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

SUBCOMMITTEE NO. 4 Agenda

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

Thursday, March 15, 2018
9:30 a.m. or upon adjournment of session
State Capitol - Room 2040

PART A

Consultant: James Hacker

Vote Only Calendar

Items Proposed for Discussion

Public Comment

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VOTE-ONLY CALENDAR

2240– Department of Housing and Community Development (HCD)

1. **Roberti Affordable Sales Program.** The budget requests a baseline increase in reimbursement authority of $370,000 in 2018-19 and $350,000 ongoing for staffing expenses to ensure the sale of Department of Transportation (Caltrans) surplus property is maintained as affordable housing. This proposal supports Caltrans administration of the "Roberti Act" Affordable Sales Program on the State Route 710 corridor.
2. **Transactions Unit Fund Shift.** The budget requests a net-zero technical shift of $1,894,000 in expenditure authority among funds to continue workload in the Transactions Unit to restructure and extend previous loans. This request is a net-zero change that moves funds from the Roberti Affordable Housing Fund, the California Earthquake Safety and Housing Rehabilitation Bond Account, and an account within the Housing Rehabilitation Loan Fund to the general Housing Rehabilitation Loan Fund.
3. **Mobilehome Purchase Program Technical Assistance (SB 136).** The budget requests $161,000 in 2018-19 and $151,000 ongoing from the Mobilehome Park Rehabilitation and Purchase Fund for one position to oversee technical assistance grants with potential applicants of the Mobilehome Park Rehabilitation and Resident Ownership Program (MPRROP), pursuant to SB 136 (Leyva), Chapter 766, Statutes of 2017.
4. **Mobilehome Release of Liability (SB 542).** The budget requests $289,000 in 2018 -19 and $259,000 ongoing from the Mobilehome and Manufactured Home Revolving Fund for three positions to implement the notice of transfer and release of liability provisions of SB 542 (Leyva), Chapter 832, Statutes of 2017.

Staff Recommendation:
Approve as budgeted.

1700 – Department of Fair Employment and Housing

1. **Job Applicant Criminal History (AB 1008).** The Department of Fair Employment and Housing (DFEH) requests $1,919,000 in 2018-19 and $1,244,000 ongoing from the General Fund for nine positions to process additional employment discrimination complaints associated with AB 1008 (McCarty), Chapter 789, Statutes of 2017.
2. **New Parental Leave Act (SB 63).** The budget requests $218,000 in 2018-19 and $210,000 ongoing from the General Fund for two positions to process additional complaints resulting from new parent leave labor protections under SB 63 (Jackson), Chapter 686, Statutes of 2017.

Staff Recommendation:
Approve as budgeted.

Issues Proposed for Discussion

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 $1.2 billion and supports 856 positions at HCD in 2018-19, including roughly $39 million and 255 positions at the California Housing Finance Agency. This is an increase of roughly $470 million from 2017-18, mostly due to the implementation of the statewide housing package passed in 2017.

3-YR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2016-17	2017-18	2018-19	2016-17*	2017-18*	2018-19*
1660	Codes and Standards Program	191.4	166.2	170.2	$30,502	$34,445	$34,803
1665	Financial Assistance Program	188.2	201.6	274.1	486,602	653,034	994,883
1670	Housing Policy Development Program	14.8	17.1	39.1	36,798	4,532	130,405
1675	California Housing Finance Agency	235.3	254.9	254.9	35,605	38,822	38,689
1680	Loan Repayments Program	-	-	-	-2,969	-1,944	-1,944
1685	HPD Distributed Administration	-	-	-	-141	-150	-150
9900100	Administration	147.4	107.0	117.5	14,753	16,893	20,216
9900200	Administration - Distributed	-	-	-	-14,753	-16,893	-20,216
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**777.1**	**746.8**	**855.8**	**$586,397**	**$728,739**	**$1,196,686**

Issue 1: Legislative Proposal: Office of Homeless Youth (SB 918)

Legislative Proposal: Senator Scott Wiener and Assemblymember Blanca Rubio, along with six sponsors, request $61 million in one-time General Fund resources to establish $60 million in grants to develop services statewide for youth who are homeless. An additional $1 million is requested to create an Office of Homeless Youth within the Department of Housing and Community Development. The grant funding will be replaced in subsequent years by funding from the state's Cannabis Tax Fund. Sponsors of this bill include the California Coalition for Youth, Corporation for Supportive Housing (CSH), Housing California, John Burton Advocates for Youth, Tipping Point and Equality California.

Background: More than one-third of the nation's homeless youth live in California – 15,458 youth were sleeping in warehouses, in fields, behind businesses and along river beds, or living with friends or strangers, according to the 2017 HUD count. Statewide, one in nine homeless persons is an unaccompanied youth. The federal government defines a homeless youth as a minor younger than 18 or a young adult between 18 and 24 years old who is living individually (without their parents or their own children). Exact counts vary substantially based on definition and methodology, but reports across various systems show a growing number of homeless unaccompanied youth, a group that often stays hidden from view and may be easily overlooked. Prior to 2015, the count did not break out this group at all.

The Senate and Assembly Human Services Committees held a joint informational hearing on Oct. 10, 2017 to evaluate the state's response to youth homelessness. Providers of services and shelter testified that youth tend to avoid adult homeless shelters because they are often victimized there, instead believing they are safer in youth encampments or other situations until they can access shelter care. Within the population of homeless youth, some distinct groups are disproportionately represented, including those who are LGBTQ, formerly or currently involved with the foster care system, involved with the juvenile justice system and youth who are African American.

Experts say it is critical to develop and fund services that are developmentally appropriate for teenagers and young adults who are homeless. Services that have proven successful for youth include those that are trauma-informed, teach life skills, and offer educational degrees and job training.

Staff Comments: This request accompanies SB 918 (Wiener) which would establish the Homeless Youth Act of 2018, which is currently pending in the Senate Committee on Human Services.

Staff Recommendation:
Hold Open.

Issue 2: Statewide Housing Package (SB 2 and SB 3)

Governor's Proposal: The Department of Housing and Community Development (HCD) requests $16 million and 81.0 positions 2018-19, $21 million and 128.0 positions in 2019-20, and $23 million and 146.0 positions ongoing for State Operations to implement the 2017 Statewide Housing Package. HCD also requests Local Assistance authority of $522 million in 2018-19 and $773 million in out years.

Background: In 2017 the Legislature passed a package of 15 bills aimed at increasing the affordability of housing in California. The package included proposals to place a general obligation bond on the November 2018 ballot, create a permanent funding source for affordable housing by levying a transaction fee on new real estate transactions, and a variety of regulatory reforms to speed up development and construction of new housing. The bills included in the package are detailed below.

Statute	Housing Package Component
Dedicated Housing Funding	
SB 2 (Atkins), Chapter 364, Statutes of 2017	Create a permanent source of funding for affordable housing with a document recording fee on real estate transactions.
SB 3 (Beall), Chapter 365, Statutes of 2017	Invest in a $4 billion housing bond with $3 billion for affordable housing and $1 billion for veterans housing.
Streamlining Housing Development	
SB 35 (Wiener), Chapter 366, Statutes of 2017	Streamline multifamily housing developments with an affordable component in infill areas across the state.
SB 540 (Roth), Chapter 369, Statutes of 2017	Establish Workforce Housing Opportunity Zones to streamline development in priority areas.

AB 73 (Chiu), Chapter 371, Statutes of 2017	Form Housing Sustainability Districts to streamline development in infill areas.
Accountability and Enforcement	
AB 72 (Santiago), Chapter 370, Statutes of 2017	Allow for interim housing element monitoring; enforce existing housing laws through collaboration with the Attorney General.
AB 879 (Grayson), Chapter 374, Statutes of 2017	Improve local reporting on housing outcomes; conduct a fee reasonableness study to evaluate local development fees.
AB 678 (Bocanegra), Chapter 373, Statutes of 2017	Strengthen the Housing Accountability Act.
SB 167 (Skinner), Chapter 368, Statutes of 2017	
AB 1515 (Daly), Chapter 378, Statutes of 2017	
AB 166 (Skinner), Chapter 367, Statutes of 2017	Secure "No Net Loss" in housing element sites inventory.
AB 1397 (Low), Chapter 375, Statutes of 2017	Promote feasibility of sites included in sites inventory.
AB 1505 (Bloom), Chapter 376, Statutes of 2017	Clarify that local governments may adopt inclusionary ordinances that require affordable housing set-asides.
AB 1521 (Bloom), Chapter 377, Statutes of 2017	Strengthen preservation requirements on rent-restricted affordable housing units.

AB 571 (Eduardo Garcia), Chapter 372, Statutes of 2017	Support farmworker housing by easing access to tax credit financing and allowing extensions for seasonal housing centers.

SB 2 imposes a fee on recording of real estate documents, excluding sales, for the purposes of funding affordable housing. This fee is to be collected by county recorders and remitted to the state on a quarterly basis. Collections began on January 1, 2018. The first remittances will occur in March of 2018. The Administration has estimated that this fee will raise roughly $129 million in 2017-18 and $258 million in 2018-19.

Funding allocations are specified in statute for the first year of proceeds and on an ongoing basis. These allocations are based on the calendar year in which the fees are collected, and not the state fiscal year in which the funds are expended. Under SB 2, one half of the revenue from the fees collected during 2018 is designated for planning and zoning grants and technical assistance programs, and one half for homelessness programs. In year two and onward, 70 percent of the funds will be distributed directly to locals and 30 percent to the state for farmworker housing, state incentive programs, and mixed income multifamily residential housing affordable to lower and moderate income housing. Should the SB 3 bond be approved by voters in November 2018, proceeds from bond sales shall be split among a variety of currently existing housing and homelessness programs.

SB 3 places a $4 billion bond on the November 2018 general election ballot. Of this amount, $1 billion will support veterans housing in the California Department of Veterans Affairs Farm and Home Loan Program, repaid by participants' loan repayments. HCD will administer the $3 billion General Obligation bond through existing housing programs.

Throughout the development process, each local government faces factors that discourage housing development, including community opposition, incentives to approve sales-tax generating development over residential development, and market conditions, such as high land and construction costs. These decisions drive up cost of housing and negatively affect the supply of housing in California. To address this, the housing package includes a number of bills aimed at holding local governments accountable for accommodating their share of development and ensuring compliance with existing laws.

A number of barriers exist to the timely development of housing. Discretionary local land use permitting and review processes have lengthened the approval process and increased production costs. These delays and denials place a strain on the state's housing supply by increasing project risks and costs. The housing package includes provisions that streamline approvals for housing developments that are compliant with existing zoning requirements and meet other specified criteria. These policies contain development costs, increase certainty and reduce project risks, and improve the pace of housing construction.

Staff Comments: The housing package goes into effect during the latter half of 2017-18. The real estate transaction fee implemented by SB 2 went into effect in January of 2018, and revenue collected by the counties will be remitted to the state beginning in March of 2018. Under the requirements of the package, half of this first-year revenue is to be spent on planning and zoning programs, and half on homelessness issues. However, HCD was not given any additional resources to implement the requirements of the package as part of the 2017-18 budget.

The 2018-19 budget addresses this by declaring the 2018-19 budget year the first program year for the relevant programs created or funded by the housing package. HCD has indicated that a half year of revenue raised between January and June of 2018, estimated at roughly $129 million, would be remitted to HCD before any funding is disbursed for either homelessness or planning purposes. Additionally, HCD has indicated that the program design for the homelessness funds is still underway, and the final shape of the program is still uncertain. However, the Administration has proposed trailer bill language that allocates roughly half of the homelessness funds in a specified manner. This includes $5 million to Orange County for a specified shelter project, $10 million or eight percent of available funds to Los Angeles County, and smaller specified amounts to each county depending on population and estimated homeless population.

While the overall proposal has merit, and follows the overall intent of the statewide housing package, there are a number of issues. While the majority of the new funding will go out via already-existing housing programs, several new programs must be created from scratch. For example, first year funding for both planning and zoning grants and a new homelessness program both require the creation of new program guidelines, administrative processes, and new processes for granting, disbursing, and evaluating grant funding. While HCD is well-versed in the creation and administration of similar grant programs, the final design of many of these programs has not been completed. It is premature to approve this proposal until some of the outstanding program design issues have been resolved.

Questions:

- What shape does HCD anticipate the first-year homelessness program will take? What program design work has been performed to date? What other stakeholders have been consulted on program design?
- What is the timeline for the distribution of first year funds?

Staff Recommendation
Hold Open.

Issue 3: Affordable Housing and Sustainable Communities Program

Governor's Proposal: The budget requests $2,782,000 in 2018-19 and $2,622,000 ongoing from the Greenhouse Gas Reduction Fund (GGRF) for 16.0 positions to implement the later phases of the Affordable Housing and Sustainable Communities (AHSC) program.

Background: The AHSC program was established by SB 862 (Committee on Budget and Fiscal Review), Chapter 36, Statutes of 2014, which sought to further the purposes of AB 32 (Nunez), Chapter 488, Statutes of 2006, the Global Warming Solutions Act of 2006, and SB 375 (Steinberg), Chapter 728, Statutes of 2008, the Sustainable Communities and Climate Protection Act of 2008. The program provides funding for housing and transportation projects that support in fill and compact development. These projects reduce greenhouse gas (GHG) emissions through the reduction of the number of miles individuals drive each day, or vehicle miles traveled (VMT). HCD implements the program under the guidance of the Strategic Growth Council (SGC) and the Air Resources Board (ARB).

The program is funded through the GGRF. Funding for the AHSC program is provided through a continuous appropriation to the SGC, based on 20 percent of annual proceeds. Roughly $886 million has been made available to the program since 2014-15. The program has awarded roughly $695 million to date.

HCD currently has 22 positions to administer the AHSC program. HCD's role in the program includes assisting SGC in developing guidelines, reviewing applications, recommending awards; performing construction loan closing, contract management, and permanent loan closing activities; performing asset monitoring, compliance, and reporting activities; and providing overall administrative support to the program.

Staff Comments: HCD has indicated that the administration of affordable housing projects engenders a lifecycle of four to five years from application to occupancy. The Administration has indicated that they expect construction of the first affordable housing projects to be completed during 2018-19. Once these developments meet occupancy and other administrative requirements, HCD converts construction financing to permanent financing. This stage is workload-intensive and requires the greatest scrutiny of the legal and financial transactions.

Each AHSC award includes at least one housing related infrastructure, transportation infrastructure, or funded program (bicycle safety class, transit pass program, etc.) component. Funds will be disbursed incrementally, with nearly a dozen disbursements for each contract. HCD anticipates a substantial increase in the number of projects from prior funding rounds that will reach this phase in the project lifecycle in 2018-19.

It is reasonable to believe that HCD's workload will increase as the number of projects reaching to later stages of the project cycle increase. While construction loan closings are anticipated to decrease in 2018-19 and 2019-20, the Administration has indicated that this is largely due to a decline in GGRF revenues in prior years. The Administration has indicated that the recent reauthorization of the cap and trade program is anticipated to increase GGRF funding available to the program in out years.

Staff Recommendation:
Hold Open.

Issue 4: Veteran's Housing and Homelessness Prevention Program

Governor's Proposal: The budget requests $370,000 in 2018-19 and $350,000 ongoing from the Housing for Veterans Fund for two positions to execute loan closings and mitigate litigation costs related to the Veterans Housing and Homelessness Prevention Program (VHHP).

Background: ln 2008, California voters approved the Veteran's Bond Act of 2008 (Proposition 12), a $900 million general obligation bond intended to help veterans purchase single family homes, farms, and mobile homes through the CalVet Home Loan Program. Chapter 727, Statutes of 2013, (AB 639) restructured the Veteran's Bond Act of 2008, authorizing $600 million in existing bond authority to fund multifamily housing for veterans, with 50 percent serving extremely low-income veterans.

California authorized $600 million in bond authority to be repurposed to fund multifamily housing for veterans through Proposition 41, the Veterans Housing and Homelessness Prevention Bond Act of 2014. Approved by California voters on June 3, 2014, Proposition 41 authorized $600 million in state general obligation bonds to fund affordable multifamily rental, supportive and transitional housing for veterans through VHHP. After setting aside funds for bond issuance costs, default reserves, and program administration, approximately $540 million is available for development assistance and operating subsidies for veterans' rental housing. Since VHHP's implementation in 2014, HCD has issued three rounds of Notice of Funding Available (NOFAs) and awarded $241.7 million in local assistance for the development, assistance, and operating subsidies for veterans' rental housing. This has funded 2,019 units to support over 3,052 homeless veterans with permanent housing and supportive services.

Staff Comments: The Administration has indicated that the requested positions will enable HCD to meet additional loan closing and legal workload as projects move through the program cycle into later stages. Specifically, the positions are needed to support workload related to with construction loan-closing and permanent loan-closing stages for projects funded from Round 1 (FY 2014-15), Round 2 (FY 2015-16), Round 3 (FY 2016-17), and Round 4 (FY 2017-18). HCD estimates that 15 percent of projects in a given NOFA round move through each stage of the award cycle in year one, 60 percent in year two, and 25 percent in year three. The incremental movement of projects generates a "stacking effect," and subsequently increases workload to manage compounding projects at each stage of the award lifecycle. Additionally, the department has indicated that the legal work necessary to process VHHP awards, draft loan documents, and disburse funds requires significant Legal Affairs Division workload. VHHP permanent loan documents must be ready to timely record when the applicant and other lenders are ready. Failure to close on time would result in higher carrying costs for the applicant, as well as litigation costs for HCD. These two factors lead to an increase in overall program workload as the VHHP program matures. HCD has indicated that this increased workload cannot be met within existing resources.

Staff Recommendation:
Approve as budgeted.

Issue 5: Long-Term Monitoring and Default Reserve

Governor's Proposal: The budget requests $322,000 from the Housing Rehabilitation Loan Fund (0929), 2.0 positions to award funds previously held as default reserves, and 2.0 positions for long-term monitoring for the Veterans Housing and Homelessness Prevention Program (VHHP) and Affordable Housing and Sustainable Communities (AHSC) portfolio. This request includes trailer bill language intended to streamline the administration of long-term monitoring, provide consistency across all rental programs, and decrease the risk of default of affordable housing projects.

Background: SB 1121 (Alarcon), Chapter 67, Statutes of 1999, authorized the Multifamily Housing Program (MHP) financing model, in which HCD provides permanent financing for rental housing projects with an affordability requirement of 55-years. The MHP model includes a required annual 0.42 percent interest payment on the loan principal to fund HCDs long-term monitoring efforts. Since 1999, all of HCD's new rental housing construction programs operate under this MHP financing model.

Presently, only the MHP family of programs and the Transit-Oriented Development (TOD) program have collected 0.42 percent interest. Beginning in 2018-19 the AHSC and VHHP projects will transition to long-term monitoring and begin submitting annual 0.42 payments. In the future, NPLH projects will also begin to submit 0.42 payments.

SB 1121 also authorized HCD to set aside up to four percent of funds appropriated for default reserve. The purpose of a default reserve account is to have a resource available to help cure or avert projects from defaulting over their 55-year regulatory period, which would lead to a loss of affordable housing supply. Since funding is appropriated on a program-by-program basis, each has its own default reserve account. Statute has been inconsistent across these programs, with default reserve language ranging from no cap to amounts equal to three percent, not to exceed three percent, or in the case of MHP, four percent. As of June 30, 2017, HCD had $68.5 million in available default reserves, spread across 16 programs. This includes roughly $12 million in legacy programs and non-bond funded programs.

Staff Comments: VHHP and NPLH programs are administered from bond funds. There is therefore no place to deposit the fee revenue to support long-term monitoring. Additionally, HCD is not the administrator of the Housing for Veterans Fund (Fund 6082) or the Greenhouse Gas Reduction Fund (Fund 3228) and will require annual appropriations from other agencies to fund long-term monitoring, decades after the roles of those agencies in the program have ended. The proposed Trailer Bill Language will deposit the 0.42 percent revenue into one single fund (Fund 0929). The Administration has indicated that this will reduce the number of budget appropriations and agencies involved, and make HCD solely accountable for the monitoring of these funds. The Administration has indicated that the requested long-term monitoring positions will perform fiscal and occupancy compliance workload as the VHHP and AHSC projects transition into the long-term monitoring phase.

HCD has indicated that, while statute currently sets default reserves between zero and four percent, historical data suggests that 1.5 percent. The proposed trailer bill language would also allow for the expenditure of default reserve funds across programs while reducing the overall required default reserve to 1.5 percent. HCD has indicated that HCD believes allowing default reserve expenditures across programs would create a pool of resources that would reduce the risk level of the entire portfolio, and that reducing the overall level to 1.5 percent would free up a significant amount of funding for additional local assistance. The department has indicated that, should this trailer bill be approved, they would prepare an immediate NOFA round worth roughly $11 million. The requested default reserves position would facilitate the awarding of unused default reserve funds available as a result of a reduction of the default reserve. These positions will be funded from administrative resources available from the continuously appropriated Multifamily Housing Program Proposition 46 and Proposition 1 C allocations. HCD requests position authority rather than budget augmentations as part of this request.

While these proposals have merit, more information regarding the proposed reduction in default reserve ratios, the use of the proposed NOFA round, and the proposed portfolio approach to long-term monitoring is required.

Questions:

- How many projects, and of what types, does HCD anticipate funding with the proposed new NOFA round?
- Are there any mismatches between monitoring fees paid and long term monitoring workload? Will pooling long-term monitoring resources result in one program subsidizing another?

Staff Recommendation

Hold Open.

Issue 6: Housing for a Healthy California (AB 74)

Governor's Proposal: The budget requests $450,000 in 2018-19, $927,000 in 2019-20, $477,000 in 2020-21, and $343,000 ongoing from the Federal Trust Fund to implement AB 74 (Chiu), Chapter 777, Statutes of 2017. The request includes authority for 2.0 positions, an interagency agreement with the Department of Health Care Services (DHCS), and a contract with an independent evaluator in 2019-20. HCD also requests trailer bill language to establish authority to collect monitoring fees and deposit the fees into the Housing Rehabilitation Loan Fund.

Background: In March 2015, the DHCS proposed using MediCal to fund services and housing assistance – supportive housing – acknowledging decades of research demonstrating supportive housing decreases Medicaid costs among homeless beneficiaries. The Federal Centers for Medicare & Medicaid Services (CMS) approved use of federal Medicaid dollars to fund services in supportive housing. Though CMS rejected using federal Medicaid dollars to pay for housing, CMS clarified that the state could use its own dollars (through MediCal or otherwise) to fund housing subsidies. In fact, a number of other states and jurisdictions within California, including the State of New York and the County of Los Angeles, pay for housing costs through health systems.

The state's most recent 1115 Medicaid Waiver, which allows the state to extend MediCal eligibility to extend its safety net care pool for five years, and to include alternative payment and treatment methodologies, includes the Whole Person Care Pilot Program, which allows counties to tap into federal funds to pay for care management supports, services helping people find housing, and services promoting housing stability. DHCS is also working to implement a new Health Home Program that would fund services for high-cost homeless beneficiaries.

Section 1338 of the Housing and Economic Recovery Act (HERA) established the federal National Housing Trust Fund (NHTF) Program to provide states an ongoing source of funds to support the production of affordable housing targeted to extremely-low and very-low income households. HCD began designing and developing the NHTF program in 2016-17, but has not issued a Notice of Funds Available (NOFA) to make local assistance awards. HCD intends to issue the first NHTF NOFA by the end of 2017 for the first two NHTF federal grants, totaling approximately $33 million. This NOFA will be a joint NHTF and Home Investment Partnerships Program (HOME) NOFA, and will be issued under existing program guidelines.

AB 74 (Chiu), Chapter 777, Statutes of 2017, requires HCD to re-design the NHTF Program and reestablish it as the Housing for Healthy California Program on or before January 1, 2019. This shifts the program focus away from assisting new construction of permanent housing for extremely low-income households, to providing supportive housing opportunities for persons experiencing homelessness. AB 74 requires the distribution of NHTF funds for permanent supportive housing as either competitive grants to counties for capital and operating assistance or as direct awards to developers for operating reserve grants and capital loans, or both. It also requires HCD to coordinate with DHCS to collect data, report outcomes, and prepare evaluations/annual adjustments for three years to the federal allocation plan starting in August 2018 to meet program goals.

Under Section 92.214(1)(i) of Housing and Economic Recovery Act, HCD is authorized to "charge certain reasonable fees, such as application, homebuyer counseling, and ongoing rental monitoring."

HCD currently uses this authority to charge fees to support long-term monitoring activities for its HOME program, but has no place to deposit the fees collected.

This proposal includes resources to support DHCS efforts to collect data, report outcomes, and prepare evaluations and annual adjustments to the program. It also includes funding for a one-year consulting contract to perform program evaluation in 2019-20, as called for in statute.

Staff Comments: Supportive housing, which is affordable housing with intensive services, allows people experiencing significant barriers to housing stability to improve their health and decrease their Medicaid costs. National studies comparing formerly homeless Medicaid beneficiaries living in supportive housing with homeless beneficiaries receiving usual care demonstrate Medicaid cost savings of almost $9,000 per year after the costs of services.

The Administration has indicated that HCD initially plans to use appropriated revenues from NHTF allocations for 2018 to 2021 to provide supportive housing opportunities through operating reserve grants and capital loans to developers to create affordable housing for those experiencing frequent homelessness. Furthermore, this assistance will complement existing supportive housing production resources at HCD (such as the Veterans Housing and Homeless Prevention Program, the No Place Like Home Program, and the Multifamily Housing Program - Supportive Housing). The ability to pair this resource will accelerate the time it takes to secure all financing to build supportive housing faster to serve homeless and extremely low-income households.

The Housing for a Healthy California program will incur the same long-term workload as other affordable housing programs. Specifically, as NHTF projects move from initial NOFA and loan closing stages into long-term monitoring, HCD shifts to support long-term monitoring activities. The proposed trailer bill language will authorize federal programs, including the NHTF, to charge monitoring fees and deposit those fees into the Housing Rehabilitation Loan Fund. This is intended to allow the department to fund long-term monitoring workload in a consistent and sustainable manner.

Questions:

- Is there any concern about the long-term availability of federal funds? How will the program be funded in future years should federal funds disappear?

Staff Recommendation:
Approve as Budgeted.

Issue 7: Informational Item - Community Development Block Grant (CDBG) Program Redesign

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

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

HCD receives about $429 million in federal CDBG funds annually to provide CDBG awards to small cities and counties throughout the state. The CDBG program allows the state to spend no more than three percent of its federal allocation from CDBG on administration, and requires that all money spent after the first $100,000 be matched by state funds, either directly or in-kind. HCD has indicated that CDBG funds have been very slow to reach grantees for two reasons. First, large amounts of "program income," the gross income received by the grantee and its subrecipients directly generated from the use of CDBG funds, delays the drawdown of new CDBG funds. Second, the small, rural jurisdictions with relatively fewer resources that are eligible under the California program lack the capacity to put CDBG funds to work in a timely manner.

SB 106 (Committee on Budget and Fiscal Review), Chapter 96, Statutes of 2017, took steps to streamline and modify the CDBG program. Specifically, it authorized HCD to adopt guidelines to implement the federal and State CDBG program, subject to approval by the Department of Finance (DOF) and notification of the Joint Legislative Budget Committee (JLBC). It also requires HCD to ensure potential applicants have access to instructions that allow them to successfully compete for CDBG funds set aside for economic development purposes.

HCD convened a CDBG program Redesign Working Group (RWG) to facilitate the redesign process laid out in SB 106, and to ensure that the final outcome meets the needs of both HCD and the various local governments involved in the CDBG program. The RWG's duties include, but are not limited to:

- Analyzing and reporting on HCD's award process, contract management processes and policies, and fiscal processes, identifying efficiencies that can be implemented to improve the processing of applications, contract management and fiscal processes, and communications with local agencies.
- Identifying requirements previously adopted by the state that are in excess of the minimum requirements applicable under the federal CDBG program that, if eliminated, would facilitate greater subscription of program funds and reduce HCD's administrative workload.
- Identifying impediments and ways to streamline access to funds for economic development.
- Reporting on the results of this analysis to DOF and budget committees of both houses of the Legislature by June 30, 2018.
- Reporting on any subsequent amendments to the guidelines to both DOF and the JLBC.
- Updating the department's Grant Management Manual to facilitate the subscription of and reflect all federal requirements for economic development business assistance loans by June 30, 2018.
- Ensuring that program staff are trained on the applicable federal law, regulations, or guidelines published by HUD applicable to eligible economic development activities by January 1, 2018.

SB 106 also led to the allocation of roughly $35 million in disencumbered CDBG funds in a NOFA released in September of 2017.

Staff Comments: The RWG has made good progress on implementing the requirements of SB 106. The department is actively seeking input form important stakeholders, and the RWG has made important strides in creating trust and improving relationships between the department and local stakeholders. Much work remains, but initial efforts are promising.

Questions

- How is HCD balancing the need to get program dollars out the door with supporting local governments who may not have the resources to effectively pursue CDBG funds?
- How does HCD plan to address the factors that have historically prevented funds from reaching grantees in a timely manner?

Staff Recommendation

No Action Required.

1700 Department of Fair Employment and Housing

The Department of Fair Employment and Housing (DFEH) 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.

Governor's Budget: The budget provides $31.4 million and supports 196 positions at DFEH in 2018-19. This is an increase of roughly $2.3 million from 2017-18, mostly due to the implementation of several new anti-discrimination statutes passed in 2017.

3-YR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2016-17	2017-18	2018-19	2016-17*	2017-18*	2018-19*
1490	Administration of Civil Rights Law	200.2	184.8	195.8	$27,999	$28,682	$31,064
1495	Fair Employment and Housing Council	-	-	-	9	10	10
1500	Department of Justice Legal Services	-	-	-	210	346	346
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**200.2**	**184.8**	**195.8**	**$28,218**	**$29,038**	**$31,420**

FUNDING		**2016-17***	**2017-18***	**2018-19***
0001	General Fund	$22,879	$23,349	$25,460
0890	Federal Trust Fund	3,950	5,689	5,698
3246	Fair Employment and Housing Enforcement and Litigation Fund	1,389	-	262
TOTALS, EXPENDITURES, ALL FUNDS		**$28,218**	**$29,038**	**$31,420**

Issue 1: Systemic Litigation Unit

Governor's Proposal: The budget requests $262,000 in 2018-19 and ongoing to fund one position reclassified from the Federal Trust Fund to the Fair Employment and Housing Enforcement Fund (Fund 3246) in order to litigate large scale, systemic discrimination cases in accordance with California Civil Rights laws.

Background: DFEH receives approximately 23,000 employment and housing discrimination complaints annually and is required to investigate all complaints. ln addition to handling individual complaints of discrimination that originate through investigations by DFEH's Enforcement Division, the director of the department is also authorized to bring group and class discrimination cases under Government Code Section 12961 to obtain recoveries for large groups and classes of individuals. These "systemic" cases are so denominated because of the number of employees or members of the public that are subjected to discrimination due to unlawful policies or practices.

DFEH has brought a handful of high-profile, large systemic cases in recent years against actors such as Verizon, AirBnb, Winco, and the Irvine Company. Several of these cases resulted in the award of attorney fees to DFEH in the amount of nearly $1.7 million, which have been deposited into the Fair Employment and Housing Enforcement and Litigation Fund. Government Code Section 12907 created the fund as a repository for attorney fees and costs awarded when DFEH is the prevailing party in a civil action under the Fair Employment and Housing Act. The purpose of the fund is to offset, upon appropriation by the Legislature, the costs incurred by DFEH.

DFEH has a single senior attorney assigned to these cases on a full-time basis, the Associate Chief Counsel for Systemic Litigation. ln this capacity, the Associate Chief Counsel sets strategy for cases, identifies tasks, and leads and trains two to three less experienced attorneys who assist in bringing such cases. This position has historically been funded by federal dollars.

Staff Comments: This proposal also includes a baseline increase of $43,000 for related litigation and investigative expenses. Systemic cases generally require contracting out for additional services such as expert witnesses, jury consultants, and deposition expenses. DFEH has indicated that this proposal is necessary because federal funding has been declining and may no longer support the single position DFEH currently dedicates to systemic litigation. The department has indicated that the Fair Employment and Housing Enforcement Fund has sufficient fund balance to support this ask, and generates significant revenue in the form of attorney fees awarded as part of settlements. The department has received an average of $248,000 annually from FY 2014-15 through FY 2016-17, and $322,000 so far for FY 2017-18 from attorney fees. In the event there is a shortfall for this specific position, DFEH has indicated that they believe other attorneys' fees deposited into the fund will support these costs.

Questions

- How will DFEH support this position if the anticipated attorney fees do not materialize?
- Would DFEH prosecute more systemic litigation cases if additional resources were provided?

Staff Recommendation

Approve as Budgeted.

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 $570 million and 69.5 positions to support OPR in the budget year, as shown in the figure below. This is an increase of 24 positions and a decrease of $330 million, mainly due to a decline in Greenhouse Gas Reduction Fund resources and the addition of resources related to the Census 2020 effort.

3-YR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2016-17	2017-18	2018-19	2016-17*	2017-18*	2018-19*
0360	State Planning & Policy Development	24.2	10.2	34.2	$11,188	$18,859	$85,146
0365	California Volunteers	16.0	21.3	21.3	35,861	31,900	31,894
0370	Strategic Growth Council	10.5	14.0	14.0	7,220	851,253	453,370
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**50.7**	**45.5**	**69.5**	**$54,269**	**$902,012**	**$570,410**

FUNDING	2016-17*	2017-18*	2018-19*
0001 General Fund	$11,140	$15,302	$84,125
0890 Federal Trust Fund	34,870	27,966	27,959
0995 Reimbursements	877	7,166	4,500
3228 Greenhouse Gas Reduction Fund	7,076	851,102	453,218
9740 Central Service Cost Recovery Fund	306	476	608
TOTALS, EXPENDITURES, ALL FUNDS	**$54,269**	**$902,012**	**$570,410**

Issue 1: California Institute to Advance Precision Health and Medicine

Governor's Proposal: The budget includes trailer bill language to establish the California Institute to Advance Precision Health and Medicine as a non-profit entity, and to appropriate $30 million in one-time General Fund resources for the Institute.

Background: The California Initiative to Advance Precision Medicine, launched in 2015 by Governor Brown, is currently hosted by the University of California, San Francisco, under the direction of OPR and through an interagency contract between OPR and UC/UCSF. Grants to demonstration projects flow through UCSF and are approved by OPR.

To date, the state has appropriated $23 million in General Fund to OPR for precision medicine. Provisional language was included in each appropriation to ensure that funding was available for projects in both northern and southern California. The Initiative utilized a competitive, merit-based application process, with a peer-reviewed selection process. Eight demonstration projects have been funded, an asset inventory and economic analysis are both in progress, multiple convenings have been held, and a new RFP is in development. A Precision Medicine Advisory Committee was established in fall of 2017, which will issue recommendations to the state by December 2018.

Staff Comments: The Administration has indicated that the new Institute is intended to be a nonprofit corporation, governed by a 19-member Board of Directors, including the Director of the Office of Planning and Research, who will serve as an ex officio member of the Board. Sixteen members are to be appointed by the Governor, while two public members are to be appointed by the Legislature.

The transition to a nonprofit institute will change the administration of funds (from calls for proposals to grant oversight) from a single institution model with oversight by OPR, to an independent nonprofit with oversight from a board with broad public and private institutional representation. Additionally, the activities of the institute will be broader than the initiative. As projects mature, new technologies, tools, datasets and protocols will become available for wider use. Findings will become more actionable, and recommendations may be relevant across the health delivery network. The mission of the institute will include integrating successful precision health and medicine practices into the healthcare system.

While the Legislature has determined precision medicine enough of a priority to fund it over the last four years, this proposal raises several questions. First, staff notes that establishing a non-profit entity may not be the best approach for funding this type of research, as doing so would remove funding decisions from the annual appropriations process. Second, it is unclear whether $30 million is the appropriate level of funding. Lastly, given the potentially significant investment of General Fund dollars, a more robust level of reporting than proposed in the trailer bill is appropriate.

Questions:

- What kinds of flexibility does the non-profit approach give the Institute that using the annual budget process does not?
- What kind of outcomes is OPR targeting with this shift?

Staff Recommendation:
Hold open.

Issue 2: OPR Housing Package Response

Governor's Proposal: The budget requests $333,000 in reimbursement authority and 2.0 positions in 2018-19 and 2019-20 to provide technical assistance as required by SB 2 (Atkins), Chapter 364, Statutes of 2017, and to create a technical advisory on recent statutory changes that affect the California Environmental Quality Act (CEQA).

Background: SB 2 created a $75 fee on the recording of every real estate instrument, paper, or notice. Fifty percent of the funds collected between January 1, 2018 and December 31, 2018, will be made available for local governments to update planning documents and zoning ordinances in order to streamline housing production. Five percent of those funds are available to the Department of Housing and Community Development (HCD) and OPR to provide technical assistance to local jurisdictions updating specified planning documents.

Public Resources Code section 21083 requires OPR to prepare and develop proposed guidelines for CEQA implementation, and OPR is responsible for drafting technical advisories on new CEQA legislation. SB 35 (Wiener), Chapter 366, Statutes of 2017; AB 73 (Chiu), Chapter 371, Statutes of 2017; and SB 540 (Roth), Chapter 369, Statutes of 2017, all provide CEQA streamlining benefits for housing projects. Specifically, SB 35 authorizes a streamlined, ministerial approval process for multifamily housing developments in localities that have failed to meet their regional housing needs assessment numbers. AB 73 provides local governments with the option of creating "housing sustainability districts" via a zoning ordinance. The ordinance must be analyzed in an environmental impact report and future housing development in the district meeting specified criteria is exempt from CEQA requirements. SB 540 permits a local government to establish a "workforce housing opportunity zone" by preparing a master plan and accompanying environmental impact report. The purpose of all three bills is to expedite housing projects by providing alternatives to project-specific environmental review.

Staff Comments: Staff finds this request generally reasonable. OPR has a statutorily-designated role in the implementation of the statewide housing package, and the Office has indicated that it is unable to absorb this workload within existing resources. However, it would be premature to approve this request at this juncture, given the ongoing discussions about the implementation of the first year of the housing package.

Questions:

- What factors in program implementation could result in more or less work for OPR in implementing the housing package?

Staff Recommendation:
Hold open.

Issue 3: California Complete Count – Census 2020

Governor's Proposal: The budget requests $40.3 million (General Fund) and 22.0 limited-term positions to staff the California Complete Count effort to complement U.S. Census outreach, focusing on hard-to-count populations. This funding will be appropriated in 2018-19 and available for the duration of a three year effort crossing over fiscal years 2018-19, 2019-20, and 2020-21.

Background: Only once each decade, the U.S. Census Bureau attempts to count every resident in the United States. The next enumeration will be April 1, 2020, and will be the first to rely heavily on online responses. The primary and perpetual problem facing the Census Bureau is the undercount of certain population groups. Foreign-born residents, especially undocumented, non-white residents, children under five years old, especially those younger than one year old, and renters comprise the most undercounted populations. California has more residents in each of these categories than any other state.

California invested $24.7 million in outreach efforts for the 2000 Census and increased the Mail Participation Rate to 76 percent. California gained an additional Congressional seat as a result. California invested only $2 million in outreach efforts for the 2010 Census. As a result, the Mail Participation Rate declined to 73 percent. The Complete Count Committee raised roughly $10 million in private funding to augment its efforts for the 2010 Census. California's Congressional apportionment did not change as a result.

The 2010 Census cost the Federal government over $12 billion over the life cycle of the enumeration (which includes the preparation for and aftermath of the count). The Census Bureau estimated that completing the 2020 Census in a similar manner as 2010 would cost over $17 billion. To keep costs closer to the costs of the 2010 Census, the Census Bureau is making a number of significant changes to count operations, including moving to a primarily online response system; relying on local government data for address lists, rather than manually updating the lists; and reducing the follow-up field visits to increase response rates by up to 50 percent. The Census Bureau also canceled the 2017 field test of the online response system and reduced the end-to-end "field test" of the census system from three locations to one.

Moving to a primarily internet-based census is a significant change from prior practice. Only a portion of households will receive a paper census; the rest will receive instructions by mail for how to respond online (or by phone). Concerns have been raised about individuals' willingness to respond via the internet given concerns about information security. These concerns—in combination with the potential for a question about citizenship—raise the possibility of an undercount in California in 2020.

The 2017-18 Budget Act provided up to $10 million for initial census preparation activities. Of that amount, $7 million was provided for grants to local governments for participating in the Census Bureau's Local Update of Census Address (LUCA) program. (As noted previously, the Census Bureau is relying heavily on administrative data to update its national address list.) The Department of Finance also received authority to spend up to $3 million on initial outreach activities for the 2020 Census. These funds are being used to support initial activities of the Complete Count Committee.

Staff Comments: The Administration has indicated that the funding proposed for 2018-19 would support the activities of the committee through the 2020 Census. Almost three-quarters of the funds would be dedicated to a media campaign ($17 million) and working with local community based organizations ($12.5 million). Community organizations would conduct most of the direct outreach to individuals to encourage them to complete the census.

The decennial census is one of the main factors that underlie how hundreds of billions of dollars of federal assistance are distributed. For instance, the census count is used to determine states' Federal Medical Assistance Percentage (FMAP) for Medicaid, known in California as Medi-Cal, which is based on per-capita income. A lower per-capita income can result in a higher FMAP and more federal funds per Medi-Cal participant. The census is used to determine each state's per-capita income. This year, California expects to receive over $60 billion in federal assistance for the Medi-Cal program. Other major federal assistance programs that use census data include highway funding, Section 8 housing vouchers, and special education grants.

Staff notes that this proposal would bring total state funding for census-related activities to $50 million between 2017-18 and 2019-20. Due to the significant changes to the census, providing state funding to target hard-to-count populations is reasonable. However, the specific mix of spending categories is a source of concern. The 2020 Census will be taking place in a presidential election year when advertising can be particularly expensive. Census day, however, will occur after the California primaries (which move to March in 2020). Consequently, media costs may not be as high in the weeks leading up to the census as they will be earlier in the year. Given the large amount of funding set aside for community-based organizations, it is important to determine which organizations are involved and to ensure that they have the requisite resources and capabilities to perform adequate outreach.

LAO Comments: California is the first state to set aside funds for census outreach. Given the major changes to the upcoming census—and the potential impacts to state funding—preparing for a significant outreach campaign can be in the state's fiscal interest.

Questions:

- Where are the pain points and the major risk factors? What factors could lead to a low response rate in California? How does OPR plan to address them?
- What are the key activities in the California Complete Count effort? Which activities will give us the most "bang for our buck?"

Staff Recommendation:
Hold open.