

SUBCOMMITTEE NO. 4

Agenda

Senator Richard D. Roth, Chair
Senator Steven M. Glazer
Senator Scott Wilk



Thursday, May 10, 2018
9:30 a.m. or upon adjournment of session
State Capitol - Room 2040

Consultants: James Hacker, Renita Polk, and Joe Stephanshaw

<u>Item</u>		<u>Page</u>
Legislative Requests		3
<u>Vote Only Calendar</u>		
<u>Item</u>	<u>Department</u>	
0650	Governor's Office of Planning and Research	
Issue 1	OPR Housing Package Response	6
Issue 2	Affordable Housing and Sustainable Communities: Extension of Liquidation Deadline (SFL)	
0845	Department of Insurance	
Issue 1	Workers Compensation Fraud Program	6
Issue 2	Enhanced Fraud Investigation and Prevention	6
0860	Board of Equalization	
Issue 1	Authority to Cooperate – Trailer Bill Language	6
0950	State Treasurer's Office	
Issue 1	Debt Management System II Project	6
2240	Department of Housing and Community Development	
Issue 1	Long-Term Monitoring and Default Reserve	7
8860	Department of Finance	
Issue 1	Internal Cash Borrowing – Trailer Bill Language	7
Issue 2	State Administrative Costs – Trailer Bill Language	7
Issue 3	Department of Finance Audit Authority – Trailer Bill Language	8

Items Proposed for Discussion

<u>Item</u>	<u>Department</u>	
0845	Department of Insurance	
Issue 1	Reauthorization of the COIN Program	9
2240	Department of Housing and Community Development	
Issue 1	Statewide Housing Package (SB 2 and SB 3) and Trailer Bill Proposal	11
Public Comment		

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.

VARIOUS DEPARTMENTS – LEGISLATIVE PROPOSALS

The subcommittee has received the following legislative proposals for inclusion in the 2018-19 budget.

Issue 1: Renters' Credit

The subcommittee has received a proposal to increase the tax credit for taxpayers who rent their principal residence. The last increase in the renters' tax credit was 1979. Since then, rents in California have increased exponentially, but the renter's tax credit has never been increased. This proposal will restructure the renter's tax credit by aligning higher credit amounts to filers who have one or more dependents as well as implement an index that would keep the credit aligned with inflation. This proposal is estimated to result in revenue loss of \$44 million in 2018-19, growing in the out-years.

Issue 2: State Homelessness Council

The subcommittee has received a proposal requesting \$750,000 to support the establishment of three full-time staff – one director and two support positions – for the California Homeless Coordinating and Financing Council. The Council was created by SB 1380 (Mitchell), Chapter 847, Statutes of 2016, to oversee the implementation of the state's "Housing First" guidelines and regulations and to identify resources, benefits, and services to prevent, and end, homelessness in California. The Council consists of 15 gubernatorial appointments and one appointment each from the Senate and the Assembly. However, the Council has no permanent staff associated with its work. A recent State Auditor report noted that funding the Council would help the state better compete for federal dollars, and could help coordinate the state's response to the ongoing homelessness crisis.

Issue 3: Vertical Prosecution Program

The subcommittee has received a proposal requesting \$2.65 million for the Office of Emergency Services (OES) Vertical Prosecution program. The Vertical Prosecution Program is designed to improve the criminal justice system's response to violent crimes against women through a coordinated, multi-disciplinary response. The units consist of prosecutors and experienced victim advocates, and occasionally investigators. The unit focuses particular effort on cases, seeing them from start to finish while also providing needed services to victims. Program staff is required to have a reduced caseload in order to better concentrate on prosecution of cases.

Issue 4: Continuing Funding for Services for Human Trafficking Victims

The subcommittee has received a proposal requesting \$15 million be provided to the Office of Emergency Services to provide competitive grants to programs providing specialized services to victims of human trafficking. Within the 2016-2018 grant period grants provided by OES have helped serve 2, 521 victims and provided counseling, shelter services, and legal assistance. The requested funding would also be used to increase technical assistance and training, and to conduct a prevalence study to better understand these crimes. Currently, no state or nationwide studies of this nature exist. California has an opportunity to establish this timely study.

Issue 5: Increased Resources for the Mutual Aid System

The subcommittee has received a proposal requesting \$100 million to shore up OES' mutual aid system. \$87 million ongoing funding would be used to reimburse local governments for costs to pre-position resources in high-risk areas prior to the onset of extreme weather conditions. The remaining \$13 million in requested ongoing funding would be for modernizing and improving communication and dispatch technologies and to hire additional personnel to allow for more efficient and effective resource deployment.

As a component of the Standardized Emergency Management System (SEMS), the mutual aid system is based on four organizational levels: cities, counties, regions and the state. The basic concept provides that within the operational area, adjacent or neighboring agencies will assist each other. Should the event require assistance from outside the county, the region will provide requested assistance to the impacted county. If the combined resources of the region are insufficient, the regional coordinator contacts the state mutual aid coordinator at OES.

Issue 6: Compensation for Exonerated Persons

The subcommittee has received a proposal requesting provisions regarding compensation for exonerated persons be included in trailer bill language. The requested changes would provide for compensation without hearing in any case where a state or federal court grants a writ of habeas corpus or a state court grants a motion to vacate pursuant to Penal Code Sections 1473.6 or 1473.7(a) (2), and the charges are dismissed or the person is acquitted of the charges on retrial. These changes would reduce costs and save the state months of employee time by no longer requiring employees to perform unnecessary work of litigating and deciding petitions for compensation in these cases.

Issue 7: North Bay Fire Recovery

The subcommittee has received a proposal requesting \$344.6 million for recovery costs related to the North Bay firestorm of October 2017. Specifically, this request includes:

- Extension of the current California Environmental Quality Act (CEQA) exemption to dire impacted counties until set deadline or until specific recovery goals are met.
- \$77.3 million for a Grant of Low / No-Interest Loan Program for Under—or Uninsured property owners impacted by the fire.
- \$164.8 million for the development of 432 new housing units and 120 new mobilehome units
- The creation of a single regional prime contract to meet all government contracting requirements for fire recovery in the region.
- \$5 million for labor and vocational training for additional tradesmen and construction workers.
- \$7.9 million for housing sustainability and the use of fire-resistant construction materials.
- \$38.3 million to facilitate the reconstruction of private bridges destroyed by the fires.
- \$18.2 million for healthy forests and fire prevention programs in the region.
- \$33.1 million for the removal of dead and dying trees.

Issue 8: Teacher Tax Deduction – Professional Development Expenses

The subcommittee has received a proposal to allow teachers to claim an above the line deduction, up to \$2,500, for fees incurred or paid to complete an induction program. Over time, local education agencies have allocated less funding to support induction programs, leaving teachers to pay out of pocket for induction program costs. This proposal is estimated to result in revenue loss of \$100,000 2018-19, doubling in out-years.

Issue 9: Child and Dependent Care Expenses Credit

The subcommittee has received a request to extend the California Child and Dependent Care Expenses Credit to allow tax filers with no state tax liability to benefit from the credit. Making this credit refundable will allow low and moderate-income families to defray the high cost of child care and also remain gainfully employed. From 2000-2010, the state credit was refundable. This proposal is estimated to result in revenue loss of \$44 million in 2018-19, growing to \$80 million in the out-years.

Staff Recommendation. Hold open all legislative proposals.

VOTE-ONLY CALENDAR

0650– Governor’s Office of Planning and Research (OPR)

1. **OPR Housing Package Response.** The budget requests \$333,000 in reimbursement authority and two positions in 2018-19 and 2019-20 to provide technical assistance as required by SB 2 (Atkins), Chapter 364, Statutes of 2017, and to create a technical advisory on recent statutory changes that affect the California Environmental Quality Act (CEQA).
2. **Affordable Housing and Sustainable Communities: Extension of Liquidation Deadline.** The Administration has requested a two-year extension to the liquidation period for the first round of Affordable Housing and Sustainable Communities (AHSC) funding. This would extend the liquidation deadline from June 30, 2020 to June 30, 2022. The Administration has indicated that this extension would allow the Department of Housing and Community Development (HCD), who is responsible for implementing the AHSC, adequate time to complete three outstanding projects by demonstrating state funding commitments to project lenders.

0845 – Department of Insurance

1. **Workers Compensation Fraud Program.** The budget includes an ongoing \$2.9 million (Insurance Fund) increase in expenditure authority to fund local District Attorney workers’ compensation fraud investigation and prosecution workload increases. The increase is consistent with the assessment approved by the Governor-appointed Fraud Assessment Commission (FAC).
2. **Enhanced Fraud Investigation and Prevention.** The department has submitted two proposals related to enhanced fraud investigation and prevention. Both proposals are discussed in this item. The department requests a total increase in expenditure authority of \$8.2 million (General Fund) in 2018-19, \$8 million in 2019-20, and \$7.6 million in 2020-21 to support enhanced fraud investigation and prevention efforts. At the April 5, 2018, hearing this issue was held open. Members of the subcommittee requested additional information on goals and objectives of the department’s fraud investigation programs and how success of the programs is measured.

0860 – Board of Equalization

1. **Authority to Cooperate – Trailer Bill Language.** The Governor's budget proposes trailer bill language that would authorize the California Department of Tax and Fee Administration and the Board of Equalization to delegate, share, and provide assistance for, or transfer between themselves administrative responsibilities for tax and fee programs within the Department's and Board's respective duties, powers, and responsibilities pursuant to an agreement. The bill prohibits the agreement between the Department and the Board from transferring jurisdiction over any tax and fee program that is the subject of the agreement. This trailer bill language provides authority for the Department and the Board to have an agreement for administrative responsibilities. Last year, the Board of Equalization had its duties narrowed to its constitutional duties and two new entities, the Department of Tax and Fee Administration, and the Office of Taxpayer Appeals, were created to carry out the remaining responsibility of the Board.

0950 – State Treasurer’s Office

1. **Debt Management System II Project.** A spring finance letter proposes \$6.1 million in reimbursement authority for 2018-19 (\$1.2 million ongoing). This request is consistent with Special Project Report (SPR) 3.

STO authored a legacy replacement Feasibility Study Report (FSR) in May 2013. This marked the beginning of the DMS II Modernization project. The FSR forecast a project completion of October 2018, at a total project cost of \$17.6 million (special funds). Subsequently, the STO completed SPR 1 in the spring of 2015, which reflected a completion date of March 2020 and total costs of \$19.8 million, and SPR 2 in January of 2016, which reflected a completion date of December 2018 and total costs of \$20.8 million.

In March 2017, the DMS II technical optimization objectives were successfully deployed into production. In September and November 2017, two aggregated bundles of business objectives were successfully deployed. However, with both fall releases, it had become clear that due to the unforeseen lengthy discussions related to the analysis of proposed business objectives, the full scope of the project could not be delivered in the desired timeframe. SPR 3 was submitted in January 2018 to reflect re-planning efforts.

It has been the project's goal for STO staff to take over the operations and maintenance of the DMS II system following the conclusion of the project. The project built-in knowledge transfer activities from the beginning of the project. As a result, state staff will be prepared to complete any remaining optimization objectives after the project ends, in addition to new and emerging business or legislative requirements that were previously not yet identified. Thus, the formal end of the project on March 3, 2019, will not be the end of the maintenance component of the project. Total project costs are now \$20.4 million, which is a slight decrease from the total project cost identified in SPR 2 of \$20.8 million.

2240– Department of Housing and Community Development (HCD)

1. **Long-Term Monitoring and Default Reserve.** The budget requests \$322,000 from the Housing Rehabilitation Loan Fund (0929), two positions to award funds previously held as default reserves, and two positions for long-term monitoring for the Veterans Housing and Homelessness Prevention Program (VHHP) and AHSC portfolio. This request includes trailer bill language intended to streamline the administration of long-term monitoring, provide consistency across all rental programs, and decrease the risk of default of affordable housing projects.

8860 – Department of Finance

1. **Internal Cash Borrowing – Trailer Bill Language.** The Governor has proposed trailer bill language to authorize a designee of the Governor to direct transfer of moneys to the General Fund. Current law allows the Governor to direct the Controller to transfer funds from special funds to the General Fund in the event that the General Fund is or will be exhausted. The Governor's budget proposes trailer bill language that would allow a designee of the Governor to direct this transfer on the Governor's behalf.
2. **State Administrative Costs – Trailer Bill Language.** The Governor has proposed trailer bill language related to the administrative costs. Existing law requires the Department of Finance (DOF) to certify to the Controller the amount determined to be the fair share of administrative costs due and payable from each state agency and to transfer that amount from specified funds to the Central Service Cost Recovery Fund. Existing law defines "administrative costs" as the amounts expended by various specified state entities for supervision or administration of the

state government or for services to the various state agencies. The Governor's proposed trailer bill language adds the Department of General Services to this list of state entities.

3. **Department of Finance Audit Authority – Trailer Bill Language.** The Governor's budget proposes language to give DOF's Office of State Audits and Evaluations (OSEA) the same authority to request information as the State Auditor and also clarifies the need for departments to comply with corrective action to audit findings. In 2017, the Department of Finance conducted an extensive and consequential audit of the Board of Equalization (Board), as directed by the 2016 Budget Act. The proposed language clarifies the role of the OSEA in response to some questions that were raised about DOF's authority during the audit of the Board.

Staff Recommendation

Approve as Budgeted.

Issues Proposed for Discussion

0845 CALIFORNIA DEPARTMENT OF INSURANCE

Issue 1: Reauthorization of the California Organized Investment Network (COIN) Program

The subcommittee has received the following legislative proposal for inclusion in the 2018-19 budget.

Proposal. The request is for the reauthorization of the COIN Community Development Financial Institution (CDFI) tax credit program. Reauthorization of the program will allow the department to issue up to \$10 million in tax credits.

Background. The COIN program was created in 1996 as a public-private partnership with the goal of helping address the unmet capital needs for economic development and affordable housing in low-income urban and rural communities throughout California. For every \$5 of private investment in CDFIs, up to \$1 of state tax credits is eligible. The program may award up to \$10 million in tax credits per year, leveraging up to \$50 million in capital for community development through CDFIs. Over the past two decades, the COIN program has generated more than \$335 million in community development investments that have supported small businesses, created jobs, improved access to quality health care, built affordable housing, and funded green projects – all in low-income communities throughout California.

Staff Recommendation

Hold open.

Issues Proposed for Discussion

2240 CALIFORNIA DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

The Department of Housing and Community Development's (HCD's) mission is to preserve and expand safe and affordable housing opportunities and promote strong communities for all Californians by (1) administering housing finance, economic development, and community development programs, (2) developing housing policy and advocating for an adequate housing supply, and (3) developing building codes and regulating manufactured homes and mobilehome parks. HCD also provides technical and financial assistance to local agencies to support community development.

The California Housing Finance Agency's (CalHFA) mission is to create and finance progressive housing solutions so that more Californians have a place to call home. The agency is financially self-supporting, setting loan interest rates slightly above its costs and charging fees to cover investments related to bond proceeds. Since 2013, pursuant to the Governor's Reorganization Plan No. 2 of 2012, CalHFA has been displayed within HCD's budget and reports to the Business, Consumer Services, and Housing Agency.

Governor's Budget: The budget provides \$1.2 billion and supports 856 positions at HCD in 2018-19, including roughly \$39 million and 255 positions at the California Housing Finance Agency. This is an increase of roughly \$470 million from 2017-18, mostly due to the implementation of the statewide housing package passed in 2017.

3-YR EXPENDITURES AND POSITIONS

	Positions			Expenditures		
	2016-17	2017-18	2018-19	2016-17*	2017-18*	2018-19*
1660 Codes and Standards Program	191.4	166.2	170.2	\$30,502	\$34,445	\$34,803
1665 Financial Assistance Program	188.2	201.6	274.1	486,602	653,034	994,883
1670 Housing Policy Development Program	14.8	17.1	39.1	36,798	4,532	130,405
1675 California Housing Finance Agency	235.3	254.9	254.9	35,605	38,822	38,689
1680 Loan Repayments Program	-	-	-	-2,969	-1,944	-1,944
1685 HPD Distributed Administration	-	-	-	-141	-150	-150
9900100 Administration	147.4	107.0	117.5	14,753	16,893	20,216
9900200 Administration - Distributed	-	-	-	-14,753	-16,893	-20,216
TOTALS, POSITIONS AND EXPENDITURES (All Programs)	777.1	746.8	855.8	\$586,397	\$728,739	\$1,196,686

Issue 1: Statewide Housing Package (SB 2 and SB 3) and Trailer Bill Proposal

Governor's Proposal: The Department of Housing and Community Development (HCD) requests \$16 million and 81.0 positions 2018-19, \$21 million and 128.0 positions in 2019-20, and \$23 million and 146.0 positions ongoing for State Operations to implement the 2017 Statewide Housing Package. HCD also requests Local Assistance authority of \$522 million in 2018-19 and \$773 million in out years. The Administration has also proposed trailer bill language to allocate the first year of funding from SB 2 (Atkins), Chapter 364, Statutes of 2017, in a manner that provides for geographic equity. This request includes technical budget bill language to clarify HCD's ability to encumber and liquidate funds.

These items were first heard in subcommittee on March 15, 2018.

Background: In 2017 the Legislature passed a package of 15 bills aimed at increasing the affordability of housing in California. The package included proposals to place a general obligation bond on the November 2018 ballot, create a permanent funding source for affordable housing by levying a transaction fee on new real estate transactions, and a variety of regulatory reforms to speed up development and construction of new housing.

SB 2 imposed a fee on recording of real estate documents, excluding sales, for the purposes of funding affordable housing. This fee is to be collected by county recorders and remitted to the state on a quarterly basis. Collections began on January 1, 2018. The first remittances will occur in March of 2018. The Administration has estimated that this fee will raise roughly \$129 million in 2017-18 and \$258 million in 2018-19.

Funding allocations are specified in statute for the first year of proceeds and on an ongoing basis. These allocations are based on the calendar year in which the fees are collected, and not the state fiscal year in which the funds are expended. Under SB 2, one half of the revenue from the fees collected during 2018 is designated for planning and zoning grants and technical assistance programs, and one half for homelessness programs. In year two and onward, 70 percent of the funds will be distributed directly to locals and 30 percent to the state for farmworker housing, state incentive programs, and mixed income multifamily residential housing affordable to lower and moderate income housing. Should the SB 3 bond be approved by voters in November 2018, proceeds from bond sales shall be split among a variety of currently existing housing and homelessness programs.

SB 3 places a \$4 billion bond on the November 2018 general election ballot. Of this amount, \$1 billion will support veterans housing in the California Department of Veterans Affairs Farm and Home Loan Program, repaid by participants' loan repayments. HCD will administer the remaining \$3 billion General Obligation bond through existing housing programs.

Staff Comments: Staff finds the request for staff and associated funding reasonable given the implementation timelines for the housing package and the large increase in workload for the department. However, staff notes that the final program design for the implementation of the year one homelessness and planning funds has yet to be finalized. The Administration initially proposed trailer bill language meant to provide a certain degree of geographic equity for the program. However, the initial language raised serious concerns. Additionally, the department has indicated that they now plan to allocate the year one homelessness funds through the existing Emergency Solutions Grant (ESG).

This approach would not require the propose trailer bill language to implement. Discussions on the final shape of these programs are ongoing. It is premature to approve either the year one program funding or any accompanying trailer bill language until these have completed.

Staff Recommendation

Approve the requested positions and associated funding. Approve the requested technical budget bill language. Adopt placeholder trailer bill language. Adopt supplemental reporting language requiring HCD to report on their progress in meeting the staffing requirements for the implementation of the statewide housing package.