue to increase for roughly two years. Only after that time would the impact of the Governor's proposed cuts begin to show up in terms of fewer new affordable units becoming available for immediate occupancy.

- **Other Factors.** The rate of affordable housing production is not exclusively determined by the availability of government financial support for affordable housing. Interest rates, the speed at which projects can be built (including the potential for bureaucratic or legal delays), the expense of materials, and labor costs all influence how much affordable housing gets built. However, government subsidies are particularly important for the production of housing for extremely and very low-income households, which are those most at risk for homelessness.

The bottom line is that, although production of affordable housing in California will continue to take place even if the proposed cuts are adopted, those cuts, combined with the exhaustion of existing housing bond funding, would almost certainly result in a decrease in affordable housing production in California within a two or three year timeframe – particularly production of units for especially low-income households. How significant the impacts of the cuts would be depends on a variety of factors including to what degree federal and local resources help to fill the void.

Staff Comments: Before taking up the next items on this agenda, the Subcommittee may wish to request that the witnesses address the following points:

LAO:

- Please provide an overview of the Governor's proposed housing cuts within the broader context of overall state spending on affordable housing in California.

- Does the LAO have thoughts about how the Legislature should assess these proposed cuts?

- Does the LAO recommend that the Legislature consider any particular alternatives to these proposed cuts?

DOF:

- What was the rationale behind the Administration's choice to propose cuts to these particular housing programs?
- Did the Administration consider any particular alternatives?
- Why did the Administration elect not to include an augmentation to the state LIHTC program in its budget proposal this year?

HCD:

- Aside from the funds proposed for reversion or reduction in the Governor's January 2024 Budget, what other General Fund dollars within HCD's housing programs have not yet been encumbered or spent and may therefore potentially still be available for reversion or reduction? Please indicate what program the money is associated with, approximately how much is left at this time, and how soon that money will be spent or otherwise become unavailable as a potential source of budget savings.

Staff Recommendation. Information only.

Issue 5: Reductions to the Regional Early Action Planning Grants (REAP) 2.0.

Governor's Budget Proposal. The Governor's January 2024 Budget proposes to revert back to the General Fund $300 million of the $600 million that was previously allocated to the Regional Early Action Planning 2.0 (REAP 2.0) grant program in the 2021 Budget Act.

Background. The original REAP program, established in the 2019 Budget Act, allocated $250 million in grants to regions, cities, and counties to support planning activities designed to accelerate housing production.

As a follow up to the original REAP, the 2021 budget dedicated $600 million to a second iteration of REAP. REAP 2.0 differs from the original in at least three key respects. First, REAP 2.0 does not just fund planning efforts; it also funds implementation projects such as the installation of communal infrastructure and the construction of residential complexes. Second, REAP 2.0 more comprehensively integrates housing, climate, and civil rights goals. Specifically, REAP 2.0 is intended to facilitate the creation of infill housing, reduce vehicle miles traveled, and affirmatively further fair housing consistent with regional and local plans.

Finally, REAP 2.0's funding distribution differs from its predecessor and breaks down as follows:

- $510 million in population-based formula awards to Metropolitan Planning Organizations (MPOs). The MPOs may then further suballocate their awards to cities, counties, transit/transportation agencies in their respective regions.

- $30 million in competitive Higher Impact Transformative (HIT) Awards for place-based projects that "have a high impact in disadvantaged and historically underserved communities."

- $30 million for competitive awards to Tribal entities and rural communities not covered by an MPO.

- $30 million for administration of the program.

HCD reports that it has awarded about $536 million of these funds to date. Recipients have until June 30, 2026 to spend the money. Not all REAP 2.0 recipients are at the same point in the REAP 2.0 process. While some have advanced to the point of starting construction on some projects; others have only recently received approval for their REAP 2.0 plans from HCD.

REAP 2.0 funding operates on a reimbursement basis, meaning that grant recipients must spend the money themselves first, and then bill the state for those expenditures. According to HCD, REAP 2.0 recipients had only requested reimbursement around just five percent of the amount awarded to them as of early 2024, though HCD anticipates a greater inflow of reimbursement requests in the coming months.

The Governor's January 2024 Budget now proposes to pull back $300 million from REAP 2.0 – half of the original 2021 allocation.

Several MPOs have written to the Subcommittee urging it to reject this proposed reversion. In summary, the MPOs assert that the proposed cut would have the following detrimental impacts:

- The MPO and the local entities to which the MPOs have suballocated REAP 2.0 funds will have to scale back the scope of intended projects, reducing housing production and their ability to meet local sustainability goals. Some of the MPOs report that the proposed cuts, combined with HCD advisories limiting reimbursements to 25 percent of the total award until the state budget situation is clarified, have already some caused developers to halt work on projects that were underway out of fear that they will not be fully reimbursed for any further expenditures they incur.

- Reducing the amount allocated to REAP 2.0 at this stage would likely have a particularly negative impact on implementation projects. Many administrative costs have already been sunk and planning initiatives have ramped up quickly. Accordingly, early spending and the resulting reimbursement requests are more concentrated on those uses of REAP 2.0 funds. Since implementation projects like infrastructure installation and housing construction take additional time to get underway, they are more likely to be dropped if the proposed cuts are approved.

- Where MPOs or others have already committed to spending more than 50 percent of the funding allocated to them, they or the entities to which they promised suballocations could potentially be left holding the bag for those additional amounts. It is not yet fully clear how much of a problem this might be, however. Although several of MPOs who wrote to the Subcommittee indicated that they have already "suballocated," "awarded," or "programmed" all of the resources promised to them under REAP 2.0 grant, the key question is whether it is still possible to avoid the actual expenditure of the money. That depends on how far the particular project has advanced, something that appears to vary greatly both between MPOs and among individual projects funded by REAP 2.0.

Staff Comments: In light of concerns raised by REAP 2.0 recipients that they have already taken action in reliance on their REAP 2.0 allocations, the Subcommittee may wish to ask the Administration why it selected the REAP 2.0 program for proposed cuts. In general, the Administration has indicated that its proposed cuts to housing spending align with discretionary funding that is unspent and has not yet been noticed as being available. The cuts to REAP 2.0, by contrast, involve funding allocations that have already been made.

The Subcommittee may also wish to inquire about the Administration's plans for how it would implement the proposed cuts if they are approved. Would all REAP 2.0 recipients be limited to receiving reimbursement for 50 percent of their allocation? Or would reimbursements be processed on a first-come, first-served basis until the $300 million in remaining REAP 2.0 funds are

exhausted? If cuts do take place, is there a way to prioritize the use of the remaining funds on implementation projects?

Staff Recommendation. Hold open.

Issue 6: Reductions to the Multifamily Housing Grant Program (MHP)

Governor's Budget Proposal. The Governor's January 2024 Budget proposes to revert back to the General Fund $250 million previously allocated to the Multifamily Housing Program (MHP) for expenditure in 2023-24.

Background. MHP is the Housing and Community Development Department's (HCD's) flagship affordable housing program. Among HCD's portfolio of affordable housing programs, MHP funds the broadest scope of possible projects. Under MHP, HCD provides low-interest, long-term deferred payment loans on a competitive basis to applicants proposing projects consisting of new construction, rehabilitation, and preservation of permanent and transitional rental housing for lower-income households. HCD administers MHP through its "SuperNOFA" system – an application process that combines several competitive affordable housing programs into a single application.

Until 2022-23, MHP was funded through the 2018 housing bond, which provided $277.3 million annually to the program. The 2022 Budget Act included a General Fund augmentation of $100 million for MHP. The 2023 Budget Act also contained a General Fund augmentation for MHP, this time in the amount of $325 million, but HCD has not yet noticed the availability of all of the money allocated to MHP for 2023-24. The Governor's January 2024 Budget now proposes to revert $250 million of that remaining money to the General Fund, leaving a balance of $75 million that would still be available for distribution in the form of future MHP awards.

Staff Comments: MHP funds the broadest variety of affordable housing projects, so should the Subcommittee eventually wish to consider partially or fully rejecting some of the housing cuts proposed in the Governor's January 2024, MHP may make sense as a priority among HCD's housing programs.

The Subcommittee may also wish to bear in mind that MHP is currently among the programs that would receive funding in the event that the Legislature approves the housing bond set forth in AB 1657 (Wicks, 2023) and voters pass it. In its current form, that bill and the resulting bond would direct $7 billion to MHP.

Staff Recommendation. Hold open.

Issue 7: Reductions to the Infill Infrastructure Grant (IIG) Program

Governor's Budget Proposal. The Governor's January 2024 Budget proposes to revert back to the General Fund $200 million that was previously allocated to the Infill Infrastructure Grant program (IIG) for expenditure in 2023-24.

Background. As its name implies, the IIG program provides competitive grants to help fund the installation of infrastructure necessary for the construction of high-density affordable and mixed-income housing in locations designated as infill. Thus, IIG does not necessarily fund the production of housing units directly. Rather it provides the necessary funding to enable infill housing projects that might not be financially viable otherwise.

The legislative framework for the IIG program was established by SB 86 (Com. on Budget, Ch. 179, Stats. 2007) but the program was not initially funded until the 2019 Budget Act. From there, IIG received General Fund allocations of $300 million 2019-20; $250 million in 2021-22; and $200 million in 2022-23. The 2023 Budget Act also provided $225 in General Fund for IIG in 2023-24, but HCD has yet to notice its availability for award. To help address the budget shortfall, the Governor's January 2024 Budget now proposes to pull $200 million of that amount back, leaving a balance of $25 million available for award under the IIG program.

Staff Comments: The Subcommittee may want to note that IIG is not currently among the programs that would receive funding in the event that the Legislature approves the housing bond set forth in AB 1657 (Wicks, 2023) and voters pass it.

Staff Recommendation. Hold open.

Issue 8: Reductions to the CalHome Program

Governor's Budget Proposal. The Governor's January 2024 Budget proposes to revert back to the General Fund a total of $152.5 million that was previously allocated to the CalHome program: $102.5 from 2022-23 and $50 from 2023-24.

Background. As described by HCD, the CalHome program "supports homeownership programs aimed at low and very low-income households, and in the case of a disaster, households at or below moderate income, and operated by private nonprofit and local government agencies, to increase homeownership, encourage neighborhood revitalization and sustainable development, and maximize use of existing homes."

More specifically, CalHome awards support each of the following activities:

- First-Time Homebuyer Mortgage Assistance (MA)
- Owner-Occupied Rehabilitation (OOR)
- Accessory Dwelling Unit and Junior Accessory Dwelling Unit Assistance (ADU/JADU)
- Homeownership Project Development Loans (HDPL)
- Shared Housing Technical Assistance (Shared Housing TA)
- Self-Help Housing Technical Assistance (Self-help TA)

HCD reports the following CalHome award distributions through March 10, 2024:

- CalHome
  - 38 awards (the award counts in the table below will not add up to 38 because some applicants were awarded for multiple activities)
  - Approximately 1,300 households assisted

	MA	OOR	ADU/JADU	HDPL	Shared Housing TA	Self-help TA
Awards	27	21	5	8	0	5
Total	$48.5 million	$32 million	$9 million	$34.9 million	$0	$1.8 million

The 2022 Budget Act authorized $250 million in General Fund for CalHome in 2022-23 and committed an additional $100 million in General Fund to the program in 2023-24. However, in the face of financial constraints in 2023, the Governor initially proposed pulling back the $100 million commitment to CalHome. After negotiations with the Legislature, the cut was reduced to $50 million in the final 2023 Budget Act. HCD has yet to notice the availability of this remaining

$50 million. In light of continued budgetary challenges, the Governor's January 2024 Budget now proposes to pull back those funds entirely. Although this would leave leave no further General Fund available for the CalHome, HCD reports that it still has about $146 million in leftover bond funds for the program.

Stakeholders writing to the Subcommittee in opposition to the proposed cut argue that:

- The proposed housing cuts are distributed inequitably. CalHome is the only homeownership-related housing program that the Governor's 2024 Budget proposes to cut.

- The cuts would result in up to 2,000 units of affordable owner-occupied housing going unbuilt in the state.

- Recent CalHome Notices of Funds Available have been oversubscribed, demonstrating that more funding is needed for CalHome, not less.

Staff Comments: The Subcommittee may wish to bear in mind that CalHome is presently among the programs that would receive funding in the event that the Legislature approves the housing bond set forth in AB 1657 (Wicks, 2023) and voters pass it. In its current form, that bill and the resulting bond would direct an unspecified share of $1 billion to the CalHome program.

Staff Recommendation. Hold open.

Issue 9: Reductions to the Veterans Housing & Homelessness Prevention Program (VHHP)

Governor's Budget Proposal. The Governor's January 2024 Budget proposes to revert back to the General Fund $50 million that was previously allocated to the Veterans Housing and Homelessness Prevention program (VHHP) for 2023-24.

Background. VHHP began in 2008 as a $900 million, bond-funded program that helped veterans to purchase single family homes, farms, and mobile homes through the California Department of Veterans Affairs (CalVet) Home Loan Program. Demand for the program was not as strong as anticipated, however, so in 2014, $600 million in bond funds were redirected to fund multifamily housing for veterans. (AB 639, Perez, Ch. 727, Stats. 2013.)

Today, VHHP provides "long-term loans for the acquisition, construction, rehabilitation, and preservation of affordable multifamily housing for veterans and their families to allow veterans to access and maintain housing stability." Fifty percent of funds awarded must serve veteran households with extremely low incomes, meaning that their income falls below 30 percent of the area median. Of the units available to extremely low-income veteran households, 60 percent must offer supportive housing services. Such services offer wraparound case management intended to ensure that the recipients successfully maintain their housing over time.

HCD administers VHHP as part of its broader "SuperNOFA" program which allows developers to seek funding from multiple HCD sources through a single application.

Though VHHP was historically funded through bonds, the 2022 Budget Act included General Fund allocations of $50 million for VHHP in both 2022-23 and again in 2023-24. HCD has not yet noticed the availability of the 2023-24 funds. In light of the overall budget shortfall confronting the state, the Governor's January 2024 Budget now proposes to revert those 2023-24 VHHP funds back to the General Fund. If the Legislature approves this proposal, there will be no further General Fund currently allocated to VHHP.

Staff Comments: California's March 5, 2024 state primary election asked voters whether they wanted to approve Proposition One. Among other things, approval of Proposition One would result in the issuance of just over $1 billion in general obligation bonds to finance permanent supportive housing for homeless veterans who have mental health or substance abuse disorders. The outcome of the vote on Proposition One is not final, but as of March 12, 2024, opponents of the measure reportedly conceded that it would pass by a narrow margin.

The Subcommittee may wish to ask the Administration how the outcome of the Proposition One vote will affect future state spending on housing veterans and how this should factor into deliberations over the Governor's proposed cuts to VHHP.

Staff Recommendation. Hold open.

Issue 10: Elimination of the Housing Navigation and Maintenance Program

Governor's Budget Proposal. The Governor's January 2024 Budget proposes to eliminate an ongoing, annual allocation of $13.7 million for the Housing Navigation and Maintenance Program (HNMP) at the Housing and Community Development Department (HCD).

Background. The HNMP provides formula-based grants to counties to enable them to hire or devote staff to identifying and assisting young adults between 18 and 24 years old to obtain and retain housing. The size of each county's award is determined by its percentage of the total statewide number of young adults aged 18 to 24 years of age who are currently or formerly in the foster care system.

HCD staff describe the program as very flexible. Services under HNMP can include help applying for housing vouchers, identifying available units, communicating with landlords, filling out applications, making initial rent and security deposits, and avoiding problems that could otherwise lead to eviction. Many of the youth served by HNMP recently emancipated from the foster care system, though the program is not exclusive to that population.

One key rationale for HNMP is to help former foster youth successfully obtain and utilize one of two types of specialized federal housing vouchers available to them: the Family Unification Program (FUP) and the Foster Youth to Independence (FYI) program. Both programs offer up to three years of rental assistance coupled with supportive services. In 2021, approximately 870 California youth had such vouchers. Stakeholders have argued that even further uptake is possible through a more robust HNMP effort.

HCD administers HNMP as part of its Transition Age Youth Program, which also includes the Transitional Housing Program (THP), and the Transitional Housing Plus Housing Supplement Program (THPSUP). Only the HNMP program is proposed for cuts.

Staff Comments: The Subcommittee may wish to inquire whether the Legislative Analyst's Office and the Administration concur with stakeholders that HNMP offers a pathway for drawing down additional federal support in the form of housing vouchers for young adults who might otherwise be at risk of homelessness. If so, the Subcommittee may want to take that federal leverage into account when assessing whether to approve or reject the Governor's proposed cut. If not, the Subcommittee may wish to ask the Administration what other strategies California could pursue in order to maximize utilization of these vouchers.

Staff Recommendation. Hold open.

Issue 11: Reductions to the Foreclosure Intervention & Housing Preservation Program (FIHPP)

Governor's Budget Proposal. The Governor's January 2024 Budget proposes to withdraw previous commitments to allocate a total of $247.5 million in General Fund to the Foreclosure Intervention and Housing Preservation Program (FIHPP) in the coming years: $85 million in 2024-25, $100 million in 2025-26, and $62.5 million in 2026-27.

Background. SB 1079 (Skinner, Ch. 202, Stats. 2020) created a procedural mechanism within California's non-judicial foreclosure system that enables prospective owner-occupants, current tenants, public entities, and specified non-profit housing organizations to acquire residential property by meeting or exceeding the winning foreclosure auction bid. FIHPP is designed to provide a pool of money that qualified non-profit housing entities can use to make purchases using the SB 1079 mechanism. The non-profit organizations must then operate the property as affordable housing for at least 55 years.

The 2021 Budget Act directed $500 million to FIHPP and HCD began the process of building the necessary systems to administer it. That effort included identifying and eventually entering into contract with a fund manager to operate FIHPP. Then, in the face of budget shortfalls in 2023, the Governor proposed to reduce funding for FHIPP and delay large parts of that funding until future years. After negotiations with the Legislature, the 2023 Budget Act ultimately included a $15 million reduction to FIHPP and allocation delays. Specifically, the 2023 Budget Act allocated $82.5 million to FIHPP in 2023-24, and expressed future commitments to FIHPP of $85 million in 2024-25, $100 million in 2025-26, and $62.5 million in 2026-27.

In light of continued budgetary challenges, the Governor's January 2024 Budget now proposes to eliminate those future commitments to FIHPP altogether, for total General Fund savings of $247.5 million. This still leaves $237.5 million of the original $500 million dedicated to the FIHPP program. Of this remaining amount, the Administration anticipates that at least $190 million will go out as grants for acquisitions, $35.6 million is available for the fund manager's administrative costs, and $11.9 is available to cover the state's administrative costs.

Writing to the Subcommittee in opposition to the Governor's proposed cuts to FIHPP, a coalition of community land trusts and other advocates for the program emphasize the follow arguments, among others:

- There is some evidence of a recent uptick in residential foreclosure rates in California, though currently those rates remain far behind what they were during the Foreclosure Crisis from roughly 2008 through 2012.

- HCD and many non-profit housing providers have sunk time and resources into preparations for utilizing FIHPP funds the moment acquisition grants become available.

- Since it involves preservation of existing housing, rather than new construction, FIHPP may be able to secure affordable housing units at a lower per-unit rate than other affordable housing programs.

Staff Comments: The concept behind FIHPP arose out of a 2020 incident in which two working mothers who could not find other affordable housing briefly took up residence in an Oakland home that an investment company had purchased at a foreclosure auction and then left vacant for a time. It is a relatively new initiative that may prove to be an effective model for mitigating the flow of foreclosed homes into the hands of speculators and institutional landlords. Though building the administrative infrastructure to support FIHPP proved challenging, the program is now close to issuing its first grants to support acquisitions. Some acquisitions will still be possible under the proposed cuts, but at a much smaller scale.

Staff Recommendation. Hold open.

Issue 12: Additional Staffing for Administration of the Permanent Local Housing Allocation Program

Governor's Budget Proposal. Through the Governor's January 2024 Budget, the Housing and Community Development Department (HCD) requests authority to add four staff positions in 2024-25 and ongoing, paid for out of the Building Homes and Jobs Trust Fund, to monitor the Permanent Local Housing Allocation (PLHA) Program, disburse funds, and report on affordable owner-occupied workforce housing outcomes paid for out of the Building Homes and Jobs Trust Fund.

Background. SB 2 (Atkins, Ch. 364, Stats. 2017) imposed a $75 fee on the recording of certain real estate documents and directed the proceeds into a new Building Homes and Jobs Trust Fund. SB 2 also specified how the money in the Fund must be spent. Thirty percent of the funding goes in state affordable housing production financing programs. The remaining 70 percent supports the PLHA.

Most of the PLHA portion of the fund (93 percent) goes to local jurisdictions based on a population-based formula. HCD awards the other seven percent of PLHA as competitive grants to non-entitlement jurisdictions.

According to HCD, the number of total PLHA contracts it manages has increased significantly in recent years, doubling from roughly 150 in 2020-21 to around 300 in 2022-23, and HCD forecasts that the PLHA program will reach at or close to its maximum possible number of contracts – 350 – in 2024-25. During this period of growth, staffing levels have not kept pace. As a result, the workload for the PLHA staff tasked with monitoring these contracts has risen to about 70 each. HCD explains that management of each contract entails regular "disbursement of funds, reviewing of loan documents, reviewing of annual reports for compliance, data analysis, annual contract amendments, and ongoing technical assistance."

With this proposal to add four additional staff to the team, HCD calculates it can reduce that figure to 44 contracts per assigned staff position in 2024-25. In 2025-26, when HCD expects further staff reinforcements to arrive after completion of their duties managing other existing programs, HCD projects it will be able to trim the PLHA staff workload to 32. According to HCD, that level is sufficient to "ensure the number of contracts per HCDR II remain at a manageable level, improve processing times, provide adequate resources for technical assistance."

Staff Comments: As the funding for these positions comes out of the Building Homes and Jobs Trust Fund, this staffing increase would not impact the General Fund. HCD also indicates that spending for the proposed positions would fall within the five percent of the Fund set aside for PLHA administrative costs. Accordingly, the staffing increase should not divert resources that would otherwise go toward housing production.

Staff Recommendation. Hold open.