
AUDIT REPORT



AUDIT OF THE FISCAL YEAR 1996 HOPE VI GRANT AWARD PROCESS

98-FO-101-0001

October 20, 1997

OFFICE OF AUDIT
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TO: Kevin E. Marchman, Acting Assistant Secretary for Public and Indian Housing, P

FROM: *James A. Heist*
James A. Heist, Director, Financial Audits Division, GAF

SUBJECT: Audit of HUD's Fiscal Year 1996 HOPE VI Grant Award Process

This report presents the results of our audit of the Fiscal Year 1996 HOPE VI Grant Award Process. Housing Authorities submitted grant applications in response to the Fiscal Year 1996 Notice of Funding Availability for the HOPE VI Program. We identified several concerns with the processing of these applications in our report on our audit of the Department's Fiscal Year 1996 Financial Statements and are separately providing the details of our concerns to you through this report.

The purpose of the audit was to determine whether the Department awarded Fiscal Year 1996 HOPE VI Program funds in accordance with the Appropriations Act and complied with the provisions of the HUD Reform Act of 1989. Our objectives were to determine whether the Office of Public Housing Investment implemented an effective system of internal control over application receipt, rating, ranking and funding to assure the competitive selection of housing authority applicants in accordance with the Notice of Funding Availability eligibility requirements. The field work was conducted from December 1, 1996 to June 30, 1997.

We appreciate the cooperation and assistance provided by the staff of the Office of Public Housing Investment. This report provides several recommendations for your consideration. In accordance with HUD Handbook 2000.6 REV-2, within 60 days please submit to me, for each recommendation, a status report on: (1) the corrective action taken; (2) the proposed corrective action and target completion dates; or (3) why action is considered unnecessary. An additional status report is required on any recommendation without a management decision after 110 days. Also, please furnish us copies of any correspondence or directives issued in response to the audit.

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Executive Summary

HUD awarded \$381 million of Fiscal Year 1996 HOPE VI funds to 37 ineligible applicants (Appendix D). The applicants were ineligible because they did not demonstrate compliance with the eligibility requirements, as specified in the HOPE VI Notice of Funding Availability (NOFA). HUD determined eligibility for the 37 applicants by either revising the criteria for determining eligibility after the deadline date for submission of the applications, not properly considering NOFA eligibility requirements, or enhancing applications by considering information not provided by applicants. We concluded that HUD's funding of applicants that did not demonstrate compliance with the NOFA requirements, did not comply with Section 102 of the HUD Reform Act. The Department had the opportunity to avoid the HUD Reform Act compliance issue by publishing a revision to the NOFA and extending the date for applicants to submit revised applications. We attribute HUD's decision not to publish a revised NOFA to their intention to award the HOPE VI funds by September 30, 1996. The Department's decision to award the HOPE VI funds by September 30, 1996 was not necessitated by the need to obligate these funds by fiscal year end. The Appropriations Act specified that the HOPE VI funds were to remain available until expended. The Acting Assistant Secretary for Public and Indian Housing advised us that he made the decision to award the funds by fiscal year end because of past criticisms of HUD not awarding funds in a timely manner. He also wanted to take into consideration the needs of the housing authorities to timely carry out the activities provided for in the grant agreements.

As a result of HUD's process of awarding HOPE VI Program funds to ineligible applicants, the Department assumed increased risks of:

- applicants' planned activities primarily benefiting local organizational priorities, in a subordinate manner the national goals;
- funding to Empowerment Zone-Enterprise Community applicants for planned activities not being supported and coordinated with the awards to HOPE VI applicants;
- viable housing units being scheduled for premature demolition;
- needs of residents at the targeted development and in the neighborhood surrounding the targeted development not being properly addressed by the applicants;
- applicants meeting the HOPE VI NOFA's eligibility requirements not being funded;
- the most severely distressed housing units not being funded through this competition;
- program implementation being delayed due to lawsuits initiated by residents and community members over the lack of consultation on planned activities; and
- revitalization activities being diluted by spending HOPE VI funds to produce modest revitalization efforts at as many sites as possible, instead of concentrating efforts at a few sites to obtain a more significant revitalization.

Recommendations

We recommend that the Department rescind the demolition and revitalization grant awarded to the Baltimore City Housing Authority. We also recommend that grant agreements with the other Public Housing Agencies (PHA) not meeting eligibility criteria be conditioned on the PHAs completing specific activities, as required, to demonstrate compliance with NOFA eligibility requirements. We further recommend that HUD's grant agreement with the Chicago Housing Authority be conditioned on the housing authority demonstrating that its planned activities would fulfill HUD's obligations under the Gautreaux Consent Decree and that the housing authority has complied with the statutory mandated requirements. In our opinion, these actions are necessary to protect HUD's interest and better achieve the goals of the HOPE VI Program in accordance with the Appropriations Act. With regard to the competitive funding process, we recommend the Department consider changing the method for soliciting and processing applications. The applicants and HUD need more time to prepare and review the applications. The primary benefit from a prolonged planning period should be that applicants can initiate the implementation sooner. We also recommend some modifications to the forms and schedules used by applicants in preparing their applications to promote a better competition.

In our Draft report, we recommended that the Department rescind the demolition and revitalization grant awarded to the New York City Housing Authority. We have dropped this recommendation because of language inserted in the CONFERENCE REPORT ON H.R. 2158, DEPARTMENTS OF VETERANS AFFAIRS AND HOUSING AND URBAN DEVELOPMENT, AND INDEPENDENT AGENCIES APPROPRIATIONS ACT, 1998. Specifically, Sec. 212, entitled HOPE VI NOFA, provides: "Notwithstanding any other provision of law, including the July 22, 1996 Notice of Funding Availability (61 Fed. Reg. 38024), the demolition of units at developments funded under the Notice of Funding Availability shall be at the option of the New York City Housing Authority and the assistance awarded shall be allocated by the public housing agency among other eligible activities under the HOPE VI program and without the development costs limits of the Notice, provided that the public housing agency shall not exceed the total cost limitations for the public housing agency, as provided by the Department of Housing and Urban Development."

Agency Comments And Our Evaluation

We provided the draft report to the Office of Public Housing Investment (OPHI) on August 7, 1997. At the request of OPHI, we extended the comment period to October 3, 1997. We received written comments on October 6, 1997. OPHI provided additional written comments on October 9, 1997 after meeting to discuss the report. OPHI did not agree with all of the findings and recommendations of our report. OPHI disagreed with the audit opinion on the eligibility of applicants to participate in the HOPE VI Program. OPHI stated that the HOPE VI NOFA was very complex and despite infinite care, always raises points of ambiguity which are not apparent until scoring. There is also, given the complexity of the applications and the carefulness or capabilities of many PHAs, always the inevitability of errors by applicants. It was OPHI's opinion that it was not only permissible, but right, for HUD to interpret NOFA requirements and applicant submissions so as to get to ultimate merits, not to throw out as many applications as possible on technicalities. OPHI stated further that OPHI is committed to HUD's overriding objective to be a customer-oriented agency, choosing to be helpful within the realm of HUD's rules, rather than being bureaucratic and rigid. We considered OPHI's comments in preparing our final report. OPHI's comments and our reply are provided in Appendix M.

Notwithstanding OPHI's disagreement with some of our findings and recommendations, they indicated in their response that, for projects with units scheduled for revitalization, if the final revitalization plan, budget, and/or other documents are not in compliance with the NOFA, the project will not be funded. Moreover, OPHI advised they are contacting all PHAs where we raised concerns about community and resident input to

secure further documentation and/or require that additional meetings be held. Finally, OPHI involved both OIG and HUD's Office of General Counsel during the course of the Fiscal Year 1997 HOPE VI competition to apprise of issues that might be of concern and help ensure compliance with the NOFA and the HUD Reform Act. OPHI presented a list of "lessons learned" from the Fiscal Year 1996 process that were applied in Fiscal Year 1997. (See Appendix M, page 102)

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Abbreviations

Appropriations Act - Omnibus Consolidated Rescissions and Appropriations Act of 1996
CFR - Code of Federal Regulations
FY - Fiscal Year
PHA - Public Housing Agency
HOPE VI - Public Housing Demolition, Site Revitalization, and Replacement Grants
HUD - United States Department of Housing and Urban Development
NOFA - Notice of Funding Availability
OPHI - Office of Public Housing Investment
TDC - Total Development Costs
1937 Act - United States Housing Act of 1937

Introduction

Background

The Omnibus Consolidated Rescissions and Appropriations Act of 1996 (Public Law 104-134) was approved on April 26, 1996. The Act appropriated \$480 million for the HOPE VI Program to remain available until expended for the purpose of enabling: the demolition of obsolete public housing projects or portions thereof; the revitalization, where appropriate, of sites including remaining public housing units on which such projects are located; replacement housing which will avoid or lessen concentrations of very low-income families; and tenant-based assistance in accordance with Section 8 of the United States Housing Act of 1937. The Appropriations Act made significant changes to the Urban Revitalization Program by expanding eligibility to all public housing agencies and specifying certain selection criteria.

Requirements for Submitting the Application

HUD published the HOPE VI NOFA in the Federal Register on July 22, 1996. The NOFA stated that HUD was to disqualify and return to the applicant any application that it received after 4 p.m. eastern time on September 10, 1996. The NOFA requirement stated that the original application may be hand-delivered or mailed, but HUD will not accept facsimile, collect on delivery, or postage due applications. PHAs that own or operate public housing units were eligible to apply. Indian Housing Authorities were not included as eligible entities for the program in the 1996 Appropriations Act and were therefore not eligible to apply for funding.

Application Review Procedures

OPHI's Fiscal Year 1996 HOPE VI review procedures dated August 29, 1996 contained the internal control methods and means to be used in reviewing the applications. HUD established a preliminary review panel, a final review panel, a system administrator, and a policy group to: determine applicant eligibility, conduct callbacks to obtain missing information, rate and rank applications, and award funds to applicants. The preliminary panel was responsible for determining applicant eligibility, preparing the callback script to provide an applicant the opportunity to supply the information missing from required exhibits, and determining a preliminary score for the application. The system administrator was responsible for supervising application receipt, tracking the application through the review process, monitoring callbacks, and running status reports. The policy group considered the questions from the preliminary panel about issues encountered during the review of the applications and provided technical assistance in resolving these issues. The final panel was responsible for reviewing the highest rated applications by the preliminary panel, reviewing the applications recommended for rejection by the preliminary panel, and determining the amount of the award.

The preliminary review panel screened the applications to determine whether a curable or noncurable technical defect existed. If the preliminary review panel determined that the applicant's documentation did not demonstrate compliance with a NOFA eligibility requirements, and the NOFA defined the defective documentation as a noncurable technical defect, the NOFA specified that the application was to be rejected immediately. Conversely, if the NOFA defined the defect in the documentation as curable, the preliminary review panel initiated the callback procedure to give the applicant the opportunity to provide the missing information. When a callback was initiated, the applicant had 14 calendar days to correct the technical defect

in the documentation. However, if the applicant was unable to correct the technical defect within the 14 calendar days the NOFA specified that the application was to be rejected.

As a condition for eligibility, the HOPE VI NOFA required that each PHA applicant must demolish at least one obsolete building at the targeted development. Applicants were instructed to attach a demolition/disposition application in accordance with procedures prescribed in 24 CFR 970, as Exhibit N of the HOPE VI application. HUD's NOFA defined obsolete units as those that (1) because of physical condition, location, or other factors, are unusable for housing purposes, and (2) no reasonable program of physical modification is feasible to return the units to useful life. The NOFA specified that a defect in the applicant's documentation relating to this requirement was a noncurable technical defect and the application was to be immediately rejected.

Another eligibility requirement was established to ensure that only the most distressed housing units were selected to participate in the HOPE VI Program. The HUD NOFA eligibility requirement stated that if the average per unit hard costs of rehabilitation of the housing remaining after partial demolition is below 62.5 percent of HUD's published Total Development Cost (TDC) limit, the development is not eligible for this program. The NOFA specified that the applicant had 14 calendar days to correct this type of technical defect or, after the 14 days, the application was to be rejected.

To determine the amount of support the planned revitalization activities had from residents at the targeted development and from families and entities in the surrounding neighborhood, a NOFA eligibility requirement stated that the applicant must notify residents and community members of the proposed activities at a public meeting. In Exhibit I of the application, the NOFA instructed the applicants to submit: a copy of the notice announcing the public meeting, an explanation of how the notice was distributed, and a copy of the sign-in sheet. An application must contain such evidence that a public meeting took place in order to be selected for participation. If the documentation was missing, this was designated in the NOFA as a technical defect and the applicant had to be afforded the opportunity to provide the missing information. However, if the documentation could not be provided because the public meetings were not conducted then the application was to be rejected.

The NOFA eligibility requirement for any applicant proposing new construction stated that the applicant must demonstrate that the cost of new construction in the neighborhood where the PHA determines the housing is needed is less than the cost of acquisition or acquisition and rehabilitation in such neighborhood. The NOFA also required the applicant to provide a certification that the applicant will accept acquisition or acquisition with rehabilitation, if HUD determines the applicant cost comparison does not support approval of new construction. If an applicant's revitalization plan provided for new construction only, HUD was to reject the application. The NOFA defined the lack of the required certification as a curable technical defect.

The preliminary review team reviewed the applications to determine compliance with the NOFA eligibility requirements for certification on: the Consolidated Plan being consistent with the HOPE VI plan, a drug free workplace; and anti-lobbying. The NOFA defined all of these certifications as curable technical defects. Consequently, the applicants were to be afforded the opportunity to correct the defect within 14 calendar days or the application was to be rejected.

Application Evaluation Factors

HUD's NOFA described the factors and points for each factor to be used in evaluating the applications. Applicants with both demolition and revitalization activities had more evaluation factors than applicants with demolition only activities. The HUD final review panel awarded 20 grants to applicants with both

revitalization and demolition activities and 24 grants to applicants proposing just demolition activities. The applicants as a group were the least responsive to the evaluation factor for coordinating their revitalization activities with the existing Empowerment Zone-Enterprise Community projects' strategic plans and resolving existing litigation. Appendix E summarizes the results of scoring awarded applications for applicants as a whole by the HUD final review panel.

Funding of Applicants

HUD divided PHAs into categories based on the number of low-income units owned and operated, and the type of planned activity proposed. HUD's NOFA stated that the Department will allocate the \$480 million appropriated for the HOPE VI Program to the four most highly rated applications from each of Categories A, B, and C and will select the most highly rated applications in Category D up to available funding. HUD also set-aside \$40 million to resolve a consent decree in Chicago and \$3,216,000 for technical assistance as required by the Appropriations Act. Appendix F summarizes the NOFA funding allocation procedure.

HUD received 138 applications (Appendix A lists all the PHAs submitting applications by Category and Appendix B summarizes the number of applications submitted by Category) and awarded grants to 44 PHAs (Appendix C lists the PHAs awarded HOPE VI grants). HUD awarded \$43,579,736 more than initially allocated for funding categories A, B, and the noncompetitive litigation category. To fund these categories at this level the Department used \$20 million not initially allocated and reduced the funding allocation to categories C and D by \$20,266,666 and \$3,313,070, respectively.

Audit Objectives, Scope, and Methodology

Our objectives were to determine if the Department awarded Fiscal Year 1996 HOPE VI Program funds in accordance with the Appropriations Act and complied with the provisions of the HUD Reform Act of 1989, and if OPHI implemented an effective system of internal control over application receipt, rating, ranking and funding to ensure the competitive selection of housing authority applicants in accordance with the NOFA eligibility requirements.

To test HUD's implementation of their system of internal control over selected aspects of application processing, all 138 applications (Appendix A and B) submitted by applicants were examined. To test HUD's selection of eligible applicants for funding, all 44 applicants (Appendix C) awarded funds were evaluated. Further, 18 rejected applicants were selected to test for consistency in processing. We selected 11 of the 18 rejected applicants because the preliminary review panel had scored their applications at a level to be considered for funded and the final review panel reduced the scores to a level below the funding point. The remaining seven rejected applicants selected for the test are some of the highest rated applications that were not funded. HUD established a noncompetitive award procedure for the Chicago Housing Authority to fulfill its obligation under a court ordered consent decree and HUD's processing of these two applications were included in the test.

Our audit generally covered the period July 22, 1996 through September 30, 1996. We performed our field work from December 1, 1996 through June 30, 1997. The audit was conducted in accordance with Government Auditing Standards.

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Funds Were Awarded to Applicants not Meeting Obsolescence Requirements

HUD's HOPE VI NOFA specified two criteria for determining building obsolescence and required that each applicant demolish at least one obsolete building at a targeted development as a condition for eligibility. Initially, HUD screened each application to determine if the applicant demonstrated compliance with the eligibility requirements specified in the NOFA. After the first day of screening had elapsed, the HUD review team determined that only a very few applicants demonstrated compliance with both the criterion for determining building obsolescence. HUD's Policy Committee revised the screening procedure so that applicants had to comply with only one of the two criterion stated in the NOFA to be eligible to participate. Under the revised screening guidelines, HUD accepted 31 applicants to participate in the competition and eventually funded these applicants for about \$269 million even though these applicants were ineligible for funding because they did not demonstrate compliance with both of the building obsolescence criterion as specified in the NOFA. Consequently, HUD authorized the demolition of 5,391 viable housing units and authorized demolition of an additional 5,437 units without determining that these units were actually obsolete, as specified by the NOFA.

NOFA Eligibility Requirement for Applicants Demolishing Obsolete Units

HUD's NOFA required in paragraph II.C. that an applicant must demolish at least one obsolete building at the targeted development. The NOFA stated that an obsolete building is one that because of its physical condition, location, or other factors, make it unusable for housing purposes (hereinafter referred to as obsolescence indicators) **and** no reasonable program of substantial physical modifications is feasible to return the units to useful life (hereinafter referred to as the financial feasibility test).

The Appropriation Act stated that eligible expenditures hereunder shall be those expenditures eligible under Section 8 and Section 14 of the Housing Act of 1937, as amended (hereafter referred to the 1937 Act). Section 14 of the 1937 Act requires the HUD Secretary to prescribe a standard for when a building cannot be modernized at a reasonable cost and needs to be demolished. HUD's Comprehensive Grant Program Handbook 7485.3, Chapter 6-8 provides that when modernization costs exceed 90 percent of the TDC limit, a development may not be able to be effectively modernized at a reasonable cost. When the cost to modernize a unit exceeds 90 percent of the TDC limit, the public housing agency, after consultation with HUD, can submit an application for demolition of the development.

The 1937 Act, in Section 18, titled Demolition and Disposition of Public Housing, and HUD regulations contain the same language as the HOPE VI NOFA. However HUD's regulation also added that the Department generally shall not consider a program of modifications to be reasonable if the costs of such program exceed 90 percent of the total development costs.

Documentation Submitted by Applicants to Demonstrate Building Obsolescence

All 44 applicants awarded funds submitted adequate documentation to demonstrate that the buildings scheduled for demolition complied with at least one of the obsolescence indicators in the NOFA. Most of

these applicants used the NOFA's obsolescence indicator concerning the physical condition of their buildings as the basis for complying with the NOFA requirement. For example, Memphis cited the serious soil erosion occurring around some buildings and sidewalks, San Francisco cited defective mechanical systems at one building due to a fire, and New Haven discussed the design problems at their entire targeted development. Location was used as further evidence to demonstrate compliance with the obsolescence indicator by a few PHAs. For example, Baltimore explained that their building was in the middle of a planned industrial park and East Saint Louis noted that their development was in a flood plain.

Defect in Applicant Documentation

Of the 44 applicants awarded funds, 31 applicants did not meet the financing feasibility test. Fifteen of the 31 applicants applied the NOFA financing test and determined that the ratio of rehabilitation cost to the TDC limit was less than 90 percent. Under these circumstances, the cost of rehabilitation is considered reasonable and the building is not obsolete. These 15 PHAs' financing tests produced ratios ranging from a minimum of 29 percent to a maximum of 87 percent. The other 16 applicants did not provide the required cost data to determine the ratio of modernization cost to the TDC limit. Consequently, 31 PHAs' applications did not demonstrate that the buildings scheduled for demolition were obsolete in accordance with the eligibility requirements, as specified in the NOFA. Appendix G contains a listing of each of the 44 PHAs awarded funds and the results of the financial feasibility test. Appendix G also provides a summary table of the financial feasibility test results.

HUD Processing Procedure

HUD's screening procedures directed that the staff screen the applications to determine eligibility before rating and ranking the applications. The initial screening guidelines (Appendix L) instructed reviewers that in order for a PHA to qualify a building as obsolete, the targeted public housing must meet at least one of the factors concerning structural deficiencies, location, and other obsolescence indicators **and** the cost of rehabilitation must exceed 90 percent of total development cost.

The NOFA specifies that the obsolete building requirement is a noncurable defect and, as such, HUD reviewers are not permitted to contact the PHA and ask for any additional information to correct the defect. Such applications were ineligible and should have been rejected from the competition.

Processing the Applications

After the first day of screening, the HUD reviewers reported a concern about the high incidence of applicants not providing a ratio on the cost of rehabilitation to the total development costs and/or the lack of information supporting the ratios. The HOPE VI Policy Committee consisting of the members of the final review panel, the team captains from the preliminary review panel and the system administrator, was responsible for responding to policy issues during the competition. The Policy Committee decided to change the obsolescence screening criteria for eligibility. Under the revised criteria, applicants needed only to demonstrate that the targeted public housing met any **one** of the obsolescence indicators listed in the screening guidelines document to qualify as obsolete. Using the revised criteria for determining building obsolescence, HUD reviewers determined that all applicants' targeted public housing qualified as obsolete.

OIG Evaluation of Policy Committee Decision

In our opinion, HUD has not processed applications in accordance with the requirements prescribed in Sec. 102 of the HUD Reform Act, which provides that not less than 30 days before any deadline by which applications or requests for assistance under any program or discretionary fund administered by the Secretary must be submitted, the Secretary shall publish in the Federal Register the **criteria** by which selection for the assistance will be made. The HUD Reform Act also provides that the Secretary shall award or allocate assistance **only** in response to a written application in a form approved in advance by the Secretary. The obsolescence criteria for eligibility established by the HUD Policy Committee differed significantly from the NOFA eligibility criteria published in the federal register. Since the Department did not publish revised NOFA criteria, the PHAs' applications must demonstrate that targeted housing, because of physical condition, location, or other factors, are unusable for housing purposes, **and** no reasonable program of physical modification is feasible to return the units to useful life. Consequently, we determined that the 31 applicants not meeting both eligibility criteria prescribed in the published NOFA were not eligible for funding.

Policy Committee Decision Prevented Eligible Applicants being Considered for Funding

HUD received HOPE VI program applications from housing agencies meeting both building obsolescence criteria specified in the NOFA that were not funded. HUD received 138 applications and 44 applicants were funded. We reviewed 18 of the 94 rejected applications and found that 7 of these rejected applicants demonstrated compliance with both building obsolescence criteria. These public housing agencies documented that they met the obsolescence indicator relating to building structural deficiencies and also demonstrated in their applications that no reasonable program of physical modification is feasible to return the units to useful life. These PHAs may have been funded since 31 of the 44 applicants awarded HOPE VI funds did not demonstrate that their targeted public housing met the published NOFA eligibility requirements on building obsolescence. HUD did not promote a fair and equitable competition due to the Policy Committee decision which in effect allowed PHAs to compete for HOPE VI funds even though their applications had not demonstrated that no reasonable program of physical modification is feasible to return the targeted public housing units to useful life.

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Grant Awards Did Not Meet Minimum Rehabilitation Cost Eligibility Requirement

HUD's HOPE VI NOFA had an eligibility requirement stating that the applicant is not eligible for this competition if the applicant's estimated rehabilitation costs did not exceed the minimum rehabilitation cost eligibility requirement. The purpose of this requirement was to ensure that only "severely distressed" developments were funded. HUD's review procedures assigned the initial review panel the responsibility for determining applicant compliance with all of the NOFA eligibility requirements with the exception of the above cited minimum rehabilitation cost eligibility requirement which OPHI assigned to the final review board. Of the 44 PHAs awarded funds, eight applicants planned to rehabilitate units. Two of these applicants omitted rehabilitation costs from their budget estimates precluding a determination of compliance with the eligibility requirement while three applicants estimated rehabilitation costs at an amount below the minimum rehabilitation cost eligibility requirement. Consequently, five applicants that had not demonstrated compliance with the NOFA's minimum rehabilitation cost requirement were awarded funds to rehabilitate 1,451 units that were not "distressed units".

NOFA Eligibility Requirement for Applicants Conducting Rehabilitation

The HUD NOFA requirement on minimum costs for rehabilitation was described in paragraph II. E.1. The NOFA requirement stated that if the average per unit hard costs of rehabilitation of the housing remaining after partial demolition is below 62.5 percent of HUD's published TDC limit, the development is not eligible for this program (hereinafter referred to as the minimum rehabilitation cost eligibility requirement).

The Omnibus Consolidated Rescissions and Appropriations Act of 1996, hereafter referred to as the Appropriations Act, establishes the requirement as restated in paragraph II.G. of the NOFA that eligible expenditures are those eligible under Section 14 of the 1937 Act, as implemented in 24 CFR 968 and the Comprehensive Grant Program Handbook 7485.3.

The Department defined hard costs, soft costs, and modernization funds in the Comprehensive Grant Program Handbook, 7485.3. Hard costs are the physical improvement costs, including: Account 1450, Site Improvements; Account 1460, Dwelling Structures; Account 1465.1, Dwelling Equipment; Account 1470, Nondwelling Structures; and Account 1475, Nondwelling Equipment. The Department defined modernization funds as funds derived from an allocation of budget authority for the purpose of funding physical and management improvements. Under the Comprehensive Grant Program the term "modernization funds" is used interchangeably with the term "Comprehensive Grant Program funds". HUD defined soft costs in chapter 2 paragraph Z as the non-physical improvements costs which exclude any costs in development accounts 1450 through 1475.

The minimum rehabilitation cost eligibility requirement is determined by computing the ratio of the total average HUD funds available to construct a new unit against the average hard costs to rehabilitate a unit using HUD funds. The Department annually publishes the TDC limit and this represents the amount of funds HUD will provide for the construction of a unit. Conversely, the hard costs to rehabilitate a unit are comprised of: (1) site improvement; (2) repairs, replacements and improvements within each dwelling unit; (3) the range, refrigerator and other capital equipment installed in each dwelling unit; (4) community space

repairs, replacements and improvements; and (5) capital equipment for the community space. The Appropriation Act specified the requirement as restated in the HOPE VI NOFA that the eligible rehabilitation costs are those expenditures eligible under Section 14 of the 1937 Act. To compute the average hard cost per unit for rehabilitation, total hard costs to rehabilitate all units is divided by the number of units rehabilitated.

Eligibility Screening Procedures Were Not Designed to Determine Rehabilitation Eligibility

The Department's Fiscal Year 1996 HOPE VI Review Procedures lacked a specific procedure for analyzing an application to determine compliance with the minimum rehabilitation cost eligibility requirement. Moreover, while the NOFA described the minimum rehabilitation cost requirement, it did not provide a specific exhibit for the applicant to demonstrate compliance with the requirement. In examining the applications, we located the cost estimates or portions of cost estimates in: Exhibit B.3.a., Physical Indicators of Obsolescence; Exhibit D, Applications for New Construction; Exhibit K.2.a. and b. as well as attached schedules in the section entitled "Program Financing and Sustainability."

Application Defects

The OPHI stated that Section II.E. of the NOFA outlined certain cost parameters of the funding competition. Subsection 1 was an indicator to PHAs that the NOFA was targeted to the most distressed developments. The purpose of the requirement was to establish that the HOPE VI program was not about cosmetic, small-scale rehabilitation efforts, but was a program dedicated to funding true revitalization endeavors that were comprehensive and reached into the wider neighborhood. The Policy Committee did not modify Section II.E. during the competition. The OPHI did not provide for a staff review of this requirement as the threshold criterion. However, the final review board bore the requirement in mind and reviewed closely any application coming before it which raised questions under the minimum rehabilitation cost eligibility requirement.

The final review board did not reject any of the 138 applications received for not complying with the minimum rehabilitation cost eligibility requirement. For the 44 applicants awarded funds, eight applicants proposed rehabilitation at their developments. The HUD final review board had sufficient information to determine that three of the eight applicants did not expend a sufficient amount of funds on rehabilitation activities to be eligible for the HOPE VI program, and two applicants omitted budget estimates on rehabilitation activities precluding the applicant from participating in the competition. The following table lists the applicants awarded funds that did not meet the minimum rehabilitation cost requirement.

**List of Applicants Awarded Funds That Did Not Meet the
Minimum Rehabilitation Cost Eligibility Requirement**

NAMES OF PHA APPLICANTS AND THEIR TARGETED DEVELOPMENTS	NUMBER OF UNITS TO BE REHABILITATION	GRANT AMOUNT AWARDED
Kansas City - T.B. Watkins	149	\$13,000,000
Chester - Lamokin Village	70	\$14,949,554
New Orleans - St Thomas	200	\$25,000,000
Baltimore - Hollander Ridge	614	\$20,000,000
New York - Edgemere/Arverne	418	\$20,000,000
TOTAL:	1,451	\$92,949,554

Deficiencies in either the applicant computation or the fiscal data missing from the application are presented in Appendix H.

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Some Applicants Did Not Properly Inform Residents and Community Members about Planned Activities

To be eligible to compete for HOPE VI funds, the NOFA required an applicant to provide evidence that the applicant conducted at least one public meeting to notify residents in the targeted development and surrounding community of the proposed activities in the application. HUD staff had sufficient information in the applications to conclude that 11 applicants did not conduct the required public meetings in accordance with the NOFA requirement, but allowed these applicants to compete for HOPE VI funds and eventually awarded about \$164 million to these applicants. HUD's funding decisions resulted in unnecessary risks from some of the 11 PHAs of (1) delayed program implementation due to residents of either the targeted development or surrounding neighborhood initiating lawsuits over the lack of consultation on planned activities and (2) planned activities primarily accommodating local priorities over national goals.

NOFA Eligibility Requirement that Applicants Conduct Public Meetings

HUD's NOFA requirement provided that: "All applicants must attach evidence that at least one public meeting has been held to notify residents and community members of the proposed activities described in this application. The meeting may be a regularly scheduled PHA board meeting. Evidence must include the notice announcing the meeting, how the notice was distributed, and a copy of the sign-in sheet. An application must contain such evidence that a public meeting took place in order to be selected for participation." The NOFA added that HUD will consider the level of resident support and community member enthusiasm in rating the application.

Results from Processing Applications

HUD reviewed the applications submitted by PHAs and determined from the documents in the application that all applicants conducted some type of public meeting. We reviewed the 44 applications awarded funds and concurred with the HUD staff that 31 of the applicants demonstrated compliance with NOFA requirement concerning public meetings. We also concurred that two Chicago projects awarded funds to fulfill HUD's obligation under the Gautreaux Consent Decree were not statutorily mandated to conduct public meetings. However, in our opinion, four applicants demonstrated that they did not conduct a public meeting to notify their residents or community members about the planned activities in their application. Moreover, seven housing agencies documented the existence of public meetings but those meetings either inappropriately excluded residents in the surrounding community from the public meeting, or attempted to substitute a planning meeting for the required public meeting. Consequently, these 11 housing agencies should have been excluded from the competition and were ineligible for the approximately \$164 million awarded. Appendix I lists the 11 applicants not in compliance with the NOFA requirement, the amounts awarded, the grant Category for each applicant, and the type of defect in each application.

Four Applicants Did Not Conduct Public Meetings

The Memphis, San Antonio, Baltimore, and Newark Housing Authorities did not inform their residents and community members in the neighborhoods surrounding the targeted development of their HOPE VI planned activities at a public meeting. The four housing agencies provided evidence in their application that their residents were notified of the planned demolition of units at the targeted development as part of their prior year demolition application process. Applicants conducted these meetings prior to the publication and circulation of the NOFA and the completion of the applicants' HOPE VI planned activities.

The HUD reviewers accepted these public meetings as adequate to comply with the NOFA. The HUD reviewers decided that the HOPE VI NOFA did not state any specific timeframes within which these public meetings should have been held. Applicants were only required to demonstrate that a public meeting had been held to inform interested parties of the activities proposed in the application. With respect to the housing agencies where the public meetings were held prior to the publication of the HOPE VI NOFA, each applicant provided evidence that residents and other interested parties had been informed via a public meeting of the demolition activities and these activities were subsequently included in the application. Therefore, the HUD reviewers decided that the threshold criterion was met.

The OIG did not use the same logic during our analysis of the HUD review. The NOFA requirement states that the applicant is to notify residents and community members of the HOPE VI planned activities. The applicants' HOPE VI planned activities are different than the planned activities in their demolition application due to the continually evolving planning process. As a result, the applicants' responses to resident and community member questions will be different when discussing the different plans at the public meetings. In our opinion, due to the difference in the contents of the plan and the resulting differences in the answers to questions, the public meeting conducted for the demolition application cannot substitute for conducting a public meeting to discuss the HOPE VI planned activities.

The Newark Housing Authority changed their planned activities between the submission of the demolition application and the submission of the HOPE VI application and illustrates the need for a public meeting to discuss specifically the Fiscal Year 1996 HOPE VI planned activities. The Newark Housing Authority demolition application provided for the demolition of 8 of 10 high rise buildings. During the public meeting a resident questioned why the Housing Agency sold buildings number 9 and 10. The Newark Housing Authority representative responded that they were planning to deed the buildings 9 and 10 to a nonprofit corporation. The nonprofit corporation planned to rehabilitate the buildings for use as a homeownership program. However, in the HOPE VI application the Newark Housing Authority explained that they had changed their original plan for buildings 9 and 10 after further analysis determined that it was too expensive to rehabilitate the buildings. The Newark Housing Authority now planned to demolish buildings 9 and 10. Another difference between the two applications concerned the housing authority request for \$901,000 for "contingencies."

Further, we concluded that the NOFA provided the applicants with significant opportunities other than the demolition program. Housing agencies opting to exclusively implement a demolition program would need to justify that decision and respond to resident and community member concerns during the public meetings. For example, the NOFA provided the housing agency with funds to construct new housing on the site, develop self-sufficiency programs, establish mixed-income family communities, and establish homeownership programs. HUD approved the demolition applications for the four applicants, subject to the condition that the Department will not provide replacement housing. However, under the HOPE VI Program, the PHAs could replace the units demolished and allow the families to return to the development.

Seven Applicants Conducted Public Meetings But Excluded Residents from the Surrounding Neighborhood

The Detroit, Wilmington, Pittsburgh, San Francisco, Baltimore, Chicago, and New York Housing Authorities notified and conducted public meetings for residents of the targeted developments and effectively excluded community members from the surrounding neighborhoods from participating. The NOFA required an applicant to provide evidence that at least one public meeting was held to notify residents of the targeted development and surrounding community of the proposed activities described in their HOPE VI application. Applicants were instructed in the NOFA to provide the information about public meetings. Most successful applicants had demonstrated that residents of the targeted developments and surrounding neighborhoods had been invited to the public meetings through either their local newspapers or the circulations of flyers. However, based on the information provided by seven applicants, residents from the neighborhoods surrounding the targeted developments were effectively excluded from the public meetings to discuss the HOPE VI planned activities. In this regard, applicants specified in the notices that the meetings were for residents of the targeted developments only, or limited the circulation of the notices announcing the public meetings to the confines of the targeted developments. To illustrate:

- The New York Housing Authority posted the notice in each building two days before the meeting at the targeted development. The PHA's method of distribution excluded the community from the surrounding neighborhood.
- The Chicago Housing Authority targeted development was the Robert Taylor Homes. The PHA did not explain how the notice was circulated. The applicant stated that two Town Hall meetings were conducted and residents of the buildings were to be informed about the program. The PHA did not document that the members of the community surrounding neighborhood were invited to attend the public meeting.
- The Wilmington Housing Authority application did not discuss how the flyer was distributed. The applicant stated that the meeting was held with residents and the Resident Advisory Council. The applicant did not provide documentation that community members from the surrounding neighborhood were invited to their public meeting.
- The Pittsburgh Housing Authority did not discuss how the notice was distributed. The PHA stated that the meeting was attended by nearly 100 residents. The applicant did not document that members of the surrounding community were invited to attend the public meeting.
- The San Francisco Housing Authority stated that HOPE VI meetings were held on-site to assure maximum accessibility to all residents. Outreach material was posted along building corridors, distributed door to door and mailed to residents who attended prior meetings. A total of 10 meetings were held where all key elements of the application were discussed in detail with residents. However, the PHA did not invite community members to attend.
- The Baltimore Housing Authority delivered notices to each unit and posted the notice in all public areas. The notice was entitled "All Residents Of Hollander Ridge Second Resident General Meeting". The applicant documented that the meetings were for residents to the exclusion of the community members.
- The Detroit Housing Authority did not conduct a public meeting to discuss the HOPE VI planned activities. The applicant documented that a notice was sent to Herman Garden residents

for a town hall meeting on February 21, 1996 to discuss the development plan. The public meeting occurred before the NOFA was published and before the preparation of the HOPE VI application. Consequently, the HOPE VI application was not discussed. Further, the applicant documented that they excluded the members of the surrounding community.

The HUD reviewers concluded that the applicants cited above had conducted the NOFA required public meeting. The HUD reviewers felt that the community members had not been restricted from attending the meetings and with each application, community organizations expressed support for the proposed revitalization. The HUD reviewers felt that the NOFA did not provide a definition for what constituted a public meeting, nor stipulate how the meeting notification should be made, therefore HUD could not appropriately have supplied such a definitions and stipulations to disqualify an applicant. Applicants that demonstrated that residents and community members of the targeted development and community groups were informed of the redevelopment plans were determined to have met the conditions of the NOFA and were allowed to compete.

The OIG disagreed with the HUD reviewers' rationalizations that the 11 applicants complied with the NOFA requirement. The PHAs' notices described the meeting as being for residents of the development. Even if the community members were aware of the meeting through the notice, its content did not include an invitation to community members and therefore represented an exclusion from the meetings. In our opinion, the existence of some community members being aware of the revitalization activities is not a substitute for the entire community being given the opportunity to participate. The applicants listed did not invite the community members to the public meeting to inform them of the HOPE VI planned activities. As a result, these applicants did not comply with the NOFA Requirement and should have been excluded from the competition.

Risk of Lawsuits

HUD has assumed a significant risk of lawsuits at these 11 housing agencies due to applicants not conducting the required public meetings for the residents at the targeted development and in the surrounding community. If the lawsuits should materialize the implementation of the program could be delayed. The longer the delay the less funds the housing agencies' will have to implement their program because the purchasing power of the awarded funds decreases as time elapses. Consequently, the housing agencies may not be able to fund the scope of activities originally envisioned. The Chicago Housing Authority Cabrini-Green Development has a HOPE VI funded program for \$50 million from the 1994 NOFA process and has been the subject of a lawsuit from their residents as discussed in the following paragraphs.

The Cabrini-Green tenants' association has standing to challenge the Chicago Housing Authority's revitalization plans for the public housing complex, ruled the U.S. District Court for the Northern District of Illinois, Eastern Division. Plaintiff, Cabrini-Green local Advisory Council (LAC) brought suit against the Chicago Housing Authority (CHA) challenging the plan the CHA developed under the HOPE VI urban revitalization demonstration program to revitalize Cabrini-Green.

The LAC claimed that it suffered injury because none of its members was allowed to participate in the planning process leading to the development of the CHA plan. LAC had to divert resources from its other organizational purposes to uncover the details about the plan and fight it, many of its members will suffer from the destruction of their community, and many of the LAC members will not be eligible to reside in the replacement units. These LAC members moved out of their homes at Cabrini-Green based on the CHA's representation that their building was to be renovated. However, under the revised CHA replacement plan, their building is to be demolished and the plan does not provide enough replacement housing for all displaced residents.

The court held that although HUD had not finally approved the CHA plan and HOPE VI funds would not be dispersed until HUD granted its approval, if as LAC alleged, the defendants failed to consult with the residents of Cabrini-Green in the development and implementation of the plan, then LAC had already been injured, an injury that was not dependent on HUD approval of the HOPE VI plan.

The court also said that LAC members, including displaced members, faced imminent injury from the implementation of the plan affording LAC organizational status to sue. Finally, the court concluded that LAC sufficiently alleged housing discrimination, based on the discriminatory effects the CHA plan would have on Cabrini-Green residents, and proof of intent was not required.

Risk of HOPE VI National Goals Being Subordinate to Local Priorities

We concluded, after reviewing the applications, that some applicants, by not conducting required public meetings, avoided potential conflicts and criticism from residents of the development as well as from the members from the surrounding community because their planning activities primarily accommodated local organizations and in a subordinate manner addressed the national goals as well as resident and community needs. For example:

- The New York Housing Authority stated in a memorandum to PIH that their portfolio has been well maintained and has not reached the point where demolition was necessary. The letter went on to comment that if the PHA demolishes a single building as required by the NOFA there will be objections from resident organizations and advocacy groups. Consequently, the New York City Housing Authority submitted a HOPE VI application with planned activities for modest rehabilitation activities of existing buildings coupled with high-quality self-sufficiency programs and without demolition of a building. The New York City application is an example of planned activities designed to accommodate local issues instead of responding to the national goals of substantial rehabilitation of distressed housing and demolition of obsolete buildings.
- The San Francisco Housing Authority stated in their application that their North Beach development is located in an area attracting about 13 million tourists annually. The development has 229 units and has a 100 percent occupancy rate but the applicant plans to demolish all 229 units and replace these units with 355 mixed income units. The applicant planned to introduce 20,000 square feet of commercial space and an underground parking garage to accommodate 500 parking spaces. The applicant estimated the cost of the project to be about \$67 million and the HOPE VI allocated share was about \$30 million. The PHA planned primarily a real estate venture to accommodate their tourist industry and secondarily establishes a physical structure for serving low-income families.
- The Pittsburgh Housing Authority plans to demolish all 460 units on their current site. The applicant plans to acquire 574 parcels in an adjoining area through private sale transactions, directed sales, and eminent domain procedures. The applicant plans to build 475 units on the newly acquired site and 185 units on the existing site. The cost of new construction is expected to exceed HUD's published TDC limit by 15 to 20 percent. The total cost of the project is estimated at \$85 million and the HOPE VI share is \$30 million with total HUD funding commitment from all sources of \$44 million or 52 percent. The applicant is conducting a local code enforcement program of eliminating blighted structures which is the primary responsibility of local government.

- The Baltimore Housing Authority planned activities in part includes: demolishing 284 low-rise buildings; modest renovation of 614 units; and constructing 151 fee simple single family units. The development is occupied by elderly and low-income families. The Office of Public Housing wrote the Secretary of HUD requesting a waiver for funding the project based on the NOFA provision of selecting lower rated applications due to either geographical diversity or diversity of approach. The Office of Public Housing stated that "the development lies on the border between a city increasingly populated by low-income minorities, and a county with a greater representation of working class and middle class whites. The Development has been the focus of county anxieties about crime, class and race, while public housing residents feel they have been unfairly stigmatized. The conflict has drawn the attention of politicians of national stature, and is emblematic of conflicts dividing many minority urban cores from their white suburbs. A successful solution will be a model nationally for a problem which must be solved if America's cities are to survive and prosper." The Department has awarded funds to resolve a conflict between city and county government and contrary to the national goal of revitalizing severely distressed housing through significant rehabilitation of distressed units.

HUD Did Not Properly Evaluate Funding Requests or Eliminate Uneconomical and Ineffective Operating Costs

The NOFA contained a requirement that HUD, after evaluating an applicant's funding request, can award a grant to an applicant in an amount lower than the amount requested by the applicant to achieve a cost effective HOPE VI Program. HUD reduced 34 of the 44 applicants' funding requests by about \$138 million or about 23 percent of the amount requested by eliminating unnecessary costs, combining the applicant's available funding, and awarding the least amount of HOPE VI funds necessary to effect some level of revitalization. HUD funding reduction decisions ignored the NOFA required method for evaluating the applicant funding requests and eliminating uneconomical and ineffective operating costs. Specifically, HUD: reduced 34 applicants' funding requests without determining whether the partial funding was a viable option; reduced 12 applicants' funding requests without determining whether the funding reductions were sufficient to assure HOPE VI funds are not being substituted for other available funding; and, reduced two applicants' funding requests when the reductions were insufficient to eliminate planned activities containing unnecessary and unreasonable costs. HUD's funding reduction decisions diluted the revitalization impact on the targeted development and surrounding neighborhood and produced an inequality between applicants as some applicants' planned revitalization activities will remain the same while other applicants will need to change the scope of their revitalization activities.

NOFA Requirement Prescribing HUD Funding Reduction Method

The NOFA specified that HUD may select an applicant for participation in the HOPE VI program but grant an award pursuant to such an application in an amount lower than the amount requested by the applicant if the Department determines that (1) partial funding is a viable option, and: (2a) the amount requested for one or more eligible activities is not supported in the application or is not reasonably related to the services or activity to be carried out; (2b) an activity proposed for funding does not qualify as an eligible activity and can be separated from the budget; (2c) the amount requested exceeds the total cost limitation established for a grant; (2d) insufficient funds are available to fund the full amount; or (2e) providing partial funding will permit HUD to fund one or more additional qualified PHAs.

HUD Reductions of Applicant Funding Requests

HUD reduced 34 applicants' grant requests by about \$139 million. Appendix J lists the applicants by Grant Category and shows the amount of funds these applicants requested and the amount of funds HUD awarded. The following table summarizes the amount of applicant funding requests that HUD reduced.

HUD Reductions in Applicant Requested Grant Amounts

DESCRIPTION OF EVALUATION FACTOR	GRANT CATEGORIES: A; B; and C	GRANT CATEGORY D
Number of Grants	20	24
Number of Grants HUD Awarded Funds at an Amount Less than Applicant Requested	16	18
Percent Changed	80%	75%
Amount Applicants Requested	\$517,287,076	\$98,317,155
Amount HUD Approved	\$403,313,070	\$73,470,930
Dollar Difference	\$113,974,006	\$24,846,225
Percent Difference	22%	25%
SUMMARY		
Grants Requested by Applicants	\$615,604,231	
HUD Awards	\$476,784,000	
Dollar Difference	\$138,820,231	
Percent Difference in Awards	23%	
Number of Grants Reduced	34 of 44 Grants Awarded	
Number of Grants Reduced Stated as a Percent	77%	

HUD Did Not Determine the Viability of Implementing Planned Activities with Partial Funding for 34 Applicants

HUD's Fiscal Year 1996 HOPE VI review procedures did not specify a method for complying with the NOFA requirement for determining the viability of implementing applicant planned activities with partial funding. The OPHI documentation provided in support of funding reduction decisions did not demonstrate compliance with the NOFA requirement that HUD determine if the partial funding of applicant planned activities was a viable option. OPHI effectively changed the NOFA requirement by not applying the viability test to the partially funded applicants after the applications were received and processed.

OPHI Did Not Assure HOPE VI Funds Were Not Being Used in Lieu of Other Available Funds for 12 Applicants

OPHI officials stated that the goal of HOPE VI is to encourage new and innovative redevelopment proposals for distressed developments and their surrounding communities. The uniqueness of each submitted proposal made it difficult to apply a strict and standard rule for cost cutting during the competitive process, and by restricting the level of communication between HUD and an applicant during a competition, the HUD Reform Act restricted the freedom staff have to clarify funding requests. The Final Review Panel reviewed the requested amounts for the selected applications and made funding determinations based on the scope of the revitalization plan described in the application, and the non-HOPE VI funds that could be reasonably used towards the initiative. The HUD staff provided documentation in support of their decisions to reduce applicant funding due to:

- unnecessary expenditures;
- duplication;
- insufficient justification for diverting Comprehensive Grant Program funds to other developments;
- availability of funding from other sources;
- more economical alternative activities than the applicant proposed activities; and,
- ineligible expenditures;

OPHI reduced 12 applicants' requested grant amounts without determining whether the funding reductions were sufficient to assure HOPE VI funds were not being used in lieu of other available funding as required in the NOFA. The PHAs were required to identify all HUD funds currently committed to the applicant for capital purposes and available for use at the targeted development in Exhibit K.1.b. of their applications. However, 12 PHAs did not disclose, as required in the NOFA, if they had allocated to the targeted development some or all of HUD funds associated with the: Drug Elimination Program, Comprehensive Improvement Assistance Program, Operating Subsidies, Development Program, and Modernization Program. Without the applicant's fiscal data, OPHI cannot assure that the level of funding reductions were sufficient to assure HOPE VI funds were not being used in lieu of other available funds. Appendix K summarizes the 12 applicants funding reductions.

OPHI Funding Reductions Insufficient to Eliminate Unnecessary Costs from Two Applicants' Funding Requests

OPHI did not follow the NOFA required procedure for reducing uneconomical and ineffective costs from applicants' planned activities. The HUD staff reviewed applicants' requests for about \$98 million in demolition expenditures and reduced the requests to about \$73 million for a aggregate reduction of about \$25 million. The Final Review Panel determined unnecessary and unreasonable demolition expenditures using the following criteria:

- Disallow restoration costs that are actually capital improvements, such as parking, play grounds, gazebos, sidewalks, new streets and other similar types of activities.

- When ineligible restoration costs are disallowed, put back 10 percent of the demolition costs as allowable site restoration costs.
- Limit indirect costs to 20 percent of hard direct costs.
- Disallow the cost of creating Section 8 certificates from HOPE VI funds.
- Limit relocation costs to \$3,000 per family or the applicants actual amount proposed if the applicant request was less than \$3,000 a unit.

HUD did not comply with their own internal funding reduction procedure while processing two Category D applicant funding requests as discussed below.

The Housing Authority, City of Atlanta requested \$10,000,000 to demolish 990 dwelling units. HUD disallowed \$279,480 of the Housing Agency's budgeted relocation costs because the Housing Authority, City of Atlanta estimated relocation costs exceeded the HUD determined maximum allowed relocation costs. HUD awarded this Housing Agency \$9,720,520 or a cost of \$9,819 per dwelling unit. HUD decided that the cost for site restoration after demolition was an eligible expenditure and allowed a maximum site restoration budget amount of 10 percent of the cost of demolition. The Housing Authority, City of Atlanta estimated demolition costs at \$3,465,000 and site restoration costs at \$3,981,520. If HUD had followed their internal funding reduction procedure, HUD staff would have reduced the requested site restoration budget from \$3,981,521 to \$346,500. The award was overstated by \$3,635,020 because HUD did not follow their internal procedure as it relates to site restoration costs.

The Buffalo Housing Authority requested \$10,000,000 to demolish 304 units. HUD disallowed site restoration costs exceeding 10 percent of budgeted demolition costs. HUD staff recommended that the PHA's total request be reduced an additional \$2 million to allow HOPE VI funding at \$20,737 per unit resulting in an award of \$6,304,000. The higher costs were attributed to relocating the boilers and utilities for the units remaining on-site after demolition. HUD funded the Buffalo Housing Authority at an amount exceeding the Final Review Panel maximum funding level per unit of \$15,000. Conversely, HUD received budget requests exceeding \$15,000 per unit for demolition from five other applicants. Each of these five PHA's provided justification for higher costs in their budget submission as did the Buffalo Housing Authority. In these cases HUD documented their justification for reducing the budget requests in the applicant file that the PHA total request had been reduced by an amount which would cap the HOPE VI funding for demolition at \$15,000 per unit. The Department did not consistently apply their internal funding reduction procedure. To achieve consistency, HUD should either decrease the Buffalo Housing Authority to \$15,000 a unit or increase the other 5 housing authorities to an amount requested to account for their special circumstances as was done for the Buffalo Housing Authority.

Adverse Effects of OPHI's Deviation from NOFA Procedures

HUD diluted the revitalization activities at targeted developments and surrounding neighborhoods with their funding reductions. The Housing Authority of Louisville requested \$30 million and HUD reduced the applicant request to \$20 million. The Department reduced the funding because HUD staff deemed the funding adequate to create a critical mass on the site. HUD anticipated that the PHA can proceed with the development using HOPE VI funds while searching for other funding sources to complete the planned development. HUD felt that one-for-one replacement housing funding on this large site would not be appropriate given inventory reductions faced by most cities. However, HUD funded several PHAs with

modest revitalization efforts. The San Antonio Housing Authority was given about \$840,000 to demolish units and create green spaces for their community. The Pueblo Housing Authority was given about \$109,000 to demolish 12 units to allow the city to widen a street at the front of the development. The Buffalo Housing Authority was given \$6,300,000 to demolish 304 units to resolve a litigation issue. The Baltimore Housing Authority was awarded \$2,500,000 to demolish 300 units to be possibly replaced with an industrial park.

HUD's decision to fund as many sites as possible is contrary to the place based concept being utilized by the Department in other NOFAs such as the Homeownership Zones. In our opinion, the funding of a complete revitalization program will promote a revitalization of the development and the surrounding community. The revitalization of both the development and the surrounding neighborhood are necessary to assure the capital improvements will last for a period of time justifying the investment in the revitalization.

The HUD funding cuts were inconsistent and resulted in some PHAs needing to change the scope of their revitalization activities while other funding cuts did not require PHAs to initiate any changes. HUD reduced some applicant budgets to such an extent that the applicant will need to revise their plan. For example Baltimore and New York were each funded in the amount of \$20 million although \$40 million was requested by each PHA. In each case, HUD determined that the amount awarded was sufficient to effectuate revitalization although possibly at a scale less than the housing agencies sought. HUD reduced the Cuyahoga Housing Authority grant by \$10,266,666 because there was insufficient justification for diverting Comprehensive Grant Program funds from the targeted development to another development. The Cuyahoga housing authority will probably not need to reduce their activities. In our opinion, HUD funding policy must assure a fair and equitable distribution of funds and this prerequisite for an adequate funding policy cannot be achieved unless the procedures are consistently applied and the results are consistent between agencies the funds are being distributed.

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HUD Staff Resolved Application Defects Contrary to Procedures Specified in the NOFA

The NOFA classified defects in applications as curable or noncurable and prescribed specific procedures for processing those defects. When HUD staff encountered a defect in an application, often the HUD staff resolved the defect in a manner that improved the applicants application but did not always comply with the NOFA procedures for resolving application defects. As a result, some applications containing noncurable defects and ineligible for funding were inappropriately funded and applications with curable defects continue to exhibit the defect and were inappropriately funded.

Demolition of Obsolete Buildings

The NOFA eligibility requirement stated that each PHA applicant must demolish at least one obsolete building at the targeted development. The NOFA classified this as a noncurable requirement. Consequently, HUD cannot afford applicants the opportunity to provide or supplement the information required after the deadline date.

The New York City Housing Authority submitted an application for the revitalization of a targeted development identified as Arverne Houses. The Housing Agency stated in the application that Arverne Houses consist of one- and two- bedroom units that are in high demand by residents. The units will not be changed in size or shape but will undergo major modernization and system upgrades. The targeted development has 418 units and 26 are vacant. In Exhibit B, paragraph 2. "Proposed Demolition/Disposition" the Housing Authority stated that this section is not applicable, since the demolition requirement in the NOFA has been waived by HUD and no Exhibit N forms part of this application. In application Exhibit B, paragraph 3.a. the PHA stated that the cost of rehabilitation is 63.5 percent of TDC. In application Exhibit B, paragraph 3.b. the PHA stated that the targeted development had outdated plumbing and heating systems and the masonry needed improvements.

The New York City Housing Authority sent a facsimile memorandum on September 10, 1996 to amend their application. The Housing Authority stated that "Based upon information that was unavailable to the Authority at the time we prepared our HOPE VI application for Arverne Houses, regarding the demolition requirement under Section II(C) and Section III(A) of the NOFA, we are hereby amending our application to include demolition of up to four floors at building number 21, 22, 23, and 24 at the Edgemere developments (NY005244D). The demolition of these units would decrease the number of units at Edgemere by approximately 160, thereby helping to revitalize the neighborhood through a reduction in the concentration of low-income families as specified in Section IV(A) of the NOFA. This step is being taken in accordance with Section II D (3), which provides that contiguous or immediately neighboring developments will be considered one development for all purposes of this NOFA.

The New York City Housing Authority sent a memorandum to HUD on September 11, 1996 to clarify their application. The Housing Authority stated that the demolition at Edgemere consisted of "topping off" the four floors in four buildings. The cumulative impact of this action will result in the elimination of as many units as would have occurred had we demolished one single building, but will provide a more uniform and logical modification of the physical site and allow other improvements which will enhance the overall revitalization effort planned for this area.

HUD decided that the New York City Housing Authority complied with the NOFA eligibility requirement of demolishing a building at the targeted development based on the Housing Authority explanation that the units scheduled for demolition were located at a project in the proximity of the targeted development. The New York City Housing Authority requested \$40 million for the revitalization program at the targeted development. The HUD review team reviewed the application and gave the applicant 118 points. The applicant did not receive a sufficient amount of points to qualify for funding. HUD's Secretary, using his discretion under the provisions of the NOFA to select a lower-rated application over a higher-rated application, awarded \$20 million to the Housing Authority.

In our opinion, the New York City Housing Authority did not meet the NOFA eligibility requirement relating to demolishing at least one obsolete building at the targeted development. The HUD NOFA specified one requirement for identifying the boundaries of the target development and one requirement for demolishing an obsolete building at the targeted development and these two requirements are mutually exclusive. The HUD NOFA requirements for identifying the boundaries of the target development stated that the applicant can select either one development as the target development or one development and a contiguous located development can be considered one target development. The HUD NOFA requirement stated that the applicant must demolish at least one building at the target development. The New York City Housing Authority application stated that the target development was Arverne Houses and the planned activities did not include demolition at the targeted development. The PHA's assertion that demolition was occurring in a development located in close proximity to the targeted development did not comply with the NOFA eligibility requirement and the application should have been rejected.

Late Applications

The HUD NOFA required that an applicant submit their application before 4 p.m. on September 10, 1996. The NOFA explained that the application deadline date for the **original** application delivered to HUD Headquarters is firm as to date and hour and HUD will disqualify and return to the applicant any application that it receives after the deadline date. Facsimile (FAX), COD, and postage due applications will not be accepted. The HUD NOFA classified this as a noncurable requirement with one exception. The HUD Accountability and Applicant Disclosure Act, Section 102, paragraph (5) authorized the Secretary to waive the deadline date requirement in response to an emergency, but required the Secretary to publish in the Federal Register not less than 30 days after providing the waiver the reasons for providing the waiver.

HUD staff did not process three of the four applications received late in accordance with the requirements in the NOFA and HUD Accountability and Applicant Disclosure Act. HUD received late applications from the Housing Authorities of Puerto Rico, Virgin Islands, Houston, and New York. HUD rejected Houston from the competition in accordance with the NOFA requirement but allowed the other three Housing Agencies to compete. The New York Housing Agency was funded for \$20 million. The individual circumstances of the three housing agencies allowed to compete for funding contrary to the NOFA requirement are described below.

- Puerto Rico Housing Authority was unable to send their application to HUD by the deadline date due to Hurricane Hortense disrupting communication services. The Housing Agency contacted HUD and requested assistance. Under similar circumstances when Hurricane Fran disrupted services, HUD staff complied with the procedures in the HUD Accountability and Applicant Disclosure Act and requested and eventually received a waiver from the Secretary to allow applicants affected by Hurricane Fran to submit a late application in response to the NOFA for Supportive Services for Persons with Disabilities. However, when Hurricane Hortense disrupted communication, HUD staff decided to circumvent the procedure for obtaining a waiver from

Secretary to the NOFA deadline requirement and established their own procedure for submitting the application under emergency circumstances. Specifically, HUD instructed the Housing Authority to fax their application as soon as communication services were restored and subsequently send the original application to HUD as soon as possible. HUD received the original application on September 16, 1996. The HUD staff inappropriately recorded the receipt of the application as September 10, 1996 on the document designed to demonstrate compliance with the NOFA requirement on receipt of the application by the deadline date.

In our opinion, HUD, without obtaining a waiver to the deadline date requirement stated in the NOFA, inappropriately allowed the Housing Authority to compete for funding under the HOPE VI Program. The Housing Authority requested \$40 million to revitalize one of their developments but were unable to generate a sufficient number of points to qualify for funding.

- The Virgin Island Housing Authority was unable to send their application to HUD by the deadline date due to Hurricane Hortense disrupting communication services. The Virgin Islands Housing Authority contacted HUD and requested assistance. HUD decided to circumvent the established procedures in the HUD Accountability and Applicant Disclosure Act for obtaining a waiver from the Secretary to the deadline date due to emergencies and instead instructed the Housing Agency to give the original application to the staff at the local office of their House of Representatives and this staff was asked to forward the original application to HUD as soon as it was possible. HUD received the application on September 12, 1996 and posted the actual receipt date. In our opinion, HUD inappropriately allowed the Housing Authority to compete for funds even though the applicant had not complied with the deadline date of September 10, 1996, and the Secretary had not waived the deadline date requirement. The Housing Authority had requested about \$28 million to revitalize one of their developments. The Housing Authority application did not generate a sufficient amount of points to qualify for funding.
- The New York City Housing Authority sent a portion of their application by facsimile about 15 minutes before the deadline date. The Housing Authority had sent a staff person to deliver the majority of the application to the HUD Washington DC office cited in the NOFA. The HUD NOFA requirement stated that the original signed application must be received by the deadline date to be eligible for the competition, and conversely any applications received by facsimile were disqualified. In our opinion, HUD inappropriately allowed the New York City Housing Authority to compete for HOPE VI funds because the Housing Authority did not submit a complete original application by the deadline date as required in the HOPE VI NOFA. The Housing Authority was awarded \$20 million.

Curable Technical Deficiencies

The NOFA stated that after evaluating each application, if HUD determines that a PHA failed to submit: (1) evidence of a public meeting; (2) certifications and submissions as required in the NOFA; (3) a demolition application; and, (4) an application for new construction as necessary, or if the application contains a technical mistake, HUD may notify the PHA in writing and by facsimile about the curable defect. The NOFA specified that the PHA had 14 calendar days to correct the curable defects cited by HUD in HUD's written notice. If any of the items identified in HUD's written notification is not corrected and submitted within the required timeframe, the application will be ineligible for further consideration.

In our opinion, HUD did not comply with the NOFA requirement concerning the written notification of a curable defect(s) in an application because HUD staff corrected the defect(s) in some PHA applications

instead of notifying the PHA about the defect(s) and allowing the PHA 14 calendar days to correct the application. Since the PHAs were not provided the opportunity to correct their application an audit determination cannot be objectively made from the evidence in the file as to whether the PHAs had the resources or capacity to eliminate the defects in their applications within the 14 calendar days specified in the NOFA requirement. HUD staff enhancements of defective applications resulted in the some PHAs being awarded funds. In those instances where PHAs never demonstrated compliance with the NOFA requirements, the PHAs should have been disqualified from the competition. Examples of corrective actions initiated by HUD staff are summarized below.

- **Chicago Housing Authority - Robert Taylor Homes.** The PHA board resolution stated that the PHA was submitting one application for both Robert Taylor Homes and Dearborn Homes and requested \$40 million in assistance. HUD staff separated this one application into two distinct applications. This was accomplished without difficulty because the PHA submitted a complete set of application documents for each targeted development. The Dearborn application was rejected and the Robert Taylor application was funded at \$25 million. The HUD staff action in separating the applications improved the PHA application because HUD's ranking and scoring process for the applications in the combined state could only result in rejection of the \$40 million application but after the application was separated into two applications, HUD's ranking and scoring process resulted in the Robert Taylor Homes application being awarded \$25 million.

OPHI agreed with OIG's observation that the Chicago Housing Authority board resolution included in Exhibit M identified a \$40 million request for housing development at Dearborn Homes and Robert Taylor Homes. The OPHI went on to state that whether the PHA's characterization of its applications was inadvertent or aimed at achieving some advantage, every other aspect of these applications identified them as two distinct proposals. Each application included the requisite narratives, budgets, and certifications and as such each fully complied with the requirements of the NOFA. Furthermore, based on both the requirements set forth in the NOFA and the internal control rules, it was impossible to score the applications as one application. Therefore, OPHI made the rational and appropriate decision to score the Taylor and Dearborn application separately. The PHA applications did not receive either advantage or disadvantage from this decision, and based on its merits, only Taylor application scored high enough to receive funding.

OPHI's action to separate the Taylor/Dearborn application into two separate applications was not in compliance with the NOFA specified procedure of providing written notification to the PHA of the defect in the application and allowing the PHA the opportunity to correct the defect as they felt appropriate. HUD staff did not send the Chicago Housing Authority a written notification on the defect in their application. Contrary to the assertion of OPHI that the PHA did not receive any advantage, HUD awarded the Chicago Housing Authority \$25 million that as OPHI explained could not have occurred if the applications were not separated. HUD staff did not send a written notice to the PHA describing the application defect. The OPHI and OIG cannot assert that the Chicago Housing Authority would have resolved the HUD written notification of the application defect in the same manner as the HUD staff did in separating the application into two separate applications.

- **Ocala Housing Authority - N.H. Jones and Forest View.** The Housing Authority submitted two category D applications. The NOFA requirement stated that each PHA can submit only one category D demolition application. HUD combined the two applications into one application. HUD improved the PHA application by combining the two applications into one because the

PHA was awarded a grant for the entire amount requested in both application instead of an award for one application as required in the NOFA.

OPHI stated that while the decision to process the applications as one was not reviewed by the Policy Committee, as in retrospect it should have been, the decision is justifiable and falls within the realm of OPHI interpreting the rules of the competition so as to achieve their underlying purpose. The OPHI correctly followed competition rules and contacted the applicant to inform it of the technical deficiency. The applicant informed the OPHI staff person correctly, that the sites were part of one scattered site development.

We reviewed the file documents relating to the written notification of application defect to Ocala Housing Authority and observed that the HUD staff did not discuss the PHA's error in submitting two demolition applications when only one demolition application from each PHA was permitted under the NOFA. The HUD staff discussed the application defect with the Ocala Housing Authority Director. The PHA agreed that the applications could be combined. However, the PHA did not send a combined application to HUD but rather HUD staff just combined the two application into one application. The Forest View project was received first and the requested award was for \$991,530. The N.H. Jones application was received second and the request was for \$651,417. The Ocala Housing Authority application for N.H. Jones was received by HUD after the Forest View application and should be rejected.

- Housing Authority City of Newark - Hayes Homes.** The NOFA required, in paragraph V, "Application Submission Requirements," that all applications must include the information requested. In paragraph V.B. "Existing Conditions" the NOFA provided that all applicants must provide information in Exhibit B that responds to: (1) Description of the Current Development; (2) Proposed Demolition; (3) Physical Indicators of Obsolescence; (4) Neighborhood Indicators of Obsolescence; (5) Demographic Indicators of Distress; and, (6) Effect on the Neighborhood. The NOFA suggested that the applicants needed about 8 pages to respond to the elements in Exhibit B. HUD will use the information in Exhibit B primarily to evaluate the need for demolition, revitalization or replacement. In NOFA paragraph III it states that applicants **will have no opportunity** to provide or supplement the information required by Exhibit B after the deadline date listed in the NOFA.

The Housing Authority City of Newark submitted an application without the elements the NOFA required in Exhibit B. The PHA's Exhibit B consisted of the following statements. "All of the information needed for this exhibit were included in our application for demolition that was submitted to HUD on August 30, 1995. On April 4, 1996 HUD approved the application. By its approval of the application, HUD agrees with the PHA's justification for demolition, that the buildings at Hayes Homes represent an imminent threat to the health and safety of residents. See Exhibit N for a copy of the HUD approval letter."

HUD review staff referred to Exhibit N to determine the need for demolition. The PHA's Exhibit N did not contain the information required by the NOFA relating to neighborhood indicators of obsolescence, demographic indicators of distress, and the effect on neighborhood. The HUD staff rated and ranked the application based on the incomplete information in Exhibit N and awarded \$9,010,400 to the PHA.

When the HUD review staff determined that the applicant Exhibit B did not contain the required information on six elements the application should have been rejected in accordance with the

NOFA instructions. Instead, the HUD review team referred to Exhibit N and used the information in this section of the application to justify a determination that the applicant had complied with the NOFA requirement. The applicant was required by the NOFA to demonstrate the buildings were obsolete in Exhibit B and the HUD staff to be equitable and fair to all applicants submitting an application should have evaluated the information as provided by the applicant in Exhibit B to determine their eligibility to compete for funds. The HUD review team cannot use the written notification of defect procedure to obtain missing information in Exhibit B of the application from any PHA because the NOFA stated that if an applicant did not provide the data in Exhibit B this was a noncurable defect.

Determination of the Cost Effectiveness of New Construction Compared to Acquisition with Rehabilitation

In accordance with Section 6(h) of the 1937 Act and restated in paragraph V.D. of the NOFA, the PHA may engage in new construction only if the PHA demonstrates to the satisfaction of the Secretary that the cost of new construction in the neighborhood where the PHA determines the housing is needed is less than the cost of acquisition or acquisition and rehabilitation in such neighborhood. The NOFA stated that every application that includes new construction must be accompanied by a narrative and certification in Exhibit D. The PHA was required by the NOFA to provide a comparison of the cost of new construction and the cost of acquisition of existing housing. If the existing housing is insufficient, the PHA was expected to document the claim of insufficient housing. The PHA was also required to certify that the application is for new construction but the PHA will accept acquisition of existing housing or acquisition with rehabilitation if HUD determines that the PHA documentation is inadequate to support approval of new construction. If the PHA submits a certification that the PHA application is for new construction only, HUD procedures stated that HUD will reject the application.

HUD awarded funds for new construction to two PHAs without the appropriate narrative and/or certification in the application as required by the HOPE VI NOFA.

- **Housing Authority of Baltimore City - Hollander Ridge.** The PHA submitted an application for the new construction of 151 housing units. The housing units will be a mix of single family, semi-detached and row housing consisting of 3 bedrooms. The families occupying the units have the opportunity to purchase the units. The estimated cost HOPE VI cost was \$5.3 million. The PHA did not submit the NOFA required narratives and certifications in Exhibit D of their application.

HUD review team detected the lack of narratives and certifications in Exhibit D as required in the NOFA. The HUD staff prepared the written notification of the defect in the application. In accordance with the established procedures the HUD staff called to alert the PHA that the written notification was being sent. The Director of the Housing Authority of Baltimore City contended that the new construction narratives and certifications were not applicable to his program because this was a homeownership program. The HUD management staff discussed the situation and decided not to accept the Housing Authority's claim that the narratives and certifications were not needed. The HUD staff allowed the Housing Authority to compete for HOPE VI funds. The PHA did not obtain sufficient points through the rating and ranking process to obtain funding but using the NOFA procedure for Secretary's discretion, HUD chose the Housing Authority's lower-rated application over a higher-rated application and awarded the PHA \$20 million.

In our opinion, the HUD review team did not comply with the NOFA procedure for obtaining correction of a curable technical defect from the applicant. To be in compliance with the NOFA procedure, the HUD staff needed to send a written notification to the housing authority that the lack of narrative and certifications represent a defect in their application and needed to be corrected. The homeownership program proposed by the housing authority was based on new construction. The 1937 Act Section 6(h) did not preclude any specific types of housing programs. The 1937 Act referred to any and all new construction. The PHA had not presented any legal evidence to justify that the homeownership program was not affected by the legislation. Since the appropriate narratives and certifications to support the new construction were not submitted, the application is not eligible for the competition. Since this is a defect classified as curable in the NOFA the PHA should have been allowed 14 calendar days to correct the defect by providing the appropriate narrative and certifications.

- **San Francisco Housing Authority - North Beach Project.** The PHA submitted an application for new construction of 355 units. The PHA provided a certification for new construction only. HUD staff reviewed the PHA certification and accepted the certification. In our opinion, the HUD staff did not comply with the NOFA requirement when they accepted the PHA application as-is because the certification did not comply with the NOFA requirement. The NOFA specified that the applicants needed to certify that the application was for new construction but they would accept acquisition with rehabilitation if HUD determined the narrative in support of the new construction application did not demonstrate the cost of new construction was less than acquisition with rehabilitation. However, the Housing Authority specified that they planned to construct new housing and would not consider any other option. The NOFA provided for this as a curable technical defect. HUD did not prepare a written notification of application defect to allow the PHA the opportunity to modify their certification.

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Applicant for a Non-Competitive Award Did Not Demonstrate Compliance with Eligibility Requirements

Under the Gautreaux Consent Decree HUD is obligated to fund the development of 350 housing units within the Chicago Housing Authority (CHA) jurisdiction. To fulfill their obligation through the HOPE VI NOFA, HUD designed a noncompetitive award process with exclusive eligibility requirements. After receiving the CHA application, HUD had sufficient information to determine the CHA application did not demonstrate compliance with the NOFA eligibility requirements and was ineligible for funding. Contrary to the NOFA processing requirement, HUD awarded about \$43 million to CHA to develop the 350 housing units. Further, HUD's funding decision is inequitable and unfair to the eventual low-income residents at the proposed development. Under the terms of this award HUD is not providing these low-income residents with funds for the self-sufficiency component available to all other low-income residents. The National Commission on Severely Distressed Public Housing stated in their Final Report that any revitalization program of housing rehabilitation without the associated self-sufficiency activities will eventually result in the accelerated deterioration of the physical rehabilitation and management improvements. Under these circumstances, the investment in the revitalization will not be justified by the length of use of the structures.

NOFA Requirement for Noncompetitive Award

The NOFA stated that in order to meet its obligations under the Gautreaux Consent Decree requiring HUD to provide comparable relief when HUD cannot provide Section 8 New Construction assistance, HUD may provide funding for up to 350 public housing replacement units to the CHA, provided that the funding will fulfill an unsatisfied obligation under the Consent Decree to provide comparable relief, and provided, that the CHA submits one or more applications for such public housing replacement units in response to this NOFA. In order to receive the replacement public housing units, the application shall state that it is submitted pursuant to the preceding sentence and the application must satisfy all of the statutorily mandated requirements of the NOFA.

Planned Activities Discussed in the Application

The CHA submitted an application and requested about \$43 million to be divided between Brooks Extension and Henry Horner Development at about \$24.5 and \$18.5 million, respectively. At the Brooks Extension, the CHA planned to demolish high rise buildings containing 300 units and construct 200 mixed-income replacement housing units with 54 of the replacement units being on-site and 146 units being off-site. The CHA planned to lease 50 percent of the units to very low-income families and the other 50 percent to families earning between 50 and 80 percent of median income. In Exhibit D, the CHA stated that a search of the Multiple Listing Service indicates that the majority of lower end properties of detached single family and 2-4 units would require significant rehabilitation costs to meet Housing Quality Standards. The CHA did not discuss in the application the racial and economic impact on the surrounding neighborhood.

At the Henry Horner Homes, the CHA plans to construct 150 new dwelling units on-site and demolish four high rise buildings. The development is located in an industrial/commercial area and has contributed to the

isolation of the residents. Violent crime at Henry Horner is between 3 to 8 times higher than for the City of Chicago as a whole. The vacancy rate at the targeted development was 50 percent. The CHA did not provide the demographics concerning the racial and economic impact on the surrounding neighborhood. The CHA planned to lease 50 percent of the units to very low-income families and lease the rest of the units to low/mod income families.

Application Contained Noncurable Technical Defects

The CHA application did not comply with some of the NOFA noncompetitive eligibility requirements. Specifically, the CHA application did not provide assurances that HUD's obligation under the Gautreaux Consent Decree would be fulfilled with the planned activities. In addition, CHA did not certify, in accordance with the statutory mandate for authorizing the start of construction, that 85 percent of the existing units meet HUD's Housing Quality Standards or will after modernization.

The CHA application did not demonstrate that the funding of the development of the housing units will fulfill HUD's obligation under the Gautreaux Consent Decree. The CHA application stated that a revitalization waiver will be sought under the Gautreaux Consent Decree for developing this replacement housing on the site. However, as of the date of the application deadline date of September 10, 1997 the CHA had not requested the court for the necessary waiver.

The CHA application did not comply with all the statutory mandated requirements. Specifically, the CHA did not provide the certification required in Section 5 of the U.S. Housing Act of 1937. The Act requires in Section 5(j)(1) that the housing agency can certify that 85 percent of their dwelling units: (i) are maintained in substantial compliance with the housing quality standards; (ii) will be so maintained upon completion of modernization for which funding has been awarded; or (iii) will be maintained upon completion of modernization for which applications are pending that have been submitted in good faith under Section 14 and that there is a reasonable expectation as determined by the Secretary in writing that the application would be approved. In December 1995, the CHA reported to HUD that 67.5 percent of their units met Housing Quality Standards and approximately 58 days were needed to correct each non-emergency Housing Quality Standard violation. The CHA 1996 modernization funding is \$116 million but less than 25 percent of the modernization funds are being spent on capital repairs, betterment and improvements. The CHA spent the remainder of the funds on; \$60 million for security; \$11 million for administration; \$31 million in force account for unit inspections, vacancy reduction repairs, labor to eliminate the backlog of work orders; and, the rest on management and site improvements.

The NOFA defines curable and noncurable application defects. The NOFA states that if HUD determines that an application contains a technical mistake, such as an incorrect signatory, or is missing any other information that does not affect the evaluation of the application, HUD may notify the applicant in writing that the applicant has 14 calendar days from the date of HUD's written notification to correct an item. An applicant with a noncurable defect in its application is ineligible to participate in the rating ranking and awards process for this HOPE VI NOFA.

In our opinion, the CHA's application did not demonstrate compliance with the noncompetitive eligibility requirements and this is a noncurable defect.

Lack of Support Services for Residents

The HUD award is inequitable and unfair to the future residents of this targeted development. The CHA plan provided for after school programs, day care, education, job readiness and training, health care, substance abuse counseling, and mental health counseling. In Exhibit E CHA stated that only 8.7 percent of the resident population is employed while only 10 percent of residents of the Henry Horner development are employed. The average Henry Horner family income is about \$5,400 or 10 percent of the area median family income. The CHA's application contained letters of support for the planned activities. The Salvation Army Child Care Director stated that families living in these developments are in need of a broad base of support as they move from "welfare to work." Child care, job training for real jobs, and substance abuse programs are just a few of the services that will be necessary if self-sufficiency is to be achieved. The child care program is a first step in meeting the needs of a child. Additional steps -- supports are needed. The Chairperson and the Secretary of the Horner Resident Committee wrote in support of the CHA application also but expressed their sadness that funding under the NOFA set-aside would not be made available to assist their comprehensive self-sufficiency and empowerment initiative.

The CHA explained in the application that the self-sufficiency program is being in part donated by local service providers as identified in Exhibit J and from a financing scheme. The CHA's primary source of revenue for the self-sufficiency program comes from a financing subterfuge that will require all vendors and contractors to either hire residents for 10 percent of the contract amount or contribute 10 percent of contract proceeds for resident training. We estimate that the CHA may generate about \$3 million from this scheme. (\$33 million in construction costs times 10 percent). The revenue generated from this scheme are not shown on the Budget Summary sent to HUD in the application.

In our opinion, CHA's financing method and lack of accounting/budgeting disclosure is inappropriate. HUD's funding decision is unfair and inequitable and primarily responsible for the shortfall in self-sufficiency funding. The CHA application contained a self-sufficiency component as required for all applications. Under the terms of this NOFA award, HUD is not providing funds for the self sufficiency program. The NOFA requirement relating to support services states that the PHAs may use not more than 20 percent of the funding awarded in each HOPE VI grant for self-sufficiency programs and related administrative expenses. For this award, the CHA could have obtained about \$8 million for self-sufficiency activities. (\$53 million total budget times 80 percent equals \$42 million housing revitalization budget)

The National Commission on Severely Distressed Public Housing stated in their "Final Report" issued in August 1992 that there has been an especially marked increase in public housing households that have incomes below 10 percent of median income, a key indicator of extreme economic disadvantage. In 1981, this group represented only 2.5 percent of the total public housing population, but by 1991 this figure had increased to almost 20 percent. There is a strong relationship between the income level of the residents of a public housing development and the level of rehabilitation needs of the development. The failure to meet the needs of the people living in severely distressed public housing will eventually result in the failure of any physical rehabilitation and housing management program.

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HUD Unnecessarily Condensed the Time Allotted for Preparing and Reviewing Applications

Public Law 104-134, the Omnibus Consolidated Rescission and Appropriations Act, signed April 26, 1996 appropriated funds for the HOPE VI Program. The Department was not required in this Public Law to obligate the funds during Fiscal Year 1996. HUD's Assistant Secretary for Public and Indian Housing made the decision to award the HOPE VI program funds by September 30, 1996. To meet this goal, HUD published the NOFA on July 22, 1996 and as a condition of eligibility, required applicants to submit an application before 4 p.m. on September 10, 1996. An applicant had 50 days to prepare their HOPE VI application. In our opinion, the adverse consequence of HUD's decision for some PHAs was that very low-income family needs were not always given adequate consideration, partnerships were not established to leverage support and resources, and revitalization activities were not planned as cost effectively as possible.

NOFA Eligibility Requirement for Submitting an Application by a Specific Date and Time

The Department published the NOFA on July 22, 1996 and specified that the applications must be received at HUD Headquarters before 4 p.m. on September 10 1996.

HUD Compressed time Allotted for Preparing the Planned Activities

The HOPE VI timeframe for preparing an application was 90 percent or 45 days shorter in Fiscal Year 1996 than in Fiscal Year 1997. The Omnibus Consolidated Rescissions and Appropriations Act of 1996 (Public Law 104-134) did not require the HOPE VI funds to be awarded during the Fiscal Year 1996. The 1996 Appropriations Act made significant changes to the HOPE VI Program by among other things, expanding eligibility to all PHAs, requiring demolition as an element, requiring certain selection criteria, and eliminating various restrictive features of previous Urban Revitalization Demonstration legislation. HUD self-imposed September 30, 1996 as the date for all HOPE VI funds to be obligated. In order to complete the rating, ranking, and award process by September 30, 1996, HUD required that applicants must submit their applications by September 10, 1996 thereby allowing an applicant 50 days to prepare their application. HUD decisions accelerated the award process even though the Appropriations Act made significant changes in the HOPE VI Program. In Fiscal Year 1997 HUD published the NOFA on April 14, 1997 and established an application deadline date on July 18, 1997 thereby allowing an applicant 96 days to prepare their application. A comparison of the different requirements are summarized in the following table.

**Comparison of Time Allowed in Fiscal Year 1996
and Fiscal Year 1997 to Prepare an Application**

BENCHMARKS	HOPE VI NOFA FOR FISCAL YEAR	
	1996	1997
NOFA Publication Date	July 22, 1996	April 14, 1997
Application Deadline Date	September 10, 1996	July 18, 1997
Days Elapsed by Month from NOFA Publication Date to Application Deadline Date	July - 9 Days August - 31 Days September - 10 Days	April - 16 Days May - 31 Days June - 30 Days July - 18 Days
TOTAL DAYS ELAPSED	50 Days	95 Days
Number of Days Difference	45 Days	
Percent Difference	90%	

**PHAs Planned Activities
Are Not Cost Effective**

HUD's decision to compress the time period for planning the revitalization may have resulted in some PHA revitalization plans not being cost effective, as demonstrated in the following illustrations.

The Housing Authority of Baltimore City Hollander Ridge development is one example of an ineffective cost revitalization plan. Hollander Ridge consists of a total of 1,000 units, including 522 family units in 79 garden-style structures and a 19-story 478-unit high-rise for the elderly. The property was constructed circa 1974 and opened in 1976. It was originally built as a modest-income rental complex, but the agency took the property over when the developer had trouble completing construction. The Development is four miles from downtown Baltimore, but effectively cut off from the rest of the city by Interstate 95. Although technically a non-impacted site, it is an extremely isolated location that is inconvenient to schools, churches, shopping, laundry facilities, and other services.

The Housing Authority of Baltimore City submitted an application in response to the Fiscal Year 1996 NOFA for the HOPE VI Program. The PHA estimated the hard costs for rehabilitating their dwelling and nondwelling units and the associated capital equipment at \$45,964 per unit. The PHA requested \$40 million of HOPE VI funds and anticipated \$52 million from private sources to accomplish the following revitalization activities: (1) demolish 284 existing low-rise buildings; (2) reconfigure 101 units in the high rise; (3) renovate 238 family rental units and 376 elderly units; (4) construct 151 new single family houses; (5) provide site improvements to landscaping and roadways; (6) develop commercial retail along Pulaski Highway; (7) develop a campus of learning; (8) create highly visible and safe pedestrian linkages; and (9) construct 2 day care facilities.

The Omnibus Consolidated Reconciliation Act required that HUD conduct viability assessments for projects of 300 or more units with a vacancy rate in excess of 10 percent. The law requires that the units be removed from the public inventory within 5 years if the public housing costs exceed those of housing vouchers and if the long term viability of the property cannot be assured through a reasonable revitalization plan. The Hollander Ridge Development met the criteria stated in the Appropriation Act. HUD procured the services of the Abt Associates to conduct the viability assessment on Hollander Ridge.

Abt Associates Inc. concluded that costs of operating Hollander Ridge development exceeded the costs of comparable tenant-based assistance and that the long-term viability of the Hollander Ridge development cannot be assured via a reasonable revitalization plan. Abt Associates recommended that Hollander Ridge be demolished and the property sold. The Baltimore Housing Authority had the Abt Associates study recommendations to demolish the buildings in the development before they submitted their HOPE VI applications with planned activities for revitalizing the development. HUD had the draft Abt Associates Inc. study before OPHI recommended to the Secretary to use his NOFA prerogative to select a lower rated Baltimore application over a higher rated application. The Abt Associates recommendations were based on:

- Hollander Ridge does not provide a desirable living environment in the family units.
- The state of physical deterioration at Hollander Ridge requires a significant investment of funds estimated at \$37,000 a unit. In addition it was estimated that the PHA will need to invest \$16 million in the property over the next 19 years to replace building systems as they reach the end of their useful lives. (NOTE: The PHA estimated \$45,000 per unit for rehabilitation activities. The difference between the two estimates is probably related to the premature replacement of capital equipment in the PHA plan.)
- The rental market is soft for lower end rentals. Abt Associates are not confident of the property's ability to draw even a small share of working households after modernization. Based on limited anecdotal evidence, existing residents do not appear to be strongly attached to the site, and may prefer alternative housing.
- Discontinuation of the site in its public housing use would have no negative impact on the surrounding community.

Other PHAs have a very high cost per unit for assisting all families but extremely high when the total HUD assistance is related to very low-income families only. At the Chicago Housing Authority the PHA plans to construct 200 units at its Brooks Extension development for a total cost of about \$24.5 million or \$122,416 a unit. However, the PHA plans to reserve only 100 units for the very low-income families. The cost for assisting only very low-income families at this project is \$248,432 per unit. The New Orleans Housing Authority revitalization plan costs about \$40 million in just HUD funds. All 240 families being assisted are very low-income and the cost per unit for the revitalization plan activities is \$166,667. The Jacksonville Housing Authority plans to renovate 459 units for about \$21.5 million for \$46,954 a unit. However, only 152 units are reserved for very low-income families. The average cost per unit for very low-income families only is \$141,789.

The short time allocated for planning the revitalization programs may have resulted in some PHAs not selecting the development with the best opportunity for developing partnerships necessary to leverage in-kind services and financial resources. The NOFA stated that PHAs are encouraged to enter into partnership

arrangements for the purposes of developing housing that fits into the community and is seen as an integral part of the community. HUD provided 10 bonus points in scoring an application if the application demonstrates coordination with and supportive of the Strategic Plan for a federally designated Empowerment Zone or Enterprise Community. HUD even gave 4 points to an applicant just for the targeted development being located in an Empowerment Zone or Enterprise Community without the applicant needing to demonstrate that their revitalization plan was coordinated with the Strategic Plan. Of the 42 PHAs awarded HOPE VI funds in the competitive process by HUD, 8 PHAs or 19 percent of all PHAs awarded funds were located in a Empowerment Zone or a Enterprise Community and their revitalization plans were coordinated and supportive of the Strategic Plan for the Federally designated Empowerment Zone or Enterprise Community. Four other PHAs were located in an Empowerment Zone or Enterprise Community but did not demonstrate that their HOPE VI plans were coordinated or supportive of the Strategic Plan. As a result, 29 percent of the HOPE VI awards are with PHAs in partnership with the Empowerment Zones or Enterprise Communities.

HUD's decision to provide an abbreviated planning period has resulted in the needs of the targeted development and surrounding community not being considered. For example, the Mayor of Chicago stated in the cover letter to their application that "I am deeply concerned that the time afforded under the HOPE VI NOFA has been insufficient to engage in the kind of thoughtful, comprehensive discussions that took place for Cabrini Green and Henry Horner. The applications that the CHA has prepared merit support but raise a number of issues that we simply have not had the time to address thoughtfully. First, the time constraints imposed by the application period have not allowed us to develop plans for all four developments that truly address their needs and those of their surrounding communities. Further, my administration has not had the opportunity to determine the potential cost to the city of the commitments sought of it under each of the CHA's proposed plans."

Recommendations

The following recommendations reflect consideration of the Department's response to our draft report. We have revised some of our original recommendations to be more specific or to address events that have occurred since issuance of the draft report.

We recommend that the Department:

- 1.a. Rescind the Fiscal Year 1996 HOPE VI Demolition and Revitalization grant awarded to the Baltimore City Housing Authority. In our opinion, this action is necessary to protect HUD's interest and better achieve the goals of the HOPE VI Program in accordance with the Appropriations Act. Specifically, the Baltimore City Housing Authority HOPE VI grant for revitalization activities at the Hollander Ridge development even though a consultant's recent viability assessment concluded that the costs of operating Hollander Ridge development exceeded the costs of comparable tenant-based assistance and that the long-term viability of the Hollander Ridge development cannot be assured via a reasonable revitalization plan. The Appropriations Act requires that units be removed from the public inventory within five years if the public housing costs exceed those of housing vouchers and if the long term viability of the property cannot be assured through a reasonable revitalization plan.
- 2.a. Condition the grant agreements with the other PHAs not meeting eligibility criteria on the PHAs completing specific activities, as required, to demonstrate compliance with NOFA eligibility requirements. HUD should direct the PHAs to:
 - procure the services of an architect/engineering firm to assist the PHA in demonstrating that units scheduled for demolition were not viable for rehabilitation, and units scheduled for rehabilitation needed physical modification at a cost exceeding 62.5 percent of HUD's Total Development Cost limits.
 - conduct public meetings in accordance with NOFA criteria to discuss the Fiscal Year 1996 HOPE VI application and document comments from the residents of the targeted development **and** surrounding community.
 - If a PHA does not demonstrate compliance with the NOFA eligibility requirements, withdraw any Fiscal Year 1996 HOPE VI funding not obligated by the PHA and distribute such funds to one or more eligible PHAs in accordance with the Appropriations Act.
- 3.a. Condition HUD's noncompetitive grant agreement with the Chicago Housing Authority on the housing authority demonstrating that its planned activities would fulfill HUD's obligation under the Gautreaux Consent Decree and also that the housing authority has complied with the statutory mandated requirements. HUD should direct CHA to:
 - provide the required revitalization waiver necessary under the Gautreaux Consent Decree for developing replacement housing on the site.
 - provide certification that 85 percent of its existing units meet HUD's Housing Quality Standards or will after modernization.

With regard to the competitive funding process, we recommend the Department consider changing the method for soliciting and processing applications and:

- 4.a. Publish the NOFA at the start of the fiscal year and leave it open until the Department decides to suspend it.
 - 4.b. Promote a competition where PHAs compete against national standards. The competition standards could include such quantified factors as demolition of a profiled distressed building, new construction in neighborhoods undergoing revitalization, cost efficient revitalization, leveraged financing, and self-sufficiency activities.
 - 4.c. Award funds to applicants based on first completed without defect until appropriated funds are consumed. The applications received and meeting the NOFA requirement would remain active and be funded as more funds become available.
- 5.a. Change the forms used to obtain budget information from applicants. The HOPE VI Program funding is competitive and the budget needs to reflect the funding methodology. The form needs to require information on output measures such as: the number of families assisted, the cost per square foot, the number of capital assets items being purchased, the anticipated asset utilization rate, the estimated premature retirement of capital assets, and number of units lost due to reconfiguration. The Department can use this information quantifying the applicant's planned activities as a method to measure the cost effectiveness of the revitalization strategy.

Significant Issues Needing Further Review

Potential Circumvention of the HUD Reform Act

HUD awarded New York City Housing Authority a planning grant in Fiscal Year 1993 for \$500,000 for the target development identified as Beech 41st Street, and all \$500,000 has been drawn down. In 1995, HUD awarded an implementation grant for \$47,700,952 to the Housing Authority for the Beech 41st Street development but none of the funds were drawn down. Subsequently, the HOPE VI grant was reassigned from the original development to Edgemere Development. Edgemere Development has \$15 million in Comprehensive Grants funds available and \$10 million of excess development funds. Consequently, the Housing Authority has about \$73 million dollars for revitalization at Edgemere Development. After the 1995 implementation grant was awarded, HUD and the Housing Authority discussed the implementation of the planned activities and, as a result of these discussions, the reassignment of the grant funds occurred. Further review would be needed to determine whether the Department's actions provided the Housing Authority an unfair competitive advantage over other Housing Agencies that competed for the HOPE VI NOFA for Fiscal Year 1995 by allowing the Housing Authority to use one project for the competition and substitute another project to use the funds, and to determine if the substitution of target developments has occurred with any regularity.

Cost per Unit for Revitalization Has Not Been Fairly Disclosed

The applicant statement on Source and Application of Budgeted Funds has not fairly disclosed the cost per unit for revitalization. The applicant budgets have estimate the budgeted expenses by line item for HOPE VI funding, but have not always provided such detail for the funding from sources such as Section 8, tax credits, donations, Community Development Block Grants, Comprehensive Grant Program, Comprehensive Improvement Assistance Grants and other funds. Some budgets contain aggregate amounts for the cost of constructing the dwelling units without a breakout of the cost per line item. The applicants have described the amount of money to be spent on support services but not always the number of residents to be assisted. The applicants have acknowledge that moderate income families will be assisted but have not explained if HOPE VI funding is subsidizing their housing.

Site and Neighborhood Standards May Not Be Consistently Applied

Grantees under the HOPE VI Program must ensure that their revitalization proposals and replacement housing plans for the targeted developments will avoid or lessen concentrations of very low-income families by creating a mixed-income community or by expanding assisted housing opportunities in nonpoor and nonminority neighborhoods. Replacement of public housing units for public housing units demolished may be built on the same site, or in the same neighborhood if the number of such replacement public housing units

is significantly fewer than the number of public housing units demolished. HUD has not established a quantitative standard. Instead, HUD will assess on a case-by-case basis the facts involved in each request.

Accuracy and Reliability of Applicant Statements and Financial Information Questioned

The 1937 Act directed the Secretary to establish the specific eligible cost items. The Appropriations Act stated that eligible costs for this NOFA are based on Section 14 of the 1937 Act. One cost factor the Secretary determined to be ineligible for funding is the premature replacement of capital assets. The applicants provided HUD with information about the cost of planned items that the Department used to determine applicant eligibility for funding. Some applicants provide financial information without any explanation for the basis of the claims. For example, the applicants were requested to provide the cost of rehabilitation per unit as a percent of the Department's total development costs for new construction. The applicants provided a sentence or a sentence and a table stating the cost of rehabilitation as a percent of the total development costs but did not explain the basis for the estimate. The New York City Housing Authority made the claim that the Exhibit B "Proposed Demolition and Disposition" did not apply to them because the HUD Secretary had waived the NOFA requirement, but a search of the federal register did not locate any waivers. Review objectives would be to determine; the accuracy of statements made by applicants to demonstrate compliance with the NOFA requirements, and the cost of premature replacement of capital assets included in the rehabilitation estimate.

List of Applicants Requesting HOPE VI Funds by Grant Category

CATEGORY "A" PUBLIC HOUSING AGENCIES REQUESTING HOPE VI FUNDING

GRANT NUMBER	STATE	NAMES		AMOUNT REQUESTED
		PHA	DEVELOPMENT	
34	NY	ALBANY	Steamboat Square	\$10,240,760
27	GA	ALMA	Queen City Heights	\$2,867,324
150	NJ	ATLANTIC CITY	Shore Park	\$1,617,131
18	TX	AUSTIN	Chalmers Court	\$15,000,000
104	TX	BEAUMONT	Concord Homes	\$14,999,950
152	MA	BROCKTON	Crescent Court	\$14,083,785
29	WV	CHARLESTON	Ochard Manor	\$14,996,526
93	PA	CHESTER	Oak Street	\$15,000,000
106	PA	CHESTER	Lomokin Village	\$14,999,554
20	CA	CONTRA COSTA CO.	Las Deitas	\$8,076,500
32	TX	CORPUS CHRISTI	Leathers II	\$15,000,000
121	VA	DANVILLE	Liberty View	\$12,993,820
102	IL	EAST ST LOUIS	Orr Weathers	\$15,000,000
13	MA	FALL RIVER	Sunset Hill	\$14,200,000
30	IN	FORT WAYNE	Miami Village	\$7,275,500
122	TX	FORT WORTH	Whispering Oaks	\$15,000,000
66	TN	FRANKLIN	Spring Street	\$8,398,975
7	GA	FULTON CO.	Boatrock Community	\$14,520,970
87	NC	GREENSBORO	Morningside Homes	\$15,000,000
108	PA	HARRISBURG	Hall Manor	\$15,000,000
153	NC	HIGH POINT	Springfield Townhouses	\$15,000,000
111	MA	HOLYOKE	Jackson Parkway	\$15,000,000
65	KY	HOPKINSVILLE	Pennyville Homes	\$1,250,000
91	AL	JASPER	Carver Courts	\$1,642,210
72	MO	KANSAS CITY	Theron B Watkins	\$15,000,000
62	CA	KERN CO.	Oro Vista	\$12,596,396
100	NV	LAS VEGAS	Ecegreen Arms	\$3,419,184
157	AR	LITTLE ROCK	Joseph A Booker Homes	\$15,000,000
110	PA	MCKEESPORT	Crawford Village & Harr	\$12,139,000
84	TX	MERCEDES	Ebony Homes	\$2,858,210
63	IN	MICHIGAN CITY	Harborside Homes	\$12,839,563
125	NC	MID-EAST REGION	Scattered Sites	\$15,000,000
8	CT	MIDDLETOWN	Long River Village	\$10,400,986
5	IN	MUNCIE	Munsyana Homes	\$14,973,000
56	MI	MUSKEGON HEIGHTS	East Park Manor	\$1,850,450
112	NJ	NEW BRUNSWICK	New Brunswick Homes	\$10,152,983
128	VA	NEWPORT NEWS	Lassiter Courts	\$15,000,000
39	AR	NORTH LITTLE ROCK	Eastgate Terrace	\$13,054,740
120	TX	OLNEY	Bluebonnet	\$1,432,080
75	TX	ORANGE	Arthur Robinson	\$8,322,000
117	FL	ORLANDO	Orange Villa	\$15,000,000
53	CA	OXNARD	Colonia Village	\$8,879,850
143	NJ	PATERSON	Christopher Columbus Homes	\$15,000,000
50	TX	PHARR	Villa de La Esperanza	\$7,528,825
118	MI	PONTIAC	Lakeside Homes	\$11,654,000
151	VA	PORTSMOUTH	Ida Barbour	\$15,000,000
35	MO	RICHLAND	Richland	\$2,551,901
46	VA	ROANOKE RHA	Lincoln Terrace	\$13,000,000
74	CA	SACRAMENTO CITY	Franklin Villa	\$15,000,000
16	MI	SAGINAW	Daniels Heights	\$12,458,000
10	IN	SOUTH BEND	Northwest	\$15,000,000
114	AZ	SOUTH TUCSON	Activity Center	\$277,503
6	SC	SPARTANBURG	Tobe Hartwell Courts	\$14,967,869
138	FL	ST PETERSBURG	Jordan Park	\$15,000,000
83	CT	STAMFORD	Southfield Village	\$15,000,000
147	WA	TACOMA	Salishan	\$15,000,000
77	KS	TOPEKA	Northland Manor	\$11,308,440
26	AZ	TUCSON	Connie Chambers	\$15,000,000
155	NC	WILMINGTON NC	Robert S Jevay Place	\$15,000,000
41	MN	WINONA	Arthur c Thurley Homes	\$6,465,140
129	NJ	WOODBIDGE	Woodbridge Garden	\$13,847,986
139	OH	YOUNGSTOWN	Westlake Terrace	\$15,000,000
TOTAL AMOUNT OF REQUESTS RECEIVED FROM CATEGORY "A" APPLICANTS:				\$709,141,111
TOTAL NUMBER OF APPLICATIONS RECEIVED				62

CATEGORY "B" PUBLIC HOUSING AGENCIES REQUESTING HOPE VI FUNDING

GRANT NUMBER	STATE	NAMES		AMOUNT REQUESTED
		PHA	DEVELOPMENT	
116	OH	AKRON	Elizabeth Park Homes	\$19,782,660
140	PA	ALLEGHENY CITY	McKees Rocks Terrace	\$29,993,890
40	AL	BIRMINGHAM	Elyton Village	\$30,000,000
47	NY	BUFFALO	Lakeview Homes	\$30,000,000
78	NC	CHARLOTTE	Dalton Village	\$29,535,103
132	OH	CINCINATI	Laurel Homes	\$30,000,000
31	OH	COLUMBUS	Linton Gardens	\$16,766,900
52	TX	DALLAS	Roseland Homes	\$30,000,000
149	OH	DAYTON	Southern Dayton View	\$15,694,200
145	CO	DENVER	Curtis Park	\$21,995,000
158	MI	DETROIT	Herman Gardens	\$30,000,000
33	TX	EL PASO	Ruben Salazar Park	\$30,000,000
156	CT	HARTFORD	Bellevue Square	\$30,000,000
42	HI	HAWAII	Kuhio Park Terrace	\$30,000,000
9	FL	JACKSONVILLE	Durkeeville	\$24,951,000
28	NJ	JERSEY CITY	Curries Wood	\$18,248,900
4	CA	LOS ANGELES CITY	Aliso Village	\$30,000,000
71	KY	LOUISVILLE	Cotter and Lang Homes	\$30,000,000
22	TN	MEMPHIS	Hurt Village & Lauder	\$30,000,000
127	WI	MILWAUKEE	Parklawn	\$30,000,000
130	MN	MINNEAPOLIS	Bryant Highrises	\$18,378,794
119	AL	MOBILE	Josephine Allen Homes	\$30,000,000
38	TN	NASHVILLE	Vine Hill Homes	\$25,016,090
134	CT	NEW HAVEN	West Rock & Brookside	\$30,000,000
43	CA	OAKLAND	Coliseum Gardens	\$30,000,000
99	PA	PITTSBURGH	Bedford Additions	\$29,915,000
80	VA	RICHMOND	Blackwell	\$30,000,000
69	MO	SAINT LOUIS	Carr Square Apartments	\$30,000,000
115	TX	SAN ANTONIO	Alazan Apache Courts	\$30,000,000
137	CA	SAN FRANCISCO	North Beach	\$30,000,000
44	GA	SAVANNAH	Garden Homes Estates	\$30,000,000
95	WA	SEATTLE	High Point	\$29,946,234
2	FL	TAMPA	Ponce De Leon	\$30,000,000
154	DE	WILMINGTON, DE	Eastlake & Riverside	\$30,000,000
159	VI	VIRGIN ISLANDS	Estate Donoe Housing	\$28,736,065
TOTAL AMOUNT OF REQUESTS RECEIVED FROM CATEGORY "B" APPLICANTS:				\$968,959,836
TOTAL NUMBER OF APPLICATIONS RECEIVED: 35				

CATEGORY "C" PUBLIC HOUSING AGENCIES REQUESTING HOPE VI FUNDING

GRANT NUMBER	STATE	NAMES		AMOUNT REQUESTED
		PHA	DEVELOPMENT	
92	GA	ATLANTA	Kimberly Courts	\$15,000,000
109	GA	ATLANTA	Perry Homes	\$25,000,000
107	MD	BALTIMORE	Hollander Ridge	\$40,000,000
61	IL	CHICAGO	Dearborn Homes	\$15,000,000
141	IL	CHICAGO	Robert Taylor Homes	\$25,000,000
90	OH	CUYAHOGA	Riverview	\$40,000,000
49	FL	DADE CO.	Scott Homes	\$39,971,998
79	LA	NEW ORLEANS	St. Thomas	\$40,000,000
142	NY	NEW YORK CITY	Arvene Houses	\$40,000,000
135	NJ	NEWARK	Kretchmer Homes	\$26,930,700
94	PA	PHILADELPHIA	Schuylkill Falls	\$40,000,000
105	PR	PUERTO RICO	Las Acacias & Puerta d	\$40,000,000
98	DC	WASHINGTON D C	Valley Green	\$10,000,000
101	DC	WASHINGTON D C	Park Morton	\$30,000,000
SUBTOTAL AMOUNT OF REQUESTS RECIEVED FROM CATEGORY "C" APPLICANTS:				\$426,902,698
SUBTOTAL NUMBER OF APPLICATIONS RECEIVED: 14				
NONE	IL	CHICAGO	BROOKS EXTENSION	\$24,483,250
NONE	IL	CHICAGO	HENRY HORNER	\$18,435,300
TOTAL AMOUNT OF REQUESTS RECEIVED FROM CATEGORY "C" APPLICANTS:				\$469,821,248
TOTAL NUMBER OF APPLICANTS RECEIVED: 16				

CATEGORY "D" PUBLIC HOUSING AGENCIES REQUESTING HOPE VI FUNDING

GRANT NUMBER	STATE	NAMES		AMOUNT REQUESTED
		PHA	DEVELOPMENT	
126	GA	ATLANTA	Carver Homes	\$10,000,000
85	MD	BALTIMORE	Fairfield Homes	\$2,500,000
57	NY	BUFFALO	Commodore Perry	\$10,000,000
136	PA	CHESTER	McCaffery Village	\$1,303,004
17	MO	COLUMBIA	Bear Creek	\$268,000
36	MI	DETROIT	Jeffries	\$10,000,000
103	IL	EAST ST LOUIS	North Park Tower	\$1,000,000
146	CT	HARTFORD	Harriet Beecher Stowe	\$10,000,000
51	TN	MEMPHIS	Foote Homes	\$4,955,000
123	CT	NEW HAVEN	McConaughy Terrace	\$7,021,350
133	NJ	NEWARK	Hates Homes	\$9,911,484
81	FL	OCALA	Forest View/n.H. Jones	\$1,642,957
144	NJ	PATERSON	Den McNulty	\$2,280,000
86	PA	PITTSBURGH	Allequippa Terrace	\$8,140,000
14	CO	PUEBLO	Sangre de Cristo Aprts	\$459,000
45	MI	SAGINAW	Daniels Heights Dev.	\$2,200,000
70	MO	SAINT LOUIS	Cabanne Court Apartments	\$3,300,000
64	TX	SAN ANTONIO	Menchaca Homes	\$861,700
124	CA	SAN FRANCISCO	Eddy Street	\$518,000
37	GA	SAVANNAH	Marcus Stubbs Towers	\$2,336,140
97	WA	SEATTLE	Roxbury Village	\$1,741,582
148	WA	TACOMA	Hillside Terrace	\$2,105,320
15	FL	TAMPA	Riverview Terrace	\$1,000,000
96	DC	WASHINGTON D C	Fort Dupont Addition	\$4,863,018
58	WV	WHEELING	Grandview Manor	\$1,450,000
TOTAL AMOUNT OF REQUESTS RECEIVED FROM CATEGORY "D" APPLICANTS:				\$99,856,555
TOTAL NUMBER OF APPLICATIONS RECEIVED: 25				

Summary of the Number and Dollar Value
of Applications Submitted by Applicants

CATEGORY	AMOUNT REQUESTED	NUMBER OF PHAs SUBMITTING APPLICATIONS
A	\$709,141,111	62
B	\$968,959,836	35
C	\$469,821,248	16
D	\$99,856,555	25
TOTAL	\$2,247,778,750	138

List of Housing Agencies Awarded HOPE VI Grants Contrasted Against Funds Requested

GRANT CATEGORY	STATE	FEDERAL IDENTIFICATION NUMBER	NAMES OF:		FUNDING AWARD	REQUEST	VARIANCE	
			PHA	DEVELOPMENT				
A	SC	6	SPARTANBURG	TOBE HARTWELL COURTS	\$14,620,369	\$14,967,869	2.32%	
A	AZ	26	TUSCON	CONNIE CHAMBERS	\$14,600,000	\$15,000,000	2.67%	
A	MO	72	KANSAS CITY	T B WATKINS	\$13,000,000	\$15,000,000	13.33%	
A	PA	106	CHESTER	LAMOKIN	\$14,949,554	\$14,999,554	0.33%	
A	MA	111	HOLYOKE	JACKSON PARKWAY	\$15,000,000	\$15,000,000	0.00%	
A	NC	155	WILMINGTON	ROBERT S JERVAY PLACE	\$11,620,655	\$15,000,000	22.53%	
B	FL	9	JACKSONVILLE	DURKEEVILLE	\$21,552,000	\$24,951,000	13.62%	
B	KY	71	LOUISVILLE	COTTER & LANG HOMES	\$20,000,000	\$30,000,000	33.33%	
B	NC	78	CHARLOTTE	DALTON VILLAGE	\$24,501,684	\$29,535,103	17.04%	
B	PA	99	PITTSBURGH	BEDFORD ADDITIONS	\$26,592,764	\$29,915,000	11.11%	
B	CA	137	SAN FRANCISCO	NORTH BEACH	\$20,000,000	\$30,000,000	33.33%	
B	MI	158	DETROIT	HERMAN GARDENS	\$24,224,160	\$30,000,000	19.25%	
LITIGATION	IL	NONCOMPETITIVE	CHICAGO	ABLA (BROOKS EXTENSION)	\$24,483,250	\$24,483,250	0.00%	
LITIGATION	IL	NONCOMPETITIVE	CHICAGO	HENRY HORNER	\$18,435,300	\$18,435,300	0.00%	
C	LA	79	NEW ORLEANS	ST THOMAS	\$25,000,000	\$40,000,000	37.50%	
C	OH	90	CLEVELAND	RIVERVIEW	\$29,733,334	\$40,000,000	25.67%	
C	MD	107	BALTIMORE	HOLLANDER RIDGE	\$20,000,000	\$40,000,000	50.00%	
C	GA	109	ATLANTA	PERRY HOMES	\$20,000,000	\$25,000,000	20.00%	
C	IL	141	CHICAGO	ROBERT TAYLOR HOMES	\$25,000,000	\$25,000,000	0.00%	
C	NY	142	NEW YORK	EDGEMEREARVERNE	\$20,000,000	\$40,000,000	50.00%	
D	CO	14	PUEBLO	SANGRE DE CRISTO	\$109,550	\$459,000	76.13%	
D	FL	15	TAMPA	RIVERVIEW TERRACE	\$873,000	\$1,000,000	12.70%	
D	MO	17	COLUMBIA	BEAR CREEK	\$169,200	\$268,000	36.87%	
D	MI	36	DETROIT	JEFFRIES	\$10,000,000	\$10,000,000	0.00%	
D	GA	37	SAVANNAH	MARCUS STUBBS TOWER	\$2,336,140	\$2,336,140	0.00%	
D	MI	45	SAGINAW	DANIELS HEIGHTS	\$1,413,200	\$2,200,000	35.76%	
D	TN	51	MEMPHIS	FOOTE HOMES	\$4,542,867	\$4,955,000	8.32%	
D	NY	57	BUFFALO	COMMODORE PERRY	\$6,304,000	\$10,000,000	36.96%	
D	TX	64	SAN ANTONIO	MENCHACA HOMES	\$840,726	\$861,700	2.43%	
D	MO	70	ST LOUIS	CABANNE COURT	\$675,000	\$3,210,600	78.98%	
D	FL	81	OCALA	FOREST VIEW-N.H.JONES	\$1,642,957	\$1,642,957	0.00%	
D	MD	85	BALTIMORE	FAIRFIELD HOMES	\$2,500,000	\$2,500,000	0.00%	
D	PA	86	PITTSBURGH	ALLEQUIPPA TERRACE	\$8,140,000	\$8,140,000	0.00%	
D	DC	96	WASHINGTON D C	FORT DUPONT	\$1,995,000	\$4,863,018	58.98%	
D	WA	97	SEATTLE	ROXSBUARY VILLAGE	\$788,570	\$1,741,582	54.72%	
D	IL	103	EAST ST LOUIS	NORTH PARK TOWER	\$1,000,000	\$1,000,000	0.00%	
D	CT	123	NEW HAVEN	McCONAUGHY TERRACE	\$1,380,000	\$7,021,350	80.35%	
D	CA	124	SAN FRANCISCO	EDDY STREET	\$360,000	\$518,000	30.50%	
D	GA	126	ATLANTA	CARVER HOMES	\$9,720,520	\$10,000,000	2.79%	
D	NJ	133	NEWARK	HAYES HOMES	\$9,010,400	\$9,911,484	9.09%	
D	PA	136	CHESTER	McCAFFERY VILLAGE	\$839,860	\$1,303,004	35.54%	
D	NJ	144	PATERSON	DEAN McNULTY	\$2,047,000	\$2,280,000	10.22%	
D	CT	146	HARTFORD	HARRIET BEECHER STOWE	\$5,025,000	\$10,000,000	49.75%	
D	WA	148	TACOMA	HILLSIDE TERRACE	\$1,757,940	\$2,105,320	16.50%	
NUMBER OF AWARDS: 44					\$476,784,000	\$615,604,231	22.55%	
SUMMARY OF AWARDS BY CATEGORY								
CATEGORY A					6 AWARDS	\$83,790,578	\$89,967,423	6.87%
CATEGORY B					6 AWARDS	\$136,870,608	\$174,401,103	21.52%
CATEGORY C					6 AWARDS	\$139,733,334	\$210,000,000	33.46%
NONCOMPETITIVE					2 AWARDS	\$42,918,550	\$42,918,550	0.00%
CATEGORY D					24 AWARDS	\$73,470,930	\$98,317,155	25.27%
SUMMARY TOTALS:					44 AWARDS	\$476,784,000	\$615,604,231	22.55%

List of Applicants Awarded Grants That Did Not Demonstrate Compliance with the HOPE VI NOFA Eligibility Requirements

GRANT TYPE	FEDERAL NUMBER	PHAs	HUD AWARDS:		APPLICANTS DID NOT DEMONSTRATE COMPLIANCE WITH NOFA ELIGIBILITY REQUIREMENTS CONCERNING:				
			INELIGIBLE	ELIGIBLE	DEMOLISHING AN OBSOLETE BUILDING	CONDUCTING PUBLIC MEETINGS	MINIMUM REHABILITATION COSTS	OTHER ISSUES	
A	6	SPARTANBURG		\$14,620,369					
A	26	TUSCON	\$14,800,000		X				
A	72	KANSAS CITY	\$13,000,000		X		X		
A	105	CHESTER	\$14,649,884		X			X	
A	111	HOLYOKE	\$15,000,000		X				
A	155	WELMINGTON	\$11,620,888		X	X			
B	9	JACKSONVILLE		\$21,552,000					
B	71	LOUISVILLE	\$20,000,000		X				
B	76	CHARLOTTE	\$24,501,684		X				
B	88	PITTSBURGH	\$26,502,784		X	X			
B	137	SAN FRANCISCO	\$20,000,000			X			1
B	156	DETROIT	\$24,224,160		X	X			
C		CHICAGO	\$24,483,250			*			2
C		CHICAGO	\$18,435,300			*			2
C	79	NEW ORLEANS	\$25,000,000					X	
C	90	CLEVELAND		\$29,749,894					
C	107	BALTIMORE	\$20,000,000			X		X	3
C	108	ATLANTA		\$20,000,000					
C	141	CHICAGO	\$25,000,000		X	X			4
C	142	NEW YORK	\$20,000,000		X	X		X	5
D	14	PUEBLO	\$109,550		X				
D	15	TAMPA	\$873,000		X				
D	17	COLUMBIA	\$169,200		X				
D	36	DETROIT	\$10,000,000		X				
D	37	SAVANNAH	\$2,336,140		X				
D	45	SAGINAW		\$1,413,200					
D	51	MEMPHIS	\$4,542,867		X	X			
D	57	BUFFALO	\$6,394,000		X				6
D	64	SAN ANTONIO	\$840,726		X	X			
D	70	ST LOUIS	\$675,000		X				
D	81	OCALA	\$1,642,957		X				7
D	85	BALTIMORE	\$2,500,000		X	X			
D	86	PITTSBURGH	\$8,140,000		X				
D	96	WASHINGTON D C		\$1,995,000					
D	97	SEATTLE	\$788,570		X				
D	102	EAST ST LOUIS	\$1,000,000		X				
D	123	NEW HAVEN	\$1,380,000		X				
D	124	SAN FRANCISCO		\$360,000					
D	126	ATLANTA	\$3,635,020	\$6,085,500					8
D	135	NEWARK	\$9,615,400		X	X			9
D	136	CHESTER	\$839,860		X				
D	144	PATERSON	\$2,047,000		X				
D	146	HARTFORD	\$5,025,000		X				
D	148	TACOMA	\$1,757,940		X				
TOTAL INELIGIBLE HUD AWARDS:			\$381,024,597						
TOTAL ELIGIBLE HUD AWARDS:				\$95,759,403					
NUMBER OF APPLICANTS THAT DID NOT DEMONSTRATE COMPLIANCE WITH NOFA ELIGIBILITY REQUIREMENT:					31	11	5	10	

* The NOFA did not require the Chicago Housing Authority to conduct public meetings for the noncompetitive grants. However, residents of the target developments and in the surrounding community can initiate lawsuits due to the lack of consultation on planned activities.

Other Issues Notes:

- 1 San Francisco Housing Authority's new construction certification did not include the required provision on cost effectiveness. The NOFA defined this as a correctable defect but the PHA has not initiated the corrective actions.
- 2 Chicago Housing Authority did not contain a certification that existing units were being maintained at the Department's Housing Quality Standards. HUD stated in the NOFA that the lack of this certification was a noncurable defect resulting in the rejection of the application.
- 3 The Baltimore Housing Authority's new construction certification did not contain the required provision on cost effectiveness. The NOFA defined this as a correctable defect but the PHA has not initiated the corrective actions.
- 4 HUD staff initiated the action to correct a technical defect in the Chicago Housing Authority application resulting in the PHA obtaining an award of \$25 million that the PHA was not eligible to obtain based on the applications as submitted.
- 5 The New York Housing Authority submitted portion of their application by facsimile. The NOFA requirement specified that HUD will accept only an original application. This NOFA requirement was defined as noncurable technical defect resulting in rejection of the application.
- 6 HUD set a limit for the cost of demolition at \$15,000 per unit. HUD awarded the Buffalo Housing Authority a grant in excess of the maximum amount being allowed.
- 7 HUD staff initiated the action to correct a technical defect in the Ocala Housing Authority application resulting in an award of \$651,417 that the PHA was not eligible to obtain based on the application as submitted.
- 8 HUD computed site restoration costs incorrectly.
- 9 The Newark Housing Authority did not submit the required documentation in their application. The NOFA requirement stated that if the documentation was not provided, the technical defect was defined as noncurable and the application was to be rejected.

Summary of Evaluation Factor Scoring

Applicants with Revitalization and Demolition Activities

EVALUATION FACTORS	EVALUATION FACTOR POINTS		
	MAXIMUM ALLOWED	SCORED	PERCENT VARIANCE
Lesson Concentration	360	324	90%
Need for Demolition and Revitalization	450	405	90%
Self-sufficiency	360	360	100%
Campus of Learners	180	76	42%
Positive Incentives	270	265	96%
Local and National Impact	450	322	72%
Community Support	360	330	92%
EZ-EC Bonus	180	36	21%
Need for Funding	360	295	82%
Program Quality	450	395	88%
Capacity	270	227	84%
Litigation	360	20	6%
COMPLIANCE INDEX	4,050	3,057	75%

Applicants with Demolition Activities Only

EVALUATION FACTORS	EVALUATION FACTOR POINTS		
	MAXIMUM ALLOWED	SCORED	PERCENT VARIANCE
Need for Demolition	600	535	89%
Local-National Impact	600	390	65%
Partnerships	480	365	76%
EZ-EC Bonus	240	58	24%
Need for Funding	480	365	76%
Litigation	480	0	0%
COMPLIANCE INDEX	2,880	1,713	59%

Summary of the HOPE VI NOFA Funding Allocation Procedure

Category A

PHAs that administer up to 2,500 public housing units. PHAs in "Category A" may request a maximum award of \$15 million, in one or more applications, to demolish units, revitalize the site, and provide tenant based assistance. HUD planned to award at least 4 grants to PHAs in this Category or potentially \$60 million. Over 3,300 PHAs are eligible to submit applications in Category A. 62 applications were submitted by 61 different PHAs. HUD awarded HOPE VI grants to 6 of the 61 PHAs submitting applications in Category A.

Category B

PHAs that administer from 2,501 to 10,000 public housing units. PHAs in "Category B" may request a maximum award of \$30 million, in one or more applications, to demolish units, revitalize the site and provide tenant based assistance. HUD planned to award at least 4 grants to PHAs in this Category or potentially \$120 million. Fifty-five PHAs are eligible to submit applications in this Category. Thirty-five applications were submitted by thirty-five different PHAs. HUD awarded HOPE VI grants to 6 of the 35 PHAs submitting applications in Category B.

Category C

PHAs that administer 10,001 or more public housing units. PHAs in "Category C" may request a maximum award of \$40 million, in one or more applications, to demolish units, revitalize the site, and provide tenant based assistance. HUD planned to award at least 4 grants to PHAs in this Category or potentially \$160 million. 12 PHAs are eligible to submit applications in Category C. Sixteen applications were submitted by eleven PHAs. HUD awarded 8 HOPE VI grants to 6 of the 11 PHAs submitting applications in Category C.

Category D

Each PHA, in addition to its Category A, B, and C application(s), may submit one application that requests up to \$10 million for demolition and relocation costs at a project for which it did not submit a Category A, B, and, C application. HUD planned to award a maximum of \$76,784,000 to PHAs submitting applications for demolition of obsolete buildings. All 3,400 PHAs were eligible to submit one application for funding. Twenty-five applications were submitted by twenty-five PHAs. Twenty-two PHAs submitted applications in other categories. HUD awarded 24 of the 25 PHAs HOPE VI grants.

Technical Assistance

HUD planned to use \$3,216,000 to assist PHAs implement their revitalization activities.

Noncompetitive

HUD planned to award the Chicago Housing Authority a grant equal to the cost of developing 350 units to fulfill HUD's obligation under a court ordered consent decree. The estimated amount was \$40 million. The Chicago Housing Authority submitted one application. HUD staff divided the one application into two applications. HUD awarded the Chicago Housing Authority \$42,918,550 for the two applications.

Contingency

A total of \$20,000,000 was not initially allocated among the various categories.

List of Applicants Awarded Funds with Obsolescence Indicator Test Results and Summary of Resources Consumed by Applicant

Summary of the Amount of Resources Being Consumed by Eligible and Ineligible Applicants

BASED ON FINANCING TEST: APPLICANT ELIGIBILITY DETERMINATION	RESOURCES CONSUMED BY APPLICANTS FOR:		
	UNITS PLANED FOR DEMOLITION	DOLLAR AMOUNT AWARDED	PERCENT
13 Eligible Applicants: Cost of Remedying Obsolescence Indicators Determined to be Greater than 90 Percent of Total Development Costs	5,089	\$208,312,973	44%
15 Ineligible Applicants: Cost of Remedying Obsolescence Indicators Determined to be Less than 90 Percent of Total Development Costs	5,391	\$200,750,913	
16 Ineligible Applicants: PHA did not Provide Documentation on Cost of Remedying Obsolescence Indicators	5,437	\$68,720,114	
SUBTOTAL FOR INELIGIBLE APPLICANTS ONLY:	10,825	\$269,471,027	56%
TOTAL RESOURCES CONSUMED BY THE 44 APPLICANTS:	15,917	\$477,784,000	100%

LIST OF OBSOLENCE INDICATORS PROVIDED BY APPLICANTS
IN THEIR APPLICATION EXHIBIT B: SECTION 3. "PHYSICAL INDICATORS OF OBSOLESCENCE"

FEDERAL GRANT NUMBER	HOUSING		GRANT TYPE	HUD AWARD	NUMBER OF UNITS TO BE DEMOLISHED	OBSOLESCENCE INDICATOR
	AGENCIES	DEVELOPMENT				
6	SPARTANBURG	Tobe Hartwell	A	\$14,620,369	266	97.00%
26	TUSCON	Connie Chambers	A	\$14,600,000	200	66.20%
72	KANSAS CITY	Theron B Watkins	A	\$13,000,000	24	72.00%
106	CHESTER	Lamokin Village	A	\$14,949,554	200	NOT GIVEN
111	HOLYOKE	Jackson Parkway	A	\$15,000,000	128	70.00%
155	WILMINGTON	Robert S Jervay Place	A	\$11,620,655	250	78.00%
9	JACKSONVILLE	Durkeeville	B	\$21,552,000	280	127.00%
71	LOUISVILLE	Cotter and Lang Homes	B	\$20,000,000	1,116	NOT GIVEN
78	CHARLOTTE	Dalton Village	B	\$24,501,684	218	77.60%
99	PITTSBURGH	Bedford Additions	B	\$26,592,764	460	77.00%
137	SAN FRANCISCO	North Beach	B	\$20,000,000	229	104.00%
158	DETROIT	Herman Gardens	B	\$24,224,160	672	65.00%
NO ID	CHICAGO	Brooks Extension	C	\$24,483,250	300	93% TO 110%
NO ID	CHICAGO	Henry Horner	C	\$18,435,300	70	88.9% TO 102%
79	NEW ORLEANS	St. Thomas	C	\$25,000,000	1,310	100.00%
90	CLEVELAND	Riverview	C	\$29,733,334	117	90.00%
107	BALTIMORE	Hollander Ridge	C	\$20,000,000	284	114.00%
109	ATLANTA	Perry Homes	C	\$20,000,000	944	91.00%
141	CHICAGO	Robert Taylor Homes	C	\$25,000,000	750	34.46%
142	NEW YORK	Arverne Houses	C	\$20,000,000	160	63.00%
126	ATLANTA	Carver Homes	D	\$9,720,520	990	102%
85	BALTIMORE	Fairfield Homes	D	\$2,500,000	300	NOT GIVEN
57	BUFFALO	Commodore Perry	D	\$6,304,000	304	29%
136	CHESTER	McCaffery Village	D	\$839,860	152	NOT GIVEN
17	COLUMBIA	Bear Creek	D	\$169,200	22	NOT GIVEN
36	DETROIT	Jeffries	D	\$10,000,000	1,438	85% to 72%
103	E. ST LOUIS	North Park Towers	D	\$1,000,000	199	NOT GIVEN
146	HARTFORD	Harriet B Stowe Village	D	\$5,025,000	335	87%
51	MEMPHIS	Foote Homes	D	\$4,542,867	422	NOT GIVEN
133	NEWARK	Hayes Homes	D	\$9,010,400	1,458	NOT GIVEN
123	NEW HAVEN	McConaughy Terrace	D	\$1,380,000	92	NOT GIVEN
81	OCALA	Forest View-Jones	D	\$1,642,957	130	NOT GIVEN
144	PATTERSON	Den McNulty	D	\$2,047,000	160	NOT GIVEN
86	PITTSBURGH	Allequippa Terrace	D	\$8,140,000	852	NOT GIVEN
14	PUEBLO	Sangre de Cristo	D	\$109,550	12	NOT GIVEN
45	SAGINAW	Daniels Heights	D	\$1,413,200	142	104%
70	ST LOUIS	Cabanne Court	D	\$675,000	45	NOT GIVEN
64	SAN ANTONIO	Menchaca Homes	D	\$840,726	150	NOT GIVEN
124	SAN FRANCISCO	Eddy Street	D	\$360,000	24	101%
37	SAVANNAH	Marcus Stubbs Towers	D	\$2,336,140	210	81%
97	SEATTLE	Roxbury Village	D	\$788,570	60	80%
148	TACOMA	Hillside Terrace	D	\$1,757,940	182	75%
15	TAMPA	Riverview Terrace	D	\$873,000	127	NOT GIVEN
96	WASHINGTON DC	Fort Dupont Addition	D	\$1,995,000	133	106%
TOTALS:						
NUMBER OF AWARDS		44				
AMOUNT AWARDED				\$476,784,000		
UNITS SCHEDULED FOR DEMOLITION					15,917	

LIST OF APPLICANTS; DOCUMENTING THE EXISTENCE OF OBSOLETE UNITS, DOCUMENTING THE EXISTENCE OF VIABLE UNITS, AND NOT PROVIDING DOCUMENTATION ON OBSOLESCENCE INDICATORS

FEDERAL GRANT NUMBER	NAMES		GRANT TYPE	PHAs DOCUMENTED THE EXISTENCE OF OBSOLETE UNITS		PHAs DOCUMENTED THAT UNITS WERE VIABLE		PHAs DID NOT PROVIDE DOCUMENTATION ON BUILDING OBSOLESCENCE	
	PHA	DEVELOPMENT		GRANT AMOUNT	UNITS DEMOED	GRANT AMOUNT	UNITS DEMOED	GRANT AMOUNT	UNITS DEMOED
6	SPARTANBURG	Tobe Hartwell	A	\$14,620,369	266				
26	TUSCON	Connie Chambers	A			\$14,600,000	200		
72	KANSAS CITY	Theron B Watkins	A			\$13,000,000	24		
106	CHESTER	Lamokin Village	A					\$14,949,554	200
111	HOLYOKE	Jackson Parkway	A			\$15,000,000	128		
155	WILMINGTON	Robert S Jervay Place	A			\$11,620,655	250		
9	JACKSONVILLE	Durkeeville	B	\$21,552,000	280				
71	LOUISVILLE	Cotter and Lang Homes	B					\$20,000,000	1116
78	CHARLOTTE	Dalton Village	B			\$24,501,684	218		
99	PITTSBURGH	Bedford Additions	B			\$26,592,764	460		
137	SAN FRANCISCO	North Beach	B	\$20,000,000	229				
158	DETROIT	Herman Gardens	B			\$24,224,160	672		
NO ID	CHICAGO	Brooks Extension	C	\$24,483,250	300				
NO ID	CHICAGO	Henry Horner	C	\$18,435,300	70				
79	NEW ORLEANS	St. Thomas	C	\$25,000,000	1310				
90	CLEVELAND	Riverview	C	\$29,733,334	117				
107	BALTIMORE	Hollander Ridge	C	\$20,000,000	284				
109	ATLANTA	Perry Homes	C	\$21,000,000	944				
141	CHICAGO	Robert Taylor Homes	C			\$25,000,000	750		
142	NEW YORK	Arverne Houses	C			\$20,000,000	160		
126	ATLANTA	Carver Homes	D	\$9,720,520	990				
85	BALTIMORE	Fairfield Homes	D					\$2,500,000	300
57	BUFFALO	Commodore Perry	D			\$6,304,000	304		
136	CHESTER	McCaffery Village	D					\$839,860	152
17	COLUMBIA	Bear Creek	D					\$169,200	22
36	DETROIT	Jeffries	D			\$10,000,000	1438		
103	E. ST LOUIS	North Park Towers	D					\$1,000,000	199
146	HARTFORD	Harriet B Stowe Village	D			\$5,025,000	335		
51	MEMPHIS	Foote Homes	D					\$4,542,867	422
133	NEWARK	Hayes Homes	D					\$9,010,400	1458
123	NEW HAVEN	McConaughy Terrace	D					\$1,380,000	92
81	OCALA	Forest View-Jones	D					\$1,642,957	130
144	PATTERSON	Den McNulty	D					\$2,047,000	160
86	PITTSBURGH	Allequippa Terrace	D					\$8,140,000	852
14	PUEBLO	Sangre de Cristo	D					\$109,550	12
45	SAGINAW	Daniels Heights	D	\$1,413,200	142				
70	ST LOUIS	Cabanne Court	D					\$675,000	45
64	SAN ANTONIO	Menchaca Homes	D					\$840,726	150
124	SAN FRANCISCO	Eddy Street	D	\$360,000	24				
37	SAVANNAH	Marcus Stubbs Towers	D			\$2,336,140	210		
97	SEATTLE	Roxbury Village	D			\$788,570	60		
148	TACOMA	Hillside Terrace	D			\$1,757,940	182		
15	TAMPA	Riverview Terrace	D					\$873,000	127
96	WASHINGTON DC	Fort Dupont Addition	D	\$1,995,000	133				
SUMMARY INFORMATION									
44 GRANTS WERE DISTRIBUTED BETWEEN PHAs:									
DEMONSTRATING THEIR BUILDINGS ARE OBSOLETE				13					
DEMONSTRATING THAT THEIR BUILDINGS ARE NOT OBSOLETE						15			
NOT DISCLOSING WHETHER THEIR BUILDINGS ARE OBSOLETE									16
GRANTS IN THE AMOUNT OF \$477,784,000 WERE DISTRIBUTED TO:									
ELIGIBLE PHAs				\$208,312,973					
INELIGIBLE PHAs SCHEDULING VIABLE UNITS FOR DEMOLITION						\$200,750,913			
INELIGIBLE PHAs SCHEDULING UNITS FOR DEMOLITION WITH VIABILITY STATUS NOT DISCLOSED								\$68,720,114	
15,917 UNITS SCHEDULED FOR DEMOLITION DISTRIBUTED BETWEEN UNITS DESIGNATED AS:									
OBSOLETE				5,089					
VIABLE						5,391			
STATUS NOT DISCLOSED BY APPLICANT									5,437

Summary of Cost Computations for Applicants Not Meeting Minimum Rehabilitation Cost Requirement

Applicant: Housing Authority City of Baltimore

Target Development: Hollander Ridge

Grant Category: C

Number of Units to Be Rehabilitated: 614

Computation of Average Cost Per Unit
for Total Development Cost
at the Housing Authority of Baltimore City

(Multiply number of units by TDC per unit cost)	TOTAL DEVELOPMENT COSTS	
NUMBER OF UNITS	PER UNIT	TOTAL
E-0Bdrm; 71 units	\$47,950	\$3,404,450
E-1Bdrm; 287 units	\$67,150	\$19,272,050
R-1Bdrm; 24 units	\$66,900	\$1,605,600
E-2Bdrm; 18 units	\$86,350	\$1,554,300
R-2Bdrm; 48 units	\$82,900	\$3,979,200
R-3Bdrm; 99 units	\$101,150	\$10,013,850
R-4Bdrm; 39 units	\$122,450	\$4,775,550
R-5Bdrm; 20 units	\$133,100	\$2,662,000
R-6Bdrm; 8 units	\$146,350	\$1,170,800
614 units		\$48,437,800
AVERAGE TDC PER UNIT:		\$78,889

Computation of Average Cost Per Unit
for Hard Cost of Rehabilitation
at the Housing Authority of Baltimore City

ACCOUNT NUMBER	ACCOUNT TITLE	PHA ESTIMATED HARD COST FOR REHABILITATION
1460	Dwelling Structure	\$26,942,000
1470	Nondwelling Building	\$1,280,000
TOTAL:		\$28,222,000
AVERAGE PER UNIT OF HARD COSTS		\$45,964

Minimum Rehabilitation Cost Eligibility Determination
at the Housing Authority of Baltimore City

Average Per Unit of Total Development Cost:	\$78,889
PHA Estimated Average Per Unit of Hard Cost for Rehabilitation:	\$45,964
RATIO:	58.26%
Application is ineligible for the competition because average rehabilitation costs per unit is less than 62.5% of the Total Development Costs.	

OPHI computed the average hard costs of rehabilitation by using expenditures financed from HOPE VI funds, money from tax credits, and funds from mortgage bonds. The average hard cost per unit with costs from all sources was over \$118,937 per dwelling unit for 238 low-rise units and \$87,325 per dwelling unit for the 376 high rise units. The OPHI determined that the applicant complied with the HOPE VI NOFA minimum rehabilitation costs eligibility requirement because rehabilitation expenditures from all sources exceed 62.5 percent of HUD’s TDC limit

OIG’s computation did not include the funds from tax credits and mortgage bonds because the eligible funding and costs are derived from HUD funding and associated expenditures of these funds.

OPHI’s computation as presented deviates from the method prescribed in the Comprehensive Grant Program Handbook 7485.3. The HUD computation compares HUD funding against expenditures paid for with HUD funds. OPHI increased rehabilitation expenses by the amount paid for by other funding sources.

Applicant: Housing Authority of New Orleans

Target Development: Saint Thomas

Grant Category: C

Number of Units to Be Rehabilitated: 200

Computation of Average Cost Per Unit
at Total Development Cost Limits
for the Housing Authority of New Orleans

(Multiply number of units by TDC per unit cost)	TOTAL DEVELOPMENT COSTS	
NUMBER OF UNITS	PER UNIT	TOTAL
R-3Bdrm; 200 units	\$84,300	\$16,860,000
AVERAGE TDC PER UNIT		\$84,300

Computation of Average Cost Per Unit
for Hard Cost of Rehabilitating 200 units
at the Housing Authority of New Orleans

ACCOUNT NUMBER	ACCOUNT TITLE	PHA ESTIMATED HARD COSTS ALLOCATED FOR REHABILITATION ONLY *
1450	Site Improvements	\$1,540,800
1465.1	Nondwelling Equipment	\$4,173,000
1460	Dwelling Structure	\$513,600
1470	Nondwelling Building	\$141,240
1475	Nondwelling Equipment	\$77,040
TOTAL:		\$6,445,680
AVERAGE PER UNIT OF HARD COSTS:		\$32,228

* PHA budget estimate for hard costs was a combination of both new construction and rehabilitation. The budget contained an estimate that rehabilitation was 25.68% of the total hard cost estimate. The OIG applied the percent of rehabilitation estimated costs to the total hard cost estimate to derive the estimated rehabilitation cost.

Minimum Rehabilitation Cost Eligibility Determination
for 200 units at the Housing Authority of New Orleans

Average Per Unit of Total Development Cost:	\$84,300
PHA Estimated Average Per Unit of Hard Cost for Rehabilitation:	\$32,228
RATIO:	38.23%
Application is ineligible for the competition because average rehabilitation costs per unit is less than 62.5% of Total Development Costs.	

The OPHI reviewed the applicants sources and uses Statement in their application and used the numbers provided by the applicant to justify meeting the NOFA's minimum rehabilitation cost eligibility requirement. The applicant stated their hard costs at \$87,742. This includes funds from HOPE VI as well as funds from some city fund, private donations, mortgage revenue bonds, and syndication of tax credits. The TDC was \$84,300 so the OPHI decided that the PHA had properly established documentation to show that the PHA complied with the minimum rehabilitation cost eligibility requirement.

The OPHI computation did not follow the method prescribed in HUD Comprehensive Grant Program Handbook 7485.3. The HUD prescribed computation is a comparison of HUD funding against expenses paid from HUD funding. When the OPHI established the hard cost of rehabilitation they included expenses paid from all sources; i.e. mortgage revenue bond, the syndication of tax credits, city financing, and private donations. This overstated the rehabilitation costs resulting in OPHI incorrect determination.

Applicant: New York City Housing Authority

Target Development: Arverne Houses

Grant Category: C

Number of Units to Be Rehabilitated: 418

Computation of Average Cost Per Unit
of Total Development Cost
at New York City Housing Authority

(Multiply number of units by per unit of Total Development Costs)	TOTAL DEVELOPMENT COSTS	
NUMBER OF UNITS TO BE REHABILITATED	PER UNIT	TOTAL
HR-0Bdrm; 2 Units	\$71,600	\$143,200
HR-1Bdrm; 106 Units	\$100,250	\$10,626,500
HR-2Bdrm; 310 Units	\$128,900	\$39,959,000
418 Units		\$50,728,700
AVERAGE COST PER UNIT		\$121,361

Computation of Average Cost Per Unit
for Hard Cost of Rehabilitation
at New York City Housing Authority

BUDGET ACCOUNT	ACCOUNT TITLE	PHA ESTIMATED HARD COSTS FOR REHABILITATION
1450	Site Improvements	\$424,800
1460	Dwelling Structures	\$26,777,740
1465.1	Dwelling Equipment	\$986,480
1470	Nondwelling Building	\$1,615,321
	TOTAL	\$29,804,341
AVERAGE PER UNIT OF HARD COSTS		\$71,302

Minimum Rehabilitation Cost Eligibility Requirement
at the New York City Housing Authority

Average Per Unit of Total Development Cost:	\$121,361
PHA Estimated Average Per Unit of Hard Costs for Rehabilitation:	\$71,302
RATIO:	58.75%
Applicant is ineligible for the competition because the average rehabilitation costs per unit is less than 62.5% of Total Development Cost	

OPHI decided that the PHA did meet the minimum rehabilitation cost eligibility requirement. The OPHI determination is summarized in the following table.

PHA requested HOPE VI funds	\$40,000,000
Funds from other sources	\$1,978,254
Estimated Cost of Project Revitalization	\$41,978,254
Less: Management Improvements	\$8,000,000
Subtotal	\$33,978,254
Divide Subtotal by 461 Units to Determine Average Per Unit Hard Costs	
OPHI Determined Hard Cost:	\$81,288

The difference between the OPHI determined Hard Costs and OIG determined Hard Costs is \$4,173,913 (\$33,978,254 minus \$29,804,341). The OIG did not include the \$2,173,913 the PHA budgeted for Budget Account 1410 Administration and Budget Account 1430 Fees. These two Budget Accounts are not considered Hard Costs in the HUD Handbook 7485.3 and consequently were excluded from the computation. The PHA stated in their budget narrative that \$2 million of non-HOPE VI funds will provide for upgrade of community space and open space. However, the budget accounts and the sources and uses of funds do not include the amount identified in the narrative. The OIG excluded this \$2 million (OPHI used \$1,978,254) because the PHA did not charge the \$2 million to a specific budget line and did not document the costs were related to hard cost activities. As a result, the ratio of rehabilitation costs to TDC is about 59 percent and the development is ineligible to participate in the competition.

OPHI awarded funds to two other PHAs without the documentation being available in the application to demonstrate compliance with the minimum rehabilitation cost estimate. OPHI did not specify a specific place in the application for the applicant to demonstrate compliance with the minimum rehabilitation cost requirement. The most likely places in the application for an applicant to document compliance are located in: Exhibit A "Statement of Objectives and Goals ; Exhibit B paragraph 3. "Physical Indicators of Obsolescence"; Exhibit C "Physical Description of Revitalization Plan"; Exhibit D "Applications for New Construction"; and, Exhibit K "Program Financing and sustainability". As discussed above to compute the ratio to determine compliance with the minimum rehabilitation cost eligibility requirement the factors needed are: housing type; i.e. row, detached, high rise, or walk-up; Bedroom size such as 1 bedroom or 2 bedroom etc.; the number of bedrooms; the estimated cost of rehabilitation within budget accounts; HUD's published TDC limits for fiscal year 1996 by building type and unit size. The two applicants did not provide one or more of the factors needed to compute the ratio in their application. The specific defect(s) in each of the two applications is described in the following paragraphs.

The Housing Authority of Kansas City MO submitted an application for constructing 24 new units on-site and rehabilitating 149 units at the Theron B. Watkins and Wayne Minor Developments. The applicant did not present in their application the results of their computation on the ratio of average per unit of hard costs of rehabilitation to HUD TDC limits. The HUD Final Review Board could not independently compute the eligibility ratio because the applicant did not supply information on the factors needed to compute the ratio. The missing factors were the; building type, bedroom size, and number of units associated with the building type and bedroom size. The applicant did not document compliance with the eligibility test and the Final Review Board had the justification to reject the application from the competition.

The Chester Housing Authority submitted an application for constructing 70 new units on-site and rehabilitating 80 units at the Lamokin Village Development. The applicant did not present in the application the results of their computation of the ratio on the average per unit of hard costs of rehabilitation to HUD's TDC limits. The HUD Final Review Board cannot independently compute the eligibility ratio because applicant did not supply information in their application on the factors needed to independently compute the ratio. The missing factors were: the cost of rehabilitation, the number of bedroom units by bedroom size, and the building type. The applicant did not document compliance with the eligibility test and the Final Review Board had the justification to reject the application from the competition.

**List of Applicants Awarded Funds That Did Not Conduct
Public Meetings in Accordance with the NOFA Requirement**

GRANT TYPE	HOUSING AGENCY AND DEVELOPMENT	TYPE OF PUBLIC MEETING	HOPE VI AWARD
A	Wilmington; Jervay Place	Residents	\$11,620,655
B	Pittsburgh; Bedford Additions	Residents	\$26,592,764
B	San Francisco; North Beach	Residents	\$20,000,000
B	Detroit; Herman Gardens	Planning	\$24,224,160
C	Baltimore; Hollander Ridge	Resident	\$20,000,000
C	Chicago; Robert Taylor	Planning	\$25,000,000
C	New York; Edgemere/Arverne	Resident	\$20,000,000
D	Memphis; Foote Homes	None	\$4,542,867
D	San Antonio; Menchaca Homes	None	\$840,726
D	Baltimore; Fairfield Homes	None	\$2,500,000
D	Newark; Hayes Homes	None	\$9,010,400
	TOTALS:	11 PHAs	164,331,572.00

List of Applicants by Grant Category Contrasting the
Amount of Funds Requested to Amount Awarded

Category A, B, and C Applicants

NAME OF PHA	PHA FUNDING REQUEST	HUD AWARD	DIFFERENCE	
			PERCENT CHANGE	DOLLAR AMOUNT
Pittsburgh	\$29,915,000	\$26,592,764	11%	\$3,322,236
Chester	\$14,999,554	\$14,949,554	3%	\$50,000
Holyoke	\$15,000,000	\$15,000,000	0%	NONE
Spartanburg	\$14,967,869	\$14,620,369	2%	\$347,500
Cleveland	\$40,000,000	\$29,733,334	26%	\$10,266,666
Chicago	\$25,000,000	\$25,000,000	0%	NONE
Louisville	\$30,000,000	\$20,000,000	33%	\$10,000,000
Jacksonville	\$24,951,000	\$21,552,000	14%	\$3,399,000
Atlanta	\$25,000,000	\$20,000,000	20%	\$5,000,000
San Francisco	\$30,000,000	\$20,000,000	33%	\$10,000,000
Tuscon	\$15,000,000	\$14,600,000	3%	\$400,000
Charlotte	\$29,535,103	\$24,501,684	17%	\$5,033,419
Detroit	\$30,000,000	\$24,224,160	19%	\$5,775,840
Wilmington	\$15,000,000	\$11,620,655	23%	\$3,379,345
New Orleans	\$40,000,000	\$25,000,000	38%	\$15,000,000
Kansas City	\$15,000,000	\$13,000,000	13%	\$2,000,000
Baltimore	\$40,000,000	\$20,000,000	50%	\$20,000,000
New York City	\$40,000,000	\$20,000,000	50%	\$20,000,000
Chicago	\$18,435,300	\$18,435,300	0%	NONE
Chicago	\$24,483,250	\$24,483,250	0%	NONE
TOTALS:	\$517,287,076	\$403,313,070	22%	\$113,974,006

Category D Applicants

PHA NAME	PHA FUNDING REQUEST	HUD AWARD	DIFFERENCE AS:	
			PERCENT CHANGE	DOLLAR AMOUNT
Detroit	\$10,000,000	\$10,000,000	0%	NONE
Pittsburgh	\$8,140,000	\$8,140,000	0%	NONE
Baltimore	\$2,500,000	\$2,500,000	0%	NONE
Tacoma	\$2,105,320	\$1,757,940	16.50%	\$347,380
Buffalo	\$10,000,000	\$6,304,000	36.96%	\$3,696,000
East St. Louis	\$1,000,000	\$1,000,000	0%	NONE
Chester	\$1,303,004	\$839,860	35.54%	\$463,144
Atlanta	\$10,000,000	\$9,720,520	2.79%	\$279,480
Saginaw	\$2,200,000	\$1,413,200	35.76%	\$786,800
Saint Louis	\$3,210,600	\$675,000	78.97%	\$2,535,600
San Francisco	\$518,000	\$360,000	30.50%	\$158,000
Seattle	\$1,741,582	\$788,570	54.72%	\$953,012
Hartford	\$10,000,000	\$5,025,000	49.75%	\$4,975,000
Washington DC	\$4,863,018	\$1,995,000	58.97%	\$2,868,018
Ocala	\$1,642,957	\$1,642,957	0%	NONE
New Haven	\$7,021,350	\$1,380,000	80%	\$5,641,350
Newark	\$9,911,484	\$9,010,400	9.09%	\$901,084
Paterson	\$2,280,000	\$2,047,000	10.21%	\$233,000
Savannah	\$2,336,140	\$2,336,140	0%	NONE
Tampa	\$1,000,000	\$873,000	12.70%	\$127,000
Pueblo	\$459,000	\$109,550	76.13%	\$349,450
Columbia	\$268,000	\$169,200	36.86%	\$98,800
Memphis	\$4,955,000	\$4,542,867	8.31%	\$412,133
San Antonio	\$861,700	\$840,726	2.43%	\$20,974
TOTALS:	\$98,317,155	\$73,470,930	25%	\$24,846,225

List of Applicants Not Providing
Adequate Disclosure on HUD Funding

PHAs NOT PROVIDING REQUIRED FISCAL DATA ON TARGETED DEVELOPMENT	HUD FUNDING REDUCTION	
	AMOUNT	PERCENT
San Francisco	\$10,000,000	33%
Detroit	\$5,775,840	19%
New Orleans	\$15,000,000	38%
Baltimore	\$20,000,000	50%
New York	\$20,000,000	50%
Tacoma	\$347,380	17%
Buffalo	\$3,696,000	37%
Saint Louis	\$2,535,600	79%
New Haven	\$5,641,350	80%
Newark	\$901,084	8%
Memphis	\$412,133	8%
San Antonio	\$20,974	2%
TOTALS:	\$84,330,361	
TOTAL HUD REDUCTION FOR 34 APPLICANTS:	\$138,820,231	
PERCENT OF TOTAL REDUCTION ATTRIBUTED TO PHAs WITHOUT FISCAL DATA		61%

Obsolete Public Housing Guidelines

ATTACHMENT 11

OBSOLETE PUBLIC HOUSING GUIDELINES

Application Number: _____
 PHA Name: _____
 Development Name: _____
 Reviewer's Name: _____

Instructions: In order to qualify as obsolete, the targeted public housing must meet the first criterion listed below (B.3.a), and at least one of the others.

REQUESTED INFORMATION	INDICATORS	EVALUATION
B.3.a: The cost of rehabilitation/reconstruction per unit as a percentage of TDC.	cost of rehab is over 90 percent of TDC.	
B.3.b: Structural deficiencies	-settlement of earth below the building caused by inadequate structural fills -faulty structural design -settlement of floors	
B.3.c: Substantial deterioration or other design or site problems	-severe termite damage or damage caused by extreme weather conditions -severe erosion or flooding	

REQUESTED INFORMATION	INDICATORS	EVALUATION
B.3.d: Design and site deficiencies	<ul style="list-style-type: none"> -high density -indefensible space 	
B.3.e: Major system deficiencies	<ul style="list-style-type: none"> -peeling and chipping lead-based paint -lack of reliable and reasonably efficient heat and hot water -major structural deficiencies -electrical system not satisfying code requirements -poor site conditions -leaking roof -deteriorated laterals and sewers -high number of plumbing leaks 	
B.4.a: Physical deterioration of the neighborhood.		
B.4.b: Change of the neighborhood from residential to industrial or commercial development.		

REQUESTED INFORMATION	INDICATORS	EVALUATION
<p>B.4.c: Environmental conditions that may jeopardize the suitability of the site or a portion of the site and its housing structures for residential use. These conditions may be determined by either a HUD-related environmental review, in accordance with 24 CFR part 50 or part 58, which was previously conducted in connection with earlier assistance, or another assessment of conditions that, in the opinion of the applicant, may jeopardize suitability of the site.</p>		
<p>B.4.d: Deficiencies in the neighborhood that revitalization could ameliorate.</p>		

Agency Comments




U. S. Department of Housing and Urban Development
Washington, D.C. 20410-5000

OCT - 9 1997

OFFICE OF THE ASSISTANT SECRETARY
FOR PUBLIC AND INDIAN HOUSING

MEMORANDUM FOR: Susan Gaffney, Inspector General, G

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

SUBJECT: OIG Audit of the 1996 Competition

It was good to meet with you and your staff yesterday. We very much appreciated the opportunity to discuss your review and our response, and were grateful for your willingness to allow our attorney, Robert Kenison, specifically to address the issue raised by OIG staff relative to Section 18 and Section 14, and to allow us to make any final modifications based on our meeting.

I am attaching a revised response. I look forward to continuing to work closely with you and your staff in the future as we develop our NOFA for 1998 and our selection processing procedures, to assure that you are fully apprised of our proposed policies and procedures in advance and, hopefully, to avoid future issues between OIG and OPHI.

We greatly appreciate the support and cooperation of your office on the many issues which arise in this complex program, and value the mutually supportive and beneficial working relationship between our two offices.

Please note that on all considerations with regard to issues surrounding Baltimore and its applications, I recused myself because of prior business relationships.

Attachments

cc:

Dwight Robinson, Deputy Secretary, SD
Kevin E. Marchman, Acting Assistant Secretary for Public and Indian Housing, P
Hal DeCell, Assistant Secretary for Congressional and Intergovernmental Relations, J
Karen Hinton, Deputy Assistant Secretary for Public Affairs, W
Jon Cowan, Chief of Staff, S
Robert Hickmott, Counselor to the Secretary for Communication Policy, S
Howard Glaser, Acting General Counsel, C
Barbara Burkhalter, Comptroller, Office of Public and Indian Housing, PF

Later in this appendix (See page 107), we provide our reply to the the Department's response. Our comments are cross referenced to particular points raised by the Department.

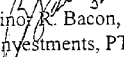


Washington, D.C. 20410-5000

OFFICE OF THE ASSISTANT SECRETARY
FOR PUBLIC AND INDIAN HOUSING

OCT - 6 1997

MEMORANDUM FOR: Susan Gaffney, Inspector General, G

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

SUBJECT: OIG Audit of the 1996 Competition

Attached are the comments from PIH with regard to the OIG Audit of the 1996 competition.

Staff initially were extremely surprised by my report to them of my meeting with OIG on August 8, 1997, when Kathy Kuhl-Inclan outlined the issues which would be included in the forthcoming draft, particularly that 37 applications, totaling \$381 Million did not meet the NOFA requirements. It was their understanding, based on previous meetings between PIH and OIG staff, that although your office determined there were some irregularities in the selection process, these issues had been addressed satisfactorily in the memorandum of March 10, 1997 from Chris Hornig, PIH DAS, to James Heist.

Clearly, as your draft audit reflects, Mr. Hornig's memorandum to Jim Heist did not answer your concerns. In fact, according to staff new items not previously discussed were raised in the August 7, 1997 OIG draft audit, and/or OIG's concerns about particular issues were heightened in the draft.

As you know, we have been deeply involved in the 1997 selection process which is now complete, and have only recently had the opportunity to review your draft in depth. We were extremely grateful for your willingness to extend the response time given our work load and, in particular, Kathy Kuhl-Inclan's extension until October 3.

In thoroughly reviewing the draft, staff have become even more concerned about what they believe are misunderstandings, misinterpretations and/or errors by OIG about HOPE VI program policy, the NOFA and review procedures. We are deeply concerned that the audit as it stands unfairly criticizes the 1996 selection process and could seriously undermine the HOPE VI program if misinterpretations, misunderstandings and/or possible errors are not cleared up prior to issuance.

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Needless to say, you must issue a final report which states your ultimate findings. I urgently request, however, that prior to finalizing the report, we be given the opportunity to meet with you and your staff to review the findings and discuss where we believe there are misunderstandings, misinterpretations and possible errors and unresolved issues between your findings and PIH actions during the 1996 selection process.

It is my understanding that you will return to the office early next week. I will be on travel on Monday, but will try to reach you that day to discuss this and, hopefully to set up at time at your earliest convenience to meet.

We have tried very hard to work closely with you to respond to the OIG audit of the 1996 selection and we greatly value your assistance and cooperation on the wide range of issues related to HOPE VI and other public housing capital improvement programs. I look forward to continuing that relationship, and sincerely hope you will grant us the opportunity to meet with you prior to release of the audit.

Thank you.

Attachments

cc:

Dwight Robinson, Deputy Secretary, SD
Kevin E. Marchman, Acting Assistant Secretary for Public and Indian Housing, P
Hal DeCell, Assistant Secretary for Congressional and Intergovernmental Relations, J
Karen Hinton, Deputy Assistant Secretary for Public Affairs, W
Jon Cowan, Chief of Staff, S
Robert Hickmott, counselor to the Secretary for Communication Policy, S
Howard Glaser, Acting General Counsel, C
Barbara Burkhalter, Comptroller, Office of Public and Indian Housing, PF

OPHI RESPONSES TO DRAFT AUDIT OF 1996 HOPE VI

Response to Summary

See Comment 1

We find that the summary errs, primarily, in summarizing findings which OPHI believes to be incorrect, as discussed in the body of our response. We also note the following:

See Comment 2

- The first paragraph states that the final review panel reduced the scores of eleven applicants below the "funding point." This is inaccurate. There was no "funding point" until the review panel assigned final scores. Initial scores were assigned by individual reviewers in order to narrow down the field, but did not have and were not intended to have a degree of accuracy such that any expectation of funding could be based on the initial score. The process as stated in the NOFA, was for reviewers to carry out the initial review and rating, and the panel to assign final scores and ranking.

See Comment 3

- OPHI neither changed the NOFA requirements nor ignored them, at least with regard to substantive eligibility, nor was the HUD Reform Act violated. While it is true that HUD could and arguably should have extended the submission deadline and sought correction of the minor discrepancies which arose in some submissions, instead of interpreting the NOFA so as to overlook those discrepancies and get immediately to the merits of applications, that choice should not be characterized as implicating the HUD Reform Act.

- The bulleted "risks" not only rely on incorrect findings, but incorrectly presume certain policy choices which are properly made by the Department, not the OIG. For instance:

- The HOPE VI goal of supporting EZ-EC activities was weighted against other goals by assigning a certain number of points in the selection process. Because other goals received more points, EZ-EC participation played a relatively lesser role in selection. This was deliberate, and not a "risk".

- The competition did not exclusively focus on the most severely distressed units but weighed this factor against others, such as the potential for revitalization. Again, this is a deliberate choice of selection factors, no one of which was intended to be dispositive.

- Given that there is insufficient funding to replace all distressed developments, it is an appropriate policy choice to fund less than full replacement at some sites so that more sites can be revitalized, so long as the viability of the project is maintained.

OPHI has no objection to those recommendations which involve

obtaining further documentation from applicants that they have complied with eligibility criteria, although we believe it unnecessary.

OPHI does disagree with the recommendation to rescind the grants awarded to New York City and Baltimore by Secretary Cisneros' exercise of his right to select unique or innovative projects. These too should be resolved by requiring further documentation of statutory and NOFA compliance. In the case of New York, OPHI has been closely evaluating various submissions by the PHA, in consultation with OGC, and has not yet sent the executed grant agreement.

See Comment 4

Response to Background

The Background section of the report correctly summarizes OPHI procedure in most respects, except as follows:

p. 4. The observation that applicants were "least responsive" to the EZ-EC evaluation factor simply reflects that this factor was assigned a comparatively low weight by the NOFA.

p.5. The final two sentences, stating that HUD moved budgeted funds among categories to offset cost "Overruns", are incorrect. There never existed any budget or even planning expectations for categories A-C, only a requirement that at least four applicants in each category be funded. Accordingly, there could not be budget overruns in any category. An amount was set aside under the NOFA for category D, to the extent it was needed by eligible applicants. When all eligible category D applicants had been funded in an amount OPHI deemed sufficient, the balance of funding became available to categories A-C.

**Response to Finding Number One:
"HUD Changed Obsolescence Screening Procedures, etc."**

OPHI takes the strongest issue with this entire finding, which is based on a misrepresentation by OIG of what actions OPHI took and what the guiding administrative standards were.

The HOPE VI NOFA required, as a condition of eligibility, that each applicant demolish at least one obsolete building. The definition of obsolescence used in the NOFA, as OIG observes, duplicates that in Section 18 and its implementing regulations. This was deliberate. HUD did not intend to create a new or different standard of obsolescence for HOPE VI purposes, but rather intended only the straightforward proposition that an applicant demonstrate it intended to demolish at least one building which met the requirements of Section 18.

While the Department's regulations implementing Section 14 and accompanying handbooks are logically interconnected with

Section 18, they have no legal application whatsoever to whether a property is deemed obsolete. Section 14 prohibits expending modernization funds on properties unless they can be restored to long-term viability. The handbook reflects a presumption that where modernization exceeds 90% of TDC, such an expenditure is not cost-effective. However, nothing in Section 14 mandates the demolition of buildings simply because further investment is prohibited.

See Comment 5

Section 18 regulations at 24 CFR Part 970 are more relevant and do indeed reference a 90% standard; however, even these regulations do not make satisfaction of the 90% standard a condition of obsolescence. Rather, section 970.6(a) provides only that "The Department generally shall not consider a program of modifications to be reasonable if the costs of such program exceed 90% of TDC." Thus, while a program of modifications costing over 90% of TDC is presumptively unreasonable, there is no regulatory statement that modifications under 90% are presumptively reasonable and that buildings which can be so modified cannot be found obsolete.

OIG departs from Section 18 requirements when it reduces the Section 18 standard that "no reasonable program of substantial physical modifications is feasible to return the units to useful life" to a "financial feasibility test". It is, rather, a full scale feasibility test which embodies many dimensions. For instance, a site which is locationally obsolete is eligible for demolition notwithstanding that it may need only minor repairs.

See Comment 6

More generally, HUD recognizes in its everyday application of Section 18 that there are site defects which cannot be cured by the expenditure of funds on a particular building. PHAs frequently apply for partial demolition of a site to ensure the viability of remaining buildings, for instance if a site is too dense, is not configured for security, or needs some asset such as a playground or parking lot. The PHA is not required to demonstrate that the particular building to be demolished is itself incapable of being renovated for less than 90% of TDC. Likewise, if buildings can be modernized in a simplistic sense for under 90% of TDC, but remain outdated in basic design, configuration and amenities to a degree that they could never attract working families, OPHI would approve a PHA decision to demolish and might well refuse to approve modernization. Indeed, section 202 of the 1996 Appropriations Act requires a large partially vacant development in those circumstances to be demolished, regardless of the cost of rehabilitation.

The NOFA did not require that every targeted building be obsolete. It required that at least one building qualify for demolition. It was contemplated by the NOFA that some sites would propose partial demolition which would allow the remaining buildings to be feasibly renovated, and this indeed occurred.

Such sites by definition would not show rehabilitation costs in excess of 90%, or they would have violated the working rule for when modernization is feasible. As OIG recognizes, the NOFA required such sites to come in at a cost level between 62.5% of TDC - the minimum below which rehabilitation would be deemed too minor for HOPE VI - and 90% of TDC - the ceiling above which rehabilitation is presumed to be not cost-effective.

See Comment 7

Page 7 of the draft Audit, HUD Processing Procedures, states that "HUD's Handbook directed that the staff screen the applicants to determine eligibility before rating and ranking the applications. In this initial screening, the HUD reviewers were instructed that in order for a PHA to qualify a building as obsolete, the cost of rehabilitation must exceed 90 percent of the total development cost (financing test in the NOFA) and at least one of the factors concerning structural deficiencies, location, and other factors (obsolescence indicators in the NOFA)." This statement is incorrect on two counts. First, there was no "Handbook." Rather, there were procedures developed by HOPE VI staff which were provided for reviewers to assist in their work. Second, the statement that the cost of rehabilitation must exceed 90 percent of total development cost was the financing test in the NOFA is incorrect.

See Comment 8

See Comment 9

The draft Audit correctly observes that as soon as reviewers began applying the initial screening procedures, they noted that the procedures would disqualify many applicants. However, the OIG's statement that "the Policy Committee decided to change the NOFA obsolescence criteria for eligibility" is incorrect. OPHI recognized that the internal screening procedure misstated the NOFA obsolescence criteria and OPHI corrected the procedure to conform to the NOFA.

See Comment 10

The HOPE VI internal screening procedures drafted by an OPHI staff member contained a requirement that to qualify as obsolete, the cost of rehabilitation had to exceed 90% of TDC. This screening procedure, as initially drafted, was simply incorrect. The Policy Committee, which included a member who directs the operations of HUD Demolition/Disposition Processing Centers, concluded that the procedure as drafted was a misstatement of the NOFA obsolescence requirement, which tracked Section 18. (OIG has previously been provided with a Policy Update dated 9/12/96 which states "Form 11 will be changed to say that in order to qualify as obsolete, the units must meet ONE OR MORE of the listed criteria.") Applying the original, incorrect screening procedure instead of the NOFA requirement would have violated the HUD Reform Act.

See Comment 11

OIG also fails to correctly describe the actual process used by OPHI to ensure that all applicants met the demolition requirement before receiving funding. The NOFA required actual compliance with Section 18, not theoretical compliance.

Therefore, even though Headquarters reviewers screened an application under the corrected screening procedure (compliance with Section 18), it is critical to recognize that a second and more rigorous filter was provided by the Demolition Processing Centers themselves. In order to receive funding, all applications had to be approved in fact for demolition, by compliance with all customary requirements and standards of OPHI. Accordingly, OPHI relied on its Demolition Processing Centers to provide an independent and more detailed review of the sufficiency of an applicant's showing of obsolescence (see 9/12/96 Policy Update).

In some cases, applicants who were initially selected for HOPE VI funding were unable to show that they qualified for demolition under Section 18. Savannah was disapproved for demolition and Brockton had an approval withdrawn, in both cases because OPHI concluded on further investigation that the Housing Authority had provided inaccurate information. In those cases, the initial offer of HOPE VI assistance has been withdrawn. In the case of New York, the PHA is now reconsidering its previously-stated intent to demolish, and therefore HUD has never sent the executed grant agreement. Several other demolition applications have not completed final processing.

See Comment 12

Because OIG applied the incorrect screening procedure rather than the correct NOFA standard, OIG's conclusion that 31 applicants were ineligible is incorrect. Other than the foregoing noted exceptions, each and every one of the applications either had already been approved for demolition (in the case of Fairfield Homes, almost ten years ago) or was accompanied by a demolition application which has since been approved by HUD as complying with Section 18. Because each of these applications had at least one building eligible and proposed for demolition, each met the NOFA threshold and no further showing by the grantee should be sought. Where the demolition has not yet been approved, OPHI procedures already in place will ensure that the NOFA threshold is met before funding is extended.

See Comment 13

See attached memorandum from Robert S. Kenison, OGC, to Elinor R. Bacon, dated October 9, 1997, concerning the relationship of Section 14 and Section 18 of the Housing Act of 1937 to the HOPE VI program.

Response to Finding Number Two:
Five Applicants Did Not Meet Minimum Rehabilitation Costs

The HOPE VI NOFA stated in section II.E.1 that a development was ineligible for HOPE VI funding if the rehabilitation of units remaining after demolition would cost less than 62.5% of TDC. As OIG acknowledges, the purpose of this provision was to ensure

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that only severely distressed developments were funded and that program dollars were not used for ordinary modernization.

See Comment 14

OPHI acknowledges that this requirement was not handled with precision in either the NOFA or the screening procedures, and that future years' NOFAs should use more precise procedures. However, information in the application was sufficient for OPHI to ensure that the requirement was met and that funded applicants were accomplishing a substantial transformation of their sites, not ordinary modernization.

The draft Audit erroneously asserts that application of the minimum rehabilitation cost standard is controlled by the Comprehensive Grant Program Handbook, 7485.3. The draft Audit reaches this conclusion based on the following statement:

"...the Appropriations Act establishes the requirement as restated in paragraph II.G of the NOFA that eligible expenditures are those eligible under Section 14 of the 1937 Act, as implemented in 24 CFR 968 and the Comprehensive Grant Program Handbook 7485.3."

See Comment 15

The quoted language misleadingly implies that the Appropriations Act limits HOPE VI expenditures to those contained in the referenced CGP Handbook, and that this requirement is restated in paragraph II.G of the NOFA. The implication in each case is simply untrue. Neither the Appropriations Act nor the NOFA even mentions either the implementing regulation or the CGP Handbook.

Because the CGP Handbook was not referenced in the NOFA, using it to judge applications would have violated the HUD Reform Act. The 1996 Appropriations Act provided that eligible expenditures were those authorized under Section 8 and Section 14. HUD has never interpreted the HOPE VI program to incorporate by inference all public housing regulations and guidebooks; indeed, the Grant Agreement has specifically treated 1937 Act regulations as guidance to statutory compliance rather than as independently controlling standards.

See Comment 16

Equally importantly, the referenced CGP Handbook says absolutely nothing about a minimum cost requirement or how it is computed, either in the cited section (Chapter 6, paragraph 8.A) or elsewhere that OPHI could locate. Paragraph 6-8A of the cited Handbook is "Long-Term Viability and Reasonable Cost Analysis"; paragraph 6-8A of 7485.3 G, issued October 3, 1996, is "HA Submission Requirements for Formula Funding of Emergencies Where No Approved Comprehensive Plan." Neither mentions a 62.5% minimum eligibility requirement, nor does either discuss a calculation method which would exclude non-HUD funds from a determination of a minimum expenditure level.

Such a requirement would be contradictory to HOPE VI philosophy and practice. OIG takes the position that a PHA is ineligible for HOPE VI funding if, for instance, it has average rehab costs of 85% of TDC, but proposes to leverage its funding and seek other local contributions such that HUD dollars only pay 50% of the cost, or 42.5% of TDC. What is critical is that substantial rehabilitation is required, not the source of funding. The Department, in fact, has vigorously promoted mixed-finance revitalization as a means to stretch scarce federal dollars, increase community buy-in, and attract the expertise and increased program controls associated with private-sector financing. The 1996 NOFA gave additional points to applicants who planned for mixed-finance solutions and minimized the federal contribution to revitalization.

See Comment 17

Of the five applications contested by OIG, OIG concedes that two, Hollander Ridge and St. Thomas, proposed to expend considerably more than 62.5% of TDC on rehabilitation. Accordingly, they met the NOFA standard. The T.B. Watkins application stated that its rehab costs constituted 72% of TDC. While T.B. Watkins and Lamokin Village may not have provided the precise information necessary to compute TDC, because the NOFA did not highlight the need for such information, their applications made clear that they proposed very substantial "gut" rehabilitation of units and that under any reasonably assumable unit size distribution, they were expending large dollar amounts per unit. Thus, OPHI staff could conclude with reasonable certainty that they met the 62.5% standard.

See Comment 18

Only New York's application raises substantial questions under the 62.5% standard. Because of its low rating, the New York application was not reviewed by the Panel under this standard prior to the Secretary's determination to fund New York because of its uniqueness. The OPHI calculations described in the draft Audit were conducted in a subsequent re-examination and do not reflect OPHI's current thinking. The eligibility of the New York application, including its proposed demolition, relies on treating Arverne House and Edgemere together as a targeted development. (See discussion below in response to Finding 5.A). Accordingly, all rehabilitation in the targeted development should be considered, not merely the rehab at Arverne House. OPHI has been exchanging information with New York and has not yet determined that the entire plan meets the 62.5% standard. OPHI agrees that it must establish that New York meets the standard before grant funding can be extended.

See Comment 19

Response to Finding Number Three:
Some PHAs Did Not Hold Public Meetings, etc.

The draft Audit states that 11 of the selected applications did not satisfy the requirement for public meetings stated in the

NOFA. Section III.B. of the NOFA states:

"The requirements of this NOFA must be satisfied in order for HUD to select an application for funding. If applicants do not satisfy the technical requirements below, after the process for the correction of deficiencies described in Section VI.C of this NOFA has been carried out, HUD cannot select the applicants for participation.

1. The applicants must include evidence in Exhibit I.1.b.(2) of the application (Community and Partnerships) that at least one public meeting has been held to notify residents and community members of the proposed activities described in the application."

Section V.I of the NOFA requires applicants to submit, as Exhibit I.1.b.(2) of the application, the following:

- "(2) Evidence that at least one public meeting has been held to notify residents and community members of the proposed activities described in this application. The meeting may be a regularly scheduled PHA board meeting. Evidence must include the notice announcing the meeting, how the notice was distributed, and a copy of the sign-in sheet. An application must contain such evidence that a public meeting took place in order to be selected for participation."

According to the draft Audit, four Category D applicants (Memphis, San Antonio, Baltimore, and Newark) did not conduct public meetings. However, OIG acknowledges that they "provided evidence in their application that their residents were notified of the planned demolition of the units at the targeted development as part of their prior year demolition application process." Although these meetings were held prior to publication of the NOFA, each applicant provided evidence that residents and other interested parties had been informed, via a public meeting, of the proposed activities described in the HOPE VI application. Therefore, the Panel concluded that the threshold criterion was met.

See Comment 20

In the case of the four applications (San Francisco, Detroit, Baltimore, New York) where "resident-only meetings that were circulated on community bulletin boards" were held, further review of these applications contradicts the Audit assertion that community members were excluded from the meetings. None of the fliers included in the applications provide any evidence that the community was restricted from attending the meetings or that only residents could attend the meetings. While OPHI concurs with OIG that the meetings apparently did not satisfy the intent of the

See Comment 21

NOFA that there be community-wide consultation, the Panel felt that the NOFA was insufficiently precise to support a disqualification on this basis.

Taking into account OIG's findings, reviewers of FY 97 applications paid special attention to whether the applicant provided all of the information requested: the notice of the meeting, a description of how the meeting was distributed, and copies of the sign-in sheets from the meeting. Despite what appeared to be clear instructions in the NOFA, a very large percentage of the applicants originally failed to provide one or more of these requirements. The description of how the notice was distributed was omitted most frequently. We suspect that the reasons for this common omission are that PHAs are not in the habit of including community members in their planning processes, and that the requirement that the community be involved was not stressed in the NOFA. For those applications that omitted the description of notice distribution, HUD requested that the applicants submit the missing information to cure this technical deficiency.

For future NOFAs, OPHI now recognizes that further instruction is necessary to ensure that applicants provide the proper evidence with regard to community notification. We propose that the NOFA should require that the notice of the meeting be published in a local newspaper commonly read by residents of the target development and members of the community at large, and that the meeting take place after publication of the NOFA. To ensure that both residents and members of the community are properly notified, applicants would be required to submit meeting minutes that record comments on the proposal from both residents and members of the community.

See Comment 22

OPHI is in agreement with OIG's recommendation that HUD direct the 11 cited PHAs either to provide evidence that the public meeting that was held was advertised to the community at large or to conduct another public meeting, with proper notice to the community, to discuss the revitalization plan.

Notwithstanding our agreement to require public meetings, the draft Audit's speculation about risks incurred by the Department as a result of accepting these applications is unwarranted.

The draft Audit speculates that residents or community members might sue, offering as support the ongoing lawsuit at Cabrini-Green. That lawsuit was filed years after the Chicago Housing Authority received its HOPE VI, by residents asserting that they had been insufficiently consulted in developing the plan after receipt of a grant. The record in Chicago is replete with evidence of meetings between CHA (now headed by Joe Shuldiner) and the LAC, and it is unlikely that the LAC would not

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have sued had one more meeting been held.

Further, the Cabrini-Green lawsuit involves resident rights, and most HOPE VI program delays from the initial grant rounds have been due to resident issues. Yet the draft Audit's significant finding is that community members were not fully advised of meetings. In all cases, resident meetings were held. While the draft Audit concludes that in four cases the meetings had been held some time previously, these were all Category D demolition funding requests which were additionally subject to Section 18's resident consultation requirements, all of which have been satisfied.

The draft Audit makes the assertion (p. 16) that not holding public meetings permitted PHAs to subordinate national goals to local ones. In fact, if there is any cause and effect, it would be the reverse -- that by not discussing plans with local community members, the PHA avoided meeting local concerns head on, in favor of meeting national goals.

While the IG may well be correct that "the New York City application is an example of planned activities designed to accommodate local issues instead of responding to the national goals of substantial rehabilitation of distressed housing and demolition of obsolete buildings", the plain fact is that OPHI scored NYCHA low for this very reason and, in any event, a public meeting in the Far Rockaways would not have persuaded NYCHA to elevate national concerns over local issues. Likewise, even if one were to agree that San Francisco's proposal accommodates the local tourist industry rather than low-income families and that this is contrary to national goals, the fact is 1) that San Francisco had extensive resident involvement and support, and 2) a meeting with local restaurant owners and souvenir sellers would not likely have resulted in less accommodation of the tourist industry and more low-income housing.

Finally, we question whether an Audit of a competitive selection process, in conformance with a NOFA which specifies particular evaluation factors, is an appropriate place for OIG to contrast its view of national goals with the Department's. The program goal as elaborated by the office charged with implementing HOPE VI is not merely to demolish distressed housing and build replacement units, but to create communities of opportunity for low-income residents while revitalizing neighborhoods which have been ruined by public housing. There is no one strategy for accomplishing this; each city must work with its own circumstances and resources. In San Francisco, the proximity to Fisherman's wharf creates an unparalleled opportunity for commercial usages to subsidize low-income units; employment opportunities for low-income residents, and community support for revitalization. To build a new project while ignoring these assets would be the very opposite of program

intentions and experience. In Pittsburgh, to the contrary, distressed public housing buildings were surrounded by a blighted neighborhood in an otherwise reviving district; the HA's strategy leverages the public housing revitalization into a total neighborhood revitalization. HUD still pays only the approximate cost of low-income units¹, but gets twice the impact. And in Baltimore, the plan aspires not merely to eliminate a distressed development and rehouse its people, but to do so in a manner which addresses deep racial divisions.

The unique local ingredients of each plan criticized by the OIG are features which the published NOFA selection criteria valued and rewarded. The IG's criticism does not support the finding that public meetings were not held, and should be stricken.

Response to Finding Number Four:
HUD Did Not Follow the NOFA Requirements for Evaluating
Applicant Funding Requests and Eliminating Uneconomical and
Inefficient Operating Costs

It is correct that HUD reduced HOPE VI grant amounts by about \$138 million or about 23% of the amount requested by eligible applicants. HUD did so in accordance with Section VI.B. of the NOFA. The draft finding asserts that HUD should have evaluated the funding requests to "eliminate uneconomical and ineffective operating costs." There is no such requirement in the NOFA. Contrary to the draft finding, HUD did not "ignore" the NOFA required method for reducing grant requests. In all instances where HUD reduced grant requests, a determination was made by the panel and a written justification placed in each file that partial funding was in fact a viable option. Furthermore, for some of the applications, the panel reviewed the budget requests and identified individual budget items that were clearly duplicative or ineligible and eliminated them. We disagree with the draft finding that OPHI "effectively" changed the NOFA requirements by not specifying how we would carry-out the viability option in the panel or reviewer guidance instructions.

We disagree that the reduced amounts promoted a 15 month delay in signing a grant agreement. Any delay in the distribution of grant agreements for FY 1996 grantees is based on the necessity to prepare a new grant agreement for each Fiscal Year to reflect the appropriations bill language and NOFA for that year.

¹ While Pittsburgh may project costs over TDC, HUD has not approved this or committed to fund any excess. OPHI is currently revising TDC rules to more precisely identify when excess costs are permissible if funded with non-HUD funds.

See Comment 23

There is no relationship between the FY 1996 competition, the FY 1997 competition and the execution of any grant agreements. OPHI disagrees that our funding reduction circumvented the Reform Act by communicating with applicants prior to the FY 1997 HOPE VI funding round and encouraging PHAs with reduced amounts to delay implementation so they could apply again in FY 1997. An analysis of the FY 1997 HOPE VI funding requests proved to the contrary. Of the 127 requests in FY 1997, only 2 of the 16 PHAs partially funding in FY 1996 re-applied for the same project and neither was awarded additional funding. The fact that 14 of such applicants did not apply in 1997 confirms that OPHI decisions on partial funding for categories A/B/C were justified and did not affect the viability of the revitalization plans. The fact that the two that did apply were not funded confirms that HUD did not partially fund applicants with the intent of later completing the funding and thereby circumventing the HUD Reform Act as OIG speculates; to the contrary, HUD's decision in FY 1997 not to provide further funding confirms the sufficiency of the 1996 award and the integrity of the process.

Grant reductions were made only after the Panel closely examined the facts and circumstances of the application to determine its viability at a reduced funding level. For instance in the case of St. Thomas the panel felt strongly that the Housing Authority of the City of New Orleans retained sufficient resources (Comp Grant funds) to effectively carry out the revitalization plan. In addition, the strength of the surrounding neighborhood and the potential for private funding was judged to be rather strong in the application justifying the reduction of the grant amount.

In the case of North Beach, the Panel felt strongly that the site had extraordinary potential for commercial and upper/middle income residential use which was demonstrated in the application itself, but not effectively exploited by SFHA's plan. The panel determined that more effective leveraging of this locational resource, and of the funding HUD was providing, was possible and would indeed better reach the full creative potential of the site than the SFHA plan.

There is no evidence presented in the draft finding that reducing the grant amounts has diluted the revitalization activities at the targeted developments. To the contrary, reductions often recognized the potential of the proposed development for leveraged finance and private investment, or eliminated payments for ineligible activities. As noted above, only two of sixteen applicants whose 1996 grants were reduced applied for additional funding in 1997, and the two who did failed to persuade OPHI that the 1996 reduction had been wrong.

The draft audit cites, as evidence of dilution, "modest revitalization efforts" at four sites. None of the four,

however, is a revitalization effort at all. Each cited example is a Category D, demolition only grant. HUD determined to set aside funds for demolition-only in order to effectuate Congressional intent (as stated in the Appropriation Act) and advance the Administration's stated goals to demolish 100,000 distressed and obsolete units by year 2000, both of which were clearly articulated in the NOFA. HUD had no authority under the NOFA to not fund low-rated applicants who met the eligibility thresholds, and so funded all such applicants, whether large or small. Finally, the reuse of the cleared sites for open green space, street widening, density reduction, and possible sale for industrial development are all perfectly acceptable and appropriate uses, depending on the situation and local need. The auditors are wrong in their assumption and conclusion.

See Comment 24

OPHI disagrees with the draft finding that states that OPHI did not assure HOPE VI funds were not being used in lieu of other available funds for 12 applicants. The NOFA contained no requirement that HUD evaluate and reduce grant amounts to exclude funding sources identified in Section K.1.b (which were required for the purposes of evaluating need). In fact, the NOFA is explicit in Section VI.B. listing those items to be taken into consideration. Furthermore, it is ironic that this statement is in direct contradiction to earlier statements to its own finding. Here OIG seems to be indicating that OPHI reduction may not have been large enough, whereas in other parts of the finding it faults OPHI for reducing grants.

OPHI recognizes that the 1996 NOFA was not structured to permit OPHI to precisely distinguish the need of each applicant. The NOFA was restructured for 1997 in order to assure that only PHAs with an overall shortfall in capital funds compared to capital needs would be eligible.

OIG also contends that HUD did not follow its own internal procedures for evaluating the funding requests of Category D (demolition only) applicants, and thereby overfunded two such applicants. OPHI had sufficient funding available to fund all 24 of the eligible Category D applications, which minimized the competitive aspect of the process and focused panel attention on the amount of funding to be awarded to each applicant.

The 24 Category D applications fall into two groups: the 17 that presented reasonable and defensible requests (which averaged \$8,770 per unit for 6,958 units), and the 7 outrageous requests (which averaged \$38,018 per unit for 981 units). After the Panel's budget adjustments, the 17 sensible requests were funded at 93.7% of their requested amount (\$8,220 per unit), while the 7 extreme requests were funded at 43.6% of their requests (\$16,592 per unit), and probably would have been funded even lower if the HUD Reform Act had permitted calling the applicants for more detailed budget information and justification. Nonetheless,

since all grantees must still use competitive bidding and spend their grant only on the authorized activities, HUD will be able to recapture excess funding, if any.

The seven extreme requests averaged \$29,026, \$29,851, \$32,895, \$36,564, \$38,250, \$71,347, and \$76,319 per unit without any justification for these excessive amounts. In two of the cases (Buffalo and Hartford), it appears that the PHA simply asked for the maximum permissible grant of \$10 million without meaningful substantiation. In the cases of St. Louis and New Haven (\$71,347 and \$76,319 per unit) it appears that the PHA was hoping to obtain sufficient funding to construct replacement housing or do major site improvements with the demolition-only grant, although this was not so stated in their application.

The \$15,000 cap that was established by the Panel for these extreme cases gave 5 of these 7 PHAs the benefit of the doubt that perhaps there were unusual cost factors that were not evident from their application and budget. Rather than reject these 7 applications out-of-hand, for which there was no provision in the NOFA, the Panel followed the provisions of Section IV.B. of the NOFA and made reasonable and consistent adjustments to their funding requests. The cap was established as an upper limit based on OPHI's cost experience for high-cost demolitions under HOPE VI and the demolition program.

The auditors took exception to the calculation of the grant amount for Atlanta's Carver Park demolition. The auditors incorrectly labeled \$3,981,520 of site demolition work as "site restoration", and said that HUD should only have allowed \$346,500 instead of the full \$3,981,520. A careful reading of Atlanta's application and budget clearly identifies the \$3,981,520 (\$4,022 per unit) as needed to pay for removal of collapsed underground storm drains and sewer lines which had been severely damaged from the roots of large trees on the site, for removal of numerous retaining walls on the hilly site, and for removal of the narrow one-lane streets so that wider streets and on-site parking could be constructed as part of future development. The site demolition is clearly eligible, and is not the "site improvements" that the auditors perceived them to be. Internal procedures were correctly followed and the award was properly determined.

In the case of Buffalo's Category D application, the Panel first imposed the \$15,000 per unit cap on the 304 units proposed for demolition (\$4,560,000), and then allowed an additional \$1,744,000, which the PHA had requested to replace and relocate boilers and utilities demolished as part of the 304 units to be removed. This brought the total grant to \$6,304,000. The Buffalo site, Commodore Perry, had 1043 units of which only 304 were proposed for demolition, and the central heating plant was located in the section to be leveled. This essential facility

had to be replaced if the rest of the development was to remain viable. Allowing the additional funds for the replacement of the heating plant raised the award from \$15,000 to \$20,737 per unit for the 304 units to be demolished. In the opinion of the Panel, this was a unique and meritorious situation that justified exceeding the \$15,000 cap imposed on five other applicants, none of which had a similar situation.

Each Category D application and budget was reviewed in detail by a senior staff member, who applied a consistent review and adjustment criteria, using procedures approved by the Panel. We believe that the adjustments were justified and did not negatively affect the viability of the proposed activity. The FY 1996 funding of \$73,470,930 for the demolition of 7,939 Category D units averaged \$9,254 per unit.

In fact, HUD set lower limits for FY 1997 recognizing that most PHAs proposing to demolish existing public housing receive formula allocations of Comprehensive Grant Program (CGP) modernization funds, and have previously allocated modernization funds for the very units that they are now proposing to demolish. If the demolition and relocation funds provided by HOPE VI prove to be insufficient, the PHA can revise its CGP One-Year and Five-Year Plans and use some of the funds it had already planned to use at the site to accomplish its partial or total demolition.

In summary, we feel that our reduction of funding amounts on the Category D applications are proper and justified, do not circumvent the HUD Reform Act, and will enable all applicants to accomplish the demolition they proposed. We take strong exception to any finding concerning the Panel decisions concerning these awards.

See Comment 25

Response to Finding Number Five:
HUD Staff Resolved Defects in Applications, etc.

Finding 5.A. OPHI disagrees with the draft audit contention that New York's application failed to meet the NOFA requirement of demolishing at least one building at a targeted development. As the draft audit states, New York initially proposed not to demolish any buildings, but decided prior to the deadline of the final submission time to comply with the NOFA requirement. (OPHI staff recall responding to New York's queries prior to the due date by drawing their attention to the demolition requirement and advising them that HUD could not waive NOFA requirements for individual applicants.) New York's method of revising its application is addressed in Item B.

Although the original application designated Arverne Houses as the targeted development, the revision indicated that NYCHA intended to treat the combined site of Arverne Houses/Edgemere as

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the targeted development. NYCHA stated, "This step is being taken in accordance with Section II D (3), which provides that contiguous or immediately neighboring developments will be considered one development for all purposes of this NOFA." It is indeed correct that under the NOFA, NYCHA could properly have designated the combined site as its targeted development.

The determination that the "topping off" of the four buildings was equivalent to the demolition of one was made by the General Counsel.

In rating and ranking the NYCHA application, OPHI treated it as an application for the combined site for all purposes, as requested in the revision. The application made repeated reference to Edgemere, which had previously been designated a HOPE VI planning site, and the entire combined site was indeed a revitalization area under NYCHA's plans. However, in part because the application had not been written for the enlarged site, OPHI scored the application quite low. It did not demonstrate convincingly that the entire combined site was distressed, that there was a coherent revitalization plan for the entire site, that the budget accurately represented the costs of the entire site, etc.

Accordingly, OPHI believes it acted in compliance with the NOFA when it treated the application for the combined site as eligible, but then scored it low on the merits.

Finding 5.B: Late Applications

The Audit identifies three applications that were reviewed despite the fact that all or part of the applications were received after the deadline designated in the NOFA.

Puerto Rico: Due to Hurricane Hortense, the applicant was unable to submit its application to HUD because transportation and postal deliveries had been disrupted. The applicant contacted OPHI well in advance of the due date. OPHI's response was to allow the applicant to fax it to Resident Commissioner, who is the Congressional representative for Puerto Rico. The Resident Commissioner, in turn, assembled the faxed application, inserted tabs, and delivered the application to HUD before the deadline. Once transportation was restored, the PHA sent the original application to HUD. The reviewer assigned to the application was given both the first submission and the original, and checked to make sure that the two versions were identical, which they were.

Virgin Islands: The hurricane also affected transportation out of the Virgin Islands. The applicant phoned HUD to alert us to the fact that the application could not be sent on time, and was advised by OPHI that they could deliver the application to a

third party by the deadline and it could be considered received by HUD. The purpose of this action was to ensure that the application was indeed completed by the deadline, and that the applicant was not using the time delay to improve its application. The applicant delivered its application to the local office of Congressman Victor O. Frazer, and HUD received a fax from Congressman Frazer's office testifying that the application was received by the deadline. The application was sent as soon as transportation was resumed, and was received at HUD on September 12.

OIG points out that the proper procedure in these instances would have been to request that the Secretary issue waivers to the NOFA deadline requirement which would allow the applicant to submit a late application. OPHI staff were not familiar with Section 102(5) of the Reform Act, and subsequently did not request a waiver; if that possibility was known to staff, that avenue would certainly have been taken. There was no intent to circumvent the Reform Act; in fact, OPHI was attempting to follow the spirit of the Reform Act by ensuring that these applicants did not have an advantage over other applicants as a result of the forced delay.

It should be noted that during the FY 97 funding round, three applications did not meet the deadline, and, in accordance with advice from OGC, OPHI returned the late applications, per the NOFA. One of those applications cited a hurricane as the reason for the delay, but since other applicants in the same area were able to submit their applications on time, a waiver was not requested and the application was not accepted.

The OIG correctly reports that OPHI accepted a one page faxed revision to the NYCHA application. The draft Audit states that this application should not have been considered. The NOFA language states:

"ADDRESSES: An original of the completed application must be received at the HUD Headquarters Office, 451 Seventh Street, SW, Room 4138, Washington, DC 20410, Attention: Director, Office of Public Housing Investments. A copy of the completed application must also be received at the HUD Field Office. Applications may be hand-delivered or mailed. HUD will not accept facsimile (fax), COD, and postage due applications."

In our view, the NOFA was materially complied with by the delivery of the original application by hand, prior to the cutoff time, and the acceptance of correction pages by fax. The NOFA's prohibition of faxed submissions was intended to avoid an unmanageable deluge of enormous documents which the office fax machine could not handle and which would not yield physically high quality documents. The acceptance of one change page -

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rather than a "facsimile application" - did not implicate these concerns, did not violate the express words of the NOFA and was considered, at worst, an immaterial departure from NOFA requirements.

Finding 5.C: Curable Technical Deficiencies

The Audit charges that OPHI did not comply with the NOFA requirement concerning notification of curable technical deficiencies for the following applications:

Chicago: Robert Taylor Homes, Dearborn Homes

Because (1) the NOFA allowed the Chicago Housing Authority (CHA) to submit applications to fulfill HUD's obligation under the Gautreaux Consent Decree, (2) each applicant could send up to two applications, (3) each applicant was asked to send an original and a copy to HUD Headquarters, and (4) each application could include a demolition application, the submission HUD received from the CHA on September 10 contained many components. After all of the applications had been received, and during application login, the Systems Administrator (SA) had to sort out all of the different pieces submitted by CHA, match demolition applications with HOPE VI applications, and identify which applications were submitted under the Gautreaux provision.

The SA found the Taylor and Dearborn applications to be internally inconsistent. There were some indications that CHA submitted only one application. First, the SF 424 submitted included the names of both sites in block 11, and the total amount requested for both sites (\$40 million) was indicated in block 15. Further, the cover letter, signed by John Nelson Jr., Deputy Executive Director for Operations, stated "It is my pleasure to submit this HOPE VI application to revitalize two public housing communities..." The original cover letter, with Mr. Nelson's original signature, was included in the Dearborn application and a copy was included in the Taylor Application. The Taylor copy had a typed note "(Original signature in Volume One)" that could be interpreted to indicate that the submission was one application submitted in two volumes.

If the submission was to be considered one application, the application could not be considered for funding, because the NOFA required that each application could be for only one public housing development, unless multiple developments were contiguous. Since Taylor and Dearborn are not contiguous, the application would have been rejected in the screening stage and CHA would be denied the chance to compete for \$40 million in HOPE VI funds because of what must have been a clerical error. It is difficult to imagine that CHA, a current HOPE VI recipient, would misread the NOFA to the extent that it would make such a fundamental error.

The other alternative was to consider the packages as two separate applications, as allowed under the NOFA. Each application included separate narratives, budgets, certifications, demolition applications, and every other requirement of the NOFA. Further, they were packaged separately, labeled separately, and in every other way appeared to be two separate applications. And despite the note on Taylor's SF-424 that there were two volumes, each application was labeled "Volume 1" on its Table of Contents.

After considering all of the above contradictions, the SA made the unilateral decision to consider these two applications as separate and distinct from one another, and came to the conclusion that the references to one application constituted a clerical error on the part of the CHA and the firm hired to prepare the applications. Since this situation was not anticipated in the Review Instructions, the SA made a common-sense decision and did not feel it necessary either to consult the policy committee or to contact the applicant for a clarification. The CHA applications did not receive either advantage or disadvantage from this decision, and, based on its merits, only the Taylor application scored high enough to receive funding.

While it may be fair for OIG to determine that the SA should have taken the issue to the Policy Committee and/or clarified the issue with the applicant, it is difficult, if not impossible to doubt that both the Policy Committee or the CHA would have responded in any other way than to assert that the two applications were separate. If necessary, OPHI would be more than happy to contact CHA to clarify this matter before releasing any grant funds for the Taylor project.

Ocala: N.H. Jones, Forest View

In violation of NOFA rules, the Ocala Housing Authority submitted two Category D applications for what seemed to be two different public housing developments. The Systems Administrator (SA) conducted a technical deficiency callback on September 17, 1996, and brought the matter to the attention of the OHA Executive Director, Mr. Tommy Brooks, intending to ask which of the two should be reviewed. (Contrary to the Audit, one was not received before the other; both applications were received at precisely the same time.) Mr. Brooks told the Systems Administrator that although the two sites had different names, they were actually a part of one scattered site development and should be treated as a single application. The SA confirmed this information with the Demolition/Disposition processing center (cc:mail discussion included in the application file).

Since both applications were in hand, the SA consulted with the Team Captains of the reviewers who had been assigned the

See Comment 26

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applications, and concurred that the applications easily could be combined. Both applications were assigned to the same reviewer, who proceeded to review them as one application. At no time did the SA, the applicant, the Team Captains, or the reviewer suggest that it should have been the applicant, not HUD to combine the applications. It is true that the issue probably should have been taken to the Policy Committee to confirm the solution that was acceptable to all parties. In the FY 97 funding round, all such issues were taken to the Policy Committee, and many issues were ultimately decided by OGC. Given the tight timeframe in which the competition was conducted in FY 96, such consultations were not conducted.

OIG seems to indicate that the submission of two applications did not disqualify both applications per se, but that it should have been the applicant, not HUD, that combined the applications. It is difficult to determine how the outcome would have been different, most importantly in light of the fact that ALL of the applications submitted under Category D were approved, making it irrelevant as to whether or not the application was improved. OIG's solution to fund one application over the other is infeasible since they were both received at the same time. The only other outcome would have been to reject both applications on the basis of a procedural error, in violation of the spirit of the Reform Act. Ocala's application did not exceed the \$10 million funding request limit for Category D applicants, and funding the application did not prevent any other application from being funded.

Newark: Hayes Homes

The Audit states that OPHI inappropriately considered information from one Exhibit of the application to make a determination that should have been made based on information in a different Exhibit. Section III.A of the NOFA states:

"III. THRESHOLD REQUIREMENTS

2. Noncurable Threshold Requirement

The application must provide for demolition of at least one obsolete building at the targeted development as "obsolete" is defined in section II.C of this NOFA. HUD will determine whether the housing is obsolete based on information provided in Exhibit B (Existing Conditions) of the application. Applicants will have no opportunity to provide or supplement the information required by Exhibit B after the deadline date listed in this NOFA (except to the extent that correction may be made to the demolition application as provided in section III.B.3 below)."

The Newark application contained an Exhibit B which had no text demonstrating obsolescence, but instead specifically cross-referenced the letter from HUD that approved its demolition application for the site. The HUD reviewer, in making his determination as to whether the site was obsolete, found adequate information in the approval letter and memo to make that determination. Nothing in the NOFA precludes an applicant by incorporating into one section, by specific reference, information contained elsewhere in the application. Where the Department had previously concluded that the site was obsolete in accordance with Section 18, the applicant demonstrated obsolescence by citing that conclusion and the facts which the Department had relied upon in reaching it.

See Comment 27

HUD has a long-standing practice of considering "the four corners of the application" when making determinations of fact; to deny funding to an applicant because the requested information was in one section instead of another clearly would be arbitrary and capricious and subjected HUD to legal liability and ridicule.

Finding 5. D. New Construction Certification

Baltimore, Hollander Ridge: Included in this applicant's proposal was the goal of constructing 151 fee simple (p. 12), non-replacement (p. 16) units. OPHI consulted with OGC and was advised there was no need for a new construction certificate on the facts presented; however, it now appears that OGC relied on a verbal representation which originated with the applicant and which was inconsistent with the application. OPHI concurs that a new construction certificate was required, based on the application. OPHI will not approve a Revitalization Plan for Hollander Ridge which continues to call for new construction, unless it is accompanied by a new construction certificate acceptable to HUD.

San Francisco, North Beach: The draft Audit misquotes the NOFA in this finding. The draft Audit states:

"The PHA was also required to certify that the application is for new construction but the PHA will accept acquisition of existing housing or acquisition with rehabilitation if HUD determines that the PHA documentation is inadequate to support approval of new construction. If the PHA submits a certification that the PHA application is for new construction only, HUD Handbook procedures stated that HUD will reject the application."

See Comment 28

There is no HUD Handbook on this point, much less one that contains such a statement. NOFA requirement D.3.b and the internal review procedures both explicitly permit a statement that the application is for new construction only. If the construction certification is rejected by HUD, the application

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will be rejected. The intent of the alternate certification is to advise the Department whether the applicant wishes to be given funding for acquisition/rehabilitation if the certification is rejected. San Francisco did not, and so indicated.

Response to Finding Number Six:

HUD awarded over \$42 million for housing development to an applicant unable to demonstrate compliance with the NOFA eligibility requirements

OIG claims that the Chicago Housing Authority's (CHA) application did not comply with some of the NOFA noncompetitive eligibility requirements. Specifically, OIG asserts that the application did not demonstrate that HUD's obligation under the Gautreaux Consent Decree would be fulfilled and lacked support services for residents.

With respect to OIG's first point, HUD's Office of General Counsel assisted with the writing of the "Gautreaux" portion of the NOFA to ensure that the HUD's obligation would be met presuming the CHA chose to submit an application(s). The NOFA stated that HUD would fulfill its obligation by awarding funding for 350 units to CHA. CHA did submit two applications in accordance with the Gautreaux portion of the NOFA requesting funds to construct 200 units at Brooks Extension and 150 at Henry Horner. Additionally, Alexander Polikoff, Attorney for the Gautreaux plaintiffs, included a letter in both applications which stated that HUD's funding of the applications "will be viewed by the Gautreaux plaintiffs as fulfilling the unsatisfied HUD obligation under the Gautreaux Consent Decree.." and that "our support for the NOFA application is complete. We believe that the Horner portion has the potential to move the revitalizing Horner area a giant step forward, and that the ABLA portion can begin a strong revitalization effort in another nearby community that is ripe for such activity." Furthermore, by not funding the application, HUD would have exposed itself to further legal action. Polikoff's letter also states that "because we fully support the plans for 350 replacement housing units..we have agreed to postpone taking other steps pending HUD's response to the NOFA application."

See Comment 29

OIG also asserts that the CHA applications did not comply with the statutorily mandated requirements of the NOFA because the application did not contain a certification which IG asserts is required in Section 5(j)(1)(B) of the 1937 Act, to the effect that 85% of CHA's units meet HQS. In fact, properly or improperly, the NOFA did not require the CHA nor any other applicant to submit this certification as part of the HOPE VI program.

See Comment 30

The actual requirements of section 5(j), which are required under HUD's Public Housing Development program and are arguably not applicable to the HOPE VI program, are not as reported in the

The actual requirements of section 5(j), which are required under HUD's Public Housing Development program and are arguably not applicable to the HOPE VI program, are not as reported in the draft Audit. Section 5(j) requires only one of the six alternatives numbered (A) through (F); these options are separated by an "or". While option (B) is as stated by the OIG, option (C) requires the PHA to certify either that the funds will be used for replacement housing or to comply with a court order. Either alternative would apply to the CHA application. Indeed, option 5(j)(1)(C)(i) would apply to **any** HOPE VI new construction, which by law is restricted to replacement housing. Consequently, a certification would be unnecessary.

Third, OIG claims that HUD's "award is inequitable and unfair to the future residents of the program." OIG states that CHA did not adequately provide for funds to provide self-sufficiency programs to its residents and that CHA could have directed \$8 million of its funds to these activities. OIG also goes on to state that "in our opinion" CHA's financing of its proposed self-sufficiency program is "inappropriate".

While we appreciate OIG's "opinion" as to what revitalization strategies are "appropriate", it is OPHI's opinion, having reviewed numerous self-sufficiency programs in the past, that CHA proposed a creative plan that would not only provide jobs to residents but also a funding mechanism to invest into other residents. CHA has already proven itself to be a results-oriented administrator of supportive services programs for its residents and while the agency did not chose to include in its application budget HOPE VI funds to support such a program, it did propose a program targeted to help residents eliminate their dependency on public assistance and reach self-sufficiency. CHA also secured partnerships with the West Side Consortium which coordinates social services through 100 organizations. The Consortium is 11 years old and is made up of every major service provider and community organization in the area. To assert the CHA did not provide a mechanism through which to assist its residents is an erroneous statement.

Whatever one may think of CHA's plan, HUD had no authority under the NOFA to reject the application on that basis. The NOFA stated that CHA would receive funding so long as the application complied with statutory requirements. Because the 1996 Appropriation Act did not require any self-sufficiency plan, much less any particular one satisfactory to the OIG, it would have been a violation of the HUD Reform Act to deny funding on the basis suggested by the IG.

See Comment 31

Response to Finding Number Seven:
HUD unnecessarily condensed the time allotted to
PHAs for preparing their applications.

OIG states that "In our opinion, the adverse consequence of HUD's decision for some PHAs was that very low-income family needs were not always given adequate consideration, partnerships were not established to leverage support and resources, and revitalization activities were not planned as cost effectively as possible." To support this opinion, OIG asserts that the Baltimore HA's plan was not cost effective, that three other applications had high per unit costs for units reserved for very low-income families and that 29 percent of the HOPE VI awards are with PHAs in partnership with Empowerment Zones or Enterprise Communities. OIG also compared the time allotted for the 1997 competition with that of the 1996 competition to demonstrate that 1997 applicants had 45 more days in which to respond.

OPHI acknowledges that the 1996 applicants had a relatively short preparation time compared with that allowed in 1997. OPHI also acknowledges that it was not statutorily required to award grants by any particular date. Because of internal discussion, HUD did not issue the NOFA until relatively late in the year; nonetheless, HUD believed it was important to keep up program momentum and fund a new round by the end of the federal fiscal year. PHAs had been anticipating release of the NOFA, had been developing their plans, and were anxious to proceed.

Additionally, while the time allotted for the preparation of applications in 1997 was longer than in 1996, the 1997 NOFA requested from applicants more detailed plans, certifications and precise budgeting, and increased the emphasis placed on awarding applicants that were "ready to go" at the point of funding. Combined, these requirements meant that potential 1997 applicants needed the additional time allowed to submit truly competitive applications.

OPHI is not certain of the point OIG attempts to make with respect to the cost effectiveness of the Baltimore Housing Authority's plan nor do we believe that OIG made a case on how an extended time period would have strengthened the cost effectiveness of the plan.

OIG also attempts to illustrate how the per unit cost for low-income family units was "extremely high". OIG's illustration does not accurately reflect the cost per unit for eligible units rehabbed or constructed with HOPE VI funds. For instance, OIG states that the Jacksonville HA plans to renovate 459 units for \$21,552,000 at \$46,954 per unit. Then OIG segregates the units targeted for low-income families [152 units] and determines that when only these units are considered the per unit costs for these particular units are \$141,789.

See Comment 32

See Comment 33

25

First, the calculation is mathematically illogical. Any calculation concerning less than the total amount of units to be treated should be made using a dollar amount that reflects the cost to treat those lesser amount of units. OIG used the total dollar amount of the grant, \$21.5 million, to calculate the per unit costs for only a third of the units to be produced. A correct calculation would include just the costs for the 152 units. Otherwise, HUD would be able to make the indefensible claim that while 152 units cost \$141,789 each, the remaining 307 public housing units had been built for free!

Equally important, we do not understand why OIG would select to segregate the very low income units from the other public housing units that Jacksonville will treat with its funding. All 459 units are to be under ACC and serve eligible public housing families. Public housing policy in general, and HOPE VI in particular, encourage the creation of mixed-income communities and the provision of housing to the working poor as well as the welfare-dependent. Housing people who are at 40% of median income is a very legitimate use of public housing dollars

Response to Significant Issues Needing Further Review

OPHI strongly objects to the tone in which OIG comments generally on PIH practices as gleaned over a one year investigation. In one case, OIG asserts that HUD "circumvented the HUD Reform Act". We believe that this should not be lightly alleged. In this regard, New York did not receive approval to reassign its 1995 grant after "discussions", but rather after more than a year of fruitless effort by the PHA to move ahead on the grant over resident noncooperation. After careful and lengthy consideration, OGC advised OPHI that the reassignment was legal. Whatever questions OIG wishes to raise about this, circumvention of the Reform Act should not be among them. Furthermore, there have been no other like cases, let alone substitutions occurring "with any regularity", as a brief inquiry would reveal.

Issues of accuracy and reliability in applications are indeed of concern to OPHI. Both our application procedures and our post-application procedures are in constant evolution to ensure that applicants and grantees in fact perform the promise that they show on paper, and we welcome any assistance OIG can provide in this regard. At the same time, we believe that OIG fails to appreciate the very concrete choices OPHI has made in designing the HOPE VI application process and the difficulty of producing an application that would be free of ambiguities given the complexity of the program. Development is a dynamic and uncertain process, the details of which can never be reliably predicted until the process is well underway. The HOPE VI selection process is designed to identify those applicants most

likely to accomplish program goals. OPHI could select with more certainty if it required a greater degree of planning and firmer commitments in advance of selection. Any such increase, however, would increase the already substantial costs to applicants of preparing applications, discourage smaller and less sophisticated PHAs from competing, and require a local investment in relationships which are purely speculative. OPHI is already concerned about the degree of effort required of applicants, a large number of whom cannot be selected.

Response to Recommendations

Following are OPHI's responses to the recommendations by OIG:

1. Rescind Grants to New York and Baltimore

OPHI disagrees with the recommendation to rescind awards to New York and Baltimore.² With regard to New York, as stated earlier, it remains unclear whether New York can demonstrate continued compliance with the NOFA terms. OPHI is exploring that with the PHA. The Revitalization Plan will only be approved if the final plan is consistent with the NOFA.

The situation of Hollander Ridge is different. With regard to the consultant's report, the HUD Reform Act would not have permitted HUD to consider the contractor's draft conclusions in evaluating the application. Notwithstanding this, however, the HOPE VI program does not permit substantial expenditures until a grantee has secured approval of its Revitalization Plan. A Revitalization Plan which does not satisfy section 202 of the 1996 Appropriations Act cannot be approved, and in such a case the authority would be required to voucher out the development in accordance with that section. It is premature, therefore, for the Department to take any action until Baltimore has had the opportunity to prepare and submit a Revitalization Plan. It should also be noted that HOPE VI would permit a grantee to demolish a targeted site and construct replacement housing on another, more viable site.

2. Condition Grant Agreement Approval upon Demonstration of NOFA Compliance

All applications for demolition must be approved by the Demolition/Disposition Centers and thus must meet the Department's test for obsolescence. Projects with units scheduled for rehabilitation must submit a full budget which will

² Please note that the Deputy Assistant Secretary, Elinor Bacon, has recused herself with regard to matters involving Baltimore.

See Comment 34

demonstrate the construction costs for rehabilitation. In addition, however, we will immediately contact the PHA's in question and ask for additional verified information about the projected rehabilitation and costs.

We are contacting all PHA's where the Audit Report raised questions with regard to community and resident input to secure further documentation and/or require that additional meetings, with appropriate documentation, are held.

In all cases, if the final Revitalization Plan, budget and/or other documents are not in compliance with the NOFA, the project will not be funded.

With regard to proposed changes to the NOFA and the competitive funding process, OPHI is most interested to meet with audit staff and discuss in depth the alternatives proposed by OIG in terms of NOFA content, the selection process and forms.

The draft report was issued after the publication of the FY 1997 NOFA, but because of productive meetings and discussions between the Inspector General and OIG staff and the Deputy Assistant Secretary, OPHI attempted during the selection process to contact the IG's office when there were issues which we believed might be of concern to OIG, and copied OIG on panel meeting minutes and other documents during the process, to apprise OIG of actions we were taking. We also involved the Office of General Counsel in the panel meetings before any definitive actions were taken, to assure that we were acting in accordance with the NOFA, the Reform Act, etc.

We are developing a list of changes we will make in the 1998 NOFA and selection and review process based on experience of the 1996 and 1997 selections and the audit report, and we are eager to benefit from what OIG has learned in its lengthy scrutiny of our program. As is evident from the following list, we were able to improve our FY 1997 NOFA process based on our experience in FY 1996 and the helpful advice from OIG.

**LESSONS LEARNED FROM FY 1996 NOFA PROCESS
AND IMPLEMENTED IN FY 1997 NOFA**

1. The time given for PHAs to prepare and submit their applications was extended from 50 days in 1996 to 95 days in 1997.
2. The time utilized by staff and the panel for review, scoring, ranking and selection of applications was extended from 3 weeks in 1996 to 9 weeks in 1997.

3. For 1997, grant amount limitations were established based on TDC per replacement and rehabilitated unit, a self-sufficiency allowance per family, and an allowance for unreplaced demolition, rather than the categorical caps based on size of PHA that were used in 1996.
4. For 1997, Total Development Cost (TDC) was specifically defined for purposes of the NOFA to avoid uncertainty of definition experienced in 1996.
5. For 1997, the minimum cost threshold to establish eligibility of units for rehabilitation was reworded to address ambiguity experienced in 1996.
6. For 1997, the Need for Funding Threshold was reworded to avoid the ambiguity experienced in 1996.
7. For 1997, the definition of "Obsolete" was rewritten to fit program and legislative objectives.
8. For 1997, when it was determined that a large percentage of applicants had failed to submit portions of the detailed documentation requested on the public meeting requirement, due to an apparent misunderstanding of the intent of the NOFA language, all affected applicants were given an opportunity to submit the missing information and the selection process was halted until the time granted for submission had expired.
9. For 1997, a new test was established to ensure that HOPE VI funds were not substituted for modernization funds that the PHA could use for revitalization of the targeted development.
10. Based on experience gained in 1996, the 1997 NOFA made provision for late arrival of applications if they had been delivered to a recognized overnight carrier by noon on the day prior to the due date. However, in both 1996 and 1997 hurricanes have delayed the delivery of applications from coastal locations, and this will be addressed in future NOFAs.
11. For 1997, the Office of General Counsel was consulted on a variety of policy and procedural matters that due to the press of time in 1996 were decided at the staff level.



U. S. Department of Housing and Urban Development
Washington, D.C. 20410-0500

October 9, 1997

OFFICE OF GENERAL COUNSEL

MEMORANDUM FOR: Elinor Bacon, Deputy Assistant Secretary
Office of Public Housing Investments, PT

Robert S. Kenison
FROM: Robert S. Kenison, Associate General Counsel
Office of Assisted Housing and Community Development, CD

SUBJECT: HOPE VI -- Demolition Standards

This is in response to PIH's request for our legal opinion regarding one matter raised in the draft OIG audit of HUD's Fiscal Year 1996 HOPE VI grant award process. Specifically, you have asked for our advice concerning the position expounded in the draft at pages 6 and 7 regarding the standard of obsolescence for demolition. The draft audit states that

"The Appropriation Act stated that eligible demolition costs are based on the criteria set forth in section 14 of the Housing Act of 1937, as amended (hereafter referred to the 1937 Act). Section 14 of the 1937 Act requires the HUD Secretary to prescribe a standard for when a building cannot be modernized at a reasonable cost and needs to be demolished. HUD's Comprehensive Grant Program Handbook 7485.3, Chapter 6-8 provides that when modernization costs exceed 90 percent of the Total Development Costs (TDC) limit, a development may not be able to be effectively modernized at a reasonable cost. When the cost to modernize a unit exceeds 90 percent of the TDC limit, the public housing agency, after consultation with HUD, can submit an application for demolition of the development."

See Comment 35

I believe the foregoing analysis is flawed in some respects. First, the Appropriations Act did not state that eligible demolition cost "are based on the criteria set forth in section 14." Rather, the second proviso in the appropriation states that all "eligible expenditures hereunder shall be those expenditures eligible under section 8 and section 14." We do agree with OIG that this statutory proviso is pertinent. However, we draw a different conclusion.

The proviso effectively subjects eligible costs to section 8 and section 14. This emphasis on eligibility, in our view, is

See Comment 36

dispositive. Demolition has been an eligible activity under section 14 from the beginning of the program. Therefore, so long as section 14 is satisfied in this respect, the appropriations law would be satisfied.

However, because the proviso refers to section 14, OIG appears to conclude that the viability standards for modernization administratively adopted by PIH must apply, including the incorporation of provisions contained in PIH's Comprehensive Grant Program Handbook 7485.3, section 6-8.¹ We disagree with this formulation for two reasons. First, as noted above, the statutory issue is one of eligibility and whatever measure of long-term viability may be appropriate for modernization does not intrude on demolition eligibility. Second, because the statute only pegs statutory eligibility under section 14, we do not believe the NOFA need have required a lock-step adherence to the Comprehensive Grant Handbook, or, for that matter, the regulations implementing section 14. Indeed, the NOFA did not adopt these trappings. Instead, it specifically listed as an eligible activity "total or partial demolition of buildings or disposition of property (subject to the requirements of section 18 of the 1937 Act)" (emphasis added).² Section II.C. further required that "each PHA applicant must demolish at least one obsolete building at the targeted development. Applicants must attach a demolition/disposition application, in accordance with 24 CFR Part 970" (emphasis added).³

We note that these spare references are still laden with content. They necessarily involve conformance to the provisions of both section 18 and its regulatory implementation. Moreover, they mirror what already are PIH's existing procedures for the use of modernization funding for demolition. The same Handbook cited in the audit provides at section 4-6 that "eligible costs include the demolition of dwelling units or nondwelling facilities, where the demolition is approved by HUD under 24 CFR Part 970 or 24 CFR Part 905, Subpart M⁴ and related costs"

¹Similar text is contained in section 4-8 of the current Comprehensive Grant Program Guidebook 7485.3 G, which now governs comprehensive grants under section 14. However, this document was not issued until October 3, 1996, subsequent to the funding decisions under review.

²61 FR 38027 (July 22, 1996), Section II.G.1.a.

³Id., at 38025

⁴Part 905 is no longer found in the consolidated CFR. Its provisions, which regulated Indian housing projects, are now contained in Part 950, and will presumably be streamlined, if not deleted, soon as a result of the enactment of the Native American

(emphasis added). Accordingly, even if reliance on the Comprehensive Grant Handbook were applicable, its provisions direct the reader to the standard for demolition at Part 970.

See Comment 37

The draft audit correctly observes that these demolition regulations state that "the Department generally shall not consider a program of modifications to be reasonable if the costs of such program exceed 90 percent of the total development cost (TDC)." See § 970.6(a). As you state in your October 6, 1997, comments⁵ on the audit, these regulations do not make satisfaction of the 90 percent standards a condition of obsolescence. It is a "general" practice that the Department will not consider a program of modifications as reasonable where such costs will exceed 90 percent of TDC. But no statutory or regulatory provision mandates that where the cost is less than 90 percent, the buildings cannot be determined to be obsolete.

Housing Assistance and Self-Determination Act of 1996 (NAHASDA).

⁵At page 3.

OIG Reply to Agency Comments

Comment 1: OPHI stated that there was no funding point until the final review panel assigned the final score. We have revised the wording of this section to reflect with more precision the sequence of events.

Comment 2: OPHI commented that they did not ignore the NOFA eligibility requirements. The NOFA specifies information an applicant was to provide as well as the Exhibit and paragraph in the application that the applicant was to provide the information. Also, the NOFA defined actions the HUD review team should take in response to defects in the application. The OPHI review team detected the lack of information from applicants and located numerous defects in the information provided by the applicants. However, OPHI did not initiate the actions required by the NOFA but initiated alternative responses. We decided to characterize the OPHI alternative actions as ignoring the NOFA.

OPHI commented that they did not change the NOFA requirements. We agree that the NOFA was never changed and the initial NOFA eligibility criteria remained the same throughout the competition. However, the OPHI did modify the means and methods used for screening applications and this had the practical effect of changing the NOFA requirement.

OPHI and OIG continue to disagree about the extent of restrictions the HUD Reform Act imposes on the Department in screening applications. OPHI feels that they have the authority to interpret the NOFA. Conversely, we did not find in the HUD Reform Act or the NOFA any provision authorizing OPHI to interpret the NOFA eligibility requirements. The NOFA requirements were specific as to the eligibility requirements and did not require any interpretation. OPHI's policy for allowing interpretations, in our opinion, undermined the competition. The competition did not determine the applicants to be funded but rather the applicants were selected by OPHI through their interpretations of the NOFA eligibility requirements.

Comment 3: OPHI referred to the risks section of the report as findings. We determined several noncompliance issues during the audit and these issues are the findings and are summarized in the report. Associated with each noncompliance issue is a certain level of materiality and risk. We quantified the materiality and described the risks to give the reader of the report some measure of the extent of noncompliance and the potential impact of the noncompliance.

Comment 4: OPHI stated that the observation concerning the Empowerment Zone-Enterprise Community evaluation factor by OIG as "least responsive" simply reflects that this factor was assigned a low weight. We interpreted the statistic differently. The applicants selected for the awards were either not implementing their HOPE VI programs in coordination with the Department's previously awarded Empowerment Zone-Enterprise Community grants or had not been previously given an Empowerment Zone-Enterprise Community grant. As a result, an the Department lost an opportunity to increase the impact of the renovation of neighborhoods started with the Empowerment Zone-Enterprise Community grant.

OPHI was concerned with the representation being made in the Background section of the report concerning the terminology of budgets and overruns. We agree that the terminology is inappropriate and has revised it to conform with the precise wording in the NOFA.

OIG Comments on OPHI's Response Concerning Finding 1

Comment 5: Paragraph 11.C. of the HOPE VI NOFA states that each PHA applicant must demolish at least one obsolete building at the target development. Obsolete units are 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. Further, paragraph 11.A. of the HOPE VI NOFA states that HUD will determine whether the housing is obsolete based on information provided in Exhibit B (Existing Conditions) of the application. Finally, paragraph V.B. of the NOFA specified the information the applicant needed to provide in order to satisfy the threshold requirement for obsolete housing. The NOFA specified the physical indicators of obsolescence as; the cost of rehabilitation per unit as a percentage of TDC, structural deficiencies, deterioration, design defects, and site defects.

Of the 44 applicants awarded HOPE VI grants, we determined that 31 applicants did not provide the NOFA required information. Exhibit B of the applications failed to demonstrate, for the units to be demolished, that no reasonable program of substantial physical modifications is feasible to return the units to useful life. Consequently, these 31 applicants should have been eliminated from the competition for HOPE VI funds.

OPHI asserts that while a program of modifications costing over 90 percent of TDC is presumptively unreasonable, there is no regulatory statement that modifications under 90 percent are presumptively reasonable and that buildings which can be so modified cannot be found obsolete. OPHI's initial screening work sheet, and the revision screening work sheet and the associated procedure relating to the eligibility requirement on the cost of rehabilitation, specified that the cost of rehabilitation must be 90 percent or more of TDC (see copy on Exhibit L). OPHI's initial screening procedures and subsequent revision do not provide an option to the HUD staff reviewing an application to use a ratio of less than 90 percent of TDC as a basis for meeting this one portion of the eligibility test. The 31 applicants did not meet the 90 percent eligibility test and should have been eliminated from the competition.

Comment 6: OPHI has responded that the applicant did not always need to provide information about the cost of rehabilitation. OPHI insists that HUD recognizes in its everyday application of Section 18 that there are site defects which cannot be cured by the expenditure of funds on a particular building. The PHA is not required to demonstrate that the particular building to be demolished is itself incapable of being renovated for less than 90 percent of TDC. We do not disagree with OPHI concerning the procedures the Department follows in processing applications from PHAs under the Section 18 legislation. However, HUD's normal processing procedures for demolition applications under Section 18 were not universally incorporated into the HOPE VI NOFA. OPHI has specified two specific obsolescence criteria in the HOPE VI NOFA and the criteria are mutually exclusive thereby differentiated from the standard processing of demolition applications under Section 18. To meet the NOFA eligibility requirement, the applicant must independently demonstrate in Exhibit B that the units scheduled for demolition are unusable for housing purposes and no reasonable program of substantial physical modifications is feasible to return the units to useful life. Thirty-one applicants did not demonstrate that no reasonable program of substantial physical modifications is feasible to return their units to useful life and they should have been disqualified from the HOPE VI competition.

Comment 7: OPHI states that their "Fiscal Year 1996 HOPE VI Review Procedures," published August 29, 1996 were not a Handbook as cited in the draft report. We have changed the characterization of the document prepared by OPHI.

Comment 8: OPHI referred to page 7 of the draft report and stated that it was incorrect to indicate that the NOFA referred to 90 percent. We agree with OPHI that the NOFA did not use 90 percent in the wording. The OIG draft report is quoting from the OPHI screening procedure document form number 11. We did

parenthetically refer to the NOFA within the sentence describing the screening procedure to assist the reader of the report to reference the screening procedure to the NOFA criteria. To avoid the inference that the NOFA contains the 90 percent quantification, the parenthetical reference has been deleted. A copy of the screening document identified as form 11 has been attached to the report in Appendix L.

Comment 9: OPHI states that our statement is incorrect concerning the Policy Committee decision to change the NOFA obsolescence requirement for eligibility. OPHI stated that the Policy Committee changed the screening procedure, not the NOFA requirement. The Policy Committee changed the internal screening procedure to say that in order to qualify as obsolete, the units must meet ONE OR MORE of the listed criteria." We have revised the final report to say that the Policy Committee changed the internal screening procedure. However, we will continue to report that OPHI actions resulted in a change to the NOFA requirement because the Policy Committee change to the screening procedure resulted in 31 applicants being determined as eligible for inclusion in the HOPE VI funding competition even though they did not demonstrate in Exhibit B of their application that no reasonable program of substantial modifications is feasible to return the units to useful life.

Comment 10: OPHI stated that their "Fiscal Year 1996 HOPE VI Review Procedures" were drafted by a staff member and contained the requirement that to qualify as obsolete, the cost of rehabilitation had to exceed 90 percent of TDC. OPHI stated in its reply that this screening procedure, as initially drafted, was simply incorrect. We accept OPHI's determination that their management staff did not thoroughly review the document before it was published on August 29, 1996 and was used by the review staff on September 11, 1997 during the first full day of evaluating applications. However, it needs to be emphasized that the screening procedure as initially drafted was consistent with the published NOFA.

Comment 11: OPHI stated that we failed to describe the actual review process. OPHI stated that it relied on its Demolition Processing Centers to provide a independent and more detailed review of the sufficiency of an applicant's showing of obsolescence. The NOFA specified that HUD will determine building obsolescence based on the information in Exhibit B. The Demolition Processing Centers were reviewing Exhibit N of the application. The Demolition Processing Centers review of Exhibit N of the applications are independent of the HUD review team processing of Exhibit B of the applications and cannot be used to supplement the processing of Exhibit B.

OPHI adversely impacted their methods and measures for controlling the processing of applications by relying on the Demolition Processing Centers to supplement the HUD review teams' eligibility review. The Demolition Processing Centers processed the applicants' applications after the HUD review team completed its eligibility screening and determined that applicant met the NOFA's obsolete building eligibility requirement and included the applicants in the competition. The purpose of the eligibility screening was to eliminate applications from the competition and depending on the Demolition Centers to review the applications after the applicants were included in the competition does not meet the purpose of the eligibility screening.

Comment 12: OPHI responded to finding one that every one of the applications either had already been approved for demolition or was accompanied by a demolition application which has since been approved by HUD as complying with Section 18 and no further demonstration from the applicant should be sought. The HOPE VI NOFA's obsolete building eligibility criteria is different from the criteria the applicant must meet for Section 18 regulations in one important aspect. HUD's HOPE VI NOFA required the applicant, in Exhibit B, to demonstrate that the building is unusable for housing purposes because of problems associated with the physical condition, location or other justifiable reasons **and** no reasonable program of substantial physical modification is feasible to return the units to useful life. Using Section 18 regulations, the applicant,

in Exhibit N, could justify demolition based on either one of the two criteria set out in Exhibit B. OPHI is incorrect in its interpretation that the applicant meeting demolition requirements of Section 18 in Exhibit N automatically meets the HOPE VI NOFA obsolete building eligibility criteria in Exhibit B because the HOPE VI NOFA obsolete building eligibility criteria is more extensive than the demolition criteria in Section 18.

Comment 13: OPHI states where the demolition has not yet been approved, the Department's procedures already in place would ensure that the NOFA threshold is met before funding is extended. OPHI sent the Demolition Processing Center Exhibit N of the application. The NOFA required that the HUD review team use the information in Exhibit B to determine whether the applicant demonstrated compliance with the building obsolescence eligibility criteria. Since the Demolition Control Center did not have Exhibit B of the application, the Demolition Processing Center could not determine applicant eligibility.

OIG Comments on OPHI's Response Concerning Finding 2

Comment 14: OIG and OPHI continue to disagree as to the clarity of the NOFA eligibility requirements. OPHI has characterized the NOFA rehabilitation eligibility requirement as not being precise. The NOFA eligibility requirement states that a development was ineligible for HOPE VI funds if the rehabilitation of units remaining after demolition would cost less than 62.5 percent of TDC. The NOFA requirement is stated clearly and without ambiguity.

We strongly disagree with OPHI's characterization of the screening procedure for this rehabilitation eligibility requirement as lacking precision. For every other eligibility requirement in the NOFA, OPHI had established a perfunctory checklist or a detailed work sheet to assist the HUD review team in analyzing the information in the application. OPHI did not design any methods or measures for evaluating the rehabilitation eligibility requirement. OPHI was unable to prevent ineligible applicants from being awarded HOPE VI funds because the system of internal control was not established to detect applicant noncompliance with the NOFA requirement.

Comment 15: OPHI responded that the quoted language misleadingly implies that the Appropriation Act and the NOFA refer to the implementing regulation and Comprehensive Grant Program Handbook. In the final report, the reference to the NOFA and Appropriations Act specifies the language from these sources. A separate sentence describes the implementing regulations and handbook relating to the regulations to assure that the readers of the report understand that the regulations and Handbooks were not specifically cited in the Appropriation Act and NOFA.

Comment 16: We have revised the final report to address OPHI's comment. OPHI states that the paragraph did not specifically exclude non-HUD funds from a determination of a minimum expenditure level. In paragraph 6-8 of the Comprehensive Grant Program Handbook, the HUD computation determines a ratio between sources and uses of funds. In one part of the ratio computation, the use of funds (hard costs) of modernizing the units is determined using exclusively HUD funding. To compute the sources of funds for the ratio, the Department's most recently published TDC for the type and size of units that will be in the project after modernization is combined and averaged. The Department's TDC is based exclusively on HUD funding. We are not asserting that OPHI cannot include non-HUD funds in the computation. However, we strongly disagree with the method being suggested by OPHI. OPHI wants to include the non-HUD costs **only** on the cost side of the ratio. If OPHI wants to include non-HUD funding on the uses or hard cost side of the ratio they need to include non-HUD funds on the sources side or TDC limit side of the equation.

We attempted to do the calculation as requested by OPHI. However, the applicants did not provide a breakdown between hard costs and soft costs to allow for an accurate determination of the non-HUD hard costs. The lack of financial data related to specific budget line items from non-HUD sources is understandable because the applicants' funding commitments from non-HUD sources were not in place when the applicants submitted their applications.

Comment 17: OPHI responded that of the five applications contested, we concede that two, Hollander Ridge and St. Thomas, proposed to expend considerably more than 62.5 percent of TDC on rehabilitation. We did not concede that these two applicants' rehabilitation costs exceeded 62.5 percent of TDC. Our computation of the rehabilitation cost to TDC ratio for St. Thomas was 38.23 percent (See Exhibit H, at page 62), and Hollander Ridge was 58.26 percent (See Appendix H, at page 60).

Comment 18: OPHI responded that their staff could conclude with reasonable certainty that T.B. Watkins and Lamokin Village met the 62.5 percent standard. We reviewed the HUD review team work sheets for these two projects and others. The HUD review team did not have any methods or measures in place for evaluating any application to determine whether the applicant met the NOFA required rehabilitation eligibility standard.

Comment 19: OIG and OPHI continue to disagree about the methodology for evaluating applications. We contend that the HUD staff must compare the information in the application against the requirement specified in the published NOFA to determine applicant eligibility. OPHI insists that OPHI has the authorization to interpret applicant submissions so as to get to the ultimate merits, not throw out as many applications as possible on technicalities. We are concerned that any reasonable individual will justifiably perceive the Department's interpretations of applicant-supplied information as a method for preselecting favored housing agencies for HOPE VI awards.

OIG Comments on OPHI's Response Concerning Finding 3

Comment 20: OPHI concluded that the applicants conducted a public meeting for their demolition application and this was sufficient to meet the NOFA requirement. We disagree with this opinion because the NOFA eligibility requirement required the public to be briefed about the contents of the HOPE VI NOFA and this was not accomplished. As a result, the applicants did not comply with the NOFA eligibility requirement and were not eligible to compete for funding.

Comment 21: OPHI responded to the finding that the applicants did not satisfy the intent of the NOFA for inviting the public to the meeting. It was their opinion that the NOFA was insufficiently precise to support a disqualification on this basis. We did not agree with OPHI's assessment that the NOFA was not precise. The NOFA eligibility criteria states that an applicant must submit evidence that at least one public meeting has been held to notify residents and community members of the proposed activities described in this application. The applicants did not notify community members of the meeting. OPHI cannot pick and choose which eligibility criteria to use. The applicants did not meet this eligibility criteria and the applicants should have been eliminated from the competition.

Comment 22: The draft audit's discussion about the potential adverse effects resulting from the ineligible applicants being funded caused OPHI concern. We are responsible for providing the reader of the report with the amount of risk resulting from any noncompliance and quantifying the materiality of the problem. The effect statements in the report are providing the reader with this information.

OIG Comments on OPHI's Response Concerning Finding 4

Comment 23: paragraph VI.B. of the HOPE VI NOFA states that HUD may select an application for participation in the HOPE VI program but grant an award pursuant to such application in an amount lower than the amount requested by the applicant, or adjust line items in the proposed grant budget within the amount requested, if HUD determines that partial funding is a viable option, **and:** (1) the amount requested for one or more eligible activities is not supported in the application; (2) an activity proposed for funding does not qualify as an eligible activity and can be separated from the budget; (3) the amount requested exceeds the total cost limitation established for a grant; (4) insufficient funds are available to fund the full amount; or (5) providing partial funding will permit HUD to fund one or more additional qualified PHAs.

OPHI claims they complied with both NOFA requirements for reducing applicants' funding requests. We reviewed all the documentation supplied by the OPHI during the audit and the OPHI did not have any work schedules to show that they determined partial funding was a viable option. The OPHI did not prepare any work schedules in the document designed to give HUD review team guidance in evaluating applications.

Our concern is that OPHI funding decisions were not consistent. Some PHAs will need to reduce the scope of their programs while other PHAs will continue to implement the same activities but with funding from undetermined sources.

Comment 24: OPHI disagrees with the portion of the draft finding that states that OPHI did not assure HOPE VI funds were not being used in lieu of other available funds for 12 PHAs. The NOFA required that the applicants provide financial information about the targeted development. The 12 applicants in the report did not provide the required data. The OPHI cannot ascertain the amount of funds available at the targeted development for the 12 applicants and consequently are not able to ascertain the appropriate level of funding needed for the revitalization effort.

OIG Comments on OPHI's Response Concerning Finding 5

Comment 25: OPHI disagreed with our contention that New York's application failed to meet the NOFA requirement of demolishing at least one obsolete building at a targeted development. The NOFA states that the applicant must demolish at least one obsolete building at the targeted development. The New York City Housing Authority identified the targeted development in their application as Arverne Houses. The units scheduled for demolition were identified at a development other than the targeted development. The applicant did not meet the eligibility criteria and should have been eliminated from the competition.

OPHI refers to the revision in the application. The NOFA specifies that an applicant will have no opportunity to provide or supplement the information required in Exhibit B. The NOFA specified that this was a noncurable defect. The application deadline date was at 4 pm on September 10, 1997. The New York application arrived on September 10, 1997 and close to the deadline time of 4 pm. The application submitted by the applicant was the application to be evaluated and any revision submitted after the deadline date and time was not eligible for consideration.

Comment 26: OPHI states that the Ocala Housing Authority's two demolition applications were in hand, and the HUD System Administrator consulted with team captains and decided that the two demolition applications could be combined into one application. OPHI continued that it is difficult to determine how the outcome would have been different, most importantly in light of the fact that all of the applications submitted under Category D were approved, making it irrelevant as to whether or not the application was improved.

Finally, OPHI stated that the applications were received at exactly the same time and not one before the other as stated in the draft report.

The NOFA requirement was that an applicant could only submit one demolition application. The NOFA also defined this type of error as a curable technical defect and provided the method for resolving the defect. The NOFA stated that when the HUD review team identified the defect they were to notify the applicant of the defect and give them 14 calendar days to correct the defect.

OPHI deviated from the NOFA required procedure by correcting the defect in the Ocala application with HUD staff resources instead of providing the applicant with a description of the defect and allowing the applicant to correct the defect. The OPHI noncompliance with the NOFA indicate that the applicants were selected for the awards rather than the awards being competitively determined.

The draft report indicated that the Forest View application was received first and N.H. Jones second. This observation related to the Federal Identification Numbers OPHI assigned to the applications. Forest View was assigned the Federal Identification Number of 81 and N.H. Jones was assigned the Federal Identification number of 89. To clarify for the report reader that the applications were sent in the same package the report will specify that the OPHI numbered each application separately as it removed the applications from the mailing package.

Comment 27: OPHI stated that HUD has a long standing practice of considering "the four corners of the application" when making determinations of fact. To deny funding to an applicant because the requested information was in one section instead of another clearly would be arbitrary and capricious and subject HUD to legal liability and ridicule.

OIG and OPHI continue to strongly disagree over the method for screening applications to determine eligibility. The NOFA specifies that the applicant provide information in a specific exhibit and paragraph to demonstrate eligibility with the eligibility criteria. OPHI policy allows the HUD reviewers to search "the four corners of the application" to determine applicant eligibility. OPHI cannot establish a system of control to assured that each HUD reviewer exercised the same diligence in searching for information in these four corners of the application. However, OPHI can establish a system of control to detect reviewer oversight of applicant information provided in the specific Exhibit and paragraph specified in the NOFA. Consequently, the OPHI practice of searching for information in "the four corners of the application" is resulting in an inequitable and inconsistently screening.

Comment 28: OPHI responded to the draft report that there is no HUD Handbook on OPHI review procedures and the quote from the NOFA was incorrect. OIG and OPHI agree that the Fiscal Year 1996 HOPE VI Review Procedures is not a Handbook and the final report has characterized it as a document. The report has been revised to contain the exact language from the NOFA.

OIG Comments on OPHI's Response Concerning Finding 6

Comment 29: OPHI states that the Chicago noncompetitive application fulfilled HUD's responsibility because the plaintiffs fully support the plans.

The NOFA stated that the applicant was to provide that the funding will fulfill an unsatisfied obligation under the Consent Decree. The application stated that the applicant needed to obtain a waiver from the court before it could begin to construct the new housing. The applicant did not provide HUD with the NOFA required

assurances that the planned new housing construction will fulfill HUD's obligation under the Consent Decree due to the unresolved litigation. In our opinion, HUD should not commit to funding the applicant planned activities until the applicant provides the NOFA required assurances that the planned new housing construction will fulfill HUD's obligation. Otherwise, HUD may fund the \$42 million development and still be required to provide another 350 units.

Comment 30: OPHI stated that the NOFA did not require the Chicago Housing Authority to certify to the effect that 85 percent of the applicants units met Housing quality standards. The NOFA stated that the application must satisfy all of the statutorily mandated requirements of the NOFA. The Applicant plans to construct housing in accordance with Section 5 of the 1937 Housing act. The 1937 Housing Act states that the PHA must be able to certify that 85 percent of the units meet Housing Quality Standards.

Comment 31: OPHI contends that we were recommending that the Chicago Housing Authority be rejected because funding was not provided for support services. However, we did not recommend this action. We reported that the residents at the targeted development wanted a support service component in the HOPE VI plan. The HOPE VI NOFA provides that a PHA may use not more than 20 percent of the funding awarded in each HOPE VI grant for self-sufficiency programs. Consequently, the residents needs were not being addressed in the noncompetitive application.

OIG Comments on OPHI's Response Concerning Finding 7

Comment 32: OPHI responded to the draft report that they were uncertain of the issue being discussed. We are responsible for providing the reader of the report with the amount of risk resulting from any noncompliance and the quantifying the materiality of the problem. The effect statements in the report are attempting to provide the reader with this information.

Comment 33: OPHI was concerned with the method we used in calculating the cost of the program. Our concern is with the number of units that very low-income families will occupy at each project. The 1937 Housing Act, Section 16(a), limits the number of families that are not very low-income to 25 percent of the newly constructed dwelling units becoming available after 1981. Some of the applicants are exceeding this percent. We recognize that the statute probably did not apply to HOPE VI applicants. The purpose of the calculation was to focus attention on the amount of funding directed to a development being used to assist only very low-income families.

Comment 34: We have modified the Recommendation section of the report as a result of events occurring subsequent to the completion of audit field testing and after giving consideration to OPHI comments.

OIG Comments on the Memorandum from the Associate General Counsel

Comment 35: We agree with the OGC statement that the precise language in the Appropriation Act was "eligible expenditures hereunder shall be those expenditures eligible under Section 8 and Section 14". The report has been revised to reflect the exact language in the Appropriation Act. We have not attempted to assert that the demolition activity eligibility was linked to Section 14. The NOFA described the eligibility requirement relating to demolition activities as well as the information needed to demonstrate eligibility and the specific Exhibit in the application that the applicant was to present the evidence to show compliance with the obsolete building criteria. Our audit testing was based on a comparison of applicant supplied information related to the demolition of an obsolete building or buildings in the NOFA designated Exhibit and paragraph against the information required by the HOPE VI NOFA.

The NOFA requirement for eligibility for demolition was described in paragraph II.C. of the HOPE VI NOFA and states demolition is a required component of the HOPE VI program. Each PHA applicant must demolish at least one obsolete building at the targeted development. Obsolete units are 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.

Comment 36: OGC interpreted our comments to conclude that the viability standards for modernization administratively adopted by PIH must apply including the incorporation of provisions contained in PIH's Comprehensive Grant Handbook 7485.3, Section 6-8. OGC disagrees with this formulation. We have not linked the NOFA eligibility requirement with viability standards. We have evaluated applicant eligibility against the NOFA eligibility requirements only.

OGC stated that the statutory issue is one of eligibility and whatever measures of long-term viability may be appropriate for modernization does not intrude on demolition eligibility. We agree with this assertion. We have not included the viability requirements with the requirement for eligibility.

OGC stated that because the statute only pegs statutory eligibility under Section 14, they do not believe the NOFA need have required a lock-step adherence to the Comprehensive Grant Handbook, or for that matter, the regulations implementing Section 14. We agree with the assertion being made by OGC and the draft report did not contain any such linkage. We relied solely on the NOFA eligibility requirements when evaluating applicant eligibility.

We referred to viability of the units only in relation to the adverse effect resulting from the OPHI awarding grants to ineligible applicants. The Appropriation Act states all eligible expenditures hereunder shall be those expenditures eligible under Section 8 and Section 14. The ineligible applicants are, in effect, demolishing units that are viable and this is prohibited by Section 14.

Comment 37: OGC expressed the opinion that no statutory or regulatory provision mandates that where the cost is less than 90 percent, the buildings cannot be determined to be obsolete. We have never indicated in the draft report or discussions that they disagree with the Department's policy. We examined Exhibit B of each applicant application to determine whether the applicant provided the information required by the NOFA to demonstrate eligibility. The 31 applicants did not demonstrate they met the eligibility requirements prescribed in the NOFA.

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