SENATE COMMITTEE ON APPROPRIATIONS
Senator Sabrina Cervantes, Chair
2025 - 2026 Regular Session

AB 2020 (Gabriel) - Housing programs: financing

Version: February 17, 2026
Urgency: No
Hearing Date: August 3, 2026

Policy Vote: HOUSING 10 - 0
Mandate: No
Consultant: Mark McKenzie

Bill Summary: AB 2020 would authorize the Department of Housing and Community Development (HCD) to authorize the transfer of excess reserves or operating income from one rental housing development to another under specified conditions.

Fiscal Impact:

- Staff estimates that the bill would create ongoing General Fund cost pressures, at least in the mid-hundreds of thousands of dollars annually, to the extent HCD exercises the authority to establish and administer a program to provide for the transfer of reserves and operating revenues from one rental housing development to another owned by the same sponsor. While there would be no immediate direct costs to HCD since the bill is permissive, the bill creates General Fund cost pressures to fund HCD's costs to establish such a program, should it exercise this discretionary authority. See Staff Comments. (General Fund)

Background: Under existing law, HCD administers various programs for the development of affordable housing, and typically provides financial assistance in the form of deferred payment loans that require a project sponsor to only pay a residual amount to cover HCD's administrative costs over the life of the loan.

Existing law, the Loan Portfolio Restructuring (LPR) Program, authorizes HCD to approve an extension of a department loan, the reinstatement of a qualifying unpaid mature loan, the subordination of a loan to new debt, or an investment of tax credit equity under numerous rental housing finance programs. Existing law specifies that loans may only be restructured at HCD's discretion if a development is in compliance with the existing regulatory agreement, the development requires a restructuring in order to continue to operate, and the development has, or will have after rehabilitation and repairs, a potential remaining useful life of at least as long as the new loan term. An extension must be for a period of at least 10 years and up to 55 years, at an interest rate of 3 percent. Rents may be adjusted upward to the minimum extent necessary to support the new debt to pay for rehabilitation, and subject to specified limits to maintain affordability. Existing law authorizes HCD to charge loan processing and monitoring fees to an applicant to generate sufficient revenue to cover initial and ongoing monitoring requirements of the program.

Existing law, as enacted by AB 130 (Budget Committee), Chap. 22/2025, a trailer bill associated with the 2025-26 Budget, authorizes HCD to approve the payoff of a department loan prior to the end of its term, and the extraction of equity from a development for purposes approved by the department, as specified. AB 130 also allows the owner of a property subject to a regulatory agreement with HCD to take out additional debt on the development to finance rehabilitation or investment in new affordable housing, as specified. HCD background on the trailer bill indicates that leveraging excess equity from current projects to create new and preserve existing affordable housing projects is a cost-effective solution that can increase the impact of prior state investments and support ongoing preservation without additional state funding.

Proposed Law: AB 2020 would allow HCD, at its sole discretion, to authorize the transfer of excess reserves or excess operating income from one rental housing development that is subject to a regulatory agreement, to another rental housing development subject to a regulatory agreement that is owned by the same sponsor, as specified.

The bill also includes the following definitions:

- "Excess operating income" means the annual net operating income in excess of the amount that is 1.15 times the sum total of required annual debt service payments, provided the owner can demonstrate sufficient net operating income over a 15-year period.
- "Excess reserves" means replacement reserves, operating reserves, or transition reserves no longer required by, or in excess of the minimum amount required by, the HCD regulatory agreement.

Related Legislation: AB 2626 (Gabriel), which is currently pending in this Committee, would authorize HCD, at its discretion, to waive payment of residual receipts or annual loan payments used to cover the cost of project monitoring that are required under regulatory agreements, as specified.

AB 913 (Gabriel), which was held on this Committee's Suspense File last year, included the provisions of this bill as well as the authorization included in this year's AB 2626.

AB 130 (Budget Committee), Chap. 22/2025, a housing trailer bill, included a provision expanding the LPR program to authorize HCD to approve the payoff of a department loan prior to the end of its term, and the extraction of equity from a development for purposes approved by the department, as specified. The bill also allowed an owner of a property subject to a regulatory agreement with HCD to take out additional debt on the development to finance rehabilitation or investment in new affordable housing, as specified.

AB 1699 (Torres), Chap. 780/2012, established the LPR Program and authorized HCD to approve an extension of a department loan, the subordination of a loan to new debt, or an investment of tax credit equity under older rental housing finance programs, as specified.

Staff Comments: This bill would allow developers with HCD loans and net income to transfer excess funds between projects subject to a development agreement to assist those HCD-assisted projects that need additional cash flow to remain viable as affordable housing.

As noted above, the implementation of this bill is discretionary, and would not result in immediate costs to HCD. To the extent that HCD exercises the authority to establish a program to provide for the transfer of excess reserves and operating income from one rental housing development that is subject to an HCD regulatory agreement to another development owned by the same sponsor, HCD indicates there would be an increase in workload, which creates a General Fund cost pressure to pay for HCD's ongoing administrative costs. The level of workload would vary depending on the number of transactions authorized, the complexity of the ownership structures, the financial condition of the involved projects, and the need to evaluate impacts on existing regulatory agreements, affordability covenants, and the involvement of other financing sources. Staff notes that, unlike the LPR Program, the bill does not include the authority for HCD to establish a transaction or administrative fee to provide for cost recovery associated with HCD's responsibilities regarding application review and approval, as well as ongoing compliance monitoring related to the transactions authorized by the bill.

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