

- 2) Requires HCD to do all of the following in creating and implementing CAPP:
 - a) Issue a request for qualification (RFQ) to select a private sector entity or consortium to manage the program for a period of 5 years, with an option to extend;
 - b) Issue grants or loans from program funds to local public entities upon request for purposes of allowing the local public entity to issue loans to eligible borrowers within its jurisdiction;
 - c) Adopt regulations for the operation of the program;
 - d) Monitor compliance with the deed restrictions on CAPP acquired units; and
 - e) Develop technical assistance and capacity building for the development and ongoing operation of CAPP projects.
- 3) Requires the selected private sector entity or consortium, through HCD's RFQ process, to review and approve loan applications, originate and service loans, establish terms and conditions for loan applications (subject to HCD approval), and report to HCD to demonstrate compliance with program regulations.
- 4) Requires properties acquired through CAPP to be subject to an affordability restriction, requiring the units to remain rental housing and affordable to low-income households for at least 55 years.
- 5) Requires HCD to contract with third-party consultants to assist with the development, implementation, and administration of the technical assistance and capacity building.

COMMENTS:

- 1) *Author's statement.* "Many low-income Californians live in unsubsidized affordable housing, housing which is privately owned and somewhat more affordable than market rate options. Due to a variety of reasons, such as lack of supply and growing demand, this housing is rapidly disappearing and pricing families out of their homes. As a result, fewer and fewer low-income Californians can find a place to live, and housing production is simply not producing enough new units quick enough. SB 225 solves this problem by creating the Community Anti-Displacement and Preservation Program (CAPP) to provide guidance, technical assistance, and other resources to local jurisdictions, mission-driven nonprofits, or other community developers that wish to acquire unsubsidized housing, rehabilitate the units when necessary, and convert them to long-term affordable units. This process known as "acquisition-rehab" is a fast and cost-effective way to increase the supply of affordable homes in California."

- 2) *Background: California's housing crisis.* California's housing crisis is a half century in the making. Decades of underproduction underscored by exclusionary policies have left housing supply far behind need and costs soaring. California currently has 13 of the 14 least affordable metropolitan areas for homeownership in the nation; it also has the second highest rate of renter households paying more than 30% of their income for housing at 52%. According to the 2022 Statewide Housing Plan, published by HCD, 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.¹ This represents more than double the housing planned for in the last eight-year cycle. The lack of housing supply is the primary factor underlying California's housing crisis.

During the 1990's, California averaged only 110,000 new housing units per year. During the early 2000's, production increased significantly, reaching a peak of 212,000 units in 2004 before plummeting to historic lows during the recession. Unfortunately, the downward trend continues; the fact is that California has under-produced housing every single year since 1989.

As a result, millions of Californians, who are disproportionately lower income and people of color, must make hard decisions about paying for housing at the expense of food, health care, child care, and transportation—one in three households in the state doesn't earn enough money to meet their basic needs.

- 3) *Housing Preservation.* 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: federal project-based Section 8 Housing Choice Vouchers (HCV), Federal Housing Administration (FHA) mortgages, low-income housing tax credits (LIHTC), state housing programs, 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 or opting out of the rental assistance contract.

The California Housing Partnership Corporation (CHPC) annually assesses the loss and the risk of loss of affordable rental properties that receive public

¹ 2022 Statewide Housing Plan: [A Home for Every Californian \(arcgis.com\)](https://arcgis.com)

financing. As of February 2022², between 1997 and 2021, California lost 20,792 affordable homes with project-based rental assistance contracts and/or loans from the US Department of Housing and Urban Development (HUD), the California Housing Finance Agency (CalHFA), and HCD, or LIHTCs due to owner decisions to opt out, sell, or allow their developments to convert to market rate. Another 32,753 affordable rental homes – or 7% of the total current supply – are at risk of conversion in the next 10 years, and 7,053 homes may no longer be affordable as soon as next year. Homes at very high, high, and moderate risk of losing affordability have the following characteristics: over 40% serve seniors and 60% are concentrated in the counties of Los Angeles, Orange, Santa Clara, San Diego, and San Francisco.

- 4) *Existing state financing of acquisition-rehabilitation.* According to one of the sponsors, Enterprise Partners, in recent decades, most preservation efforts have focused on extending the affordability of subsidized or income-restricted affordable housing in need of capital improvements and/or nearing the expiration of affordability restrictions. This is primarily accomplished through the re-syndication of LIHTCs, refinancing with special-purpose loan funds and products, and renewing rental subsidies such as HCV. More recently, both housing practitioners and residents (including nonprofits, affordable housing developers, community land trusts, and other community-based organizations and tenant associations) have shown a growing interest in the acquisition and rehabilitation of unsubsidized affordable housing currently on the private market as a means to create or preserve affordable housing. The sponsors maintain that acquisition-rehabilitation in practice is a direct anti-displacement strategy that is fast, effective, flexible, and long-term.

While several existing state programs (mostly notably the MHP program at HCD) finance the acquisition and rehabilitation of affordable housing units, these programs are more targeted towards the new construction and acquisition-rehabilitation of existing deed-restricted affordable housing that is approaching the expiration of its affordability term, and not for unsubsidized housing. According to the sponsors, some of the reasons for the narrower focus in existing state programs is that they are limited to buildings with five or more units and specific project types, such as large family, special needs, senior, supportive housing, and high risk. It is unlikely that a building acquired from the private market, with existing tenants, would meet these existing requirements.

² Danielle M. Mazzella, *Affordable Homes At Risk: How Many of California's Affordable Rental Homes Have Converted to Market Rate? How Many are Still at Risk?* (California Housing Partnership Corporation, February 2022) <https://chpc.wpenginepowered.com/wp-content/uploads/2022/02/Affordable-Homes-At-Risk-Report-2022.pdf>

- 5) *Unique challenges for acquisition-rehabilitation projects.* According to the sponsors, occupied acquisition-rehabilitation projects present challenges. First, interested entities need to compete on the private market against investors that have more access to capital and are less reliant on public resources. Second, performing any rehabilitation work with tenants requires technical expertise to identify structural needs and ongoing communication with residents. Additionally, acquisition-rehabilitation projects are often smaller scale developments that are more difficult to manage and sustain financially. Because this is a newer practice for even experienced developers, acquisition-rehabilitation projects may require new skills to support tenant engagement and property management, particularly with a scattered site model.

This bill will create the Community Anti-Displacement and Preservation Program (CAPP) at HCD, a technical assistance program that would prevent displacement and homelessness by financing the acquisition of currently unsubsidized rental housing and preserving it as affordable. In addition to the new technical assistance program, the sponsors are working on a corresponding budget request of \$500 million to finance the capital funding of acquisition-rehabilitation projects.

- 6) *Other Technical Assistance in State Government.* The committee is aware of technical assistance at other state financing programs. For example, SB 136 (Leyva, Chapter 766, Statutes of 2017) authorized HCD, as part of the Mobilehome Park Rehabilitation and Resident Ownership Program (MPRRP), to contract directly with, and provide grants to, nonprofit corporations for providing technical assistance to participants of that program. The SGC also contracts with a team of consultants across the state for its AHSC technical assistance program. The technical assistance program provides direct application assistance to teams that are applying for funding and capacity building services for potential applicants to the AHSC Program.
- 7) *Seeing Double.* This bill is similar to SB 490 (Caballero, 2021). The introduced version of SB 490 would have implemented a technical assistance program, administered by the HCD, for community-based nonprofits to leverage CAPP funds, if it was authorized in the Governor's final budget. SB 490 was not included in the FY22-23 budget and was amended to deal with the purchase of nondomestic agricultural food products.
- 8) *Double-referral.* This bill is also referred to the Committee on Governmental Organization.

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

POSITIONS: (Communicated to the committee before noon on Wednesday, March 15, 2023.)

SUPPORT:

Enterprise Community Partners, INC. (Co-Sponsor)
Housing California (Co-Sponsor)
Public Advocates (Co-Sponsor)
Affordable Housing Network of Santa Clara County
Alameda County Democratic Party
Alliance for A Better District 6
Alliance of Californians for Community Empowerment (ACCE) Action
Bay Area Community Services
Bend the Arc: Jewish Action
Berkeley Tenants Union
Cadem Renters Council
California Apartment Association
California Association of Local Housing Finance Agencies (CAL-ALHPFA)
California Coalition for Rural Housing
California Community Land Trust Network
California Housing Partnership
California Housing Partnership Corporation
California Reinvestment Coalition
California Releaf
California Rural Legal Assistance Foundation
Catholic Campaign for Human Development
Catholic Campaign for Human Development (CCHD), Diocese of Oakland
Central Coast Alliance United for A Sustainable Economy
Coalition for Economic Survival (CES)
Community Housingworks
Community Land Trust Association of West Marin
Community Legal Services in East Palo Alto
Community Power Collective
Congregations Organized for Prophetic Engagement (COPE)
Corporation for Supportive Housing
Council of Community Housing Organizations
County of Sonoma Department of Health Services
Courage California
East Bay Community Law Center
East Bay Housing Organizations

East Bay YIMBY
Faith in The Valley
Fideicomiso Comunitario Tierra Libre
Florence Aliese Advancement Network, LLC
Friends Committee on Legislation of California
FSY Architects, INC
Greenbelt Alliance
Grow the Richmond
Habitat for Humanity Yuba/Sutter
Housing Is a Human Right OC
Housing Leadership Council of San Mateo County
Housing Now!
How to ADU
Inland So Cal Housing Collective
Inner City Law Center
LA Forward
LeadingAge California
Lift to Rise
Local Initiatives Support Corporation (LISC) Bay Area
Long Beach Residents Empowered
Los Angeles Homeless Services Authority
Making Housing and Community Happen
Mi Familia Vota
Monterrey County Renters United
Mountain View YIMBY
Napa-Solano for Everyone
National Alliance to End Homelessness
National Housing Law Project
Non Profit Housing Association of Northern California
Northern California Land Trust
Northern Neighbors SF
Novin Development Corp.
Operation Dignity
Pacifica Housing 4 All
Peninsula for Everyone
Peninsula Solidarity Cohort
People for Housing - Orange County
People's Budget Orange County
Policy Link
Progress Noe Valley
San Diego Housing Federation
San Francisco Housing Accelerator Fund

San Francisco Housing Development Corporation
San Francisco YIMBY
San Joaquin Valley Housing Collaborative
San Luis Obispo County Democratic Party
San Luis Obispo YIMBY
Santa Cruz YIMBY
Santa Rosa YIMBY
Self-Help Enterprises
Silicon Valley De-bug
Somos Mayfair
South Bay Community Land Trust
South Bay YIMBY
Southern California Association of Nonprofit Housing
Southside Forward
Stand Affordable Housing
Strategic Actions for A Just Economy
T.R.U.S.T. South LA
Tenant Associations Coalition of San Francisco
Tenderloin Neighborhood Development Corporation
Thai Community Development Center
The Beverly-Vermont Community Land Trust
The Central Valley Urban Institute
The Children's Partnership
The Greenlining Institute
The United Way of Greater Los Angeles
The Unity Council
Union Station Homeless Services
United Ways of California (UWCA)
Venice Community Housing Corporation
Ventura County YIMBY
Western Center on Law and Poverty
YIMBY Action
Young Community Developers
2 Individuals

OPPOSITION:

None received.

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