February 25, 2022

The Honorable Josh Becker
California State Senate
State Capitol, Suite 303
Sacramento, CA 94402

Re: SB 948 (Becker): To Reduce the Cost of Affordable Housing through the Creation of a Pooled Transition Reserve - Support

Dear Senator Becker:

On behalf of San Diego Housing Federation, I am pleased to offer our strong support for SB 948 and want to thank you for your leadership. SB 948 would eliminate HCD-required development-specific transition reserves and explicitly authorizes HCD to create a pooled transition reserve to mitigate the impacts on tenants in the unlikely event of a loss of rental assistance. Founded in 1990, the San Diego Housing Federation (SDHF) serves as the collective voice of those who support, build and finance affordable homes in the San Diego region.

According to the Roadmap Home 2030, the state 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. One significant contributor to development costs is expensive and largely unnecessary development-specific “transition reserves.”

State affordable housing programs require affordable 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, the Department of Housing and Community Development (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. For larger developments, this can add up to $3 million in cost, which HCD generally funds from its scarce resources. 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 is 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 small number of claims for rental assistance contracts that are not renewed. The pooled transition reserve will save millions of dollars that HCD than can invest into additional affordable homes.

SB 948 eliminates HCD-required development-specific transition reserves and explicitly authorizes HCD to create a pooled transition reserve to mitigate the impacts on tenants in the unlikely event of a loss of rental assistance. It is envisioned that HCD will charge each development with rental assistance to adequately capitalize the fund, however the bill also allows for the pooled reserve to be capitalized from any other source which, if realized, would further reduce development costs.

For these reasons, SB 948 would further the San Diego Housing Federation’s goal to develop more affordable housing in the region and we are grateful for your leadership on this matter.

Best Regards,

Stephen Russell  
President & CEO