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United States Government Accountability Office
Washington, DC 20548

March 16, 2005

The Honorable Christopher H. Smith
House of Representatives

Subject: *Veterans Affairs Homeless Programs: Implementation of the Transitional Housing Loan Guarantee Program*

In 1998, Congress passed the Veterans Programs Enhancement Act, which authorized the Department of Veterans Affairs (VA) to establish a new loan guarantee program for the construction or rehabilitation of multifamily transitional housing projects specifically designed to provide housing for homeless veterans. The program is intended to increase the amount of housing available, as well as provide other services to encourage addiction recovery and reestablish work and social relationships. You asked us to examine why no multifamily housing projects are operational, given that the loan guarantee program was authorized over 6 years ago.

Specifically, you asked us to provide information on (1) actions VA has taken to implement the Transitional Housing Loan Guarantee Program and (2) issues that have affected program implementation.

To provide this information, we reviewed documentation for the Transitional Housing Loan Guarantee Program; the Federal Credit Reform Act of 1990 and other applicable criteria, such as Office of Management and Budget (OMB) circulars and a Federal Accounting Standards Advisory Board technical release; OMB's role in federal credit programs; and our past reports on housing for homeless veterans and other federal credit programs. We also interviewed the program development contractor and VA and OMB officials to obtain their views on program development and any issues that may have impacted implementation. Our work was performed from September 2004 through March 2005 in accordance with generally accepted government auditing standards.

In summary, we found that since enactment of the legislation authorizing the loan program in 1998, VA has drafted regulations; designed the program, including working with program contractors to develop the loan terms and supporting infrastructure for processing and administering the loans; and consulted with OMB and sponsors (potential loan recipients) to conceive the initial housing projects. Program implementation has been affected by the challenges associated with creating VA's first transitional housing loan guarantee program for homeless veterans, deciding on program financing and structure including whether VA or the Department of Housing and Urban Development should manage the program, replacing the initial program development contractor, and addressing delays

associated with project-specific, local issues such as historical preservation and obtaining land parcels. Enclosure I contains briefing slides on our findings.

We provided a draft of this report to VA for comment. In its written comments, VA concurred with the report's findings. VA also provided technical comments, which we incorporated. (See encl. II for a copy of VA's comments.)

We are sending copies of this report to the Chairman and Ranking Minority Member, House Committee on Veterans' Affairs; the Chairman and Ranking Minority Member, Senate Committee on Veterans' Affairs; and the Secretary of Veterans Affairs. We will also make copies available to others upon request. In addition, the report will be available at no charge on GAO's Web site at <http://www.gao.gov>. If you or your staff have any questions about this report, please contact me at (202) 512-7101 or Michael T. Blair, Jr., Assistant Director, at (404) 679-1944. Aditi Shah Archer and Michael Tropauer made key contributions to this report.

Sincerely yours,



Cynthia A. Bascetta
Director, Health Care—Veterans'
Health and Benefits Issues

Enclosures - 2



VA Homeless Programs: Implementation of the Transitional Housing Loan Guarantee Program

**Briefing slides for the staff of
The Honorable Christopher H. Smith
House of Representatives**

March 16, 2005



VA Homeless Programs: Implementation of the Transitional Housing Loan Guarantee Program

- Introduction
- Key Questions
- Methodology
- Results in Brief
- Background
- GAO Findings



Introduction

- Public Law 105-368 authorized the Department of Veterans Affairs (VA) to establish a new loan guarantee program for the construction or rehabilitation of multifamily transitional housing projects specifically designed to provide housing for homeless veterans. The program is intended to increase the amount of housing available as well as provide other services to encourage addiction recovery and reestablish work and social relationships. We were asked to provide information about the implementation of the program, which was authorized over 6 years ago.
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Key Questions

- We were asked to provide information on the following questions:
 - (1) What actions has VA taken to implement the Transitional Housing Loan Guarantee Program?
 - (2) What issues have affected program implementation?



Methodology

- We reviewed documentation for
 - the Transitional Housing Loan Guarantee Program;
 - the Federal Credit Reform Act of 1990 and other applicable criteria, such as Office of Management and Budget (OMB) circulars and a Federal Accounting Standards Advisory Board technical release;
 - OMB's role in federal credit programs; and
 - past GAO reports on housing for homeless veterans and other federal credit programs.
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Methodology (continued)

- We interviewed
 - the program development contractor and
 - VA and OMB officials to obtain their views on program development and any issues that may have impacted implementation.
- Our work was performed from September 2004 through March 2005 in accordance with generally accepted government auditing standards.



Results in Brief

- VA committed conditionally to guaranteeing three loans in 2003 and one in 2004.¹ However, as of February 1, 2005, no project sponsors had received these loans from the lender—the Federal Financing Bank. Since enactment of the loan program in 1998, VA has
 - drafted regulations;
 - designed the program, which included working with program contractors to develop the loan terms and supporting infrastructure for processing and administering the loans; and
 - consulted with OMB and sponsors to conceive the initial housing projects.

¹ VA's commitment is dependent on the sponsor meeting a number of conditions such as purchasing land and obtaining local government approval for the project's design plan.



Results in Brief (continued)

- Program implementation has been affected by challenges associated with
 - creating VA's first transitional housing loan guarantee program for homeless veterans;
 - deciding on program financing and structure;
 - replacing the initial program development contractor; and
 - addressing delays associated with project-specific, local issues such as preserving historical properties and obtaining land.



Background: Homeless Veterans

- An estimated one-third of the adult homeless population has served in the armed forces. In fiscal year 2003
 - VA's total costs associated with the treatment of about 100,000 homeless veterans using VA health care services was about \$1.2 billion and
 - VA provided over 11,000 beds for homeless veterans nationwide.



Background: Transitional Housing

- VA has three programs that offer transitional housing and rehabilitative services.²
- The Transitional Housing Loan Guarantee Program is an additional program intended to increase the amount of housing available, as well as provide other services to encourage addiction recovery and reestablish work and social relationships.
- The program is to guarantee up to 15 loans with a maximum aggregate value of \$100 million.

²The Compensated Work-Therapy/Transitional Residence Program, Homeless Providers Grant and Per Diem Program, and Domiciliary Care for Homeless Veterans Program.



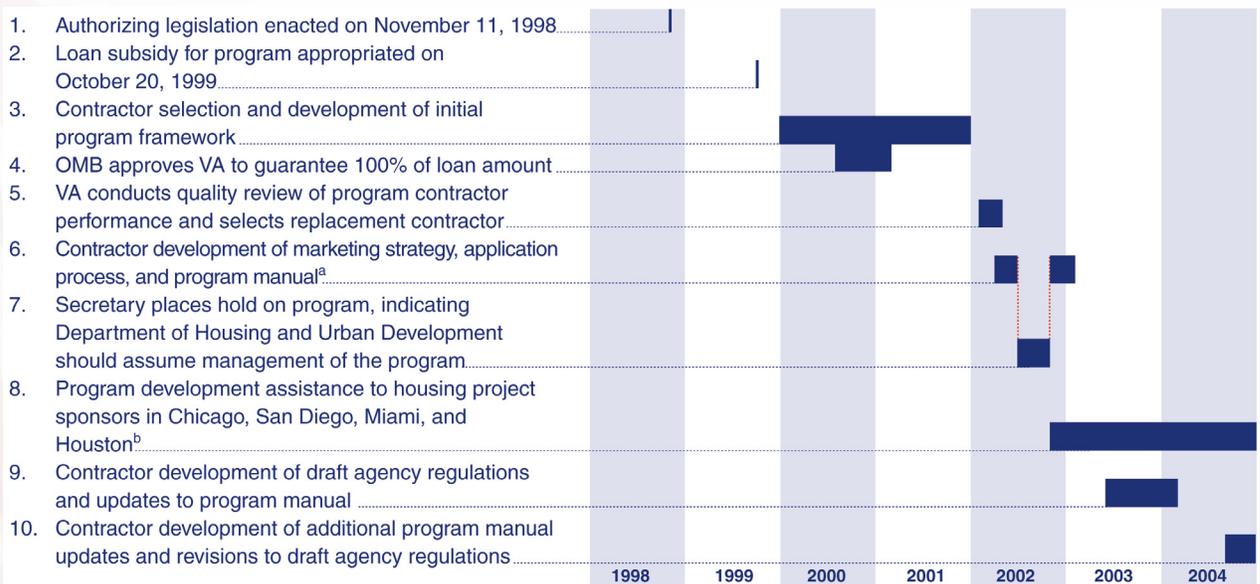
Background: Transitional Housing (continued)

- In fiscal year 2000, the Congress appropriated about \$48 million to VA, which is presently held in VA's Housing Program Account.³ This subsidy will be available for VA, the guarantor, to repay the lender—the Federal Financing Bank—in the event that the project sponsors default on the loans.
- Since fiscal year 2000, the Congress has authorized VA to use funds from its general operating expenses and medical care appropriations for program administration.

³ Pub. L. No. 106-74, Oct. 20, 1999.



Question 1: VA Actions to Implement the Program



^a On the basis of the Secretary's decision to place a hold on the program, VA ordered the program contractor to stop work in July 2002; work resumed in October 2002.

^b While VA has committed to guaranteeing loans for these housing projects, its commitment is dependent on the sponsor meeting a number of conditions, such as purchasing land and obtaining local government approval for the project's design plan. The conditions had not been met as of February 1, 2005, and no sponsors have received loans from the lender.



Question 2: Issues Affecting Program Implementation

- The program is new to the federal government. Consequently, there is no financial model or historical data, which would have facilitated
 - identifying a lender and project sponsors,
 - developing the program structure, and
 - forecasting financial risk to the federal government.
- Although the authorizing legislation was enacted in fiscal year 1999, VA did not initiate implementation until after funding for the loan program was provided in fiscal year 2000.



Question 2: Issues Affecting Program Implementation (continued)

- The Secretary's belief that VA should not expend resources to implement the program accounted for program delays.
 - The Secretary placed a hold on program development in July 2002, indicating that the Department of Housing and Urban Development should assume management of the program.
 - In October 2002, the Secretary, after discussions with the leadership of the House Committee on Veterans' Affairs, reconsidered and proceeded with VA management of the program soon after appointing a new lead program manager in September 2002.



Question 2: Issues Affecting Program Implementation (continued)

- VA did not find the initial program contractor's work satisfactory. Additional time (February-April 2002) was necessary to
 - conduct a quality review of work performed by the program contractor to identify areas of work that VA could continue to use and
 - select a replacement contractor to continue program development.
- Individual project startup has proven to be time-consuming. For example, the Vietnam Veterans of San Diego housing project—which received a conditional loan guarantee commitment from VA in 2003—cannot begin construction until local government approval for the design plan is obtained.



THE DEPUTY SECRETARY OF VETERANS AFFAIRS
WASHINGTON

March 7, 2005

Ms. Cynthia Bascetta
Director
Health Care – Veterans Health
and Benefits Issues
U. S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Ms. Bascetta:

The Department of Veterans Affairs (VA) has reviewed the Government Accountability Office's (GAO) draft report, **VETERANS AFFAIRS HOMELESS PROGRAMS: Implementation of the Transitional Housing Loan Guarantee Program** (GAO 05-311R). VA concurs with GAO's findings and provides comments for clarification in the enclosure.

Veterans Health Administration staff will continue to work with the Director, Asset Enterprise Management; Director, Homeless Veterans Programs; staff from the Office of General Counsel; and the Veterans Benefit Administration. VA expects to develop at least two loan guarantees for housing project sponsors in San Diego and Chicago in FY 2005 under this pilot program.

VA appreciates the opportunity to comment on your report.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Gordon H. Mansfield".

Gordon H. Mansfield

Enclosure

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