
SENATE COMMITTEE ON HOUSING
Senator Scott Wiener, Chair
2021 - 2022 Regular

Bill No: AB 2305 **Hearing Date:** 6/21/2022
Author: Grayson
Version: 5/19/2022 Amended
Urgency: No **Fiscal:** Yes
Consultant: Alison Hughes

SUBJECT: Housing Finance: Coordinated Housing Finance Committee

DIGEST: This bill creates the Coordinated Affordable Housing Finance Committee (Committee) to allocate state controlled funds for affordable housing rental funding through a single process and competition.

ANALYSIS:

Existing law:

- 1) Creates the Multifamily Housing Program (MHP) at the California Housing and Community Development (HCD) Department to assist in the new construction, rehabilitation, and preservation of permanent and transitional rental housing for persons with incomes of up to 60 percent of the area median income (AMI).
- 2) Establishes the Tax Credit Allocation Committee (TCAC) and the California Debt Limit Allocation Committee (CDLAC) under the State Treasurer's Office (STO). TCAC administers the federal and state low-income housing tax credit programs, which promote private investment in housing affordable to low-income Californians. CDLAC sets and allocates California's annual debt ceiling and administers the state's tax-exempt bond program to issue the debt. CDLAC's programs are used to finance affordable housing developments for low-income Californians, build solid waste disposal and waste recycling facilities, and finance industrial development projects.
- 3) Establishes the California Housing Finance Agency (CalHFA), which provides first mortgage loans and down payment assistance to first-time homebuyers, as well as financing and programs for affordable rental housing. CalHFA is a self-supporting state agency; its bonds are repaid by revenues generated through mortgage loans.

This bill:

- 1) Establishes the Committee for the purpose of allocating state-controlled resources for the finance of affordable rental housing through a single process and competition such that an applicant can obtain all necessary state assistance at one time with a single application.
- 2) Provides that the committee members shall include:
 - a) The Director of the Department of Housing and Community Development (HCD) or their designee;
 - b) The Executive Director of the California Housing Finance Agency (CalHFA) or their designee;
 - c) The Executive Director of the California Tax Credit Allocation Committee (TCAC) or their designee;
 - d) The Treasurer or their designee; and
 - e) The Controller or their designee.
- 3) Requires the Committee to select a chair on an annual basis.
- 4) Requires the Committee, by January 1, 2024 to develop a single application for applicants seeking state-controlled resources for the finance of affordable rental housing, threshold requirements, and a rating and ranking system for the allocation of these resources. The committee may establish set-asides for specific project types or projects that serve specific populations.
- 5) Requires the committee to ensure reasonable geographic distribution.
- 6) Defines "state-controlled resources for affordable rental housing" to include federal and state low-income housing tax credits, tax-exempt private activity bonds for qualified residential rental projects, grants, and deferred loans for affordable rental housing offered by the entities.
- 7) Provides that "state-controlled resources for the finance of affordable housing" does not include short-term first lien mortgages or permanent amortizing mortgage programs administered by the CalHFA.

COMMENTS:

- 1) *Author's statement.* According to the author, "California's affordable housing finance system is comprised of four separate entities administering various financial resources to developers who build and rehabilitate affordable housing

for lower-income households. In 2020, the State Auditor found that lack of coordination among these entities has reduced the effectiveness of the state's response to our housing affordability crisis. Developers interviewed for the audit expressed the need for a system that consolidates and coordinates multiple resources into one centralized process. The report concluded that a standard set of requirements, consistent deadlines, and a single application process for multifamily housing programs would not only reduce the likelihood of delays for applicants, but could also increase California's supply of affordable housing. Others have noted these issues. The Little Hoover Commission recently reported on barriers to affordable housing production, finding the current arrangement 'inefficient, resulting in confusion over responsibilities, service gaps, and a disconnect between state goals and policies.' AB 2305 is a response to the overwhelming consensus on the need for reform. It creates a Coordinated Housing Finance Committee that allocates state-controlled resources to finance affordable housing through a single process and competition, allowing an applicant to obtain all necessary state assistance at one time with a single application."

- 2) *Affordable housing crisis.* California's housing market is unaffordable to most income levels but it is particularly acute for lower income households. According to HCD's 2022 Statewide Housing Plan, the state needs approximately 2.5 million units of housing, including 1.2 million units that are affordable to lower income households making less than 80 percent of the area median income. HCD also estimates that the state needs 180,000 new housing units per year to maintain current housing costs. Housing production averaged less than 80,000 new homes annually over the last 10 years. In the current market, 2.2 million extremely low-income and very low-income renter households are competing for 664,000 affordable rental units. Of the six million renter households in the state, 1.7 million are paying more than 50 percent of their income toward rent. Because the private market generally does not produce housing for lower income households, the state has historically provided the capital needed to build affordable housing and the permanent subsidy needed to keep it affordable for at least 55 years. The amount of funding for affordable housing fluctuates from year-to-year and has never been enough to meet demand.
- 3) *Affordable housing financing.* Four different state entities administer affordable housing funding – HCD, CalHFA, TCAC, and CDLAC. HCD's programs are generally funded by voter-approved bonds and more recently state general fund dollars. HCD also acts as a pass-through for some federal funding for non-entitlement jurisdictions in the state. CalHFA's programs are funded by revenue bonds, the general fund, and voter-approved bonds.

Most housing developments apply for 4% or 9% federal low-income housing tax credits administered by the Treasurer's office. In addition, 4% credits must be paired with tax-exempt bonds, administered by CDLAC. TCAC awards state and federal tax credits that are capped by state and federal law. The state statutorily authorizes around \$70 million a year in state tax credits and for the last two years has authorized another \$500 million in state tax credits. The state receives about \$106.7 million in federal tax credits it can allocate to affordable housing developments each year. CDLAC administers the state's allocation of private activity bonds (PABs) that are capped by the federal government and amount to over \$4 billion each year, of which about \$1 billion have been awarded to affordable housing developments so far this year.

According to a March 2020 report by the Turner Center for Housing Innovation at UC Berkeley, most (89%) of projects built with 9% tax credits between 2008-2019 relied on four or more sources of funding, with 80% of projects combining four to eight funding sources. On average, each additional source of funding is associated with an increased cost of \$6,400 per unit. The added costs of having to apply to multiple programs in multiple funding rounds include preparation of additional applications, review and coordination of additional loan documents, and property holding costs due to delays between application cycles.

- 4) *Progress in aligning HCD's Programs.* AB 1121 (Alarco, Chapter 637, Statutes of 1999), consolidated multiple programs at HCD into the Multifamily Housing Program (MHP) and created a standard set of rules applicable to all rental housing programs operated by HCD. Since 1999, the state has created new housing programs including the Affordable Housing and Sustainable Communities Program, the Veterans Housing and Homeless Prevention Program, and the Transit-Oriented Development Program (TOD). These programs all provide funding to construct, rehabilitate, and acquire affordable housing units or fund the infrastructure for their development. AB 434 (Daly, Statutes of 2020, Chapter 192) required HCD to align the six rental housing programs administered by HCD with MHP to allow HCD to issue a single application and scoring system for making coordinated awards under all seven programs. As a result of that bill, HCD recently released the guidelines for the first MHP "Super NOFA" to allow developers to apply for seven different affordable rental programs at one time, beginning in the spring of 2022.

This bill would create a Committee to establish a single application for all multifamily rental-housing programs. This would include federal and state low-income housing tax credits, tax-exempt private activity bonds for qualified

residential rental projects, grants, and deferred loans for affordable rental housing. Homeownership programs, including CalHFA programs would not be part of the committee's purview. This bill does not consolidate the state's affordable rental housing programs under one entity, TCAC, CalHFA, and HCD will continue to administer their programs independently.

- 5) *Action Plan: Identifying concrete steps for better state coordination.* While this bill will not be moving forward today, the committee urges the four state agencies to continue discussing ways to increase interagency coordination and, ultimately, a one-stop-shop application process.
- 6) *Trying again.* This bill is similar to AB 1135 (Grayson, 2021), which would have required the Business, Consumer Services and Housing Agency (BCSH) and state housing entities to jointly establish and operate a single, centralized housing funding allocation committee to administer all state-controlled affordable housing funds, serve as the main point of contact for developers and create a single application for affordable housing funds.
- 7) *Opposition.* State Treasurer Fiona Ma is opposed to this bill, without additional study of the information, accountability, and resources to make meaningful changes to the affordable housing application process. Additionally, she is concerned about the cost of implementation and the fundamental change it requires of the four state agencies to do. She proposes instead that the four agencies work together to create an action plan that provides clear direction and information about how best to implement a one-stop-shop.

RELATED LEGISLATION:

AB 1135 (Grayson, 2021) — would have required the Business, Consumer Services and Housing Agency (BCSH) and state housing entities to jointly establish and operate a single, centralized housing funding allocation committee to administer all state-controlled affordable housing funds, serve as the main point of contact for developers and create a single application for affordable housing funds. *This bill was held in the Assembly Appropriations Committee on the Suspense File.*

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

POSITIONS: (Communicated to the committee before noon on Wednesday, June 15, 2022.)

SUPPORT:

California State Controller Betty Yee (Sponsor)
Little Hoover Commission

OPPOSITION:

California State Treasurer Fiona Ma

-- END --