Senate Budget and Fiscal Review—Scott Wiener, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Christopher L. Cabaldon, Chair
Senator Roger W. Niello
Senator Lola Smallwood-Cuevas

Thursday, February 27, 2025
9:30 a.m. or Upon Adjournment of Session
Room 113

Consultant: Timothy Griffiths

PANEL PRESENTATION

ITEMS FOR VOTE ONLY

ITEMS FOR DISCUSSION

Public Comment will be taken at the end of each department's part of the agenda and after all Items have been heard.

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INFORMATIONAL ITEM

PANEL PRESENTATION

Item 1: The State Role in Affordable Housing Finance

Issue. In contrast to recent state budgets, the Governor's January 2025 Budget proposal does not include any new General Fund investments in the development of affordable housing. To enable Subcommittee members to evaluate the impact of this omission and to consider alternatives, this panel of witnesses will explain the role that state funding plays in the development of affordable housing generally, describe some of the state's primary affordable housing programs, compare the Governor's 2025 affordable housing budget with prior years, and attempt to quantify the opportunity cost of failure to invest in affordable housing development as part of this year's budget.

Panel:

- *Financing Affordable Housing in California*

  Witness: Nevada Merriman, Vice President for Policy and Advocacy, MidPen Housing

  Topics: How is affordable housing financed in California? What is a capital stack and how do affordable housing developers build each capital stack? When and how does a project become financially viable? Examples.

- *California's Primary Affordable Housing Programs*

  Witness: Jennifer Seeger, Deputy Director, Financial Assistance – State Programs, Housing and Community Development Department

  Topics: What are the most important HCD affordable housing financial support programs by total state investment and by units produced? What role do they play in the capital stacks? How do the programs compare to one another? For which programs has all funding been exhausted?

- *Role of the Tax Credit Allocation Committee and the Debt Limit Allocation Committee in Funding Affordable Housing*

  Witness: Marina Wiant, Executive Director

  Topics: What is the role of tax exempt bonds and tax credits in financing affordable housing in California? Procedurally, how and when do affordable housing developers go about accessing these resources? Examples.

[Panel continues on the next page.]

- *The Governor's January 2025 Budget Proposal for Affordable Housing Production in Context*

  Witness: Paul Steenhausen, Legislative Analyst's Office

  Topics: Recent state investments in affordable housing production programs at HCD as well as supplemental Low Income Housing Tax Credits. Compare/contrast with Governor's 2025 Budget Proposal.

- *The Current Affordable Housing Project Pipeline*

  Witness: Justine Marcus, State and Local Policy Director, Enterprise Community Partners

  Topics: How many affordable housing projects are ready for construction "but for" the final financial support to make them viable? How many units does this represent? How will this pipeline be affected if the Governor's proposed budget is adopted as is? How much state investment would be needed to move projects out of the pipeline? What do these numbers look like in Los Angeles and Ventura Counties specifically? Would passage of the currently proposed housing bonds move the pipeline? How long would it be until we saw that movement?

- Questions from the Subcommittee

ITEMS FOR VOTE ONLY

0968 California Tax Credit Allocation Committee (CTCAC)

Item 2: Staffing Augmentation to Address Additional Development and Compliance Workload

Issue. The Governor's January 2025 budget requests an ongoing General Fund increase of $619,000 for CTCAC to pay for hiring three new staff to handle increased program workload, including an expansion of duties created by the recent adoption of AB 2006 (Berman, Ch. 646, Stats. 2022).

Background. CTCAC administers the state's Low-Income Housing Tax Credit (LIHTC) program. These tax credits – some federal and some state – are a key source of funding for affordable housing construction. Due to the lower rates charged to residents, rental revenue is not ordinarily sufficient to make affordable housing projects financially viable. LIHTC helps to fill the resulting gap by enabling affordable housing developers to attract private capital. In exchange for the tax credits, the project developers must agree to rent the units at affordable rates.

CTCAC's role in administering the LIHTC program continues throughout the lifespan of an affordable housing project. On the front end, CTCAC receives applications from developers, evaluates those application against the scoring criteria, and selects the projects to which it will make awards. Once the development is complete, CTCAC must review the project and issue the final tax forms necessary for investors to redeem their tax credits. Thereafter, CTCAC has to monitor the project every three years to ensure physical upkeep and compliance with the affordability covenants.

According to CTCAC, recent federal and state investments in the LIHTC program have increased the workload associated with carrying out these development and compliance monitoring obligations. CTCAC reports that its current portfolio includes more than 5,350 projects and is currently growing by roughly 275-300 projects each year. In addition, CTCAC states that the enactment of AB 2006 (Berman, Ch. 646, Stats. 2022) has created the need to hire an additional supervisorial position. While AB 2006 sought to eliminate duplication of monitoring responsibilities, it also requires greater inter-agency coordination and sometimes involves more intensive monitoring, as when CTCAC must ensure compliance not only with its own requirements, but also those of the other agencies.

The requested augmentation would not come out of state General Fund. Rather, the additional expense will be paid for out of fees that TCAC charges. Last year, CTCAC raised its application fee from $1000 to $1500 and its one-time compliance monitoring fees from $410 per unit to $700 per unit. According the CTCAC, these were the first such fee increases in at least the last 25 years.

Staff Recommendation. Approve as budgeted.

2240 HOUSING & COMMUNITY DEVELOPMENT DEPARTMENT (HCD)

Item 3: Staffing Augmentation for Federal Disaster Funds Administration

Issue. The Governor's January 2025 Budget seeks hiring authority for six additional positions at the Department of Housing and Community Development (HCD) beginning in 2025-26 to help administer federal Community Development Block Grant – Disaster Recovery (CDBG-DR) funds.

Background. Following a series of winter storms that resulted in flooding, landslides, and mudslides in the winter of 2022-23, the federal government approved $115 million in disaster relief funding to California to support long-term recovery efforts. The primary impacted counties were Merced, Santa Cruz, San Luis Obispo, San Joaquin, and Ventura.

HCD is tasked with administering this funding. Pursuant to its 2023 CDBG-DR Action Plan, HCD intends to direct the funding to three projects, which it describes as follows:

- Manufactured Home Preplacement and Elevation Program. HCD will provide funding to subrecipients to replace and/or elevate owner-occupied, manufactured homes. HCD will disperse this allocation in proportion to the total damage in each subrecipient's jurisdiction, which ensures that manufactured home recovery funds are spent in the most impacted and distressed areas. Based on the information gathered from Disaster Case Manager Providers and local governments, the priority population for this program will be the low- and moderate-income owners of severely damaged manufactured homes that are not suitable for rehabilitation.

- Disaster Recovery Multifamily Housing Accelerator Program. For the Multifamily Housing Accelerator Program, HCD will use a housing accelerator style program that enables shovel-ready affordable housing projects that, despite having received one or more awards from other HCD programs, are unable to move forward due to funding gaps from being unable to access tax-exempt bond allocations or low-income housing tax credits. HCD is aware that disasters disproportionately affect low- and moderate-income households, and that this disparate impact, combined with pre-disaster vulnerabilities, makes the recovery process especially challenging for vulnerable populations and underserved communities.

- Migrant Resiliency Center Program. Agricultural farm workers and their families migrate from their homes to work in California's fields and canneries each year during the planting and harvesting season. The Office of Migrant Service (OMS) centers have been used as emergency shelters during the off season, between November and March for FEMA DR-4683 and 4699, and before federally declared disasters in 2018 and

> 2020. HCD's Owner-Occupied Mitigation Program will include the Migrant Resiliency Center Program to provide capital improvements to OMS centers, such as installing infrastructure that can temporarily shelter vulnerable populations during future disasters. Additionally, during non-disaster periods, the OMS centers will continue to provide housing for seasonal farmworkers.

Although HCD indicates that it currently has 59 staff dedicated to administration of disaster recovery programs, it states that the additional six positions are needed to meet the projected workload demand associated with the proposed programs. In particular, HCD notes that two of the impacted counties – Merced and San Joaquin – have not previously received federal disaster recovery funding and will need additional technical assistance as a result.

Staff Comments. As the requested positions would be paid for out of federal funds, there is no impact on the state General Fund.

Staff Recommendation. Approve as budgeted.

Item 4: Headquarters Office Space Rental Expenses

Issue. The Governor's January 2025 Budget requests $5.7 million in 2025-26 General Fund and incremental increase annually after that, for the Department of Housing and Community Development (HCD) to pay the rent for its headquarters office space.

Background. Until last year, HCD's headquarters were housed at 2020 W. El Camino Avenue, Sacramento, California. There, the department leased 119, 148 square feet of office space for $4.3 million annually (as of 2023-24).

In accordance with long-established state plans, HCD recently moved into the newly constructed, Department of General Services building, the May Lee Office Complex, in North Sacramento. The new office space consists of 225,769 square feet and will rent at a rate of $10 million for the year 2025-26. This budget request is intended to cover the increased cost this year and into the future.

HCD notes that the increased space correlates with significant recent staff expansions – growing from 500 to 1400 personnel – as the department has established and absorbed new programs.

Staff Comment: This is one of a series of budget requests related to moving expenses and rent increases associated with the movement of state government operations into the May Lee Office Complex.

Staff Recommendation. Approve as budgeted.

ITEMS FOR DISCUSSION

0968 Tax Credit Allocation Committee (TCAC)

Item 5: Overview and Status Report

Core Mission. The California Tax Credit Allocation Committee (CTCAC) administers the state's Low-Income Housing Tax Credit (LIHTC) program.

Of Note. CTCAC operates under the direction and auspices of the State Treasurer's Office.

Executive Director: Marina Wiant

Staff Size: 78 authorized positions as of employees as of fiscal year 2024-25.

Primary Programs.

- Low-Income Housing Tax Credit program. LIHTC functions to stimulate private investment in affordable housing by offering 10 years of reduced tax burden in exchange. LIHTC credits can be used on new affordable housing development projects or to rehabilitate existing properties. There are federal and state LIHTC tax credits; CTCAC administers both. CTCAC promulgates the regulations for the LIHTC program, reviews and selects applications for funding, certifies tax credit eligibility upon project completion, and conducts the required long-term affordability and maintenance compliance monitoring. CTCAC states that, from 1987 through 2023, it has allocated more than $67 billion federal and state tax credits, thus helping fund the construction of over 567,000 total housing units. The CTCAC portfolio currently consists of more than 5,350 projects and is now growing by approximately 275-300 projects annually.

Highlighted Recent Initiatives.

- Supplemental State LIHTC. Since 2019, California has augmented its baseline, statutorily-mandated annual state LIHTC funding (currently around $125 million), with an additional $500 million in state LIHTC each year. See Item 6 of this agenda for further details.

- Limitations on Rent Increases. Under CTCAC's recently adopted regulations, the statewide cap on annual rent increases of five percent plus the rate of inflation up to a maximum of 10 percent now also applies to units constructed or rehabilitated using LIHTC funds.

Staff Recommendation. Information only.

Item 6: State Supplemental Low-Income Housing Tax Credits

Issue. The Governor's January 2025 Budget does not include any supplementary state Low Income Housing Tax Credit funding.

Background. The state LIHTC program attracts private investment to affordable housing production by offering tax incentives to investors. This enables affordable housing developers to secure what is often a critical portion of the funds they need in order to make construction and operation financially viable in spite of the low rents that will be charged.

The availability of state LIHTC funding also helps to leverage additional federal affordable housing funding. This happens when developers combine state LIHTC with federal LIHTC to make a project financially viable. Absent the state contribution, the developer would not be able to move forward with the project and, as a result, would not make use of the available federal LIHTC money. In this sense, state LIHTC funding helps to "unlock" available federal LIHTC funds.

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 2024 allocation was roughly $125 million.

In order to spur further affordable housing construction and leverage additional federal LIHTC funds, California has augmented the baseline statutory LIHTC appropriation in each of the past five budgets with $500 million in supplemental state LIHTC tax credits. The Governor's January 2025 Budget, by contrast, does not include any supplemental state LIHTC funding.

Key Questions. In analyzing how the absence of supplemental state LIHTC would impact affordable housing construction in California and evaluating alternatives, Subcommittee members may wish to consider the following questions:

- How many affordable housing units will not get built if the 2025 Budget Act does not ultimately include $500 million in supplemental state LIHTC?

- What is the approximate value of the federal affordable housing tax credits that California will forgo in the absence of supplemental state LIHTC in the 2025 Budget? Would a greater amount of supplemental state LIHTC leverage even greater levels of federal funding?

- How does the one-time nature of recent supplemental state LIHTC funding impact affordable housing developers?

- How would the inclusion of supplemental state LIHTC impact out-year deficits?

Staff Recommendation. Information only.

2240 Housing & Community Development Department (HCD)

Item 7: Overview and Status Report

Core Mission. The Housing and Community Development Department (HCD) is responsible for the state's community planning (especially in relation to housing production); building code promulgation; affordable housing funding; and mobilehome regulation.

Director. Gustavo Velasquez

Staff Size. Approximately 1,400 employees.

Primary Programs.

- Affordable Housing Grant Administration. HCD administers most of the state's programs that fund the construction, preservation, and rehabilitation of affordable housing and shelter. In brief summary, these programs include, but are not limited to:

  - The Multifamily Housing Program (MHP). Provides funding to support a broad variety of deeply affordable development and rehabilitation projects.

  - Infill Infrastructure Grants (IIG). Funds the development of housing or the infrastructure necessary to facilitate residential construction in areas that are already largely development, as specified.

  - Joe Serna, Jr., Farmworker Housing Grants (FWHG). Funds the construction and/or rehabilitation of both owner-occupied and rental housing accessible for agricultural workers.

  - CalHome. Provides funding to local jurisdictions for a variety of homeownership-related purposes, including joint equity projects such as those often associated with Habitat for Humanity, mobilehome rehabilitation, and homeownership counseling.

  - Homekey Plus. Funds local jurisdictions (sometimes in tandem with developers) to construct long-term affordable housing or convert shorter-term facilities such as hotels and motels into long-term housing for individuals and household who are homeless or at risk of homelessness.

  - Affordable Housing and Sustainable Communities (AHSC). Funding for transit-oriented housing projects that reduce vehicle miles traveled and further fair housing goals. AHSC is funded through the Greenhouse Gas Reduction Fund (GGRF) and partially co-administered with the Strategic Growth Council.

  - Veterans Housing and Homelessness Prevention Program (VHHPP). Funds construction and rehabilitation of affordable housing for veterans and their families specifically.

  - Portfolio Reinvestment Program (PRP). Pays for the extension and/or rehabilitation of existing affordable housing projects for which the affordability covenants would otherwise soon expire.

  - Regional Early Action Planning (REAP and REAP 2.0). Provides funding to regional councils of government support local planning efforts as well as housing and housing-related infrastructure projects.

  Many of these programs include set-asides or separate versions for which only Tribal entities are eligible. In addition, HCD is responsible for administering a number of federal affordable housing development funding programs, including HOME, Community Development Block Grant (CDBG) and Community Development Block Grant – Disaster Recovery (CDBG-DR), and the National Housing Trust Fund.

- Mobilehome and Other Specialized Residential Regulation. HCD is the state's primary regulatory and administrative body in relation to mobilehomes, mobilehome parks, manufactured homes, floating homes, and marinas. It is responsible for registration and titling, fee collection, park inspections, and the operation of a dispute resolution program.

- Regional Housing Needs Assessment (RHNA) and Housing Element Administration. HCD has the primary role in carrying out the state's RHNA process. Under this process, HCD determines how much housing will be needed in each of the state's major geographic regions every eight years, broken out into income levels. HCD then assigns each region the task of allocating this need among its jurisdictions. These jurisdictions must then create a housing element – essentially a plan – for how it will ensure that enough housing can be built in the jurisdiction to meet the need at every income level. HCD reviews these housing elements for compliance with state law and then monitors each jurisdiction's implementation through Annual Progress Reports (APRs).

- Homelessness Grant Administration. As of July 1, 2024, HCD has had primary responsibility for the administration of the Homeless Housing and Assistance Program (HHAP), the Encampment Resolution Fund (ERF), and the Family Homelessness Challenge (FHC) Grants. The programs focus on addressing homelessness and will be examined in detail at this Subcommittee's hearing on March 13, 2025.

- Building Codes. HCD sets and enforces the state's building standards. This includes specialized inspection regimes for certain labor workforce housing including farmworker housing.

Highlighted Recent Initiatives.

- Housing and Homelessness Accountability Results and Partnership Unit (HHARP). The HHARP's role is to encourage and, if necessary, enforce local compliance with the state's housing laws, including but not limited to, the Housing Accountability Act, housing elements laws, and, since their inclusion in the 2024 Budget Act, local obligations under HCD's programs to address homelessness: HHAP and ERF. The HHARP may identify violations on its own or they may be brought to the HHARP's attention through its complaint process. Typically, the HHARP will respond by issuing "accountability letters" and/or offering whatever technical assistance may be needed to correct the violation. If these methods prove ineffective, however, the HHARP may bring litigation to enforce the law. As of February 17, 2025, the HHARP reports having sent 687 accountability letters, providing technical assistance in 623 instances. HCD believes that, as a result of these HHARP actions, it has opened up the path for construction of some 9,225 housing units, of which 3,226 were affordable.

- Mobilehome Residency Law Protection Program (MRLPP). The California Civil Code contains a special set of laws collectively known as the Mobilehome Residency Law (MRL). These laws govern the unique dynamics in mobilehome parks, where residents own the structure in which they live, but not the land on which it sits. Until recently, there was no administrative enforcement mechanism for the MRL; so residents had to sue in court to vindicate their rights. Established by AB 3066 (Stone, Ch. 774, Stats. 2018) and funded through an annual fee paid by park residents, the MRLPP provides a complaint-based process through which HCD fields and seeks to resolve MRL disputes. If HCD is unable to resolve the dispute, the MRLPP contains a mechanism for connecting mobilehome residents with legal aid services.

Staff Recommendation. Information only.

Item 8: Recent Data Analysis Collaborations with the Housing and Community Development Department

Issue. The Office of Data and Innovation has engaged with the Housing and Community Development Department (HCD) over the past two year to explore opportunities to employ information technology to assist HCD to track and analyze housing outcomes.

Background. ODI is a branch with the Government Operations Agency that specializes in the design and implementation of technology solutions. ODI teams with other state government entities to identify challenging data analysis or program implementation problems and use technology to mitigate or resolve them.

Recently, ODI took on the "Homestead" project in collaboration with HCD. The project sought to harness computerized analysis of housing data to enable HCD to rapidly the answer to queries like which properties are eligible for affordable development streamlining under SB 423 (Wiener, Ch. 423, Stats. 2023), and which are not? How many current housing developments are affordable and how is that number trending over time? Absent an automated mechanism to carry out this kind of analysis, HCD estimated that obtaining reliable answers would take thousands of hours of personnel time. ODI reports that the Homestead project was able to provide HCD with new ways of crunching housing data, thus allowing it to answer key policy questions faster and more efficiently.

The purpose of this agenda Item is to learn more about the Homestead project and ODI's work with HCD more generally.

Key Questions. The Subcommittee may wish to keep some of the following questions in mind as it considers the work undertaken by ODI with HCD:

- Why did ODI choose to undertake the Homestead project? What did it hope to accomplish?
- How did ODI go about the Homestead project?
- Did HCD learn anything new about its performance or make any changes to its operations based on ODI's presentation and analysis of the data?
- Could this kind of data analysis be used to increase efficiency around local permitting and streamling?
- What other future opportunities exist for employing this kind of technology and analysis at HCD or in other departments?

Staff Recommendation: Information only.

Item 9: Accessing Equity for Affordable Housing Projects

Request. The Governor's January 2025 budget proposes the enactment of budget trailer bill language that would permit affordable housing developers, with HCD approval, to take out loans against the equity on HCD-funded projects to pay for preservation, rehabilitation, and/or development of other affordable housing initiatives.

Background. Affordable housing developers typically combine a variety of sources of funding to make a project financially viable. This may include gifts of land, philanthropic contributions, government grants, loans, tax credits, and private investment, among other things. In some instances, successful projects may develop equity as the value of the property appreciates and/or the developer is able to pay down debt.

This equity represents a potential source of security to back further financing for the developer. Under current law, however, this equity is inaccessible to any project funded by HCD, as the department lacks the statutory authority to allow the project owner to borrow against such equity. The proposed trailer bill language would provide this authority in specified circumstances intended to ensure that the borrowing furthers affordable housing goals and does not create unacceptable financial risk.

Specifically, the proposed trailer bill language sets forth the following as being acceptable purposes for which HCD could approve borrowing against equity:

- projects that will increase or improve the supply of deed-restricted affordable housing serving low-income households in the state;
- purchase of a limited partner interest of a tax credit investor in the project, with specified guidelines;
- payment of any unpaid deferred developer fee for the project;
- payment for necessary repairs and rehabilitation of the project; or
- establishment or replenishment of department-approved project reserves.

However, as the current draft of the proposed trailer bill language is written, this list is not exclusive. In fact, practically any purpose is potentially permissible under the current language, since it also allows HCD to permit borrowing against equity "for any other purposes approved by the department."

As for financial safeguards, the proposed trailer bill provides that the following financial safeguards must be in place before HCD can authorize borrowing against equity:

- All hard debt associated with the project providing the equity, including the new debt that will be taken on, is underwritten with a debt service coverage ratio of at a minimum 1.15 and is projected to have positive cash flow for 15 consecutive years.

- Any new debt is subordinate to the department's lien and regulatory agreement, as applicable, unless the department reasonably determines that subordination of the department's lien is necessary for the feasibility of a project.

In addition, the proposed trailer bill language makes clear that HCD must not approve borrowing against equity if it will result in higher rents than those allowed under the project's affordability requirements.

Key Questions. In evaluating the merits of adopting the proposed trailer bill language, Subcommitee members may wish to consider some of the following questions:

- If this trailer bill language were adopted, about how much new "equity" is believed to be available?

- Is there an increased financial risk associated with enabling affordable housing developers to finance other projects using existing equity? If so, could sufficient guardrails be built into the proposal to mitigate sufficiently against this risk?

- The current proposed trailer bill language appears to mandate that HCD permit borrowing against equity when the specified criteria are met. At the same time, the language seems to give HCD a fair amount of discretion over the criteria. Is the intent to force HCD's hand to allow borrowing against equity or to give it the option to permit borrowing against equity?

- The proposed trailer bill language also authorizes HCD to permit "the payoff of a department loan in whole or part before the end of its term." Is this currently impermissible? If so, why? Are there any potential downsides to facilitating early payoff of an HCD loan?

Staff Recommendation. Hold open.

Item 10: Consolidated Default Reserve Fund Creation

Request. The Governor's January 2025 Budget proposes the enactment of budget trailer bill language that would consolidate the existing default reserve funds from several of the Housing and Community Development Department's (HCD's) affordable housing loan programs into a single, continuously appropriated backstop against the loss of affordable housing due to loan payment defaults.

Background. When HCD provides loan funding to help finance an affordable housing project, it generally does so in exchange for a covenant from the developer to keep rents low for a specified period of time, frequently 55 years. Should the developer subsequently default on payment of these loans, ownership of the property and the associated affordability covenants are put at risk. To mitigate against that risk and protect affordability, HCD maintains default reserve funds for most of its housing finance programs. These funds serve as a backstop to prevent default.

Under existing law, the funding for these reserve accounts is not continuously appropriated. Rather, HCD requires ongoing, active appropriations within each reserve fund to avoid reversion of any balances back to the General Fund. In addition, while changes enacted in 2018 allow HCD to utilize funds from any program default reserve fund to aid projects even if they were originally funded through a different program, HCD must administer the funds individually.

To simplify all of this, the proposed budget trailer bill language would consolidate several of the default reserve funds into a single account, eliminating the necessity of transfers between them. At the same time, the proposed trailer bill language would make appropriations to the fund continuous.

The existing default reserve funds which would be consolidated are the funds for:

- The Joe Serna, Jr. Farmworker Housing Grant Fund;
- The Multifamily Housing Program;
- The Housing Rehabilitation Loan Fund;
- The Transit-Oriented Development Implementation Fund;
- The Housing for Veterans Fund;
- The No Place Like Home Fund; and
- The Family Housing Demonstration Account and the Rental Housing Construction Fund.

Key Questions.

- What are the current balances in the various default reserve funds? What would the combined reserve balance be?

- Does the frequency and amount of use that any one program's default reserve fund get used indicate anything about the health of that program? If so, would this signal get lost through the consolidations of the default reserve funds?

- Was consolidation of the default reserve funds considered as part of the 2018 changes? If so, is there a reason it was not done then?

- Could continuous appropriation in fact result in some practical loss in transparency, since the Legislature would no longer review and reappropriate the funds at regular intervals?

Staff Recommendation. Hold open.

Item 11: Technical Alignment of Expenditure Deadlines

Issue. The Governor's January 2025 Budget requests to extend certain expenditure and liquidation deadlines associated with the Homekey and Community Development Block Grant – Disaster Recovery (CDBG-DR) programs administered by the Department of Housing and Community Development (HCD).

Background.

CDBG-DR

As its name suggests, the CDBG-DR program provides federal funding for long-term recovery efforts in places impacted by a federally-declared disaster. Currently, HCD is administering three CDBG-DR grants as follows:

- $124.2 million from the 2019 Budget Act with an encumbrance and liquidation deadline of June 30, 2025.
- $38.1 million from the 2020 Budget Act with an encumbrance deadline of June 30, 2027 and a liquidation deadline of June 30, 2029.
- $88.2 million from the 2020 Budget Act with an encumbrance and liquidation deadline of June 30, 2025.

In response to the COVID pandemic, the federal government agreed to extend the deadlines associated with these funds by two years. In addition, the federal grant agreement associated with the $88.2 million allocation contains an expenditure deadline of August 14, 2032. HCD now seeks to extend the state budget deadlines to align with these federal deadlines. HCD indicates that "[w]ithout the approved extensions, HCD will not be able to fully expend these grants and risks [federal] recapture of funds."

Homekey

The Homekey program provides grants to local jurisdictions and developers for the rapid conversion or rehabilitation of existing facilities such as hotels, motels, and other residential buildings into long-term housing for individuals and households at risk of homelessness. Since its creation as part of the 2020 Budget Act, the Homekey program been funded using a combination of federal and state resources, which sometimes have different deadlines associated with them. Of particular relevance to this budget request, one of the Homekey program Notice of Funds Available (NOFA) includes an expenditure deadline of June 30, 2026, in accordance with the federally required deadline. The state appropriation supporting that same NOFA has an encumbrance and liquidation deadline of June 30, 2025, however. HCD therefore requests to extend that deadline by one year to align with the federal deadline and the deadline set forth in the NOFA.

Staff Recommendation. Hold open.

Item 12: Implementation of Recently Enacted Legislation

Issue. The Governor's January 2025 Budget requests $7 million in 2025-26 General Fund and $1.6 annually after that; $578,000 in Special Fund in 2025-26 and $189,000 annually after that; as well as hiring authority for nine additional staff for the Housing and Community Development Department (HCD) to implement a series of recently enacted bills.

Background. This budget seeks the resources to enable HCD to implement all of the following legislation:

- SB 450 (Atkins, Ch. 286, Stats. 2024) prohibits local governments from imposing restrictive zoning, subdivision, or design standards to lot-splitting and higher-density housing project if they do not also apply to underlying single-family zoning but allows local agencies to be more permissive for such projects. HCD anticipates that it will receive more complaints from proponents of lot-splitting and higher density projects under this law. It also expects increased technical assistance needs as local jurisdiction seek to comply with the new statute. This request seeks hiring authority for one additional staff person to respond to this additional workload.

- SB 597 (Glazer, Ch. 861, Stats. 2024) requires HCD to conduct research, develop recommendations, and submit a report to the Legislature regarding installation of rainwater catchment systems for non-potable uses in newly constructed housing. HCD requests to hire a consultant to carry out these tasks.

- SB 1123 (Caballero, Ch. 294, Stats. 2024) expands the applicability of laws mandating ministerial approval of housing development proposals in specified urban infill contexts, to include vacant parcels zoned for single-family use. HCD anticipates receiving "a significant number of inquiries" related to application and compliance with this expansion. To provide this additional technical assistance, HCD requests an additional staff position and an annual General Fund augmentation of $205,000 beginning 2025-26.

- AB 653 (Reyes, Ch. 672, Stats. 2024) established a series of new requirements related to utilization of federal rental housing subsidy vouchers. Specifically, the bill requires all of the state's local public housing authorities (PHAs) to report to HCD their voucher leasing success rates, payment standards, inspection wait times, and voucher search times. HCD is then supposed to publish this data each year. The bill also directs HCD to convene PHAs and voucher recipients every two years to discuss the factors that impact success rates and make recommendations for programmatic changes. Finally, the bill requires HCD to report to the Legislature on statewide voucher utilization rates and what changes have been made to increase placements. HCD seeks a total of four additional staff to carry out these tasks in addition to the work required by AB 2776, below.

- AB 1878 (Garcia, Ch. 266, Stats. 2024) requires HCD to consult with additional types of tribal housing entities or departments who are interested in planning and developing housing within a tribe's designated service area, rather than just within reservation or rancheria lands. The bill also requires HCD to provide outreach, education, and comprehensive technical assistance to tribes and various tribal housing entities during the development of tribal housing grant programs including assistance with program waivers and modification requests. To carry this out, HCD seeks $378,000 for two positions beginning in 2025-26.

- AB 2240 (Arambula, Ch. 523, Stats. 2024) requires HCD to undertake a series of actions in relation to farmworker housing, including:
    - submitting a report on permanent housing opportunities for farmworkers to the Legislature with an analysis of the feasibility and impact of turning Office of Migrant Services (OMS) seasonal housing units into year-round housing;
    - coordinating with other departments to identify excess sites within proximity to OMS facilities and prioritize the development of permanent farmworker housing on these sites;
    - updating the definition of "migratory agricultural worker," in consultation with stakeholders;
    - conducting annual health, safety, and conditions annual inspections of the 24 OMS migrant farmworker housing centers.

  To carry out this work thought a consultant contract, HCD seeks $5.4 million in one-time General Fund in 2025-26, as well as $443,000 in General Fund in both 2026-27 and 2027-28.

- AB 2387 (Pellerin, Ch. 396, Stats. 2024) allows mobilehome park owners to increase the number of lots in existing parks by ten percent through a streamlined process and without having to pay new business tax, local registration fees, use permit fees, or other fees that are not applicable to existing lots. HCD seeks an additional position and technology enhancements to handle the processing of application for park expansions, amending regulations, and making systems improvements.

- AB 2667 (Santiago, Ch. 277, Stats. 2024) added new data components to the Housing Element Annual Progress Report (APR) that local jurisdictions must submit to HCD. These reports already included information about the number of applications, entitlements, and permits issued for all housing development projects in the jurisdiction. Under AB 2667, jurisdictions will now need to include the number of units approved or disapproved in high-resource opportunity areas, as defined by the California Tax Credit Allocation Committee (CTCAC) and HCD, as well as the affordability level for each unit. HCD anticipates that local jurisdictions will need significant technical assistance to comply with these new requirements. HCD seeks a total of four additional staff to carry out these tasks in addition to the work required by AB 653, above.

Staff Comment. When considered in aggregate, the amounts requested here are close the cost and staffing estimates reported by the Senate Appropriations Committee during legislative consideration of the bills.

Key Questions.

- Several of these requests involve technical assistance related to the application of new laws and ask for ongoing positions and/or funding. Is there any possibility that, over time, the need for technical assistance will decrease as jurisdictions become familiar with these laws?

Staff Recommendation. Approve as budgeted.

2248 CALIFORNIA HOUSING FINANCE AGENCY (CALHFA)

Item 13: Overview and Status Report

Core Mission. The California Housing Finance Agency (CalHFA) operates as the state's affordable housing lender, serving the needs of both renters and homebuyers of low to moderate income. CalHFA states that, since its formation in 1975, it has "helped over 226,000 Californians purchase their first home" and that it has "helped to build or preserve more than 82,000 affordable homes and apartments for veterans, seniors, those with special needs and families in danger of experiencing homelessness."

Of Note: CalHFA is a self-supporting state agency. The General Fund does not pay for CalHFA's operating costs, though CalHFA does administer various state and federal resources on behalf of the state.

Executive Director: Currently Vacant.

Staff Size: 195 employees as of June 30, 2024.

Primary Programs.

- Multifamily Lending Division. Finances affordable rental housing through collaborations with developers, local, state and federal government partners, among others. Specific programs include:
    - Mixed Income Program (MIP). As described by CalHFA, MIP provides "long-term subordinate financing for new construction affordable multifamily developments throughout California that provide housing with units restricted at all income levels between 30% and 120% of the Area Median Income of the county in which the development will be located." The program is funded through an annual appropriation consisting of 15 percent of the revenues generated by SB 2 (Atkins, Ch. 364., Stats. 2017), the Building Homes and Jobs Act, which placed additional fees on the recording of specified real estate transaction documentation. CalHFA is currently accepting applications for the 2025 round of MIP awards. It anticipates having roughly $50 million available.
    - Multifamily Programs. A set of bond and loan producta (Permanent Loan, Conduit Issuer, and Bond Recycling) that provide financing for multifamily rental housing for individuals, families, seniors, veterans or special needs tenants.
- Single Family Division. Partners with a preferred lender network to provide first-time homebuyers with down payment and closing cost assistance and access to first mortgage loans. Specific programs include:
    - First Mortgage Loan Programs. A series of mortgage loan products available to low and moderate income homebuyers that might not otherwise qualify for financing.

These include Federal Housing Administration (FHA), United States Department of Agriculture (USDA), and Veteran's Administration (VA) backed loans, among others.

- My Home. MyHome provides down payment assistance and help with paying closing costs in the form of deferred-payment junior loans. The amount of MyHome loan available depends on its type: Government MyHome loans offer up to the lesser of 3.5 percent of the purchase price or appraised value, while Conventional MyHome loans provide up to just 3 percent.

- California Dream for All. See highlighted recent initiatives, below.

Highlighted Recent Initiatives.

- National Mortgage Settlement (NMS) Fund Housing Counseling. The 2020 Budget Act appropriated $300 million to CalHFA from the NMS Fund to provide mortgage payment assistance and to oversee a network of HUD-certified housing counselors across California. These counselors assist homeowners at risk of foreclosure and eviction to understand the process, their rights, and what options and resources are available to help them avoid losing their homes. As of June 30, 2024, CalHFA reported that the program had served 78,709 individuals and distributed $94.7 million through a network including 437 housing counselors statewide. For further details and information about the recently proposed extension of this program, see Item 13 of this agenda.

- California Dream for All (DfA). DfA is a shared equity down-payment assistance program for first time, first generation homebuyers. Under the program, the state loans selected participants the money necessary for the down payment on the purchase of a home. Later, when the participants sell the property, DfA recovers the amount of the loan, plus a share of any accrued equity. CalHFA is now administering Phase Two of the DfA program. For further details, see Item 15 of this agenda.

- Accessory Dwelling Unit (ADU) Grant Program. Established in 2021, CalHFA's ADU Grant Program provided funding for "predevelopment (i.e., any activities to get the site ready for construction) and other costs necessary to build an ADU." CalHFA received and allocated a total of $125 million for the program, which it rolled out in two phases. Initially, maximum grants were set at $25,000, but this cap was later raised to $40,000. All grants have now been made and CalHFA is no longer accepting applications for the program, though it continues to monitor program results. CalHFA reports that, as of November 20, 2024, there were a total of 2,581 ADU grant-funded projects active, with "nearly 560 complete." CalHFA's analysis of the program to date also indicates that the program has helped spur the creation of private financing options for low and moderate income homeowners who wish to construct ADUs on their properties. The complete report is available at: https://www.calhfa.ca.gov/about/press/reports/ADU-outcome-report-2025.pdf.

Item 14: Deployment of National Mortgage Settlement Funds to Relief for Homeowners Impacted by Recent Fires

Issue. Through a proposal first announced by the Governor on February 19, 2025, and subsequently approved by CalHFA's board on February 20, 2025, CalHFA will deploy $138 million in funding from the National Mortgage Settlement Fund to provide mortgage payment assistance and housing counseling to homeowners impacted by recent fires.

Background. In the wake of the foreclosure crisis of roughly 2008-2010, a number of states sued some of the major home mortgage lenders for some of the unfair practices – robo-signing documents and knowingly pushing loans on borrowers unable to afford them, among other things – that led to the crisis. Ultimately, these cases resulted in the National Mortgage Settlement from which California received $4 billion. Of this amount, CalHFA received $300 million pursuant to AB 83 (Com. on Budget, Ch. 15 , Stats. 2020) for the following purposes:

- providing housing counseling services that are certified by the federal Department of Housing and Urban Development to homeowners, former homeowners, or renters; and
- providing mortgage assistance to qualified California households, including borrowers who own residential properties with four or fewer units who face foreclosure. (Gov. Code 12531(c).)

A portion of this money remains unspent and, in light of the economic pressure brought to bear on fire-impacted homeowners, the Governor proposed to direct the balance from the settlement fund toward two fire-related forms of relief.

- $112 million in direct mortgage assistance. This aspect of the program will provide mortgage relief for homeowners at risk of foreclosure if their property was destroyed or substantially damaged as a result of an emergency declared since January 1, 2023. This includes survivors of the Park, Franklin, Palisades, and Eaton fires.
- $26 million to extend existing housing counsel program. The program offers advice and and assistance with things like seeking mortgage payment forbearance, obtaining FEMA disaster aid, and similar services. Additional information about the program is available here: https://www.calhfa.ca.gov/community/nms/portal/index.htm

(As originally announced, the Governor's proposal was for $125 million with $100 million going to mortgage assistance and $25 million to housing counseling. The higher numbers reflect the amount ultimately approved by CalHFA's board for these purposes.)

Program guidelines and procedures are currently under development.

Key Questions.

- When does CalHFA expect this relief to be available to homeowners?
- How much assistance will be available to each homeowner?
- To what extent must a homeowner's property have been damaged in order to be eligible?
- What is the nature of the housing counseling services that will be available? Will it include legal services for distressed homeowners?
- Are homeowners eligible if they lost their jobs or income as a result of the fires, but did not lose their homes?

Staff Recommendation. Information only.

Item 15: Reporting on California Dream for All 2.0

Issue. The California Dream for All program provides down payment assistance in the form of shared equity loans to first-time and first generation homebuyers. CalHFA administers the program. Following a first round of the program in 2023, CalHFA made a series of modifications to the program in collaboration with the Legislature. CalHFA then administered a second phase of the program over the course of 2024. Preliminary data and reporting about this second phase of the program is now available.

Background. The California Dream for All program is designed to help low- and moderate income Californians achieve homeownership for the first time, opening up a key path to building intergenerational wealth. The program offers shared-appreciation loans to eligible first-time homebuyers so that they can make a 20 percent down payment toward the purchase of their new home. Reaching this down payment threshold unlocks financial benefits for the homebuyers in reduced interest and mortgage insurance payments. Later, when the program participants go to sell their home, the California Dream for All program receives back the money it contributed to the down payment, plus 20 percent of any accrued value in the home, or 15 percent in the case of lower-income households. These amounts then return to the pool of funds that the program can use to assist still more first-time California homebuyers. In this way, the program is intended to be financially self-sustaining.

The program was initially funded with $500 million in the 2022 Budget Act. CalHFA opened a first round of $300 million to applications in late March 2023. By early April, CalHFA paused the program due to "unprecedented demand." At that point, CalHFA estimated that more than 2,300 low and moderate income Californians would receive Dream for All loans in the first round.

Approximately, $40 million in awards from the first round went unused and the 2023 Budget Act added an additional $20 million to the program. Accordingly, CalHFA prepared to launch a $260 million second phase of the program in 2024. Based on intervening legislation and utilizing lessons taken from the first phase, however, CalHFA modified the program somewhat. Specifically, SB 143 (Com. on Budget, Ch. 196, Stats. 2023) required CalHFA to: (1) define first-generation homebuyers and target Dream for All funds to them; (2) support an equitable distribution of program funds in different regions; and (3) prioritize participation by homebuyers in the lower tiers of the income eligibility structure. Another key CalHFA adjustment consisted of establishing a pre-registration and lottery system instead of a first-come, first-served model based that required homebuyers to be in contract to buy already. For Phase Two, selected Dream for All applicants receive a voucher. They then have 180 days to close on the purchase of a home.

Phase Two of the program opened for pre-registration on April 3, 2024. CalHFA reports that some 18,000 Californians applied to the program before the pre-registration window closed on April 29, 2024. After screening for eligibility, CalHFA initially selected 1,700 of these applicants by lottery to receive Dream for All vouchers. Addition applicants have received vouchers as some of the original vouchers have expired or been cancelled. As of January 14, 2025, CalHFA was tracking 2,240 active voucher holders. In December 2024, 1,349 of these (66 percent) had reserved a Dream for All loan with CalHFA. The remainder continued to search for a home to purchase. The average

Dream for All loan was $117,000 which assisted homebuyers to purchase at an average price of $611,000.

The full CalHFA report is available at:

https://www.calhfa.ca.gov/about/press/reports/DFA-report-2025-01.pdf

Key Questions.

- Have any homes purchased through the DfA program been sold yet?

- How did the population of DfA recipients evolve between Phase 1 and Phase 2?

- Based on what CalHFA has learned so far, what are the potential upsides and possible problems that the Legislature should bear in mind while deciding whether to invest in a Phase 3 of DfA?

Staff Recommendation. Information only.