

AFFORDABLE HOUSING BENCHMARKS AND PROGRAM DEVELOPMENT ASSISTANCE

Exit Conference Date: January 31, 2023

Release Date: March 2, 2023

Report No. 23-06

City of Orlando
Office of Audit Services and Management Support

George J. McGowan, CPA
Director

Co-source Partner
RSM



MEMORANDUM OF TRANSMITTAL



To: Jessica Frye, Housing Initiative Manager

From: George J. McGowan, CPA
Director, Office of Audit Services and Management Support

Dates: Exit Conference: January 31, 2023
Release: March 2, 2023

Subject: Affordable Housing Benchmarks and Program Development Assistance (Report No. 23-06)

The Office of Audit Services and Management Support, with major assistance from our co- source partner RSM, performed a benchmarking study and review of selected government affordable housing programs. This review was requested by the Housing and Community Development Department and the review team took additional direction from the ad-hoc working group assembled by City management to research this program area.

This work does not rise to the level of an audit and is considered an advisory consulting engagement under the International Standards for the Professional Practice of Internal Auditing. This report does not offer any recommendations and is a compilation of the information gathered by RSM from its benchmarking surveys of selected affordable housing programs. It is not a definitive study of the affordable housing issue as the information is limited to that provided by the governments contacted. All information included in this report is offered for consideration by City management as this important program is being developed. It should not be considered as the only information available regarding the many government affordable housing programs offered throughout the country.

Please note that the Affordable Housing Program Procedures section attached is only an example of possible procedures for the oversight of an affordable housing program and it is in a draft form as a work in progress. For your convenience and future use, it is available in an editable document upon request.

We appreciate the cooperation and courtesies extended by the staff of the Housing Department and the other departments consulted during this review.

GJM

c:

The Honorable Buddy Dyer, Mayor
Jody Litchford, Deputy City Attorney
Kevin Edmonds, Chief Administrative Officer
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January 31, 2023

George McGowan
Director, Audit Services and Management Support
City of Orlando
400 S. Orange Ave.
Orlando, FL 32801

Dear Mr., McGowan,

Thank you for allowing RSM US LLP to provide internal audit services related to the Affordable Housing program development for the City of Orlando.

In accordance with Service Authorization No. 2, dated April 4, 2022, we have provided the Benchmarking Report and draft Affordable Housing Policies and Procedures for Management's consideration. As previously discussed, our approach was modified during fieldwork, at Management's request, to focus resources on benchmarking efforts. As such, our approach consisted of the following phases:

Phase One: Obtaining and Understanding

We conducted facilitated sessions with applicable City Departments and Divisions to further understand incentive programs offered by the City to developers, and the City's plans for application of existing and new incentive programs.

During this phase, we learned from Management that, before implementing a new incentive program, the City would benefit most from obtaining benchmarking data of other jurisdictions. Our approach for Phase Two and Three (below), was then adjusted to focus resources on benchmarking efforts.

Phase Two: Draft Program Development

We assisted the City with developing draft program documents, which included benchmarking current parameters, processes, and procedures from other jurisdictions with similar programs in Florida and the United States. We accomplished this through the following:

- Developed a benchmarking questionnaire that was sent to multiple subject matter experts and municipalities that had inclusionary housing programs
- Conducted follow up interviews through email and telephone correspondence to obtain additional information requested from the City Working Group;

Phase Three: Reporting

The following documents were developed and provided to the City:

- Summary of benchmarked data from other jurisdiction's affordable housing programs
- Draft Standard Operating Procedures for Management's consideration related to the City's developer incentive programs, which included:
 - Details regarding facilitation of monitoring and inspection activities, including risk assessment procedures, activities related to the various types of monitoring activities, and an annual monitoring timeline;
 - Formal roles and responsibilities;
 - Procedures related to non-compliance, issuance of final notices, and resolutions and close-out letters;
 - Details related to an internal quality review program and future state planning; and
 - Monitoring checklists and reports.

The results of our procedures are based on materials, statements, and representations provided and made by City of Orlando staff and applicable benchmarked entities. In accordance with the aforementioned Service Authorization, the draft Policies and Procedures related to the Affordable Housing program were distributed to Management on November 18th, 2022. Our work was to assist and advise you with this project. We have not, nor did City of Orlando desire us to, perform any management functions, make management decisions, or otherwise perform in a capacity equivalent to that of an employee or officer of the City. As such, we have delivered the final Policy and Procedure document in an editable word document form, as policies and procedures evolve over time and Management may desire to make future changes to the Affordable Housing program

This report completes the agreed-upon scope of work, as discussed with Management and the Director of Audit Services and Management Support, and concludes the services agreed to related to Service Authorization No. 2. We appreciate the courtesies and cooperation extended to us during this engagement and look forward to more opportunities to be of service to the City of Orlando in the future. Please contact Matthew Blondell at 813-316-2223 if you have any questions.

Sincerely,

RSM US LLP

RSM US LLP



The City of Orlando, Florida
Affordable Housing Programs: Benchmarking Data

January 31, 2023

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BACKGROUND

Laws and Guidelines

The City's Housing and Community Development Department is subject to many Federal, and State laws as well as internal ordinances and policies, which provide guidelines and establish authority. They include but are not limited to the following.

City of Orlando Ordinances

- Code of Ordinances, Chapter 58: Zoning Districts and Uses
- Code of Ordinances, Chapter 65: Officers, Boards, and Procedures
- Code of Ordinances, Chapter 67: Affordable Housing
- Code of Ordinances, Chapter 68: Southeast Orlando Sector Plan Development Guidelines and Standards

Florida Statutes

- F.S. 125.01055: County Government, Affordable Housing Section
- F.S. 163: Intergovernmental Programs
- F.S. 166.04151: Municipalities, Affordable Housing Section
- F.S. 420: Housing
- F.S. 421: Public Housing

Federal Regulations

- CFR Title 24: Housing and Urban Development
- CFR Title 45: Public Welfare
- The Davis-Bacon Act of 1931

Key Terms

Throughout this document, the following terms may be used to describe components of an affordable housing programs. The definitions given below are general to the housing industry and may be tailored by the City of Orlando to fit the specific needs of the program.

- Area Median Income (AMI): A metric utilized in the income certification process.
- Floating units: While the number of affordable units is fixed within a project, allowance of "floating units" gives flexibility as to which specific unit(s) are designated as affordable.
- Income certification: The requirement to verify a tenant's income and assets to determine eligibility to participate in affordable housing programs.
- In-lieu fees: Fees paid in-lieu of other developer requirements. Fees are generally paid into a housing trust fund and are used to finance affordable housing developed off site.
- Off-site development: The development of required affordable housing units on a site separate from market-rate projects.

BACKGROUND - CONTINUED

Existing City Programs¹

The City of Orlando's Housing and Community Development Department is responsible for administering local, state, and federal funds to plan, develop, and implement programs and activities that meet identified needs in the community, and has an annual budget of approximately \$1,298,234 (.2% of the general fund budget). The Department is operated by approximately 22 FTEs and utilizes available resources to address community challenges by provided services related to home ownership, rental and owner-occupied housing rehabilitation, public facilities improvements, and support for the homeless persons within the community. In order to address needs specific to low- and moderate-income households, and to revitalize distressed neighborhoods, the Department participates in the following housing programs:

1. Community Development Block Grant (CDBG): *a formula-based, entitlement grant provided by the United States Department of Housing and Urban Development (HUD). The primary purpose of the CDBG program is to develop viable urban communities and provide services to principally low-income citizens and their neighborhoods. This grant provides public services, housing counseling and rehabilitation to the Orlando community.*
2. HOME Investment Partnership Program (HOME): *a formula-based entitlement grant provided by HUD with a goal of preservation, expansion, and long-term affordability of housing stock. The City is able to implement activities such as rental housing rehabilitation, first-time home buyer assistance, owner-occupied housing improvements, and more.*
3. Housing Opportunities for Persons with AIDS (HOPWA): *a formula-based entitlement grant provided by HUD to be used for social services, program planning and development costs, and housing. HOPWA funds may be used for the acquisition, rehabilitation, or new construction of housing units, costs for facility operations, rental assistance, or short-term payments to prevent homelessness. HOPWA funds may also be used for health care and mental health services, chemical dependency treatment, nutritional services, case management, and assistance with daily living and other supportive services.*
4. Emergency Solutions Grant (ESG): *authorized under the Homeless Emergency Assistance and Rapid Transition to Housing (HEARTH) Act of 2009. HUD Makes this program available to local governments for the rehabilitation of homeless shelters, and for payment of certain operating and social service expenses in connection with shelters. This grant also provides homeless prevention and rapid re-housing programs for persons at risk for homelessness.*
5. State Housing Initiatives Partnership Program (SHIP): *provides funds to local governments as an incentive to create partnerships that produce and preserve affordable home ownership and multifamily housing to serve households earning up to 120% of the area median income (very low-, low-, and moderate-income families).*

As part of our procedures, we reviewed documents pertaining to the above existing programs. This included, but was not limited to, examples of monitoring checklists, rental project completion checklists, compliance reports, annual rental reports, and certification documents.

The information provided throughout this document has been gathered to assist the City in developing an additional housing program. The proposed program is intended to be managed and operated independently from the aforementioned Federal and State programs/grants and governed in part by local city ordinance.

¹ All information in this subsection has been obtained from the City of Orlando 2022 / 2023 Budget in Brief document, and from the Community and Housing Development's department website

BACKGROUND - CONTINUED

Benchmarked Entities

Benchmarking data was obtained primarily through questionnaire forms and virtual interviews. Through collaboration with the City, we identified several entities to include in our benchmarking efforts. The following entities were contacted and were willing to provide information regarding their experiences:

Government Municipalities:

1. City of Denver, Colorado
2. City of Burlington, Vermont
3. Los Angeles County, California
4. Palm Beach County, Florida
5. Town of Jupiter, Florida
6. Town of Davie, Florida
7. City of Tallahassee, Florida

Industry Subject Matter Experts:

8. Delray Beach Housing Group, Florida
9. Florida Housing Finance Corporation

Each of the listed government municipalities manage their own affordable or inclusionary housing program funded separately from Federal and State programs. The level of involvement in managing and enforcing these programs differed from entity to entity, ranging from a comprehensive, salaried, in-house management team, to an outsourced third party performing all management and compliance functions. Detailed comparative information can be found in the pages that follow.

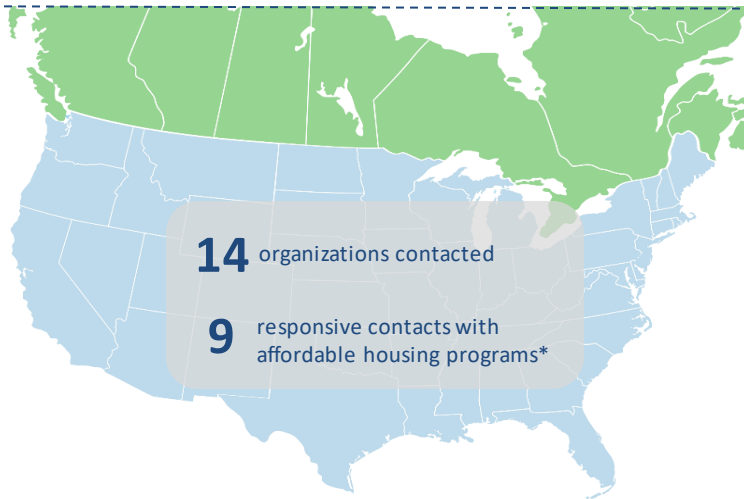
The listed industry subject matter experts were included in benchmarking efforts to obtain their unique perspective; each entity manages multiple projects concurrently (Delray Beach Housing Group manages three projects within the City of Delray, and the Florida Housing Finance Corporation manages hundreds of projects throughout the State).

BENCHMARKING DATA

Overview

Benchmarking questions included, but were not limited to the following:

- Is your program mandatory or optional?
- Do you offer an in-lieu fee to developers? Is it encouraged?
- Is there an offsite option for developers?
- Who performs monitoring activities, and how often are they performed?
- What types of documents do you retain as part of your monitoring activities?
- Are fees charged to developers to absorb monitoring costs? What other methods (if any) are you using to absorb these costs?
- What types of compliance actions are you authorized to perform, and what are the common compliance issues you face?
- Do you perform a risk assessment to determine which projects / properties require more frequent monitoring?



* Indicates that the entity responded to some, but not always all, requested data points and questionnaires. Partial responses were received and recorded.



57% of programs charge developers a fee to fund monitoring activities

50% of programs that do not charge fees indicated that they are currently considering implementing a fee in the future, now that the program has grown



14% of programs perform a formal risk assessment to refine their monitoring schedule

Of the programs that do not offer a risk assessment, **50%** feel they may implement one in the future as the program grows



86% of programs have a mandatory component



83% of programs offer utility allowances to tenants



80% of programs offer in-lieu fees options for developers and **100%** of programs offer an off-site option



Affordability Period:
71%: 15 ≤ 55 years
29%: 99 years



33% of programs utilize existing staff (without an increase in compensation) to manage the program



33% of entities created a special revenue fund or trust fund to assist in operational expenses

BENCHMARKING DATA – CONTINUED

Through our benchmarking questionnaires and conversations, respondents shared the following information related to compliance monitoring.

Compliance Monitoring

While the level of detail in each program's governing documents (i.e., ordinance, development order, etc.) varied, there were several elements that interviewees described as a best practice:

- Assigning compliance monitoring responsibility to one individual (i.e., Administrative Officer, as is the case in the City of Burlington) or to one group (i.e., HOST Compliance Team, as is the case in the City of Denver). This individual may call upon the City Attorney's Office if issues with the tenant / property owner / property manager fail to be remedied. The responsible individual or group may also call upon code enforcement staff, building inspectors, staff within the Capital Improvements Division, and other subject matter experts to aid in inspections and compliance monitoring.
- Initial issues are discussed directly with the non-complier first (tenant / property owner / property manager, depending on the issue type). Non-compliers are given a pre-defined allotment of time to remedy the issue before action is taken (i.e., assessment of civil fines). Communications with the non-complier must be documented and dated for records keeping purposes.
- To avoid disputes regarding real or perceived biases, the City should consider predefining violations by type / category and consequence in the ordinance.
- To avoid disputes regarding authority, the City should consider predefining rights to enter and inspect properties, including individual rooms, and to access and review documents within the property manager's office.
- In all of our interviews, non-compliance was noted as not yet being an issue that requires consistent time or attention. Various interviewees noted that small disputes have occurred regarding monthly rent rates. In all instances, the interviewee noted that upon review of the tenant's agreement with the property owner, and review of the calculations performed, disputes have been settled internally and, if appropriate, a credit is given to the tenant.
- Florida Housing Finance Corporation noted that most issues of non-compliance occur after a property has been in the program for 15 years. Before this milestone, property owners are still within their tax credit period, and the FHFC has authority to report non-compliance to the IRS to amend their tax returns.



BENCHMARKING DATA – CONTINUED

Factors for Consideration

<p>Developer Buy-in and Participation</p>	<p>A key component to a successful affordable housing program is balancing developer incentives and program adoption. One interviewee suggested that the City meet with community developers while drafting the ordinance to identify which incentives are worthwhile and which requirements are palatable, while also ensuring the program meets its objectives. The importance of developer buy-in is emphasized in the following case studies:</p> <ul style="list-style-type: none"> • In 2007, a lawsuit was formed against the City of McCall Idaho, citing that the affordable housing ordinances (Ordinance Numbers 819 and 820) were, “an unconstitutional taking of private property rights, an illegal taxing scheme, and that the City exceeded its jurisdiction and authority in passing the ordinances.”. The District Court declared these ordinances unconstitutional in 2008.² • Similarly, the Florida Home Builders Associated, Tallahassee Builders Association, and Tallahassee Board of Realtors filed a lawsuit against the City of Tallahassee, declaring the inclusionary zoning practice was a “violation of due process and an illegal taking of property and an illegal tax”. However, in 2009, the District Court decided that, “Because Florida Home Builders and Tallahassee Builders Association have not shown that a substantial number of their members are sufficiently affected to permit the action for declaratory or injunctive relief, Florida Home Builders and Tallahassee Builders Association have not satisfied the necessary criteria for standing.”³ <p>Based on benchmarking data, the allowance of off-site options is a critical program component to discuss with developers. While off-site options may present administrative challenges (with regard to physical inspections and monitoring, the consideration of location-specific criteria, the allowance of and review of exchange-builder agreements wherein two developers may collaborate on different sites, and comparability of construction across multiple sites), off-site options provide more flexibility to developers and may enhance program adoption.</p>
<p>Interagency Responsibilities</p>	<p>Entities may choose to collaborate with other agencies (i.e., FHFC, not-for-profits, property management companies, etc.) to manage their program(s). Responsibilities should be clearly defined to stipulate which organization is responsible for which activities, and to encourage communication, consistency, and collaboration. One interviewee found that staying informed of federal and state regulations, and their potential impact on other programs, was a key responsibility that often goes unassigned.</p>

² Case No. CV 2010-519-C

³ Case No. 1D07-6413

BENCHMARKING DATA – CONTINUED

Factors for Consideration - continued

<p>External Factors</p>	<p>In the early 2000’s, several municipalities (Palm Beach County, Florida and Tallahassee, Florida) faced challenges in program adoption, largely due to the 2008 housing crisis. New construction that could have potentially participated in affordable housing programs were put on hold while the foreclosure rate of existing homes increased. Entities interested in implementing a new housing program should consider the health of the local and national economy, as recessionary cycles may impact program success.</p>
<p>Community Perception</p>	<p>In 2004, Madison, Wisconsin created an inclusionary zoning program that was ultimately discontinued less than 10 years later. Kent Disch, the former Community Affairs Director of the Madison Area Home Builders Association, indicated that the program’s failure was in-part because, “prospective home buyers just were not interested in purchasing an equity restricted house with a more complicated financing and closing process”. Similarly, an inclusionary zoning program in St. Cloud, Minnesota (adopted in 2004 and terminated in 2007) faced challenges in public adoption of equity-restricted homes when similar homes could be purchased at lower prices with no restrictions.⁴</p>
<p>Tolerance for Non – Compliance</p>	<p>Programs may choose to “evict” tenants who have exceeded the income limits after moving in. This approach requires consistent income verification methods (including stringent definitions as to what is considered measurable income), as well as an approved method of communicating and enforcing evictions.</p>
<p>Standardization</p>	<p>Multiple interviewees noted that leveraging federal and state resources, forms, and methodology is often the best way to protect themselves from real or perceived biases.</p>

⁴ NAHB Land Use and Design Department – Inclusionary Zoning Primer

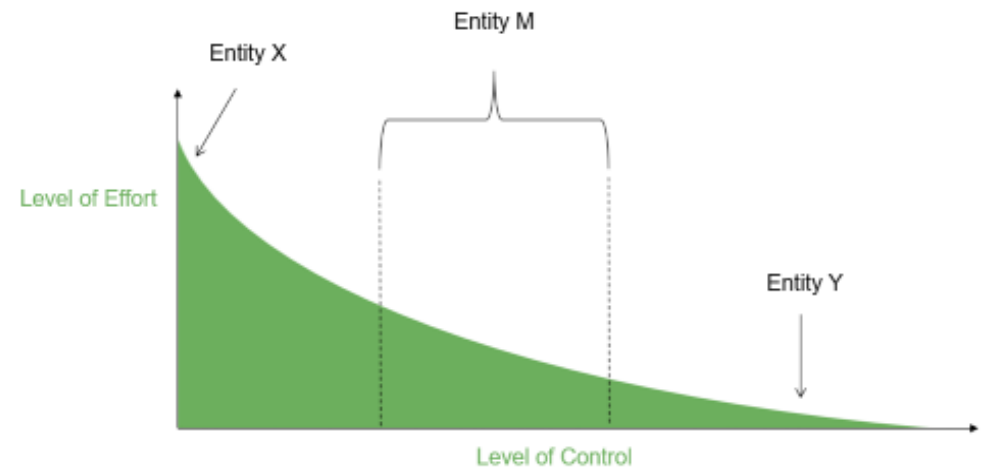
BENCHMARKING DATA – CONTINUED

Entity X, Y, and M

In order to protect the identity of benchmarking participants and to prevent release of their detailed operational practices into the public, each we have removed entities' names and replaced them with "X", "Y", and "M". With regard to monitoring and inspection activities, each municipality / program had a differing level of effort, and thus, a differing level of control. Entities with the most hands-on approach, requiring the most amount of resources, are referred to having an "Entity X Approach". Conversely, entities with the least hands-on approach, requiring the least amount of resources, are referred to having an "Entity Y Approach". Entities that have chosen a middle ground approach, who have a moderate amount of control and resources, are described as having an "Entity M Approach".

- **Entity X Approach (highest level of effort and control):** This municipality created a Special Revenue Fund to absorb the cost of multiple FTEs who are solely responsible for affordable housing program compliance. They utilize the web-based portfolio management system, Salesforce, to retain project and unit information, including inspection reports, photos, and agreements. They also utilize Salesforce to track follow-up inspection dates and schedule routine inspections. Inspections occur annually, at a minimum, or more frequently as-needed.
- **Entity Y Approach (lowest level of effort and control):** This organization fully outsources monitoring activities to a third-party auditor and the property manager. The developer for each project / site is responsible for securing and paying for the auditor, as is defined in each developer agreement. The auditor is responsible for performing all income certifications and creation of the annual reports, which contain tenant information, vacancy statistics, and documentation of the property manager's efforts to fill those vacancies. The property manager is responsible for performing site inspections, handling complaints, and issue resolution. The government entity is responsible for reviewing the aforementioned annual report, and distributing the annual income restriction calculation worksheet. Inspections occur only as-needed.
- **Entity M Approach (moderate level of effort and control):** This organization does not fund a special team to manage affordable housing compliance but also does not fully outsource the function either. Instead, they have assigned monitoring and administrative duties to existing in-house staff. Documents are managed and retained through existing software licenses (i.e., Microsoft excel), and reviews are completed annually. Responsibilities may be shared with property management groups.

Each entity, regardless of their current management style, indicated that the needs of the program will change over time. For example, benchmarked entities who utilize in-house staff to monitor the program are currently considering an alternative approach (i.e., adding FTEs or outsourcing the function) now that their project portfolio has grown and requires substantial time and effort to manage. As such, the approach of each entity noted in the matrix above could and should evolve as the affordable housing program matures, and as the desired level of effort and control (as depicted in the figure to the right) shifts over time.



BENCHMARKING DATA – CONTINUED

Entity X, Y, and M – continued

Program Elements	Entity X Approach	Entity Y Approach	Entity M Approach*
Affordability Period	99 Years	At Least 50 Years	15 recurring periods for for-sale units, or 30 years for rentals
Minimum Number of Units	25%	8%	10%
In-Lieu Fee Offered?	Yes; intentionally very high to deter developers from using this option	No	Yes
Off-site Options	Yes	Yes	Yes
Allow Floating Units?	Yes	No	No
Area Median Income	60% - 140% AMI	50% - 120% AMI	60% - 80% AMI
Tenant Selection Criteria	No; only income and location based	No; only income and location based	No; only income and location based
Utility Allowance	Yes	No	Yes
Monitoring Personnel	Fully dedicated, in-house team	Fully outsourced between auditor and property manager	Utilize existing staff and leverage property managers

BENCHMARKING DATA – CONTINUED

Entity X, Y, and M – continued

Program Elements	Entity X Approach	Entity Y Approach	Entity M Approach*
Frequency of Inspection Activities	Annually, at a minimum	As Needed	Annually
Monitoring Approach	Review 100% of units	Risk-Based, As-Needed	Plans to adopt a risk-based approach as the program grows
Technology Used	SalesForce	Existing software (excel, outlook)	Existing software programs that satisfy PII requirements
Funding of Monitoring Activities	Special Revenue Fund	No fees incurred; all outsourced	Utilize existing staff and resources
Compliance Monitoring Personnel	Responsibility is clearly assigned to one individual	Issues are dealt with on a case-by-case basis. Housing staff, property manager, or auditor may receive complaints	Responsibility is assigned to one individual, who may escalate as needed

*Entity M data is based upon multiple entities who responded similarly to benchmarking questions.

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City of Orlando, Florida

Affordable Housing Program

Procedures

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SECTION ONE: ORGANIZATION AND POLICY

1.1. PURPOSE

The purpose of this document is to define expectations and describe procedures regarding the monitoring and management of the City of Orlando's affordable housing program. This document describes the authority, responsibility, and governance of the program, and provides guidance for the execution, managing, and monitoring procedures necessary. The monitoring policy will accomplish the following goals:

- Assess the degree to which all programs and projects are performing efficiently and effectively;
- Ensure accountability and compliance with all federal, state, and local requirements:
 - The program is designed to provide housing or housing related assistance to low and very-low-income residents;
 - All housing meets quality standards and must be decent, safe, and secure;
 - Housing assisted or developed through this program remains affordable, pursuant to written agreements, over a specified affordability period;
 - All tenants are income qualified and recertified annually in accordance with the updated income and rent limits, **which will mirror federal and state program limits**;
 - All deadlines and requirements of written agreements are achieved
- Respond to community needs and priorities identified in the City of Orlando **Consolidated Plan**.

1.2. AUTHORITY

The City of Orlando's Affordable Housing program is codified **through Ordinance X [new ordinance title here]**. Additional authoritative guidance includes:

- Local Government Comprehensive Planning and Land Development Regulation Act of 1985
- Florida Statute 420.9075
- Florida Statute 163, which sets forth requirements for housing, including, but not limited to:
 - *"The provision of housing for all current and anticipated future residents of the jurisdiction.*
 - *The elimination of substandard dwelling conditions.*
 - *The structural and aesthetic improvement of existing housing.*
 - *The provision of adequate sites for future housing, including affordable workforce housing as defined in s. 380.0651 (1)(h), housing for low-income, very low-income,*

and moderate-income families, mobile homes, and group home facilities and foster care facilities, with supporting infrastructure and public facilities.

- *The creation or preservation of affordable housing to minimize the need for additional local services and avoid the concentration of affordable housing units only in specific areas of the jurisdiction.”*

1.3. ROLES AND RESPONSIBILITIES

- **Housing and Community Development Department:** City of Orlando staff responsible for the overall governance and management of the Affordable Housing program.
- **Contract Compliance staff:** City of Orlando staff that performs remote monitoring, on-site document reviews, and maintains the inspection schedule. *Are these individuals within the Housing and Community Development Department? Or are they in a separate group?*
- **Capital Improvements Project Manager:** A City of Orlando employee who completes the physical inspections of units. This individual works within the Capital Improvements Division, which manages building construction and renovations, structures, site infrastructures, wastewater treatment facilities, and other public works projects.
- **Developer:** The individual developer or property owner who participates in the inclusionary housing program.
- **Property Owner:** The individual who legally owns the property participating in the Affordable Housing program. If the property owner does not hire a property manager, they are the first layer of management to enforce compliance and to handle property/tenant issues and/or complaints. If issues are not resolved, the property manager shall escalate to the Housing and Community Development staff.
- **Property Manager:** The property owner may hire a property manager to provide on-site managerial and administrative assistance. If this individual is hired, they are the first layer of management to enforce compliance and to handle property/tenant issues and/or complaints. If issues are not resolved, the property manager shall escalate to the Housing and Community Development staff.

SECTION TWO: MONITORING AND INSPECTION PROCEDURES

2.1 EXECUTION OF MONITORING AND INSPECTION ACTIVITIES

Monitoring takes place year-round and begins with a Risk Assessment of each project. Risk Assessments allow the team to identify the projects / properties requiring the most attention, and thus, strategically maximizes the limited time available from existing Housing and Community Development staff. Risk factors may differ based on the type of project that is being assessed. Based upon the Risk Assessment score, each project will be identified as one of the following:

- **Low Risk:** Desk monitoring and technical assistance is required as-needed
- **Moderate Risk:** Desk and limited on-site monitoring and technical assistance as needed
- **High Risk:** Desk and comprehensive on-site monitoring and of High-Risk projects and technical assistance as needed

See **Appendix C** for Risk Assessment scoring guidance.

The Risk Assessment will be conducted by Housing and Community Development staff during February of each year (see **Section 2.4** for timeline specifics). Based upon the scores from this assessment, and the level of Risk as identified above, a combination of the following activities will be assigned:

- Remote monitoring of records and files
- Onsite monitoring of files
- Onsite physical inspection of units
- Technical assistance (provide clarification as to what this would entail) as necessary

The scope of activities is further defined in **Section 2.2: Monitoring and Inspection Scope**.

➤ ***Remote Monitoring of Records and Files:***

Remote monitoring is conducted by Contract Compliance Staff and consists of four steps:

1. Notice of Monitoring / Request for Documents: Developers are contacted with a Notice of Monitoring and provided a “Desk Audit Documents Request” (see Appendix A). All projects will receive this request annually during the first quarter (January – March) and responses shall be due within thirty (30) days of notification. *Should the developer fail to provide a response within thirty (30) days, a “Desk Audit Documents Request – Final Notice” shall be issued, which shall stipulate that if documents are not received within another thirty (30) days (or sixty [60] days from the initial request), then a late penalty fine shall be issued.*
2. Review of Documents: The Contract Compliance Coordinator will review these documents to assess compliance with the Agreement (City of Orlando) and applicable federal and/or state regulations. Specific attention should be brought to the number of tenants within each income category, their monthly rent amounts (billed and received), and conformance with the Agreement.

3. Monitoring Report: Contract Compliance staff will prepare a Monitoring Report within 45 days of receipt of the requested documents. This Report will be placed in the project file, and a copy shall be mailed to the developer. The Monitoring Report will detail and findings and / or concerns. Findings will reference the applicable regulations and rules, or Agreement obligations and will specify a corrective action to cure the deficiency. Typically, thirty (30) days will be provided for response to the corrective action plan contained in the Monitoring Report. Additional time may be granted, if warranted, but must be requested and recorded. If there were no issues or concerns, a statement shall be included within the Monitoring Report to specify that no corrective action is needed from the developer at this time.
4. Follow up / Close Out Letter: Contract Compliance staff will review all responses to the Monitoring Report and determine if any findings and concerns have been satisfactorily resolved. A close out letter will be provided to the developer documenting resolution of all findings and/or concerns. If no responses were received within the thirty (30) days, or extended allotment if requested, a “Monitoring Report – Final Notice” shall be issued, which shall stipulate that if corrective action is not taken and notice is not sent back to the Compliance Team within another thirty (30) days (or sixty [60] days from the initial Monitoring Report), then an enforcement fine shall be assessed.

➤ ***Onsite Monitoring of Records and Files:***

Onsite monitoring consists of inspection of files and other documents, such as financial records, reports, and policies, to review for program performance, management practices, financial practices, record-keeping, property management, and compliance with fair housing and equal opportunity law. Onsite monitoring consists of six steps:

1. Notice of Monitoring: A “Notice of Monitoring” is sent at least thirty (30) days prior to the monitoring visit and provides an overview of what areas of compliance and documents will be reviewed. The notice also informs the developer of who will be completing the monitoring, requests for the necessary sub-recipient staff to be present, and workspace required to complete the visit is made available. The Notice should include a phone number to call if the specified date / time is not feasible. Rescheduling visits is allowed, but must be completed within thirty (30) days of the initial date/time.
2. Entrance Conference: This onsite meeting is between Contract Compliance staff and developer management and staff. The goal of this meeting is to clearly state the purpose and scope of the visit, and to request that the developer gather the requested documents in-person.
3. Documentation and Data Acquisition: All relevant records will be reviewed in accordance with the rules and regulations of the project funding source. Developing this documentation is necessary to analyze information, create conclusions, and explain the basis for any findings

and/or concerns. Specific attention should be brought to the number of tenants within each income category, their monthly rent amounts (billed and received), and conformance with the Agreement.

4. Exit Conference: At the end of the monitoring visit, Contract Compliance Staff will meet with developer management and staff to:
 - a. Present tentative conclusions by Contract Compliance staff from the onsite monitoring visit;
 - b. Provide an opportunity for the developer to correct any misconceptions or misunderstandings, or provide any missing documentation;
 - c. Secure additional information or documentation from developer staff to clarify or support their position; and
 - d. Note any corrective action(s) already taken by the developer on any identified deficiencies
5. Monitoring Report: Contract Compliance staff will prepare a Monitoring Report (see Appendix C) within thirty (30) days of the visit or receipt of the requested follow-up documents and placed in the monitoring file. A copy will be forwarded to the developer with the closeout letter. The Monitoring Report will detail any issued findings and/or concerns. Findings will reference the applicable regulations and rules, and will specify a correction action to cure the deficiency. Typically, thirty (30) days will be provided for response to the corrective plan contained in the Monitoring Report. Additional time may be granted, if warranted. If no responses were received within the thirty (30) days, or extended allotment if requested, a "Monitoring Report – Final Notice" shall be issued, which shall stipulate that if corrective action is not taken and notice is not sent back to the Compliance Team within another thirty (30) days (or sixty [60] days from the initial Monitoring Report), then an enforcement fine shall be assessed. If there were no issues or concerns, a statement shall be included within the Monitoring Report to specify that no corrective action is needed from the developer at this time.
6. Follow-up / Close Out Letter: Within thirty (30) days of the on-site monitoring visit, or satisfactory resolution of any identified findings and/or concerns, Contract Compliance staff will prepare a close out letter to the developer documenting the final results of the annual monitoring.

➤ ***Physical Inspection of Units***

To maintain consistency with 24 CFR 92.504(d)(ii)(A) and the other City programs, inspections must occur once every three (3) years during the affordability period. Compliance staff maintains the inspection schedule, which shall be updated each time a new property is added to the program. The inspection schedule should maintain a listing of previous inspection dates, and

deadlines to complete future inspections. The Capital Improvements Manager completes the inspections, and shall inspect for compliance with housing standards and the City agreement.

1. Notice of Inspection: Similar to the on-site inspection of records and documents, a “Notice of Inspection” is sent at least thirty (30) days prior to the inspection visit and provides an overview of what areas of compliance and what sites will be reviewed. The notice also informs the developer of who will be completing the inspection and requests for the necessary developer staff to be present. The Notice should include a phone number to call if the specified date / time is not feasible. Rescheduling visits is allowed, but must be completed within thirty (30) days of the initial date/time.
2. Inspection Report: The Capital Improvements Project Manager will complete an inspection report within thirty (30) days of the site visit. A copy will be forwarded to the developer with the closeout letter, and will also be retained within the project file. The Inspection Report shall detail any issued findings and/or concerns. Findings will reference the applicable regulations and rules, and will specify a correction action to cure the deficiency. Typically, thirty (30) days will be provided for response to the corrective plan contained with the Inspection Report. Additional time may be granted, if warranted. Additional time requests must be documented in the project file. If no responses were received within the thirty (30) days, or extended allotment if requested, a “Inspection Report – Final Notice” shall be issued, which shall stipulate that if corrective action is not taken and notice is not sent back to the Compliance Team within another thirty (30) days (or sixty [60] days from the initial Monitoring Report), then an enforcement fine shall be assessed. If there were no issues or concerns, a statement shall be included within the Inspection Report to specify that no corrective action is needed from the developer at this time.
3. Follow-up / Close Out Letter: Within thirty (30) days of the on-site inspection visit, or satisfactory resolution of any identified findings and/or concerns, Contract Compliance staff will prepare a close out letter to the developer documenting the final results of the inspection and noting that another inspection may occur again within the next three (3) years.

➤ **Technical Assistance**

Technical assistance will be provided as needed to developers. All technical assistance should be documented in the project file, both “hard copy” and digital files. Types of assistance may include:

- X
- X

2.2 MONITORING AND INSPECTION SCOPE

The annual monitoring will assess the ongoing compliance and viability of all programs / projects by focusing on the following four (4) areas:

1. **Management**

- Property Management Plan: Policies and procedures of the property for leasing and property maintenance;
- Overall management: Including staffing, financing, reporting, and other general management tasks;
- Leasing: Tenant income certification, recertification; lease enforcement, rent collection and billing;
- Property Maintenance: Number and type of ongoing issues, resolution tracking, number of units off-line due to rehabilitation or significant repairs;
- Property Management Contract: third party manager (if applicable)

➤ **Performance**

- Review property owner's goals for occupancy, annual unit inspections by management (independent from the inspections performed by City staff every three [3] years);
- Vacancies: Number a frequency of vacancies;
- Number of units off-line for maintenance or rehabilitation (reason, length of time);
- Vacancy turnaround time (time between lease termination and new tenant);
- Review property's rent roll for compliance will income, rent limit, and utility allowance standards;
- Tenant files maintained orderly and contains all appropriate and required documentation;
- Tenant issues and/or complaints reported to management addressed by management;
- Review of past compliance monitoring reports;
- Lease: compliance with City requirements and prohibitions

➤ **Financial**

- Operating budget (anticipated revenue and operating expenses for coming year);
- Balance sheets (assets, liabilities, equity);
- Income statement (profit and loss statement);
- Annual audit

➤ **Physical**

- Annual "Certification for Occupancy"
- Inspection according to fair housing standards and City agreement

2.3 DOCUMENTS AND RECORDS RETENTION

Documents pertaining to the affordable housing program shall be retained in accordance with Florida records retention law.

City staff shall take precaution to only request, obtain, and retain documentation that is absolutely necessary to fulfil procedural and audit requirements. Documents containing tenant P.I.I. (personally identifiable information) should only be obtained if required.

Training regarding Florida Sunshine law and records retention practices shall be made available to all Housing and Community Development staff, and specific questions shall be routed to the City Attorney's office.

2.4 MONITORING TIMELINE

January

- Review previous year monitoring results, establish priorities and plan of action for current year monitoring plan, and review/amend timeline as necessary
- Review projects anticipating end of Affordability Period during coming year
- Mail out Desk Audit Notification letters
- Begin Risk Assessment process by evaluating existing standards and revising scoring tools as necessary and developing scoring sheet for each project

February

- Perform Risk Assessment
- Send letters of notice for any missing documents from "Required Documents Request"
- Conduct desk Audit reviews for contracts

March

- Complete Risk Assessment and scoring/ranking of all projects
- Begin coordination with Construction Project Manager for physical inspection of properties
- Establish On-Site Monitoring Schedule in coordination with project management
- Draft "On-Site Monitoring Letter"

April

- Begin On-Site Records Review/ Corrective Action Letters
- Physical Inspections as scheduled

May

- Continue On-Site Records Review/ Corrective Action Letters
- Physical Inspections as scheduled

June - August

- Continue On-Site Records Review/ Corrective Action Letters
- Physical Inspections as scheduled
- New project development as assigned

September

- Finalize all outstanding corrective actions submitted by projects and developers
- Finalizing all outstanding physical inspections
- All Close Out of Annual Monitoring letters should be mailed by end of the month
- New project development as assigned

October - December

- Review outcomes of Annual Monitoring Process
- Review the Contracts and Compliance Monitoring Guide for any appropriate revisions

2.5 MONITORING QUALITY REVIEW PROGRAM

In addition to the year-round monitoring activities in **Section 2.4**, the Housing and Community Development staff shall also perform an **annual** quality review. A formal quality review program increases transparency and public trust in City of Orlando's Inclusionary Housing program, and encourages a continuous improvement mindset, ultimately leading to greater efficiencies and program effectiveness. At a minimum, this the quality review program should include an annual evaluation performed by Housing and Community Development leadership. The annual evaluation should include both quantitative and qualitative measures, and should address program impact and fulfillment of objectives, compliance with program / monitoring timeline, review of logged issues / tenant complaints that were escalated to the Housing and Community Development staff, etc. Efforts shall be made to obtain feedback from developers, property managers / owners, and tenants.

SECTION THREE: PROGRAM GROWTH MANAGEMENT

3.1 FUTURE STATE PLANNING

The results of the annual quality review program (see Section **2.5**) shall assist with program future state planning. Should the program grow, and additional time and effort is required from City staff, alternative management approaches should be considered (i.e., the hiring of additional FTEs, heavier reliance on property owners / management, or outsourcing of the function to a third party). Efforts shall be made to quantify the hours expended in managing the program from year to year. Should the City consider developing a special revenue fund to absorb monitoring costs, the effort / hours expended data will assist in developing any future financial decisions.

SECTION FOUR: APPENDIX

Appendix A: Desk Audit Document Requests

1. Information of rental and occupancy of affordable housing units:
 - a. Current rent roll that identifies the units that qualify for Very Low Income and Low Income and any unrestricted units as applicable.
 - b. Tenant names
 - c. Family size
 - d. Income level and details
 - e. Building number
 - f. Unit number
 - g. Move-in date
 - h. Lease, including expiration date
 - i. Monthly rental amount
 - j. Number of bedrooms
2. Maintenance issues including record of resolution
3. Financial issues (most recent financial statements);
4. Neighborhood conditions which might affect the stability of the project the project;
5. Copy of up-to-date utility allowances, Income Limits, and Rent Limits currently in use
6. Copy of current lease agreement (blank);
7. Copy of Insurance (30-days prior to expiration of existing coverage)
8. Copy of most recent Audit (due within one hundred twenty (120) days of the end of agency's fiscal year
9. Copy of management agreement if applicable NOTE: This agreement should be on file and resubmitted only upon renewal or modification.
10. Annual Certification that each building and all affordable housing units in the property are suitable for occupancy.

Appendix B: Annual Risk Assessment Scoring Guide

FACTOR	SUBFACTOR	CRITERIA	POINTS	Weight	
Project Complexity	Number of units	100+	5	10	
		26-99	4		
		5-25	3		
		2-4	2		
		1	1		
New Development		Yes	5	10	
		No	0		
Level of Funding	Amount of Funding	\$1 million+	5	10	
		\$500,000 - \$999,999	4		
		\$100,000 - \$499,999	3		
		\$30,000 - \$99,999	2		
		Under \$30,000	1		
	Multiple Funding Sources		Yes	5	15
			No	0	
	Total Project Cost		\$10 million+	5	15
			5-10 million	4	
			1-5 million	3	
500 – 1			2		
Under 500			1		
Recent Compliance History	Monitored Last Year	Yes	0	10	
		No	5		
	Recurring Findings	Yes	10	20	
		No	0		
Outstanding Issues	Yes	10	20		
	No	0			
Letters of Complaint from beneficiaries or other funders		Yes	5	5	
		No	0		
Recipient Capacity	Staff Experience	No exp	5	5	
		Similar exp	3		
		Very exp	1		
	Lack of Progress		Yes	5	10
			No	0	
Quality of Reporting and Documentation	Status of Report Submissions	Not submitted	5	20 15	
		Untimely with errors	4		
		Untimely without errors	3		
		Timely with errors	2		
		Timely without errors	1		
Audit Compliance	Financial Audit Findings or No Audit	Yes	5	5	
		No	0		
	Failure to Comply with Agreement		Yes	5	10
			No	0	

Monitoring reviews are categorized as one of the following three (3) risk areas:

- HIGH RISK (665 to 1000 points) (100% of group will be monitored)**
High risk denotes an annual desk audit review as well as comprehensive on-site monitoring review, as well as one (1) technical assistance visit.
- MODERATE RISK (335 to 664 points) (50% of group will be monitored)**
Moderate risk denotes an annual desk audit review, as well as a limited on-site monitoring review and technical assistance visit, as needed.
- LOW RISK (0 to 334 points) (25% of group will be monitored)**
Low risk denotes an annual desk audit review and technical assistance as needed

Appendix C: Annual Monitoring Report

Project Name: _____
 Reviewer: _____ Date: _____

files reviewed

	<i>SOURCE</i>			
PROJECT FUNDING	Units in Project	_____	_____	_____
	# Funded Units	_____	_____	_____
	Affordability End	_____	_____	_____

REQUIRED Document	Received	Notes/Comments
Annual Report	_____	_____
Affirmative Marketing Plan	_____	_____
Tenant Selection Policy	_____	_____
Checklist 6D or Rent Roll	_____	_____
Lease	_____	_____
Current Rent Rate	_____	_____
Current Income Limits	_____	_____
Current Utility Allowance	_____	_____
Management Agreement (or N/A)	_____	_____
Occupancy Certification	_____	_____
Annual Audit	_____	_____
Financial Statement	_____	_____
Insurance	_____	_____

Project Compliance	Yes/No	Comments
Program rules provided Clearly?	_____	_____
Process for "Floating Units"?	_____	_____
Selection Policy non-discriminatory?	_____	_____
Tenant income properly calculated?	_____	_____
Copy of Lease in each file?	_____	_____
Frequency of property inspections?	_____	_____
Are leases free of prohibited terms?	_____	_____
Copy of "denial letter"?	_____	_____
Copy of "Termination Notification"?	_____	_____
Is there a "waiting List" policy?	_____	_____
Are complaints documented?	_____	_____
Maintenance request documented?	_____	_____

Document Summary

Provide a brief narrative of the desk audit review and additional documents and files reviewed on site as applicable.

Appendix C: Annual Monitoring Report – page 2

FINDINGS: A deficiency in program performance based on a statutory, regulatory or program requirement for which sanctions or other corrective actions are authorized. The goal is to assist the project in improving performance and should include the following:

FINDING #1	(Enter information or state "No FINDINGS")
CONDITION	<i>(What was wrong, or nature of problem)</i>
CRITERIA	<i>(Regulatory or statutory requirements)</i>
CAUSE	<i>(Why the condition occurred)</i>
EFFECT	<i>(What happened as result of condition)</i>
CORRECTIVE ACTION	<i>(Specific actions required and time frame for response)</i>

ADD OTHER FINDINGS AS NECESSARY

Concern: A deficiency in program performance which is not based on a statutory, regulatory or other program requirement. Sanctions or corrective actions are not authorized for concerns. The reviewer may *recommend* (but cannot require) actions to address concerns and/or provide technical assistance.

CONCERN #1	(Enter information or state "No CONCERN")
CONDITION	<i>(What was wrong, or nature of problem)</i>
RECOMMENDATION	<i>(Recommendation to improve performance)</i>

ADD OTHER CONCERNS AS NECESSARY

Narrative summary of visit to include staff present and items discussed during exit interview as applicable.