

AGENDA**ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 STATE ADMINISTRATION****ASSEMBLYMEMBER JIM COOPER, CHAIR****TUESDAY, FEBRUARY 28, 2017
1:30 P.M. - STATE CAPITOL ROOM 447**

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ITEMS TO BE HEARD

2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

ISSUE 1: DISCUSSION ON THE FINANCIAL BARRIERS TO HOUSING PRODUCTION IN CALIFORNIA

- Ben Metcalf, Director, Department of Housing and Community Development
- Megan Kirkeby, Research Assistant, Department of Housing and Community Development
- Tia Boatman Patterson, Executive Director, California Housing Finance Agency (CalHFA)
- Mark Stivers, Executive Director, California Tax Credit Allocation Committee
- Brian Uhler, Legislative Analyst's Office

BACKGROUND

Draft Statewide Housing Assessment. In January 2017, the Department of Housing and Community Development released a Draft Statewide Housing Assessment (SHA) 2025. The SHA provides an overview of housing and housing-related needs and challenges with a 10-year horizon. The document outlines some of the housing challenges facing California including:

- Production averaged less than 80,000 new homes annually over the last 10 years, and ongoing production continues to fall far below the projected need of 180,000 additionally homes annually.
- Lack of supply and rising costs are compounding growing inequality and limiting advancement opportunities for younger Californians. Without intervention, much of the housing growth is expected to overlap significantly with disadvantaged communities and areas with less job availability.
- Continued sprawl will decrease affordability and quality of life while increasing transportation costs.
- The majority of Californian renters — more than 3 million households — pay more than 30 percent of their income toward rent, and nearly one-third — more than 1.5 million households — pay more than 50% of their income toward rent.
- Overall homeownership rates are at their lowest since the 1940s.
- California is home to 12 percent of the nation's population, but a disproportionate 22 percent of the nation's homeless population.

- For California's vulnerable populations, discrimination and inadequate accommodations for people with disabilities are worsening housing cost and affordability challenges.

The SHA provides data and analysis to describe the problem and provide several possible options to address housing affordability. The full report can be found at: <http://www.hcd.ca.gov/policy-research/plans-reports/docs/California's-Housing-Future-Full-Public-Draft.pdf>

California Housing Finance Agency. The California Housing Finance Agency (CalHFA) provides financing and programs for renters and homebuyers that create safe, decent and affordable housing opportunities for low to moderate income Californians. Established in 1975, CalHFA was chartered as the State's affordable housing lender to make low interest rate loans through the sale of tax-exempt bonds. CalHFA is a completely self-supporting State agency, and its bonds are repaid by revenues generated through mortgage loans, not taxpayer dollars.

The 2016 Budget Act included trailer bill language to further CalHFA's goal of helping more families become first-time homebuyers by combining \$176,574,355 in remaining funds from multiple down-payment assistance programs into the MYHOME Program. CalHFA will provide an update on the implementation of this program and challenges its facing at the state and federal levels.

California Tax Credit Allocation Committee. The California Tax Credit Allocation Committee (CTCAC) administers the federal and state Low-Income Housing Tax Credit Programs. Both programs were created to promote private investment in affordable rental housing for low-income Californians.

The 2016 Budget Act included trailer bill language to permit the sale of low-income housing tax credits under specified conditions to reduce the amount of federal taxes recipients of the required to pay, thereby freeing up additional funding on building affordable housing. CTCAC will provide an update on this program along with challenges from the state and federal levels.

STAFF COMMENT

This item is for information only.

ISSUE 2: OVERVIEW OF THE DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT AND THE CALIFORNIA HOUSING FINANCING AGENCY BUDGETS

The mission of the Department of Housing and Community Development (HCD) is to preserve and expand safe and affordable housing opportunities and promote strong communities. The Department administers housing finance, economic development, and community development programs; develops housing policy and advocates for an adequate housing supply; and develops building codes and regulates manufactured homes and mobile home parks. Additionally, HCD provides technical and financial assistance to local agencies to support housing development.

The mission of the California Housing Finance Agency (CalHFA) is to create and finance progressive housing solutions so that more Californians have a place to call home. The agency is financially self-supporting, setting loan interest rates slightly above its costs and charging fees to cover investments related to bond proceeds. In 2013, pursuant to the Governor's Reorganization Plan No. 2 of 2012, CalHFA is displayed, within HCD's budget and reports to the Business, Consumer Services and Housing Agency.

The 2017-18 HCD and CalHFA combined budget totals \$644 million and 835.2 positions, including 561.6 HCD positions. The proposed spending level is \$296 million less than the prior year, because current year authority includes Affordable Housing Sustainable Communities Program funding carried over from 2015-16.

Fund Source (thousands)	2015-16* Actual	2016-17* Projected	2017-18* Proposed	BY to CY Change	% Change
General Fund – HCD	\$19,187	\$54,830	\$8,522	-\$46,308	-84.46%
All Other HCD Funds	\$361,578	\$845,755	\$595,843	-\$249,912	-29.55%
CalHFA Funds	\$39,682	\$39,689	\$40,013	\$324	0.82%
Total Expenditure	\$420,447	\$940,274	\$644,378	-\$295,896	-31.47%
HCD Positions	515.0	540.0	561.6	21.6	4%
CalHFA Positions	251.7	273.6	273.6	0	0%
Total Positions	766.7	813.6	835.2	21.6	4%

*Dollars in thousands

Housing and Community Development Budget Details.

Affordable Housing Sustainable Communities (AHSC) Program. HCD has awarded \$289 million in 2016-17; however due to significant revenue uncertainty HCD cannot predict the amount of funding for the next round of appropriations from the Greenhouse Gas Reduction Fund.

Propositions 46 & 1C. In 2017-18, \$48.1 million that has been reverted from projects that underspent their award will be used to make awards for the Multifamily Housing Program-Supportive Housing and Infill Infrastructure Grant programs. Barring any additional disencumbered funds, those will be the final awards for Propositions 46 and 1C.

No Place Like Home (NPLH). Authorized by AB 1618 (Chapter 43, Statutes of 2016), the new NPLH Program uses \$2 billion in revenue bond proceeds to develop permanent supportive housing for persons who are in need of mental health services and experiencing homelessness, chronic homelessness, or at risk of chronic homelessness. The bonds will be repaid by revenues from Proposition 63, the Mental Health Services Act (MHSA).

Proposition 41 – Veterans' Program. In June 2014, voters passed Proposition 41, the Veterans Housing and Homelessness Prevention Bond Act (AB 639, Chapter 727, Statutes of 2013), which redirected \$600 million from Proposition 12 (2008) bond authority to fund multifamily housing for veterans. HCD has awarded \$179 million and will be making its third round of awards in May 2017, which includes budget authority of \$75 million, with \$10 million set aside for transitional housing projects.

California State Emergency Solutions Grant (CA ESG) Program. The new state-funded CA ESG program will complement the Federal ESG program by providing grants to: assist individuals and families who are unsheltered, operate emergency shelters providing services for homeless individuals and families, rapidly rehouse the homeless, and prevent families and individuals from becoming homeless. HCD will make its first round of awards in Fall 2017.

Federal Programs. Although combined federal funding for three major programs (CDBG, HOME, and ESG) has been reduced by 34 percent over the past 10 years, in 2017-18 HCD for first time will be making \$10 million in National Housing Trust Fund awards.

General Fund Revenues. In 2016-17, the Manufacturing Housing Program estimates a collection of \$2.6 million from the Registration and Titling Program. The Budget Act allows for HCD to keep the first \$1.8 million collected from program operations, with the excess collections deposited into the General Fund.

Governor's January Budget Proposal.

The Governor's January Budget eliminates the one-time investment of \$400 million General Fund since the "by-right" approval process was not adopted. Instead, the Governor's budget proposes principles that the Administration is committed to working with the Legislature through the policy process to develop including:

- Streamlining Housing Construction. Reduce local barriers to limit delays and duplicative reviews, maximize the impact of all public investments, and temper rents through housing supply increases.
- Lower Per-Unit Costs. Reduce permit and construction policies that drive up unit costs.
- Productive Incentives. Those jurisdictions that meet or exceed housing goals, including affordable housing, should be rewarded with funding or other regulatory benefits. Those jurisdictions that do not build enough to increase production should be encouraged by tying housing construction to other infrastructure-related investments.
- Accountability and Enforcement. Compliance with existing laws, such as the housing element, should be strengthened.
- No Impact to the General Fund. No new costs, or cost pressures, can be added to the state's General Fund, if new funding commitments are to be considered. Any permanent source of funding should be connected to these other reforms.

STAFF COMMENT

The Governor's budget moves away from the 2016 Budget Act to set aside funding for affordable housing. Additionally, the Governor's budget replaces a "by-right" proposal with a set of principles to collaborate with the Legislature through the policy process, while highlighting legislative measures that were enacted last year. The principles set out by the Governor promote a more collaborative approach to housing than last year. The Subcommittee may wish to consider various approaches will result in reaching the goal of producing more housing in California.

Staff Recommendation:

ISSUE 3: VETERANS HOUSING AND HOMELESSNESS PREVENTION PROGRAM WORKLOAD ADJUSTMENT
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The Department of Housing and Community Development requests a baseline budget increase of \$903,000 and six positions for the Veterans Housing and Homeless Prevention Program to make awards based on demand for the program, continue with loan closing workload tasks, and conduct required evaluations of program outcomes.

BACKGROUND

In 2008, California voters approved the Veteran's Bond Act of 2008 (Proposition 12), a \$900 million general obligation bond to help veterans purchase single-family homes, farms, and mobile homes through the CalVet Home Loan Program. As a result of various factors including the nation's economic crisis and the state's housing downturn, the program did not experience the demand that was originally projected.

In 2013, AB 639 (Chapter 727, Statutes of 2013) restructured the Veteran's Bond Act of 2008, authorizing \$600 million in existing bond authority to fund multifamily housing for veterans with 50 percent serving extremely low-income veterans.

**Workload History
(Dollars in thousands)**

Workload Measure	PY-1	PY	CY
Awards Made	\$63,179	\$116,103	\$75,000
Average Award per Project	\$4,000	\$4,000	\$4,000
Awards (Projects)	17	28	19
Construction Loan Closings	-	3	14

According to HCD, the proposed increase in program staffing from 10 positions in 2016-17 to 16 positions in 2017-18, is based on workload associated with the lifecycle of a VHHP project from the origination stage (NOFA and award process), construction loan closing stage, permanent loan closing stage, and the project's initial operating year. Each NOFA round generates projects with a workload cycle ranging from four to six years. This results in a cumulative increase in workload and staffing need until projects reach the long-term monitoring stage. NOFAs are issued annually, awarded between 20 to 25 new VHHP projects. A total of seven NOFA rounds are projected.

The first year of workload includes the NOFA and award process. HCD estimates that the construction loan closing phase will begin for 15 percent of the projects in the second year, 60 percent in the third year, and 25 percent in the fourth year. In which case, it is estimated that the permanent loan closing phase will occur for 15 percent of the projects in the fourth year, 60 percent in the fifth year, and 25 percent in the sixth year. The project then goes into long-term monitoring after its initial operating year.

BCP Request – A baseline budget increase of \$903,000 (VHHP) and six positions as outlined below:*Guideline Development and Revisions*

The initial baseline for VHHP did not include positions for guideline development and revisions, NOFA development, and staff training. Existing positions temporarily absorbed the workload related to these tasks. This BCP requests **one** HCD Representative II for each NOFA round beginning in 2017-18.

Program Administration

The initial baseline for VHHP included six positions for the origination stage. Beginning in 2017-18, **three** additional HCD Representatives IIs and **one** Office Technician are requested for workload associated with the construction loan closing and permanent loan closing stage for projects funded from Rounds 1 and 2.

Legal Affairs Division

The baseline for VHHP included one Attorney III for workload associated with the origination stage. **One** additional Attorney III position is required for workload associated with the construction loan closing and permanent loan closing stages for projects funded from Rounds 1 and 2.

STAFF COMMENT

The subcommittee may wish to ask HCD to discuss the regional distributions of the VHHP funds. How is HCD working to meet the regional distributions included in the authorizing legislation?

The resources requested by the department are reasonable to continue to administer the program as it grows.

Staff Recommendation:

ISSUE 4: COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM WORKLOAD ADJUSTMENT

This budget request proposes one position and \$157,000 (General Fund) ongoing, to meet the federal match requirement for California's Community Development Block Grant (CDBG) program and streamline the CDBG program in response to reduced federal funding levels. This proposal includes trailer bill language.

BACKGROUND

The CDBG program was established by the federal Housing and Community Development Act of 1974 and subsequent legislation and regulations enabled states to administer the program for smaller cities and counties. HCD began administering CDBG for smaller cities and counties in 1992.

According to HCD, 70 percent of the annual CDBG allocation must benefit low-income families and individuals. HCD makes those funds available each year to eligible jurisdictions through both a competitive process and a process for economic development projects.

HCD receives about 429 million in federal CDBG funds annually to provide CDBG awards to small cities and counties throughout the state. The CDBG program allows the state to spend no more than 3 percent of its federal allocation from CDBG on administration, and requires that all money spent after the first \$100,000 be matched by state funds, either directly or in-kind.

In order to maintain an effective program that meets federal requirements, HCD must redesign and streamline the program. Funding for the CDBG program has been reduced by 43 percent over the past eight years and future grant programs could potentially be reduced further.

Limited-term positions set to expire. In 2014-15, nine 3-year limited-term positions were authorized to address the CDBG workload. These positions are set to expire on June 30, 2017. These positions completed workload associated with resolving HUD audit findings, oversaw HUD funding obligations, and reduced backlogged workload.

BCP Request. One position is requested to meet the federal match requirement and support administration of CDBG activities. In addition, the position will support streamlining activities to narrow CDBG programs to only those that are most effective.

Trailer Bill Language. The trailer bill language for this proposal is still in spot bill format.

STAFF COMMENT

The subcommittee may wish to ask HCD to discuss the CDBG program redesign. How is the redesign incorporating the changes made by AB 723 (Chiu, 2016)? AB 723 provided that jurisdictions that do not meet the requirements of the 50 percent rule may apply for additional CDBG funds.

The subcommittee may wish to inquire about the timing of the release of the trailer bill language.

Staff Recommendation:

ISSUE 5: NATIONAL HOUSING TRUST FUND WORKLOAD ADJUSTMENT

The 2017-18 budget proposes three positions and budget authority in the Federal Trust Fund (\$423,000 State Operations and \$10 million Local Assistance) to administer the National Housing Trust Fund (NHTF) Program for this year and ongoing. Additionally, this proposal includes trailer bill language to clarify that HCD is authorized to expend up to 10 percent of the federal award on administrative costs.

BACKGROUND

In 2008, the Housing and Economic Recovery Act established the NHTF to provide states an ongoing source of funds to support the production of affordable housing targeted to extremely-low and very-low households. On December 16, 2014, the Federal Housing Finance Agency issued an interim final rule setting forth requirements related to allocations by the government-sponsored enterprises (Fannie Mae and Freddie Mac) into the NHTF. The first allocations from the NHTF to states were announced in the summer of 2016. California was awarded \$10.1 million to be allocated by HCD to affordable housing projects in the state.

Trailer Bill Language: Amends subsection (b) of Section 50676 of the Health and Safety Code as shown below:

(b) The department shall administer the funds through any existing or newly created programs that produce, preserve, rehabilitate, or support the operation of rental housing for extremely low income and very low income households, except that up to 10 percent of funding may be used to support home ownership for extremely low income and very low income households. Any rental project funded from the federal Housing Trust Fund shall restrict affordability for 55 years through a recorded and enforceable affordability covenant. Any home ownership program funded from the federal Housing Trust Fund shall restrict affordability for 30 years through either a recorded and enforceable affordability covenant or a recorded and enforceable equity recapture agreement. The department may use up to 10 percent of the federal Housing Trust Fund annual grant award for reasonable administrative expenses.

LAO Comments. HCD's increase in workload to administer the NHTF allocation justifies its request for three additional staff in 2017-18. The need for these staff on an ongoing basis, however, is somewhat unclear given lack of certainty about future NHTF allocations. The LAO suggests the Legislature ask HCD for its assessment of the likelihood of future NHTF allocations. Should future allocations appear unlikely, the Legislature could consider approving the \$432,000 but not the three permanent positions. HCD instead could fill these staffing needs by filling three previously authorized but vacant positions.

STAFF COMMENT

The state budget relies on the continuation of federal funding in many areas. With the change in the Administration and Congress, many programs are vulnerable to federal action. However, it is unclear, at this time, how or when these changes will be implemented.

The subcommittee may wish to inquire about what the state's ongoing role in this program is if federal funding should cease. Additionally, the subcommittee may wish to ask the department the rationale for making these positions ongoing versus limited-term given the uncertainty at the federal level.

The subcommittee may wish to ask for clarification in the trailer bill language for what constitutes "reasonable" administrative expenses.

Staff Recommendation:

ISSUE 6: CALIFORNIA EMERGENCY SOLUTIONS GRANT PROGRAM WORKLOAD ADJUSTMENT

The Governor's budget proposes that the remaining fund balances in the Emergency Housing and Assistance Fund along with five positions be used to administer the California Emergency Solutions Grant (CA ESG) Program for a total of \$2,785,000 (local assistance and state operations programmed in 2017-18 and 2018-19). These funds will be combined with the \$35 million General Fund appropriation from the 2016 Budget Act for CA ESG.

BACKGROUND

In 1983, the Emergency Housing Assistance fund was established to provide grants to local governmental agencies and nonprofit organizations to provide emergency shelter to needy persons. The remaining balances for the fund includes \$2,660,000 in local assistance and \$125,000 in state operations for a total of \$2,785,000.

HCD administers the federal ESG program, which provides grants to (1) assist individuals and families who are unsheltered, (2) operate emergency shelters providing service for homeless individuals and families, (3) rapidly re-house the homeless, and (4) prevent families and individuals from becoming homeless.

The 2016 Budget Act, included a trailer bill, SB 837, which created the CA ESG Program that appropriated \$35 million to support rapid rehousing, emergency shelter, and other services to address homelessness throughout the State. The CA ESG Program expands on the federal program for purposes of addressing the state's unique homelessness challenges. The purpose of the state program is to build local capacity, provide technical assistance for federal Continuum of Care program point-in-time homelessness counts, apply for federal Continuum of Care program funding, and coordinate entry into housing and services vulnerable populations.

STAFF COMMENT

This proposal would transfer the remaining balances of the Emergency Housing Assistance Fund into the newly created CA ESG program. Transferring the funds from an outdated program to the newly created ESG program will allow California to align its goals with the federal ESG program and complement the proposed work included in the No Place Like Home Program.

Staff Recommendation:

ISSUE 7: LEGISLATIVE PROPOSALS

The budget includes two BCPs to implement legislation passed in 2016 including \$360,000 from the Mobile Home Manufactured Home Revolving Fund for four positions to implement AB 587, and an augmentation from the Building Standards Administration Special Revolving Fund for one position for two years to implement SB 7.

BACKGROUND

1. AB 587 (Chapter 296, Statutes of 2016) Mobile Home Registration. AB 587 creates a tax amnesty program for owners of unregistered mobile homes.

Previously, manufactured homes or mobile homes or mobile homes sold as new prior to July 1, 1980, were subject to an annual fee payment to be made to HCD. Non-payment of certain fees and penalties constitutes a lien on the mobile home, and prohibits HCD from, among other things, issuing a duplicate or new certificate of title or registration card or amending the permanent title record. The statute implements a limited-term amnesty program that requires HCD to:

- Waive all outstanding charges assessed by HCD prior to the transfer of title of the mobile home.
- Release any lien imposed with respect to those charges.
- Issue duplicative or new certificates of title or registration cards.
- Amend the title record of the mobile home when a person who is not currently the registered owner applies to HCD for registration prior to December 31, 2019.

Registration and Titling Program. Currently, the HCD Registration and Titling Program provides registration and title documents for new or resold manufactured homes, commercial modular, floating homes, and truck campers. The program annually renews registrations for approximately 121,000 manufactured homes and 39,000 modulars.

Existing Registration and Titling Program Workload History					
Workload Measure	2011-12	2012-13	2013-14	2014-15	2015-16
Complex Registrations*	102,362	120,786	123,774	113,701	111,974
Title searches completed	86,979	93,845	99,521	98,867	97,640
Escrows completed	9,992	12,234	14,225	14,187	15,839
Registrations renewals	141,673	138,438	133,565	127,123	121,123

* Complex registrations include registered owner transfers or sale, change of name or address, and registration renewals as part of a transfer. Simple registration renewals completed online or by mail are not in total production numbers.

BCP Request. The budget request includes \$360,000 (Special Fund) for 2017-18 through 2019-20, and a total of four positions (One Supervising Program Technician III and three Program Technicians II positions).

HCD expects 10 percent of the 160,000 estimated unlicensed mobile home owners to seek registration in 2016-17, 7.5 percent in 2017-18, 5 percent in 2018-19, and 7 percent in 2019-20. HCD estimates that more than 43,000 new registrations will result from the tax amnesty-related applications. Without additional staffing resources, the additional time needed to process registrations would adversely affect existing and new registrants.

Workload Measure	2017-18	2018-19	2019-20	2020-21	2021-22
Total Production/Registrations	112,500	112,500	112,500	112,500	112,500
Additional Registrations from Amnesty Program	10,800	9,324	6,194	0	0
Total Registrations	123,300	121,824	118,694	112,500	112,500
Registration Renewals	121,123	121,123	121,123	121,123	121,123
Additional Registration Renewals from Amnesty Program	6,456	10,800	14,455	17,041	17,041
Total Renewals	127,579	131,923	135,673	138,164	138,164

- 2. SB 7 (Chapter 623, Statutes of 2016) Regulations for Water Submetering. SB 7 requires HCD to research, develop and propose for the California Building Standards Commission standards for water submetering for individuals units in newly-constructed multi-unit residential and mixed-use residential and commercial buildings.**

SB 7 requires each water purveyor that provides water service to a newly constructed multiunit residential structure or newly constructed mixed-use residential and commercial structure for which a water connection is submitted after January 1, 2018, to ensure each individual unit be metered or submetered as a pre-condition for new water service. The landlord of the newly constructed structure shall be required to install and read the submeters unless the water purveyor agrees to install them.

SB 7 requires HCD, on or after their triennial code cycle commencing on or after January 1, 2018, to propose to the BSC building standards requiring the installation of water meters or submeters in newly constructed multiunit residential structures or mixed-use residential and commercial structures.

The activities associated with implementation of SB 7 will help support the state's goals for water efficiency and conservation. In addition, the position will support HCD efforts to meet California goals for sustainable environment and interagency coordination.

BCP Request. HCD requests an augmentation of \$151,000 (Special Fund) for 2017-18 and 2018-19 for one District Representative II position.

HCD's State Housing Law Program currently does not have the resources available to research and conduct other activities related to the adoption of specific regulations on the installation and use of submeters.

STAFF COMMENTS

The resources requested by the department are necessary to implement legislative proposals enacted in 2016. The appropriation bill analysis states that HCD administrative costs would be \$244,000 over two years versus \$302,000 included in this BCP. The difference in costs can be attributed to an adjustment in administrative costs.

Staff Recommendation:

ISSUE 8: OTHER PROPOSALS

The following two items summarize budget proposals related to HCD Headquarters and the reappropriations of Proposition 1C Funds.

BACKGROUND

1. HCD Headquarters Lease Amendment. The Governor's budget includes \$517,000 ongoing budget augmentation to lease additional office space at its current headquarters location.

In 2013-14, HCD moved to its current headquarters location with 101,377 square feet and 508 office spaces. At the time, it was not anticipated that staffing would grow. However, HCD has temporarily accommodated some unanticipated growth by converting file and storage rooms into office space due to new programs such as the AHSC, VHHP, and NPLH.

After the initial move, HCD leased an additional 4,396 square feet in 2015-16 to move 22 positions in the Northern Area Office to its headquarters location beginning July 1, 2016. However, when the new programs were authorized in the 2016 Budget Act, the Northern Area was postponed in order to provide immediate space needed for the additional positions in the 2016-17 budget.

The 2016 Budget Act provided funding for two new positions that increased office space for a total of 30 positions in the current year and an additional 7 positions in the budget year:

- NPLH (26 positions in CY and an additional six positions in BY)
- California Emergency Solutions Grant (Four positions in CY and an additional one position in BY).

The approved resources from the 2016-17 BCPs, Spring Finance Letters, and baseline adjustments to bond programs and the proposed 2017-18 BCPs, the net total increase in positions is 45 in 2016-17 and an additional 11 positions in 2017-18.

The proposed resources will allow HCD to lease an additional 10,694 square feet in addition to the 4,396 leased in 2016-17 for the Northern Area Office. It is anticipated that the proposed increase in office space will allow HCD to co-locate working groups in the same physical space areas of the building, improving communication and workflow processes.

2. Proposition 1C Reappropriations. The Governor's budget includes a reappropriation of \$22.2 million for Infill Infrastructure Grant (IIG) Program, a reappropriation of \$10 million in local assistance funding for Veterans Housing and Homeless Prevention (VHHP) Program, and a liquidation period

extension for Housing Related Parks Program (HRPP). This proposal includes Budget Bill Language.

California voters approved the Housing Emergency Shelter Trust Fund Act of 2006 (Proposition 1C), authorizing \$850 million for the IIG program and \$200 million for the HRPP program. AB 639 (Chapter 727, Statutes of 2013) restructured the Veterans' Bond Act of 2008, authorizing \$600 million in existing bond authority to fund multifamily housing for veterans with 50 percent serving extremely low-income families.

IIG Program. The IIG program provides grants to fund infrastructure improvements that facilitate new housing development in residential or mixed-use infill projects. In 2012, the Legislature authorized HCD to reappropriate IIG program funds, including any funds returned to HCD from disencumbrances of projects during the 2012-13 and 2013-14 fiscal years. The 2016 Budget Act appropriated \$22.2 million in previously disencumbered funds in the IIG to allow HCD to make new IIG awards.

HCD anticipates that it will not be able to award all the IIG funds in the current fiscal year. With \$22.2 million available, HCD normally seeks to issue a NOFA concurrent with another complementary loan and grant program. However, HCD has not yet determined the viability or anticipated success of a small IIG NOFA, and it may not be feasible to award all the IIG funds by June 30, 2017, encumbrance deadline.

HRPP Program. The HRPP provides grants for the creation, development, or rehabilitation of community or neighborhood parks to cities, counties, cities and counties. HCD awarded the build of its \$200 million in the last three fiscal years and plans to make the final award of \$34.5 million in 2016-17.

HCD is requesting a for a liquidation period extension to accommodate a request by a grantee (Sacramento County) for more time to complete a project. This is the first grantee under the HRPP program that has requested an extension and is a one-time request. Due to the anticipated end of the awarding phase in 2016-17, HCD does not anticipate accommodating any future liquidation extension requests from HRPP projects at this time.

VHPP Program. The VHPP program provides loans to fund acquisition, construction, or rehabilitation of affordable multifamily rental, supportive and transitional housing for veterans. Provisional language in the Budget Act authorizes local assistance to be awarded in excess of \$75 million based on proposed awards, subject to legislative notification and approval by the Department of Finance.

For VHPP, AB 1622 (Chapter 44, Statutes of 2016) specified that \$10 million of appropriated funds should be made available for loans to counties and/or private nonprofit organizations for the construction or rehabilitation of transitional housing or shelter facilities that provide services to homeless veterans. HCD and stakeholders are concerned that the one-year encumbrances period will not be met.

STAFF COMMENTS

Staff has no concerns with the two proposals discussed in the above section. The resources needed for the additional space is justified. Additionally, the proposed reappropriation of funds is consistent with actions taken by the subcommittee in prior years.

Staff Recommendation:
