AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 STATE ADMINISTRATION

ASSEMBLYMEMBER JIM COOPER, CHAIR

TUESDAY, APRIL 30, 2019

1:30 P.M. - STATE CAPITOL, ROOM 447

ITEMS FOR VOTE-ONLY

2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

VOTE-ONLY ISSUE 1: VARIOUS LEGISLATIVE PROPOSALS

The Governor's budget includes four Budget Change Proposals (BCPs) that implement legislation enacted in 2018.

BACKGROUND

1. Affirmatively Furthering Fair Housing – Requests $346,000 in 2019-20, and $316,000 ongoing, (General Fund) for two positions to implement new requirements to further fair housing pursuant to AB 686 (Santiago, Chapter 958, Statutes of 2018).
2. Loan Portfolio Restructuring - Requests $985,000 in 2019-20, and $940,000 ongoing, (Housing Rehabilitation Loan Fund) for five positions to restructure loans made under the Multifamily Housing Program (MHP) and all other multifamily housing loans funded or monitored by Department of Housing and Community Development (HCD) pursuant to AB 2562 (Mullin, Chapter 765, Statutes of 2018).
3. Mobilehome Purchase Program - Requests $935,000 for five positions in 2019-20, $860,000 for five positions in 2020-21, and $495,000 for three positions ongoing (State Operations) for the Mobilehome Park Rehabilitation and Resident Ownership Program (MPRROP), pursuant to AB 2056 (E. Garcia, Chapter 750, Statutes of 2018).
4. Mobilehome Residency Law Program - Requests $1,057,000 in 2019-20, and $3,872,000 ongoing, (Mobilehome Dispute Resolution Fund) for five positions in 2019-20, and seven positions ongoing, contracted legal services, and infrastructure upgrades to implement the Mobilehome Residency Law Protection Act (MRLPA) pursuant to AB 3066 (Stone, Chapter 774, Statutes of 2018).

STAFF COMMENT

These BCPs implement bills enacted in 2018. The costs included in these BCPs are consistent and lower than the cost estimates included in the fiscal analyses as the bills made their way through the legislative process.

Staff Recommendation: Approve as Budgeted.

VOTE-ONLY ISSUE 2: INFORMATION TECHNOLOGY AND DESKTOP SUPPORT

The Governor's budget requests $487,000 (General Fund) and three positions beginning in fiscal year 2019-20, and ongoing, to meet the additional workload requirements associated with the transfer of infrastructure and desktop support responsibilities from the Governor's Office to the Governor's Office of Business and Economic Development (GO-Biz).

BACKGROUND

The Governor's Office previously provided information technology support services, such as networking and desktop support, to GO-Biz. Last year, the Governor's Office stopped providing this support and transitioned the responsibility in October to GO-Biz.

GO-Biz's Information Technology (IT) Unit develops, maintains, and updates information technology solutions for GO-Biz programs aimed at furthering the Governor's goal of economic growth for California. Since the establishment of GO-Biz, the Governor's Office IT Unit has provided infrastructure and desktop support services for GO-Biz.

In February 2018, GO-Biz was notified by the Governor's Office that infrastructure and desktop support services would no longer be provided by the Governor's Office. The requested date to migrate to another infrastructure and client services support provider was initially set for June 30, 2018. After further planning and analysis, it was determined to be more cost effective to perform these services in house; and GO-Biz would migrate from the Governor's Office and assume responsibility for its infrastructure and desktop support services by the end of October 2018.

To address the current year workload, GO-Biz will use existing salary savings from vacant positions to hire temporary help staff in addition to temporarily redirecting existing staff. However, the use of salary savings cannot be continued on an annual basis as this is a temporary source of funding. Further, GO-Biz can only redirect staff on a temporary basis. In order to meet the additional ongoing workload associated with the migration, GO-Biz will require three additional permanent positions.

STAFF COMMENT

The additional staff is needed to support GO-Biz on an ongoing basis. Staff has no concerns with this request.

Staff Recommendation: Approve as Budgeted.

ITEMS TO BE HEARD

0515 BUSINESS, CONSUMER SERVICES AND HOUSING AGENCY
2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

ISSUE 1: ASSEMBLY HOUSING AND HOMELESSNESS FRAMEWORK

The Assembly includes a preliminary Housing and Homeless framework that works within the funding parameters of the Governor's January proposal but reflects priorities voiced by members and key stakeholders on housing and homelessness. The main provisions are outlined below, and additional detail will follow after the May Revision.

BACKGROUND

Planning and Production Grants ($750 million)

- No transportation funding ties including SB 1.
- Provide $250 million to Council of Governments (COGs) and local jurisdictions to plan for upcoming Regional Housing Needs Allocation (RHNA) cycle. The funding will be split 50/50 for COGs and local jurisdictions for planning for the 5th and 6th RHNA cycles. It is anticipated that the 6th RHNA cycle numbers will be significantly higher than the 5th cycle.
- Focus $500 million on housing infrastructure over the counter grants. Model the proposed grants similar to the Infill Infrastructure Grant (IIG) program for housing infrastructure. The current IIG program supports infrastructure improvements to facilitate new infill housing development. IIG serves to aid in new construction and rehabilitation of infrastructure that supports higher-density affordable and mixed-income housing in locations designated as infill. Infill project sites must have been previously developed, or largely surrounded by development.

Long-Term Housing Production Strategy

- Create an advisory panel consisting of HCD, Office of Planning and Research (OPR) and stakeholders to provide recommendations to the Legislature on how to improve the RHNA process. The advisory panel should meet after HCD begins to implement AB 1771 (Bloom, Chapter 989, Statutes of 2018), and SB 828 (Weiner, Chapter 974, Statutes of 2018). This will ensure changes from last year can begin to be implemented and therefore have more information to evaluate moving forward. The Assembly agrees that the RHNA process needs to be revamped and looks forward to collaborating with the Administration to enact change.

Responding to Homelessness

- Increase from $500 to $600 million for a response to homelessness using a modified Homeless Emergency Aid Program (HEAP).

    - Maintain flexibility from HEAP program
    - Include additional reporting requirements to gather more data on the effectiveness of the program.
    - Change population allocation to include 13 cities.
    - Consider a higher percentage to be used on homeless youth
    - Maintain the infrastructure of the CoCs working with local jurisdictions.
    - Remove the emergency declaration but require an agency to show that the funding from the previous year has been allocated.
    - Split $600 million evenly between Big 13 and CoCs.

Tax Credits

- $500 million increase in tax credit (one-time) to expand the Low Income Housing Tax Credit (LIHTC) for federally subsidized low-income housing projects receiving 4 percent LIHTC. Of the $500 million, $200 million available for mixed income set aside.

- Lift the $75,000 cap on the state LIHTC allowed to be claimed per calendar year for each natural person

- Provide $500 million one-time to CalHFA for mixed-income loan program.

Other Legislation

- Defer CEQA legislation to the policy process.

STAFF COMMENT

The goal of the working framework is to allow stakeholders to give feedback and refine the Assembly proposal prior to the May Revision. The Assembly will continue discussions with the Administration based on input from members and stakeholders. Staff will bring more detail back to the Subcommittee after the May Revision.

Staff notes that the Governor’s January proposal was heard on February 26, 2019.

Staff Recommendation: Adopt Assembly Housing and Homeless Framework as outlined above.

0515 BUSINESS, CONSUMER SERVICES AND HOUSING AGENCY

ISSUE 2: UPDATE ON HOMELESS EMERGENCY AID PROGRAM

The Business Consumer Services and Housing Agency will provide an update on Homeless Emergency Aid (HEAP) program.

BACKGROUND

Established in 2018, the Homeless Emergency Aid Program (HEAP) provided localities with flexible block grant funds to address their immediate homelessness challenges. The Homeless Emergency Aid Block Grants provided $500 million in one-time funding to enable local governments to respond to homelessness. The following allocations were used for the 2018 funding:

- $250 million to Continuums of Care (CoCs) based on 2017 homeless point in time count;
- $150 million direct allocation to a city or city that is also a county with a population of 330,000 or more as of January 1, 2018; and
- $100 million to Continuums of Care based on their percentage of the statewide 2017 homeless population.

The eligible activities were flexible and included:

- Emergency housing vouchers
- Rapid rehousing
- Emergency shelter construction, and
- Use of armories to provide temporary shelters, among other activities.

STAFF COMMENTS

With the Assembly focused on providing additional one-time funding to an advanced HEAP program, the Subcommittee may wish to ask the Agency the following:

- What improvements should be made to the program if additional funding were included in this year's budget?
- Would the Agency need more staff to implement the program, if additional funding is provided?
- What sort of data or information would be helpful for the Agency to collect from the Cities and CoCs and should that information be provided to the Homeless Council, Legislature or other entity moving forward?

Staff Recommendation: Information only.

ISSUE 3: HOMELESS YOUTH ACT IMPLEMENTATION

The Business, Consumer Services and Housing Agency (Agency) requests $389,000 in 2019-20 and $359,000 ongoing for two positions to expand the Homeless Coordinating and Financing Council (Council) and implement SB 918, (Weiner, Chapter 841, Statutes of 2018), otherwise known as the Homeless Youth Act of 2018. The Council will coordinate with other state, local, and policy stakeholders to develop performance outcomes and metrics specific to homeless youth.

BACKGROUND

SB 918 requires the Council to work to decrease barriers to services for homeless youth through promoting cross-system partnerships with an array of state and federally-funded programs, including child welfare, juvenile justice, education, and mental health. Funding to address youth homelessness has lagged behind other homelessness funding, and programs for homeless adults and families are not typically appropriate for homeless youth.

The Agency requests two positions to accomplish the coordination and policy work required by this statute. The Council is requesting one additional position and to convert an existing limited-term HEAP Local Government Liaison position into a permanent position. The two positions requested are as follows:

- One Staff Services Manager I (Specialist) will act as the Council's youth homelessness policy coordinator. This position will be responsible for coordinating and providing technical assistance to the various state, federal and nongovernmental entities with homeless youth programs and funding so that greater coordination and alignment can occur. This position will also be responsible for assisting the Council in policy development and implementation specific to addressing youth homelessness.

- One Staff Services Manager II will act as the Council's local government liaison for youth homelessness. This position will be responsible for working directly with local jurisdictions, school districts and service providers.

STAFF COMMENT

The Assembly Appropriations analysis of SB 918 estimated that this bill would cost “likely in the hundreds of thousands of dollar to implement” the bill, which appears consistent with this proposal.

Staff Recommendation: Approve as Budgeted.

2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

ISSUE 4: REGIONAL HOUSING NEEDS ALLOCATION PROCESS

The Governor's budget requests $638,000 in 2019-20, and $543,000 ongoing, (General Fund) for three positions to implement AB 1771 (Bloom, Chapter 989, Statutes of 2018), and SB 828 (Weiner, Chapter 974, Statutes of 2018), which added methodology review requirements for HCD in the Regional Housing Needs Allocations (RHNA) process.

BACKGROUND

State law requires local jurisdictions to plan for their future housing needs through the RHNA process. Under RHNA, the Department of Finance and HCD develop forecasts of the number of housing units at various income levels needed to keep pace with population growth, which they allocate to regions throughout the state. Regional "councils of governments" allocate the regional housing need to local governments within those regions, which must develop a plan –the housing element portion of their general plan – to accommodate the additional housing growth.

Historically, HCD's RHNA determination methodology responsibilities was evenly distributed over a five-year planning period with due dates staggered. However, SB 375 (Steinberg, Chapter 728, Statutes of 2008), significantly changed this schedule, condensing the majority of the workload into approximately four years.

As part of the 2017 housing package, AB 1771 and SB 828 made important changes to the RHNA objectives, methodology, and distribution process, as part of a larger conversation in the Legislature on how to revamp the RHNA process.

STAFF COMMENT

Staff has no concerns with the resources included in the BCP to implement both AB 1771 and SB 828, since the new requirements will change the workload for staff at HCD. However, the Administration also has proposed additional changes to the methodology for allocating housing needs to regions and jurisdictions in their January proposal. Since that proposal is still under development, the Subcommittee should hold this item open to understand how those changes affect this BCP.

Staff Recommendation: Hold Open.

ISSUE 5: CDBG DISASTER RECOVERY PROGRAM

The budget requests $108,825,000 in 2019-20 and $2,555,000 ongoing Federal Trust Fund for 10 positions to design and implement the CDBG-Disaster Recovery Program focused on recovery from the 2017 Northern and Southern California wildfires.

BACKGROUND

On February 9, 2018, the federal government extended the 2017 Supplemental Appropriations for Disaster Relief Requirements and made available $28 billion in Community Development Block Grant -Disaster Recovery (CDBG-DR) funds. These funds are authorized for disaster relief, long-term recovery, restoration of infrastructure and housing, and economic revitalization in areas affected by a major disaster declared in 2017. The State of California will receive $212.3 million of the $28 billion to support long-term recovery and mitigation efforts related to the October and December 2017 wildfires. The Federal Emergency Management Agency (FEMA) identified the following counties in its major disaster declarations:

- October 2017 Declaration: Butte, Lake, Mendocino, Napa, Nevada, Orange, Sonoma and Yuba.
- December 2017 Declaration: Los Angeles, San Diego, Santa Barbara, and Ventura.

HCD must demonstrate to HUD adequate staff capacity, knowledge, skills, and ability to successfully implement and monitor CDBG-DR grant funds, as defined in program guidelines in The Federal Register Notices. The CDBG-DR funds are split into two components:

- $124.2 million for unmet recovery needs
- $88.2 million for preparedness and mitigation needs

Unmet recovery needs funding is designed to address disaster recovery needs that remain after local assistance has been exhausted, including federal assistance and private insurance. Mitigation funding will allow specific activities to protect communities from predictable damage from future disaster events. HCD is the responsible entity for implementing CDBG-DR funds for both unmet needs and mitigation funds.

STAFF COMMENTS

This request includes funding for the unmet needs portion of the program. HUD has not released details on the $88.2 million in preparedness and mitigation. HCD intends to bring forward a request for the resources necessary to distribute that funding once it is released.

Staff Recommendation: Approve as Budgeted.

ISSUE 6: DEFERRED MAINTENANCE

The budget requests $3,000,000 General Fund for deferred maintenance to address health and safety deficiencies at state-owned agricultural migrant housing centers.

BACKGROUND

HCD administers the Office of Migrant Services (OMS) program, which provides housing and housing-related services for migratory farmworkers and their families, making HCD responsible for repairing and rehabilitating the housing. HCD oversees contractors who operate 24 migrant centers with 1,885 housing units statewide. Rental rates at the housing centers have not increased for more than twelve years, leading to deferred repairs. The 24 OMS centers have a combined annual budget of roughly $9.5 million.

A 2018 inspection and assessment of OMS housing centers identified critical deferred maintenance needs due to health and safety concerns. This effort identified $9.6 million in deferred maintenance needs across the 24 OMS centers. This includes $3.9 million in repair needs for sewer and wastewater systems. The department has indicated that this request will allow the department to address critical water-related repair needs, though it is insufficient to fully perform the required repairs.

The department has indicated that the $900,000 in critical water-related repairs not covered by this request will be covered by remaining Proposition 1C funds directed to the Joe Serna Jr. Farmworker Housing program.

STAFF COMMENTS

The projects listed in this BCP are specific to sewer and wastewater projects. There continues to be other high priority deferred maintenance needs on the project list. The Subcommittee may wish to ask the Department how they plan to address those needs? Additionally, what strategies need to be employed to preserve and modernize our migrant housing centers?

Staff Recommendation: Approve as Budgeted.

ISSUE 7: HOUSING ELEMENT WORKLOAD ADJUSTMENT

The Governor's budget requests $1,361,000 in 2019-20, and $1,241,000 ongoing, (General Fund) for eight positions to expand and enhance its housing element review and enforcement functions.

BACKGROUND

The state plans for housing by first conducting a Regional Housing Needs Assessment (RHNA). Housing elements are a required part of each local government's general plan and updated to ensure that each local government is adequately planning to meet their existing and projected housing needs, including their share of the RHNA. After completion of its housing element, the local government submits it to HCD for review and approval.

Historically, HCD's RHNA determination methodology responsibilities was evenly distributed over a five-year planning period with due dates staggered. However, SB 375 (Steinberg, Chapter 728, Statutes of 2008), significantly changed this schedule, when it aligned the housing element due dates to the regional transportation plans due dates.

To date, HCD has participated in five RHNA cycles. The downturn of the housing market in 2008 resulted in many underdeveloped fourth cycle-identified sites. Consequently, the fifth cycle provided HCD with an opportunity to streamline its review process. HCD anticipates that the sixth RHNA cycle will be far more complex than past cycles due to a series of bills enacted in 2017 and 2018.

Current staffing levels are insufficient, due to an anticipated increase in housing element workload and a reduction in authorized positions. Limited-term positions are not sufficient to address the HCD's expanded responsibilities.

STAFF COMMENT

HCD currently has seven staff devoted to housing element workload. In 2013-14, HCD had 12 staff available for housing element review, including five limited-term positions provided for the peak of fifth cycle review workload. This request would lead to a total of 16 positions devoted to housing element workload. This includes seven currently filled housing element positions; one authorized housing element position associated with the implementation of AB 1397, and the eight positions requested in this proposal.

Staff Recommendation: Approve as Budgeted.

ISSUE 8: ORGANIZATIONAL DEVELOPMENT AND STRATEGIC PLANNING UNIT

The Governor's budget requests $1,361,000 in 2019-20, and $1,241,000 ongoing, (General Fund) for eight positions to expand and enhance its housing element review and enforcement functions.

BACKGROUND

The Organizational Development and Strategic Planning (ODSP) unit was created in 2017-18, for the implementation of strategic planning governance, business process innovation (BPI) projects, enterprise risk management, and organizational change management training. The ODSP unit is currently comprised of five positions, four of which are limited-term positions for up to 24 months. Employees who currently hold limited-term positions in the ODSP unit will return to their previous divisions within HCD on July 1, 2019.

Under the current structure, existing program staff and management do not have the time, skillset, or formal training to independently conduct thorough analysis using industry-proven methodologies. Efficiencies cannot be obtained without dedicated focus on training, developing, and coaching staff in BPI methodology. The ODSP unit provides hands-on consultation, training and support to coach identified program staff and management in BPI methodologies to build a sustainable structure within each respective program.

For example, business process reviews in the project financing and Community Development Block Grant programs have resulted in faster processing of program documents and improvements in program outputs (as measured by fewer errors in project documents).

Additionally, initiatives implemented by ODSP have already resulted in significant process improvements. For the project financing BPI has deployed solutions that have resulted in: an increase in the number of applications to executed standard agreements within 355 days; an increase in award letters to executed standard agreements within 90 days; a reduction of applications with Article 34 defects; and a reduction in applications with relocation defects.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Approve as Budgeted.

ISSUE 9: NO PLACE LIKE HOME (SFL)

The Department of Housing and Community Development (HCD) requests a $7 million General Fund loan for cash flow needs of the No Place Like Home Program (NPLH) until the NPLH bonds are issued in Fall of 2019.

BACKGROUND

Chapter 43, Statutes of 2016, and Chapter 322, Statutes of 2016, established the NPLH program, which develops permanent supportive housing for individuals who are in need of mental health services and are experiencing homelessness or are at risk of chronic homelessness.

In order to expedite the implementation of the NPLH program, a measure was placed on the 2018 November General Election ballot - No Place Like Home Act of 2018 (Proposition 2) - and was subsequently approved by the voters.

To expedite the production of housing in the NPLH program and in anticipation of passage of Proposition 2, HCD issued Notices of Funding Availability (NOFA) for the NPLH program in August and October 2018, as well as designated the Alternative Process (AP) Counties.

NPLH funds will be awarded to fund predevelopment and/or construction phases of projects for the AP Counties. Those projects will begin to draw funds in July 2019, prior to NPLH bonds sales in October 2019. The estimated AP County project disbursements from July to October 2019 is $7 million for construction funding. Because AP Counties are providing funding during the predevelopment and construction phases, funding is needed so that these local projects can begin construction. Therefore, HCD is requesting a General Fund loan for project expenditures that occur prior to the issuance of the NPLH bonds. The loan will be repaid by NPLH bond proceeds.

STAFF COMMENT

The General Fund loan will allow HCD to make disbursements to AP Counties for projects that will begin construction before October 2019.

Staff Recommendation: Adopt Spring Finance letter and provisional language.

ISSUE 10: CALHOME TRAILER BILL LANGUAGE

The Governor's budget proposes trailer bill language to allow the CalHome program to include accessory dwelling units (ADUs) and junior accessory dwelling units, and to authorize the program to make grants for housing purposes in declared disaster areas.

BACKGROUND

The CalHome program provides grants of appropriated funds to local public agencies and nonprofit developers to assist individual first-time homebuyers through deferred-payment loans for downpayment assistance, home rehabilitation, including manufactured homes not on permanent foundations, acquisition and rehabilitation, homebuyer counseling, self-help mortgage assistance, or technical assistance for self-help homeownership. Funds are loaned from grant recipients to individual homeowners.

Proposition 1 (2018), continuously appropriates $300 million in bond funds to the Self-Help Housing Fund for the CalHome program. CalHome has previously made awards of funds for disaster recovery in 2014, 2016, and 2018.

The trailer bill language proposes to allow cities and counties to assist moderate-income families who lost a home to disasters. Sonoma County, in particular, has few affected homeowners who earn less than 80 percent AMI but sees a great need to assist families up to 120 percent who otherwise have insufficient insurance proceeds to rebuild. CalHome funds are anticipated to be used as gap financing in this situation. HCD intends to offer a special CalHome Disaster NOFA and seek to help meet this need across the counties recently affected by disasters. Including ADUs for eligible program uses creates new housing units and helps homeowners retain homeownership.

The language includes a provision to serve moderate-income families in disaster areas only. The language requires awardees (local government and nonprofits) who serve moderate-income households to demonstrate to HCD how they will continue to serve low-income households.

The department anticipates offering a $75 million Disaster NOFA ($63 million from Propositions 46 & 1C and $12 million Proposition 1). This responds to the urgent needs of disaster areas. ADUs will not have a set aside, but simply be an eligible use of funds.

STAFF COMMENTS

The proposed language provides additional tools to use the CalHome program for disaster areas.

Staff Recommendation: Adopt placeholder trailer bill language.

ISSUE 11: LOCAL HOUSING TRUST FUND TRAILER BILL LANGUAGE

The Governor's budget includes trailer bill language to allow the Local Housing Trust Fund (LHTF) to make matching grants to Native American Tribes, and to increase the minimum size of awards to various local trusts.

BACKGROUND

The LHTF provides matching grants (dollar for dollar) to local housing trust funds that are funded on an ongoing basis from private contributions or public sources that are not otherwise restricted in use for housing programs. Recipients provide loans for construction of rental housing projects with units restricted for at least 55 years to households earning less than 60 percent of area median income, and for downpayment assistance to qualified first-time homebuyers. Current eligible recipients include cities and counties with adopted housing elements that the Department of Housing and Community Development (HCD) has determined comply with housing element law, and charitable nonprofit organizations. The minimum allocation is $500,000 for newly established housing trusts and $1,000,000 for trusts that have previously received funds from the program. The maximum allocation is $2,000,000 for new trusts and $1,000,000 for trusts that have previously received funds through the program.

The LHTF last made awards to local trusts in 2014, when $8.8 million was awarded to seven recipients. Proposition 1, approved by voters in 2018, continuously appropriates $300 million in bond funds for the LHTF.

STAFF COMMENTS

Unlike other Proposition 1 funded programs, LHTF is largely described in statute rather than guidelines or regulations. This makes it more challenging to update the program under the authority granted in Proposition. 1. The department has indicated that small grants have flat administration costs and are therefore relatively expensive. Given that the program has significantly more resources than in the past ($300 million Proposition 1, compared to only $35 million Proposition 1C and $25 million Proposition 46), HCD intends to target larger grants.

Native American tribes are currently not eligible recipients of LHTF funds. The department has made a concerted effort over the years in other program to treat tribes as any other local government. The proposed language will ensure tribes are not left out of the program.

Staff Recommendation: Adopt placeholder trailer bill language.

ISSUE 12: DEVELOPMENT AND COMPLIANCE MONITORING AUGMENTATION (SFL)

The California Tax Credit Allocation Committee (CTCAC) requests 1.0 Associate Government Program Analyst (AGPA) position for performing IRS Code Compliance Section monitoring services and 2.0 Associate Governmental Program Analyst (AGPA) positions for the Development Section to carry out core functions and to administer the federal and state mandates of the Low Income Housing Tax Credit (LIHTC) program.

BACKGROUND

CTCAC administers both federal and state low-income housing tax credit programs. These programs encourage private investment in rental housing development for low and very low income families and individuals

California is the largest user nationwide of the LIHTC program. Developers rely on federal, state, and local funding sources to build affordable housing as evidenced by the receipt of approximately 300 applications annually. To ensure federal compliance and properly maintained properties. CTCAC must perform federally-mandated compliance monitoring functions.

As the workload continued to increase, CTCAC contracted with an outside consulting firm in 2007 to produce a workload analysis of all compliance functions and staffing requirements. The study documented the need for one additional position every other year to adequately address the increasing workload. CTCAC has continued to use the workload analysis tool developed by the contractor to quantify staffing needs.

Compliance Section

CTCAC currently has automated systems in place to track Compliance Section workload. Reports are provided to management at least monthly. These reports allow management to assess the Compliance Section's progress in meeting the federal mandates. CTCAC management analyzes the reports to adjust monitoring workloads as needed to meet federal due dates. The additional AGPA position will allow CTCAC to meet the federally mandated compliance monitoring.

F. Projected Outcomes

Workload Measure	2017	2018	2019
Number of applications reviewed (Review #1 – applicable to all applications)	196 applications	230 applications	260 applications
Processing time of Carryover / Readiness Reviews (Review #2 – applicable to competitive applications)	6 months	4 months	2 months
Processing time of PIS Reviews / Issuance of tax forms (Review #3 / Final Review – applicable to all applications)	3 months	3 months	2 months
Ownership transfer document reviews	48 applications	50 applications	60 applications
Number of subsidy layering reviews	80 applications	90 applications	100 applications

STAFF COMMENT

Staff has no concerns with this proposal.

Staff Recommendation: Adopt Spring Finance Letter.

ISSUE 13: LOCAL ECONOMIC DEVELOPMENT LIAISON SERVICES

The Governor's budget requests $148,000 in General Fund and a Staff Services Manager I position in 2019-20, and ongoing, to address geographically targeted economic development areas as required by SB 635 (Hueso, Chapter 888, Statutes of 2018).

BACKGROUND

Existing law requires GO-Biz to serve as the lead entity for economic strategy and the marketing of California on issues relating to business development, private sector investment, and economic growth. GO-Biz offers a range of services to business owners and prospective owners including: attraction, retention and expansion services, site selection, permit assistance, clearing of regulatory hurdles, small business assistance, international trade development, and assistance with state government.

SB 635 requires GO-Biz to take on two primary activities related to Opportunity Zones (OZs) and Promise Zones (PZs). First, GO-Biz is required to develop informational materials and digital content about location based and other geographically targeted economic development programs, with the intent of the statute pointing to a focus on OZs and PZs. Next, GO-Biz is required to convene, at least annually, representatives from various programs and agencies across the state and from various programs and agencies to discuss how California can leverage PZs and OZs to meet state and local economic development needs.

SB 635 further outlines some of the specific information that must be made available by GO-Biz, including how the local jurisdictions or census tracts were selected, where local jurisdictions and investors can get additional information, and updates about federal programs as they are issued. SB 635 also outlines the topics that must be reviewed in the annual meetings of stakeholders including discussions on enhanced engagement opportunities and targeted outreach to assist designated areas in their efforts to access state resources and services.

SB 635 directly relates to programs that produce incentives for economic growth in geographically targeted areas. SB 635 requires coordination between and among various Federal, State and Local jurisdictions, the general public, and potential investors. Since GO-Biz serves as the Governor's lead entity for economic strategy and the marketing of California on issues related to business development, private sector investment, and economic growth, the CalBIS unit will comply with existing laws and perform the additional required duties in SB 635.

STAFF COMMENT

According to GO-Biz, the newly created position will be responsible for collecting, refining and disseminating information for public consumption and engage with stakeholders at all levels of government and with the general public. The ramp up and down of various workload measurements are based on awareness of existing programs, activities, and requests on PZs and OZ; and increases in requests that will percolate due to the finalizing of federal regulation and influx of investors in OZs.

Staff Recommendation: Approve as budgeted.

2100 DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

The Department of Alcoholic Beverage Control is responsible for licensing and regulating persons and businesses engaged in the manufacture, importation, distribution, and sale of alcoholic beverages in the State of California. The Department's mission is to administer the provisions of the Alcoholic Beverage Control Act in a manner that fosters and protects the health, safety, welfare, and economic well-being of the people of California. ABC is responsible for a broad range of activities which include criminal and civil enforcement, licensing, and education and outreach.

The Governor proposes a budget of $76.4 million and 431 positions (not including the positions proposed below) for 2019-20, which is roughly the same as last year’s budget.

ISSUE 14: PROGRAM PERFORMANCE IMPROVEMENT INITIATIVE AND TRAILER BILL LANGUAGE FOR ALCOHOL LICENSE FEES (APRIL FINANCE LETTER)

An April Finance Letter requests funding to implement a multi-year plan to strengthen and modernize the Department of Alcoholic Beverage Control (ABC) in order to improve efficiencies and service to the public and keep pace with the growing and evolving industry it regulates. This proposal requests 34 positions and $5.2 million in funding from the Alcohol Beverage Control Fund in 2019-20 and increases to a total of 51 positions and $7.5 million in 2022-23.

This proposal includes trailer bill language to adjust fees to address the current structural deficit and the additional revenue required to support the proposed program performance improvements.

BACKGROUND

The Alcoholic Beverage Control Act, administered by the Department of Alcoholic Beverage Control (ABC), regulates the granting of licenses for the manufacture, distribution, and sale of alcoholic beverages within the state.

ABC’s staffing level has been essentially flat since its inception in 1955, despite tremendous industry growth and an exponential increase in governing law. In 1955, ABC was authorized 445 employees to regulate 44,925 licenses. There are now 92,277 licenses and a far more complex statutory landscape, but ABC has only 14 more employees. ABC continues to fall short of its goals for issuing licenses in a timely manner. It is not able to maintain an effective enforcement presence. It also does not provide many online services that the public expects.

The two primary challenges addressed by this proposal are 1) improving program performance in the areas of enforcement, licensing, and services for the public; and 2) increasing fees to eliminate the operating deficit.

Performance Improvement Initiative

Below are descriptions of ABC's key performance issues and proposed solutions.

SUMMARY OF PROGRAM PERFORMANCE IMPROVEMENT INITIATIVE ISSUES AND SOLUTIONS BY COMPONENT		
Program Performance Improvement Initiative Component	**Key Issue**	**Proposed Solution**
Enforcement Staff Augmentation	Maintaining an effective enforcement presence with growing population of licensees.	Increase enforcement presence by 7 percent, address backlog of complaints, and increase proactive activities to reduce non-compliance.
Legal Support of Enforcement	It currently takes over 6 months to go from accusation to enforcement hearing, often allowing bad behavior of licensees to continue.	Add capacity in legal to prosecute cases in timely manner (60 days is the target).
Bifurcation	Diminishing licensing expertise among sworn management who oversee licensing, inefficiencies in having sworn personnel perform non-sworn work.	Complete 25 year bifurcation project by establishing a formal licensing division and shifting upper and middle management licensing duties from peace officers to non-sworn professionals.
Centralization of Non-retail Licensing Duties	- Keeping pace with demands of licensing - growing at 1-2 percent a year. - Exploding non-retail industry - most complicated and sensitive licensing investigations.	Add licensing resources and centralize non-retail licensing at headquarters, reducing high caseloads in district offices and developing deeper expertise in licensing at headquarters.
Licensing Training Unit	Inconsistency in licensing due to lack of regulations, out-of-date policies and procedures, and minimal training.	Establish licensing training program with a focus on supporting the proposed establishment of a licensing division and shifting of management responsibilities.
Legal Support of Licensing	Protested license applications are not receiving proper legal review, leading to unenforceable license conditions and weak legal bases for denying licenses where good cause exists.	Re-establish legal review in the process for all protested licenses to ensure conditions are proper and enforceable, and ABC's legal arguments at licensing hearings are appropriate and well prepared.
Law and Regulatory Policy Unit	Keeping pace with industry requests for guidance, a changing market, and legislation. Currently, there is no capacity to create regulations.	Create Regulatory Policy unit to address backlog of regulatory issues and continue proper maintenance of the ABC Act and all associated regulations.
Communications	ABC has limited ability to communicate with licensees and servers, relying primarily on traditional press releases and news media to get its message out.	Establish a second position in the Communications program to establish a digital relationship with many more of ABC's stakeholders - leveraging the opportunity to create these relationships that online services and the AB 1221 program will provide.
Information Technology	- Common online services for the public and licensees such as online license renewal and application are not available. - Minimal operational automation requires ABC's programs to continue to operate in a very paper-based manner across a statewide jurisdiction. - Unresolved and growing backlog of issues with licensing system creates performance challenges and inefficient work-arounds.	Right-size IT unit to support current systems and plan for future automation (eServices initiative to provide online services is under way and may begin implementation in 2019-20, subject to IT project and budgetary approvals).
Accounting Operations	Accounting unit has not kept pace with all aspects of proper financial accounting - leading to untimely and inaccurate financial statements.	Add one analyst position to ensure high-level transactions and workloads such as reconciliations are completed monthly.

Many of these components are interconnected and the proposed solutions will compound the benefits of the proposed program improvements.

The proposed staffing augmentations to address these problems are summarized in the figure below.

SUMMARY OF BUDGET REQUEST FOR PROGRAM PERFORMANCE IMPROVEMENT INITIATIVE BY COMPONENT								
Program Improvement Initiative	2019-20		2020-21		2021-22		2022-23	
	Positions	Cost	Positions	Cost	Positions	Cost	Positions	Cost
Enforcement Staff Augmentation*	5.0	$ 988,000	10.0	$1,784,000	10.0	$1,594,000	10.0	$1,594,000
Legal Support of Enforcement	3.0	$ 565,000	3.0	$ 538,000	3.0	$ 538,000	3.0	$ 538,000
Bifurcation*[1]	1.0	$ 238,000	4.0	$ 685,000	10.0	$1,592,000	13.0	$2,016,000
Centralization of Non-retail Licensing Duties	7.0	$ 898,000	7.0	$ 835,000	7.0	$ 835,000	7.0	$ 835,000
Licensing Training Unit	3.0	$ 376,000	3.0	$ 349,000	3.0	$ 349,000	3.0	$ 349,000
Legal Support of Licensing	2.0	$ 339,000	2.0	$ 321,000	2.0	$ 321,000	2.0	$ 321,000
Law and Regulatory Policy Unit	3.0	$ 459,000	3.0	$ 432,000	3.0	$ 432,000	3.0	$ 432,000
Communications	1.0	$ 154,000	1.0	$ 145,000	1.0	$ 145,000	1.0	$ 145,000
Information Technology	8.0	$1,105,000	8.0	$1,121,000	8.0	$1,121,000	8.0	$1,121,000
Accounting Operations	1.0	$ 127,000	1.0	$ 118,000	1.0	$ 118,000	1.0	$ 118,000
Totals	34.0	$5,249,000	42.0	$6,328,000	48.0	$7,045,000	51.0	$7,469,000

* The lower number of positions in the first year or two reflect the proposal's multi-year implementation approach

[1] Adds the executive of the Licensing Division in the first year whose focus will be to set up training unit, centralize non-retail licensing while planning for the shift of licensing responsibilities, which would begin in 2020-21.

Fee Adjustments to Address the Operating Shortfall

95 percent of ABC's operating budget is supported by fees for 1) original license; 2) annual renewal fees; 3) fees for one-day events; 4) business transfer fees; and 5) other fees such as penalties. The requested trailer bill language proposes to adjust fees in order to address the current structural deficit ($10.5 million in 2018-19) and provide the additional revenue required to support the proposed program performance improvements. The package of fee increases will increase annual revenues by approximately $19.5 million. Most of the increased fees would be effective October 1, 2019 and beginning with the 2021 calendar year an annual adjustment of specified fees would be authorized.

Application Fees. Many of the original license fees were established in 1968 or 1983 and have not been increased. For the licenses increasing to $905, this amount was determined by workload studies that analyzed the actual costs of processing license applications. There will be similar changes to other fees, including transfers and dailies.

Original License Fee Changes. The proposed changes to the original license fees include:

- No change to on-sale or off-sale general licenses (Types 21, 47, 48, 57, 62, 64, 70, 71, 72, 75, 78, 83, 87, 88).
- No change to licenses typically held by licensees for the purpose of adding related privileges to their existing licenses (e.g., still, out-of-state beer manufacturer certificate, distilled spirits shippers certificate, and direct shippers permit (Types 6, 26, 28, 82).

- The application fee for most other new permanent licenses, which are currently $100 to $300, will be $905 (e.g., beer manufacturers, winegrowers, off-sale and on-sale beer and wine retailers) (Types 1, 2, 20, 23, 41)

Annual Renewal Fees. Adjustments to annual renewal fees are also included in the Governor's Proposed 2019-20 Budget. The following shows proposed fee adjustments for the most commonly held ABC licenses in the state:

License Type	Current Fee	Proposed Fee
Winegrower (Type 02)	$71 - $466	$110 - $540
Large Beer Manufacturer (Type 01)	$1,531	$1,850
Small Beer Manufacturer (Type 23)	$184	$380
Beer and Wine Importer (Type 09)	$77	$110
Beer and Wine Wholesaler (Type 17)	$340	$380
Off-Sale Beer and Wine (Type 20)	$278	$380
Off-Sale General (Type 21)	$617	$755
On-Sale Beer and Wine Eating Place (Type 41)	$384	$430
On-Sale Beer and Wine Public Prem. (Type 42)	$284	$540
On-Sale General (Types 47 and 48)	$632 - $971	$755 - $1,190

STAFF COMMENTS

This proposal reflects a sustained, multi-year effort by ABC to improve its operations. Combined with increased revenues, the proposal would enable ABC to close its operating deficit and fund additional staff to improve its performance.

Staff recommends holding this issue open to allow more time for consideration of the proposal, especially the proposed staffing levels for enforcement agents. In the past, the department has struggled to fill vacant enforcement staff positions. However, recently due to various actions, vacancy rates have significantly dropped. This proposal would add enforcement agents and free up existing sworn staff performing licensing functions to do enforcement work.

The LAO has not raised any concerns with this proposal.

Staff Recommendation: Hold Open.

ISSUE 15: BUSINESS MODERNIZATION AND RESPONSIBLE BEVERAGE SERVICE AND TRAILER BILL LANGUAGE (APRIL FINANCE LETTER)

An April Finance Letter requests $2.9 million in 2019-20 (one-time funding) from the Alcohol Beverage Control Fund for 5.5 positions, credit card fees, and contract services to begin to implement an information technology system that would (1) support the Responsible Beverage Server (RBS) Training program authorized by AB 1221 (Gonzales Fletcher, Chapter 487, Statutes of 2017) and (2) provide eServices, such as online payments, for ABC licensees.

Trailer bill language is proposed that would authorize the department to charge fees necessary to cover its reasonable costs for administering the RBS program.

BACKGROUND

AB 1221 establishes the Responsible Beverage Service (RBS) Training Program Act of 2017, and requires ABC, on or before January 1, 2020, to develop, implement, and administer a curriculum for an RBS training program, as specified. Additionally, the bill requires, beginning July 1, 2021, an alcohol server, as defined, to successfully complete an RBS training course offered or authorized by ABC. The bill authorized ABC to charge a fee not to exceed $15 for any RBS training course provided by ABC and deposit the fees into the Alcohol Beverage Control Fund.

LAO COMMENTS

This project has not yet completed the Project Approval Lifecycle (PAL) process. Accordingly, the Legislature is being asked to approve funding without the benefit of a complete project plan. If the Legislature would like to move forward with this project this fiscal year given the time sensitivity of this project (particularly the portion related to the RBS program), consistent with the LAO's analysis of the PAL process in March, the LAO recommends that the Legislature consider approving the funding request with budget bill language that conditions the funding on prior written notification of, and approval by the Legislature once PAL documents have been approved.

Second, the LAO notes that the implementation of the RBS program is turning out to be significantly more expensive than envisioned when the Legislature considered AB 1221. This is due to various reasons, including higher estimated number of servers subject to the training requirement, as well as the realization that an IT system would be needed to implement the program.

STAFF COMMENTS

Staff recommends holding this issue open to allow time for further consideration.

Staff Recommendation: Hold Open.

This agenda and other publications are available on the Assembly Budget Committee's website at: https://abgt.assembly.ca.gov/sub4hearingagendas. You may contact the Committee at (916) 319-2099. This agenda was prepared by Genevieve Morelos and Farra Bracht.