



# Affordable Housing Bond Preparedness:

*Develop clear and consistent guidance to improve bond operations*

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January 2021  
A Report by the Office of the Auditor

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## MEMORANDUM

Date: January 27, 2021

To: Lynn Peterson, Council President  
Shirley Craddick, Councilor, District 1  
Christine Lewis, Councilor, District 2  
Gerritt Rosenthal, Councilor, District 3  
Juan Carlos Gonzalez, Councilor, District 4  
Mary Nolan, Councilor, District 5  
Bob Stacey, Councilor, District 6

From: Brian Evans, Metro Auditor

**Re: Audit of Metro's Affordable Housing Bond Program**

This report covers the audit of the Affordable Housing Bond Program. The purpose was to assess Metro's preparedness to implement the bond measure, so that course corrections could be made early in implementation.

The audit found that additional guidance was needed to ensure fair consideration of program funding requests, establish clear standards for reporting on program outcomes, and support continuous improvements in program operations. It was hard to tell if the methods outlined in the bond's work plan were used to evaluate projects. Another weakness was lack of clarity about how changes to approved projects would be managed.

Unclear procedures also created uncertainty about project and program reporting. Gaps in project reporting impacted the data available to assess some program outcomes. As a result, the community oversight committee did not have the information necessary to monitor progress for some of the promises made in the bond.

The audit also identified opportunities to improve workload and budget management. Documenting how responsibilities are assigned between departments may prevent gaps or duplication.

We have discussed our findings and recommendations with Marissa Madrigal, COO; Elissa Gertler, Planning and Development Director; Megan Gibb, Land Use and Urban Development Manager; and Emily Lieb, Housing Bond Program Manager. A formal follow-up to this audit will be scheduled within five years. We would like to acknowledge and thank all of the employees who assisted us in completing this audit.

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## Summary

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Voters approved a \$652.8 million general obligation bond measure in November 2018. The goal was to create 3,900 affordable units over five to seven years. Seven jurisdictions were eligible to receive bond funding. This audit assessed Metro's preparedness to implement the bond measure, so that course corrections could be made early in implementation.

We found Metro initially focused on helping jurisdictions complete their implementation strategies and intergovernmental agreements. Because staff dedicated their time to helping jurisdictions, some internal procedures had not been developed.

Completing a procedures manual was important because it was supposed to guide staff and program partners in the next stage of program implementation. Additional guidance was needed to ensure fair consideration of program funding requests, establish clear standards for reporting on program outcomes, and support continuous improvements in program operations.

It was hard to tell if the methods outlined in the bond's work plan were used to evaluate projects. Using different methods could make funding decisions less reliable and more difficult to defend. Another weakness was lack of clarity about how changes to approved projects would be managed. Our previous audits showed examples where projects continued to receive funding, despite being completed in ways that differed from their original approved proposals.

Unclear procedures also created uncertainty about project and program reporting. The report templates Metro developed had weaknesses that would make performance measurement challenging. Reporting about each project would allow program performance to be measured and reduce the chances of providing inaccurate information about bond results.

Gaps in project reporting impacted the data available to assess some program outcomes. As a result, the bond's community oversight committee did not have the information necessary to monitor progress for some of the promises made in the bond. Metrics were available to measure some of what was listed for two out of the four outcomes, but the other two (lead with racial equity and create opportunity throughout the region) had more significant gaps.

We also identified opportunities to improve workload and budget management. Documenting how responsibilities are assigned between departments may prevent gaps or duplication. Improving the accuracy and transparency of the budget could lead to more efficient use of limited administrative resources.

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## Background

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In recent years, the Metro region has faced a shortage of affordable housing for households with low income. Housing is considered affordable if households spend less than 30 percent of their income on it. Metro estimated a gap of 47,000 affordable housing units for low-income households in 2018.

Metro's early experience in affordable housing included the Equitable Housing Initiative in 2015. Launched by Metro Council, the purpose of this initiative was to identify solutions to the region's shortage of affordable housing. The initiative engaged stakeholders to share best practices, resulting in a report that recommended additional sources of local funding for affordable housing.

The Transit-Oriented Development (TOD) program also gave Metro experience in funding affordable housing. TOD sought to promote high-density, mixed-use development near public transit. A new program strategy was released in 2017 that included building affordable housing in areas with high housing costs. Metro reported that the program had supported construction of approximately 1,300 affordable units as of 2019.

Planning for a regional affordable housing bond (bond program) started with gathering stakeholder input. Metro engaged community members and practitioners to help develop the overall structure and purpose of the bond. These efforts resulted in the bond framework, which stated the overall goal of creating 3,900 affordable units over five to seven years. The bond measure based on this framework was referred to voters in June 2018. It established four outcomes for the bond program:

- Lead with racial equity
- Create opportunity for those in need
- Create opportunity throughout the region
- Ensure long-term benefits and good use of public dollars

Voters passed a \$652.8 million general obligation bond measure based on the framework in November 2018. Bond funds were targeted to households making less than 60 percent of area median income (AMI), or \$55,260 for a family of four in 2020. Most of the bond funding would go to cities and county housing authorities, who would work with developers to build units. Metro's role included authorizing funding for projects and purchasing sites for the jurisdictions to use for development. The measure required independent community oversight to review bond expenditures and provide annual reports. It also capped administrative costs at five percent of total bond proceeds.

After the measure passed, Metro began setting up the bond program. Metro Council adopted a bond work plan, which served as the governing document for implementation. The work plan also established the bond's unit production goals. There were targets for deeply affordable units (for households earning 30 percent of AMI or below) and family-sized units (2 or more bedrooms).

**Exhibit 1 Housing bond work plan included goals for deeply affordable and family-sized units**

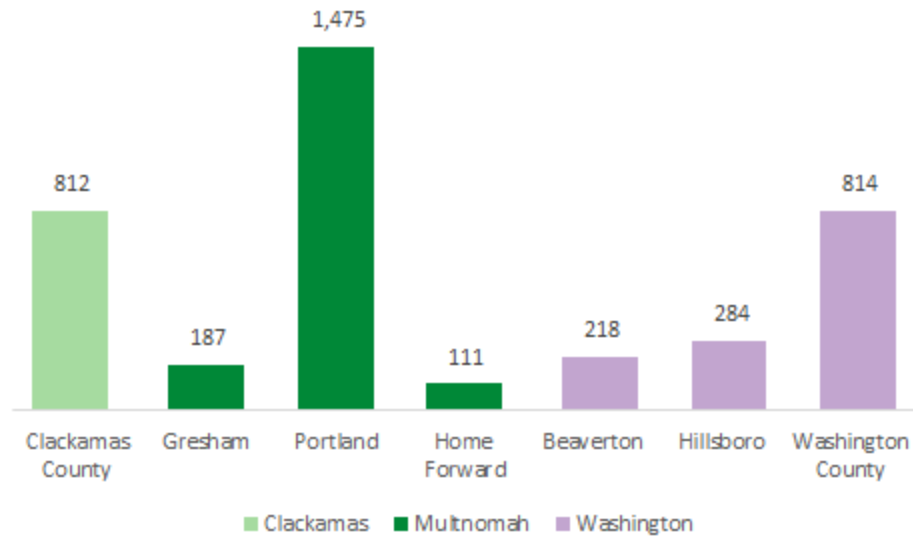
Deeply affordable units	Family-sized units
1,600	1,950

Source: *Affordable Housing Bond Work Plan*

The housing bond funds could be used for three types of development. Local jurisdictions could construct new affordable housing units, acquire and convert existing market-rate units, or add units to existing affordable housing properties. New construction or acquisition projects were required to stay affordable for at least 60 years. Conversion projects that were more than 10 years old were required to stay affordable for at least 30 years.

Seven jurisdictions were eligible to receive bond funding. These jurisdictions included four cities (Beaverton, Gresham, Hillsboro, and Portland) and two counties (Clackamas and Washington). Home Forward—Multnomah County’s housing authority—would develop housing in the cities east of Gresham. Each jurisdiction was expected to obtain additional sources of funding to develop housing, such as tax credits or loans.

**Exhibit 2 Housing unit goals for seven eligible jurisdictions**



Source: *Auditor’s Office analysis of Affordable Housing Bond Work Plan*

Metro also set aside 10 percent of bond funds (\$63 million) for the Site Acquisition Program (SAP). Through SAP, Metro would purchase an estimated 1-3 sites in each jurisdiction. These sites would help each jurisdiction reach their unit production goals. Metro would also be involved in developing properties on these sites. In October 2019, the bond work plan was amended to allow SAP funds to be used on sites owned by Metro—including sites already acquired by the TOD program.





Before receiving bond funds, the seven jurisdictions and Metro had to develop implementation strategies. Those strategies were required to include a:

- Development plan for achieving unit production targets
- Strategy for advancing racial equity
- Description of the community engagement conducted to inform the strategy
- Plan for ongoing community engagement to inform project development

The bond’s community oversight committee was responsible for reviewing each strategy. Once the committee recommended a strategy for approval, it was attached to an intergovernmental agreement (IGA). The IGA received approval from the jurisdiction’s governing body and Metro Council.

As of July 1, 2020, five out of seven IGAs were approved, and jurisdictions had started to submit projects for funding. Metro had approved concepts for a total of four projects in four jurisdictions. Three jurisdictions were reviewing potential projects proposed by developers.

**Exhibit 3 Concepts for four local projects were approved in 2019**

	<p><b>City of Beaverton: The Mary Ann</b>            54 units            Estimated total cost: \$22 million            Metro bond funds: \$3 million            Anticipated opening: Spring 2021</p>
	<p><b>Clackamas County: 18000 Webster Road</b>            45 units            Estimated total cost: \$10.8 million            Metro bond funds: \$6.9 million            Anticipated opening: Winter 2021</p>
	<p><b>Home Forward: Dekum Court</b>            160 units            Estimated total cost: \$66.6 million            Metro bond funds: \$22.9 million            Anticipated opening: 2022-2023</p>
	<p><b>Washington County: 72<sup>nd</sup> and Baylor</b>            81 units            Estimated total cost: \$32.9 million            Metro bond funds: \$11.6 million            Anticipated opening: Fall 2021</p>

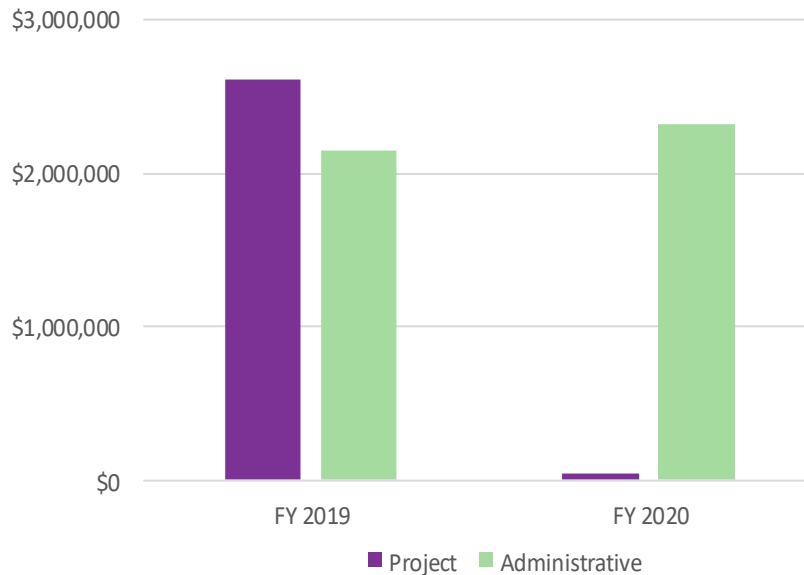
Source: Metro’s website

Several Metro departments have been involved in bond implementation. Staff from Planning and Development made up the core bond team. They worked closely with local jurisdictions to set up the bond program and provided assistance in developing implementation strategies. Planning staff were also responsible for finding and acquiring SAP sites and staffing the oversight committee.

Office of Metro Attorney staff were involved in negotiating IGAs and ensuring the oversight committee follows public meeting laws. Communications staff were responsible for community engagement and developing written materials. Finance and Regulatory Services staff develop expenditure reports and disburse funding.

As of June 30, 2020, about one percent of bond proceeds (\$7.1 million) had been spent. The majority of expenditures (63%) were for administrative costs. Those costs included staffing, consulting, and due diligence for Metro and the other seven jurisdictions. They also included \$1.87 million in one-time costs Metro paid to issue the bonds in 2019. Clackamas County was the only jurisdiction that had received funding to develop a project.

**Exhibit 4 Bond expenditures for Fiscal Year (FY) 2019 and FY 2020**



*Source: Auditor’s Office analysis of PeopleSoft data*

Like our previous audits of bonds and levies, this audit took an early look at Metro’s preparedness to implement the bond measure, so that course corrections could be made early in bond implementation. We issued a separate letter to management summarizing weaknesses in controls related to guidance for administrative costs and the conflict of interest disclosure process for the oversight committee in August 2020.



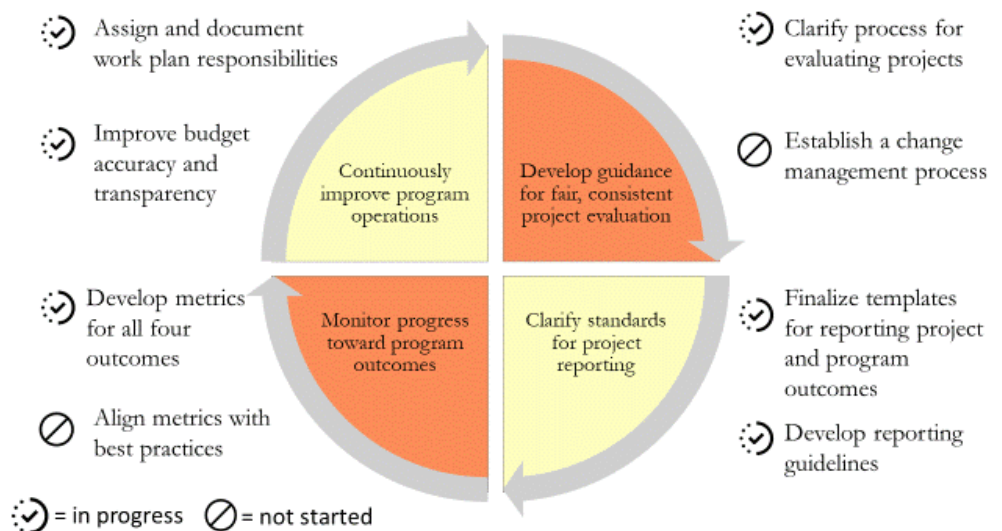
# Results

Metro prioritized building relationships with jurisdictions over developing procedures to implement the bond. Some procedures were in place. However, they were not fully established to support fair consideration of program funding requests, clear standards for reporting on program outcomes, and continuous improvements in program operations. We found:

- Processes for evaluating and approving changes to projects had not been clearly established
- Project reporting templates and guidance were not fully developed
- Metrics did not completely measure program outcomes and were inconsistent with best practices
- Opportunities to improve workload and budget management

Metro initially focused on helping jurisdictions complete their implementation strategies and IGAs. Jurisdictions needed to enter into an IGA to receive funding. Although all implementation strategies had been reviewed, one IGA had not been finalized as of December 2020. We were told Metro Council was scheduled to approve the final IGA in January 2021. Because staff dedicated their time to helping jurisdictions, some internal procedures had not been developed.

## Exhibit 5 Housing bond implementation was in progress, but some gaps remained



Source: Auditor's Office analysis

## Develop guidance for fair and consistent consideration of projects

The amended work plan Metro Council adopted in October 2019 was considered the bond's governing document for program implementation. The work plan stated that Metro would maintain a procedures manual. During the audit, Planning and Development provided various guiding documents. Those documents showed more work was needed to build out internal procedures.

Completing the procedures manual was important because it was supposed to guide staff and program partners in the next stage of program implementation. As the program moves from planning to projects to outcomes, additional guidance and criteria was needed for:

- Evaluating projects
- Managing changes to approved projects
- Project reporting

The work plan stated that after local implementation strategies were reviewed and approved, Metro's Chief Operating Officer (COO) would approve funding commitments for qualified projects at two stages:

- 1) Concept endorsement
- 2) Final approval

We reviewed a sample of affordable housing projects to see how they were approved. Most of the bond-funded projects in our sample varied from the process outlined in the work plan. Preliminary funding commitments for some projects were approved by Metro Council, instead of the Metro COO, at concept endorsement. Each jurisdiction was given the opportunity to advance one project using this approval process. However, not following the work plan reduced consistency in what was considered when projects were approved.

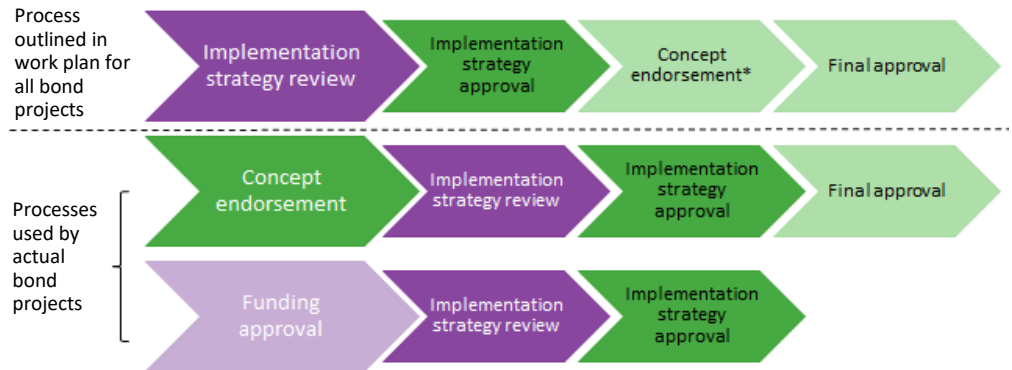
Another project was approved using a third process. That project was approved by the TOD steering committee using criteria from the TOD work plan. It was unclear if the project would be subject to the approval process described in the bond work plan or should have followed the alternative process where Metro Council approved projects directly. Management stated that bond funding for this project would go through the same approval process as other bond projects.

Only involving the TOD steering committee could reduce the level of community input in project approval because its members were not required to have experience working with impacted communities. Approving a project based on TOD criteria alone could prioritize characteristics that support TOD program objectives over bond program objectives. For example, a project's connection to transit could be given more consideration than its contribution of units in areas where affordable housing has been lacking.

All of those commitments were approved before implementation strategies

were reviewed and approved by Council. That meant plans for ongoing implementation and monitoring were not fully developed before funding commitments were made. This increased the chances that implemented projects would not be aligned with program outcomes.

### Exhibit 6 Paths to funding approval differed from the work plan



\*Concept endorsement is optional for acquisition and rehabilitation projects, but is mandatory for new construction projects

- Community oversight committee
- Metro Council
- Metro COO
- TOD steering committee

Source: Auditor's Office analysis of supporting documents

Some preliminary funding commitments were not approved according to the work plan because there was pressure to develop projects quickly. The initial housing bond framework expressed the need for affordable homes to be created as soon as possible. During this audit, we heard about a risk that the public could perceive that bond progress was moving slowly.

Pressure to provide affordable homes quickly also resulted in new plans for funding approval. During an oversight committee meeting, we learned of plans to provide concept endorsement and final approval for a project at the same time. This accelerated process was not outlined in the work plan.

### Develop processes for evaluating and approving projects

Allowing projects to move forward in different ways reduced the incentive to establish guidance for staff to evaluate projects. The work plan stated that, prior to COO approval, staff evaluation of projects would be based on the project's:

- planned contribution of units relative to funding requested; and
- consistency with the implementation strategy, bond measure, and work plan.

It was hard to tell if the methods outlined in the work plan were used to evaluate projects. Using different methods could make decisions less reliable and more difficult to defend. We reviewed notes for two project evaluations. In one case, we could not tell how participants reached their conclusion

about the relationship of planned units to funding requested. In another case, the amount of units relative to funding did not appear to be evaluated. One stated that the review was focused on outcomes for advancing racial equity and community engagement, in addition to planned units relative to funding requested. Another identified consistency with bond requirements and the implementation strategy as criteria.

The meeting notes listed various benefits and risks of projects. However, they did not appear to be identified by the same criteria. For example, both project locations were deemed good for family housing. In one case, the conclusion was supported by safety and proximity to schools and new development. In another, proximity to a high school, library, light rail, and recreation were considered.

More clarity was needed to implement the two project evaluation criteria in the work plan. The first asked staff to analyze the cost-effectiveness of bond funding. A method to calculate the ratio was not provided. A threshold would also be needed to interpret and consistently evaluate it across projects. The projects' share of funding committed and units planned was tracked for each jurisdiction, but those percentages were not consistently used to evaluate projects.

The second criterion asked staff to compare projects to the implementation strategy, bond measure, and work plan. A checklist for staff evaluation of projects contained some references to the implementation strategy. But, the requirements to use the bond measure and work plan as part of the review were not listed.

If more specific guidance were available, it would increase consistency and may also speed up project reviews. It could also be used if questions arose about what information was used to make funding decisions. This would be especially valuable if a project was not approved for funding.

Underdeveloped guidance to evaluate funding requests also reduced clarity about which or how many staff should evaluate projects. As a result, the level and variety of Metro personnel involved in those reviews varied. On one occasion, six staff participated. On another occasion, three staff and one manager participated.

The work plan indicated that staff would consult members of the oversight committee as needed to advise on projects. It did not state the purpose of including committee members in project evaluation. This detail caused confusion about the extent of the committee's role because project approval was considered to be outside of the committee's authority. It was unclear to some members why and for how long the committee should be involved in reviewing projects.

The oversight committee was not required to review bond projects, so staff asked for volunteers to participate. This resulted in limited participation.

Documentation showed that committee members were consulted to advise on two bond projects in our sample. On each occasion, a different pair of committee members participated from a pool of up to 13.

**Exhibit 7 Participation varied in bond project reviews prior to concept endorsement**



Source: Auditor's Office analysis of supporting documents

**A change management process had not been established**

Another weakness we found was lack of clarity about how changes to approved projects would be managed. Our other audits have found unclear processes for determining when changes to projects need approval. Those audits also found projects continued to receive funding, despite being completed in ways that differed from their original approved proposals.

The supportive housing services measure approved by voters in May 2020 presented opportunities to integrate new funding into bond projects. Doing so could help jurisdictions meet their goals for deeply affordable units. Metro asked participating jurisdictions to add plans for using supportive housing funds to their implementation strategies. Guidance from Metro stated that additions would be reviewed by staff and the oversight committee.

The agency recognized that approved projects would likely be modified as a result of funding integration. It also anticipated other changes to bond projects after approval. However, a process had not been established to respond to them.

When we asked how changes to approved bond projects would be handled, we were told how changes to approved TOD projects were handled. That process involved staff review and evaluation by the TOD steering committee, depending on the significance of changes. While having experience handling changes to TOD projects could be helpful, changes to bond projects would need to be assessed against a different set of objectives.

Establishing a process to review changes to bond projects after they have received funding approval could increase efficiency and consistency in decision-making. Changes to the work plan and local and regional implementation strategies required Metro Council approval.

## Consistent project reporting needed to track program outcomes

Unclear procedures also created uncertainty about project and program reporting. The work plan indicated that metrics, protocol, and templates would be developed for participating jurisdictions to submit post-construction and post-occupancy reports, as well as annual progress and financial reports. Some of those report templates were complete. But others were still being drafted.

Reporting about each project would allow program performance to be measured. The report templates Metro developed had weaknesses that would make performance measurement challenging. Some were in draft form. This meant that information was subject to change. Others were optional. This meant that information may not be provided.

Inconsistent or incomplete data are difficult to analyze and use to identify trends. For example, open-ended questions generate unique answers, which can be challenging to interpret and summarize. Gathering different information from year to year would be hard to track over time. Having information about some projects and not others would also make it hard to compare from project to project.

Metro lacked experience reporting performance of affordable housing projects. This made it more difficult to develop reporting guidelines. The agency relied on an outside evaluator to report the performance of completed TOD projects. This limited the institutional knowledge of information needed to report bond project performance.

Although the work plan required annual progress reports from participating jurisdictions, Metro did not require those reports during the first two years of the program. As a result, the oversight committee did not get to review them for over a year and a half since funding for the first project was approved.

Underdeveloped reporting guidelines also raised the chances of providing inaccurate information about bond results. Metro included a project not funded by the bond in a recent newsletter to interested stakeholders titled “Affordable housing bond program groundbreaking celebrations.” Including the project—Argyle Gardens—could give the impression that it was funded by the housing bond. This would mean that Metro had overstated the bond’s progress by 72 units.

Potential overlaps between the SAP component of the bond and Metro’s other programs also reduced clarity for reporting results. One of the projects in our sample included funding from TOD and SAP. It was unclear if the project would be reported to the oversight committee. Improperly attributing the project had the potential to confuse stakeholders about program accomplishments and could result in double counting. This risk may apply to other areas of Metro as well, since the work plan allowed bond funds to be used on any suitable Metro-owned site—not just properties that had been acquired by Metro’s TOD program.

## Monitor progress toward program outcomes

Gaps in project reporting impacted the data available to assess some program outcomes. As a result, the oversight committee did not have the information necessary to monitor progress for some of the promises made in the bond. The oversight committee was charged with two monitoring duties:

- Monitor financial aspects of program administration, including review of program expenditures
- Provide an annual report and presentation to Metro Council assessing program performance, challenges, and outcomes

Committee members did not receive sufficient expenditure information during their first year of service. Only one program expenditure report had been provided to the committee. It summarized bond revenue and expenditures through March 2020.

The annual program performance report had also not been completed. Instead of the required report, staff presented a program update to Council at a work session. Because project reporting was not yet available, the first written annual report was scheduled for spring 2021. However, delaying that report prevented the public from understanding Metro's efforts to start up the bond.

While an annual report had not been provided, Metro had still collected a variety of metrics on housing bond projects. We analyzed over 150 potential metrics to determine whether they aligned with best practices and contained the information necessary to measure progress toward program outcomes. Our analysis included metrics from staff reports provided to Metro Council as of July 30, 2020. Those reports included plans for measuring program outcomes. We also analyzed planned metrics that jurisdictions will provide once housing units are developed.

We identified performance measurement best practices that would help Metro design effective metrics. Those practices include ensuring that metrics provide relevant information that is helpful for decision making. Metrics should also be accurate, verifiable, and easy to access, use, and understand. Finally, effective metrics provide a target or benchmark to show whether performance is meeting or exceeding expectations.





The metrics we analyzed were not consistent with best practices. We compared a subset of 20 metrics to best practices. Few of them included benchmarks or targets. Multiple metrics also had unclear definitions and methodologies. For example, one measure was proximity of housing units to employment centers. It was not clear what the definition of an employment center was, or how the proximity of a housing unit to an employment center would be measured. The apparent intent was to measure whether housing was located close to high-quality jobs, so those definitions will have an impact on the lives of future occupants.

We also found the metrics would not measure progress toward the four outcomes in the bond work plan. Those outcomes included:

- Lead with racial equity
- Create opportunity throughout the region
- Create opportunity for those in need
- Ensure long-term benefits and good use of public dollars

Metrics were available to measure most of what was listed for two out of the four outcomes. For example, metrics were available to measure the number of deeply affordable and family-sized units, which would help measure whether the bond is creating opportunity for those in need. We also saw metrics on the percentage of the administrative cost cap spent, which would measure progress toward ensuring good use of public dollars. The remaining two outcomes had more significant gaps.

### Exhibit 9 All four program outcomes had performance measure gaps

Program outcome	Performance measure gaps
Lead with racial equity 	<ul style="list-style-type: none"> <li>• Create homes where communities of color live to prevent future displacement</li> <li>• Create homes in neighborhoods that have been historically inaccessible for communities of color</li> </ul>
Create opportunity throughout the region 	<ul style="list-style-type: none"> <li>• Prevent displacement in changing neighborhoods</li> <li>• Expand affordable housing options in neighborhoods that have not historically included sufficient supply</li> <li>• Units per county</li> </ul>
Create opportunity for those in need 	<ul style="list-style-type: none"> <li>• Number of households with members of priority populations:               <ul style="list-style-type: none"> <li>◦ Communities of color</li> <li>◦ Families with children and multiple generations</li> <li>◦ Seniors</li> <li>◦ Veterans</li> </ul> </li> <li>• Households who are experiencing or are at risk of homelessness</li> <li>• Households occupying units that were at risk of displacement</li> </ul>
Ensure long term benefits and good use of public dollars 	<ul style="list-style-type: none"> <li>• Access to timely expenditure data</li> <li>• High-quality homes</li> </ul>

Source: Auditor's Office analysis of work plan, program outcomes and expenditure reports, and project reporting templates



## Jurisdictions were not required to measure some racial equity outcomes

Metro also encountered challenges in measuring progress toward leading with racial equity. The purpose of leading with racial equity was to increase access to affordable housing for communities of color and prevent negative outcomes from happening again. Studies have shown communities of color have disproportionately experienced the impact of rising rents and displacement from previous public investments.

The bond framework listed measurable outcomes for leading with racial equity, including:

- Creating homes where communities of color live today to prevent further displacement
- Creating homes in neighborhoods historically inaccessible to communities of color

Metro did not require the jurisdictions to measure these outcomes. The metrics we reviewed focused on the development process rather than outcomes. Contracting and workforce diversity metrics were one area of emphasis. Metro and the oversight committee encouraged the jurisdictions to set goals for the percentage of development contracts awarded to minority-owned, women-owned, and emerging small businesses. Goals for increasing the number of hours worked by women and people of color were also encouraged, but not required.

Other proposed metrics would measure efforts to market and rent housing units to diverse communities. Marketing metrics included the number of referrals to units made by culturally-specific and other community-based organizations. There were also metrics about rental application outcomes. Those metrics included the number of applications that were screened and the reasons why applications were denied.

Although these metrics were important, they did not measure how bond-funded units would result in neighborhood-level changes for communities of color. It could be challenging to develop metrics that show whether housing bond projects prevent displacement or allow communities of color to live in previously inaccessible neighborhoods. However, it will be difficult to make progress on these priorities if jurisdictions are not required to report on them. Even if imperfect, analyzing these neighborhood-level metrics would help prevent the program from perpetuating the same negative impacts that leading with racial equity was designed to prevent.

## Continuously improve workload and budget management

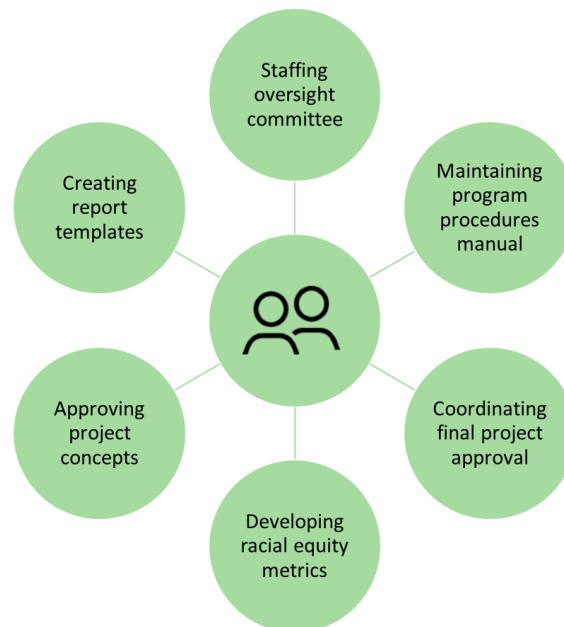
To ensure good use of public dollars, the bond measure limited administrative costs to five percent of total expenditures. Management expressed concerns about maintaining administrative costs within the five percent cap. Due to those concerns, they limited the number of employees who worked on the bond. We heard the idea was to start with a small team and add staff as necessary. The initial budget request in 2019 dedicated four full-time equivalent (FTE) employees to the bond, and the team grew to 7.7 FTE in FY 2020-21.

This small team juggled multiple tasks, but it was difficult to determine whether responsibilities we identified from the bond work plan were clearly assigned as of March 2020. Metro’s bond administration responsibilities could be divided into three categories:

- **Operations**—Providing funding approvals, maintaining a program procedures manual, and staffing the oversight committee.
- **Reporting**—Developing reporting templates and protocol, collecting project-level data, and providing performance information to the oversight committee.
- **Compliance**—Monitoring housing affordability requirements, ensuring funds are used on capital development, and maintaining expenses within the administrative cost cap.

It was difficult to identify how those responsibilities were distributed among the housing bond team. According to interviews with management and staff, many responsibilities appeared to be assigned to two employees. For other employees, it was more difficult to determine which responsibilities they were working on. There also appeared to be some compliance responsibilities that were not assigned to anyone.

### Exhibit 10 High workload of two employees may result in delays



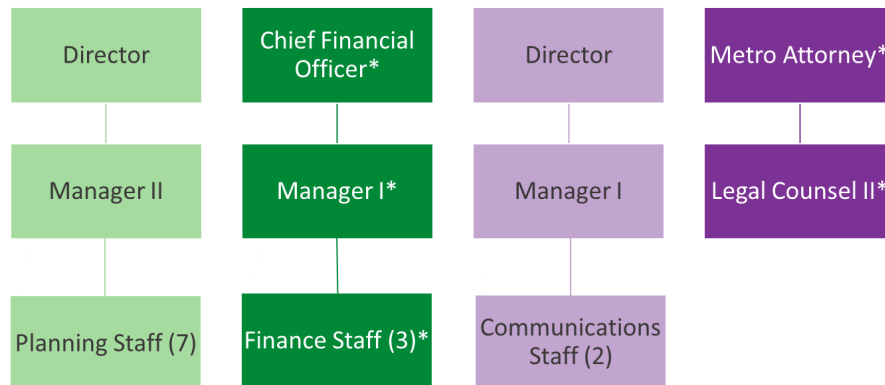
Source: Auditor’s Office analysis of Affordable Housing Bond Work Plan and interviews

Some responsibilities also conflicted with one another, which would make assigning them to a small team more challenging. For example, if an individual was involved in selecting developers for an SAP project, then that same individual should not influence funding approval for that project.

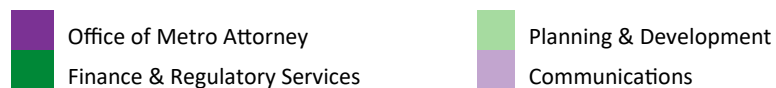
If responsibilities are not clearly assigned, then they may not be completed. In addition, if employee workload is too high, then there may be delays in crucial bond activities. We heard early signs that staff were reaching the limits of their capacity. For example, in implementation guidance, Metro stated they would issue concept endorsements within 30 days, or 45 days if a jurisdiction submitted more than four projects at once. The team struggled to meet this 30-day timeline when multiple jurisdictions submitted projects at the same time.

There was limited documentation available to clarify the assignment of responsibilities. Because there was pressure to develop housing quickly, management and staff focused their attention on preparing local jurisdictions for implementation. We heard that developing an organizational chart and setting up internal processes were considered lower priority.

**Exhibit 11 Housing bond organizational structure spanned four departments**



\*Not included in housing bond budget



Source: Auditor-generated, based on housing bond FY 2021 budget and interviews

Documenting how responsibilities are assigned between departments may prevent gaps or duplication. The housing bond’s team structure spanned four departments: Planning and Development, Finance and Regulatory Services, Communications, and the Office of Metro Attorney. We compiled a list of 18 people (five managers, 13 staff) who were reported as housing bond team members. While we were informed that the managers met with one another regularly, they did not appear to coordinate assignment of responsibilities across departments.

Written documentation of responsibilities may also help management redistribute the workload in response to external changes. For example, Metro may need to coordinate the housing bond with the 2020 supportive

## Budget accuracy and transparency could be improved

housing measure that provides funding for rent assistance and supportive services. Having a clear, accurate sense of workload would help management figure out which employees are available to take on additional responsibilities.

Metro developed its budget for bond administration with limited information. The regional structure of Metro's bond distinguished it from other state or local affordable housing bonds, like the City of Portland's 2016 bond. Because of this unique structure, Metro did not have many examples to draw from to develop a budget for administrative costs. We also heard the bond's financial modeling did not analyze what it would cost to administer the bond.

To limit administrative costs, Metro took a conservative approach to managing staff time, which resulted in some inaccuracies. Employees were directed to charge the same percentage of their time to the bond each pay period. This practice of hard-coding time increased the risk of not tracking employee time accurately. It also meant that the personnel budget did not match the workload. Some employees were budgeted for more time than they appeared to work. In contrast, others completed work for the bond but were not included in the budget. The result was that Metro did not have an accurate estimate of how much it costs to staff bond administration.

Creating a transparent long-term budget could help the oversight committee evaluate Metro's stewardship of bond resources. Financial reporting to the committee thus far has contained only actual expenditures and progress toward the administrative cost cap. Budget monitoring best practices include comparing actual expenditures to the budget. Not having Metro's budgeted expenditures makes evaluating financial performance more challenging. Creating more detailed financial reports, similar to what other Metro bond programs produce, could help. Providing those reports to the oversight committee would also hold Metro accountable to creating more realistic annual budget estimates.

Improving the accuracy and transparency of the budget could also lead to more efficient use of limited administrative resources. Some of those resources have already been allocated to employees who may not have been contributing to bond work plan responsibilities. One of the program outcomes is to ensure long-term benefits and good use of public resources. Developing a long-term budget could help fulfill that outcome. It would help Metro forecast how to use its administrative resources through the life of the bond.

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## Recommendations

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To support fair and consistent consideration of bond program funding requests, Metro management and staff should:

1. Clarify and use procedures for evaluating requests and proposed changes to approved projects, including the use of Site Acquisition Program funds on sites owned by Metro
2. Communicate procedures to staff, the community oversight committee, and participating jurisdictions

To provide timely and complete information to monitor bond progress, Planning and Development management and staff should:

3. Complete and use guidance for reporting on project and program outcomes, including:
  - a. Annual progress and financial report templates
  - b. Processes for reporting information to the community oversight committee, including sites acquired for the Site Acquisition Program
  - c. Metrics to address gaps in program outcomes, including the impact of housing units on neighborhood-level changes for communities of color
  - d. Targets for all metrics to assess whether performance meets expectations
  - e. Protocol to ensure reliable performance information is provided for each metric
4. Communicate guidance to staff, the community oversight committee, and participating jurisdictions

To support continuous improvements in bond operations, Metro management and staff should:

5. Evaluate and assign bond administration responsibilities to balance workloads
6. Increase the accuracy and transparency of the bond administration budget by:
  - a. Developing a long-term budget for bond administration
  - b. Tracking actual hours worked on the bond to inform FTE calculations
  - c. Providing budget vs. actuals reports to the community oversight committee

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## Scope and methodology

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The purpose of our audit was to determine if Metro was prepared to implement the affordable housing bond measure. Our audit objectives were to determine:

- if program governance roles and responsibilities were clear;
- what information was needed for the oversight committee to provide effective oversight; and
- if there were administrative processes to operate the program.

We focused our audit on Metro's affordable housing bond implementation since the measure passed in November 2018 and affordable housing projects from FY 2014-15 to present. We primarily engaged the Planning and Development and Finance and Regulatory Services departments in our audit process. In August 2020, we issued a separate letter to management summarizing weaknesses in controls related to the conflict of interest disclosure process for the oversight committee and guidance for managing regional administrative costs.

To familiarize ourselves with the bond program, we reviewed budget documents and financial reports, plans and strategies, and relevant laws and requirements. We reviewed professional literature, including prior audits of previous Metro bonds and levies, Transit-Oriented Development (TOD), and relevant audit reports from other jurisdictions. We also reviewed regional, state, and national reports containing relevant data and attended training on accountability and risk in public-private partnerships.

To deepen our understanding of the program, we conducted interviews with managers and staff in Planning and Development, Finance and Regulatory Services, and the Office of Metro Attorney, as well as members of Metro's executive leadership team. We interviewed stakeholders from state and local government and community organizations, as well as members of the oversight committee. We attended meetings of Metro Council and the oversight committee and reviewed meeting information. We also coordinated with other local government performance auditors in the region to avoid duplicating efforts.

To complete our audit objectives, we reviewed relevant documents, including Metro legislation, reporting templates, performance reports, budget documents, and organizational charts. We compared Metro's practices to best practices for program governance, performance reporting, and administrative processes from:

- U.S. Government Accountability Office
- Project Management Institute
- National Association of State Auditors, Comptrollers, and Treasurers

We also reviewed supporting documentation for a sample of eight affordable housing projects. We took a judgmental sample of projects, so the results of our review may not apply to all projects. We included bond projects that were closest to completion during audit field work. We excluded cancelled projects from our sample.

This audit was included in the FY 2019-20 audit schedule. 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.

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## Management response

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**Metro**

600 NE Grand Ave.  
Portland, OR 97232-2736

Dear Auditor Evans:

We appreciate the work of the Auditor's Office to provide feedback early in implementation, and we agree with the majority of the recommendations in the Housing Bond Preparedness Audit. Attached you will find the management response to the memo, which includes additional context, clarification, and corrections regarding findings, recommendations, and work underway or planned that responds to the needed improvements identified in the report. Please note that the text of the auditor's report cuts off at the top of page 13 due to a formatting issue. If the corrected report presents information not considered in our review, we are happy to modify our response.

As you know, the housing bond is a new program charged with responding to our region's enormous and urgent need for affordable housing. For these reasons, Metro's elected and senior leadership have directed staff to support opportunities to ensure rapid deployment of these resources into the community, including providing preliminary funding commitments to an initial round of four "phase 1" projects that were given a green light by Metro Council while broader local implementation planning was still underway. This process illustrates our approach to ensuring responsiveness to the need for rapid implementation while simultaneously and diligently working to build out the operational structures and procedures needed to ensure consistent and streamlined operations moving forward.

As the Audit notes, conservative investment in staff capacity early in implementation has also contributed to delays in the development of procedures and guidance for implementation. Additional capacity is in the process of being added – and more should be evaluated in the future – to fill these gaps in implementation. During the time of this audit period, another significant new housing program was added to the Planning department's portfolio, the Supportive Housing Services program. As this was unanticipated, it required immediate diversion of staff capacity, and a more urgent focus on developing two programs simultaneously. It also presents opportunities for program integration and leverage, as well as additional staffing considerations.

As a new program, continuous improvement is essential—and the Audit provides an excellent tool to inform the program's work in the next year and beyond.

Sincerely,

A handwritten signature in cursive script, appearing to read "Marissa Madrigal".

Marissa Madrigal  
Metro Chief Operating Officer



Recom- mendation Number	Do you agree with the recommendation?	If agree, what are the proposed plans for implementing solutions?  If disagree, please provide reasons.	Proposed timetable for implementation?
1	Yes	<p>Staff have been working to establish clear guidance regarding project approval procedures in the Implementation Guidelines, a manual that includes the evaluation criteria, process, required documentation, and templates for every stage of project approval and reporting.</p> <p>While the Implementation Guidelines were substantially developed by Spring 2020, we agree that further refinement is needed to improve clarity and transparency, including:</p> <ul style="list-style-type: none"> <li>• Clarifying that investments through Metro’s Site Acquisition Program will adhere to the same evaluation criteria as other projects;</li> <li>• Clarifying that projects may complete the concept endorsement and final approval steps concurrently;</li> <li>• Providing additional description of the methods used to evaluate projects for alignment with the criteria established in the work plan;</li> <li>• Evaluating, adapting, and clarifying the purpose and process of consulting oversight committee members in the project review process; and</li> <li>• Developing procedures for evaluating changes to project outcomes or funding requests following initial funding approval but prior to disbursement of funds.</li> </ul> <p>Staff will continue to adapt and update these guidelines and procedures over time to respond to new challenges and opportunities as they emerge.</p> <p>Additionally, we would like to provide further clarification and context in response to some of the specific findings in the report that relate to this recommendation.</p> <p><b>Investment of housing bond funds have never been approved through a process using the Transit Oriented Development (TOD) Steering Committee.</b> The only Metro bond funding expenditures through the Site Acquisition Program (SAP) to date have been for administrative costs and due diligence on sites under consideration for potential acquisition.</p>	December 2021/ ongoing

		<p><b>The adjustment in procedures to allow concept endorsement and final approval to occur simultaneously was an intentional decision that we believe reflects the kind of operational streamlining and continual improvement that is a best practice for a new program.</b> When the Work Plan was initially developed, staff anticipated project sponsors requesting a preliminary funding commitment (“concept endorsement”) early in the predevelopment process, and then using this early funding commitment to secure additional funding, such as federal tax credits and private debt, before coming back to Metro for final approval (“final approval”). While this path makes sense for many projects, as implementation has proceeded, we have found that some projects are coming to Metro for approval at a final stage, with costs and budgets fully developed and other sources funding confirmed. For these projects, which were ready to close within a few months, the two-step process created unnecessary administrative burden for both local implementation partner (LIP) jurisdictions and Metro, and risks of costly delays for developers.</p> <p>The Office of Metro Attorney confirmed that there is nothing in the work plan that prevents staff from completing these steps concurrently for projects that do not expect changes prior to their financial close, and staff have utilized this streamlined approach since September. Projects approved through this fast-tracked process have and will continue to be held to the same evaluation standards as other projects.</p> <p><b>While we agree that there are some opportunities to further standardize staff’s evaluation methods, we disagree with the Auditor’s suggestion of a “threshold” for calculating the ratio of bond funding per unit.</b> This kind of approach was intentionally not established in the program work plan and IGAs, based on Metro Council direction that staff should provide flexibility for LIP jurisdictions to use a portfolio approach to achieving unit production targets. We do not believe a formulaic approach is capable of adequately reflecting and responding to the range of financial structures we see across our bond portfolio; bond funding can and should be considered on a jurisdiction by jurisdiction and project by project basis, and will vary based on project size, target population, leveraged funding, and location—among other factors.</p> <p><b>Staff will evaluate and reflect on lessons learned from the process of involving oversight committee members in the project review process, to inform an appropriate approach to involving committee members moving forward.</b> We agree with the Auditor’s finding that improvements are needed to ensure clarity of purpose and process of consulting members of</p>	
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		<p>the oversight committee during the project evaluation process. The oversight committee has no formal role in the project approval process; their formal charge is to oversee implementation progress and outcomes and not to advise on decisions. However, the work plan states that staff “will consult with members of the community oversight committee as needed to advise on projects prior to authorization of funding by the COO.” Staff plan to evaluate lessons learned from the process to date to determine the right approach moving forward.</p> <p><b>While staff evaluate cost reasonableness as part of project evaluation to avoid these risks, we have long recognized the need to build out procedures for managing changes to projects following the initial funding commitment.</b> With a number of projects approved for concept endorsements in 2020 expected to come back for final approval in 2021, this will be a priority focus for the program this year. It is not uncommon for affordable housing projects (or any real estate development projects, for that matter) to identify additional costs not anticipated in early project budgets, and related policies and funding could impact the amount of bond funding needed in projects.</p> <p>Federal omnibus legislation passed in December included a permanent 4% low-income housing tax credit (LIHTC) rate, which will significantly increase tax credit equity in many of our bond projects, potentially reducing the amount of bond funding needed to make the projects pencil out. Policy guidance is needed to ensure that Metro and partners can respond to these policy changes and capture these savings to support additional investments. Other changes could include modifications to projects to leverage rental assistance funding through the Supportive Housing Services measure. This change management work will be a priority task assigned to the new Senior Affordable Housing Analyst that is currently being recruited. The current and proposed program budget also includes funding for consulting support for this work.</p>	
2	Yes	<p>The Implementation Guidelines have been available to LIP jurisdiction and Metro staff on the program’s GroupTrails reporting platform since Spring 2020. An updated version will be shared with LIP and Metro staff, as well as the community oversight committee, following further refinement.</p> <p>We expect that periodic updates will continue to be made throughout implementation and will ensure that updated versions are circulated to the oversight committee as well as Metro and partner staff.</p>	December 2021/ ongoing

3a	Yes	<p>Metro shared annual and financial reporting templates with local implementation partner jurisdictions in fall 2020. It is anticipated that these templates will be further refined as a result of lessons learned through the first annual review process in early 2021.</p> <p>The Auditor notes that Metro did not require annual progress reports from participating jurisdictions during the first two years of the program. However, it has been staff’s interpretation that jurisdictions were not formally “participating” in implementation until their local implementation strategies and IGA were completed. Due to the desire to complete all annual progress reports simultaneously to support consistent oversight review, the first annual progress reports were scheduled to be submitted to Metro by January 2021. Given that IGAs were approved between October 2019 and February 2021, this seemed like a reasonable time frame for reporting on their first year of progress in implementation.</p>	<p>Complete Refinement: December 2021</p>
3b	Yes	<p>Quarterly reporting was initiated in 2020 to provide the oversight committee and other interested stakeholders with ongoing updates regarding implementation activities and expenditures, including staff reports and COO approvals for all concept endorsements and final approvals.</p> <p>When Metro Site Acquisition Program funds are committed to acquire or develop sites, these funding commitments will be shared with the Oversight Committee following a consistent process. (Note: due to the sensitive nature of real estate negotiations, potential acquisitions under consideration by the program will not be reported to the oversight committee until after they are approved.)</p> <p>These processes for reporting information to the community oversight committee will be documented in operational procedures.</p>	June 2021
3c	Yes, with noted exceptions	<p>The metrics identified in the Audit as gaps are either already incorporated or in development, with the following exceptions:</p> <ul style="list-style-type: none"> <li>• <b>Preventing displacement in changing neighborhoods:</b> While some methodologies exist to utilize Census data to measure the rate of neighborhood change (e.g., percentage change in non-white population), staff are not aware of existing methodologies to measure the impact of building-level investments on preventing displacement—at least not in a way that can be consistently applied across the variety of market contexts present in our region. Developing a new methodology for evaluating this metric would likely have significant budget impacts, and staff are not confident that</li> </ul>	<p>June 2021 (updated metrics)</p> <p>June 2022 (evaluation of additional metrics related to displacement and quality)</p>

		<p>the results would produce meaningful and actionable performance information. Staff will consider opportunities to investigate these metrics in future years, but does not plan to conduct this level of analysis as part of its 2021 reporting cycle.</p> <ul style="list-style-type: none"> <li>• <b>High-quality homes:</b> Staff are not currently aware of simple metrics for evaluating housing quality. However, we agree that this is an important outcome to be considered as part of the ongoing asset monitoring approach the program team plans to develop in 2021. Staff anticipate a need for further discussion for further policy and budgetary direction regarding the agency’s ongoing approach to monitoring properties developed or acquired with bond funds.</li> </ul>	
3d	No	<p>The Housing Bond Program includes multiple tiers of performance measurement and evaluation. The primary program metrics are unit production metrics and funding eligibility. These metrics have clearly defined regional, county, and LIP targets established in the work plan and implementation IGAs with each partner. The work plan also established expectations for local implementation strategies to describe strategies for advancing racial equity and ensuring ongoing community engagement. While we agree that targets are generally a best practice, we disagree with the Auditor’s recommendation that Metro establish targets for all program metrics at this stage of implementation.</p> <p>Metro Council directed staff that Metro should not require regional or mandatory local targets for these areas, but should instead focus on supporting LIPs in demonstrating that they are advancing current practices and outcomes, recognizing that jurisdictions were starting from different places in their work to advance racial equity and support robust engagement processes. Because no local (and in some cases, no regional or state) baseline data or defined reporting procedures existed for these metrics, Metro has established guidance for consistent reporting of equity and engagement outcomes, but has not created regional targets or mandated local targets for these areas. The program’s current plans to require reporting without targets for several metrics is intended to catalyze and normalize new tracking and reporting expectations across the industry while establishing baseline data to inform future targets.</p> <p>One exception is in outcomes for equitable subcontractor participation in construction. Metro Council encouraged jurisdictions to establish local targets for equitable construction contracting, and specifically advised that for jurisdictions with a history of tracking (Portland and Home Forward only), their Metro bond targets should exceed their current targets.</p>	

		<p>The Auditor’s report notes that including “optional” and “open-ended” reporting is inconsistent with best practices for performance management. Staff believe inclusion of open-ended questions is aligned with feedback from community leaders, who advised that racial equity outcomes are best evaluated using a combination of quantitative and qualitative data. We recognize that analyzing qualitative data requires more effort, however, and recommend further evaluation of this approach, and capacity needs to support it, following the initial annual review in 2021.</p> <p>Some metrics are “optional” due to lack of existing infrastructure for tracking. For example, this is the case for workforce diversity outcomes, for which Portland and Home Forward have established targets that predate the Metro bond, and other jurisdictions have no history or experience in tracking. Housing bond program staff are currently coordinating with Metro’s Construction Careers Pathways Project (C2P2) program to evaluate the cost of providing workforce diversity tracking software to LIPs. Additional technical assistance and staff support would be required to fully deploy this software and support tracking.</p>	
3e	Yes	<p>Updates to the Implementation Guidelines will include improvements to ensure timely reporting of post-completion and post-lease up project performance information. Additional procedures are in development to secure ongoing monitoring through occupancy and compliance reports, physical inspections, and financial performance.</p> <p>Ensuring reliability of data is challenging and will require additional investments in staff capacity and partnerships. The following efforts are currently underway but may have budget impacts not yet analyzed:</p> <ol style="list-style-type: none"> <li>1) Staff are working with Oregon Housing and Community Services (OHCS) on a monitoring IGA that will provide ongoing monitoring and compliance data for projects that have state funding in addition to Metro bond funding (the majority of projects).</li> <li>2) As noted above, housing program staff are coordinating with Metro’s Construction Careers Pathways Program (C2P2) program to evaluate the cost of providing workforce diversity tracking software to all projects that receive Metro bond funding.</li> </ol> <p>The Housing Bond’s FY2022 budget proposes additional staff capacity to support program evaluation and reporting. Once this capacity is added, staff will evaluate opportunities for additional quality controls and capacity building to support performance evaluation.</p>	June 2022

4	Yes	Metro will share finalized procedures for post-completion and post-lease up project reporting and ongoing asset monitoring, as well as a complete list of performance metrics, with staff, community oversight committee and participating jurisdictions.	December 2021
5	Yes	<p>There is clearly more need for staff capacity, and efforts are underway to bring additional staff and consulting support to the program. While the Measure's 5% administrative cap creates some limitations, there is underutilized capacity within this cap. Filling existing vacancies and adding additional capacity in the next budget is essential if the program is to succeed in addressing the challenges and opportunities identified in the Auditor's report.</p> <p>During the time period this audit was conducted, an additional new housing program of significant scale was also added to the portfolio of the department, the Supportive Housing Services measure. Not only did this require immediate diversion of staff capacity from the bond program to staff the new, unanticipated program; it also presented opportunities for strategic integration. Thus, we are in the process of adding new staff capacity at multiple levels not only to address your recommendations here, but also to ensure both housing programs can be delivered effectively, transparently, and cost effectively.</p>	June 2021
6a	Yes	Management agrees that planning for administrative costs over the life of the program is a best practice, and we will work to formalize that planning process, while recognizing that it is important to be responsive to changing circumstances during implementation. Management will refine the bond administrative cost forecast as part of the FY2022 budget process.	June 2022
6b	Yes	This practice has been in place since mid-2020 and was used to inform budgeting for FY 2021-22.	Complete
6c	Yes	Staff will work to continue to refine financial reporting that is provided to the oversight committee to ensure that it is relevant and provides the information they need to effectively monitor expenditures and progress. We have learned through more than 25 years of managing general obligation bonds that these programs have unique reporting needs and that working with oversight committees to develop custom reports results in improved transparency and accountability.	June 2021

Metro Auditor's Note to Readers:

A formatting error cut off some text in the draft report that was sent to Metro management seeking their response to the audit recommendations. The missing text that should have been included on page 13 is bolded here for reference. “On each occasion, a different pair of **committee members participated from a pool of up to 13.**” Because of the error, additional time was given to Metro management to review the full report before it was published.





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