

Date of Hearing: June 29, 2011

ASSEMBLY COMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT

Norma Torres, Chair

SB 450 (Lowenthal) – As Amended: June 20, 2011

SENATE VOTE: 39-0

SUBJECT: Redevelopment

SUMMARY: Makes various reforms to the activities of redevelopment agencies (RDA) in fulfilling the requirements to increase, preserve and improve low and moderate income housing. Specifically, this bill:

- 1) Requires RDAs to post a copy of their annual report on the agency's or the community's Internet Web site.
- 2) Requires RDAs to include the following information as part of the annual report:
 - a. The percentage of funds from the Low and Moderate Income Housing Fund (L&M fund) used for planning and general administration costs;
 - b. An itemized list of planning and general administration expenditures from the L&M fund and an explicit description of how the expenditures are necessary for the production, improvement or preservation of low- and moderate-income housing;
 - c. Information describing the employees that are paid from the L&M fund including the title, salary, wages, benefits, and the nature of the employee's activities eligible to be paid out of the L&M fund;
 - d. A list of the overhead costs that are paid directly or indirectly from the L&M fund;
 - e. A statement of the amount and percentage of funds deposited into the L&M fund exclusive of debt proceeds expended for planning and administration in each of the preceding five fiscal years that begin after December 31, 2011;
 - f. A list of all the properties owned by a RDA purchased with L&M funds, the date of acquisition for each property, a RDA's intended purpose for the property, and the amount if any of L&M funds used to acquire and maintain the property; and
 - g. For each fiscal year since the agency's last adopted implementation plan, a list of the replacement housing obligations of the RDA including the number of units that must be replaced, location, and status of the replacement and production units.
- 3) Requires the legislative body to adopt a separate written resolution finding that based on the annual report the actual planning and general administrative expenses do not exceed the limits allowed.

- 4) Requires the Controller, on or before April 1 of each year, to post of its website a list of RDA's with major audit violations.
- 5) Allows the Controller to consult with locally affected community groups as part of determining if an agency has corrected a major audit violation.
- 6) Allows a RDA that is subject to a court order as a result of a major audit violation to continue to issue, sell, or deliver bonds or incur debt to increase, improve, preserve, or assist in the construction, or rehabilitation of housing units for extremely low, very low, low or moderate income housing.
- 7) In the 60 day window between a court's initial finding of a major audit violation and a final ruling, allows an RDA to pay the budgeted operation and administration of the agency, as opposed to only 75% of the budgeted amount.
- 8) Prohibits a RDA that is subject to a court order as result of a major audit violation to exercise the power of eminent domain.
- 9) Removes the statutory caps on the amount of a monetary sanction that a court can order a RDA to pay to for a major audit violation and permits the court to determine a sanction that is commensurate with the violation.
- 10) Prohibits a RDA from paying a court sanction from the L&M fund or any other special fund related to housing.
- 11) Provides that an action filed by a court to compel an RDA to correct a major audit violation does not preclude an action by any other interested party or a resident of the jurisdiction.
- 12) Makes failure to comply with the restrictions regarding eligible expenditures for planning and general administration from the L&M Fund a "major audit violation".
- 13) Requires the Department of Housing and Community Development (HCD) to conduct audits of RDAs to ensure compliance with the housing provisions of the Community Redevelopment Law (CRL).
- 14) Requires HCD to review all of the following in audits of RDAs:
 - a. Agency compliance with production and replacement of housing obligations;
 - b. Recording and monitoring of affordability covenants;
 - c. Provision of relocation assistance;
 - d. Propriety of deposits to and expenditures from the L&M Fund;
 - e. Compliance with the debt limit of the agency;
 - f. Adoption of a legally sufficient implementation plan;

- g. Major audit violations as defined in 33080.8; and
 - h. Accounting practice or provision of the CRL in the discretion of the department.
- 15) Requires RDAs to annually remit .05% of the L&M tax increment to HCD to conduct redevelopment audits.
 - 16) Requires HCD to determine, on or before April 1 of each year, whether an audit or investigation from the previous year, contains a major audit violation and post those on the HCD Internet Web site.
 - 17) Requires on or before June 1 of each year, HCD to determine if a major audit violation has been corrected by consulting with each affected agency and locally affected community groups.
 - 18) Requires HCD to direct RDAs to take action to correct audit violations.
 - 19) Provides that if HCD determines that an RDA has not taken action within 180 days to correct an audit violation, it must forward all relevant documents to the Attorney General (AG) for action.
 - 20) Requires HCD to forward a copy of any audit or investigation of a RDA to the AG and the Controller.
 - 21) Requires HCD to notify an RDA and its legislative body when it sends an audit violation to the AG.
 - 22) Prohibits HCD from initiating or settling any litigation or to resolve any audit or investigation in a manner contrary to law.
 - 23) Allows the Controller to conduct quality control reviews of RDA audits to the extent feasible within existing resources and to communicate the results of the review to the RDA and the independent auditor.
 - 24) Requires that if the Controller finds that an audit was conducted in an unprofessional manner, to refer the case to the California Board of Accountancy (Board).
 - 25) Provides that if the Board determines that the independent auditor conducted the audit in an unprofessional manner then the auditor is prohibited from performing any RDA audits for three years and the Board may impose additional penalties.
 - 26) Provides that whenever the Controller determines through two consecutive quality control reviews that an audit was not performed in substantial conformity with guidelines in state law, the Controller will notify the auditor and the Board in writing.
 - 27) Gives the auditor 30 days after receiving the Controller's notice to file an appeal or the Controller's determination is final.

- 28) Provides that if the auditor files an appeal, the Board will investigate and may find that the Controller's determination will not be upheld and has no effect or schedule an appeal for hearing.
- 29) Provides that if the Controller's determination becomes final, the auditor is prohibited from conducting audits for three years and is subject to any additional conditions ordered by the Board.
- 30) Provides that no later than March 1, following the date at which the Controller's determination becomes final, the Controller will notify each RDA of the auditors that are ineligible as a result of misconduct.
- 31) Allows the Board to take any disciplinary action against an auditor that it deems appropriate under the law.
- 32) Requires a RDA that is found to have deposited less into the L&M Fund than required by law or to have spent money from the L&M Fund for purposes other than increasing, improving, and preserving the community's supply of affordable housing, to repay the funds with interest, plus an additional 50 % of that amount and interest.
- 33) Applies the ten-year statute of limitations for failure to deposit or expend L&M funds correctly to merged redevelopment project areas and to any other moneys that any agency must deposit in the L&M fund in addition to tax increment.
- 34) Prohibits repayment of any L&M funds required to meet the set-a-side requirements to come from any other funds designated for affordable housing.
- 35) Establishes a double cap on the amount of L&M funds that an RDA can spend on planning and general administrative costs.
- 36) Places a 10% cap on the amount of L&M funds that a RDA can spend on general administrative costs including:
 - a. Employee compensation costs and related non-personnel costs, such as travel and training, paid to or on behalf of any agency, city, or county employee whose duties include permissible L&M housing activities other than direct program and project administration (i.e., line staff);
 - b. Employee compensation costs and related non-personnel costs paid to or on behalf of any agency, city, or county employee who supervises or manages line staff or who provides general administrative services, such as finance, legal, and human resources that indirectly support permissible L&M housing activities;
 - c. Overhead costs, such as rent, equipment, and supplies; and

- d. The total value of any contracts for agency planning or administrative services that are related to permissible housing activities and that are not associated with a specific development project.
- 37) Places a 10% cap on the amount of L&M funds that a RDA can spend on program and project staff costs, including employee compensation costs and related non-personnel costs that are directly and necessarily associated with development of a specific housing development project including, negotiation and project management of disposition and development agreements, land leases, loan agreements and similar affordable housing agreements, redevelopment agency work on entitlements for eligible affordable housing developments, loan processing, and servicing, inspection for new rehabilitation units, construction monitory and monitoring affordable housing units.
 - 38) Allows a RDA to spend any difference between the cap on "general administrative and planning" (employee compensation for executive management cost and overhead costs) and actual administrative expenditures on "program and project staff costs".
 - 39) Requires employee compensation for executive and management staff, to be justified by an independent cost allocation study that is no more than six years old and not represent a greater proportion of the employees total compensation than the proportion of employees working directly and exclusively on activities required for the L&M fund in comparison to the total number of employees supervised, managed and directly supported by the employee
 - 40) Provides that the limitations planning and administrative costs do not apply to a specific project area during the first five years.
 - 41) Provides that the planning and administrative costs apply to project areas where the project area is amended or if the tax increment of a new or amended project area is deposited into an L&M fund covering more than one project area.
 - 42) Prohibits an RDA from spending L&M funds on any of the following:
 - a. Code enforcement;
 - b. Land use planning or development of or revision of the housing element except for the payment of normal project-related planning fees that is applicable to similar development projects, except that an RDA may spend L&M funds on the cost of staff participation in the development of the housing element provided that those costs are counted toward the 10% cap on planning and administration costs;
 - c. Lobbying; and
 - d. Administration of non-redevelopment activities that are not related to the activities required under the L&M fund.
 - 43) Following the completion of the current 10-year implementation plan for a RDA (provided the 10-year period began before January 1, 2010), the proportionality requirements dictated

by regional housing needs assessment (RHNA) no longer apply, and funds must be expended from the L&M fund as follows:

- a. Requires at least 75% of each RDA's expenditures from the L&M Fund shall directly assist the new construction, acquisition, and substantial rehabilitation or preservation of housing for persons of extremely low, very low, or low income;
 - b. Requires at least 50% of each RDA's expenditures from the L&M Fund shall directly assist the new construction, acquisition, and substantial rehabilitation or preservation of housing for persons of extremely low or very low income; and
 - c. Requires that at least 25% of each RDA's expenditures from the L&M Fund shall directly assist the new construction, acquisition, and substantial rehabilitation or preservation of housing for persons of extremely low income.
- 44) Allows an RDA to count expenditures for extremely low-income housing toward the percentages required for very low-income and to count expenditures for extremely low- and very low-income toward the percentages required for low-income.
- 45) Deletes the ability of an agency to adjust the proportionality requirement for units constructed with non-redevelopment funds.
- 46) Requires a RDA to demonstrate in each implementation plan at the end of five years that the agency's aggregate expenditures from the L&M fund exclusive of debt service payments from the onset of the new proportionality requirements satisfy the requirements.
- 47) Defines "preservation" as preserving affordability of an assisted housing development that is eligible for prepayment for termination or the rental restrictions may expire within five years.
- 48) Defines "housing for persons of extremely low income" as housing that is available at a rent or housing cost that is affordable to households earning 30% of the area median income or 30% of the statewide median income, whichever is greater.
- 49) Provides that if a RDA has deposited less than \$2 million in the L&M fund in the first five years after the onset of the new proportionality requirements, the RDA has ten years to fulfill the requirements to spend the L&M funds in the percentages described above for extremely low, low and very-low income housing for the first time.
- 50) For purposes of the proportionality requirements, allows an agency to count contractually obligated funds as expended funds, provided that the contract is with an entity that is independent of the agency or the community for the development for a specific eligible housing development.
- 51) Provides that if a contract to expend funds from the L&M fund for a specific eligible housing development is terminated, the funds may no longer be counted towards meeting the proportionality requirements.

- 52) Provides that if an RDA fails to meet the proportionality requirements, they may not expend any money from the L&M fund for households whose incomes exceed 50% of median income until they have expended funds for extremely low, very low and low-income housing that should have been spent in previous implementation plan periods.
- 53) Provides that if an RDA fails to spend L&M funds in same proportion as the number of persons in all age groups, they may not expend any money from the L&M fund for senior households until they have expended funds for all-age housing that should have been spent in previous implementation plan periods.
- 54) Deletes the authority of an agency to disburse excess surplus funds to the local housing authority.
- 55) Requires for each interest in real property acquired using money from the L&M fund, an RDA within five years of acquiring the property, must do one of the following:
- a. Enter into a disposition and development agreement or a land lease with a third party for the development of housing affordable to persons and families of low and moderate income;
 - b. Obtain final land use entitlements and secure full financing for agency development for housing that is affordable to persons and families of low and moderate income housing; and
 - c. Submit a remedial action plan for the property to the appropriate oversight agency including but not limited to the Department of Toxic Substances Control, the Regional Water Quality Control Board or the Office of Human Health Risk Assessment for the cleanup of contamination.
- 56) Provides that if a RDA has not completed one of the above within five years, or if less than 10% of the dwelling units or floor area of a project is developed within 10 years from the date the agency originally acquired the property, the agency must reimburse the L&M fund 150% of the amount expended to acquire and maintain the property or 150% the current fair market value of the property whichever is more.
- 57) Provides that if a RDA owns two or more adjacent properties that make up a single redevelopment project the date of acquisition will be the date of acquisition for the last acquired property provided that the date is not later than five years after the acquisition of the last property.
- 58) Provides that a RDA may adopt a resolution to petition HCD for an extension of the five year deadline and the department may grant a single extension of up to five years if the department makes a finding that the failure to complete the required activities is beyond the agency's control and that the agency has a feasible plan for development.
- 59) Requires HCD to solicit comments from known or expected parties interested in an extension petition.

- 60) Requires HCD to establish a schedule of fees to cover the cost of reviewing the petition and to charge the RDA from funds other than those designated for affordable housing.
- 61) Provides that a RDA must deposit 150% of the fair market value of the property at the time it is sold or transferred or if the property is not sold or transferred of the fair market value of the land at the time a building permits is issued for the property if either of the following conditions exist:
- a. A property acquired using moneys form the L&M fund is sold or transferred for purpose other than housing that is affordable to persons and families of low and moderate income; or
 - b. A property that is acquired using money from the L&M fund is developed such that less than 50% of the floor area or a percentage of the floor area equal to the amount of L&M moneys that were used to acquire the property whichever is less, is housing for persons and families of low and moderate income.
- 62) Requires that for units destroyed within the project area on or after January 1, 2012, an RDA is required to replace vacant units such that the replacement units are available at affordable housing costs and occupied by persons and families in the same or lower income category in the same proportion as the units occupied or last occupied by low and moderate income households in the property.
- 63) Generally requires an RDA to replace destroyed units with new construction.
- 64) Provides that up to 25% of the replacement obligation incurred during a five-year implementation plan may be fulfilled by either of the following:
- a. With units that have been rehabilitated such that the after-rehabilitation values increased by 50% or more of the pre-rehabilitation value and the units being replaced were either:
 - i. At risk of demolition or closure due to substandard conditions and occupied by extremely low or very low income households; and
 - ii. Vacant due to substandard conditions;
 - b. With substantially rehabilitated multi-family units that the agency has substantially rehabilitated with in the project area, two units for each unit the agency is obligated to replace, or outside the project area three units for each unit the agency is obligated to replace.
- 65) Requires a RDA to adopt a separate written resolution after a public hearing that based on substantial evidence that the rehabilitation of the replacement dwelling units complies with the replacement unit requirements.
- 66) Provides that if a court finds that an RDA has failed to comply with replacement housing requirements, the court shall prohibit the agency from issuing any debt for any project areas

except debt from which all proceeds will be deposited in the L&M fund until the court determines that the RDA has complied with this section.

- 67) Adds the following to the information a RDA is required to include in a replacement housing plan:
- a. a description of the occupancy and affordability restrictions to be imposed on replacement dwelling units;
 - b. substantial evidence supporting a finding that the replacement dwelling units will meet the needs of households in the income categories of the households displaced from the dwelling units that the replacement units are intended to replace; and
 - c. a declaration of whether the RDA intends to rehabilitate existing dwelling units.
- 68) Provides that if an RDA ceases its activities prior to the end of an affordability covenant, then it will designate a successor agency that will monitor and enforce the covenants for the remaining period of the covenant.
- 69) Provide that if no successor agency is designated at the time a RDA ceases its activities then the community must monitor and enforce the covenants for the remaining period of the covenant.
- 70) Includes intent language regarding the need for greater accountability and more auditing of RDAs.
- 71) Deletes the authority given to RDAs to offer money in the L&M fund of a merged project area to the housing authority for the purpose of constructing or rehabilitating affordable housing if the funds have been deposited in the L&M fund for six years but have not been spent.
- 72) Adds to the following to the list of required information the implementation plan for an RDA must include:
- a. The proposed amount of expenditure for the L&M Fund for new construction, acquisition and substantial rehabilitation or preservation for housing for persons of extremely low, very low or low income during each year of the implementation plan;
 - b. The replacement units that satisfy each replacement housing obligation;
 - c. In the case when replacement units have been destroyed or removed, but units are not yet complete, the proposed location of the replacement units that are not yet complete;
 - d. A complete accounting for compliance with the RDA's affordable housing obligation over the life of the plan including the total number of units the RDA is obligated to replace and the total number of units required to be construct before the end for the project area life;

- 73) Include the following information for all affordable housing units that are replaced, constructed, rehabilitated or have covenants attached to them and are included in the database required by existing law:
- a. The street address and assessor's parcel number of the property and for properties that are listed as a group the number of units;
 - b. The size of each unit based on the number of bedrooms;
 - c. The affordability level of each unit;
 - d. The year in which the construction or substantial rehabilitation of the unit was complete;
 - e. The date of recordation and document number of the affordability covenants or restrictions
 - f. The date on which the covenants or restrictions expire;
 - g. For projects developed prior to January 1, 2002 a statement of the effective period of the land use controls established in the plan at the time the unit was developed;
 - h. For owner-occupied units that have changed ownership during the previous implementation plan period the date and document number of the new affordability covenants or other document recorded to ensure that the affordability restrictions run with the land; and
 - i. Whether units count toward replacement units and the units they are replacing;
- 74) Require the following information as part of the implementation plan for owner-occupied and rental units that are required to replace units, are counted toward the RDA's housing obligation and are not included in the database required by existing law:
- a. The streets address and if available assessor's parcel number of the property;
 - b. For properties where units are listed as a group, the number of units;
 - c. The affordability level of each unit;
 - d. The date of recordation and document number or restrictions; and
 - e. Whether the units count toward the replacement obligation and reference the destroyed units they are replacing;
- 75) Permits the implementation plan to omit any property that is used to confidentially house victims of domestic violence
- 76) Provides that failure to meet any of the following obligations will be an ongoing violation until the RDA has fulfilled the obligation:

- a. The deposit and expenditure requirements for the L&M fund;
- b. The obligation to eliminate project deficits to the L&M fund;
- c. The obligation to expend or encumber excess surplus funds;
- d. The obligation to provide relocation assistance;
- e. Replacement and production housing obligations;
- f. The obligation to monitor and enforce affordability covenants; and
- g. The obligation to continue the project past the effectiveness date of the redevelopment plan in order to meet unfulfilled housing requirements.

EXISTING LAW

- 1) Limits planning and general administrative expenditures from the L&M fund to the following costs which are directly related to permissible housing activities:
 - a. Salaries, wages and related costs of the agency's staff or the costs for services provided through interagency or outside agreements; and
 - b. Costs incurred by a nonprofit corporation that are directly attributable to a specific project.
- 2) States that legal, architectural and engineering costs and other salaries wages and costs directly related to the planning and execution of a specific project are not planning and administrative costs for that purpose of this section but instead project costs.
- 3) Defines "excess surplus" as any unexpended and unencumbered amount in an agency's L&M fund that is greater than \$1 million or the sum of the last four years' worth of tax increment.
- 4) Requires an RDA to disburse excess surplus funds to the housing authority or a local housing development agency within one year or expend the funds itself in three years.
- 5) Requires a RDA within five years of acquiring a property to initiate activities consistent with the development of the property including but not limited to zoning changes, disposition and development agreements.
- 6) Provides that an RDA may, by resolution, extend the deadline by up to five years to initiate activities consistent with development of a property.
- 7) Requires that each RDA, over each 10-year period of the agency's redevelopment implementation plan, expend the moneys in the L&M fund to assist housing for persons of very low- and low-income in at least the same proportion as those income categories represent within the total number of very low-, low-, and moderate-income housing units

assigned to the jurisdiction as part of the regional housing needs assessment under housing element law.

- 8) Requires an RDA, within four years of destroying or removing dwelling units that house low-or moderate-income households to replace the units by rehabilitating, developing, constructing an equal number of replacement units at the same affordability level within the territory of the RDA.
- 9) Requires an RDA to ensure that 30% of all new substantially rehabilitated housing units developed by the RDA and 15% of all new and substantially rehabilitated housing units developed with in the project area are affordable to low and moderate income households.
- 10) Requires RDAs to hire impendent auditors each year to review their financial statements.
- 11) Requires RDAs to submit their audits to the Controller by April 1 of each year who must compile a list of agencies for which an independent auditor identified major audit violations.
- 12) Requires the Controller by June 1 of each year to determine if the listed agencies have corrected the major audit violation and if not refer the violations to the AG for action.
- 13) Establishes a three year statute of limitations for enforcing agency violations
- 14) Provides for a 10-year statute of limitation s to bring an enforcement action against an RDA for failing to deposit the required percentage of tax increment in the L&M Fund or misspends L&M fund.

FISCAL EFFECT: Unknown

COMMENTS:

Background: Community Redevelopment Law (CRL) requires RDAs to set-a-side 20% of tax increment generated in a project area to increase, improve, and preserve affordable housing. The intent of the L&M fund was to avoid gentrification in blighted communities and to avoid displacement of the existing residents. RDAs capture approximately 12% of the state's property taxes for their activities and generate about \$1 billion each year for affordable housing. SB 450 would reform several different components of the L&M fund in an effort to achieve greater oversight and production of affordable housing.

Auditing: Existing law requires RDAs to contract with an independent auditor each year to review the financial statements of the agency. Independent auditors are required to review the RDAs financial statements and identify "major audit" violations which are defined by law. RDAs must inform the local legislative body of any major audit violations and correct them. The Controller which receives the audits and reviews them has the authority to forward a major audit violation to the AG if it is not corrected and the AG may take action against the RDA including prohibiting it from expending funds or incurring new debt. In past years, HCD had also audited the L&M fund to ensure compliance; this function has been drastically reduced over the years as a result of budget constraints.

SB 450 would make several reforms to oversight and auditing of RDAs. The Controller would have the authority to report independent auditors whose actions are unprofessional or violate law to the Board of Accountancy. Auditors who are found by the Board to be in violation of the law may be banned from auditing RDAs for three years.

HCD would have the funding and authority to audit the L&M funds of RDAs to determine compliance. If the department determined that a RDA did not fulfilling its obligations to spend L&M funds in a timely and appropriate matter, it can refer the violations to the AG for action. RDAs will pay .05% of their tax increment to fund HCD's auditing.

General administration and planning: Existing law gives RDAs relatively broad authority to spend L&M funds on planning, administration, and project costs. SB 450 creates a double cap system that would restrict spending for general and administrative costs to 10% of the L&M Fund and program and project costs to 10% of the L&M Fund. The general administrative and planning cost are described above and generally relate to employee compensation, travel expenses, executive and management salaries and consulting contracts necessary to meet the requirements of creating, preserving, and improving low and moderate income housing. The program and project costs are for specific project related costs like monitoring of a specific housing development project including project management of disposition and development agreements, land leases, loan agreements and similar affordable housing agreements, redevelopment agency work on entitlements for eligible affordable housing developments, loan processing, and servicing, inspection for new rehabilitation units, construction monitory and monitoring affordable housing units.

If an RDA does not expend all of the funds allowed for general planning and administration, it can apply the remaining amount to program and project costs. However, program and project costs cannot be spent on general administration and planning.

New requirements for land with L&M fund: Existing law requires a RDA to take certain steps to develop properties purchased using L&M funds within the first five years of acquisition. If the RDA does not take steps to develop the property (including zoning changes, disposition and development agreements) within five years, the RDA can adopt a resolution to extend the deadline by five years but if nothing is done after five years they must sell the property and deposit the proceeds back in the L&M fund.

SB 450 would require that RDAs enter into a disposition agreement with a third party to develop the property, obtain final land use entitlement and secure full financing for the affordable housing development within five years. If the RDA fails to take these steps, they can petition HCD for a five year extension. If an RDA does not take steps to develop a property within the timeframe and certain benchmarks are not met, it must reimburse the L&M fund 150% of the amount that was used to acquire and maintain the property or 150% of the current market value, whichever is greater.

Proportionality requirements: Existing law requires that the L&M fund be spent to assist households that are very low and low income at the same income levels that are required as part of the RHNA under housing element law. SB 450 would delete the proportionally requirement and rather require that at least 75% of the agency's expenditures from the L&M fund assist extremely low, very low or low-income households or persons. It further requires that 25% of

each of the agency's expenditures directly assist extremely-low income households and that an additional 50% assist extremely low and very-low income households. These sub requirements count against the 75% requirements.

Replacement housing requirements: Existing law requires a RDA to replace any units that are destroyed or removed for low and moderate income persons and households from a project area, within four years with an equal number of units at the same affordability level within the jurisdiction of the agency. RDAs are required to ensure that 30% of the new and substantially rehabilitated units developed by the agency and 15% of the all new units developed within the project area are affordable to low-and moderate income households.

SB 450 makes various changes to the requirements for replacement units including that if units are destroyed or removed that are unoccupied they must be replaced by units that are affordable at the same level as the last occupants. Replacement units are also required to be new construction except that 25% of replacement units may be rehabilitated units in the project area.

Enforcement: Existing law generally allows a three year statute of limitations for enforcing RDA violations. However, in one case, failure of an RDA to deposit the required percentage of tax increment into the L&M fund or mispending L&M funds, the statute of limitations is ten-years to bring an action to enforce.

SB 450 would provide that failure to meet any of the following obligations will be an ongoing violation until the RDA has fulfilled the obligation:

- The deposit and expenditure requirements for the L&M fund;
- The obligation to eliminate project deficits to the L&M fund;
- The obligation to expend or encumber excess surplus funds;
- The obligation to provide relocation assistance;
- Replacement and production housing obligations;
- The obligation to monitor and enforce affordability covenants; and
- The obligation to continue the project past the effectiveness date of the redevelopment plan in order to meet unfulfilled housing requirements.

The bill would also require that RDAs that fails to deposit or spend L&M funds as required must reimburse the L&M fund by 150 % of the reimbursement amount with interest.

Purpose of the bill: According to the author, while many redevelopment agencies spend their L&M funds in a timely and effective way to maximize affordable housing production, recent government and press reports have exposed a number of agencies that spend L&M funds in inappropriate ways, including excessive planning and administrations costs, underwriting salaries of city staff, and buying property that is never used for affordable housing. Moreover, oversight of redevelopment agencies is lax. Auditors hired by the agencies themselves do not

always check for or report violations, statutes of limitations are unnecessarily short, and court remedies are weak. This bill is intended to present a comprehensive package of reforms relating to how redevelopment agencies expend their housing funds and to how the state and others oversee agency compliance. The goal of these reforms is to enact clear requirements and establish robust oversight mechanisms to ensure that all agencies maximize the use of their L&M funds to produce affordable housing for all income groups.

A recent report by the Senate Office of Oversight and Outcomes (SOOO) looked at the housing expenditures from twelve redevelopment agencies, seven of which had showed consistently high planning and administration expenditures and five chosen at random. As a result of its studies, SOOO made seven findings, including the following:

- No assurance. Current laws and oversight give the Legislature and public no assurance that redevelopment agencies are using at least 20 percent of revenues to efficiently create affordable housing.
- Lax records. Many redevelopment agencies use their low- and moderate-income housing funds to cover costs in other city departments – such as public works, finance, and personnel – without documenting that the resources are directly related to an affordable housing project.
- Loose law. Each year redevelopment agencies must “determine” the need to spend any housing set-aside money on planning and administration. In an unpublished portion of its opinion, an appellate court found that the law limiting planning and administrative costs gives so much discretion to redevelopment agencies that they are largely shielded from lawsuits – even those agencies that make assertions unsupported by facts. Furthermore, many redevelopment agency officials do not know about the law, ignore it, or comply by passing a pro forma resolution.
- Questionable spending. Some redevelopment agencies use their housing set-aside funds in what appear to be impermissible ways, such as hiring a Sacramento lobbyist, funding a public relations campaign, and paying a non-profit housing rights center to offer residents legal advice.
- Unreliable audits. Each redevelopment agency must get an annual independent financial audit, yet these audits are of inconsistent quality. Many Certified Public Accountants fail to test or make note of compliance with housing set-aside fund laws.
- Code enforcement. Some redevelopment agencies use their housing set-aside funds to pay for code enforcement, which is permitted only when the code enforcement work is directly linked to efforts to develop, improve, or preserve affordable housing.

In October 2010, the Los Angeles Times also reported a number of irregularities in the spending of L&M funds. The article cited examples of agencies that spent “most of their affordable housing money over the decade on ‘planning and administration’ – but never built a single unit.” The article also cited examples of agencies that used L&M funds to buy properties that were never used for affordable housing.

Technical amendments:

- 1) Page 11, line 35 replace "fun" with "fund"
- 2) Page 28, line 3, delete the " 33334.2. The" and replace with " 33334.2 the"
- 3) Page 57, line 16, delete "either"

REGISTERED SUPPORT / OPPOSITION:

Support

California Rural Legal Assistance Foundation (co-sponsor)
California State Controller John Chiang (co-sponsor)
Western Center on Law & Poverty (co-sponsor)
Aging Services of California
American Federation of State, County and Municipal Employees
California Coalition for Rural Housing
California Housing Partnership Corporation
California Redevelopment Association
City of Burbank
Corporation for Supportive Housing
County of Los Angeles
Los Angeles County Board of Supervisors
Habitat for Humanity East Bay
Habitat for Humanity Greater Los Angeles
Habitat for Humanity of Tulare County
Habitat for Humanity of Orange County
Housing California
Long Beach Area Coalition for the Homeless
RDA Infill Coalition
San Luis Obispo County Housing Trust Fund
Silicon Valley Leadership Group

Opposition

Affordable Housing Advocates
Department of Finance
City of Lakewood

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