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

SUBCOMMITTEE NO. 4 Agenda

Senator Maria Elena Durazo
Senator Jim Nielsen
Senator Thomas J. Umberg

Thursday, March 14, 2019
9:30 a.m. or Upon Adjournment of Session
State Capitol - Room 2040

Consultant: James Hacker

PROPOSED FOR VOTE-ONLY

PROPOSED FOR DISCUSSION

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ISSUES PROPOSED FOR VOTE-ONLY

0515 BUSINESS, CONSUMER SERVICES, AND HOUSING AGENCY

Issue 1: Homeless Youth Act of 2018 (SB 918)

The budget requests $389,000 in 2019-20 and $359,000 ongoing for two positions to expand the Homeless Coordinating and Financing Council (HCFC) and implement SB 918 (Wiener), Chapter 841, Statutes of 2018, otherwise known as the Homeless Youth Act of 2018. Current law establishes the Council and sets a number of statutory goals, including: identifying and seeking funding opportunities; brokering agreements between state agencies, state departments, and local jurisdictions; serving as a statewide facilitator, coordinator, and policy development resource; and overseeing the state's implementation of Housing First policy.

SB 918 tasks the council with setting and measuring progress towards goals to prevent and end homelessness among youth in California by setting specific, measurable goals aimed at preventing and ending homelessness among youth in the state, as specified, and defining outcome measures and gathering data related to those goals. It also instructs the HCFC to coordinate with various stakeholders, including young people experiencing homelessness, the California Department of Social Services (CDSS), and appropriate state and county agencies and departments, to inform policy, practices, and programs. It also requires HCFC to provide technical assistance and program development support, to the extent that funding is made available, in order to increase capacity among new and existing service providers.

0650 OFFICE OF PLANNING AND RESEARCH (OPR)

Issue 2: Study of Tax Increment Financing (SB 961)

The budget requests $190,000 in 2019-20 from the General Fund to implement SB 961 (Allen), Chapter 559, Statutes of 2018. SB 961 allows the local government to issue bonds for certain projects within one-half mile of a transit stop without voter approval. It requires OPR to complete a study on the effectiveness of tax increment financing tools for increasing housing production. The study must also address the feasibility of extending financing tools to areas around bus stops, and be completed before January 1, 2021.

OPR has indicated that the requested funds will be used to hire a consultant to research the financing tools and write a report on their efficacy in regard to housing production and general utilization. OPR will oversee the consultant and assist with drafting the section of the report on the feasibility of extending the financing tools to areas around bus stops. The report will be released to the public and the Legislature by the January 1, 2021 deadline.

1700 DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING (DFEH)

Issue 3: Sexual Harassment Prevention Interactive Training (SB 1343)

The budget requests $255,000 in 2019-20 and $20,000 ongoing General Fund to create online, interactive, sexual harassment and abusive conduct prevention training pursuant to SB 1343 (Mitchell), Chapter 956, Statutes of 2018. SB 1343 requires that, by January 1, 2020, DFEH create two online, interactive, sexual harassment and abusive conduct prevention trainings. One training must be aimed at non-supervisors and must be one hour in length. The other training must be aimed at supervisors and must be two hours in length. The trainings must contain prompts for the viewer to answer questions in order to continue the training; must be dubbed into Spanish, Mandarin, Vietnamese, Korean, and Tagalog; must be subtitled in English, Spanish, Simplified Chinese, Vietnamese, Korean, and Tagalog; and must offer users the opportunity to print a certificate of course completion. DFEH received two rough quotes from e-learning content creators in support of this request, which ranged from $195,000 to $255,000.

2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT (HCD)

Issue 4: Affirmatively Furthering Fair Housing (AB 686)

The budget requests $346,000 in 2019-20 and $316,000 ongoing General Fund for two positions to implement new requirements to affirmatively further fair housing pursuant to AB 686 (Santiago), Chapter 958, Statutes of 2018. The Affirmatively Furthering Fair Housing (AFFH) obligation is a federal rule intended to implement the 1968 federal Fair Housing Act. The goal of this directive was to eliminate housing discrimination, and reduce the number of segregated communities across the country. AB 686 defines an AFFH obligation as taking meaningful actions, in addition to combating discrimination, that overcome patterns of segregation, and foster inclusive communities free from barriers that restrict access to opportunity based on protected characteristics.

Issue 5: Loan Portfolio Restructuring (AB 2562)

The budget requests $985,000 in 2019-20 and $940,000 ongoing from the Housing Rehabilitation Loan Fund for five positions to restructure loans made under the Multifamily Housing Program and all other multifamily housing loans funded or monitored by HCD pursuant to AB 2562 (Mullin), Chapter 765, Statutes of 2018. Prior to the enactment of AB 2562, HCD had minimal flexibility to modify interest rates for a project so that the project can maintain its feasibility. HCD's ability to modify the interest rate on loans was limited to those that meet a very specific set of criteria. SB 707 (Ducheny), Chapter 658, Statutes of 2007 authorized HCD to extend and restructure the loan terms for its legacy loan programs. After passage of AB 1699 (Torres) Chapter 780, Statutes of 2012, HCD created the Loan Portfolio Restructuring Program (LPR) to continue preserving HCD's housing stock. This statute authorized HCD to infuse additional capital from new debt or new tax credit equity into a project. It also authorized HCD to charge transaction fees for restructuring activities and deposit those fees into the Housing Rehabilitation Loan Fund. AB 2562 authorizes the extension, subordination and resyndication of all other multifamily housing loans funded and monitored by HCD (estimated to be about 10 additional programs).

Issue 6: Mobilehome Purchase Program (AB 2056)

The budget requests $935,000 for 5.0 positions in 2019-20, $860,000 for five positions in 2020-21, and $495,000 for three positions ongoing in state operations for the Mobilehome Park Rehabilitation and Resident Ownership Program (MPRROP), pursuant to AB 2056 (Eduardo Garcia), Chapter 750, Statutes of 2018. AB 2056 makes several changes to MPRROP that have the potential to significantly increase the demand for the program by expanding eligible activities and limiting annual loan payments.

Issue 7: Mobilehome Residency Law Program (AB 3066)

The budget requests $1,057,000 in 2019-20 and $3,872,000 ongoing from the Mobilehome Dispute Resolution Fund for five positions in 2019-20 and seven positions ongoing, contracted legal services, and infrastructure upgrades to implement the Mobilehome Residency Law Protection Act (MRLPA) provisions of AB 3066 (Mark Stone), Chapter 774, Statutes of 2018. Chapter 986, Statutes of 1986 established the Mobilehome Ombudsman, known as Mobilehome Assistance Center (MAC), within HCD to provide enhanced public assistance and coordinate the resolution of health and safety issues that arise within mobilehome parks. Currently, the MAC is not authorized to assist, directly or indirectly, with alleged violation(s) of the Mobilehome Residency Law. AB 3066 creates a program in which HCD will accept complaints related to the MRLP and help resolve or coordinate resolution through referrals to the appropriate enforcement agencies.

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

Budget Overview: The Governor's budget proposes $546 million and 53.5 positions to support OPR in the budget year, as shown in the figure below. This is an increase of six positions and a decrease of $700 million, mainly due to a decline in Greenhouse Gas Reduction Fund resources.

3-YEAR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2017-18	2018-19	2019-20	2017-18*	2018-19*	2019-20*
0360	State Planning & Policy Development	29.7	12.2	15.2	$16,321	$45,017	$47,792
0365	California Volunteers	15.3	21.3	21.3	32,837	45,661	51,976
0370	Strategic Growth Council	12.7	14.0	17.0	1,816	1,159,978	446,983
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**57.7**	**47.5**	**53.5**	**$50,974**	**$1,250,656**	**$546,751**

FUNDING		2017-18*	2018-19*	2019-20*
0001	General Fund	$9,222	$44,014	$67,259
0890	Federal Trust Fund	35,859	41,659	27,974
0995	Reimbursements	3,752	4,548	4,549
3228	Greenhouse Gas Reduction Fund	1,665	1,159,818	446,431
9740	Central Service Cost Recovery Fund	476	617	538
TOTALS, EXPENDITURES, ALL FUNDS		**$50,974**	**$1,250,656**	**$546,751**

Issue 8: CaliforniaVolunteers

Governor's Budget. The budget requests $20 million General Fund in fiscal year 2019-20, to be spent over two years, for CaliforniaVolunteers to begin the expansion of the state's AmeriCorps members and to supplement the federal education award to reach a combined total of $10,000. It is anticipated that private funds will supplement the state's investment.

Background. CaliforniaVolunteers supports nearly 5,000 AmeriCorps State members who provide direct service to communities across the state in the areas of education, disaster services, economic opportunity, healthy futures, environmental stewardship, and veterans and military families.

AmeriCorps members are recruited, trained, supervised, and managed by eligible organizations, and may receive a modest living allowance and other benefits while serving. Upon successful completion of their service, AmeriCorps members are eligible to receive a Segal AmeriCorps Education Award from the National Service Trust, which can be used to pay for higher education expenses or applied to qualified student loans. The Segal AmeriCorps Education Award is $6,095 for a full-time AmeriCorps participant in 2019.

The average cost of operating an AmeriCorps program is approximately $33,000 per one full-time equivalent AmeriCorps member position. The maximum amount that an applicant may be awarded in federal funds in 2019 to support one FTE member position is $15,192. AmeriCorps grantees are expected to provide matching funds to support costs not adequately covered through the federal portion of the grant.

Staff Comment. The Administration has indicated that there are several components to this request. Specifically:

- $9.42 million to expand AmeriCorps state positions by an additional 471 new full-time slots. To support each new AmeriCorps position at a cost per member level of $33,000, CaliforniaVolunteers is recommending to use the requested state funds to support the expanded AmeriCorps positions at $20,000 per one full-time position while requiring applicants to leverage federal and other private funds to support the remaining $13,000 cost per member.
- $9.31 million to fund the state education award for 1,913 current full-time members and 471 new full-time members.
- $528,000 for an AmeriCorps Promotional Campaign to highlight the benefits of service.
- $742,000 over two years for administration and implementation costs, including program monitoring, outreach, and education award administration.

CaliforniaVolunteers expects to receive approximately $13.7 million in federal formula allocation funding for California to support AmeriCorps programs in 2019, of which $3.8 million will be available to support new programs after meeting current continuation grant obligations. CaliforniaVolunteers will leverage this to support the overall federal cost share of the AmeriCorps expansion, while requiring grant recipients to provide cash and/or in-kind match resources to support the remaining 15 percent of the total program cost.

Staff Recommendation. Hold Open.

Issue 9: FI$Cal Staffing

Governor's Budget. The budget requests $334,000 General Fund in 2019-20 and $329,000 General Fund in 2020-21 and ongoing to establish three positions to assist with the implementation of the Financial Information System of California (FI$Cal).

Background. Historically OPR has utilized the California State Accounting and Reporting System (CalSTARS), a table based system, for accounting and budgeting purposes. The simplicity of the processes within CalSTARS allowed for the distribution of the more technical task to non-accounting staff. In July of 2018, however, OPR transitioned to the FI$Cal system. FI$Cal is a central system where all accounting, budgeting, procurement, and reporting functions are performed within one system, unlike CalSTARS, which was used strictly for accounting purposes. Input into FI$Cal is not transaction based and requires users to have accountant level skills sets. Whereas, in the past, the more technical tasks were delegated out to non-accounting staff the minimal knowledge base for transacting in FI$Cal is a more complex system that requires a more proficient staff and a skill set to ensure compliance with control agencies guidelines, rules and regulations.

Staff Comments. While OPR's staffing has actually declined in recent years, from 57.5 PYs in 2017-18 to 53.5 PYs in the proposed 2019-20 budget, actual funding has increased significantly, from $51 million to $545 million. Funding peaked in 2018-19 at $1.25 billion. Much of this increase has been driven by Greenhouse gas Reduction Fund (GGRF) funding for a variety of grant programs, as well as additional state funding for the Precision Medicine program and additional funding from the Corporation for National and Community Services, which supports the CaliforniaVolunteers program.

Over the same period, OPR has redirected a single position to support OPR's accounting functionality and respond to immediate needs. This was sufficient under the CalSTARS system. However, because FI$Cal is a more complex system that increases complexity as it adds an additional review component to the process, resulting in more workload to process basic transactions. The department has indicated that up to eight different staff are required to sign off on, record, or otherwise be engaged in any given transaction in the FI$Cal system. This additional staff engagement has resulted in additional workload, longer processing times, and delays in completing even simple transactions. This has created a significant backlog of basic processes that requires additional effort from the single position OPR currently has tasked to this backlog.

While additional resources would clearly be beneficial to the department, the proper level of resources is less clear. Larger departments with similar grant-making operations typically have larger accounting and finance staffs relative to smaller, more administrative entities. Because OPR has both grant-making and research / policy sections, the appropriate level of accounting and finance resources is unclear absent additional workload information.

Staff Recommendation: Hold Open.

Issue 10: SB 1072 Implementation

Governor's Budget. The budget requests three positions and $392,000 General Fund in 2019-20 until 2028-29 to implement SB 1072 (Leyva, Chapter 377, Statutes of 2018).

Background. In 2015-16, the Legislature appropriated $500,000 from the Greenhouse Gas Reduction Fund (GGRF) to the Strategic Growth Council (SGC) to establish a pilot program for technical assistance (TA) through Affordable Housing and Sustainable Communities (AHSC), for disadvantaged communities. SGC commissioned UC Davis researchers to assess the effectiveness of the AHSC Pilot TA Program. In this report, the evaluators found that the applicants who received comprehensive technical assistance through the pilot program "overwhelmingly outcompeted those who did not."

SB 1072 requires SGC to develop technical assistance guidelines by July 1, 2020. The bill also creates the Regional Climate Collaborative Program to assist under-resourced communities with accessing statewide public and other grant moneys. The Regional Climate Collaboratives Program includes establishing criteria for the development of regional collaboratives and a grant program to support established collaboratives pursuant to the program.

Staff Comments. SB 1072 requires SGC to 1) develop technical assistance guidelines by July 1, 2020, and 2) establish a Regional Climate Collaborative Program to assist under-resourced communities to access statewide public and other grant moneys. OPR has indicated that the requested resources will perform the workload required by the bill, as well as support SGC in delivering on other climate-related programs. These include the California Climate Investment Technical Assistance Program, the Transformative Climate Communities Program, and the Affordable Housing and Sustainable Communities Program.

White the requested positions are broadly reasonable, and in-line with the estimated cost of implementing SB 1072, this proposal raises several questions. Notably, the first year of implementation requires OPR to develop technical assistance guidelines and establish the outlines of the grant program. However, the grant program would not begin issuing grants until 2020-21. This means that 1) 2019-20 does not include any workload related to the administration and distribution of grant funds, and 2) the workload associated with that grant program is at least partially dependent upon the guidelines developed in the first year of implementation. This suggests that the out-year workload is subject to considerable uncertainty.

Staff Recommendation: Hold Open.

0515 Business, Consumer Services, and Housing Agency

Overview. The Business, Consumer Services and Housing Agency (Agency) is responsible for overseeing departments, boards, commissions and agencies that provide the following services to the people of California: protection of the public through the licensing and regulation of more than 100 businesses and 200 professional categories; regulation of financial services and state-licensed financial institutions; enforcement of the sale of alcoholic beverages; regulation of the horse racing industry; protection of civil rights; safe and affordable housing opportunities; and earthquake safety. The Agency is comprised of the following entities: the Department of Consumer Affairs, the Department of Real Estate, the Department of Housing and Community Development, the Department of Fair Employment and Housing, the Department of Business Oversight, the Department of Alcoholic Beverage Control, the Alcoholic Beverage Control Appeals Board, the California Housing Finance Agency, the California Horse Racing Board, the Alfred E. Alquist Seismic Safety Commission, and the Cannabis Control Appeals Panel. In addition, the Agency is charged with administration of the Homeless Coordinating and Financing Council.

Budget. The budget includes $504 million ($501 million from the General Fund, $2.7 million in Reimbursement authority) to support 23 positions and a variety of grant-making programs. This is an increase of two positions from 2018-19.

3-YEAR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2017-18	2018-19	2019-20	2017-18*	2018-19*	2019-20*
0260	Support	15.3	21.3	23.3	$3,086	$504,355	$504,745
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**15.3**	**21.3**	**23.3**	**$3,086**	**$504,355**	**$504,745**

FUNDING		2017-18*	2018-19*	2019-20*
0001	General Fund	$85	$500,647	$501,036
0067	State Corporations Fund	211	238	238
0240	Local Agency Deposit Security Fund	1	1	1
0298	Financial Institutions Fund	104	118	118
0299	Credit Union Fund	28	31	31
0317	Real Estate Fund	-	254	254
0995	Reimbursements	2,358	2,744	2,745
3036	Alcohol Beverage Control Fund	261	281	281
3153	Horse Racing Fund	38	41	41
TOTALS, EXPENDITURES, ALL FUNDS		**$3,086**	**$504,355**	**$504,745**

Issue 11: Planning and Progress Grants to Address Homelessness

Governor's Budget. The budget requests $500 million in one-time General Fund resources to fund grants for regional planning ($300 million) and meeting milestones ($200 million), administered by the Homeless Coordinating and Financing Council (HCFC).

Background. Homelessness in California is no longer confined to urban corridors. It pervades both urban and rural communities across the state and puts stress on local resources, from emergency rooms to mental health and social services programs to jails. Recent federal data estimates the state's homeless population at 134,278 in 2017, or 25 percent of the nation's homeless population. While national homelessness has decreased by 13 percent since 2010, homelessness in California has increased by nine percent in the same period.

The Budget Act of 2018 made a significant $500 million investment to support local approaches to addressing homelessness. These Homeless Emergency Aid Program (HEAP) funds provided flexible grants that could be used for emergency housing vouchers, rapid rehousing, and emergency shelter construction, among other uses. Jurisdictions were eligible if they declared a local shelter crisis and identified city-county coordination.

This request is part of the Administration's comprehensive proposal to address the state's housing and homelessness crises.

Staff Comments. The Administration has indicated that this request is split into two components:

- Regional Planning: $300 million for jurisdictions that establish joint regional plans to address homelessness. HCFC will distribute funds through federally-designated Continuums of Care ($200 million) and the most populous cities in the state ($100 million). Plans must include regional coordination between counties and cities and report all funds currently being used to provide housing and services to the homeless population in their regions. Funds must be spent on expanding or developing shelters and navigation centers. Local governments will report their expenditures to the state.
- Meeting Milestones: $200 million for general purpose funding for jurisdictions that show progress toward developing housing and shelters, including permitting new supportive housing units or constructing emergency shelters and navigation centers. Jurisdictions must report to the state on their uses of these funds.

There is merit to this approach, but it also means that a large portion of the requested funding programs is not targeted at addressing homelessness. The Legislature should determine whether this is an appropriate approach and if it is, if this is the appropriate proportion of directly targeted funds to incentives. It is also unclear how, exactly, this funding would complement or continue the work funded by last year's HEAP program.

The Administration has yet to release detailed trailer bill language for this proposal, which may address some of the issues raised above. Absent this detail, it is difficult for the committee to evaluate this proposal.

LAO Comments:

Prior Investments in Short-Term Homelessness Assistance Showing Promise, but Need Remains. The 2018-19 budget provided $500million one-time General Fund to establish the Homelessness Emergency Aid Program (HEAP). Eligible cities and Continuums of Care (CoCs) can use the funds for a variety of short-term housing solutions for the homeless, such as shelters and rapid rehousing. Cities and CoCs have begun to receive funding available through HEAP and have indicated to the state how they intend to use the funds to provide relief for the homeless in their communities. Approaches include: capital improvements for housing and shelters; direct delivery of services, such as health education; and rental assistance programs. Despite these efforts, significant demand for short-term homelessness assistance remains. In addition to leading the nation with the highest number of homeless individuals, California has the highest proportion (69 percent) of unsheltered homeless individuals of any state in the nation. This indicates a demand for additional short-term assistance. The Governor's proposal helps address this unmet demand, which could cost $2 billion to $3 billion annually to fully address.

Reasonable to Invest in Short-Term Assistance. While there is no obviously right answer as to how the Legislature should balance the short-and long-term approaches for addressing homelessness we mentioned above, the approval of No Place Like Home by voters opened up a sizeable amount of funding for construction of permanent supportive housing. In this case, it might make more sense to focus one-time funds on short-term assistance—such as shelters—for which much less funding is available and considerable demand remains. As compared to additional funding for supportive housing—which would take years to result in new housing units—allotting funding for short-term assistance would help move more people out of homelessness in the near term while NPLH is ramping up.

Unclear How Local Governments Will Respond to Flexible Funding Rewarding Shelter Development. The state has tried to encourage communities to build affordable housing by offering financial rewards in the past. While it is difficult to rigorously evaluate these incentive programs given their design, we outline in "The 2019-20 Budget: What Can Be Done to Improve Local Planning For Housing" that they have not resulted in a notable increase in housing construction. It is unclear to us whether local governments would respond any differently to the Governor's proposal for $200 million General Fund encouraging constructing of shelters. Therefore, this component of the Governor's proposal would be risky and the Legislature could not be sure what effect, if any, the funds would have on the development of shelters in the State. There are alternative uses of these funds that would yield more certain benefits. For example, providing $200 million to construct shelters would almost certainly yield over 6,000 new beds for the homeless. Given the uncertain benefits of the Governor's proposal, we recommend the Legislature not appropriate $200million for one-time rewards for local governments. However, if the Legislature were to decide to move forward with this proposal, our aforementioned report offers recommendations on how the State could structure the program to allow for a more rigorous evaluation of its outcomes.

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

Governor's Budget: The budget provides $2.9 billion and supports 919 positions at HCD in 2019-20, including roughly 255 positions at the California Housing Finance Agency. This is an increase of roughly $1.2 billion from 2017-18, mostly due to the proposed investments in housing planning and production grants and CalHFA loan programs.

3-YEAR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2017-18	2018-19	2019-20	2017-18*	2018-19*	2019-20*
1660	Codes and Standards Program	181.4	170.2	175.2	$31,365	$34,944	$36,045
1665	Financial Assistance Program	172.3	274.1	326.1	245,063	1,508,701	2,084,521
1670	Housing Policy Development Program	14.8	39.1	55.1	4,538	131,412	773,455
1675	California Housing Finance Agency	219.8	234.2	234.2	34,598	37,420	37,350
1680	Loan Repayments Program	-	-	-	-10,323	-1,944	-1,944
1685	HPD Distributed Administration	-	-	-	-150	-167	-170
9900100	Administration	151.6	117.5	128.5	16,245	22,512	24,330
9900200	Administration - Distributed	-	-	-	-16,245	-22,512	-24,330
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**739.9**	**835.1**	**919.1**	**$305,091**	**$1,710,366**	**$2,929,257**

Issue 12: Short-Term Planning and Production Grants

Governor's Budget. The budget requests $750 million General Fund in 2019-20, including $750 million for housing Planning and Production Grants at HCD.

Background. California is in the midst of a serious housing crisis. Homeownership rates in the state have fallen to the lowest rate since the 1940s. California is home to 21 of the 30 most expensive rental housing markets in the country, which has had a disproportionate impact on the middle class and the working poor. A person earning minimum wage must work three jobs on average to pay the rent for a two-bedroom unit. Housing units affordable to low-income earners, if available, are often in serious states of disrepair.

In 2017, the Legislature passed a package of 15 bills aimed at increasing the affordability of housing in California. The package included enact a variety of regulatory reforms to speed up development and construction of new housing. It also placed a general obligation bond on the November 2018 ballot (which was subsequently passed by voters). Additionally, SB 2 (Atkins), Chapter 364, Statutes of 2017, provided an ongoing source of revenue for affordable housing and homelessness programs, providing an estimated $289 million per year for a variety of programs.

LAO Comments. The Governor's plan to establish state-defined housing goals and have local governments carry out planning to meet these goals is not a new strategy. The State has carried out such a strategy for years via the housing element and RHNA processes with only limited success. The Governor's plan hopes to encourage locals to participate by offering one-time financial rewards. Prior state attempts to offer such rewards provide little assurance that doing so will significantly increase communities' willingness to plan for and approve housing. All in all, it is unclear how the Governor's plan differs significantly from past strategies that generally have fallen short of their goals.

We recommend the Legislature reject the Governor's proposal for short-term housing production goals and $500 million in incentive funds for cities and counties. Instead of focusing on the short term, the State may be better off focusing on opportunities to further improve long-term planning and considering other policy changes aimed at boosting home building over the long term. California's current housing situation is the culmination of decades of decisions to under-prioritize home building. It will similarly take many years or decades to truly address. Should the Legislature reject the Governor's plan to establish short-term housing goals, there would be no need to provide $250million to cities and counties for them to plan to meet these short-term goals. That being said, if the Legislature pursues changes to the State's long-term planning policies, it could consider providing this funding to cities and counties to help implement those changes.

Even if the Legislature ultimately approves the Governor's proposals, the Legislature should consider the best timeline for awarding the new housing funding. On the one hand, releasing the funding right away is consistent with the immediacy of the housing affordability problem and helps bring relief to Californians more quickly. On the other hand, the State has approved significant funding for affordable housing in recent years, most notably the $3 billion included in the Veteran and Affordable Housing Bond Act of 2018. Given the recently authorized funding, there might be some benefit to delaying the award of this funding until economic conditions weaken. Development and land costs likely will be cheaper during a recession, perhaps making it so that more affordable housing units could be built later than if the resources were used immediately. At the same time, other funding sources for development could be exhausted, so if this funding were available it could help serve as a backstop for affordable housing. This is akin to the Safety Net Reserve, which sets aside funds for future costs for the California Work Opportunity and Responsibility to Kids and Medi-Cal programs in the event of a recession.

Staff Comments. The proposed Planning and Production Grants have two components:

- $250 Million for Technical Assistance Grants - The Department of Housing and Community Development (HCD) will establish short-term housing production goals for 2020-21, based on existing RHNA estimates, which will then be allocated to local jurisdictions. These funds are to be used to help cities and regions plan for ways to meet these targets. Examples of ways to use the funding may include, but are not limited to, rezoning for greater density, completing environmental clearance, permitting units, and revamping local processes to speed up production.
- $500 Million When Milestones Are Achieved - The state will review the result of local and regional planning processes and certify that certain milestones have been reached in implementing those plans. As jurisdictions reach these milestones, the remaining $500 million will be available for cities and counties for general purposes.

It is worth noting that this proposal is not fully dedicated to either housing production. $500 million for housing planning and production would be awarded to local jurisdictions for "general purposes" once certain performance milestones are met. The Administration has indicated that these are intended to be an incentive for local jurisdictions to deliver on actions that build affordable housing. There is merit to this approach, but it also means that the majority of the funding in these programs is not targeted at housing production or homelessness. The Legislature should determine whether this is an appropriate approach and if it is, if this is the appropriate proportion of directly targeted funds to incentives.

Additionally, the proposal includes language around long-term changes to the RHNA process. Specifically, the bill proposes the following:

- By December 31, 2022, HCD / OPR will propose improved RHNA process and methodology
- By December 31, 2022, HCD (w/ CalSTA) shall propose opportunities to link trans and other funds to statutory housing goals
- Beginning July 1, 2023, certain funding for local streets and roads provided by SB 1 (Beall), Chapter 5, Statutes of 2017, may be withheld from local jurisdictions that do not have compliant housing elements or fail to meet housing production goals.

These are major policy changes which would have a significant impact on local and regional governments. As such, the Legislature should consider whether these long-term changes are aligned with the Legislature's goals for statewide housing production, and whether the chosen mechanisms are appropriate to the task.

Staff Recommendation: Hold Open.

Issue 13: Housing Element Workload Adjustment

Governor's Budget. The budget requests $1,361,000 in 2019-20 and $1,241,000 ongoing General Fund for eight positions to expand and enhance its housing element review and enforcement functions.

Background. As discussed earlier in this agenda, the state plans for housing by first conducting a Regional Housing Needs Assessment (RHNA). Housing elements are a required part of each local government's general plan and are updated to ensure that each local government is adequately planning to meet their existing and projected housing needs, including their share of the RHNA. After completion of its housing element, the local government submits it to HCD for review and approval.

Historically, HCD's RHNA determination methodology responsibilities was evenly distributed over a five-year planning period with due dates staggered. However, SB 375 (Steinberg), Chapter 728, Statutes of 2008, significantly changed this schedule, condensing the majority of the workload into approximately four years.

To date, HCD has participated in five RHNA cycles. The downturn of the housing market in 2008 resulted in many underdeveloped fourth cycle-identified sites. Consequently, the fifth cycle provided HCD with an opportunity to streamline its review process.

A series of bills passed in 2017 and 2018 have made HCD's role in the RHNA and housing element processes more involved. These included bills to encourage the feasibility of sites included in the sites inventory under AB 1397 (Low), Chapter 375, Statutes of 2017, analyze and remove constraints to the development of housing under AB 879 (Grayson), Chapter 374, Statutes of 2017, and hold local governments accountable through enforcement of existing housing element laws under AB 72 (Santiago and Chiu), Chapter 370, Statutes of 2017. In addition. AB 686 (Santiago), Chapter 958, Statutes of 2018 added new requirements to ensure programs and policies in the housing element are consistent with the principles of affirmatively furthering fair housing.

Staff Comments. Recent statute has directed HCD to take a more involved, labor-intensive role in the housing element process, resulting in more work per housing element reviewed. HCD will be asked to review approximately 1,200 housing elements between 2019-20 and 2023-24. Failure to have an HCD-approved housing element affects local government's ability to approve development and apply for local assistance. An approved housing element is increasingly a threshold requirement for state resources.

HCD currently has seven staff devoted to housing element workload. In 2013-14, HCD had 12.0 staff available for housing element review, including five limited-term positions provided for the peak of fifth cycle review workload. The Administration has indicated that this request would lead to a total of 16.0 positions devoted to housing element workload. This includes seven currently filled housing element positions, one authorized housing element position associated with the implementation of AB 1397, and the eight positions requested in this proposal.

Staff Recommendation: Hold Open.

Issue 14: Regional Housing Needs Allocation Process (AB 1771 and SB 828)

Governor's Budget. The budget requests $638,000 in 2019-20 and $543,000 ongoing General Fund for 3.0 positions to implement AB 1771 (Bloom), Chapter 989, Statutes of 2018 SB 828 (Wiener), and Chapter 974, Statutes of 2018, which added methodology review requirements for HCD in the Regional Housing Needs Allocation (RHNA) process.

Background. State law requires local jurisdictions to plan for their future housing needs through the RHNA process. Under RHNA, the Department of Finance and HCD develop forecasts of the number of housing units at various income levels needed to keep pace with population growth, which they allocate to regions throughout the state. Regional "councils of governments" allocate the regional housing need to local governments within those regions, which must develop a plan –the housing element portion of their general plan –to accommodate the additional housing growth.

Historically, HCD's RHNA determination methodology responsibilities was evenly distributed over a five-year planning period with due dates staggered. However, SB 375 (Steinberg), Chapter 728, Statutes of 2008, significantly changed this schedule, condensing the majority of the workload into approximately four years.

As part of the 2017 housing package, AB 1771 and SB 828 made important changes to the RHNA objectives, methodology, and distribution process, as part of a larger conversation in the Legislature on how to revamp the RHNA process.

Staff Comments. AB 1771 and SB 828 collectively revise the process and criteria for developing local housing goals in regional needs allocation plans. SB 828 incorporates additional data into regional methodologies and specifies that prior underproduction does not justify a reduction on housing goals while AB 1771 allows HCD to verify the methodology used to develop these plans is consistent with state law. It is reasonable to believe that this additional workload will require additional resources, particularly given the timing of much of the workload.

As discussed earlier in this agenda, the Administration has proposed long-term changes to the methodology for allocating housing needs to regions and jurisdictions. Because changes to the RHNA process may impact the workload required by AB 1771 and SB 828, this budget proposal should be considered in the context of the proposed changes to the RHNA process.

Staff Recommendation: Hold Open.

Issue 15: Moderate Income Housing Production

Governor's Budget. The Governor's budget proposes to invest $500 million General Fund one-time in the development of housing for moderate-income households.

Background. The Mixed-Income Loan Program was created by SB 2, which allocates 15 percent of ongoing real estate transaction fee revenues to creating mixed-income housing for low- to moderate-income households. This program provides competitive long-term financing for newly constructed multifamily housing projects restricting units between 30 percent and 120 percent of county Area Median Income (AMI).

The Mixed-Income Housing Program requires either 20 percent of the units in a development be restricted to 50 percent of AMI or 40 percent restricted at 60 percent of AMI. Projects that restrict 10 percent of the units in a development to moderate income, 81 percent to 120 percent of AMI, receive a priority over other projects.

LAO Comments. Because the need for housing assistance outstrips resources and low-income households have fewer options for accessing affordable housing, we suggest the Legislature prioritize General Fund resources towards programs that assist low-income households. As noted earlier, the Legislature could continue to pursue broader changes that facilitate private housing construction, which would help address affordability challenges for middle-income households.

Staff Comments. The Administration has indicated that program design may change for the requested funds. As currently designed, the program encourages the construction of new units that would not otherwise be built by pairing with underutilized federal housing tax credits in the Four Percent program and private activity bonds from the California Debt Limit Allocation Committee. Program loans cannot pair with the competitive federal housing tax credits in the Nine Percent program to avoid diverting those funds from needed housing for low- and very low-income households.

The current program design offers a subsidy level of no more than $40,000 per restricted unit (between 30 to 120 percent of AMI). Developments must maintain either 20 percent of the units at 50 percent of AMI, or 40 percent of units at 60 percent of AMI and 10 percent of the units at 50 percent of AMI. The Administration intends to pair this program with the expanded tax credit program discussed earlier.

Staff Recommendation: Hold Open.

Issue 16: Remove 55 Percent Voter Threshold for Enhanced Infrastructure Financing District (EIFD) Debt Issuance and Pairing EIFDs with Opportunity Zones

Governor's Budget. The Administration has proposed Trailer bill language removing the 55 percent voter threshold and making conforming changes in EIFD law.

Background. After Redevelopment Authorities (RDAs) were dissolved in 2011, local officials sought other ways to use tax increment financing to raise the capital they need to fund public works projects. In response, the Legislature enacted SB 628 (Beall), Chapter 785, Statutes of 2014, to allow local officials to create Enhanced Infrastructure Financing Districts (EIFDs), which augment the tax increment financing powers available to local government under existing infrastructure financing district statutes. City or county officials can create an EIFD to finance public capital facilities or other specified projects of communitywide significance that provide significant benefits to the district or the surrounding community. An EIFD is governed by a public financing authority with a specified membership comprising both public members and members from the legislative body of a participating taxing entity or entities.

Once approved by the initiating city or county, an EIFD receives funding from three revenue streams to fund its infrastructure financing plan. Similar to Redevelopment Agencies, EIFDs can use a portion of the property tax increment, if the local governments approve it. They may also use revenue that the infrastructure project generates, such as money generated from user fees, public-private partnerships, loans, and grants. Finally, an EIFD may receive the local share of sales and use taxes (SUT) and transactions and use taxes (TUTs). Like an RDA, an EIFD may issue bonds backed by these revenues to pay for projects. However, unlike an RDA, an EIFD requires 55 percent voter approval to do so.

Staff Comments. Only three EIFDs have been formed since statute created them in 2014.

This proposal raises concerns about the public being completely shut out of the process of creating and financing EIFDs. If the voter threshold needs to go to make these tools easier to use, there are still ways to keep the public involved in the process (e.g. protest procedures and 10-year check ins as is the case with a similar tool).

Additionally, it is an open question whether this conforms to provisions of Article XVI, Section 16 of the California Constitution.

The Administration has indicated that they will seek to make EIFDs a more attractive economic tool by pairing them with the federal Opportunity Zones program. To make Opportunity Zones more effective, the state will conform to federal law allowing for deferred and reduced taxes on capital gains in Opportunity Zones for investments in green technology or in affordable housing, and for exclusion of gains on such investments in Opportunity Zones held for 10 years or more. The Administration has not released language for the pairing of EIFDs with Opportunity Zones.

Staff Recommendation: Hold Open.

Issue 17: CalHome Program Changes

Governor's Budget. The Administration has propoased trailer bill language to allow the program to include auxiliary dwelling units (ADUs) and junior accessory dwelling units, and to authorize the program to make grants for housing purposes in declared disaster areas.

Background. The Calhome program provides grants of appropriated funds to local public agencies and nonprofit developers to assist individual first-time homebuyers through deferred-payment loans for downpayment assistance, home rehabilitation, including manufactured homes not on permanent foundations, acquisition and rehabilitation, homebuyer counseling, self-help mortgage assistance, or technical assistance for self-help homeownership. Funds are loaned from grant recipients to individual homeowners.

Proposition 1, approved by voters in 2018, continuously appropriates $300 million in bond funds to the Self-Help Housing Fund, itself a continuously appropriated fund, for the CalHome program.

CalHome has previously made awards of funds for disaster recovery in 2018, 2016, and 2014.

Staff Comments. The department has indicated that the trailer bill language is intended to allow cities and counties to assist moderate income families who lost a home to disasters. Sonoma County, in particular, has few affected homeowners who earn less than 80 percent AMI but sees a great need to assist families up to 120 percent who otherwise have insufficient insurance proceeds to rebuild. CalHome funds are anticipated to be used as gap financing in this situation. The department intends to offer a special CalHome Disaster NOFA and seek to help meet this need across the counties recently affected by disasters. Including ADUs in eligible program uses both creates new housing units and helps homeowners retain homeownership through additional income. Given the recent focus on ADUs, this is an enhancement of the program that should be offered immediately.

The language includes a provision to serve moderate income families in disaster areas only. The language requires awardees (local government and nonprofits) who serve moderate income households to demonstrate to HCD how they will continue to serve low-income households.

The department anticipates offering a $75 million Disaster NOFA ($63 million from Propositions 46 & 1C and $12 million Proposition 1). This responds to the urgent needs of disaster areas. ADUs will not have a set aside, but simply be an eligible use of funds.

Staff Recommendation: Hold Open.

Issue 18: Local Housing Trust Fund

Governor's Budget. The Administration has proposed trailer bill language to allow the Local housing Trust Fund to make matching grants to Native American Tribes, and to increase the minimum size of awards to various local trusts.

Background. The Local Housing Trust Fund provides matching grants (dollar for dollar) to local housing trust funds that are funded on an ongoing basis from private contributions or public sources that are not otherwise restricted in use for housing programs. Recipients provide loans for construction of rental housing projects with units restricted for at least 55 years to households earning less than 60 percent of area median income, and for downpayment assistance to qualified first-time homebuyers. Current eligible recipients include cities and counties with adopted housing elements that the Department of Housing and Community Development (HCD) has determined comply with housing element law, and charitable nonprofit organizations. The minimum allocation is $500,000 for newly-established housing trusts and $1,000,000 for trusts that have previously received funds from the program. The maximum allocation is $2,000,000 for new trusts and $1,000,000 for trusts that have previously received funds through the program.

The LHTF last made awards to local trusts in 2014, when $8.8 million was awarded to seven recipients.

Proposition 1, approved by voters in 2018, continuously appropriates $300 million in bond funds for the Low Income Housing Trust Fund.

Staff Comments. Unlike other Proposition 1 funded programs, LHTF is largely described in statute rather than guidelines or regulations. This makes it more challenging to update the program under the authority granted in Proposition. 1. The department has indicated that small grants have flat administration costs and are therefore relatively expensive. Given that the program has significantly more resources than in the past ($300 million Proposition 1, compared to only $35 million Proposition 1C and $25 million Proposition 46), HCD intends to target larger grants.

Native American tribes are currently not eligible recipients of LHTF funds. The department has made a concerted effort over the years in other program to treat tribes as any other local government. Since it has been dormant for some time, the LHTF program statute has not been amended accordingly. The proposed language will ensure tribes are not left out of the program.

Staff Recommendation: Hold Open.

Issue 19: Community Development Block Grant (CDBG) Disaster Recovery Program

Governor's Budget. The budget requests $108,825,000 in 2019-20 and $2,555,000 ongoing Federal Trust Fund for 10 positions to design and implement the CDBG-Disaster Recovery Program focused on recovery from the 2017 Northern and Southern California wildfires.

Background. On February 9, 2018, the federal government extended the 2017 Supplemental Appropriations for Disaster Relief Requirements and made available $28 billion in Community Development Block Grant -Disaster Recovery (CDBG-DR) funds. These funds are authorized for disaster relief, long-term recovery, restoration of infrastructure and housing, and economic revitalization in areas affected by a major disaster declared in 2017. The State of California will receive $212.3 million of the $28 billion to support long-term recovery and mitigation efforts related to the October and December 2017 wildfires. The Federal Emergency Management Agency (FEMA) identified the following counties in its major disaster declarations:

October 2017 Declaration	December 2017 Declaration
Butte County	Los Angeles County
Lake County	San Diego County
Mendocino County	Santa Barbara County
Napa County	Ventura County
Nevada County	
Orange County	
Sonoma County	
Yuba County	

HCD must demonstrate to HUD adequate staff capacity, knowledge, skills, and ability to successfully implement and monitor CDBG-DR grant funds, as defined in program guidelines in The Federal Register Notices.

Staff Comments. The CDBG-DR funds are split into two components:

- $124.2 million for unmet recovery needs
- $88.2 million for preparedness and mitigation needs

Unmet recovery needs funding is designed to address disaster recovery needs that remain after local assistance has been exhausted, including federal assistance and private insurance. Mitigation funding will allow for specific activities to protect communities from predictable damage from future disaster events. HCD is the responsible entity for implementing CDBG-DR funds for both unmet needs and mitigation funds.

The department has indicated that this request includes funding for the unmet needs portion of the program. HUD has yet to release details on the $88.2 million in preparedness and mitigation. Once that funding is released, HCD intends to bring forward a request for the resources necessary to distribute that funding.

Staff Recommendation: Hold Open.

Issue 20: Deferred Maintenance

Governor's Budget. The budget requests $3,000,000 General Fund for deferred maintenance to address health and safety deficiencies at state-owned agricultural migrant housing centers.

Background. HCD administers the Office of Migrant Services (OMS) program, which provides housing and housing-related services for migratory farmworkers and their families, making HCD responsible for repairing and rehabilitating the housing. HCD oversees contractors who operate 24 migrant centers with 1,885 housing units statewide. Rental rates at the housing centers have not increased for more than twelve years, leading to deferred repairs.

The 24 OMS centers have a combined annual budget of roughly $9.5 million.

Staff Comments. A 2018 inspection and assessment of OMS housing centers identified critical deferred maintenance needs due to health and safety concerns. This effort identified $9.6 million in deferred maintenance needs across the 24 OMS centers. This includes $3.9 million in repair needs for sewer and wastewater systems. The department has indicated that this request will allow the department to address critical water-related repair needs, though it is insufficient to fully perform the required repairs.

The department has indicated that the $900,000 in critical water-related repairs not covered by this request will be covered by remaining Proposition 1C funds directed to the Joe Serna Jr. Farmworker Housing program.

Staff Recommendation: Approve the requested funding for deferred maintenance, and adopt supplemental reporting language requiring the Department of Finance to notify the chair of the Joint Legislative Budget Committee prior to allocating deferred maintenance funding to the departments.

Issue 21: Organizational Development and Strategic Planning Unit

Governor's Budget. The budget requests $565,000 in 2019-20 and $505,000 annually through 2022-23 from administrative budget authority for four positions to permanently establish the Organizational Development and Strategic Planning (ODSP) unit.

Background. The ODSP unit was created in 2017-18 for the implementation of strategic planning governance, business process innovation (BPI) projects, enterprise risk management, and organizational change management training. The ODSP unit is currently comprised of five positions, four of which are limited-term positions for up to 24 months. Employees who currently hold limited-term positions in the ODSP unit will return to their previous divisions within HCD on July 1, 2019.

Staff Comments. The ODSP unit has been providing hands-on consultation, training and support to coach identified program staff and management in BPI methodologies to build a sustainable structure within each respective program since 2017. Business process reviews in the project financing and Community Development Block Grant programs have resulted in faster processing of program documents and improvements in program outputs (as measured by fewer errors in project documents). For example, the Community Development Block Grant program BPI analysis has deployed solutions that have resulted in: a reduction in overall processing time from when the general clearance conditions checklist is received to when a clearance letter is sent out (goal is 14 day turnaround, average was 21 day turnaround); a reduction in processing time from when the general conditions clearance packet is distributed to when it is verified (goal is within six days, average was 11 day turnaround); a reduction in number of standard agreements with defects (goal is 40 percent, average was 83 percent); and a reduction in average number of defects per standard agreement (goal is one, average was 2.8)

The department has indicated that ongoing resources for the requested positions will be available from operational efficiencies created as a result of the BPI process once the requested funding expires in 2022-23.

Staff Recommendation: Hold Open.