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OFFICE OF THE CITY AUDITOR COMMENDS SAN DIEGO HOUSING COMMISSION FOR ADDRESSING COSTS IN AFFORDABLE HOUSING DEVELOPMENTS

*City Council Audit Committee Chairman clarifies that
SDHC loan collections are in compliance*

San Diego, CA—The Office of the City Auditor (City Auditor) commended the San Diego Housing Commission (SDHC) for addressing costs in its affordable housing development partnerships during the San Diego City Council Audit Committee (Audit Committee) meeting on Wednesday, September 21. ([Watch the video.](#))

The Audit Committee voted 4-0 to accept the Performance Audit report of SDHC and forward it to the City Council.

“There really is no definition of cost-effectiveness. We looked for other city benchmarks and didn’t find much. They’ve really done one of the better jobs of trying to come up with something to show cost-effectiveness. It just needs further development,” said Chris Kime, Supervising Senior Performance Auditor for the City Auditor, which devoted a year to the SDHC audit.

Kime, presenting with two additional City Auditor’s staff members, cited SDHC’s inclusion of factors such as project size, unit size, and local government requirements, as well as the costs associated with them, in reports about proposed developments.

In addition, the Audit Committee also addressed SDHC’s collection of payments from its loans to multifamily affordable rental housing developers, which was discussed in the City Auditor’s report.

Committee Member Alan Spencer asked if there is any way to recoup interest payments that have not been made when they should have been. Last week, *The San Diego Union-Tribune* published an article on September 15, 2016, that stated incorrectly that SDHC “failed to collect millions of dollars from builders who borrow public money to develop low-income apartments.”

SDHC Executive Vice President & Chief Strategy Officer Debbie Ruane clarified that there are no interest payments due on the loans cited in the City Auditor’s report, and *The San Diego Union-Tribune* article was factually incorrect. City Councilmember Scott Sherman, the Chair of the Audit Committee, added that he “was hoping” Ruane would address the newspaper article.

On the date the article was published, [SDHC President & CEO Richard C. Gentry](#) called for *The San Diego Union-Tribune* to publish a correction to the story that misrepresented the recommendations of the performance audit of SDHC by the City Auditor.

The City Auditor’s report did not state that SDHC “failed” to collect funds. SDHC continues to collect all of the loan payments that are due under the terms of its contracts with affordable rental housing developers.

“Had the reporter contacted SDHC, I would have explained to him that, in fact, no payments were required to be made on these loans, based on the terms of the contracts with the affordable housing developers, which vary among developments,” said SDHC President & CEO Gentry.

During the Audit Committee meeting, City Councilmember Sherman agreed with SDHC’s statement on the loan payment collections: “At the end of the day, it’s basically, collecting it now or collecting it at maturity, or whatever event sparks it. But it’s not like we’re leaving money on the table. It’s just on a different table until we decide to grab it.”

The City Auditor’s report cited [10](#) of the highest outstanding loans from SDHC to developers. In seven of those 10 loans, there was no cash available to pay the interest that accrued in the applicable year. The interest is still due to SDHC. SDHC hasn’t forgiven the interest. The accrued but unpaid interest has not been lost. In any year in which cash flow exists in the project, it will be paid to SDHC.

The City Auditor’s report acknowledged that “If residual receipts are zero or negative, no payment is required but interest accrues and developers can make a balloon payment at loan maturity.”

SDHC did fulfill its responsibilities with all 10 loans, each of which is in compliance with the terms of its financial obligations to SDHC.

In addition, developers regularly employ certified public accountants to submit their cash flow calculations, and SDHC staff currently reviews developers’ documents regarding the calculations.

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