SENATE OFFICE OF OVERSIGHT AND OUTCOMES

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Lax Controls on Affordable Housing Money

SACRAMENTO—Redevelopment agencies must set aside 20 percent of their property tax revenue for affordable housing production, but current state laws and oversight mechanisms fail to ensure that the money is spent on homes rather than administration.

The Senate Office of Oversight and Outcomes scrutinized how a dozen redevelopment agencies spent their housing set-aside funds in 2007-08. In a new report, the office concludes that agencies – which are typically overseen by city council members or county supervisors -- frequently use the money to pay for general government operations and fail to justify planning and administration expenditures, as required by law.

The report, "Where Does the Affordable Housing Money Go?" is available here.

By law, California's 398 active redevelopment agencies must segregate at least 20 percent of their property tax revenue and spend the money to build, preserve, or rehabilitate housing for low- and moderate-income residents.

These housing set-aside funds held a combined $5.6 billion in 2007-08, making them the largest non-federal source of money for affordable housing production in California.

State law discourages redevelopment agencies from spending the housing money on overhead. Agencies must use the money "to the maximum extent possible" to create more affordable housing, without disproportionate spending on planning and administration.

Despite this, each year roughly 25 to 40 agencies characterize all of their housing set-aside fund expenditures as planning and administration. Some do so for several years in a row. The oversight office examined the low- and moderate-income housing fund expenditures and housing production of a sample of redevelopment agencies over a 13-year period. The office chose seven of 12 agencies because they reported a relatively high proportion of spending on planning and administration; other agencies were chosen randomly.

The oversight office found that some agencies, such as San Bruno, spent heavily on planning and administration for a few years in order to launch major housing projects.

Other agencies did so without creating much housing at all. The Pismo Beach agency, for example, failed to repair, preserve, or create any affordable housing in a 13-year span, while characterizing all expenditures as planning and administration.

Based on examination of the 12 agencies and review of 42 audits conducted by the Department of Housing and Community Development, the oversight office found that:

- No state agency routinely enforces the laws that restrict how low- and moderate-income housing funds may be used, and the state's oversight mechanisms are few and flawed.

- Agencies commonly use their low- and moderate-income housing funds to pay for salaries and overhead in other city or county departments without documenting a direct connection to affordable housing production.

- Few redevelopment agencies comply with a law that requires officials to "determine" each year the necessity of spending any housing set-aside money on planning and administration.

- Agencies often submit incorrect information to the Department of Housing and Community Development, marring the state's primary source of information about how redevelopment agencies spend affordable housing money.

- Some redevelopment agencies spend housing set-aside funds for possibly impermissible uses, including a public relations campaign, a state Capitol lobbyist, and a non-profit group that offers legal advice on housing discrimination.

The Senate Office of Oversight and Outcomes recommends many changes to encourage efficient use of low- and moderate-income housing funds. Among them:

- The Department of Housing and Community Development should resume regular audits of how redevelopment agencies use their affordable housing money.

- The Legislature should consider requiring redevelopment agencies to publicly itemize and describe housing set-aside fund expenditures.

- The State Controller's Office should refer to the Board of Accountancy those Certified Public Accountants who do substandard audits of redevelopment agencies.

The non-partisan Office of Oversight and Outcomes was created in 2008 by Senate President pro Tempore Darrell Steinberg (D-Sacramento) to bolster the Senate's ability to measure government performance.