

## ASSEMBLY THIRD READING

AB 1657 (Wicks)

As Amended April 17, 2023

2/3 vote. Urgency

**SUMMARY**

Authorizes the Affordable Housing Bond Act of 2024 to place a \$10 billion housing bond on the March 5, 2024 primary ballot to fund production of affordable housing and supportive housing

**Major Provisions**

- 1) Authorizes \$10 billion in general obligation bonds to fund the following programs:
  - a) \$5.25 billion to the Multifamily Housing Program (MHP). At least 10% of units in a MHP development must be available for extremely low-income households;
  - b) \$1.75 billion to supportive housing administered through the MHP program. Requires the Department of Housing and Community Development (HCD) to offer capitalized operating subsidy reserves for supportive housing developments receiving funding;
  - c) \$1.5 billion for programs to preserve or rehabilitate existing subsidized or unsubsidized rental housing, split among the following programs: the Portfolio Reinvestment Program, the Energy Efficiency Low-Income Weatherization Program, and a program to be created by the Legislature that funds acquisition and rehabilitation of unrestricted housing units and the attachment of long-term affordability restrictions to the units;
  - d) \$1 billion to the CalHOME Program and the My Home down payment assistance program administered by the California Housing Finance Agency (CalHFA); and
  - e) \$500 million to the Joe Serna, Jr. Farmworker Housing Program and a dedicated program for tribes to finance housing and housing related activities that will enable tribes to rebuild and reconstitute their communities.
- 2) Authorizes the Legislature to amend any law related to programs which have been allocated funds by the bond to further improve the efficacy and effectiveness of those programs.
- 3) Authorizes the Legislature to reallocate funds authorized by the bond to effectively promote affordable housing in the state.
- 4) Authorizes HCD to disperse funds made available through the bond to housing developments during the construction period.
- 5) Includes the following definitions:
  - a) "Board" means HCD for programs administered by the department and CalHFA for programs administered by the agency;
  - b) "Committee" means the Housing Finance Committee;
  - c) "Fund" means the Affordable Housing Bond Act of 2024;

- 6) Authorizes the committee, upon a request by the board, to determine whether or not it is necessary and desirable to issue bonds, upon a request by the board, and if so the bonds will be issued and sold.
- 7) Authorizes the board to request the Pooled Money Investment Board to make a loan from the Pooled Money Investment Account to support the bond.
- 8) Includes an urgency clause.

## COMMENTS

*Affordable Housing Need:* According to the 2022 Statewide Housing Plan, to meet California's unmet housing needs, the state needs an additional 2.5 million housing units, including 1.2 million for lower-income households. Decades of underbuilding have led to a lack of housing overall, particularly housing that is affordable to lower-income households. The state needs an additional 180,000 new units of housing a year to keep up with demand – including about 80,000 units of housing affordable to lower-income households. By contrast, production in the past decade has been under 100,000 units per year – including less than 20,000 units of affordable housing per year.

Furthermore, the state's homelessness crisis is driven in large part by the lack of affordable rental housing for lower income people. According to the California Housing Partnership Corporation's (CHPC)'s Housing Need Dashboard, in the current market, nearly 2 million extremely low-income and very low-income renter households are competing for roughly 683,000 available and affordable rental units in the state. Over three-quarters of the state's extremely low-income households and over half of the state's very low-income households are severely rent burdened, paying more than 50% of their income toward rent each month.

Despite recent investments over the last few years, state and local governments have not significantly invested in affordable housing production in decades, leading to a lack of supply. In addition, local governments have failed to adequately zone or plan for affordable housing for decades. In the last seven years, the state has taken major steps to increase the supply of housing by requiring local governments to plan and zone for 2.5 million new housing units, holding local governments accountable for approving housing, and streamlining both affordable housing and mixed-income housing.

*Affordable Housing Funding:* Developing housing that is affordable to very low- and low-income families requires some amount of public investment. Due to the high cost of land and construction materials and significant regulatory barriers, the private market does not build housing that is affordable for lower income households. The state provides public subsidy to non-profit and for-profit developers to build affordable housing that is deed restricted for 55 years. Historically the state has funded affordable housing production through voter-approved bonds and low-income housing tax credits (LIHTC). Only in the last few years have the Legislature and Governor allocated General Fund dollars to affordable housing programs. Beginning in 2019, an unprecedented \$8 billion in General Fund has gone to a variety of affordable housing programs. According to the Legislative Analyst's Office, this year the state is facing a budget shortfall of \$24 billion, which makes the likelihood of securing significant General Fund dollars for affordable housing programs unlikely.

The last voter-approved bond, the Veterans and Affordable Housing Bond Act of 2018, authorized \$3 billion to fund state affordable housing programs and \$1 billion for the CalVet program, which provides mortgages to veterans. All of the funding from the bond, including \$1.5 billion for the state's flagship affordable multi-family rental housing program – MHP – will be fully allocated by the end of 2023.

In addition to bond proceeds and the General Fund, the federal and state government both subsidize affordable housing through LIHTC. The federal government offers two forms of tax credits, a 9% and a 4% credit. The 9% credit equates to approximately \$109 million in subsidy. The 4% credits are unlimited but must be paired with private activity bonds (PABs), which are capped. Since 1986, the state has offered a state LIHTC that generally equates to about \$100 million each year. In 2019, AB 101 (Budget Committee), Chapter 159, Statutes of 2019 was signed into law, providing an additional \$500 million in "enhanced" state LIHTCs in 2020 and future years, subject to appropriation. Twenty-five million of the \$500 million in enhanced LIHTC is available for farmworker housing developments. The enhanced LIHTC must be paired with 4% federal credits in an effort to capitalize on the unlimited nature of those credits and to leverage PABs. When the additional \$500 million was first made available, the federal tax-exempt bond ceiling for PABs of approximately \$4 billion had not yet been reached. In 2014, for example, developers only used \$80.5 million in annual federal 4 percent tax credits, significantly less than prior years. This is because there was little supplemental funding from housing bonds or local funding sources available to fill the remaining financing gap. The loss of redevelopment funding and state housing bond funds, which were used in combination with 4 percent federal credits to achieve higher affordability, had made the 4 percent federal credits less effective. Thus, the additional \$500 million was targeted to the 4 percent credit and coupled with PABs, in part, to encourage developers to fully utilize any remaining PABs that were being left on the table. When the \$500 million was made available, there was also a significant uptick in state and local housing construction funding, so 4% credit applications increased rapidly and PABs became oversubscribed and are currently highly competitive.

Without some form of additional subsidy either through General Obligation bonds, a General Fund appropriation, or more state LIHTC, no more than a trickle of affordable housing projects will have enough subsidy to move forward beyond 2023 given the existing limited resources of state and federal LIHTC.

*Other Funding for Affordable Housing:* In 2017, the Legislature passed SB 2 (Atkins), Chapter 364, Statutes of 2017 which created a permanent funding source for affordable housing through a \$75 recording fee on real estate documents, excluding those recorded at the time of sale of a property. The fee generates between \$300 million and \$500 million each year. Seventy percent of the funds must go directly to counties to spend on housing priorities. The remaining 30 percent is split amount the CalHFA Mixed Income Housing program, the Joe Serna, Jr. Farmworker Housing Program, and funds for state incentive programs.

The Affordable Housing and Sustainable Communities (AHSC) Program is one of the state's affordable housing program that receives ongoing funds. The program is funded by a continuous appropriation of 20% of funds from the Greenhouse Gas Reduction Fund (GGRF), funded by proceeds of the cap-and-trade system. Because AHSC is a GHG reduction program, applicants who receive awards are responsible for monitoring and reporting their projects' emissions reductions using a quantification methodology certified by the California Air Resources Board.

Since 2015, AHSC has made six rounds of funding, producing 6,050 affordable housing units and reducing 1.58 million tons of CO<sub>2</sub>E.

*Supportive Housing:* Supportive housing combines non-time-limited affordable housing assistance with wrap-around supportive services for people experiencing homelessness, as well as other people with disabilities. The state has funded supportive housing through MHP and the No Place Like Home Program (NPLH). NPLH authorized the state to issue \$2 billion in General Obligations bonds against revenues from the Mental Health Services Act – a 1% tax on millionaires in the state. Those funds supported the construction of over 7,000 supportive housing units and the funds are now exhausted. This bill would provide \$1.75 billion to supportive housing for people at risk or experiencing homelessness. In addition, the bond would require that 10% of any units created through MHP go to people who are extremely low-income (at or below 30% of area median income), who may be at greater risk of homelessness.

*Other Programs:* This bill would require a portion of the bond proceeds to go toward a program to finance housing and housing-related activities that will enable tribes to rebuild and reconstitute their communities. This program does not exist, but AB 371 (Garcia) of the current legislative session which is pending hearing in this committee, would create a Tribal Housing Advisory Committee at the Business, Consumer Services, and Housing Agency. If AB 371 and the bond pass, and funding becomes available, this advisory committee could provide input for how to allocate those funds for tribal housing purposes. AB 1657 also references funding for a program to be created by the Legislature that funds acquisition and rehabilitation of unrestricted housing units and attached long-term affordability restrictions to the units. SB 490 (Caballero), Chapter 602, Statutes of 2022 and SB 225 (Caballero) of the current legislative session would create a program to support acquisition and rehabilitation of unrestricted housing units and attach long-term affordability restrictions to the units.

### **According to the Author**

"We cannot take our foot off the gas when it comes to our state's affordable housing investments. Now is the time to double down on our commitment to solving California's housing shortage. Even in a tight fiscal climate, the staggering need demands that we treat the crisis with the urgency it deserves. The Affordable Housing Bond Act of 2024 needs to be a priority among any bonds issued in the next year."

### **Arguments in Support**

According to supporters, this bill comes at a crucial time for the state. The state has received over \$3.5 billion in funding requests to build affordable housing – an oversubscription rate of 4:1. With sufficient investment in successful housing programs like MHP and the LIHTC, the state could get over 15,000 permitted and shovel-ready affordable housing units to construction.

### **Arguments in Opposition**

Howard Jarvis Taxpayers Association are opposed to this bill because they do not consider bonds a fiscally prudent way to fund state policy priorities.

## **FISCAL COMMENTS**

According to the Assembly Appropriations Committee:

- 1) Estimated total principal and interest costs of approximately \$19 billion (\$10 billion in principal and \$9 billion in interest). General Fund (GF) debt service payments of

approximately \$630 million annually beginning in 2026, after all bonds are sold, assuming they are sold in two years. This assumes an interest rate of 5% and a 30-year maturity. Actual costs would depend on the interest rate and the timing of the sales.

- 2) The Department of Housing and Community Development (HCD) would incur significant increased staffing and operating costs to administer the various housing programs, and create two new housing programs funded by the bond act. Consistent with previous housing bond measures (Proposition 1C from 2009, Proposition 1 from 2018, and Proposition 2 also from 2018), HCD expects to utilize up to 5% of bond proceeds for administrative purposes. If actual administrative costs exceed this cap, there could be additional GF cost pressures to the extent those additional resources are approved in future budget acts.
- 3) Estimated GF costs to the Secretary of State (SOS) in the range of \$984,000 to \$1.23 million for printing and mailing costs to place the measure on the ballot in the March 5, 2024, statewide election. This estimate assumes an average per-page cost of \$123,000 and the addition of eight to ten pages in the Voter Information Guide.

## VOTES

### **ASM HOUSING AND COMMUNITY DEVELOPMENT: 6-1-1**

**YES:** Wicks, Wendy Carrillo, Gabriel, Kalra, Quirk-Silva, Ward

**NO:** Sanchez

**ABS, ABST OR NV:** Joe Patterson

### **ASM APPROPRIATIONS: 11-3-2**

**YES:** Holden, Bryan, Calderon, Wendy Carrillo, Mike Fong, Hart, Lowenthal, Papan, Pellerin, Weber, Ortega

**NO:** Megan Dahle, Dixon, Sanchez

**ABS, ABST OR NV:** Mathis, Robert Rivas

## UPDATED

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