SENATE COMMITTEE ON HOUSING
Senator Scott Wiener, Chair
2023 - 2024 Regular

Bill No:	AB 578	**Hearing Date:**	7/10/2023
Author:	Berman		
Version:	5/18/2023		
Urgency:	No	**Fiscal:**	Yes
Consultant:	Aiyana Cortez		

SUBJECT: Multifamily Housing Program: No Place Like Home Program

DIGEST: This bill revises the minimum annual loan payment developers must pay to cover the cost of project monitoring for the Multi-family Housing Program (MHP) and the No Place Like Home (NPLH) Program administered by the Department of Housing and Community Development (HCD).

ANALYSIS:

Existing law:

1) Establishes MHP at HCD to assist the new construction, rehabilitation, and preservation of permanent and transitional rental housing for lower-income households through loans to local governments and non- and for-profit developers.

2) Establishes the NPLH Program, administered by HCD, to distribute finance capital costs among counties, including acquisition, design, construction, rehabilitation or preservation and capitalized operating costs of permanent supportive housing for persons who are eligible for services under Proposition 63 and are homeless, chronically homeless, or at risk of chronic homelessness.

3) Requires HCD to charge annual loan payments in the minimum amount necessary to cover the costs of project monitoring.

4) Provides that for MHP and the NPLH program the annual loan payments to cover the cost of project monitoring must not exceed 0.42 percent of the project loan.

This bill:

1) Allows the Department of Housing and Community Development (HCD) to annually charge 0.42% of the total loan for a project or $260 per unit, adjusted for inflation, whichever is less, to cover the cost of project monitoring.

2) Finds and declares that the changes to NPLH are consistent and further the intent of Proposition 2, as approved by the voters at the November 6, 2018 general election.

COMMENTS:

1) *Author's statement*. "AB 578 would unlock over $19 million dollars in private financing for affordable housing by updating the monitoring fee that the Department of Housing and Community Development (HCD) charges affordable housing developers while still ensuring HCD has adequate resources to do its monitoring work. Currently, HCD charges an annual fee in the amount of 0.42% of the awarded loan for monitoring the development. Twenty years ago, the amount of the awarded loans were much smaller because the costs of housing developments were cheaper. While charging 0.42% was appropriate when loans were small, this percentage now could result in a fee up to $147,000 per year for a single affordable housing development. This current mechanism to cover HCD's monitoring costs is antiquated. Despite the fact that the housing landscape and costs to build have drastically changed, this has not been updated in over 23 years. This bill is a reasonable update to the affordable housing monitoring fee that again would unlock $19 million in private financing that could result in more than 300 units of affordable housing being built every year. This is essential and desperately needed to further address California's housing and homelessness crisis."

2) *California's housing crisis*. The need for and costs of housing have consistently outpaced the development of affordable housing for over 30 years. The lack of supply is the primary factor underlying California's housing crunch. The state HCD estimates that California needs to build 180,000 new homes a year to keep up with population growth. HCD noted in its statewide housing plan that California must plan for more than 2.5 million homes over the next eight-year cycle, and no less than one million of those homes must meet the needs of lower-income households.

3) *MHP*. The MHP program is the state's main affordable multi-family rental housing program. The program provides low-interest, long-term loans for new construction, rehabilitation, and preservation of permanent and transitional

housing for lower-income households. MHP is predominately funded through voter-approved tax exempt bonds, although the program received one-time general fund allocations over the last few years. In 2020, AB 434 (Daly, Chapter 192), consolidated multiple programs at HCD that fund affordable rental housing (*e.g.*, programs creating farmworker housing, transit-oriented development, and housing for veterans and people experiencing homelessness) into one Notice of Funding Availability (NOFA) that is administered using the MHP guidelines. This is known as the SuperNOFA. The first SuperNOFA issued in February 2023 was oversubscribed by 4:1 and MHP was oversubscribed 10:1.

4) *NLPH*. California enacted AB 1618 (Committee on Budget, Chapter 43, Statutes of 2016) and 1628 (Committee on Budget, Chapter 322, Statutes of 2016) that created the NPLH program. In November 2018 voters approved Proposition 2, authorizing the sale of up to $2 billion of revenue bonds and the use of a portion of Proposition 63 taxes for the NPLH program. NPLH program invests in the development of permanent supportive housing for persons who are in need of mental health services and are experiencing homelessness, chronic homelessness, or who are at risk of chronic homelessness. The bonds are repaid by funding from the Mental Health Services Act (MHSA). All of the bond funds have been allocated.

5) *Monitoring fees*. HCD monitors affordable housing developments that receive funding from MHP and NPLH to ensure that the rents charged are consistent with the affordability requirements. Developments pay a flat annual fee of 0.42% of the total loan amount to support the cost of monitoring. This means that as construction costs rise, these monitoring fees rise. This bill seeks to spur housing production by reducing the large costs these developments incur by capping the fees at $260 per unit, adjusted for inflation. This is modeled after the San Diego Housing Commission, which charges an annual $150 per unit monitoring fee. The California Tax Credit Allocation Committee (TCAC) also charges a one-time, per unit fee, while the California Housing Finance Authority (CalHFA) charges a flat monitoring fee regardless of the units in the development or loan amount. According to the Assembly Appropriations Committee, HCD indicates this bill would lead to a 41% reduction in fee revenue HCD uses to fund its project monitoring activities.

   According to one of the sponsors, California Housing Partnership, "AB 578 caps the monitoring fee to $260 per unit in the development, which is still adequate to cover HCD's monitoring costs. In using data from the last round of funding in 2022, the bill saves an average development over $22,000, which can be leveraged to over $23 million from the bank across all developments.

Ultimately, there would be a net benefit and money savings for HCD. By leveraging the savings from monitoring costs, hosing providers would ask for less money from HCD."

RELATED LEGISLATION:

AB 434 (Daly, Chapter 192, Statutes of 2020) — consolidated multiple programs at HCD that fund affordable rental housing into one NOFA that is administered using the MHP guidelines, also known as the SuperNOFA.

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

POSITIONS: (Communicated to the committee before noon on Wednesday, July 5, 2023.)

SUPPORT:

California Coalition for Rural Housing (Co-Sponsor)
California Housing Partnership (Co-Sponsor)
California Housing Consortium
California State Association of Counties
City of Thousand Oaks
Eah Housing
Eden Housing
LeadingAge California
Livable California
Midpen Housing Corporation

OPPOSITION:

None received.

-- END --