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TO: Elinor R. Bacon
Deputy Assistant Secretary
Office of Public Housing Investments, PT

FROM: D. Michael Beard, District Inspector General for Audit, 6AGA

SUBJECT: Nationwide Audit
HOPE VI Urban Revitalization Program

We performed a nationwide audit of the HOPE VI Urban Revitalization Program to determine whether the program effectively, efficiently, and economically addresses the needs of severely distressed public housing. The audit work included comprehensive reviews at ten housing authorities and HUD Headquarters. Although some of the authorities had only made minimal progress, for sites where the physical revitalization was completed, the transformation was impressive. The audit found problems with HUD's monitoring and administration of the program. While HUD has already begun to take corrective action in some areas, HUD needs to complete planned actions and initiate other actions in problem areas not yet addressed.

Within 60 days, please furnish this office, for each recommendation in this report, a status on: (1) corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is not considered necessary. Also, please furnish us copies of any correspondence or directives issued related to the audit.

Please write or call me at (817) 978-9309 if you or your staff have any questions.

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Executive Summary

We performed a nationwide audit of the HOPE VI Urban Revitalization Program to determine whether the program effectively, efficiently, and economically addresses the needs of severely distressed public housing. The audit work included comprehensive reviews at ten housing authorities and HUD Headquarters. Although some of the authorities had only made minimal progress, for sites where the physical revitalization was completed, the transformation was impressive. The audit found problems with HUD’s monitoring and administration of the program. While HUD has already begun to take corrective action in some areas, HUD needs to complete planned actions and initiate other actions in problem areas not yet addressed.

Overall, the HOPE VI Program has been satisfactorily implemented.

HUD and the housing authorities have generally carried out HOPE VI activities in a satisfactory manner. This report discusses the lack of adequate monitoring of HOPE VI activities. However, given the serious understaffing of the HOPE VI office in prior years, we believe HUD staff administered the program reasonably well. In addition, although the audits performed at the housing authorities disclosed significant problems, for the most part the authorities are successfully implementing the physical revitalization of dilapidated public housing.

However, the audit disclosed significant concerns that HUD needs to address.

To improve the effectiveness and efficiency of the HOPE VI Program, HUD needs to address the following issues:

Identifying severely distressed units. The HOPE VI Program’s purpose is to revitalize severely distressed public housing developments. However, HUD does not know what units are severely distressed and has not included severe distress as a major factor in ranking HOPE VI applicants. As a result HUD cannot measure the program’s success in achieving its purpose. HUD needs a workable definition of severely distressed housing and a grant award process that addresses the most severely distressed public housing.

Addressing resident needs. HOPE VI is intended to address the condition of people in public housing developments, and not merely “bricks and mortar.” However, HOPE VI does not always address the needs of residents for which the site was originally funded. Most distressed residents of HOPE VI developments do not choose to live at the renovated sites, and do not receive

HOPE VI funded community and supportive services. HUD needs to re-evaluate the feasibility of its policy regarding providing community and supportive services to the original residents.

Sustaining community and supportive services. HOPE VI places a high priority on providing services to address the needs of residents of severely distressed public housing developments. HUD has long held that community and supportive services are an essential ingredient to the long-term sustainability of HOPE VI revitalizations. However, most grantees do not have definitive plans for sustaining their community and supportive services programs once HOPE VI funds are exhausted. We recommend HUD place more emphasis on sustainability of community and supportive services and seek ways to help housing authorities attain sustainability.

Obtaining cities' financial commitment. A city's support and participation can greatly increase the positive impact achieved through a HOPE VI revitalization. Although some cities made substantial contributions to HOPE VI sites and surrounding neighborhoods, other cities have been reluctant to even provide more than the minimum. HUD used to have a city matching requirement but eliminated it after Fiscal Year 1995. HUD should reinstate a city match requirement or encourage city commitments through the NOFA process.

Developing realistic cost guidelines. HUD wants to build attractive developments with amenities, architectural style, and landscaping that blend with the community. However, HUD's Total Development Cost (TDC) limits for the development of new projects are too low to build these types of units. HUD has moved toward establishing new TDC guidelines, which appear to substantially address these concerns. However, HUD needs to refine its guidelines pertaining to "soft" costs of development, including placing restrictions on income housing authorities receive through developer fees.

Helping residents move up and out of public housing. HUD wants HOPE VI residents to achieve self-sufficiency so they can so they can move up and out of public housing. However, some HOPE VI developments with private

market amenities are capable of commanding much higher rents than would be affordable to persons in entry level job positions. Thus, these desirable HOPE VI units may have the unintended effect of creating a disincentive for residents to become self-sufficient. HOPE VI residents could be put in a position of having to take a substantial downgrade in their standard of living if they became self-sufficient and left public housing. HUD should seek ways to resolve the disincentive dilemma.

Monitoring the HOPE VI Program. Until recently, HUD has taken a “hands off” approach towards oversight of authorities’ HOPE VI Programs. HUD viewed local control as necessary to encourage authorities to develop more innovative solutions. The audit found instances where the hands-off policy, as well as HUD understaffing and other factors, resulted in HUD failing to take appropriate corrective action when it was aware of problems. Although HUD should allow housing authorities flexibility in implementing their HOPE VI Programs, it still needs to exercise adequate oversight responsibility. HUD has taken significant steps to improve its oversight of HOPE VI grants. However, they are still faced with problems relating to the field offices’ capacity to perform monitoring, unreliable data in their program management system, and the uncertainty of future funding for expeditors (management consultants).

Providing clear guidelines for resident involvement. HUD has stressed to housing authorities the importance of involving residents of HOPE VI sites in the revitalization process. However, a lack of clear policy and guidance regarding resident involvement in the planning and implementation of revitalization sites has frequently resulted in significant confusion and controversy. HUD needs to establish a clear policy and guidelines so that residents’ input and concerns are seriously considered, and housing authorities and residents know the extent to which residents may participate in decision making.

Contracting competitively for community and supportive services. HOPE VI allows housing authorities to enter into non-competitive subgrantee agreements for community and supportive services to encourage authorities to find partners as early as during the application process. However, the

audit results indicate HUD's policy appears unnecessary, and authorities may not necessarily be getting the best price or services from subgrantees. HUD should eliminate the provision for non-competitive subgrantee agreements.

HOPE VI officials generally agreed with the draft report.

We discussed the findings and recommendations at an exit conference with HOPE VI officials on November 10, 1998. HOPE VI officials responded in writing to the draft report on December 7, 1998. Although disagreeing with parts of the draft report, HOPE VI officials generally agreed with the findings and recommendations. We have summarized and evaluated the HOPE VI office's response in the findings and included it in its entirety as Appendix A.

We appreciate the HOPE VI office's sincere cooperation with OIG staff throughout the course of the audit.

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Abbreviations

CFR	Code of Federal Regulations
CDBG	Community Development Block Grant
CNS	Corporation for National Service
GAO	General Accounting Office
GPRA	Government Performance and Results Act
HUD	U.S. Department of Housing and Urban Development
NOFA	Notice of Funding Availability
OIG	Office of Inspector General
PHA	Public Housing Authority
TDC	Total Development Costs

Introduction

Background

To respond to the nationwide problem of dilapidated and often crime-infested public housing, Congress established the National Commission on Severely Distressed Public Housing in 1989 enacting Public Law 101-235. Members of the Senate, the House of Representatives, and the HUD Secretary appointed the bipartisan Commission.

The Commission's mandate was to:

1. Identify those public housing developments that are in a severe state of distress.
2. Assess the most promising strategies to improve the conditions of severe distress that have been implemented by public housing authorities and other government agencies.
3. Develop a National Action Plan to alleviate the conditions that contribute to severely distressed public housing by the year 2000. In its report, the Commission stated it believed that the plan may need to extend beyond the year 2000 and noted that funding is proposed for planning and rehabilitation over a 10-year period.

The Commission issued its report in August 1992. The Commission estimated there were 86,000 severely distressed units nationwide (6 percent of the 1.4 million public housing units). However, as discussed in Finding 1, the 86,000 units represents an estimate that is not tied to specific units. The Commission's report proposed a National Action Plan calling for strong action by Congress, the Executive Branch and the Secretary of HUD to eradicate severely distressed public housing by the year 2000. In response to the report, Congress appropriated \$300 million for an Urban Revitalization Demonstration (HOPE VI) Program in 1993. The HOPE VI Program was created for the purpose of revitalizing severely distressed or obsolete public housing. HUD also intended for the program to act as a "laboratory for the reinvention of public housing."

From FY 1993-98, Congress has funded over \$3 billion for planning, implementation, demolition, and technical assistance.

Fiscal Year	Total Appropriations	Technical Assistance Appropriations
1993	\$ 300,000,000	\$ 0
1994	778,240,000	2,500,000
1995	500,000,000	2,500,000
1996	480,000,000	3,216,000
1997	550,000,000	2,500,000
1998	<u>550,000,000</u>	<u>10,000,000</u>
Totals	\$3,158,240,000	\$20,716,000¹

The Office of Public Housing Investments administers the HOPE VI Program. Congress has never passed an authorization for the bill; therefore, HUD has not issued program regulations. Grants are governed by each fiscal year's Notice of Funding Availability (NOFA), and each recipient's grant agreement. Since 1993, HUD has awarded 35 planning grants, 104 implementation grants, and 78 demolition only grants.

Evolution of the Program

The HOPE VI Program has evolved considerably since 1993. Although its stated purpose still remains to revitalize severely distressed or obsolete public housing developments, there is a much greater emphasis on the transformation of public housing than there was in the beginning. HUD considers HOPE VI key to the public housing transformation it wants to make. The latest version of the HOPE VI Guidebook lists the following elements of transformation as fundamental to the HOPE VI Program:

- Change the physical shape of public housing. This includes substantial rehabilitation of existing public housing and/or tearing down obsolete public housing and replacing it with units that blend with the surrounding neighborhoods and are attractive and marketable, meeting contemporary standards of modest comfort and livability.

¹ The \$20,716,000 for technical assistance is part of the \$3,158,240,000 in total appropriations.

- Achieve resident self-sufficiency and provide comprehensive services that empower residents.
- Achieve high quality management of public housing and enforce strict occupancy and eviction rules such as “One Strike and You’re Out.”
- Lessen concentrations of poverty by reducing density, placing replacement public housing in nonpoverty neighborhoods, and/or by promoting mixed income communities where public housing once stood alone.
- Forge meaningful, results-based partnerships with other agencies, local governments, nonprofit organizations, and private businesses to leverage support and resources, whether financial or in-kind.
- Promote homeownership for households with a range of incomes to achieve social and economic empowerment of residents and as broad an income mix as possible.
- Promote economic development by locating businesses in former public housing communities, improving transportation to jobs, and forging relationships with Empowerment Zone Boards and businesses.
- Achieve high educational standards from day care through higher education through relationships with public and private educational institutions.

HUD’s Strategic Plan also addresses the key role of HOPE VI in the transformation of public housing under Strategic Objective #3. This objective is to “**Increase availability of affordable housing** in standard condition to families and individuals, particularly the Nation’s poor and disadvantaged.” The Strategic Plan notes that the majority of public housing works successfully and is a tremendous affordable housing resource to lower-income Americans. However, the Plan goes on to list numerous problems with public housing: flawed site plans and architecture, poor management, buildings that have outlived their useful lives, and flawed program statutes and regulations. The Plan notes four major components of the transformation effort:

- Tearing down and replacing the 100,000² **worst** public housing units;
- Aggressively intervening to improve troubled PHAs;
- Establishing incentives to reward working families, encourage families to make the transition from welfare to self-sufficiency, and encourage a diverse mix of incomes in public housing; and
- Cracking down on crime and drugs.

The program does have successes in the physical revitalization of housing units. Although it has gotten off to a slow start, for grantees where the physical revitalization has been completed the results are often quite impressive. However, we have some concerns about the administration and long-term results of the program. HUD has already begun to address some of these concerns. Other concerns are in some ways a part of the national debate on how best to address the housing needs of low-income families. Findings 1-9 discuss these concerns.

Audit Objectives, Scope, and Methodology

Our overall objective was to determine whether the HOPE VI Program was effectively, efficiently, and economically addressing the needs of severely distressed public housing. To meet this objective we: (1) reviewed HOPE VI appropriations, NOFA's, grant agreements, and guidelines; (2) reviewed the Final Report by the National Commission for Severely Distressed Public Housing and HUD's Strategic Plan; (3) interviewed HUD officials from the Office of Public Housing Investments; (4) performed on-site reviews at ten housing authorities; and (5) performed a review of the HOPE VI office in HUD Headquarters.

Our audit objectives for the housing authorities in our sample were to determine if the authorities: (1) were meeting the objectives of their revitalization plans; (2) properly procured contracts; (3) only expended amounts for eligible activities; and (4) implemented their community and supportive services components effectively, efficiently, and

² Although the Commission estimated there were 86,000 severely distressed units nationwide, Secretary Cisneros "rounded up" the 86,000 figure to 100,000.

in a manner that will allow the activities to be sustained beyond the grant term. Our audit procedures included:

- Interviewing authority, HUD and contract officials.
- Reviewing the revitalization plans.
- Visiting the HOPE VI sites and the sites for any off-site replacement units to observe the location strengths and weaknesses, and work in progress.
- Analyzing budgets and expenditures to determine if the authorities: (1) would be able to complete their programs timely and within available funding and (2) have adequate procedures to monitor the progress and performance of the grant.
- Reviewing the authorities procurement policies, contract files, and related documentation to determine whether the authorities procured contracts in accordance with federal procurement regulations and whether the contracts appeared to be for eligible HOPE VI activities.
- Reviewing support for expenditures the authorities charged to HOPE VI to determine whether the amounts appeared to be reasonable and eligible for HOPE VI.
- Reviewing the community and supportive services programs to determine whether the costs were reasonable and whether the authorities: (1) had established measurable goals and were monitoring results; (2) were making adequate plans for sustaining their programs after HOPE VI funding ends; and (3) had obtained the required matching funds from the cities.

Our audit objectives for the HUD Headquarters review were to determine if HUD: (1) was effectively and efficiently monitoring the HOPE VI Program and (2) only expended technical assistance funds for eligible activities. Our objectives also included determining the most current operational procedures and program requirements. Our audit procedures included:

- Interviewing HUD staff.

- Interviewing KPMG Peat Marwick representatives responsible for the implementation of the Program Management System, a database for monitoring grantee performance and reporting on program results.
- Reviewing the Program Management System to determine the type of data collected and the usefulness of the system for monitoring purposes. Also, comparing selected data in the system to data collected during our audit to determine the system's accuracy.
- Analyzing staffing levels and workload requirements for reasonableness.
- Analyzing expenditures of technical assistance funds to determine whether expenditures appeared to be a reasonable use of HOPE VI funds.

The audit covered planning and implementation grants for Fiscal Years 1993 through 1995. We did not review demolition-only grants since HUD did not award them prior to Fiscal Year 1996. Appendix B contains a list of the housing authorities and grants we reviewed. We issued, or will issue, the following individual audit reports for sites where significant concerns were identified:

Atlanta (98-AT-206-1004, March 31, 1998)³
Dallas (99-FW-201-1001, October 9, 1998)
El Paso (98-FW-201-1003, March 6, 1998)
New Orleans (98-FW-201-1004, June 15, 1998)
San Antonio (not yet issued)

We performed field work for the ten sites in our sample from December 1996 to February 1998. We conducted field work for the HUD Headquarters review in April 1998, and were in contact with HUD officials throughout the review. We performed the audit in accordance with generally accepted government auditing standards.

³ The overall audit of the Atlanta Housing Authority included concerns regarding its HOPE VI sites.

HUD Doesn't Know if HOPE VI is Addressing the Worst Public Housing

Although the HOPE VI Program's purpose is to revitalize severely distressed public housing developments, HUD has not identified what units are severely distressed, nor can it gauge the program's success in achieving this purpose. HUD does not know what units are severely distressed because the National Commission on Severely Distressed Public Housing only estimated the number of distressed units. Also, HUD lacks a workable definition of "severely distressed," and has not included severe distress as a major factor in ranking HOPE VI applicants.

Severely distressed units have not been identified.

It would seem that identifying severely distressed developments would be an easy task. In its final report, the Commission noted that,

“Severely distressed public housing is a national problem - a national disgrace. Such housing imposes an unacceptable, nearly unlivable environment on its residents and also corrupts the public perception of all public housing and all its residents”.

However, once you move beyond the infamous eyesores of developments such as New Orleans' Desire and Chicago's Cabrini Green, identifying severely distressed developments becomes a less obvious task.

The Commission suggested using a scoring system to determine whether a development was severely distressed. A total score of 80 or more points from any of the following four categories would identify a development as severely distressed: families living in distress (60 points), incidence of serious crime (45 points), barriers to managing the environment (45 points), and physical deterioration of buildings and sites (80 points). Although the commission recognized that quantifiable data might not be available, they still felt narrative information could be used until such time as the necessary data could be accumulated.

Still, when it came time for the Commission to estimate the number of severely distressed units, it based its estimate on a physical indicator only. In arriving at an estimate of

86,000 severely distressed units, the Commission simply considered all units with rehabilitation needs of at least 60 percent of HUD's Total Development Costs (TDC)⁴ limits to be severely distressed. The Commission acknowledged that not all these units may be severely distressed and there might be units below the 60 percent threshold that are severely distressed. However, the Commission felt this was an appropriate basis for estimating the number of units due to the strong correlation between severe distress and modernization needs. Former HUD Secretary Cisneros "rounded up" the 86,000 unit figure to 100,000. However, the 86,000 and 100,000 figures are merely estimates that HUD has never tied to specific units.

HUD lacks a workable definition of severe distress.

HUD's definition of severe distress for its HOPE VI Program has undergone several changes. Without an established definition of what constitutes severely distressed public housing, HUD cannot measure the results of the HOPE VI Program in achieving its stated purpose of revitalizing the most severely distressed public housing developments.⁵ Recently, Congress passed a Public Housing bill that defines severely distressed public housing. HUD should use this definition in identifying severely distressed units and in the HOPE VI grant ranking and award process.

HUD's definition of severe distress has undergone several changes. Congress had never written an authorization bill for the HOPE VI Program. Also, Congressional appropriations for HOPE VI did not specifically define what is meant by the terms obsolete or severely distressed public housing nor have they consistently used one term or the other. Therefore, HUD had to define what qualified a development as obsolete or severely distressed and eligible for HOPE VI funding. Recently, Congress passed a Public Housing bill that broadly defines severely distressed public housing. HUD can use this definition as a basis for developing workable criteria in the ranking and award process for HOPE VI grants.

⁴ Total Development Costs represent HUD's limits on hard and soft costs for new construction or rehabilitation. See Finding 5 for a more detailed definition.

⁵ HUD has established definitions or criteria for obsolete or distressed housing for other program areas. Obsolete public housing is specifically defined in Section 5 of the National Housing Act and in federal regulations (24 CFR 970.6(a)). In addition, the Section 202 Mandatory Conversion regulations provides specific criteria for "distressed" properties.

For Fiscal Years 1993 through 1995, HUD used the categories of distressed defined by the Commission to determine whether a development qualified as severely distressed. However, while the Commission stated that a development would have to score at least 80 points, HUD only required grantees to qualify as severely distressed under one category. Using this definition, nearly all public housing could qualify as severely distressed, particularly under the “Families Living in Distress” category. Further, HUD’s definition of severely distressed proved to be a moot point for Fiscal Year 1994. The FY 1994 appropriation required HUD to fund those applications from FY 1993 that were not funded.

In its Fiscal Year 1996 NOFA, HUD used the term obsolete rather than severely distressed. The NOFA defined obsolete units as those that, because of physical condition, location, or other factors, are unusable for housing purposes, and no reasonable program of substantial physical modifications is feasible to return the units to useful life. No point system or minimum qualifying factors were established to verify obsolescence. The only minimum qualifying factor established was that the average per unit hard cost of rehabilitation had to be at least 62.5 percent of HUD’s published total development cost limits (TDC) for the development to be eligible for funding. In addition, the FY1996 NOFA required housing authorities to demolish at least one obsolete building in the targeted development.

HUD used both terms, severely distressed and obsolete, in its Fiscal Year 1997 NOFA. However, applicants again had to show that the development for which they were applying was obsolete. HUD established a new qualifying definition of obsolete based on the Major Reconstruction of Obsolete Projects Program. This definition focused on the vacancy rate and building density and design, but also required that needed rehabilitation costs exceed 70 percent of TDC.

In its Fiscal Year 1998 NOFA, HUD required applicants to show that the development for which they were applying was severely distressed. The qualifying factors used were very similar to those used in Fiscal Year 1996 to show that a development was obsolete. The development had to be shown to be severely distressed as to physical condition, location, or other factors, making the development unusable

for housing purposes. The NOFA did not identify any minimum qualifying factors for distress. However, HUD officials said they did establish a minimum threshold for distress which they used during the scoring of the applications. Applicants had to receive at least 75 percent of the available points under the ranking factor “Need/Extent of the Problem” to qualify as distressed.

New Public Housing bill defines severely distressed public housing. In the Quality Housing and Work Responsibility Act of 1998, Congress defined severely distressed public housing. The main part of the definition (Title 5, Sec. 535 (a), which amends Section 24 (j) (2) of the U.S. Housing Act of 1937) states that severely distressed public housing is a public housing project (or building in a project) that:

(i) requires major redesign, reconstruction or redevelopment, or partial or total demolition, to correct serious deficiencies in the original design (including inappropriately high population density), deferred maintenance, physical deterioration or obsolescence of major systems and other deficiencies in the physical plant of the project;

(ii) is a significant contributing factor to the physical decline of and disinvestment by public and private entities in the surrounding neighborhood;

(iii)

(I) is occupied predominantly by families who are very low-income families with children, are unemployed, and dependent on various forms of public assistance; or

(II) has high rates of vandalism and criminal activity (including drug-related criminal activity) in comparison to other housing in the area;

(iv) cannot be revitalized through assistance under other programs...

HUD can use this broad definition of severely distressed public housing as a basis for developing a more workable definition, and establishing criteria to use in ranking applicants and awarding HOPE VI grants.

HUD has not included severe distress as a major factor in ranking HOPE VI applicants.

The ranking factors provided in the NOFAs do not emphasize HUD's stated goal of revitalizing the worst units. The FY 1998 NOFA merely requires applicants to provide indicators of severe distress in order to qualify the units as eligible. Then the ranking factors only provide that 20 percent of the applicants overall score be based on the need or extent of the problem. Therefore, it is quite likely that a development with only moderate distress could get funded while a severely distressed development is not funded due to lower scores on the remaining ranking factors.⁶

Ranking Factors	1993-95	1996	1997	1998
Need for revitalization	30	25	15	20
Other factors	<u>90</u>	<u>200</u>	<u>205</u>	<u>82</u>
Total possible points	120	225	220	102

Appendix C provides a detailed listing of the factors for these years. The factors to a large extent stress the quality of the proposal, as well as the authority's capability to carry out the revitalization.

The ranking factors illustrate HUD's dilemma of trying to revitalize the most severely distressed developments, while at the same time granting awards to authorities that are capable of successfully carrying out the revitalization. In some instances, poor management is the primary cause for a development's distress. This can result in HUD awarding HOPE VI grants to poorly run authorities, while authorities whose strong management kept its developments from becoming severely distressed do not receive any funding. Further, unless such authorities have made substantial improvements in their management, it is questionable whether they have the capacity to successfully carry out the large scale revitalizations envisioned by HOPE VI or maintain the development after the revitalization is complete. In addition, some of the worst public housing is concentrated in specific cities. For example, New Orleans

⁶ In addition, the NOFAs allowed HUD to choose lower-rated applications in order to promote geographic diversity, diversity in development types and innovative revitalization plans.

has eight developments on the Section 202 Mandatory Conversion listing, and realistically cannot address these many developments in a short time period.

By stressing the capacity of the applicant and soundness of the approach in the ranking factors, HUD is much more likely to get a group of grantees who are ready and able to perform the revitalization. On the surface, this may seem the best direction for HUD to take, considering HUD's limited resources and Congressional concern over the overall slow progress of the grantees in general. However, if the end result is that a substantial number of moderately distressed developments receive funding intended to address severely distressed developments, we have to question the approach.

HUD's strategic and performance plans do not provide for identifying "worst" public housing units.

The Government Performance and Results Act (GPRA) of 1993 requires federal agencies to develop strategic and annual performance plans that establish performance goals. In discussing annual performance plans, GPRA states agencies must:

- “(1) establish performance goals to define the level of performance to be achieved by a program activity;
- (2) express such goals in an objective, quantifiable, and measurable form unless authorized to be in an alternative form under subsection (b);
- (3) briefly describe the operational processes, skills and technology, and the human, capital, information, or other resources required to meet the performance goals;
- (4) establish performance indicators to be used in measuring or assessing the relevant outputs, service levels, and outcomes of each program activity;
- (5) provide a basis for comparing actual program results with the established performance goals; and
- (6) describe the means to be used to verify and validate measured values.”

As previously noted, one of the four major components in HUD's efforts to transform public housing, as stated in its

Strategic Plan, is to tear down and replace the 100,000 worst public housing units. Accordingly, the performance goals in the Fiscal Year 1999 Annual Performance Plan provide for demolishing 100,000 units by FY 2003 and funding 99,170 replacement units by FY 2000. However, neither the Strategic Plan nor the Annual Performance Plan state how HUD is identifying the 100,000 worst units. Therefore, although HUD may be approving the demolition of 100,000 public housing units, it has no assurance that the worst public housing units are being addressed.

HUD officials acknowledge they have not identified how many severely distressed units exist nationwide, or which units these are. As such, although HUD has funded 104 implementation grants accounting for 56,470 units, it cannot show what percent of severely distressed public housing units they have addressed to date, nor that the units are among the 100,000 worst in the nation.

HUD Comments

HUD officials agreed that HUD did not specifically identify the 86,000 severely distressed units referred to in the report of the National Commission on Severely Distressed Public Housing, nor the 100,000 most severely distressed units referred to by Vice President Gore in his speech at the Public Housing Summit in 1996. However, HUD contends that, with the implementation of the Mandatory Conversion Program, it has now identified the nation's most severely distressed units.

HUD stated that in the future the HOPE VI Program will adopt the definition of severely distressed public housing as stated in the 1998 Quality Housing and Work Responsibility Act.

In its written comments, HUD states that the 1998 NOFA includes severe distress as a threshold criteria, so that applications that were less than severely distressed could not be considered for funding. However, the NOFA does not assure that the *most* severely distressed projects are addressed. HUD believes restricting competition to only address the most severely distressed units is not the intent of Congress, and the HOPE VI Program complies with the

congressional mandate. However, HUD will confer with Congress to clarify congressional intent.

**OIG Evaluation of
HUD Comments**

HUD's response and planned actions appear to substantially address the finding and recommendations.

Recommendations

We recommend you:

- 1A. Use Congress' definition of severely distressed public housing as a basis for developing: (1) a workable definition and (2) establishing criteria for ranking applicants and awarding HOPE VI grants.

- 1B. Reconsider the HOPE VI award process, and determine if it addresses the most severely distressed public housing; if not, take appropriate corrective measures.

HOPE VI Does Not Always Address the Needs of Distressed Residents

Most distressed residents of HOPE VI developments do not choose to live at the renovated sites. In the audit sample, most of the residents displaced by revitalization efforts do not plan to return to the site. Since authorities primarily provide HOPE VI community and supportive services to residents who will live at the revitalized site, residents choosing not to return may not receive any services. Ironically, these are the residents for which the site was originally funded - their status alone would have been enough to qualify the development as distressed in the Fiscal Year 1993-1995 funding. HUD recognized this problem in 1997 and has taken some action; however, it needs to take additional action in order to adequately address the issue.

Improvements to the lives of residents are unclear.

Some housing authorities, such as Atlanta and Charlotte, have accomplished impressive physical revitalizations at their HOPE VI sites. However, improvements to the lives of the residents who lived there are much less obvious. The Commission reported that severely distressed public housing was not simply a matter of deteriorating physical conditions, but also a matter of a deteriorating, severely distressed population in immediate need of a multitude of services. The HOPE VI guidelines reflect a similar attitude:

“HOPE VI is intended to address the condition of people in public housing developments, and not merely of the bricks and mortar. The parties will emphasize community and supportive services, as well as other means appropriate to each community, so as to have the broadest possible effect in meeting the social and economic needs of the residents and the surrounding community.”⁷

For six of the ten projects, less than 50 percent of the original residents are returning to the HOPE VI sites:

⁷ HUD Notice PIH 95-10, para 7.C.

Site	Residents Returning (%)
Atlanta	12
Charlotte	16
Columbus	35
Dallas	*
Detroit - Jefferies	**
Detroit - Parkside	**
El Paso	51
Milwaukee	42
New Orleans	62
San Antonio - Springview	8
San Antonio - Mirasol	11
San Francisco - Bernal Plaza	70
San Francisco - Hayes Valley	64

Legend:

- * Dallas HOPE VI units are in new, court-ordered developments; thus, there are no prior residents.
- ** The Detroit Housing Authority could not provide this information.

While the reduction in the number of public housing units alone would not allow many residents to return, there are generally far fewer residents interested in returning than units available:

Site	No. of residents returning	No. of units available ⁸
Atlanta	81	360
Charlotte	60	294
Columbus	120	372
Dallas	*	*
Detroit - Jefferies	**	636
Detroit - Parkside	**	570
El Paso	169	364
Milwaukee	182	456
New Orleans	287	440
San Antonio - Springview	28	421
San Antonio - Mirasol	53	500
San Francisco - Bernal	327	484
San Francisco - Hayes	183	117

Legend:

- * Dallas HOPE VI units are in new, court-ordered developments; thus, there are no prior residents.
- ** The Detroit Housing Authority could not provide this information.

⁸ We obtained the number of units available from HUD's Quarterly Reports dated September 15, 1998, or from other information provided by HOPE VI officials.

San Antonio Housing Authority officials attributed the low number of residents returning to residents' reluctance to participate in the required Family Self-Sufficiency Program. They also felt residents preferred the Section 8 vouchers, since it allowed them to escape the crime and stigma of the developments. Authority officials believe that more residents may wish to return once they are able to see some newly constructed units. Authority officials from other sites also said residents were not returning to HOPE VI sites because the authorities required residents to participate in self-sufficiency programs, and residents preferred Section 8 vouchers. Authority officials also felt some residents were satisfied with where they were living and did not want to move again.

HUD acknowledges that the original residents may not be served.

As previously mentioned, Congress has never passed a HOPE VI authorization bill. However, the wording of the NOFAs appears to assume that the original residents would return. The NOFAs for Fiscal Years 1993-96 required authorities to determine the types of services to be provided based on surveys or consultations with the existing residents. Also, the Fiscal Year 1997 NOFA limited funding for self-sufficiency programs at \$5,000 per unit based on the higher of the number of currently occupied units or the number of replacement units.

In 1997, HUD recognized that the original residents were often not being served. The Deputy Assistant Secretary expressed concern that long-time public housing residents might not be prepared to live in Section 8 housing. Without adequate support, residents relocated with Section 8 vouchers might create problems in the neighborhoods. Accordingly, HUD began encouraging authorities to, at a minimum, link the relocated residents to nonprofit service providers located in the area where the residents want to live. Also, HUD changed the NOFA for Fiscal Year 1998 to provide funding of \$5,000 per household for each occupied unit and each new household expected to occupy replacement units.

Still, HUD does not require grantees to ensure that the original residents receive any type of community and supportive services. In addition, authorities that do link residents to service providers are under no obligation to track these residents' progress and status. It would seem

unlikely that residents who do not wish to return to the revitalized site due to mandatory participation in community and supportive services will voluntarily remain linked to service providers.

The HOPE VI Program is based on the assertion that community and supportive services are essential to the lasting success of the revitalization of the development. Accordingly, it makes sense to target the supportive services to the residents who will be living at the revitalized development. Further, a well managed HOPE VI grant should allow for residents interested in improving their lives to receive the services they need to do so in a positive environment. Still, it should be recognized that HOPE VI often may not be addressing the needs of the original residents whose level of distress at least in part qualified the development for funding.

HUD Comments

HUD substantially agreed with the finding and recommendations.

Recommendations

We recommend you:

- 2A. Ask Congress to pass authorizing language that identifies which residents are to receive HOPE VI community and supportive services.
- 2B. Re-evaluate the feasibility and practicality of HUD's policy regarding providing community and supportive services to the original residents.

Grantees Lack Plans to Sustain Community and Supportive Services

HUD needs to place greater emphasis on sustainability of community and supportive services. HOPE VI places a high priority on providing services to address the needs of residents of severely distressed public housing developments. However, the audit results indicate that HOPE VI housing authorities do not have definitive plans for sustaining their community and supportive services programs once HOPE VI funds are exhausted. This is in part because NOFAs have not clearly defined community and supportive services, and have given negligible weight to sustainability of community and supportive services in evaluating and rating HOPE VI applications. Further, the HOPE VI approval process and focus for community and supportive service programs has fluctuated over the years. These conditions have hindered housing authorities in establishing good community and supportive service programs that will continue to exist after HOPE VI funding ends. HUD has begun encouraging authorities to form partnerships with outside entities for community and supportive services. Although stressing partnerships should help, HUD still needs to place more emphasis on sustainability.

Community and supportive services are a key element of the HOPE VI Program.

Community service programs engage HOPE VI residents in meaningful service on a volunteer basis or through limited stipends. Examples of community service programs would be resident youths helping to repair and maintain units or residents providing assistance to the elderly or handicapped. Supportive services include services to address the needs of the residents. Examples of supportive services would be day care services, resident employment and training, and substance abuse services. Community and supportive services can overlap; for example, a community service program may train residents in health care, and the trained residents may in turn provide health services to elderly residents.

HUD has long held that the community and supportive services are an essential ingredient to the long-term sustainability of HOPE VI revitalizations. The “more than bricks and mortar” concept began with the Commission’s report and continues to be a central theme to the HOPE VI program. The Commission stated that it believed: “...unequivocally that a true and long-lasting ‘fix of what’s broken’ requires equal and sufficient attention to both the human needs and the physical plant.” Part of the stated purpose of the HOPE VI Program in the Fiscal Year 1998

Most sites do not have definitive plans for sustaining their community and supportive services.

NOFA is to enable revitalization and transformation of the social dynamics of life for low-income residents.

Despite HUD's firmly held belief in the necessity of supportive services, HUD has not ensured that authorities have realistic plans for sustaining their services beyond the HOPE VI grant. None of the ten sites reviewed had concrete plans for sustaining community and supportive services beyond the grant term.⁹ Specifically:

- Dallas and Milwaukee: Have charitable and nonprofit organizations that have been providing various services to authority residents for years. These authorities indicated they would be able to continue to use these same organizations. However, the authorities have not received any commitments from these organizations to provide services for the HOPE VI residents.
- Atlanta: The Authority said it was in the process of hiring a resource development coordinator, who would be responsible for obtaining funds from local and national foundations. The Authority also mentioned other possible funding sources but had no concrete plans for sustaining community and supportive services.
- Charlotte: The Authority had ideas about generating funds from a child care center and from unused land; however, the Authority had not gone beyond the thinking stage.
- Columbus: The Authority had not developed plans on how to sustain community and supportive services. Authority officials said it would be very difficult to maintain services without some type of funding.
- Detroit: The Authority is attempting to obtain foundation grants but had no assurance of funding.
- El Paso: The Authority states it has filed papers with the State to become the HOPE Community Development Corporation (CDC). As a CDC, the Authority says it will be eligible to apply for funds from

⁹ As discussed in this section, HUD introduced new Community and Supportive Service Plans during four Welfare-to-Work conferences held in the Fall of 1997. At the time the audit was performed, none of the sites in the audit sample had approved Community and Supportive Service Plans under the new Welfare-to-Work emphasis.

the El Paso Collaborative, a local group that channels money to nonprofits from nonprofits and the private sector.

- San Francisco: The Authority anticipates funding from the Department of Health and Human Services and private sources but has no definite plans.

New Orleans and San Antonio: Have yet to implement their community and supportive service programs, much less plan for sustaining the programs. Both Authorities point to HUD's refocus to Welfare-to-Work programs as delaying implementation of their programs.

NOFAs' vagueness and lack of emphasis and fluctuating HUD guidance regarding community and supportive services hinder housing authorities.

NOFAs have not clearly defined community and supportive services, and given negligible weight to sustainability of community and supportive services in evaluating and rating HOPE VI applications. Further, the HOPE VI approval process and focus for community and supportive service programs has fluctuated over the years. These conditions have hindered housing authorities in establishing good community and supportive service programs that will continue to exist after HOPE VI funding ends.

NOFAs describe community and supportive services in vague, broad terms.

The NOFAs for Fiscal Years 1993-95 very loosely defined community and supportive services. Community services include services to help the community performed by residents either on a volunteer basis or for limited stipends. Supportive services represent services that meet specific needs of residents. The NOFAs required authorities to survey the residents to find out what services were needed and provide those services.

Eligible community and supportive services included in the NOFAs for Fiscal Years 1993-95 covered a broad range of services, and no services were specifically listed as ineligible:

Community services: Programs "...to address unmet human, environmental, educational, and/or public safety needs through youth service and conservation

corps, residents' associations, community-based organization, K-12 schools, institutions of higher education, churches or other religious entities and other such similar organizations.”

Supportive services: “...including but not limited to, resident capacity building, literacy training, day care, youth activities, economic development, and resident employment and job training activities such as the Step-Up apprenticeship program.”

The NOFAs for Fiscal Years 1996-98 changed the focus of community and supportive services to self-sufficiency programs. Still, the NOFAs set no parameters, did not identify any ineligible activities, and allowed a broad range of program activities.

NOFAs gave little weight to sustainability of community and supportive services

The rating factors in the NOFA for Fiscal Years 1993-95 considered sustainability of community services “...based on...Evidence that the best efforts will be made to obtain the financial resources necessary to continue the program beyond the term of the revitalization project.” The rating factors also considered extent of involvement of local public and private entities, including “Extent of commitment to the provision of supportive services to residents of the development.” Similarly, the NOFAs for 1996-98 include sustainability and partnerships as evaluation factors or application submission requirements.

Although the NOFAs include sustainability and partnerships, these items are given almost negligible weight in the overall rating scheme. For example, the FY 1998 NOFA considers whether the Authority's self-sufficiency plan “Is financially and programmatically sustainable over the long run.” However, this item represents only 1 of 11 sub-subfactors, which together constitute 1 of 3 subfactors. The 3 subfactors are together worth 10 points under the “Soundness of Approach” factor. The FY 1998 NOFA has a maximum 102 points for all factors. Therefore, although

not assigned a specific value, sustainability probably has a value of less than 1 point.

Changing focus and approval process for community and supportive service programs

Initially, the Corporation for National Services (CNS)¹⁰ had responsibility to approve the authorities' community service plans. CNS indicated that community services were primarily for the revitalization of the spirit of the residents and engendering a sense of collective ownership. HUD officials said they did not believe CNS was heading in the direction they envisioned, and did not renew CNS's contract when it expired in December 1995.¹¹

Beginning in Fiscal Year 1996 self-sufficiency programs replaced community and supportive services. The NOFA placed emphasis on training, education, and support services to enable residents to become self-supporting. Applicants could receive 10 bonus points for implementing a Campus of Learners program.¹² The Fiscal Year 1997 NOFA was similar although there was no emphasis or even mention of the Campus of Learners program. Both the Fiscal Year 1996 and 1997 NOFAs specifically stated that the applicants would be rated based on the degree to which their programs are likely to enable residents to become self-supporting.

In the Fall of 1997, HUD held four Welfare-to-Work conferences in which grantees were told to rework their current plans in favor of services directed towards welfare reform.¹³ Grantees were asked to cancel existing contracts, if necessary, to make funding available for this new emphasis. Grantees are still in the process of revising their Community and Supportive Service Plans. The 1998 NOFA, provided funding for community and supportive services as well as services to the elderly to address quality of life and other social needs.

¹⁰ The Corporation for National Service is a congressionally-established organization that administers national service programs that provide community services.

¹¹ The Corporation for National Service performed some additional work under a no-cost extension through December 31, 1996.

¹² The Campus of Learners program was designed to transform public housing communities into learning environments. It was initiated by former HUD Secretary Cisneros in 1995.

¹³ The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 prohibits states from providing welfare assistance to individuals for more than 60 months. The law allows states to establish shorter time frames if desired. HUD is concerned that the loss of income to residents will necessitate HUD providing higher operating subsidies.

HUD's recent emphasis.

With the Welfare-to-Work Conferences, HUD began placing an increased emphasis on forming partnerships for community and supportive services. In the opening comments, the Deputy Director of HOPE VI stated:

“PHAs and their residents can not do this alone. As a minimum, you must include and work with state and local welfare personnel, with employers and their organizations such as the Private Industry Council, and with job training agencies and organizations such as the Department of Labor, Office of Employment Services, Community Colleges, and others who have the resources and are equipped to train your residents for the specific jobs that will be available in your community. Partnerships are like marriages... they take lots of time and effort to work well. We are all going to have to commit ourselves to community partnerships.”

Listing the community partners and the method for their selection are key elements of the new Community and Supportive Service Plans. HUD plans to meet with grantees and their state welfare offices for all grantees in states that have at least three HOPE VI sites. HUD now requires grantees to obtain a Memorandum of Understanding (MOU) or signed letters of agreement with their state welfare departments. HUD also informs grantees of various private sector entities that have expressed an interest in providing services to help individuals move from welfare to work.

Such partnerships should improve the likelihood that authorities will be able to sustain their programs. Also, since existing programs are not duplicated, the partnerships ultimately result in a more efficient use of federal dollars. This is consistent with the Commission's report which stated,

“Many programs already exist for addressing the needs of low-income families and thus also public housing residents. The lack of coordination and availability of support services

to the residents of severely distressed public housing developments is a major concern.”

HUD needs to emphasize sustainability.

Although the new emphasis on partnerships should help, in our opinion HUD should place more emphasis specifically on the issue of sustainability of community and supportive services. However, HUD officials believe authorities may still not be able to develop completely self-sustaining programs; as such, HUD should seek alternatives to help authorities achieve this goal.

The new Community and Supportive Service plans do not address sustainability as a key element. The Director of Community and Supportive Services said he addresses the issue in his review of the plans. Authorities would have to justify plans that do not include partners or show a disproportionate share of monies being spent in the first couple of years. While such a review is beneficial, it does not have the same effect as having authorities specifically show that their programs can be sustained.

HUD officials expressed concern that housing authorities may not be able to develop 100 percent self-sustaining programs, even with partnerships and an emphasis on sustainability. HUD had considered setting aside monies for self-sufficiency programs in Treasury Bills and have the grantees operate off the interest income. Some HOPE VI sites had a similar idea. They wanted to set aside \$1 million as an endowment and use the interest income for future operations. These ideas had not been accepted due to legal impediments. However, the Quality Housing and Work Responsibility Act of 1998 permits authorities to have endowment trusts to provide supportive services (Title 5, Sec.535 (a), which amends Section 24(d)(2) of the U.S. Housing Act of 1937). This provision, however, does not become effective until fiscal year 2000.

HUD Comments

HUD agreed with the finding and stated it would strengthen the language in future NOFAs to stress sustainability. In addition, HUD is placing more stress on sustainability through rewarding increased leverage and long-lasting partnerships.

**OIG Evaluation of
HUD Comments**

HUD's comments appear responsive to the finding and recommendations. However, we noted that a preclearance draft of the 1999 HOPE VI NOFA did not address sustainability of community and supportive services.

Recommendations

We recommend you:

- 3A. Emphasize community and supportive services sustainability more in the HOPE VI NOFAs and Community and Supportive Service plans.
- 3B. Seek ways to help authorities develop self-sustaining community and supportive service programs.

HOPE VI Developments Need Financial Commitments from the Cities

HUD should require cities to make a financial commitment to the revitalization area. HUD used to have a city matching requirement but eliminated the requirement after Fiscal Year 1995. Although HUD awards HOPE VI grants to housing authorities, the grants also represent a substantial investment to the cities where the developments are located. Aside from the millions of HOPE VI dollars pumped into their economies, cities benefit from the removal of blighted sites, and often a corresponding reduction in the crime rate. Also, with HUD's emphasis on leveraging and mixed income developments, the HOPE VI grants often lead to the revitalization of entire neighborhoods. Recently, Congress passed a public housing bill that requires grantees to provide matching funds; however, the matching funds do not have to come from the cities.

City contributions vary widely.

At some HOPE VI sites we visited, the cities made substantial contributions to the revitalization of the development and the surrounding neighborhood:

- In Milwaukee, the City provided sizable trees for landscaping, decorative street lighting, sidewalks, and new store fronts for the Hillside Terrace development. The City also sold lots to the Authority for a \$1 each for their single family homes.
- In Columbus, the Rosewind development is located in an area the City has targeted as a community reinvestment area. The City has committed to street improvements and a new police and fire substation. In addition to providing its required match, the City has also provided \$1.15 million in CDBG funds for the area.

Still, other cities have been reluctant to even provide more than the minimum:

- In New Orleans, City officials have repeatedly claimed to have made a substantial investment in the area of the Desire development. However, the City could not provide evidence to substantiate their claims. Further, the City refuses to provide trash pickup for Desire even though the development is located within the city limits.

- In El Paso, the City has not met all of its required contribution of \$150,000 in matching supportive services funds for the blighted Kennedy Brothers neighborhood. A City official stated the City has already invested in the area and it does not plan on any further investments in the community.

HUD eliminated its city match requirement.

Originally, HUD required cities to provide a match of 15 percent of supportive services in cash or in-kind services (community services were not considered). This often resulted in a relatively small dollar amount and did not take into consideration city contributions unrelated to supportive services. For example, the City of Milwaukee could not count the fair market value of the lots they provided as part of their match.

Site	Grant Amount	Required Match
Atlanta	\$42,562,635	\$201,662
Charlotte	\$41,740,155	\$558,653
Columbus	\$42,053,408	\$451,430
Dallas	\$26,600,000	\$180,000
Detroit - Jefferies	\$49,807,342	\$971,679
Detroit - Parkside	\$47,620,227	\$204,533
El Paso	\$36,224,644	\$150,000
Milwaukee	\$45,689,446	\$560,000
New Orleans	\$44,255,908	\$929,100
San Antonio - Springview	\$48,285,500	undeterminable*
San Antonio - Mirasol	\$48,810,294	undeterminable*
San Francisco - Bernal Plaza	\$49,992,377	\$162,841
San Francisco - Hayes Valley	\$22,055,000	\$82,500

* The San Antonio budgets did not provide sufficient information to be able to determine the required supportive services match.

HUD eliminated the requirement for a match after Fiscal Year 1995. HUD officials said they no longer saw the need for it, and that some of the cities cannot afford the match. They said the purpose of the match was to get the mayors involved in the revitalizations, and that this was taking place without the city match requirement.

City commitment can provide the greatest chance for long-term success.

In our opinion, cities are the obvious first partners in any revitalization effort. As can be seen from Milwaukee and

Columbus, city support and participation can greatly increase the positive impact achieved through the revitalization. Although city resources vary, most cities receive other funding from HUD, including Community Development Block Grant (CDBG) and/or Home Investment Partnerships Program (HOME) funds, which they could at least in part set aside for the revitalization effort.

Sites located in distressed neighborhoods need a strong city commitment. The National Commission on Severely Distressed Public Housing found cases where significant public investment in housing only resulted in short-term improvements. It concluded that where severely distressed public housing is located in distressed neighborhoods revitalization of the development must be undertaken in conjunction with the revitalization efforts in the surrounding neighborhood and community.

The Quality Housing and Work Responsibility Act of 1998 will require HOPE VI grantees to provide a 5 percent match (Title 5, Sec.535(a) which amends Section 24(c) of the U.S. Housing Act of 1937). The matching funds may be from other federal sources, or other governmental or private sources, and may include the value of in-kind services or donated material or building. However, this provision does not specifically require city participation. Tax credits alone could account for the match.

Requiring cities to provide a match signifies more than just getting the mayors involved. It can be a means to bring about a meaningful commitment from the cities who are themselves benefiting from the grant, and can provide the revitalization with the greatest chance for long-term success.

HUD Comments

~~HUD agreed that meaningful involvement by the City in the HOPE VI revitalization activities is critical to spur overall revitalization of the community. Leverage has been a key component of HOPE VI for several years and the funding commitment of the City is a primary source of such leverage. The Quality Housing and Work Responsibility~~

Act does not specify a source of funds; therefore, city funding is not mandated.

**OIG Evaluation of
HUD Comments**

As noted in the finding, not all cities have made significant contributions to HOPE VI developments and surrounding neighborhood. As such, it appears that HUD needs to do more than rely on leveraging alone to ensure significant involvement of all HOPE VI cities.

Recommendation

We recommend you:

- 4A. Reinststate a city match requirement or encourage city commitments through the NOFA process by awarding applicants with written commitments from the cities.

HOPE VI Lacks Meaningful Cost Guidelines

HUD’s Total Development Cost (TDC) limits for the development of new projects are too low for the quality of housing and amenities sought after under HOPE VI. HUD has sought to raise the quality of units being built, but has continued to use the same cost guidelines used for traditional public housing. HUD has moved toward establishing new TDC guidelines, which appear to substantially address these concerns. HUD needs to proceed to refine its guidelines pertaining to “soft” costs of development, including placing restrictions on income housing authorities receive through developer fees. HUD also needs to resolve TDC waiver requests for grants not covered under the new TDC guidelines.

Definition of total development cost

According to the 1997 Notice of Funds Availability:

“Total Development Cost is defined as those costs for planning (including proposal preparation), administration, site acquisition, construction and equipment, interest and carrying charges, relocation, demolition, on-site streets and utilities, non-dwelling facilities, a contingency allowance, insurance premiums, off-site facilities, any initial operating deficit and other costs necessary to develop the project. The maximum total development cost excludes costs funded from donations.”

Section 6(b) of the United States Housing Act requires that the Department establish TDC limits by multiplying the average of two nationally recognized cost indices by 1.6 for elevator structures and 1.75 for non-elevator structures.

The cost indices represent only the hard costs of constructing the units. According to HUD officials, the multiplying factors account for soft costs, land acquisition, and demolition. However, HUD officials did not know what basis Congress used to establish the multipliers. HUD’s TDC limits are based on the average of two cost indices: Boeck (Economy) and Marshall & Swift (Fair). HUD publishes notices annually to update TDCs which are listed by geographic location, bedroom size, and structure type.

HUD permits Authorities to exceed the TDC limits under certain circumstances. Under 24 CFR 941.306 (a), HUD

may approve higher costs if necessary and reasonable to develop a modest non-luxury development that provides for efficient design, durability, energy conservation, safety, security, economical maintenance, and a healthy family life that blends well in a neighborhood environment. In the annual notices since 1995, HUD has provided specific circumstances in which higher costs may be necessary:

“Higher costs may be necessary because of the need to develop community space, which is not now in the TDC calculation; high land costs incurred to promote housing locations in low poverty areas; extraordinary site costs such as unavoidable environmental expenses; and extraordinary rehabilitation or development costs such as those related to historic preservation.”

TDC limits are too low for the quality of housing HUD wants under HOPE VI.

The Final Report of the National Commission on Severely Distressed Public Housing expressed concern regarding the adequacy of TDC limits. The Commission felt that authorities should be allowed to seek waivers to exceed TDC:

“The Commission’s case studies of housing development turnaround sites have shown that the cost of successfully rehabilitating and replacing certain severely distressed public housing units have been higher than the costs of constructing modest replacement housing, on which the TDCs are based.”

HUD also anticipated that HOPE VI grantees would need to exceed Total Development Cost limits for public housing, to allow for the desired physical transformation of the developments. Section E of HUD Notice PIH 95-10 states in part:

While the Department is concerned about the high cost of revitalizing these most severely distressed developments, it also recognizes the need to go beyond traditional approaches to modernization. Therefore, under the HOPE VI grant PHAs may exceed Total Development Costs (TDC) limits after written approval from Headquarters on a case by case basis with

sufficient justification of good cause for the higher costs.

HUD does not expect the PHA to adhere to standards of design and construction which have prevailed in the past, but instead will evaluate each Replacement Housing Plan for cost reasonableness in light of the standards set forth in the Grant Agreement.

The HOPE VI grant agreement also encourages grantees to depart from past standards of design and construction on which the TDC limits are based. For example, whereas traditional public housing only permits carpeted units for the elderly and handicapped, and requires justification for air conditioning, HOPE VI allows these features. According to Article X of the grant agreement: “A grantee is permitted the maximum possible flexibility regarding amenities and design of public housing developments under HOPE VI where justified as necessary to meet the standards articulated in Article IX.” Article IX states in part:

Physical structures also should be designed, constructed and equipped so as to improve or harmonize with the neighborhoods they occupy, meet contemporary standards of modest comfort and liveability, and be attractive and marketable to the people they are intended to serve. Building design and construction should strive to encourage in the residents a proprietary sense, whether or not homeownership is intended or contemplated.

The HOPE VI Director said the current guidelines do not allow for the quality of design they are seeking to achieve with HOPE VI. The limits do not allow for front porches, landscaping, and other amenities that would allow the units to be marketable to the private sector.

HUD attempts to establish new guidelines.

Early in 1997, shortly after his appointment as Secretary of HUD, Secretary Cuomo charged the Office of Public Housing Investments with establishing a policy relative to TDC which would both control costs appropriately and

result in the program operating without exceptions. In August, the Office of Public Housing Investments proposed new TDC guidelines. The guidelines proposed the use of a new index, R.S. Means (Average) and raised the Marshall & Swift index from fair to good. Costs for community and supportive services, management improvements, extraordinary demolition/infrastructure, relocation and operating reserves were not considered as costs subject to TDC. However, according to HUD officials HUD Secretary Cuomo rejected these guidelines because he did not like the idea of both excluding some costs from consideration under TDC and still allowing authorities to request waivers. Also, he felt the \$100,000 average per unit cost was too high.

In January 1998, HUD developed a second TDC policy that met with the Secretary's approval. This policy excluded community and supportive services and relocation costs from TDC limits. The policy calculated TDC on the basis of R.S. Means (Economy) and Marshall & Swift (Fair) indices using the 1.6 and 1.75 multipliers. Within the TDC limits, the policy capped housing construction hard costs at the R.S. Means (Average) and Marshall & Swift (Good) cost indices, excluding any multiplier. The cap on hard costs applied to all HUD funds, including public housing, HOPE VI, CDBG, and HOME funds. The TDC amount remaining after hard costs could be used for infrastructure and soft costs. The TDC limits had no cap on non-public housing funds.

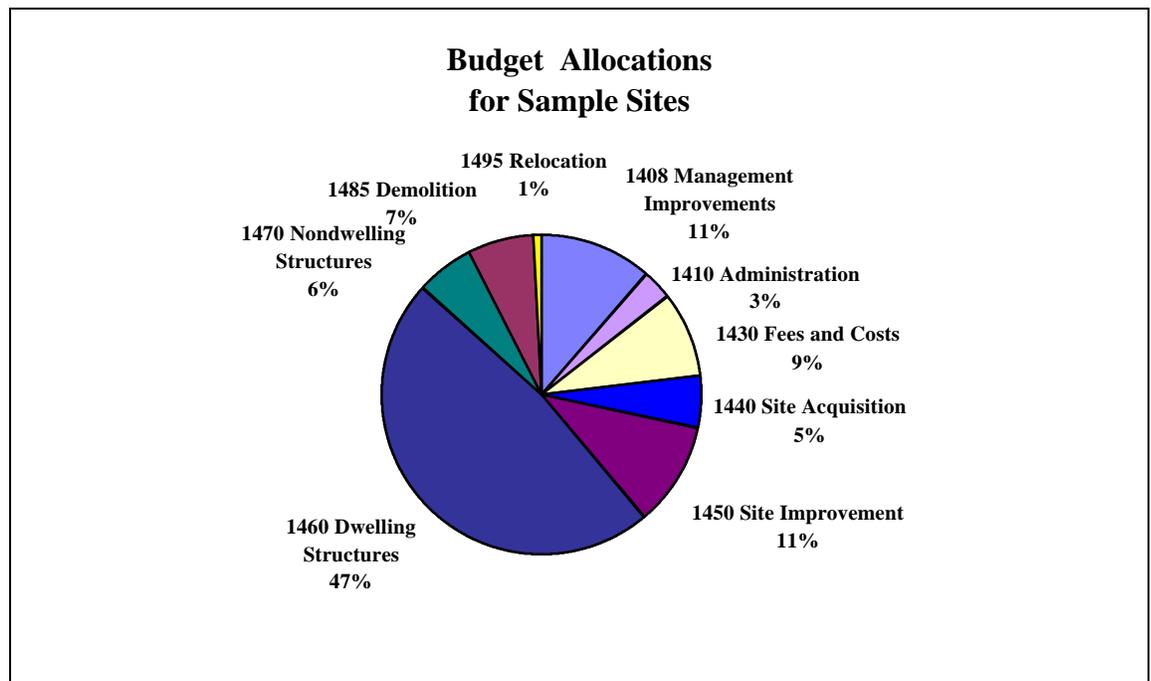
In May 1998, the Appropriations Committee sent a letter to HUD expressing its concern that the policy was too restrictive. "We recognize that controlling costs and at the same time creating mixed income communities is extremely difficult to balance, but we are concerned that your proposed policy is too restrictive to achieve our mutual goals in redeveloping public and mixed income housing. Furthermore, we have been contacted by a number of outside organizations and individuals who have expressed similar concerns." The Appropriations Committee recommended the following:

- Raising the TDC cost indices (including multipliers) to R.S. Means (Average) and Marshall & Swift (Good)

and limiting hard costs to the indices (without multipliers).

- Eliminate restrictions on the use of CDBG and HOME funds.
- Remove from TDC the costs of demolition and remediation of on-site units which are not to be replaced during the revitalization, and other extraordinary site costs.

On June 18, 1998, HUD wrote the Appropriations Committee to say it would modify the TDC policy in accordance with its direction as articulated in the May 1998 letter. In September 1998, HUD issued a draft Notice which incorporated the Committee’s recommendations. The new TDC policy will apply to grants awarded in 1997 and 1998, and appears to be a significant step forward for HUD in controlling HOPE VI costs.



Note: Budget allocation percentages taken from HUD’s Program Management System.

Guidelines for soft costs needed.

The Appropriation Committee also urged HUD to establish guidelines for soft costs such as administrative fees for housing authorities, developers fees, and other consultant

fees. HUD responded in the draft Notice, saying it is streamlining grant processing and procedures; setting cost limits for PHA administration, developer, legal, consultant, and other fees; implementing data collection and management reporting systems; and establishing a construction inspection protocol.

HUD needs to continue to move ahead in developing soft cost guidelines. In the development of such guidelines, HUD should consider placing restrictions on funds that authorities may earn from the HOPE VI Program. To illustrate the need for such guidelines, the Atlanta Housing Authority earns a portion of the developer's fees for its HOPE VI Programs. This portion is expected to be over \$2 million. Currently, HUD has no guidelines on authorities making deals with HOPE VI developers or other contractors that could financially benefit the Authority. It seems questionable that HUD should allow grantees to earn profits from developer fees. At the very least, HUD should require authorities to use any income earned for HOPE VI operations, such as sustaining community and supportive services.

HUD needs to address TDC costs for grants not covered under new guidelines.

As previously stated, the new TDC guidelines will apply to 1997 and 1998 grants. However, pre-1997 grants must still adhere to the prior TDC limits. HUD has not always timely approved waivers for housing authorities to exceed TDC limits. As of October 1997, HUD had not yet approved requests for waivers of TDC limits for 16 HOPE VI sites. Five of the 16 sites were well under construction, even without the waiver approvals. This weakens HUD's control over development costs, in that it may be difficult, if not impossible, for HUD to question Total Development Costs for projects that are nearing completion, or have already been completed. HUD officials acknowledged that they needed to address the issue of TDC waivers for the older grants.

HUD Comments

HUD agreed with the finding and recommendations and is taking appropriate action.

Recommendations

We recommend you:

- 5A. Timely develop TDC guidelines for soft costs, and consider placing restrictions on income received by authorities through the HOPE VI Program.
- 5B. Promptly review sites needing TDC waivers and take appropriate action.

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Tenants of Desirable HOPE VI Units May Not Want to Leave Public Housing

Housing units capable of commanding high rents may create a disincentive for residents to leave public housing. HUD has encouraged grantees to build developments in the architectural style and with the amenities found in the private market in the areas in which they exist. In doing so, HUD hopes to end the isolation of public housing developments, and presumably its residents, from the broader community and provide residents with role models of self-sufficient living. However, this may also have the unintended effect of creating a disincentive for residents to become self-sufficient. By placing residents in units that could command a much higher rent than most entry level job positions would provide for, residents could be put in a position of having to take a substantial downgrade in their standard of living if they became self-sufficient and left public housing.

Assisting residents in moving up and out of public housing is a goal of Congress and HUD.

One of the stated purposes of the Quality Housing and Work Responsibility Act of 1998 is “...creating incentives and economic opportunities for residents of dwelling units assisted by public housing agencies to work, become self-sufficient, and transition out of public housing and federally assisted dwelling units...” (Title 5, Sec.502(b)(5)).

In addition, the HOPE VI Guidebook lists the following among “The elements of public housing transformation that have proven key to HOPE VI”

- “Change the physical shape of public housing. This includes substantial rehabilitation of existing public housing and/or tearing down obsolete public housing and replacing it with units that blend with the surrounding neighborhoods and are attractive and marketable, meeting contemporary standards of modest comfort and liveability.”
- “Achieve resident self-sufficiency and provide comprehensive services that empower residents. Self-sufficiency Programs must be results-based and result in residents moving up and out of public housing.”
- “Lessen concentrations of poverty by reducing density, placing replacement public housing in nonpoverty

neighborhoods, and/or by promoting mixed-income communities where public housing once stood alone.”

HOPE VI may create a disincentive for residents to leave public housing.

Atlanta’s Centennial Place provides an exceptional example of the implementation of these strategies for the transformation of public housing. The revitalized site is a mixed-income development located next to the Georgia Tech campus and the Coca-Cola Bottling Company. The attractively designed, well landscaped development has 360 market rate units, 180 tax credit units, and 360 public housing units. All the units have full-size appliances, including dishwashers, disposals, and washer and dryers. The housing development also provides tenants with intrusion alarm systems, controlled access parking, tot lots, swimming pools, and a fitness facility.

HUD and the Authority considers the development successful in that the units are very attractive and they are experiencing no problems with occupancy. In fact, due to high demand, the development’s management twice increased rents for the market rate units in Phase 1. The Phase 2 units had not been completed at the time of our review but already had a waiting list for occupancy. However, a look at the market rate rents and minimum qualifying incomes shows the dilemma that is created.

Apartment Size	Minimum Income*	Rent
1-Bedroom/1-Bath Garden Style	\$24,000	\$679
2-Bedroom/1-Bath Garden Style	\$28,000	\$779
2-Bedroom/2-Bath Garden Style	\$31,600	\$879
2-Bedroom/1.5 Bath Townhouse	\$32,400	\$899
2-Bedroom/1.5 Bath Townhouse with Garage	\$36,000	\$999
3-Bedroom/2.5 Bath Townhouse	\$45,000	\$1,259
3-Bedroom/2.5 Bath Townhouse with Garage	\$49,000	\$1,359

*The minimum income required is set at 3 times the amount of the rent.

Most public housing residents require the larger units. A resident in a 3 -bedroom unit would have to earn a minimum of \$45,000 in order to remain in the unit after becoming self-sufficient. The property manager felt that residents who became self-sufficient would prefer to try to buy a house rather than pay the high rents at Centennial Place. Officials also pointed out that the residents could move into the tax credit units. The minimum income for a 3-bedroom tax credit unit is only \$27,400. However, as new entrants into the job market this lower income level may still not be realistic, and there are no guarantees that tax credit units will be available at the time the residents leave public housing.

Atlanta



**Centennial
Place**

**Swimming
Pool**



**Workout
Facilities**

Milwaukee



Single Family Homes

Dallas

Frankford Townhomes



Although not always as conspicuous, the same type of disincentive may be created at other sites where the market value of the unit is significantly higher than what new entrants in the work force or many taxpayers could afford.

To encourage self-sufficiency, some sites, including Charlotte, have imposed a 5-year limit on occupancy. After 5 years, residents will have to become self-sufficient or move to other public housing. Still, authorities may have difficulty enforcing such a requirement if the residents are in otherwise good standing with their lease. Further, HUD does not require HOPE VI grantees to impose occupancy time limits. Milwaukee does not have a time limit, so residents can live indefinitely in single family homes the Authority constructed at a cost of between \$88,774 and \$109,673 each. The City provided the lots to the Authority for \$1 each. Dallas also has no time limit for occupancy for the attractive new units it built in affluent north Dallas for over \$88,000 a unit.¹⁴ For developments that don't impose residency time limits, the units could become the permanent homes of a "select few."

HOPE VI appears to have created a dilemma in trying to build comfortable, attractive housing units that fit in with the surrounding areas, while at the same time trying to help residents become self-sufficient so that they can move up and out of public housing. HUD needs to resolve this dilemma. Some possible alternatives include building decent housing whose market rents are such that newly self-sufficient residents can afford the rents or requiring grantees to impose time limits on occupancy of HOPE VI units.

HUD Comments

HUD agreed with the finding and recommendation.

Recommendation

We recommend you:

- 6A. Evaluate the issue of how HOPE VI housing may provide a disincentive for residents to move up and out of public housing and seek ways to resolve the issue.

¹⁴ This amount does not include substantial legal and public relations costs the Dallas Housing Authority incurred due to homeowner lawsuits to block the construction.

HUD Needs to Ensure Adequate Oversight of the HOPE VI Program

Some of the problems found during the audit of HOPE VI sites might have been avoided or resolved had HUD adequately monitored HOPE VI activities. HUD did not perform the minimal monitoring required by HOPE VI guidelines. This occurred because of HUD's policy to respect local decision making, understaffing of HUD HOPE VI, and other reasons. HUD has increased staffing and taken other steps to improve its oversight of the HOPE VI Program. HUD needs to follow through on these positive steps to ensure adequate oversight of the program.

HUD monitoring requirements

HUD Notice PIH 95-10¹⁵ states that:

- *HOPE VI Division staff* will make at least one technical assistance on-site visit per year to each HOPE VI housing authority, and to the extent possible will coordinate the timing so that the HUD Field Office Coordinator and outstationed Program Advisor can participate.
- *Corporation for National Service representatives* (staff and/or consultants) will also make one or more technical assistance and monitoring visits annually to each housing authority to observe the community service programs and determine compliance with the Agreement executed between the CNS and the authority.
- *HUD field office staff* will make on-site monitoring visits to each HOPE VI site at least once a year and prepare a report in a format prescribed by the Office of Distressed and Troubled Housing Recovery.

Required monitoring often did not take place.

The audit results showed infrequent monitoring of HOPE VI activities. For four HOPE VI sites (Columbus, San Antonio Springview, Mirasol, and San Francisco - Bernal/Plaza East), HUD and Corporation for National Service (CNS) staff did not perform any monitoring at all.

¹⁵ HUD extended PIH Notice 95-10 (2/22/95 - 2/28/96) with PIH Notice 96-10 (3/15/96 - 3/31/97) but did not extend it further. Consequently, HUD has no current monitoring requirements in place. A HOPE VI official stated a notice is being drafted reinstating annual monitoring visits by the field offices, and setting forth field office versus headquarters responsibilities.

Also, in most cases where monitoring took place, it was a one-time rather than annual occurrence.

<i>HOPE VI Site</i>	<i>Number of Monitoring Visits</i>		
	<i>HUD Headquarters</i>	<i>HUD Field Offices</i>	<i>CNS</i>
Atlanta	0	0	1
Charlotte	0	1	0
Columbus	0	0	0
Dallas	unclear	0	1
Detroit - Jefferies	1	2	0
Detroit - Parkside	0	1	0
El Paso	0	1	1
Milwaukee	0	1	0
New Orleans	0	0	unclear
San Antonio - Springview	0	0	0
San Antonio - Mirasol	0	0	0
San Francisco - Bernal	0	0	0
San Francisco - Hayes	1	1	0

Note: Unclear signifies uncertainty whether or not a review was performed due to lack of documentation. The figures do not include site visits where monitoring reviews were not performed.

“Hands off” policy a factor in the lack of HUD monitoring.

Until recently, HUD has taken a “hands-off” approach to monitoring. PIH Notice 95-10 states, “HUD intends to respect local decisions to the fullest extent possible under existing laws.” The HOPE VI Director indicated that the program was not intended to involve heavy oversight of housing authorities - that authorities were supposed to have little red tape, more control, and be more entrepreneurial. He felt that the low staffing levels within the HOPE VI office were at the core of everything. They show that Congress never intended that HUD control or tell the authorities how to spend the funds - decisions should be left to local officials who know best.

The OIG agrees that HUD should allow housing authorities flexibility in implementing their HOPE VI Programs. However, HUD’s policy to respect local decision making does not mean HUD should abdicate oversight responsibility or give its blessing to questionable or unwise grantee proposals or actions. As the above table shows, HUD and CNS did not perform even the minimal HOPE VI monitoring requirements. Further, at authorities where the

severely distressed housing resulted from poor management, the hands-off approach is inappropriate.

The audit found instances where the hands-off policy resulted in HUD failing to take appropriate corrective action when it was aware of problems. The audit results show that HUD also needs to be well informed regarding grantee activities, and exercise its authority when it encounters questionable proposals, activities, or decisions (see inset).

HUD understaffing and other factors also contributed to inadequate monitoring.

HUD's inadequate monitoring also occurred because of staffing shortages. In addition, the infrequent monitoring can in part be attributed to HUD field offices performing monitoring by risk analysis, and the expiration of the Corporation for National Service contract.

HUD understaffing. In a July 1998 report to Congress, the General Accounting Office (GAO) noted that "During the past 2 to 3 years, staffing cuts in headquarters and the field have diminished HUD's capacity to oversee the HOPE VI program."

In a February 1998 interview, the HOPE VI Director said he was down to one grant manager from the six grant managers he originally had. He said HUD's 2020 initiative eliminated two positions, and three other grant managers left for other jobs or requested reassignment. Yet his office's responsibilities included oversight of 82 implementation grants totaling almost \$2.5 billion and other related responsibilities.

The San Antonio Mirasol development provides an illustration of the effects of HUD's inadequate staffing. HUD awarded the \$48 million Mirasol grant to the Authority in February 1995. The Authority submitted its Revitalization Plan and Demolition and Relocation Plans to HUD in May 1995. HUD did not send its approval of the Demolition and Relocation Plans until December 31, 1996, and as of June 1998 had not yet approved the Revitalization Plan. Thus, after more than 3 years the grant remained at a standstill. HUD's Grant Manager for Mirasol said the Authority and HUD did not have adequate staff to devote to the grant.

Field office monitoring by risk analysis. The HOPE VI Director said that at one time field offices used risk analysis to determine whether they would review HOPE VI developments. As such, field office staff would not always perform the required annual reviews.¹⁶ The Director said that field offices now know they have to perform annual reviews.

CNS contract expires. As previously stated, HUD did not renew the Corporation for National Service (CNS) contract when it expired in December 1995, although CNS continued to monitor under a no-cost contract extension until December 1996. Therefore, CNS monitoring of the community service programs was discontinued.

¹⁶ In its audit of HUD's financial statements for Fiscal Year 1996, the OIG reported that the field offices were not always performing the annual monitoring reviews of HOPE VI sites. At the time, field office officials said they believed they were not responsible for oversight of the HOPE VI Program unless headquarters specifically designated responsibility to them.

Importance of HUD Oversight Responsibility

New Orleans. In procuring a developer for the Desire development, HUD approved the Request for Proposal even though there were clear indications that the scope of work for the implementation phase was not known at that time. Also, despite the Authority's history of problems, HUD staff did not review, or adequately review, the \$7.5 million amendment or the costs. Therefore, questions and deficiencies that should have come to light by proper HUD oversight remained unanswered and unresolved.

Dallas. Public controversy and Congressional interest surrounded the Authority's purchase of a piece of land for \$1.3 million to build public housing units in affluent north Dallas. However, HUD did not adequately investigate the matter. Despite questions that the Authority had significantly overpaid for the property at Frankford Road and Marsh Lane, HUD reversed its initial decision to perform its own appraisal of the land "In order to avoid micro-management and expedite public housing development....." Instead, HUD accepted the appraisal submitted by the Authority, an appraisal performed after an offer was made on the land and which exactly equaled the offer price. An OIG Appraisal Specialist performed an appraisal review and concluded that some of the comparables used in the Authority's appraisal were not valid, and the land was not worth more than \$1 million at the time of purchase.

HUD has made improvements.

HUD has taken significant steps to improve its oversight of HOPE VI grants. These steps include: (1) hiring additional staff; (2) giving more responsibilities to HUD field offices; (3) hiring a consultant to develop a comprehensive management information system for HOPE VI sites; and (4) expanding its use of contracted technical assistance providers. HUD officials need to follow through to ensure these efforts result in an effective HOPE VI monitoring system.

Headquarters hires more staff. Recently, HUD gave the HOPE VI office permission to hire 11 additional persons. As of September 1998, the department had hired nine persons. The additional staff has allowed the department to reorganize into three grants management teams. Each team has four to five members, including a team leader. The office also has a community and supportive service (community self-sufficiency) team and a policy and program services team.

More responsibilities for field offices. HOPE VI officials have also begun experimenting with shifting additional responsibilities to the field offices. This has been somewhat complicated by HUD 2020 reforms which have currently left some field offices without the capacity to perform certain duties. In August 1998, the department held a Grants Management Workshop. The department polled the 26 "hub" field offices to determine which offices have the capacity and the desire to take on additional responsibilities. Most offices responded they were willing to accept the additional responsibilities, but eight field offices declined to take the lead responsibility on some or all of the HOPE VI sites in their jurisdiction. The department plans to establish a minimum level of responsibility for the field offices which they would have to justify refusing to perform. However, some field offices may be given additional responsibilities if they have the desire and capacity to assume them.

HUD hires consultant to develop management information system. HUD contracted with KPMG Peat Marwick to develop a Program Management System for HOPE VI. The database accumulates detailed information from each of the grantees on the numbers and types of units before and after revitalization, sources and uses of funds, and targets and outcomes for community and supportive services. When

fully implemented, the database should allow HUD to more easily track grantees' progress, and identify grantees in need of management intervention. The system should also allow HUD to provide Congress and other interested parties with detailed information about the overall progress of the HOPE VI Program.

HUD expands its use of technical assistance providers. Prior to Fiscal Year 1998, the HOPE VI office had never received more than \$3.22 million per year for providing technical assistance to housing authorities. For Fiscal Year 1998 Congress appropriated \$10 million for HOPE VI technical assistance. A HOPE VI official said that they will assign an "expediter" (management consultant) to each of the FY 1998 grantees. HUD also plans to send expeditors to pre-FY 1998 grantees that have significant problems.

Although HUD has taken positive actions to improve its oversight capabilities, these actions are not without problems and difficulties. These problems and difficulties include:

HUD needs to follow through to ensure it has an effective monitoring system.

- *Questions as to field office capacity to assume more responsibility.* As noted above, 8 of the 26 hub field offices declined to assume lead responsibility for HOPE VI sites in their jurisdiction. This may be in large part due to staffing shortages and organizational changes at field offices. The Atlanta field office commented: "Atlanta has only one facilities management type that is functional; therefore, until we are in a position to obtain staff or resources we cannot take on the responsibility at this time. As you know, we have 200 PHAs in Georgia."
- *Questions regarding the accuracy and reliability of the Program Management System.* The audit noted inconsistencies between information contained in the database and information OIG staff obtained during the audit. KPMG Peat Marwick officials acknowledged a problem with the accuracy and completeness of the data. KPMG officials said they have analyzed the data to identify inconsistent information reported by housing authorities, but have no way of detecting inaccurate data. HUD does not currently have a plan to correct the problem. The database has the potential to be an

excellent management tool, and is essential for being able to readily report program results. However, until HUD can be reasonably sure about the accuracy and completeness of the information, the database's usefulness is limited.

- *Costs and future funding of expeditors.* Expeditors (management consultants) provide a level of expertise not readily available within HUD in developing solutions at troubled sites and keeping HUD officials informed on HOPE VI activities. However, such expertise is costly. To help control costs, HUD has recently developed a fee structure where contractors are grouped in pay bands. The maximum hourly rates for the three bands are \$125, \$150 and \$175. Specialists can cost considerably more. HUD officials said it was their policy to use the lowest costing consultant capable of performing the desired tasks. Regardless, the expeditors will be cost prohibitive if Congress does not continue to provide technical assistance funding at close to Fiscal Year 1998 and 1999 levels. Since the expeditors are such an integral part of HUD's new monitoring system, lack of future funding would have a significant detrimental impact on HUD's ability to effectively monitor the HOPE VI Program.

HUD needs to seek ways to resolve these problems and issues, and ensure the HOPE VI Program has an effective monitoring system.

HUD Comments

HUD agreed with the finding and said it was taking action to strengthen HUD oversight through increased staffing, delegation of additional responsibility to field staff, "up front review of projects by expeditors, grant managers, and field staff, and refinement of the KPMG management system.

OIG Evaluation of HUD Comments

HUD's response substantially addresses most of the issues in the finding. However, the response does not adequately address the issue of costs and future funding of consultants and expeditors.

Recommendation

We recommend you:

- 7A. Ensure there is adequate oversight of HOPE VI activities by maintaining effective monitoring and information systems. Also, you should pursue ways to resolve problems and issues, including monitoring responsibilities of field offices, accuracy and reliability of the management information system, and costs and future funding for consultants and technical assistance providers.

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HUD Needs to Provide Authorities with Clear Guidance on the Role of Residents

A lack of a clear policy and guidance regarding resident involvement in the planning and implementation of revitalization sites has frequently resulted in significant confusion and controversy. HUD needs to establish a clear policy and guidelines so that residents' input and concerns are seriously considered, and housing authorities and residents know the extent to which residents may participate in decision making.

HUD requirements for resident involvement lack clarity.

HUD has stressed to housing authorities the importance of involving residents of HOPE VI sites in the revitalization process:

NOFA and grant agreements require meaningful resident involvement. The Program Requirements section of the Notice of Funding Availability for Fiscal Years 1993-95 states in part:

“In consultation with the residents, the PHA shall develop a process which assures that residents are fully briefed and meaningfully involved in developing, implementing, and monitoring the urban revitalization program. The PHA shall give full consideration to the comments and concerns of residents. The process shall include:

- “a. Resident consultation in the selection of the units included in the application.
- “b. Resident consultation in the preparation of a plan under a planning grant or implementation grant application under an implementation grant. Such consultation shall include, but not be limited to, identification of the nature and causes of distress, design of appropriate remedies for the causes of distress, the overall redesign, units to be demolished, community service opportunities, supportive services, empowerment opportunities and replacement housing.
- “c. Adequate opportunity for residents to comment on the plan or implementation grant application.

- “d. Summary of the resident comments and the Authority’s response to be provided to HUD and any resident organization representing the development.
- “e. The opportunity for a resident organization to purchase any units planned for demolition under section 412 of the National Affordable Housing Act, 1990, as amended by section 116(a) of the Housing and Community Development Act of 1992.
- “f. Notification to residents of HUD approval of a grant.”

HUD made some wording changes to the FY 96-98 NOFAs; however, the NOFAs maintained the same emphasis on meaningful resident involvement.

Under Resident Consultation Requirements, the HOPE VI Grant Agreement for Fiscal Years 1993-1995 states:

- “1. The Grantee will notify residents of the Development, and any representative organizations for the Development, of the approval of the HOPE VI grant and the availability of the Revitalization Plan....
- “2.(a) The Grantee will consult with the residents of the Development...in the manner provided for in the HOPE VI Application, but in no event less frequently than once every two months. Notwithstanding the foregoing, HUD will have the option at any time, based upon HUD’s determination that the existing method of resident participation is substantially inadequate or insufficient, to require the Grantee to prepare a memorandum of understanding with the residents setting forth the manner and frequency of consultation, the method (if any) for designating resident participants, the issues with respect to which resident involvement will be sought, and any other matters deemed advisable by HUD or the Grantee.
- “ (b) The purpose of the resident consultations is to assure that residents are fully briefed and meaningfully

involved in implementing and monitoring the Revitalization Plan. Therefore, the resident consultations must (i) inform the residents of the Grantee's progress in carrying out the Revitalization Plan and (ii) provide for meaningful resident participation concerning Grantee's progress in carrying out the Revitalization Plan and open issues pertinent to the Revitalization Plan.

- “3. The Grantee and HUD are the sole parties to this Grant Agreement and do not intend to create any third party beneficiaries to this Grant Agreement. Notwithstanding the provisions set forth in this Grant Agreement requiring consultations with residents, nothing in this Grant Agreement may be construed as conferring the status of third party beneficiary upon the residents.
- “4. The Grantee will provide the residents with written notice of the time and place of consultations. The Grantee will maintain accurate records of the resident consultations required hereunder.”

Beginning with the Fiscal Year 1996 Grant Agreement, the Resident Consultation Requirements were included under Community Involvement:

“The Grantee will facilitate the creation of a community task force with residents and members of the community. The purpose of the community task force is to assure that residents and the surrounding community are fully briefed and meaningfully involved in developing, implementing, and monitoring the self-sufficiency and community building components of the Revitalization Plan.”

The Grantee's responsibilities listed are similar to those of previous years except references to resident groups have been replaced by references to the community task force. Also, the Grantee is to develop a self-sufficiency and community building workplan with the participation of the community task force.

The NOFAs and Grant Agreements do not clearly indicate what “meaningful” resident involvement entails. Although HUD has made strong efforts to ensure residents would have a significant involvement in the planning and implementation of the HOPE VI revitalization, it has not provided clear guidance as to what extent residents should be involved. For example:

- Does “meaningful involvement” mean that HUD wants more than resident comments and input?
- Should the residents be involved in decision-making? If so, to what extent?
- How much control over the planning and implementation should the residents be allowed to exercise?
- What does HUD mean when it says residents should be involved in “monitoring the urban revitalization program”?
- What happens if the Authority and/or HUD do not agree with what the residents want?

As shown in the following section, these are not hypothetical questions.

Lack of clear guidance results in confusion, controversy.

In New York City: Resident Council members of the Beach 41st Street HOPE VI site opposed demolition because they were concerned about who would be able to return to the site after the demolition. The New York City Housing Authority had selected Beach 41st Street as the first development for revitalization under the HOPE VI Program because it was the most economically distressed site in the City. The Resident Council members viewed themselves, rather than HUD, as the Authority's partner and thought they should have veto power over decisions being made. After 6 months of negotiations between the Authority, HUD, and the residents did not result in an agreement, HUD transferred the HOPE VI funds to another site.¹⁷

In Milwaukee: The Hillside Resident Organization pressured the Authority into awarding contracts to two outside organizations. In one case, pressure was applied by a Resident Council member employed by one of the outside organizations (see inset).

In Charlotte: 23 units were renovated rather than demolished to appease residents' concerns that the Authority might never rebuild on the site. Authority officials stated that the renovation cost about the same as new construction.

In New Orleans: Residents of the St. Thomas HOPE VI site controlled the selection panel to select a developer for the implementation. After ranking Creative Choice Homes fifth after the first scoring session, the residents rated Creative Choice Homes first in the final scoring based in part on a non-evaluation factor - payment of pre-development costs. After being selected, Creative Choice Homes hired one of the resident panel members, aligned itself with the residents to gain support in its negotiations with the Authority, and participated with residents in a rally at St. Thomas to put pressure on the Authority to sign a contract.¹⁸

¹⁷ From the General Accounting Office (GAO) July 1998 report to Congress: Progress and Problems in Revitalizing Distressed Public Housing (GAO/RCED-98-187).

¹⁸ The St. Thomas HOPE VI site was not one of the ten sites included in the audit sample. However, the OIG performed a separate review of the Housing Authority of New Orleans selection of a developer for the St. Thomas site (Audit Related Memorandum No. 98-FW-201-1813, dated July 24, 1998).

The Deputy Assistant Secretary acknowledged there has been a lack of clarity regarding what resident involvement means, and that HUD has not finalized a policy regarding resident involvement. She said each city has been doing things differently, which is in keeping with the HOPE VI philosophy of local decision making. However, she said residents should not have decision-making authority in regards to financial matters. Housing authorities, as the grant recipients, have the fiduciary duty to ensure the revitalization is properly carried out. In our opinion, grantees should seek and consider advice and input from HOPE VI residents. However HUD and the authorities, as the organizations funding and responsible for carrying out the revitalization, need to retain the final say in decision making.

HUD Comments

HUD agreed with the finding and said it is developing written guidance for resident and community involvement which assures that housing authorities maintain fiduciary responsibility in making all final decisions involving the economics of a project.

Recommendation

We recommend you:

- 8A. Establish a clear policy and guidance regarding resident involvement in the planning and implementation of revitalization sites that provides for advisory resident input, but leaves the final decision making to HUD and the authorities.

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HUD Should Re-Evaluate Its Policy Regarding Non-Competitive Subgrantee Agreements

HUD should reconsider its policy of not requiring HOPE VI grantees to competitively procure service providers for community and supportive service related activities. HUD said they allow subgrantee contracts to be non-competitively awarded in order to encourage authorities to form partnerships during preparation of their HOPE VI applications. This policy appears unnecessary since only a fraction of applicants are actually awarded HOPE VI grants. Further, we noted instances where subgrantee contracts were approved even though the subgrantees did not aid grantees in preparing the application. Not requiring competition lessens the chances that the best services will be obtained at the most reasonable prices, and increases the chances that subgrants will not be objectively awarded to the most capable provider.

HUD subgrantee provisions.

PIH Notice 95-10 and the HOPE VI grant agreements allow grantees to obtain subgrantees noncompetitively for community and supportive service activities:

“A PHA may enter into one or more sub-grantee agreements in accordance with Article IV, section 12 [*OIG note: this should be section 11(a)*] of the HOPE VI Grant Agreement between HUD and the PHA, provided that the PHA submits the sub-grant agreements for prior HUD approval. Sub-grant agreements do not have to be competitively solicited or awarded, but costs must be reasonable and proportionate to the services provided to residents of HOPE VI developments.” (PIH Notice 95-10 (K)(4))

“The Grantee is permitted to enter into subgrants for the performance of community service or supportive service activities under the Revitalization Plan, with non-profit entities or state or local governments (as defined in 24 CFR part 85) which were named in the HOPE VI Application, or are listed in Exhibit A hereto....The Grantee must obtain HUD

approval prior to entering into any other subgrants.” (grant agreement, Article IV, Section 11(a))

Also, the Code of Federal Regulations (24 CFR 85.3) defines a subgrant as: “...financial assistance in the form of money, or property in lieu of money, made under a grant by a grantee to an eligible subgrantee. The term includes financial assistance when provided by contractual legal agreement, but does not include procurement purchases....”

HUD’s policy of not requiring competition appears unnecessary.

The HOPE VI Director said the non-competitive subgrantee agreements were initiated to encourage grantees to find partners, as early as during the application process. The Director of Community and Supportive Services felt that such partnerships allowed the authorities to present their “best case” in their applications and insured that key constituencies in their communities bought in to the plan. The HOPE VI Director said it was not realistic to have the grantees establish partners during the application phase, and then after funding require the partners to compete in order to remain partners with the grantee.

In our opinion, HUD’s policy of not requiring competition seems unnecessary. Grantees have no assurance that their applications will result in a HOPE VI grant. For example, the Dallas Housing Authority applied for an implementation grant for the Roseland Homes public housing development in September 1996 and July 1997; however, it was not funded. In June 1998 the Authority again submitted an application which HUD funded. Only 22 of 101¹⁹ applications were funded in Fiscal Year 1998. Therefore, there does not appear to be a great advantage to authorities to find partners while preparing an application.

Further, we found that the subgrantees being used by the authorities did not necessarily have any involvement with the preparation of the application. For instance, for Detroit’s Parkside Development, the subgrantees used did not aid the Authority in preparing the application. The developer who prepared the application asked for proposals from all providers who operated in the area and provided the types of services the residents had requested. The

¹⁹ This number includes eight applications for senior developments. HUD has not yet awarded the grants for senior developments.

developer and authority officials then selected the specific providers to list as subgrantees in their HOPE VI application. The developer said that they tried to select the providers they thought would be the most self-sufficient, but that cost was not part of their evaluation. For Milwaukee’s Hillside Terrace, HUD approved the addition of two service providers as subgrantees in September 1996; 2 years after the date of their grant agreement. Again, the authority made no determination as to the reasonableness of the contract amounts (see inset for Finding 8).

Grantees spend large amounts of HOPE VI funds for subgrantees.

Based on the audit sample, HOPE VI grantees spend large sums of money for subgrantees. Grantees in the audit sample had subgrantee contracts totaling over \$13 million.

Grantee	Subgrantees?	Contract amounts
Atlanta	Yes	\$ 1,874,462
Charlotte	No	0
Columbus	Yes	2,380,531
Dallas	Yes	2,125,053
Detroit - Jefferies	Yes	884,477
Detroit - Parkside	Yes	1,038,154
El Paso	Yes	735,000
Milwaukee	Yes	4,119,740
New Orleans	No	0
San Antonio	No	0
San Francisco	No	0
Total		\$13,157,417

Not requiring competition has significant drawbacks.

While the OIG agrees partnerships are important, we do not agree that the use of subgrantee agreements is necessary for authorities to form effective partnerships. Given the large amounts HOPE VI grantees spend on subgrantees, HUD has an interest in ensuring that the grantees award contracts in an objective manner to subgrantees who can perform well at a reasonable cost. Not requiring competition lessens the chances that the best services will be obtained at the most reasonable prices, and increases the chances that subgrants will not be objectively awarded to the most capable provider.

HUD Comments

HUD generally disagreed with the finding and recommendation, although it agreed to review its policies with regards to subgrantee agreements. Partners play a critical role in helping housing authorities achieve their self-sufficiency goals. By partnering with some of these key institutions in the application stage, not only do authorities get an opportunity to present their “best case” to HUD, they also insure that key constituencies in the community are committed to the implementation of HOPE VI. These partners typically bring added value to the HOPE VI grant. Additionally, there is a significant amount of welfare funds that have been allocated to local communities for TANF (Temporary Assistance for Needy Families) case management, child care, job training, and job placement. By using their ability to develop subgrantee agreements with individual providers, HOPE VI grantees have been able to leverage their money and receive in-kind services from local providers. Finally, with the residents on TANF facing imminent time limit sanctions, and many residents needing multiple services to help them achieve economic self-sufficiency, it is imperative that HOPE VI grantees start their community and supportive services activities immediately upon award.

**OIG Evaluation of
HUD Comments**

As discussed in the finding, the audit results indicate that the non-competitive provision appears unnecessary. The OIG does not see why authorities need to have community and supportive services providers to be in place at the time of a grant award any more than they having a developer in place when the award is granted.

Recommendation

We recommend you:

- 9A. Eliminate the provision that allows HOPE VI grantees to contract non-competitively for community and supportive services.

Management Controls

In planning and performing our audit, we obtained an understanding of the management controls that were relevant to our audit. Management is responsible for establishing effective management controls. Management controls, in the broadest sense, include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Significant Controls

We determined the following management controls were relevant to our audit objectives:

Administrative Controls

- ◆ Awarding of grants
- ◆ Beneficiaries of the program
- ◆ Sustainability of community and supportive services
- ◆ City commitment
- ◆ Cost controls
- ◆ Monitoring of grantee activities
- ◆ Resident Involvement
- ◆ Use of subgrantee agreements

We assessed all of the relevant controls identified above.

Significant Weaknesses

It is a significant weakness if internal controls do not give reasonable assurance that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports. Based on our review, we believe the following items are significant weaknesses, in that HUD lacks internal administrative controls to ensure:

- HOPE VI is addressing the most severely distressed units in the nation (Finding 1).
- HOPE VI is addressing the needs of the original residents of the revitalization sites (Finding 2).
- Grantees develop plans for sustaining their community and supportive services (Finding 3).

- Cities make financial commitments to the revitalization sites (Finding 4).
- Development costs are reasonable (Finding 5).
- Grantees are performing in accordance with their grant agreements (Finding 7).
- The role of residents is understood (Finding 8).
- Grantees are obtaining the best price for community and supportive services (Finding 9).

A

HUD Response to Draft Audit Report

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410-5000

OFFICE OF THE ASSISTANT SECRETARY
FOR PUBLIC AND INDIAN HOUSING

MEMORANDUM FOR: D. Michael Beard, District Inspector General for Audit, 6AGA

ORIGINAL SIGNED

FROM: Elinor R. Bacon, Deputy Assistant Secretary, Office of Public Housing Investments

SUBJECT: Draft OIG Nationwide Audit Report - HOPE VI
Comments from Office of Public Housing Investments

The Office of Public Housing Investments (OPHI) has reviewed the subject draft audit report. OPHI welcomes the thorough and serious review of the HOPE VI program by the Office of the Inspector General (OIG). Thank you for your diligence in undertaking this important work. The recommendations arising from this review will be very helpful in shaping the future of the HOPE VI Program. I am pleased to provide OPHI's comments on the Audit Report, as follows.

Executive Summary

Identifying Severely Distressed Units. We disagree with your statement that "HUD does not know what units are severely distressed." In each NOFA we have required that public housing projects be severely distressed or obsolete, although our definition of distress has changed over the years as the program has evolved. It is accurate to say, however, that HUD did not specifically identify the 86,000 severely distressed units referred to in the report of the National Commission on Severely Distressed Housing, which spurred the creation on the Urban Revitalization Demonstration, nor the 100,000 *most severely distressed* units in the nation, to which Vice President Gore referred in his speech at the Public Housing Summit in 1996. With the implementation of the Mandatory Conversion Program, the Nation's most severely distressed units now have been identified.

We would like you to be aware that "severe distress" or its equivalent has been a *Threshold Factor* and a *Rating Factor* in determining an application's eligibility for funding since 1993. The points assigned to the rating factor pursuant to the "Extent of Need" category have varied from a maximum of 30 points (out of a possible 105 points) in FY 1994, to 20 points in FY 1998 (out of a possible 102 points). In the future the HOPE VI Program will adopt the definition of severely

distressed public housing pursuant to Section 24 of the 1998 Quality Housing and Work Responsibility Act (QHWRA).

We believe that we can measure the program's success in achieving its purpose of demolishing and/or revitalizing *severely distressed public housing* because all properties must meet the distress criteria in order to be considered for funding. However, given the competitive nature of the funding awards, we cannot guarantee that the *most severely distressed* public housing in the nation will be addressed through HOPE VI.

As mentioned above, Congress has mandated a definition of severe distressed that we will use henceforth as the criteria for demonstrating distress. We will confer with Congress as to whether their intent is to give priority to the *most* severely distressed public housing or to award funds to housing authorities with proposals that identify units that both meet the threshold criteria of severe distress and score highest according to the overall rating and ranking criteria established for the particular year of funding.

Identifying Resident Needs. We believe strongly that public housing authorities should provide supportive services to residents of the original project, whether or not they return to the site, as well as to new residents. It is as important to assist residents who elect to move into the broader community with a Section 8 certificate or voucher as it is the residents who return, even though the challenge of serving these residents is greater. For effective integration into the community, residents must be given the tools necessary to find and retain jobs and live side-by-side with non-public housing residents. Moving into the broader community from a distressed public housing site is a major change for which residents must be prepared. We acknowledge that this aspect of the program has not received the level of attention warranted. OPHI took steps to address this issue in its 1998 HOPE VI NOFA and will continue to strengthen this factor in the future.

Sustaining Community and Supportive Services. We agree with the comments of the OIG and will strengthen the language in future NOFAs and program documents, such as the Grant Agreement, to stress sustainability.

Obtaining Cities' Financial Commitment. Leverage has been a key component of HOPE VI for several years, and the funding commitment of the city is a primary source of such leverage. In the 1998 Quality Housing and Work Responsibility Act (QHWRA), Congress mandated a match of at least five percent (5%) of the amount of the HOPE VI grant, which can be from city or other sources.

Developing Realistic Cost Guidelines. As discussed more fully below, HUD has launched a comprehensive effort to review all soft cost items and to develop guidelines, restrictions, and incentives to minimize soft costs. We anticipate that the resulting controls will be in place by the end of the first quarter of 1999.

Monitoring the HOPE VI Program. We concur with the comment by OIG that HUD should exercise adequate oversight responsibility while permitting local flexibility. We have taken the steps referred to below to strengthen HUD oversight and will continue to assure that such

controls are maintained as necessary to assure our fiduciary responsibility for the administration of the HOPE VI Program.

Providing Clear Guidelines for Resident Involvement. As described below, HUD has arrived at a draft of proposed guidelines for resident and community involvement that is now under review. The guidelines will be issued during the first quarter of 1999.

Contracting Competitively for Community and Supportive Services. We agree that the issue of sole-source sub-grant agreements merits consideration. We will undertake a review of current practices to determine whether there are some situations when community and supportive services should be competitively bid and others where they are best awarded on a sole-source sub-grantee basis.

OPHI Response to the Specific OIG Findings

Finding 1. HUD Does Not Know if HOPE VI is Addressing the Worst Public Housing.

The HOPE VI Program was established to address the nation's severely distressed public housing, which the program has done and continues to do. HUD can gauge the program's success in revitalizing such properties because the program clearly is achieving its goals. However, because HOPE VI was created as a competitive program and did not specifically define the universe of properties to be included, HUD does not claim that it has addressed only the most severely distressed properties. Although all HOPE VI projects must be severely distressed, they may not be the most severely distressed in the nation.

It is accurate to state that HUD has changed its definition of "severe distress" throughout the history of the program, as it has evolved. With the recent enactment of the Quality Housing and Work Responsibility Act of 1998, the definition of severe distress has been set by Congress.

The draft audit states that HUD has not included severe distress as a major factor in ranking HOPE VI applications. Severe distress is a threshold criteria. With regard to rating, need was 20% of the total score in the 1998 NOFA, and applicants had to score at least 15 of 20 'need' points (75%) to meet the threshold for distress. Because severe distress was a threshold item, no applications that were less than severely distressed could be considered for funding. However, applications were not ranked according to distress; thus, it is highly likely that some of the most severely distressed projects were not awarded funds because they were not competitive according to all the combined factors.

The only way to assure that the nation's most severely distressed projects are addressed through HOPE VI is to identify such projects and restrict the competition to them or to establish a set aside exclusively for them. We do not believe that this is the intent of Congress. Consequently, we believe that the program is meeting the congressional mandate to address severely distressed public housing units. We will confer with Congress on this issue to clarify congressional intent.

The selection process does not permit consideration of projects that have only moderate distress, as suggested by the draft audit, because severe distress is a threshold item.

Now that HUD has carried out the Mandatory Conversion analysis, we have identified the nation's most severely distressed units. There are a total of 91,112 units in 139 projects that are subject to Mandatory Conversion. Our analysis shows that 49 of the 139 projects, totaling 37,655 units, have received HOPE VI funding. This is 41% of the total units. In the coming year we will discuss with Congress whether they would like HUD to focus on the remaining units subject to Mandatory Conversion in HOPE VI, or continue the current open competitive approach which treats only severely distressed units, but not necessarily the most severely distressed.

Please note (e.g., on page 11 of the report) that HUD does not demolish public housing units. Instead, it approves the demolition of public housing units. Local housing authorities initiate requests to HUD for demolition. HUD does not select sites for demolition and therefore cannot foresee which severely distressed units will be demolished.

Finding 2. HOPE VI Does Not Always Address the Needs of Distressed Residents.

HUD agrees that additional emphasis on self-sufficiency and educational advancement is crucial. We have started to address this. In 1997, in connection with welfare reform, PHA community and supportive services plans were modified to conform with new welfare-reform self-sufficiency requirements. In meetings, written and verbal communications and subsequent NOFAs, HUD has been stressing the requirement for *results-based* self-sufficiency plans that include, for example, real jobs at the end of the training programs and a strong goal of children in HOPE VI public schools reading, by the end of the third grade. Since 1997 we have been providing community and supportive services technical assistance consultants to each HOPE VI site, and believe the programs are improving substantially as a result, both in terms of innovative approaches and quantitative results.

With regard to residents who do not return to the HOPE VI site, HUD is concerned about the level of support they are receiving. To address this, the 1998 NOFA provides community and supportive services funds for such residents, and clearly states that residents who are not returning are to receive community and supportive services to prepare them to enter new communities with section 8 certificates, and services to assist them to achieve self-sufficiency. HUD intends to stress this in the future, and monitor results through its management control system and on-site visits. At the same time we recognize the difficulty of long-term tracking of such former residents and that some of these residents may not choose to accept such services.

HUD recognizes the importance of the issue of resident self-sufficiency for the long-term sustainability of the revitalized developments, and will confer with Congress in the coming year as to whether additional emphasis should be placed on providing services to residents who do not return to the revitalized site.

With regard to the OIG's concern about HUD's data on the number of units built at Hayes Valley in San Francisco (see the chart on page 14 of the report), this is a mixed-finance and mixed-income development with 117 public housing replacement units and 78 Low Income Housing Tax Credit units, for a total of 195 new on-site units.

Finding 3. Grantees Lack Plans to Sustain Community and Supportive Services

As discussed above, HUD has taken steps to stress the "people" side of the program and will intensify such efforts in the future. We also are placing more stress on sustainability through rewarding increased leverage and long-lasting partnerships. The QHWRA provides for the possibility of establishing an endowment account so the use of HOPE VI community and supportive services funds can be extended beyond the life of the physical revitalization activities. We believe this will be most beneficial for sustainability, particularly since Congress mandated that up to 15% of the grant can be for community and supportive services.

Finding 4. HOPE VI Developments Need Financial Commitments From the Cities

With regard to city financial commitments, in selecting grantees, HUD considers such commitments in connection with its requirement for leverage. HUD agrees meaningful involvement by the city in the HOPE VI revitalization activities is critical to spur overall revitalization of the community, although this is not mandated. For fiscal years 1993 to 1995, the Appropriations Acts mandated a 15% match for HOPE VI funds budgeted for supportive services. This requirement was deleted from the FY 1996 Appropriations Act. QHWRA has reinstated a match requirement for FY 1999, although this does not specify the source of funds.

Finding 5. HOPE VI Lacks Meaningful Cost Guidelines

With the establishment of the TDC policy, HUD now is focusing efforts on establishing soft cost controls and program streamlining. Such controls are projected to be in place by the end of the first quarter of 1999.

The sixteen cases that the audit report mentions as needing TDC exceptions were included in a hypothetical list of grants that would need exceptions based on one of several sets of variables that were examined during the process of formulating a new TDC policy if that particular way of calculating TDC were to be adopted as the final policy. Prior to the closing of any mixed-finance proposal, all project costs and requests for TDC exceptions must be reviewed and approved. We will review the sixteen cases to determine if any of them need a TDC exception based on the requirements that apply to those particular grants.

Finding 6. Tenants of Desirable HOPE VI Units May Not Want to Leave Public Housing

We agree that we need to evaluate the issue of how to provide incentives to residents to achieve self-sufficiency, to move in, move up and move out so that public housing again becomes a transitional living situation for people in need. We will undertake a review and make recommendations in the first quarter of 1999.

Finding 7. HUD Needs to Ensure Adequate Oversight of the HOPE VI Program

HUD concurs that the Department should play an active role in assuring that HOPE VI revitalization activities proceed expeditiously and efficiently, at a minimal cost. Since 1997 we have “turned around” several HOPE VI projects which were “stuck” through intensive technical assistance work by HUD staff and outside expert consultants. We believe that we now have systems in place to assure to the best of our ability that projects do not get “off track”.

With thirteen new grants managers and sixteen soon-to-be-hired specialized Community Builders, who have expertise in real estate development and architecture, HUD will be well-staffed to adequately monitor HOPE VI projects. Additional responsibility is being delegated to Field Staff who now are being brought into the HOPE VI development process upon grant award. Early involvement and HOPE VI training allows them to be more effective and involved in a meaningful way from the beginning.

In addition, HUD believes that the assignment of private sector “expeditors,” will significantly reduce the number of “false start” projects which lag because of fundamental problems. Expeditors will visit the projects soon after award along with the grants manager, community and supportive services technical assistance provider and field staff to review all aspects of the developments and make needed modifications to the revitalization plan. In this way problems can be dealt with up front. We can immediately verify that the developments are economically feasible and the most “cutting edge” they can be for the particular locality, and that they start off “on the right foot.”

The KPMG management system is being refined to assure that information received is accurate. One of the challenges of the management system has been for PHAs to acknowledge the need to take the time to provide the data requested and, in the case of the earlier grants, to compile back data which previously was not collected. We anticipate that the system will be functioning smoothly early in 1999.

Finding 8. HUD Needs to Provide Authorities with Clear Guidance on the Role of Residents

HUD has been working to develop guidance for resident and community involvement, which includes residents and the broader community in collaboration, a spirit of partnership and meaningful involvement in all phases of the planning and development, while assuring that the PHA maintains its fiduciary responsibility in making all final decisions involving the economics of the project. Written guidance will be issued shortly that will make clear resident roles and responsibilities which heretofore have been unclear. The lack of clarity has resulted in confusion, misunderstanding, mistrust, and dissension.

Finding 9. HUD Should Re-Evaluate its Policy Regarding Non-Competitive Subgrantee Agreements

While HUD believes that in many cases subgrantee agreements are appropriate and cost effective, we agree that we should review our policies with regard to such agreements. We will do so and issue new guidance early in 1999. However, we believe that the ability of HOPE VI grantees to

develop subgrant agreements with their community partners for the provision of community and supportive services (CSS) is crucial to the success of this program. While some PHAs, particularly those with Family Self Sufficiency (FSS) programs, do have experience in the CSS area, the scale of what is demanded from a HOPE VI grantee is much larger than anything they have undertaken heretofore.

Partners play a critical role in helping PHAs achieve their self sufficiency goals. They can assist HOPE VI grantees not only in providing individual community and supportive services, but also in structuring HOPE VI programs to insure that all necessary elements of a program are included. Their knowledge of where the jobs are, what the most common barriers to employment are, and where additional services can be obtained are crucial to a successful comprehensive plan.

The HOPE VI grant, while awarded to the PHA, impacts the entire community, including the institutions that service those communities. By partnering with some of these key institutions in the application stage, not only do PHAs get an opportunity to present their “best case” to HUD, they also insure that key constituencies in the community are committed to the implementation of HOPE VI. Their willingness to become a partner with the PHA means that they bring their services, their constituency and their board members to the HOPE VI process.

These partners typically bring added value to the HOPE VI grant. In Atlanta’s Centennial Village, a sub grant agreement with the YWCA meant that additional services, including after school recreation and tutorial services, were provided for no additional charge. Later on, the YMCA deepened their partnership, and its commitment to HOPE VI, by building a multimillion dollar facility at Centennial Village at no cost to the Atlanta Housing Authority.

Additionally, there is a significant amount of welfare funds that have been allocated to local communities for TANF case management, child care, job training and job placement. By using their ability to develop sub grantee agreements with individual providers, HOPE VI grantees have been able to leverage their money and receive in kind services from local providers. For 1998 awardees, each HOPE VI dollar leveraged \$2.28 in other funds, money that includes in-kind services from CSS partners.

Finally, with the residents on TANF facing imminent time limit sanctions, and many residents needing multiple services to help them achieve economic self-sufficiency, it is imperative that HOPE VI grantees start their CSS activities immediately upon award. The ability of a PHA to submit an application with their partners in place enables that PHA to start their CSS activities as soon as their Revitalization Plan is approved.

While this office feels that the sub-grant process has been crucial in helping HOPE VI grantees develop substantive programs, we do recognize that in some instances sub-grant agreements may have been developed that are inappropriate or not cost effective. We will launch a process to develop policy guidance and will confer with you when we have completed our preliminary review. We welcome your input as we develop our policy and procedures.

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HOPE VI Grants Reviewed

<i>Authorities</i>	<i>Development Name</i>	<i>Fiscal Year</i>	<i>Type of Grant</i>	<i>Amount</i>
<i>Atlanta</i>	Techwood/Clark	1993	Implementation	\$ 42,562,635
	Perry Homes	1995	Planning	\$ 400,000
<i>Charlotte</i>	Earle Village	1993	Implementation	\$ 41,740,155
<i>Columbus</i>	Windsor Terrace	1994	Implementation	\$ 42,053,408
	Sullivan Gardens, Georgesville Hollow, Linton Gardens	1995	Planning	\$ 400,000
<i>Dallas</i>	Lakewest	1994	Implementation	\$ 26,600,000
	Roseland	1995	Planning	\$ 400,000
<i>Detroit</i>	Jeffries Homes	1994	Implementation	\$ 39,807,342
	Parkside Homes	1994	Planning	\$ 499,992
	Parkside Homes	1995	Implementation	\$ 47,620,227
	Parkside Addition, Herman Gardens, Gardenview	1995	Planning	\$ 400,000
<i>El Paso</i>	Kennedy Brothers	1994	Planning	\$ 500,000
	Kennedy Brothers	1995	Implementation	\$ 36,224,644
	Rafael Marmolejo, Jr, Ruben Salazar Park, Sherman Park	1995	Planning	\$ 400,000
<i>Milwaukee</i>	Hillside Terrace	1993	Implementation	\$ 45,689,446
<i>New Orleans</i>	Desire	1994	Implementation	\$ 44,255,908
	Fisher	1995	Planning	\$ 400,000
<i>San Antonio</i>	Springview	1994	Implementation	\$ 48,810,294
	Mirasol Homes	1994	Planning	\$ 244,550
	Mirasol Homes	1995	Implementation	\$ 48,285,500
	Cassiano Homes, Wheatley Courts	1995	Planning	\$ 400,000
<i>San Francisco</i>	Bernal Dwellings, Yerba Buena Homes	1993	Implementation	\$ 49,992,377
	Hayes Valley	1995	Implementation	\$ 22,055,000
	North Beach	1995	Planning	\$ 400,000
<i>Total</i>				\$ 540,141,478

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NOFA Ranking Factors for HOPE VI Applicants

FY 1998 Ranking Factors	Points
Capacity of the Applicant and Relevant Organizational Experience	20
Need/Extent of the Problem	20
Soundness of Approach	40
Leveraging Resources	10
Comprehensiveness and Coordination	10
Bonus Points: EZ/EC	2
Total Points	102

FY 1997 Ranking Factors	Points
Urgency of Need for Revitalization	15
Lessen Isolation of Low-Income Residents	25
Encourage Resident Self-Sufficiency	20
Property Management	15
Local Impact	25
Affirmatively Further Fair Housing	20
Community and Partnerships	20
EZ/EC	5
Capability and Readiness	25
Efficient Utilization of Federal Funds	10
Feasibility and Sustainability	25
Proposal Coherence and Integrity	15
Total Points	220

* Notice of Funding Availability

FY 1996 Ranking Factors	Points
Lessen Concentration of Low-Income Residents	20
Need for Demolition, Revitalization, or Replacement	25
Self-Sufficiency Programs	20
Bonus Points: Campus of Learners	10
Positive Incentives and Tougher Expectations	15
Local and National Impact	25
Community and Partnerships	20
Bonus Points: EZ/EC	10
Need for Funding	20
Program Quality, Feasibility, and Sustainability	25
Capability	15
Bonus Points: Resolution of Litigation	20
Total Points	225

FY 1993-95 Ranking Factors	Points
Extent of need for revitalization	30
Potential impact of the plan	30
Capabilities of the applicant	20
Extent of resident involvement	15
Extent of Involvement of local public and private entities	10
Community service component	15
Total Points	120

Distribution

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 Director, Hsg. & Comm. Devel. Issues, **US GAO**, 441 G St. NW, Room 2474
 Washington, DC 20548 **Attn: Judy England-Joseph**
 Mr. Pete Sessions, Govt Reform & Oversight Comm., U.S. Congress,
 House of Rep., Washington, D.C. 20510-6250
 The Honorable Fred Thompson, Chairman, Comm. on Govt Affairs,
 U.S. Senate, Washington, D.C. 20515-4305
 The Honorable John Glenn, Ranking Member, Comm. on Govt Affairs,
 U.S. Senate, Washington, D.C. 20515-4305
 Cindy Sprunger, Subcomm. on Gen. Oversight & Invest., Room 212,
 O'Neill House Ofc. Bldg., Washington, D.C. 20515
 The Honorable Dan Burton, Chairman, Comm. on Govt Reform & Oversight,
 House of Representatives, Washington, D.C. 20515-6143
 Inspector General, G