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WATER, PARKS, AND WILDLIFE

February 12, 2026

The Honorable John Harabedian, Chair
Joint Legislative Audit Committee
1020 N Street, Room 107
Sacramento, CA 95814

RECEIVED 2/12/2026

Re: The Department of Housing and Community Development's monitoring charges

Dear Chair Harabedian,

I respectfully request the Joint Legislative Audit Committee approve an audit regarding the Department of Housing and Community Development's charges to monitor affordable housing developments.

California currently has a shortage of more than 1 million homes affordable to lower-income households. In response to this need, the Governor and Legislature have enacted dozens of bills to streamline the land use entitlement process, and California now has more than 44,000 proposed units of affordable rehousing that are shovel-ready but for access to scarce state financing resources. To the extent that state program rules can increase the amount of private capital flowing to affordable housing, less state subsidy is required and the state can fund more units with the resources available.

The Department of Housing and Community Development (HCD) administers a number of affordable rental housing finance programs, with the Multifamily Housing Program (MHP) being the largest. HCD's rental housing programs require 55 years of affordability, and the department monitors developments during that time period for compliance with affordability requirements and other program rules. To cover the cost of its compliance activities, HCD collects some level of annual interest payments on its loans for which interest payments otherwise are deferred until the end of the loan. Since the inception of MHP in 2000, the annual monitoring charge amounts to .42% of the original loan amount.

In the early days of MHP when the current formula was established, loan amounts were relatively small. In 2025, the average MHP loan award was almost \$24 million per development, and the highest loan award was \$42.5 million. Based on the .42% formula, the average development pays \$100,000 per year in monitoring fees. The development with the highest loan award will pay \$178,000 per year, roughly equivalent to the cost of a full-time staff person.

Private lenders base their loan amounts on the net operating income that a development is projected to have each year. Because these HCD monitoring payments are mandatory, private lenders count the monitoring fees as an operating cost and reduce the projected income of a development accordingly. As a result, HCD's monitoring fees directly reduce private funding to a development, thereby increasing the need for state subsidy and reducing the number of units HCD can fund in aggregate. A 2023 analysis concluded that capping HCD's monitoring fees at \$260 per unit per year would unlock an additional \$19 million in private financing that could result in more than 300 additional units of affordable housing being built each year. Therefore, it is critical that HCD's monitoring fees be as efficient as possible.

Audit Scope

The purpose of the proposed audit is to assess 1) the extent to which HCD's annual monitoring charges are reasonable when compared to the annual cost of monitoring a development, and 2) how HCD's monitoring activities and charges compared to those of the Tax Credit Allocation Committee and the California Housing Finance Agency.

Specifically, the audit will perform the following work related to HCD's monitoring charges:

- Review HCD's monitoring activities for funded developments that closed on their permanent financing from HCD in the last five years, including the nature and time spent on work associated with each development and the frequency of the various monitoring activities.
- Review the costs of HCD's monitoring activities, both in the aggregate and per development.
- Determine the amount of monitoring charges paid by each of those developments.
- Compare HCD's monitoring charges to the cost of the monitoring activity, both in aggregate and per development.
- Assess whether HCD's monitoring charges are reasonable when compared to costs and make any relevant recommendations.
- To the extent that HCD's monitoring charges exceed monitoring costs, assess how excess funds are spent.
- Compare HCD monitoring activities and charges compared to those of the Tax Credit Allocation Committee and the California Housing Finance Agency.

Thank you for your consideration of this audit request. If you have any questions, please do not hesitate to contact me or Mark Stivers on my staff at 916-319-2015.

Sincerely,



Anamarie Ávila Farías
Assemblymember, 15th District