

Audit Report

# Flood Buyout Program

February 2017



The City has adopted a model for flood buyout projects to provide consistent relocation benefits to displaced owners and has developed policies and procedures for implementation of the adopted model. The model adopted by the City has helped to ensure consistent benefits between displaced owners and project areas. However, the adopted model may result in higher costs to the City.

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Cover: Photo of October 31, 2015 flood, City of Austin.

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## Objectives

The objectives of this audit were to evaluate whether the City is managing flood buyout projects efficiently and cost-effectively, and to review flood buyout policies for other government entities.

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## Background

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Floodplains are areas likely to flood when creeks rise and flow over their banks.

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The Watershed Protection Department (WPD) works with the Office of Real Estate Services (ORES) to buy homes and move residents out of flood prone areas. The City buys homes when other structural or maintenance solutions are infeasible, ineffective, or have a disproportionately high cost relative to the benefits they would achieve. Floodplains cover nearly 10% of the land in Austin, and flash flooding is a frequent weather emergency for the City.

WPD's mission is to protect the lives, property and environment of our community by reducing the impact of floods, erosion, and water pollution. WPD has administered 10 buyout projects since the 1980s in 5 of 10 Council Districts.<sup>1</sup> The majority of these buyout projects were voluntary, which means owners did not have to sell their home to the City but could choose to do so. Refer to Appendix A for the City's Historical Flood Buyout Project Map.

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Homes sold to the City are removed and the land is turned into open space.

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WPD partnered with the U.S. Army Corps of Engineers (USACE) to find solutions to flooding in the Onion Creek floodplain and the Williamson Creek floodplain. Based on USACE study, the City decided that buying homes in the Onion Creek and Williamson Creek project areas was the best way to protect the public and first responders.

City Council approved the City's largest buyout project in the Onion Creek 25-year floodplain in 2007. Together, the City and USACE bought over 300 homes in the Onion Creek Corps project area with federal grant money. Although hundreds of homes were removed through this project, the remaining residents had significant property damage during the 2013 Halloween Flood. After this flood event, the City expanded the program to buy more homes in the Onion Creek 25-year and 100-year floodplains with City and federal grant money. After the 2015 Halloween Flood, the

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<sup>1</sup> Buyouts have occurred in Council Districts 1, 2, 3, 5, and 10.

buyout program expanded again to include homes in the Williamson Creek 25-year floodplain. To speed up the buyouts, City Council approved City money for these projects instead of waiting for federal money.

**Exhibit 1: Funding Approved for Voluntary Buyout Projects**

	Onion Creek*	Williamson Creek
<b>Total homes in project</b>	372	63
<b>City money approved</b>	\$95.5 million	\$18 million

\*Includes 25-year and 100-year floodplain project areas.

SOURCE: OCA analysis of Lower Onion Creek and Williamson Creek projects, October 2016

For the Onion Creek and Williamson Creek projects, the City contracted with an independent engineering firm, HDR Engineering, to administer the flood buyout process as shown below. ORES staff indicated that the buyout process consists of buying the original home and finding a new home occur concurrently. A joint flood buyout office with HDR allows City staff to provide oversight, accelerate approvals, and provide real-time feedback.

**Exhibit 2**

Flood Buyout Process	Step 1	Step 2	Step 3	Step 4
	City gets an independent appraisal to determine original home value	City makes offer on original home and helps displaced owner buy a new home	City buys original home and helps displaced owner move into new home	City demolishes original home and maintains the land as open space

SOURCE: OCA analysis of flood buyout process, December 2016

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## What We Found

The City has adopted a model for flood buyout projects to provide consistent relocation benefits to displaced owners and has developed policies and procedures for implementing the adopted model. However, the model adopted may result in higher costs to the City.

The City has not established a citywide relocation benefits policy for voluntary flood buyout projects, instead providing relocation benefits based on federal Uniform Relocation Assistance and Real Property Acquisition Act of 1970 (URA) requirements for assistance to displaced owners. The City has developed policies and procedures for implementing the URA model. Adopting this model for all buyout projects has helped to ensure consistent benefits between displaced owners and project areas. However, the adopted model may result in higher costs to the City. The City paid \$12 million (approximately) as replacement housing payments to displaced owners by following this model for buyout projects included in our scope. Office of Real Estate Services (ORES) management indicated that the URA requirement to provide a comparable home coupled with rising housing prices in Austin resulted in a higher costs to the City. We also noted while the City provides full replacement housing assistance, other government entities either provide no replacement housing assistance or provide replacement housing assistance up to an established cap.

**The City has developed policies and procedures for implementing the adopted buyout model and staff appears to follow the established requirements.** WPD and ORES developed policies and procedures for implementing the adopted buyout model (URA requirements). Staff use forms and checklists to review each phase of the buyout project to ensure compliance with established requirements. The ORES staff stated that the URA requires entities to keep detailed files for homes in the buyout project area for monitoring purposes. ORES staff indicated that the acquisition and relocation processes occur concurrently and generally takes 174 days from initial contact with displaced owner to when the file closeout memo is signed.

We reviewed a limited sample of property files and noted that the forms and checklists were used by staff, the files were maintained properly, and files were closed within the expected timeframe.

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For voluntary buyout projects, the City has flexibility in providing relocation benefits.

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**While each buyout project has a relocation policy approved by the City Council, there is no citywide policy to provide relocation benefits for voluntary flood buyout projects.** The City has adopted URA requirements to provide relocation benefits for all buyout projects, but the City is not required to adopt URA for voluntary buyout projects. Instead, the City has the flexibility to adopt a different relocation benefits policy for voluntary buyouts.

The URA federal law was passed in 1970 to establish minimum standards for federally funded programs and projects that require an agency to buy homes and move owners from their homes. The purpose of the URA is to ensure that owners displaced by a project do not suffer personal or financial setbacks. The Texas Property Code requires the City to provide

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Texas Property Code requires entities to provide relocation benefits compatible with URA requirements for involuntary projects.

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relocation benefits compatible with URA requirements for involuntary projects, where owners are required to sell their homes to the City. City Code Chapter 14-3 uses the URA requirements specifically for involuntary buyouts. The City applied URA requirements for the Onion Creek Corps project, which is an involuntary project and requires the City to follow URA requirements.

The URA requires that displaced owners are provided relocation benefits which includes moving expenses, incidental expenses related to their move, and replacement housing payment to buy comparable home. A replacement housing payment is the financial assistance provided to displaced owners to buy a home when the cost of comparable home is more than the original home.

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A comparable home is affordable, similar in size, and located near current home, but not in a floodplain. (Refer to Appendix B for example)

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$$\text{Replacement Housing Payment} = \text{Cost of comparable home} - \text{Cost of original home}$$

Since the significant portion of relocation benefits provided to displaced owners included replacement housing payments, we focused our audit on these payments. Per URA, the displaced owner is eligible for:

- capped assistance up to \$31,000; and
- additional assistance if a comparable replacement home cannot be found within the cap of \$31,000.

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For voluntary projects the City payment to displaced owners includes:

- cost of the original home;
  - replacement housing payment;
  - moving costs; and
  - closing costs.
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Watershed Protection Department (WPD) management stated that most buyout projects are voluntary. For voluntary projects the City payment to displaced owners includes the cost of the original home, financial assistance to buy a home when the cost of comparable home is more than the original home, moving costs, and closing costs. Both WPD and ORES staff asserted that the City adopted the full replacement housing assistance under the URA (option 1 below) to provide a consistent benefit to displaced owners regardless of whether the project was approved as voluntary or involuntary. However, the City has the flexibility to adopt a different relocation assistance policy for voluntary buyouts. ORES and WPD management has presented three options to City Council for replacement housing payments:

1. full replacement housing assistance under the URA (\$31,000 + Additional Assistance),
2. capped replacement housing assistance under the URA (\$31,000), and
3. capped replacement housing assistance set by the City at a lesser amount than the URA amount.

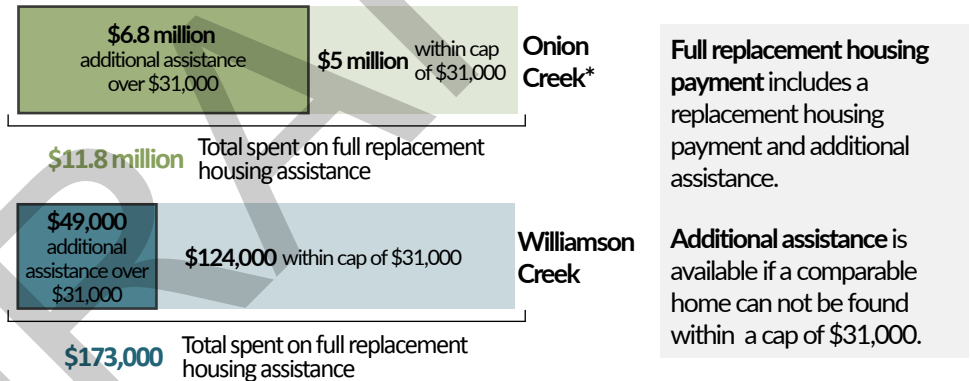
The City also has the option to not provide any replacement housing assistance. Refer to Appendix C for an example of these options.

The City has paid replacement housing of \$12 million to displaced owners for the Onion Creek and Williamson Creek projects. As stated above, the City has adopted the full replacement housing assistance under URA for voluntary buyout projects, however, the City is not required to follow these requirements and has flexibility in providing relocation benefits. The replacement housing payments for owner-occupied homes bought with City funds in the Onion Creek and Williamson Creek project areas are shown below. As shown in table below, for 207 of 219 homes bought by the City for these project areas, the City made replacement housing payments. Of these 207 homes, the City paid full replacement housing of

**Exhibit 3: Replacement Housing Payments**

	Onion Creek*	Williamson Creek	Total
Total homes bought	194	25	219
Homes bought with replacement housing payment	182	25	207
Homes bought with full replacement housing assistance	160	4	164
Total spent on full replacement housing assistance	\$11.8 million	\$173,000	\$12 million

\*Includes 25-year and 100-year floodplain project areas.



SOURCE: OCA analysis of owner-occupied homes bought by project, September 2016

\$12 million (approximately) for 164 homes.

City management indicated that the requirement of providing comparable homes coupled with the rise of Austin home values resulted in payment of replacement housing for the majority of homes bought by the City. ORES management asserted that one cause for the City's payment of replacement housing for majority of homes purchased is the URA requirement to provide a comparable home. In addition, ORES management stated that the lesser home values in Onion Creek and the limited affordable housing stock in Austin resulted in displaced owners buying new homes for higher amounts. The homes selected for the buyout projects in the Lower Onion Creek area were valued less than \$150,000 while the homes in Williamson Creek were valued near or above \$300,000. In the last two decades Austin's home values increased from the least expensive to the most expensive among the four major Texas cities.<sup>2</sup> From 2007 to 2016, the Austin-Round Rock median home value grew from

<sup>3</sup> Four major Texas cities are Houston, San Antonio, Dallas, and Austin.

\$182,719 to \$276,591.

The City of Austin is providing full replacement housing assistance under URA requirements, while the majority of other government entities either provide no replacement housing assistance or up to an established cap.

We contacted five different government entities that have experienced major flood events and have a flood buyout program to discuss their flood buyout policies and whether they provide replacement housing assistance. As shown below, the City of Austin and Harris County<sup>3</sup> provide full replacement housing assistance under the URA requirement. Other entities follow different polices for voluntary flood buyout projects:

- three entities do not provide replacement housing assistance
- one entity entities provides replacement housing assistance that cannot exceed \$31,000

However, housing market conditions and flooding events for the entities

**Exhibit 4: Practices for Voluntary Buyout Projects**

Entity	Replacement housing assistance for voluntary buyouts
City of Austin	Replacement housing assistance available with additional assistance if comparable housing not available within cap of \$31,000
Harris County	Replacement housing assistance available with additional assistance if comparable housing not available within cap of \$31,000
Travis County	Replacement housing assistance available that cannot exceed \$31,000
State of New Jersey	No replacement housing assistance
King County	No replacement housing assistance
Metropolitan Nashville	No replacement housing assistance

SOURCE: OCA survey results of other government entities, October 2016

## Additional Observations

The contract between the City and HDR Engineering contains three performance measures:

1. Quality of work performance to date: This requires that HDR survey City staff and property owners to determine quality and compliance with federal regulations.
2. Efficiency of work to date: This requires that HDR provide a report of monthly projected and actual timelines for tasks and activities.
3. Review of program administrative cost: This requires that HDR survey other cities to determine appropriateness of costs.

We found that the contractor had not reported results to the City for quality of work performance to date and review of program administrative cost performance measures. However, city staff stated that these performance measures have been amended to align with current practices.

<sup>3</sup> Harris County management noted that additional assistance above \$31,000 is rarely used, due to availability of comparable homes.

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## Recommendations and Management Response

- 1 | The Real Estate Services Officer should coordinate with the Director of the Watershed Protection Department to revisit a policy discussion with the City Council to develop a citywide relocation benefits policy for voluntary flood buyout projects.

**Management Response:** Concur

**Proposed Implementation Plan:**

Plan to develop citywide relocation policy and amend City Code 14-3 due to outdated language.

1. Meet with City Department Directors and key staff on relocation policy.
2. Collaborate with Law Department to draft relocation policy.
3. Provide recommendation to Committees and Council on updated relocation policy.

**Proposed Implementation Date:** June 2018

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# Management Response



## MEMORANDUM

**To:** Corrie Stokes, City Auditor  
**From:** Lauraine Rizer, Officer, Office of Real Estate Services (ORES)  
**Date:** February 3, 2017  
**Subject:** Audit of the Flood Buyout Program – Management Response

I have reviewed the draft report of the Audit of the Flood Buyout Program provided by your office, and I appreciate the opportunity to provide a response to your findings and recommendations. We concur with the recommendations provided in the report, and have developed an Action Plan (see attached) in response. Our response is summarized below.

Your office found that the City has adopted a model for flood buyout projects to provide consistent relocation assistance to displaced owners and has developed policies and procedures for implementing the adopted model, although the model adopted may result in higher costs to the City. The model implemented by ORES and WPD for flood buyouts was used after feedback provided by multiple stakeholders including the public and City Council. The Flood Mitigation Task Force recommended adopting a consistent policy to be used across all buyout programs (both voluntary/optional for property owner and eminent domain acquisitions) so that all buyout program participants have access to equitable benefits.

We will continue our policy discussions with the City Council to develop a citywide relocation benefits policy for residential displacees and an amendment to City of Austin Code Chapter 14-3: Relocation Benefits. These discussions will include the costs to provide relocation benefits consistently across multiple funding sources and outcomes of reducing the relocation benefits for buyouts as the current policy is outdated.

Additional observations were found that some of the performance measures in the contract with the consultant were not being provided by the consultant. The performance measures for the contract with the consultant have been updated and more accurately align with the measures and practices that are necessary to ensure the performance is maintained at a high level.

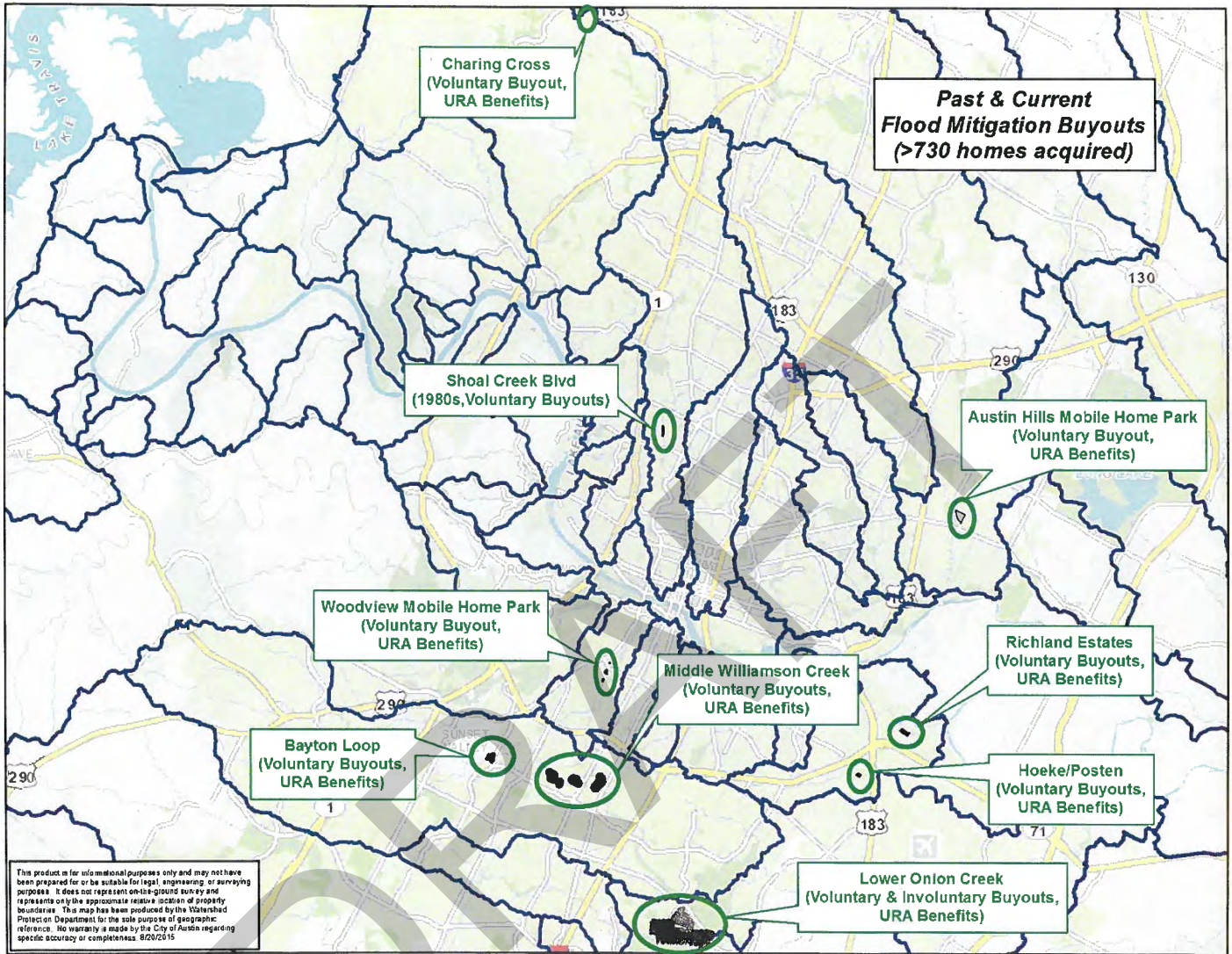
Please contact me at (512) 974-7078 if you have any additional questions or concerns.

cc: Elaine Hart, Interim City Manager  
Sue Edwards, Assistant City Manager  
Joe Pantalione, Director, Watershed Protection Department

ACTION PLAN			
Audit of Flood Buyout Program			
Recommendation	Concurrence and Proposed Strategies for Implementation	Status of Strategies	Proposed Implementation Date
The Officer of Office of Real Estate Services should coordinate with the Director of Watershed Protection Department and revisit a policy discussion with the City Council to develop a citywide relocation benefits policy for voluntary flood buyout projects.	Concur with recommendation. Plan to develop citywide relocation policy and amend City Code 14-3 due to outdated language. 1. Meet with City Department Directors and key staff on relocation policy 2. Collaborate with Law Department to draft relocation policy 3. Provide recommendation to Committees and Council on updated relocation policy	Planned meetings to begin meetings with Department Directors and key staff to begin in February 2017.	June 2018

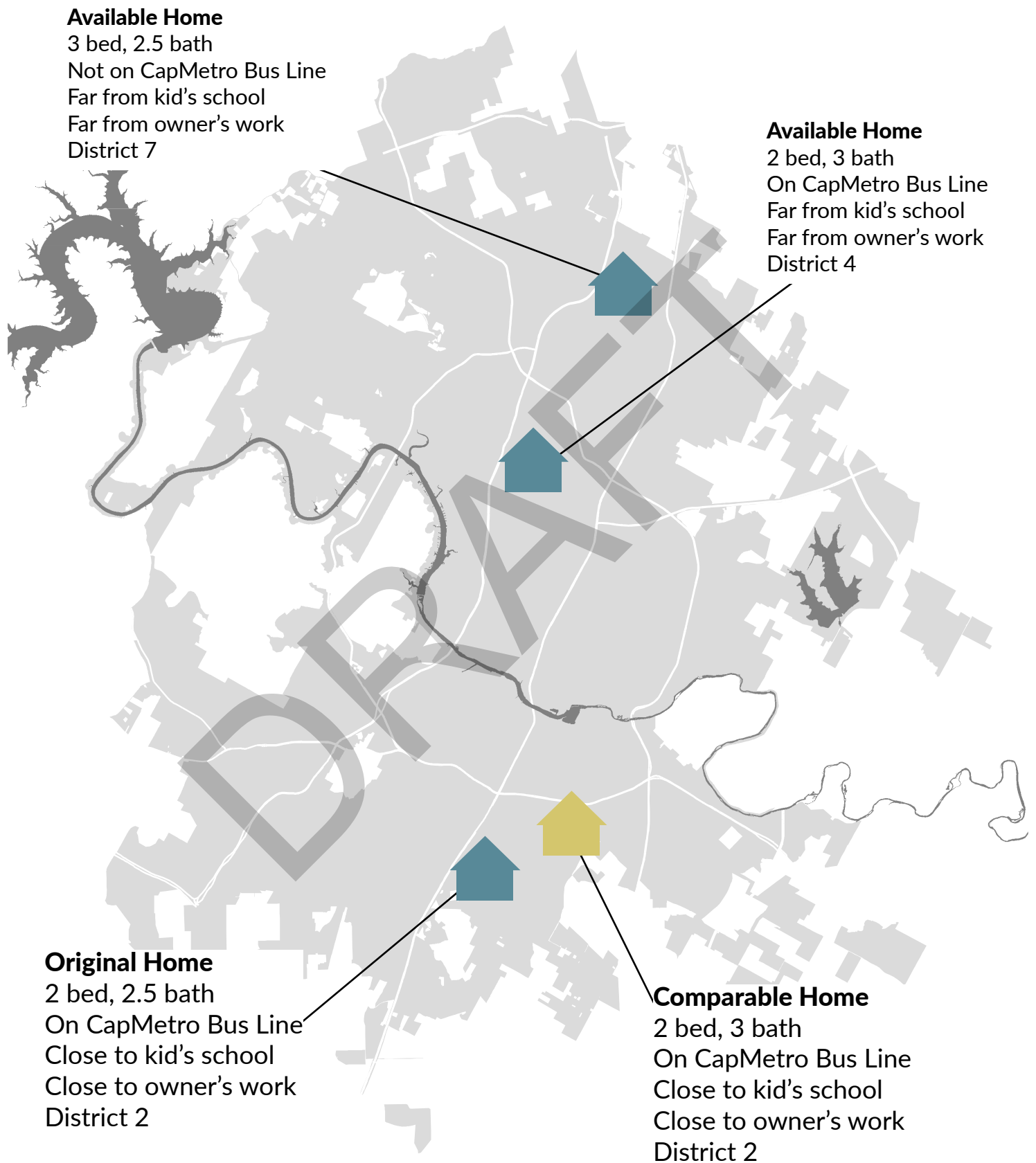
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# Appendix A - Historical Flood Buyout Project Map



SOURCE: Watershed Protection Department summary of past and current flood buyouts and total number of homes bought, August 2015.

# Appendix B - Comparable Home Example



# Appendix C - Replacement Housing Payment Examples

Onion Creek Replacement Housing Payment Example

		Full replacement housing assistance	Capped replacement housing assistance
(A)	Original home	\$135,000	\$135,000
(B)	Comparable Home	\$190,000	\$190,000
(B) - (A)	Replacement housing payment	\$55,000	\$31,000 max
	Moving costs	\$2,000	\$2,000
	Closing costs	\$4,000	\$4,000
(C)	Total relocation cost to City	\$61,000	\$37,000
(A) + (C)	Total Cost to City	\$196,000	\$172,000

SOURCE: OCA analysis of Onion Creek home bought based on Office of Real Estate Services City of Austin Flood Buyout & Relocation Policy presentation on June 2, 2015 at a City Council Work Session.

Williamson Creek Replacement Housing Payment Example

		Full replacement housing assistance	Capped replacement housing assistance
(A)	Original home	\$265,000	\$265,000
(B)	Comparable Home	\$297,000	\$297,000
(B) - (A)	Replacement housing payment	\$32,000	\$31,000 max
	Moving costs	\$2,000	\$2,000
	Closing costs	\$4,000	\$4,000
(C)	Total relocation cost to City	\$38,000	\$37,000
(A) + (C)	Total Cost to City	\$303,000	\$302,000

SOURCE: OCA adaptation of an example used in an Office of Real Estate Services City of Austin Flood Buyout & Relocation Policy presentation on June 2, 2015 at a City Council Work Session.

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## Scope

The City's current relocation benefits policy and practices. This audit focused on the homes bought from displaced owners in the Lower Onion Creek and Williamson Creek project areas.

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## Methodology

To accomplish our audit objective, we performed the following steps:

- interviewed Watershed Protection Department and Office of Real Estate Services employees knowledgeable about the flood buyout program;
- interviewed the chair and vice chair of the Flood Mitigation Task Force;
- interviewed the project manager for HDR Engineering;
- reviewed recommendations in the Flood Mitigation Task Force final report related to purchase of properties;
- reviewed City policies and procedures related to the flood buyout projects;
- reviewed federal guidelines for the Uniform Relocation Assistance and Real Property Acquisition Act (URA) related to the flood buyout program;
- reviewed specific contract terms between the City and HDR Engineering;
- selected a judgmental sample of homes bought by the City in buyout projects and reviewed compliance with established project requirements;
- evaluated internal controls related to flood buyout program acquisition and relocation assistance; and
- selected and surveyed other government entities<sup>4</sup> about their flood buyout policies.

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## Audit Standards

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

<sup>4</sup> Government entities included Harris County, TX; Travis County, TX; Metropolitan Nashville, TN; King County, WA; and State of New Jersey

The Office of the City Auditor was created by the Austin City Charter as an independent office reporting to City Council to help establish accountability and improve City services. We conduct performance audits to review aspects of a City service or program and provide recommendations for improvement.

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