

April 24, 2024

Subject: Factory-Built Housing Pre-Development Program Guidelines
Reporting Period: October 2023 – April 2024
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Recommended Action

Approve the Factory-Built Housing Pre-Development Pilot Program Grant Guidelines.

Summary

The Factory-Built Housing (FBH) Pre-Development Pilot Program seeks Council approval of the FBH Pre-Development Pilot Program Grant Guidelines (Program Guidelines). Program staff developed the FBH Pre-Development Pilot Program (Pre-Development Program) in response to the Council Resolution to Support Energy-Efficient Factory-Built Housing to Meet the State's Housing, Climate, and Equity Goals. The Pre-Development Program will provide support to FBH manufacturers retrofitting and/or building one or more energy-efficient factories in California that advance the production of energy-efficient housing, with an emphasis on affordable and multi-family homes for rental or homeownership.

Program staff developed the Program Guidelines through public outreach, engagement, and research. Following the Council's adoption of the Program Guidelines, program staff will issue a Notice of Funding Availability (NOFA) and initiate a competitive application process.

Background

Resolution to Support Energy-Efficient Factory-Built Housing

In October 2023, the Strategic Growth Council (Council) passed a [Resolution to Support Energy-Efficient Factory-Built Housing to Meet the State's Housing, Climate, and Equity Goals](#). The Resolution responded to the Housing, Climate, and Equity (Council Priority 3) Resolution, which called on the Council and each member agency to support strategic and equitable growth through their programs and policies. In addition to elevating existing initiatives, Council Priority 3 aims to identify additional tools and strategies to meet the State's housing, climate, and equity goals in a coordinated way, at the scale and pace necessary to close existing gaps and meet the urgency of current and projected needs.

The Resolution to Support Energy-Efficient Factory-Built Housing recognizes factory-built housing (FBH) as an opportunity to accelerate progress in reaching the State's housing, climate, and energy goals. In California, FBH is designed and constructed according to the [California Green Building Standards Code](#) (CALGreen), the first-in-the-nation mandatory green building standards code with goals of energy efficiency, water efficiency and conservation, material conservation and resource efficiency, and environmental quality. Research suggests FBH has

the potential to address the barriers to the State's housing production and affordability goals while reducing the production-related emissions inherent in residential construction.

When applied to multi-family housing, the efficiencies associated with FBH hold great potential to lower the costs of infill and compact development and thus promote land use strategies that reduce transportation-related GHG emissions and support the implementation of regional sustainable communities strategies.

As the FBH industry is growing across the nation, there is a unique opportunity for the State to increase access to federal funding and accelerate the industry within California while prioritizing affordable housing, energy resiliency, and community and workforce benefits. The Resolution directed SGC staff to develop a pilot pre-development program to support FBH manufacturers' access to federal funding to expand, retrofit, and/or build new facilities that are energy efficient and will produce energy-efficient housing.

Federal Funding Opportunity

Through the Inflation Reduction Act (IRA), the US Department of Energy Loan Programs Office (LPO) is able to provide loan authority through the [Title 17 Clean Energy Financing Program](#) to help finance clean energy projects, build energy infrastructure, create jobs, and reduce emissions across the United States. Under its original Title 17 authority, the LPO was limited to providing credit to borrowers working with innovative technology. But a new carveout extends that credit authority to nearly any kind of energy project, so long as it is co-financed by a State Energy Financing Institution (SEFI). The SEFI-Supported category of the Title 17 Clean Energy Financing Program enables LPO to augment state-administered clean energy programs, providing additional financial support to projects that align federal energy priorities with those of U.S. states. SEFI-supported projects are not subject to LPO's technology innovation requirement, so the authority expands the eligibility for LPO financing to include specific projects that incorporate commercial technologies or aggregate technology-diverse projects and receive meaningful financial support or credit enhancements from a SEFI. In September 2023, the Strategic Growth Council (SGC) became one of three California State entities to receive the LPO SEFI designation.

The LPO has determined that FBH manufacturers that prioritize energy efficiency, and the reduction of greenhouse gas emissions, may be eligible for funding. LPO financing is an opportunity for FBH manufacturers to expand, retrofit, or build new facilities that are energy efficient and will produce housing that is energy efficient. As LPO financing is typically around \$100 million, pre-development costs serve as a significant barrier for Californian FBH manufacturers wishing to access federal funding, which in turn constrains the continued expansion of FBH across the state, and thus limits the State's ability to meet its housing and climate goals. This pilot program is an opportunity to address the urgency of the housing, climate, and energy crisis while taking advantage of the near-term opportunities for federal and private funding.

About the Factory-Built Housing Pre-Development Pilot Program

The Factory-Built Housing Pre-Development Pilot Program (Pre-Development Program) will support FBH manufacturers applying for LPO's Title 17 Program to expand or establish new factories in California. SGC has identified key State housing and climate goals that have the potential to align with the development and operations of housing manufacturing in California. The Pre-Development Program will provide meaningful financial support to projects that prioritize energy efficiency and resiliency, the production of affordable housing, and the development of meaningful Community Benefit Plans.

Applicants to the Pre-Development program must have submitted Part I of the Title 17 Application and have been invited by LPO to submit Part II. Applicants must be developing projects to build new and/or expand, retrofit, or repurpose one or more existing FBH manufacturing facilities in California that produce an energy-efficient end-use product and advance co-benefits such as energy efficiency, affordability, and community and workforce benefits.

The Pre-Development Program will have \$12,000,000 available in grants ranging from \$1,000,000 to \$4,000,000.

Outreach and Engagement

SGC released the Draft Guidelines for Public Comment on March 16, 2024 for a 30-day public comment period. Alongside the Draft Guidelines, SGC released a survey and list of questions to guide written public comment. Staff also hosted seven (7) workshops and webinars to raise awareness of the program and facilitate more feedback. In addition to the public workshops and webinars, SGC continued to work closely with LPO staff, facilitated additional meetings with stakeholders, and convened an interagency advisory committee.

Overview of Guidelines Changes & Input Received

Program staff incorporated feedback received through the various engagement methods to update the Draft Program Guidelines. A summary of specific guideline elements informed by the public comment and interagency engagement process is provided below.

Affordable Housing

The Program seeks to prioritize manufacturing facilities that will significantly contribute to the inventory and production of multi-family homes that are affordable to renters and homebuyers across the State. However, Proposals for manufacturing facilities that produce single-family homes, accessory dwelling units (ADU) homes, or other housing types that may be affordable to renters and homebuyers across the State are still eligible to apply.

The SGC FBH Pre-Development Pilot Program builds on AHSC's affordability standards as the foundation for the affordability commitment. The Pre-Development Pilot Program will prioritize

support for Applicants who demonstrate their ability to dedicate at least 30% of the homes produced during the first five (5) years of proposed facility operation to:

- Affordable rental homes for Low-Income Households (<60% AMI) regulated for at least 55 years in California and/or
- Affordable homes for ownership for households below 120% AMI regulated for at least 30 years in California.
- Homes are inclusive of single-family, multi-family, and accessory dwelling units (ADUs). The Program will prioritize support to facilities that produce multi-family homes. Other typologies may be included and should be defined in the application.

Energy Efficiency and Resilience

Beyond the threshold requirement to meet Title 24, the California Building Standards Code (CCR, Title 24) for the factory and the housing units produced, applicants must demonstrate how the project will advance California's goal of carbon neutrality by 2050. Applicants must describe how the project will reduce greenhouse gas emissions and advance energy efficiency and resilience through the practices, technologies, materials, and design features employed both in the factory and in the housing units produced.

Community & Workforce Benefits

Applicants must demonstrate their community engagement strategy with community and workforce stakeholders local to the project site(s) to develop a Community Benefits Plan, as required by the DOE. The Community Benefits Plan should provide direct, meaningful, and assured benefits to the community surrounding the site and prioritize the creation / retention of quality jobs and advance diversity, equity, inclusion, and accessibility of underrepresented groups. Applicants should identify if their site(s) are in Justice40 disadvantaged communities and/or California Climate Investments Priority Populations. Applicants should evaluate potential negative impacts of their project to the surrounding community and describe methods to mitigate these.

Disaster Recovery, Response, and Resilience

The Program seeks to support Projects that will expand the inventory, quality, and variety of hazard-resilient FBH units that can be deployed into disaster-impacted communities as temporary or long-term housing. To further this goal, the Program will give additional consideration to Applicants who make meaningful commitments to support disaster recovery efforts and may award points to those applications that provide clear and feasible strategies.

Grant Administration

Staff propose a grant range of \$1,000,000 to \$4,000,000 to align with updated guidance from the LPO on what constitutes "meaningful, financial support" for projects of this size. Staff also

propose reserving the right to amend grant agreements should awarded applicants identify more viable alternatives to LPO financing during the award period.

Next Steps

Upon Council approval of the FBH Pre-Development Pilot Program Grant Guidelines, staff will issue the Notice of Funding Availability (NOFA) and initiate a competitive application process in Spring 2024. Applications will be accepted every two months on a rolling basis until Summer 2026 or until all funds are obligated. SGC staff will convene an interagency review panel to review the applications and if applicable, recommend projects for award every two months.

SGC will share findings from this pilot program to inform other pre-development efforts designed to leverage federal funds and accelerate energy-efficient infrastructure deployment across the state.

Council Recommendation

Should the Council agree with Staff's recommendation, the following motion language is suggested:

"I move that the Council approve the Factory-Built Housing Pre-Development Pilot Program Guidelines."

Attachment

Attachment A: Factory-Built Housing Pre-Development Pilot Program Guidelines