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**SENATE COMMITTEE ON TRANSPORTATION AND HOUSING**

**Senator Jim Beall, Chair**

**2017 - 2018 Regular**

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**Bill No:** SB 912 **Hearing Date:** 8/21/18  
**Author:** Beall  
**Version:** 6/20/2018  
**Urgency:** No **Fiscal:** Yes  
**Consultant:** Erin Riches

**SUBJECT:** California Housing Finance Agency: management compensation.

**DIGEST:** This bill revises the list of management positions for which the California Housing Finance Agency (CalHFA) board has discretion to establish salaries.

**ANALYSIS:**

*Existing law:*

- 1) Requires CalHFA to establish, among other positions, a director of insurance and a financial risk management director, appointed by the Governor and serving at the pleasure of the executive director. Requires these directors to assist in the implementation of processes, tools, and systems to identify, assess, measure, manage, monitor, and mitigate risks related to the development of new programs or changes to existing law or regulations that may result in new or increased risk to the agency, as well as other duties as may be required by the executive director.
- 2) Authorizes the board of directors of CalHFA to establish in the agency's annual budget the compensation of key exempt management positions, including the executive director, the chief deputy director, the general counsel, the director of financing, the director of insurance, and the financial risk management director in amounts that are reasonably necessary, in the discretion of the board, to attract and hold a person of superior qualifications.
- 3) Requires the board of directors to conduct a salary survey using an independent outside advisors.

This bill revises the key exempt management positions for which the CalHFA board of directors can establish compensation. Specifically, this bill replaces the "director of insurance" and "financial risk management director" with the "director of enterprise risk management and compliance" and "risk manager."

**COMMENTS**

- 1) *Purpose.* The author states that this bill realigns positions in statute to reflect organizational changes that have been enacted at CalHFA.
- 2) *Background.* Established in 1975, CalHFA was chartered as the state's affordable housing bank to make below market-rate loans through the sale of tax-exempt bonds. CalHFA is a self-supporting entity and its debts, including those related to the compensation and retirement costs of its employees are separate from the State of California. Investor capital, through the sale of bonds, provides the Agency's source of revenue. Existing statutes and bond indentures state that the Agency's debts are not a debt or liability of the State or any political subdivision thereof and are not backed by the faith and credit of the State of California.

Each year, CalHFA's board of directors enacts a business plan that includes an operating budget containing salaries. Existing law requires CalHFA to prepare a budget on or before December 1<sup>st</sup> each year, which is reviewed by the Secretary of Business, Consumer Services, and Housing Agency, the Director of Finance, and the Joint Legislative Budget Committee. In addition CalHFA is required to have open and public meetings of the board of directors and committees, except when in executive session for a reason provided under law.

CalHFA receives an issuer credit rating that is separate from the State of California. In addition to other elements, including asset quality, debt and financial strength, the credit rating is dependent upon the expertise of the management personnel. In 2006, standard and poor's took specific note of CalHFA's difficulty in attracting and retaining experienced management due to non-competitive salaries. In response, SB 257 (Chesbro), Chapter 748, Statutes of 2006, clarified CalHFA's authority to offer competitive salaries for key exempt management positions (e.g., exempt from civil service). To determine the compensation for key positions, CalHFA must conduct salary surveys using an independent outside adviser. The state Department of Human Resources (CalHR) is required to review the methodology used for the salary survey.

This bill would change the list of exempt management positions for which the CalHFA board has discretion to establish salaries that are reasonably necessary to attract and retain a person of superior qualifications. The position of director of insurance no longer exists; this bill deletes that title from statute. In 2016, SB 837 (Committee on Budget and Fiscal Review, Chapter 32, Statutes of 2016) required CalHFA to have a director of enterprise management and

compliance; this bill would add that position to the list of exempt management positions in statute. In addition, the bill deletes the position of financial risk management director and replaces it with a broader risk manager position that oversees and analyzes risks to CalHFA beyond and including financial risk.

- 3) *Senate Rule 29.10(d) referral.* When this committee approved this bill in April, it authorized the Budget Act of 2018 to include funding for a number of housing and homeless programs. This bill was amended on May 25<sup>th</sup> to instead pertain to CalHFA. Because it was substantially amended in the Assembly, the Senate Rules Committee referred the amended bill, pursuant to Senate Rule 29.10(d), to the Transportation and Housing Committee to consider the new amendments.

**RELATED LEGISLATION:**

**SB 837 (Committee on Budget and Fiscal Review, Chapter 32, Statutes of 2016)** — included a provision allowing CalHFA to replace the Director of Insurance position with a Director of Enterprise Risk Management and Compliance.

**FISCAL EFFECT:** Appropriation: No    Fiscal Com.: Yes    Local: No

**POSITIONS:** (Communicated to the committee before noon on Friday, August 17.)

**SUPPORT:**

None received.

**OPPOSITION:**

None received.

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