

AGENDA
ASSEMBLY BUDGET SUBCOMMITTEE NO. 4
ON STATE ADMINISTRATION

Assemblymember Rudy Bermudez, Chair

TUESDAY, MARCH 14, 2006, 1:30 PM
STATE CAPITOL, ROOM 447

CONSENT CALENDAR

ITEM	DESCRIPTION
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8840	Commission on Uniform State Laws
9612	Enhanced Tobacco Settlement Asset-Backed Bonds

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ITEMS TO BE HEARD

ITEM 2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

The Department of Housing and Community Development (HCD) administers housing finance, rehabilitation, and community development programs, oversees housing planning statewide and code-setting processes, and regulates manufactured housing and mobile home parks. The Governor's Budget proposes \$477.5 million (\$16.8 million General Fund, \$172.9 million federal funds, and \$287.8 million from bond funds and special funds) and 519.4 personnel years of staff for the department's activities in fiscal year 2006-07. This represents a spending decrease of \$176.4 million but an increase of 19.7 positions from the revised 2005-06 budget. The large spending decline primarily reflects (1) a reduction in spending from Proposition 46 housing bonds because most of the bond money already has been committed, (2) additional federal housing funds received in the current year and treated as one-time in the budget, and (3) one-time federal disaster-relief spending in the current year.

The department's proposed General Fund support, although only a small portion of total funding, increases by \$2.6 million (17.9 percent), primarily due to increased funding for migrant farm worker housing centers, as discussed below. The General Fund supports the following HCD state operations: State Housing Law and Employee Housing Law enforcement; administration of the California Indian Assistance, Community Development Block Grant, Emergency Shelter, Housing Assistance, and Migrant Services programs; and Housing Element, and Redevelopment Agency oversight, reporting, and audits.

Department of Housing and Community Development Budgeted Expenditures by Program

All Funds

Program	Actual 2004-05*	Estimated 2005-06*	Proposed 2006-07*
Codes and Standards Program	\$22,327	\$25,302	\$26,937
Financial Assistance Program	585,129	607,073	431,340
Housing Policy Development Program	25,106	27,368	25,503
Administration Program	9,987	10,013	10,319
Distributed Administration Program	-9,818	-9,995	-10,314
Loan Repayments Program	-4,534	-5,805	-6,247
State-Mandated Local Programs	1	-	-
Total Expenditures (All Programs)	\$628,198	\$653,956	\$477,538

ISSUE 1: MIGRANT FARMWORKER HOUSING AND CHILDCARE CENTER REPLACEMENT

The Governor's budget proposes a General Fund augmentation of \$3.4 million for state migrant farmworker housing centers under the department's Office of Migrant Services (OMS). The augmentation consists of the following amounts:

1. \$2.35 million to reconstruct two state-built OMS daycare facilities at the San Benito Center in Hollister (\$1.1 million) and at the Buena Vista Center near Watsonville (\$1.2 million) in order to address health and safety standards.
2. \$1.025 million to increase the budget for operation and maintenance for all of the migrant centers. This augmentation would be an ongoing increase in base funding for operation and maintenance.

BACKGROUND

The OMS operates (through grants to local housing agencies) 25 state-owned Migrant Centers throughout California. These centers provide 2,103 units of seasonal housing to approximately 11,000 farm workers and family members annually. Because they serve many families and they are located in rural areas, the centers often include child care centers. Privately operated labor camps provide some 26,000 units, most often for single workers.

The department has determined that six of its OMS Center child care facilities will need replacement by 2009-10 at a total estimated cost of \$8.5 million (in current dollars). Of this amount, \$2.4 million would be funded by the 2006-07 Budget for the two facilities in the worst shape. An additional total of \$2.7 million would be requested in 2007-08 and 2008-09 to reconstruct child care centers at Gilroy and French Camp. Funding of \$3.4 million for the remaining two centers (Artesi III at French Camp in San Joaquin County and Parlier in Fresno County) would be requested in 2009-10. The department estimates that repairing OMS child care facilities would cost roughly half as much as the proposed replacement/reconstruction, but that replacement/reconstruction will result in a much longer useful life. The six child care facilities serve about 500 infants and preschoolers.

Operating expenses for the centers are funded by the General Fund and rents. General Fund support has declined from \$5.4 million in 2003-04 to \$5.3 million in 2004-05 and 2005-06. Rents, which were recently increased, provide \$3 million (compared with \$2.8 million in 2003-04). The augmentation request would increase General Fund support to \$6.3 million. The department plans to use the increased funding to increase operating contracts with local agencies by \$215,000, increase annual priority repairs and replacement of furniture and equipment by \$250,000 (to \$500,000), and to replace funding in the current year from a carryover balance. According to the department, maintenance and repair at the OMS centers has declined substantially in the past few years due to funding limitations.

COMMENTS

Potential Alternative Capital Funds. For the last several years, OMS capital reconstruction and replacement costs have been funded from the migrant housing set-aside in the Proposition 46 Housing Bond. The budget requests General Fund for this purpose in 2006-07 on the assumption that all of the migrant set-aside funds will be exhausted. However, several potential funding sources may be options, including the following:

- Any unspent Proposition 46 bond funds remaining from the \$8.2 million migrant housing set-aside provided in the 2005-06 Budget. The Legislature extended the availability of these funds for one year and provided additional statutory flexibility to encourage innovative projects by local governments, nonprofits and growers. The set-aside

consisted of the remaining funds from the overall \$25 million migrant housing set-aside in Proposition 46.

- The department should update the subcommittee on the status of project funding from the \$8.2 million set-aside, including types of projects funded to date, pending applications, and whether any funds will remain unspent.
- New housing bonds, if approved by the voters.
- Subsidized federal rural development loans.
- Proposition 82 (Preschool for All) funding, if approved by the voters.

The department should comment on the feasibility of using each of these potential alternative funding sources.

No Carryover Operating Balance. The OMS Program generally begins each fiscal year with a carryover balance. For example, the carryover balance into the current year was \$456,000 and it was \$986,000 in the prior year. The budget, however, assumes that there will not be any balance from the current year carried into 2006-07. To the extent that there is a carryover balance, the requested support augmentation could be reduced.

The department should provide an estimate of the carryover operating funds balance remaining at the end of the current year.

ISSUE 2: EMERGENCY HOUSING ASSISTANCE PROGRAM (EHAP)

The Governor's budget reduces the General Fund support for the EHAP Program, which provides State grants (averaging about 10 percent of costs) for local agency-operated homeless shelters, by \$864,000, for a total of \$3.1 million in funding for fiscal year 2006-07. For several years, the Governor has proposed this reduction, which has been restored by the Legislature. In signing the 2005-06 Budget Act, Governor Schwarzenegger explained that he was sustaining the funding restoration on a one-time basis in anticipation of an expansion of supportive housing for chronically mentally ill homeless persons. The 2005-06 budget established a multiyear allocation of \$40 million of Proposition 46 housing bond funds, plus additional funds from the California Housing Finance Agency and Proposition 63 mental health funds to increase housing for the chronically mentally ill portion of the homeless population. HCD estimates that it will spend \$18 million of the Proposition 46 bond funds in the current year and \$14.5 million in 2006-07.

BACKGROUND

The proposed funding level would be less than the amount provided in any year since 1999-00, as shown in the table below.

State Operating Funding for Emergency Housing Assistance (in millions)								
	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05*	2005-06	2006-07**
Funding	\$2.0	\$39.0	\$13.3	\$5.3	\$5.3	\$4.0	\$4.0	\$3.1
* The Legislature approved \$5.3 million, but the Governor reduced the amount to \$4 million.								
** Proposed								

Homeless shelters and programs also receive substantial amounts of federal funding for operations and federal funds and state bond fund provide capital funding.

COMMENTS

- The proposed reduction will reduce the number of homeless persons that shelters can serve by 1,400 per day statewide, according to HCD.
- The department indicates that the expansion of housing and supportive services for the homeless mentally ill population will take time to implement and is not expected to have any significant effect on the overall homeless population in 2006-07.

ISSUE 3: ENTERPRISE ZONE FEES

The Governor's Budget proposes trailer bill language to eliminate the January 1, 2007, sunset date for Enterprise Zone application fees, which support HCD's costs of administering the economic development area programs. Absent the fee authority, HCD would need General Fund support of \$698,000 (half this amount in 2006-07) to replace the existing fee revenue.

BACKGROUND

The State currently designates four types of economic development areas intended to attract and retain businesses in economically-challenged communities. Currently, there are 42 Enterprise Zones (EZs), eight Local Agency Military Base Recovery Areas (LAMBRAs), two Manufacturing Enhancement Areas (MEAs), and one Targeted Tax Area (TTA). The HCD is charged with administering the economic development area programs. However, the tax benefits, primarily tax credits for hiring qualified employees, are claimed on corporate or personal state income tax returns, and so they are subject to verification and audit by the Franchise Tax Board (FTB). The HCD is budgeted six positions and \$698,000 to administer the program, with revenue derived from fees, not to exceed \$10, for each application by businesses

for an Enterprise Zone hiring voucher. Statute does not currently allow for the imposition of fees to cover the State's cost of the LAMBRA, MEA, and TTA programs.

For comparison with the \$10 application fee, each hiring voucher can result in up to approximately \$35,000 of tax benefit (over several years) for the business filing the application.

Substantial Amounts of Tax Benefit. HCD indicates 44,721 businesses used EZ tax credits and 2,789 businesses used tax credits in all the other economic development areas in 2003. The budget estimates that state tax revenue in 2006-07 will be reduced by \$350 million due to the tax credits. Additionally, the FTB estimates a total accumulated corporate tax carryover credit of \$650 million.

COMMENTS

Pending and Potential Program Changes Could Change Staffing Needs. The department has circulated proposed regulations to revise program requirements and administration. A large number of comments have been received, which HCD currently is evaluating. The Assembly Committees on Jobs, Economic Development, and Economy and on Revenue and Taxation have held a series of comprehensive hearings on the Enterprise Zone Program and will be considering legislative changes to improve the program, provide better focus, and eliminate opportunities for abuse.

The Governor's Budget would simply continue the existing fee structure and program staffing level. However, significant changes may be needed to meet the requirements of new regulations or legislation.

The department should comment on the potential for staffing and funding changes due to new regulations or potential legislation.

ISSUE 4: REGIONAL HOUSING NEEDS ASSESSMENT (RHNA)

As part of the process of preparing housing elements of local general plans, each community is assigned numeric housing development goals by income (that community's "fair share" of housing) through a process administered by regional councils of government (COGs).

Formerly, the COGs' RHNA duties were considered a reimbursable state mandate. However, the Commission on State Mandates determined last year that the COGs RHNA responsibilities do not constitute a reimbursable state-mandated local program. Instead, the Legislature adopted Budget Bill Language for Caltrans that allocated at least \$1 million to COGs in 2005-06 for RHNA costs from the \$5 million of federal funds provided for regional blueprint planning (regional planning for transportation needs that also involves many of the COGs). However, the Governor vetoed this language. Although statutory authority exists to impose fees to support the

RHNA process, the COGs and local governments argue that these fees would be difficult and cumbersome to administer. The Governor's Budget does not include any funding to assist COGs to carry out their RHNA responsibilities.

COMMENTS

Blueprint Funding Should Help. Despite the Governor's veto of last year's language, federal blueprint funding should assist the COGs to some extent in their RHNA tasks because regional housing projections are an important part of the transportation planning process. The Governor's 2006-07 Budget includes an additional \$5 million of federal funds for this purpose.

How Much Might Be Needed? The subcommittee may wish to direct HCD to report on the RHNA funding needs of the COGs in 2006-07, so that funding for this purpose could be considered with other legislative priorities.

ISSUE 5: MICROENTERPRISE ECONOMIC DEVELOPMENT

Under state law, the department administers federal Community Development Block Grant (CDBG) funds for smaller communities. Large communities receive these funds directly. The CDBG Enterprise Fund (EF) Component provides competitive grants of up to \$500,000 to communities for loans to businesses, publicly-owned infrastructure, and microenterprise assistance. The Enterprise Fund component is currently fully subscribed.

The California Association for Microenterprise Opportunity has raised an issue regarding whether unused funds remain in the CDBG "Over-the-Counter" (OTC) Program Component that might be transferred to the EF component where they would be available for additional microenterprise assistance. The OTC Component is a noncompetitive program that provides grants of up to \$500,000 to communities for loans to pre-identified businesses or for infrastructure improvements needed for the creation, expansion, or retention of identified businesses. In contrast microenterprise assistance under the EF component does not require the pre-identification of recipients.

COMMENTS

- The subcommittee may wish to ask HCD to provide an update on the funding status of the EF and OTC Program Components and to comment on the feasibility and advisability of moving funds to the EF Component for additional microenterprise assistance.

ISSUE 6: MOBILEHOME/MANUFACTURED HOME PROGRAMS

The Governor's Budget requests ongoing funding of \$501,000 (special funds) for 5 additional positions (and the conversion of 1 temporary help position to permanent status) for the following purposes:

- Two positions to process licenses for manufactured housing dealers and salespersons. HCD indicates there has been a 116 percent increase in license applicants over the past three years. HCD is required to train, test, and license dealers and salespersons of manufactured housing.
- Two positions to investigate consumer complaints. HCD indicates that complaint caseload has risen from 125 cases on July 1, 2004, to 336 cases on July 1, 2005. HCD investigates allegations of consumer fraud and other improprieties by manufactured housing licensees. This unit focuses on investigations of potential violations of law and regulation.
- Two positions for the Office of the Mobilehome Ombudsman. This office deals with a wide variety of complaints, including health and safety complaints, and attempts to resolve disputes between mobile home park operators and residents. HCD indicates that in 2002, the Office of Ombudsman received 18,727 calls and processed 1,866 complaints. Since then the number of calls processed has declined substantially, but this probably just reflects the fact that the phone is staffed for only one hour per day.

BACKGROUND

Last year, the Legislature approved the Administration's request to permanently augment funding by \$1.9 million (special fund) and 14 positions to liquidate the backlog and cover the costs of inspections for the Mobilehome Parks, Special Occupancy Parks, Factory-Built Housing, and the Manufactured Housing Program. The Administration funded these costs with fee increases that were achieved within existing statutory authority. While some fee increases were significant (exceeding 100 percent) the Department indicated the major stakeholders were supportive.

COMMENTS

Based on budget estimates, current fee revenues will support this augmentation without a fee increase.