

Office of the City Auditor

Performance Audit of the San Diego Housing Commission

Presentation to the Audit Committee
September 21, 2016



Responsibility for SDHC oversight:

1. San Diego Housing Commission Board
2. San Diego Housing Authority
3. U.S Department of Housing and Urban Development

Government oversight can be more effective when combined with performance management:

- An ongoing, systematic approach to improving results through evidence-based decision making, continuous learning, and a focus on accountability for performance. Uses evidence from measurement to support planning, funding and operations.

The San Diego Housing Commission (SDHC) serves low and moderate-income families through the expansion of the City’s inventory of affordable housing.

SDHC plays three distinct roles:

ROLE	DESCRIPTION
Lender	Partners with developers and uses various funding sources to finance affordable housing developments.
Bond Issuer	Issues multifamily mortgage revenue bonds for the acquisition, construction, and development of projects.
Developer	Develops and preserves affordable housing through the rehabilitation of existing buildings and also through new construction.

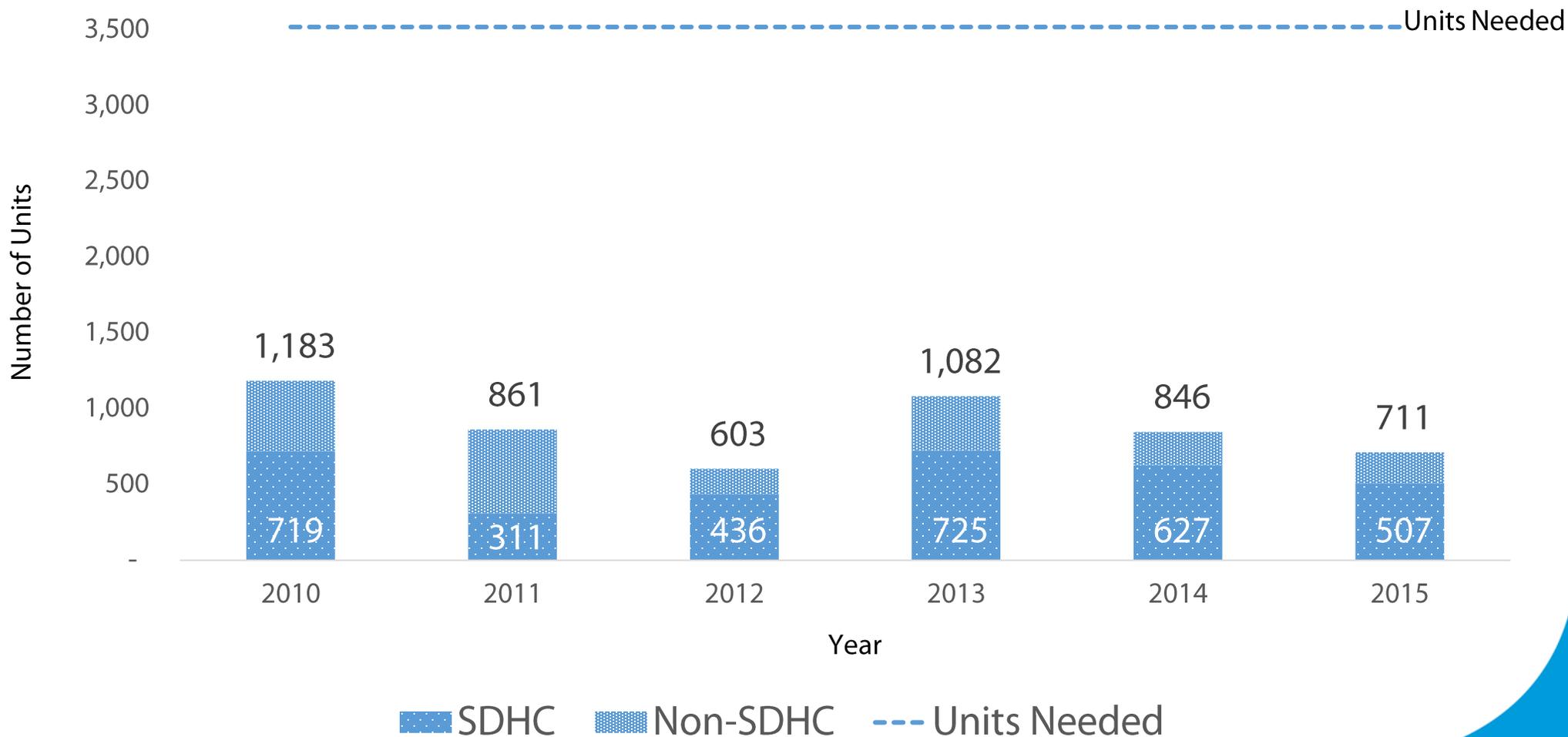
Finding 1

SDHC plays a significant role in the production of affordable housing but has not established overall targets or performance measures to evaluate the results of its efforts.

- SDHC does not set overall production goals
- SDHC does not report total production figures or compare them to the City's housing need for the purpose of assessing performance
- SDHC does not report production figures in a readily accessible, summarized format

Finding 1

SDHC Helps Develop a Significant Portion of Low-Income Housing Units, but Total Production Still Lags Far Behind Need



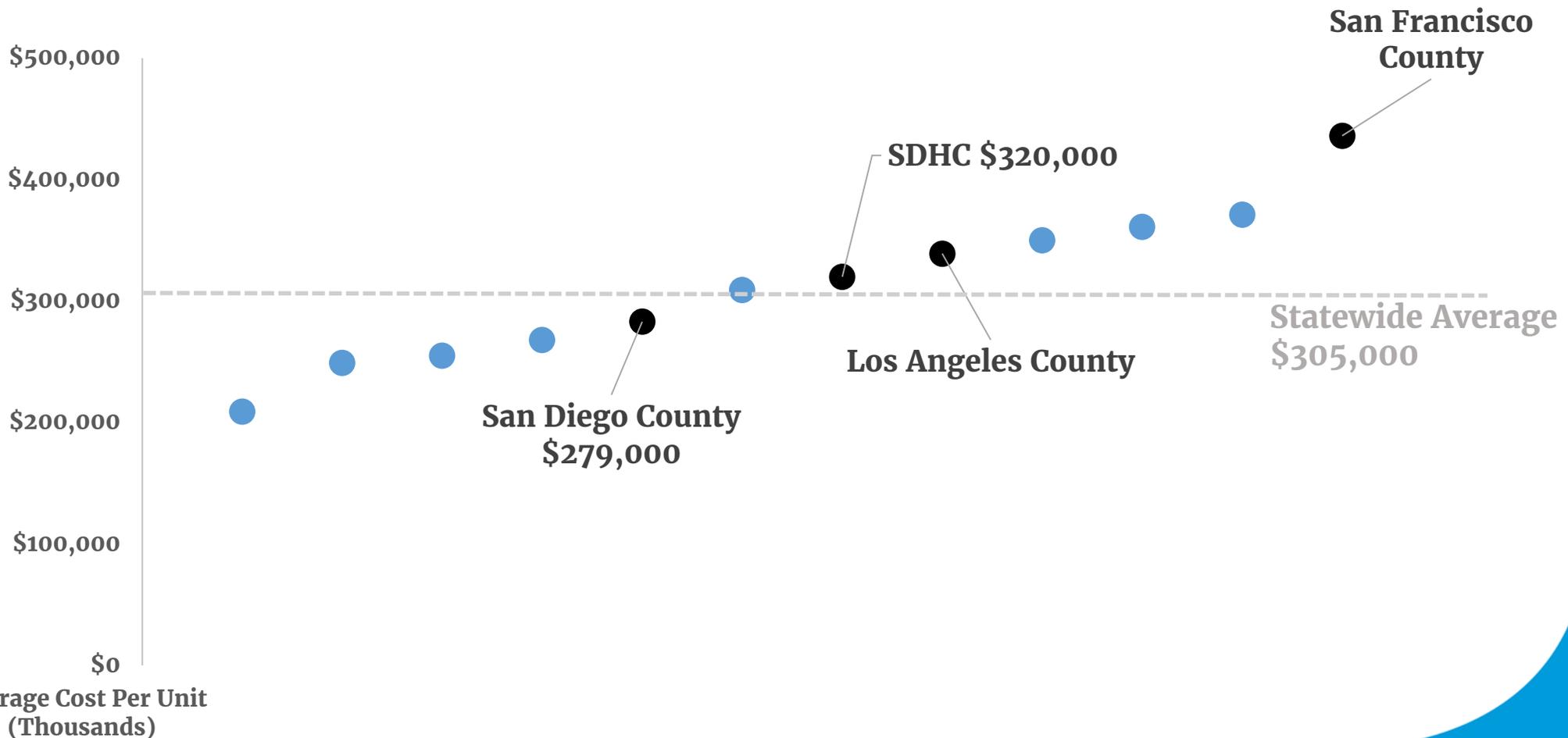
Finding 2

SDHC can better demonstrate the cost-effectiveness of affordable housing developments by using performance indicators and benchmarks.

- Statewide or regional averages
- Similar SDHC developments
- Key Performance Indicators
- Unit cost developed with cost estimating software

Finding 2

Statewide or regional averages. SDHC's unit costs are comparable with nearby Los Angeles County.



Finding 2

Comparing unit costs between SDHC's previous similar developments can also serve as a useful benchmark to ensure developments remain cost-effective. This technique adjusts for factors contributing to project complexity.

Various project factors that affect unit costs include:

- Project size
- Unit size
- Land costs
- Local government requirements
- Building quality and durability
- Developer characteristics

Finding 2

How Project Factors Affect Project Costs

Factors Affecting Unit Costs	Description of Project Factors
Project Size	Larger projects cost less per unit and benefit from economies of scale.
Unit Size	Larger units (2-4 bedrooms) are relatively more expensive on a per unit basis.
Local Government Requirements	Permitting and processing fees vary across the State.
Community Input Process	Community opposition that delays the design/implementation process likely increases costs.
Building Quality and Durability	Increased quality and durability add to costs.
Construction Wages	Vary by region, and prevailing wage in effect.
Developer Characteristics	Projects built by larger developers are less expensive.
Land Costs	Vary by region, but important part of total cost.

Example of SDHC Trolley Residential Proposal with Cost Factors

Trolley Residential Proposal Explanation	Trolley Residential Development Cost Impact (Amount)
Smaller project with 52 units.	Increase (not shown by SDHC)
22 of the 52 units are 3 bedroom units.	Increase (not shown by SDHC)
City development impact, permit and processing fees.	Increase (\$43,707 per unit)
Extensive community input process resulted in the implementation of community-desired design.	Increase (not shown by SDHC)
Soil remediation cost.	Increase (\$7,692 per unit)
Prevailing wages increase construction costs by approximately 16 to 20 percent.	Increase (not shown by SDHC)
General contractor has ability to leverage subcontractor relationships to receive competitive pricing.	Decrease (not shown by SDHC)
Land sold for less than appraised value.	Decrease (\$16,753 per unit)

Finding 3

The San Diego Housing Commission can improve monitoring of developer's loan payments to ensure it is collecting amounts due and should regularly evaluate the cost-effectiveness of its loan servicing activities.

- SDHC lacks a thorough monitoring process of developers' loan payments to ensure that it is collecting amounts due.
- SDHC does not regularly evaluate the cost-effectiveness of its loan servicing activities.

Recommendations

To address the issues we identified, we made five recommendations to SDHC that focus on:

- Establishing targets and performance measures for affordable housing units produced;
- Creating an evaluation methodology to demonstrate the cost-effectiveness of SDHC-related projects;
- Developing loan servicing guidelines that include review timelines, reconciliation procedures and dispute procedures;
- Conducting periodic analysis of the cost/benefit of the loan servicing activities; and
- Reporting loan collection results annually to the SDHC Board and SD Housing Authority.

Management agreed to implement all recommendations, and we found the proposed implementation schedule to be reasonable.



Requested Action

We ask the Audit Committee to accept and forward the report to the City Council.