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JOINT LEGISLATIVE AUDIT

September 30th, 2021

RECEIVED
09/30/2021

The Honorable Rudy Salas
Chair, Joint Legislative Audit Committee
Legislative Office Building
1020 N Street, Room 107
Sacramento CA, 95811

Dear Chairman Salas,

With the support of Chair Rudy Salas, Vice Chair John Laird and Sen. Jim Nielsen, I am writing to respectfully ask the Joint Legislative Audit Committee to approve an emergency audit to examine the Department of Housing and Community Development's regional housing needs determination process.

The recent flood of cities appealing the new housing needs allocations handed down by HCD and regional planning agencies makes it clearer than ever that we urgently need an independent and objective review of the process to give housing advocates and local governments confidence that the system is sound and producing numbers that reflect both the need for housing and our ability to build it.

As you know, our state is facing an unprecedented housing crisis. However, there is almost no transparency when it comes to determining each region's housing needs. Currently, the Department of Housing and Community Development (HCD) is responsible for determining the regional housing needs assessment for each region's planning body, known as a council of governments. The Department starts with demographic population information from the California Department of Finance (DOF) and uses a formula to calculate a figure for each region. This figure is then negotiated with each council of governments to arrive at a final assessment.

However, the public has almost no information on the formula that HCD uses to calculate these initial numbers. The result is confusion and mistrust amongst the regional planning bodies and the cities, which are responsible for the final allocation of the housing numbers.

As California moves forward into its next cycle of housing production goals, it is important that we do so with the full confidence of our local governments and the broader public. An independent audit of the process would help us determine if the numbers now being proposed are based on the Legislature's intent and sound assumptions or if instead the targets might be either too high or too low to accommodate California's population growth and housing needs.

As you know, the majority of California's housing policy is conducted at the local level in 5-year and 8-year cycles. Heading into the sixth cycle, cities across California saw their regional housing need allocations rise dramatically. For example, in Los Angeles County, the current draft allocation requires 813,000 new homes by 2029, almost five times more than the current goal of 180,000. However, this allocation sticker shock is not limited to California's largest cities. Marin County saw its allocation rise to 3,569 units, a nearly 1,900% increase from the 185 units the unincorporated area was assigned in the 5th cycle.

The two largest councils of governments, Association of Bay Area Governments (ABAG) and Southern California Association of Governments (SCAG), recently solicited appeals from cities and counties regarding the allocations. SCAG had 48 cities appeal their own allocation, as well as several cities appealing other cities' allocations. ABAG had 28 appeals from cities and counties within its jurisdiction, double the number of appeals filed during the 5th cycle. Further, cities have a variety of grounds for their appeals that suggest a review of the methodology used to calculate the initial determinations and allocations may be warranted. For example, cities highlight a lack of capacity for sewer and water services, as well as a failure to account for risks like high fire severity. Finally, the appeals underscore that while a city may zone for a certain number of units determined by HCD and allocated by a council of governments, it is not ultimately responsible for these units to come to fruition. That responsibility remains with developers, who report that the largest barriers to development remain high cost of land, materials, and labor.

These appeals highlight the confusion, frustration, and mistrust local governments have in implementing the state's housing goals. These appeals are already being reviewed by each council of government, however the appeal process does little to illuminate the assumptions underlying these latest goals. An audit is an opportunity to have an independent review of these ambitious numbers. If the audit finds that the goals do not comport with state law, it could lead to changes.

If, on the other hand, the audit finds that the numbers are justified, this would lend independent and unbiased support to the process and give all stakeholders more confidence that this cycle's regional housing needs determinations and allocations reflect accurate assumptions of population, availability of jobs, and necessity. It is even possible that the audit could find that the numbers now under consideration are too low, which could prompt HCD to issue a revision that would lead to the production of more housing in the years ahead.

Ultimately, an emergency audit by the California State Auditor will provide independently developed and verified information related to the Department of Finance, and the Department of Housing and Community Development's roles in calculating housing needs, regional governments' roles in allocating housing needs, and local jurisdictions' roles in accommodating housing needs to facilitate development.

Because emergency audits under Rule 17 of the Joint Legislative Audit Committee are limited to a cost of \$190,000, this request empowers the State Auditor to modify and decrease the scope of this audit to remain within this monetary limit. The audit's scope will include, but not be limited to, the following activities:

- (1) Review and evaluate the laws, rules, and regulations significant to the audit objectives.

(2) Assess DOF's process for developing population projections used by HCD. Determine what changes DOF made to its projections in response to economic and demographic changes caused by the pandemic as well as new census information. Evaluate historical accuracy of DOF's population projections.

(3) Evaluate HCD's process for developing regional housing needs determinations to ascertain if it complies with state law and results in appropriate calculations. Assess whether HCD properly used vacancy rates for rental markets and for the entire housing market.

(4) Review a selection of three regional governments, including the Association of Bay Area Governments and the Southern California Association of Governments, to determine whether their processes for allocating housing needs to local jurisdictions are consistent and result in jurisdictions receiving an equitable portion of needed units.

(5) Within the three selected regional governments, review a representative selection of local jurisdictions to determine whether they can reasonably identify sites sufficient to accommodate potential development of their needed housing units.

(6) Evaluate the factors that impact whether actual development occurs that meets the selected local jurisdictions' housing needs, including:

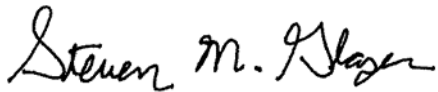
(a) Jurisdictions' efforts to encourage housing development, such as outreach to developers or removal of barriers to development.

(b) Market conditions or other factors outside jurisdictions' control that limit the feasibility of development.

(7) Review and assess any other issues that are significant to the audit.

Thank you for your consideration. For any questions relating to this request, please contact me directly or my legislative aide, Alexxis Frost, at (916) 934-8148.

Sincerely,

A handwritten signature in black ink that reads "Steven M. Glazer". The signature is written in a cursive, flowing style.

Sen. Steve Glazer