

*April 30, 2025***Subject: Resolution to Support Energy-Efficient Factory-Built Housing**

Reporting Period: April 2025

Staff Lead: Sean Kennedy, Deputy Director of Energy Investments

Recommended Action

Adopt California Strategic Growth Council (SGC or the Council) Resolution 25-01, which will replace SGC Resolution 23-02 and thereby remove existing requirements that Factory-Built Housing (FBH) Pre-development Pilot Program funds only be used to support FBH manufacturing facilities that are eligible for and pursuing federal funding. This proposed Resolution will broaden the scope of eligible activities and enable the FBH Pilot Program to have a more immediate impact in addressing the urgency of the housing, climate, and energy crisis.

Summary

In Oct. 2023, the Council passed Resolution 23-02 to support energy-efficient FBH to meet the State's housing, climate, and equity goals. The Resolution directed staff to develop a pilot program that provides funding specifically for the expansion of energy-efficient manufacturing facilities eligible for and applying for federal assistance to build, utilize, or expand clean energy infrastructure, create jobs, and reduce emissions.

In 2024, SGC launched the FBH Pilot Program. Per Resolution 23-02, the FBH Pilot Program was designed to support FBH manufacturers pursuing federal funding to expand, retrofit, and/or build new energy-efficient facilities that produce energy-efficient housing. The program ran two application rounds from Aug. to Sept. 2024 and Nov. 2024 to Jan. 2025. Despite extensive outreach and engagement with potential applicants and interagency partners, the program received only two applications and did not make any awards.

Based on feedback gathered through additional consultation with FBH experts and market participants, staff recommend expanding the scope of the FBH Pilot Program by removing the requirements that program funds only be used to support FBH manufacturing facilities that are eligible for and pursuing federal funding. This proposed Resolution, which repeals and replaces the existing Resolution 23-02, will enable the FBH Pilot Program to have a more immediate impact in addressing the urgency of the housing, climate, and energy crisis.

Background

California has set ambitious goals for housing, climate, and energy to address the urgency of these concurrent crises. Recognizing that these issues amplify racial and economic equity gaps across the State, SGC aims to address public health, racial equity, local economies, energy efficiency, and access to affordable housing and sustainable transportation in California's underserved communities through multi-benefit investment programs. These programs deliver direct community benefits through investments in technical assistance, capacity building, and infrastructure development, including housing, while advancing strategic growth in California.

In Dec. 2022, the Council passed a resolution on Housing, Climate and Equity (Council Priority 3), 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, the Resolution 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.

FBH in California

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 typically associated with residential construction. In California, FBH is designed and constructed in accordance with the California Green Building Standards Code (CALGreen), the first-in-the-nation mandatory green building standards code, which aims to achieve energy efficiency, water efficiency and conservation, material conservation and resource efficiency, and environmental quality.

In coordination with the California Business, Consumer Services, and Housing Agency, the California Department of Housing and Community Development, and the California Air Resources Board (CARB), SGC identified FBH as an opportunity to accelerate progress toward the State's housing, climate, and energy goals. In Oct. 2023, the SGC passed Resolution 23-02 directing staff to develop a pilot funding program that supports the expansion of energy-efficient factories building factory-built housing in California. This initiative aimed to increase the supply of housing units, reduce greenhouse gas emissions, and expand clean energy infrastructure.

As the FBH industry grows nationwide, the pilot funding program presents an opportunity for the State to accelerate the sector within California, while prioritizing community and environmental benefits. SGC launched the FBH Pilot Program as an opportunity to accelerate progress for the State's housing, climate, and energy goals and leverage available federal resources.

Initial Program Design and Results

In response to an unprecedented availability of federal funding, including through the Department of Energy's Loan Programs Office (LPO), the FBH Pilot Program was designed to support FBH manufacturers in expanding, retrofitting, and/or building new energy-efficient facilities that produce energy-efficient and affordable housing. The FBH Pilot Program was designed to address a gap for both existing and new factories, enabling them to increase their supply through the LPO loan.

The program team conducted months of outreach to potential applicants and LPO during the design and launch of the program. Over six months, two application cycles were conducted, resulting in two applications from the same applicant that did not meet the requirements for an award. Additional stakeholder outreach revealed that the alignment with the LPO program, which has a minimum loan amount of \$100 million, was disproportionate for manufacturers interested in producing in California. Furthermore, the change in federal administration has created uncertainty regarding the LPO's ability to support FBH projects moving forward.

FBH Market Challenges

Through additional market research, a public request for information, and direct consultation with developers, builders, manufacturers, academics, philanthropy, and agency partners, staff have identified the following barriers for deployment of FBH in California:

- Non-standardized building codes and inspection requirements
- Local zoning restrictions
- Financing instruments and lenders that require significant upfront payments
- Negative perception / Low market acceptance
- Complex transportation logistics
- Installation requires specialized labor

Developers have demonstrated a willingness to take on the challenges of new processes and market education and embrace the new FBH technologies. However, additional outreach has identified significant challenges that can potentially be addressed through the FBH program. For example, one of the most significant barriers for developers is the payment schedule requirement for using factory-built housing, as factories typically require a 50% deposit on the order upfront to cover the cost of template design, materials, and labor. An additional 25% of the product cost is due to cover continuing labor costs during construction, and the final 25% is due upon site delivery. Conventional affordable housing financing lacks a vehicle for providing these upfront investment amounts, as there is no saleable collateral to secure the loan.

Next Steps

Following the Council's approval of this Resolution, SGC staff will coordinate with Council member agencies and departments and other State entities to develop the program guidelines and Notice of Funding Availability (NOFA). Potential interventions to support the FBH market expansion may include education to increase awareness of the opportunities, affordability, and benefits of FBH; development of toolkits and technical assistance to enhance local government capacity and accelerate FBH deployment; and support for key pilot projects to overcome financing barriers and challenges. Support for pilot projects may require quantification of greenhouse gas reduction to remain compliant with California Climate Investment guidelines and state statutes. SGC will collaborate with CARB to develop a quantification tool for use in approved FBH projects.

Council Recommendation

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

"I move that the Council adopt the proposed Resolution on Supporting Factory-Built Housing to Meet the State's Housing, Climate and Equity Goals (SGC Resolution 25-01)."

Attachments

Attachment A: SGC Resolution 25-01

Attachment B: Summary of Proposed Changes