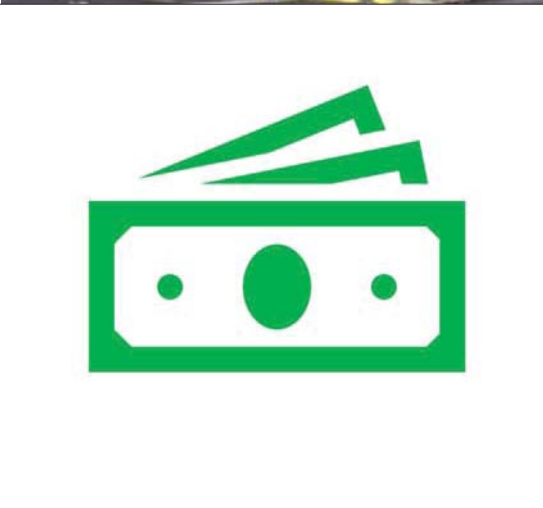
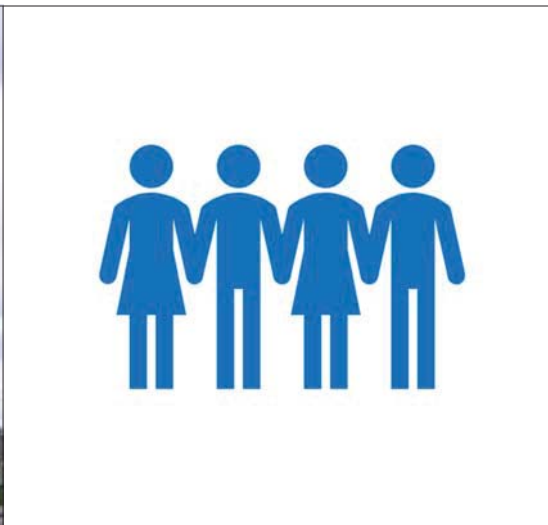


PORTLAND HOUSING BUREAU: Improved monitoring to protect housing investments

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Cover

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Production / Design

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Public Information Coordinator

PORTLAND HOUSING BUREAU:

Improved monitoring to protect housing investments

Summary

Portland's Housing Bureau is responsible for ensuring that the City's portfolio of about 280 multifamily affordable housing projects serves the intended population, is maintained in good condition, and remains financially viable over time. To do this Housing Bureau staff monitor all properties annually.

In a 2014 audit of the Housing Bureau's loan programs we found there was a significant backlog of annual reviews, and payments were inconsistent. Since that time, Portland passed an affordable housing bond and added a requirement that certain new apartment developments include affordable units. As new units from those initiatives are developed, the Housing Bureau's annual monitoring will be critical to ensure the intended benefits are achieved.

Given the increasing importance of the annual monitoring, we followed up to see if Housing Bureau had implemented the improvements identified in the 2014 audit. It had. We found updated policies, consistent verification of tenant eligibility, and routine loan payments, indicating an increased focus on ensuring Portland's housing investments are protected. While we also noted some continuing challenges, we believe those can be addressed by paying attention to annual monitoring requirements when projects are approved.

Background

The Portland Housing Bureau provides assistance including loans and tax exemptions to support the development of affordable housing. The bureau's investments prioritize projects that provide housing for the City's most vulnerable residents. Projects support residents at defined income levels and may provide supportive services, such as assistance in transitioning from homelessness or drug and alcohol treatment.

In exchange for public support, project sponsors commit to providing affordable units for a certain number of years. A regulatory agreement between the project sponsor and the Housing Bureau defines the affordability level and reporting requirements for each project.

The bureau monitors projects each year to verify compliance with the regulatory agreements in three areas:



Tenant income eligibility and rents



Inspection of buildings and files



Financial statements and payments

When we audited the housing loan program in 2014, the annual review process was not working effectively. The bureau was not completing tenant reviews in a timely manner, did not conduct inspections consistently, and sent some bills for payment years late. The bureau was aware of these problems and had already started implementing improvements at the time of our audit.

In 2016, the City Council passed requirements that new apartment buildings include some affordable units, and the City's voters approved a \$258 million housing bond to develop 1,300 new units. As new units are developed, the Housing Bureau's annual review workload will increase. We followed up this year to determine whether the Housing Bureau had implemented the improvements to the annual review program and was prepared for the expansion of workload that will come as new units are developed.

Audit Results

Updated policies and systems strengthen annual monitoring

Issue: An effective annual monitoring process includes a policy to guide the review, consistent methodology, and use of information gathered during the review to inform managers about risks in the portfolio. Clear guidelines help both bureau staff and project sponsors by defining requirements for the annual review.

At the time of our 2014 audit the bureau had guidelines in place, but did not have a system to track completion of annual reviews, set timelines, or analyze the information gathered. When the City transferred housing loan programs from the Portland Development Commission staff levels were decreased, and the small staff was unable to keep up with the review requirements. We also noted that the guidelines did not require review of supportive resident services, such as addiction counseling, so the bureau did not have information to confirm that resident services were provided and were effective.

2017 Update: Since that time, the bureau reviewed and updated the policies that guide the annual monitoring process. The bureau periodically revises the guidelines to address emerging issues or reflect changes in its processes. The bureau also increased staff responsible for tracking and conducting the annual monitoring.

The bureau completed implementation of a new housing development software system. The system includes components for loan payments and for tracking tenant information. The system was not configured to address some of the unique loan terms or requirements of the bureau's projects, but staff is customizing certain fields to include information that should make annual reviews easier moving forward. The new system allows the bureau to better track compliance with regulatory requirements.

The bureau made other improvements to the annual review system as well, including:

- Developing a tracking system for all projects that includes both status of the annual reviews and a scoring system for results of the review by project
- Adopting a model timeline for completing annual reviews
- Performing trend analysis for sponsors of multiple projects to identify emerging issues of financial viability

- Using information system data to characterize the population served by the housing portfolio, identify gaps, and to inform future funding decisions

However, the bureau has not added a component to the annual review to monitor supportive resident services. Housing managers said they are focused on ensuring compliance with regulatory agreement requirements for payment, tenant eligibility, and inspections, and do not have the staff or expertise to review resident services.

Resident services are a key component of the housing bond implementation framework. Housing managers said they plan to monitor resident services for bond-funded projects. As other new projects are approved it will be important to clarify how resident services will be reviewed, whether by Housing Bureau or other funding partners.

**Process improvements
evident in annual
reviews**

We reviewed a sample of projects to assess how well Housing Bureau was following the updated guidelines and review system. We found improvements in verifying tenant eligibility, inspections, and financial compliance.



Housing Bureau tests tenant incomes against limits and monitors rents to ensure housing benefits the intended population

Issue: The regulatory agreements for all projects define the income level of tenants who will be eligible to rent units and the allowable rents. When we reviewed a sample of files in 2014, the bureau was not completing tenant reviews in a timely manner. Without timely review, there is the risk that units are not provided to people at the correct income levels, or that rents are not consistent with agreements.

The Albert - N. Williams



The Albert received a 10-year tax exemption in exchange for reserving a quarter of the units for people earning below 60 percent of the area median income.

2017 Update: All projects we reviewed included testing of tenant income eligibility and rents paid. Project sponsors submit information on rents and tenants for each unit. Housing bureau review of the submitted information was thorough, and staff worked with project sponsors as needed to resolve any discrepancies.



Most housing is inspected every three years

Issue: Inspection of the physical condition of properties and of the tenant files that are maintained on site helps ensure the property is in decent and safe condition and tenant application information is verified.

In the 2014, audit we found that inspections were not completed for all properties, and project sponsors did not always address problems found in the inspections that were completed.

2017 Update: Housing Bureau's updated policies require that staff inspect properties with certain federal funds every three years and that other properties self-inspect. The bureau also requires that each project has current insurance and an Affirmative Fair Housing Marketing Plan to identify how the project will comply with the Federal Fair Housing Act and market units to vulnerable populations.

The inspections in our sample for properties with federal funds were well documented, including the project sponsor's response to identified problems. We observed an inspection conducted by Housing Bureau staff and found it to be detailed and thorough, with a focus on tenant safety and livability.

We also found inspection records for most projects without federal funds, but the inspections on file were not as thorough as the inspections conducted by Housing Bureau staff, and there was no record of resolution of identified issues. Housing Bureau staff said that many of

Shaver Green – NE MLK



Shaver Green's 85 units were funded with a combination of federal funds, tax credits, and a tax exemption.

these projects have other funding partners, such as tax credit investors, who also require inspections and they rely on that review. Staff also request copies of inspection reports completed by the state housing agency.

The Affirmative Fair Housing Marketing Plan was current for all projects we reviewed.

As more projects are developed without a federal funding component through the new housing bond, the Housing Bureau may need to reevaluate the inspection requirements in the guidelines or clearly document at the project approval stage who will be responsible for project inspections and verification of tenant information.



Loan servicing staff track and ensure prompt receipt of monthly loan payments

Issue: Projects with loan funding from the City repay the loans either with monthly payments or annually based on an assessment of whether the cash flow to the project exceeded the operating expenses. Prompt payment replenishes the City's funds for future housing investments and attention to finances can provide early warning if a project sponsor is facing problems with long-term financial viability.

Patton Home – N. Michigan



Patton Home includes 63 single-room occupancy units available to tenants under 60 percent median income.

In the 2014 audit we found that payments were intermittent, and bills for cash flow payments might be sent two or three years late. There were also disagreements between Housing Bureau staff and project sponsors about the methodology for cash flow payment calculations.

2017 Update: All the projects we reviewed with monthly payment schedules paid on time. Housing loan servicing staff follow a defined process if a payment is missed. These compliance efforts resulted in increased interest revenue to the City in 2016.

Calculating cash flow payments continue to be a challenge for the bureau. Projects may have different agreements with different funders, and the agreements are not always consistent on how excess cash flow will be distributed. Housing staff may also question how the cash flow is calculated by project

sponsors. These issues can delay Housing Bureau's completion of the annual reviews. For the period we looked at, the Housing Bureau continued to have a backlog of annual reviews, and completion of the cash flow analysis was the primary reason for that backlog.

Housing staff said they are now documenting the cash flow methodology for each project as the annual review is completed, and that reviews should be easier in subsequent years. As new housing projects are developed or existing projects restructured, the bureau can make the cash flow process easier by clearly defining payment terms and ensuring consistency with other funders at the time of project approval.

Conclusion

The Housing Bureau has improved the annual monitoring process to ensure projects supported by the City serve the intended population and remain financially viable. During the period of our audit Housing Bureau staff were still catching up on a backlog of annual reviews, and we noted some potential issues of monitoring resident services, consistency of inspections, and calculating cash flow payments.

As new units are developed through zoning requirements or the housing bond, the Housing Bureau will have to scale its annual review staffing to the increased workload. More attention to the annual monitoring requirements at the project approval stage could help address the challenges we identified and ensure the Housing Bureau maintains the progress it has made.

Objective, Scope, and Methodology

The objective of this audit was to determine whether the Housing Bureau had strengthened the annual review process to protect the City's housing investments. This audit follows up on a recommendation to strengthen the annual review process from the 2014 audit report *Housing Loan Program: Funding supports goals, but low repayment may jeopardize long-term success*.

To accomplish the audit objective we:

- Interviewed Housing Bureau staff and management, and housing project sponsors

- Reviewed Housing Bureau Asset Management Policies and Guidelines, and the bureau's methods for managing the asset management activities including project tracking systems and trend analyses
- Observed an inspection and the process for review of submitted tenant information
- Selected a judgmental sample of 15 projects with different funding sources and evaluated the annual review for those projects against the guidelines. This included a review of information in the Housing Bureau electronic project files, as well as information stored in the Housing Development System.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those 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 believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

RESPONSE TO THE AUDIT



Portland Housing Bureau

Mayor Ted Wheeler • Interim Director Shannon Callahan

December 20, 2017

Mary Hull Caballero
City Auditor
12221 SW 4th Avenue, #140
Portland, OR 97204

Dear Auditor Hull Caballero,

Thank you for the opportunity to review and respond to your audit, *Portland Housing Bureau: Improved monitoring to protect housing investments*. In a time when housing is at the forefront of policy conversations regionally and across the country, we recognize the necessity to maintain robust compliance of the investments the City has made on behalf of taxpayers. We greatly appreciate the acknowledgment of the efforts our bureau has made since the last audit in 2014. We understand our system is not perfect and there is always room for improvements. To that end, we continue to update our processes to maximize outcomes. We also agree on how critical the bureau's housing bond work is as we have not only committed to bringing on another 1,300 affordable housing units, but we will also be owners of those properties. As owners, our fiduciary requirements are greater than those of a gap financier. We will be actively engaged in the management of the assets as well as the services being provided to tenants.

Specific to the audit findings:

Responsibility for monitoring resident services

From Audit: Housing managers said they plan to monitor resident services for bond-funded projects. As other new projects are approved it will be important to clarify how resident services will be reviewed, whether by Housing Bureau or other funding partners.

As noted, resident services are a key component of the housing bond implementation framework, which is being overseen by the Bond Oversight Committee. Being that the City, through PHB, will be owners of the housing generated by the housing bond, we would have a direct oversight of services being provided and will be able to evaluate challenges/successes of such services. This is different than what has traditionally been PHB's role as a gap financier. Under that role, PHB acts as a lender and has not had oversight of resident services provided at PHB funded projects.

Consistency and verification of inspection for non-HOME properties

From Audit: As more projects are developed through the housing bond, the Housing Bureau may need to reevaluate the inspection requirements in the guidelines or clearly document at the project approval stage who will be responsible for project inspection.

It is important to bifurcate PHB's role as gap financier with PHB's role as implementer of the housing bond.

As a gap financier, PHB follows federal inspection requirements associated with HOME funded projects. While the inspection requirement of the non-HOME funded are clearly defined in the Asset Management Guidelines approved by City Council in November 2017, they are not as robust as HOME inspections. Additional department capacity will be necessary if PHB is to inspect non-HOME properties.

As housing bond implementer, PHB will be the owner of the assets, and will be working closely with a property management company and asset management partner to monitor properties and ensure their physical and financial sustainability.

Calculating cash flow payment challenges and delays

From Audit: Calculating cash flow payment continue to be a challenge for the bureau. Projects may have different agreements with different funders, and the agreements are not always consistent on how excess cash flow will be distributed. Housing staff may also question how the cash flow is calculated by project sponsors. These issues can delay Housing Bureau's completion of the annual reviews.

Cash flow calculation methodology is being consistently documented on annual reviews making the process more efficient for subsequent years. The department is scaling up to maintain the improvements made, and will continue pursuing process improvements and strengthening relationships and communication with borrowers to more efficiently complete annual financial reviews.

We support the City Auditor Office's work and appreciate the due diligence and honest assessment of PHB's Risk Analysis and Compliance work. Thank you for your work.

Portland Housing Bureau

Sincerely,

Handwritten signature of Mayor Ted Wheeler in black ink, with the date 12/27/17 written above it.

Mayor Ted Wheeler
City of Portland
Portland Housing Bureau

Handwritten signature of Shannon Callahan in black ink.

Shannon Callahan
Interim Director

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Portland Housing Bureau: Improved monitoring to protect housing investments

Report #502, January 2, 2018

Audit Team: Kari Guy

Mary Hull Caballero, City Auditor
Kari Guy, Interim Director of Audit Services

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