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Washington, D.C. 20410-4500

Office of the Inspector General for Audit

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Audit Memorandum
98-SE-107-0808

MEMORANDUM FOR: Jacqueline Johnson, Deputy Assistant Secretary for Office of Native American Programs, PI

FROM: Robert H. Woodard, Assistant District Inspector for Audit, Northwest/Alaska District, OAGA

SUBJECT: Congressional Request
Development Costs of Alaska Native Housing
Anchorage, Alaska

We performed a review of development costs of Alaska Native housing in response to a request received from United States Senator Frank H. Murkowski. Senator Murkowski requested our assistance in examining the appropriateness of the costs associated with developing housing for Alaska Natives. Given the nature of the request and previous work that has been done by the Department of Housing and Urban Development (HUD) as well as the Office of Inspector General, we spoke with the Senator's staff to decide on mutually agreeable objectives for that review. Based upon the discussions, it was decided that we would determine:

- the per unit and per project costs to construct the HUD housing at Eagle, Healy Lake, Tetlin, and Tok, including off-site sewer and water;
- how the costs of developing housing at these four remote locations compared to the costs of developing other housing for Alaska Natives; and,
- whether these costs differed significantly, and, if so, why.

In performing our review, we visited the four project sites and talked to the various parties involved in the development of the projects, including the architect, cost estimator, and representatives from the Interior Regional Housing Authority (Authority) and HUD. We also reviewed project records. The results of our review are contained in Attachment I to this memorandum.

A copy of this memorandum has been provided to the Interior Regional Housing Authority and Senator Frank H. Murkowski.

If you have any questions, please call Robert Woodard or Ronald Jilg at (206) 220-5360.

Attachments

Results of Review

The cost to develop projects at the four locations

Final or actual development costs are not available on the four projects because development is not yet complete. Therefore, we obtained cost information on the four projects from the development budgets and Authority's general ledger showing actual costs incurred through March 31, 1998. We also determined how the cost estimates were developed through discussions with the architect, cost estimator, Housing Authority and HUD personnel. The estimated development costs of the four projects are:

Total Costs

Chart 1

<i>Development Location/Type</i>	<i>Estimated Development Costs</i>	<i>Actual costs through 3/31/98</i>	<i>Percentage of estimated costs incurred at 3/31/98</i>
Eagle MH ¹	\$ 1,253,842	\$ 1,023,287	81.6%
Healy Lake MH ¹	967,856	696,050	71.9%
Tetlin MH ¹	2,234,051	1,852,904	82.9%
Tok LR ²	1,060,248	1,038,863	98.0%
Total	\$ 5,515,997	\$ 4,611,104	83.4%

¹ MH - The Mutual Help Homeownership Program ² LR - The Low-Rent Housing Program

Based on the estimated development costs, average per unit costs will be:

Chart 2

<i>Development Location</i>	<i>Per Unit Estimated Development Costs</i>
Eagle	\$250,768
Healy Lake	\$241,964
Tetlin	\$223,405
Tok	\$176,708

HUD limits the housing development costs through its Annual Contributions Contract with the housing authority as well as the project's development cost budget. This limitation, known as the Total Development Cost (TDC) limit, excludes off-site sewer and water, costs normally paid by others, and donations. Because there were donations for these four projects, HUD's total budgeted costs are less than the estimated development costs in Charts 1 and 2. The total budgeted costs for three of the four villages are within HUD's TDC limits, while the budgeted total cost for the fourth village (Eagle) has been approved by HUD at 104 per cent of the TDC limit.

Costs for Application of the TDC Limit

Chart 3

<i>Location</i>	<i>Units</i>	<i>Budgeted Costs</i>	<i>Limit</i>	<i>Costs below/(over) limit</i>
<i>Eagle</i>	5	\$ 997,355	\$ 958,125	\$ (39,230)
<i>Healy Lake</i>	4	784,651	837,714	53,063
<i>Tetlin</i>	10	1,867,642	2,058,678	191,036
<i>Tok</i>	6	\$ 849,836	\$ 984,180	\$ 134,344

These total HUD budgeted costs would provide average per unit costs of:

Chart 4

<i>Development Location/Type</i>	<i>Per Unit HUD Budgeted Total Costs</i>
<i>Eagle</i>	\$199,471
<i>Healy Lake</i>	\$196,162
<i>Tetlin</i>	\$186,764
<i>Tok</i>	\$141,639

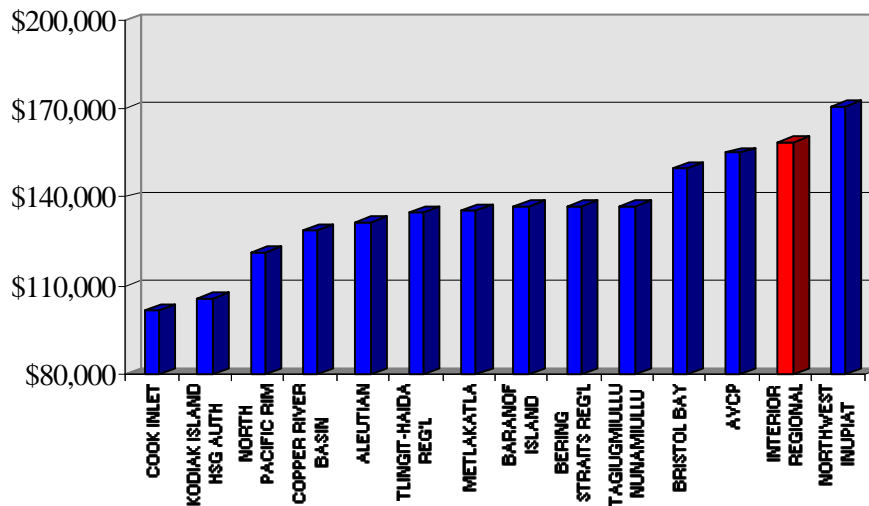
The units at the four remote locations had no off-site sewer and water. Instead, each of the units had an onsite septic system. Water was available from either an onsite well or a holding tank.

Comparison of costs to build projects with other housing for Alaska Natives

The average per unit development costs for the 29 other Low-Rent and Mutual Help units for Alaska Native projects that received grants during the same time period (fiscal years 1993 and 1994) were \$158,776 and \$166,233, respectively. By comparison, the average estimated total development costs at the four villages were \$141,639 for Low Rent units (about 9 percent lower) and \$192,086 for Mutual Help units (about 16 percent higher).

During the last 16 years, the Authority's average per unit development costs have been at the high end of the range for Alaska:

Chart 5
Average Per Unit Development Costs For The Last 16 Years



We obtained information on the cost of developing housing for Alaska Natives from the Department's management information systems and interviewed appropriate HUD and Housing Authority officials to gain an understanding of how development costs were accumulated. We did not evaluate or test the automated system controls to confirm the accuracy of the cost information in those systems.

In addition to the Department's development cost information, we contacted numerous public and private entities to determine if private housing construction cost information was available for the remote locations of Alaska. The entities contacted told us that private housing construction cost information was available for urban locations but not for the remote locations. The entities contacted included the Alaska Housing Finance Agency, the Arctic Research Commission, Alaska Science and Technology Foundation, the Alaska Building Association, and Alaska Home Craftsman.

Many factors affect the variations in development costs

As previously stated, the average per unit development costs for the Mutual Help units are significantly higher (about 16 percent) than the cost to develop other Mutual Help housing in Alaska. Our analysis did not look into the specific reasons for the higher development costs at each of the locations but we learned that a number of factors contribute to the high costs.

Housing development in the remote areas of Alaska is affected by factors unique to Alaska which increase the costs, including transportation of materials to the remote building sites, limited competition from construction contractors, a short building season, and the scarcity of skilled labor to do the work in these remote areas. It is also affected by Davis-Bacon wages for the labor force constructing the units; the applicability of specific construction standards; the lack of infrastructure (e.g. road, water, and sewer systems); the existence of economical and feasible development sites; and the difficulty finding qualified managers to administer housing grants.

HUD's Alaska State Coordinator told us that the costs to develop housing at these remote locations should be at the high end of the range of development costs for Alaska (see the historical information in Chart 5). A direct comparison of costs per unit is not realistic given the many factors that can have a material effect on costs. The different conditions encountered in the various locations must be taken into account when evaluating any cost differences and can result in large differences which should still be considered reasonable. The State Coordinator said that the following factors need to be considered:

- transportation costs,
- availability of clean gravel,
- costs associated with the room and board of construction workers,
- the type of foundation needed, and
- prior HUD development which can impact costs of future development by providing a construction record that be referenced to help reduce uncertainty by providing relevant information such as availability of local labor and transportation reliability.

Finally, contractors who bid on these projects know the maximum amount of funds (TDC Limit) available to a housing authority for a particular project prior to submitting a proposal. Limited competition and knowing the TDC limits may tend to reduce any cost benefits from open competition because contractors may bid as close to the TDC limits as possible to earn the maximum amount of profit.

The Department's cost containment strategy to limit development costs

The Department does have a cost containment strategy for developing Native American housing. This strategy was mandated by Congress. In 1989, the U.S. Housing Act of 1937 was amended and required HUD to develop TDC limits. Prior to 1989 the Department's strategy included the use of a TDC cap limit similar to that of the Section 8 program.

HUD independently determines and publishes TDC limits which include the hard and soft costs of constructing a unit with a specific number of bedrooms in a specific geographical area. TDC limits were developed by first calculating the hard costs of construction and multiplying that number by a factor (175 percent) to add in "soft" costs (administrative and non-construction). Consequently, housing authorities hire architects to design units which can be constructed within the grant and TDC cost limits.

Off-site sewer and water costs, costs normally paid by other entities, and any donations received from public or private sources are not included in the TDC limits. Consequently, the development budget of a housing project will contain all relevant costs but HUD adjusts the budget to exclude non-TDC costs to ensure the total cost to be paid with HUD funds is within the TDC limits. Specific to Alaska, the grant amounts are at least 20 percent less than TDC because the State's contribution (considered a donation) is also excluded from the grant award.

NAHASDA provides more flexibility but retains a cost containment strategy

Under the Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA), Congress and the Department continue with a cost containment strategy to keep the costs to develop Native American housing within specified limits. NAHASDA provides

tribes or their Tribally Designated Housing Entities (TDHEs) with more flexibility under its block grant funding mechanism. NAHASDA replaces TDC limits with costs for Dwelling Construction and Equipment (DC & E) which are developed using the same methodology that was used for the TDC limits.

Specifically, DC & E amounts will be based on a moderately designed house or multifamily structure which will be calculated by averaging the current construction costs from two nationally recognized construction cost indices (Boeckh's and Marshall & Swift's). The base figures are adjusted based on the number of bedrooms, the climatic conditions, and the geographic location of the housing. DC & E amounts include the hard costs of construction but do not include soft costs which were calculated in TDC by using the 1.75 multiplier. While NAHASDA includes a cost containment strategy consistent with traditional Native American housing programs, NAHASDA's increased flexibility should provide more opportunities for tribes or TDHEs to develop innovative housing programs and to better control development costs.

Conclusion

We are not planning any additional audit work on the projects since the development of the four projects is not yet complete and the reasons for the high costs associated with the development of Alaska Native housing is generally well known. Our prior audit experience shows that a housing authority's administrative capability is a major factor in economical housing development. Also, the recently enacted NAHASDA will significantly change the development process. A complete analysis of the costs to develop the Authority's four projects would require detailed comparisons of housing authority and private development costs, taking into account the various types of housing, location, and infrastructure. The information we obtained during our review indicates that the costs of developing housing units at Eagle, Healy Lake, Tetlin, and Tok are not significantly above what they should be given the types of housing constructed, their remote locations, and actual construction periods.

The passage of NAHASDA and the transition to a housing block grant program may significantly change the development process for Native American housing. Under NAHASDA there will be similarities to the old development program since there will still be a limit on the cost to construct a unit and performance will be judged based on outputs. However, the flexibility allowed under NAHASDA will provide incentives not included in the old program. These incentives include letting the grant recipient retain, for eligible uses, any monies intended for but not used on a particular project. Accordingly, any additional audit work to identify inefficiencies in the development process under the 1937 Act would be of limited value.

We conducted our review in accordance with generally accepted government auditing standards.

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