State of California
BUSINESS, CONSUMER SERVICES AND HOUSING AGENCY

Gavin Newsom, Governor
Lourdes M. Castro Ramírez, Secretary

DATE: November 10, 2021

TO: Fiona Ma, Treasurer
California State Treasurer's Office

FROM: Lourdes M. Castro Ramírez, Secretary

CC: Betty T. Yee, Controller, SCO
Keely Bosler, Director, DOF

RE: CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE (CDLAC)

On behalf of Governor Gavin Newsom's Administration, I would like to express my appreciation for the highly effective partnership we have developed over the past year. During this time, Governor Newsom and the Legislature have made historic investments to address housing and homelessness, with more than $10 billion for housing and $12 billion to support housing and services for people experiencing homelessness. We have a once-in-a-generation opportunity to make significant progress and build on the progress we have made in expanding affordable housing and improving housing stability.

As you recall, last year I introduced the Administration's housing priorities and guiding principles. I was very pleased with the positive reception they received. We have built a solid foundation, coupled with strong interagency coordination and collaboration, as witnessed by the CDLAC 2021 regulations. I am writing now to share our recommendations on potential changes to the 2022 CDLAC regulations.

As part of the foundation built last year, the Administration's primary policy principles, goals, and priorities for housing investments include:

1. Creating more affordable housing, with deep affordability, while continuing to emphasize cost efficiency.
2. Preventing and ending homelessness, through the production of housing, including supportive housing, for individuals experiencing homelessness.
3. Affirmatively furthering fair housing choice.
4. Aligning policy and funding cycles across State housing finance agencies.
5. Reducing barriers for new and historically excluded developers.
6. Encouraging location- and climate-efficient site selection.

As the CDLAC considers the 2022 regulations, we propose that these principles, informed with data, continue to guide the work necessary for collaborative solutions.

My team has compiled a detailed list with full explanations of all Administration recommendations for the 2022 CDLAC regulations. These include several technical matters, including definition alignment and tiebreaker mechanics. For purpose of policy discussions at the Committee level, I wish to highlight here only the top priority items. These high-impact suggested changes to CDLAC regulations are:

1. **Point Category Recommendation:** Retain the scoring system's priority point for High/Highest Resource Areas and extend the emphasis to the tiebreaker. For a period of 1 year, subject to renewal, the additional point available only to projects located in High/Highest Resource Areas will "turn off" after 50% of the annual [or per-round] bond volume cap designated for multifamily housing is allocated to these projects. The soft-cap strategy should be implemented with a priority for geographic distribution of High/Highest Resource Area awards.

2. **Tie-Breaker Recommendations:**
    a. Ensure the tie-breaker rewards both deep affordability and geographic equity. CDLAC regulations commit to a tiebreaker in 2022 that measures state investment in a project relative to the public benefit produced. Any public benefits tiebreaker that is adopted should include weighting and metrics that prioritize deep affordability and homelessness prevention. For this reason, the Administration suggests including four criteria in the tiebreaker to determine the most public benefit and ensure we strive to meet our housing goals. For that reason, we recommend including production, population, rent savings, and location.
    b. The denominator of the Tiebreaker should consist of Tax Exempt Bonds and State Tax Credits. As we know, Tax exempt bonds are currently the most restricted funding source for many affordable housing developments. The Administration shares CDLAC's commitment to provide a streamlined development pathway for projects already in the pipeline and already identified as state and local priorities.

3. **Set-Aside Recommendation:** Change prioritization within the Homeless Set-Aside from 100% Homeless to 49% Homeless to promote integration with HCD programs prioritize projects that serve no more than 49% homeless individuals.

Extremely Low Income and Very Low-Income Housing Production
The pandemic continued to highlight the disparity of impacts on those marginalized communities without access to affordable housing. We know that the pattern of under production of affordable housing for ELI and VLI have been consistent over time, resulting in an imbalance between supply and demand in our housing stock. Thus, 70% of ELI renters and 60% of VLI renters in California are severely cost burdened, paying over 50% of their income on housing. Comparatively, less than 4% of moderate-income households are severely cost burdened.

Production numbers reported through the Housing Element annual progress reports indicate continual under-production in these categories, with less than 41,000 homes affordable to very low-income households permitted during the last housing element cycle, compared to 95,178 moderate homes and 571,343 above moderate homes.

From 2013-2020, California permitted 747,000 homes: only 64.6% of our goal. Those targets were too conservative and were updated for the 6th cycle to better capture existing need, more than doubling the goal from the previous cycle. As the Committee completes the demand survey, and deliberates on the allocation of the volume cap, the Administration encourages emphasis on the income levels with lowest construction levels—ELI and VLI.

Affirmatively Furthering Fair Housing Choice
Last year the Administration proposed and adopted the Affirmatively Furthering Fair Housing (AFFH) incentive. This was important in creating opportunity and we have seen strong results in expanding access to high resource communities for low-income families with children. Prior to the inclusion of AFFH incentives in the program in 2021, only 12% of units were built in high resource areas and 8% in highest resource areas. After the additional point was included, the number of projects funded in the first year increased to 41% and 30%, respectively.

AFFH incentives also enhanced the program's equity impact on addressing homelessness. Prior to the inclusion of AFFH incentives, only 8% of units were built in high resource areas and 5% in highest resource areas. With the additional point, the number of projects increased to 24% and 10%, respectively. Including consideration of AFFH helps prioritize deep affordability and homelessness prevention in areas of the state with vital resources. The Administration urges CDLAC to retain the unique advantage to projects located in High and Highest Opportunity Areas and also supports a soft cap of 50% to acknowledge that affordable housing is a benefit everywhere.

Prioritizing the funding of developments in high and highest resource areas is an important part of balancing the state's affordable housing investments and is aligned with similar initiatives by the Tax Credit Allocation Committee (TCAC) and the Department of Housing and Community Development.

Thank you again for the opportunity to comment. I am grateful for the collaboration between the Administration, the Treasurer and the Controller to ensure we meet our shared goals. I especially appreciate your leadership of the CDLAC committee and the tireless efforts of the working group.