

**OFFICE OF THE CITY CONTROLLER**



**HOUSTON HOUSING FINANCE CORPORATION  
REVIEW OF JUNE 30, 2000  
FOURTH WARD LAND SUMMARY**

**Sylvia R. Garcia, City Controller**

**Judy Gray Johnson, Chief Deputy City Controller**

**Steve Schoonover, City Auditor**



OFFICE OF THE CITY CONTROLLER  
CITY OF HOUSTON  
TEXAS

October 29, 2001

The Honorable Lee P. Brown, Mayor  
City of Houston, Texas

SUBJECT: Houston Housing Finance Corporation  
Review of June 30, 2000 Fourth Ward Land Summary (Report No. 01-07)

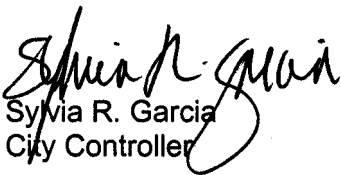
Dear Mayor Brown:

The City Controller's Office Audit Division has completed a review of Houston Housing Finance Corporation's (HHFC) June 30, 2000 Fourth Ward Land Summary (Summary) that was presented to a July 24, 2000 City Council Committee (Committee) meeting by the Director of the Housing & Community Development Department. The objective of this review was to determine whether the Summary presented to the Committee agreed with the City Controller Office's Audit Division's understanding of the Fourth Ward Development Agreement as Amended.

The report, attached for your review, concludes that approximately \$209,000 of the City's \$3.4 million grant remains unallocated and should be returned to the City if HHFC fails to cause 55 additional affordable homesites to be developed. The auditors further concluded that anticipated profits are being used to subsidize low-income rental units rather than affordable home ownership.

We appreciate the cooperation extended to our auditors by HHFC personnel during the course of the work.

Respectfully submitted,

  
Sylvia R. Garcia  
City Controller

xc: City Council Members  
Albert Haines, Chief Administrative Officer  
Gerard Tollett, Chief of Staff, Mayor's Office  
Margie Bingham, Director, Housing & Community Development Department  
Philip Scheps, Director, Finance & Administration Department  
J. Art Morales, President, Houston Housing Finance Corporation

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## **EXECUTIVE SUMMARY**

- We believe the Fourth Ward Development Agreement as Amended requires a minimum of 255 homesites to be developed. We also believe that approximately \$209,000 of the City's \$3.4 million grant remains unallocated and should be returned to the City if Houston Housing Finance Corporation (HHFC) fails to cause 55 additional affordable homesites to be developed and sold to qualified Homebuyers.
- Anticipated profits, through June 30, 2000, total \$1.7. HHFC has used eighty-three percent of the anticipated profits, totaling \$1.4 million, to subsidize Fourth Ward low-income rental units being developed by the Housing Authority City of Houston rather than subsidizing affordable home ownership.

## **SCOPE AND PURPOSE**

We have completed a review of Houston Housing Finance Corporation's/Hou-Tex's (HHFC) June 30, 2000 Fourth Ward Land Summary (the Summary) that was presented to a July 24, 2000 City Council Committee (the Committee) meeting by the Director of the City's Housing & Community Development Department. The purpose of our review was to determine whether the Summary (see Attachment A) presented to the Committee agreed with the City Controller Office's Audit Division's understanding of the Fourth Ward Development Agreement as Amended (the Agreement).

A review is substantially less in scope than an audit performed in accordance with generally accepted governmental auditing standards, and it consists principally of inquiries of personnel and analytical procedures applied to financial data.

This review consisted of developing an understanding of the Agreement and the project's status at June 30, 2000 and then analyzing the Summary. We developed our understanding by reviewing the Agreement and its associated clarification letter, discussions with HHFC personnel and reviewing the videotape of the presentation to the Committee. We then revised the Summary to reflect and document our understanding of the Agreement (see Attachment B).

According to HHFC personnel, no substantive changes other than option agreement draw downs by Community Development Corporations and closings of market properties have occurred since June 30, 2000. These events occurred at the prices and square footages used in the Summary.

## **CONCLUSION**

Based on the results of our review, we conclude that approximately \$209,000 of the City's \$3.4 million grant remains unallocated and should be returned to the City if HHFC fails to cause 55 additional affordable homesites to be developed. We further conclude that anticipated profits are being used to subsidize low-income rental units rather than affordable home ownership.

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Kenneth Teer  
Audit Manager

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Steve Schoonover  
City Auditor

## Introduction

We believe the Fourth Ward Development Agreement as Amended (the Agreement) indicates that the City's \$3,420,112 grant to Houston Renaissance, Inc. (HRI) was to be used to acquire property within the boundaries of the Fourth Ward. The property was then to be developed as affordable single-family homesites and sold to qualified Homebuyers. A minimum of 255 Homebuyers were to benefit by purchasing the assisted properties at a reduced price.

Houston Housing Finance Corporation (HHFC) financed the Fourth Ward properties acquired by HRI. When HRI failed to cause the planned redevelopment of the Fourth Ward to occur, HHFC through its subsidiary Hou-Tex assumed HRI's position. HHFC has made substantial progress in causing the redevelopment of the Fourth Ward.

## Observations

- According to HHFC's 6/30/00 Land Summary, the entire grant has been committed to affordable housing through options/contracts with Community Development Corporations (CDC) and Housing Authority City of Houston (HACH). The CDC's will receive an \$8/sq. ft. subsidy and the balance of the grant is committed to HACH. The CDC's will cause 158 and HACH will cause 42 homesites to be developed and sold to qualified Homebuyers. This is a total of 200 affordable homesites.

We believe the Agreement requires a minimum of 255 homesites to be developed. We also believe that approximately \$209,000 of the grant remains unallocated and should be returned to the City if HHFC fails to cause 55 additional affordable homesites to be developed and sold to qualified Homebuyers.

- HRI used the City grant funds to payoff forty-nine percent of HRI's loans from HHFC. We believe Section 7.6 of the Agreement (which reads "Participant will invest back into the Project any profit which would otherwise accrue to the Participant in connection with this Agreement or the acquisition or development of any Property assisted hereunder") contemplates profits.

Anticipated profits, through June 30, 2000, total \$1,733,380. HHFC has used eighty-three percent of the anticipated profits, totaling \$1,431,696, to subsidize Fourth Ward low-income rental units being developed by the HACH rather than subsidizing affordable home ownership.

- HHFC anticipates breaking even on the Fourth Ward. Breaking even could be affected by many variables. However, since the basis of all of the options/contracts is a land cost of \$11.00 per sq. ft, we believe land cost to be the most significant financial variable. To the extent land costs are less or more than \$11.00 HHFC will either make a profit or a loss, respectively. Based on HHFC's 6/30/00 Land Summary, each ten-cent cost variance will result in a profit/loss of \$115,229 to HHFC. Further, if the variance results in a profit, each ten-cent cost variance will result in HHFC making \$250 (\$.10 x 2500 sq. ft.) profit from each affordable home purchaser.

**Attachment A**

**JUNE 30, 2000 FOURTH WARD LAND SUMMARY AS PRESENTED TO CITY  
COUNCIL COMMITTEE**

## FOURTH WARD

### PROGRESS & STATUS

- Aggregate land purchased - 1,224,792 square feet
- Over \$11.6 mm of funding, including \$3.4 mm grant
- Target area boundaries - Taft, Heiner, W. Gray, W. Dallas
- Received \$3,420,112 City grant for affordable homeownership
- Houston Housing Finance Corporation/Hou-Tex took over all the land of Houston Renaissance in April 1999
- Negotiated option contracts with 4 CDC's to sell sufficient land to build 150+ affordable single-family houses (396,000+ sq. ft.). (See attachments).
- Two closings with CDC's to occur this week for constructions loans
- Negotiated an earnest money contract with HACH to provide sufficient land to produce historic rental rehab units (116,174 sq. ft.); 100 low-income multi-family units (122,442 sq. ft.); and 34 homeownership units (85,000 sq. ft.)
- Conducted offering to the public for all market priced land in August 1999 and again in February 2000.
- Negotiated market price earnest money contracts:
  - Best Western                    10,000 sq. ft.
  - Camden Properties            142,680 sq. ft.
  - Randall Davis                 23,457 sq. ft.
  - Larry Davis                    158,500 sq. ft.
  - Robert Rose                    12,039 sq. ft.
- December 1999 - Passage of Street Ordinance which clears title for all Fourth Ward Properties.
- Official Groundbreaking for affordable homes will be July 31<sup>st</sup> at 10:00 am at Saulnier @ Valentine.



HOUSTON HOUSING FINANCE CORPORATION  
REVIEW OF JUNE 30, 2000 FOURTH WARD LAND SUMMARY

06/30/00

HOUSTON HOUSING FINANCE CORPORATION/ HOU-TEX REDEV

4TH WARD LAND SUMMARY

Base Land Position	Sq Ft	Net Price per Sq Ft	Subsidy per Sq Ft	City Subsidy	HHFC/ Hou Tex Subsidy	# Afford Homesites	Market Income Contribution
	1,224,792						
<b>Less Closed Sales:</b>							
HACH - Historic	(116,174)	\$5.00	\$6.00	-	\$697,044	-	
HACH - Multi Fam	(122,442)	\$5.00	\$6.00	-	\$734,652	-	
Best Western	(10,000)	\$16.00	-	-	-	-	\$50,000
Camden	(142,690)	\$16.00	-	-	-	-	\$713,400
Sub-total	(391,296)				\$1,431,696		
Net Land	833,496						\$763,400
<b>Less Options/Contracts:</b>							
Antioch	(153,500)	\$3.00	\$8.00	\$1,228,000	-	61	
FWCC	(100,000)	\$3.00	\$8.00	\$800,000	-	40	
Miracle of Hope	(82,500)	\$3.00	\$8.00	\$660,000	-	33	
Uplift 4th Ward	(60,000)	\$3.00	\$8.00	\$480,000	-	24	
HACH - Homeownership	(85,000)	\$5.00	\$6.00	\$510,000	-	34	
Randall Davis	(23,457)	\$16.00	-	-	-	-	\$117,285
Sub-total	(504,457)			\$3,678,000	\$0	192	\$117,285
Net Land	329,039						
<b>Less Pending Options/Contracts:</b>							
HACH - Homeownership	(20,000)	\$5.00	\$6.00	\$120,000	-	8	
Larry Davis	(158,500)	\$16.00	-	-	-	-	\$792,500
Robert Rose	(12,039)	\$16.00	-	-	-	-	\$60,195
HISD	(72,500)	N/A	\$0.00	-	-	-	
Sub-total	(263,039)		\$6.00	\$3,798,000	\$1,431,696	8	\$852,695
Net Available Land	66,000					200	
							Total Income Contribution \$1,733,380
							City Grant \$3,420,112
							Total Grant & Inc Contrib \$5,153,492
<b>HOUSING</b>	<b>Total Subsidy Provided</b>	<b>\$5,229,696</b>					

**SUMMARY OF FOURTH WARD AFFORDABILITY GOALS**

<b>Entity</b>	<b>Unit Goal</b>	<b>Unit Type</b>	<b>AMI Income Target</b>
Houston Redev Authority	150	Homeownership	65-80%
Housing Authority of City of Houston	105	Homeownership	65-80%
	105	Homeownership	50-65%
	40	Homeownership	50%-
	<u>250</u>		
<b>Sub-Total</b>	<b>400</b>	<b>Homeownership</b>	
Housing Authority of City of Houston	50	Historic Rental	0-60%
"	100	Victory Project	0-60%
<b>Sub-Total</b>	<b>150</b>	<b>Rental Units</b>	
<hr/>			
<b>Grand Total</b>	<b>550</b>	<b>All Affordable Units</b>	

The above goals are in addition to \_\_\_\_\_ onsite units built or renovated at Allen Parkway Village.

Affordm2

**Attachment B**

**AUDIT DIVISION'S POSITION REGARDING THE JUNE 30, 2000  
FOURTH WARD LAND SUMMARY**

HOUSTON HOUSING FINANCE CORPORATION  
 REVIEW OF JUNE 30, 2000 FOURTH WARD LAND SUMMARY

4TH WARD LAND SUMMARY 6/30/00

AUDIT DIVISION'S POSITION

	FWDA Lots	Sq Ft	Net Price per Sq Ft	Subsidy per Sq Ft *		City Subsidy	HHFC/Hou Tex Subsidy	# Afford Homesites	Market Income Contribution	Effect of \$0.10 Square Foot Land Cost Variance
				City	HHFC					
<b>Base Land Position</b>	<b>255</b>	<b>1,224,792</b>								
<b>Less Closed Sales:</b>										
HACH - Historic		(116,174)	\$5.00	-	\$6.000	-	\$697,044			\$11,617
HACH - Multi Fam		(122,442)	\$5.00	-	\$6.000	-	\$734,652			\$12,244
Best Western		(10,000)	\$16.00	-	-	-	-	\$50,000		\$1,000
Camden		(142,680)	\$16.00	-	-	-	-	\$713,400		\$14,268
Sub-total		(391,296)					\$1,431,696		\$763,400	\$39,130
Net Lots/Land	<b>255</b>	<b>833,496</b>								
<b>Less Options/Contracts:</b>										
Antioch	(61)	(153,500)	\$3.00	\$7.706	\$0.294	\$1,182,871	\$45,129	61		\$15,350
FWCC	(40)	(100,000)	\$3.00	\$7.706	\$0.294	\$770,600	\$29,400	40		\$10,000
Miracle of Hope	(33)	(82,500)	\$3.00	\$7.706	\$0.294	\$635,745	\$24,255	33		\$8,250
Uplift 4th Ward	(24)	(60,000)	\$3.00	\$7.706	\$0.294	\$462,360	\$17,640	24		\$6,000
HACH - Homeownership	(34)	(85,000)	\$5.00	\$1.519	\$4.481	\$129,115	\$380,885	34		\$8,500
Randall Davis		(23,457)	\$16.00	-	-	-	-		\$117,285	\$2,346
Sub-total	(192)	(504,457)				\$3,180,691	\$497,309	192	\$117,285	\$50,446
Net Lots/Land	<b>63</b>	<b>329,039</b>								
<b>Less Pending Options/Contracts:</b>										
HACH - Homeownership	(8)	(20,000)	\$5.00	\$1.519	\$4.481	\$30,380	\$89,620	8		\$2,000
Larry Davis	(40)	(158,000)	\$16.00	-	-	-	-		\$792,500	\$15,850
Robert Rose		(12,039)	\$16.00	-	-	-	-		\$60,195	\$1,204
Sub-total	(8)	(190,539)				\$30,380	\$89,620	8	\$852,695	\$19,054
Sub-total	<b>55</b>	<b>138,500</b>				<b>\$3,211,071</b>	<b>\$2,018,625</b>			
<b>Total Income Contribution</b>									<b>\$1,733,380</b>	<b>\$108,629</b>
<b>City Grant</b>									<b>\$3,420,112</b>	<b>\$108,629</b>
<b>Total Grant &amp; Income Contribution</b>									<b>\$5,153,492</b>	<b>\$108,629</b>
<b>Less Total Subsidy Provided</b>									<b>\$ 5,229,696</b>	<b>\$108,629</b>
Sub-total	<b>55</b>								<b>(\$76,204)</b>	<b>\$108,629</b>
<b>Gain On Perry Land Swap</b>									<b>\$230,000</b>	<b>\$13,850</b>
<b>Uncommitted Land &amp; Land Reserved for HISD</b>		<b>138,500</b>							<b>\$0</b>	<b>\$13,850</b>
<b>Potential Subsidy or Refund to City</b>	<b>55</b>	<b>137,500</b>							<b>(\$209,041)</b>	
			\$1.519	\$0.000		\$209,041	\$0	55		
<b>Profit (Loss) from Current Sales/Commitments</b>						<b>\$3,420,112</b>	<b>\$2,018,625</b>	<b>255</b>	<b>(\$55,245)</b>	<b>\$122,479</b>

HHFC should have funded the grant according to the FWDA, (see attached allocation).

Forty-nine percent of the land was re-financed by City Grant funds. Audit believes the FWDA contemplated profits, and such profits should have been allocated to affordable home ownership.

HHFC has used 83 percent of the anticipated profits to subsidize HACH rental property. FWDA profits should have been used for affordable home ownership.

Represents unfunded balance of City Grant. If remaining 55 lots are not funded, this amount should be returned to the City.

Represents net cash to HHFC from the Perry land swap.

Losses, if any, are anticipated to be covered by market sales of remaining properties.

Each ten-cent cost variance will result in a profit/loss of \$122,479 to HHFC.

\* HHFC based subsidy on land cost of \$11.00 Sq.Ft. - Sales Price

Note: Shading indicates changes the Audit Division made to the original June 30, 2000 Fourth Ward Land Summary.

**Allocation Of Grant/Subsidy to Lots**

	Dollars	Lots	Grant Funds		
			Required	Allocable	Total
<u>Grant Allocable to Affordable Housing</u>					
CDC Options	\$ 13,504 x	158	\$2,133,632		\$2,133,632
Allocable per FWDA				\$918,074	\$918,074
Sub-Total					<u>\$3,051,706</u>
<u>Grant Allocable to 105 Lots</u>					
HACH	\$ 3,798 x	42	\$159,516		\$159,516
Additional Lots Required	\$ 3,798 x	55	\$208,890		\$208,890
Allocable per FWDA					
Sub-Total					<u>\$368,406</u>
Sub-Total		<u>255</u>	<u>\$2,502,038</u>	<u>\$918,074</u>	<u>\$3,420,112</u>

**Calculation of Subsidy Per Square Foot**

		Sq Ft		
158 Lots	=	396,000		
97 Lots	=	<u>242,500</u>		
		<u>638,500</u>		
			Subsidy	
		Subsidy	Sq Ft	Per Sq Ft
158 Lots		\$3,051,706	396,000	7.70633
97 Lots		\$368,406	242,500	1.51920