

City of Austin



**A Report to the
Austin City Council**

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AUDIT REPORT

**Prioritization of Affordable
Housing Development Audit**
November 2015



REPORT SUMMARY

The City does not have an effective strategy to meet its current affordable housing needs. Neighborhood Housing and Community Development has not adopted clear goals, established timelines, or developed affordable housing numerical targets to evaluate its efforts in fulfilling the City's adopted core values. Key information needed to evaluate program effectiveness is incomplete, inaccurate, or unavailable. Finally, current monitoring practices do not ensure consistent compliance with stipulated affordability restrictions.

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GOVERNMENT AUDITING STANDARDS COMPLIANCE

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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November 2015



Report Highlights

Why We Did This Audit

This audit was conducted as part of the Office of the City Auditor's (OCA) fiscal year (FY) 2015 Strategic Audit Plan, based on stakeholder concerns and issues identified in prior audits.

What We Recommend

NHCD should:

- initiate a policy discussion with the City Council to evaluate the effectiveness of the City's affordable housing policies in achieving the core values and community needs;
- ensure City affordable housing policies are prioritized and linked to achieving established values;
- regularly report outcomes related to achievement of core values;
- coordinate with other City departments to ensure tracking, monitoring, and reporting of housing projects; and
- allocate appropriate resources to ensure monitoring of affordability requirements.



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PRIORITIZATION OF AFFORDABLE HOUSING DEVELOPMENT AUDIT

BACKGROUND

The City's Neighborhood Housing and Community Development department (NHCD) supports the creation of affordable housing through its Housing Developer Assistance programs. These programs either provide financial assistance to developers to create affordable units or provide incentives, such as fee waivers or density bonus to developers, in exchange for setting aside affordable housing units.

The City has three affordable housing core values of deeper affordability, longer affordability and geographic dispersion.

OBJECTIVE AND SCOPE

The objective of this audit was to evaluate the effectiveness of NHCD strategic planning efforts to prioritize and address the City's affordable housing goals and needs through Housing Developer Assistance programs.

The scope included NHCD's strategic planning and operations for the Housing Developer Assistance programs for the three year period from FY 2012 to FY 2014.

WHAT WE FOUND

There is not an effective strategy to ensure that the City meets its affordable housing needs.

1. Although NHCD has implemented elements of strategic planning, these elements are not fully aligned. NHCD has developed some goals, but has not established timelines, or developed numerical targets to evaluate its efforts in fulfilling the City's affordable housing core values. For example:
 - there are no goals or numerical targets to measure progress towards the value of geographic dispersion; and
 - in the absence of clear goals and targets, it is difficult to evaluate the City's effectiveness in providing affordable housing, and any outcome can be seen as a success.
2. Key information needed to evaluate program effectiveness was incomplete, inaccurate, or unavailable:
 - We found flaws in how NHCD counts its affordable housing production, which resulted in NHCD significantly overstating its accomplishments in creating affordable housing;
 - NHCD has incomplete information on affordability restrictions for a large portion of affordable housing units produced; and
 - NHCD has incomplete information on the full costs of affordable housing production.
3. NHCD has gaps in their monitoring processes for affordable units.

BACKGROUND

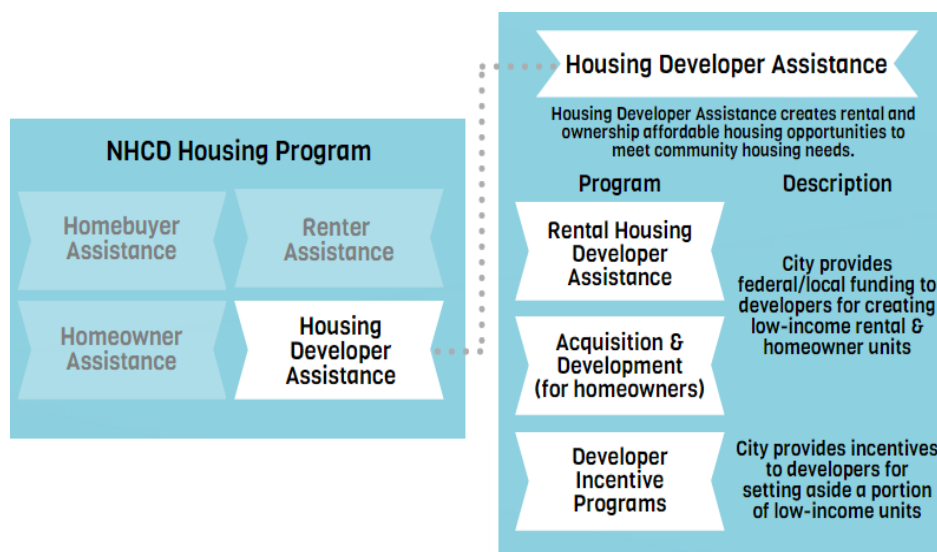
Austin has been growing at a rapid pace for the last several years. At the same time, there has been an overall slower growth in the housing stock, with growth involving more expensive homes and apartments. These trends have resulted in a mismatch between the housing that residents can afford and housing available locally. In the context of current market conditions, the City is facing significant challenges and plays a key role in addressing the needs of affordable housing for Austin’s low and moderate income population.

The federal government defines **affordable housing** as housing, for which occupants pay no more than 30 percent of their income for gross housing costs, including utilities.

The Neighborhood Housing and Community Development (NHCD) department plays a critical role in addressing the City’s affordable housing needs. Through a variety of programs (shown in Exhibit 1), NHCD provides housing services to eligible low and moderate income households. Such services range from counseling renters who wish to become homebuyers, to providing loans for qualifying homebuyers that help them buy their first home, or to renters so that rent is more affordable. NHCD also provides assistance to non-profit and for-profit developers to build rental and homeownership affordable housing.

Programs and activities aimed at supporting the creation of affordable housing units are grouped and administered under the umbrella of the **Housing Developer Assistance** program and are carried out primarily through three main programs, shown in Exhibit 1. We focused our audit on the Housing Developer Assistance program as it is the primary mechanisms through which NHCD increases the City’s affordable housing stock and due to the significant amount of federal and local funding allocated to it. For example, in FY 2015, out of the \$17 million of total funding for housing programs, approximately \$10 million was allocated to this program.

EXHIBIT 1
NHCD Housing Programs



SOURCE: City of Austin Fiscal Year 2013-14 Budget, July 2015

As shown in Exhibit 1, through Rental Housing Developer Assistance and Acquisition and Development, NHCD provides **direct financial assistance** to developers to create affordable housing for rental and homeownership. These programs are entirely managed by NHCD. Through Developer Incentive programs, the City provides **incentives** such as fee waivers or density bonuses to developers who set aside a portion of units as affordable. These programs, which include the SMART (Safe, Mixed-Income, Accessible, Reasonably-priced¹, Transit-Oriented) Housing Policy Initiative and UNO (University Neighborhood Overlay), are implemented in coordination with other City departments. Based on City policies for SMART housing, NHCD is the lead agency empowered to assume a leadership role in working with other City departments to assist in the successful development of SMART housing projects. For other developer incentive programs, such as density bonuses, NHCD has the responsibility for establishing compliance and monitoring rules and criteria for implementing the affordability requirements.

Affordability requirements associated with Housing Developer Assistance programs include restrictions on the income level of the occupants and on the period of time units are to remain affordable. Exhibit 2 includes the affordability restrictions for Housing Developer Assistance programs.

EXHIBIT 2
Affordability Restrictions for Housing Developer Assistance Programs

Program	MFI Served	Affordability Period
Direct Funding: Rental Housing Developer Assistance	Below 50% MFI, preferably below 30% MFI	5 to 15 years minimum for federally funded projects
Direct Funding: Acquisition & Development	Below 80% MFI, preferably 50-65% MFI	40 years minimum for GO bond- funded projects 99 years preferred for all projects
Developer Incentive Programs (SMART Housing)	Below 80% MFI	Minimum of 1 year (homeowner) Minimum of 5 years (rental)

SOURCE: OCA review of NHCD Program Guidelines, May 2015

Income levels are defined based on the area median family income (MFI). Federal housing programs divide low and moderate income households into different categories based on their relationship to the MFI. The current MFI for Travis County, Texas is \$76,800 (4-person household). Current income limits by household size based on the formula used by the federal government are shown in Exhibit 3 below.

¹ Reasonably priced refers to units that have affordability restrictions.

EXHIBIT 3

Current Median Family Income (MFI) Limits by Household Size (June 2015)

MFI	1-Person Household	2-Person Household	3-Person Household	4-Person Household
30% MFI	\$16,150	\$18,450	\$20,750	\$24,250
50% MFI	\$26,900	\$30,750	\$34,600	\$38,400
80% MFI	\$43,050	\$49,200	\$55,350	\$61,450
100% MFI	\$53,750	\$61,450	\$69,100	\$76,800

SOURCE: City of Austin Website, June 2015

OBJECTIVE, SCOPE, AND METHODOLOGY

This Prioritization of Affordable Housing Development Audit was conducted as part of the Office of the City Auditor's (OCA) Fiscal Year (FY) 2015 Strategic Audit Plan, as presented to the City Council Audit and Finance Committee. This audit was included on the Strategic Audit Plan due to risks observed through prior work by our office, as well as concerns raised by City Council.

Objective

The objective of the audit was to evaluate the effectiveness of NHCD strategic planning efforts to prioritize and address the City's affordable housing goals and needs through Housing Developer Assistance programs.

Scope

The audit scope included NHCD's strategic planning and operations (housing production and monitoring activities) for Housing Developer Assistance programs for the three year period from FY 2012 to FY 2014.

Methodology

To accomplish our audit objectives, we performed the following steps:

- interviewed NHCD personnel responsible for strategic planning, reporting, and monitoring of production data;
- interviewed community members, including those that have served on the Community Development Commission, Housing Bond Advisory committee, and Affordable Housing Incentives task force;
- selected a judgmental sample of projects, for which outcomes were reported by NHCD, and reviewed reported outcomes for accuracy and completeness using source data;
- analyzed the reported outcomes of the developer incentive programs for reasonably priced units and reconciled to available source data;
- evaluated judgmental samples of projects for monitoring activities based on established requirements for various programs;
- researched best practices for the strategic planning process;
- reviewed applicable NHCD policies and procedures;
- reviewed NHCD goals and performance measures;
- reviewed relevant external reports, including consultant market studies and reports published by the City in FY 2009 and FY 2014 and the Fair Housing Choice report in May 2015;
- evaluated internal controls related to strategic planning, reporting, and monitoring of production data; and
- evaluated risks of fraud, waste, and abuse relevant to reporting and monitoring of production data.

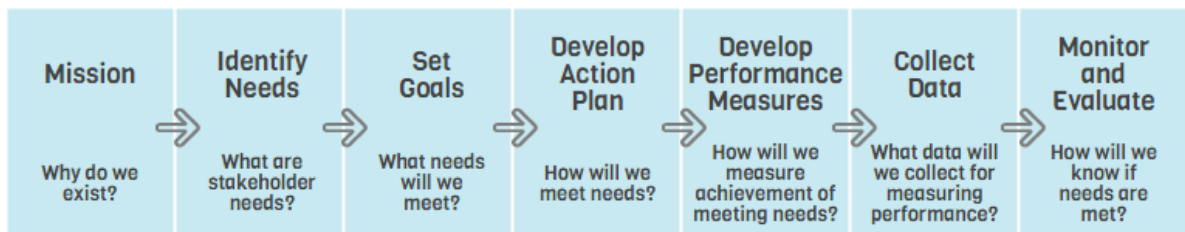
WHAT WE FOUND

The continuing high cost of housing in Austin increases the need to provide affordable housing to households with varied income levels, especially those with low and very low income levels. The provision of adequate affordable housing remains a significant challenge for Austin. We found that the City does not have an effective strategy to meet its current or anticipated affordable housing needs. NHCD has not adopted clear goals, established timelines, or developed numerical targets to evaluate its efforts in fulfilling the City’s adopted affordable housing core values. Key information needed to evaluate program effectiveness was incomplete, inaccurate, or unavailable. Finally, current monitoring practices do not ensure consistent compliance with stipulated affordability restrictions.

Finding 1: The City does not have an effective strategy to create housing with deeper affordability, longer affordability, and geographic dispersion.

According to best practices, a strategic planning process as depicted in Exhibit 4 below is important to identify priorities, set goals, define key actions, and communicate to stakeholders. In this manner, organizations can influence the future rather than simply preparing for or adapting to it. Best practices also identify performance measures as an important link between the goals, strategies, actions, and objectives stated in the strategic plan and the programs and activities funded in the budget. Performance measures provide information on whether goals and objectives are being met.

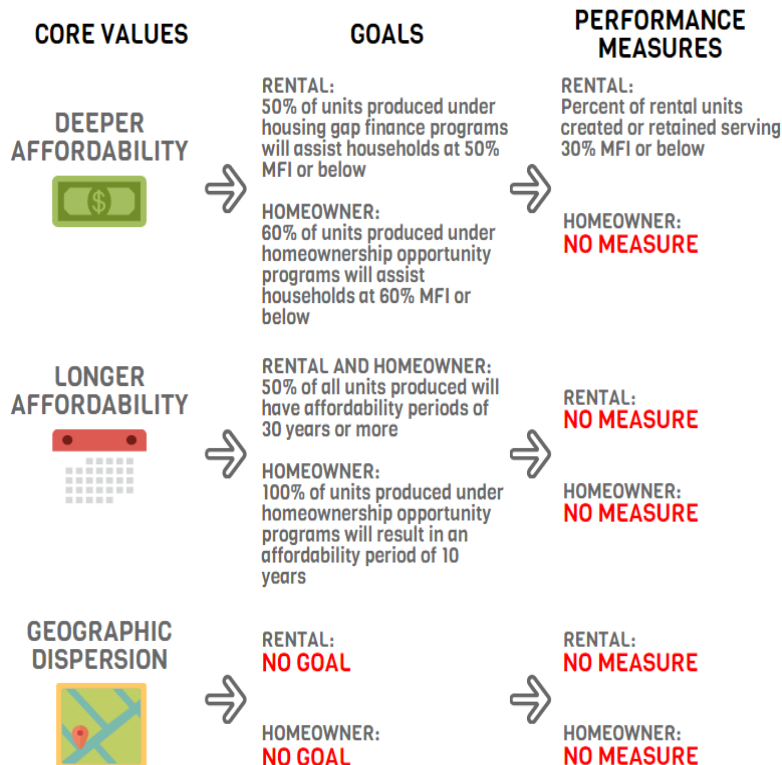
EXHIBIT 4
Strategic Planning Best Practice



SOURCE: OCA Analysis of Government Finance Officers Association – Establishment of Strategic Plans, July 2015

Although NHCD has implemented elements of strategic planning, these elements are not fully aligned. For example, NHCD has adopted guiding principles, identified affordable housing needs, and set some goals. It has also developed operational plans and performance measures. However, based on our analysis, these elements are not clearly aligned and linked to illustrate how all elements support the achievement of the identified needs and guiding principles. NHCD does not have a comprehensive document that clearly communicates to the public and stakeholders all key priorities, goals for addressing them, and numerical targets to evaluate the department’s efforts. As shown in Exhibit 5, available documents include some goals and performance measures, but some do not directly align or measure achievement of core values.

EXHIBIT 5
Goals and Performance Measures Do Not Align with Core Values



SOURCE: OCA analysis of City of Austin Budget for Fiscal Years 2012 through 2015, July 2015

Furthermore, recent studies have recommended that the City establish a target for affordable housing and that all City programs and policies should be linked to the achievement of the established Citywide target. NHCD has initiated a discussion aimed at identifying relevant goals to address specific affordable housing gaps for both the City and the community. NHCD has also initiated a process of revising goals and measures and has already implemented some changes in the FY 2016 budget cycle. However, our observations are still applicable. For example, there is still no measure of the efficacy of geographic dispersion, and there is no longer a goal that speaks to the core value of longer affordability. We also noted there are limited measures of efficiency for housing programs overall (comparing outcomes to resources consumed to achieve those outcomes).

Austin's Affordable Housing Core Values

Deeper Affordability
 More affordable housing for deeper levels of affordability (30% MFI)

Longer Affordability
 Make affordable housing remain affordable long-term

Geographic Dispersion
 Spread affordable housing throughout the City

The core values mentioned above were adopted by the City of Austin in 2007 to serve as guiding principles for all City's housing policies and programs. Also, in 2008 and 2014, the City hired a consultant to conduct a comprehensive housing market analysis. Such studies, which are conducted to be in compliance with federal grants requirements, are used to identify the most significant housing needs of the community. The most significant needs identified in the 2014 comprehensive housing market study were:

- 48,000 rental units for households at 30% MFI or less, and
- homeownership units for households at 50% MFI or less.

In the absence of clear goals and numerical targets, it is difficult to evaluate the City's effectiveness in providing affordable housing, and any outcome can be seen as a success.

Having relevant performance measures related to a defined goal enables tracking of actual outcomes and reporting of accomplishments. Without such information, it is difficult to evaluate NHCD's effectiveness in providing affordable housing in alignment with the affordable housing core values. Furthermore, in the absence of clear goals and numerical targets, any outcome can be treated as a success.

As discussed in the background section of this report, Housing Developer Assistance programs promote affordable housing through the Rental Housing and Developer Assistance (RHDA) and the Acquisition & Development programs (A&D), which provide direct funding to developers of affordable housing. Affordable housing is also achieved through providing incentives to developers, such as the SMART housing initiative, which waives all or a portion of development fees in exchange for a portion of affordable units. For the directly funded programs, NHCD manages all aspects of the program and thus has more flexibility in defining program requirements and influencing program outcomes. For developer incentive programs where there is an affordable housing component, NHCD's role focuses on monitoring and compliance to ensure that the affordability restrictions established by the City Council are met.

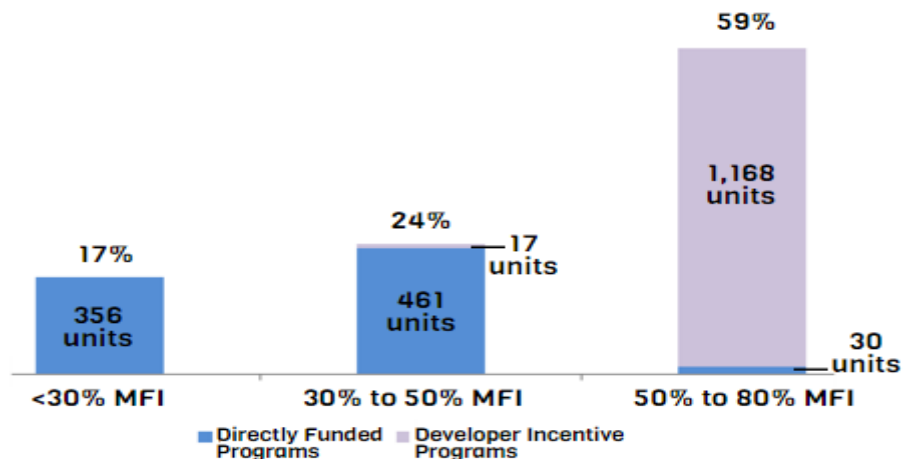
As discussed later in this report, we identified several limitations regarding available data on affordable housing units created. However, for the purpose of evaluating NHCD's accomplishments in addressing the adopted values, we estimated Housing Developer Assistance program's production. While we believe these revised numbers are not exact, they can be used as a general indicator of NHCD accomplishments in contributing to increasing the affordable housing stock.

Deeper affordability

Based on available documentation and our estimates of affordable units created in the scope period under Housing Developer Assistance, it appears that the majority of outcomes resulted in affordable housing opportunities that benefit households in the 50% to 80% MFI bracket, as shown in Exhibit 6.

EXHIBIT 6

Estimated FY 2012 - FY 2014 Production Data of Housing Developer Assistance Programs by MFI

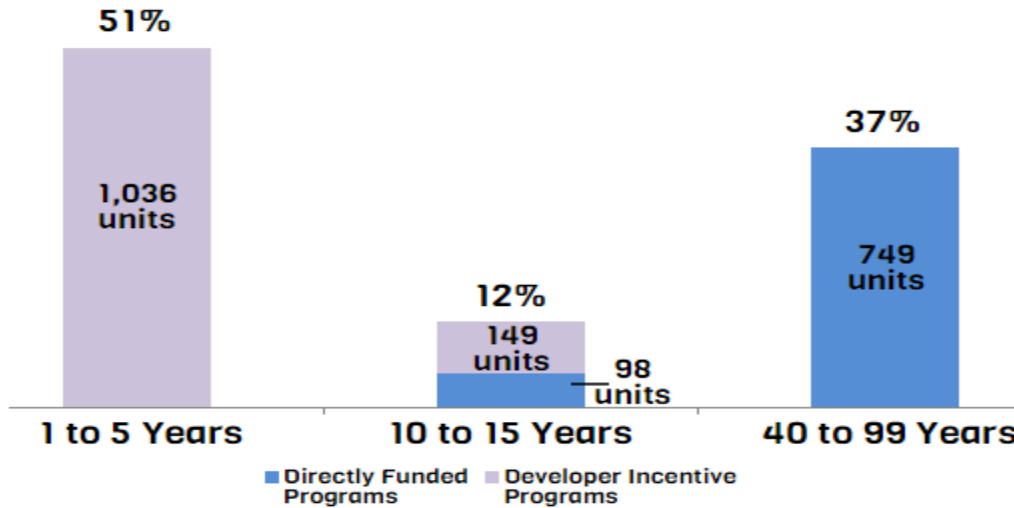


SOURCE: OCA analysis of NHCD production data, September 2015

Longer affordability

Looking at the overall number of affordable units created in our scope period under Housing Developer Assistance programs, based on our estimated numbers and available documentation, it appears that the majority of units have affordability restrictions for 5 years or less², as shown in Exhibit 7.

EXHIBIT 7
Estimated FY 2012 - FY 2014 Production Data of Housing Development Assistance Programs by Affordability Period



SOURCE: OCA analysis of NHCD production data, September 2015

Geographic dispersion

In this audit, we did not comprehensively evaluate whether NHCD production was in alignment with the core value of geographic dispersion. However, we did note that a number of studies reported that City initiatives to create affordable housing may not be equitably distributed throughout Austin and may not serve the households with the greatest needs. Although some of these studies cited data limitations, the reports consistently concluded that there are geographically limited opportunities for low-income households in Austin. While NHCD applies a specific tool of measurement (the Kirwan Opportunity Map) in scoring geographic dispersion of project applications and provides high points for geographic dispersion if the project is in high opportunity area³, the department does not have a specific goal or measure as shown in Exhibit 5.

² Includes units that received funding from the Texas Department of Housing and Community Affairs; although these units may have a longer affordability period, the City monitors affordability requirements for 5 years.

³ High Opportunity Area: geographic criteria used by NHCD that considers quality of life and self-advancement through indicators of neighborhood conditions and proximity to opportunities such as high performing education or sustainable employment.

Finding 2: Incomplete and inaccurate data limits NHCD’S ability to evaluate program success and to provide accurate information to the decision-makers and public.

As stated in Exhibit 4, data is an important component of the strategic planning process. Based on best practices, policy makers, executives, managers, and staff must have performance data in order to track and understand results. Data-informed decision-making allows the organization to learn from experience, replicate successful strategies, and improve on efforts that fail to meet expectations. Data should be timely, accurate, and meaningful. Information related to performance should also be transparent and easy to access, use, and understand.

In the context of this audit, in order to have a complete picture of the impact of its programs and be able to present complete and relevant information for decision-making, NHCD should have accurate and meaningful data on its affordable housing production. This includes a complete count of affordable units created, information on the affordability period and income levels served, as well as information on how much it costs the City.

We reviewed the data on affordable housing production reported by NHCD under Housing Developer Assistance programs and found that key information needed to evaluate program effectiveness was incomplete, inaccurate, or unavailable. These issues were prevalent for data related to the developer incentive programs, in which the City waives developer fees. NHCD reported production of developer incentive programs in FY 2012-14 include units resulting from SMART housing projects (87% approx.) and from UNO projects (13% approx.).

Inaccurate counting of affordable housing production resulted in NHCD overstating the City’s accomplishments in creating affordable housing.

Through our analysis, we found flaws in the manner NHCD counts affordable housing units produced. Exhibit 8 illustrates, for the Housing Developer Assistance program, the count of affordable housing units produced as reported by NHCD compared to the count as verified through our testing.

**EXHIBIT 8
Flaws in FY 2012-2014 Production Data Resulted in Overstated Outcomes**

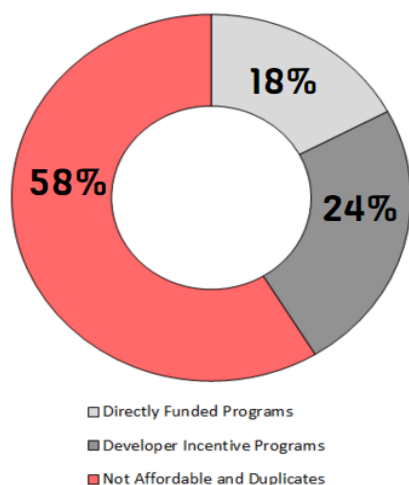
	NHCD Reported Affordable Housing Units			OCA Calculation of Affordable Housing Units		
	Directly Funded Programs	Developer Incentive Programs	TOTALS	Directly Funded Programs	Developer Incentive Programs	TOTALS
FY 2012	551	953	1504	551	298	849
FY 2013	183	1465	1648	183	358	541
FY 2014	113	1749	1862	113	529	642
TOTALS	847	4167	5014	847	1185	2032

NHCD overstated production by approximately 3,000 units

SOURCE: OCA analysis of NHCD production data, September 2015

EXHIBIT 9

Over Half of Units Reported as Affordable Housing by NHCD Were Not Affordable



NHCD reported a total of approximately **5,000** affordable units during FY 2012-2014; based on our analysis, this amount is overstated by approximately **3,000** units (or **58%**)

SOURCE: OCA analysis of NHCD production data, September 2015

As shown in Exhibit 9, errors in the counting of affordable housing production for developer incentive programs have resulted in NHCD overstating its accomplishments and in providing inaccurate information to the public and decision-makers, as detailed below.

- Market value units counted as affordable housing outputs: we found that NHCD reported as affordable all units resulting from the SMART and UNO housing projects in the scope period, regardless of whether they had affordability requirements. This resulted in NHCD incorrectly reporting approximately 2,600 market value units as affordable.
- Duplicate counting among different programs: we found approximately 400 units that were counted twice as outputs, once under each of the programs they benefitted from.

In addition to overstating affordable housing production, these errors also impact other performance indicators. For example:

- total number of households served through housing services (one of NHCD's key performance indicator) was overstated by approximately 28%; and
- total number of households served through all NHCD services (one of the Citywide "dashboard" measure) was overstated by approximately 15%.

Incomplete information on affordability restrictions for housing units limits NHCD's ability to evaluate whether it is achieving the intent of its programs.

City policies establish that affordable housing units created through City programs meet certain affordability restrictions regarding income eligibility (MFI served) and length of time each unit is required to be kept affordable (affordability period) as shown in Exhibit 2 of the background section. As such, for program evaluation purposes, it is important to have complete and accurate data on the manner in which these affordability restrictions are met.

However, we found that NHCD does not track and report complete information on the actual income levels (MFI) of the households served and the actual affordability period of the units created. For units created through directly funded programs, NHCD tracks MFI data and affordability period information based on actual information obtained at the time an affordable unit is occupied. However, for the units created under the developer incentive programs, NHCD does not have

information about the actual MFI⁴. Rather, available information is limited to the commitments made by the developers prior to beginning construction.

Incomplete information on the full cost of affordable housing production limits NHCD's ability to evaluate program effectiveness.

When resources are scarce, it is essential to know where program activities are making a difference and where they are not. Cost is an important component of evaluating program success.

Under the SMART housing policy, NHCD has the authority to waive fees to those developments that meet the SMART housing requirements. However, NHCD does not have complete information on the numbers and amounts of fees waived, resulting in incomplete project costs. Specifically:

- NHCD does not regularly track amounts of fees waived under SMART housing projects.
- NHCD project cost includes only funding received from the City and does not capture other costs to the City, such as fee waivers for SMART Housing or tax subsidies provided through partnership agreements.

According to NHCD data, the total amount of fees waived in our scope period is approximately \$4.6 million. Fees are waived by several departments at various stages in the development process. However, there is no routine tracking of information on the number or types of fees waived and their associated cost. As already noted in a 2002 audit performed by our office, fee waivers are not accounted for in any City budget program. Also, fees are not entirely captured in the City's permitting system, as there are several fees that are manually assessed and recorded.

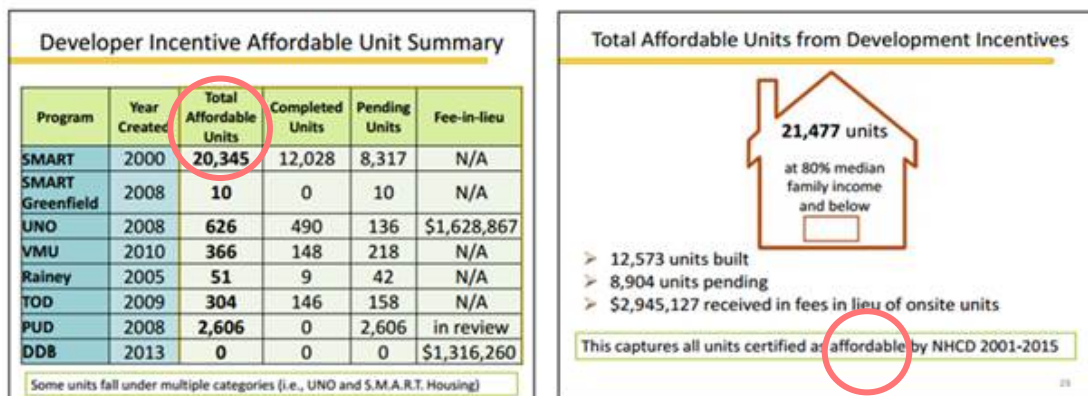
Without timely, relevant, and accurate information, it may be difficult for NHCD to evaluate the success of its programs and to provide meaningful information to the City Council.

As discussed earlier in this finding, an incorrect count of affordable housing production resulted in NHCD reporting overstated performance information. We also noted some limitations in the information provided to the City Council as part of the recent discussion on revisions to the Development Incentives and Density Bonus policies. Specifically, for the two slides shown in Exhibit 10, which were presented to Housing and Community Development Committee on March 25, 2015, we noted that:

1. Total affordable units reported for the SMART Housing program is incorrect, as NHCD's count of affordable units was overstated.
2. Data does not take into account the affordability period. As the data presented to Council included the units produced since 2000, a large portion of the units reported are no longer affordable. In fact, units developed under the SMART housing program are required to be kept affordable no more than 5 years, which means that a large portion of the units reported in the slide are no longer required to be affordable.
3. An additional piece of information that might be useful to inform the decision-making process is that units developed through development incentives (as opposed to directly funded) are not bound by specific requirements on affirmative marketing and tenant selection.

⁴ With the exception of those produced under the Robert Mueller Municipal Airport (RMMA) development agreement, which are monitored by a third party.

EXHIBIT 10
Example of Inaccurate Data Presented to City Council



SOURCE: City Council Housing Committee, March 25, 2015

Affordable housing production data is stored in several stand-alone systems rather than one central system. Systems include the City’s performance measure database, the federal government’s reporting system, and the City’s permitting system. In addition, these systems do not always provide user-friendly reporting. For example, we noted that the reports generated through the permitting system are adjusted manually by staff to report production.

Further, we noted gaps in the communication and coordination among the groups that have responsibilities for the three programs we looked at. We observed that not all staff responsible for tracking units produced has the same understanding of how to track and report units.

NHCD management informed us that NHCD currently lacks a comprehensive, integrated system that can be used for reporting of its production. NHCD management indicated that they have been working with the City’s Communication and Technology Management department to identify an enterprise system that can capture information on affordable housing units created and other relevant performance data. NHCD has identified the need for investments in technology for enhanced services and surfaced it as horizon issue during previous years’ business planning processes.

Finding 3: Gaps in NHCD’s monitoring process limit the City’s ability to enforce affordability restrictions and do not ensure the achievement of adopted core values.

As stated in Exhibit 4, monitoring is an important component of the strategic planning process. Monitoring serves many significant purposes, including accountability, responding to community needs, and maximizing resources. In the context of this audit, monitoring helps ensure that City funding of housing programs is in line with applicable laws, rules, and City procedures as well as the intent of established policies.

While evaluating NHCD strategic planning and data, we identified gaps in NHCD’s monitoring of affordable housing projects. According to NHCD policies, agreed upon terms for units should be verified when initially occupied and throughout the life of the project. When units are initially occupied, NHCD should verify documentation of incomes of tenants and owners provided by developers to ensure that these align with established affordability restrictions. Then, throughout

the life of projects, in order to ensure continued compliance, NHCD should perform ongoing monitoring which may include review of documentation submitted by developers and site visits.

We reviewed documentation for a sample of affordable housing projects that were completed in our scope period. We found that monitoring was not performed timely and not all affordability restrictions were enforced for the sampled projects, as shown in Exhibit 11.

**EXHIBIT 11
Monitoring Is Not Performed Consistently and Timely**

Program	Monitoring Compliance		OCA Observations
	Initial	Ongoing	
Direct Funding: Rental Housing Developer Assistance (for renters)	YES	NO	All 8 items sampled were initially monitored; 4 were not monitored during affordability period and 3 not monitored as per established timeline.
Direct Funding: Acquisition & Development (for homeowners)	YES	N/A	All 6 sampled items were initially monitored.
Developer Incentive Programs: Single Family (SMART)	NO	YES	Projects are monitored for compliance (of MFI only) once all homes in the development are built.
Developer Incentive Programs: Multi-Family (SMART and UNO)	NO	NO	None of the items selected were monitored.

SOURCE: OCA analysis of NHCD monitoring documentation, July 2015

During our testing, we also noted some additional issues; for example, for a sampled project which received City funding to develop a single-family subdivision (49 homes) the City enforced shorter affordability restrictions than established by City policy. The affordability period per City policy should be 40 years when general obligation bonds fund are used, but the affordability period per the sampled sales deeds was 10 years.

Also, we noted that for projects that receive fee waivers in exchange for setting aside a portion of the development for affordable housing, NHCD does not consistently require the developers to provide an assurance (in the form of a promissory note or bond payable to NHCD for the waived amount) as required by contract terms. Not collecting such assurance may limit the City’s ability to enforce the affordability requirements or recover the amount of fees waived in case of default.

As indicated in Finding 2, NHCD does not have complete information of affordable housing units. In the absence of such information, it is difficult to determine the requirement of resources to ensure compliance with affordability restrictions. Based on our interviews, management also cited resource

limitations as a reason for limited monitoring and indicated that it is in the process of assigning more resources for monitoring the assisted units in accordance with established program guidelines.

RECOMMENDATIONS

1. **The NHCD Director should initiate a policy discussion with the City Council to:**
 - a) **evaluate whether City policies and programs which support the creation of affordable housing are effective in achieving the City's affordable housing core values and in meeting the affordable housing needs of the community; and**
 - b) **seek direction on the role of NHCD for programs involving developer incentives for affordable housing.**

MANAGEMENT RESPONSE: CONCUR. Refer to Appendix A for management response and action plan.

2. **The NHCD Director should organize affordable housing efforts to ensure that City policies and programs which support the creation of affordable housing are clearly prioritized, and are linked to the achievement of the established affordable housing values and to needs of the community. (see Appendix B for guidance)**

MANAGEMENT RESPONSE: CONCUR. Refer to Appendix A for management response and action plan.

3. **The NHCD Director should regularly report to the public and decision-makers outcomes related to achievement of core values to ensure accountability.**

MANAGEMENT RESPONSE: CONCUR. Refer to Appendix A for management response and action plan.

4. **The NHCD Director should coordinate with other City departments to ensure accurate tracking, monitoring, and reporting of projects which results in affordability restrictions on housing developments.**

MANAGEMENT RESPONSE: CONCUR. Refer to Appendix A for management response and action plan.

5. **The NHCD Director should allocate appropriate resources to ensure that compliance and monitoring of affordability restrictions occurs timely and in a manner that is consistent with policy requirements.**

MANAGEMENT RESPONSE: CONCUR. Refer to Appendix A for management response and action plan.

APPENDIX A

MANAGEMENT RESPONSE



City of Austin

MEMO

Neighborhood Housing and Community Development

P.O. Box 1088, Austin, TX 78767 -1088

(512) 974-3100 ♦ Fax: (512) 974-3112 ♦ www.austintexas.gov/housing

Date: 11/13/2015

To: The Audit and Finance Committee
The Office of the City Auditor

From: Betsy Spencer, Director

Subject: Prioritization of Affordable Housing Development Audit report

Neighborhood Housing and Community Development Office (NHCD) staff have reviewed the Prioritization of Affordable Housing Development Audit report and prepared this memorandum in response. I wish to address certain aspects of the audit approach and the findings to add clarity to NHCD's contribution to affordable housing needs.

Audit scope and Focus: The audit scope is extended to the Housing Developer Assistance program that comprises the Acquisition & Development (A&D) activity (ownership) and Rental Housing Development Assistance (RHDA) activity and the Developer Incentive Based programs. A&D and RHDA activities receive direct funding and are managed by NHCD while the Developer Incentive Based ordinances do not receive any federal or local program funding. Staff supports the Density Bonus Ordinances through technical assistance and certifies developments complying with the requirements of S.M.A.R.T.™ Housing program (Safe, Mixed-Income, Accessible, Reasonably-priced, Transit-Oriented). Staff monitors affordability restrictions in Density Bonus Ordinances and S.M.A.R.T. housing projects. It is to be noted that S.M.A.R.T. housing certification is a threshold item for projects applying for funding through A&D and RHDA projects.

Though the audit scope includes all three activities - RHDA, A&D and Developer Incentive-Based programs, the focal point of the findings and the recommendations is the Developer Incentive-Based programs. Although NHCD will continue to assert that the Developer Incentive programs – to include density bonus programs – are beneficial and much needed to incentivize developers to provide various community benefits, the department does not influence the incentive-based ordinances as it does when direct subsidies are deployed by the department. NHCD has provided analysis to the Auditors that highlights that where NHCD direct funding investments are involved, there is an alignment with the core values noted in the Prioritization of Affordable Housing Development Audit report.

Core Values: The core values of “Deeper, Longer, Geographically Dispersed” affordability referenced in the audit report are informed by a number of NHCD's planning and policy documents. The origin of the Core Values is attributed to the Affordable Housing Incentives Task Force study conducted by a panel of experts and community stakeholders in 2007.

- Deeper Affordability Targets: Reach deeper levels of affordability, i.e., to serve lower income households;
- Long-term Affordability: Housing units that will remain affordable over the long term; and,
- Geographic Dispersion: Affordable housing should be dispersed throughout the City of Austin.

In the Department's research on the subject, the aforementioned core values are not mandated by Council as NHCD's core business values. Through direct investment of local and federal dollars in A&D and RHDA projects, NHCD is able to address the core values of longer affordability periods and deeper affordability. The department has made progress in developing in high opportunity areas by deploying General Obligation Bond funds. However, it is through the Density bonus programs that the community can realize additional accomplishments regarding the geographically dispersed areas. NHCD cannot directly influence the location of developments through the incentive programs. However, taken together, direct investments through the Housing Developer Assistance Program as well as accomplishments by the Developer Incentive ordinances can serve to create longer, deeper and geographically dispersed affordability.

The Department will initiate a policy discussion with community stakeholders and the City Council to ascertain whether the core values as identified in the 2007 Affordable Housing Incentive Task Force should be codified as investment principles for programs administered by the department.

Overstating accomplishments: NHCD concurs that presentation slide mentioned on Page 12 of the audit report inaccurately reflected the overall units achieved through the S.M.A.R.T. Housing program as "affordable". Because a percentage of units in the S.M.A.R.T. Housing Program are "Reasonably Priced," this specific program should have been reflected separately on the slide and/or noted on a separate slide to show the number of affordable units only. The presentation (Exhibit 10) mentioned on Page 12 of the audit report has been noted as revised online. NHCD will address/revise any other departmental communications that counts all units created through the Developer Incentive based programs as affordable and clarify that some units are mixed income.

S.M.A.R.T. Housing Ordinance: Historically, NHCD reported S.M.A.R.T. Housing Program accomplishments as part of the Housing Developer Assistance Program (HDA). Developer Incentive-Based Programs were/are considered an important function of NHCD staff to provide technical, administrative support and oversight by issuance of letters of certification to project developers and provide monitoring services. The Department proposes to change the reporting structure so that the Developer Incentive program accomplishments will be reported separately from the other Housing Developer Assistance activities such as A&D and RHDA.

Intra-agency technology solution for Developer Incentives: The Developer Incentive Based ordinances - incentive-based programs are intra-agency initiatives and involve multiple City departments at various levels for providing services to developers in order to achieve various community benefits. To support the overall administration - to include monitoring of the incentive-based ordinances, a technology solution must be designed to capture the information residing in different departmental IT systems and provide a unified, easily-accessible platform with complete and timely information for NHCD to be able to monitor the affordability component of these ordinances.

NHCD's IT investments: The audit conclusion on data issues is not indicative of the significant investments made by NHCD for a technology solution that addresses the Department's business needs. NHCD has partnered with various City departments including the Communications and Technology Management Department (CTM) and now the Financial Services Department (FSD) to aid in identifying enterprise technology solutions to manage its program portfolio. After several years of investment in AMANDA, the lack of access to real time enterprise level financial data to tie performance metrics to financial data has

resulted in decisions to explore eCAPRIS as a business enterprise solution. However, NHCD maintains its partnership with CTM to develop the Developer Incentives folder in AMANDA in efforts to manage and track data related to the City's affordable housing accomplishments through its various incentive and density bonus ordinances.

In closing, NHCD offers comprehensive responses to the Action Plan (see Appendix) with numerous efforts through the FY17 Business Planning process currently underway. The Business Planning process serves as a timely course for introducing additional performance measures and changes that can further refine NHCD's reporting of affordable housing accomplishments, particularly for those in which the department can directly influence through its programming of funds. **NHCD offers its response to add clarity to NHCD's role and ability to directly influence affordable housing accomplishments.**

Should you have questions or need additional information, I can be reached at (512) 974-3182.

cc: Bert Lumbreras, Assistant City Manager

APPENDIX: ACTION PLAN

Affordable Housing Prioritization Audit Recommendation	Concurrence and Proposed Strategies for Implementation	Status of Strategies	Proposed Implementation Date
<p>1. The NHCD Director should initiate a policy discussion with the City council to:</p> <ul style="list-style-type: none"> • Evaluate whether City policies and programs which support the creation of affordable housing are effective in achieving the City's affordable housing core values and in meeting the affordable housing needs of the community; and • Seek direction on the role of NHCD for programs involving developer incentives for affordable housing, 	<p>Management concurs with this recommendation.</p> <p>Strategies:</p> <p>a. The Department will develop supporting metrics that can help identify performance measures for each of the core values: long-term affordability and deep affordability. These performance measures can be introduced as part of the Fiscal Year 2017 Business Plan for incorporation in the department's reporting procedures. The performance metric for tracking geographic dispersion will follow results of policy discussions with council on core values – See below. Refer to attachment 3 for a note on Geographic Dispersion.</p> <p>b. The Department will initiate a policy discussion with community stakeholders and the City Council to ascertain whether the core values as identified in the 2007 Affordable Housing Incentive Task Force should be codified as investment principles for programs administered by the department. NHCD will also pursue a definition for 'Geographic Dispersion' for the purpose of assigning goals and performance measures to the core value.</p> <p>c. NHCD will seek necessary council action and direction to set up an interdepartmental working team with representatives from relevant Departments involved in Developer Incentive Based programs to clearly define all departmental roles, administrative responsibilities and to design standard operating procedures related to the developer incentive programs. These procedures should seek to remedy challenges in data collection regarding administration of the developer incentive programs. The team's efforts in coordination with CTM should also be directed towards an intra-agency technology solution.</p>	<p>Underway</p> <p>Proposed</p> <p>Proposed</p>	<p>Dec 2016</p> <p>Dec 2016</p> <p>Dec 2017</p>
<p>2. The NHCD Director should organize affordable housing efforts to ensure that City policies and programs which support the creation of affordable housing are clearly prioritized and are</p>	<p>Management concurs with this recommendation.</p> <p>NHCD's current strategic planning process to organize and prioritize affordable housing policies is shown in Attachment 1.</p>		

<p>to ensure accountability.</p>	<p>whether the core values as identified in the 2007 Affordable Housing Incentive Task Force should be codified as investment principles for programs administered by the department. NHCD will also pursue a definition for 'Geographic Dispersion' for the purpose of assigning goals and performance measures to the core value.</p> <p>b. NHCD will separate development incentive program accomplishments from the Housing Developer Assistance accomplishments. The process of modifying the performance reporting structure with Developer Incentive-Based Programs ordinances as a separate support services category will be addressed in coordination with the Budget Office during the Business Planning process.</p> <p>c. This process can include the inclusion of new performance measures created to track Developer Incentive-Based Programs separate from the Housing program accomplishments.</p> <p>Attachment 5 depicts changes in the Business Planning documentation in order to shift the Developer Incentive-Based Programs including S.M.A.R.T. Housing policy from Housing Developer Assistance to Support Services.</p>	<p>Planning underway</p> <p>Planning underway</p>	<p>Dec 2016</p>
<p>4. The NHCD Director should coordinate with other City departments to ensure tracking, monitoring, and reporting of any project which result in affordability restriction on housing developments.</p>	<p>The Department concurs with this recommendation.</p> <p>Strategies: NHCD will seek necessary council action and direction to set up an interdepartmental working team with representatives from relevant Departments involved in Developer Incentive Based programs to clearly define all departmental roles, administrative responsibilities and to design standard operating procedures related to the developer incentive programs. These procedures should seek to remedy challenges in data collection regarding administration of the developer incentive programs. The team's efforts in coordination with CTM should also be directed towards an intra-agency technology solution.</p>	<p>Proposed</p>	<p>Dec 2017</p>
<p>5. The NHCD Director should allocate appropriate resources to ensure compliance and monitoring of affordability restrictions occurs timely and in a manner that is consistent</p>	<p>The Department concurs with this recommendation.</p> <p>Strategies: a. <u>Organizational re-design</u>: NHCD has implemented changes to the organizational structure in FY2016 whereby the monitoring function will report to the Chief Administrative Officer. The Chief Administrative Officer (CAO) has oversight in</p>	<p>Completed</p>	<p>Oct 2015</p>

<p>with policy requirements.</p>	<p>the following areas: Audit, Monitoring, Accounting, Reporting, Data Management and Finance. Conceptually, this new structure will enable streamlining of the monitoring processes, including development of the risk-based monitoring process, redevelopment of a comprehensive monitoring plan and aid in identification of resource needs to implement the planned changes.</p> <p>b. <u>Annual Monitoring Plan:</u> The monitoring team is involved in a redesign and development of the annual monitoring plan. This would involve funding sources, applicable federal and local guidelines and risk analysis and feed into monthly monitoring plan updates. The comprehensive annual monitoring plan will include: a) all projects in the NHCDs/AHFCs systems of record, b) items in the monitoring plan, c) items that have been monitored, d) overall status of items in the plan versus items monitored.</p> <p>c. <u>New enforcement mechanisms:</u> NHCD has begun implementing restrictive covenants for all new developments that benefit from any of the development incentive or density bonus policies. The restrictive covenant documents the affordable housing requirements and will be recorded at Travis County. This document will provide the written agreement necessary for NHCD's monitoring process. Restrictive Covenants provide an enforcement mechanism for the various ordinances that can result in income restricted affordable housing. Furthermore, NHCD will explore with the Planning and Zoning Department staff as well as the Law Department other legal instruments such as a developer agreement that evidences a developers' acknowledgment of the legally binding ordinances that can further refine monitoring procedures.</p> <p>d. <u>Technology based technical assistance:</u> NHCD's monitoring practice has focused on proactive assistance provided to developers and project staff to ensure a clear understanding of both the affordability requirements and the guidelines to achieve compliance with the affordable housing requirements. This approach involves conducting both individual one-on-one, on-site technical assistance and conducting periodic training in a large classroom setting. The Department is exploring the possibility of making technical assistance available to developers and project staff through recorded video training. Staff time would then be available to reallocate to necessary desk reviews and on-site visits.</p>	<p>Underway</p> <p>Underway</p> <p>Planned</p>	<p>Dec 2015</p> <p>Dec 2016</p> <p>Oct 2017</p>
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	<p>e. <u>Waiver process:</u> A waiver process will be initiated for exempting certain A&D developments that are unable to meet the 40 year affordability period as per guidelines. The waivers are usually given to A&D projects where 40 year affordability is not practical and it is necessary to accommodate the realities of developing affordable housing for homeownership. A memo outlining the waiver already issued to the Sendero Hills project will be included in the project documentation.</p> <p>Refer to attachment 6 for details about the project</p>	Underway	Dec 2015
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Attachment 1: NHCD Strategic Planning Process

Mission : NHCD The mission of the City of Austin's Neighborhood Housing and Community Development (NHCD) is to provide housing, community development and small business development services to benefit eligible residents, so they can have access to livable neighborhoods and increase their opportunities for self-sufficiency.

Identify needs : City of Austin's Citizen Participation Plan provides several opportunities for citizen engagement in the planning process. External studies such as the Housing Market Study identifies community housing needs.

Set goals : The Budget office stipulates 5-8 business goals that are measurable. NHCD has 5 business goals targeted to address identified community needs . These goals are reviewed annually during the business planning process.

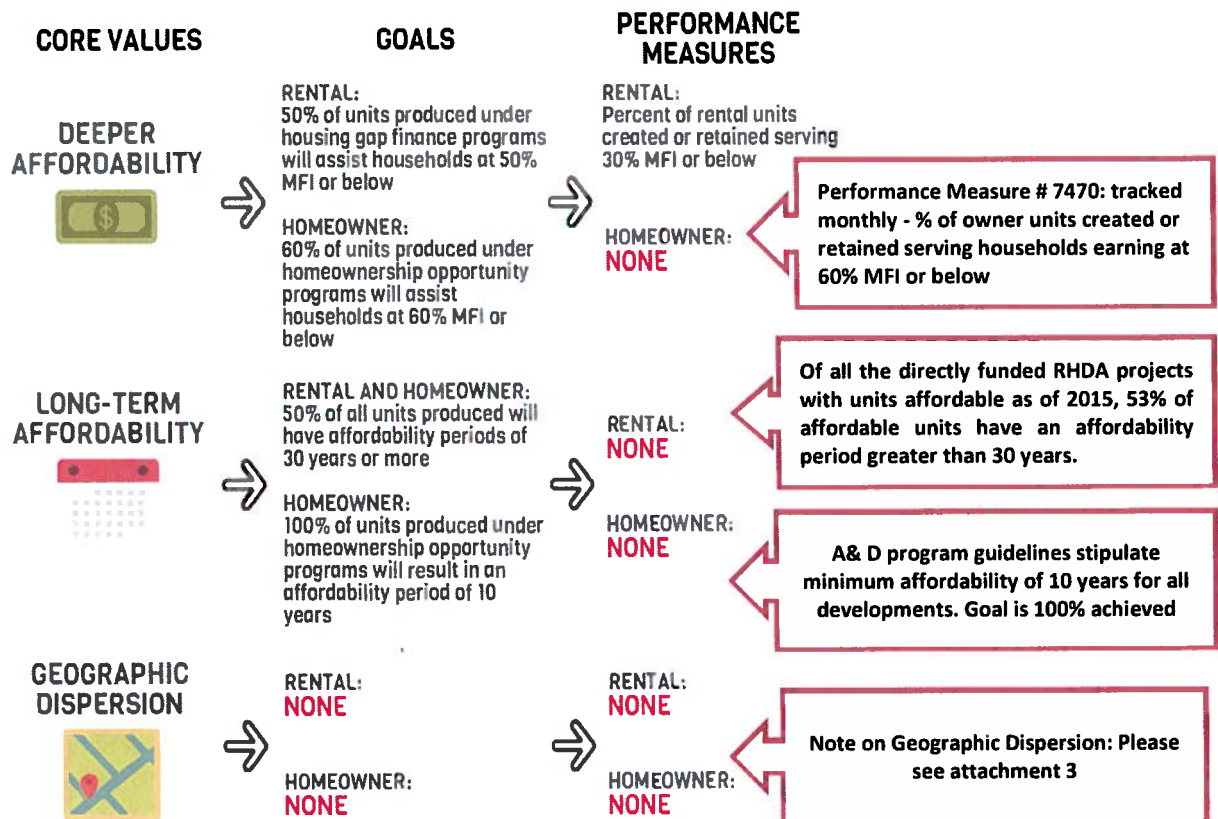
Develop Action Plan : NHCD prepares a five year consolidated plan and an annual action plan as an application to HUD for entitlement grant funding The Action Plan outlines funding sources, goals for funded activities and a discussion of populations to be served.

Develop Performance Measures : NHCD tracks the performance of all its housing and community development programs and demographic information for the population served except for a few programs which are designed differently.

Collect Data : Data collection is achieved through several systems developed in house and the federal Integrated Disbursement and Information System

Monitor and Evaluate: Federal and City reporting requirements mandate that all funded programs be tracked and reported on periodically. The monitoring process is being revamped currently.

Attachment 2: Alignment of goals and performance measures with Core Values



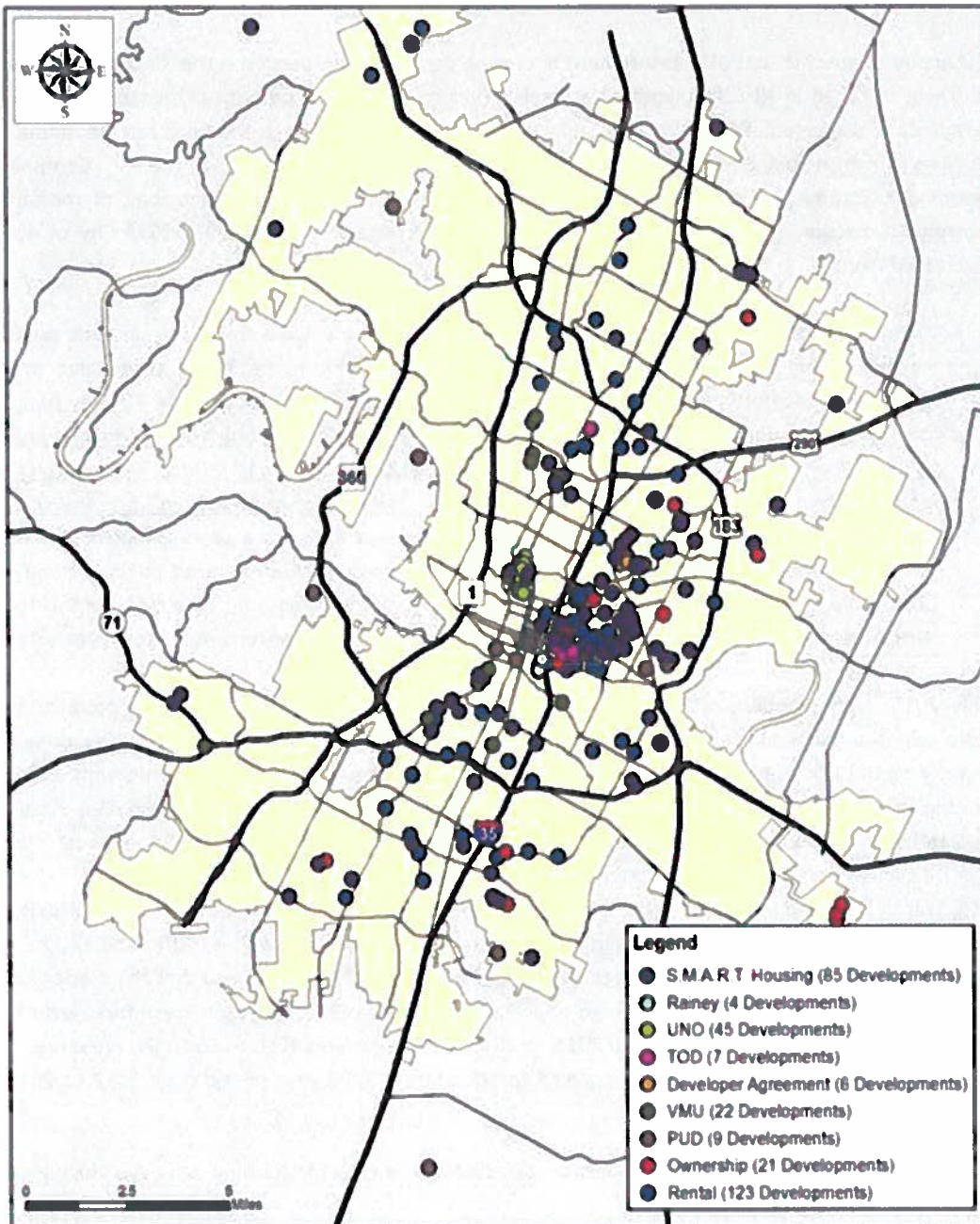
Attachment 3: Note on Geographic Dispersion

NHCD applies a specific tool of measurement in scoring geographic dispersion – the Kirwan Opportunity Map. Thus, as noted in NHCD’s planning and policy documents, a development is recognized for being geographically dispersed if it is in “high opportunity” area. More about the tool can be found at: <http://kirwaninstitute.osu.edu/initiatives/opportunity-communities/mapping/>. The Community Development Commission supports the use of this tool and measurement as a way of measuring Geographic dispersion. This issue is addressed at length on page 195 of the 2014-2019 City of Austin Consolidated Plan:

“While the City of Austin does not currently target investments to specific geographic areas, it considers the geographic dispersion of affordable housing to be a key core value in the investment of affordable housing-related activities with federal and local funds. The City supports providing affordable housing in areas outside of low-income neighborhoods, in addition to serving low income neighborhoods, thereby reducing racial and ethnic segregation, de-concentrating poverty, and providing for more economic opportunities for low-income households. NHCD currently provides funding preference through a scoring matrix system to projects that assist in the dispersion of affordable housing stock throughout the community, to focus on areas in Austin where there is a shortage of affordable housing. As a result of this focus, NHCD has achieved greater geographic dispersion in the units it has funded in recent years.”

In July 2015, staff compared 2009-2011 housing production with 2012-2014 housing production to explore whether the department had increased investment in high opportunity areas. The data was sourced from the Affordable Housing Inventory (AHI), which is comprised of: All rental units with currently operating affordability periods funded via the Rental Housing Developer Assistance (RHDA) Program, Austin Housing and Finance Corporation Private Activity (AHFC PA) Bond, or developed under City of Austin Developer Incentive-Based Programs such as S.M.A.R.T. Housing, University Neighborhood Overlay (UNO), Transit Oriented Development (TOD), Vertical Mixed Use (VMU), and Rainey District (RAINEY); and all ownership units with currently operating affordability periods funded via the Acquisition and Development – Developer (A&D-D) Program (2007 – 2014). The analysis evidenced that the proportion of affordable units financed in High - Very High opportunity areas increased between these three-year time periods. In the 3 years between 2009 and 2011, investment in High-Very High opportunity areas was 12% of overall production. The investment increased to 30% during the 3 year period from 2012 to 2014 in High - Very High opportunity areas.

The map on page 12 demonstrates dispersion of accomplishments for housing achieved through City programs and ordinances.



Developments with affordable units from the Rental Housing Developer Assistance Program ("Rental" on the map), Acquisition and Development Program ("Ownership" on the map), Developer Agreements, Planned Unit Developments ("PUD" on the map), and units from developer incentives (UNO, TOD, VMU, Rainey and S.M.A.R.T.)

Attachment 4: Charts for deeper and longer affordability achieved through housing programs

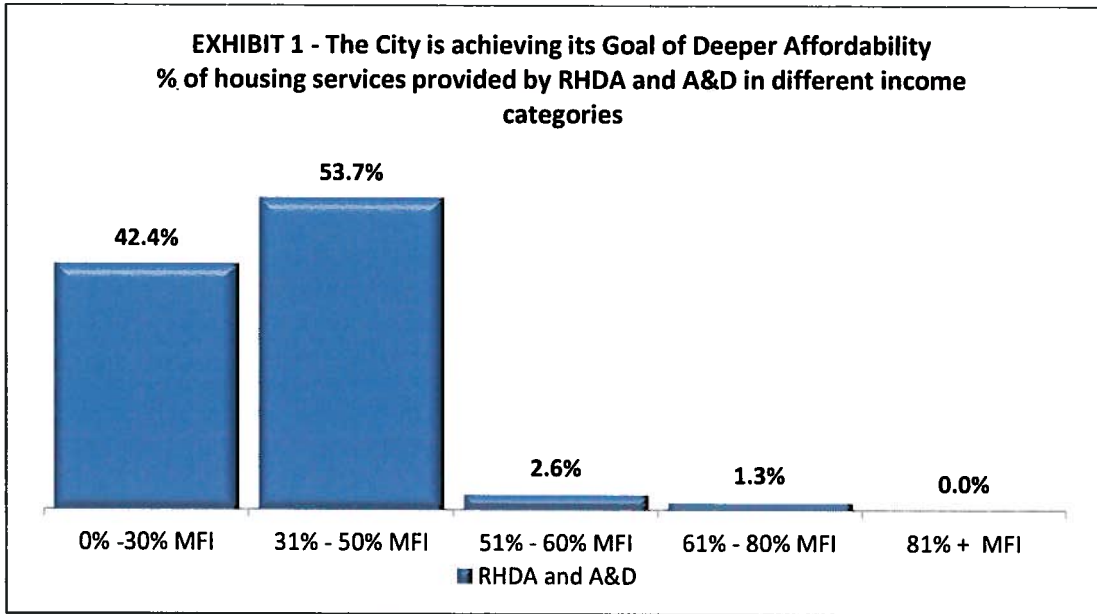


Exhibit 1 clearly indicates that the bulk of units created by RHDA and A&D cater to households earning at or below 50% MFI.

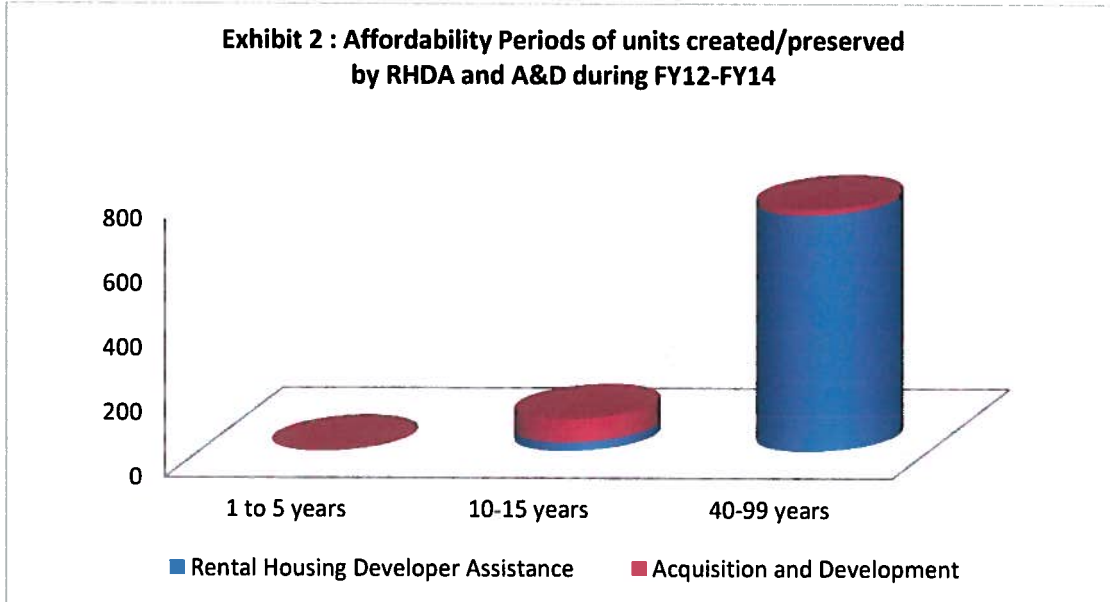


Exhibit 2 demonstrates the bulk of RHDA and A&D units have affordability periods higher than 40 years.

Attachment 5: FY17 Proposed Business Crosswalk

FY2016	FY2017 Business Plan
<u>1NCD Community Development</u>	<u>1NCD Community Development</u>
2CMR NEIGHBORHOOD & COMMUNITY REVITALIZATION	2CMR NEIGHBORHOOD & COMMUNITY REVITALIZATION
2HRF RENTER ASSISTANCE COUNSELING	2HRF RENTER ASSISTANCE COUNSELING
2HSN HOMELESS/SPECIAL NEEDS	2HSN HOMELESS/SPECIAL NEEDS
2SBA SMALL BUSINESS ASSISTANCE	2SBA SMALL BUSINESS ASSISTANCE
2IDA FINANCIAL EMPOWERMENT	2IDA FINANCIAL EMPOWERMENT
<u>1HSG Housing</u>	<u>1HSG Housing</u>
2HBA HOMEBUYER ASSISTANCE	2HBA HOMEBUYER ASSISTANCE
2HDA HOUSING DEVELOPER ASSISTANCE	2HDA HOUSING DEVELOPER ASSISTANCE
2COE CHDO Operating Expense Grants	2COE CHDO Operating Expense Grants
2FTH Acquisition & Development	2FTH Acquisition & Development
2REH Rental Housing Development Assistance	2REH Rental Housing Development Assistance
2SHO Developer Incentive-Based Programs	
2HOA HOMEOWNER ASSISTANCE	2HOA HOMEOWNER ASSISTANCE
2HRA RENTER ASSISTANCE	2HRA RENTER ASSISTANCE
<u>9MGT Support Services</u>	<u>9MGT Support Services</u>
9MGT SUPPORT SERVICES	9MGT SUPPORT SERVICES
9ADM Departmental Support Services	9ADM Departmental Support Services
	9ADM Developer Incentive-Based Programs
9TRQ TRANSFERS & OTHER REQUIREMENTS	9TRQ TRANSFERS & OTHER REQUIREMENTS
9REQ Other Requirements	9REQ Other Requirements
2DSC DEBT SERVICE	2DSC DEBT SERVICE

Attachment 6: Note on Sendero Hills

Sendero Hills: In the monitoring section of the audit report, under Exhibit 12, the issue of shorter affordability period of a 49 home single family subdivision is raised. The project referred to is Sendero Hills and the developer was Austin Habitat for Humanity. The contract was signed on 10-15-08 and the program guidelines for A&D projects funded with General Obligation Bond Assistance at that time state that the preferred affordability period should be 99 years and does not mandate the length of affordability on projects. *'An Affordability Period will be established for all affordable units in homeownership projects assisted with GO Bond proceeds. The preferred affordability period will be for a period of not less than 99 years, using a shared equity or Community Land Trust model of homeownership. Affordability requirements and restrictions remain in force regardless of transfer of ownership. Another acceptable mechanism is a "Right of First Refusal" using the "Resale method" whereby the home must be sold to another low- to moderate-income buyer.'*

Additionally, Homeownership is not a possibility for these clients without a national mortgage. Habitat affiliates are required to comply with national program rules adopted by the parent organization. Habitat used a Right of First Refusal and Shared Appreciation model that would have at least 10 years and that any longer affordability period would not be acceptable under Habitat's national program rules. In order for the local Habitat affiliate to be able to utilize Austin Housing Finance Corporation funding to provide ownership opportunities for low-income persons, Habitat could not agree to a 40-year affordability period.

GOVERNMENT FINANCE OFFICE ASSOCIATION (GFAO) ESTABLISHMENT OF STRATEGIC PLANS



GFOA Best Practice

Establishment of Strategic Plans

Background. Strategic planning is a comprehensive and systematic management tool designed to help organizations assess the current environment, anticipate and respond appropriately to changes in the environment, envision the future, increase effectiveness, develop commitment to the organization’s mission and achieve consensus on strategies and objectives for achieving that mission. Strategic planning is about influencing the future rather than simply preparing or adapting to it. The focus is on aligning organizational resources to bridge the gap between present conditions and the envisioned future. While it is important to balance the vision of community with available resources, the resources available should not inhibit the vision. The organization’s objectives for a strategic plan will help determine how the resources available can be tied to the future goals. An important complement to the strategic planning process is the preparation of a long-term financial plan, prepared concurrently with the strategic plan. A government should have a financial planning process that assesses the long-term financial implications of current and proposed policies, programs, and assumptions. A financial plan illustrates the likely financial outcomes of particular courses of actions.

Strategic planning for public organizations is based on the premise that leaders must be effective strategists if their organizations are to fulfill their missions, meet their mandates, and satisfy their constituents in the years ahead. Effective strategies are needed to cope with changed and changing circumstances, and leaders need to develop a coherent and defensible context for their decisions. National Advisory Committee on State and Local Budgeting (NACSLB) Recommended Practices provide a framework for financial management, which includes strategic planning.

Recommendation. GFOA recommends that all governmental entities use some form of strategic planning to provide a long-term perspective for service delivery and budgeting, thus establishing logical links between authorized spending and broad organizational goals. While there is not a single best approach to strategic planning, a sound strategic planning process will include the following key steps:

1. **Initiate the Strategic Planning Process.** It is essential that the strategic plan be initiated and conducted under the authorization of the organization’s chief executive (CEO), either appointed or elected. Inclusion of other stakeholders is critical, but a strategic plan that is not supported by the CEO has little chance of influencing an organization’s future.

2. Prepare a Mission Statement. The mission statement should be a broad but clear statement of purpose for the entire organization. One of the critical uses of a mission statement is to help an organization decide what it should do and, importantly, what it should not be doing. The organization's goals, strategies, programs and activities should logically cascade from the mission statement.
3. Assess Environmental Factors. A thorough analysis of the government's internal and external environment sets the stage for an effective strategic plan. A frequently used methodology for conducting an environmental assessment is a "SWOT" (Strengths, Weaknesses, Opportunities, Threats) analysis. Strengths and weaknesses relate to the internal environment, while analysis of opportunities and threats focuses on the environment external to the organization.

Local, regional, national, and global factors affecting the community should be analyzed, including (a) economic and financial factors, (b) demographic trends, (c) legal or regulatory issues, (d) social and cultural trends, (e) physical (e.g., community development), (f) intergovernmental issues, and (g) technological change.

Also, a government should develop mechanisms to identify stakeholder concerns, needs, and priorities. Among the mechanisms that might be employed to gather such information are (a) public hearings, (b) surveys, (c) meetings of community leaders and citizens interest groups, (d) meetings with government employees, and (e) workshops for government administrative staffs and the legislative body.

4. Identify Critical Issues. Once the environmental analysis has been completed, the next step is to use the resulting information to identify the most critical issues. Issue recognition should reflect stakeholder concerns, needs, and priorities as well as environmental factors affecting the community.
5. Agree on a Small Number of Broad Goals. These written goals should address the most critical issues facing the community. It may be necessary to define priorities among goals to improve their usefulness in allocating resources.
6. Develop Strategies to Achieve Broad Goals. Strategies relate to ways that the environment can be influenced (internal or external) to meet broad goals. A single strategy may relate to the achievement of more than one goal. There should be a relatively small number of specific strategies developed to help choose among services and activities to be emphasized. Use of flowcharts or strategy mapping is encouraged in the design of strategies. To optimize the success of these strategies, opportunities should be provided for input from those who will be affected.
7. Create an Action Plan. The action plan describes how strategies will be implemented and includes activities and services to be performed, associated

costs, designation of responsibilities, priority order, and time frame involved for the organization to reach its strategic goals. There are various long-range planning mechanisms available to enable organizations to clarify their vision and strategy and translate them into action.

8. **Develop Measurable Objectives.** Objectives are specific, measurable results to be achieved. Objectives and their timelines are guidelines, not rules set in stone. Objectives should be expressed as quantities, or at least as verifiable statements, and ideally would include timeframes.
9. **Incorporate Performance Measures.** Performance measures provide an important link between the goals, strategies, actions and objectives stated in the strategic plan and the programs and activities funded in the budget. Performance measures provide information on whether goals and objectives are being met.
10. **Obtain Approval of the Plan.** Policymakers should formally approve the strategic plan so it can provide the context for policy decisions and budget decisions.
11. **Implement the Plan.** Organization stakeholders should work together to implement the plan. Moreover, the strategic plan should drive the operating budget, the capital plan, and the government's other financial planning efforts.
12. **Monitor Progress.** Progress toward planned goals should be monitored at regular intervals. Organizations should develop a systematic review process to evaluate the extent to which strategic goals have been met.
13. **Reassess the Strategic Plan.** Many external factors, such as the national or regional economy, demographic changes, statutory changes, legislation, mandates, and climate/environmental changes, may affect the environment and thus achievement of stated goals. To the extent that external events have long-range impacts, goals, strategies and actions may need to be adjusted to reflect these changes. New information about stakeholder needs or results may also require changes to the plan. It is desirable to minimize the number of adjustments to longer-term goals in order to maintain credibility. However, governments should conduct interim reviews every one to three years, and more comprehensive strategic planning processes every five to ten years, depending on how quickly conditions change. Performance measure results need to be reviewed more frequently than the strategic plan.

Notes

Key elements of this recommended practice are drawn from Recommended Budget Practices: A Framework for Improved State and Local Governmental Budgeting of the National Advisory Council on State and Local Budgeting and from GFOA's