

# Performance Audit of Affordable Housing Financing

## *Summary of Findings and Recommendations*

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Presentation to:

GOVERNMENT AUDIT AND OVERSIGHT COMMITTEE

BOARD OF SUPERVISORS

CITY AND COUNTY OF SAN FRANCISCO

May 18, 2023

# Audit objectives and results

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Evaluate the City's processes for:

- Identifying and prioritizing financing of affordable housing projects and
- Ensuring optimal and transparent use of all funds available for these projects.

*(Board of Supervisors Motion M21-116)*

3 findings, 9 recommendations to improve the transparency, accountability, and oversight of the City's affordable housing funds managed by Mayor's Office of Housing and Community Development (MOHCD).

*Context:* development projects challenging in SF; many variables out of MOHCD's control.

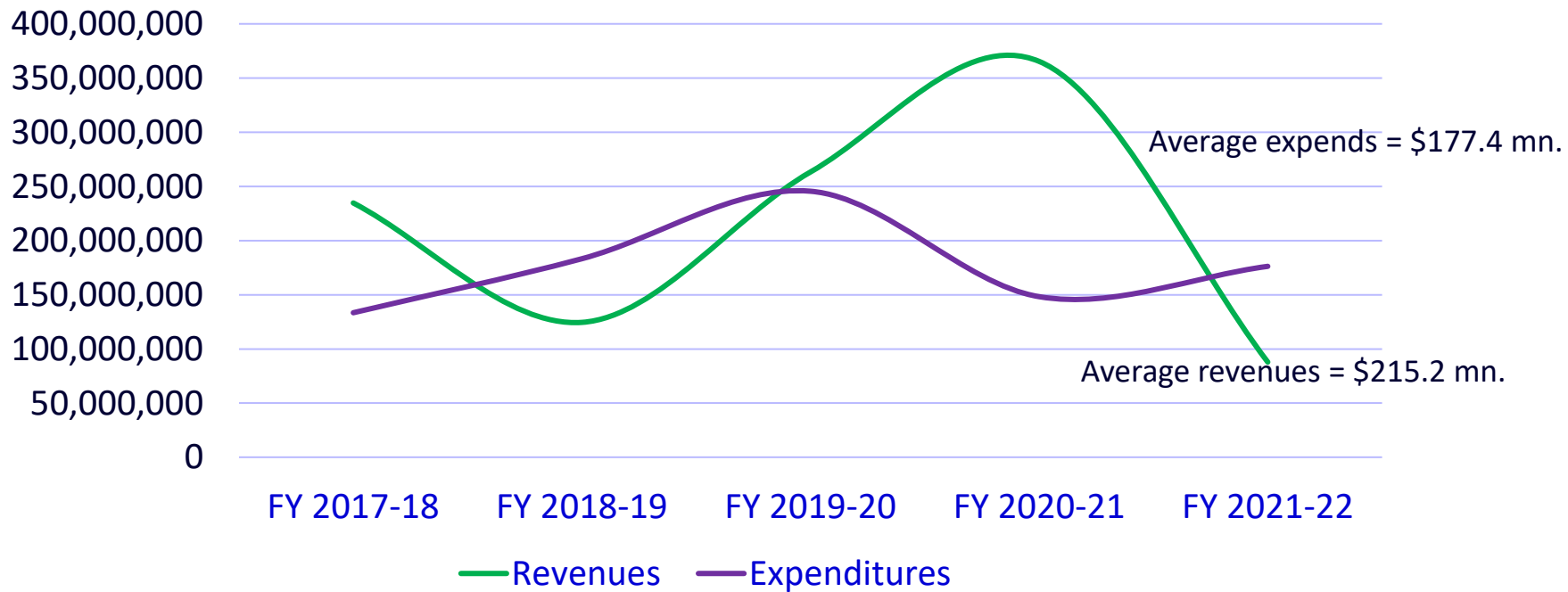
# MOHCD Expenditures: Multifamily Housing Grants & Loans

- City contributes average of 37% of funding for projects; balance from state and federal sources. (SF Planning Department)

City sources	State and federal sources
General Obligation Bonds (2015, 2019)	Low-income housing tax credit
Development/special project fees: <ul style="list-style-type: none"> <li>Affordable Housing Fund: inclusionary units/small sites program contributions</li> <li>Jobs Housing Linkage Fees</li> <li>Eastern Neighborhoods Community Improvements/Market-Octavia</li> <li>Downtown Neighborhood Preservation</li> <li>Other development fees</li> </ul>	Section 8 Community Development Block Grant HOME HOPWA State grants
General Fund support (Housing Trust Fund, ERAF)	California Housing Accelerator Program

Though variable, average revenues exceeded expenditures for 5 years by 21%

### Affordable Housing Revenues and Expenditures



## Carried forward (unspent) fund balances add to excess revenue each year

	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	Average
<b><i>Bond funds</i></b>						
Revenues	\$142,984,643	\$3,104,104	\$95,120,696	\$255,796,598	\$7,639,846	<b>\$100,929,177</b>
Expenditures	33,061,675	63,107,741	67,130,447	63,934,864	105,436,924	<b>66,534,330</b>
End balance	154,903,866	94,900,229	122,890,478	314,752,212	216,955,134	<b>180,880,384</b>
<b><i>Housing Trust Fund</i></b>						
Revenues	46,865,808	35,201,671	91,037,431	97,131,595	66,221,648	<b>67,291,631</b>
Expenditures	37,611,562	42,945,268	72,606,636	70,727,237	36,034,111	<b>51,984,963</b>
End balance	43,808,708	36,065,111	54,495,905	80,900,263	111,087,801	<b>65,271,558</b>
<b><i>Dev. fees and special projects</i></b>						
Revenues	44,892,326	86,189,206	77,201,424	12,508,737	13,975,672	<b>46,953,473</b>
Expenditures	62,907,372	77,254,615	105,753,467	13,696,851	34,839,100	<b>58,890,281</b>
End balance	250,500,604	259,435,194	230,883,150	229,695,037	208,831,610	<b>235,869,119</b>
<b><i>Grand total</i></b>						
Revenues	234,742,776	124,494,981	263,359,550	365,436,930	87,837,167	<b>215,174,281</b>
Expenditures	133,580,609	183,307,624	245,490,550	148,358,951	176,310,135	<b>177,409,574</b>
End balance	449,213,178	390,400,535	408,269,534	625,347,512	536,874,544	<b>482,021,061</b>

## Year-end fund balances for key affordable housing funds

Source	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
Bond funds	\$154,903,866	\$94,900,229	\$122,890,478	\$314,752,212	\$216,955,134
Housing Trust Fund	43,808,708	36,065,111	54,495,905	80,900,263	111,087,801
Development fees and special projects	250,500,604	259,435,194	230,883,150	229,695,037	208,831,610
<b>Total</b>	<b>\$449,213,178</b>	<b>\$390,400,535</b>	<b>\$408,269,534</b>	<b>\$625,347,512</b>	<b>\$536,874,544</b>

## Fund balance reporting needs clarity: how much is actually available?

- **\$85.9** million committed under executed loan agreements (16% of fund balance)
- **\$313.5** million unreported mix: executed loan agreements and anticipated but not yet executed agreements (58% of fund balance)
- **\$24.8** million anticipated but not yet executed agreements (5% of fund balance)

	Bond funds	Housing Trust Fund	Dev. fees and special proj.	Total	% Total Fund Bal.
<b>FY 2021-22 Year-End Balance</b>	<b>\$216,955,134</b>	<b>\$111,087,801</b>	<b>\$208,831,610</b>	<b>\$536,874,545</b>	<b>100.0%</b>
<i><u>New housing development</u></i>					
<b>Executed loan agreements</b> (committed but not encumbered)	39,349,578	7,718,019	38,823,189	85,890,786	16%
<b>Executed loan agreements and anticipated but not yet executed loans</b>	154,782,358	48,115,761	110,636,529	313,534,648	58%
<b>Anticipated but not yet executed loans</b>	-	11,904,039	12,941,012	24,845,051	5%
<i><u>New housing dev. subtotal</u></i>	<i><u>194,131,936</u></i>	<i><u>67,737,819</u></i>	<i><u>162,400,730</u></i>	<i><u>424,270,485</u></i>	<i><u>79%</u></i>
<i><u>Other planned uses</u></i>	<i><u>9,334,259</u></i>	<i><u>26,033,223</u></i>	<i><u>39,783,574</u></i>	<i><u>75,151,056</u></i>	<i><u>14%</u></i>
<b>Total committed</b>	<b>\$203,466,195</b>	<b>\$93,771,042</b>	<b>\$202,184,304</b>	<b>\$499,421,541</b>	<b>93%</b>

## MOHCD fund balance reporting recommendations

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- MOHCD: More detailed breakdown of funding commitments is possible but very time consuming, not provided for this audit report.
  - Some encumbrance information provided in annual progress reports.
- BLA recommends MOHCD include in annual report:
  - Year-over-year change in fund balance,
  - Funds committed to specific projects, anticipated or earmarked, and amounts available for any project,
  - Year-over-year comparison of anticipated prior year project commitments vs. actual project funding.



## Quarterly Reporting on Affordable Housing Projects

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Administrative Code requires quarterly milestone reports on the status of affordable housing projects.

Intent of ordinance establishing requirement: bring “clarity and speed” to permitting process for 100% affordable housing projects.

Report findings:

- Reports do not fully comply with Code requirements.
- Reports value is limited due to lack of goals or performance metrics for project **time** and **cost**.

*MOHCD reports it is currently updating its quarterly milestone report format to address our recommendations and improve reporting.*

# Compliance with Reporting Requirements for Milestone Reports

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## Administrative Code Requirements (Sec. 109.3)

## Included in Milestone Report?

Report every 100% Affordable Housing Project that has applied for approval, permit, or other City authorization from DBI, DPW, SFFD, Mayor's Office on Disability, or Planning Department.

Milestone reports include a list of projects undergoing permitting.

Information regarding the financing and financing-related deadlines for each 100% Affordable Housing Project.

Information regarding financing and financing-related deadlines is not consistently included.

Any approval, permit or other City authorization each 100% Affordable Housing Project is waiting to receive from the department or office.

Specific outstanding permits and/or authorizations are not consistently listed.

The date of any application and current status of each pending approval, permit or other City authorization for each 100% Affordable Housing Project.

Date of any application and current status of each pending approval is not included.

## Examples: unreported project delays, 24% of 1 year or more

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Of 29 projects with reported start and end dates in quarterly reports reviewed, 7 had delays of more than one year (24%). Many causes of project delays are due to factors outside of the City's and MOHCD's control.

14 other projects out of 29 reviewed had delays of less than one year.

Project delays could not be determined without conducting extensive side by side comparison of quarterly reports over time.

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<b>Project</b>	<b>Construction Start Date Delay (Weeks)</b>	<b>Completion Date Delay (Weeks)</b>
<b>4840 Mission</b>	-	104
<b>735 Davis</b>	-	89
<b>1351 42<sup>nd</sup> Avenue</b>	74	65
<b>72-78 Haight</b>	67	-
<b>401 Avenue of the Palms</b>	-	63
<b>4200 Geary</b>	63	-
<b>Treasure Island C3.1 (Starview Court)</b>	62	-

## Key cost measure: local subsidy per unit not reported

- Local subsidy per unit range from 5 years' projects reviewed: \$30,580 - \$608,844

Projects completed between FYs 2017-18 - 2021-22

<b>Program</b>	<b>Total Project Units</b>	<b>Sum of Loans Disbursed</b>	<b>Local Subsidy Per Unit</b>
<b>Small Sites Program</b>	238	\$144,904,832	\$608,844
<b>Big Sites Program</b>	86	\$27,124,000	\$315,395
<b>Multifamily Rental Program</b>	2,491	\$437,029,558	\$175,443
<b>HOPE SF</b>	642	\$89,683,040	\$139,693
<b>Rental Assistance Demonstration Program</b>	2,826	\$86,419,260	\$30,580
<b>TOTAL</b>	6,283	\$785,160,689	\$124,966

## Inconsistencies in City's reported affordable housing production

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### MOHCD Pipeline vs. Planning Department Housing Inventory

	2019			2020			2021		
	Housing Invtry	Pipeline	Diff.	Housing Invtry	Pipeline	Diff.	Housing Invtry	Pipeline	Diff.
New const.	874	338	536	52	710	-658	855	1,018	-163
Inclusionary	405	65	340	486	51	435	355		355
ADUs/other	177		177	177		177	285		285
<b>TOTAL</b>	<b>1,456</b>	<b>404</b>	<b>1,052</b>	<b>715</b>	<b>761</b>	<b>-46</b>	<b>1,495</b>	<b>1,018</b>	<b>477</b>

## MOHCD lacks formal decision-making procedures and funding decision criteria

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- MOHCD lacking formalized processes, workflows, & recordkeeping practices that establish and document how funding source decisions made for affordable housing projects.
- MOHCD relies on the professional judgment and knowledge of staff to make funding decisions for projects and their informal documentation or memories for records of these decisions.
  - Transparency of MOHCD's funding decisions and processes is impaired. Evaluations and decisions made before proposed affordable housing loans come to Citywide Affordable Housing Loan Committee are not fully documented, traceable, or formally recorded.

MOHCD reports that development of a funding decisions workflow is underway.

# Funding decision criteria recommendations

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## Recommendations:

MOHCD establish a set of written principles, workflows, guidelines, or best practices that formalizes:

- how funding decisions are made between different funding sources,
- how affordable housing projects are prioritized for funding allocations.

MOHCD provide a narrative description of each loan agreement's funding sources to the Board of Supervisors when the agreement is before the Board for approval.

Board of Supervisors could consider amending the Administrative Code to require MOHCD in its quarterly reports on affordable housing development to include a high-level summary of funding decisions and commitments for affordable housing that were made during the previous quarter.

# Questions and Comments

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### *Summary of Findings and Recommendations*

<https://sfbos.org/budget-legislative-analyst-reports>

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