

SUBCOMMITTEE NO. 4

Agenda



Senator Anna Caballero
Senator Jim Nielsen
Senator Richard D. Roth

Wednesday, February 17, 2021
2:00 p.m.
State Capitol - Room 4203

Consultant: James Hacker

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Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.

ISSUES PROPOSED FOR VOTE-ONLY

0650 OFFICE OF PLANNING AND RESEARCH (OPR)

Issue 1: Volunteer and Donation Management Planning Guidance (AB 2213)

The budget includes \$348,000 General Fund in 2021-22 to develop planning guidance for jurisdictions to leverage volunteer and donation resources during disasters per the mandates of AB 2213 (Limón), Chapter 98, Statutes 2020. AB 2213 requires, among other things, Cal OES and California Volunteers, in coordination with Voluntary Organizations Active in Disasters, to develop planning guidance to identify volunteer and donation management resources that could assist in responding to and recovering from disasters. This funding will support the development and implementation of the planning guidance by May 1, 2022, as required by AB 2213

1700 DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING (DFEH)

Issue 2: Workload Resources (Various Legislation)

The budget includes \$5.1 million General Fund in 2021-22 and \$3.9 million General Fund in 2022-23 and ongoing, and 24 positions to provide resources to implement the expansion of California Family Rights Act (CFRA) protections pursuant to SB 1383 (Jackson), Chapter 86, Statutes of 2020, initiate a mediation pilot program pursuant to AB 1867 (Committee on Budget), Chapter 45, Statutes of 2020, and enforce California's Equal Pay Act and create an IT infrastructure to collect, secure and analyze pay data received pursuant to SB 973 (Jackson), Chapter 363, Statutes of 2020. DFEH plays an important role in the implementation and enforcement of these bills, and additional resources are appropriate.

2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT (HCD)

Issue 3: Infill Infrastructure Grant of 2019 Liquidation Extension

The budget includes budget bill language to extend the liquidation date for the Infill Infrastructure Grant Program of 2019, on a case-by-case basis, from June 30, 2023 to June 30, 2025 to provide sufficient time for grantees impacted by COVID-19 related delays to complete construction of infill infrastructure projects to incentivize housing development. The 2019 funding was an important investment in additional housing production. This change will allow locals who have already received funds to fully expend their funds regardless of any delays they have experienced during the COVID-19 pandemic.

Issue 4: Workload Resources (Various Legislation)

The budget includes \$2,924,000 General Fund and 11.5 positions in 2021-22, \$1,622,000 General Fund and 9 positions in 2022-23, and \$125,000 and 1 position in 2023-24 and ongoing to implement housing laws passed during the 2020 legislative session, including AB 168 (Aguiar-Curry), Chapter 166, Statutes of 2020, and AB 434 (Daly), Chapter 192, Statutes of 2020. This request also includes additional administrative resources to support the additional workload created by these bills. These resources are generally reasonable and in-line with initial cost estimates for these two bills.

Staff Recommendation: Approve Vote Only Items as Budgeted.

ISSUES PROPOSED FOR DISCUSSION

0650 OFFICE OF PLANNING AND RESEARCH

The Office of Planning and Research (OPR) assists the Governor and the Administration in planning, research, policy development, and legislative analysis. OPR formulates long-range state goals and policies to address four key areas: land use and planning, climate risk and resilience, sustainable economic development, and targeted long-range research needs. OPR acts as the state's liaison to a variety of entities including local and regional government, planning professionals, small business, and the Department of Defense. OPR also serves a role as convener across multiple agencies on cross-cutting issues in the four key areas of our work.

The Office of Planning and Research includes three main budget programs: the State Policy Program (often referred to as OPR), which houses most of core planning and research functions; the California Strategic Growth Council, which coordinates and works collaboratively with public agencies, communities, and stakeholders to realize healthy, thriving, resilient communities for all and provides direct grant funding to projects demonstrating the value and feasibility of sustainable communities; and California Volunteers, a program aimed to increase the number and impact of Californians involved with service and volunteering throughout the state.

Budget Overview. The 2021-22 budget provides \$521.4 million to support 97.4 positions. This is an increase of nine positions but a decrease of roughly \$55 million in funding.

EXPENDITURES BY PROGRAM

Provides expenditures by each budgeted program area for the past, current, and budget years.

Code	Program	Actual 2019-20*	Estimated 2020-21*	Proposed 2021-22*
0360	State Planning & Policy Development	\$35,769	\$44,454	\$22,866
0365	California Volunteers	\$54,623	\$71,775	\$71,202
0370	Strategic Growth Council	\$70,216	\$460,943	\$427,335
Total Expenditures (All Programs)		\$160,608	\$577,172	\$521,403

POSITIONS BY PROGRAM

Provides positions data (expressed as full-time equivalents) by each budgeted program area for the past, current, and budget years.

Code	Program	Actual 2019-20*	Estimated 2020-21*	Proposed 2021-22*
0360	State Planning & Policy Development	32.5	20.5	29.5
0365	California Volunteers	24.8	43.3	43.3
0370	Strategic Growth Council	23.1	24.6	24.6
Total Positions (All Programs)		80.4	88.4	97.4

Issue 5: Administrative Staff Augmentation

Governor's Budget. The budget includes seven positions and \$1.1 million General Fund in 2021-22 and ongoing to address increasing workload and strengthen overall administrative operations of the Office of Planning and Research.

Background. Historically, OPR has maintained a small but efficient administrative staff, spread across five small units: Accounting; Budget; Business Services; Contracts; and Human Resources. OPR has expanded significantly since 2011-12. From 2011-12 to 2020-21, OPR's budget has grown from \$36 million to \$615 million and OPR's staffing levels have grown from 60 to 94.

The California Environmental Quality Act (CEQA) was signed into law in 1970 and requires all California Public Agencies to disclose the environmental impacts of their discretionary approvals. Under existing law, the State Clearinghouse at OPR is required to coordinate state agency review and comment of CEQA environmental documents and notices. OPR receives approximately 13,000 notices and environmental documents per year from both state and local public agencies, which is a 30 percent increase since 2016-17. OPR is also required to review and recommend proposed changes or amendments to CEQA guidelines at least once every two years.

The 2019-20 Budget provided three positions for FISCAL and administrative workload.

Staff Comments. OPR has indicated that the seven requested positions include the following:

- One Senior Intergovernmental Program Analyst for workload related to accounting and financial controls.
- One Senior Intergovernmental Program Analyst for additional contracts and procurement workload.
- One Senior Intergovernmental Program Analyst for increased workload related to the state CEQA Clearinghouse.
- One Senior Intergovernmental Program Analyst for additional budgets workload, mostly driven by the increase in OPR staff and resources.
- One Associate Intergovernmental Program Analyst to serve as a FISCAL Control Clerk and CalCard administrator.
- One Assistance Intergovernmental Program Analyst for increased Human Resources workload related to the growth in OPR's staffing.
- One Senior Project Analyst for a dedicated communications position.

It is reasonable to believe that the growth of OPR in recent years, both in terms of staff and resources, would lead to additional administrative workload. In particular, the positions for Accounting, Budget, Human Resources, and the State CEQA State Clearinghouse seem reasonable. However, some of the other positions seem to envision an expansion in OPR's typical activities, or to duplicate workload for which positions have already been provided. The Committee may want to consider approving part of this request, but not all of it, pending additional justification.

Staff Recommendation: Hold Open.

Issue 6: Just Transition Roadmap

Governor's Budget. The budget includes \$406,000 General Fund in 2021-22 and ongoing to develop and implement a Just Transition Roadmap as required by Executive Order (EO) N-79-20.

Background. California has declared their intention to transition to a carbon neutral economy by 2045, and has put multiple goals, regulations, and policies in place to try and accomplish that goal. At the same time, California faces serious climate impacts across regions and sectors that will have a significant impact on our current and future economy. A critical question is how the state can get ahead of these transitions in a way that is sustainable, resilient, and equitable for our workers and regional economies.

Among other things, EO N-79-20 charges OPR and the Labor Workforce Development Agency (LWDA), in consultation with the Department of Finance and other state agencies, with developing a plan to manage the economic changes that will follow the implementation of the EO's carbon neutrality strategies. It requires a Roadmap for this transition be completed by July 15, 2021. The current Just Transition work is led by OPR but currently staffed by a senior advisor contracted through the Employment Development Department (EDD). The position is funded through the federal Workforce Innovation and Opportunity Act Dislocated Worker Grant, until the end of fiscal year 2020-21.

Staff Comments. EO N-79-20 was wide-ranging and set several ambitious goals for the state to reduce greenhouse gas emissions and air pollution. As part of this, it recognized the potential economic impacts from a transition away from fossil fuels, and directed OPR and LWDA to develop a roadmap to ensure that this transition is sustainable, resilient, and equitable for California workers.

The Administration has indicated that the Roadmap will focus on five key areas:

- Economic Diversification & High Road Job Creation
- Industrial Planning for economic transition
- Safety Net Update to support impacted workers and communities
- Workforce Development once high road jobs identified and/or created
- Regional & Industry Partnership Development to design and implement all of the above

Additionally, the Administration has indicated that, while the Roadmap will be completed by July of 2021, the post-Roadmap workload will involve aligning related policies across agencies and Boards, Departments and Offices, as well as working with the Legislature, the federal and local governments, and outside stakeholders to implement the Roadmap across the state. This includes defining the longer-term role and capacity of the state to support and guide an economic transition to carbon neutrality.

The focus on equity and a resilient transition is commendable, as it recognizes the necessity of ensuring that all Californians benefit from the transition to a cleaner and more sustainable economy. However, this proposal seems to envision a role for OPR beyond what the Legislature has conceived or directed. The Committee may want to consider the extent to which the identified approach matches with its goals, or if an alternative approach is warranted.

Staff Recommendation: Hold Open.

Issue 7: Regional Climate Collaborative Program Implementation

Governor's Budget. The budget includes three positions and \$508,000 General Fund in 2021-22 and ongoing to continue establishing the Regional Climate Collaborative program.

Background. SB 732 (Steinberg), Chapter 729, Statutes of 2008, established the Strategic Growth Council (SGC) to coordinate the activities of member agencies to meet California's climate commitments. The 2015 Budget Act included \$500,000 Greenhouse Gas Reduction Fund for SGC to establish a pilot program for technical assistance for disadvantaged communities through the Affordable Housing and Sustainable Communities program. The pilot program provided individualized, direct application assistance for applicants located in disadvantaged communities.

SB 1072 (Leyva), Chapter 377, Statutes of 2018 tasks SGC with addressing challenges facing under-resourced communities through the development of technical assistance guidelines for state agencies and investing in further capacity building. SB 1072 established a grant program to build and support Regional Climate Collaborative (RCC) Programs to support under-resourced communities in accessing state funding for climate mitigation and adaptation projects. SB 1072 also calls for the development of technical assistance guidelines which compile best practices to maximize the effectiveness of technical assistance provided by state agencies. The 2019 Budget Act included two-year funding for three positions at SGC to implement SB 1072.

Staff Comments. SGC's SB 1072 staff oversee a suite of multi-year programs and initiatives, including the Climate Change Investments Technical Assistance (CCI TA) Program that reduces barriers for under-resourced communities to access state resources that together advance the core objectives and requirements of SB 1072. This work also lays the foundation for the future RCC program which requires at least two funding rounds over the 10 year timeline through the development of Technical Assistance guidelines, local capacity building work (funded with \$850,000 in the 2019 Budget Act), and establishing a framework for the RCC grant program.

The staff provided to SGC in the 2019 Budget Act have done important work to lay the groundwork for an eventual SB 1072 grant program. However, the Administration has not proposed funding that grant program as part of the 2021 Budget proposal. The Committee may want to consider whether those grants should be funded (and at what level), or if these resources (which expire at the end of the 2020-21 fiscal year) are justified.

Staff Recommendation: Hold Open.

Issue 8: Wildfire and Forest Resilience Strategy - OPR Component

Governor's Budget. The budget includes \$3 million in General Fund resources for OPR to research expanding wood markets to fully utilize the material being thinned from forests and using it for building material, energy or fuel will create incentives for private forest-land management and meet California's carbon goals. The funding is part of the Governor's early action package.

Background. California's last wildfire season broke records for the third time in the past five years. With over four million acres burned, five of the six largest fires in state history burning simultaneously, and at one point, as many as 250,000 people were displaced, the 2020 fire season strained California's emergency response capacity.

In response, the Administration has proposed a \$1 billion investment in fire prevention, beginning with \$323 million in an early action package to help the state prepare for upcoming fire seasons. In addition, the Governor's Budget proposes \$677 million in 2021-22 to build the state's resilience to wildfires, increase pace and scale, and reduce fire risk. This request includes \$198 million General Fund in 2020-21 and \$477 million General Fund in 2021-22.

Staff Comments. The Administration has indicated that the requested \$3 million will be used as follows:

- \$500,000, which will leverage philanthropic and private capital, for an X-Prize-like wood products innovation competition.

OPR will administer the funds and distribute the funds to competition winners following the approach that Government Operations Agency used to administer a similar competition focused on Mass Timber. As with the Mass Timber competition, OPR will partner closely with the Governor's Forest Management Task Force to do outreach and engagement around the wood products innovation X-Prize.

The purpose of the X-Prize competition is to convey California's commitment to being a hub for wood products innovation and to build relationships among project developers, rural communities, and private capital in the sector to expedite market development.

- \$2.5 million will be distributed as directed grants to five pilot projects designed to identify organizational mechanisms to increase the state's capacity to issue long-term feedstock contracts.

The funds will be administered by OPR via grant agreements with qualified recipients. OPR is developing the projects with applicants in a manner designed to test a diversity of potential methods to increase access to long-term feedstock contracts.

Robust state action to lower the state's risk of repeating the catastrophic wildfires of recent years is likely necessary. Within that, the potential for proactive management of forest resources to thin fire fuel and manage risk should be fully explored. The Joint Institute for Wood Products Innovation, the Wood Utilization Work Group of the Forest Management Task Force and others have identified limited access to long-term feedstock contracts as the single biggest impediment to wood product market expansion. As such, the Administration's proposal has merit. However, this proposal should be considered in the context of the rest of the overall wildfire package, to ensure that the state is approaching the issue in a strategic and holistic way.

Staff Recommendation: Hold Open.

1700 DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING (DFEH)

The Department of Fair Employment and Housing (Department) is responsible for protecting the civil rights of the people of California. The Department receives, investigates, conciliates, mediates, and prosecutes complaints alleging unlawful discrimination in employment, housing, and public accommodation, and acts of hate violence and human trafficking. The Department is authorized to commence prosecution by filing cases directly in court, and to seek attorney's fees and costs when it is the prevailing party. The Department's jurisdiction extends to individuals, private and public entities, housing providers, and business establishments within California.

The Fair Employment and Housing Council (Council) within the Department promulgates regulations interpreting California's civil rights laws.

Budget Summary. The 2021-22 budget provides \$48.4 million to support 264.2 positions. This is an increase of roughly \$8 million and 30 positions relative to the 2020-21 budget.

EXPENDITURES BY PROGRAM

Provides expenditures by each budgeted program area for the past, current, and budget years.

Code	Program	Actual 2019-20*	Estimated 2020-21*	Proposed 2021-22*
1490	Administration of Civil Rights Law	\$33,752	\$39,652	\$47,796
1495	Fair Employment and Housing Council	\$10	\$222	\$221
1500	Department of Justice Legal Services	\$308	\$429	\$429
Total Expenditures (All Programs)		\$34,070	\$40,303	\$48,446

POSITIONS BY PROGRAM

Provides positions data (expressed as full-time equivalents) by each budgeted program area for the past, current, and budget years.

Code	Program	Actual 2019-20*	Estimated 2020-21*	Proposed 2021-22*
1490	Administration of Civil Rights Law	228.3	231.2	263.2
1495	Fair Employment and Housing Council	-	1.0	1.0
1500	Department of Justice Legal Services	-	-	-
Total Positions (All Programs)		228.3	232.2	264.2

Issue 9: Addressing Increased Enforcement and Administrative Workload
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Governor’s Budget. The budget includes \$2.2 million General Fund in 2021-22 and \$1.7 million General Fund in 2022-23 and ongoing and eight positions to: expand the Department’s multi-lingual education and training efforts to reduce discrimination in housing and employment; build a fair housing testing program and attendant enforcement capability; study housing discrimination amid COVID-19; and provide expertise on landlord-tenant issues to strengthen the state’s response to the COVID-19 pandemic; enhance the state’s commitment to equity; and help keep Californians housed and employed in the long-term.

Background. DFEH receives, investigates, conciliates, mediates, and prosecutes complaints of alleged violations of the Fair Employment and Housing Act (FEHA), the Equal Pay Act (effective January 1, 2021), the Unruh Civil Rights Act, the Ralph Civil Rights Act, Civil Code section 51.9, the Disabled Persons Act, the California Trafficking Victims Protection Act, and Government Code section 11135 et seq (prohibiting discrimination in all state-funded activities and programs). DFEH also meets its statutory obligations by educating employers, businesses, housing providers, state-funded programs and activities, and the public about their rights and responsibilities under the civil rights statutes enforced by DFEH and by affirmatively investigating discriminatory practices within the state in accordance with its statutory mandate “to eliminate discrimination in California.”

In fiscal year 2018-19, the Legislature appropriated \$3 million in one-time General Fund resources to DFEH to provide outreach and education. This supported three limited-term staff members who focus on educating the public and stakeholders (such as employers, employees, housing providers, tenants, and businesses) about California’s civil rights and obligations.

Staff Comments. This proposal includes both positions and programmatic funding, as follows:

- Three administrative positions, to oversee and support the Outreach and Education unit (one continuation of a limited-term position provided in 2019-20 and two new positions.)
- Two positions for Outreach and Education (one continuation of a limited-term position provided in 2019-20, and one new position.)
- Two positions for proactive testing and enforcement of fair housing requirements (both new positions.)
- \$120,000 ongoing for outreach and education workload.
- \$280,000 ongoing for a proactive fair housing testing program, to be implemented by the Enforcement positions.
- \$500,000 in 2021-22 to study housing issues amidst the COVID-19 pandemic. Specifically, DFEH seeks to add three detailed questions to the California Health Interview Survey and to cover survey question development, data analyses, and dissemination of findings.

DFEH plays an important role in enforcing the state's fair housing laws. As California deals with widespread issues of housing affordability, this work has become even more crucial. Additionally, the impacts of COVID-19 have fallen predominantly on lower income individuals and households who are particularly vulnerable to housing discrimination. While the state recently passed an ambitious eviction protection and rental assistance measure, issues of housing discrimination and tenant protection are likely to remain significant in the coming years.

Given this, it is reasonable to provide additional resources to DFEH. However, questions remain about the appropriate level of workload for the Department, and the role and benefits of outreach and education in reducing or managing future enforcement workload.

Staff Recommendation: Hold Open

2240 CALIFORNIA DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

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

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

Governor's Budget: The 2021-22 budget provides roughly \$2.3 billion to support 962.5 positions. This is an increase of roughly 40 positions but a decrease of roughly \$2.9 billion - largely due to the expenditure of one-time federal resources in 2020-21.

EXPENDITURES BY PROGRAM

Provides expenditures by each budgeted program area for the past, current, and budget years.

Code	Program	Actual 2019-20*	Estimated 2020-21*	Proposed 2021-22*
1660	Codes and Standards Program	\$37,198	\$39,308	\$40,705
1665	Financial Assistance Program	\$2,713,184	\$5,037,273	\$2,164,454
1670	Housing Policy Development Program	\$275,463	\$33,666	\$31,949
1675	California Housing Finance Agency	\$33,852	\$36,149	\$37,892
1680	Loan Repayments Program	\$-1,944	\$-1,944	\$-1,944
1685	HPD Distributed Administration	\$-178	\$-179	\$-180
9900100	Administration	\$25,768	\$27,205	\$28,938
9900200	Administration - Distributed	\$-25,768	\$-27,205	\$-28,938
Total Expenditures (All Programs)		\$3,057,575	\$5,144,273	\$2,272,876

POSITIONS BY PROGRAM

Provides positions data (expressed as full-time equivalents) by each budgeted program area for the past, current, and budget years.

Code	Program	Actual 2019-20*	Estimated 2020-21*	Proposed 2021-22*
1660	Codes and Standards Program	173.7	179.4	179.4
1665	Financial Assistance Program	308.2	350.2	369.7
1670	Housing Policy Development Program	53.1	57.0	69.0
1675	California Housing Finance Agency	182.7	223.2	223.2
1680	Loan Repayments Program	-	-	-
1685	HPD Distributed Administration	-	-	-
9900100	Administration	106.8	114.2	121.2
9900200	Administration - Distributed	-	-	-
Total Positions (All Programs)		824.5	924.0	962.5

Issue 10: Project Homekey

Governor's Budget. The budget includes \$750 million in General Fund resources to continue the Homekey Program administered through HCD. Of the \$750 million, the Governor requests early action from the Legislature to authorize \$250 million in 2020-21. This also includes trailer bill language to continue and expand the program, including certain environmental exemptions.

Background. At the outset of the COVID-19 public health emergency, the state provided \$50 million General Fund (later offset by federal funds) for the newly established Project Roomkey to help local governments lease hotels and motels to provide immediate housing to vulnerable individuals experiencing homelessness that were at risk of contracting COVID-19. In November 2020, the state authorized an additional \$62 million in one-time funding from its Disaster Response Emergency Operations Account to continue operating the program while transitioning people to permanent housing. The program is administered by DSS. The funding has been nearly fully awarded. Statewide, 14,000 rooms are secured by Roomkey and 70 percent are occupied. Overall, the program has provided short-term housing for 23,000 people in 42 counties.

Building off Project Roomkey, the 2020-21 budget and subsequent action allocated \$800 million in one-time funding for the newly established Homekey Program. The program provides for the acquisition of hotels, motels, residential care facilities, and other housing that can be converted and rehabilitated to provide permanent housing for persons experiencing homelessness or at risk of homelessness, and who also are impacted by COVID-19. Homekey provides grants to local governments to acquire these properties, which are owned and operated at the local level. To promote equitable access to Homekey funding, the program divided the state into eight regions and reserved funding for applicants in each region during the initial priority application period. Each region's share of the Homekey funding was based on its statewide share of (1) persons experiencing homelessness and (2) low-income renter households that are rent burdened. The program also provides some exemptions to the California Environmental Quality Act and local zoning restrictions to expedite the acquisition of Homekey sites. Unlike Project Roomkey, this program is administered by HCD.

Staff Comments. The Administration has indicated that the appropriated funding has been fully disbursed through 94 awards to local entities (some entities acquired more than one site). The administration indicates that the existing Homekey funding will create over 6,000 housing units for individuals and families. The average statewide cost to the Homekey Program per housing unit is \$124,000 and the average local match is \$24,000, making the average total cost per unit \$148,000.

While it is still too early to assess the long-term success of the program, the number of units secured by Project Homekey is encouraging. The Homekey program relied on Coronavirus Relief Fund resources, which were initially time-limited and had to be used quickly. This led the state to limit the program purely to acquisition and rehabilitation, with a small General Fund set aside for ongoing operating subsidies. As the 2021-22 proposal relies entirely on General Fund resources, which are not time-limited, the Committee may want to consider whether broadening the uses of program funding is appropriate. Doing so may improve the program's outcomes, particularly given the fiscal challenges many local governments are currently under, and the potential challenges they may face in providing matching or operating funds for acquired properties.

Additionally, as the LAO notes below, it is unclear whether taking early action on this proposal is truly necessary for program success. The state has already pushed out roughly \$800 million in Project Homekey funds in the last six months, and it is unclear what the remaining immediate demand for funds is. Additional information is needed to better assess this proposal.

LAO Comments.

Is the Proposal Time Sensitive? The administration proposes providing \$250 million to expand Project Homekey in early action. We suggest the Legislature consider whether early action is advantageous. The Legislature has already provided \$800 million towards Homekey in 2020-21. Would early state action provide substantial additional benefits? Does the Administration have a list of properties ready for purchase and renovation? Would early action allow individuals experiencing homelessness to move in earlier than they otherwise would?

How Would HCD Evaluate Applications for Grant Funding? The vast majority of the Homekey funding provided in 2020-21 was federal funding. HCD worked quickly to award grants for acquisitions and rehabilitations of properties that could be completed within the tight federal deadline for expenditure of funds. Although the federal deadline was later extended, the state prioritized projects that could be completed quickly when awarding funding through the Homekey Program. Under the Governor's proposal, the state would no longer be under strict federal expenditure deadlines. HCD could give other criteria more weight when evaluating applications for Homekey. For example, HCD could consider applicants' broader plans to address homelessness in their communities.

How Would Local Governments Fund Ongoing Costs Not Included in Proposal? Funding for this proposal is intended to be provided on a one-time basis. Accordingly, local entities would be responsible for funding the ongoing costs associated with maintaining the acquired properties and providing any associated services to occupants. Local entities' capacity to fund such new ongoing costs is unclear and calls into question the state's ability to preserve these units in the long term.

How Would HCD Assess Success and Inform the Legislature of Needed Changes to Homekey Program? The Administration is proposing expanding the Homekey Program without first assessing the successes and challenges associated with the initial \$800 million allocation provided in 2021-22. For example, Project Roomkey has experienced low occupancy rates among leased units. The Administration should address how it plans to ensure units purchased through Homekey are effectively utilized. Understanding where Homekey has been successful and where it has faced obstacles will be important if it becomes a cornerstone of the state's approach on homelessness.

How Would Funding for Acquisition of New Facilities Interact With Other Funding for Similar Purposes? All three of the major homelessness proposals in the Governor's budget focus on the acquisition of new facilities. How this funding would be coordinated with the other proposed efforts to reduce homelessness is unclear. Understanding how these resources would be coordinated would help ensure resources are used efficiently.

Staff Recommendation. Hold Open.

Issue 11: Infill Infrastructure Grant Program

Governor's Budget. The budget includes \$500 million in General Fund for the Infill Infrastructure Grant (IIG) Program. This includes \$250 million in Current Year resources for 2020-21, and an additional \$250 million in 2021-22. The budget also includes trailer bill language making a variety of changes to the program for the 2021-22 fiscal year.

Background. IIG was enacted through Chapter 179, Statutes of 2007 to provide gap funding for infrastructure that supports higher-density affordable and mixed-income housing in locations designated as infill. Under the IIG Program of 2007, developers and local governments can partner to apply for infrastructure funding. Originally funded through the Housing and Emergency Shelter Trust Fund Act of 2006 (Proposition 1C), the Veterans and Affordable Housing Bond Act of 2018 (Proposition 1) provided an allocation of \$300 million to continue funding for this program. Specific eligible improvements under the program include development or rehabilitation of parks or open space, water, sewer, or other utility service improvements, streets, roads, parking structures, transit linkages, transit shelters, traffic mitigation features, sidewalks, and streetscape improvements.

The 2019-20 budget included an additional \$500 million in General Fund resources for the IIG program and included trailer bill language making changes to the program specific to this allocation. The 2019 program included a \$90 million set aside for an over-the-counter process for small and rural jurisdictions. \$200 million of this funding was reverted to the General Fund in the 2020-21 budget to preserve the General Fund condition during the COVID-related economic downturn.

Staff Comments. The Administration has indicated that, should the Current Year portion of this request be approved, the \$250 million in General Fund would be paired with the \$160 million Proposition 1 appropriation in the 2020 Budget Act, which is planned to be allocated later this year. This would provide a total of \$410 million in the current year for housing-related infrastructure.

The proposed trailer bill language, which would impact the \$250 million proposed for the 2021-22 budget year, makes a number of changes to the program. Most notably, it prioritizes brownfield and environmental remediation, allows HCD to administer the program in an over-the-counter manner, and makes changes to project eligibility rules to allow smaller jurisdictions to more easily compete for funding. As written, the proposed trailer bill would allow HCD to redirect funding to traditional IIG projects. This would provide flexibility if funds remain after meeting the demand for remediation projects. It also provides HCD the flexibility to fund traditional IIG infrastructure projects that accompany remediation components of a brownfield application. While environmental remediation is already an authorized use of IIG funding, historically projects/areas with IIG awards have allocated relatively small amounts of the award for these purposes. The trailer bill authorizes HCD to establish a threshold amount of remediation work for the \$250 million appropriation so that sites needing significant remediation before being suitable for housing have a dedicated funding source. HCD has estimated that this request could unlock more land to develop more than 7,500 new affordable homes. If less than \$250 million were to be utilized for this purpose, remaining funds for brownfield remediation may be used for the general eligible infrastructure and capital improvements under IIG.

Paying for the construction of housing-related infrastructure is a major barrier to housing development in the State of California. As such, providing funding for this purpose is reasonable. Environmental remediation is often a barrier to development. Targeting funding to this purpose makes sense, but likely comes at the cost of immediately producing fewer housing units. The over-the-counter process would create more flexibility by allowing locals to pursue funding when they are ready, rather than when the department schedules it. This flexibility must be balanced against the need to ensure access to funding for both large and well-resourced and small and less-resourced jurisdictions. Given the complexity of these issues, additional review is required.

Staff Recommendation: Hold Open.

Issue 12: Housing Law Assistance

Governor’s Budget. The budget includes \$4.3 million in General Fund resources for state operations and 16 positions in 2021-22, \$3.8 million in state operations for 16 positions in 2022-23 and ongoing to assist local jurisdictions in housing element and housing law compliance.

Background. In 2017, several bills were enacted, including AB 72 (Santiago and Chiu), Chapter 370, Statutes of 2017, which clarified and strengthened existing laws, and increased HCD’s accountability and enforcement authority to review any action or inaction by a local government that HCD determines is inconsistent with state housing element laws or the local jurisdiction’s own adopted housing element. During its review, HCD may consult with any local government, agency, group, or person. HCD may revoke housing element compliance if the local government’s actions do not align with state law. Further, HCD may notify the California Office of the Attorney General (AG) that the local jurisdiction is in violation for non-compliance with: 1) housing element law, 2) the Housing Accountability Act, 3) “no net loss” law, 4) density bonus law, and/or 5) anti-discrimination law. The Legislature previously authorized an Attorney position to enforce AB 72. However, the volume of non-compliance and complaints and enforcement responsibilities is continuing to grow at a steady rate.

HCD’s enforcement work is broken into two broad categories. The first category is housing element compliance which consists of reviewing actions a city must take in order to obtain or maintain compliance. The second category is development-related complaints. As housing developers learn that HCD can assist them (within the limits of state law) with delays they are facing in local government processing, HCD expects significant growth in complaints and requests for assistance.

Staff Comments. This proposal includes the following components:

- \$600,000 in 2021-22, decreasing to \$350,000 in 2022-23 and ongoing, for contracts with external vendors to provide outreach and education to local governments on state housing law issues. This also includes funding for the vendor to analyze bulk data collected through analytical software and to set up systems to increase HCD’s transparency as part of a future request.
- 16 positions in a new unit within the Housing Policy Division, divided as follows:
 - 12 positions to oversee all assistance and proactive enforcement work tied to Housing Element Law, including technical assistance and outreach, proactive enforcement, and support for litigating attorneys.
 - Four attorney positions for investigation and enforcement.

Additionally, HCD is in the process of obtaining delegated authority from the Department of Technology to acquire a case management system and analytical software important to effectively and efficiently tracking and monitoring housing planning and land use law compliance, for which HCD intends to submit a future funding request.

Given the ongoing housing crisis in the state, and HCD's central role in addressing it, providing additional resources for technical assistance, investigation, and enforcement of state housing laws is generally reasonable. However, it is unclear what the proper balance between enforcement and technical assistance is, or how HCD can most efficiently and effectively drive compliance at the local level.

Staff Recommendation: Hold Open.

Issue 13: One-Time Allocation for Deferred Maintenance

Governor’s Budget. The budget includes a General Fund augmentation of \$10 million in fiscal year 2021-22 for deferred maintenance and repairs to address critical deficiencies at Office of Migrant Services housing centers throughout the state.

Background. HCD administers the Office of Migrant Services (OMS) program, which operates 24 migrant centers with 1,885 housing units and provides housing-related services to more than 11,000 migratory farmworkers and their families (see Attachment A—OMS Centers in California). Most of the centers include apartments of between two and four bedrooms per household. While HCD contracts with local housing authorities or nonprofit organizations to operate the centers, HCD is ultimately responsible for repair and maintenance. Historically, resources for repairs and maintenance have been from one-time funding opportunities. SB 854 (Committee on Budget and Fiscal Review), Chapter 28, Statutes of 2014, authorized use of up to \$11 million in Proposition 1C funds for OMS centers. General Fund augmentations were provided in the 2015 Budget Act (\$3.5 million) and the 2019 Budget Act (\$1.5 million). The center operating budget consists of state subsidies and rental income. Rents have not been increased in over a dozen years.

Staff Comments. Many of the OMS centers are old and there is significant deferred maintenance and rehabilitation needs that create health and safety concerns for the tenants. In 2018, HCD hired a consultant to complete a physical needs assessment for each of the centers. The physical needs assessments identified \$10.1 million of critical needs recommended for completion within a year, \$14.8 million in additional repairs, and the need for an on-going commitment of funds for maintenance to prevent an increase in the backlog of repairs. If repairs and maintenance are unaddressed, the centers will further deteriorate, and the OMS program will be forced to take housing units offline or close centers. The Administration has indicated that the \$10 million being requested will allow HCD to complete the most urgent repair projects, such as sewer and wastewater rehabilitation, replacement of roofs and siding to prevent water penetration, ADA remediation, and other significant deferred maintenance needs. These repairs will help to preserve 1,885 housing units for a modest investment of \$5,305 per housing unit.

Additional funding for the maintenance of OMS centers is important. However, given the large need at the centers, even after this funding, the committee may want to consider whether additional funding is appropriate.

Staff Recommendation: Hold Open.

Issue 14: Housing on Excess State Lands

Governor’s Budget. The budget includes trailer bill language that makes a number of changes to state law to allow increased flexibility for the development of housing on state excess lands.

Background. On January 15, 2019, California Governor Gavin Newsom signed Executive Order N-06-19 that ordered the California Department of General Services (DGS) and the California Department of Housing and Community Development (HCD) to identify and prioritize excess state-owned property and aggressively pursue sustainable, innovative, cost-effective housing projects. The 2020 budget included trailer bill language to make this process faster and more flexible.

AB 1486 (Ting), Chapter 664, Statutes of 2019, aimed to connect developers who are interested in building more affordable homes on surplus local public land that are both available and suitable for housing development. Beginning January 1, 2020, local agencies (cities, counties, and special districts) were required to send notices about available, surplus local public land to HCD, any local public entity within the jurisdiction where the surplus local land is located, and developers who have notified HCD of their interest in developing affordable housing on surplus local public land.

Beginning January 1, 2021, prior to agreeing to terms to dispose of surplus property, local agencies (cities, counties, and special districts) must send a description of notices of availability sent, and negotiations conducted, in addition to a copy of any restrictions to be recorded against the property, to HCD for review using HCD forms.

Staff Comments. Currently, three projects are underway in Sacramento, Stockton and South Lake Tahoe, and the state has an additional nine sites in the pipeline in the coming calendar year. The Administration has indicated that the proposed trailer bill language is intended to encourage additional innovative development, including authorizing market-rate and commercial development that will provide flexibility and financial feasibility to subsidize fair and affordable housing production on excess lands.

Excess state lands provide a significant opportunity for affordable housing development. However, care must be taken to balance state goals, legislative oversight, local control, and appropriate development. The Committee may want to consider the extent to which the proposed language provides a balanced solution.

Staff Recommendation: Hold Open.

0950 STATE TREASURER'S OFFICE

The State Treasurer, a constitutionally established office, provides banking services for state government with goals to minimize interest and service costs and to maximize yield on investments. The Treasurer is responsible for the custody of all monies and securities belonging to or held in trust by the state; investment of temporarily idle state monies; administration of the sale of state bonds, their redemption and interest payments; and payment of warrants or checks drawn by the State Controller and other state agencies.

The State Treasurer's Office includes both the California Tax Credit Allocation Committee (CTCAC), which administers the state Low Income Housing Tax Credit program, and the California Debt Limit Allocation Committee, which allocates the state's share of federal tax-exempt bonds.

EXPENDITURES BY PROGRAM

Provides expenditures by each budgeted program area for the past, current, and budget years.

Code	Program	Actual 2019-20*	Estimated 2020-21*	Proposed 2021-22*
0740010	Investment Services	\$4,188	\$3,932	\$4,727
0740019	Centralized Treasury & Securities Management	\$15,922	\$15,123	\$16,335
0740028	Public Finance	\$13,259	\$12,446	\$13,745
0740035	Administration	\$5,310	\$5,458	\$5,458
Total Expenditures (All Programs)		\$38,679	\$36,959	\$40,265

POSITIONS BY PROGRAM

Provides positions data (expressed as full-time equivalents) by each budgeted program area for the past, current, and budget years.

Code	Program	Actual 2019-20*	Estimated 2020-21*	Proposed 2021-22*
0740010	Investment Services	17.0	16.0	16.0
0740019	Centralized Treasury & Securities Management	65.0	62.0	62.0
0740028	Public Finance	54.2	51.3	51.3
0740035	Administration	91.4	82.7	82.7
Total Positions (All Programs)		227.6	212.0	212.0

Issue 15: Low-Income Housing Tax Credit (LIHTC)

Governor's Budget. The budget includes \$500 million in low-income housing tax credits.

Background. Tax credits attract private investment in affordable housing by offering a dollar-for-dollar credit against an investor's state or federal taxes owed. The 2019 and 2020 Budget Acts each authorized \$500 million in one-time resources for low-income housing tax credits. In each year, these resources were split between both typical affordable housing projects (\$300 million) and mixed-income projects (\$200 million). These funds have supported what is known as the federal four percent tax credit, which historically have not been competitive - every project that sought a four-percent credit received one. Recent changes in statute have made these credits more popular. However, as currently structured, these credits must be paired with federally-limited tax-exempt bonds, which are allocated by the California Debt Limit Allocation Committee. The four percent tax credits are therefore limited by a project's ability to secure tax exempt bonds. Increasing demand for four percent credits has led to an oversubscription of tax-exempt bonds.

To maximize the allocation of tax credits, the California Tax Credit Allocation Committee and the California Debt Limit Allocation Committee adopted regulations aimed at increasing affordable housing production, containing costs, and maximizing public subsidy and benefit of the credits. These regulations were finalized in late 2020.

BCSH and the Treasurer's Office have established a working group to improve and coordinate a variety of housing finance programs. HCD also implemented a short pause on issuing new Notices of Funding Availability so that the billions of dollars awarded to affordable housing projects around the state align with the regulations promulgated by the California Debt Limit Allocation Committee and Tax Credit Allocation Committee.

Staff Comments. The state's Low Income Housing Tax Credits have proven to be a valuable tool in addressing the state's housing crisis. As such, additional investment in the tax credits is warranted. However, questions remain about the structure of these credits, and the impacts of recent regulatory changes.

As noted above, these tax credits have historically been paired with tax-exempt bonds and federal four percent credits to fully utilize the tax-exempt bond authority the state receives from the federal government. As a result of recent statutory changes, the state LIHTC is very popular and has led to greatly increased demand for tax exempt bonds. Recent bond allocations have been oversubscribed. Additional tax credits may add to this issue at CDLAC, hampering the state's ability to put these tax credits to work developing housing in the near future. This raises questions about whether the current tax credit structure is the best tool to achieve the state's goals.

Additionally, recent statutory changes made in the 2020 Budget have only recently been implemented. The full impact of these statutory changes remains to be seen, making the full impact of another \$500 million in tax credits somewhat uncertain.

Staff Recommendation: Hold Open.