# AGENDA
# ASSEMBLY BUDGET SUBCOMMITTEE NO. 4
# ON STATE ADMINISTRATION

**Assemblymember Juan Arambula, Chair**

**TUESDAY, MARCH 24, 1:30 PM**
**STATE CAPITOL, ROOM 447**

## ITEMS TO BE HEARD

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## ITEM 2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

The mission of the Department of Housing and Community Development (HCD) is to expand housing opportunities for all Californians. The department administers housing finance, economic development, and rehabilitation programs with an emphasis on meeting the shelter needs of low-income persons and families, as well as other special needs groups. It also administers and implements building codes, manages mobile home registration and titling, and enforces construction standards for mobile homes.

The 2009-10 budget includes $803 million ($9 GF) and 595.3 positions. The majority of the Department's expenditures are supported by general obligation bond revenue. The budget includes over $342 million from the Housing and Emergency Shelter Trust Fund Act of 2006 (Prop 1C). The second largest revenue source are from federal funds, which are estimated at $178 million (not including ARRA funds).

### ISSUE 1: EMERGENCY HOUSING ASSISTANCE PROGRAM UPDATE

The Emergency Housing Assistance Program (EHAP) provides facility operating grants for emergency shelters, transitional housing projects, and supportive services for homeless individuals and families.

Last year, the Governor proposed a budget balancing reduction of $401,000 resulting in a 10 percent reduction of state contributions, estimated to be equivalent to 1,900 beds. The Legislature chose to restore that cut through the budget process. The Governor, however, vetoed the restored funding as well as vetoing the entire state contribution to emergency housing facilities (an additional $3.6 million cut). The state, prior to last year, provided approximately 10 percent of the overall funding for local homeless shelters. Based on the departments 1,900 bed estimate for the original BBR, it would suggest 19,000 beds would be eliminated by the Governor's $4 million reduction.

The Governor supported his veto with his boiler plate veto language stating

> "While the budget bill provides for a modest reserve in 2008-09, it fails to make the necessary statutory spending reductions and revenue increases needed to eliminate the state's structural budget deficit going forward. At the same time, constitutional requirements, federal law and court required payments drive the majority of the spending in any budget, and limit my ability to reduce spending. As a result, I have an obligation to reduce spending when my veto power is adequate to do so. Consequently -- and in order to further

> ensure that this budget remains in balance -- I am taking the difficult but necessary action reflected in this veto to further control state spending."

## COMMENTS

Housing California, an advocate for increasing the supply and variety of decent, safe, and affordable homes for homeless and low income families, conducted a survey of emergency shelters throughout California, and based on responses received, they estimate a much higher impact than the department. They estimate:

- Conservative estimates show that more than 25,000 fewer people will be able to access emergency shelter services. These numbers include hundreds of families and thousands of children.
- 58 percent of recipients report the necessity to lay off staff, resulting in further job losses and increased demand for unemployment benefits.
- California stands to lose millions more in federal funding, as EHAP money was used by many as a match for federal resources. In each instance, the loss of one $30,000 EHAP grant can result in the loss of hundreds of thousands in federal dollars for that organization.
- Rural areas are being particularly hard hit, as the EHAP grants received by rural counties generally account for larger portions of their emergency shelter budgets.
- Winter shelters are likely to be forced to close their doors early or not open at all.
- Nearly 20 percent of shelters will be forced to close a program and two shelters report they may have to close permanently.
- In attempts to fill operating-revenue gaps, emergency shelters are growing more dependent on less-reliable funding streams, such as private donations and local government funds (both of which are already tapped to the brink).
- All areas of the state are affected -- at least one shelter in every county lost funding.

Federal stimulus funds may be available to mitigate the impact of this cut.

## ISSUE 2: PROPOSITION 1C UPDATE

The 2008-09 budget included $40 million for the Building Equity and Growth In Neighborhoods (BEGIN) program, $95 million for the Transit Oriented Development (TOD) bonds, $200 million for the Infill Incentives Grant.

There was considerable discussion in this committee regarding changes to the final guidelines for both the Transit Oriented Development Grants (TOD) and the Infill Incentive Grants. For the TOD grants, priority points for affordability were cut in half, and instead used to prioritize "project size." For the Infill Incentive Grants the guidelines changed the focus from "projects" to "areas". As a result, the Legislature required Supplemental Reporting Language from HCD by March 1 on "the affordability and number of units created through disbursements for funding from the Infill Incentive and Transit Oriented Development grant program under Proposition 1C."

### COMMENTS

The department was able to share a draft response to the requested Supplemental Reporting Language. Data shows that 67 percent of infill and 48 percent of TOD units will be restricted at or below the moderate-income limit. The committee may wish to inquire how this compares with outcomes from previous grants of this nature.

Additionally, the committee may wish to receive an update from HCD and the Department of Finance regarding the impact on 1C projects of the stop work order issued by the Pooled Money Investment Board (PMIB).

## ISSUE 3: OFFICE OF MIGRANT SERVICES UPDATE

The purpose of the Office of Migrant Services (OMS) is to provide safe, decent and affordable seasonal rental housing and support services for migrant farmworker families during the peak harvest season. The General Fund provides 2/3rds of the funding for the facilities, and the tenant's rent pays the rest.

Last year the Governor proposed a reduction of $687,000, but assumed only $343,000 in savings in the Budget Year due to the time delay to implement changes. The Legislature rejected the Governor's reduction of $343,000, but the final budget reflected the Governor's veto of that amount from HCD's budget.

In order to avoid closures of facilities, HCD administratively cut funding for the OMS facility in Firebaugh, CA because they were able to fund their operation through reserves.

While the 2009-10 approved budget maintains the cut of $687,000, HCD adopted a $2 per-day rent increase in July of 2008 phased in over two fiscal years. Each additional dollar of rent is estimated to generate $250,000 in revenue annually. With the savings of $200,000 by ending subsidization of the Firebaugh OMS facility, and increased rent, HCD doesn't expect any facility closures.

*OMS FUNDING*
*Dollars in millions*

| | 2004-05 | 2005-06 | 2006-07* | 2007-08 | 2008-09 | 2009-10 |
|---|---|---|---|---|---|---|
| GF | 5.3 | 5.3 | 8.7 | 6.3 | 6.0 | 5.6 |
| FF | 0.6 | 0.5 | 0.6 | - | 1.8 | 1.8 |
| Rents | 3.1 | 3.0 | 2.9 | 3.0 | 3.2 | 3.5 |
| Totals | 9.0 | 8.8 | 12.2 | 9.3 | 11.0 | 10.9 |

** Includes one-time augmentation of $2.4 in the General Fund*

HCD, however, has also expressed an interest in continuing to work to transfer other facilities to local responsibility. The committee may wish to ask what impact this would have on the OMS program and the facilities transferred to local control.

**COMMENTS**

Little information has been provided as to the impact on the Firebaugh facility after the state ended subsidization. It is possible that the facility may expand from season service to year-round housing and provide service to non-farm workers as well. The committee may wish to direct staff to inquire further as to the status of the Firebaugh OMS facility.

## ISSUE 4: FEDERAL STIMULUS FUNDING

According to the LAO, the American Recovery and Reinvestment Act of 2009 (ARRA) provides approximately $13.5 billion nationwide for various housing–related programs, including funds for affordable housing development, homelessness prevention, rental assistance, and emergency assistance for the redevelopment of abandoned and foreclosed homes. Of this amount, about $10 billion will be allocated to state and local housing agencies based on funding formulas used to make the 2008 grant awards. The remaining $3.5 billion will be competitively awarded. The LAO estimates California's share of the housing monies to be somewhere between $1.1 and $1.3 billion.

The Neighborhood Stabilization Program provides $2 billion in assistance to state and local governments to acquire and redevelop foreclosed properties. These funds will be awarded competitively.

Other large pots of funding include: (amounts given are estimates of California's share)

- $118 million – Public Housing Capitol Funding
- $189 million – Homeless Prevention Funds
- $123 million – Community Development Block Grants
- $305 million – Home Choice Vouchers
- $325 million – HOME Tax Credit Assistance Program

**COMMENTS**

The LAO has raised concerns regarding the $325 million provided for the HOME Tax Credit Assistance Program. This program provides tax credits to investors as a means to attract private capital into new construction and rehabilitation of affordable rental housing. The Tax Credit Allocation Committee (TCAC) is the entity given authority to administer the program in California.

These funds are intended to be used as loans to affordable housing projects previously and newly approved to receive tax credits. LAO points out that TCAC has not historically administered loan programs, and may not be best suited to administer such a program. They suggest that TCAC contract with HCD or CalHFA to administer the program based on their history of successfully implementing housing loan programs. The committee may wish to ask HCD if they have had discussions about such collaboration with TCAC.

The committee may also wish to ask if HCD has looked at other pots they may be able to draw down in ARRA funds. For instance, there is funding available for Weatherization Assistance. While these funds are not directly administered by HCD, it may be possible for programs under HCD's Office of Migrant Services to receive these funds to improve their centers.

## ISSUE 5: EMPLOYEE HOUSING PROGRAM

The purpose of the Employee Housing Program is to safeguard the health and safety of persons occupying employee housing and the community where employee housing facilities have been established.

Last year the Governor proposed a budget balancing reduction of $85,000, achieved by a reduction in investiagtion staff (2/3 of a position). The Legislature expressed a concern that investigation levels were already inadequate, and further reductions would only exacerbate the problem. In addition to General Fund dollars, the program is funded by fees imposed on the employers providing the housing. The fees range from $12 to $35 and have not been adjusted since approximately 1982. As such, the Legislature's approved budget reduced General Fund expenditures, but increased the fees by an equivelent amount in order to backfill the lost General Fund revenues (approximate fee increase of 36%).

The final budget, however, included the Governor's veto of not only the $85,000 in increased fees, but a complete elimination of general fund revenue for the program ($761,000 additional reduction). This left only minimal funding from the existing fees (approximately $231,000). With minimal funding, HCD could only provide emergency services.

As of 2007 there were nearly 20,000 beds in 765 permitted facilities. Of these, HCD could only inspect those needed on an emergency basis this year.

***Housing and Community Development***
***Employee Housing Program***
***Number of Employee Housing Units - Statewide***
***Calendar year***

| | ***2007*** | ***2006*** | ***2005*** | ***2004*** | ***2003*** | ***2002*** | ***2001*** | ***2000*** |
|---|---|---|---|---|---|---|---|---|
| *Number of beds/lots* | *19,621* | *18,991* | *18,802* | *20,594* | *22,979* | *23,117* | *23,652* | *12,500* |
| *Number of Permit to Operate* | *765* | *775* | *761* | *810* | *837* | *1,114* | *1,077* | *694* |

*Data taken from the Employee Housing Statistical report*

The Governor's proposed 2009-10 budget continued to eliminate all General Fund support, but went one step further and eliminated the fee's on employers providing housing, and completely eliminated the state's role in inspecting their facilities. Trailer Bill Language is included in the proposal to specify that HCD's responsibilities would be suspended in any year they are not funded for such activities.

The Governor's proposal would instead rely on local governments to provide these inspections. Counties are currently authorized to provide this service instead of HCD, and they can also charge higher fees than HCD for providing such services. Currently only 10 counties have elected to do so (Kern, Merced, Monterey, Napa, Sacramento, San Joaquin, San Mateo, Santa Cruz, Stanislaus, and Tulare). Though the counties may charge higher fees, that is not typically the case. Five counties charge the same per employee fee of $12, with the highest fee at $20. Four counties charge the same permit to operate fee, 3 more are under $50, with only Monterey ($77), Tulare ($200) and Santa Cruz ($362) significantly above the HCD fee level.

Under existing law, HCD is required to inspect all employee housing facilities unless the prior year inspection revealed no violations or complaints received. Based on these requirements, HCD inspects approximately 75% of the permited facilities. As discussed below, this statute could be modified to decrease the number of inspections required each year by prioritizing more high risk facilities.

HCD conducted 330 inspections in 2006, and found 148 violations. The committee may wish to ask for more detail on how those inspections can be focused on those most likely to have violations.

**COMMENTS**

The LAO highlights that there are alternatives to the Governor's proposed elimination of the employee housing program. Those alternatives include shifting responsibilities to local governments, increasing permit fees to cover the full cost of the program, or scaling down the inspection program.

The Governor's proposal does not require locals to take over the inspection program. The LAO points out that local governments currently have the option of providing these services, and most do not. So there is little reason to believe it is a task they wish to take on. One option would be to require local governments to enforce employee housing requirements. They already have the fee authority to do so, so it would not be a reimbursable state mandate. This is the LAO's recommendation.

Another option is to increase permit fees, but according to the department it would require an increase in the average fee paid to approximately $2000 per facility in order to maintain 2007-08 funding levels. The problem with raising fees significantly is the risk of employers choosing to stop provide housing for their employees altogether.

The final option is to scale down the number of inspections conducted each year. HCD estimates that it conducted inspections at about 75% of all facilities based on existing law in 2007-08. Statute could be changed, however, to allow HCD to focus on those facilities with more complaints or the worst conditions. This could significantly reduce the number of inspections required, and thus reduce the fee increase necessary to maintain those levels of service. More detail would be required from HCD to determine the best way to set those priorities. If this option is of interest to the committee, the committee may wish to direct staff to work with HCD to determine feasible methods of prioritizing inspections and what the necessary fee increase would be for those levels of inspection.

Staff notes that the department has existing authority to increase fees but has not done so.

## ISSUE 6: CODES AND STANDARDS FEE INCREASE – MOBILE HOME PARKS

The Mobilehome Parks Program develops, administers, and enforces uniform statewide standards that assure owners, residents, and users of mobilehomes and recreational vehicles protection from risks to their health and safety.

The program enforces the Mobilehome Parks Act (MPA) and adopts state regulations for construction, use, maintenance, and occupancy of mobilehomes. Their duties include periodic maintenance inspections of parks, issuing annual permits to operate, issuing permits to construct, expand, or alter parks, and investigating complaints and violations of the MPA. In 2007 alone, the number of complaint inspections doubled. HCD enforces the MPA in over 4,100 mobilehome parks located in about 500 cities and counties. In the last two years, 14 jurisdictions have returned enforcement responsibility for 231 parks to HCD, and only 2 jurisdictions have taken responsibility for the parks in their area (27 parks).

The 2009-10 budget makes a series of changes to deal with a shortfall in revenues for the Mobilehome Park Revolving Fund (Park Fund) and the Mobilehome-Manufactured Home Revolving Fund (Mobilehome Fund). These changes are already included in the approved 2009-10 budget, but the Trailer Bill Language that actually implements the necessary fee increases still needs to be approved. The budget:

- Increases the registration fee for manufactured housing, mobilehomes and commercial modulars from $11 to $23.
- Increases the permit to operate fee for mobilehome parks from $25 to $140.
- Increases the per lot fee in mobilehome parks from $2 to $7.
- Loans $2.1 million from the Mobilehome Park Purchase Fund (Purchase Fund) to the Mobilehome Fund.
- Loans $0.9 million from the Purchase Fund to the Park Fund.

- Reduces the programs supported by the Mobilehome Fund in 2009-10 by $4.1 million and 18.6 positions.
- Reduces the programs supported by the Park Fund in 2009-10 by $0.12 million and 3.4 positions.

According to the administration, due to the downturn in the economy, funding for manufactured housing programs declined in recent years. While the funds were being monitored due to decreasing reserves, they experienced a 20 percent drop in revenue this year. Fewer homes are being built, sold, installed and transferred. From 1998-99 to 2007-08, registration fee transactions have dropped from 500,000 units to 360,000 units. The only reason these funds were able to last this long is due to reserves built up during the housing surge. Without corrective action, both the Mobilehome and Park Funds are expected to be in the red before the current fiscal year is over.

Reductions:
The proposal calls for a reduction of 22 positions. While these reductions will result in reduced training and monitoring of local jurisdictions for compliance with statutes and regulations, less updating of local jurisdictions as program or code changes are implemented, less responding to incorrect local interpretation and/or implementation of building standards, and reduced inspections of manufacturers and dealers of manufactured housing, HCD believes this proposal provides the resources necessary to adequately provide services to their constituents.

Fee increases:
While reduced revenue due to decreased sales is part of the problem, the existing fee structures are over 70 years old in some cases and haven't kept up with increasing salaries, benefits, central service costs, and travel costs for inspectors.

Case in point, the registration fee has not changed since 1967. In 1967 the fee was collected by the DMV just like cars, boats, etc. which were also charged an $11 registration fee. The DMV registration fee, however, has gone from $11 in 1967 to $31 in 2004 (this is just for the registration portion of the fee). Other fees are in similar situations. The permit to operate fees have been the same for 77 years, and the per-lot fees haven't been changed in 35 years.

If the Registration fee had been maintained at a minimal 2 percent inflation over time, it would be at $25 currently, and this proposal only raises it to $23. Similarly, the permit to operate fee would exceed $180 with just 2 percent inflation each year since it was last raised.

Loans:
Because the fee increases likely cannot be implemented until January of 2010, in order to avoid devastating cuts to the program, loans are necessary to backfill the half-year of increased fees that will not be collected.

The solution also includes a “one-time acceleration of revenues due to an accounting change."  Funds paid to HCD that require time to process, investigation or review prior to clearing are placed in the “Uncleared Collections Account."  When the investigation clears the funds or when funds are processed, they are either returned, or deposited in the appropriate fund.  For all funds in the Uncleared Collections Account at present, those funds will be counted toward the Mobilehome Fund at one time for approximately $2 million in funding for 2008-09. In the future, however, all funds will be accounted for in the fiscal year they are cleared.

According to the administration, these changes, collectively, allow HCD to continue to offer sufficient service levels during this economic downturn, and are sufficient to eliminate the structural deficit that had developed over time.

**COMMENTS**

The Governor has presented a well-balanced proposal to deal with an urgent situation.  The fee increases appear reasonable given the time frame since they were last raised.  The committee may wish to inquire why the fees weren't adjusted according to inflation numbers in order to regain the original purchase power of those fees.  The proposed loans seem reasonable as well.

The revenue assumptions made by HCD count on increased revenue starting in 2010-11 based on a 5% annual growth rate.  Staff would question the accuracy of 5% revenue growth beginning in 2010-11.  Given the continuing fiscal woes of the state, it may be prudent to predict slightly lower fee revenue.

One possible way to mitigate variance in the revenue growth rate would be to index the fees to ensure we don't have another situation in 30, 40, 70 years where the fees have become so out of date that they are impairing the ability of the program to function.

## ITEM 2320 DEPARTMENT OF REAL ESTATE

### ISSUE 1: FUND CONDITION

The Real Estate Fund (RE Fund) is the Department of Real Estate's main source of support. The RE fund derives most of its revenues from real estate license and application fees as well as fees charged to those wishing to subdivide lands. The fund has experienced less and less revenues recently and is at risk of becoming insolvent. A number of factors have contributed to the deterioration of the fund:

<u>Downturn in Real Estate Market:</u>
The real estate market experienced a large boom from 2002-03 to 2005-06. Since the downturn in the real estate market, applications for licenses have dropped off sharply, as have RE Fund revenues accordingly. From 2007 to 2008 the monthly average of original broker's licenses issued dropped 32 percent and the monthly average of original salesperson licenses issued dropped 66 percent. Likewise for examinations, from 2007 to 2008 the monthly average of broker's license exams administered dropped 37 percent and the monthly average of salesperson exams administered dropped 81 percent. Similarly, smaller drops were seen from 2006 to 2007.

<u>Access to License Exams:</u>
*Chapter 278, Statues of 2006 (AB 2429, McLeod),* which went into effect October of 2007, requires all applicants for the Real Estate Salesperson's License to complete three specified courses and pass the examination before obtaining the four-year license. Prior to the enactment of this legislation, applicants could take only one specified course and be allowed to take the exam. If they passed the exam they would receive an 18 month conditional license under which time they would be required to take the additional 2 courses. This legislation reduced a significant number of applicants. The analysis for AB 2429 notes that the three years prior to the bill introduction the Department of Real Estate issued 100,000 licenses of which over 85 percent were conditional.

<u>Past General Fund Borrowing:</u>
Revenues soared between 2002-03 and 2005-06 due to the real estate boom at the same time, and caused a large accumulation in the RE Fund. To ease the state's fiscal problems in 2002-03, $10.9 million was loaned to the General Fund (GF) from the RE Fund with the intent that the programs supported by the RE Fund not be adversely affected.

The Department has taken action to remedy the fund condition by administratively raising their fees. Section 10226.5 of the Business and Professions Code (*Chapter 232, statutes of 1997, AB 447, Kuykendall*) requires DRE to lower their maximum fee levels any time funds are transferred from the RE Fund to the GF. The levels are lowered according to a schedule set forth in the same statute. DRE was required to drop their fees considerably in 2003 following GF borrowing. The newest fee increases will raise all fees to their statutory maximums. Some highlights of the fee increases are:

- A broker's license will increase from $165 to $300 for a four year license.
- A salesperson license will increase from $120 to $245 for a four year license.
- A Broker's Examination will increase from $50 to $95.
- A Salesperson License will increase from $25 to $60.

After accounting for these fee increases, the DRE projects a revenue stream averaging $37 million annually from 2010-11 through 2013-14 and simultaneously project expenditures averaging $45 million. With these projections, the RE Fund will become insolvent in 2012-13, anticipating no repayment of the GF loan. When accounting for the GF loan repayment the RE Fund will still become insolvent one year later in 2013-14.

## COMMENTS

DRE has significant funding problems. All projections show the RE fund heading toward a negative balance. The 2002-03 budget bill language regarding the loan to the GF says the legislature intends to repay the funds "so as to ensure that the programs supported by this fund are not adversely affected by the loan." The committee may wish to ask the Department of Finance why this loan isn't being paid prior to a fee increase.

The Department should be looking at many ways to create long term stability for the RE fund. They have increased their fees to their maximums and will not solve their funding problems by doing so. DRE has discussed a "Fee Study" they are conducting that should be completed this fall. The study will address each fee and the associated and costs to the Department. If this study concludes with a need to change fee structure it will more than likely require legislative action. An updated workload justification analysis should be included in the broader conversation regarding long term RE Fund stability.

## ISSUE 2: WORKLOAD SHIFT

As noted earlier, since the downturn of the real estate market applications for licenses have dramatically decreased. Accordingly, DRE's workload demands have changed. The 2009-10 budget as adopted reflects no change in personnel or funding levels between Licensing and Education, Enforcement and Recovery, and Subdivisions.

## COMMENTS:

The Department has discussed workload shifts several times. At the time of this hearing, the committee has received no data detailing these shifts. The Department grew significantly in the past 5 years with their expenditures increasing by approximately 50 percent during this time. If this growth in the Department was to address the expanding real estate market activity, the Department should explain the continued workloads in today's market. The committee may wish to ask for more details on the current use of staff.

## ISSUE 3: BUDGET CHANGE PROPOSAL (BCP) TO RELOCATE

DRE has requested a one-time augmentation in the amount of $1 million to relocated and consolidate both the Sacramento Headquarters Office and the Examination Center. Both are currently located in downtown Sacramento adjacent to one another with the current rent of $938,000 per year. The lease at the current location is up this year. The rent for the new location is estimated at $2.6 million with a 3 percent annual increase. DRE along with Department of General Services has narrowed the search to 2 locations, both in Natomas, north of downtown Sacramento. The current location is approximately 45,000 square feet and the new location will be approximately 64,000 square feet.

The Department stated many reasons for requiring relocation including:

- Construction, safety concerns, and deterioration problems. Weight concerns are prevalent throughout the second floor and affect the ability to store the massive amounts of files DRE is required to keep.

- Americans with Disabilities Act compliance issues are prevalent throughout the entire facility.

- Both the headquarters and testing center lack adequate space for: files and documents, conference and training space, front counter or lobby area at examination center, computer and equipment staging area, office supplies, and temporary staff.

- Several other miscellaneous issues exist with the current facility including: inadequate electrical systems, leaking sewer systems, and ineffective and inefficient climate controls.

**COMMENTS:**

DRE's current facility is deteriorating and relocation would address many of their concerns. Since DRE and Department of General Services (DGS) have not negotiated a new lease at the current facility, this committee can not evaluate the fiscal impact of choosing to relocate versus staying at the current facility. Rent at the new facility is approximated at $2.6 million, more than two and a half times the current rent. However, this comparison does not effectively reflect the relocation's fiscal impact to DRE, as a renegotiated lease at the current facility could prove to be much more costly than the current $938,000 per year.

The Department has also indicated that prior estimates of rent at a new facility are no longer accurate. There are two facilities desiring DRE's occupancy, allowing DRE and DGS to negotiate lower rent offers from each. The committee may wish to ask the Department to provide the costs associated with staying in their current facility.