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BARBARA FERRARO, MAYOR PRO TEM
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JOHN CRUIKSHANK, COUNCILMEMBER
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August 16, 2022,

Via Email

The Honorable Gavin Newsom
Governor, State of California
1021 O Street, Suite 9000
Sacramento, CA 95814

The Honorable Toni Atkins
California State Senate
1021 O Street, Suite 8518
Sacramento, CA 95814

The Honorable Anthony Rendon
California State Assembly
State Capitol, Room 219
Sacramento, CA 95814

Gustavo Velasquez
Director, Department of Housing and
Community Development
2020 West Camino Avenue
Sacramento, CA 95833

SUBJECT: California State Auditor Audit Report No. 2021-125; Regional Housing Needs Assessments

Dear Governor, Legislative Leaders and Director Velasquez:

We write as a unanimous City Council of the City of Rancho Palos Verdes to express our concerns at the failure of the Department of Housing and Community Development (HCD) to ensure that its recent Regional Housing Needs Assessments (RHNA) are accurate and adequately supported. The recent RHNA allocation applicable to the City of Rancho Palos Verdes represents an almost impossible burden on a community predominately located within a Cal Fire-designated Very High Fire Hazard Severity Zone.

To have recently reviewed the Acting State Auditor's report on the methodology utilized by HCD resulting in inflated RHNA requirements by hundreds of thousands of housing units, we find this report profoundly disappointing. We now urge you, as the legislative leaders of this state and the Director of HCD to carefully review the same and immediately take corrective action to remedy misallocations caused by HCD's errors and failure to comply with statute.

In his March 2022 report, your Acting State Auditor audited HCD's RHNA process based on multiple claims that HCD overinflated RHNA determinations for many regional COGs and failed to follow statutory requirements as part of the RHNA process. Your Acting State Auditor found that HCD had made at least the following errors in its RHNA allocations:

1. HCD failed to provide adequate analysis to support its health vacancy rate assumptions. Healthy rental vacancy rates are typically 5%, while healthy owner-occupied housing vacancy rates are roughly 1.5%. However, HCD used 5% as the “healthy” vacancy rate for *both* rental and owner-occupied housing types, which resulted in an *overinflated housing need by more than 200,000 units*.

2. HCD made several data entry errors. HCD used census data from the wrong year for one region, and arithmetic errors in the household population numbers in its letters sent to certain regional councils of governments (COGs). While these errors apparently did not affect the final RHNA determination for these regions, it indicates there may be additional and significant errors that were not the subject matter of the audit.

3. HCD was inconsistent in its use of comparable regions. HCD did not consistently apply comparable regions for certain regional COGs. For example, for the San Diego Association of Governments (SANDAG), HCD used data from the 2016 5-year American Community Survey (ACS), but in the Sacramento Area Council of Governments (SACOG) and Southern California Association of Governments (SCAG) regions, it used the 2017 5-year ACS data, while in the Association of Bay Area Governments (ABAG), it used the 2018 5-year ACS data. Furthermore, for three regional COGs, HCD chose to use the national average of a data set, despite the fact that the national average includes rural and urban areas, but the regional COGs are one of the densest urban areas in the U.S., which is completely incomparable. However, in another regional COG, HCD used the weighted average of the seven largest metropolitan areas as the comparable region, which would yield more accurate results.

4. HCD failed to consider the balance between jobs and housing in its assessments and inconsistently addressed housing lost through wildfires. Although there is no consensus on the methodology to address the jobs-housing imbalance, HCD makes assumptions regarding super commuting and median income. HCD’s inherent assumption is that super-commuting is economically driven, however, the median income of super-commuters is twice the median income of those who commute 30 mins or less. It would appear that super-commuting may be a choice for many and is not necessarily an indicator of insufficient housing. The typical planning approach has been to compare the jobs-to-housing units to an optimal 1.5 jobs for every housing unit. Using that measure, only one metropolitan statistical area (MSA), San Jose-Sunnyvale, has too little housing. Many other MSAs have the inverse issue - too many housing units for the number of jobs available

5. The California Department of Finance (DOF), which calculates population projections, should show assumptions it made in its determination of household need. In the past, the DOF has been responsible for estimating the number of households needed (pent-up demand and future growth). The DOF economists and demographers have traditionally provided that household number to HCD which then converted households to housing units by adding a buffer for vacancies and replacement, thus ensuring a healthy housing market.

Governor, Legislative Leaders and Director Velasquez

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Through this housing cycle, HCD assumed that the DOF underestimated the number of households needed, despite its use of 20-year trends and adjustments to cope with market anomalies. HCD, under the direction of the Legislature, therefore, made its own unsubstantiated adjustments to the number of households needed. The overlap of work done by DOF and HCD resulted in an **over-estimate of approximately 733,000 housing units** for the four largest COGS - ABAG, SCAG, SANDAG and SACOG.

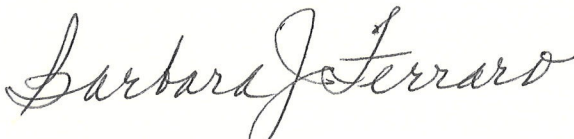
To summarize, your Acting State Auditor recommended that HCD institute processes to ensure the RHNA process is accurate, consistent, and transparent. Unfortunately, the Acting State Auditor has no authority to require HCD to re-assess the RHNA determinations or to require HCD to follow statutory requirements in the future. Thus, HCD has no obligation to implement any of your Acting State Auditor's recommendations or fix any existing errors in the RHNA determinations.

Rancho Palos Verdes is within the SCAG region and our community is working diligently to prepare and submit its 6th Cycle Housing Element. This "over-estimate," of course, directly adversely impacts our community and places an undue and unrealistic burden on the City to identify sites adequate to accommodate additional housing. As already noted, the unique conditions in our community require that our RHNA be fair and equitable. We now look to you, as our state leaders, to immediately address your Acting State Auditor's report and work to immediately correct the deficiencies in the most recent HCD RHNAs.

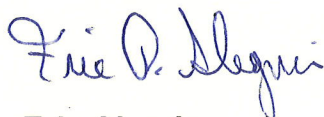
Sincerely,



Dave Bradley
Mayor



Barbara Ferraro
Mayor Pro Tem



Eric Alegria
Councilmember

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John Cruikshank
Councilmember



Ken Dyda
Councilmember

cc: Ben Allen, Senator, 26th State Senate District
Al Muratsuchi, Assemblymember, 66th State Assembly District
Jacki Bacharach, South Bay Cities Council of Governments
Jeff Kiernan, League of California Cities
Marcel Rodarte, California Contract Cities Association
Sharon Gonsalves, Renne Public Policy Group
Kome Ajise, Executive Director, Southern California Association of Governments
Rancho Palos Verdes City Council and City Manager