



U.S. Department of Housing and Urban Development
Houston Field Office, Region VI
Office of Community Planning & Development
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NOV 24 2015

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

REF: 30142
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Dear Mr. Rackleff:

SUBJECT: End of Year Assessment for Program Year (PY) 2014
July 1, 2014 through June 30, 2015

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 documents used to conduct the assessment is the Consolidated Annual Performance and Evaluation Report (CAPER). Houston's CAPER was officially received electronically through the Integrated Disbursement and Information Systems (IDIS) eCon Planning Suite on September 25, 2015. The report was timely and received within 90 days of the end of the City's program year in accordance with 24 CFR 91.520(a).

The 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 revitalization goals of the community as well. It includes an analysis of the City's planning process, its management of funds and its progress in carrying out the strategies and goals identified in the Consolidated Plan. Compliance with statutory and regulatory requirements, accuracy of required performance reports and evaluation of accomplishments in meeting key departmental objectives is evaluated. The CAPER is also reviewed in conjunction with the Office of Fair Housing and Equal Opportunity (FHEO) to confirm there are no issues of noncompliance with Title VI of the Civil Rights Act of 1964, the Fair Housing Act, Executive Order 11063, the Age Discrimination Act of 1975 and Section 3 of the Housing and Urban Development Act of 1968 and all regulations promulgated under such statutes and authorities. A copy of the FHEO comments is enclosed with this letter.

In addition to the end of year evaluation based on the CAPER, another method of grantee assessment is monitoring. 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 undertaking, 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. 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 of Houston's Community Development Block Grant (CDBG), Home Investment Partnerships (HOME) program and Housing Opportunities for Persons with AIDS (HOPWA) grant were monitored in August of 2015. Two findings and no concerns were revealed. Houston was able to close one of the findings prior to the issuance of the monitoring report on September 30, 2015.

As of this letter, the City has the following open findings, which they have submitted documentation to address. The reviews and responses to the documentation will be provided under separate cover.

- 2015
 - Finding Number M15002: Lack of detailed policies and procedures related to processing of HOPWA program income.
- 2014
 - Finding M14002: The City failed to ensure that the number of jobs created were commensurate to the amount of assistance provided to the businesses in accordance with the regulations. For activities that failed to create jobs or the appropriate number of jobs, national objectives were changed inappropriately, without proper justification and documentation.
- 2012
 - Finding Number M12006: Program Guidelines in the Inspection of Properties Receiving Homebuyer Assistance is Not Followed. This is a repeat finding from 2008 monitoring.
 - Finding Number M12007: City does not review the HUD -1 prior to funding to ensure all cost paid were eligible.
 - Finding Number M12010: Funds were committed to projects before Request for Release of Funds (RROF) was approved by the Houston Field Office.
 - Finding Number M12011: The City undertook choice limiting actions for the Irvington Court Apartments (IDIS 10332) before an Environmental Review was prepared.
 - Finding Number M12012: The City is not conducting Cost Reasonableness review to ensure what is paid with federal funds is supported by appraisals and eligible for rental projects. This is a repeat finding from 2001, 2004 and 2008 monitoring.
 - Finding Number M12013: For newly constructed rental projects, the City did not have documentation in the files reviewed that the Model Energy Code was met.
 - Finding Number M12014: The City is not conducting final inspection to ensure that at completion all property standards were met for rental projects. This is a repeat finding from 2008.
 - Finding Number M12015: The City committed funds to rental projects reviewed before an Authority to Proceed or site selection standards was issued by HUD.

- Finding Number M12016: The City does not have documentation in the files that the Section 504 accessibility requirements were met in rental projects. This is a repeat finding from 2004 and 2008.
- Finding Number M12017: The City over subsidized a developer that lead to windfall profits for IDIS 10332, did not reimburse just for eligible cost and lots of cost were not reasonable. This is a repeat finding from 2008 monitoring.
- Finding Number M12019: Failure to demonstrate that each single-family assisted rehabilitation activity met the requirements for occupancy by low-and moderate-income households.
- Finding Number M12020: Discrepancies between IDIS PR03 Report and the City's in-house reports referred to as FY2009 SFHR CDBG Go-Forward (Tier I) Production (7/1/08-6/30/09), FY2009 SFHR CDBG Go-Forward (Tier II) Production (7/1/08-6/30/09) FY2009 SFHR CDBG Go-Forward (Tier III) Production (7/1/08-6/30/09)
- Finding Number M12021: Single-Family Program project files were not accessible during this review

For Program Year 2014, the City received \$22,747,420 in CDBG funds, \$7,213,965 in HOME funds, \$10,893,817 in HOPWA funds and \$1,926,568 in Emergency Solutions Grant (ESG) funds. In Program Year 2009, the City received \$13,542,193 in Neighborhood Stabilization Program (NSP1) funds and in Program Year 2011 received \$3,389,035 in NSP3 funds. Program Income was generated in the amount of \$2,371,394.27 for the CDBG program and \$348,036 for the HOME program. To date, NSP1 has generated \$285,405.48 and NSP3 has generated \$915,115.45 in program income. Program Year 2014 was the fifth and final year of the City's five year, July 1, 2010 through June 30, 2015, Consolidated Plan.

In concert with the CAPER, a number of IDIS based reports are reviewed to validate the information. The reports include but are not limited to the CDBG Activity Summary Report (GPR) for the Program Year 2014 (PR03), the CBDG Financial Summary Report (PR26), the 60 day Ratio Report (PR56) and the HOME Deadline Compliance Status Report. HOPWA reports include the HOPWA Timeliness Dashboard (PR88) and the HOPWA Performance Profile – Formula Grantee (PR90). ESG reports include ESG Financial Summary (PR91) and ESG Risk Status Recipient Report (PR93). Quarterly Performance Reports (QPR) were reviewed for the NSP program. These documents reflect whether or not a grantee is spending timely and meeting regulatory and statutory requirements.

The PR03 report provides details of the CDBG activities undertaken by the City during the program year. The information includes details of projects/activities, the amount of funding allocated per project/activity and how much has been spend and how many have benefitted from the activity. A review of the 403 page PR03 as of November 18, 2015 showed that of the 292 activities in progress during the year, three were canceled, 253 were completed and 36 were underway with progress noted in the comments. As a reminder, staff should review open activities on the PR03 with funding prior to 2014 and determine whether or not the projects should proceed or be canceled. This review can be done in conjunction with the CDBG Activities at Risk Dashboard report (PR59). If an activity does not proceed, staff should review the information and follow its policies for addressing the funds.

As discussed in prior year assessment letters dating back to 2008, the financial review of past CAPERs was proceeding slowly due to loan portfolio issues. For outstanding loans, the City needs to identify the current status of the loans and whether or not a national objective was achieved. Loans that fail to achieve a national objective will be deemed ineligible activities and may require the City to reimburse the respective grant for that amount. On a positive note, the PR03 review reflected updates and resolution of many of the previously identified economic development loan issues. The remaining outstanding loans must be resolved before the CAPERs can be fully reconciled.

The PR26 report reflects CDBG spending during the program year including the percentage of funds benefitting low to moderate income residents and obligated for public services and administration and planning activities. The statutory requirement for overall benefit to low- and moderate-income persons is 70 percent. Houston's PR26, as of September 17, 2015, reflected a 100% benefit to low-and moderate-income persons. The percentage of funds obligated for public service activities was 16.33% of the grant amount, and the percentage of funds obligated for administration and planning were 19.31% of the grant amount. By regulation, the standard allowable limits are 15% and 20% respectively, however, Houston is allowed a maximum public service cap of 16.77%. Since 1979, there has been a statutory limitation for the CDBG program on the percentage of any grant that may be used for eligible public service activities. In 1983, the limitation was increased from 10 percent to 15 percent. However, a recipient which obligated more than 15 percent of its grant funds from Federal Fiscal year 1982 or 1983 appropriations is allowed to obligate more than 15 percent of its grant for public services so long as the amount obligated in any program year does not exceed the percentage or the amount obligated in Federal fiscal year 1982 or 1983, whichever method of calculation yields the higher amount, therefore, Houston's public service cap is 16.77%.

The PR56 report documents timeliness of a CDBG grantee. 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. A review of the PR56 reflected that Houston met its timeliness ratio for Program Year 2014 with a 1.42 ratio on May 2, 2015. The City's next timeliness test is May 2, 2016.

The HOME Deadline Compliance Status report documents compliance with the two year commitment and Community Housing and Development Organizations (CHDO) reservation requirements of the HOME statute and the five year expenditure requirements of the HOME regulations. The City was able to meet its 2013 HOME Commitments, 2013 CHDO Reservations and 2010 HOME Disbursements deadlines as reflected on the HOME Deadline Report. The commitment and reservation deadlines were met as of August 31, 2015 and the disbursement deadline was met as of the July 31, 2015 deadline.

The PR88 and PR90 reflect timeliness and performance of the HOPWA program. Houston has been timely spending their HOPWA funds. The performance report reflects the City's goal achievements. The report reflects that the housing assistance was approximately 72% of the expenditures while supportive services accounted for 20%. The remaining 8% of the funds were utilized for administrative expenses.

The PR91 and PR93 document the financial summary and the risk status of the ESG program. ESG funds are being coordinated by three entities: Coalition for the Homeless of Houston/Harris County, the City of Houston and Child Care Council of Greater Houston. As of November 9, 2015, the City had approximately 20% of its 2014 ESG grant remaining to commit to activities. Houston is reminded that 100% of the ESG allocation must be expended by July 17, 2016.

The NSP QPRs in concert with the approved NSP action plans reflect the accomplishments to date for both grants. Both original grant allocations were fully expended on program eligible activities which included an apartment building renovation and single family new home construction. The grants are now generating program income which is being used to fund additional housing activities. NSP1 provided apartments for 119 renters and over 70 new homes for buyers. NSP3 to date has provided over 26 new housing units and more are underway.

Highlights of areas where the City exceeded its goals during the program year:

- Reduction of exposure to lead hazards
- Improvement of neighborhood facilities
- Code enforcement
- Tenant based rental assistance
- Homelessness prevention
- Services for persons with AIDS and HIV
- Elderly services
- Job services for persons with disabilities
- Youth services

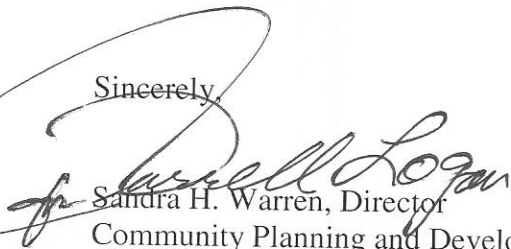
As a result of this office's assessment and the information provided in the PY 2014 CAPER, the following has been determined: the City carried out its program substantially as described in its Consolidated and Annual Action Plan submissions, the Consolidated Plan submission, as implemented, complies with the requirements of the Housing and Community Development Act and other applicable laws and regulations, and the City has the continuing capacity to carry out its approved programs in a timely manner.

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.

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. Upon final approval, the CAPER will be available to the public on the HUD Exchange at: <https://www.hudexchange.info/consolidated-plan/con-plans-aaps-capers/>.

Congratulations to the City, the Housing and Community Development Department staff and its partners on a very successful 2014 program year. If you have any questions please let me know or contact Christine Cuddeback, Senior Community Planning and Development Representative, at 713-718-3117.

Sincerely,

A large, stylized handwritten signature in black ink, appearing to read "Russell Logan". The signature is written over the typed name and title.

Sandra H. Warren, Director
Community Planning and Development

Enclosure



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MEMORANDUM FOR: Sandra H. Warren, Director, Community Planning and
Development, 6ED
FROM: Christina Lewis, Director, Houston FHEO, 6EES
DATE: October 20, 2015
SUBJECT: CAPER Review
City of Houston

We have reviewed the subject documents in accordance with 24 CFR Part 91.520(a) and had the following concerns:

- There was no indication that funding was authorized or disbursed for Fair Housing activities during the program year. §570.206(c) authorizes the use of administrative funds for fair housing enforcement, education, and outreach. Please indicate whether Fair Housing activities required the expenditure of funds.
- Please indicate if the venue where the public meetings were held were accessible for persons with disabilities (24 CFR 91.105 (a) (2) (ii).
- Please indicate if there were translators available at the public meetings for persons with Limited English Proficiency (24 CFR 91.105 (a) (2) (ii).

If you have any questions regarding this review, please contact Glenda Shepherd at (713) 718-3184.