



CITY OF HOUSTON

Housing & Community Development Department

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Mark Havens
Texas General Land Office
1700 North Congress Avenue
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November 15, 2019

Dear Mr. Havens:

This letter responds to the updated Texas General Land Office initial capacity and performance review for the City of Houston's grant activities for recovery from Hurricane Harvey.

We look forward to scheduling a meeting with your team during the week of November 18, either here in Houston or in Austin, to discuss these important issues, along with any details raised in the review or our response. Kennisha London will follow up with your team to make arrangements for the meeting.

Very truly yours,

Tom McCasland

Tom McCasland

Background

Since March of 2018, the City of Houston, Harris County, Texas General Land Office (GLO), and the U.S. Department of Housing and Urban Development (HUD) have operated under the terms of an [agreement](#) for the administration of Harvey recovery funds that acknowledges the importance of local control over recovery from such a significant storm. The City of Houston is a sub-grantee of the State of Texas for almost \$1.3 billion in housing recovery funds.

The spirit of the agreement reflects [guidance](#) from HUD that recovery is a “shared commitment and responsibility” among state, local, and federal jurisdictions. The City has been respectful of the agreement and sought a collaborative, positive working relationship with partners at the County, GLO, and HUD. We need each other to be successful.

In that spirit, from October 14 – 18 and again from November 4 – 7, HCDD welcomed GLO into our offices for routine reviews. As HUD’s primary grantee for Harvey recovery, GLO’s role is to ensure that the City meets minimum HUD standards for program administration and to administer the reporting requirements of the grant on the City’s behalf; it is not to evaluate or influence the City’s policy choices about its approach to disaster recovery.

The City’s recovery program has equity at its core. It is the policy of the City of Houston to serve those who are usually left behind after a disaster: people with low incomes, the elderly, and people with disabilities. This commitment reflects a reality that disasters exacerbate pre-existing wealth gaps. In our region, researchers have shown that the [black-white wealth gap attributable to natural disasters was \\$87,000](#) in the period 1999 – 2013 (predating storms in 2015, 2016, and 2018). Our approach is intended to address this policy challenge.

In fact, from 2016 to 2018, our Department initiated an emergency program with local funds to repair more than 700 homes that *still* had blue tarps on their roofs from Hurricane Ike in 2008. These homeowners never qualified for Ike funding, which the State sought to redirect away from the most heavily impacted areas in the Houston region. The resulting delays in federal funding have had long-lasting consequences in Houston.

After Harvey, the City's Homeowner Assistance Program launched its outreach efforts in January 2019, just two weeks after signing the grant agreement with the State of Texas. In April 2019, the program repaired its first homes. After making changes in staff and key contractors to address the program's pace and performance in July 2019, the Department has embarked on a whole-of-department surge to ensure the success of this program.

At the same time, HCDD is underwriting a record number of high-quality multifamily developments that will put more than 1,600 affordable rental apartments on the ground within 3 years. The Harvey Homebuyer Assistance Program is on pace to help 700 Houstonians affected by Harvey become homeowners. Several additional programs for economic revitalization and multifamily buyout will launch in the coming months.

Our Department is going above and beyond to make sure these programs are successful – that they meet the unmet housing needs of Houstonians affected by Harvey, while stewarding taxpayer resources in a responsible way. We need the GLO to be our strong partner in this effort. “Reviews” that are based on assumptions and vague assertions without evidence are not helpful in our shared mission. We hope that through an upcoming in-person meeting, we can reset our working relationship to achieve the Harvey recovery Houstonians expect.

Financial Management

Per our grant agreement, the City should submit Requests for Payment (RFP) on a quarterly basis. The GLO's review affirms that the City is submitting quarterly RFPs. However, HCDD is facing challenges in timely payment processing by GLO because GLO has not loaded the City's budgets into its TIGR system.

Setting up budget line items in TIGR is a key GLO responsibility in administering the City's grant. HCDD has submitted \$506,423.83 in Requests for Payment in Q4 2019. Seventy-three percent of this amount (\$371,329.03) cannot be processed until GLO creates budgets in TIGR. An additional \$1,531,087.75 will be submitted to GLO in November 2019, which similarly does not yet have a budget line item in TIGR.

There are two outstanding Requests for Information (RFI) for HCDD's two RFPs for Q2 and Q3 2019. HCDD has submitted responses for all issues raised in RFI #1 and is now waiting for GLO to process the request and release the reimbursement. HCDD is reviewing RFI #2 and reconciling project delivery and administration costs. Administrative staff time will be submitted for reimbursement in the December RFP.

As HUD's direct grantee, it is GLO's responsibility to correctly report on the City's expenditures to HUD through HUD's Disaster Recovery Grant Reporting (DRGR) system, including identifying expenses as benefiting low- to moderate-income individuals (LMI) or meeting an urgent need (UN) national objective. GLO receives 2.5% of the City's sub-grant award, or \$30 million, for administrative costs, including DRGR reporting. HCDD is meeting its obligations to identify every applicant as LMI or UN in its submissions to GLO for eligibility review. It is GLO's responsibility to report this information in DRGR.

To increase the frequency of draw submissions, HCDD has increased the size of its Draw Submission Team within the Finance Division from one to three staff members. Going forward, HCDD will go above the requirements of the grant to submit monthly draw requests for administrative, planning, program, and activity delivery expenditures. We anticipate an additional \$353,178.00 in program expenditures will be submitted by the end of November 2019.

Procurement Process

The City has hired Deloitte to review the financial and cash flow impact of Harvey. An additional task order for Deloitte to review HCDD's procurement files to ensure compliance with federal, state and local requirements will be executed by November 22, 2019.

Additionally, despite significant disagreement between our offices about the appropriate legal interpretation of federal requirements for procurement of the Master Program Manager, the City agreed to adopt GLO's interpretation and reissue the procurement, significantly slowing down the contractor's work on behalf of homeowners. This an example of the City's willingness to work with the GLO and to compromise in the interest of our shared administration of recovery.

Comprehensive Website

The City's dedicated housing recovery website at <http://recovery.houstontx.gov> meets and exceeds the requirements of Federal Register/Vol. 83, No. 28. In fact, HUD described the City's recovery website as "cutting edge" during its November 6, 2019 monitoring visit review in which GLO participated. An updated Website Development, Content and Maintenance Policy is currently under review and will be finalized by November 22, 2019.

Duplication of Benefits

The City's Legal Department is reviewing the Standard Operating Procedure for Duplication of Benefits (DOB) against federal mandates to assess any outstanding DOB risks. If warranted, HCDD will revise its DOB Procedure.

Fraud, Waste and Abuse

HCDD takes seriously federal requirements to promote transparency and oversight. The Department recently hired an internal, independent auditor whose primary role is to review all components of our department to identify fraud, waste and abuse across all funding sources.

In addition, per HCDD's CDBG-DR 2017 Monitoring Plan, the Operations and Compliance Risk Division Compliance/Technical Support Section currently acts as an independent resource for the identification of potential fraud, waste and abuse. The Division takes a proactive approach to identifying, detecting, and reporting fraud. See below.

HCDD maintains reporting tools and tracking logs for fraud, waste, and abuse. GLO did not request to see such records during its review. If GLO had sought these records, we would have been pleased to share examples of how the Department's proactive approach is working to detect fraud. In a November 4, 2019 letter from the City of Houston's Inspector General, Robin E. Curtis praised the HCDD team for "quick action to avoid the loss of any funds" and "good work

in catching this attempted applicant fraud and removing the applicant from the program.”

HCDD’s policy and practice is to report all suspicions of fraud, waste and abuse to both the City’s and HUD’s Office of the Inspector General (OIG). We are reviewing the Standard Operating Procedure to ensure that it aligns with this policy.

SECTION 1. Compliance Monitoring Objectives

Compliance monitoring is an integral management control technique and HUD required standard. It is an ongoing process assessing the quality of a program participant’s performance over a period. Compliance monitoring provides information about program participants critical for making informed judgments about program effectiveness and management efficiency. **It also helps identify instances of fraud, waste and abuse.** It is one of the means by which the department:

- A. Ensures projects/programs and technical areas are carried out efficiently, effectively and in compliance with applicable laws, regulations and contractual requirements
- C. Indicates a description of compliance monitoring standards and procedures that are enough to ensure program requirements, including an analysis for duplication of benefits, are met and that provide for continual quality assurance and program oversight
- D. Provides technical assistance to and assists program recipients in improving their performance
- E. Documents and maintains records of compliance monitoring as a compliance requirement of HUD

Harvey Homeowner Assistance Program

The City’s Harvey Homeowner Assistance Program (HoAP) diverges from the State’s approach in key ways. The City’s program prioritizes historically marginalized residents. And it allows low-income homeowners with small households to rebuild three-bedroom homes if their homes must be entirely rebuilt for safety and health reasons.

In HUD’s eyes, these are acceptable policy and programmatic choices. But GLO imposes additional requirements on the City that go beyond HUD’s minimum standards. It is GLO’s responsibility to provide clarity about its additional requirements and how the City should meet them. Our offices have coordinated closely over the last several months through regular calls and meetings to clarify requirements for HoAP. We appreciate this close coordination, while acknowledging that the lack of clarity contributed to program slow-downs in the critical months of July, August, and September. With increased clarity and agreement between our offices, we are pleased to see the program accelerating.

With staff changes and a move away from a Master Program Manager model in June 2019, HoAP has undertaken significant efforts in the last four months to improve the quantity, quality, and pace of its processing of HoAP applications. We believe that catching potential obstacles early, being honest about areas for improvement, and working diligently to address any issues raised by GLO have put us on the right path to successfully administer the program within the terms of the grant agreement.

We are focused on four key areas to improve program performance:

- **Eligibility Review** – Each HoAP application has 300 pieces of data, many of which go beyond HUD minimum requirements, that must be verified during the eligibility phase. Improving eligibility improves the quality and speed of downstream processes that depend on this data. Over the past four weeks, eligibility approved an average of 32.75 files per week and is on track to reach 50 files per week by the end of this year.
- **Staff and Workflow Streamlining** – In August, HCDD initiated an overhaul of the staffing plan to align with system processes and streamline key functions. With these changes, the time to move an applicant from intake to GLO submission of an audit-ready file has been reduced to 12 – 16 weeks.
- **Addressing RFIs** – During the first week of October, the HoAP team initiated new processes for quality control review that has resulted in a dramatic reduction in RFIs. Since the beginning of October, GLO has returned only 3 RFIs on 28 submitted files. That said, we note that while our office has made every effort to accommodate requests for additional information, we are concerned that GLO has been slow to adapt its processes for reviewing RFIs. For example, despite clear agreement between our offices that certain documents will be signed at closing (which takes place after GLO approval), we continue to receive RFIs flagging applications for not having signed those documents.
- **Information Management System (IMS) Development** – Like the GLO, HCDD continues to develop its system of record for HoAP. HCDD is

working closely with its contractor GrantCare to improve usability and reliability of the IMS.

Multifamily Rental Program

Our Multifamily Program is structured to address one of the most challenging aspects of disaster recovery: serving vulnerable renters. We are committed to an approach that maximizes precious federal dollars with significant leverage from tax credits and private funding, and prioritizes resilient, high-quality developments throughout the city.

As with HoAP, these are acceptable policy and programmatic choices in HUD's eyes. But GLO again imposes additional requirements that lack clarity about implementation.

Unclear directives from GLO have resulted in delays in obtaining approval on the first round of 15 developments, slowing down the process to get developments under contract. HCDD provided preliminary information to GLO for all 15 developments and has uploaded into TIGR all due diligence received to date on the seven 9% Low-Income Housing Tax Credit developments. HCDD is working with GLO staff to clarify any outstanding issues and expects all deals to be under contract by June 2020.

The Notice of Funding Availability (NOFA) for Round II will be released in December 2019 or January 2020, in line with program targets. The Round II NOFA will include \$30 million in funding for Permanent Supportive Housing to address rising homelessness after Hurricane Harvey.

Long affordability periods of 20- or 40-years meet the policy goals of the program and are a key way the City is meeting the needs of Harvey-affected renters. To ensure compliance with the established affordability periods in the Land Use Restriction Agreements for these developments, HCDD is charging developers an annual monitoring fee of \$35 per restricted unit.

Project Name	Transaction Type	Public Notice	Env. Submittal to GLO	Eligibility Submittal to GLO	Env. Public Notice	AUGF	City Council Date	Closing
Edison Lofts	9%	9/9/2019	8/26/2019	11/1/2019	9/16/2019	10/18/2019	11/13/2019	11/22/2019
Belfort Park	9%	9/9/2019	9/27/2019	11/1/2019	10/8/2019	11/11/2019	11/13/2019	11/22/2019
South Rice Apartments	9%	9/9/2019	9/30/2019	11/1/2019	10/21/2019	11/22/2019	12/3/2019	12/10/2019
900 Winston	9%	9/9/2019	9/19/2019	11/1/2019	10/25/2019	12/3/2019	12/11/2019	12/17/2019
McKee City Living**	9%	9/9/2019	10/21/2019	11/1/2019	11/7/2019	12/10/2019	12/18/2019	12/26/2019
Gala at MacGregor*	9%	9/9/2019	9/27/2019	11/1/2019	10/14/2019	12/11/2019	12/18/2019	12/26/2019
Briarwest Apartments*	9%	9/9/2019	9/20/2019	11/1/2019	10/18/2019	12/19/2019	1/8/2020	1/15/2020
2100 Memorial	4%	TBD	TBD	11/15/2019	TBD	TBD	Feb-20	Mar-20
New Hope Housing Avenue J	4%	TBD	TBD	11/15/2019	TBD	TBD	Feb-20	Mar-20
W. Leo Towers	4%	TBD	TBD	11/15/2019	TBD	TBD	May-20	Jun-20
Avenue on 34th	4%	TBD	TBD	11/15/2019	TBD	TBD	Apr-20	May-20
Elgin Place Apartments	4%	TBD	TBD	11/15/2019	TBD	TBD	Mar-20	Apr-20
Scott Street Lofts	4%	TBD	TBD	11/15/2019	TBD	TBD	Feb-20	Mar-20
St. Elizabeth Place	4%	TBD	TBD	11/22/2019	TBD	TBD	Apr-20	May-20
The Gale Winds Apartments	Conventional	TBD	TBD	11/22/2019	TBD	TBD	Mar-20	Apr-20

Homebuyer Assistance Program (HbAP)

As of November 2019, the program has provided \$30,000 to each of 22 homebuyers who were impacted by Harvey. Similarly to HoAP, it has taken several months of discussion and negotiation with GLO to clarify program expectations that go beyond HUD’s minimum requirements. With the first application approvals coming through from GLO, we will look to GLO for speedy processing to ensure homebuyers do not miss closing deadlines.

Buyout Program

HCDD has administered buyout activities under CDBG-DR15 and -DR16. Buyout of multifamily buildings that repeatedly flood is a high priority for residents and City staff. HCDD staff is familiar with the local market and well versed in ensuing compliance with Federal Register and regulatory requirements. We do not anticipate challenges in identifying properties for this much-needed program.

Public Services

The City has a long track record of administering public services programs. The program is on track to successfully implement public services programs with the new funding source, with spending under CDBG-DR17 to begin in Q1 2020. It is

typical for expenditures to vary as compared to the forecast as a program gets off the ground.

Public services activities are almost by definition related to Hurricane Harvey – Houstonians with insecure housing or unstable health or who suffered job losses at the time of the storm continue to need resources and services to recover. It is inaccurate to suggest that the City is somehow having trouble confirming a tie-back to Hurricane Harvey for this program. It is the GLO's responsibility to provide clear, written guidance on their expectations for tie-back requirements. The City is prepared to move quickly as soon as that guidance is delivered.

Economic Revitalization Program

The program was granted an extension for approval of the Economic Revitalization Program guidelines until December 31, 2019. The program is being developed to promote equity in workforce development and includes a three-part strategy to increase small contractor availability for work, provide capital to increase capacity for selected vendors, and technical assistance to improve operations and process.

The Division Manager hired to lead the program comes from the Mayor's Office of Business Opportunity, with extensive experience in economic development in underserved neighborhoods in Houston and a PhD in Political Science and Government. We are confident that she will be able to meet the program targets.

Planning

The purpose of HCDD's planning activities is to develop strategies for (1) protecting residents and the built environment from future natural hazards; (2) determining sustainable, long-term, resilient, and equitable housing solutions; (3) enhancing building and development codes; and (4) protecting and preparing vulnerable populations that are often the least likely to recover from disasters.

To date, HCDD staff have used planning funds to develop the City's *Local Action Plan*, Needs Assessment, and Amendments #3, #4, and #5 to the State's Action Plan

for Disaster Recovery. In addition, staff is utilizing CDBG-DR17 funding to carry out the development of the *Analysis of Impediments to Fair Housing Choice*.

Planning funds were also used to facilitate HCDD's innovative partnership model of [community engagement](#) to inform its local action plan in May and June 2018. A recent HUD webinar about community engagement for mitigation planning highlighted HCDD's approach as a national model.

HCDD is working with the City's Strategic Purchasing Department to soon release an updated RFP for On-Call Planning Services to support the Department's planning objectives. In addition, the City is partnering with Harris County to produce a regional housing study that will link urban and suburban housing policy strategies. While the study will be locally funded, CDBG-DR 2017 will cover staff time associated with managing the regional housing study and incorporating its findings and recommendations into Department programs to satisfy NOFA requirements. Several additional RFPs are anticipated to be issued with planning funds, including with other City departments and the Mayor's office.

Staff Capacity

In June 2019, the Homeowner Assistance Program moved away from a Master Program Manager model and now engages expert contractors for specific functions. We are confident that this model provides the best value to taxpayers and deepens the Department's long-term capacity to confront the challenges of future disasters.

HCDD's staff has nearly doubled since September 2017, from 137 to a staff that will be 300 strong by January 2020. Additional staff have strengthened the Department and expanded its capacity to deliver on key functions, including program design and evaluation, training, and transparency reporting.

The City remains open to discussing the best strategies for successful program administration, including additional staff capacity. While we have stopped work on the GrantCare contractors referenced in the review due to unreasonable cost burdens to the City and a lack of prior consultation, we look forward to discussing this issue with you in an in-person meeting.