



**Washington County
Auditor's Office**

Affordable Housing Bond Program: Notice of Funding Availability Generally Well Designed, but Could Result in Funding Delays

Final Report

July 20, 2020



John Hutzler, CIA, CGAP, CCSA County Auditor

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Metro Affordable Housing Bond

Executive Summary

Why we audited this:

- We audited the County's Affordable Housing Bond program to determine whether the County's Notice of Funding Availability (NOFA) provided reasonable assurance that proposals submitted to Metro by the County will be approved for funding.

What we found:

- To receive funding, a proposed project must be consistent with the County's Local Implementation Strategy (LIS).
- We found that the NOFA was designed to generate affordable housing proposals consistent with the LIS.
- Only one of the 15 requirements and priorities we reviewed from the LIS was omitted from the NOFA.
- While that omission could delay the submission of proposals to Metro, it is unlikely to result in a denial of funding.

What we recommend:

- As needed and as expeditiously as possible, the County should work to incorporate a significant role for culturally specific organizations into proposals submitted in response to the current NOFA.
- In future NOFAs, the Department of Housing Services should explicitly express the County's preference for projects sponsored by culturally specific organizations or in which such organizations have a significant role in project design and operations.



A handwritten signature in black ink, appearing to read 'John H. Harty', written over a light blue background.

BACKGROUND



Affordable Housing in Hillsboro (not bond funded).
Source: Washington County Office of Community Development

On November 6, 2018, voters approved Ballot Measure 26-199, which authorized the Metro regional government to issue \$652.8 million in bonds to support regional affordable housing needs. Metro's goal is to create about 3,900 units to house approximately 12,000 people. Housing is considered affordable when the costs total no more than 30 percent of a household's gross income. Affordable housing rents are typically set below market.

Metro established a framework to guide the bond work. Metro adopted an Affordable Housing Bond Work Plan which provides a comprehensive implementation plan, including program governance, authority, and monitoring. The Work Plan identifies production targets and guiding principles, such as advancing racial equity and community engagement. As required by the Work Plan, Washington County submitted its Local Implementation Strategy (LIS) outlining how the County will engage communities, achieve production targets, and advance racial equity. The County Board and the Metro Council approved the LIS in December 2019.

For Washington County, this affordable housing program is a high-profile endeavor with ambitious production targets. The County will receive approximately \$116 million (21 percent) of the total bond proceeds to construct 814 affordable housing units over the next five to seven years. Those units will serve an estimated 2,505 low-income people. The \$116 million for Washington County is separate from Metro bond funds allocated to the City of Hillsboro and the City of Beaverton.

The bond program will create 814 housing units for 2,505 low-income people in our community.

In March 2020, the County issued a Notice of Funding Availability (NOFA) offering \$80 million of the \$116 million. The NOFA invites developers to submit proposals for affordable housing projects. Of the \$80 million in the NOFA, \$25 million was set aside for Community Development Housing Organizations. These are private, non-profit community-based service organizations that develop affordable housing for the communities they serve. The remaining \$55 million is competitive for both non-profit and for-profit development organizations.

An eight-person evaluation committee, including a Metro representative, will score proposals submitted and recommend projects for approval by the County Board. The Board will submit approved projects to Metro with requests for funding. To receive funding, proposed projects must be consistent with the LIS.



Cornelius Place, affordable housing for seniors (not bond funded).
Source: Washington County Office of Community Development

Metro approved the Work Plan and the LIS, but it did not review or approve the County's NOFA. The NOFA provides instructions on the development, scoring, and selection of project proposals for submission to Metro. Close alignment of the project requirements and preferences in the NOFA with those in the LIS would increase the chances that Metro will fund submitted proposals. A lack of alignment increases the risk that Metro might find proposals inconsistent with the LIS and deny or delay funding. Should Metro refuse to fund a project, the County must devote more time and resources to solicit and review additional proposals. That could jeopardize the County's ability to meet production targets and to provide affordable housing to its residents in a timely manner.

Both the LIS and the NOFA identify desired characteristics of affordable housing projects. Although they describe those characteristics in different terms, they generally fall into one of three categories listed below in decreasing order of importance:

- *Requirements* - Conditions a proposal must meet to be considered for funding.
- *Criteria* – Attributes used to evaluate project proposals against one another.
- *Preferences* - Additional considerations that could influence the inclusion of a proposal into the portfolio of projects.

We evaluated the NOFA to determine whether that document would likely generate proposals consistent with the LIS. To accomplish that, the NOFA should place at least as much emphasis on these characteristics as did the LIS.

We reviewed 15 characteristics in the LIS used to consider projects for bond funding. We classified them into the categories above and evaluated whether the NOFA placed at least as much emphasis on each characteristic as did the LIS.

Figure: Comparison of Characteristics in LIS and NOFA:

Desired Characteristic	In LIS	In NOFA	Equal or Greater Emphasis in NOFA
Good faith efforts to achieve 20% subcontracting for minority-owned, women-owned, emerging small businesses, and disadvantaged businesses.	Requirement	Requirement	✓
Proactive outreach and marketing to target populations.	Requirement	Requirement	✓
Low-barrier screening in tenant selection.	Requirement	Requirement	✓
Permanent Supportive Housing provided to tenants with complex health needs.	Criteria	Criteria	✓
Accessibility through universal design.	Criteria	Requirement	✓
Number of units for people earning 80% or less of the Median Family Income ¹ .	Preference	Requirement	✓
Number of larger unit sizes (2 or more bedrooms).	Preference	Requirement	✓
Geographic dispersal.	Preference	Preference	✓
New construction of rental units.	Preference	Preference	✓
Increase housing in areas with underserved populations.	Preference	Requirement	✓
Located in areas with transit, jobs, schools, parks, etc.	Preference	Requirement	✓
Prioritize projects by culturally specific organizations or where they have a meaningful role in design and operations.	Preference	Not addressed	X
Resident services provided appropriate to tenants.	Preference	Requirement	✓
Good return on investment – efficient design and durable construction.	Preference	Requirement	✓
Developer experience with affordable housing and readiness to proceed.	Preference	Criteria	✓

Source: Auditor's Office analysis

¹ In 2020 a family of four earning 80 percent of the Median Family Income would make about \$73,680 per year. At 30 percent, the household would earn \$27,630. (U.S. Department of Housing and Urban Development).

FINDINGS:

We found that the County expressed 14 of these 15 factors in the NOFA at least as strongly as in the LIS. Although success with Metro will ultimately depend upon the quality of the proposals submitted, we believe the NOFA was designed to ensure that highly rated proposals submitted by Washington County will be approved for funding.

One characteristic in the LIS was not mentioned in the NOFA. In the LIS the County indicated it would prioritize projects sponsored by culturally specific organizations or partnerships in which culturally specific organizations have a meaningful role in project design and operations. This priority was not expressed in the NOFA.

According to the Department of Housing Services, the County will work with developers to involve culturally specific organizations in project design and operations. In addition, the Department noted that the NOFA sets aside money for community non-profits, so the organizations can better participate in proposing housing developments for the diverse populations the non-profits serve.

The absence of a clear reference in the NOFA to significant involvement of culturally specific organizations, however, reduces the likelihood that proposals will address this element. It increases the risk of delay in obtaining funding approval if the County must negotiate the involvement of culturally specific organizations before submitting proposals to Metro.

RECOMMENDATIONS

As needed and as expeditiously as possible, the County should work to incorporate a significant role for culturally specific organizations into proposals submitted in response to the current NOFA.

In future NOFAs, the Department of Housing Services should explicitly express the County's preference for projects sponsored by culturally specific organizations or in which such organizations have a significant role in project design and operations.

**OBJECTIVE, SCOPE,
AND
METHODOLOGY**

Our audit objective was to determine whether the County's Notice of Funding Availability could provide reasonable assurance that proposals submitted to Metro by the County will be approved for funding. The scope of our review included the County's work on the Metro Affordable Housing Bond through publication of the NOFA in March 2020. To accomplish our objectives, we:

- Interviewed managers and staff from the Washington County Department of Housing Services, the Department of Land Use and Transportation, the Office of Community Development, and the County Administrator's Office.
- Interviewed jurisdictional partners from the City of Beaverton and City of Hillsboro.
- Attended a Housing Advisory Committee meeting and interviewed one of its members.
- Reviewed audits and other documents related to housing bonds programs in other cities and states.
- Reviewed ballot measure documents and the Oregon constitutional amendment on housing bond implementation.
- Reviewed contracts with Metro, the City of Beaverton, and the City of Hillsboro about program implementation and partnerships.
- Reviewed the Department of Housing Services strategic plan and Adopted Budget.
- Compared key objectives in the County's Local Implementation Strategy to the County's March 2020 NOFA.
- Reviewed the Metro Work Plan.

COMPLIANCE WITH AUDIT STANDARDS

We conducted this performance audit in accordance with generally accepted government auditing standards, except that we have not had an external peer review. 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.



Signed:

Audit Team:

County Auditor:	John Hutzler, CIA, CGAP, CCSA
Principal Auditor:	Kristine Adams-Wannberg, CIA, CGAP
Senior Auditor:	Sherry Kurk, CISA
Reviewer:	Fiona Howell Earle, CIA, CA

**SUMMARY OF
RECOMMENDATIONS**

1. As needed and as expeditiously as possible, the County should work to incorporate a significant role for culturally specific organizations into proposals submitted in response to the current NOFA.
2. In future NOFAs, the Department of Housing Services should explicitly express the County's preference for projects sponsored by culturally specific organizations or in which such organizations have a significant role in project design and operations.

MANAGEMENT RESPONSE**WASHINGTON COUNTY
OREGON**

DATE: July 10, 2020
TO: John Hutzler, County Auditor
FROM: Stephen Rhodes, Interim County Administrator *SR*
Ruth Osuna, Deputy County Administrator

SUBJECT: RESPONSE TO THE METRO AFFORDABLE HOUSING BOND PROGRAM AUDIT

We have reviewed the report dated July 6, 2020 regarding the Metro Affordable Housing Bond Program Audit dated July 6, 2020.

The County Administrative Office and Department of Housing Services agree with the recommendation to incorporate culturally specific organizations into proposals in a clearer manner than was done in the March 2020 Notice of Funding Availability (NOFA). To support this recommendation all proposals received in response to the March 2020 NOFA solicitation will be evaluated to ensure that the County's priority is met and ensures that new housing developments have culturally specific organizations involved in project design and operations. When this priority is not evident, proposers will be asked how this priority will be met prior to approval and funding. Staff will ensure that future NOFAs explicitly express the County's preference for projects sponsored by culturally specific organizations or in which such organizations have a significant role in project design and operations.

Washington County is committed to advancing racial equity through the implementation of the Metro Affordable Housing Bond Program. The March 2020 NOFA requires an Equity Plan as part of the application and awards up to 10 points for Advancing Racial Equity in the Competitive Scoring Criteria. This makes clear the importance of addressing equity issues in affordable housing projects funded through the Metro Affordable Housing Bond Program. Additionally, there is an express set-aside in the March 2020 NOFA for Washington County's community-based organizations that have board representation of lower-income residents and have missions to serve diverse populations. The intent of having the set-aside is to ensure Washington County based non-profits which have been designated as Community Housing Development Organizations (CHDOs) through the County's HOME program have an opportunity to participate in the development of housing for the communities they serve.

Lastly, Metro staff participation on the Evaluation Committee helps ensure that projects forwarded for Concept Endorsement will meet the Affordable Housing Bond Program's criteria. This participation is also intended to reduce potential delays in Metro's funding approval.

We look forward to working together on any follow-up audits related to Metro Housing Bond Program.

C: Komi Kalevor
Shannon Wilson

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