SENATE COMMITTEE ON HOUSING
Senator Nancy Skinner, Chair
2023 - 2024 Regular

Bill No:	AB 1789	**Hearing Date:**	6/18/2024
Author:	Quirk-Silva		
Version:	1/4/2024 Introduced		
Urgency:	No	**Fiscal:**	Yes
Consultant:	Erin Riches		

SUBJECT: Department of Housing and Community Development

DIGEST: This bill expands eligibility for the Portfolio Reinvestment Program (PRP) under the state Department of Housing and Community Development (HCD).

ANALYSIS:

Existing law:

1) Establishes the PRP to provide loans or grants to rehabilitate, capitalize operating subsidy or replacement reserves for, and extend the long-term affordability of, HCD-funded housing projects that:

   a) Have an affordability restriction that has expired;
   b) Have an affordability restriction with a remaining term of less than 10 years; or
   c) Are otherwise at-risk for conversion to market-rate housing.

2) Authorizes HCD, if it makes a loan or grant under PRP to a multifamily housing project that already has an existing HCD loan, to approve an extension of the existing loan, the reinstatement of a qualifying unpaid mature loan, the subordination of a loan made by HCD to new indebtedness, or an investment of tax credit equity for purposes of funding necessary rehabilitation and extending the affordability of the project.

3) Authorizes HCD to forgive some or all of the accrued interest on the existing HCD loan if necessary to facilitate the new PRP loan.

4) Authorizes HCD to establish loan processing or transaction fees for loans or grants under PRP in an amount not to exceed the amount necessary to generate sufficient revenue to cover the cost of processing loan transactions. However, HCD may waive fees to the extent necessary for project feasibility.

5) Authorizes HCD to charge a monitoring fee in lieu of the 0.42% annual loan payments required under existing law.

6) Authorizes HCD to capitalize fees at its discretion as necessary to ensure the financial feasibility and long-term affordability of the project.

This bill:

1) Provides that the following housing development projects are eligible for PRP funding:

   a) An HCD-funded project that has an affordability restriction that has expired or has a remaining term of less than 10 years, or is otherwise at-risk for conversion to market rate.
   b) A "challenged development," defined as a housing development project that is at least 15 years old, has insufficient access to private or other public resources to complete substantial rehabilitation, as determined by HCD, and either:

      i) Serves households of very low-income or extremely low-income, with an average maximum household income as restricted by an existing regulatory agreement of up to 45% of area median income (AMI); or
      ii) Is financed under the federal US Department of Agriculture (USDA) Rural Rental Assistance Program.

2) Requires HCD to prioritize projects outlined in (1)(a).

3) Requires HCD to allow PRP-financed developments to layer program funds with other federal, state, and local resources.

COMMENTS:

1) *Author statement*. "The source of California's housing crisis lies in the scarcity of affordable housing, disproportionately affecting low-income families and households. To address this issue, California has developed 500,000 rental homes affordable to low-income families. However, after 15 years or more of occupancy, a considerable number of these developments are in need of significant rehabilitation. Developments with the lowest rents, designed to provide affordable units, are not in a position to leverage debt or tax credits and therefore lack financing options. Without rehabilitation, such challenged developments fall into disrepair, creating health and safety concerns for residents and, ultimately, jeopardizing the loss of precious affordable homes."

2) *Preservation of housing affordability*. Since the 1960s, developers have constructed at least 425,000 units of affordable rental housing in California with the assistance of federal, state, and local subsidies that require owners to maintain rents at affordable levels for specified periods of time. Examples of such subsidy programs include project-based Section 8, Federal Housing (FHA) mortgages, low-income housing tax credits, state housing programs under HCD, and city and county redevelopment funds. The affordability restrictions on assisted units typically last 30 to 55 years, depending on the program. Once affordability obligations expire, owners may preserve the affordability of the units by renewing assistance or by refinancing with new public subsidies, or they may convert the development to market rate. Under some federal programs, owners can also terminate affordability restrictions early by prepaying the underlying mortgage early or opting out of the rental assistance contract.

   The California Housing Partnership annually assesses the loss, and the risk of loss, of affordable rental properties that receive public financing. As of April 2024, between 1997 and 2023, California lost 19,249 affordable homes with project-based rental assistance contracts and/or loans from HUD, CalHFA, and HCD, or LIHTC, due to owner decisions to opt out, sell, or allow their developments to convert to market rate. Another 33,910 affordable rental homes – or 6% of the total current supply – are at risk of conversion in the next 10 years, and 7,350 homes may no longer be affordable as soon as next year. Nearly 60% of these at-risk homes serve seniors and people with disabilities, and Los Angeles, San Francisco, San Diego, and Orange Counties account for more than half more than half of all at-risk units (20,351 units).

   Preserving affordable housing is a key strategy for protecting the state's limited affordable housing stock and preventing displacement of lower income tenants. Such preservation typically occurs when these units are purchased by a government entity or nonprofit that then extends the affordability covenants. CHP estimates the average cost to purchase an affordable housing unit and maintain the affordability is $270,000, about half of the cost to build a new affordable housing unit.

3) *Portfolio Reinvestment Program (PRP)*. The PRP was established in the 2021-22 budget to provide loans and grants to HCD-funded developments that have expired affordability covenants or have a remaining term of 10 years. The program has received a total of $150 million in one-time funding, including $50 million in FY 2022-23 and $100 million in FY 2023-24; no funds currently remain and the Governor's 2024-25 budget does not propose additional funds. However, AB 1657 (Wicks), The Affordable Housing Bond Act of 2024,

includes $1.5 billion for programs to preserve or rehabilitate existing subsidized or unsubsidized rental housing, split among several programs including the PRP. AB 1657 is currently on the suspense file in the Senate Appropriations Committee.

4) *Expanding a non-funded program.* This bill would expand PRP eligibility to include certain "challenged" developments that are at least 15 years old, serve either extremely low-income or low-income residents or have a USDA loan, and for which HCD determines that the development is unable to access private funds. As noted above, the PRP is currently not funded and it is unclear when future funds will be allocated to the program. In addition, this bill requires HCD to prioritize non-challenged projects (e.g., the programs eligible under existing law), meaning that if only limited funding becomes available, challenged projects made eligible under this bill would likely not make the cut. The California Housing Partnership Corporation and the California Housing Consortium, co-sponsors of this bill, state that thousands of units of affordable housing without old HCD loans that also need rehabilitation remain unassisted; although the PRP is not currently funded, this bill would ensure that all challenged projects would be eligible whenever funding becomes available.

RELATED LEGISLATION:

AB 140 (Committee on Budget, Chapter 111, Statutes of 2021) — established the statutory framework for the PRP.

FISCAL EFFECT: Appropriation: No Fiscal Com.: Yes Local: No

POSITIONS: (Communicated to the committee before noon on Wednesday, June 12, 2024.)

SUPPORT

California Housing Consortium (Co-Sponsor)
California Housing Partnership Corporation (Co-Sponsor)
California Apartment Association
East Bay Housing Organizations
Enterprise Community Partners, INC.
Housing California
LeadingAge California
Resources for Community Development

OPPOSITION:

None received

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