Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Sydney Kamlager, Chair
Senator Anna Caballero
Senator Jim Nielsen
Senator Richard D. Roth

Wednesday, May 11, 2022
9am
O Street Building - Room 1200

Consultant: James Hacker

PART B

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ITEMS FOR VOTE ONLY

0650 GOVERNOR'S OFFICE OF PLANNING AND RESEARCH

Issue 1: California Climate Action Corps State Service Program

Request. The Administration requests $3.86 million General Fund in 2024-25 and ongoing to support statewide cohorts of fellows dedicated to addressing climate change through direct service and community outreach in local communities across California.

California Volunteers requests funding for the Climate Action Corps program in 2024-25 in this budget cycle so that it can demonstrate the state's funding commitment to this program when it applies for continued federal AmeriCorps funding in spring 2023. As this request is for out year funding, it has no impact on the 2022-23 budget. While ongoing funding for the Climate Action Corps program likely would strengthen their AmeriCorps application, ongoing funding seems premature. While the Legislature supports the efforts of California Volunteers to enhance its AmeriCorps application for this program with a firm funding commitment, another round of temporary funding would allow the Legislature to review the effectiveness of the Climate Action Corps program in several years, when more information is available.

This proposal was heard in Subcommittee 4 on April 28.

Staff Recommendation. Approve the requested resources through 2025-26.

1700 DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING

Issue 2: Enforcement Investigation and Conciliation Enhancements

Request. The budget includes $1.4 million General Fund in 2022-23, 2023-24, and 2024-25 to decrease the wait time between complaint intakes and investigative appointments, and to increase the number of complaints successfully conciliated and settled by investigators.

DFEH's service level goal is to decrease the wait time for both the Employment and Housing Units to 1-month to fulfill its mission. Based on current workload estimates, the requested positions may be adequate to reach this goal. However, the high vacancy rate is a concern, and may create issues with reaching the target wait time if the department is unable to fill existing vacancies. While this is not a reason to deny the requested positions, it highlights an area in which the Legislature may want to provide closer oversight.

This proposal was heard in Subcommittee 4 on April 28.

Staff Recommendation. Approve as budgeted.

2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Issue 3: Codes Field Operations Staffing Increase

Request. The budget includes an augmentation of $393,000 in state operations from the Mobilehome-Special Occupancy Park Revolving Fund (Fund 0245) to support 3.0 positions in 2022-23 and ongoing.

Codes is currently budgeted for 48 full-time positions statewide. This has not increased since 2015-16. These 48 field inspectors are responsible for monitoring the health and safety of approximately 6,251 mobilehome parks, special occupancy parks, and 399,518 park lots throughout California. Additionally, a 2019-20 audit by the California State Auditor noted that HCD has no record of entering and inspecting 10 percent of mobilehome parks within the last decade. The Administration has indicated that additional staff will help address this.

This proposal was first heard in subcommittee 4 on February 16.

Staff Recommendation. Approve as budgeted.

Issue 4: Consolidated Housing Accountability Application Procurement Project

Request. The budget includes $6,713,000 in state operations from the General Fund in 2022-23 to improve its monitoring and management of loans and grants business programs through the procurement and implementation of a new enterprise Information Technology (IT) solution.

A 2018 audit by the State Auditor states that despite concerns raised in prior audits, HCD has not fulfilled its obligation to monitor its recipients' use of housing bond funds. Audit report also stated that, even though HCD had implemented the Consolidated Automated Program Enterprise System (CAPES) database, CAPES does not have the necessary functionality to accurately monitor HCD's housing bond programs. Due to the limitations inherent in the legacy systems, staff have developed and use manual data collection workarounds such as Microsoft (MS) Excel spreadsheets and MS Word documents, often maintained in desktop environment or shared files with limited access. In effect, the Department has several decentralized shadow databases, which lack a database audit trail, create multiple conflicting versions of program data, and lack necessary controls to prevent common data-keying errors from being introduced to the systems.

The requested funding would allow HCD to procure software to address these issues. While the requested funding is reasonable and necessary, it does not include potential out year costs. The Legislature may want to ensure that it provides oversight of this and other planned IT projects.

This proposal was first heard in Subcommittee 4 on February 16.

Staff Recommendation. Approve as budgeted.

Issue 5: Workload Resources (Various Legislation)

Request. The budget includes a General Fund augmentation of $2,269,000 for 11.8 positions in 2022-23, $1,969,000 for 11.8 positions in 2023-24, and $1,678,000 for 10.3 positions in 2024-25 and ongoing, to implement and support various legislation. Additionally, HCD requests a Federal Trust Fund authority increase of $1,800,000 for 7.0 positions in 2022-23, and $1,187,000 ongoing for 7.0 positions to support and implement Chapter 396 Statutes of 2021 (AB 816).

Specifically, the budget includes funding for the following legislation:

- $186,000 in General Fund resources for 1.0 position in 2022-23 and ongoing for Chapter 341, Statutes of 2021 (AB 68), which requires the Statewide Housing Plan to include an estimate of the number of affordable units needed to meet the State's housing needs.
- $75,000 in General Fund resources for 0.3 attorney positions in 2022-23 and ongoing to implement Chapter 342, Statutes of 2021 (AB 215), which adds, among other things, five new areas of state housing law to HCD's existing accountability and enforcement authority under AB 72.
- $680,000 in General Fund resources for two positions, and a $300,000 consulting contract in 2022-23, $380,000 for two positions in 2023-24, and $190,000 for a one position in 2024-25 and ongoing to implement the provisions of Chapter 347, Statutes of 2021 (AB 602), which requires local jurisdictions to conduct a nexus study with prescribed standards before implementing any fee that impacts development.
- $186,000 in General Fund resources for one position in 2022-23 and ongoing to implement Chapter 350, Statues of 2021 (AB 787), which allows cities and counties to receive credit towards their regional housing need for the conversion of above moderate-income units to moderate-income units through reporting these conversions on the APR that is submitted to HCD each year.
- A Federal Trust Fund authority increase of $1,800,000 in 2022-23 and $1,187,000 ongoing for 7.0 positions to implement increased federal funding for the National Housing Trust Fund (NHTF) program.
- $101,000 in General Fund resources for 0.5 two-year limited term positions in 2022-23 and 2023-24 to research, develop, and implement new homeownership funding policy in the Affordable Housing and Sustainable Communities (AHSC) program per Chapter 355, Statutes of 2021 (AB 1095), which clarifies that the AHSC program can grant awards to

projects that create owner-occupied housing and authorizes the program to include criteria in its guidelines for projects that provide owner-occupied housing.

- $186,000 in General Fund resources for one position in 2022-23 and ongoing to implement Chapter 382, Statutes of 2021 (SB 63), which requires HCD, in coordination with the State Fire Marshal, to propose wildfire resilient building standards to be adopted by the California Building Standards Commission's (BSC) triannual code cycle.
- $70,000 in General Fund resources for 0.5 positions in 2022-23 and ongoing to implement Chapter 363, Statutes of 2021 (SB 478), which increases HCD's enforcement authority to prohibit a local agency from imposing specified standards to housing development projects consisting of three to 10 residential units.
- $89,000 in General Fund resources for 0.5 positions in 2022-23 and ongoing to respond to requests for technical assistance, enforce accountability, and update guidance documents related to State Density Bonus Law (SDBL) per Chapter 365, Statues of 2021 (SB 728).
- $695,000 in General Fund resources for 5.0 administrative positions in 2022-23 and ongoing to support ongoing business needs due to the passage of various enacted bills.

HCD has been the subject of numerous enacted bills in recent year, many of which have increased the department's workload. The requested positions are reasonable and necessary to implement the enacted legislation.

Staff Recommendation: Approve as Budgeted.

Issue 6: Workload Resources (Various Legislation)

Request. The budget includes $1,570,000 in state operations from the (General Fund) for 25 positions in 2022-23, and ongoing to support the Governor's priority of our various housing and homelessness programs. Specifically, the request includes:

1. Accounting Branch - 2.0 positions - To address the increasing workload in the general ledger and accounts payable units and support ongoing financial compliance with federal and state guidelines.
2. Business and Contract Services Branch (Contract Services) - 3.0 positions - To support HCD's ongoing purchasing, and service and local assistance contracting needs in relation to programmatic expansion and growth.
3. Financial Management Branch (FMB) - 6.0 positions – To effectively centralize financial management of HCD's loan portfolio, forecasting, and ongoing reconciliation of programmatic financial data to align with reporting to the federal government and the accounting book of record (FI$Cal).
4. Human Resources Branch (HRB) - 2.0 positions - To support HCD's ongoing human capital business needs due to programmatic expansion and growth.

5. Information Technology Branch (ITB) – 9.0 positions – To support the expansion and growth of HCD's programs through the development of technological support and solutions, the maintenance of IT infrastructures, and addressing security concerns while mitigating against the risk of cyber security threats.
6. Internal Audits - 2.0 positions - To provide independent review and analysis of HCD's state, bond, and federal funds to ensure fiscal and programmatic compliance.
7. Organizational Development (OD) - 1.0 position – To support HCD's expansion and growth by developing its capacity for change and reinforce strategies to achieve operational efficiencies and promote transparency.

HCD's program budgets have grown considerably in the last several years. The requested positions would increase HCD's administrative and support staffing to allow the department to better implement the workload for which it has been budgeted.

Staff Recommendation: Approve as Budgeted.

Issue 7: California Surplus Land Unit

Request. The budget includes $2,358,000 (General Fund) and 12 positions in 2022-23 and ongoing to establish the California Surplus Land Unit pursuant implement SB 791 (Chapter 366, Statutes of 2021), to facilitate agreements between local agencies and developers on surplus properties, collect and compile data on housing production on local surplus land, collaborate with state housing finance agencies, provide technical assistance, consultative and technical service to developers and local agencies, and prepare an annual report of its activities.

SB 791 creates the Unit within HCD upon appropriation of funds to establish the Unit. The primary purpose of the Unit will be to facilitate the development and construction of residential housing on land declared surplus under the SLA and land disposed of by the governing boards of local school districts. The requested funds are reasonable and necessary to implement the provisions of SB 791.

Staff Recommendation: Approve as Budgeted.

ITEMS FOR DISCUSSION

0515 BUSINESS, CONSUMER SERVICES, AND HOUSING AGENCY
0950 STATE TREASURER'S OFFICE
2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Issue 8: Housing and Homelessness Proposals

Governor's Budget. The Budget proposes $2 billion in General Fund resources over two years to accelerate the development of affordable housing. This includes:

- $500 million one-time General Fund ($225 million in 2022-23, and $275 million in 2023-24) for the Infill Infrastructure Grant program.
- $300 million one-time General Fund ($75 million in 2022-23, and $225 million in 2023-24) for the Affordable Housing and Sustainable Communities program.
- $100 million one-time General Fund ($25 million in 2022-23, and $75 million in 2023-24) to expand affordable housing development and adaptive reuse opportunities on state excess land sites.
- $100 million one-time General Fund ($50 million in 2022-23, and $50 million in 2023-24) for adaptive reuse incentive grants.
- $500 million in additional Low Income Housing Tax Credits
- $200 million one-time General Fund ($50 million in 2022-23, and $150 million in 2023-24) for the California Housing Finance Agency Mixed Income Program.
- $200 million one-time General Fund ($50 million in 2022-23, and $150 million in 2023-24) for the Portfolio Reinvestment Program.
- $100 million one-time General Fund ($25 million in 2022-23, and $75 million in 2023-24) for HCD's Mobilehome Park Rehabilitation and Resident Ownership Program.

The Administration has also proposed $500 million for the Encampment Resolution Grant program, which was initially funded with $50 million in the 2021-22 budget. The 2022 budget also includes baseline funding of $1 billion for the Homeless Housing, Assistance, and Prevention Program (HHAPP) and $1.3 billion for Project Homekey. This funding was agreed to as part of a two-year homelessness package in the 2021-22 budget.

Background. The 2021-22 budget included nearly $5 billion for a variety of housing programs. These investments are summarized below (dollars in millions).

Housing Program	2021-22
Affordable Housing Backlog	$ 1,750.0
Affordable Housing Preservation	$ 300.0
Foreclosure Intervention Housing Program	$ 500.0
Farmworker Housing	$ 130.0
Regional Early Action Program of 2021	$ 600.0
LIHTC	$ 500.0
Infill Infrastructure Grant Program - ARPA Allocation	$ 250.0
Infill Infrastructure Grant Program - Prop 1 Funding	$ 284.0
ADU Financing	$ 81.0
1st-Time Homebuyer Downpayment Assistance	$ 100.0
Housing Total	**$ 4,495.0**

The Administration's proposed budget would continue the state's recent track record of investing significantly in affordable housing. Specifically, the proposed two-year housing package consists of a mix of existing and new programs.

Additionally, the 2021-22 budget included a two-year package of investments in combating homelessness. This included $1 billion per year for two years for HHAPP and $2.7 billion over two years for Project Homekey. The 2022 baseline budget includes $1 billion for HHAPP and $1.3 billion for Project Homekey.

Staff Comments. As discussed in Subcommittee 4 on February 16th, the proposed budget for housing and homelessness includes $2 billion over two years for a variety of new and existing programs. The Administration's proposal includes funding for the preservation of existing affordable housing, the development of additional affordable housing in a way that reduces greenhouse gas emissions, expanding adaptive reuse of existing properties, and reforming the way the state supports and regulates mobile homes.

The Administration's proposals are broadly reasonable, and will likely help in the production of new affordable housing. However, the proposed budget raises several issues. Specifically:

- As currently structured, the package focuses heavily on the production and preservation of affordable multifamily housing. While this is a laudable area of investment, it neglects investments in boosting affordable homeownership opportunities. Such investments could help address the state's housing affordability crisis while helping lower and middle-income families build wealth.

- The focus on affordable multifamily housing is reasonable, but it does not extend important investments made in the 2021 budget. Specifically, the Housing Accelerator program was created to replace financing typically provided by low-income housing tax credits and public activity bonds, which have a significant backlog. Absent additional funding for the Housing Accelerator program, new multifamily housing projects will most likely simply sit in the backlog until they are able to acquire tax credits and private activity bonds, reducing the number of units that will be built in the near term.

- Most significantly, the state's improving fiscal condition suggests that the state could increase its investment in affordable housing, increasing the proposed funding while also allocating funding to purposes not included in the administration's proposal, such as homeownership.

Additionally, the baseline budget provides significant funding for homelessness. However, the state's fiscal position allows the state to make additional investments in combating this critical issue. Additional funding could allow the state to expand the over-subscribed Project Homekey, and increase the amount of funding provided to local governments for local efforts to combat homelessness, while also funding the Administration's encampment resolution grant program.

To this end, the Senate majority has proposed significant additional funding for affordable housing and homelessness. This package of additional funding includes:

- $500 million for the Multifamily Housing Program.
- $500 million for the Housing Accelerator Program.
- $100 million for the Joe Serna Farmworker Housing Program.
- $350 million for the CalHOME Program.
- $200 million for the Downpayment Assistance Program.
- $50 million for ADU Financing Assistance, to help spur increase in housing supply through ADUs.
- $1 billion for the California Dream For All Program, a new revolving fund program for first time homebuyers to partner with the state and purchase homes with low to no downpayment and 20% reduced cost. This proposal will be discussed in detail in a later item.

Additionally, the proposal includes significant additional funding for homelessness. This includes $3 billion, over three years, to build on last year's two-year investment with:

- Additional funding for Project Homekey.
- Funding for Encampment Resolution Funding Program.
- Increased funding for HHAPP, to continue the state's support of efforts in cities, counties, and Continuums of Care to reduce and eliminate homelessness.

These proposed investments will allow the state to use its robust fiscal position to expand and continue its investments in addressing two of the most pressing issues facing the state - housing affordability and homelessness.

Staff Recommendation: Hold Open.

0950 STATE TREASURER'S OFFICE

Issue 9: California Dream for All First Time Homebuyer's Program

Background. The wealth gap – particularly among racial minorities – is a growing problem throughout the country and here in California. Generation after generation, those with wealth have gotten wealthier, and those without have fallen further behind. As has been the case so often throughout the nation's history, this has been made worse by racial barriers, such as redlining, constructed to hold communities back.

Thriving in the middle class and building generational wealth – the California dream – starts with homeownership. But with rising housing costs, this has become further and further out of reach for too many families.

Housing prices in California have risen dramatically in all parts of the state in the past decade, with annual price increases of 8-10%. Households who do not have large down payments, to offset the higher prices, are increasingly locked out of homeownership. This disproportionately prevents first time, and first-generation homebuyers, as well as households of color from becoming homeowners.

The 2021 budget included $3 million one-time General Fund for the State Treasurer to investigate and plan a state-funded first-time homebuyer's program. AB 140 (Committee on Budget), Chapter 111, Statutes of 2021, directed the State Treasurer's Office, in consultation with other relevant stakeholders, to develop and present to the Legislature a state-funded California Dream for All First Time Homebuyer's Program, with the goal of assisting low- and middle-income Californians achieve homeownership. The State Treasurer's office subsequently contracted with CAForward for the study, who assembled a team of experts to complete the report. This report was to be completed by April 2022, with funding for the program considered as part of the 2022 budget.

Report Findings. There were 555,858 home sales in California in 2021. Of these, 35.5 percent were purchased by first time homebuyers. The average price paid by a first-time home buyer in California was $712,040 in 2021; the median home price for first time homebuyers was $590,000. These home prices are out of reach for most Californians. Statewide, only 26 percent of households can afford to purchase a median-priced home. The issue is particularly acute for minority homebuyers, with only 17 percent of Latino and black households able to afford the median priced first-time home.

The report funded by the 2021 budget was intended to inform the development of a program that provides down payment assistance and lower monthly mortgage payments to address the affordability crisis by meaningfully expand access to homeownership in California. The program is intended to eventually:

1. Provide large down payment assistance and lower monthly mortgage payments to meaningfully expand access to homeownership.
2. Support wealth accumulation for households that purchase a home.

3. Maximize the number of households assisted over time with the public funding available.
4. Ensure efficient use of state resources.

The report noted that there are several options for first time homebuyers to finance a home but they are currently small scale, which still leaves homeownership out of reach for many homebuyers. These include forgivable downpayment assistance, fixed rate downpayment assistance, and shared appreciation models, in which homebuyers are offered loans with no monthly payment and due at exit based on a percentage share of home price appreciation / depreciation.

A brief outline of the California Dream for All program presented in the report is as follows:

- $1 billion in state funds per year for 10 years to establish a revolving shared appreciation first time homebuyer program.
    - Funds could come from the General Fund, internal borrowing from state resources, or revenue bonds.
    - This level of funding would support over approximately 8,000 first time homebuyers per year - enough to benefit a significant number of homebuyers, but not so much that it would skew home prices further up.
- The program would typically provide the homebuyer with 17% toward the purchase prices, or roughly $100,000 toward the median priced home for first-time buyers of $590,000.
    - This benefits homebuyers in one of two ways:
        - Saves $100,000 of what would be needed to provide a 20 percent down payment (something that is generally out of reach for most first-time homebuyers); or
        - Reduces monthly mortgage payments by about 1/3 since the homebuyer would have a smaller loan and no costly mortgage insurance if the homebuyer purchases the home through a 3% FHA loan (a more typical way first time homebuyers purchase homes). This would likely save the homebuyer over $1,000 per month and over $12,000 per year.
        - Protects homebuyers if prices go down by having the state program share in the depreciation.
- Homebuyers would receive extensive mortgage counseling to ensure participating in this program is the best financial decision for them.
- Once the homebuyer sells, transfers, or refinances the home to take cash out, the state would be reimbursed for the 17% share of the increase in value of the home value.
- The received funds would then be used to help new first-time homebuyers purchase a home and begin developing wealth.
- By using shared appreciation, the state should receive back enough to help the next generation of homebuyers purchase a home, even as prices continue to rise.

The "Putting Wealth to Work" Budget plan released by the Senate majority at the end of April included $1 billion from the General Fund for the California Dream for All program for 2022-23, along with ongoing funding for program administration costs. The budget plan envisioned internal borrowing in future years to provide the $1 billion per year for the full 10-year period. After that time, the revolving nature of the program will enable the program to continue without additional state resources – other than annual administration costs.

Staff Comments. California is facing a severe housing affordability crisis which is hampering the ability of Californians to find homes to live in and limiting wealth-building opportunities. Historically, the first step to reaching the California dream of thriving in the middle class and building family wealth starts with homeownership. But taking that first step is even more challenging as the cost of California homes has grown higher and higher. This is reflected in declining levels of homeownership, which are currently at the lowest level since the 1940s.

A program such as the California Dream for All Program could help address both these issues, by making it easier for lower and middle-income Californians to purchase their first home and begin the process of building wealth. Accomplishing both of these goals will require the state to develop and implement a program that can provide the kinds of financial assistance described above, and to devote sufficient financial resources to the effort.

Staff Recommendation: Hold Open and direct staff to continue to work with the Assembly and the Administration on refining the California Dream For All program to be included in the final Budget Act of 2022.

2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Issue 10: Division of State Financial Assistance Budget Adjustments

Governor's Budget. The Governor's budget proposes to reappropriate $22 million from the Greenhouse Gas Reduction Fund to help meet the State's goals on building affordable and sustainable housing.

Background. The AHSC program created in 2014 provides funding for land-use, housing, transportation, and land preservation projects to support infill and compact development that reduces greenhouse gas (GHG) emissions through the reduction of vehicle miles traveled and land conversion, minimizing GHG emissions by protecting land from further development. Funding for the AHSC program is provided from the Greenhouse Gas Reduction Fund (GGRF), established to receive cap-and-trade auction proceeds. HCD implements the AHSC under policy direction from the Strategic Growth Council (SGC). Funds are appropriated to SGC, and subsequently assigned to HCD to administer the program. Only the first year of AHSC funds were appropriated through the budget in 2014. Beginning with the 2015-16 fiscal year, SB 862 continuously appropriates twenty percent of cap-and-trade auction proceeds to the Strategic Growth Council AHSC program. HCD has administered over $1.6 billion under the continuous appropriation. In recent years, the annual awards for the program have exceeded $400 million. HCD has awarded five rounds of funding, with the sixth round of awards scheduled for the first quarter of 2022.

Staff Comments. The 2014 Budget Act appropriated $129,201,000 for first year loans and grants, as well as support funding, with an encumbrance and liquidation deadline of June 30, 2017. The liquidation date has been extended until June 30, 2022 through the 2018 Budget Act (Ch. 29, Statutes of 2018). For Round 1, the SGC approved $122,000,000 and 30 projects funded by the 2014 Budget Act appropriation. The uncommitted balance of the 2014 appropriation is $16,577,952 due to cancelled projects and savings in the support budget. To ensure continued availability of these funds for housing, HCD requests an extension of the encumbering period in order to award these funds to new projects. In addition, HCD needs an extension of the liquidation period to ensure that eight projects that are nearing completion will be able to fully disburse since current schedules of the projects indicate they will be disbursing during the six months prior to the liquidation date of June 30, 2022, estimated at about $6 million.

Staff notes that the extension of liquidation deadline extension from 6/30/22 to 6/30/24, according to HCD is for four projects. Those projects include the following:

- 14-AHSC-10474 Broadway Family Apartments
- 14-AHSC-10475 Broadway Family Apartments
- 14-AHSC-10463 Anchor Village
- 14-AHSC-10469 Civic Center 14

Reappropriating the remaining balance of the 2014 appropriation will allow HCD to complete the work for which those funds were originally encumbered, while extending the encumbrance date will allow grantees to complete projects that are currently in-progress.

Staff Recommendation: Approve as budgeted for the continuous appropriation and approve the extension of liquidation for the four projects outlined above.

Issue 11: 2018 Community Development Block Grant Mitigation Program

Governor's Budget. The budget includes $56,056,000 (Federal Trust Fund) and four positions in 2022-23, and $885,000 in 2023-24, and ongoing to manage and oversee the distribution of Community Development Block Grant - Mitigation program (CDBG-MIT). This federal funding was allocated to California to increase resilience to disasters and reduce or eliminate the long-term risk of loss of life, injury, damage to and loss of property, and suffering and hardship from the 2017 and 2018 wildfires.

Background. The Community Development Block Grant - Mitigation (CDBG-MIT) provides resources to impacted communities that experience a federally declared disaster. HCD is the responsible agency for administering both the Community Development Block Grant - Disaster Recovery (CDBG-DR) and CDBG-MIT funds allocated to the state. Funding under the CDBG-DR program provides resources to disaster impacted areas related to housing, infrastructure, economy, and agricultural needs. The CDBG-MIT program takes the next step to fund mitigation efforts to prevent further impact from a disaster or prevent future disasters from occurring in that area.

The 2020 Budget Act included an original CDBG-MIT allocation totaling $88 million. On August 31, 2021, HUD entered into a new CDBG-MIT grant agreement with the state, augmenting that original allocation with an additional $64.9 million. HUD released a Federal Register Notice (FRN) on Wednesday, January 6, 2021 outlining requirements for this new allocation. The purpose of these funds is for mitigation activities that increase resilience to disasters and reduce or eliminate the long-term risk of loss of life, injury, damage to and loss of property, and suffering and hardship by lessening the impact of future disasters.

Staff Comments. HCD must expend 50 percent by September 23, 2027, and expend 100 percent by September 23, 2033. This federal grant has no payment requirements, if implemented within FRN requirements. The state in turn grants those funds to entities in the impacted areas eligible for that funding. Below is an outline of the $64.9 million CDBG-MIT grant:

- $55,172,000 in 2022-23 for Local Assistance
- $165,000 in 2022-23 and ongoing for Consulting Contracts
- $720,000 in 2022-23 and ongoing for 4 Positions

Since 2020, HCD has initiated the implementation of CDBG-MIT, which is a brand-new program for HUD and for California. As such, HCD made initial assumptions that mitigation projects were essentially infrastructure projects. HCD planned to absorb the workload of the implementation of these funds within its existing disaster recovery infrastructure work. This action also assumed that local jurisdictions had planned for and were ready to implement mitigation projects awaiting HCD funds. However, as HCD collected information from local jurisdictions' priority projects, it became evident that many lacked either the capacity to develop mitigation projects or lacked understanding of the mitigation needs of vulnerable populations and disadvantaged communities in their jurisdiction. With this new information, HCD substantially reconfigured the two mitigation programs to better address community needs and address equity, causing delays in awards. The necessary reconfiguration of both CDBG-MIT programs made it impossible to fully absorb mitigation funds into the CDBG-DR infrastructure program. To date, HCD is unable to commit any of the mitigation funds to programs or projects due to a lack of HCD staff to provide support for program design and implementation. Some higher capacity jurisdictions have been able to move forward in developing projects and executing contracts to begin construction; however, HCD's lack of staffing for the CDBG-MIT program has resulted in delays for getting funding into smaller jurisdictions and communities that lack capacity to do so. In November 2021, HCD had to delay issuance of NOFA to March or April of 2022 due to lack of staffing. Without additional staffing, HCD will not be able to implement the program, which impacts smaller jurisdictions.

Staff Recommendation: Approve as Budgeted.

Issue 12: HOME Investment Partnership Program – American Rescue Plan

Governor's Budget. $157,886,000 (Federal Trust Fund) and 15 positions in 2022-23 and $2,883,000 in 2023- 24 and ongoing to plan, develop, and administer the new federally funded HOME Investment Partnerships (HOME) - American Rescue Plan (ARP) Program. HCD also requests statutory language to authorize HCD to utilize a guideline process for the HOME program and the Emergency Solutions Grant program implementation.

Background. The ARP Act, passed as House of Representatives (H.R.)1319 — 117th Congress (2021- 2022), provides $5 billion to assist individuals or households who are homeless, at risk of homelessness, and other vulnerable populations, by providing housing, rental assistance, supportive services, and non-congregate shelter, to reduce homelessness and increase housing stability across the country. These grant funds will be administered through the Federal Department of Housing and Urban Development (HUD)'s HOME program.

On September 24, 2021, HCD entered a grant agreement with HUD to receive $155,003,000 in federal HOME-ARP funding. The grant agreement requires HCD to expend all HOME-ARP funds by September 30, 2030. HOME-ARP funds can be used for five eligible activities:

- Production or preservation of affordable housing.
- Tenant-Based Rental Assistance (TBRA).
- Supportive services, homeless prevention services, and housing counseling.
- Purchase and development of non-congregate shelters.
- Non-profit operating and capacity building assistance.

The Emergency Solutions Grants (ESG) program provides grant funding to (1) engage homeless individuals and families living on the street, (2) rapidly re-house homeless individuals and families, (3) help operate and provide essential services in emergency shelters for homeless individuals and families, and (4) prevent individuals and families from becoming homeless.

Staff Comments. HUD has consulted directly with HCD in the federal government's efforts to model the HOME-ARP program after California's Homekey program. As the federal government has rolled out HOME-ARP, California has been featured in outreach and presentations to share best practices of the Homekey program with HOME-ARP grant administrators. As such, the department should be well-suited to implement the new federal funding.

The requested trailer bill language would exempt both the HOME-ARP program and the ESG program from the Administrative Procedures Act, as well as making other minor administrative changes. The Administrative Procedures Act allows the public to participate in the adoption of state regulations in order to ensure that regulations are clear, necessary and legally valid. HCD has indicated that the time required to go through the APA process is inconsistent with the requirements of the HOME-ARP program, and that many other HCD programs have received exemptions. However, it is unclear if one-off exemptions are an appropriate approach, or if a larger approach to HCD's program administration and public processes is necessary.

Staff Recommendation. Hold open.