



OFFICE OF THE CITY AUDITOR COLORADO SPRINGS, COLORADO

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20-03 Affordable Housing

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Purpose

The purpose of this audit was to help evaluate the impact of potential changes to fees charged by the City, Colorado Springs Utilities, and Pikes Peak Regional Building Department, which might incentivize building of affordable housing units. To facilitate this evaluation, we developed a financial model to estimate related fees.

Highlights

In the Mayor's 2018 State of the City address he said, "I would suggest we make it a community goal to build, preserve, and create opportunities to purchase an average of 1,000 affordable units per year over the next five years." A task force was established to explore options for creating incentives to achieve the Mayor's goal. The task force focused on development of permanent supportive housing, affordable workforce housing, and affordable starter homes. Possible fee reductions or waivers were discussed. As a result of this audit, the Office of the City Auditor (OCA) provided a financial model (model) to help decision makers determine the impact of various fee reductions.

To meet the stated goal of creating 1,000 Affordable Housing (AH) units a year, development would need to increase from the 379 dwelling units completed between 2016 and 2018. Of the five AH projects reviewed for this audit, total development and building permit fee revenue collected by the City, Colorado Springs Utilities (Utilities), and Pikes Peak Regional Building Department (PPRBD) was \$1.07M.

The OCA model estimates \$3.4M in development fees would be charged to build 1,000 units using the current fee structure and mix of projects. The City and PPRBD do not currently have any fee waiver, deferral, or reduction for AH development. Utilities has a fee deferral program for AH projects water and wastewater development charges. Two of the projects reviewed participated in Utilities' fee deferral program. Fees for each organization reviewed were set based on a cost of service approach. The impact of changes to fees for the purpose of creating incentives will need to be further considered by each organization.

Model data and evaluation of AH fees for the five projects from 2016 to 2018 were obtained from historical data and current published rates. PPRBD fees included building permits plus required subcontractor attachments. Several projects were new construction and some were remodels of existing structures. The fees charged will vary for an actual project based on the unique condition of each project and the precise type of construction. Site specific costs, such as Utilities lines extension fees, were not included. Predictions of remodeling project fees in particular should be considered as rough estimates only.

We appreciate the cooperation and input provided by the City, Utilities and Pikes Peak Regional Building during this audit.

This audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing, a part of the Professional Practices Framework promulgated by the Institute of Internal Auditors.