

Audit of the Sacramento Housing and Redevelopment Agency

Report # 2015-07 | September, 2015

SHRA's Funding Practices and Project Selection Should be More Transparent

SHRA Could Improve Reporting on Affiliated Nonprofits' Financial Information to the City Council, and Better Segregate Staff Responsibilities from their Role on the Affiliated Nonprofits' Boards

Construction Costs for SHRA-Funded Projects are Consistent with Other Low Income Housing Projects in California

SHRA Should Consider Adopting Reporting and Budgeting Practices Similar to Those of City Departments



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AUDIT FACT SHEET

Audit of the Sacramento Housing & Redevelopment Agency

We recommend the SHRA:

- Ensure that all affordable housing funds are announced through an annual public notice, such as a Notice of Funding Availability or Request for Proposals.
- Request calendaring of Multifamily Lending priorities for discussion by the City Council prior to any changes.
- Clarify in its Multifamily Lending Policies how projects meeting the same priority status will be evaluated for funding selection.
- Publish project selection criteria as part of the annual public noticing process, and consider assigning a point system to evaluate competing projects.
- Establish a Multifamily Lending Loan Committee to review proposed loans over a minimum threshold to be established by SHRA and make loan recommendations to the SHRA Commission.
- Work with TCAC to identify an external Local Reviewing Agency to make recommendations on Housing Authority projects.
- Establish a written policy that any SHRA staff member who sits on the board of a nonprofit may not participate in funding awards for which that nonprofit is competing.
- Continue to ensure reasonable construction costs.
- Request calendaring of annual reporting of City funds, including on the Housing Trust Fund and the City's residential hotels, for discussion by the City Council.

We recommend the City Council:

- Request the SHRA Executive Director to provide more detail in the annual budget presentation.
- In collaboration with the County Board of Supervisors, review the appropriateness of SHRA's structure and scope of activities.
- Calendar SHRA's CAFR for discussion at the Budget and Audit Committee.
- Request that SHRA present detailed financial information on the nonprofit corporations during the annual CAFR presentation.
- Consider requesting the SHRA Executive Director to provide midyear budget reports to the Council.

September 2015

BACKGROUND

The Sacramento Housing and Redevelopment Agency (SHRA) manages public housing and community development funds for the City and County of Sacramento. In the wake of the dissolution of redevelopment and the ongoing loss of federal support for public housing, funding for affordable housing rehabilitation and construction has become more limited, increasing the competition for resources.

FINDINGS

SHRA's funding practices and project selection should be more transparent.

Affordable housing funds should be administered with the same level of public scrutiny and competition as any other municipal resource. SHRA lacks clear procedures for awarding funding, which can give the appearance of favoritism, particularly as the agency seeks funding for repositioned public housing assets. We found:

- SHRA does not publicize funding available for affordable housing development;
- SHRA should clarify its process for project selection;
- The City Council and public could benefit from more detailed budget presentations on multifamily spending;
- SHRA could benefit from a Loan Committee for additional oversight over multifamily lending;
- SHRA's role as the local reviewing committee for the Tax Credit Allocation Committee presents a potential conflict; and
- Because the agency is a lender and recipient of its multifamily financing, SHRA's structure may not be appropriate.

SHRA could improve reporting on affiliated nonprofits' financial information to the City Council, and better segregate staff responsibilities from their role on the affiliated nonprofits' boards.

While the affiliated nonprofit corporations are legally and financially independent, the City has an interest in their financial sustainability. We found that:

- The City Council would benefit from a detailed discussion about the affiliated nonprofits' financial condition; and
- SHRA staff who sit on the board of an affiliated nonprofit do not recuse themselves from SHRA's decision-making process to fund the nonprofit's projects.

Construction costs for SHRA-funded projects are consistent with other low income housing projects in California.

Affordable housing construction costs can be higher than for other types of housing because affordable housing projects often serve vulnerable populations and require special features, such as disability access. We found:

- Unit costs of multifamily projects funded by SHRA are consistent with other multifamily projects in California.

SHRA should consider adopting reporting and budgeting practices similar to those of City departments.

The City Council would benefit from SHRA following reporting and budgeting practices as consistent as possible with City departments. Specifically, we found:

- The City Council would benefit from midyear budget reporting by SHRA; and
- The City Council would benefit from clarifying when SHRA legislative items should be on the discussion agenda.

Introduction

In accordance with the City Auditor's 2014-15 Audit Plan, we have completed an *Audit of the Sacramento Housing and Redevelopment Agency*. We conducted this audit in accordance with Generally Accepted Government Auditing Standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

We would like to thank the staff of the Sacramento Housing and Redevelopment Agency for their time and cooperation during the audit process.

Background

Since 1982, the Sacramento Housing and Redevelopment Agency (SHRA) has managed and administered federal housing and community development funds on behalf of both the City and the County of Sacramento, through a Joint Exercise of Powers Agreement between the two jurisdictions. SHRA is the lead public agency for affordable housing development in Sacramento, and provides development funding, operating assistance and mortgage assistance for eligible projects. The agency also manages public housing units and Housing Choice Vouchers for the two jurisdictions. The agency currently oversees nearly 12,000 vouchers and 3,144 public housing units.

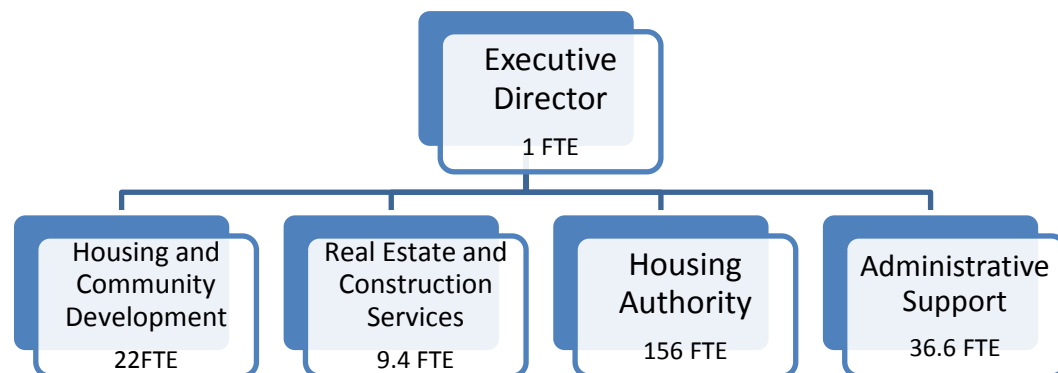
SHRA Commission

The SHRA Commission was established in 1974 by both City and County of Sacramento ordinances. The Commission serves as an advisory panel to SHRA on projects, programs and activities relating to housing development and the Housing Authority, and as the governing board of the Sacramento Housing and Redevelopment Agency pursuant to the Joint Powers Agreement. The SHRA Commission is comprised of five members appointed by the Mayor with approval by the City Council and six members appointed by the County Board of Supervisors.

SHRA Budget

In Fiscal Year 2015, SHRA's budget totaled \$184 million, with 225 full-time equivalent (FTE) employees. Of these, 205 positions were funded and 20 positions were unfunded.

Exhibit 1: SHRA Organizational Chart



Source: SHRA organizational charts

Since Fiscal Year 2012, SHRA has generated less program revenue than it has expended, although revenues have increased by eight percent from \$172 million in 2012 to \$186 million in 2014. Total expenditures have increased five percent from \$177 million in 2012 to \$186 million in 2014, as shown in the figure below. In addition, the SHRA annual operating budget has included interest expense, net transfers between government and business-type activities, and one time funds.

Exhibit 2: SHRA Financial Performance FY 2012 to FY 2014 (numbers expressed in thousands)

	2012		2013		2014	
Program Revenues and Expenses	Revenue	Expenses	Revenue	Expenses	Revenue	Expenses
Governmental						
Housing Operations	\$9,579	(\$9,477)	\$12,033	(\$10,700)	\$7,366	(\$12,349)
Community Development	\$25,949	(\$18,048)	\$13,458	(\$25,677)	\$32,883	(\$28,219)
Community Social Services	\$2,686	(\$2,860)	\$2,998	(\$2,946)	\$4,109	(\$3,745)
Interest Expense	\$0	(\$953)	\$0	(\$894)	\$0	(\$859)
Total Governmental	\$38,214	(\$31,338)	\$28,489	(\$40,217)	\$44,358	(\$45,172)
Business-Type						
Local Housing	\$6,751	(\$8,701)	\$11,239	(\$9,084)	\$15,146	(\$9,954)
Public Housing	\$15,334	(\$24,009)	\$14,327	(\$24,133)	\$16,020	(\$22,655)
Housing Choice Vouchers	\$112,118	(\$112,774)	\$107,185	(\$110,757)	\$110,261	(\$108,443)
Total Business-Type	\$134,203	(\$145,484)	\$132,751	(\$143,974)	\$141,427	(\$141,052)
Total Program Revenues/ Expenses	\$172,417	(\$176,822)	\$161,240	(\$184,191)	\$185,785	(\$186,224)
Investments, Transfers, Other *	\$123,546		\$7,130		\$22,773	
Total	\$295,963	(\$176,822)	\$168,370	(\$184,191)	\$208,558	(\$186,224)

Source: SHRA Comprehensive Annual Financial Reports, 2012-2014

* Includes one-time funds due to dissolution of Redevelopment Agency in 2012 and sale of Sutterview and Sierra Vista properties in 2014

Dissolution of Redevelopment Agencies

Redevelopment agencies had provided local governments the ability to capture a greater share of property taxes. After an area was declared a redevelopment project area, the share of property taxes that went to schools and other local agencies was frozen. All of the growth in property taxes (known as property tax increment) from that point on went to the redevelopment agency. Redevelopment agencies were required by California State law to set aside not less than 20 percent of all tax increment revenues into a Low and Moderate Income Housing Fund to develop housing for households at those income levels.

However, to address the State's ongoing budget deficit, the California State Legislature approved the dissolution of the State's redevelopment agencies with the 2011 Budget Act. Redevelopment agencies were officially dissolved as of February 1, 2012. As a result, property tax increment is now used to pay existing bonds for the dissolved redevelopment agencies, other enforceable obligations, and pass-through payments to local governments. The remaining property tax increment, which previously went to the redevelopment agencies, is now allocated to cities, counties, special districts, and school and community college districts.

To help facilitate the dissolution of redevelopment at the local level, successor agencies were established to manage the redevelopment projects already underway, make payments on enforceable obligations, and dispose of redevelopment assets and properties. In Sacramento, the legal and treasury functions related to the administration and management of the former redevelopment activities and payment of debt for the former redevelopment agencies of the City and County of Sacramento were assumed within the City and County management structure. All housing assets and housing functions of the former redevelopment agencies were assumed by the Housing Authorities of the City and the County to be staffed by SHRA.

Transition to Asset Management Model

In 2007, the US Department of Housing and Urban Development (HUD) began requiring housing authorities to convert to an asset management program for all public housing assets. The purpose was to decentralize accounting, budgeting, management and reporting functions for public housing properties and incorporate a project-based system to create higher levels of accountability and oversight. The asset management model reflected a major shift in operations, and the transition process required significant organizational changes for housing authorities. SHRA successfully completed the transition to asset management within one year, and as a result of this timely transition, SHRA avoided additional financial penalties imposed by HUD on other housing authorities.

2007 Asset Repositioning Study

In 2007, SHRA contracted with CSG Advisors and Abt. Associates to conduct an analysis of the long-term viability of its public housing developments. The consultants' report outlined a strategy for the agency to reduce its dependence on dwindling federal funding for public housing by repositioning the public housing assets to increase

opportunities for private and other public financing. Public housing properties could be disposed to nonprofit entities who would act as the managing general partner in tax credit developments to qualify the project for property tax exemptions—a practice widely used around the country that grew out of the HUD’s HOPE VI model¹.

SHRA endorsed the recommendations in this report and moved quickly to request HUD’s approval to dispose of the three high-rise developments—Washington Plaza, Sutterview and Sierra Vista. These properties were transferred to the Sacramento Housing Asset Repositioning Program, Inc. (SHARP), an affiliated nonprofit organization created by SHRA expressly for this purpose. The repositioned properties were awarded project-based vouchers which provide market rate revenue for the properties. The redeveloped properties will be managed by SHRA under contract with SHARP.

SHRA Multifamily Lending Activities

Affordable housing development projects require a complex mix of financing tools such as loans, grants, and various other programs containing numerous qualifications requirements and restrictions. The federal government typically provides major capital support through low-income housing tax credits (LIHTC), community development block grants (CDBG), and HOME Investment Partnership Program (HOME) funds, in addition to other operating subsidies provided through HUD programs. As federal support declined in recent years, local and state governments also started offering financing and incentive programs, including housing trust funds and state tax credits.

Low Income Housing Tax Credits

The federal low-income housing tax credit (LIHTC) represents a major source of funding for much of the affordable housing that is being constructed today. Created under the Tax Reform Act of 1986, the LIHTC program is administered at the state level with a fixed allocation from the federal government based on the state’s population. Federally-subsidized projects qualify for 4 percent tax credits. Other low income housing projects may qualify for competitive 9 percent tax credits, which are awarded in two annual competitive allocations to projects that best meet the state’s priorities and goals.

In California, the Tax Credit Allocation Committee (TCAC), a division of the State Treasurer’s Office, administers the tax credits. The federal government allocates the nine-percent competitive credits to each state based on a calculation of \$2.15 per capita. TCAC then allocates the competitive tax credits to specific types of projects and to geographic regions within the state, based on population and housing needs. The Tax Credit Allocation Committee awards these tax credits to eligible projects within geographic regions through a competitive process. The Capital/Northern California area

¹ HOPE VI was launched in 1992 by HUD to replace the country’s most severely distressed public housing developments with modern mixed-use developments to support neighborhood revitalization in urban areas. HUD provided grants to eligible Housing Authorities, and encouraged them to collaborate with private for-profit and non-profit developers to leverage and maximize resources for long-term viability.

accounts for six percent of the State’s population and typically receives enough credits to fund one project in each allocation round.

SHRA Affordable Housing Financing Tools

As the lead public agency for affordable housing development in Sacramento, SHRA provides multiple types of assistance to eligible projects, including:

- Mortgage Revenue Bonds: SHRA issues tax-exempt mortgage revenue bonds, the proceeds from which are lent to developers for construction/rehabilitation and permanent financing for multifamily rental projects at rates below conventional commercial loan rates.
- Community Development Block Grant: The Community Development Block Grant (CDBG) is a federal block grant that provides annual allocations to larger cities and urban counties to develop housing and community resources to expand economic opportunities for low- and moderate-income residents.
- HOME: The HOME Investment Partnerships Program (HOME) is a federal block grant that provides states and localities with a flexible funding source to address affordable housing needs. Government bodies typically use these funds—often in partnership with local nonprofit groups—to support the construction or rehabilitation of affordable housing for rent or homeownership and to provide direct rental assistance to low-income people. HOME is the largest federal block grant designed exclusively to create affordable housing for low-income households. Eligible projects can receive HOME funds in the form of long-term loans at rates below conventional commercial loan rates.
- Housing Trust Fund: The Sacramento City Council created the Housing Trust Fund in 1989 to raise local revenues for affordable housing from fees placed on commercial development. These funds are primarily used for new construction or for substantial rehabilitation, and serve households earning up to 80 percent of the area median income.
- Tax increment Funds (now Residual Redevelopment Revenues): Subsequent to the dissolution of the Redevelopment Agency, residual redevelopment revenues are allocated to pay enforceable obligations such as debt service on outstanding bonds.
- Housing Bond Proceeds: SHRA serves as the housing successor and can spend the remaining low and moderate income housing bond funds and Supplemental Educational Augmentation Revenue Fund (SERAF) loan repayment for new affordable housing projects.
- Seller Carry Back Loans: Seller carry back loans are typically used when the purchaser of a property cannot obtain sufficient third party loans to meet the purchase price, and the property seller carries the loan instead. SHRA provides seller carry back loans to private buyers for the purchase of former Redevelopment Agency housing properties and to SHARP for Housing Authority repositioned properties.

Awards and Recognition

In 2013, the Housing Authority of the City of Sacramento received HUD's "High Performer" designation. Additionally, in 2013 and 2014, HUD awarded the Housing Authority of the County of Sacramento the "High Performer" designation, the agency's highest level of commendation.

In April 2015, the City of Sacramento with SHRA serving as the lead agency received a Promise Zone designation from the Federal government, which will bring additional resources to support community revitalization efforts in the area. Sacramento was one of eight cities in the nation selected for this competitive program.

SHRA has also been awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association for 22 consecutive years, and has received the Meritorious Budget Award from the California Society of Municipal Finance Officers for three years.

Objective, Scope and Methodology

The purpose of this audit was to assess the structure and formation of SHRA's affiliated nonprofits, to evaluate SHRA's practices for issuing grants and loans, and to analyze the agency's governance structure and financial controls. Our scope included the past three fiscal years (2011-2014), although we reviewed certain activities in earlier years to understand the agency's multifamily lending practices and creation of nonprofit affiliates. We focused primarily on projects and actions located in the City of Sacramento.

Our fieldwork and analysis included:

- Observations of nonprofit board meetings, agency commission meetings, and construction monitoring meetings;
- Interviews with key employees at SHRA, as well as external stakeholders including affordable housing developers, City employees, former SHRA employees, Commission members, and elected officials;
- Review of two years of agendas and minutes for the SHRA Commission and Housing Authority Board (City Council);
- Review of agency policy documents and sample project files for three recent developments; and,
- Analysis of financial documents and project costs for all projects funded by SHRA over the past three fiscal years.

Survey of Comparable Jurisdictions

In addition to the activities listed above, we conducted a survey of ten comparable jurisdictions and also conducted a literature review to identify best practices in governance and multifamily lending. The surveyed jurisdictions include: Charlotte, North Carolina; Denver, Colorado; Portland, Oregon; Seattle, Washington; and the cities of

Fresno, Los Angeles, Oakland, San Diego and San Francisco and the County of Santa Clara in California.

Because of SHRA's unique structure—with jurisdiction over both City and County, and for both the housing authority and financing agency—few exact comparable agencies exist. The San Diego Housing Commission is the only agency in California that is similarly structured.

Results from the survey are discussed throughout this report, and a summary is provided as Appendix 2.

Finding 1: SHRA’s Funding Practices and Project Selection Should Be More Transparent

As noted in the Introduction to this report, SHRA is the lead agency for gap financing for multifamily affordable housing development in the City of Sacramento. Although it operates with significant autonomy, SHRA’s goals and activities have been incorporated into major Sacramento housing planning documents. SHRA makes loans to multifamily development projects, including those of its own nonprofit affiliates, using various financing tools administered on behalf of the City, including the Housing Trust Fund, CDBG and HOME Funds.

We found that unlike most local California agencies, SHRA combines its role in owning and operating housing with its role in overseeing and granting financing for affordable housing development. Given its current structure and operations, SHRA is at risk of potential conflict and appearance of favoritism in recommending or awarding financing to affordable housing developments. Specifically, we found:

- SHRA does not publicize funding available for affordable housing development;
- SHRA should clarify its process for project selection;
- The City Council and public could benefit from more detailed budget presentations on multifamily spending;
- SHRA could benefit from a Loan Committee for additional oversight over multifamily lending;
- SHRA’s role as the Local Reviewing Agency for the Tax Credit Allocation Committee presents a potential conflict; and
- Because the agency is both a lender and recipient of its multifamily financing, its structure may not be appropriate.

Because many of SHRA’s resources come from the Federal government and requires full and open competition for public resources, and the loans serve to meet affordable housing goals established by the City, SHRA multifamily lending should be held to at least the same transparency requirements that apply to ordinary municipal spending. SHRA needs to develop formal policies and procedures to better ensure competitive and open processes to recommend and award financing to affordable housing development projects.

SHRA Does Not Publicize Funding Available for Affordable Housing Development

Since 1984, the Federal Government has required full and open competition. To achieve full and open competition, federal agencies issue funding opportunity announcements and publish their intent to award federal funds. The US Department of Housing and Urban Development (HUD) encourages housing finance agencies to use free and open solicitations to prevent the appearance of one organization having a favored status.

All of the ten comparable jurisdictions surveyed for this audit utilize public processes for awarding affordable housing resources for multifamily project development, through annual Notices of Funding Availability (NOFAs) or Requests for Proposals (RFPs). In addition, all but one of the surveyed jurisdictions utilizes an Independent Review Panel, comprised of a combination of agency staff and outside experts, for project selection. The jurisdiction that does not use an Independent Review Panel awards funding to the lowest bidder.

In our opinion, the SHRA could benefit from a public process to avoid the risk of the appearance of favoritism and to encourage greater public trust in the fair and equal availability of funds for eligible projects.

RECOMMENDATION

We recommend the SHRA:

1. Ensure that all affordable housing funds are announced through an annual public notice, such as a Notice of Funding Availability or Request for Proposals.

SHRA Should Clarify its Process for Project Selection

According to SHRA senior staff, funding recommendations are made internally by SHRA staff based upon the funds available at the time of application. As stated in SHRA's Multifamily Lending and Mortgage Revenue Bond Policies, following a meeting with SHRA staff to introduce a project, an applicant may submit a pre-application for multifamily financing. Pre-applications for agency financing are accepted on a quarterly basis. After review of the pre-application and based on funding availability, agency staff will request full applications from applicants who meet project priorities.

According to SHRA management, funding decisions are guided by the priorities outlined in the SHRA Multifamily Lending and Mortgage Revenue Bond Policies that were adopted by the City Council on March 17, 2009. This item appeared on the City Council's March 17, 2009 Consent Agenda. SHRA's 2009 multifamily lending priorities include preservation, recapitalization, inclusionary housing, rehabilitation and new production.

SHRA's 2009 Multifamily Lending and Mortgage Revenue Bond Policies set different priorities for awarding project funding than prior policies adopted by the City Council in 2005. As Exhibit 3 below shows, the agency's priorities have changed over time, with the top priority for multifamily loans shifting from new construction to the preservation of publicly subsidized projects. This marks a major policy change, with a potentially significant impact on the production of affordable housing in the area, resulting in the construction of fewer new affordable housing units. In our opinion, given the implications for future development, the City Council should discuss SHRA's multifamily lending policies as a regular meeting agenda item, not on the consent agenda.

Exhibit 3: SHRA Funding Priorities, 2005 and 2009

	2005	2005	2009	2009
	9% Tax Credits	Multi-Family Loans ^a	9% Tax Credits	Multi-Family Loans
Qualified Nonprofit Developer				
Receiving Agency Subordinate Loan				
Mixed Income Units, with 35% min market rate				
Acquisition/Rehab in redevelopment area	1		2	4
New construction, area median income 80+%				
New construction, Inclusionary Housing	2	√		3
New construction, Transit Oriented Development	2	√		4
Acquisition/Rehab, city/countywide	3	√		
New construction, "redevelopment benefit"	3	√	3	4
Other	4			
Acquisition/Rehab to serve special needs tenants			1	
New construction to serve special needs tenants			1	
Acquisition/Rehab of SROs			1	
New construction of SROs			1	
Preservation of publicly subsidized projects				1
Recapitalization/Rehab of affordable units				2

Source: 2005 Multifamily (MF) & MRB Policies, 2009 MF & MRB Policies

^a In 2005, the four Multifamily Funding Priorities were ranked equally.

It is not clear how SHRA measures otherwise equal projects within the same priority status, as SHRA does not currently have a system for quantitatively evaluating project proposals (for example, using weighted criteria). Previously in 2005, SHRA's 9 Percent Tax Credit project prioritization included a tiebreaker policy for project applications with the same priority tier: preference would be granted to the project requiring the lowest amount of agency assistance per unit, as a percentage of total project costs. This practice ended in 2009.

In our opinion, given the current funding environment with limited resources to address significant needs, SHRA needs to clarify its evaluation criteria as part of a formal competitive NOFA or RFP process to avoid the appearance of wrongdoing or favoritism. As HUD notes in its "Playing by the Rules" handbook for sub-recipients of Community Development Block Grants, an agency "must maintain records to detail the significant history of a procurement. These records include...files on the rationale for ...the contractor selection/rejection process." HUD further states that "there must be written selection procedures for procurement transactions." These requirements have been

codified in federal regulations¹ and must be adopted by local jurisdictions that allocate CDBG and HOME funds for affordable housing development.

SHRA's current project selection process, in which funding criteria are not presented publicly through a formal NOFA or RFP process, is not consistent with federal guidelines or common practices. While SHRA is allowed discretion in how it awards funds, the lack of policies to show how the agency uses this discretion could give the appearance of favoritism.

RECOMMENDATION

We recommend the SHRA:

2. Request calendaring of Multifamily Lending priorities for discussion by the City Council prior to any changes.
3. Clarify in its Multifamily Lending Policies how projects meeting the same priority status will be evaluated for funding selection.
4. Publish project selection criteria as part of the annual public noticing process, and consider assigning a point system to evaluate competing projects.

The City Council and Public Could Benefit from More Detailed Budget Presentations on Multifamily Spending

Under the Joint Exercise of Powers Agreement, the City Council must approve SHRA's annual budget and budget modifications, as well as the Capital Improvement Program, which includes housing development and multifamily lending activities. The SHRA budget approved by the Council only identifies major categories of expenditures. The budget presentation does not provide details on how funding sources for capital projects (including HOME, CDBG and the Housing Trust Fund) are being used to support specific multifamily developments. Budget information instead tends to be rolled up into major categories, as shown below.

¹ Procurement requirements for CDBG and HOME awards are codified in 24 CFR 85 and 2 CFR 200, respectively.

Exhibit 4: Summary of Annual Budgeted Expenditures Presented to Council, Fiscal Years 2012-2015

Operations	2012	2013	2014	2015
Salaries and Benefits	\$23.3	\$19.9	\$19.6	\$20.9
Services and Supplies	15.6	14.7	14.8	15.3
Housing Assistance Payments	101.9	107.2	103.5	108.1
Debt Service	42.4	3.1	2.3	3.2
Financial Transactions	31.1	0.9	0.6	0.5
Public Services	3.6	5.1	4.9	5.2
Subtotal Operations Expenditures	\$217.9	\$150.9	\$145.7	\$153.2
Capital Projects				
Housing Development and Preservation	\$10.1	\$13.2	\$14.0	\$19.4
Housing Authority Capital Projects	2.1	2.3	4.4	2.9
Infrastructure and Public Improvements	5.8	3.1	3.5	8.6
Subtotal Capital Projects	\$18.0	\$18.6	\$21.9	\$30.9
Total Budgeted Expenditures	\$235.9	\$169.5	\$167.6	\$184.1

Source: SHRA Annual Proposed Budget Presentations to Council

While project funding details are provided in SHRA’s Annual Action Plan for CDBG, HOME and other HUD funds, and in the agency’s actual budget document, project funding is not readily accessible or clearly synthesized for public consumption. SHRA does not have a document that succinctly summarizes funding by project.

An example of a more detailed report on affordable housing funding as presented by the San Francisco Mayor’s Office of Housing in their annual report is shown in Exhibit 5. As shown, this table lists specific projects that have received funding, including the amounts and sources of that funding, as well as the total numbers of affordable units completed and preserved. A clear presentation of the agency’s funding details in this type of format helps to facilitate the dissemination of information for public use.

Exhibit 5: Sample Annual Report Presented by San Francisco Office of Housing

Table 2: MOHCD Affordable Housing Production, 2012-13 and 2013-14

Affordable Housing Production	2012-2013	2013-2014
New Affordable Rental Units Completed	207	253
Existing Affordable Rental Housing Units Preserved	556	72
Total Affordable Housing Units Produced/Preserved	763	325

Affordable Housing Production Pipeline - projects receiving City funding during fiscal year	Project Sponsor/Borrower	Funding Source	Total Development Cost (as of FY 12-13)	2012-2013				
				City Funds Committed / Closed for the Project FY 2012-2013	Previously Committed City Funds	Total City Commitment	Non-City Funds Leveraged	% City Funds Leveraged
Rosa Parks II	Rosa Parks	HOME	\$42,310,913	\$6,120,000	\$5,512,000	\$11,632,000	\$30,678,913	72.5%
129 Golden Gate	121 Golden Gate	HOME and Hotel Tax	\$43,194,413	\$7,806,476	\$3,181,126	\$10,987,602	\$32,206,811	74.6%
Midtown	Mercy Housing California	CDBG-Grant	\$200,000	\$200,000	\$0	\$200,000	\$0	
940 Washington	940 Washington-Gum Moon	SSLP	\$3,787,222	\$167,000	\$3,620,222	\$3,787,222	\$0	
55 Laguna	55 Laguna	AHF	\$1,578,591	\$1,000,000	\$578,591	\$1,578,591	\$0	
Franciscan Towers	Franciscan Towers-217 Eddy	CDBG	\$2,308,936	\$2,133,936	\$0	\$2,133,936	\$175,000	7.6%
Hunters View Phase II (Blocks 7 & 11)	Hunters View Associates LP	AHF	\$1,436,000	\$1,436,000	\$0	\$1,436,000	\$0	
Hunters View Phase II (Blocks 7 & 11)	Hunters View Associates LP	Gen Funds HOPE SF	\$2,500,000	\$2,500,000	\$0	\$2,500,000	\$0	
Broadway-Sansome	Broadway-Sansome Associates	MTA - work order funds	\$33,177,151	\$8,000,000	\$5,628,658	\$13,628,658	\$19,548,493	58.9%
1500 Page Street	Mercy Properties -1500 Page Street	HOME	\$4,050,217	\$911,867	\$3,138,350	\$4,050,217	\$0	
55 Laguna	55 Laguna L.P.	AHF & HOPWA	\$4,297,591	\$2,719,000	\$1,578,591	\$4,297,591	\$0	
			\$138,841,034	\$32,994,279	\$23,237,538	\$56,231,817	\$82,609,217	59.5%
Arlington	Arlington Hotel	LOSP		\$9,330,007		\$9,330,007		
220 Golden Gate	220 Golden Gate Master Tenant	LOSP		\$18,475,118		\$18,475,118		
				\$27,805,125		\$27,805,125		

In our opinion, budget reports that summarize funding by project such as this would give Sacramento policymakers and the public more easily-accessed information on SHRA's progress in meeting the City's housing goals.

RECOMMENDATION

We recommend the City Council:

5. Request the SHRA Executive Director to provide more detail in the annual budget presentation.

SHRA Could Benefit from a Loan Committee for Additional Oversight over Multifamily Lending

With high costs of construction and limited resources, affordable housing projects typically require multiple financing sources, with loans and equity contributions provided by several public and private sources. With control over local and federal housing funds (including the City's CDBG and HOME grant funds), SHRA offers gap financing in the form of mortgage revenue bonds and multifamily loans to local affordable housing development projects that meet eligibility criteria as defined in the Multifamily Lending and Mortgage Revenue Bonds Underwriting Guidelines. Loans made by SHRA to developers result in formal loan agreements, formalizing affordability and repayment terms.

SHRA does not have a loan committee to review and recommend loan applications to the SHRA Commission. Loan applications are reviewed by SHRA Development staff, with final review and recommendation to the SHRA Commission by the Executive Director. The SHRA Assistant Director of Development stated that multifamily loans now always go to the Commission and Council for approval because the gap financing needs are so great.

We found the establishment of a housing finance loan committee to be a common practice among comparable jurisdictions. For example, the San Diego Housing Commission (which also combines housing authority and redevelopment activities under a single entity) has an Executive Loan Committee, composed of two City employees and two representatives from local development corporations that hold monthly public meetings. In San Francisco, the Citywide Affordable Housing Loan Committee, composed of representatives from several City departments, reviews Mayor's Office of Housing staff recommendations and sets final terms and conditions for commitment of funds prior to final approval by policy makers.

The loan committee provides a formal venue for the loan reviewers to share their perspective on the development's conformance to funding priorities and on the financial feasibility of the affordable housing project. It increases oversight and reduces potential subjectivity in the loan approval process. In our opinion, given the scarcity of housing resources, SHRA should establish a loan committee to ensure objectivity and adequate controls over awarding funds, and to avoid public perception of favoritism or abuse.

RECOMMENDATION

We recommend the SHRA:

6. Establish a Multifamily Lending Loan Committee to review proposed loans over a minimum threshold to be established by SHRA and make loan recommendations to the SHRA Commission.

SHRA's Role as the Local Reviewing Agency for the California Tax Credit Allocation Committee Presents a Potential Conflict

As the Local Reviewing Agency, SHRA makes recommendations on all TCAC applications submitted within the City and unincorporated County of Sacramento. This presents a potential conflict in two ways: (1) it gives SHRA's properties an advantage when it awards them additional gap financing or donated land to increase the point score, and (2) SHRA participates in the TCAC review process as an interested party. To avoid these potential conflicts, SHRA should ensure separation of duties by working with TCAC to identify another reviewer for SHRA's own projects.

Although SHRA management maintains that its recommendations do not guarantee awards, it acknowledged its influence over the process in a staff report to the City Council on April 6, 2005:

"The Multifamily Lending Program and Multifamily Mortgage Revenue Bond Program are the main programs that finance affordable housing in the City of Sacramento...The 9% Low Income Housing Tax Credit program is highly competitive...There are a variety of factors that make a project rank high. One of the key factors which cause a project to receive an allocation is leverage points. Leverage points can be obtained in several ways, one of which is based on the commitment of local subordinate financing. Agency financing allocated under the Multifamily Lending Program can make a project more competitive; therefore, the Agency has some control in the allocation of 9% LIHTC projects in the City/County of Sacramento."

However, as it repositions former public housing properties in order to expand financing opportunities to rehabilitate and preserve the units, SHRA places these properties in the same competitive pool for low-income housing tax credits as other affordable housing development projects in Sacramento, some of which SHRA is also financing. This practice differs from many other public agencies, in which the agency reviewing and recommending housing development projects to TCAC does not also manage or own housing projects.

An example of this perceived conflict recently occurred in 2014, when SHRA "strongly supported" the applications of two competing projects for 9 percent tax credits, one of which was a repositioned SHRA public housing development, Sutterview. Although Sutterview was poised to receive the credits, the applicant withdrew that project from the TCAC funding round in response to concerns that the other project (Curtis Park) had been designated by the City Council as its top priority project.

The perception of a potential conflict, as described above, occurs due to the lack of separation of duties. Separation of duties is a control that SHRA can use to prevent a conflict. In our opinion, to avoid this conflict and ensure proper separation, SHRA should consider working with TCAC to identify another agency to make recommendations to TCAC on Housing Authority projects. For example, in San Francisco, the Mayor's Office of Housing acts as the Local Reviewing Agency, and in the County of Santa Clara, the County Planning Department performs that task. The Community Development departments at both the City and the County of Sacramento could function as the Local Reviewing Agency for TCAC review of Sacramento housing authority projects in their respective jurisdictions.

RECOMMENDATION

We recommend the SHRA:

7. Work with TCAC to identify an external Local Reviewing Agency to make recommendations on Housing Authority projects.

Because the Agency is a Lender and Recipient of its Multifamily Financing, SHRA's Structure May Not be Appropriate

SHRA is one of only two agencies in the State of California that both provides housing finance and manages public housing. The consolidation of agencies and staff functions under the SHRA Joint Exercise of Powers Agreement was intended to create administrative and operational efficiencies. Our review found that most of the local governments that we reviewed administer housing finance activities (particularly the allocation of CDBG and HOME funds and recommendation to the State Treasurer for tax equity and mortgage revenue bond financing) and public housing is managed by a separate entity. The figure below shows the local agencies in our surveyed jurisdictions responsible for affordable housing financing.

Exhibit 6: Housing Finance in Surveyed Jurisdictions

City/County	Housing Finance Management
Charlotte	City Neighborhood Services
Denver	City Office of Economic Development
Fresno	City Housing Division
Los Angeles	City Office of Housing and Community Investment
Oakland	City Dept of Housing and Community Development
Portland	Portland Housing Bureau
San Diego	San Diego Housing Commission
San Francisco	Mayor's Office of Housing
Santa Clara	County Office of Housing and Community Development
Seattle	City Office of Housing

Source: Survey results

Aside from San Diego, none of the other jurisdictions we surveyed have combined public housing and housing finance activities under a single organization. The San Diego Housing Commission, though responsible for both functions, maintains a clear separation of duties. In 2007, when the San Diego Housing Commission converted all of its public housing properties to affordable agency-owned and operated units, those units did not compete for traditional agency multifamily lending programs, or competitive 9 percent tax credit allocations, against other local affordable housing developments. In our opinion, as SHRA implements the asset repositioning strategy and prioritizes the preservation of publicly subsidized housing in its multifamily lending strategy, there is a greater need for a clear separation of functions. As a lender and a recipient of multifamily loans that is competing for gap financing and competitive tax credits against other local affordable housing development projects, the risk of conflict resulting from the insufficient separation of duties seems high enough to warrant a reconsideration of the agency’s structure.

RECOMMENDATION

We recommend the City Council:

8. In collaboration with the County Board of Supervisors, review the appropriateness of SHRA’s structure and scope of activities, given the agency’s prioritization of publicly subsidized housing preservation in its multifamily lending strategy.

Finding 2: SHRA Could Improve Reporting on Affiliated Nonprofits' Financial Information to the City Council, and Better Segregate Staff Responsibilities from their Role on the Affiliated Nonprofits' Boards

The affiliated nonprofits are legally-separate nonprofit corporations established by SHRA to receive Low Income Housing Tax Credits (LIHTC) to develop affordable housing. The City Council has an interest in the affiliated nonprofits' financial stability because City funds were used to partially finance the nonprofit corporations' housing developments, and because these housing developments provide housing to low-income City residents. We found that:

- The City Council would benefit from a detailed discussion about the affiliated nonprofits' financial condition; and
- SHRA staff who sit on the board of an affiliated nonprofit do not recuse themselves from SHRA's funding decisions to fund the nonprofit's projects.

We recommend that the City Council request regular financial information from SHRA and that discussion of this information be calendared at the Council's Budget and Audit Committee. We also recommend that SHRA establish a written policy that any affiliated nonprofit board member who is an SHRA staff member may not participate in funding decisions in which his or her nonprofit is competing.

SHRA's Affiliated Nonprofits

SHRA established the Sacramento Housing Authority Repositioning Program, Inc. (SHARP) as a legally-separate nonprofit corporation. According to SHRA's General Counsel, the City of Sacramento Housing Authority and SHRA are not legally liable for SHARP's actions. According to a May 2014 memorandum from SHRA's General Counsel to the Sacramento City Attorney, SHARP "maintains its separate corporate identity by holding itself out as a separate and distinct entity when dealing with third parties.... By implementing these protections that maintain its separate corporate identity, courts should not deem it an alter ego of HACS [Housing Authority of the City of Sacramento] or SHRA, ... which could subject HACS and/or SHRA to liability for SHARP's actions".

In practice, SHARP is similar to the only other two nonprofits created by SHRA to redevelop housing within the City of Sacramento's jurisdiction – Shasta Hotel Corporation (Shasta, created in 1993) and Norwood Avenue Housing Corporation (Norwood, created in 1991). Shasta, Norwood and SHARP were created to obtain tax credit financing, which is not available to public agencies. Shasta, Norwood and SHARP are incorporated by the State of California as public benefit corporations, governed by a board of directors.

Shasta, Norwood, and SHARP serve as general partners and enter into limited partnerships with investors for specific housing developments. The table below shows the limited partnerships established by each affiliated nonprofit and the respective housing developments for which the Low Income Housing Tax Credits were awarded.

Exhibit 7: Low-Income Housing Units Developed by SHRA’s Nonprofit Corporations

Non-Profit Organization	Limited Partnership Responsible for Housing Development	Housing Development	Number of Housing Units
Shasta	Shasta Hotel Investors Partnership	Shasta Hotel	80
Norwood	Phoenix Park I LP and Phoenix Park II LP	Phoenix Park	360
SHARP	Washington Plaza Housing Associates LP	Washington Plaza	76
	Sierra Vista Housing Associates LP	Sierra Vista	78
	Sutterview Housing Associates LP	Sutterview Apartments	77
Total Housing Units			671

Source: Respective development and disposition agreements

While the City of Sacramento has no financial responsibility for Shasta, Norwood, and SHARP, the City has an interest in the financial stability of these nonprofit corporations because the affiliated nonprofit corporations’ housing developments are an essential source of housing for the City’s low-income residents. The City provided funding to the nonprofit corporations’ limited partnerships to redevelop affordable housing through Community Development Block Grant (CDBG), HOME, and other local grant funds, as shown in Appendix 1.

Like most affordable housing projects, Shasta, Norwood and SHARP have limited ability to increase operating revenues, which come largely from tenant rents. Over time, affordable housing project expenditures increase at a faster rate than revenues. Shasta Hotel Corporation, which operates the oldest of the housing developments¹, operates at a loss and requires annual operating subsidies from the successor to the Redevelopment Agency.² As shown in Exhibit 8 below, Shasta had negative net cash flow in 2011 and 2013. Shasta has no operating reserves.

¹ The Shasta Hotel was rehabilitated in 1994 to provide housing to very low income adults.

² The California Department of Finance approved an operating subsidy to the Shasta Hotel by the successor agency to the Redevelopment Agency from 2012 through June 30, 2013 as part of the semi-annual Recognized Obligation Payment Schedule (ROPS). The California Department of Finance denied the subsidy from July 2013 through December 2013 and the SHRA paid this subsidy from its own Housing Successor funds for the remainder of 2013 and in 2014.

Exhibit 8: Shasta Hotel Corporation’s Cash Flow in 2011 through 2014

	Year Ending December 31:			
	2011	2012	2013	2014
Cash Flow				
Cash at beginning of year	\$58,769	\$37,573	\$78,393	\$31,045
Net cash from operating activities	(\$21,696)	\$186,273	(\$47,348)	\$79,908
Purchase fixed assets		(\$145,543)		
Cash at end of year	\$37,073	\$78,303	\$31,045	\$110,953

Source: Audited Financial Statements

Norwood operates the Phoenix Park I and Phoenix Park II housing projects, which opened in 2005. Between 2011 and 2014 Norwood’s total cash and reserves declined from \$5.1 million to \$3.7 million due largely to principal payments of mortgages and bonds, payment of developer fees, and distributions to partners, as shown in Exhibit 9 below.

Exhibit 9: Norwood’s Cash Flow in 2011 through 2014

	Year Ending December 31			
	2011	2012	2013	2014
Cash Flow				
Cash at beginning of year	\$1,567,228	\$2,041,692	\$1,688,567	\$1,942,045
Net cash from operating activities	\$1,077,883	\$710,342	\$325,933	\$763,324
Net reserve deposits (withdrawals less deposits)	(\$97,086)	\$98,933	\$1,030,055	\$14,732
Net mortgages, distributions, other	(\$506,333)	(\$1,162,400)	(\$1,102,510)	(\$980,465)
Cash at end of year	\$2,041,692	\$1,688,567	\$1,942,045	\$1,739,636
Cash and Reserves				
Cash	\$2,041,692	\$1,688,567	\$1,942,045	\$1,739,636
Other current assets	\$98,440	\$656,041	\$126,949	\$156,911
Reserves	\$2,942,405	\$2,843,472	\$1,813,417	\$1,798,685
Total	\$5,082,537	\$5,188,080	\$3,882,411	\$3,695,232

Source: Audited Financial Statements

The three SHARP projects were not under SHARP’s ownership in 2014. Washington Plaza opened in April 2015 and the remaining two—Sutterview and Sierra Vista—are currently undergoing rehabilitation. According to SHRA staff, these projects differ from Shasta Hotel and Phoenix Park I and II in that Washington Plaza, Sutterview and Sierra Vista housing units are subsidized by HUD’s housing choice voucher program, providing a more reliable stream of operating revenues.

The cash flow analyses for Washington Plaza, Sutterview, and Sierra Vista, presented to the City Council by SHRA as part of the financing approval process, show positive cash flow over 30 years, although the cash flow projections do not show full principal and interest payments on the loans carried by SHRA for the purchase of the Housing Authority properties. The three projects' cash flow analyses show declining net cash in the later years of the projects.³

The City Council Would Benefit from a Detailed Discussion about the Affiliated Nonprofits' Financial Condition

The City Council should monitor the financial condition of the SHRA-affiliated nonprofit corporations to ensure that the nonprofits' housing projects are a sustainable source of affordable housing for low-income City residents. If the affiliated nonprofits' are not able to generate sufficient income to replenish reserves and meet expenses, the City may need to consider alternatives, including providing operating subsidies to the projects.

Information on the affiliated nonprofits' financial condition is contained in SHRA's Comprehensive Annual Financial Report (CAFR). While SHRA submits the agency's CAFR to the City Council each year, the CAFR is calendared on the City Council's consent agenda rather than the discussion agenda. SHRA does not present nor do City Council members discuss the CAFR. Consequently, the Council members do not have the opportunity to discuss the financial condition of the housing projects developed and operated by the affiliated nonprofits, as presented in the CAFR. In our opinion, the City Council should calendar the CAFR for discussion at the Budget and Audit Committee, established by the City Council in 2015.

RECOMMENDATION

We recommend the City Council:

9. Calendar SHRA's CAFR for discussion at the Budget and Audit Committee.
10. Request that SHRA present detailed financial information on the nonprofit corporations during the annual CAFR presentation.

³ Washington Plaza's cash flow analysis shows positive cash flow over 30 years, but net cash begins to decline by year 30. Sutterview's cash flow analysis shows a decline in net cash by year 25 with minimal net cash (\$2304) in year 30. Sierra Vista's cash flow analysis shows a decline in net cash by year 25 with negative net cash in year 30.

SHRA Staff Who Sit on the Board of an Affiliated Nonprofit Do Not Recuse Themselves from SHRA's Decision Making Process to Fund the Nonprofit's Projects

SHARP does not have a policy that directly addresses conflicts that may arise from board members' work with SHRA. For example, one of SHARP's board members serves as a senior SHRA employee in the Housing and Community Development Department that oversees all of SHRA's affordable housing development lending activities, as well as the process for recommending local affordable housing projects to the California Tax Credit Allocation Committee (TCAC) for competitive tax credits. This SHRA employee acts as the primary point of entry for projects seeking federal, state or local funding administered by SHRA, and also participates in the selection process for awarding developers such funds. Because SHARP competes against other local developers for both tax credits and funds administered by SHRA, in our opinion, this dual role could create the appearance of a conflict of interest.

RECOMMENDATION

We recommend the SHRA:

11. Establish a written policy that any SHRA staff member who sits on the board of a nonprofit may not participate in funding awards for which that nonprofit is competing.

Finding 3: Construction Costs for SHRA-Funded Projects are Consistent with Other Low Income Housing Projects in California

Many factors can influence the cost of affordable multifamily construction, which often costs more per unit than market rate development. We found that SHRA has ensured reasonable construction costs for projects receiving agency funding. Specifically we found:

- Unit costs of multifamily projects funded by SHRA are consistent with other multifamily projects in California.

Developing housing with reasonable costs helps the agency meet its goals of increasing and preserving affordable rental housing for all income groups.

Factors Impacting Construction Costs for Affordable Development

In order to analyze SHRA development costs, as detailed in our initial scope of work, we conducted research to identify regional averages and understand factors impacting production prices.

The State’s four major housing agencies—the California Department of Housing and Community Development, the California Tax Credit Allocation Committee, the California Housing Finance Agency, and the California Debt Limit Allocation Committee—issued a report in 2014 on the factors influencing affordable housing building costs in California. The report, called the “2014 Affordable Housing Cost Study,” cites several factors that can increase the costs of building affordable multifamily projects:

- Number of bedrooms per unit
- Type of parking facilities
- Local design and review requirements
- Size of development company
- Building quality and durability

Because affordable housing development projects often serve vulnerable populations, they can require expensive amenities, such as accessibility and service delivery features. In addition, in an effort to reduce long-term maintenance costs, many affordable housing projects include more sustainable features that drive up construction costs.

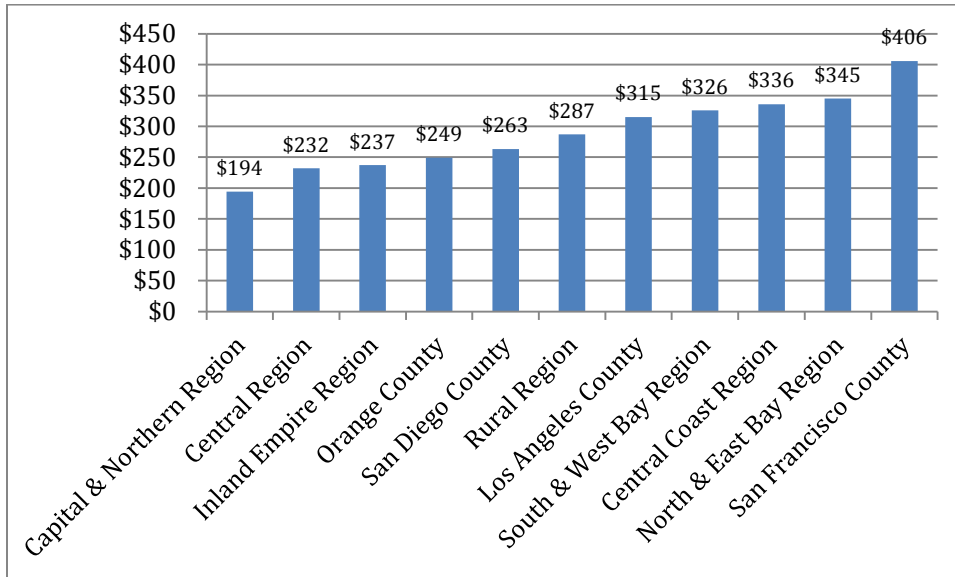
The 2014 Affordable Housing Cost Study found that projects receiving redevelopment funding were about 7 percent more expensive to complete relative to projects without local redevelopment funding. According to the report:

“While receipt of this type of funding would not, in and of itself, cause costs to rise, it is likely that receipt of this funding either (a) allowed developers to add project amenities or otherwise alter a project in ways that increased costs, (b) included its own set of locally-imposed requirements that added to costs, or (c) allowed developers to build projects with higher costs for relocation, demolition, site preparation or environmental mitigation.”

Statewide Average Per Unit Construction Costs

According to the report, the statewide average unit cost is \$288,000, while the average cost in Capital and Northern Region is \$194,000. The Capital and Northern Region includes the counties of Butte, El Dorado, Placer, Sacramento, Shasta, Sutter, Yolo and Yuba. However, the city of Sacramento represents the only major urban area in this region. Regional variances are shown below.

Exhibit 10: Average Unit Cost of Affordable Housing, by Tax Credit Allocation Committee Region (Amounts shown in thousands)



Source: 2014 Affordable Housing Cost Study Report

Unit Costs of Multifamily Projects Funded by SHRA are Consistent with Other Multifamily Projects in California

To understand how SHRA-funded projects compare to these regional and statewide averages, we reviewed the development costs for 11 affordable housing projects that received SHRA funds between 2012 and 2015. The cost of development per unit varied by project from \$105,166 to \$320,948; extensive rehabilitation of existing units and construction of new units resulted in higher costs than more limited rehabilitation of existing units. The results of that analysis are shown below.

Exhibit 11: Summary of Unit Costs for SHRA-Funded Projects, 2012-2014

Project	Total Costs	Units	Cost per Unit	Project Year	Project Type
Sierra Vista	\$25,033,952	78	\$320,948	2015	Redevelopment of existing housing
7th and H Street	\$47,266,330	150	\$315,109	2012	Construction of new housing
Sutterview	\$23,938,123	77	\$310,885	2015	Redevelopment of existing housing
La Valentina	\$24,593,400	81	\$303,622	2012	Construction of new housing
Washington Plaza	\$22,955,241	76	\$302,043	2014	Redevelopment of existing housing
Curtis Park	\$27,067,667	91	\$297,447	2014	Inclusionary housing
700K	\$37,748,616	137	\$275,537	2014	Redevelopment of existing and construction of new housing
Glen Ellen	\$6,076,797	35	\$173,623	2013	Redevelopment of existing housing
Woodhaven	\$10,937,265	104	\$105,166	2014	Redevelopment of existing housing
Average Costs			\$267,153		

Source: SHRA project pro formas and financing plans presented to TCAC

The average unit cost for these projects is \$267,153—less than the statewide average of \$288,000 estimated in the 2014 Affordable Housing Cost Study. While the more extensive projects have higher per unit costs (ranging from \$302,043 for redevelopment of Washington Plaza to \$320,948 for redevelopment of Sierra Vista), these per unit costs are equal to or less than construction costs for other urban areas in California shown in Exhibit 10 above.

While this average unit cost exceeds the regional average cost cited in the study for the Capital and Northern Region, we believe that the City of Sacramento shares development characteristics (such as land and labor costs) in common with more urban areas of the state, and therefore the statewide average is the most appropriate measure of comparison.

RECOMMENDATION

We recommend the SHRA:

- Continue to ensure that construction costs remain reasonable and consistent with the statewide average.

Finding 4: SHRA Should Consider Adopting Reporting and Budgeting Practices Similar to Those of City Departments

Although SHRA is not a City department, it provides services to City residents, is governed partly by the City Council¹, and manages funds on behalf of the City. Given the integral role of SHRA in implementing housing policies in the City, and its essential role in the City's 10 Year Plan to End Homelessness² and the Mayor's 2015 Downtown Housing Initiative, the agency should adhere to reporting and budgeting practices consistent with those of the City.

Our audit found that:

- The City Council would benefit from midyear budget reporting by SHRA; and
- The City Council would benefit from clarifying when SHRA legislative items should be on the discussion agenda.

We recommend that the City Council request the SHRA Executive Director to provide midyear budget reports in a similar format as provided by the City's Finance Department for City departments and consider requesting the SHRA Executive Director to draft and submit for approval a policy to provide guidance to City and SHRA management on how to determine whether a SHRA item should be on the Council's consent agenda or discussion agenda.

The City Council Would Benefit from Midyear Budget Reporting by SHRA

SHRA does not submit budget updates during the fiscal year to the City Council, which is different than the City's practice. Midyear budget updates would allow the City Council to better track how SHRA's actual revenues and expenditures compare to budgeted revenues and expenditures.

For example, in early February (about seven months into the City's fiscal year) the City Manager and Finance Director provide analysis to the City Council on the status of the City's budget. This analysis includes a breakdown by the department of the original approved budget, any changes since the budget was approved, and recommendations necessary to implement the City's financial plan for the remainder of the fiscal year. However, there is no comparable report provided to the City Council for the SHRA budget midway through its fiscal year (January 1 through December 31). Instead, the City Council is only officially apprised of SHRA's budget during the annual budget approval process and on specific line items as budget amendments are brought forward for approval.

¹ SHRA has three governing bodies including the City Council, the County Board of Supervisors, and a Commission.

² In addition, SHRA has been identified as the lead agency responsible for the implementation of three of the seven housing strategies identified in the City's Housing Element, the primary planning document addressing housing issues.

The Government Finance Officers Association (GFOA) states in its guidebook entitled *Recommended Budget Practices - A Framework for Improved State and Local Government Budgeting*:

“Regular monitoring of budgetary performance provides an early warning of potential problems and gives decision makers time to consider actions that may be needed if major deviations in budget-to-actuals become evident.”

The GFOA further states that regular monitoring is “an essential input in demonstrating accountability” and recommends that local government officials monitor, measure and evaluate budgetary performance on a regular basis. Further, the GFOA states that “it is essential that reports are prepared on a routine, widely-publicized basis” and that “in addition to monitoring budget-to-actual results, reasons for deviations should be evaluated.”

Although SHRA operates with significant autonomy, its goals and activities have been incorporated into major Sacramento planning documents including the 10 Year Plan to End Homelessness, the City Housing Element, and the Mayor’s Budget Priorities for FY 2015-16. The lack of midyear budget reports to the City Council raises the risk of significant deviations occurring from the approved budget without proper context for council members to evaluate or approve such changes. In addition, we found that other agencies we surveyed, such as the San Diego County Department of Housing and Community Development, the San Francisco Housing Authority, and the Santa Clara County Housing Authority all provide their governing boards with budget updates at least quarterly throughout the year.

RECOMMENDATION

We recommend the City Council:

13. Consider requesting the SHRA Executive Director provide midyear budget reports in a similar format as provided by the City’s Finance Department for City departments. Council should also consider requesting end-of-year reports from SHRA on project funding, status, and remaining fund availability for all multifamily developments.

The City Council Would Benefit from Clarifying When SHRA Legislative Items Should be on the Discussion Agenda

Legislative bodies typically use a consent calendar, or consent agenda, during meetings to swiftly pass several noncontroversial items with a single motion or single vote without discussion or debate. The consent agenda can be a useful tool for managing meetings efficiently, but it also carries the risk of being used by individuals who desire complicated and/or problematic items or important policy matters to be passed by a legislative body without open debate and deliberation.

Legislative bodies often create committees to allow further review and deliberation on specific policy areas prior to consideration by the full legislative body. The City Council established a Budget and Audit Committee in 2015 to focus on City Auditor updates and

reports and major budgetary matters. The Budget and Audit Committee may be a helpful venue for council members to perform a more detailed review of significant SHRA items, such as new housing developments and SHRA annual reports such as its Comprehensive Annual Financial Report (CAFR).

Generally, City department representatives may suggest certain items for the consent calendar, but the City Manager, in consultation with the City Clerk and City Attorney, has discretion to move items to a discussion item based on his or her assessment of councilmembers' sentiment.

In 2013 and 2014, several SHRA items were calendared on the consent agenda that had fiscal or policy impact. While State law does not specify whether an item should be calendared on consent or discussion agenda, in our opinion, policymakers should discuss their decisions on significant financial or policy items during the public hearing. A review of 79 SHRA items that went before the City Council in 2013 and 2014 found that 38 items, or 48 percent of all SHRA items, were adopted on consent. Although most SHRA items in our sample were adopted after public discussion, some items that were calendared on the consent agenda and adopted without public discussion were significant financial or policy items that the public has an interest in having the opportunity to hear and understand. Among the SHRA items that were passed with a consent vote were the SHRA Comprehensive Annual Financial Reports (CAFRs) and annual reporting on the Housing Trust Fund and the City's residential hotels. In addition, as previously mentioned in Finding 1 of this report, SHRA's Multifamily Lending and Mortgage Revenue Bond Policies were adopted by the City Council in March 2009 on consent.

In our opinion, given the financial and policy impact of some SHRA-related legislative actions considered by the City Council on the development of affordable housing for City residents, the Council would benefit from calendaring SHRA items with policy or financial impact such as the CAFR, lending policies, and annual reporting on the management of City funds on the Council's discussion agenda.

RECOMMENDATION

We recommend the SHRA:

14. Request calendaring of all items with policy or financial impact, including, but not limited to: the CAFR; lending policies; and, annual reporting of City funds, such as the Housing Trust Fund and the City's residential hotels, for discussion by the full City Council or the Budget and Audit Committee.

Appendix 1: Developer and Local Government Financing
Non-Profit Projects

	SHARP			Norwood	
	Washington Plaza	Sierra Vista	Suterview	Phoenix Park I	Phoenix Park II
Developer Financing					
Tax Credit Equity	\$7,865,105	\$8,653,429	\$11,263,788	\$26,027,000	\$11,177,000
Other Equity	79,350	94,875	237,449		
Tax-Exempt Loan	3,531,000	3,626,000	3,405,000	9,115,000	10,210,000
Multifamily Housing Program					9,100,000
Affordable Housing Program	750,000			1,000,000	
California Housing Finance Agency				1,435,410	1,064,590
Operating Income/ Cash Flow	444,844	446,631	426,102	1,034,782	966,661
Deferred Developer Fee				1,097,358	1,537,500
Rebated Performance Fee				103,328	107,100
Subtotal, Developer Financing	\$12,670,299	\$12,820,935	\$15,332,339	\$39,812,878	\$34,162,851
Percent of Total Financing	59%	58%	69%	87%	88%
Local Public Financing					
Seller Carryback Loan	\$5,458,000	\$6,400,000	\$6,350,000		
Ground Lease	392,000	392,000	383,000		
Predevelopment Loan				1,312,685	
Other SHRA Loan				4,062,867	4,585,133
HOME/CDBG/ Other Grants	3,120,000	2,400,000		340,830	
Subtotal, Local Public Financing	\$8,970,000	\$9,192,000	\$6,733,000	\$5,716,382	\$4,585,133
Percent of Total Financing	41%	42%	31%	13%	12%
Total	\$21,640,300	\$22,012,936	\$22,065,340	\$45,529,261	38,747,985

Source: California Debt Limit Allocation Committee and SHRA Staff Reports

Survey Question	Atlanta, GA	Charlotte, NC	Denver, CO	Fresno, CA	Los Angeles, CA	Oakland, CA	Portland, OR	San Diego, CA	San Francisco, CA	Santa Clara, CA	Seattle, WA
Combined City and County Agency	No	No	Yes	Yes	No	No	No	Yes	Yes	Yes	No
Population (2013)	447,841	792,862	649,495	509,924	3,884,307	406,253	609,456	1,350,000	837,442	1,860,000	652,405
Number of Public Housing Units	1,953	3,238	3,900	1,770	6,971	1,606	2,060	1,366	6,054	2,100	6,200
Does your agency have affiliated non-profit entities?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Do agency staff sit on the nonprofit boards?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Do the nonprofits develop housing?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Does your agency grant loans to affiliated non-profit entities?	No	No	No	No	No	No	No	No	No	No	No
How does your agency solicit interest/bids/participation in development opportunities?	RFP	RFP	NOFA	NOFA	NOFA	NOFA	RFP	NOFA	NOFA	RFP	NOFA
Who determines the award of project applications in a competitive situation?	Independent Review Panel	Independent Review Panel	Independent Review Panel	Independent Review Panel	Independent Review Panel	Independent Review Panel	Independent Review Panel	Independent Review Panel	Independent Review Panel	Independent Review Panel	Independent Review Panel
Does your agency serve as the "Local Agency" for the State tax credit approval?	No	n/a	No	No	No	No	No	Yes	No	No	No
Does your agency administer HOME and/or CDBG funds?	No	No	No	No	No	No	No	No	No	No	No
If "No", what agency does?	City Office of Housing	City Neighborhood Services	City Office of Economic Development	City Housing Division	City Office of Housing and Community Investment	City Office of Housing and Community Development	City Housing Bureau	Department of Housing and Community Development	Mayor's Office of Housing	County Office of Housing and Community Development	City Office of Housing

Survey results were compiled based on interviews with agency employees and information from annual reports and Comprehensive Annual Financial Reports.



INVESTING IN COMMUNITIES

MEMO TO: Jorge Oseguera, City Auditor

FROM: La Shelle Dozier, Executive Director

DATE: September 28, 2015

SUBJECT: Amended Response to the audit of the Sacramento Housing and
Redevelopment Agency

Attached is an Amended Response to the Sacramento Housing and Redevelopment Agency Audit. Response to recommendation #8, states that the agency is a finalist for the \$30 Million Choice Neighborhood Implementation Grant (2015). As of, September 28, 2015, the City OF Sacramento and Sacramento Housing and Redevelopment Agency were awarded the \$30 Million Choice Neighborhood Implementation Grant.

Sacramento Housing and Redevelopment Agency Amended response to:

City of Sacramento's Office of the City Auditor, Audit of the Sacramento Housing and Redevelopment Agency. Report # - 2015-07 September 2015

Finding 1: SHRA's Funding Practices and Project Selection Should Be More Transparent

Recommendation 1: Ensure that all affordable housing funds are announced through an annual public notice, such as a Notice of Funding Availability or a Request for Proposals.

Agency Response: Agreed. As part of the 2016 Action Plan and 2016 Budget, SHRA will publish a schedule of dates (five annually) to accept Multifamily Lending and Mortgage Revenue Bond applications. The dates correspond to the CDLAC and TCAC application deadlines. The schedule will include the anticipated funding available for the coming year and be posted on the Sacramento Housing and Redevelopment Agency (Agency) website.

Recommendation 2: Request calendaring of Multifamily Lending priorities for discussion by the City Council prior to any changes.

Agency Response: Agreed. In 2009, the City Council approved the current Multifamily Lending and Mortgage Revenue Bond Policies (Policies). Changes to the Policies require City Council approval. Staff will discuss proposed revisions to the Policies as part of the annual Housing Trust Fund and Mixed Income Housing Ordinance report to the City Council. The process will include extensive outreach by staff to the public, development community and the Agency Commission.

Recommendation 3: Clarify in its Multifamily lending Policies how projects meeting the same priority status will be evaluated for funding selection.

Agency Response: Agreed. The Agency will discuss the Multifamily Lending and Mortgage Revenue Bond Policies, including the priority status of projects, as part of the annual Housing Trust Fund and Mixed Income Housing Ordinance report to the City Council. The process will include extensive outreach by staff to the public, development community and the Agency Commission.

Recommendation 4: Publish project selection criteria as part of the annual public noticing process, and consider assigning a point system to evaluate competing projects.

Agency Response: Agreed. While current Policies provide for funding priorities, staff anticipates discussing the Multifamily Lending and Mortgage Revenue Bond Policies as part of the annual Housing Trust Fund and Mixed Income Housing Ordinance report to the City Council. The process will include extensive outreach by staff to the public, development community and the Agency Commission.

However, it should be noted that contrary to statements made immediately preceding Audit Recommendations 2-4, the Agency's project selection process is consistent with federal guidelines. In addition, while HUD's "Playing by the Rules" does not apply to Multifamily lending, the Agency complies with all aspects of the handbook when implementing Community Development Block Grant projects.

Sacramento Housing and Redevelopment Agency Amended response to:

City of Sacramento's Office of the City Auditor, Audit of the Sacramento Housing and Redevelopment Agency. Report # - 2015-07 September 2015

Recommendation 5: Request the SHRA Executive Director to provide more detail in the annual budget presentation.

Agency Response: **Agreed, in accordance with direction provided by the Mayor and City Council.**

Recommendation 6: Establish a Multifamily Lending Loan Committee to review proposed loans over a minimum threshold to be established by SHRA and make loan recommendations to the SHRA Commission.

Agency Response: **Disagree. The Sacramento Housing and Redevelopment Commission (SHRC) serves as SHRA's Loan Committee. The capacity and expertise exists at the Agency to analyze and make recommendations on all aspects of multifamily new construction and rehabilitation, including but not limited to: underwriting, subsidy layering, construction management, real estate, property management, resident services, portfolio management, relocation, environmental review, procurement, legal services, and financing.**

SHRC reviews all proposed multifamily loans two to three weeks prior to the City Council hearing. Adding a third reviewing body will not only add another layer of bureaucracy, but also extend the existing six month approval process and increase costs to affordable housing developers.

Recommendation 7: Work with TCAC to identify an external Local Reviewing Agency to make recommendations on Housing Authority projects.

Agency Response: **Agreed. The Agency will meet directly with TCAC to discuss the current reviewing procedures and concerns regarding Housing Authority projects and report back to the governing boards.**

Recommendation 8: In collaboration with the County Board of Supervisors, review the appropriateness of SHRA's structure and scope of activities, given the agency's prioritization of public housing preservation in its multifamily lending strategy.

Agency Response: **Disagree. The audit firm spent the past seven months conducting an extensive review of the operations of the Agency. During that time SHRA provided the auditors with over two thousand documents and staff participated in numerous interviews. Additionally, the auditors interviewed elected officials, stakeholders, developers and the SHRC.**

Yet, there is not sufficient evidence presented in the audit report to warrant any further review of SHRA's structure and scope of activities. With the exception of only two recommendations, the Agency has agreed to all the others presented in this report.

Sacramento Housing and Redevelopment Agency Amended response to:

City of Sacramento's Office of the City Auditor, Audit of the Sacramento Housing and Redevelopment Agency. Report # - 2015-07 September 2015

Structure of SHRA

As a Joint Powers Agency, SHRA was created to access common staff to efficiently carry out housing and redevelopment functions within the City and County of Sacramento.

Beginning in 1981, the City and County created a task force to study and recommend organizational alternatives for what became the Sacramento Housing and Redevelopment Agency. Several proposals were considered and debated by the task force, the City Council, and Board of Supervisors. The preferred elements from these proposals were agreed to and combined creating the Joint Powers Agency in 1982.

Since its creation, this organization has been reviewed by the City and this model proved to be both economic and efficient. SHRA remains an organization with regional focus, integrated housing, and community development functions. SHRA is recognized by HUD, and others, as an innovative, successful model. This has been demonstrated by the recent awards of a Regional Sustainable Communities Initiatives Challenge Grant (2011), the pilot multi-jurisdictional Consolidated Plan (2012), High Performer status for the City and County Housing Authorities (2014), and Promise Zone designation (2015), and a recipient of a \$30 million Choice Neighborhood Implantation Grant (2015).

The economic and efficiency benefits go beyond streamlining government personnel and administration. The scope of activities under SHRA is appreciated and supported by members of the banking, development, and affordable housing industries.

Agency Priorities

The governing boards, not the Agency, set the prioritization of multifamily lending through the Multifamily Lending and Mortgage Revenue Bond Policies and the approval of individual projects. The Policies do not prioritize public housing preservation.

Survey Comparison with SHRA

The audit firm uses San Diego as a comparison jurisdiction to SHRA. The report highlights the fact that San Diego did not use traditional multifamily lending programs for conversion of its public housing stock. San Diego is a unique example. HUD approved San Diego's strategy to eliminate its entire public housing portfolio in exchange for vouchers. San Diego was then able to leverage that portfolio for more than \$95 million, therefore making it totally unnecessary for San Diego to "...compete for traditional agency multifamily lending programs."

Sacramento Housing and Redevelopment Agency Amended response to:

City of Sacramento's Office of the City Auditor, Audit of the Sacramento Housing and Redevelopment Agency. Report # - 2015-07 September 2015

Finding 2: SHRA Could Improve Reporting on Affiliated Nonprofits Financial Information to the City Council, and Better Segregate Staff Responsibilities from their Role on the Affiliated Nonprofits Boards

Recommendation 9: Calendar SHRA's CAFR for discussion at the Budget and Audit Committee.

Agency Response: **Agreed.**

Recommendation 10: Request that SHRA present detailed financial information on the nonprofit corporations during the annual CAFR presentation.

Agency Response: **Agreed. Presentation of such information must be provided by the legally separate corporations and their respective auditors. The Agency can forward detailed information regarding the nonprofit corporations during the annual CAFR presentation.**

Recommendation 11: Establish a written policy that any SHRA staff member who sits on the board of a nonprofit may not participate in funding awards for which that nonprofit is competing.

Agency Response: **Agreed. The Agency will adopt a written policy that any SHRA staff member who sits on the board of a nonprofit may not participate in funding awards for which that nonprofit is competing.**

Finding 3: Construction Costs for SHRA-Funded projects are Consistent with other Low Income Housing Projects in California

Recommendation 12: Continue to ensure that construction costs remain reasonable and consistent with the statewide average.

Agency Response: **Agreed.**

Finding 4: SHRA Should Consider Adopting Reporting and Budgeting Practices Similar to those of City Departments

Recommendation 13: Consider requesting the SHRA Executive Director provide midyear budget reports in a similar format as provided by the City's Finance Department for City Departments. Council should also consider requesting end-of-year reports from SHRA on project funding, status, and remaining fund availability for all multifamily developments.

Agency Response: **Agreed.**

Sacramento Housing and Redevelopment Agency Amended response to:

City of Sacramento's Office of the City Auditor, Audit of the Sacramento Housing and Redevelopment Agency. Report # - 2015-07 September 2015

Recommendation 14: Request calendaring of all items with policy or financial impact, including, but not limited to: the CAFR; lending policies; and, annual reporting of City funds, such as the Housing Trust Fund and the City's residential hotels, for discussion by the full City Council or the Budget and Audit Committee.

Agency Response: **Agreed. The Agency will continue to follow the City's staff report process.**

Multifamily Loans and Mortgage Revenue Bonds are presented to City Council twice for approval. A public hearing is held at loan commitment (State law requires Tax Equity and Fiscal Responsibility be publically notice whenever Mortgage Revenue Bonds are issued and HUD requires public hearing when HOME and CDBG funds are allocated). Several months after the loan commitment, the final loan and Mortgage Revenue Bond documents are placed on the City Council's consent calendar.

Changes to the Multifamily Lending and Mortgage Revenue Bonds Policies require City Council approval. In addition, annual reporting on the City Housing Ordinances such as the Housing Trust Funds and Residential Hotels are also presented to the City Council.