

California State Assembly



AGENDA

Subcommittee No. 5 on State Administration

Assemblymember Sharon Quirk-Silva, Chair

Wednesday, August 7, 2024

1:30 P.M. – State Capitol, Room 127

Informational Hearing

**From Surplus to Shelter: Transforming Excess State-Owned Properties
Into Affordable Housing**

I. Welcome and Opening Remarks

- Assemblymember Quirk-Silva, Chair

II. Overview and Update on the State's Effort to turn Excess State-Owned Properties into Housing and Update on Adaptive Reuse Projects

- Jason Kenney, Chief Deputy Director, Department of General Services
- Megan Kirkeby, Deputy Director, Housing Policy Development, Department of Housing and Community Development
- Danielle Foster, Executive Director, Capital Area Development Authority

III. Overview and Implementation Update of Proposition 1 (2023): Bonds to Build more Places for Mental Health and Drug or Alcohol Treatment and Additional Housing

- Ryan Miller, Principal Fiscal and Policy Analyst, California Legislative Analyst
- Jennifer Seeger – Deputy Director, Financial Assistance – State Programs, Department of Housing and Community Development
- Lindy Harrington, Assistant State Medicaid Director, Department of Health Care Services
- Marlies Perez, Community Services Division Chief, Department of Health Care Services

IV. Public Comment

V. Adjournment

ISSUE

This hearing will examine the state’s initiative to turn excess state-owned properties into affordable housing and provide updates on ongoing adaptive reuse housing projects. The hearing also will examine how these initiatives can be replicated or receive additional support with the upcoming implementation of Proposition 1 (2024), which allocates significant investments in supportive housing through general obligation bonds.

BACKGROUND

Transforming Excess State-Owned Properties into Housing

In response to the acute shortage of affordable housing in California, Governor Newsom signed in January 2019 Executive Order N-06-19, which directed the Department of General Services (DGS) to review and create an inventory of all state-owned property that are deemed in excess of the state’s needs. The Executive Order further directed DGS, the Department of Housing and Community Development (HCD) and the Housing Finance Agency, to create screening tools to prioritize affordable housing development on excess state lands, and issue Requests for Proposals from affordable housing developers interested in entering into low-cost, long-term ground leases on surplus state sites. AB 2233 (Quirk-Silva, Chapter 438, Statutes of 2022) and SB 561 (Dodd, Chapter 446, Statutes of 2022) were subsequently signed into law codifying the provisions of Executive Order N-06-19 and required DGS to repeat a property analysis every four years.

Following the executive order, DGS conducted a review of all state properties for potential suitability for affordable housing. Upon determination that the properties were not in use, were not planned to be used, or were not contaminated in a way that would preclude housing, such properties were declared excess and included in the housing program created by the executive order. DGS reports that it has conducted an evaluation of 44,000 state parcels, which constitutes the entire inventory of state-owned land in California. Following this review, DGS and HCD began repurposing and developing state property into housing.

On July 1, 2024, pursuant to AB 2233 and SB 561, DGS conducted a second statewide analysis of all state property for housing suitability. Following this review, 114 sites¹ have been both declared excess and determined as suitable for housing. At the time of writing, 16 projects are listed in development, 3 projects under construction, and 1 project completed, for a total of 20 projects. A current, digitized inventory of excess state land is publicly available on the DGS website.

¹ The term “site” differ from “parcel,” as a single site may be comprised of one or more parcels.

Current Projects:
<p><u><i>In Development</i></u></p> <p>Arden Way Affordable Housing Project (Sacramento) Atascadero State Hospital - Paseo Paloma Affordable Housing Project Capitol Mall - Sacramento Affordable Housing Project Clearlake Affordable Housing Project Covina Affordable Housing Project Fresno DWR Affordable Housing Project Los Angeles Affordable Housing Project Montebello Affordable Housing Project (244 George Hensel Drive) Placerville Affordable Housing Project Sacramento Affordable Housing Project (805 R Street) San Diego Affordable Housing Project San Francisco Affordable Housing Project San Francisco DMV Stockton Affordable Housing Project San Quentin Affordable Housing Project Truckee Affordable Housing Project</p> <p><u><i>Under Construction</i></u></p> <p>Reedley Affordable Housing Project Riverside Affordable Housing Project South Lake Tahoe Affordable Housing Project</p> <p><u><i>Completed Projects</i></u></p> <p>CADA Sonrisa Affordable Housing Project (Sacramento)</p>

Source: Department of General Services, Real Estate Division

To assist with the implementation of those projects, HCD has established the Excess Sites Local Government Matching Grants, which provides grant-based funding to match local government funding for selected developers to support predevelopment and development of affordable housing on excess state sites. HCD reports \$123.5 million in matching grants provided across three rounds of funding.

Adaptive Reuse

Adaptive reuse broadly refers to reusing an existing building for a purpose other than which it was originally built or designed for. Since the COVID-19 pandemic and the increased use of hybrid telework schedules, the state has examined opportunities for adaptive reuse to transform unused state office buildings into housing units.

Adaptive reuse aims to repurpose a portion or the entirety of a building’s infrastructure to avoid costly capital outlay investments. However, it is possible that a building may not be suitable for adaptive reuse (e.g. inadequate floorplates and layouts, suboptimal site utilization, extent of

modifications to building systems to bring the building up to current housing code, etc.) and that it may be more cost-effective instead to demolish and rebuild the property entirely.

In 2020, DGS studied two Employment Development Department headquarter buildings in Sacramento and determined that those offices, along with the State Personnel Board building, were suitable for adaptive reuse and could produce approximately 400 one, two, and three-bedroom homes for lower-income households. Following a solicitation, DGS and HCD awarded the site to a developer to adaptively reuse the three state office buildings.

In 2022, DGS began developing an assessment tool to evaluate a building's suitability for adaptive reuse, which considers technical factors such as building systems and configuration, status of repairs, and adjacency to transit and amenities of the surrounding neighborhood.

Subsequently, Assembly Bill (AB) 2592 (McCarty, Chapter 439, Statutes of 2022) required DGS to draft a report to the Legislature that creates a streamlined plan to transition underutilized, multi-story state buildings into housing. In 2023, DGS further evaluated 13 buildings for adaptive reuse potential. These buildings were selected due to their potential to be vacated and to be deemed excess. Of these 13 buildings, 10 were determined unsuitable for adaptive reuse, and 3 were ultimately determined to be viable for adaptive reuse. The following buildings have been identified as viable for adaptive reuse:

- 714 & 744 P Street, Sacramento (Office Buildings 8 & 9)
- 2550 Mariposa Mall, Fresno (Hugh Burns State Building)
- 3737 Main Street, Riverside (California Tower)

Overview and Implementation Update of Proposition 1 (2023): Bonds Financing for Housing and Mental Health and Drug or Alcohol Treatment

In 2024, voters approved Proposition 1. In addition to making changes to the Mental Health Services Act, the Proposition approved a \$6.4 billion general obligation bond to build additional housing for people with mental health, drug, or alcohol challenges and additional places for mental health care and drug or alcohol treatment.

Supportive Housing

Out of the \$6.4 billion in Proposition 1 bond funding, \$1.987 billion is planned to be administered and managed by HCD to fund supportive housing modeled after Project Homekey. The project provided grant funding to public entities to develop a wide range of housing types, including hotels, motels, hostels, single family homes and multifamily apartments, adult residential facilities, manufactured housing, and to convert commercial properties and other existing buildings to permanent or interim housing for target populations. Out of this \$1.987 billion in funding for supportive housing, \$1.065 billion will be administered in collaboration with CalVet to fund housing investments for veterans experiencing or at risk of homelessness and who have

behavioral health challenges, and \$922 million is earmarked for housing investments for people experiencing or at risk of homelessness and who have behavioral health conditions. The Administration anticipates the Notice of Funding Availability to be released in Winter 2024.

Bond Behavioral Health Continuum Infrastructure Program

Out of the \$6.4 billion in Proposition 1 bond funding, \$4.4 billion is for treatment sites that will be modeled after the Behavioral Health Continuum Infrastructure Program (BHCIP) known as Bond BHCIP. Administered by the Department of Health Care Services, this program will construct, acquire, and expand mental health and substance use disorder treatment facilities. This may include investing in the expansion of treatment beds and outpatient slots, and by building new behavioral health infrastructure. In July 2024, the Administration announced the release of \$3.3 billion of funding for the first round of the Bond BHCIP, with funds planned to be awarded in May 2025. The Administration plans to issue the remaining \$1.1 billion in funding through future rounds of Bond BHCIP funding, with the next Request for Application anticipated to be released in May 2025.

Staff Comments

The subcommittee may wish to ask the following questions:

Regarding Excess State Sites Redevelopment:

- What is the general timeline for completion of the 19 remaining excess site projects?
- What are options to assist with financing of excess state sites? Will Proposition 1 funding be able to support these projects?
- What are the lessons learned from the successful completion of the Sonrisa Affordable Housing Project that are being applied to current and future projects?

Regarding Adaptive Reuse:

- What is the status of the conversion of the EDD and State Personnel office buildings into affordable housing?
- Has the Administration developed options for the 3 state buildings that were identified as viable for adaptive reuse?
- What are the primary factors that make state properties unviable for adaptive reuse?
- Does HCD plan to leverage Proposition 1 funding to support adaptive reuse projects?

Regarding Proposition 1

- What activities have been funded through BHCIP?
- What are DHCS's priorities when funding or selecting treatment sites through Bond BHCIP?
- Is HCD planning to use bond funding to support existing programs, set up new ones, or both?
- Can HCD provide detail on their plans for administering the housing portion of the Proposition 1 bond?