

ASSEMBLY THIRD READING

AB 2053 (Lee, et al.)

As Amended May 19, 2022

Majority vote

SUMMARY

Establishes the California Housing Authority (CHA) for the purposes of developing mixed-income social housing.

Major Provisions

- 1) Creates the CHA as an independent state entity with the mission of producing and acquiring social housing for all California residents, eliminating the gap between housing production and regional housing needs assessment targets, and preserving affordable housing.
- 2) Specifies that the CHA board will consist of nine members, as specified, who will elect a chair and make decisions by majority vote.
- 3) Provides that each CHA-owned multifamily social housing development must form a governance council with specified powers and responsibilities.
- 4) Requires that the CHA be bound to revenue neutrality and must recuperate the cost of development and operations over the life of its properties through rent cross-subsidization.
- 5) States that the CHA must prioritize development on vacant parcels, certain underutilized parcels with deed-restricted units, surplus public properties, and parcels near transit.
- 6) Requires that each multi-unit property must include a variety of mixed income units.
- 7) Specifies that the CHA will make an annual determination of the required amount of social housing units to be produced as follows:
 - a) Annual regional housing needs assessment (RHNA) targets calculated as the total RHNA cycle targets for each jurisdiction divided by the length of the RHNA cycle;
 - b) On or before January 1, 2027, and each year thereafter, the CHA will determine the gap between the previous year's RHNA and actual housing construction; and
 - c) Within a given year, the CHA can construct at least the number of units to meet the gap between the previous year's construction of units and the RHNA targets.
- 8) Specifies that, in creating housing, the authority shall employ two different leasing models, the rental model and the ownership model, as specified.
- 9) Provides that the CHA can conduct ground-up construction and rehabilitation of existing structures and may lease mixed-use space to small businesses and nonprofits.
- 10) States that the CHA must accept a local government's preference on project location if certain conditions are met.

- 11) Requires specified labor standards for production and rehabilitation of CHA developments, including community workforce agreements, payment of prevailing wages.
- 12) States that it is the intent of the Legislature to develop and implement high-road labor policies to use a skilled construction workforce to build projects utilizing bond funds.
- 13) Specifies that CHA activities must be conducted according to revenue neutrality and further states that it is the intent of the Legislature to enact legislation to provide financing for the activities of the authority through the issuance of general obligations bonds.

COMMENTS

Background on Social Housing: There is no widely shared consensus on how to define social housing. However, all definitions of social housing distinguish it in various ways from privately-owned, for-profit housing provided through market mechanisms. The Assembly Select Committee on Social Housing held an informational hearing on October 20, 2021 and Rob Weiner from the California Coalition for Rural Housing shared the Organization for Economic Cooperation and Development (OECD) definition of social housing as: "the stock of residential rental accommodations provided at sub-market prices and allocated according to specific rules rather than according to market mechanisms."¹ Under this definition, there are an estimated 480,000 socially-rented (i.e., subsidized) housing units available for rent in California, or about 3.5% of the state's housing stock. These deed-restricted affordable rental units are generally built using a mix of public and private financing and residency is restricted to low-income households that make no more than 80 percent of county area median income (AMI).

Another variation of social housing involves making accommodations available to all individuals regardless of their household income. In particular, Vienna, Austria is often held up as an example of a large city with widespread mixed-income social housing in which higher income households pay market rate rents which then subsidize the below market rents for lower-income households. This mechanism is referred to as "cross-subsidization" and it is the same logic that underlies California's density bonus law.

Creation of the California Housing Authority (CHA): This bill proposes to establish the California Housing Authority (CHA) as a new, independent entity within the state government to develop social housing, which is defined as mixed-income rental and ownership housing that is publicly owned and permanently affordable. The CHA's mission would be to close the gap between a jurisdiction's current level of housing production and their regional housing needs allocation (RHNA) amount while maintaining revenue neutrality. Moreover, the CHA would be governed by a nine-member board.

Development of CHA housing: This bill specifies that the CHA could build residential housing to make up the difference between a jurisdiction's RHNA and the actual amount of housing built. Development would be prioritized on vacant parcels, surplus public properties, and parcels near transit, though the bill does not indicate a particular distance from transit or the frequency of transit service that would be required for a parcel to be considered "near transit". Additionally, underutilized parcels with fewer than the maximum number of allowable units per the

¹ <https://www.assembly.ca.gov/media/assembly-select-committee-social-housing-20211020/video>

jurisdiction's zoning would be prioritized for CHA developments so long as they do not contain rent controlled units or deed-restricted affordable housing.

This bill requires the CHA to seek input from the local government about certain aspects of a proposed development. If a development would lead to the displacement of existing residents, those households would be eligible for relocation assistance and would have the first right of refusal to live in a CHA housing unit. Developments built pursuant to this bill are required to be mixed-income housing developments, though the specific mix is not spelled out in the bill. The authority also has the ability to develop mixed-use buildings with commercial space that could be leased to small businesses and nonprofits. CHA developments would use community workforce agreements to the maximum extent feasible and all contractors and subcontractors must pay prevailing wages.

Policies governing residency in CHA-built housing: In CHA-built developments individuals could either rent or purchase a unit through an ownership model. The housing unit must be the person's sole residence unless they fall into the above-moderate income category. In the ownership model residents get a 99-year lease and must commit to a minimum of five years of residency. Renters would be required to commit to a year of residency and are provided tenant protections including protection against termination of tenancy without just cause. Additionally, each multifamily social housing development produced by the CHA will have a resident governance council elected by residents of the housing complex.

Financing start-up costs and revenue neutrality: This bill states that the CHA would operate according to principles of revenue neutrality, though it does not specify the time period over which revenue neutrality would be achieved. This bill also includes language stating that it is the intent of the Legislature to fund the CHA's activities through the issuance of general obligations bonds, though no specific timeline or dollar amount for bond issuance is included in the bill text. However, because the Legislature lacks the ability to issue general obligation bonds without voter approval, another bill would need to pass with a two-thirds vote of both houses of the Legislature to put the question of general obligation bond issuance before the voters. This bill also includes language giving the CHA the ability to issue revenue bonds that would ostensibly be secured with CHA rental income, but such bonds could only be issued after a reliable stream of rental income is being generated from CHA-owned properties.

Policy considerations: Further consideration should be given to anti-displacement protections to ensure that CHA developments do not adversely impact vulnerable low and moderate-income communities. The bill currently contains anti-displacement protections at the site level, but new housing can also affect the larger community. To the extent developments must include a high proportion of market rate units to achieve revenue neutrality, the result may be a program that disproportionately benefits moderate-income and higher income Californians and accelerates displacement. Additionally, the CHA's developments would appear to be subject to Article 34 of the California Constitution which requires local city and county voters to approve any public low-rent housing project. This may delay projects or make development impossible in jurisdictions that have not passed a local Article 34 measure.

The CHA and social housing in the context of other efforts to address the housing crisis: On the one hand it could be argued that this bill runs counter to the Legislature's recent efforts to streamline and consolidate affordable housing development. Yet, at the same time, the CHA would generally not be duplicating the funding, oversight, policy, or technical assistance work of

other state housing entities. Instead it seeks to do something the state has never attempted to do: build large amounts of permanently affordable mixed-income rental and ownership housing. This may prove to be a tall order for a state which has a decidedly mixed record with delivering ambitious new programs and infrastructure in recent decades.

As discussed in the policy committee analysis for this bill, the current system for producing deed-restricted affordable housing for low-income Californians is not adequately funded. Moreover, many of the affordable housing funding sources that the state currently draws on are one-time funds from voter-approved bonds that will be depleted in the coming years. This bill proposes creating a new entity to take on housing development and ongoing management of properties it builds. There may be cost savings and potential efficiencies in state-sponsored housing development through the CHA, but it could also end up costing more to establish a new entity that would be taking on work state governments have not typically engaged in.

According to the Author

"Housing is too expensive for millions of Californians, where more than two in five households spend over 30% of their income on housing, and more than one in five households spend over 50% of their income on housing. Over 97% of cities and counties haven't produced enough affordable housing, and existing strategies to address the lack of affordable housing have not produced nearly enough to meet demand. Affordable housing relies on government subsidies, and there is much more demand for them than supply.

Social housing is an important tool to ensure housing is affordable to people of all income levels. Social housing is publicly backed, self-sustaining housing that accommodates a mix of household income ranges. Housing is protected from being sold to a private for-profit entity for the duration of its life, and residents are granted the same protections as tenants in private property, if not more. Residents can participate in decision making that affects housing management, such as providing the resident perspective to property management or hosting meetings to gather feedback from residents. Many countries throughout the world have successful social housing programs, and in the [United States], there are social housing developments such as in Montgomery County, Maryland using a similar model. Social Housing is how we provide and realize housing as a human right."

Arguments in Support

This bill's co-sponsor, YIMBY Action writes, "The California legislature has attempted several measures trying to address the chronic housing shortage, funding various kinds of subsidized affordable housing, legalizing Accessory Dwelling Units, and strengthening the RHNA process to spur housing production at every income level in California. California Legislators have said over and over that and 'all of the above' strategy is needed, and yet have been hesitant to look at successful housing models abroad. Now is the time to pursue a tried and tested model for social housing."

Arguments in Opposition

The California Association of Realtors writes in opposition to this bill that it "will create a new and expensive bureaucracy, as well as unintended adverse consequences for the housing market." Their letter further notes that AB 2053 "runs contrary to the Legislature's recent efforts to streamline housing programs" and that the bill would reduce local property tax revenue since CHA developments, including ones with market rate units, would presumably not pay property taxes.

FISCAL COMMENTS

According to the Assembly Appropriations Committee:

- 1) Estimated General Fund (GF) costs of an unknown amount, but likely in the tens of millions of dollars annually, to establish and operate a new state entity, the CHA, which would be responsible for the construction, acquisition and maintenance of mixed-income social housing developments. It is unclear how the CHA would interact with other departments with overlapping missions such as the Department of Housing and Community Development (HCD) and the California Housing Finance Agency (CalHFA).
- 2) Estimated capital costs of an unknown amount, but likely in the low billions of dollars (GF and bond funds) for the construction and development of social housing units. This bill states legislative intent to issue general obligation (GO) bonds to finance the activities of the CHA, but no timeframe or dollar amount is indicated. In addition, the Legislature lacks the ability to issue GO bonds without voter approval and, thus, subsequent legislation would be needed to put a GO bond measure before the voters.

(The author is also pursuing this proposal in the legislative budget process.)

VOTES**ASM HOUSING AND COMMUNITY DEVELOPMENT: 6-2-0**

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

NO: Seyarto, Kiley

ASM APPROPRIATIONS: 12-4-0

YES: Holden, Bryan, Calderon, Carrillo, Mike Fong, Gabriel, Eduardo Garcia, Levine, Quirk, Robert Rivas, Akilah Weber, Wilson

NO: Bigelow, Megan Dahle, Davies, Fong

UPDATED

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