

**MULTIFAMILY TAX EXEMPTION PROGRAM:**

**STATUS OF OH RESPONSE TO OFFICE OF CITY AUDITOR’S RECOMMENDATIONS AND POLICY QUESTIONS**

**Yellow shading designates administrative recommendations (10).**

#	Verbatim Audit Recommendation	Summary	Recommendation Category	OH Position / Status of Response current as of Feb 13, 2013
1 (294)	We recommend that the City examine the relevance, attainability, and measurability of each ordinance goal governing the MFTE program and when necessary, that it modify the goals to ensure they are measurable and achievable and have performance targets and timeframes. Applicable ordinance requirements and OH Director’s Rules should be linked to achieving specific goals. OH should work to achieve ordinance goals, as stated in its MFTE 2011 Status Report to the City Council, rather than the three policy goals stated in the MFTE 2010 Status Report, which may conflict with the ordinance goals.	Review 9 goals, assess for measurability.	Policy	Pending
2 (295)	The City should consider whether stimulating construction is an appropriate MFTE program goal, which can be measured and assessed for compliance.	Appropriate to use MFTE to spur development? How to be measured?	Policy	Pending
3 (296)	The City should consider whether it wants to limit the number of Residential Targeted Areas where MFTE housing can be built to areas that have made little progress in meeting their residential growth targets and could benefit from housing, economic development and revitalization. For example, the City could limit the MFTE program to Residential Target Areas that have achieved 35 percent or less of their residential growth target.	Fewer RTAs?	Policy	Pending
4 (297)	If the City wishes to ensure that MFTE housing is provided to low and moderate income households only, we recommend that it consider requiring tenants of MFTE affordable units to re-qualify for their housing either annually or every two years. If a tenant no longer qualifies, the ordinance could require that the property owner provide another unit to a qualifying tenant at the required rental rate.	Income-requalify tenants every two years.	Policy	Pending
5 (298)	We recommend that the City improve, clarify, and document tenant eligibility requirements and income verification processes to ensure that the program is meeting its goal to serve Seattle’s workers and low to moderate income households who have difficulty finding affordable housing within the City as specified by Area Median Income (AMI) requirements.	Clarify and document tenant eligibility and income verification requirements.	<b>Administrative</b>	Concur. This work is underway; we anticipate confirming tenant eligibility requirements and income verification processes by late March. We propose to hold off on memorializing the requirements via Director’s Rule until we have Council guidance on related policy questions (e.g., student eligibility) that could alter Code.

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6 (299)	OH should conduct audits of the income verification documents submitted to the properties by tenants to determine if the annual property certification reports are accurate. Alternatively, OH could collect income verification documents from the property managers in addition to the annual certification reports so that it could verify the accuracy of the tenant income information contained in the certification reports.	OH to conduct on-site audits of income documentation.	Administrative	Concur. OH reviewed files for 88 units at 10 properties during Jan 2013. Findings presented to Council on Feb 13, 2013. Corrective action pending.
7 (300)	OH should clarify its Director's Rule regarding verification of tenant income to specify what documentation is expected from the prospective tenant and the circumstances in which a residential screening report provided by property management is acceptable.	Revise Director's Rule regarding verification of tenant income to be more specific.	Administrative	Concur. See rec 5 (298).
8 (301)	OH should establish and document a structured process to request corrective action from properties that do not meet program requirements (e.g., submitting annual property certification reports, providing the appropriate number of affordable units to the targeted population, verifying tenant income reported by property management on annual property certification reports) or impose various types of penalties (including withdrawal of the MFTE tax exemption).	Document corrective action process.	Administrative	Concur. Documentation of the corrective action process (as part of a unified policies and procedures manual) is pending. <ul style="list-style-type: none"> <li>• Re annual property certification reports, all 2012 reports received.</li> <li>• Re unit counts, rents, incomes: Corrective action letters resulting from site visits currently in draft.</li> </ul>
9 (302)	The City should eliminate requirements that do not serve to advance the program's goals, and simplify others to make program administration and oversight less cumbersome. For example, the requirement that properties submit a tenant application form for affordable units does not appear to serve any purpose and some properties met this requirement by submitting the tenant application for market rate units. Another example is requiring different sized units to qualify under different affordability levels. Rather than requiring studios to be affordable at or below 65% of Area Median Income (AMI), one bedroom units at or below 75% of AMI, and 2 or more bedrooms at or below 85% of AMI, the City should consider using the same affordability level to facilitate improved compliance, reporting and oversight of this requirement.	Eliminate/simplify requirements that do not advance the program's goals.	Policy	Pending

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10 (303)	OH should increase the use of automation in the application, final certificate of tax exemption, and MFTE annual property certification report processes. For example, MFTE applications and applications for final certificates of tax exemption could be submitted electronically, so applications are deemed completed only when all the required information and documentation is provided. Electronic submission would also provide the actual submittal/completion date, which could be compared with the issuance date of the building permit based on DPD electronic information rather than relying on the subjective interpretation of OH staff.	Automate interface with property owners: application, cert of tax exemption, and annual reports.	<b>Administrative</b>	Concur, but implementation is deferred as other process improvements rank higher right now.
11 (304)	OH should clarify and update its status reports to the City Council, and report on actual data, if it is available, rather than estimates. This should include providing actual tax exemption impacts from the King County Department of Assessments, and the actual number of qualifying tenants living in affordable units.	Status reports to Council should present actual tax exemption impacts and number of qualifying tenants living in each unit, rather than estimates.	<b>Administrative</b>	Concur. We expect to request Council approval for changes to report content and format in anticipation of the 2012 year-end report to Council (due March, 2013).
12 (305)	OH should include in its status reports to the City Council information on the number of affordable units that remain vacant in each MFTE property for six months or more during the reporting year.	Status reports to Council should indicate units vacant >6 months.	<b>Administrative</b>	Concur; however, as a practical matter we have encountered very few long-term vacancies.
13 (306)	OH should standardize and automate the annual property certification report form used by property managers to report compliance with program rules regarding tenants, to facilitate the accurate, timely completion of the forms. Automating annual property certification reports with information provided by OH on income and rent maximums would improve their accuracy. Automated reports using a spreadsheet would facilitate comparing maximum rent and income levels to actual rent and income levels.	Automate annual property report form.	<b>Administrative</b>	Concur, but implementation is deferred as other process improvements rank higher right now.
14 (307)	OH should improve program oversight by conducting independent audits or reviews of the MFTE application and final certificate of tax exemption processes to determine if they were in compliance with program rules.	Audit MFTE application and final certificate processes.	<b>Administrative</b>	Do not concur. Application and final certificate approvals already go through a three-step review process (program coordinator, policy manager, and OH director). We do not believe that the benefit of the extra step would exceed the cost of implementation, so long as subsequent annual reports and site visits demonstrate ongoing compliance.
15 (308)	The City should consider including language in Seattle Municipal Code Chapter 5.73 requiring OH to do periodic audits of the tenant income eligibility documents.	Change code to require site monitoring.	Policy	Pending. Note that per rec 6 (299) above, OH has independently taken this step.

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16 (309)	The City should modify its agreements with MFTE properties to extend the time that the properties are required to retain income eligibility documents from one year to six years from termination of the tenants' rental agreements. This will ensure that the agreements with MFTE properties are consistent with State law and the City's document retention schedule and document compliance with the City's MFTE program for six years rather than one year.	Require property owners to retain income eligibility docs for 6 years following a lease termination.	Policy	Pending
17 (310)	The City should consider charging an administrative fee to MFTE property owners to cover the cost of automating reports and improving program oversight.	Charge an admin fee (annual?) to cover cost of oversight.	Policy	Pending
18 (311)	As part of the MFTE annual property certification reporting process, property managers should provide the square footage and rents of their properties' affordable and market rate units. Using this information, OH should evaluate properties for compliance with the "substantially proportional to the configuration" element of the ordinance by ensuring that affordable units are substantially the same size as market rate units and that tenants of MFTE affordable units are not being charged more on a square footage basis than market rate units. Furthermore, the "substantially proportional to the mix and configuration" requirement should be clearly defined by ordinance.	Apply "substantially proportionate" requirement to square footage, not just unit type, to ensure that MFTE does not get charged more than market per sq ft.	Policy	Pending
19 (312)	OH should work with the King County Department of Assessments to ensure the correct properties in Seattle are receiving the correct amount of MFTE tax exemptions.	Work with KC to review tax exemption amounts.	<b>Administrative</b>	Concur.
POL	Auditor's policy question (App IV): should the OH Director's Rule be modified ... by assuming a more realistic tenant per bedroom occupancy rate?	Change presumed occupancy	Policy	Based on current data re occupancy rates by unit size, OH proposes to change occupancy assumptions via Director's Rule.
POL	Auditor's policy question (App IV): Should tenant assets be taken in to account in determining eligibility for MFTE housing?	Factor assets into income qualification?	Policy	Pending
POL	Auditor's policy question (App IV): should dependent students be considered to live in MFTE affordable units when parents' income exceeds program income requirements?	Reassess dependent students	Policy	Pending
POL	Auditor's policy question (App IV): should a cosigner's income be taken into account in determining eligibility for MFTE housing?	Income-qualify co-signers	Policy	Pending