CALIFORNIA STATE AUDITOR
Elaine M. Howle, State Auditor
FACT SHEET

October 23, 2012 **Report No. 2012-037**

The California State Auditor released the following report today:

Department of Housing and Community Development

Awards of Housing Bond Funds Are Appropriate, but Cash Balances Are High and Monitoring Continues to Need Improvement

BACKGROUND

In an effort to aid low- to moderate-income and homeless populations in securing housing and shelter, the Legislature proposed and voters approved in November 2002 and 2006, nearly $5 billion in housing bonds—the Housing and Emergency Shelter Trust Fund Act bonds. These bond funds provide for the development of affordable rental housing, emergency housing shelters, and down-payment assistance to low- to moderate-income home buyers. The Department of Housing and Community Development (HCD) has final responsibility for the housing bond funds and directly administers the majority of the housing bond programs. The California Housing Finance Agency (CalHFA) also manages some of the programs funded by the housing bonds. We previously conducted audits of these bond funds in 2007 and 2009.

KEY FINDINGS

During our most recent review of these housing bond funds, we noted the following:

- HCD and CalHFA had awarded nearly all of the $1.9 billion November 2002 housing bond funds available for recipients. Further, HCD and CalHFA promptly awarded between 75 percent and 100 percent of the funds available to recipients for 10 of the 13 programs funded by the November 2006 bond funds.
  - ✓ CalHFA has faced difficulty in awarding funds for the California Homebuyer’s Downpayment Assistance Program—only 38 percent of the funds available for this program had been awarded.
  - ✓ HCD has faced obstacles in awarding funds through several of its programs and had only awarded 5 percent of the funds available for recipients of Housing-Related Parks projects and just 29 percent of the funds under another program within the Affordable Housing Innovation Fund.
- Although HCD has not exceeded statutory limits on administrative costs for its programs involving housing bond funds, it anticipates exceeding those limits on certain programs, which would reduce the total funds available for grants and loans.
- HCD and the Department of Finance (Finance) may have contributed to the State’s financial strain by recommending the State Treasurer’s Office (state treasurer) sell bonds before the proceeds were needed.
  - ✓ HCD had the fifth largest balance (or nearly $800 million) of unspent general obligation bonds in the State as of June 2012 and was paying, on average, an estimated $49 million in interest annually on these unspent bond proceeds.
  - ✓ In fiscal year 2009–10, HCD spent only 44 percent of its projected cash needs and Finance recommended that the state treasurer sell more than HCD projected it needed for fiscal year 2010–11.
- Although CalHFA has adequate monitoring processes, HCD did not always apply appropriate monitoring procedures during the disbursement phase—we identified errors in two of the seven housing bond programs we reviewed. Further, one program has made more than 450 awards, yet staff perform only one site visit per month.

KEY RECOMMENDATIONS

We made several recommendations to HCD including that it continue to reevaluate its administrative support costs projection and continue to monitor its future costs to ensure it does not exceed statutory limits. We also recommended it continue its efforts to monitor award recipients of housing bond funds by centrally tracking and reviewing advances to recipients; that it finalize monitoring procedures and ensure staff implement them; and that it adopt a risk-based, on-site monitoring approach for certain programs. Further, we recommended that Finance and HCD demonstrate the appropriateness of bond sale amounts and the circumstances when they believe the State needs to issue bonds in excess of cash needs.