



U.S. Department of Housing and Urban Development  
Houston Field Office, Region VI  
Office of Community Planning & Development  
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DEC 31 2013

Mr. Neal Rackleff, Director  
City of Houston  
Housing and Community Development Department  
601 Sawyer Street, Suite 400  
Houston, TX 77007

REF: 28608  
RECEIVED  
JAN 08 2014  
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Dear Mr. Rackleff:

SUBJECT: End of Year Assessment for Program Year (PY) 2012  
July 1, 2012 through June 30, 2013

The Housing and Community Development Act of 1974, as amended, and the National Affordable Housing Act of 1990, require that grant recipients submit annual performance reports for the programs covered under these Acts. The Acts require the Secretary of Housing and Urban Development (HUD) to determine annually that the grant recipient is in compliance with these statutes, and has the continuing capacity to carry out the programs for which it receives funds. One of the tools used to conduct the City's assessment is the City's Consolidated Annual Performance and Evaluation Report (CAPER). The City's CAPER was received in our office on September 27, 2013. The report was timely and received within the 90 days of the end of the City's program year in accordance with 24 CFR 91.520(a).

The City of Houston received \$24,227,493 in Community Development Block Grant (CDBG) funds, \$7,867,615 in HOME Investment Partnerships (HOME) Program funds, \$2,367,794 in Emergency Solutions Grant (ESG) funds, and \$7,572,952 Housing Opportunities for Persons with Aids (HOPWA) funds in Program Year 2012. The City received \$13,542,193 in Neighborhood Stabilization Program (NSP1) funds, \$8,093,613 in Community Development Grant Recovery (CDBG-R) funds and \$12,375,861 in Homelessness Prevention and Rapid Re-housing (HPRP) funds in Program Year 2009 from HUD. Houston was also awarded \$3,389,035 in NSP3 funds. Program Year 2012 was the third year of the City's five year, July 1, 2010 through June 30, 2015, Consolidated Plan. This is HUD's assessment regarding the use of the funds.

Our review includes an analysis of the City's planning process; its management of funds; progress in carrying out the strategies and goals expressed in the Consolidated Plan; compliance with statutory and regulatory requirements; accuracy of required performance reports; and evaluation of its accomplishments in meeting key departmental objectives. Our end of year assessment is directed not only toward meeting the mandates of the statutes but to provide the basis for working together collaboratively to achieve the goals of the community as well.



In addition to the end of year evaluation, based on the City's submitted CAPER, the City of Houston's HOME program was monitored in August of 2013. A grantee is selected for monitoring based on a number of factors including the amount of its HUD funding, the number of projects it is under taking, and the last time the grantee or grant was monitored. The monitoring allows HUD to conduct an onsite review to ensure compliance with applicable regulations, statutes and program requirements and to provide technical assistance as needed. The initial report was issued to the City on September 30, 2013 and included a total of six findings and four concerns. A finding is a deficiency in the program's performance based on statutory or regulatory requirements for which sanctions or other corrective actions are authorized. A concern is a deficiency in the program's performance that is not based on a statutory or regulatory requirement. The City was able to close one finding during the monitoring visit and has sent responsive information to address the balance of the findings. The documentation is currently under review and a response will be provided under separate cover. The HOME, NSP and CDBG programs were monitored in 2012 and nineteen findings remain open. Finding M11003 remains open from the 2011 CDBG monitoring. From the 2008 HOME and CDBG monitoring the following findings remain open: M8016, M8020, M8024, M8026, M8027, M8032 and M8038. Two findings from 2008, M8002 and M8003, were closed in November of 2013.

The CAPER is reviewed in conjunction with the Office of Fair Housing and Equal Opportunity (FHEO) to determine compliance with Title VI of the Civil Rights Acts of 1964, the Fair Housing Act, Executive Order 11603, the Age Discrimination Act of 1975, Section 3 of the Housing and Urban Development Act of 1968 and all regulations promulgated under such statutes and authorities. As of this review, the City needs to provide an update on the progress of its Analysis of Impediments and the anticipated completion date. In addition, the City should identify what site and neighborhood reviews were conducted for the new multifamily construction projects and also whether or not all the projects undertaken met Section 504 accessibility requirements in all public areas. The information is requested as part of the performance review identified at 24 CFR 91.525(a) and to ensure compliance with 24 CFR 91.1. The information should be included in future CAPERs as well.

The 2012 objectives, reflected in the five year consolidated plan, that were identified as priorities included but were not limited to: providing and expanding the supply of safe, decent, and affordable housing through rehabilitation of existing residential property and the development of new residential property for low to moderate income persons. Additional goals were providing and expanding homeownership opportunities, reducing the number of units containing lead based paint, and promoting the health and well being of city residents through the provision of public and supportive services. Improved economic opportunities were to be provided via funding of educational programs and assistance to small business owners. Houston conducted its projects on a city wide basis with focus on low to moderate income areas. The City assesses percentage of low to moderate income residents utilizing census tract and block group information.

Houston had a variety of specific objectives to achieve during the program year. While not all goals were met, staff was able to identify areas of improvement and corrective actions to improve performance in future program years. The City exceeded its goals in reducing the exposure to lead based paint in homes, increasing the number of affordable rental units, and providing job services to low and moderate income persons. In addition the City exceeded its



goals in providing youth, health, public and elderly services. The public service objectives were achieved using CDBG funds and included programs such as the Mayor's After School Achievement Program, Houston Public Library Mobile Express and Chronic Disease Prevention and Community-Based Mental Health Services programs. Congratulations to the Community Development Department staff and its partners on exceeding many of your goals.

In efforts to address homelessness, the City uses CDBG, ESG and HOPWA funds. CDBG funds are used to assist with educating and housing homeless individuals through Project Access. HOPWA funding provides housing and services for those living with HIV and AIDS. The funds were awarded to fourteen agencies in the Houston area. The City's Emergency Solutions Grant funded fourteen providers throughout the Houston area including transitional housing and shelters. As a member of the Continuum of Care, which includes homeless providers within Harris and Fort Bend County and led by the Coalition for the Homeless, Houston is an active participant in planning and service coordination meetings to increase capacity to permanently house people to reduce homelessness in the community.

Our analysis of the City's performance, as reported in the CAPER, indicated overall timeliness in carrying out the eligible entitlement program activities and an overall benefit to low and moderate income persons that met the CDBG 70 percent statutory requirement. A review of Houston's Integrated Disbursement and Information System (IDIS) report reflecting public benefit, CDBG Financial Summary Report (PR26) for PY2012, as of September 5, 2013, indicates the funds the City expended during the program year benefitted 98.78% low to moderate income residents. In addition the report shows that the percent of funds obligated for public service activities was 13.21% of the grant amount, and the percent of funds obligated for administration and planning was 16.36% of the grant. Both percentages were within the allowable limits of 15% and 20% respectively. The PR26 however, does not reflect a low/mod benefit for the multi-year certification. The document was compared to the CDBG certification provided with the City's 2012 Annual Action Plan which showed that the City would aggregate use of the CDBG funds during program years 2011, 2012 and 2013. Please ensure that future PR26 documents accurately reflect the cumulative benefit.

Timeliness of the CDBG funds disbursement was also assessed based on a review of the CDBG timeliness (PR56) report. Houston met its CDBG timeliness test. HUD regulation at 24 CFR 570.902 requires CDBG grantees to spend their funds in a timely manner. A grantee is considered timely, if 60 days prior to the end of their program year, the balance of grant funds in its line of credit does not exceed 1.5 times the annual grant. Houston met its timeliness ratio for PY 2012 with a 1.44 on May 2, 2013. As of November 29, 2013, the City has a timeliness ratio of 1.87 and will need to draw \$8,710,662 by May 2, 2014 to meet its PY 2013 timeliness test, based on the remainder of its prior year funds balance and the FY2013 allocation. In addition, HOME deadline compliance was reviewed. The City's deadline for its 2011 HOME Commitment and 2011 CHDO Reservation was September 30, 2013 and the 2008 Disbursement deadline was July 31, 2013. A participating jurisdiction (PJ) has a 24 month period after the last day of the month in which HUD notifies the PJ of HUD's execution of the HOME Investment Partnerships Grant Agreement in which to commit and reserve HOME funds. A PJ has five years to disburse the funds. Houston was able to meet its reservation and disbursement deadlines in a timely manner. The Deadline Compliance report as of September 30, 2013 reflected a commitment shortfall of \$706,211. The City provided documentation reflecting a legally



binding agreement that had been entered into prior to the commitment deadline but was not entered into IDIS due to a system issue. The City also successfully met its fund disbursement deadlines for HOPWA, ESG, HPRP, CDBG-R and NSP1 funded activities. Houston is congratulated for meeting these goals.

The City's IDIS PR03 CDBG Activity Summary Report (GPR) for Program Year 2012 was reviewed. As of November 12, 2013 a total of 179 projects were listed on the report. Of the 179, 106 were in a completed status. There are ten projects that are in an open status with 100% of the funds drawn. The activity numbers for those projects are: 2, 8596, 8962, 10587, 10722, 11094, 11095, 11100, 11336 and 11396. The remaining 63 activities are in an open status with partial funds drawn. The City must take immediate action to update the identified open activities with all funds drawn and correctly place them in a completed status. Of the remaining open activities on the PR03 with funding prior to 2012, Houston should review the activities and determine whether or not the projects should proceed or be canceled. If an activity does not proceed, staff should review the information and follow its policies for addressing the funds. While the PR03 is being reviewed, staff should review activities on the report and ensure that the accomplishment narrative supports the identified national objective and accomplishments reported. For example, IDIS activity 8554 shows a job was created however the narrative states that no jobs were created. Our review identified the following sample of activities with questionable narratives and national objectives: 8554, 8557, 8790, 8991, 9369, 9374, 9989 and 10014. Please review the activities and ensure that a national objective was met and if a national objective was not met, the City will need to take appropriate corrective action. It is imperative that the City ensure its project and activity information is up to date in IDIS as future CAPERs will be reported directly from IDIS accomplishment data. More information is available in the Consolidated Plan Manual located on HUD's website at the following address:  
[http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/comm\\_planning/about/conplan/cp\\_idis](http://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/about/conplan/cp_idis)

As an ongoing reminder to the City, effective January 1, 2011, HUD implemented an important change in the treatment of HOME activities with commitments in IDIS. Any HOME activities in IDIS that are over 12 months old with no funds disbursed will be automatically canceled by HUD and the funds uncommitted. The cancellation process is documented in the HUD HOME FACTS – volume 3, number 1 dated June 2010. The HOME FACTS is available on the HUD website at: <http://www.hud.gov/offices/cpd/affordablehousing/library/homefacts/volumes/vol3no1.cfm> Under this change, activities that have been cancelled in IDIS can be re-opened by the jurisdiction. Activities that are not going to continue should be closed with appropriate accomplishment data and the funds de-obligated. Additionally, the HOME final rule at 24 CFR 92.502(d) (1) requires PJs to enter project completion data into IDIS within 120 days of making a final draw for a project. The City must continue to review the HOME Open Activities report available on the HUD website as well as their IDIS activities to ensure that the HOME funded activities are updated timely.

As a result of this office's assessment and the information provided in the PY 2012 CAPER, the following has been determined: the City carried out its program substantially as described in its Consolidated and Annual Action Plan submission, the Consolidated Plan submission, as implemented, complies with the programmatic requirements of the Housing and Community Development Act and other applicable laws and regulations, and the City has the continuing capacity to carry out the approved program in a timely manner. Concern remains regarding the

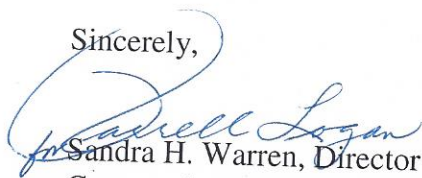
City's financial reporting. As discussed in the prior year assessment letters dating back to 2008, the financial review of past CAPERs is proceeding slowing. The 2008 and 2009 CAPERs are pending loan portfolio resolution. The review of the 2010 CAPER is underway and the 2011 and 2012 CAPER financial reviews will begin when the prior year's CAPERs are fully reconciled.

This letter is to be shared with the public. You may provide copies to interested persons such as news media, members of local advisory committees, and citizens attending public hearings. We request that you also provide a copy of this letter to the Independent Public Accountant who performs the single audit of the City of Houston in accordance with OMB Circular A-133 Audits of States, Local Governments and Non-Profit Organizations. OMB Circular A-133 requires Federal award recipients to have independent audits performed if they expend \$500,000 or more in Federal funds during their fiscal year. Deloitte and Touche, L.L.P. conducted the audit for the City and it identified two findings that were either directly or indirectly related to Houston's Federally funded HUD programs. Both findings were resolved in May of 2013.

Please recognize that the comments and conclusions made in this letter are subject to a 30 day review and comment period by the City. We may revise this letter after consideration of Houston's views, and will make the letter, the City's comments, and any revisions available to the public within 30 days after receipt of the comments. Absent any comments by the City, this will be considered the final letter on this subject.

We congratulate you on your community's efforts and accomplishments during this past year. If you have any questions please let me know or contact Christine Cuddeback, Community Planning and Development Representative, at 713-718-3117.

Sincerely,

A handwritten signature in cursive script, appearing to read "Sandra H. Warren".

Sandra H. Warren, Director  
Community Planning and Development