
**CITY OF SAN ANTONIO
OFFICE OF THE CITY AUDITOR**

**NEIGHBORHOOD & HOUSING SERVICES
DEPARTMENT**
AUDIT OF AFFORDABLE HOUSING DEVELOPER
INCENTIVE PROGRAMS
PROJECT NO. AU23-026
APRIL 15, 2024

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CITY AUDITOR



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Executive Summary

As part of our annual Audit Plan approved by City Council, we conducted an audit of the Neighborhood & Housing Services Department (NHSD), specifically the affordable housing developer incentive programs. The audit objective, conclusion, and recommendation follow:

Determine if affordable housing incentive programs are monitored to ensure developer commitments are honored.

Overall, NHSD is monitoring affordable housing incentive programs to ensure developer commitments are honored. NHSD has effective procedures in place for monitoring developers to ensure the appropriate number of affordable housing rental units are made available, the appropriate income levels are met by tenants, and the affordable housing sale units have a restrictive covenant in place for the appropriate length of time. In addition, NHSD has established contract language to protect City funds provided to developers.

However, the audit team identified an area in which controls could be improved in regard to reporting accurate affordable housing metrics on the NHSD website.

We provided a recommendation to management to strengthen controls and resolve the identified issue. NHSD Management agreed with the audit finding and has developed a positive action plan to address it. Management's verbatim response is in Appendix B on page 8.

Background

The Neighborhood & Housing Services Department's (NHSD) vision is to create stable neighborhoods where individuals can thrive. Under the Affordable Housing Initiatives, NHSD focuses on homeownership production, homeownership preservation, renter production, and renter preservation. NHSD facilitates private sector and non-profit development of single-family, multi-family, or mixed-use housing. NHSD coordinates activities between the City, San Antonio Water System (SAWS), developers, and other parties included in the projects to deliver affordable housing to low- or moderate-income homeowners and renters.

NHSD provides affordable housing incentives to developers through various channels. The primary types of incentives are City and SAWS fee waivers, grants/loans, and City tax reimbursements. To begin, the fee waiver program provides City funds to incentivize developers to allocate a portion of their housing project as affordable housing. The waivers are used to reduce or eliminate the costs of City and SAWS fees. Qualifying projects are awarded fee waivers based on the developer's total investment and the number of affordable housing units being provided.

All affordable rental housing units that receive fee waivers through this program must demonstrate affordability for a minimum of 15 years or be qualified through a local, state, or federal affordable housing program that includes a minimum affordability term and regular compliance requirements. For-sale units must demonstrate affordability to a qualified homebuyer at the time of sale and include a resale restriction (restrictive covenant) for a minimum of five years following the initial sale.

Next, infrastructure grants are available to developers with projects located within the Central Business District where at least 10% of the units qualify as affordable housing units. Infrastructure grants are designed to assist with infrastructure upgrades and repairs considered typical for urban infill development. Grants may be used by the developer toward expenses such as water or sewer line repairs or upgrades, electric service repairs or upgrades, public right-of-way improvements, and street-level facade improvements.

Lastly, developers with eligible projects may receive an annual real property tax reimbursement that is disbursed over 15 years for Level 1 projects and over 10 years for Level 2 and 3 projects¹.

¹ Level 1 projects are located within the Central Business District (CBD).

Level 2 projects are located outside the CBD but inside the Greater Downtown area.

Level 3 projects are located on properties with eligible zoning in the SA Tomorrow Regional Centers and abutting Via's Primary Transportation Corridors.

Audit of Neighborhood & Housing Services Department
Affordable Housing Developer Incentive Programs

Rebate payments through the real property tax reimbursement may be requested annually after project completion, and payments will be disbursed as funds are available.

Developers may choose to participate in any of these available incentive programs. In addition to these incentives provided by the City, developers may also apply for and receive state and federal grant funding. Developers are provided with these incentives, and, in exchange, must meet affordable housing commitments.

The developers and projects are monitored to ensure the terms of the affordable housing agreements are met. A Special Projects Manager from NHSD monitors the developments provided with fee waivers. A Special Projects Manager from Center City Development & Operations (CCDO) works with the Finance Department to verify and process tax reimbursements. In addition to fee waivers, if a developer also receives a state grant, the Texas Department of Housing and Community Affairs (TDHCA) monitors the project, and if a developer also receives a federal grant, the Department of Housing and Urban Development (HUD) partners with the Grants Monitoring & Administration (GMA), a division of NHSD, to monitor the project.

NHSD tracks the status of each affordable housing unit on a Pipeline Spreadsheet to monitor their progress. Every three months, the data in the Pipeline Spreadsheet is used to update and report affordable housing metrics on the NHSD website through the Affordable Housing Dashboard. The dashboard displays the total number of affordable housing units currently in progress and completed for projects focusing on homeownership production, homeownership preservation, renter production, and renter preservation.

Audit Scope and Methodology

The audit scope included the affordable housing developer incentives provided by the Neighborhood & Housing Services Department (NHSD) from FY 2018 through FY 2022.

To gain an understanding of how the affordable housing developer incentives are monitored, we interviewed NHSD and Center City Development & Operations (CCDO) personnel and conducted walkthroughs of the incentive programs, developer requirements, affordable housing reporting, and monitoring efforts. The City of San Antonio Fee Waiver Program Guidelines was our primary criteria for this audit. We assessed internal controls relevant to the audit objective. This included a review of policies and procedures of incentive programs, the monitoring tasks performed, and the tracking and reporting of affordable housing metrics.

We reviewed projects where developers were provided fee waivers, grants, or tax rebates to determine if internal monitoring performed by NHSD and external monitoring performed by the Texas Department of Housing and Community Affairs (TDHCA), the Department of Housing and Urban Development (HUD), and the Grants Monitoring & Administration (GMA), a division of NHSD, align with the affordable housing agreement guidelines. We also tested the affordable housing metrics reported on the NHSD website through the Affordable Housing Dashboard to determine if the metrics are complete and accurate. Lastly, we reviewed affordable housing agreements to determine if an enforceable clause is included that allows the City to recuperate funds previously provided to developers should the project no longer be in compliance with the terms of the agreement.

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.

Audit Results and Recommendation

Overall, NHSD has effective procedures in place for monitoring developers to ensure their projects are in compliance with the terms of the affordable housing agreements. We reviewed a sample of 26 projects where developers were provided fee waiver, grant, or tax rebate incentives. We determined the projects were monitored by NHSD, TDHCA, HUD, and GMA to ensure the appropriate number of affordable housing rental units were made available, the appropriate income levels were met by tenants, and the affordable housing sale units had a restrictive covenant in place for the appropriate length of time.

In addition, NHSD has established contract language which protects the City in the event developers are non-compliant with commitments. We reviewed affordable housing agreements and discussed the contract provisions with the City Attorney's Office. We determined an enforceable clause is included in the agreements that permits the City to recuperate funds previously provided to developers should the project no longer meet the requirements of the affordable housing agreement.

However, the audit team identified an area where controls could be improved as noted below.

A. Reporting Affordable Housing Metrics

Although NHSD is tracking essential affordable housing metrics, the metrics reported on the NHSD website through the Affordable Housing Dashboard were not accurate at the time the audit was conducted. The metrics reported in the Affordable Housing Dashboard were compared to the metrics in the Pipeline Spreadsheet, and seven of eight metrics did not match. In addition, the Pipeline Spreadsheet contained errors and omissions where the data tested was not complete and accurate.

As a best practice, the affordable housing metrics reported in the Affordable Housing Dashboard should be accurate.

NHSD has not established adequate monitoring procedures to ensure the metrics reported on the NHSD website through the Affordable Housing Dashboard are accurate.

Recommendation

The NHSD director establish adequate monitoring procedures to ensure the metrics reported on the NHSD website through the Affordable Housing Dashboard are accurate.

Appendix A – Staff Acknowledgement

Buddy Vargas, CPA, CIA, CFE, Audit Manager

Michael Gutierrez, Auditor in Charge

Ken Lyssy, CFE, Auditor in Charge

Megan Dodd, Auditor

Jeffrey Barrs, Auditor

Appendix B – Management Response



CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3968

March 25, 2024

Kevin W. Barthold, CPA, CIA, CISA
City Auditor
San Antonio, Texas

RE: Management's Corrective Action Plan for the Audit of Neighborhood & Housing Services Department Affordable Housing Developer Incentive Programs

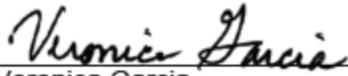
The Neighborhood & Housing Services Department (NHSD) has reviewed the audit report and has developed the Corrective Action Plan below corresponding to the report recommendation.

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
A	<p>Reporting Affordable Housing Metrics</p> <p>The NHSD director establish adequate monitoring procedures to ensure the metrics reported on the NHSD website through the Affordable Housing Dashboard are accurate.</p>	6	Accept	Sara Wamsley / Housing Policy Administrator	May 2024
<p>Action plan:</p> <p>At the time the Audit was conducted, NHSD was in the process of updating the online Affordable Housing Dashboard, which caused the discrepancy in metrics between the online, public-facing Dashboard tool and the administrative Pipeline Spreadsheet. NHSD agrees data integrity is a priority and will implement a policy to ensure the Pipeline Spreadsheet and the online Dashboard tool are accurate and complete. The policy will include adequate monitoring procedures, along with robust internal data collection and verification methods.</p>					

We are committed to addressing the recommendation in the audit report and the plan of action presented above.

Sincerely,

Audit of Neighborhood & Housing Services Department
Affordable Housing Developer Incentive Programs



Veronica Garcia
Director
Neighborhood & Housing Services

4.3.2024

Date



Lori Houston
Assistant City Manager
City Manager's Office

4.3.2024

Date