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

AB 2185 (Quirk-Silva) - Housing: multifamily affordable housing programs

Version: March 19, 2026
Urgency: No
Hearing Date: August 3, 2026

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

Bill Summary: AB 2185 would require relevant state entities, when administering specified multifamily affordable housing programs, to update guidelines and regulations to facilitate the production and use of factory-built housing (FBH) and clarify that FBH projects are an allowable use of funding under those programs.

Fiscal Impact:
- The California Housing and Homelessness Agency (CHHA) indicates that CHHA, the Department of Housing and Community Development (HCD), and the California Housing Finance Agency (CalHFA) could incur ongoing collective costs of up to $212,000 annually to review and update specified program guidelines and regulations, and to comply with the new underwriting requirements. (General Fund)

- The State Treasurer's Office (STO) indicates that costs for the California Tax Credit Advisory Committee (CTCAC) and the California Debt Limit Advisory Committee (CDLAC) to update guidelines would be minor and absorbable. The STO notes that there is nothing that currently precludes FBH from eligibility for funding under its programs.

Background: Existing law establishes numerous programs to support the development of affordable housing that are administered by HCD, including the Multifamily Housing Program (MHP), the Joe Serna, Jr. Farmworker Housing Grant (Serna) Program, the Transit Oriented Development Implementation (TOD) Program, the Infill Incentive Grant (IIG) Program, the Veterans Housing and Homelessness Prevention (VHHP) Program, among others. In addition, the STO administers the Low Income Housing Tax Credit (LIHTC) Program, through CTCAC, and issues tax-exempt bonds through CDLAC that are coupled with the federal and state low-income housing tax credits, as specified. Affordable housing developers typically rely on multiple funding sources and programs to make a project financially feasible.

Under the MHP, HCD's flagship affordable housing program, the department provides financial assistance to pay for new construction, rehabilitation, or acquisition and rehabilitation of permanent or transitional rental housing, as well as the conversion of nonresidential structures to rental housing. MHP funds are generally provided for post-construction permanent financing in the form of deferred payment loans with a 55-year term and 3% simple interest on the unpaid balance, except under certain conditions.

State housing programs administered by HCD have not generally provided construction loans to developers. However, existing law, as enacted by AB 1053 (Gabriel), Chap. 264/2024 requires HCD to adopt guidelines by July 1, 2026, to allow for construction financing, permanent financing, or both under the MHP, the Serna Program, the Affordable Housing and Sustainable Communities (AHSC) Program (or any other multifamily housing program, at the option of HCD).

FBH, often referred to as modular, manufactured, or prefabricated housing, involves the construction or assembly of various components of a housing unit or room in a factory and the transport of those components or structures to a construction site, where they are installed and fixed to a building foundation. This is in contrast to traditional "site-built" or "stick-built" housing projects, which are built piece-by-piece on a foundation at the actual construction site. The mass production techniques in a factory environment can sometimes be faster and cheaper than site-built construction methods and are not as impacted by weather constraints that might hamper progress on a traditional construction site, though benefits will vary widely between projects. Currently, developers who may wish to use FBH will typically need to secure a construction loan, (that usually comes with a higher interest rate) earlier in the process to cover factory deposits and early production costs, before securing permanent financing through state assistance programs.

Proposed Law: AB 2185 would require state entities that administer multifamily affordable housing programs to ensure that FBH projects are eligible for state funding. Specifically, this bill would:

- Define "agency" to include CHHA, CalHFA, CDLAC, and CTAC.
- Define "multifamily affordable housing program" to include the AHSC Program, the IIG Program of 2007, the IIG Program of 2019, the Serna Program, the LIHTC Program, the MHP, the Multifamily Rental Housing (MRH) Program, the TOD Program, and the VHHP Bond Act of 2014.
- Require an agency, when administering a specified multifamily affordable housing program, to do all of the following by July 1, 2027:
  - Review, analyze, and make any necessary changes to guidelines and regulations to facilitate the production and use of FBH.
  - Clarify that FBH projects are an allowable use of funding.
  - Make sufficient early deposits available for FBH projects as an allowable use of funds to support upfront payments to cover material costs and factory production, to the extent the agency directly funds a project for construction financing, permanent financing, or both. With respect to this provision:
    - Require each agency to establish market-based underwriting guidelines regarding the amount and timing of early deposits, including that a project must have all construction and permanent financing committed when deposits are funded.
    - Authorize each agency to require either the factory, general contractor, or project sponsor provide a payment and performance bond, financial guarantee, letter of credit, or other security in the event that a project fails to close financing and begin construction.

Related Legislation: AB 1053 (Gabriel), Chap. 264/2024, required HCD to adopt emergency guidelines by July 1, 2026, with permanent regulations to follow by July 1, 2027, to allow an applicant for funding under the MHP, AHSC Program, and the Serna Program (or any other multifamily housing program, at the option of HCD) to use funds for construction financing, permanent financing, or both. The bill allows HCD to charge a fee to cover the enhanced administrative costs related to these provisions, including application and monitoring costs.

Staff Comments: At the request of the Assembly's Select Committee on Housing Construction Innovation, the Terner Center for Housing Innovation at University of California, Berkeley (Terner Center) conducted research on potential pathways to reducing barriers to accelerating industrialized construction, including FBH, at scale. The Terner Center issued a report, *Potential Pathways to Scale Innovative Construction*, finding that using FBH methods has the potential to reduce hard costs for a project by 10-25% and significantly reduce build times, compared to traditional construction. This bill would implement one of report's recommendations: modify existing state funding programs to better align with the realities of FBH. Specifically, the bill requires state entities to modify program guidance in specified programs that support the development of multifamily affordable housing to ensure FBH is an allowable use and to facilitate the construction and use of FBH. The bill would also require administering entities to establish appropriate underwriting guidelines and allow "early deposits" of program funds for FBH projects, to the extent an agency provides funding for construction financing.

CHHA estimates that it could incur costs of up to $212,000 annually for both one-time duties for HCD and CalHFA to review and amend program guidelines and regulations by July 1, 2027, and ongoing costs to comply with the underwriting requirements.

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