



OFFICE OF THE GOVERNOR

OCT 04 2021

To the Members of the California State Assembly:

I am returning Assembly Bill 1423 without my signature.

This bill would allow borrowers who receive Department of Housing and Community Development multifamily housing program funds to use awarded funds for construction financing, permanent financing, or a combination of the two.

The high cost of construction lending has impeded California's ability to build more permanent housing and drive down the cost of living in our state. While I appreciate the intent of the bill — to lower the cost of affordable housing construction — it presents a number of legal and implementation concerns.

AB 1423 would delegate the state's authority to administer bond proceeds to private, third-party lenders, which raises legal questions about consistency with the bond authority approved by California voters.

In addition, the bill would create significant risks for state dollars by placing the Department in a subordinate position to recover funds after a first lender. If a project should fail mid-construction, taxpayer dollars would be threatened.

That said, California must do more to explore how to drive down costs of construction lending. I am directing the Department to explore best practices for reducing these costs in ways that do not imperil state finances. California must continue to bring more certainty and speed to the development process – reforms that will materially drive down the cost of construction lending without direct state subsidy.

Sincerely,



Gavin Newsom