Where Does the Affordable Housing Money Go?

Administrative Spending by Redevelopment Agencies Lacks Accountability

This report was prepared for the Senate Rules Committee

September 30, 2010

California Senate Office of Oversight and Outcomes

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Executive Summary

California's 398 redevelopment agencies exist primarily to obliterate blight and create jobs. But starting 34 years ago, the Legislature also put redevelopment agencies in the housing business – in a big way.

By law, the agencies must set aside 20 percent of their key revenue source – property tax -- and spend it to create, rehabilitate and preserve affordable housing. Each agency must establish a so-called low- and moderate-income housing fund to hold this money. The funds create the biggest pool of non-federal money available in California for building affordable homes. The funds totaled $5.6 billion in 2007-08.

State laws encourage redevelopment agencies to use the housing set-aside money as efficiently as possible. The Legislature dictated that the amount of money spent for planning and "general administrative activities" should not be *disproportionate* to that spent to build, rehabilitate, and preserve affordable housing.

Yet in 2007-08, the redevelopment agencies that characterized 60 percent or more of their affordable housing fund expenditures as planning and administration numbered 63. Each year, roughly 25 to 40 agencies characterize as planning and administration all or nearly all of the housing set-aside fund money they spend. Some do so in the course of constructing new homes. Others do so year after year without creating much affordable housing at all.

The public and the Legislature have little assurance that redevelopment officials spend the property tax flowing to redevelopment agencies as intended for affordable housing. Oversight mechanisms are few and flawed. The law limiting planning and administrative costs provides so much discretion to agencies that it effectively shields them from lawsuits by citizens who believe the costs to be too high.

To better understand how the agency housing funds are used, staff of two Senate committees asked the Senate Office of Oversight and Outcomes to closely examine the expenditures of a sample of redevelopment

agencies. The oversight office chose a dozen redevelopment agencies, seven of which showed consistently high planning and administration expenditures. We chose others randomly. We gathered information about these agencies over the 13-year span from fiscal year 1995-96 through 2007-08. We broke down actual expenditures for 2007-08.

We found great variation in redevelopment agency practices. Some agencies largely paid salaries and other administrative costs, with little additional or improved housing to show for the money. Other agencies spent heavily on administration and planning for several years to launch new construction and rehabilitation projects. Still others showed relatively consistent spending on administration as they operated programs to make minor home repairs, give rent subsidies, or help first-time homebuyers make a down payment.

On average, over the 13 years examined, the agencies reported spending between 26 percent and 100 percent of their low- and moderate-income housing funds on planning and administration.

Our sample size is obviously small and weighted toward redevelopment agencies that spent heavily from housing funds on planning and administration. Our sample is not representative, but the in-depth nature of our inquiry allows us to draw some larger conclusions. Furthermore, this report relies to a great degree on information collected by the Department of Housing and Community Development (HCD). We corrected errors we discovered in the data. We cannot be certain that all of the HCD information underpinning this report is accurate, but it is the best available.

Our office also gathered the audits the HCD performed between 1998 and 2007 of the low- and moderate-income housing funds of 42 different redevelopment agencies. Those audits have informed our findings, recommendations, and assessments of individual redevelopment agencies.

Based on close examination of these 12 agencies and review of the 42 audits, the oversight office makes the following findings:

1. <u>No assurance.</u> 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.

2. <u>Lax records.</u> Many redevelopment agencies use their low- and moderate-income housing fund 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. At the Hercules Redevelopment Agency, for example, the finance director said she did not know the terms or formula by which the agency paid $16,666 a month from the low- and moderate-income housing fund for city employee salaries.

3. 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.

4. Messy data. Redevelopment agencies frequently submit wrong or incomplete information about their finances and activities to the state Department of Housing and Community Development, which does not verify the information. Policymakers, citizens, housing advocates, and others generally – but wrongly – assume the data is reliable. For example, the oversight office found that the San Bruno Redevelopment Agency mistakenly reported construction of the same units of housing two and three years in a row, making it appear that a total of 830 – not 325 – affordable apartments had been constructed.

5. 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.

6. 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.

7. 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.

To strengthen oversight of the state's 398 low- and moderate-income housing funds, the Senate Office of Oversight and Outcomes recommends the following:

1. Restore state audits. Revive the low- and moderate-income housing fund auditing program within the Department of Housing and Community Development (HCD). Halted in 2007, the auditing program involved one funded position. The audits redirected several million dollars to low- and moderate income housing funds and provided much-needed guidance on proper expenditures.

2. Release audits. Publish and release the findings of the revived HCD audit program – including agency responses -- to all redevelopment agencies and the public.

3. Highlight results. In its annual statewide roundup of redevelopment housing activity, the HCD should identify those agencies that have reported no new construction, substantial rehabilitation, or acquisition of covenants for the previous five years. The department should also publish a list of those agencies reporting the greatest such activity in the previous five years.

4. Better reports. The HCD should resume its practice, stopped after 2005-06, of publishing an annual list of those redevelopment agencies that have reported a high proportion of planning and administrative costs for several years in a row.

5. Focused audits. Each year, the agencies that appear on both HCD lists showing no housing activity and high overhead expenditures for the previous five years should be audited by the HCD, the State Controller's Office, or a private firm chosen by the HCD.

6. Better advice. Housing advocates and representatives of redevelopment agencies, the State Controller's Office, and the HCD should together draft and disseminate guidelines describing those housing set-aside fund expenditures that they agree state law permits.

7. Better forms. A work group of housing advocates and HCD, Controller's, and redevelopment agency employees should collaborate on ways to redesign the HCD annual questionnaire to make the department's annual redevelopment reports more accurate, useful, and consistent with information published by the Controller.

8. More training. Training sessions held each year for redevelopment agency employees by the HCD and the California Redevelopment Association should include guidance on the legal and improper uses of low- and moderate-income housing funds.

9. Update audit guidelines. The State Controller's Office should update the 12-year-old guidelines that Certified Public Accountants must follow when auditing redevelopment agencies. The revised guidelines should explicitly require auditors to check for all nine "major audit violations."

10. Train auditors. The State Controller's Office should require Certified Public Accountants who audit redevelopment agencies to attend training sessions on permissible uses of a low- and moderate-income housing fund.

11. Report shoddy work. Controller's employees should refer to the California Board of Accountancy those CPAs who repeatedly submit substandard audits of redevelopment agencies.

12. Revise law. Legislators should amend the statutory requirement for each redevelopment agency to annually "make a determination" that planning and administrative costs from the low- and moderate-income housing fund are necessary. The revised law should require agencies – or at least those agencies that meet a certain threshold -- to each year itemize housing set-aside expenditures, connect those costs to an affordable housing program, and compare planning and administration expenditures to actual housing costs over a five-year span.

This report summarizes the key laws that dictate how redevelopment agencies can spend their low- and moderate-income housing funds. It describes existing oversight of California redevelopment agency housing programs and the gaps in that oversight. This report also summarizes the "do's" and "don'ts" delineated by Department of Housing and Community Development auditors who scrutinized the use of housing set-aside funds at 42 different redevelopment agencies between 1998 and 2007. And finally, the report compares the rules proffered by those auditors to the actual practices of the dozen redevelopment agencies we scrutinized.

Background

Sixty-five years ago, the California Legislature created a legal tool for reviving decrepit neighborhoods. Lawmakers allowed cities and counties to form redevelopment agencies. Lawmakers gave these agencies authority to collect property taxes from blighted blocks and borrow against the future revenue to tear down or renovate dilapidated buildings; construct new homes and apartments; install sidewalks, roads, and other infrastructure and otherwise improve troubled places.

The Legislature set lofty goals for redevelopment. Lawmakers declared in the state's Health and Safety Code that the fundamental purposes of redevelopment are to expand the supply of low- and moderate-income housing, to create jobs, and to provide "an environment for the social, economic, and psychological growth and well-being of all citizens."

Redevelopment agencies began to proliferate in the 1970s and now number 424; of those, 398 are active. They fund themselves by declaring certain areas blighted, freezing the level of property taxes flowing from such areas to cities, counties, schools and special districts, then collecting any growth in property tax above the frozen levels. The agencies' project areas are supposed to wind down and disappear within 50 years. In theory, redevelopment agencies ultimately generate more tax dollars for schools and local governments by temporarily harnessing a stream of tax dollars and using it to revitalize a cityscape.

After several decades of experience with redevelopment agencies, many Californians began to worry that redevelopment displaced poor people as neighborhoods were bulldozed to clear the way for industrial and commercial development. In response, the Legislature in 1976 passed a law to require redevelopment agencies to set aside at least 20 percent of their annual property tax revenue and spend the money strictly on increasing the availability of housing for low- and moderate-income people. The law required each redevelopment agency to segregate the money in a "low- and moderate-income housing fund." In 1985, the Legislature extended this requirement to redevelopment projects created before 1977.

State law defines “low- and moderate-income” as people and families whose income does not exceed 120 percent of area median income. The law ties the limits to the income eligibility requirements set by the U.S. Department of Housing and Urban Development for its housing voucher program. An example: To qualify as low-income in Los Angeles County in 2010, a family of four must make less than $66,250 a year. The moderate income limit for the same family is $75,600.

How wisely redevelopment agencies use their housing set-aside funds is of statewide interest, not just because chronically high housing prices put decent places to live out of the reach of many low-wage workers and their families. Redevelopment costs California taxpayers at large, because it harnesses property tax that would have otherwise flowed to local government entities such as counties, schools, and special districts. The state general fund spends billions of dollars to make up for property tax dollars that school districts do not receive. Recently, the Legislature and governor helped balance the state budget by shifting $2.05 billion from redevelopment agencies to schools.

Key Laws Governing Use of Affordable Housing Funds

Many laws dictate how redevelopment agencies spend and report on affordable housing money.

The Health and Safety Code describes the permissible uses of the low- and moderate-income housing fund:

- Acquire real property or building sites for the purposes of building affordable housing.
- Improve real property or building sites in order to construct or rehabilitate affordable housing that is deed-restricted for low- or moderate-income households for at least 45 years in the case of rental units and 55 years for owner-occupied units.
- Pay for onsite or offsite improvements to a commercial or housing development only in proportion to the number of affordable housing units that development will contain.
- Donate real property to public or private entities.
- Finance insurance premiums necessary during the construction or rehabilitation of housing for low- and moderate-income households.
- Construct buildings or structures.
- Acquire buildings or structures.
- Rehabilitate buildings or structures.
- Provide subsidies to low- and moderate-income households unable to obtain affordable housing on the open market.
- Develop plans and pay principal and interest and financing charges on bonds, loans, and other indebtedness.
- Maintain the community's supply of mobile homes.
- Preserve publicly subsidized housing units at risk of conversion to market rates.

Legislators also made clear that they want redevelopment agencies to spend their housing set-aside money efficiently. State law limits use of the low- and moderate-income housing fund to pay for a redevelopment agency's overhead costs.

The law states that administrative costs should not be "disproportionate" to what a redevelopment agency spends on bricks-and-mortar work to expand affordable housing. Furthermore, agencies must "determine" each year whether they truly need to spend any housing set-aside money on planning and administration:

> *It is the intent of the Legislature that the Low and Moderate Income Housing Fund be used to the maximum extent possible to defray the costs of production, improvement, and preservation of low- and moderate-income housing and that the amount of money spent for planning and general administrative activities associated with the development, improvement, and preservation of that housing not be disproportionate to the amount actually spent for the costs of production, improvement, or preservation of that housing. The agency shall determine annually that the planning and administrative expenses are necessary for the production, improvement, or preservation of low- and moderate-income housing.*

The law does not state that the annual determination must be in writing. But officials at the State Controller's Office and the Department of Housing and Community Development interpret the law to require a written document.

Furthermore, the law states that planning and administrative expenses must be directly related to the construction, rehabilitation or preservation of affordable housing. Statute limits such costs to the following categories:

- Costs incurred for salaries, wages, and related costs of the agency's staff or for services provided through interagency agreements, and agreements with contractors, including usual indirect costs.
- Costs incurred by a nonprofit corporation which are not directly attributable to a specific project.

The law also specifies that legal, architectural, engineering, salary, wages and other costs directly related to the planning and execution of a specific affordable housing project that are incurred by a non-profit housing sponsor are project costs, not planning and administrative costs.

Despite the huge sums involved and the state's chronic need for affordable housing, the Legislature has not charged any state agency with enforcing the laws that dictate how redevelopment agencies may spend low- and moderate-income housing funds. Oversight rests primarily at the local level, with the city council members and county supervisors who sit as redevelopment agency board members. To correct an alleged misuse of the money, a citizen, housing activist, or state agency must take a recalcitrant redevelopment agency to court.

Genesis of This Report

In 2007-08, the planning and administration expenditures of California's redevelopment agencies from their low- and moderate-income housing funds averaged 13 percent of overall spending, according to the Department of Housing and Community Development, which publishes an annual report on redevelopment agency activities.

But that year, 34 of 357 reporting redevelopment agencies characterized 100 percent of their housing set-aside expenditures as planning and administration. Each year, roughly 25 to 40 redevelopment agencies do so, some for several years in a row.

The staffs of the Senate Housing and Transportation Committee and the Senate Local Government Committee asked our office to choose a sample of redevelopment agencies and describe their planning and administration expenditures.

Methodology

To choose a sample of redevelopment agencies, our office first gathered 13 years' worth of data published by the Department of Housing and Community Development (HCD).

We collected the HCD annual redevelopment housing activities reports for years 1995 through 2008. We then created two spreadsheets of data. One showed year-by-year those redevelopment agencies reporting 100 percent of their expenditures from low- and moderate income housing funds as "planning and administration," with such expenditures totaling $10,000 or more.

The second spreadsheet listed those redevelopment agencies with planning and administration costs totaling $200,000 or more and accounting for 50 percent or more of total expenditures from low- and moderate-income housing funds.

Then we tallied the number of times a redevelopment agency appeared in the two spreadsheets. We chose seven agencies that appeared the most on the lists: Tulare County (14), Marina (12), Monterey Park (12), Hercules (11), Torrance (11), Pismo Beach (9) and San Bruno (9). We also chose Covina, which appeared seven times.

Planning and administration spending at the Culver City Redevelopment Agency fell within the thresholds of our spreadsheets in only one year, but our office chose to examine the agency because its reporting showed anomalies that HCD experts could not explain.

For the sake of comparison, we also chose three redevelopment agencies randomly. (We asked our office manager to think of three numbers between one and 425; we matched the numbers she chose to redevelopment agencies enumerated in the HCD annual report for 2007-08.) Those agencies are Chino, Kerman, and San Leandro.

Below is a synopsis of our findings on each of these redevelopment agencies. Appendix A contains more detailed information.

Chino

The Chino Redevelopment Agency operates a robust affordable housing program that builds new houses in downtown neighborhoods, loans money to low-income residents for repairs, and helps others buy their first homes. The agency also has loaned money to a developer for a project involving a substantial number of new affordable units. Even though its planning and administration costs are inflated by half because of the way the agency characterizes project costs, its administration costs are still lower than other agencies that produce less new affordable housing.

Covina

The Covina Redevelopment Agency has long spent roughly $400,000 to $500,000 a year on planning and administration costs, but has produced little in the way of new housing. The agency built eight new units in the 13 years examined by the oversight office. In 1995-96, the agency reported the substantial rehabilitation of 114 units, but none since. The agency uses the low- and moderate-income housing fund mostly to offset rent for senior citizens. The agency's housing set-aside fund subsidizes code enforcement officers and building inspectors to a greater extent than the other agencies we scrutinized.

Culver City

Given the amount of money at its command, the Culver City Redevelopment Agency has done relatively little to create new places for low-income people to live.

In 2007-08, the $4.9 million in property tax money collected by the agency's low- and moderate-income housing fund was the highest of any of the 12 redevelopment agencies reviewed by the Senate Office of Oversight and Outcomes. That year the Culver City fund held $22.1 million. While that money was amassed over 13 years, the agency reported the creation of just four units of housing for moderate-income residents, as well as the substantial rehabilitation of 31 other units and the acquisition of covenants on 12 housing units that restrict them for people of low- and moderate income.

For comparison's sake, the redevelopment agency in neighboring Santa Monica over the same period reported construction of 748 new units, substantial rehabilitation of 100 units, and acquisition of covenants on 165 units, all for low- and moderate-income households. Culver City officials acknowledge that despite their efforts to create affordable housing, they are failing to meet the city's housing obligation as established by a regional assessment of need.

The Culver City Redevelopment Agency reported spending more than $1 million from its low- and moderate-income housing fund on employee salaries in 2007-08. Yet most of the agency's work helping low- and moderate-income people with housing issues was performed by non-profit groups paid by the agency.

The agency reported an extraordinary number of cases of "other assistance" over the years of activity we scrutinized. That assistance involved inquiries about or services received from non-profit groups that match elderly residents with roommates, install security and safety devices such as smoke detectors and provide advice about housing discrimination.

Not all of those expenditures may be legal uses of the low- and moderate-income housing fund. HCD officials told the oversight office that local officials should not use the fund to pay for services such as legal advice on housing discrimination. Regardless of legality, the Culver City expenditures did not involve new construction, substantial rehabilitation, or the acquisition of covenants -- activities that actually increase a community's inventory of affordable housing.

Hercules

The Hercules Redevelopment Agency is fairly active in helping to create affordable places to live for low- and moderate-income residents. It also uses its low- and moderate-income housing fund to help first-time homebuyers and to weatherize, beautify and repair the homes of qualified residents. The Hercules Redevelopment Agency hires a consulting firm to operate its affordable housing programs. Hercules also appears to be the only agency examined that uses its housing set-aside money to pay for lobbying – possibly an impermissible use.

Kerman

Chosen randomly by the oversight office, the Kerman Redevelopment Agency had the lowest flow of revenue into its low- and moderate-income housing fund of the dozen agencies reviewed. Its planning and administration costs averaged 73 percent of total housing set-aside expenditures over the 13 years we examined. The agency under-reported its achievements: HCD reports indicate the construction of only a single new affordable house, but the agency helped to finance an 80-unit apartment complex for low-income senior citizens.

Marina

The Marina Redevelopment Agency reported no housing activity to the state in the 13 years studied by the oversight office. Since 2001-02, its low- and moderate-income housing fund expenditures have been entirely for planning and administration. The agency's situation, however, is unusual. In the late 1990s, the redevelopment agency took charge of a huge former military base in need of redevelopment. The amount of tax revenue flowing into its housing set-aside fund is relatively meager ($527,000 in 2007-08). Marina officials have been planning and accumulating housing set-aside money for a decade to build hundreds of units of affordable housing on the former military base over the next several years.

Monterey Park

In 1995, the Monterey Park Redevelopment Agency teamed with a community development corporation to build a 67-unit complex for low-income senior citizens. But the agency has built no new affordable housing in the 15 years since. The agency's affordable housing work mostly has involved loans to homeowners for repairs. The agency, however, recently purchased two dilapidated apartment buildings that it will rehabilitate and restrict for low- and moderate-income residents. Agency officials say the high prices in their community make it more cost-effective to revamp buildings than to buy land for new construction.

Pismo Beach

Relatively little property tax flows each year into the Pismo Beach Redevelopment Agency's low- and moderate-income housing fund – the tax revenue was $211,000 in 2007-08. Still, the agency has done little with it. From the agency's creation in 1987 until 2007, the agency used its housing set-aside fund mostly to pay part of a city employee's salary.

In 2008, at the same time that they were weighing deactivation of the redevelopment agency, Pismo Beach officials finally launched housing programs: They spent $1.8 million from their housing set-aside fund to purchase a million-dollar parcel and to create an $845,000 program to repair the homes of low-income residents. Pismo Beach officials used no federal or state funds to offset the cost of the parcel, on which they plan to build 14 units of affordable housing. It's not clear how the development will be financed or whether the home improvement program will continue if the redevelopment agency disbands.

San Bruno

Active only for the last decade, the San Bruno Redevelopment Agency nonetheless produced more housing in the 13-year study span than any of the other redevelopment agencies examined for this report. Since becoming active in 1999, the agency has built 325 units of affordable housing. The short life of the agency and its large projects on a former Navy site help explain why planning and administration consumed on average 83 percent of its overall housing set-aside fund expenditures.

San Leandro

The San Leandro Redevelopment Agency kept its low- and moderate-income housing fund overhead costs to an average of 33 percent while generating a fair amount of new housing. Housing set-aside fund payments to cover the costs of other city departments totaled only in the tens of thousands of dollars each year in San Leandro, compared to the hundreds of thousands of dollars spent each year by redevelopment agencies in smaller cities including Culver City, Hercules, and Monterey Park. The agency was one of only two studied that paid employees from the housing set-aside fund based on actual time worked on housing issues.

Torrance

The Torrance Redevelopment Agency did not report any affordable housing activity to the HCD from 1995-96 through 2007-08. Asked for an explanation by the oversight office, agency officials said they would reconsider what they report to HCD.

Despite accumulating $8.3 million in its low- and moderate-income housing fund, the agency funded no new construction, substantial rehabilitation, or acquisition of covenants in recent years. Instead, the agency invested in subsidizing the rent of roughly 25 apartments for senior citizens; loaning up to $10,000 to about five households per year for new roofs, plumbing replacement and other repairs; and supervising student crews that make minor repairs to roughly 150 houses or apartments each year.

The Torrance agency last year faced a deadline to use or lose $2 million of the $8.3 million it had accumulated. The $2 million qualified as "excess surplus" under a law intended to discourage redevelopment agencies from stockpiling money in their housing set-aside funds. In late 2009, Torrance officials spent nearly half of their $8.3 million housing set-aside fund to buy two downtown lots. Redevelopment agency officials said they needed time to accumulate enough housing set-aside money to do substantial work. They said they intend to build retail space and condominiums on the parcels.

Tulare County

In seven of the last eight years for which data is available, the Tulare County Redevelopment Agency characterized 100 percent of its low- and moderate-income housing fund expenditures as planning and administration. Each year, the agency completed between three and 20 substantial rehabilitation projects. Typically these projects involved total reconstruction, because the region's housing stock is so dilapidated. More than the other redevelopment agencies examined by our office, the Tulare County Redevelopment Agency manages multiple state and federal housing grants.

Findings

Staff of the Senate Local Government and Senate Transportation and Housing committees asked our office primarily to detail the housing set-aside fund expenditures of a sample of redevelopment agencies. Using city budgets, data submitted to HCD, and interviews with finance and redevelopment agency officials, our office attempted to break down the 2007-08 spending by these 12 agencies.

A couple of redevelopment agencies responded quickly and fully to our questions. But in most cases, the task of itemizing the expenditures involved repeated rounds of questioning, with some redevelopment agency officials taking months to respond. Few redevelopment agencies post on their websites or include in their budgets an easy-to-understand, detailed description of low- and moderate-income housing fund expenditures. The information our office gathered appears in Appendix A.

Below is a description of the general conclusions, patterns, and problems our office uncovered in the course of this work.

Finding #1: Current laws and oversight mechanisms give the Legislature and public no assurance that redevelopment agencies are using 20 percent of their revenues to expand affordable housing.

Existing Oversight

The Legislature made clear that redevelopment agency officials must set aside 20 percent of property tax increment revenues into low- and moderate-income housing funds; that they must spend that money preserving, rehabilitating, or building affordable housing; and that they must determine that any administrative or planning costs were necessary to develop, improve, and preserve affordable housing.

Oversight ultimately rests with the state Attorney General and with citizens and attorneys for non-profit housing groups who are willing to go to court to challenge alleged abuses. It also rests with the voters who elect the city council members and county supervisors who govern the redevelopment agencies.

California's routine oversight of this affordable housing money is largely limited to (1) collecting data from redevelopment agencies for annual reports and (2) requiring each redevelopment agency to get an annual audit by a Certified Public Accountant. As discussed below, there are pitfalls with both approaches.

Data Collection

Each year, redevelopment agencies must submit a large volume of detailed information to two separate agencies – the Department of Housing and Community Development (HCD) and the State Controller's Office. Each agency compiles and publishes an annual report of the data.

The annual HCD redevelopment reports are the chief source of information for this analysis. They focus primarily on how agencies used their low- and moderate-income housing funds in the previous fiscal year. The annual reports list how much money the agencies collected in their housing set-aside funds and how much they spent buying land, subsidizing rent, paying administrative costs, etc. The HCD reports also describe the number and type of housing units repaired, preserved, or built by the agency.

The Controller's report focuses on overall redevelopment agency finances, not just the 20 percent of revenues dedicated to affordable housing. The Controller's report does not break down how much money a redevelopment agency spent from its low- and moderate-income housing fund on administration.

Workers at the State Controller's Office usually check to see that the information submitted by redevelopment agencies for its annual report matches the information in the independent annual financial audits that agencies must also submit.

The information gathered by the HCD paints the most detailed picture available of how much housing set-aside money gets collected each year, how it gets spent and what is built or repaired as a result. Policy makers, citizens, and budget writers generally assume the portrayal is accurate.

But HCD employees do not verify the information submitted by redevelopment agencies. Nor do they investigate possible misuse of funds based on the data reported. The Senate Office of Oversight and Outcomes found frequent errors when it attempted to double-check the data in the HCD reports. Some of these discrepancies – and others discovered by HCD auditors – will be described later in this report.

Annual Financial Audits

A second and potentially more rigorous oversight mechanism is the annual audit needed for each redevelopment agency.

State law requires that a Certified Public Accountant each year review a redevelopment agency's finances, check compliance with some state laws and calculate whether the agency has "excess surplus" in its low- and moderate-income housing fund.

At a minimum, auditors must test and report on "the agency's compliance with laws, regulations, and administrative requirements" – as delineated by guidelines issued by the State Controller for the CPAs.

The auditors are also supposed to note "major audit violations" in their reports. In 1999, the Legislature designated seven redevelopment agency "major audit violations." Legislators added two more in 2003. Most of these so-called "major audit violations" relate to housing set-aside funds. They are a failure to:

- File an independent financial audit report;
- File a financial transactions report to the State Controller's Office;
- Establish time limits on the effectiveness of the redevelopment plan;
- Deposit all required tax increment revenues directly into the low– and moderate-income housing fund;
- Establish a low- and moderate-income housing fund;
- Accrue interest earned by the low- and moderate-income housing fund to that fund;
- Determine that administrative expenses from the housing set-aside fund are necessary;
- Develop or sell property purchased with housing set-aside money within five years; and
- Adopt an implementation plan that describes a redevelopment agency's goals for each project area.

Redevelopment agencies must submit copies of their annual audits to the State Controller's Office. The Controller then publishes a roundup of the number and type of "violations" flagged in the independent audits. For example, the Controller's 2007-08 report tallied 40 instances of "major audit violations" among the 391 redevelopment agencies that submitted audits. Most common were a failure to file an independent audit report and failure to determine the necessity of administrative expenditures from the low- and moderate-income housing fund.

When it comes to "major audit violations," the Legislature insisted on more than mere data collection. State law also requires the Controller to refer to the Attorney General any redevelopment agency that fails to correct its "major audit violations" by June 1 of each year. The Attorney General may then go to court to compel the redevelopment agency to fix the violation. The law gives a court the authority to shut down most activities of the redevelopment agency and impose a fine of up to $10,000 if the "major audit violation" is not corrected.

The Attorney General's office has never filed suit against a redevelopment agency for failure to correct a major violation. According to Deputy Attorney General Peter Krause, between 1998 and 2008, the State Controller's Office referred redevelopment agencies to the Attorney General 169 times for failure to correct major violations. In every instance, he said, the agencies voluntarily corrected their violations either before the Attorney General got involved or soon after.

In November 2007, the offices of the Controller and Attorney General double-checked to make sure that all "major audit violations" flagged between 1998 and 2006 had been corrected. The Attorney General's staff contacted the 17 agencies that had not submitted information showing that a violation had been corrected. According to Krause, his office confirmed that "each one of the matters . . . had been resolved without litigation."

The "major audit violations" law gives the Attorney General discretion to act, stating that he or she "shall determine whether to file an action to compel the agency's compliance."

This annual screening for "major audit violations" -- with a threat of follow-up action by the Attorney General -- is the most robust mechanism California has in place to catch and correct non-compliance with some key redevelopment laws.

However, our office is skeptical that the mechanism works effectively. Our doubt rests primarily with the annual audits, which vary tremendously in quality and thoroughness. We have found repeatedly that Certified Public Accountants failed to document "major audit violations." We describe these concerns later in this report.

Housing Department Audits

A third level of oversight once existed within the Department of Housing and Community Development, which is charged with the preservation and expansion of safe, affordable housing in California. For a time, the department provided regular scrutiny of how redevelopment agencies spent their housing set-aside money.

Between 1998 and 2007, the department funded one full-time position to audit compliance with redevelopment laws. The audit program began as an administrative initiative, not at the direction of the Legislature. For authority to perform the audits, the department relied upon a state law that allows HCD to investigate housing and development in California and examine the records of redevelopment agencies at any time.

The auditors used risk analysis to target their work. They considered, for example, the size of a redevelopment agency's low- and moderate-income housing fund, the level of its planning and administration costs, and any exemptions the agency claimed to avoid paying a full 20 percent of tax revenue into the low- and moderate-income housing fund.

In the course of their work, the auditors suggested many operational changes to redevelopment agency officials. In many cases, the auditors also revisited agencies after several years to check that officials had adopted their reommendations.

The auditors had no explicit authority to enforce recommendations. They could have asked the Attorney General to intervene, but never did. In most cases, redevelopment agencies appeared to heed the HCD auditors.

SB 1689 (Lowenthal, 2008) would have required the HCD auditors to tell the Attorney General about any "major audit violations" they uncovered, so recalcitrant agencies could be taken to court if necessary to win compliance. The Governor vetoed that bill, saying that a historic budget delay forced him to sign only those bills of the highest priority for California – and SB 1689 fell short of that standard.

General Fund money paid for the audit program. HCD officials said budget cuts forced them to end the audits, although the audit division has had the same number of auditors – four – for the past several years.
The redevelopment agency audits resulted in the repayment of millions

of misspent or misallocated dollars to low- and moderate-income housing funds.

The city of Fontana, for example, agreed in 2002 to repay its housing set-aside fund $6.2 million as a result of an HCD audit. (The audit found that the Fontana agency owed at least $67 million to its affordable housing funds; an appellate court in 2007 refused to validate the HCD settlement.) Redevelopment agencies in Burbank, Baldwin Park, Davis, Santa Ana, Santa Clara and Santa Fe Springs repaid a total of $3.6 million to their low- and moderate-income housing funds to make up for either a shortfall of interest or inappropriate expenses discovered by HCD auditors.

The 42 reviews performed by HCD have not been posted on the department's website, although they are public documents. The reviews are less formal financial audits than evaluations of whether redevelopment agencies funded and used their low- and moderate-income housing funds according to law. The audits include discussion of real-life situations and represent the most substantial, detailed guidance available on proper use of low- and moderate-income housing funds.

Our office credits the Department of Housing and Community Development for taking the initiative to audit redevelopment agencies. We relied extensively upon these audits as a guide to the proper uses of affordable housing set-aside money.

Court Action

Occasionally, citizens and housing activists act as "private attorneys general" and sue redevelopment agencies to correct alleged misuse of low- and moderate-income housing funds.

Affordable Housing Advocates, the Public Interest Law Project, the Western Center on Law and Poverty, and other non-profit groups around the state have sued redevelopment agencies. Andrew Rossoff, a lawyer with the non-profit Senior Law Project in Lakeport, for example, helped to sue the Clearlake Redevelopment Agency in 1999 for borrowing and transferring money from the low- and moderate-income housing fund for general redevelopment and city activities. The city agreed to pay back $650,000 to the housing set-aside fund and limit administrative expenditures.

Affordable Housing Advocates in San Diego has sued redevelopment agencies in Brea, Carlsbad, Escondido, Poway, San Marcos, and Solana Beach for various allegations, including failure to set aside the full 20 percent of revenue in a low- and moderate-income housing fund, using the housing set-aside money to improve streets throughout the city and double-counting housing units to satisfy two separate state laws. In a 2003 case particularly relevant to this report, Affordable Housing Advocates sought to curb the Escondido Redevelopment Agency's use of low- and moderate-income housing fund money to pay for city employee salaries and overhead.

Affordable Housing Advocates Director Catherine A. Rodman argued that the court should limit Escondido's planning and administrative expenditures under the state law which describes the Legislature's intent that housing set-aside funds be used "to the maximum extent possible" to create more affordable places to live and that planning and administrative expenses "not be disproportionate" to actual housing costs. The law also requires an agency to "determine" each year that its overhead costs are necessary and directly related to the creation of affordable housing.

The Fourth District Court of Appeal agreed with a lower court and denied Affordable Housing Advocate's request. The Court's common sense rationale effectively renders impossible the judicial enforcement of the statute to the extent that the law requires planning and administration expenditures to be necessary and proportionate. The Court pointed out that a judicial remedy for violation of these statutory requirements is almost never available – even in extreme cases.

In an unpublished portion of its July 2003 opinion, the Court explained:

> *Although a court may order a public body to exercise its discretion in the first instance when it has refused to act at all, the court will not compel the exercise of that discretion in a particular manner or to reach a particular result. When the duty of a public body is broadly defined, the manner in which it carries out that responsibility ordinarily requires the exercise of discretion; under such circumstances, mandate is not available to order that public body to proceed in a particular manner.*
>
> *By way of its express terms, section 33334.3, subdivision (d), is an expression of legislative intent which, by use of such general terms as 'to the extent possible' and 'disproportionate,' plainly leaves implementation entirely in the discretion of individual redevelopment agencies. Given the broad discretion provided by the statute, mandate is simply not available to enforce its terms. (Hogar v. Community Development Commission of the City of Escondido, Fourth District Court of Appeal, Division One, Case No. D039163, p. 16.)*

While these portions of the decision are unpublished, the Court's reasoning follows traditional rules of statutory interpretation and is not controversial.

Thus, the Legislature made clear that it wants redevelopment agencies to spend housing set-aside money primarily to create more affordable housing. But lawmakers did not craft a law specific enough to enable citizens to successfully challenge a redevelopment agency's overhead expenditures. Even if an agency used 80 percent of its housing fund on planning and administration costs unrelated to low- and moderate-income housing, a court would likely decline to interfere with the agency's exercise of its discretion.

Conclusion

Since the suspension of the HCD audits, no state agency has regularly reviewed how redevelopment agencies use their low- and moderate-income housing funds. So while redevelopment agencies submit much information each year about their spending and achievements, no state agency uses the data to investigate or correct apparent problems, except the State Controller's Office, which refers reports of "major audit violations" to the Attorney General.

Some of the "major audit violations" that may be flagged and corrected through the state's system of independent audits do involve the use of the low- and moderate-income housing fund. But no one addresses the broader question of whether a redevelopment agency uses its fund to efficiently maximize production of affordable housing. Thus the Legislature has no assurance that redevelopment agencies are doing so. In fact, at least one of the 12 agencies studied by the Senate Office of Oversight and Outcomes for this report failed completely to use its low- and moderate-income housing fund to create affordable housing in the 13 years examined.

Furthermore, citizens who sue to challenge a redevelopment agency's affordable housing spending may find it nearly impossible to establish a violation. An appellate court found that terms in a key law on planning and administration costs give agencies wide latitude and discretion.

Finding #2: Many redevelopment agencies use their low- and moderate-income housing fund to cover costs in other city departments without tying the expenditures to an affordable housing project.

Background

In 1990, Department of Housing and Community Development officials became concerned that some redevelopment agencies were using their housing set-aside funds to pay general overhead instead of spending the money directly on housing. The department asked the Legislature to define acceptable overhead expenses.

State law now says that redevelopment officials can only use the low- and moderate-income housing fund to cover city or county salaries and services when there are "interagency agreements" in place. The law has an important aim – to prevent cash-strapped cities and counties from using the property tax collected in their low- and moderate-income housing funds to subsidize general government operations.

Yet the affordable housing programs of redevelopment agencies do incur legitimate overhead costs – for office space, heating and cooling, copiers and phones, as well as the time of employees who may spend anywhere from a few to thousands of hours each year working directly on affordable housing programs. The law that requires "interagency agreements" to cover these costs does not define "interagency agreements." It does not even state that such agreements must be in writing.

Our office found that payments from low- and moderate-income housing funds to cover city or county services or labor rarely involve written agreements that describe what is received for the payment or how it relates to affordable housing. Instead, many redevelopment agencies spend money from their housing set-aside funds to cover inter-departmental costs according to a "cost allocation plan." Those plans distribute direct and indirect costs among city agencies. Private consulting firms typically write the plans, which may be used for many years without updating.

Cost-allocation plans may not satisfy the law that dictates the use of low- and moderate-income housing funds. In a couple of their compliance reviews, HCD auditors told redevelopment agency officials to get written contracts in place before they used the housing money to pay for city salaries, office space, rent and other costs.

HCD Auditor Guidance

For example, in a review of the Burbank Redevelopment Agency in August 2002, HCD auditors noted that the agency had spent $1.4 million over three years on overhead costs for planning, building, city clerk, personnel, and other departments. A cost allocation plan dictated the distribution.

HCD auditors told the agency to stop the practice until "specific contractual agreements are executed which demonstrate how various City services are directly linked to specific programs or activities implemented by the Agency to increase, improve, or preserve the community's supply of affordable housing." The auditors also directed Burbank officials to reimburse the low- and moderate-income housing fund $1.4 million to make up for the money "inappropriately" spent on the overhead costs of other city departments.

Similarly, the Santa Ana Redevelopment Agency failed to document its rationale for paying some of the overhead costs of the Housing Authority and Public Works Authority. HCD auditors recommended in December 2002 that the agency stop payments until managers put a contract in place and maintained "measurable records" (such as timecard billing records) to substantiate the costs.

Oversight Office Findings

All but one of the 12 redevelopment agencies scrutinized by the Senate Office of Oversight and Outcomes used its low- and moderate-income housing fund to pay at least some of the salaries and other costs of city or county departments.

Only the Torrance Redevelopment Agency did not pay for other city operations, according to city officials. They said they used the housing set-aside fund strictly to repair houses, subsidize rents, and make home-repair loans to low- and moderate-income residents.

Only in Tulare County and San Leandro did redevelopment agency officials say they billed the low- and moderate-income housing fund for the time of various city and county employees based on time sheets. Officials at the other nine agencies said they used cost-allocation plans, informal estimates, or inter-departmental charges determined in various ways to reimburse the city for costs incurred to carry out affordable housing work:

- In Pismo Beach, the redevelopment agency has no staff of its own.

The city administrative services director said that he estimates each year roughly how much time the community development director is likely to spend on affordable housing issues. His estimate dictates how much the low- and moderate-income housing fund spends to cover some salary and benefits costs. In 2007-08, the payment was $17,162.

- In Kerman, city officials also said they estimated how much time certain employees spent on affordable housing issues. In 2007-08, they used $24,872 of housing set-aside funds to pay for part of the time of seven different employees.

- Redevelopment agency officials in Covina, Culver City, Marina, Monterey Park, and San Bruno said they used cost allocation plans to calculate charges against their low- and moderate-income housing funds for the resources of other city departments.

- In Chino, the housing set-aside fund paid 20 percent of the fee imposed by the city on the redevelopment agency for use of computers, printers, and other electronic equipment. The number of redevelopment agency employees dictates the fee.

- In Hercules, redevelopment officials spent $16,666 each month from the low- and moderate-income housing fund to compensate the general fund for the time of city employees working on affordable housing issues. The city finance director said, via e-mail, "The charge was determined many years back – I do not know the specifics on the formula."

Some of these practices fail to meet the HCD audit recommendation for a specific contractual agreement. In Hercules, for example, it is unlikely that affordable housing work costs the city exactly the same amount each month. It is not clear how the city justifies the shift of money to the general fund.

Many redevelopment agencies do not undertake the substantial administrative burden of maintaining time and resource records by project.

It would be difficult to determine the legitimacy of housing set-aside fund payments intended to cover city or county costs. The law requires the payments to be only for activities *directly* related to affordable housing preservation, construction, and rehabilitation. To show a direct connection, employees would have to document how they spend their time each day and track usage of office space, computers, copiers and other infrastructure by project.

Finding #3: Many redevelopment agency officials do not analyze how much housing set-aside money they spend on overhead versus housing.

Background

Most of the redevelopment agency officials contacted by our office were either unaware of or ignored the statutory duty to make an annual determination that their low- and moderate-income housing fund planning and administration expenditures are necessary for the production, improvement, or preservation of low- and moderate-income housing.

The statute does not specify that the annual determination be a written document. Some agencies told the Senate Office of Oversight and Outcomes that the annual process of writing a budget satisfies the law because it involves public hearings and documentation of past and anticipated costs. But the Certified Public Accountants who audit redevelopment agencies each year are supposed to follow Controller's guidelines that require them to check for written determinations. Further, HCD auditors have previously insisted that agencies should satisfy the law by not only passing a resolution about the necessity of planning and administrative costs, but also by including a written analysis.

HCD Auditor Guidance

Of the 42 redevelopment agencies examined by HCD auditors for their use of low- and moderate-income housing funds between 1998 and 2007, 30 failed to make their determinations in writing.

In pointing out the failure, HCD auditors told redevelopment agencies to make the exercise meaningful by doing more than simply passing a resolution asserting that the costs were necessary. Instead, the auditors advised, agency staff should analyze costs and include documentation of the analysis in their files. Auditors suggested that the agencies first compare what they intend to spend on overhead costs versus actual housing development, then itemize expenditures, link them to specific housing development activities, and describe any other non-housing fund money that could be used to cover planning and administration costs.

Auditors warned that simply making a written determination that planning and overhead costs are necessary is not sufficient.

For example, in a 2001 audit of the Covina Redevelopment Agency, the Department of Housing and Community Development noted that the agency's planning and administration expenses totaled 65 percent of overall expenditures in three fiscal years from 1997 through 2000. HCD auditors wrote, "While the Agency made annual determinations that such expenses were proportionate to actual housing production, improvement and preservation costs, the relative amounts appear to indicate otherwise."

In an August 2002 audit of the Burbank Redevelopment Agency, an HCD auditor noted that during fiscal years 1997-98, 1998-99, and 1999-2000, planning and administrative costs relative to total expenses were 34 percent, 29 percent and 35 percent, respectively. The auditor recommended that the agency repay the low- and moderate-housing fund $1.4 million that was "inappropriately expended" to cover the overhead costs of other city departments during those three years.

HCD auditors followed up in 2006 to see if the Burbank Redevelopment Agency had complied with their recommendations. They found that the Burbank agency had almost halved its payments from the housing set-aside fund to cover other city department costs, from $903,222 in 2002-03 to $502,877 in 2006-07. Burbank had also begun itemizing its affordable housing expenditures. Those changes satisfied the HCD auditors.

In an October 1999 audit of the West Sacramento Redevelopment Agency, the HCD auditors made clear that simply describing as necessary the expenditures from the low- and moderate-income housing fund as part of an annual budget process does not satisfy the law. The HCD auditors responded that the West Sacramento agency "should include, with its annual determination, any written staff reports or other factual or financial analysis that support its assertion that planning and administrative costs were proportional and necessary . . . "

Oversight Office Findings

The requirement to make an annual determination has failed to force redevelopment agencies to ponder and curb how much of their affordable housing money gets spent on overhead. Based on our review, the oversight office concludes that most redevelopment agencies do not know about the law, ignore it, or pass a pro forma resolution.

Only three of the 12 agencies we reviewed made a written determination in 2007-08 about the necessity of planning and administration expenditures from their housing set-aside funds. The Chino Redevelopment Agency executive director signed a letter declaring the expenditures necessary, while the Covina and San Leandro redevelopment agency boards passed resolutions.

The Covina resolution – which satisfied HCD auditors – states that any expenditures from the low- and moderate-income housing fund to pay for employees or contractual services "are directly related to redevelopment activities" and the planning and administration expenses "are necessary for the production, improvement, or preservation of low and moderate income housing." Similarly, the San Leandro resolution states that "it is the intent of the Agency that Low and Moderate Income Housing Fund be used to the maximum extent possible to defray the costs of production, improvement, and preservation of low and moderate income housing." The one-paragraph Chino letter is addressed "To Whom It May Concern" and states simply that "it has been determined" that the planning and administrative expenses were necessary to create affordable housing.

None of the resolutions include a specific inventory of costs or analysis of whether such costs should be paid from housing set-aside funds. But officials in Chino, Covina and San Leandro said that the resolutions are prepared during the annual budget-writing process, when they look at last year's expenditures and anticipate next year's projects.

"Our goal is to keep a cap on administration of roughly 20 percent," said Tom Liao, housing and planning manager for the San Leandro Community Development Department. Other redevelopment agencies examined by the oversight office either did not make such a determination, said they would do so in the future or failed to say whether they did:

- Culver City officials said they do make such a determination, but they did not provide the oversight office with a copy or an explanation.

- A Hercules finance official said that her redevelopment agency's board does not adopt a resolution. "Instead," she wrote in an e-mail to the oversight office, "when the auditors are here they require a report from the affordable housing unit to fulfill the requirement. The report is basically a report that details all of the annual activities."

- Officials in Kerman and Pismo Beach did not respond to repeated questions about whether they make such a determination.

- Officials at the agencies in Marina and San Bruno said they failed to make a determination in 2007-08, but did so as part of their budget-making in 2009-10.

- A finance official in Monterey Park did not answer directly when asked about an annual determination. Instead, she wrote to the oversight office that the final city budget "is the City's official written documentation for our housing fund planning and administration expenditures."

- Torrance officials said they did not need to make such a determination because they use the low- and moderate-income housing fund only for project costs. They said they use non-housing funds to cover administrative costs.

- Tulare County officials said they do not currently make such a determination, but will do so in the future in response to our inquiry.

History of the Law

From the beginning, policymakers realized that the law requiring agencies to make an annual "determination" about their overhead costs might not work so well. Lawmakers added the provision in 1990. It was one of many provisions in a bill that addressed low- and moderate-income housing fund deadlines, contributions, expenses, exemptions, and reporting. The Department of Housing and Community Development sought the bill after five years of monitoring redevelopment agency affordable housing programs.

According to a Senate committee analysis at the time, "The Department believes that the Community Redevelopment Law does not clearly define what are acceptable uses of the 20% set-aside housing funds. Absent clear guidelines, the Department thinks that redevelopment officials could be spending their funds on general overhead costs instead of putting the money directly into housing."

SB 2268 (Bergeson, 1990) tightened the definition of allowable planning and administrative charges against housing set-aside funds. Existing law at the time said only that such costs should be directly related to affordable housing and not disproportionate to actual construction, repair, and preservation costs. The 1990 bill specified that the planning and administration costs could include only salaries, wages, and related costs of the agency's staff; interagency agreements and agreements with contractors; expenses incurred by a nonprofit corporation which are directly attributable to a specific project; and legal architectural and engineering costs and other salaries and costs directly related to the planning and execution of a specific authorized project and incurred by a nonprofit housing sponsor.

The legislation also eventually included a sentence requiring agencies to determine each year that such costs were necessary. Apparently that vague provision – it does not even state that the determination should be written – was as much as redevelopment agencies would tolerate. Archived legislative records on SB 2268 show that the California Redevelopment Association, which lobbies on behalf of agencies, originally opposed this section of the bill. The archived files include a hand-written note from a Joint Legislative Budget Committee staff person to a staff member of the Senate Local Government Committee.

The note states: "I also mentioned the ineffectiveness of the admin. cost limit to Eugene at HCD. He didn't dispute my point, but didn't want to amend because CRA agreed to the language (hardly surprising!)."

The California Redevelopment Association initially opposed the bill because of its restrictions on housing set-aside fund planning and administration costs. The CRA's lobbyist stated in a March 1990 letter that "we fail to appreciate the need for defining eligible expenses for planning staff, legal, accounting and auditing costs and planning and general overhead cost which may be charged to the low- and moderate-income fund."

"We are not aware of any problems in this area and would appreciate knowing the reason for this proposed statutory regulation," wrote CRA lobbyist Kenneth Emanuels. "Is the need simply hypothetical or have there actually been problems? To the extent that such definitions are rigid and unreasonable, we would oppose them."

By the time the bill reached the governor in September 1990, however, the CRA supported the bill and urged him to sign it. Today, the law appears to be regarded as an after-thought in the redevelopment world.

The CRA's affordable housing handbook includes just a paragraph on the issue. The paragraph advises redevelopment agencies to bear in mind that the Legislature wants the housing set-aside funds to be used to the maximum extent possible to defray the costs of producing affordable housing. The handbook states: "An agency must make an annual determination that Housing Fund expenditures for planning and administration are necessary for the production, improvement or preservation of affordable housing." The handbook offers no elaboration or examples.

No Clear Definition of Excessive Overhead Costs

Besides being widely ignored, the law does not explicitly require agencies to document that planning and administration expenditures are in line with spending to create, rehabilitate, or preserve housing. Nor does the law define "disproportionate."

Faced with such ambiguity, HCD auditors sought legal advice. The result was a February 2000 memo that provides a detailed analysis. HCD senior staff counsel Ronald D. Javor wrote the memo to HCD audit division chief Eric Pfost.

Javor concluded that because the Legislature did not impose a numerical limitation on planning and administration costs – such as 10 percent or 25 percent – the HCD auditors could not, either. Javor noted that some redevelopment agency activities, such as home rehabilitation programs, have higher administrative costs than other activities, such as construction of new rental housing developments. And some housing projects may take several years before any funds are spent on construction, during which the administrative costs may be highest.

But, Javor wrote, the Legislature did provide some standards on overhead spending. Costs must be "not disproportionate" to spending on housing production and they must be "directly related" to housing. And those standards give courts, taxpayer advocates, or auditors leverage to challenge redevelopment agency activities. He concluded that "the basic standard is that a public agency must be able to provide reasonable basis for its acts, and it cannot act arbitrarily or capriciously."

Javor told the HCD auditors to ask themselves the following questions when weighing the planning and administration expenditures from a redevelopment agency's housing set-aside fund:

> *(1) Where there are increases or decreases in administrative costs and production costs over a several year period, is there a rationale for the changes? Are increases in administrative costs proportional to increases in production expenses? If not, why not?*
>
> *(2) Did the agency actually 'determine' each year that the costs were 'necessary,' and what information was provided in the determination to support that necessity? Was this done by a legislative resolution with specific findings, information displayed in the annual budget approval documents, or without any explanation at all? The consistency of the annual findings with reality may provide some basis for justifying or questioning the proportionality. Also, an auditor might use the same standards which are used in determining whether business expenses are 'necessary and reasonable' for the purposes of tax returns.*

(3) Are the expenses for administration consistent with long-range plans for these expenditures, as indicated by budgets, bond documents, or other long-term planning documents and projections? If not, why not?

Javor's analysis indicates that each year redevelopment agencies should gather budget documents, connect planning and administration costs to the creation of affordable housing, and compare overhead costs to the amount spent on housing production – all in writing.

But redevelopment agencies would not get HCD's guidance unless they were one of the 42 audited by the department between 1998 and 2007 and auditors questioned their planning and administration costs. Government-sponsored classes conducted each year for hundreds of redevelopment agency employees do not delve into the issue of proper use of the low- and moderate-income housing fund or how to comply with the law, according to the public and private employees who teach those classes.

Given how few redevelopment agencies actually comply with the legal requirement to make an annual determination about planning and administration costs, it's not surprising that even fewer agencies go through the exercise of gathering information to document their determination. And without auditors checking for compliance – as frequently happens, to be described later in this report -- the law largely fails in its intent to force redevelopment agency officials to track and weigh overhead costs.

SPECIAL DISCUSSION: Should Overhead Costs Be Capped?

Some housing activists want the Legislature to adopt a hard-and-fast rule to restrict the use of affordable housing dollars for planning and administration.

Catherine A. Rodman, director and supervising attorney with Affordable Housing Advocates, a non-profit group based in San Diego, has sued redevelopment agencies for alleged abuses of redevelopment law, including improper use of the housing set-aside fund to pay city salaries and benefits.

She noted that federal programs that give municipalities money to develop affordable housing impose caps of 10 percent or 20 percent on administrative expenses. Without a strict limit, Rodman said, too many redevelopment agencies will use the low- and moderate-housing fund to help pay for city expenses unrelated to housing.

Rodman has proposed legislation that would restrict planning and administration expenses to 10 percent of all lawful expenditures from the housing set-aside fund, minus payments for debt service. Her proposal would also include a sanction, so that redevelopment agencies found in violation would have to reimburse the low- and moderate-income housing fund 150 percent of the amount due, plus interest. Rodman's proposal also would require redevelopment agencies to document whether overhead expenditures are disproportionate to the amount of money spent to develop housing and to track the amount of time employees spend on affordable housing issues.

"I cannot see a situation where one-hundred percent of expenditures from the low- and moderate-income housing fund can be planning and administration for one, two, three years in a row," said Rodman.

Agency Officials Say Overhead Costs Naturally Fluctuate

Redevelopment agency officials say a cap on overhead expenditures is unrealistic.

Chris Corbin, housing program manager for the Chino Redevelopment Agency, said there are many legitimate reasons why a redevelopment agency may show high overall planning and administration costs for several years in a row. New agencies, he said, must take time to buy land and plan projects, and almost all costs in an agency's early years will involve planning and administration. Agencies that put a lot of effort into small, labor-intensive rehabilitation projects will also tend to have high overhead costs, said Corbin, because staff must spend a lot of time making arrangements and explaining the process to homeowners.

"Economies of scale on administrative activities are difficult to come by," said Corbin, "as most projects, if not all, are implemented one unit at a time."

Finally, he said, it takes redevelopment agencies years to collect enough money to do big housing projects, and while the money accrues the expenses will be mostly administrative.

"On one point you have to save money to do the big projects," said Corbin, "but on the other point, people look at that and say there's cash sitting around."

Thus planning and administrative costs as a percentage of overall expenses, he said, should be "looked at over a period of time and averaged out."

Other agency officials argue that sometimes a redevelopment agency sinks a great deal of time and effort into arranging a deal with a developer to build houses, only to have the developer abandon the project. An agency is then left with high planning and administration costs and nothing to show for it.

Some redevelopment agency managers told the oversight office that their affordable housing work has been slowed or stalled because they were forced by state lawmakers to make payments to support local school districts. The payments, totaling $2.05 billion over two fiscal years, were part of the state budget passed in February 2009. Redevelopment agencies that take money from their low- and moderate-income housing funds to make the payments must repay their housing funds within five years.

Administrative costs will continue, some redevelopment agency officials said, but loss of the money to the state will delay housing activities that would otherwise offset the administration costs.

Rodman, the housing activist, agreed that a state law that capped planning and administrative expenditures from low- and moderate-income housing funds could hinder some redevelopment agencies that are doing a good job of building new housing. But agencies could stay under a cap by using the other 80 percent of their funds that are not dedicated to affordable housing, she said.

Long-Running Debate

The debate over an appropriate level of housing set-aside money for planning and administration has long troubled the California Redevelopment Association. Most redevelopment agencies belong to the association, which in January 2007 published a report that called for an overhaul of how agencies report their activities to the state. The report mentioned planning and administration costs as a problem.

"Unfortunately, there is no agreement on how to define administrative and planning costs, how these costs are to be measured and how they might be expected to vary for each stage of project development over its lifetime," the report stated. "It appears that administrative and planning costs vary substantially depending on age and size of agency, number and size of projects, mix of affordable with other housing projects, necessity for brownfield cleanup and similar factors."

The CRA argued that redevelopment projects may take three to five years or more. Its own analysis of planning and administration costs shows that few agencies spend 40 percent of their housing set-aside funds on planning and administration for five years or longer. CRA Executive Director John Shirey said that while small redevelopment agencies may need a few years to accumulate money in their low- and moderate-income housing funds, he could not defend agencies that are not spending significantly on affordable housing projects every four to five years.

"We have agencies that are not getting that money out the door in the way they should," he said. "In the meantime, they spend too much on planning and administration."

Still, Shirey said, it is not fair to judge a redevelopment agency based on one year's expenditures.

The Senate Office of Oversight and Outcomes agrees that a hard-and-fast limit on overhead expenditures from low- and moderate-income housing funds would be too rigid. A cap likely would hinder new and small redevelopment agencies or those with ambitious affordable housing plans. Planning and administration expenditures naturally fluctuate in the course of affordable housing construction and renovation, and the state's nearly 400 active redevelopment agencies are extremely diverse in terms of size, projects, revenue, and housing needs.

In our "Recommendations" section of this report, we offer several practical ways to curb disproportionate overhead costs.

Finding #4: Redevelopment agencies frequently submit wrong or incomplete information about their finances and activities to the state Department of Housing and Community Development, which does not verify the information.

HCD Finds Numerous Errors

HCD auditors found many reasons to question the data published in their department's own annual reports. Of the 42 agencies they audited, 13 submitted inaccurate or incomplete information to the state – or submitted nothing at all. Most often, auditors found that information given to the state did not match an agency's financial records.

Some of the misinformation discovered by HCD auditors:

The Lynwood agency failed to report $3 million in bond proceeds, while Baldwin Park overstated its expenditures by $437,567, among other errors. Three years' worth of Foster City's reports, prepared by an outside consultant, were riddled with errors. The San Diego Redevelopment Agency did not itemize specific housing set-aside fund expenditures, while the city of Fresno's redevelopment agency misclassified $667,235 of planning and administrative costs as housing activities. The Richmond and Tiburon redevelopment agencies failed to file reports in certain years reviewed by auditors.

The Fontana Redevelopment Agency failed to tell HCD about 25 homebuyers who got down payment assistance. Fontana officials also transferred $2.3 million from the low- and moderate-income housing fund to the city Housing Authority and reported the transfer as "planning and administration" costs. Yet auditors found that the authority simply held the money.

Oversight Office Findings

The oversight office also found many discrepancies between the information published in HCD reports and that available in city budgets, city housing plans, five-year implementation plans (which describe an agency's affordable housing achievements and goals) and AB 987 postings (which list the city's inventory of affordable housing).

Without checking further, for example, a reader of the HCD annual reports would assume that the San Bruno Redevelopment Agency had built 830 affordable apartments between 2002-03 and 2007-08. But our office found that redevelopment agency officials mistakenly reported construction of the same units of housing two and three years in a row. In fact, 325 affordable units were built.

Another example we uncovered: The summary of housing activity in the HCD report for 2003-04 indicates that the Hercules Redevelopment Agency created 330 units of new affordable housing. In fact, the agency built 132 multi-family affordable units that year and reported the achievement to the HCD twice as fulfillment of two legal requirements. The HCD reporting system double-counted the 132 new units and inflated the number of newly constructed units credited to Hercules that year.

Agencies also often mischaracterize their spending to the HCD. The Chino Redevelopment Agency, for example, overstated its planning and administrative costs in 2007-08 by $718,301, or nearly 50 percent. The agency counted as overhead the costs of its infill housing development program, which gives developers financial incentives and technical help to build new homes that are then sold to people of low or moderate income. In filling out the HCD report, Chino officials heeded a Certified Public Accountant, who advised them that the program costs should be considered administrative because they involved payments to a third party, even if the third party is a developer building affordable housing.

The Senate Office of Oversight and Outcomes also found discrepancies with the Torrance Redevelopment Agency's 2007-08 expenditures and reporting. The agency reported to HCD that 73 percent of its total expenditures of $358,870 in 2007-08 involved planning and administration. Yet agency officials told the oversight office that *all* of the expenditures involved project costs such as labor, supplies, and subsidies. Agency officials said administrative costs were all paid from the Community Development Department budget, not the low- and moderate income housing fund.

Torrance officials also reported not a single affordable housing accomplishment to the HCD between 1995-96 and 2007-08. Readers of the HCD annual reports likely would assume that the agency had done nothing with its low- and moderate-income housing fund. Yet Torrance Redevelopment Agency officials said they use the housing set-aside funds to subsidize rent for senior citizens and loan roughly five low- or moderate-income homeowners money to make basic home repairs each year. Asked for an explanation, city officials told the oversight office that they would reconsider how they report housing activities to the HCD.

Similarly, the HCD reports do not reflect the work of the Kerman Redevelopment Agency to increase affordable housing. The reports do not indicate that the agency used its low- and moderate-income housing fund to help finance an 80-unit apartment complex for low-income senior citizens.

John Shirey, Executive Director of the California Redevelopment Association, attributed many errors to a disconnect within local governments. Often, he said, city finance employees who know little about affordable housing projects fill out the HCD and Controller's annual questionnaires. The finance employees who characterize low- and moderate-income housing fund expenditures often overstate planning and administration, said Shirey.

"Project costs get reported as planning and administration," he said. "That occurs because accounting is done over in a separate department from where people are actually managing the redevelopment."

Major discrepancies also exist in the redevelopment agency data compiled each year by the HCD and the Controller's office. Redevelopment agencies theoretically should be reporting the same financial information to both state agencies for compilation in annual reports. Key figures in the two reports – such as the amount of property tax flowing into low- and moderate-income housing funds – should match.

But big differences have long existed in the Controller's and the HCD reports, undermining trust in the accuracy of the state's reporting system. In 2007-08, for example, the two reports differed by $1.3 billion in their estimation of how much money was sitting idle, not earmarked for future plans, in low- and moderate-income housing funds. Possible causes for these discrepancies were described by the oversight office in a May 2010 report titled "Redevelopment Fund Estimates Create Billion-Dollar Confusion for Policymakers."

What are Planning and Administration Costs?

When a redevelopment agency spends money from its low- and moderate-income housing fund, what counts as "planning and administration"?

Each year, redevelopment agency officials try to figure this out as they report their activities to the State Controller's Office and the Department of Housing and Community Development.

They get these instructions from the State Controller's Office:

Administration Costs: Report salary expenditures for non-technical employees, office rentals, insurance, communication, travel, printing and advertising.

Professional Services: Report expenditures for attorney fees.

Planning, Survey and Design: Report contracts for studies to determine potential rehabilitation projects, financial feasibility studies, land use plans, and coordination of social services provided in the area.

Redevelopment agency officials should lift these same categories and amounts from the Controller's survey and plug them into the HCD questionnaire. The HCD survey adds two more categories: It allows agency officials to report costs incurred by a non-profit corporation which are not directly attributable to a specific project. And it includes a catch-all category called "other," in which officials are supposed to identify and explain other administrative costs.

When HCD officials train redevelopment agency employees on how to fill out the annual reports, they offer these guidelines:

- Charge as "planning and administration" the cost of labor and resources spent on general affordable housing issues. Such work includes answering phone inquiries about programs or looking for apartment buildings in need of renovation.

- Once a specific affordable housing program or project has been approved by the redevelopment agency board, report the cost of labor and other resources directly involved as project costs – not administration or planning. Examples of such work include construction of a 12-unit apartment building or operation of a first-time homebuyer program.

- Redevelopment agencies that use several sources of money besides the housing set-aside fund for affordable housing work should spread administration costs equitably among the sources of funds.

Apparently much confusion exists over the line between planning and administration costs and project costs.

In 2004, at the request of the Senate Committee on Housing and Community Development, the California Redevelopment Association analyzed what appeared to be high planning and administrative costs for seven redevelopment agencies, including Hercules and Monterey Park. After gathering financial information from each of the seven agencies, association officials concluded that most simply mischaracterized their costs.

In a memo to the Senate committee, CRA officials attempted to properly classify the expenditures of the seven agencies.

For example, CRA officials recalculated the Hercules Redevelopment Agency's planning and administration costs as 12 percent of overall housing set-aside fund costs – not 101 percent -- over a five-year period. They shifted certain costs out of the "planning and administration" category, including the purchase of property and contributions to a senior housing project.

Association officials similarly reclassified the Monterey Park Redevelopment Agency's proportion of planning and administration costs over a five-year period from 95 percent to 32 percent. They did so by characterizing the expenditures to operate several housing programs as "program" costs rather than "planning and administration" costs.

CRA officials asked staff at the seven agencies why they reported costs incorrectly. The general answer, according to the CRA memo, was that city financial staff – not redevelopment agency staff -- filled out the HCD report. The financial staff lifted the expenditure information from the independent annual audit that each agency must have performed each year, and those audit reports mingled program and project costs.

Finding #5: Some redevelopment agencies use their housing set-aside funds in questionable ways.

State law limits planning and administration expenditures from low- and moderate-income housing funds to salaries or services directly related to affordable housing projects. A couple of the 12 redevelopment agencies we examined spent money in 2007-08 in ways that appear to fall outside the law.

The Culver City Redevelopment Agency used $26,203 of its housing set-aside funds to hire a local public relations firm to design brochures aimed at building support for affordable housing. The city sent the materials to property owners, developers, housing advocates, citizens, non-profit organizations, and community groups. They included a one-page fact sheet summarizing the Culver City Housing Authority's programs and projects. The purpose of the ad campaign, according to city documents, was to "'put a new face' on affordable housing and 'tell our story' in terms of our efforts to address the affordable housing needs of our residents."

Culver City housing officials said the expenditure was an eligible use of the low- and moderate-income housing fund because the outreach materials support the city's long-term strategy to increase the supply of affordable housing.

The Culver City agency also spent $19,557 in 2007-08 paying the non-profit Housing Rights Center in Los Angeles to handle calls from Culver City residents on housing discrimination and landlord/tenant issues. Agency officials said the payment is an eligible administrative expense similar to payments for legal advice.

The Hercules Redevelopment Agency spent $9,600 in 2007-08 paying for a Sacramento lobbyist who worked on various issues, including helping the agency win a $720,000 grant from HCD to assist first-time, low-income home buyers.

Glen Campora, the HCD Assistant Deputy Director for Housing Policy Development, said in general the expenditures to hire private or non-profit entities for public relations, housing legal advice, and lobbying do not appear to satisfy the statute as permissible uses of the low- and moderate-income housing fund. Those expenditures do not seem to be directly related to creation, preservation, or rehabilitation of affordable housing, he said. Campora added that his department does not typically give legal advice to redevelopment agencies. On these issues, he said, the department would advise redevelopment agency officials to consult their own attorneys about whether the uses were permissible.

Finding #6: The state requires each redevelopment agency to get an annual independent financial audit each year, yet these audits are of inconsistent quality.

Annual audits performed by a Certified Public Accountant offer little assurance that redevelopment agencies are putting low- and moderate-income housing funds to proper, efficient use. The quality and thoroughness of the independent audits vary widely. Local Certified Public Accountants do not notice or document all "major audit violations."

For example, 391 redevelopment agencies submitted independent financial audits and compliance reviews to the Controller's office in 2007-08. In only 11 of those audits did an auditor flag as a "major violation" an agency's failure to make a written determination that planning and administration expenditures from the low- and moderate-income housing fund were necessary.

Yet our office, reviewing the activities of only a dozen redevelopment agencies that same fiscal year, found that nine of them had failed to make a written determination. None of the nine agencies we identified were among the 11 noted by independent auditors.

The hit-or-miss nature of the independent annual audits becomes even clearer when compared against the work of Department of Housing and Community Development auditors. HCD auditors used the Guidelines for Compliance Audits of California Redevelopment Agencies issued by the State Controller's Office when scrutinizing redevelopment agencies between 1998 and 2007. The HCD auditors flagged many problems missed or not documented by independent accountants.

For example, failure to make a determination about planning and administration costs was the most common problem cited by HCD auditors – 30 of the 42 redevelopment agencies they examined failed to do so. Yet in only two of the 30 cases – Richmond and Signal Hill – did Certified Public Accountants hired by redevelopment agencies note the same failures in the same years.

Independent auditors failed to find these problems even though state law requires them to follow the Controller's guidelines:

> *Determine whether planning and administrative expenditures were made from the Housing Fund. If these expenditures were made, verify that the agency has prepared a written determination showing that planning and administrative expenditures were necessary for*

the production, improvement, or preservation of low- and moderate-income housing. Test for the expenditures, as necessary, to verify their eligibility. Health and Safety Code §33334.3(d).

The Controller published these guidelines in 1998, before the Legislature singled out nine "major audit violations" for special emphasis. Nonetheless, they direct Certified Public Accountants to check compliance with each of the laws underlying the "major audit violations."

Not all of the independent audits lacked rigor. Some described problems not caught by the HCD auditors. For example, the independent auditor who reviewed the low- and moderate-income housing fund of the Hawaiian Gardens Redevelopment Agency in 1997-98 noted that the agency failed to adopt a budget and failed to begin developing nine properties purchased with housing set-aside funds. HCD auditors who reviewed the agency in the same fiscal year noted different problems, such as poor record-keeping and the failure to document certain housing set-aside fund expenditures.

More proof that accountants are not checking for or not documenting major audit violations: According to Controller's office statistics, about 25 percent of redevelopment agencies fail to file their annual report and audit to the Controller on time – a major violation. Thus, roughly 100 independent audits submitted the following year should show a major violation for the previous fiscal year. But typically, according to the annual redevelopment report published by the State Controller's Office, only 15 to 20 show the late filing as a major violation.

Certified Public Accountants do not get any specific training on auditing redevelopment agencies. They are welcome to attend the annual training sessions on redevelopment agency reporting sponsored by the California Redevelopment Association, State Controller's Office, and Department of Housing and Community Development.

The State Controller's Office has the authority to refer accounting firms to the state Board of Accountancy for substandard work, but it has not done so in recent memory. The office also has legal authority to audit individual redevelopment agencies itself, but employees say this has not happened because of a lack of resources and other priorities.

In 2008, the Governor vetoed SB 1689 (Lowenthal, 2008) that would have directed the Controller's office to check the quality of redevelopment agency audits "to the extent it is feasible to do so within existing budgetary resources." The legislation would have banned an auditor from conducting redevelopment agency audits for three years if the Board of Accountancy agreed that the auditor's work was unprofessional.

FINDING #7: Some redevelopment agencies use their housing set-aside funds to pay the salaries of code enforcement officers, which generally is not allowed, according to state housing officials.

HCD Audit Guidance

Redevelopment agencies occasionally use their affordable housing funds to pay for code enforcement officers. But according to the HCD audits, that arrangement is not normally permitted.

For example, in a March 2001 review of the Covina Redevelopment Agency, HCD auditors recommended that the agency stop using its low- and moderate-income housing fund to pay for code enforcement activities "unless the subject units are directly linked to specific programs or activities implemented by the Agency to improve or preserve these housing units." Covina had been using the fund to pay 75 percent to 100 percent of the salaries and benefits of three code enforcement officers.

In a written response to the audit, Covina officials argued that in Southern California communities with an aging housing stock, particularly multi-family housing built in the 1950s and 1960s, "aggressive code enforcement is responsible for the repair of such housing to decent, safe and sanitary standards." Nonetheless, Covina officials promised to come up with a plan to better link the code enforcement to affordable housing.

In a November 2006 follow-up to the 2001 audit, Covina officials described that plan. First, they used census data to determine the income of people residing in each census block. Then they created a color-coded map to help code enforcement and building department staff track how much time they spent working on the housing of low- and moderate-income residents. Covina's response satisfied the HCD auditors. The redevelopment agency still pays for code enforcement under this arrangement.

Several redevelopment agencies, including Concord, also argued strenuously to HCD's auditors that code enforcement helps to preserve affordable housing. But the state auditors refused to relent, insisting that agencies target any set-aside money spent on code enforcement to specific agency programs that develop, improve, or preserve affordable housing.

For example, the Grand Terrace Redevelopment Agency had spent $217,534 of housing set-aside money over three years to cover all of the salary, benefit and equipment costs of the city's code enforcement officer. Chastised by HCD auditors, Grand Terrace officials offered to reduce to 60 percent the housing fund portion of the costs and to document how the officer's work is related to affordable housing. The auditors rejected that proposal, saying it sidestepped the law.

"Since very few affordable housing projects in Grand Terrace have been developed, improved, or preserved from conversion to non-affordable status by the Agency," the auditor replied, "few housing units are directly linked to the Agency's affordable housing program."

Oversight Office Findings

Three of the redevelopment agencies scrutinized by the oversight office invested housing set-aside money in code enforcement, two of them in ways that probably would not pass muster with HCD auditors.

The Covina Redevelopment Agency used its low- and moderate-income housing fund in 2007-08 to pay part of the salaries of three building officials and a code enforcement officer in the Neighborhood Preservation Program. The employees use monthly activity reports to track where and how they spend their time. The housing set-aside fund is not billed based on those reports, but city officials said the documentation reinforces their assertion that much code enforcement activity involves low- and moderate-income households.

The San Bruno and Tulare County redevelopment agencies also used housing set-aside funds to pay for code enforcement activities in 2007-08, without as much documentation as Covina.

According to former San Bruno administrative services director Jim O'Leary, the housing set-aside fund pays 50 percent of the salary of a code enforcement officer. He said the officer does not verify the income of households to document that at least half of his or her time is spent on low- or moderate-income housing. But below-median income households dominate the residential areas of the redevelopment project where the officer works, said O'Leary.

Tulare County paid roughly $47,600 from the low- and moderate-income housing fund for code enforcement in 2007-08. According to redevelopment agency manager Laurie Mercer, the expenditure covers just that time code enforcement officers spent talking to homeowners in the redevelopment agency's project areas. Employees charged time spent dealing with business owners to a different fund, said Mercer. She added that nearly all of the people who live in the agency's project areas qualify as low- or moderate-income.

No widespread, explicit guidance from HCD exists to curb the practice of using housing set-aside funds to pay for code enforcement officers.

Recommendations

While redevelopment is a local activity, overseen by local officials, the state has a keen interest in making sure that redevelopment agencies use property tax according to the Legislature's priorities – including the creation of affordable housing.

The Senate Office of Oversight and Outcomes concludes that a few adjustments to the state's existing data collection and auditing systems could lead to greater public assurance that housing set-aside funds are spent properly.

Recommendation #1: Revive or create a state auditing program.

At its peak, the HCD audit program funded one full-time position at a cost of less than $200,000 to the state general fund. The program succeeded in redirecting several million dollars to low- and moderate-income housing funds. The audits also gave redevelopment agencies clear-cut rules for spending housing set-aside dollars.

A revived audit program, even with a small staff, would be a check against misuse of low- and moderate-income housing funds. Such a program does not have to be based at HCD, which may no longer have the necessary expert staff. The Legislature could give the State Controller's Office, the Department of Finance, or the Bureau of State Audits the duty and resources to each year audit at least a few redevelopment agencies.

Not only would redevelopment agency officials know they stand a chance of being audited, the audit findings would clarify and reinforce the proper uses of the funds. If past experience holds, the auditing program also would recoup misspent dollars for affordable housing.

California Redevelopment Association Executive Director John Shirey said his organization endorses the revival of an audit program.

To avoid tapping the state's diminished general fund, an audit program with 2.5 full-time positions could be funded by collecting a small percentage of the property tax revenue that is allocated each year to low- and moderate-income housing funds. For example, to collect $500,000 – more than sufficient to fund a couple of auditors and part-time clerical help – the Legislature could require redevelopment agencies to forward .0005 percent of the annual tax increment that flows to their housing set-aside funds. That property tax increment totaled nearly $1 billion in 2007-08, according to the State Controller's Office.

State-Run Audits?

Another possibility that the Legislature should consider is to eliminate the requirement that a redevelopment agency hire a Certified Public Accountant to do an annual financial and compliance audit. Instead, the job of auditing each agency could be given to the HCD or State Controller's Office. The state could pay for additional auditors by collecting a small percentage of redevelopment agency revenue. Such an approach could be cost-neutral to redevelopment agencies, as they would avoid paying several thousand dollars a year to hire a private accounting firm.

State-run audits promise more consistency and independence than the current system, which relies on local accountants paid by the same city or county whose operations they critique. But it would also involve the creation of an auditing bureaucracy within the housing department or State Controller's Office.

Alternative Approach

Alternatively, the Legislature could authorize the HCD (and also perhaps to the State Controller's Office and the Department of Finance) to arrange, when necessary, independent, special audits of redevelopment agencies – and bill the cost of the investigations to the targeted redevelopment agencies.

This authority would help HCD workers gather facts and get an independent evaluation. For example, when HCD employees found a perplexing or troubling pattern in the data submitted by a redevelopment agency, they could ask the agency officials for more information. If the information was not made available in a reasonable time – say 60 days – the HCD could hire a Certified Public Accountant, attorney, or other redevelopment expert to investigate and offer an opinion – and charge the cost to the redevelopment agency. If the investigator uncovered wrongdoing, the Attorney General could get involved.

Such a model already exists in the California Community College system. When complaints of malfeasance or other problems reach the Chancellor's office, officials may ask the community college district to hire an auditor. The Chancellor's office dictates the scope of the audit in order to validate or invalidate the allegations.

Recommendation #2: Release the findings of the revived HCD audit program to all redevelopment agencies and the public.

The HCD should post on its website all future audits of affordable housing programs, as well as the 42 audits completed between 1998 and 2007. To disseminate the guidance offered by these reviews, HCD officials should e-mail future audit reports to housing officials within each redevelopment agency. Agency responses and any follow-up reviews should also be distributed.

Recommendation #3: The HCD should identify those agencies that have reported no new construction, substantial rehabilitation, or acquisition of covenants for the previous five years.

In its annual roundup report of redevelopment activities, the Department of Housing and Community Development should publish a list of those agencies that have not reported the construction or major renovation of any homes or the purchase of deed restrictions that limit a home or apartment to people of moderate or low income. Our office suggests focusing on these three categories of housing activities because they permanently increase a community's inventory of affordable housing, more so than other housing activities such as subsidizing rent or making minor home repairs.

The HCD should also publish a list of agencies – perhaps the top 10 or 20 – that have reported the greatest amount of such activity in the previous year. Such lists would give readers a quick sense of which agencies have been the most and least active in key categories of housing production.

We understand that HCD data are prone to error and that there may be legitimate reasons why an agency may not report certain kinds of housing activities for a number of years in a row. HCD should give highlighted agencies an opportunity to explain themselves in the annual report published the following fiscal year.

Recommendation #4: The HCD should resume publishing a list of those agencies with consistently high planning and administrative costs.

After 2005-06, the HCD stopped publishing an annual list of the redevelopment agencies that characterized 50 percent or more of their low- and moderate-income housing fund expenditures as planning and administration for at least four years in a row. Future annual reports should include charts showing those agencies that exceed this threshold for five years in a row. Such lists would help local citizens and housing activists watchdog local redevelopment agency spending.

Recommendation #5: Audit some or all of the agencies that appear on both HCD lists.

With either its own or an independent auditor, the HCD, State Controller's Office, or Department of Finance should target financial and performance reviews on those agencies that have both (1) failed to report any new construction, substantial rehabilitation or acquisition of covenants in the previous five years, and (2) spent more than 50 percent of their low- and moderate-income housing funds on planning and administration for five consecutive years.

These agencies, by definition, appear to be violating the state law that requires planning and administration costs to be proportional to expenditures for the construction, preservation, or rehabilitation of affordable housing.

Recommendation #6: State and local housing officials should agree, where possible, on permissible uses of the low- and moderate-income housing fund.

A committee of HCD employees, housing activists, and redevelopment agency housing managers should develop a list of housing set-aside fund uses that all agree are statutorily permissible. Of course this list could not foresee every possible use of the housing funds, but it would spare agency managers from guessing about the appropriateness of many expenditures.

Recommendation #7: A work group should study and adjust the HCD data collection system to get more accurate and useful information.

HCD last updated the questionnaire it uses to collect information from redevelopment agencies in 1998, when the department launched an online reporting system. Given the number of discrepancies and errors our office found in the data collected by HCD, it is time to reconsider how redevelopment agencies report their finances and housing activities to the state. A team of people who enter and use the HCD data could suggest ways to make the system easier to use, less prone to error, and more pertinent to the public and policymakers.

For example, this work group should consider the California Redevelopment Association suggestion that the HCD publish additional information about low- and moderate-income housing fund expenditures. The association argues that HCD should report, as a percentage, how much each redevelopment agency spent in a year from its low- and moderate-income housing fund compared to the total amount of money in the fund. For example, if an agency with a fund holding $1 million spent a total of $100,000, then its expenditures would be reported as 10 percent. CRA Executive Director John Shirey argues that such reporting would allow the public to see which agencies are slow to spend their housing set-aside funds.

Recommendation #8: Annual training sessions held for redevelopment agency employees should include guidance on the legal and improper uses of low- and moderate-income housing funds.

Each year the HCD, State Controller's Office, and California Redevelopment Association sponsor several seminars around the state to teach redevelopment agency employees how to fill out the annual questionnaires for the Controller's and HCD redevelopment reports. These sessions should include instruction on the proper (and improper) uses of low- and moderate-income housing funds. Training materials should include a list of acceptable expenditures as well as guidance on how to identify planning, administration, and project costs.

Recommendation #9: The State Controller's office, with assistance from HCD, should update the 12-year-old guidelines that Certified Public Accountants must follow when auditing redevelopment agencies.

The revised guidelines should explicitly require auditors to check for all nine "major audit violations." The guidelines should also require auditors to describe any areas of non-compliance found and a description of how they tested compliance. Auditors should include in their audit, for example, a copy of the agency's analysis of planning and administration costs.

Shirey, head of the California Redevelopment Association, said his organization strongly endorses this recommendation. He expressed frustration at the inconsistent quality of audits conducted by Certified Public Accountants.

Recommendation #10: The Controller's office should require redevelopment agency auditors to attend training sessions on permissible uses of low- and moderate-income housing funds.

As they scrutinize individual redevelopment agencies each year, Certified Public Accountants are in the best position to inform redevelopment agency officials of legal requirements and suggest better management practices.

Yet many Certified Public Accountants fail to test redevelopment agency compliance with the laws governing use of low- and moderate-income housing funds. The State Controller's Office maintains a list of those accountants and accounting firms that audit redevelopment agencies. Those professionals should be invited or required to attend one of the training sessions sponsored by the California Redevelopment Association, State Controller's Office and HCD.

Recommendation #11: Controller's employees should refer to the California Board of Accountancy those CPAs who repeatedly submit substandard audits of redevelopment agencies.

Employees at the State Controller's Office review the independent financial audits submitted by hundreds of redevelopment agencies. When they see repeated instances of shoddy work, they should make a complaint of incompetence or negligence to the Board of Accountancy.

Otherwise sub-par work will continue to compromise the audits that are California's main method of redevelopment agency oversight.

Recommendation #12: Tighten the law to narrow the circumstances under which affordable housing funds may pay for planning and administration.

Current law provides that housing set-aside money can pay for agency costs if the expenditure is directly related to affordable housing production and the services are "provided through interagency agreements."

The law does not make clear what an "interagency agreement" entails or even if it must be in writing. The Legislature should tighten this language. Lawmakers could, for example, insist that the low- and moderate-income housing fund cannot be used to pay the salary of any employee who works less than 75 percent of his or her time on affordable housing production. Lawmakers should weigh whether they want *any* low- and moderate-income housing funds to be used to help pay for utilities, office rent, telephone charges, insurance, information technology, and other overhead costs. If not, they should amend the law to say so.

In the absence of such direction, our office suggests that the Legislature at least require agencies to publicly itemize these costs, as described below.

Recommendation #13: Amend the law to require redevelopment agencies to itemize, analyze and publicize housing fund costs.

Redevelopment agencies must annually determine whether spending from the low- and moderate-income housing fund for planning or administration is necessary to produce, improve, and preserve affordable housing.

A redevelopment agency board can satisfy that law simply by passing a resolution which asserts that its planning and administration spending was necessary. An agency's resolution may be shallow or unsupported by fact, yet still pass muster with a court. As noted earlier, this statute gives redevelopment agencies great discretion in determining which costs are necessary for the production of affordable housing.

Limit Expenditures?

Legislators could fix this problem by imposing an across-the-board limit on planning and administration costs compared to overall expenditures. Such a proportional cap would put any agency that exceeded the threshold at risk of whatever corrective action lawmakers agreed to impose, such as repayment of the low- and moderate-income housing fund with penalties. It would also strengthen the hand of private citizens who sue redevelopment agencies for misusing housing funds.

However, our office concludes that a statutory cap would be impractical and inappropriate, especially for some new and active redevelopment agencies. The cyclical nature of housing construction occasionally requires intensive planning. Furthermore, our office fears that a cap would invite a kind of shell game, in which redevelopment agencies change how they characterize planning and administration costs in order to stay under a threshold. Finally, a cap on planning and administration expenditures would mean little unless the Legislature also charged a state agency with the task of enforcing it and gave that agency the money to do the job.

On the assumption that local citizens and housing activists will remain the key overseers of redevelopment agency operations, our office suggests that the Legislature force redevelopment agencies to make expenditures public, as described below.

Suggested Amendments

Legislation alone will not make redevelopment agencies frugal stewards of their low- and moderate-income housing funds. But the law should force redevelopment agencies to publicly analyze how they spend the money dedicated to affordable housing. The law should also be clear enough to be enforceable in court.

Our office suggests that the Legislature require each redevelopment agency to pass a resolution at the end of each fiscal year. The resolution should list *all* housing set-aside fund expenditures for the previous year – not just those characterized as planning and administration. This list should include the titles of all employees whose salaries are partially or fully paid with the low- and moderate-income housing fund and the names of all companies, individuals or non-profit groups paid with the fund. For payments to other city or county departments, the resolution should describe what services were received and the basis for the payment.

The resolution should also identify which affordable housing programs or projects triggered these payments. It should compare the planning and administration costs to affordable housing project costs over each of the previous five fiscal years. In this resolution, agency officials should include a finding that planning and administrative expenditures in the previous fiscal year were necessary to increase affordable housing in the community, with a factual basis for the resolution. The amended law should specify that a redevelopment agency must reimburse the low- and moderate-income housing fund for any money spent unnecessarily on planning and administration or without a direct connection to affordable housing production.

Finally, the Legislature should amend the law to include language giving courts the authority to determine whether the agencies complied with these additional requirements.

Such a law will force agency officials to make spending public. The oversight office found that such information is currently difficult to obtain and decipher. Public disclosure will also check the tendency of some redevelopment agencies to use the low- and moderate-income fund to pay for city operations with tenuous connections to affordable housing. Additionally, such a law will force agency officials to weigh planning and administrative expenditures against bricks-and-mortar spending that creates affordable housing. The five-year comparison should become relatively easy after an agency has itemized costs for several years in a row. An amended law that requires written findings and analysis – rather than a ministerial determination – will empower citizens who challenge redevelopment agencies for allegedly misusing housing set-aside funds.

An Alternative Approach

The oversight office recognizes that the burden of itemizing, weighing, and making public affordable housing expenditures would in itself drive up administrative costs. Redevelopment agency staff must devote more time to tracking costs and connecting them to affordable housing projects.

The Legislature may wish to consider an alternative approach whereby only those redevelopment agencies that exceed a certain threshold must do the extensive public documentation and analysis. For example, the requirements could apply only to those agencies that report planning and administrative expenses above 20 percent of overall spending for more than five years in a row. This trigger would encourage redevelopment agencies to curb overhead spending to avoid the additional work of itemizing and analyzing expenditures.

Enforcement

If the Legislature requires more analysis, it should also require Certified Public Accountants to check for compliance when they audit redevelopment agencies. The State Controller's Office should revise its guidelines for redevelopment agency auditors accordingly. Failure to follow the amended law should be declared a "major audit violation" to be noted in the Controller's annual redevelopment report. The State Controller's Office would refer to the Attorney General those agencies that fail to comply within a reasonable time span.

This annual screening process should encourage compliance with a new, more demanding law. But it is naïve to assume that all agencies will immediately comply, given the uneven quality of annual audits described earlier in this report – and given how few redevelopment agencies now follow the law that requires a determination of necessity. Still, the oversight office concludes that the other recommendations in this report, if adopted, would encourage compliance with a new law.

The revival of a state-level audit program would increase awareness of the new law, as would better training of CPAs and redevelopment agency employees. The HCD would also draw public attention to the issue by flagging each year those agencies that spend heavily on planning and administration with little affordable housing to show. A revised law would also make it easier for housing activists and citizens to challenge agency spending in court. In all, the measures would heighten awareness among redevelopment agency officials and the public and strengthen the scrutiny of independent auditors and state agencies.

Our office hopes that such steps, if taken together, would realize the Legislature's vision of 1976: Hundreds of separate redevelopment agencies efficiently using a dedicated stream of property tax money to build and repair homes for poor and middle-class Californians.

Sources of Information

The following documents and individuals provided information for this report:

- California Affordable Housing Handbook, California Redevelopment Association, 2006

- California Department of Housing and Community Development Redevelopment Housing Activities Annual Reports for Fiscal Years 1995-96 through 2007-08

- Department of Housing and Community Development Audit Division reports on 42 separate redevelopment agencies' compliance with statutory housing and housing fund requirements from 1998 through 2007, including follow-up correspondence from auditors

- "End or Means? Redevelopment Agencies' Housing Programs," The Summary Report from the Interim Hearing of the Senate Committee on Housing and Land Use, November 13, 1996

- Governor's Chaptered Bill File, SB 2268, 1990

- Guidelines for Compliance Audits of California Redevelopment Agencies, California State Controller Kathleen Connell, November 1998

- *Hogar Dulce Hogar v. Community Development Commission of the City of Escondido*, Court of Appeal, Fourth Appellate District opinion, July 29, 2003

- Memo to Eric Pfost, Audits Division, from Ronald S. Javor, Senior Staff Counsel, Department of Housing and Community Development Legal Affairs Division regarding Redevelopment Agency Administrative Cost Restrictions, February 25, 2000

- Memo to Mark Stivers, Consultant, Senate Committee on Housing and Community Development, from John F. Shirey, Executive Director, California Redevelopment Association, regarding Review of Excessive Low- and Moderate-Income Housing Funds Planning and Administrative Costs, January 22, 2004 and February 3, 2004

- "Office of the State Controller & Housing and Community Development Department Redevelopment Data Collection and

Analysis: Time for a Tune-Up," California Redevelopment Association, January 5, 2007

- Population Estimates for Cities, Counties and State, 2001-2010, California Department of Finance

- "Redevelopment Agencies and the Requirements for Low and Moderate Income Housing," Ventura County Grand Jury, 2002-03

- Senate Local Government Committee Bill File, SB 2268, 1990

- State Controller's Office Community Redevelopment Agencies Annual Reports for Fiscal Years 1997-98 through 2007-08

- "State Oversight of Redevelopment," Legislative Analyst's Office, November 17, 2005

- "The Impact of Redevelopment on the Low-Income People," by Dr. Adrian R. Fleissig, Department of Economics, Institute of Environmental and Economic Studies, California State University, Fullerton, October 2002

- "The Low-Mod Fund: RDAs Spending 100% of Total Expenditures on Planning and Administration," Masters Thesis by Mao Yang, B.A., California State University, Sacramento, Spring 2007

- "Timely, Accurate, and Reliable: The Report of the Task Force on Redevelopment Agencies' Affordable Housing Reports," California State Legislature, July 7, 1997

- Various documents from the Chino, Covina, Culver City, Hercules, Kerman, Marina, Monterey Park, Pismo Beach, San Bruno, San Leandro, Torrance and Tulare County redevelopment agencies including agency board minutes and resolutions, budgets, Housing Elements, Five-Year Implementation Plans, housing program brochures, AB 987 spreadsheets and independent financial audits

- "Winding Down: Preparing for the End of Older Redevelopment Projects," A Briefing Paper for the Informational Hearing, Senate Local Government Committee, February 20, 2008

- Tevis Barnes, Housing Administrator, Culver City Redevelopment Agency
- Wayne Beck, Local Government Reporting Section, State Controller's Office
- Greg Brummels, Audit Manager, State Controller's Office
- Glen Campora, Assistant Deputy Director, Housing Policy Development, Department of Housing and Community Development
- Chris Corbin, Housing Manager, Chino Redevelopment Agency
- Jeff Crechriou, Management Analyst, Development Services Department, City of Marina
- Cathy Creswell, Deputy Director, Housing Policy Development, Department of Housing and Community Development
- Peter M. Detwiler, Staff Director, Senate Local Government Committee
- George Edes, Administrative Services Director, City of Pismo Beach
- Jeffrey Gibson, Deputy Executive Director, Torrance Redevelopment Agency
- Jason A. Gonsalves, Legislative Advocate, Joe A. Gonsalves & Son
- Tom Johnson, Housing Director, City of Monterey Park
- Gus Koehler, Chief Executive Officer, Time Structures, Inc., researcher for the California Redevelopment Association
- Peter Krause, Deputy Attorney General, Office of the Attorney General, Civil Division, Government Law Section
- Gloria Leon, Finance Director, City of Hercules
- Ron Manfredi, City Manager and Redevelopment Agency Executive Director, City of Kerman
- Marina Martos, Planning Assistant, Torrance Redevelopment Agency

- Walter McKinney, Affordable Housing Representative, Hercules Redevelopment Agency
- Laurie Mercer, Tulare County Redevelopment Agency Manager
- Betty Moya, State Controller's Office, Division of Accounting and Reporting, Local Government Reporting Section
- Robert Neiuber, Executive Director, Covina Redevelopment Agency
- Jeff Newbury, Housing Policy Analyst, Department of Housing and Community Development
- Jim O'Leary, former Finance Director, City of San Bruno
- Tom Liao, Housing Manager, City of San Leandro
- Donald L. Parker, Certified Public Accountant, Partner, Lance, Soll & Lunghard, LLP Certified Public Accountants
- Michael Rawson, Director, California Affordable Housing Law Project
- Catherine A. Rodman, Director and Supervising Attorney, Affordable Housing Advocates
- Andrew M. Rossoff, Attorney, Senior Law Project
- Sandra Sabin, Community Development Specialist, Tulare County Redevelopment Agency
- Ted Semaan, Division Manager, Redevelopment and General Plan Division, City of Torrance
- John Shirey, Executive Director, California Redevelopment Association
- Mark Stivers, Consultant, Senate Transportation and Housing Committee
- Lee Squire, Financial Services Manager, Brea Redevelopment Agency
- Mark Sullivan, Housing and Redevelopment Manager, City of San Bruno
- Annie Yaung, Financial Services Manager, City of Monterey Park

Relevant California Health and Safety Code Statutes

§33071 – Fundamental purpose of redevelopment.

§33334.2 – At least 20 percent of redevelopment agency tax revenue must be used to produce affordable housing.

§33334.2 (e) (1-11) – Permissible uses of the low- and moderate-income housing fund.

§33334.3 – Segregate tax revenue into a low- and moderate-income housing fund.

§33334.3 (d) – Determine necessity of housing set-aside fund planning and administrative costs.

§33334.3 (e) – Permissible uses of low- and moderate-income housing fund for planning and administration.

§33080.6 – The Department of Housing and Community Development shall publish an annual redevelopment activities report.

§33080.8 (j) – List of redevelopment agency "major audit violations."

§33080.1 – Requirement for annual independent audit of redevelopment agency.

§33334.12 (g) (1) – Definition of "excess surplus" in housing set-aside fund.

§33080.8 – The Controller tallies "major audit violations" and refers violators to Attorney General.

§50464 (e) – Department of Housing and Community Development may inspect redevelopment agency records.

§33141 – Necessary conditions to de-activate a redevelopment agency.

APPENDIX A

Analysis of 2007-08 Housing Set-Aside Fund Expenditures

Chino Redevelopment Agency
Estimated City Population: 84,742

The 38-year-old Chino Redevelopment Agency uses its low- and moderate-income housing fund primarily for home improvement loans, construction of affordable homes downtown and first-time homebuyer assistance. The agency also operates a small program called Safe Homes for Seniors that gives grants of up to $1,500 for minor safety-related home repairs. And agency officials have committed $10 million through a development agreement to help offset the cost of creating 330 affordable units in a planned subdivision.

According to the Department of Housing and Community Development, the Chino Redevelopment Agency's low- and moderate-income housing fund received a total of $4.3 million in 2007-08. Expenses totaled $2.89 million. Roughly half, or $1.4 million, was characterized as planning and administration.

But those planning and overhead costs are overstated by at least $718,301. That's because Chino finance officials, on the advice of Certified Public Accountants hired by the city, included the entire $738,569 cost of the redevelopment agency's infill housing development program in "planning and administration" costs, said Chino housing manager Chris Corbin. In fact, only a $20,268 fee paid to a developer to build houses might be considered a planning and administration expense, he said. The rest of the money involves actual project costs such as purchase of property, construction, and legal services.

The infill program provides financial incentives and technical assistance to developers and property owners to build new homes that are sold at prices affordable to people of moderate-, low- and very-low income.

Since 2001, the agency has built or rehabilitated 21 affordable, single-family homes in the downtown area through its infill program. Work has ranged from renovation of boarded-up, century-old homes to construction on vacant lots, with three homes completed in 2007-08. The work involves development agreements with either property owners or non-profit builders such as Habitat for Humanity.

In 2002-03, the agency worked with the new owner of a rundown apartment complex to buy covenants that keep 10 units at a rent affordable to very-low income residents. In 2006-07, the agency worked with the developer of 388 new homes to make 37 of the homes affordable for at least 45 years by loaning homeowners money at no interest to help make the down payment. The agency shares equity in the homes and will be paid back upon the sale of the homes.

In fiscal year 2007-08, the Chino Redevelopment Agency also spent $837,832 from its low- and moderate-income housing program on a home improvement program, which offers a variety of grants and low-interest loans to homeowners to make necessary home repairs. The funds are available to households at or below 50 percent, 80 percent, 100 percent or 120 percent of the San Bernardino County median income, adjusted for family size.

Of the $837,832 spent on the home improvement program, $68,573 involved administrative costs such as appraisals and payments to a consultant to operate the program, said Corbin. The rest of the money – $769,259 – was used for homeowner loans and grants.

City budget documents show actual expenditures from the low- and moderate-income housing fund in 2007-08 as $2.64 million. Besides the $1.58 million spent on the home improvement and infill programs, these are the other expenditures, according to budget documents and Corbin:

- $556,882 for salaries and benefits for four full-time employees.
- $222,677 to buy a small house on 9th Street to renovate and make available to low-income residents.
- $69,690 for a consultant to draft and submit the Housing Element for a general plan update.
- $59,080 for a county administrative fee. This fee covers 20 percent of the Chino Redevelopment Agency's overall annual payment to San Bernardino County to cover the cost of calculating, collecting and divvying the property tax increment in redevelopment project areas.
- $48,309 for a central service charge. This charge is a payment to the city of Chino's general fund to cover the cost of computers, printers, copiers, faxes, phones, and other electronic equipment. The charge is based on the number of employees in the redevelopment agency, and the low- and moderate-income housing fund pays 20 percent of the agency's overall charge.
- $24,387 for insurance charges including workers' compensation, building, and property insurance.
- $22,717 for various consulting services including handling of the agency's loan portfolio (approximately 150 loans), relocation services in support of affordable housing projects, and landscape design in support of the agency's infill affordable housing development program.

- $18,166 for legal services.
- $13,377 for office rental charges. The city calculates this charge based on the square footage of office space used by the redevelopment agency.
- $9,861 for financial services.
- $7,858 to maintain redevelopment agency property.
- $5,941 for office supplies, postage, mileage, training, advertising, printing, utilities, dues.
- $4,130 for engineering/architect services.
- $1,641 for emergency shelter vouchers.
- $429 for rehabilitation costs.

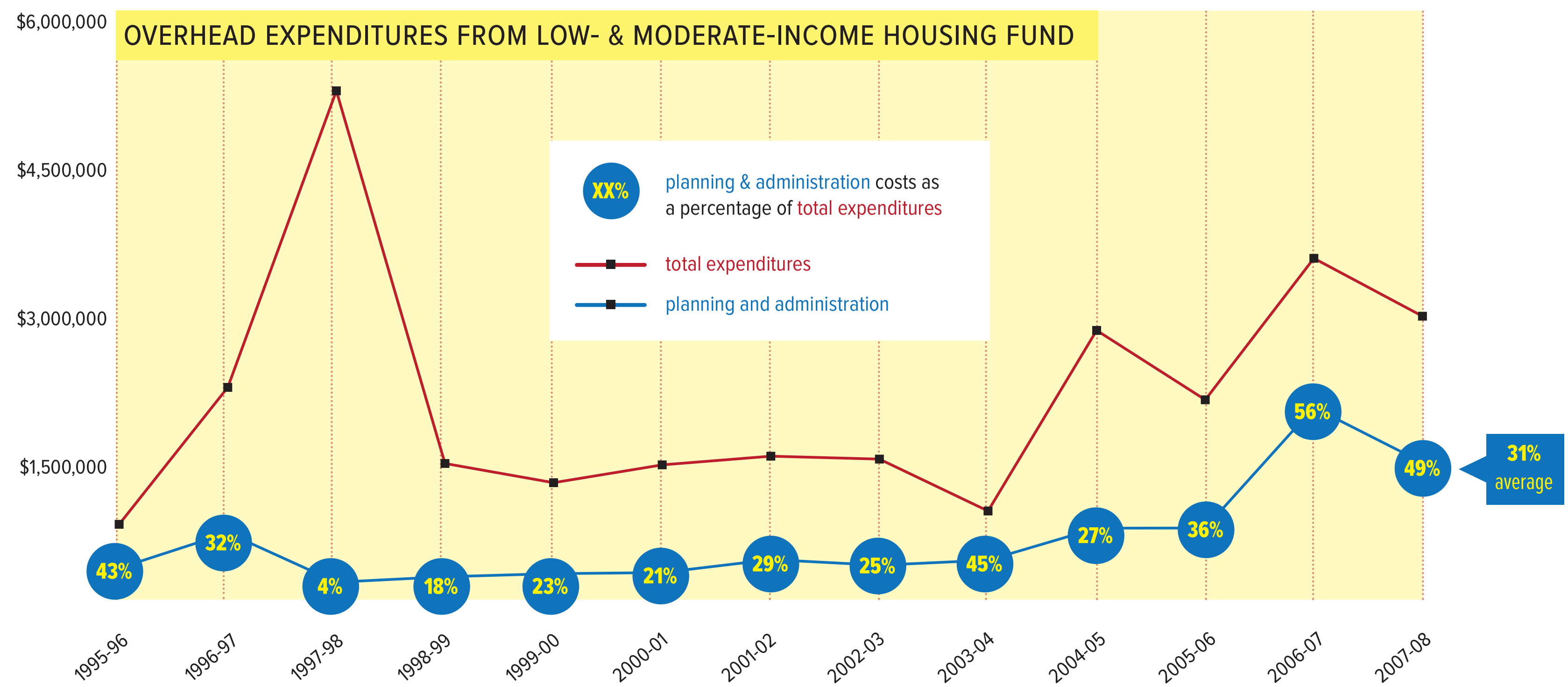
According to Corbin, each year the executive director of the Chino Redevelopment Agency reviews planning and administrative costs and signs a letter stating that the expenditures from the low- and moderate-income housing fund are necessary, as required by California Health and Safety Code §33334.3(d).

Chino Redevelopment Agency

AFFORDABLE HOUSING ACTIVITY [in housing units]

	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	total
new construction	0	0	0	0	0	0	**2**	0	**1**	**1**	0	**40**	**3**	**47**
substantial rehabilitation	0	0	0	0	0	0	0	0	**8**	**1**	0	**13**	0	**22**
acquisition of covenants	0	0	0	0	0	0	0	**10**	0	0	0	0	0	**10**

OVERHEAD EXPENDITURES FROM LOW- & MODERATE-INCOME HOUSING FUND



SOURCE: Department of Housing and Community Development, Chino Redevelopment Agency

Covina Redevelopment Agency
Estimated City Population: 49,622

In recent years, the Covina Redevelopment Agency has used its low- and moderate-income housing fund mostly to subsidize home ownership and the rent of senior citizens and victims of domestic violence, as well as to pay the salaries of code enforcement officers and make debt payments.

Between 1995-96 and 2001-02, the agency characterized an average of 60 percent of its total low- and moderate-income housing fund expenditures as planning and administration. Those average costs dropped after 2001, when the agency was criticized by state Department of Housing and Community Development auditors for spending a disproportionate amount of money on planning and administration compared to housing production. In the six years following the audit, the agency reduced its planning and administration expenditures from the low- and moderate-income housing fund to an average of 39 percent of overall costs.

To shrink overhead costs, the agency began paying for two, rather than three, code enforcement officers. It also hired a firm, Maximus, to perform a study and write a cost allocation plan for sharing direct and indirect costs among city departments, including the redevelopment agency's low- and moderate-income housing fund. Before the 2001 audit, the Covina Redevelopment Agency had been using the housing set-aside fund to pay 20 percent of the overhead costs of a number of city operations including the city clerk and planning division.

Over the 13 years from 1995-96 through 2007-08, eight new units of housing for low- and moderate-income families were built (one by the agency and seven by private developers). The agency also substantially rehabilitated 200 apartments and put covenants on the deeds to restrict occupancy to low- and moderate-income residents. (Some of the apartments are outside the redevelopment project area, and so the agency does not get complete credit for the work in annual HCD reports.)

In 2007-08, the Covina Redevelopment Agency's low- and moderate-income housing fund held $11.3 million, according to the annual HCD report. The fund received an additional $2.57 million in property tax that year, and the agency spent $1.25 million, with $524,617 of those costs characterized as planning and administration.

Here is a breakdown of total expenditures in 2007-08, based on budget documents and information provided by city officials:

- $392,256 for debt service.
- $181,300 for 40 percent of the salary of one building official, 25 percent of the salary of two building inspectors, and 75 percent of the salary of a code enforcement officer working under the "neighborhood preservation" program.
- $153,684 to subsidize rents for senior citizens at two apartment buildings. Such subsidies were permitted to continue by SB 701 (Torlakson, 2002), which exempted Covina until 2012 from a requirement that low- and moderate-income housing funds not be used disproportionately to help senior citizens.
- $150,000 to provide down-payment assistance to six low- and moderate-income families buying newly developed condominiums.
- $125,412 for 70 percent of an associate planner's salary and 100 percent of one code enforcement officer's salary.
- $116,760 for an "interdepartmental charge," based on a 2006 cost allocation plan, to cover the housing-related work of employees in other city departments including finance and public works.
- $46,392 to cover 45 percent of the salary of the management analyst who oversees affordable housing (the rest of the salary is covered by the federal Community Development Block Grant program).
- $39,073 in "professional and technical" expenses that include some legal costs but mostly involve a payment to Los Angeles County for collecting and distributing property taxes.
- $18,627 to cover the allowable housing costs of two families avoiding homelessness in an agency-owned transitional house. Grants and non-profit support helped cover the other costs of the transitional housing.
- $16,182 for conferences, travel, motor pool, copying and other administrative expenses.
- $14,000 to subsidize transitional housing units at a home for victims of domestic violence.

In the March 2001 review, Department of Housing and Community Development auditors initially recommended that the Covina Redevelopment Agency not use the low- and moderate-income housing fund to pay for the emergency shelter, saying that a shelter does not fit the legal definition of "housing."

Covina officials responded that the law is not clear about whether housing set-aside funds may be used to pay for emergency shelters. Auditors agreed, and rescinded their recommendation after Covina officials extended residency at the shelter from 45 days to 60 days. HCD auditors noted that the shelter afforded private living quarters, which made it more akin to transitional housing – and thus a permissible use of the low- and moderate-income housing fund.

In their March 2001 review, HCD auditors chastised the Covina Redevelopment Agency for not linking code enforcement activities to housing production, improvement, or preservation.

In response, the agency used 2000 census data to create a color-coded map of resident income to enable code enforcement and building department employees to track the amount of time they spend on the homes of low- and moderate-income residents. The agency does not bill the housing set-aside fund based on the actual time code enforcement officers spend at each home. But their monthly activity reports provide documentation to justify paying the salaries of two code enforcement officers from the low- and moderate-income housing fund. City officials say that much code enforcement activity involves low-income households.

These measures satisfied HCD auditors in a post-audit review conducted in 2006.

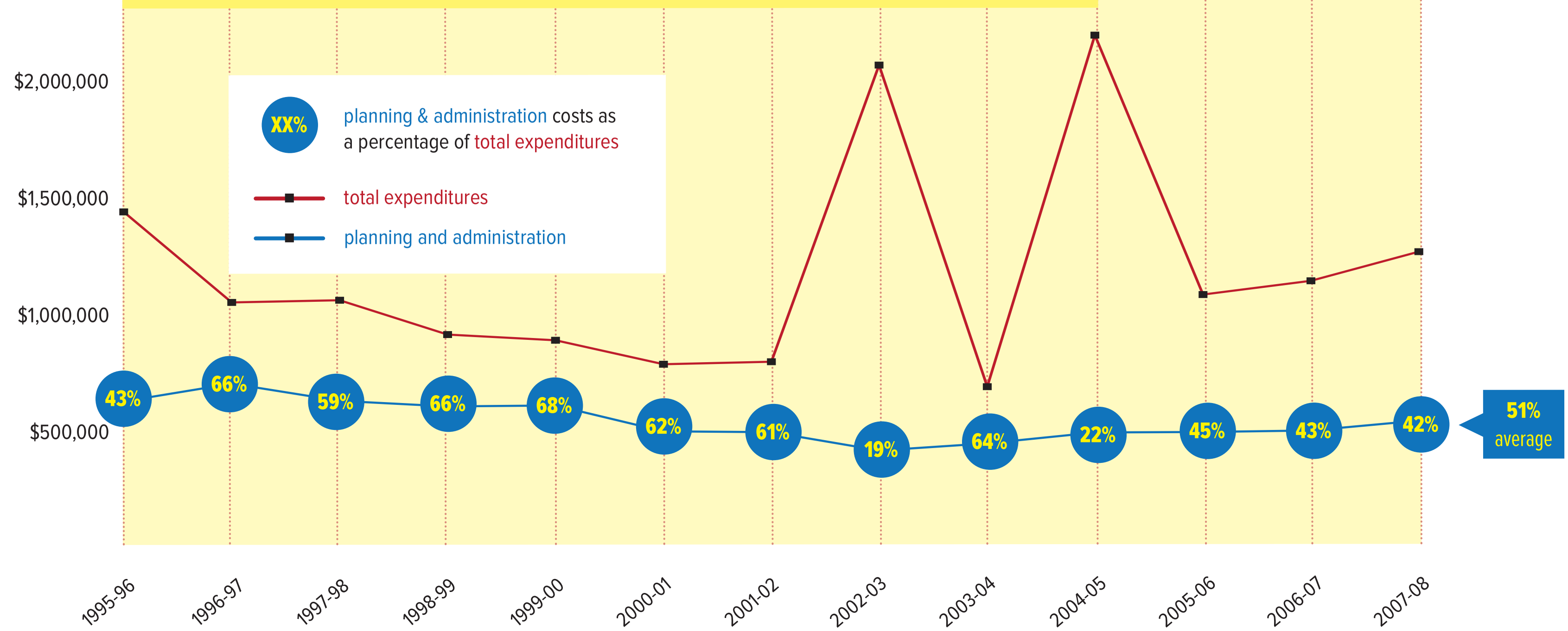
The board of the Covina Redevelopment Agency adopts a resolution each year as part of the budget process that finds that all housing set-aside fund planning and administration expenditures are necessary, and that any employee or contractual services paid by the fund are directly related to affordable housing activities.

Covina Redevelopment Agency

AFFORDABLE HOUSING ACTIVITY [in housing units]

	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	total
new construction	0	0	0	1	0	1	0	0	0	0	0	1	5	8
substantial rehabilitation	114	0	0	0	0	0	0	0	0	0	0	0	0	114
acquisition of covenants	17	0	0	0	0	0	0	0	0	0	0	0	0	17

OVERHEAD EXPENDITURES FROM LOW- & MODERATE-INCOME HOUSING FUND



SOURCE: Department of Housing and Community Development, Covina Redevelopment Agency

Culver City Redevelopment Agency
Estimated City Population: 40,722

About 40 percent of Culver City's territory falls under the purview of its 39-year-old redevelopment agency. Between 1995-96 and 2007-8, the agency's low- and moderate-income housing fund grew from $3.2 million to $22.1 million.

Over that span, the agency's use of the fund for planning and administrative expenses averaged 26 percent compared to overall expenditures, according to the Department of Housing and Community Development.

The agency has done little to increase the inventory of affordable housing in Culver City. The agency built four new housing units for moderate-income families. It also acquired covenants to restrict 12 units to low-income residents and substantially rehabilitated 31 homes for low- and moderate-income families, according to HCD annual reports.

In 2007-08, the Culver City Redevelopment Agency reported doing "non-substantial rehabilitation" to the homes of 137 low- and moderate-income households. (Such repairs involve less than 25 percent of the market value of the housing unit.) Most of the repairs were made at the Culver Terrace Mobile Home Park. Repairs were also made under the agency's Neighborhood Preservation Program, which provides grants, rebates, loans, and deferred loans for low- and moderate-income households.

The agency spent $548,934 on the rehabilitation program and $652,490 on debt service from the low- and moderate-income housing fund in 2007-08.

Culver City stands out among California redevelopment agencies for the rate at which it describes its affordable housing activities as "other assistance, " a catch-all category created by the HCD for work that does not fall neatly into other categories such as "new construction," "subsidy," and "non-substantial rehabilitation."

Over the 13-year span studied by the Senate Office of Oversight and Outcomes the Culver City Redevelopment Agency reported 2,551 instances of "other assistance." In 2007-08, the 638 cases of "other assistance" to low- and moderate-income residents amounted to one-third of the 1,943 total cases of such "other assistance" reported statewide.

Details in the annual HCD redevelopment report show that Culver City attributes its "other assistance" to the four programs described below. Three are operated by non-profit groups that bill the Culver City Redevelopment Agency for services:

- Alternative Living for the Aging – This non-profit group based in West Hollywood offers help to Culver City residents at the local senior center. The group provides a free roommate matching service that seeks to link seniors with roommates in order to provide cheaper housing, companionship and a sense of safety. City officials say that they pay the ALA from the low- and moderate-income housing fund based on inquiries, referrals, and matches. They say they verify the address and income of the clients reportedly helped by ALA to make sure they are low-income city residents. Payments to ALA in 2007-08 totaled $56,683, with 117 people assisted.

- Housing Rights Center – This non-profit group based in Los Angeles educates, advocates, and litigates to counter housing discrimination, according to its website. The group bills the Culver City Redevelopment Agency based on the number of Culver City residents who call for legal advice. Culver City officials say they verify the address and income of callers before paying the group from the low- and moderate-income housing fund. In 2007-08, the fund was billed $19,557 for 452 callers. The agency has contracted with the non-profit for at least 10 years.

- Home Secure – The Culver City Redevelopment Agency uses the housing set-aside fund to pay the non-profit Jewish Family Service of Los Angeles to operate a "Home Secure" program that installs grab bars, hand-held showers, smoke detectors, and other safety and security devices. The Culver City agency pays for materials and installations. In 2007-08, the agency paid $27,464 for 38 households assisted.

- Rental Assistance – The agency used $228,705 in low- and moderate-income housing funds to subsidize the rent of 32 tenant households in 2007-08.

HCD officials say that services such as those offered by the Housing Rights Center do not appear to fall within the legal uses of the low- and moderate-income housing fund, and therefore the Culver City payments may be improper.

Culver City officials argue that the payments are an eligible administrative expense on par with payments for legal advice on affordable housing matters. Furthermore, they say, the work of the Housing Rights Center helps to ensure that the agency's affordable housing work complies with a state ban on discrimination in redevelopment efforts.

Substantial surpluses mark the Culver City Redevelopment Agency's low- and moderate-income housing fund in recent years. In 2007-08, when city officials expressed concern about triggering laws designed to limit "excess surpluses" in housing set-aside funds, the beginning balance stood at $22.1 million. In May 2010, when all California redevelopment agencies were required to make payments to help balance the state budget, the Culver City Redevelopment Agency used $11 million from the low- and moderate-income housing fund to fulfill its entire obligation.

The agency began fiscal year 2007-08 with $22.1 million in its housing set-aside fund. It received $6.9 million in revenue that year and spent $3.67 million. Of the money spent, $2.16 million – or 59 percent -- was characterized as "planning and administration."

Here are the $2.16 million in planning and administrative expenditures, according to housing officials:

- $1,518,955 for salaries and benefits for 12 positions in the city's Neighborhood Preservation Program. The positions include one full-time position in each of these categories: administrative clerk, administrative secretary, housing programs administrator, housing supervisor, occupancy specialist, senior structural rehabilitation specialist, structural rehabilitation specialist and secretary. The $1.5 million also includes 3.2 full-time housing assistants and a part-time housing specialist.
- $422,336 for city employee positions that support housing. These costs are determined through a cost allocation plan that was prepared by the consulting firm MGT of America. These charges are approved through the annual budget approval process.
- $44,000 for rent paid to the city for housing office space.
- $26,203 to Big Imagination Group for a public relations campaign that involved, according to the consulting company's website, creating "a brand identity system that effectively conveys the community orientation of the Culver City Housing Authority, by focusing on the individuals affected by affordable housing: students, nurses, restaurant workers, homeowners – all of us."

(HCD officials say the public relations expenditure may not be permissible, as it is not directly related to the preservation, rehabilitation or creation of affordable housing. Culver City officials disagree. They say expanding outreach and awareness about affordable housing is one of the goals of the city's Comprehensive Housing Strategy, adopted in March 2008.

"The use of a public outreach firm is an eligible administrative expense due to the fact that the outreach material support the CHS which will increase the supply of affordable housing," wrote Culver City Housing Administrator Tevis Barnes in an e-mail to the oversight office.

She added that the campaign seems to have softened community resistance. According to Barnes, the agency's past plan to rehabilitate a handful of housing units to be owned by moderate-income residents encountered intense opposition, to the point of litigation. More recently, she wrote, a substantial number of people supported the agency's latest affordable housing project.)

- $21,000 to Apple One for temporary clerical support.
- $19,557 to the Housing Rights Center.
- $18,109 for office supplies and expenses.
- $14,304 for training and conferences.
- $12,400 to Westaff for temporary clerical support.
- $10,000 to DW Properties for management of a nine-unit apartment building purchased by the agency. The agency plans to rehabilitate it and sell it to a non-profit group to maintain as low- and moderate-income housing.
- $9,999 to Edmunds Associates for cost estimation on five properties the agency purchased from CalTrans.
- $9,500 to Gibbs Law Firm for help on mobile home park ordinance.
- $6,845 to Office Max for general supplies.
- $5,070 to Jack Nadel for outreach/promotional items.
- $4,600 to Keyser Marston Associates for financial analysis.
- $4,140 to Happy Software for client file maintenance.
- $3,118 for contract labor for renderings and site plans.
- $2,100 to William Landscaping for maintenance of agency property.
- $2,026 to Language Line for translation services.
- $1,196 to AmeriNational for loan monitoring.
- $561 for telephone charges.
- $349 to Nan McKay Associates for training booklets.
- $188 to Chicago Printing for business cards.
- $165 to First Advantage Safe for credit checks.
- $106 to Continental Time Clocks for time/date stamp.
- $64 to Zee Medical Supplies for first aid supplies.

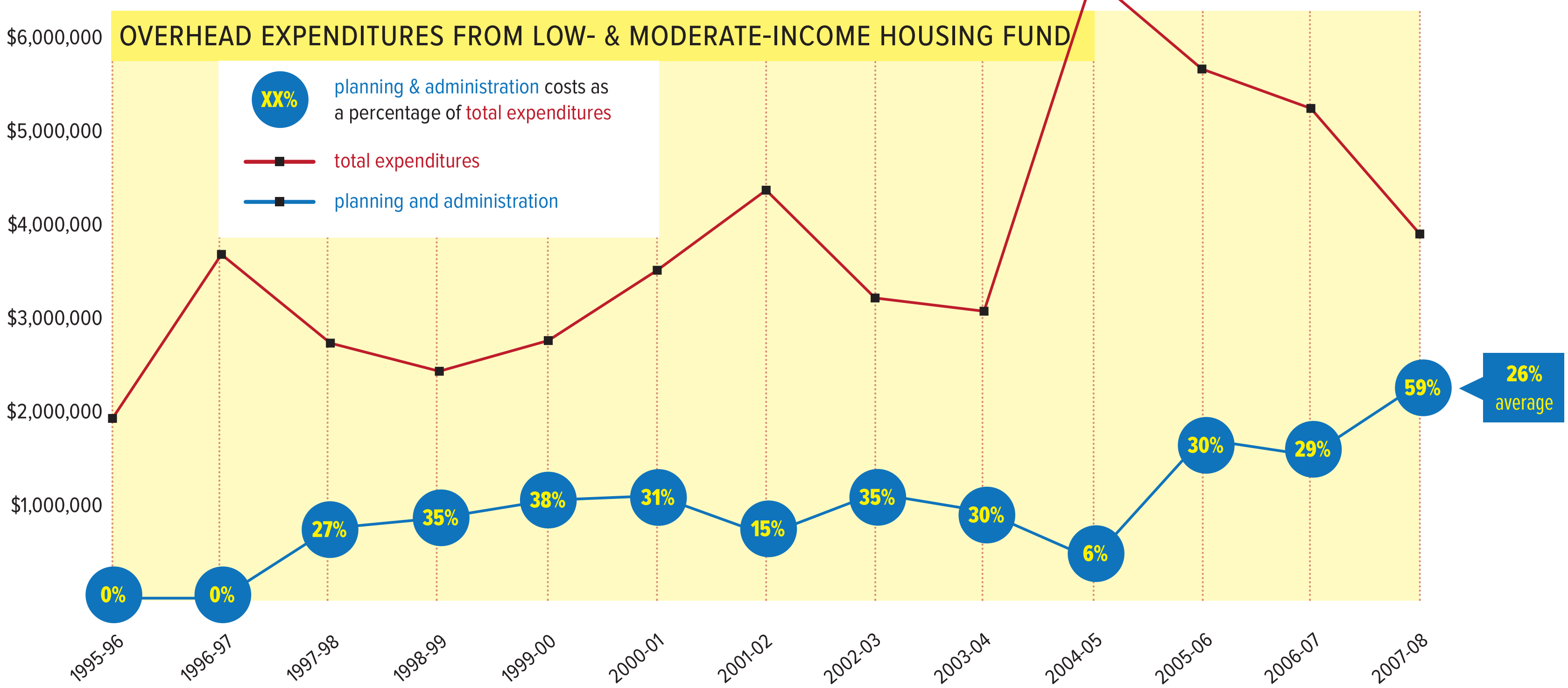
Culver City Redevelopment Agency officials said during the annual budget approval process they determine that low- and moderate-income housing fund planning and administration costs are necessary per Health and Safety Code Section 33334.3(d). They did not respond to requests for a copy of the determination.

Culver City Redevelopment Agency

AFFORDABLE HOUSING ACTIVITY [in housing units]

	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	total
new construction	0	0	0	0	0	0	0	0	**4**	0	0	0	0	**4**
substantial rehabilitation	**7**	**24**	0	0	0	0	0	0	0	0	0	0	0	**31**
acquisition of covenants	**2**	0	0	**10**	0	0	0	0	0	0	0	0	0	**12**

OVERHEAD EXPENDITURES FROM LOW- & MODERATE-INCOME HOUSING FUND



SOURCE: Department of Housing and Community Development, Culver City Redevelopment Agency

Hercules Redevelopment Agency
Estimated City Population: 24,693

The 28-year-old Hercules Redevelopment Agency reported no housing activity to the state Department of Housing and Community Development from 1995-96 until 2003-04, when it reported construction of 198 new units of affordable housing. A dozen new units were reported the following year.

(In September 2004, the former manager of the agency's affordable housing programs was sentenced to five years in federal prison for mail fraud and filing a false tax return. He also was ordered to repay the city $390,494. The former manager, Darrick Jonathan Chavis, created and approved false applications for home repair grants by using the names of unwitting Hercules residents. Chavis then had city workers pay his cousin by marriage, Kevin Lamark Lassiter, for doing the construction and repair work. Lassiter was not a licensed contractor and did not perform the repair work. Lassiter was sentenced in September 2004 to 2 ½ years in federal prison.)

In 2006-7 and 2007-08, the Hercules Redevelopment Agency also provided first-time homebuyer assistance to 22 low- or moderate-income households and characterized it as "other assistance" in the annual HCD reports.

The agency is working to complete a mixed-use project that will include 75 units earmarked for very-low, low- and moderate-income people to rent or own.

The Hercules Redevelopment Agency started fiscal year 2007-08 with $2.7 million in its low- and moderate-income housing fund. Revenues that year to the fund totaled $3.1 million and expenditures totaled $3.9 million, according to HCD annual reports.

Account ledgers provided by the redevelopment agency show that the expenditures include $720,613 for bond debt service, $394,394 passed on to special agencies, $130,000 for a Senior Housing Loan Program and $2 million for programs that include revitalization, beautification, first-time home buyer assistance, gas valve shutoff, inclusionary housing, credit counseling, code compliance rehabilitation, and home ownership retention.

About 17 percent of the housing set-aside fund spending, or $673,217, is characterized as "planning and administration" in the HCD report.

According to Hercules finance and human resources director Gloria Leon, in 2007-08 the redevelopment agency spent $643,219 of the low- and moderate-income housing fund on professional services, administrative charges, office supplies, electricity, internal service costs, and legal services to oversee affordable housing programs.

The largest share of the administrative costs – $391,083 in "consulting services" – covered payments to a private company to operate the agency's housing programs. This category also includes payments to a Sacramento lobbyist.

Consultant Running Affordable Housing Programs

Since 2003, the city has paid a private company – NEO Consulting/ Affordable Housing Solutions Group – to run the Hercules affordable housing programs. Controversy enmeshed the firm this year.

NEO was founded by Nelson E. Oliva. Oliva became Hercules City Manager in April 2007, a job which also entails serving as executive director of the Hercules Redevelopment Agency. NEO Consulting/ Affordable Housing Solutions Group was first hired to work for Hercules in 2003, when Mike Sakamoto was the city manager. According to the company website as of June 2010, Sakamoto and his son Jonathen also work for NEO.

Oliva has said publicly that he divested all financial interest in NEO before he became city manager. Until late June 2010, two of Oliva's daughters owned and worked for NEO, one as president, according to the company's website and Secretary of State records. In July 2010, the Contra Costa County Grand Jury issued a report that found a lack of competitive bidding on NEO's contracts, an appearance of impropriety in the city manager's family members being employed by NEO, and a lack of transparency in how affordable housing loans were granted by the Hercules Redevelopment Agency. According to the city's July 14, 2010 response to the grand jury report and the city council testimony of NEO general manager Walter McKinney, Oliva's daughters sold the business in late June and no longer work for NEO.

Lobbyist Also Paid from Housing Set-Aside Fund

The $391,083 the redevelopment agency spent from the low- and moderate-income housing fund in 2007-08 in "consulting services" also included $800-a-month payments to the Sacramento lobbying firm of Joe A. Gonsalves & Son. The city finance director said the lobbyist was first paid from the low- and moderate-income housing fund in 2007 and has been paid each year since.

Leon said that in 2007-08 the lobbying firm "provided staff assistance in issues dealing with the extension of project area 1 as it relates to the increase in set-aside to 30%; assistance was also used in the preparation of the five-year implementation plan." Leon also said, via e-mail, that the lobbyist "assisted staff with matters related to submittal of several state grant fund applications related to housing developments to various agencies."

Lobbyist Jason A. Gonsalves said his lobbying firm represented the city of Hercules in 2008 as it sought a grant from the Department of Housing and Community Development's Building Equity and Growth in Neighborhoods program. The BEGIN program gives grants to cities, which then give down-payment assistance loans to qualified low- and moderate-income first-time home buyers. Hercules was awarded $720,000, according to Gonsalves.

Records filed with the Secretary of State's office indicate that the city of Hercules spent a total of $66,000 on lobbying in 2007 and 2008, $60,000 of that paid to Joe A. Gonsalves & Son and $6,000 paid to Rodney J. Blonien & Associates. According to Gonsalves, his firm worked for Hercules in 2007 and 2008 on the HCD grant and unsuccessful legislation that would have allowed redevelopment agencies to extend projects for 10 years in exchange for setting aside 30 percent of revenue for affordable housing production.

<u>Breakdown of Planning and Administrative Costs</u>

Below is a breakdown of the $643,219 spent on planning and administration from the Hercules Redevelopment Agency's low- and moderate-income housing fund, as described by city budget documents and Leon:

- $391,083 for "consulting services" paid to NEO Consulting/Affordable Housing Solutions Group and Joe A. Gonsalves & Son.
- $200,000 in overhead charges for staff to cover operation of the affordable housing programs. At least 30 employees are involved with the affordable housing programs, outside NEO Consulting, according to Leon. The charge for their time of $16,666 per month was determined many years ago, according to Leon, who said she did not know the specifics of the formula.
- $12,185 for janitorial supplies, custodians, repairs, security service, and other facility maintenance costs, which are charged on a quarterly basis.
- $11,045 for legal services.
- $7,769 for the trailer that serves as an office for the affordable housing staff.

- $4,748 for information technology expenses, based on a computer allocation formula that is tied to the number of computers in each department for which the information systems department is responsible.
- $3,505 for the upkeep of city-owned homes. This could include landscape maintenance costs and homeowner association fees, according to Leon.
- $3,492 for general office supplies.
- $2,372 for electricity.
- $1,938 for a copier lease.
- $1,474 for other professional services.
- $1,000 for training and conferences.
- $953 for postage.
- $871 for miscellaneous supplies and expenses.
- $559 for heating/ventilation/air conditioning.
- $133 for mileage.
- $92 for printing.

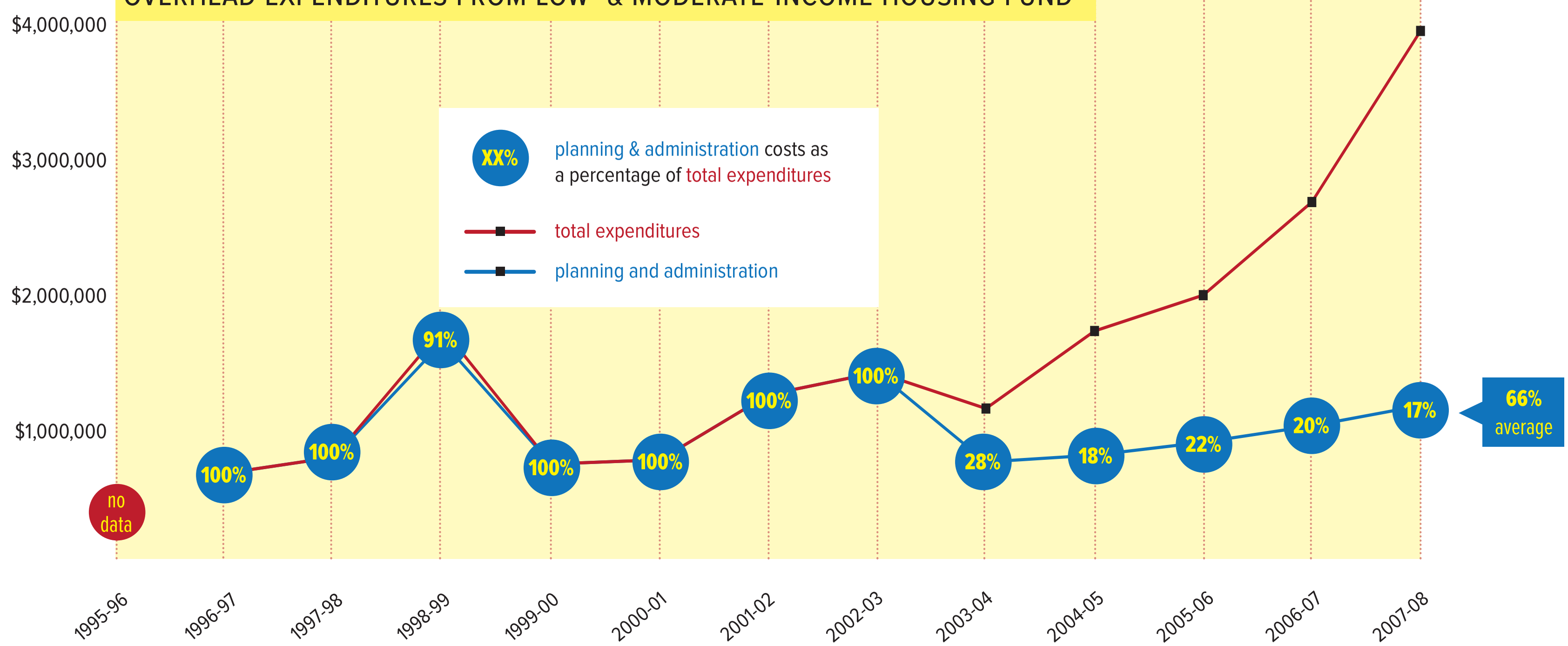
According to Leon, the agency does not make an annual determination that planning and administration expenses paid with the low- and moderate-income housing fund are necessary. That requirement is fulfilled, she said, by auditors who require a report each year from the affordable housing unit that details all annual activities.

Hercules Redevelopment Agency

AFFORDABLE HOUSING ACTIVITY [in housing units]

	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	total
new construction	0	0	0	0	0	0	0	0	**198**	**12**	0	0	0	**210**
substantial rehabilitation	0	0	0	0	0	0	0	0	0	0	0	0	0	**0**
acquisition of covenants	0	0	0	0	0	0	0	0	0	0	0	0	0	**0**

OVERHEAD EXPENDITURES FROM LOW- & MODERATE-INCOME HOUSING FUND



SOURCE: Department of Housing and Community Development, Hercules Redevelopment Agency

Kerman Redevelopment Agency
Estimated City Population: 14,381

From fiscal year 1995-96 through 2007-08, the Kerman Redevelopment Agency characterized an average of 73 percent of its low- and moderate-income housing fund expenditures as planning and administration. The agency reported little housing activity to the state Department of Housing and Community Development over that time period: Substantial rehabilitation of three units in 1995-96 and construction of one unit in 2000-01.

The activity reported to the state fails to reflect a considerable amount of affordable housing built with the assistance of the redevelopment agency. In 2005-06, the agency used a $300,000 loan, to be paid back with the housing set-aside fund, to help facilitate construction of an 80-unit apartment complex for low-income senior citizens. That complex, built with many sources of public and private funds, took 11 years to complete. Last year, the redevelopment agency waived $175,000 in fees to ease construction of an adjacent 20-unit complex for low-income senior citizens.

Such assistance does not qualify as “new construction” or “subsidy” in the annual reports of housing activities that redevelopment agencies must submit to the HCD. But HCD employees said Kerman officials could have reported the work as “other assistance.”

The redevelopment agency’s low- and moderate-income housing fund started fiscal year 2007-08 with a balance of $261,994 and gained $144,558 in revenue that year. The fund is not big enough to finance affordable housing projects alone, said Kerman City Manager Ron Manfredi, so the agency has focused in recent years on helping private developers. Such work takes years of planning, he said. The agency also has teamed with the building trades program of the local high school to construct affordable houses. In June 2009, students finished a home on a lot the redevelopment agency bought for $35,000. The city sold the home for $120,000 to a low-income person.

According to the redevelopment agency’s five-year implementation plan for 2009-13, the agency intends to launch several new programs within a couple of years with money from the low- and moderate-income housing fund. The five-year expenditure plan anticipates spending $50,000 a year each on down-payment assistance and home rehabilitation loan programs, as well as $15,000 for an emergency home repair program,

$10,000 for an exterior home paint program and $150,000 buying several infill lots for affordable housing construction.

In 2007-08, expenditures from the affordable housing fund totaled $53,029, all of it characterized as planning and administration in the HCD report. The city's unaudited budget for that year shows total expenditures of $43,898. According to documents provided by Manfredi, the $43,898 include:

- $24,872 for salaries and part-time wages. While Manfredi said he did not know the exact percentage of staff time charged to the low- and moderate-income housing fund in 2007-08, he estimated that this expense involved 4 percent of the time of the city manager, city clerk and city finance director; 1 percent of the time of a junior accountant; 6 percent of the time of the public works/ planning director and an administrative secretary; and 10 percent of the time of a building official. The proportions change yearly based on the type of work city officials anticipate, he said.
- $7,744 for fringe benefits.
- $3,585 in legal and audit services.
- $2,851 for real estate costs associated with the purchase of the lot.
- $2,264 for inspection fees on the house built by students.
- $1,149 for vehicle and equipment rental – a pro-rated charge based on estimates of use.
- $671 for environmental work on the parcel bought by the agency.
- $660 for computer replacement.
- $103 for overtime.

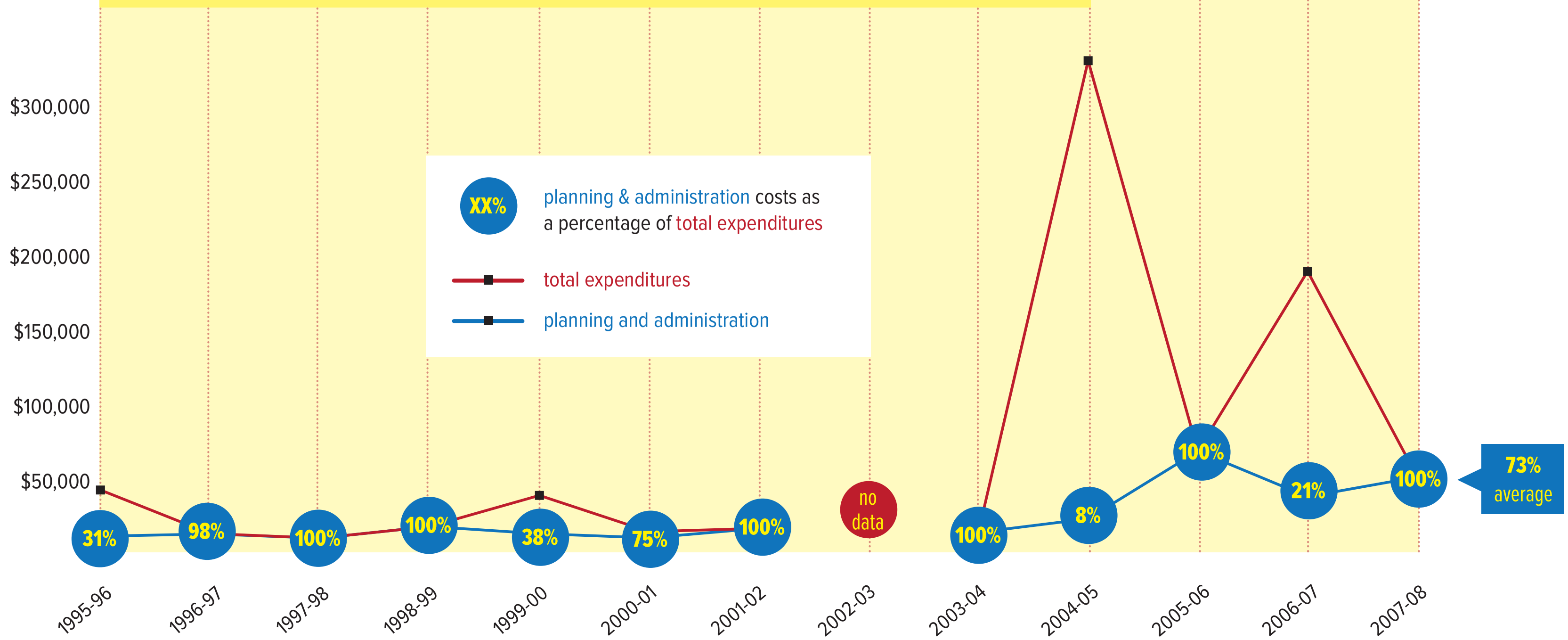
City officials did not respond when asked whether they comply with Health and Safety Code Section 33334.3(d), the requirement to make an annual determination that planning and administration expenditures from the low- and moderate-income housing fund are necessary.

Kerman Redevelopment Agency

AFFORDABLE HOUSING ACTIVITY [in housing units]

	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	total
new construction	0	0	0	0	0	**1**	0	0	0	0	0	0	0	**1**
substantial rehabilitation	**3**	0	0	0	0	0	0	0	0	0	0	0	0	**3**
acquisition of covenants	0	0	0	0	0	0	0	0	0	0	0	0	0	**0**

OVERHEAD EXPENDITURES FROM LOW- & MODERATE-INCOME HOUSING FUND



SOURCE: Department of Housing and Community Development

Marina Redevelopment Agency
Estimated City Population: 19,445

Marina leaders created a redevelopment agency in 1986 to upgrade a dilapidated downtown area that lacked adequate curbs, sidewalks and gutters. But the agency's role expanded significantly after the closure of Fort Ord Army base. In the late 1990s, the redevelopment agency took charge of thousands of acres of former military land and hundreds of buildings, many of them prone to fire and earthquake and out of compliance with modern codes.

The agency has not used its low- and moderate-income housing fund to build, rehabilitate or preserve any affordable housing, according to data submitted by the agency to the state Department of Housing and Community Development from fiscal years 1995-96 through 2007-08. Since 2000-01, the agency has characterized all of the expenditures from its housing set-aside fund as planning and administration.

Marina officials say their affordable housing construction efforts have been slowed by the small amount of property tax revenue (and therefore housing funds) generated in the relatively young project areas, as well as the time needed to create the conditions that could result in housing development. Two of the three redevelopment project areas in Marina are part of the former military base. Before they can reuse the base, agency officials have faced the need to clean up property, adopt a base-wide reuse plan (which was subsequently challenged in court) and raise the money to demolish Army buildings and install new infrastructure.

Despite these challenges, the Marina Redevelopment Agency negotiated with developers for two significant projects that include affordable housing. But agency officials say recession has so far stalled construction.

The closure of the Fort Ord base also curtailed redevelopment possibilities in the project area downtown. The city population fell from 26,000 to 19,000. A number of local jobs disappeared as businesses downtown lost military clientele. Property values and new development stagnated. Only in 2000 did the housing market on the Monterey Peninsula begin to rebound, and only in the last few years has the Agency accumulated any money in its low- and moderate-income housing fund, according to acting redevelopment manager Jeff Crechriou.

Crechriou said the Marina Redevelopment Agency is preparing to build several large projects on the former military base involving hundreds of units of affordable housing that will exceed legal requirements. The agency is also completing a downtown specific plan that will provide for hundreds of units of affordable housing. In particular, the city's housing element of the general plan, certified by HCD last December, shows that between 2008 and 2013, the Marina Redevelopment Agency plans to build 531 units for low- or very low-income households in or near downtown, with another 441 such units on the former Fort Ord military base.

In addition, the agency and the city of Marina formed a non-profit corporation which acquired 192 housing units on the former military base. The agency restricted 136 of those units for 55 years to very low- and low-income households. In a different development, the agency restricted 51 units to low- and very-low-income households pursuant to a recorded regulatory agreement. Acquiring, financing, managing, and monitoring these affordable units involves a significant amount of planning and staff time, said Crechriou.

The Marina Redevelopment Agency's low- and moderate-income housing fund began fiscal year 2007-08 with $1.6 million. The fund received total revenue of $569,798 that year, and expenses totaled $470,529. Those costs were all characterized to the HCD as planning and administration.

The redevelopment agency and the Marina Department of Development Services both work on affordable housing issues. The agency and department split administrative costs evenly. In 2007-08, two employees were dedicated to the redevelopment agency, while another four employees worked for both the agency and the Department of Development Services, according to Crechriou.

A breakdown of the 2007-08 costs from the low- and moderate-income housing fund, all of which were characterized as planning and administration:

- $182,811 for a "cost allocation plan" charge. The cost allocation plan, prepared by a consultant in 2006, estimates the burden each city department imposes on the time and resources of other departments and apportions costs accordingly.
- $129,619 for salaries. The charges for benefits and salaries represent 20 percent of the cost of the two dedicated agency positions and 20 percent of the agency's share of the cost of the four dual positions.
- $92,106 to various consultants for creation of a below-market rate program, including administrative policies and a management plan. The program involves screening applicants, handling waiting lists and otherwise managing the hundreds of units of

subsidized affordable housing the agency anticipates building in coming years. Of the $92,106, $39,424 was paid to Keyser Marston; $34,414 to Housing Coordinator Services; $17,128 to the agency's legal counsel, Goldfarb & Lipman; $762 to the city attorney and $379 for conference calls and postage.

- $27,908 for costs associated with a fiscal merger plan. The costs involve hiring consulting firm Keyser Marston to prepare the documents and reports necessary to support amendments to the existing redevelopment plans for each project area. The fiscal merger plan provides for increased ability to achieve the redevelopment goals in all three project areas, including the ability to shift tax increment money from the former Fort Ord Army base to downtown Marina. The plan also provides for the establishment of one merged tax increment limit and extension of the time limits of each redevelopment plan.
- $13,414 for office supplies, postage, equipment and computers, communications, rent and leases, copier lease, janitorial services, utilities and travel and meetings. The redevelopment agency and Department of Development Services split these administrative costs equally, and 20 percent of the agency's share is paid with the low- and moderate-income housing fund.
- $6,339 for "professional services – other." Of this, $4,053 represents charges from the city's finance department for preparing and organizing low- and moderate-income housing fund information for the annual audit, as well as compiling information to submit to the HCD for its annual report. The rest of the expense -- $2,268 – was paid to a development review/planning services consultant.
- $5,965 for benefits.
- $4,000 to the Conflict Resolution and Mediation Center of Monterey County, which handles fair housing and discrimination issues.
- $3,854 for property insurance.
- $2,000 for audit services. This is the low- and moderate-income housing fund's portion of the agency's share of the costs of the annual independent audit of the city and agency. The city finance department determines the agency's share.
- $1,605 for housing grants and loans. A city committee awards this money to low-income residents to fix housing problems that compromise health and safety.
- $1,159 for temporary agency services for periods of increased administrative support.
- $47 for redevelopment counsel.
- $40 for professional organization memberships.
- $10 for the services of the city attorney.

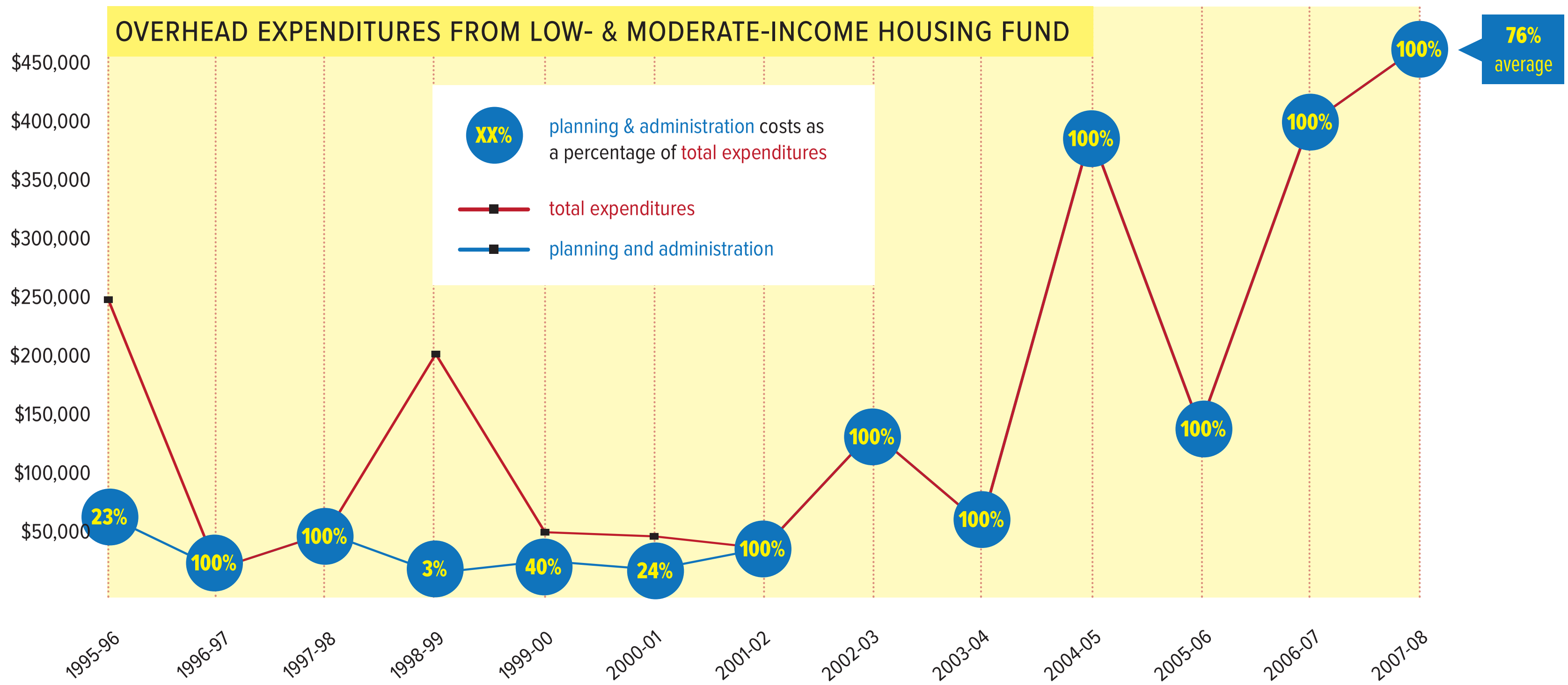
In 2007-08, the Marina Redevelopment Agency did not make a determination that the planning and administration expenditures from the low- and moderate-income housing fund were necessary. Such a determination was made (Resolution No. 2009-16) in June 2009 for the 2009-10 budget.

Marina Redevelopment Agency

AFFORDABLE HOUSING ACTIVITY [in housing units]

	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	total
new construction	0	0	0	0	0	0	0	0	0	0	0	0	0	**0**
substantial rehabilitation	0	0	0	0	0	0	0	0	0	0	0	0	0	**0**
acquisition of covenants	0	0	0	0	0	0	0	0	0	0	0	0	0	**0**

OVERHEAD EXPENDITURES FROM LOW- & MODERATE-INCOME HOUSING FUND



SOURCE: Department of Housing and Community Development, Marina Redevelopment Agency

Monterey Park Redevelopment Agency
Estimated City Population: 65,027

Between fiscal years 1995-96 and 2007-08, the Monterey Park Redevelopment Agency characterized an average of 76 percent of its total housing set-aside fund expenditures as planning and administration, according to the Department of Housing and Community Development.

Over the same 13-year period, the agency reportedly built 67 new affordable units and substantially rehabilitated 39 units. The agency has reported no affordable housing activity since 2001-02.

The city also uses its low- and moderate-income housing fund to pay for a residential rehabilitation program. Eligible homeowners may get grants of up to $13,000 or deferred loans of up to $10,999 that are payable upon sale of the property. Eligibility is based on federal income limits.

According to Tom Johnson, housing program and grant administration coordinator, the agency recently purchased for $1.58 million a nine-unit apartment complex that will be rehabilitated at a cost of roughly $500,000 to the low- and moderate-income housing fund. The agency also bought a run-down four-unit apartment complex that will be rehabilitated at an estimated cost of $240,000. Both buildings include some vacant units, which will allow the agency to temporarily move current residents and minimize relocation costs.

Rehabilitation is the most cost-effective way to create affordable housing in Monterey Park, said Johnson, because vacant lots and new construction are so expensive. The agency considered spending $7.86 million for moderate-income homeownership units in a large, mixed-use project called Atlantic Times Square now under construction. But at a fair market value of roughly $600,000, the condos would not be affordable even with a 50 percent subsidy from the city, said Johnson.

Agency officials are now talking with a non-profit group about buying an apartment complex outside the redevelopment project area and restricting the units for low-income residents for 55 years. The non-profit could seek a tax credit, Johnson said, and the Monterey Park Redevelopment Agency could contribute $5 million to $6 million and potentially get 50 to 60 units dedicated to low- and moderate-income households. Under state law, the agency would only get to take credit for half of that affordable housing, because the complex is outside redevelopment project boundaries. But such an investment is still more cost-effective than building new housing within the project boundaries, said Johnson.

The Monterey Park Redevelopment Agency started 2007-08 with a balance of $5.9 million in its housing set-aside fund, added $2.27 million in revenue and spent $908,581 during the year, according to the HCD.

Of the expenditures, 79 percent – or $714,265 – involve planning and administration. A breakdown of all expenditures, as described in the Monterey Park city budget and explained by city financial services manager Annie Yaung:

- $339,211 for "indirect city allocations," as determined by a cost allocation plan. This covers the time that various city employees, including Yaung, spent on affordable housing issues as well as information technology, office space, and other costs within city departments.
- $254,412 for salaries and benefits. Based on a labor study conducted by the city in the 1990s, the housing set-aside fund pays for 68 percent of the salary of a project manager, 34 percent of the salary of the director of economic development, 20 percent of the time of a senior clerk typist and 15 percent of the time of the housing program and grant administration coordinator.
- $100,000 to subsidize the non-profit group MERCI (Mentally and Educationally Retarded Citizens Inc.) in its effort to demolish an office building and build a six-bedroom group home for people of very low and extremely low income.
- $72,855 for planning, survey and design ($8,163 for legal fees, $2,500 for an audit, $6,522 for housing services and $55,670 for other professional services).
- $67,161 for the housing rehabilitation program.
- $27,155 in building site acquisition ($18,225 for relocation payments, $6,000 for acquisition expenses and $2,930 for relocation costs).
- $20,633 for the housing set-aside fund's share of the city's cost to self-insure.
- $6,513 for technology charges.
- $4,744 for repair and maintenance of machinery and equipment.
- $4,482 for separated employees cashing out their benefits.
- $3,996 for other professional services.
- $3,647 for dues and memberships.
- $1,532 for printing and duplication.
- $1,213 for supplies.
- $675 for advertising.
- $271 for subscriptions.
- $80 for mileage and parking.

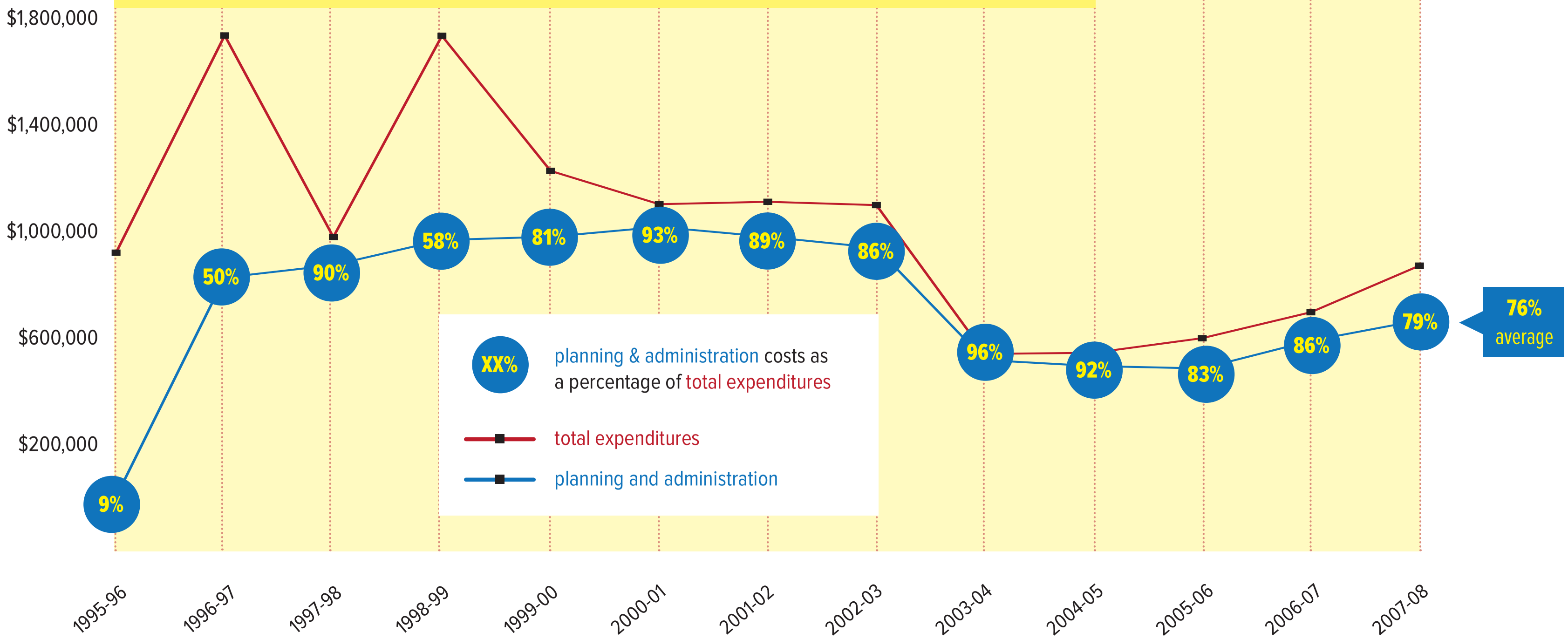
The Monterey Park Redevelopment Agency does not make a written determination each year about whether low- and moderate-income housing expenditures are necessary. Asked about such a determination, Yaung replied by e-mail that the city's budget process takes four to five months of public hearings and council meetings, and the final approved budget "is the City's official written documentation for our housing fund planning and administration expenditures."

Monterey Park Redevelopment Agency

AFFORDABLE HOUSING ACTIVITY [in housing units]

	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	total
new construction	0	**67**	0	0	0	0	0	0	0	0	0	0	0	**67**
substantial rehabilitation	**18**	**15**	0	0	0	0	**6**	0	0	0	0	0	0	**39**
acquisition of covenants	0	0	0	0	0	0	0	0	0	0	0	0	0	**0**

OVERHEAD EXPENDITURES FROM LOW- & MODERATE-INCOME HOUSING FUND



SOURCE: Department of Housing and Community Development

Pismo Beach Redevelopment Agency
Estimated City Population: 8,704

Since its creation in 1987, the Pismo Beach Redevelopment Agency has built no new affordable housing. Nor has the agency reported subsidizing, rehabilitating or otherwise helping to preserve affordable housing between 1995-96 and 2007-08, according to Department of Housing and Community Development annual reports.

The agency spent money from the low- and moderate-income housing fund over those years entirely for planning and administration. The costs involve overhead and part of the salary of a city employee.

By 2007, the agency held $1.78 million in its low- and moderate-income housing fund. Of that, $780,254 was considered “excess surplus.” Faced with a deadline to use the money within three years or face sanction, the agency appropriated $1.5 million for affordable housing programs.

The board approved $600,000 for a first-time homebuyer program, $800,000 for a home improvement program and $100,000 for administration. But the first-time homebuyer program drew no applicants, and so the agency used most of the $600,000 instead to purchase a vacant lot on which to build affordable housing.

The recent flurry of housing activity comes as city officials consider disbanding the redevelopment agency. In July 2010, Pismo Beach city council members introduced an ordinance to deactivate the agency. They may act on the ordinance at a future public hearing.

The ordinance declares that (1) there is no blight in Pismo Beach; (2) the agency has no outstanding bonded indebtedness or legally binding contractual obligations; and (3) the agency has fulfilled its affordable housing obligations. These conditions by law must be met before a redevelopment agency may disband.

(The Pismo Beach ordinance finds that the agency has fulfilled its affordable housing obligations by “making deposits to and expenditures from its Low and Moderate Income Housing Fund.”)

Financial pressure is driving the move toward deactivation. Pismo Beach officials say they cannot afford to make annual payments to the Lucia Mar Unified School District that the redevelopment agency committed to in 1988. Under the agreement, the district would give up its share of property tax increases for 20 years, which have now passed. The pass-through to Lucia Mar Unified School District amounts to roughly 38 percent of the redevelopment agency's gross tax increment.

Redevelopment agency officials paid the school district this year but say they cannot afford future payments. District and agency officials have negotiated for 2 ½ years but so far failed to agree to a revised pass-through arrangement.

City officials say the redevelopment agency also has been financially hurt by the state budget act, which forced it to send $316,000 to the county to be distributed to local schools. The budget law shifts a total of $2.05 billion from redevelopment agencies statewide to local schools in 2009-10 and 2010-11.

According to HCD annual reports, between 1995-96 and 2006-07 the Pismo Beach Redevelopment Agency's housing set-aside fund expenses averaged roughly $40,000 a year and were characterized entirely as planning and administration costs. (The agency failed to report to HCD in three of those years.) The costs covered overhead and part of the salary of the city's community development director, according to city administrative services director George Edes.

The agency's costs jumped considerably in 2007-08 when it hired the Orange firm of Urban Future Inc. to design the new affordable housing programs.

The agency began 2007-08 with $1.78 million in its low- and moderate-income housing fund. Revenues totaled $289,095, with expenses – all characterized as planning and administration – of $107,449.

Actual expenses (up from $35,794 in 2006-07) based on city budget documents and interviews with Edes:

- $13,958 for legal fees to set up the two new housing programs.
- $11,398 to Urban Futures for consulting on the establishment of the programs.
- $50,576 to Urban Futures for design of the administration of the two programs and consultation on the redevelopment agency's five-year implementation plan.
- $14,355 for overhead costs.
- $17,162 for part of the community development director's salary and benefits.

The overhead and salary costs are not actual, Edes said, but based on his rough estimate of how much employee time and office resources are involved in administering the low- and moderate-income housing fund.

In July 2008, the Pismo Beach Redevelopment Agency hired the Housing Authority of the city of San Luis Obispo to operate its first-time home buyer program. The program was designed to give loans for down payment and closing costs to people whose combined family income did not exceed 120 percent of the county median income.

The Housing Authority advertised the program, held public workshops, left brochures around town and told local bankers about the program, but no one applied for the low-interest loans. After a year, the Pismo Beach Redevelopment Agency terminated the contract and dissolved the program. For its trouble, the agency paid the city of San Luis Obispo $6,808 in fiscal year 2008-09.

In late July 2009, the redevelopment agency used $585,000 of the $600,000 budgeted for the defunct first-time home buyer program to help purchase a vacant lot with the potential to hold 14 units of affordable housing. Another $415,000 – for a total of $1 million – was withdrawn from the low- and moderate-income housing fund to pay for the property. City officials say they intend to pay for design and construction on the parcel with the more than $1.6 million they have collected from developers as "in-lieu" fees. Such fees must be used for the construction and preservation of affordable housing.

In June 2010, the redevelopment agency board issued a request for proposals for construction of affordable housing units on the vacant lot.

The second housing program launched by the Pismo Beach Redevelopment Agency – the home improvement program – appears to have widespread support. The agency signed a contract with the non-profit San Luis Obispo Community Action Partnership to administer the program, which involves grants of up to $15,000 for Pismo Beach residents whose income does not exceed 80 percent of the San Luis Obispo County area adjusted median income ($45,300 for a family of two).

As of the end of 2009, according to a January 2010 update for the city council, the home improvement program had enrolled 106 households and completed 92 projects at a cost of $40,000 for administration, $120,000 for construction management, $671,000 for construction services and $14,000 for subcontractors. Nearly all of the people served in the program were older than 60, and much of the work involved roofing, plumbing, and electrical repairs in the range of $6,000 to $7,000, as well as repair of water damage and installation of new appliances and toilets.

It is not clear what deactivation of the redevelopment agency would mean for development of the agency's newly-acquired parcel or the home improvement program. Edes said it may be possible to continue the affordable housing work with "in-lieu" fees from developers.

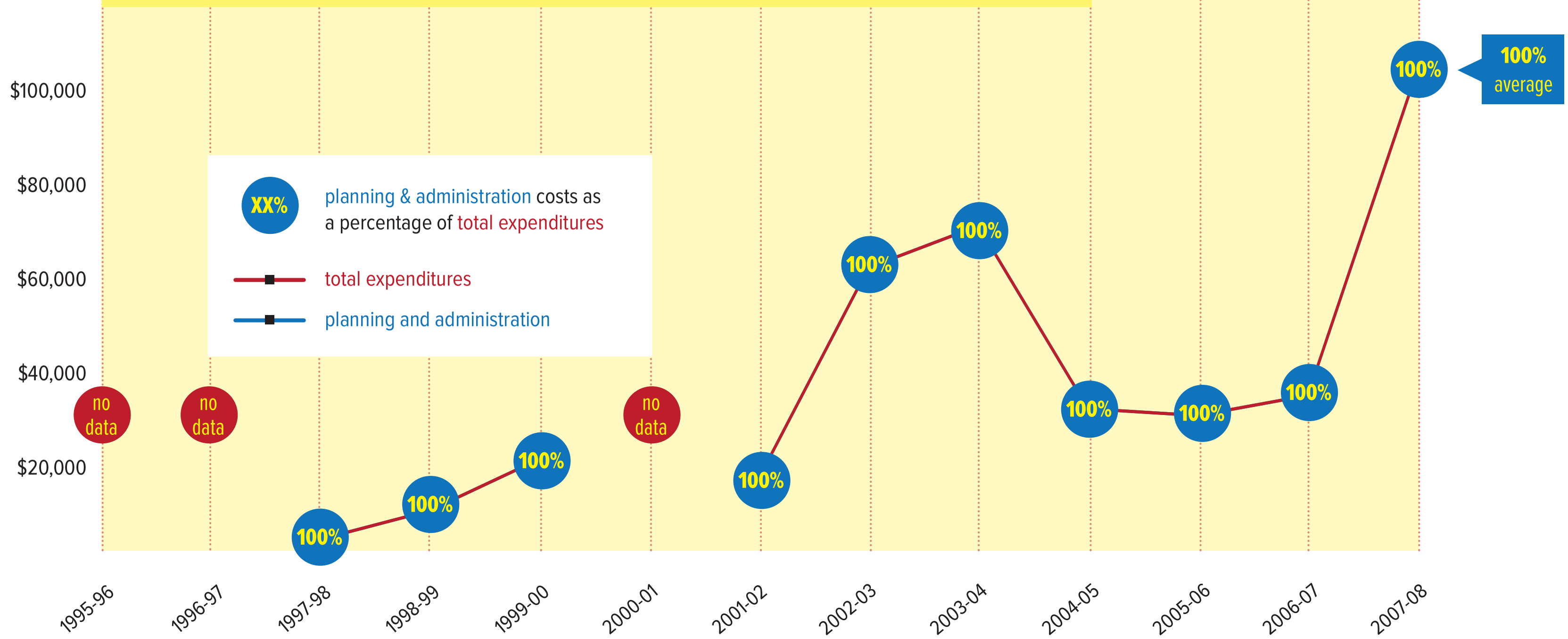
City officials did not respond to questions about whether the redevelopment agency complied with Health and Safety Code §33334.3(d) by making determination that housing set-aside expenditures for planning and administration were necessary.

Pismo Beach Redevelopment Agency

AFFORDABLE HOUSING ACTIVITY [in housing units]

	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	total
new construction	0	0	0	0	0	0	0	0	0	0	0	0	0	**0**
substantial rehabilitation	0	0	0	0	0	0	0	0	0	0	0	0	0	**0**
acquisition of covenants	0	0	0	0	0	0	0	0	0	0	0	0	0	**0**

OVERHEAD EXPENDITURES FROM LOW- & MODERATE-INCOME HOUSING FUND



SOURCE: Department of Housing and Community Development, Pismo Beach Redevelopment Agency

San Bruno Redevelopment Agency
Estimated City Population: 44,294

Activated in 1999, the San Bruno Redevelopment Agency is relatively young. But it is now completing several major construction projects on a 20-acre former U.S. Navy office site.

A master planned community called the Crossing, now under construction, will ultimately include 1,063 multi-family housing units, 12,500 feet of retail space and a hotel. Four residential buildings have been completed, containing a total of 888 rental housing units. The agency spends $680,000 a year from the low- and moderate-income housing fund to subsidize 97 units for very low-income households. Another 228 senior housing apartments are affordable to extremely low-, very low- and low-income senior citizens. State housing bonds helped to pay for the senior housing. Roughly half of the senior housing units have covenants keeping them affordable for 55 years, and the rest are restricted for 30 years.

Construction is underway on the retail space and the last residential buildings, with a total of 187 condominiums.

The agency has provided financial assistance to build 325 new units of affordable housing since 2002 (30 percent of the total 1,063 units at the Crossing). Department of Housing and Community Development reports erroneously show the creation of 830 affordable units built since 1999.

Besides building houses on the former military site, the San Bruno Redevelopment Agency since May 2002 has administered a home rehabilitation program in conjunction with the San Mateo County Department of Housing. So far, improvements have been made to two homes.

The agency has also adopted a below-market-rate housing ordinance, requiring that 15 percent of all new residential projects of 10 units or more throughout the city be affordable. In certain situations, developers may contribute an in-lieu fee as an alternative to construction of new affordable units. A total of $2.6 million has been collected since 2008 to supplement the low- and moderate-income housing fund.

The San Bruno Redevelopment Agency also intends to promote affordable housing in a transit corridors specific plan now underway. The plan will outline detailed policies, design guidelines and development standards to steer future public and private improvements along El Camino Real, San Bruno Avenue and San Mateo Avenue in the area surrounding the future Caltrain Station. The transit corridors area is located entirely within the redevelopment project area. The land use plan envisions the potential for over 1,600 new housing units with at least 15 percent affordable to low- and moderate-income households.

Money spent from the agency's low- and moderate-income housing fund was almost entirely for planning and administration from 2000-01 – the first year the agency received tax increment funds -- through 2006-07, according to information filed by the agency with the HCD. Those administrative costs dropped considerably compared to overall expenses in 2007-08, as the agency began subsidizing new rental units to make them affordable for low-income families.

Administrative costs included staff salaries and legal assistance for preparing the U.S. Navy Site Specific Plan and Development Agreement, which established the public policies and land use plan for development of the 1,063-unit Crossing development.

The agency started fiscal year 2007-08 with a balance of $1.1 million in its housing set-aside fund. It received $1.4 million into the fund and spent $1.1 million that year, according to the HCD report. Of the expenditures, $288,580 is characterized as planning and administration.

The city of San Bruno's 2007-08 adopted budget allocates $1 million in expenditures from the low- and moderate-income housing fund. A breakdown of those costs, based on the adopted budget:

- $311,000 for annual subsidy payments for apartments for very low-income residents.
- $259,802 for overhead administrative costs, as derived from a city-wide cost allocation plan adopted in 2006-07.
- $171,375 for the salaries of various city employees. According to the budget, the affordable housing fund is charged for 50 percent of the time of a code enforcement officer and 35 percent of the salary of the redevelopment manager. The fund is charged 15 percent of the salary of each of the following: a community development director, senior planner, associate planner, assistant planner and community development technician. The fund pays 10 percent of the salary of a building official and 20 percent of the salary of a building inspector. The percentages are based on past experience with staff effort in the project area. The code enforcement officer does not verify the income of the households where he works, but households in the project area tend to be of

low or moderate income, according to city officials.

- $100,000 for the housing rehabilitation program operated in conjunction with the San Mateo County Housing Residential Loan Program. The program is limited to low-income residents – for example, a two-person household's income must not exceed $72,400.
- $57,721 for the city's cost of employee benefits including CalPERS retirement, Medicare, FICA (where applicable), deferred compensation match, health and welfare insurance, life insurance, long-term disability insurance, management leave buyout and pay in lieu of holidays, based on experience with staff effort in the project area.
- $30,000 for the Human Investment Project, a San Mateo County organization which, according to a city brochure "links people who own homes with those seeking homes." HIP housing programs also provide rent subsidies or housing "scholarships" to low-income people while they complete an education or job training.
- $25,000 for legal services related to affordable housing activities.
- $25,000 for graffiti and nuisance abatement in commercial and residential neighborhoods of the redevelopment agency's project area.
- $10,000 for services related to the completion and analysis of amendments to the proposed citywide below-market rate housing ordinance, as well as analysis of economic impacts. Additional costs paid from the city's general fund.
- $7,884 for the housing set-aside fund's share of the operating costs of the building and facilities maintenance fund.
- $7,500 for Shelter Network, another San Mateo County group that provides housing and support services to homeless families.
- $6,145 for liability and workers' compensation insurance related to affordable housing activities.
- $3,000 for a required independent audit of the low- and moderate-income housing fund.
- $500 for printing to provide affordable housing information to the public.
- $500 for the housing and redevelopment manager to attend the annual California Redevelopment Association affordable housing conference.
- $250 for affordable housing reference books.

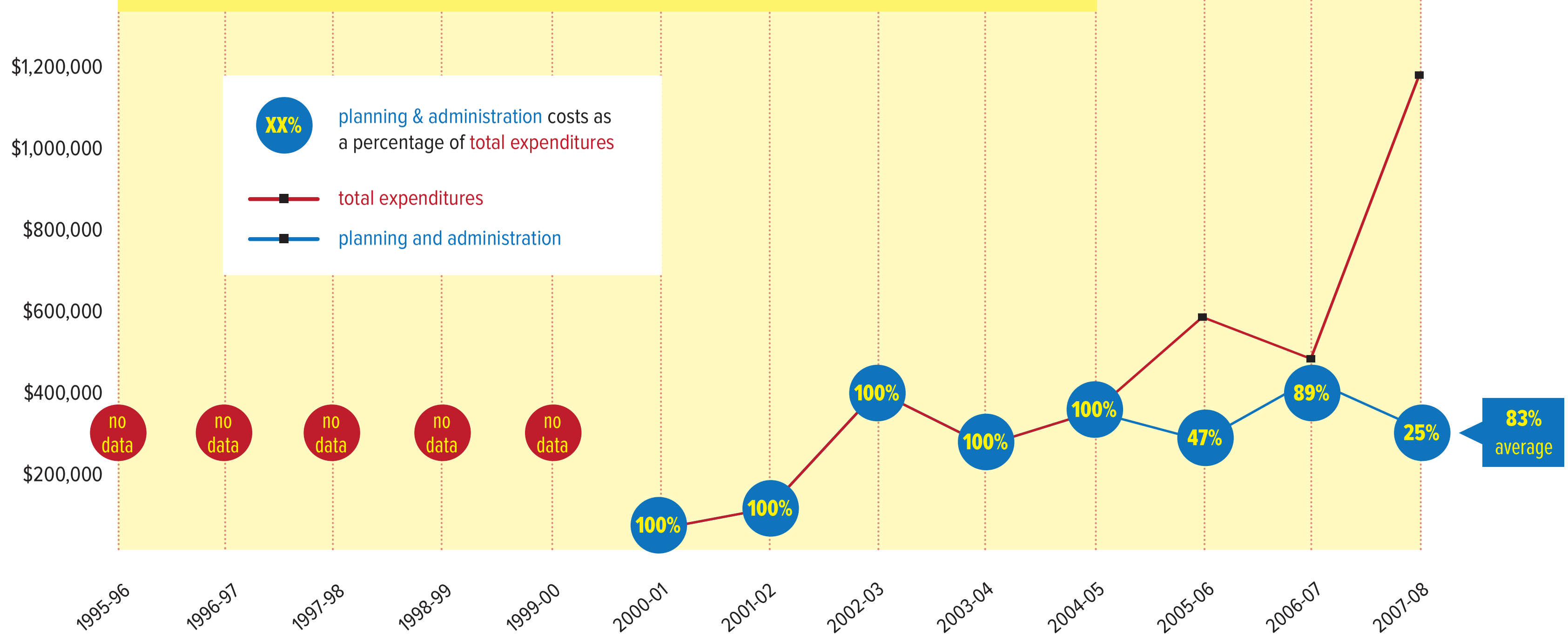
In fiscal year 2007-08, the agency did not make a determination that the planning and administration expenditures from its housing set-aside fund were necessary and proportional. But the agency board passed a resolution in 2009-10 making such a determination and will do so in future years as part of the annual budget process, said recently retired administrative services director Jim O'Leary.

San Bruno Redevelopment Agency*

AFFORDABLE HOUSING ACTIVITY [in housing units]

	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	total
new construction	0	0	0	0	0	0	0	0	0	0	**60**	**265**	0	**325**
substantial rehabilitation	0	0	0	0	0	0	0	0	0	0	0	0	0	**0**
acquisition of covenants	0	0	0	0	0	0	0	0	0	0	0	0	0	**0**

OVERHEAD EXPENDITURES FROM LOW- & MODERATE-INCOME HOUSING FUND



*Agency activated in 1999.

SOURCE: Department of Housing and Community Development, San Bruno Redevelopment Agency

San Leandro Redevelopment Agency
Estimated City Population: 83,183

The San Leandro Redevelopment Agency's planning and administration expenditures from its low- and moderate-income housing fund averaged 33 percent between fiscal year 1995-96 and 2007-08, according to data submitted to the state Department of Housing and Community Development. The agency pays for several affordable housing programs from its housing fund, including those to help first-time home buyers and to rehabilitate homes.

In the last decade, the agency also has backed bonds for the private developer of an assisted living facility in return for reservation of 29 very low-income units. It invested millions of dollars into the construction of 74 units for very-low income seniors and adults with developmental disabilities. And the agency spent $5.5 million of housing set-aside funds and worked with a non-profit developer to convert a blighted hotel into a 68-unit housing project for very low-income renters. The property was revamped and occupied by August 2008. Other major projects in the planning stage include a 700-unit transit-oriented development project, with 15 percent of the housing dedicated to low- and very-low income residents.

The 2007-08 annual HCD report shows the San Leandro Redevelopment Agency started fiscal year with $5.5 million in its housing set-aside fund. Revenues to the fund totaled $4.2 million, with expenditures of $2.6 million. Of those expenditures, $444,770 was characterized as planning and administration. Those administrative expenses include $45,540 spent by Alameda County, the San Leandro Redevelopment Agency's joint redevelopment project area partner.

A breakdown of the remaining $399,230 in actual planning and administration costs, according to city housing manager Tom Liao:

- $246,868 for salaries and benefits for Community Development Division employees. This includes part of the salaries of five workers: The community development director, housing manager, housing specialist II, housing specialist I and administrative assistant II. The agency charges the low-and-moderate income housing fund based on employee time sheets.
- $43,551 for administrative support, based on a cost allocation plan methodology that covers cross-departmental staff such as those in finance and human resources.
- $43,212 for consulting services.

- $23,106 for legal services.
- $13,605 for telecommunications.
- $10,987 for insurance services.
- $7,342 for salaries and benefits of employees in the city's Office of Business Development Division, which administers the non-housing redevelopment agency funds. The $7,342 reflects staff time on low- and moderate-income housing fund activities.
- $3,861 for transportation/training.
- $2,777 for loan servicing fees.
- $2,517 for building repair and maintenance.
- $750 for memberships.
- $211 for miscellaneous office supplies.
- $197 for miscellaneous operating supplies.
- $169 for postage and delivery.
- $75 for notices and publications.

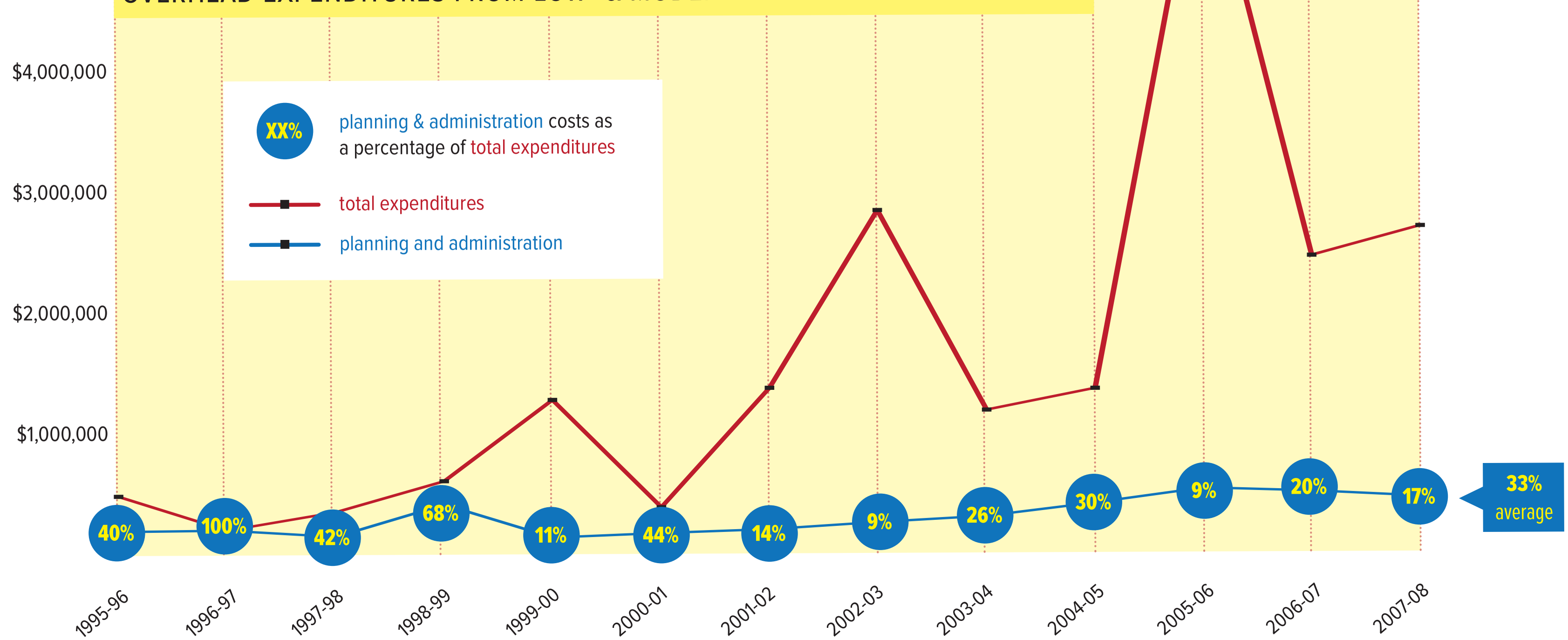
Each year as part of its budget process, the San Leandro Redevelopment Agency adopts a resolution that it "finds and determines that the planning and administrative expense contained in the Agency budget is necessary for the production, improvement, or preservation of low and moderate income housing." Such a resolution was adopted June 28, 2007 in compliance with Health and Safety Code §33334.3(d).

San Leandro Redevelopment Agency

AFFORDABLE HOUSING ACTIVITY [in housing units]

	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	total
new construction	6	0	0	0	0	6	44	12	82	2	0	2	1	155
substantial rehabilitation	5	0	1	80	0	0	0	0	0	0	0	0	67	153
acquisition of covenants	0	0	0	0	0	0	0	0	0	0	0	0	0	0

OVERHEAD EXPENDITURES FROM LOW- & MODERATE-INCOME HOUSING FUND



SOURCE: Department of Housing and Community Development

Torrance Redevelopment Agency
Estimated City Population: 149,717

Between 1995-96 and 2007-08, the Torrance Redevelopment Agency used its low- and moderate-income housing fund mostly to pay for minor home repairs for elderly and disabled people, subsidize rent for senior citizens and offer no- and low-interest rehabilitation loans to lower-income homeowners.

During that period, the agency reported no affordable housing accomplishments to the state Department of Housing and Community Development. In July 2010, city officials told the Senate Office of Oversight and Outcomes that they will reconsider how they report housing activities to the HCD.

The agency started fiscal year 2007-08 with a balance of $6.9 million in its low- and moderate-income housing fund. Revenues that year totaled $1.8 million, with expenditures of $358,870. The agency's "excess surplus" totaled $2 million.

In late 2009, Torrance used $4 million from the housing set-aside fund to buy two downtown parcels for mixed-use development. Redevelopment agency officials said Torrance property values are high, and it took time to accrue enough money to purchase the property.

In 2007-08, the agency characterized $261,474 of its total $358,870 in housing set-aside fund expenditures as planning and administration, according to the HCD. The agency also reported using $66,278 for housing rehabilitation and $31,118 for subsidies.

City officials say that despite their characterization of 73 percent of costs as "planning and administration," all the 2007-08 housing set-aside fund expenditures involve loans, labor, supplies, and subsidies – not overhead – in the following programs:

- The Home Improvement Program – The city hires two full-time workers to oversee a crew of people ages 18 to 23 to make basic home repairs. Most recipients are elderly or disabled, and income eligibility is based on thresholds for low-income federal housing programs. Workers earn minimum wage and gain carpentry, plumbing, electrical, and other repair experience. The city human resources department administers the program. According to program coordinator Fred Griffin, about 400 services are performed on roughly 150 houses or condominiums each year.

- Rental Assistance – The low- and moderate-income housing fund subsidizes rents for nearly one-fourth of the residents of two senior citizen projects with a total of 113 units. To qualify, recipients must have income at or below 50 percent of the county median income, according to the Torrance Redevelopment Agency's latest five-year implementation plan. The monthly subsidy pays up to $250 per participant.

- Housing Rehabilitation Loan Program – The agency spent $18,800 in 2007-08 to make no- and low-interest loans to low- and moderate-income homeowners for basic home improvements. Loans up to $10,000 are available, with repayment due in full when property changes ownership. The agency's five-year implementation plan projects that the program will benefit roughly five homeowners per year.

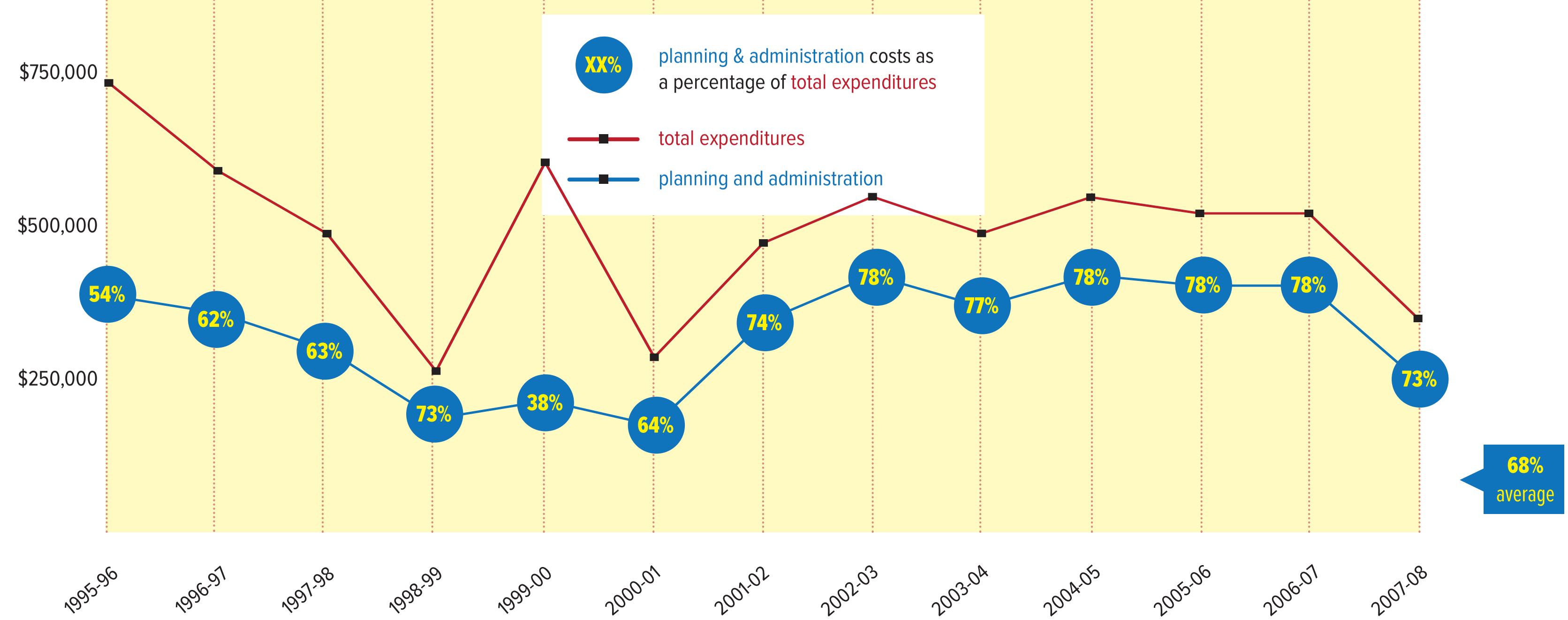
Torrance planning assistant Marina Martos said that the redevelopment agency has not made an annual finding that its low- and moderate-income housing fund planning and administration costs are necessary because no such charges are paid from the fund. City officials said administrative and planning costs related to affordable housing are all paid by the Community Development Department.

Torrance Redevelopment Agency

AFFORDABLE HOUSING ACTIVITY [in housing units]

	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	total
new construction	0	0	0	0	0	0	0	0	0	0	0	0	0	**0**
substantial rehabilitation	0	0	0	0	0	0	0	0	0	0	0	0	0	**0**
acquisition of covenants	0	0	0	0	0	0	0	0	0	0	0	0	0	**0**

OVERHEAD EXPENDITURES FROM LOW- & MODERATE-INCOME HOUSING FUND



SOURCE: Department of Housing and Community Development

Tulare County Redevelopment Agency
Estimated County Population: 447,814

The Tulare County Redevelopment Agency characterized as planning and administration nearly all the money spent from its low- and moderate-income housing fund in the last decade, according to annual redevelopment reports published by the Department of Housing and Community Development.

Over the 13-year period from 1995-96 to 2007-08, the agency reported to the HCD that it built 21 new affordable housing units. Those individual homes were built using a grant from the federal Home Investment Partnerships (HOME) Program. Mortgages on the homes are designed to make them affordable for 20 years.

The agency also substantially rehabilitated 126 homes using a variety of sources of money, including federal grants and the low- and moderate-income housing fund. Redevelopment agency manager Laurie Mercer said that most rehabilitation projects involved a full reconstruction of severely dilapidated homes.

She said the agency also uses the housing set-aside fund to leverage more than a dozen federal and state grants each year.

In 2007-08, the low- and moderate-income housing fund received $1.1 million in revenue, with a beginning balance of $2.4 million. Expenditures from the fund that year totaled $1.3 million, with $1.2 million of the costs characterized as planning and administration.

According to budget documents provided by Mercer, the largest expenditure in 2007-08 – $685,368 – involved "professional and specialized" services related to the agency's home rehabilitation and first-time homebuyer programs.

The following local non-profit groups received the "professional and specialized services" money to repair homes and conduct a housing condition survey in preparation for writing the county's Housing Element:

Central Valley Christian Housing Development Inc. – $539,637
Self-Help Enterprises – $140,000
Community Services and Employment Training – $5,731

These expenditures involve agreements that have either been approved by the county Board of Supervisors or permitted through a county purchasing agent.

Under the agency's Housing Rehabilitation Loan Program, homeowners who meet certain income thresholds can receive a zero-percent interest loan of up to $110,000 with 30-year deferred payments. If clear and convincing evidence is presented to the Loan Review Committee, the maximum amounts may be exceeded, as long as the loan amount does not exceed the loan-to-value ratio or maximum rehabilitation amount set by HCD. Full repayment is required if the house is sold or rented or title to the property is transferred. At the end of the 30-year term, a repayment schedule may be negotiated.

The First-Time Home Buyer Program gives mortgage and closing cost assistance through a loan with a zero-percent interest rate and no payments due for 30 years. Full repayment is required when the house is sold, rented or transferred. A repayment schedule may be negotiated at the end of the 30-year term.

The second-highest expenditure from the low- and moderate-income housing fund in 2007-08 was $425,516 for "program administration," or staff time. The redevelopment agency has 14 employees, according to Mercer, six of whom work part-time on affordable housing projects and grants. The costs for labor charged to the low- and moderate-income housing fund were based on actual time worked, said Mercer. Employees note on their time sheets each day how much time they have spent working on affordable housing issues or non-housing redevelopment work. Their time sheets also note which grants staff work on and track the match money for those grants.

The third-highest expenditure was $87,530 for the time of accounts payable and receivable staff to handle invoices and other services provided by non-redevelopment county operations, as well as code enforcement. The charges were calculated on actual costs incurred, said Mercer.

In addition, roughly $6,800 was spent in each of seven project areas in Tulare County for code enforcement, according to Mercer. She said the code enforcement officers do a "sweep" of each rural community and talk to all homeowners (there are 218 houses in the Traver project area, for example). Time spent talking to business owners is charged to the non-housing funds of the redevelopment agency, said Mercer, while time spent with homeowners is charged to the low- and moderate-income housing fund. According to Mercer, nearly all homeowners in the project areas qualify as low- or moderate-income.

Other items budgeted for the low- and moderate-income housing fund in 2007-08:

- $74,935 for land acquisition. According to Mercer, the redevelopment agency maintains an "infill housing program" budget for each project area so that the agency can move quickly to purchase properties when owners fail to pay their property taxes and the property shows up on the tax-default list. The infill budget is also used to purchase foreclosed properties. The homes are then fixed up and sold. If this money is not spent, it is carried over to the following year.
- $35,639 for "specialized departmental expenses." This budgeted money was held in reserves and not spent. Funds from this account may be used for housing-related activities when grant money is not available or when state or federal grant money cannot be used to cover the expense.
- $4,620 for training. In fiscal year 2007-08, between one and three employees at a time attended the California Redevelopment Association's affordable housing conference and seminars on redevelopment accounting, affordable housing and inclusionary housing. Most of the costs involve registration fees.
- $6,686 for travel, which involves going to various redevelopment agencies for meetings, looking at potential homes for purchase, visits to loan recipients and travel to training seminars. Most costs involve hotel rooms.
- $687 for legal notices.
- $527 for office expenses.

Many of the budget expenditures are tied to federal and state grants. The agency usually has between 15 and 20 open grants at any time, said Mercer. The grant sources include the Community Development Block Grant program, Home Investment Partnerships (HOME) Program and CalHome Program. In 2007-08, for example, the Tulare County Redevelopment Agency was awarded $3.6 million in grants, including $900,000 from the CalHome program for rehabilitation in the agency's eight project areas.

Mercer said a $2 million HOME grant awarded in January 2010 will enable the agency to work with the non-profit Corporation for Better Housing to build 80 apartments in Ivanhoe, all deed-restricted for low-income families. The agency will also build three new deed-restricted homes using a portion of a Neighborhood Stabilization Program grant.

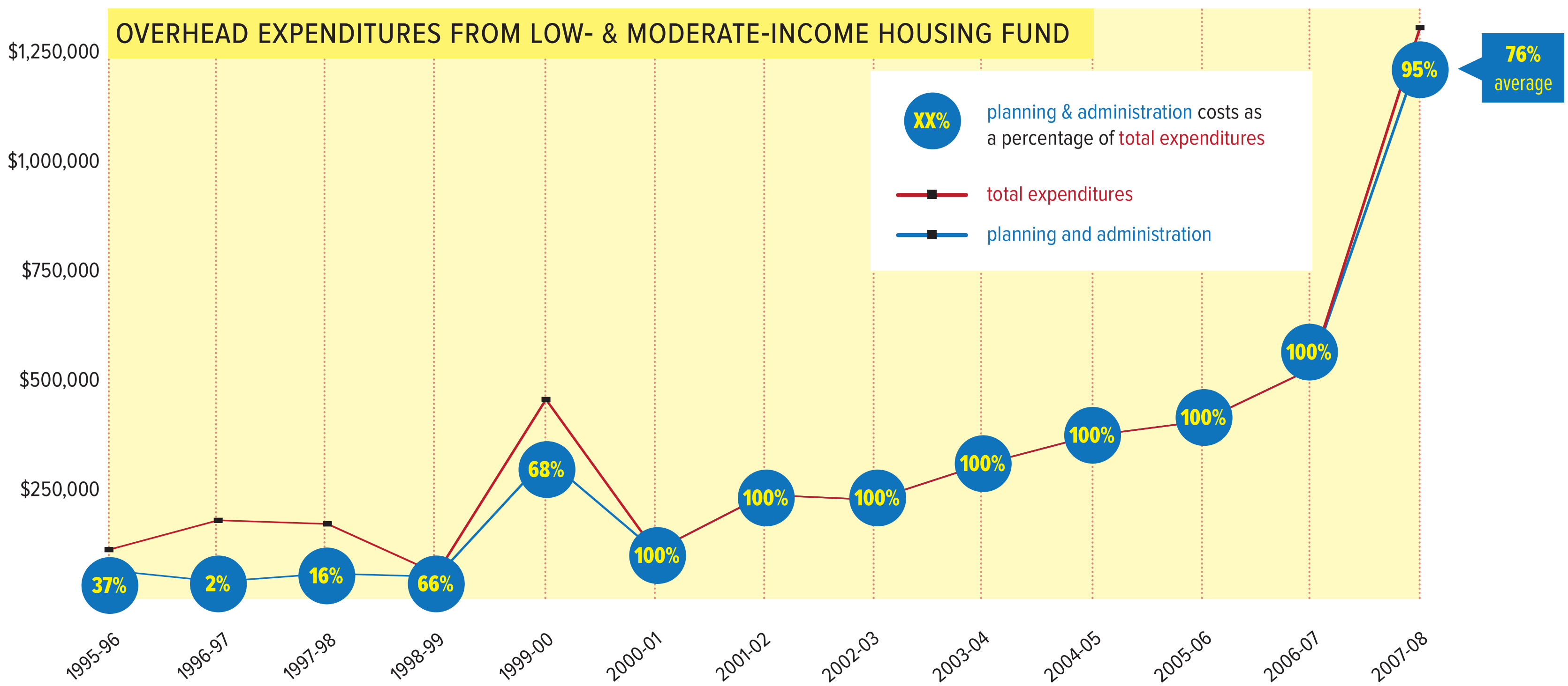
The agency does not currently pass a resolution, per Health and Safety Code §33334.3(d), determining that the planning and administration expenditures from its low- and moderate-income housing fund are necessary. But the agency will do so in the future, said Mercer.

Tulare County Redevelopment Agency

AFFORDABLE HOUSING ACTIVITY [in housing units]

	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	total
new construction	0	2	2	0	0	0	0	0	0	0	0	0	17	21
substantial rehabilitation	0	9	4	3	5	12	7	4	20	20	17	18	7	126
acquisition of covenants	39	0	0	0	0	0	0	0	0	0	0	0	0	39

OVERHEAD EXPENDITURES FROM LOW- & MODERATE-INCOME HOUSING FUND



SOURCE: Department of Housing and Community Development

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