SENATE THIRD READING
SB 1388 (Durazo)
As Amended August 13, 2026
Majority vote

SUMMARY

Establishes the Affordable Housing Risk Reduction Program (AHRRP) at the Department of Housing and Community Development (HCD) to provide technical assistance to affordable housing providers to help them mitigate risk in their portfolio and secure more affordable insurance options.

Major Provisions

1) Makes various legislative findings.

2) Defines "alternative risk financing entities" to mean entities that manage risk outside of traditional commercial insurance lines, including, but not limited to, captives, risk retention groups, and joint powers authorities (JPAs).

3) Requires HCD, upon appropriation of funding, to develop technical assistance to support affordable housing providers that are preparing to join alternative risk financing entities by doing all of the following:

   a) Analyzing risk and identifying the most impactful risk mitigation measures;

   b) Assisting affordable housing providers to implement risk mitigation measures, including, but not limited to, locating necessary funding; and

   c) Identifying alternative risk financing entities and approaches and assisting during the application process.

4) Authorizes HCD to hire a third-party consultant to develop, implement, and administer technical assistance for AHRRP.

5) Requires HCD to adopt emergency regulations in consultation with stakeholders to implement the AHRRP. Provides that emergency regulations shall stay in effect until nonemergency regulations become effective. Requires HCD to adopt permanent regulations for the program by January 30, 2029.

COMMENTS

Affordable Housing Finance: The state finances affordable multifamily rental housing using a combination of loans, tax credits, and private activity bonds. Unlike market rate housing, affordable housing does not have enough cash-flow from rents to support conventional financing. Affordable housing is provided to tenants whose household income is below the area median income (AMI). To qualify, very low-income tenants must make 60% or less of the AMI, and lower-income tenants must make only 80% or less of AMI. Tenants in affordable housing are only required to pay 30% of their income toward rent, so the state provides enough long-term subsidy to reduce the overall debt service on a development. HCD loans serve as the permanent financing that comes in once a development is complete to take out the predevelopment and construction loans a developer took on to construct the development. HCD loans are secured with a lien in first position on the property. Developments are also subject to a 55-year recorded regulatory agreement, which runs with the project.

Challenges Facing Affordable Housing Developments: Due to several factors, including the depletion of operating reserves resulting from the COVID-19 rent moratorium and unprecedented increases in insurance rates, affordable housing developments are facing financial challenges. Enterprise Community Partners recently conducted a survey of 130 affordable properties and found that on average the developments were experiencing insurance cost increases of 70%, with some providers reporting increases up to 500%. Because rents are capped, these properties have fewer options to cover these increases. In some cases, the situation is made worse because the project's operating reserves have not recovered from the rent moratoriums. Due to these financial pressures, some properties are at risk of foreclosure or becoming market-rate developments, which would eliminate vital affordable housing units.

Alternative Risk Financing Entities: This bill defines alternative risk financing entities as entities that manage risk outside of traditional commercial insurance lines including captives, risk retention groups, and JPAs. Alternative risk financing refers to strategies that enable companies or groups to manage financial risk without having to rely on conventional insurance carriers. A captive is an insurance company owned by the parent organization to insure its own risks. A risk retention group is a liability company owned by its members who are also policyholders. JPAs are exercised when public officials of two or more agencies agree to establish a joint approach or create another legal entity to work on a common problem, fund a project, or act as a representative body for a specific activity.

Risk retention financing is a valuable option for affordable housing due to the need for long-term financial stability. Self-insurance pools can offer lower premiums, higher coverage limits, custom coverage, and rate stability. The Housing Authorities Risk Retention Pool (HHARP) is a JPA formed by public housing authorities from California, Nevada, Oregon, and Washington that provides risk coverage.

This bill would establish the AHRRP at HCD to provide technical assistance to developers to access alternative risk retention pools. No funding was included in this year's budget for this program.

According to the Author
"SB 1388 establishes the Affordable Housing Risk Reduction Program and provides affordable housing providers with technical assistance and supportive resources to help them secure more affordable insurance options than available in the current insurance market. This will support affordable housing developers in producing and preserving essential affordable housing, particularly for low-income communities of color.

California's insurance crisis is presenting significant challenges to affordable housing providers. Many are facing limited availability of insurance coverage, significant premium and deductible cost increases, and reductions in the scope and quality of coverage. Some have reported insurance premium increases of up to 500 percent. Providers have limited options to manage increased insurance costs and experience challenges in joining existing or starting new alternative risk financing entities due to cost and access barriers. These escalating costs place additional financial strain on providers and pose challenges in addressing California's affordable housing crisis. By helping affordable housing providers pursue alternative risk financing options, SB 1388 will help California meet its housing affordability and supply needs."

Arguments in Support
According to the Enterprise Community Partners Inc, "Affordable housing providers across California continue to face limited availability of insurance coverage, significant premium and deductible cost increases – with some facing increase as high as 500%, and reductions in the scope and quality of coverage. The highly regulated nature and thin operating margins of affordable housing make it difficult to weather the dynamic private insurance market, putting these properties, their residents, and billions of dollars of state investment at risk. Alternative risk financing options present an opportunity to address the challenges facing the sector.

Many of our affordable housing provider partners have demonstrated an interest in alternative risk financing options but face challenges joining existing or starting new alternative risk financing entities due to cost and access barriers. SB 1388 would address these barriers by providing the necessary resources and technical assistance to support affordable housing providers in accessing these alternative models. Such programs enable entities to collectively assume, manage, and finance their own risks, rather than seeking insurance on the private market. These models can help increase availability of coverage and stabilize pricing for providers in California."

Arguments in Opposition
None on file.

FISCAL COMMENTS

According to the Assembly Committee on Appropriations: Upon appropriation by the Legislature for the purposes of the program, HCD would incur ongoing General Fund costs of an unknown amount but likely in the high hundreds of thousands of dollars annually for additional staff to develop and provide technical assistance, as well as a one-time contract cost of $500,000 in the first year for a third-party consultant to work with HCD to draft the required regulations and develop the required front-end materials, including technical assistance resources such as written guidance, video trainings, toolkits, and workbooks.

VOTES

SENATE FLOOR: 36-0-4
YES: Allen, Archuleta, Arreguín, Ashby, Becker, Blakespear, Cabaldon, Caballero, Cervantes, Choi, Cortese, Dahle, Durazo, Grayson, Hurtado, Jones, Laird, Limón, McGuire, McNerney, Menjivar, Ochoa Bogh, Padilla, Pérez, Reyes, Richardson, Rubio, Seyarto, Smallwood-Cuevas, Stern, Strickland, Umberg, Valladares, Wahab, Weber Pierson, Wiener
ABS, ABST OR NV: Alvarado-Gil, Gonzalez, Grove, Niello

ASM HOUSING AND COMMUNITY DEVELOPMENT: 10-1-1
YES: Haney, Patterson, Ávila Farías, Caloza, Schultz, Kalra, Lee, Quirk-Silva, Wicks, Wilson
NO: Tangipa
ABS, ABST OR NV: Ta

ASM APPROPRIATIONS: 11-2-2
YES: Wicks, Arambula, Calderon, Caloza, Fong, Mark González, Krell, Pacheco, Pellerin, Sharp-Collins, Solache
NO: Dixon, Tangipa
ABS, ABST OR NV: Hoover, Ta

UPDATED

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