

SUBCOMMITTEE NO. 4

Agenda

Senator Richard D. Roth, Chair
Senator Steven M. Glazer
Senator Janet Nguyen
Senator Richard Pan



Wednesday, May 18, 2016
1:30 p.m.
State Capitol - Room 112

Consultant: Farra Bracht

PART C

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VOTE-ONLY ISSUES**0650 OFFICE OF PLANNING AND RESEARCH****Issue 1: Precision Medicine Funding and Trailer Bill Language
(Previously heard on April 28, 2016)**

Governor's Budget Request: The Governor's budget requests \$10 million General Fund for precision medicine to build tools, applications, and platforms that integrate diverse data sets that may lead to improved health outcomes and new areas for healthcare innovation and discovery; and to establish a more dynamic asset inventory in the state. With the proposed augmentation of funding, the Administration proposes to fund six new demonstration projects (\$1.2 million each) and the remaining \$2.8 million would be used to support non-demonstration project activities (asset inventory, convenings, evaluation, and other administrative activities, and at the initiative's discretion, competitive round for finalist projects under the initial call for proposals).

The budget also proposes trailer bill language to establish the program in statute.

Background: According to the National Institutes of Health (NIH), precision medicine is an emerging approach for disease treatment and prevention that takes into account individual variability in genes, environment, and lifestyle for each person. While some advances in precision medicine have been made, the practice is not currently in use for most diseases. On January 20, 2015, President Obama announced the Precision Medicine Initiative to enable a new era of medicine in which researchers, providers and patients work together to develop individualized care.

The President called for \$215 million in fiscal year 2016 to support the initiative, which includes several components with efforts from across the federal government. Of this total proposed budget, \$130 million was allocated to NIH to build a national, large-scale research participant group, called a cohort, and \$70 million was allocated to the National Cancer Institute to lead efforts in cancer genomics. In addition, many private and public universities are researching precision medicine.

In the 2014-15 budget, the Legislature approved \$3 million General Fund for precision medicine. Approximately \$2.4 million was allocated to two demonstration projects and \$600,000 was allocated to other activities. These are described below.

- **California Kids Cancer Comparison.** Approximately \$1.2 million was awarded to University of California, Santa Cruz to lead the California Kids Cancer Comparison project. This project uses large scale data processing to improve the outcomes of clinical trials that are underway at UC medical centers to identify new therapies for incurable tumors. The project analyzes each patient's tumor in the context of thousands of pediatric and adult tumors that have undergone similar characterization. The project is developing "Medbook", a secure social network designed for medical research and medical decision support.

- **Precision Diagnosis of Acute Infectious Disease.** Approximately \$1.2 million was awarded to University of California, San Francisco (UCSF) to lead the first-ever demonstration of precision medicine in infectious diseases. UCSF has pioneered the use of a sequencing test called metagenomic next-generation sequencing to reveal the cause of infections that routinely elude physicians.
- **Other Activities.** OPR has developed an inventory of data, research, experts, and other resources related to precision medicine to facilitate cooperation in precision medicine research. In addition, funding (a total of \$600,000 over two years) for other activities has been provided as follows:

Precision Medicine Administrative Costs

	2015-16	2016-17
Staff (two positions)	\$220,102	\$232,508
Catering	31,500	31,500
Transportation/hotels	13,690	13,700
Website/communications	25,000	25,000
Other	3,500	3,500
Total	\$293,792	\$306,208

Governor Proposes Additional State Funding for Precision Medicine. The 2016-17 Governor's budget proposes to make a one-time appropriation of \$10 million from the state General Fund to OPR to fund additional precision medicine research. The Administration intends for these funds to be allocated in a manner similar to the \$3 million in 2014-15, but intends to broaden its call for proposals beyond the UC campuses.

The proposal would fund six new demonstration projects of \$1.2 million each and provides \$700,000 over 2016-17 and 2017-18 to fund IT staff to further develop the asset inventory. However, based on additional information from the Administration, it is possible this \$700,000 may not be used for this purpose and may be used to fund other demonstration projects. Also, in 2016-17, an additional two positions would be funded at a total cost of \$303,973 (bringing the level of administrative funding to a total of \$609,181 in 2016-17) and in 2017-18 administrative costs would total \$596,027.

What Is the State's Role in Funding Research? California's academic and research institutions conduct a wide variety of research with the potential to improve Californians' health and well-being. Most of the state's research institutions, including UC, receive a majority of their direct funding for research from federal, private, and other non-state sources. The state currently does not have a framework for prioritizing the allocation of General Fund monies across various research topics. Without such a framework, it is difficult to evaluate the Governor's proposal. Factors that may be reasonable to consider include:

- Are federal resources for the research inadequate?
- Are economic incentives insufficient to spur privately-funded research?
- Could the research yield benefits that are particularly important for California?

Legislative Analyst’s Office (LAO) Comments: The LAO finds it difficult to justify allocating state funding for precision medicine research over other research areas and recommends rejection of the proposal. Below, the LAO discusses several questions left unanswered by the Governor’s proposal.

- ***What Is the Program’s Objective?*** The Administration has not articulated specific goals to be achieved with this funding. What is the state hoping to achieve by providing this funding for precision medicine research? What identifiable benefits will this research be expected to provide to the state and its residents? Without defined policy objectives, it is difficult for the Legislature to evaluate the Governor’s proposal.
- ***Why \$10 Million?*** The proposal provides insufficient information for the Legislature to judge whether \$10 million is a proper amount of state funding. How many projects are intended to be funded and at what cost? Why is federal funding inadequate? How much state funding will be used for administrative costs? Without these details, the Legislature will have difficulty evaluating the Administration’s funding request.
- ***How Will Funds Be Awarded?*** The Administration states that it intends to allocate the requested \$10 million via a process similar to the one used to allocate the prior \$3 million. The Administration, however, has not offered any statutory language to define and formalize this allocation process. In the absence of such language, the Legislature and the public cannot be confident these funds will be allocated fairly and effectively.

Staff Comments: Staff agrees with the LAO analysis and finds the request for \$10 million General Fund to research precision medicine lacks justification.

Staff Recommendation: Reject the proposal.

Vote:

DISCUSSION / VOTE ISSUES**2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT****Issue 1: Down Payment Assistance Programs (May Revision)**

Governor's Proposal: The May Revision proposes changes to law to combine remaining funding, totaling \$176.6 million, from multiple down payment assistance programs into the MyHOME Program to help more families become first-time homebuyers. Under this proposal, these funds would be continuously appropriated to the California Housing Finance Agency (CalHFA) for the purpose of making home purchases more affordable to low and moderate income Californians for owner-occupied homes.

Background: As part of its first time homebuyer assistance function, over the last several years CalHFA has administered several down payment assistance programs, many targeted to specific groups of buyers. Some of these programs were funded by CalHFA with its own resources, but most were started with proceeds from general obligation bonds. The first bond that provided funds for this purpose was issued in 1988 (often referred to as the Roberti bonds), which provided for the creation and initial funding of the Home Purchase Assistance (HPA) fund.

Additional funding was provided to CalHFA for down payment assistance through the passage of propositions 46 (2002) and 1C (2006). Those bonds funded the California Homebuyer Downpayment Assistance Program (CHDAP), which included a number of subprograms, including the Extra Credit Teacher Home Purchase Program (ECTP). Each of those bonds contained language that provided for funds from each of those subprograms to revert to CHDAP at some point in time, but each of those programs remains in CalHFA's governing statutes.

To date, all of the original bond funds have been used, and CalHFA has been operating its down payment assistance programs with recycled program funds. For accounting and auditing purposes, when repayments are received, they have been redeposited into their original funds, and when a sufficient amount has accumulated, redeployed into new down payment assistance loans. While virtually all of the funds from propositions 46 and 1C can transfer back to CHDAP, there is currently no provision to combine the administration of all funds from CHDAP and HPA into a single fund.

CalHFA currently offers the MyHome Assistance Program, which provides down payment assistance for first-time homebuyers through a deferred payment, subordinate loan. It is available to first-time homebuyers throughout California that meet low and moderate income requirements. The down payment assistance is paired with a CalHFA first loan mortgage and payment on the down payment assistance is due when the borrower pays off or refinances the first loan. CalHFA has been using recycled funds from both HPA and CHDAP to run its MyHome Program.

The proposed change would move all funds from the programs shown in the chart below into CalHFA's existing Home Purchase Assistance (HPA) Fund and make all other sections affecting down payment assistance programs inoperative.

Programs Proposed for Consolidation

Program	Description	Fund Balance (in millions)
California Homebuyer's Downpayment Assistance Program (CHDAP)	Provided a deferred-payment junior loan of an amount of three percent of the purchase price or appraised value, whichever was less, to low and moderate income, first-time homebuyers.	\$130.4
Housing in Revitalized Areas Program (HIRAP)	Provided a deferred-payment junior loan of an amount up to six percent of the purchase price or appraised value, whichever was less, to low and moderate income, first-time homebuyers purchasing a property within a community revitalization area.	\$2.1
Extra Credit Teacher Home Purchase Program (ECTP)	Intended for teachers, administrators, classified employees, and staff members working in high priority schools in California. Offers a deferred-payment junior loan of an amount not to exceed the greater of \$7,500 or 3 percent of the sales price or in CalHFA-defined high cost areas an amount not to exceed the greater of \$15,000 or 3 percent of the sales price. The ECTP has a forgivable interest component should the school staff remain employed with the high priority school for more than 3 years.	\$8.4
Residential Development Loan Program (RDLP)	CalHFA was authorized to use, at its discretion, not more than \$75 million of CHDAP to finance the acquisition of land and the construction and development of housing developments. However, the statute also stated that as funds grew short, down payment assistance was to be the priority use for these funds.	\$34.9
School Facility Fee Program (SFF)	Down payment assistance program for homebuyers of newly constructed single family homes or condominiums in economically distressed areas (defined by a high rate of unemployment and low number of residential building permits). Assistance was calculated based on a portion of the eligible school facility fees paid by the builder.	\$0.7

Staff Questions for HCD/ CalHFA:

1. The changes proposed expand this from a program for first-time homebuyers to a program for any low- to moderate-income home buyer. What are the tradeoffs associated with making this change?

Comments: The Administration is proposing significant changes to CHDAP to expand the program beyond first-time home buyers to all low-and moderate-income home buyers. Transferring all down payment assistance funds into one single fund and program would make the administration of these dollars more efficient and effective, allowing CalHFA to administer these funds under a single set of consistent rules. The proposed statutory changes would allow CalHFA to utilize the \$176.6 million remaining more flexibly and continue to fund the MyHome Program or other home purchase assistance for up to three more years, depending on volume.

Staff Recommendation:**Vote:**

Issue 2: “By-Right” Trailer Bill Language (May Revision)

Governor’s Proposal: The May Revision proposes trailer bill language requiring ministerial “by right” land use entitlements for multifamily infill housing developments that include affordable housing.

Background: Every city and county in California is required to develop a general plan that outlines the community’s vision of future development through a series of policy statements and goals. A community’s general plan lays the foundation for all future land use decisions, as these decisions must be consistent with the plan. General plans are comprised of several elements that address various land use topics. Seven elements are mandated by state law: land use, circulation, housing, conservation, open-space, noise, and safety. The land use element sets a community’s goals on the most fundamental planning issues—such as the distribution of uses throughout a community, as well as population and building densities—while other elements address more specific topics. Communities also may include elements addressing other topics—such as economic development, public facilities, and parks—at their discretion.

Each community’s general plan must include a housing element, which outlines a long-term plan for meeting the community’s existing and projected housing needs. The housing element demonstrates how the community plans to accommodate its “fair share” of its regions housing needs. To do so, each community establishes an inventory of sites designated for new housing that is sufficient to accommodate its fair share. Communities also identify regulatory barriers to housing development and propose strategies to address those barriers. State law requires cities and counties to update their housing elements every eight years.

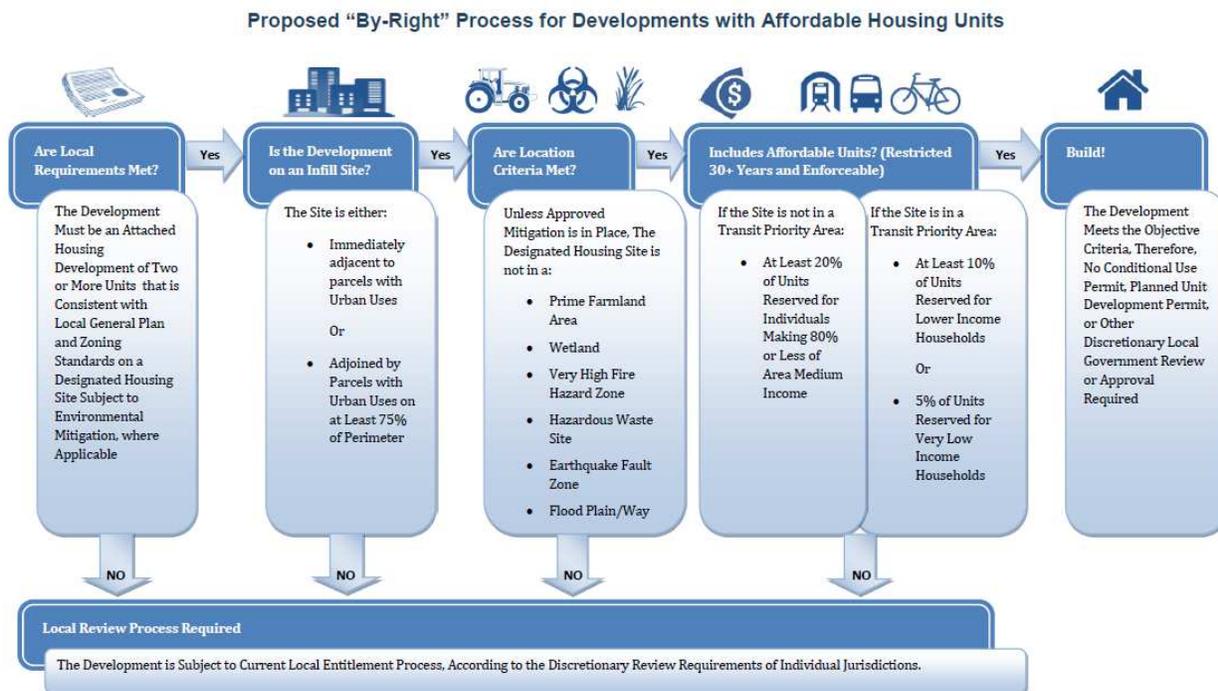
Each community’s fair share of housing is determined through a process known as Regional Housing Needs Allocation (RHNA). The RHNA process has three main steps: 1) state departments develop regional housing needs estimates; 2) regional councils of governments allocate housing within each region; and 3) cities and counties incorporate their allocations into their housing elements.

Cities and counties enact zoning ordinances to implement their general plans. Zoning determines the type of housing that can be built. In addition, before building new housing, housing developers must obtain one or more permits from local planning departments and must also obtain approval from local planning commissions, city councils, or county board of supervisors.

Some housing projects can be permitted by city or county planning staff without further approval from elected officials. These projects are typically referred to as “by right.” By-right projects require only an administrative review designed to ensure they are consistent with existing general plan and zoning rules, as well as meet standards for building quality, health, and safety. Most large housing projects are not allowed by right. Instead, these projects are vetted through both public hearings and administrative review. Most housing projects that require discretionary review and approval are subject to CEQA review, while projects permitted by right generally are not.

The Administration’s Proposal Requires “By Right” Entitlements. Under the Administration’s proposal, current state housing law would be modified to broaden eligibility for by-right, ministerial land use entitlements for multifamily infill housing if it includes long-term deed-restricted affordable units. Under the proposed legislation, a local government may not require a conditional use permit, planned unit development permit, or other discretionary local government review or approval for qualifying developments that include an affordable housing component, provided they are consistent with objective general plan and zoning standards and are, where applicable, subject to mitigating measures to address potential environmental harm.

The figure below shows the proposed “by right” process.



LAO Comment: The LAO finds and recommends the following.

- **Governor’s Proposal Has Merit.** The LAO believes the Governor’s proposal warrants serious consideration from the Legislature and that the proposed changes have the potential to be an important first step toward addressing California’s housing shortage.
- **Strengthen and Expand Governor’s Proposal.** The LAO suggests the Legislature consider some modifications to strengthen and expand the Governor’s proposal. Most notably, the LAO suggests the Legislature expand the number of housing projects eligible for streamlined approval by lowering the affordability requirements developers must meet. The LAO also recommends changes to guard against possible actions some communities may take to hinder the use of streamlined approval.

- ***More Policy Changes Needed to Address This Issue.*** Looking beyond this year, the Administration has committed to consider additional policy changes to encourage housing production. Along these lines, the LAO suggests the Legislature continue to explore other ways to encourage more home building in California's coastal communities. Additional policy changes aimed at ensuring local planning and zoning rules provide sufficient opportunities for home building would be a critical complement to the Governor's proposal.

Staff Questions:

1. How would this proposal interact with CEQA requirements and would it limit the environmental review process? Some are asserting that permitting a use "by right" would essentially make an action ministerial, which makes a project not subject to an environmental review subject to CEQA.
2. The trailer bill language requires only 10 percent of a housing development's units be for lower income households or 5 percent of the units for very low income households – With such a low threshold, how does this actually improve or effectively increase affordable housing when at least 90 percent of the units can be market rate?
3. How frequently do localities update general plans? What are the implications if a general plan has not been updated for many years, as is the case for some cities?
4. How would the state ensure that cities and counties complied with this law and did not put other barriers in place that might limit the development of affordable housing?

Staff Comments: The Administration has proposed significant changes to existing laws around the development of affordable housing. It is a very large task for the Legislature to weigh, in such a short period of time, the policy implications of the proposed changes and balance the trade-offs of building affordable housing, ensuring appropriate environmental review processes, and allowing for local decision-making.

Staff Recommendation: