Senator Josh Becker, 13th Senate District

SB 948 – Affordable Housing Pooled Reserves

IN BRIEF

SB 948 will cut costs for affordable housing projects in California by shifting the responsibility to hold a certain amount of money – what are called "transition reserves" – from the individual project level to a pooled reserve model operated by the Department of Housing and Community Development (HCD).

BACKGROUND

According to the Roadmap Home 2030, California needs to build 1.2 million new affordable homes, 120,000 per year, to meet the needs of low-income families over the next ten years. Yet California has never produced more than 20,000 new affordable rental homes in any year primarily due to a lack of resources. It is therefore critical to minimize the cost of development so that scarce resources can support additional homes.

State affordable housing programs require such housing to remain affordable for at least 55 years. In some cases, though, affordable rents are supported by federal or local rental assistance contracts (e.g., project-based Housing Choice Vouchers) that have a duration of 15-20 years. As a result, HCD currently requires each development that has rental assistance to set aside enough money up front to continue the assistance for one year after a contract ends in order to transition tenants to higher rents. This is known as a transition reserve.

The reserve requirement was originally designed to serve as a backstop in the event that an operating subsidy or voucher program expired. The reserve would be available in that instance to provide a funding bridge to the development to find a solution to the loss of subsidy, like loan restructuring or ownership transfer, before having to resort to increasing rents on residents to continue operating.

THE PROBLEM

Transition reserves can range from as low as a few hundred thousand dollars in a small project or a project with a small percentage of affordable units, to over $3 million in a 100% affordable subsidized project. This is a sizable additional cost to projects who are already dependent on scarce affordable housing funding sources to pay for the cost of the actual housing units and services provided to residents.

However, the risk of rental assistance contracts not being renewed is extremely remote. A 2020 report commissioned by HCD cites the non-renewal rate for the primary rental assistance program as 0.0023%. In essence, HCD requires each development with rental assistance to fully self-insure for an event that is extremely unlikely to happen.

The same HCD-commissioned report recommends that HCD replace the development-specific transition reserve requirement with a department-wide pooled reserve. This would be akin to how insurance works. Each development would pay a relatively small amount into the reserve, which would then have enough resources to cover the extremely small number of claims for rental assistance contracts that are not renewed. This pooled transition reserve model would save millions of dollars that HCD can use to invest into additional affordable homes.

THE SOLUTION

SB 948 eliminates the requirement for each development to hold specific transition reserves and instead authorizes HCD to create a pooled transition reserve to mitigate the impacts on tenants in the unlikely event of a total loss of rental assistance.

The bill would apply to housing constructed from a variety of state affordable housing programs, including the Multifamily Housing Program, the Infill Infrastructure Grant Program, the No Place Like Home Program, and several others.

SB 948 will free up significant financial resources within many HCD-funded affordable housing projects – resources that can instead be utilized to create more homes for low-income individuals and families in California.

SUPPORT

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Corporation for Supportive Housing
East Bay Housing Organizations
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