As referenced, Marc Verville's Letter submitted through the portal 6/20/24

SB 7 - Letter of Strong Opposition - Local Government Committee 06-26-2024

Dear Assemblymembers,

I am writing in strong opposition to Senate Bill 7 as revised on June 10, 2024.

This bill has been subject to wholesale mischaracterization as being comprised of "minor improvements" and "...technical modifications".

The provisions in this bill are actually monumental changes to the RHNA process that will subject cities and other jurisdictions to enhanced unsupported discretionary, arbitrary, and gratuitous allocations of housing units based on special interest lobbying with the only outcomes being opportunistic profiteering by developers and the meaningless destruction of neighborhoods, their open spaces and commercial infrastructure. Moreover, this bill strips these jurisdictions of their ability to appeal defectively determined allocations (Legislative Counsel's Digest ¶2).

The central issues of this bill include:

(1) Allocations to jurisdictions are somehow scientifically determined when they are in fact discretionary,
(2) Elimination of the ability of jurisdictions to appeal allocations invites abuse,
(3) Prohibition on consideration of the physical and financial infrastructure impacts to a city for regional allocations unaccompanied by corresponding revenue sources for that city,
(4) Elimination of consideration of existing open space zoning grossly overstates jurisdiction capacity, at high cost to the jurisdictions, and
(5) Complete absence of any robust economic theory or evidence supporting the notion that unplanned, opportunistic density will create, at some indeterminate period in the future, any reality of improved housing affordability. Moreover, there is significant robust economic research (noted below) indicating no impact to increasing affordability of simple market rate supply. In fact, this density (which is overwhelmingly market rate) will only result in accelerated gentrification, which is the opposite intent of this legislature!

1. In the 6th Cycle, the Southern California Association of Governments (SCAG) employed entirely discretionary processes to allocate units to jurisdictions representing 47% of the state's population. The source documentation from their iterative allocation process drafts has provided the corroborating data.

From a housing affordability policy perspective, this process has eliminated any and all integrity in the unit allocations.

For “Projected Need”, SCAG simply repurposed the 5th Cycle allocations en masse and relabeled them as the “Projected Need” for the 6th Cycle. While there was some jurisdiction-by-jurisdiction variation, the correlation across all 197 SCAG jurisdictions of the total 5th Cycle allocations to the 6th Cycle “Projected Need” was 0.98 (almost a perfect 1.0). This was done despite clear demographic trends at the time (2019) indicating that the prior cycle growth projections were completely obsolete. No audit of those carryover projections for continuing relevance was ever attempted.

For “Existing Need”, SCAG demonstrated the completely discretionary and subjective nature of this entire category of allocations by moving 124,000 units across 169 (86%) of the 197 SCAG jurisdictions in the space of about 2 ½ weeks(!). This action negated the entire systemic process outcome of the prior 12 or so months. This wholesale discretionary reallocation was in response to lobbying by certain political advocacy organizations.

It should be noted that the issues present in SCAG were not isolated among COGS in the state.

2. The provisions in this bill prohibiting a city or county from filing an objection to the regional housing need determination removes any remaining accountability for special interest influence and manipulation of regional allocations from the entire process. Given the process abuse evident in the 6th Cycle allocation process in SCAG, this prohibition incentivizes non-productive, non-systematic, and opportunistic behavior which will ultimately overwhelms local infrastructure and is destructive of local government finances.

3. The provisions in this bill prohibiting consideration of the physical and financial infrastructure impacts to a city for regional allocations unaccompanied by corresponding property tax revenue enhancement for the impacted city is gratuitously destructive of local government finances and will supercharge increases in cost of living and gentrification. As noted by California Forward in their analysis below, the legislature has not addressed the property tax structure that deprives cities of the vast majority of any property tax receipt increases that new development provides. This will lead to general tax increases that increase the cost of living and thus supercharge gentrification pressures on jurisdictions.

> *Removing Fiscal Barriers to Housing Production - Gateway Cities Report - CA Forward 06-23-2023*
> *https://cafwd.org/resources/removing-fiscal-barriers-to-housing-production/*

4. The provisions in this bill that supercharge the unplanned opportunistic density will be devastating to communities throughout the state, further

incentivizing the biased, discretionary, unchecked, and counter-productive allocation determinations noted above.

Specifically, the broad provisions of §3(e)(2)(B) that instructs local councils of governments to ignore existing zoning ordinances and land use restrictions of a locality when determining allocation levels is an invitation for rampant abuse and over-allocation of units, given the actual unstructured and subjective process. Use of critical open spaces that serve the community and cannot be rezoned will overstate the capacity of a jurisdiction to absorb density and will exacerbate the already unachievable infrastructure costs a jurisdiction will be responsible for without significantly raising the cost of living for entire communities.

It should also be clear that the nominal allocations made by a COG in no way reflect what is getting built. The 6th Cycle has an overall inclusionary rate of around 60% while what is getting built is closer to 10% with density bonuses. So, RHNA is stated at less than 1 market rate unit per affordable unit while the reality is that as many as 9 market rate units for each affordable unit are getting built. The additional 8 units are not required to be either disclosed in the Environmental Impact Reports or the Housing Elements. They do have a profound impact on city finances, especially since cities keep only a small fraction of any incremental property taxes generated by the new development.

5. Unplanned, opportunistic density cannot create, at any point in time, improved housing affordability in a jurisdiction. This was the basis for the invalidation of SB9, specifically. But, more broadly, it critically requires the impossible assumption that developers and investors will continue to invest in projects even as the revenues from each additional project declines as local market rents become more "affordable". There is absolutely zero evidence for that behavior in the real world. Developers and investors stop at the point of market saturation to keep pricing high and to avoid taking accounting (and cash flow) losses on their portfolios of existing projects.

Harvard's Joint Center for Housing Studies (JCHS) recently published their study noting that "Our results imply that new suburban housing supply has little effect on urban housing affordability or on the welfare of low-income urban households."

> *Suburban Housing and Urban Affordability - Evidence from Residential Vacancy Chains - Harvard JCHS 04-18-2024*
> *https://valentinegilbert.github.io/files/gilbert_jmp.pdf*
> *Summary:*
> *https://www.jchs.harvard.edu/research-areas/working-papers/suburban-housing-and-urban-affordability-evidence-residential-vacancy*

The University of Kansas' Department of Urban Planning has also released a comprehensive analysis that echoes the Harvard JCHS conclusions: "When looking at the number of housing units available, it becomes clear there is no overall shortage of housing units available. The numbers also showed that nearly all metropolitan areas have sufficient units for owner occupancy. But nearly all have shortages of rental units affordable for very low-income renter households."

Where Is the Housing Shortage - Dept of Urban Planning - U of Kansas 01-14-2024
https://doi.org/10.1080/10511482.2024.2334011
Summary:
https://phys.org/news/2024-06-housing-shortage.html

Stated differently, the affordability crisis is an income gap issue, not a supply issue. The RHNA construct is adding fuel to the massive gentrification fire by overwhelmingly incentivizing market rate luxury development that is up to 12x the stated RHNA unit allocations and which dwarfs the impact of any token inclusionary affordable units.

SB 7 amplifies RHNA's already overwhelming process defects by orders of magnitude with no prospect of improving any stated legislative outcome objectives. The issues noted above justify defeating this very poorly conceived, and potentially destructive bill.

Thank you,
Marc Verville
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