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

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**Bill No:** SB 948 **Hearing Date:** 3/24/2022  
**Author:** Becker  
**Version:** 3/3/2022  
**Urgency:** No **Fiscal:** Yes  
**Consultant:** Mehgie Tabar

**SUBJECT:** Housing finance programs: development reserves

**DIGEST:** This bill would replace individual project transition reserves for the development of affordable housing to a pooled reserve model, as specified, operated by the Department of Housing and Community Development (HCD).

**ANALYSIS:**

*Existing law:*

- 1) Establishes a number of programs at HCD to make housing more affordable to California families and individuals including, but not limited to, the following:
  - a) Affordable Housing and Sustainable Communities Program (AHSC), which funds land-use, housing, transportation, and land preservation projects to support infill and compact development that reduce greenhouse gas emissions.
  - b) Home Investment Partnerships Program (HOME), which creates and retains affordable housing for lower-income renters or owners by funding housing rehabilitation, new construction, and acquisition/rehabilitation of single- and multifamily projects.
  - c) Infill Infrastructure Grant Program (IIG), which provides grant funding for infrastructure improvements that are an integral part of or necessary to facilitate new infill housing in residential and/or mixed-use projects.
  - d) Multifamily Housing Program (MHP), which funds the new construction, rehabilitation, and preservation of permanent and transitional rental homes for lower income households through loans to local governments, non-profit developers, and for-profit developers.
  - e) No Place Like Home Program (NPLH), which funds the development of permanent supportive housing for persons who are in need of mental health services and are experiencing homelessness, chronic homelessness, or at risk of chronic homelessness.

- 2) Requires all housing developments that seek HCD funding comply with HCD's Uniform Multifamily Regulations (UMR). While the UMRs require an operating reserve, they do not state a requirement for a transition reserve. The transition reserve requirement — developments utilizing rental assistance must set aside enough money up front to continue the assistance for one year after a contract ends in order to transition tenants to higher rents — is currently established in the guidelines issued with the Notice of Fund Availability (NOFA) for each HCD source:
  - a) HCD's MHP Guidelines stipulate a requirement for a transition reserve for all projects with Project-based rental assistance.
  - b) AHSC loans are also required to follow MHP Guidelines and are tied in through the requirements on the Affordable Housing Project.
  - c) NPLH Program Guidelines are similar to MHP Guidelines, but require more robust transition reserves in order to: i) finance deeper affordability, and ii) address the vulnerability and the increased challenge of housing the target population.
  - d) The HOME Guidelines require the transition reserve be sized so that the rent for subsidized tenants in both HOME and non-HOME units remains the same for a two year period after the project-based rental assistance ends. The HOME Guidelines contains the largest transition reserve requirement among the HCD programs.

**This bill:**

- 1) Eliminates the requirement for specified developments funded by HCD to hold specific transition reserves and, instead, authorizes HCD to create a pooled transition reserve, the Pooled Transition Reserve Fund, to mitigate impacts on tenants in the unlikely event of a total loss of rental assistance and reduce development costs.
- 2) Applies to housing constructed from a variety of state affordable housing programs, including the MHP, IIG, NPLH, and several others.

**COMMENTS:**

- 1) *Author's statement.* "We must do everything in our power to address the affordable housing crisis in our communities, including coming up with creative ways to free up existing resources to build more affordable homes. SB 948 ensures that we address duplicative reserve requirements placed on our affordable housing developers – reserves which have rarely ever been utilized –

and frees up the money to go to more pressing needs, like deepening the affordability of a unit or increasing the number of affordable homes that can be funded. This is commonsense legislation that will help us use our limited affordable housing money more efficiently.”

- 2) *Background: transition reserves.* HCD’s transition reserve requirement is intended to serve two purposes: 1) to protect tenants; and 2) provide an additional risk management measure for HCD as a soft debt lender. If an operating subsidy is lost, the assumption is that rents would need to be increased to ensure the project’s financial integrity, thereby rendering previously assisted units unaffordable to the existing tenants. The transition reserve would enable the assisted family to remain for up to one year while alternative housing arrangements were found. The transition reserve also gives all programmatic and financial stakeholders — owners, lenders, investors — time to find a solution to the operating subsidy loss. For many lenders and investors, the transition reserve is utilized as a crucial component for underwriting the project.
- 3) *HCD Transition Reserve Final Report.* In January 2020, HCD commissioned an evaluation of its current policy on transition reserves in Department-assisted affordable housing programs with non-renewable project rental or operating subsidies and requested advice on how to most effectively and efficiently mitigate the risk associated with these subsidies. This report found:
  - a) Historically, transition reserves have not been utilized (the non-renewal rate is 0.0023%, meaning most developments must fully self-insure for an event that is highly unlikely to occur).
  - b) Elimination of the reserves for future projects would free up financial resources to more rapidly address the affordable housing crisis in California.
  - c) Other reliable and effective mitigation measures exist within the program design of most rental assistance programs and those have provided effective tenant protections.
  - d) The size of project reserves under the current policy far exceeds the risk of termination or non-renewal.

Several of HCD’s main affordable housing programs require individual developments to hold a certain amount of money to mitigate risk, yet these transition reserves have rarely been needed (less than 0.01% of the time). Transition reserves can range from as low as a few hundred thousand dollars in a project with a small percentage of affordable units to over \$3 million in a 100% affordable project. This is a substantial additional cost to projects who are

already dependent on scarce affordable housing funding sources to pay for the cost of the actual housing units and services provided to residents.

The report recommends that HCD replace the development-specific transition reserve requirement with a department-wide pooled reserve. This pooled transition reserve model would save millions of dollars that HCD can use to invest into additional affordable homes.

**RELATED LEGISLATION:**

**AB 434 (Daly, Chapter 192, Statutes of 2020)** — aligned six rental housing programs with MHP, to enable HCD to implement a single application and scoring system for making coordinated awards under all seven programs.

**SB 3 (Beall, Chapter 365, Statutes of 2017)** — enacted the Veterans and Affordable Housing Bond Act of 2018 and authorized the issuance of \$4 billion in general obligation bonds for housing programs, including: MHP, IIG, Transit Oriented Development Rental Housing Program, Joe Serna, Jr. Farmworker Housing Grant Fund, Local Housing Trust Fund Matching Grant Program, CalHome Program, Self-Help Housing Fund, and CalVet Home Loan Program.

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

**POSITIONS:** (Communicated to the committee before noon on Thursday, March 17, 2022.)

**SUPPORT:**

California Housing Partnership Corporation (Co-Sponsor)  
Housing California (Co-Sponsor)  
All Home  
Brilliant Corners  
California State Association of Counties  
Housing Action Coalition  
Housing Leadership Council of San Mateo County  
Palo Alto Forward  
San Diego Housing Federation  
San Joaquin Valley Housing Collaborative  
Southern California Association of Non-profit Housing (SCANPH)  
The Kelsey

**OPPOSITION:**

None received.

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