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STATEMENT OF  
ELMER B. STAATS, COMPTROLLER GENERAL OF THE UNITED STATES  
BEFORE THE  
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS  
OF THE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS  
UNITED STATES SENATE  
ON  
HOUSING SUBSIDY AND COMMUNITY DEVELOPMENT PROGRAMS  
ADMINISTERED BY  
THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
AND THE DEPARTMENT OF AGRICULTURE

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

DURING THE PAST THREE YEARS, WE HAVE ISSUED OVER 100 REPORTS IN THE HOUSING AREA. THIS NUMBER INCLUDED REPORTS ON LOW-RENT HOUSING, URBAN RENEWAL, MORTGAGE INSURANCE ACTIVITIES, AND COMMUNITY DEVELOPMENT PROGRAMS, SUCH AS MODEL CITIES, OPEN-SPACE LAND, WATER AND SEWER FACILITIES, AND NEIGHBORHOOD FACILITIES. THIS MORNING, I WILL DISCUSS BRIEFLY OUR WORK ON THE HOUSING SUBSIDY PROGRAMS AND SOME OF THE COMMUNITY DEVELOPMENT PROGRAMS THAT WE HAVE REPORTED ON. THESE ARE THE PROGRAMS WHICH RECENTLY WERE SUSPENDED OR TERMINATED BY THE ADMINISTRATION.

AT THE OUTSET, I WOULD LIKE TO STRESS THE POINT THAT OUR REVIEWS AND REPORTS WERE PRIMARILY AIMED AT IMPROVING THE EFFECTIVENESS OF HUD PROGRAMS TO BETTER ACCOMPLISH THE OBJECTIVES INTENDED BY THE CONGRESS.

FIRST, I WOULD LIKE TO DISCUSS OUR REVIEW OF HUD'S ADMINISTRATION OF THE HOUSING SUBSIDY PROGRAMS.

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## HOMEOWNERSHIP ASSISTANCE

THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT AND THE DEPARTMENT OF AGRICULTURE ARE AUTHORIZED BY SECTION 235 OF THE NATIONAL HOUSING ACT AND BY SECTION 502 OF THE HOUSING ACT OF 1949, AS AMENDED BY THE HOUSING ACT OF 1968, TO ASSIST LOW- AND MODERATE-INCOME FAMILIES, THROUGH MORTGAGE INSURANCE AND INTEREST SUBSIDIES, TO BECOME OWNERS OF EITHER NEW OR EXISTING HOUSES.

IN A REPORT TO THE CONGRESS IN DECEMBER 1972 WE STATED THAT HUD AND AGRICULTURE DID NOT ALLOCATE PROGRAM RESOURCES TO INSURE THAT ELIGIBLE FAMILIES HAD THE SAME OPPORTUNITY TO PARTICIPATE IN THE HOMEOWNERSHIP ASSISTANCE PROGRAMS REGARDLESS OF WHERE THEY LIVED. HUD PROGRAM RESOURCES CONSIST OF AUTHORIZATIONS TO ENTER INTO CONTRACTS WITH LENDERS FOR PAYING SUBSIDIES. IN AGRICULTURE, PROGRAM RESOURCES CONSIST OF AUTHORITY TO MAKE HOUSING LOANS.

THE NEED FOR SUBSIDIZED HOUSING HAD NOT BEEN ADEQUATELY IDENTIFIED BY EITHER HUD OR AGRICULTURE. HUD HEADQUARTERS ESTIMATED THE NEED FOR SUBSIDIZED HOUSING; HOWEVER, THIS ESTIMATE VARIED SIGNIFICANTLY FROM THE NEED ESTIMATED BY HUD FIELD OFFICES AND THE DIFFERENCES WERE NOT RECONCILED TO ARRIVE AT REASONABLY RELIABLE DATA. NEITHER AGRICULTURE HEADQUARTERS NOR ITS FIELD OFFICES HAD DEVELOPED ESTIMATES OF RURAL SUBSIDIZED HOUSING NEEDS AS A BASIS FOR ALLOCATING PROGRAM RESOURCES.

AN AREA'S CAPACITY TO PRODUCE HOUSING WAS A MAJOR FACTOR INFLUENCING THE DISTRIBUTION OF HUD PROGRAM RESOURCES AT BOTH THE NATIONAL AND LOCAL LEVELS. ALLOCATION OF AGRICULTURE PROGRAM RESOURCES AT THE NATIONAL

LEVEL WAS BASED PRIMARILY ON PRIOR YEARS' PRODUCTION ACTIVITY AND DISTRIBUTION AT THE LOCAL LEVEL WAS PRIMARILY ON A FIRST-COME, FIRST-SERVED BASIS.

WE RECOMMENDED THAT HUD AND AGRICULTURE PROVIDE REASONABLE ASSURANCE THAT RESOURCES UNDER SECTIONS 235 AND 502 PROGRAMS ARE ALLOCATED PRIMARILY IN PROPORTION TO IDENTIFIED NEEDS. WE RECOMMENDED ALSO THAT AGRICULTURE MAKE SEPARATE ALLOCATIONS FOR SUBSIDIZED AND UNSUBSIDIZED HOUSING LOANS IN ACCORDANCE WITH NEED.

NEXT, WE WOULD LIKE TO POINT OUT THAT HOUSES WITH SIGNIFICANT DEFECTS WERE SOLD UNDER THESE TWO HOMEOWNERSHIP ASSISTANCE PROGRAMS. BECAUSE MANY OF THE HOUSING DEFECTS CONCERN THE SAFETY AND HEALTH OF THE OCCUPANTS, THE OBJECTIVE OF PROVIDING LOW- AND MODERATE-INCOME FAMILIES WITH DECENT, SAFE, AND SANITARY HOUSING WAS NOT MET IN MANY CASES.

A PHYSICAL INSPECTION, PERFORMED IN EARLY 1971 BY HUD AUDITORS AND MONITORED BY GAO, OF 1,281 SECTION 235 PROPERTIES SELECTED ON THE BASIS OF A STATISTICAL RANDOM SAMPLE SHOWED THAT ABOUT 24 PERCENT OF THE NEW HOUSES AND ABOUT 39 PERCENT OF THE EXISTING HOUSES HAD DEFECTS.

HUD INSPECTION PROCEDURES, WHICH ARE SUPPOSED TO PREVENT DEFECTIVE HOUSES FROM BEING INSURED, WERE INADEQUATE BECAUSE (1) APPRAISERS HAD NOT BEEN ADEQUATELY TRAINED TO MAKE INSPECTIONS, (2) THE EMPHASIS ON PROVIDING HOUSES HAD PLACED AN UNUSUALLY HEAVY WORKLOAD ON FIELD OFFICE APPRAISERS, (3) APPRAISERS WERE NOT ADEQUATELY SUPERVISED, AND (4) FIELD OFFICE PERSONNEL DID NOT ADJUST THEIR THINKING AND ATTITUDES TO ENCOMPASS THE CONSUMER-ORIENTED NEEDS OF THE NEW PROGRAM.

WE INSPECTED 121 HOUSES IN EIGHT STATES UNDER THE AGRICULTURE ADMINISTERED SECTIONS 235 AND 502 PROGRAMS AND FOUND THAT OVER 50 PERCENT HAD DEFECTS SIMILAR TO THOSE FOUND IN THE HUD SECTION 235 PROGRAM. AGRICULTURE OFFICIALS ADVISED US THAT HOUSES WITH DEFECTS HAVE BEEN PROVIDED BECAUSE THE HOUSES WERE INSPECTED BY COUNTY SUPERVISORS WHO WERE NOT QUALIFIED AS HOUSING INSPECTORS.

HUD AND AGRICULTURE HAVE TAKEN OR PLANNED CORRECTIVE ACTIONS TO IMPROVE THEIR INSPECTION PROCEDURES. HOWEVER, TO PROVIDE ADEQUATE PROTECTION TO PURCHASERS, WE RECOMMENDED THAT HUD AND AGRICULTURE REINSPECT ALL HOUSES WITHIN 1 YEAR AFTER PURCHASE TO INSURE THAT DEFECTS COVERED BY BUILDER SERVICE POLICIES AND SELLER CERTIFICATIONS HAVE BEEN IDENTIFIED AND CORRECTED.

WE ALSO RECOMMENDED THAT THE SECRETARY OF AGRICULTURE IMPLEMENT PROCEDURES OR SEEK LEGISLATION TO INSURE THAT AGRICULTURE AND/OR THE PURCHASER OF EXISTING HOUSING HAS RECOURSE TO THE SELLER TO COVER THE COST OF REPAIRING DEFECTS THAT EXISTED AT THE TIME OF SALE.

WE ALSO NOTED THAT HUD AND AGRICULTURE DID NOT PROVIDE THEIR FIELD OFFICES WITH ADEQUATE GUIDELINES DEFINING THE TYPE OF HOUSING ELIGIBLE UNDER HOMEOWNERSHIP ASSISTANCE PROGRAMS FOR LOW- AND MODERATE-INCOME FAMILIES. AS A RESULT, SOME FAMILIES COULD BUY HOMES WITH OPTIONS SUCH AS AIR CONDITIONING, FIREPLACES, OR EXTRA BATHROOMS, WHILE OTHER FAMILIES IN THE SAME GENERAL AREA WERE UNABLE TO OBTAIN THESE OPTIONS.

WE RECOMMENDED THAT HUD AND AGRICULTURE (1) CLEARLY DEFINE THE TYPE OF HOUSING OPTIONS THAT WILL BE MADE AVAILABLE UNDER HOMEOWNERSHIP ASSISTANCE PROGRAMS IN THE VARIOUS AREAS OF THE NATION AND (2) JOINTLY

DETERMINE WHAT HOUSING OPTIONS ARE APPROPRIATE FOR INCLUSION IN HOUSES BEING PROVIDED IN COMMUNITIES SERVED BY BOTH DEPARTMENTS.

OUR NEXT OBSERVATION CONCERNS THE MORTGAGE DEFAULT RATES ON THE SECTION 235 AND SECTION 502 PROGRAMS.

PRELIMINARY INFORMATION INDICATES THAT MORTGAGE DEFAULTS COULD BECOME A MAJOR PROBLEM FOR THE SECTION 235 PROGRAM. THE NUMBER OF DEFAULTS IN THE SECTION 502 PROGRAM HAS BEEN LOW TO DATE; HOWEVER, AGRICULTURE OFFICIALS ANTICIPATE AND WE AGREE THAT INCREASED PROGRAM ACTIVITY WILL RESULT IN A MARKED INCREASE IN THE DEFAULT RATE.

ALTHOUGH A PRECISE DEFAULT RATE FOR THE SECTION 235 PROGRAM HAS NOT BEEN DEVELOPED, THE PATTERN OF DEFAULTS THUS FAR CLOSELY PARALLELS HUD'S EXPERIENCE ON ANOTHER MORTGAGE INSURANCE PROGRAM FOR LOW- AND MODERATE-INCOME FAMILIES WHICH SHOWS A DEFAULT RATE OF ABOUT 11 PERCENT AFTER 9 YEARS.

THE AVERAGE LOSS TO MANAGE AND DISPOSE OF AN ACQUIRED SECTION 235 PROPERTY WAS ABOUT \$3,800. IF THE DEFAULT RATE REACHES 10 PERCENT ON THE 1.4 MILLION PROPERTIES WHICH WERE PLANNED TO BE INSURED THROUGH FISCAL YEAR 1978, HUD WOULD EVENTUALLY INCUR LOSSES OF ABOUT \$532 MILLION TO MANAGE AND DISPOSE OF ACQUIRED SECTION 235 PROPERTIES. IN THIS REGARD, HUD REPORTED ON APRIL 3, 1973, THAT THE DEFAULT RATE ON SECTION 235 HAD INCREASED FROM 4.6 TO 7.1 PERCENT DURING CALENDAR YEAR 1972.

WE RECOMMENDED THAT HUD AND AGRICULTURE REQUIRE IN-DEPTH STUDIES TO DETERMINE THE MAJOR REASONS FOR DEFAULTS AND USE THE RESULTS TO DEVELOP GUIDELINES FOR SCREENING AND COUNSELING PROGRAM APPLICANTS.

ANOTHER OBSERVATION CONCERNS THE METHOD OF FINANCING HUD'S HOMEOWNERSHIP ASSISTANCE PROGRAM. WE ESTIMATE THAT THE PRESENT VALUE OF THE SAVINGS ON THE SECTION 235 PROGRAM COULD AMOUNT TO ABOUT \$1 BILLION IF LOANS WERE FINANCED DIRECTLY BY THE GOVERNMENT RATHER THAN BY PRIVATE LENDERS BECAUSE OF THE LOWER INTEREST COST AT WHICH THE GOVERNMENT COULD BORROW FUNDS.

WE RECOMMENDED THAT THE CONGRESS CONSIDER AMENDING THE LEGISLATION PERTAINING TO THE SECTION 235 PROGRAM TO REQUIRE DIRECT FEDERAL FINANCING; IN A PREVIOUS REPORT TO THE CONGRESS IN JULY 1971 WE HAD RECOMMENDED THAT THE CONGRESS CONSIDER SIMILAR LEGISLATION FOR THE SECTION 502 PROGRAM.

#### RENTAL ASSISTANCE

NOW LET US TURN OUR ATTENTION TO THE RENTAL ASSISTANCE PROGRAM. PROVIDING ADEQUATE RENTAL HOUSING FOR LOW- AND MODERATE-INCOME FAMILIES IS ONE OF THE MAJOR ISSUES FACING THE NATION TODAY. TO INCREASE THE NUMBER OF RENTAL HOUSING UNITS AVAILABLE TO THESE FAMILIES, A MORTGAGE INSURANCE PROGRAM WAS AUTHORIZED BY SECTION 236 OF THE NATIONAL HOUSING ACT. UNDER THE PROGRAM, HUD PROVIDES FINANCIAL ASSISTANCE BY PAYING THE MORTGAGE INSURANCE PREMIUMS AND A PORTION OF THE INTEREST COSTS. HUD INTEREST SUBSIDY PAYMENTS MAKE POSSIBLE LOWER RENTS TO THE TENANTS.

I PREVIOUSLY DISCUSSED THE NEED FOR IMPROVING PROCEDURES IN THE ALLOCATION OF SECTION 235 PROGRAM RESOURCES AND OUR RECOMMENDATION THAT HUD PROVIDE A REASONABLE ASSURANCE THAT PROGRAM RESOURCES ARE ALLOCATED PRIMARILY IN PROPORTION TO IDENTIFIED NEEDS.

BECAUSE THE SAME GENERAL DEFICIENCIES WERE OBSERVED IN THE ALLOCATION OF SECTION 236 PROGRAM RESOURCES, WE RECOMMENDED THAT HUD PROVIDE A BETTER IDENTIFICATION OF HOUSING NEEDS AND ASSURE THAT SECTION 236 RESOURCES ARE ALLOCATED PRIMARILY IN PROPORTION TO IDENTIFIED NEEDS.

BECAUSE HUD DID NOT GIVE ADEQUATE CONSIDERATION TO PURCHASE PRICE OR OPTION PRICE DATA, ITS APPRAISALS OF LAND TO ESTABLISH SECTION 236 MORTGAGE LOAN AMOUNTS MAY HAVE UNDULY INCREASED MORTGAGE LOANS, RESULTING IN HIGHER INTEREST SUBSIDY COSTS TO THE GOVERNMENT, AND PROBABLY HIGHER RENTS TO PROJECT TENANTS.

WE EXAMINED THE LAND VALUATION ASSIGNED TO 68 RECENTLY COMPLETED SECTION 236 PROJECTS ADMINISTERED BY HUD FIELD OFFICES IN ATLANTA, DALLAS, AND LOS ANGELES. PROJECT LAND WAS VALUED BY HUD ABOVE ITS COST TO THE OWNER FOR 47 OF THE 68 PROJECTS. FOR 12 OF THE 47 PROJECTS, HUD VALUED THE LAND FROM 126 PERCENT TO 333 PERCENT OF THE OWNER'S COST, AND THE VALUATIONS HAD BEEN MADE WITHIN 1 TO 17 MONTHS OF THE OWNER'S ACQUISITION OF THE LAND. FIVE OF THE HUD VALUATIONS INVOLVED LAND WHICH THE PROJECT SPONSORS DID NOT YET OWN--THEY ONLY HAD PURCHASE OPTIONS.

WE ESTIMATE THAT THE DIFFERENCE BETWEEN HUD'S VALUATION AND THE COST OF LAND FOR THE 12 PROJECTS COULD INCREASE HUD'S INTEREST REDUCTION PAYMENTS BY ABOUT \$2 MILLION OVER THE LIFE OF THE 12 MORTGAGE LOANS.

IN APRIL 1972, HUD ISSUED REVISED GUIDELINES TO ITS FIELD OFFICES WHICH, IN PART, PRESCRIBE NEW PROCEDURES FOR LAND APPRAISALS. THE REVISED GUIDELINES STATE THAT LAND VALUES ARE NOT TO BE BASED SOLELY ON

THE SALE PRICE OF COMPARABLE SITES AND THAT VARIANCES BETWEEN THE HUD APPRAISAL AND THE OWNER'S COST MUST BE FULLY JUSTIFIED.

SIZEABLE SAVINGS COULD BE ACHIEVED IF SECTION 236 MORTGAGE LOANS WERE FINANCED BY THE GOVERNMENT RATHER THAN BY PRIVATE LENDERS BECAUSE OF THE GOVERNMENT'S MORE FAVORABLE INTEREST COST. WE ESTIMATE THAT FOR THE HOUSING PLANNED TO BE PROVIDED BY THE SECTION 236 PROGRAM DURING FISCAL YEARS 1973-1978, THE PRESENT VALUE OF THE SAVINGS COULD AMOUNT TO ABOUT \$1.2 BILLION.

AS FOR THE SECTION 235 HOMEOWNERSHIP ASSISTANCE PROGRAM, WE RECOMMENDED THAT THE CONGRESS CONSIDER LEGISLATION WHICH WOULD PERMIT THE SECTION 236 PROGRAM TO BE FINANCED BY BORROWINGS FROM THE TREASURY.

WE EXAMINED THE INCENTIVES BEING PROVIDED TO INVESTORS IN SECTION 236 PROJECTS. SUCH INCENTIVES INCLUDE LOW INITIAL INVESTMENT, INCOME TAX SHELTERS, AND OPPORTUNITY TO PROFIT FROM PARTICIPATION IN OTHER PHASES OF PROJECT DEVELOPMENT AND OPERATION. THE INCENTIVES ARE AVAILABLE TO PROJECT OWNERS REGARDLESS OF HOW WELL OR HOW POORLY THEY MANAGE A PROJECT.

THERE APPEARS TO BE LITTLE INCENTIVES TO ENCOURAGE LONG-TERM OWNERSHIP OF PROJECTS. TAX SHELTERS DIMINISH RAPIDLY AFTER THE TENTH YEAR OF PROJECT OWNERSHIP AND THE 6 PERCENT ANNUAL RETURN ON INVESTMENT ALLOWED BY HUD MAY NOT BE SUFFICIENT TO KEEP SPONSORS FROM DISPOSING OF THEIR PROJECTS.

HUD STATED THAT THE DEVELOPMENT OF INCENTIVES WHICH ENCOURAGE PROJECT RETENTION OR GOOD PROJECT MANAGEMENT SHOULD BE STRESSED RATHER THAN REDUCTION OR SHIFTING OF PRODUCTION INCENTIVES, SUCH AS USE OF THE

BUILDER-SPONSOR PROFIT AND RISK ALLOWANCE TO MEET INVESTMENT REQUIREMENTS AND SPECIAL TAX PROVISIONS. HUD PLANNED TO EXPLORE THIS POSSIBILITY IN DEPTH.

MR. CHAIRMAN, I HAVE ONE ADDITIONAL OBSERVATION TO MAKE REGARDING BOTH THE SECTION 235 AND SECTION 236 HOUSING PROGRAMS. ON NOVEMBER 22, 1972, GAO ISSUED A REPORT TO THE CONGRESS ON THE OPPORTUNITY FOR REDUCING INTEREST COSTS INCURRED BY THE GOVERNMENT UNDER THESE PROGRAMS. IN THAT REPORT, WE POINT OUT THAT BECAUSE HUD'S MONTHLY ASSISTANCE PAYMENTS INCLUDE THE MORTGAGE INSURANCE PREMIUMS, HUD IS PAYING OUT FUNDS WHICH IT MUST SUBSEQUENTLY COLLECT FROM THE MORTGAGEES. AS A RESULT, THE GOVERNMENT LOSES THE USE OF SUCH FUNDS FOR AN AVERAGE OF 6 MONTHS. WE ESTIMATED, FOR THIS FISCAL YEAR ALONE, THAT THE INTEREST COST TO THE GOVERNMENT ON SUCH MONTHLY PAYMENTS WOULD BE AT LEAST \$1.6 MILLION.

WE PROPOSED TO HUD THAT IT DEDUCT THE MORTGAGE INSURANCE PREMIUMS FROM MONTHLY ASSISTANCE PAYMENTS. HUD DISAGREED WITH OUR PROPOSAL PRIMARILY FOR ADMINISTRATIVE REASONS. IN OUR REPORT, IN VIEW OF HUD'S DISAGREEMENT, WE RECOMMENDED THAT THE CONGRESS AUTHORIZE HUD TO WAIVE THE MORTGAGE INSURANCE PREMIUM FOR THE SECTIONS 235 AND 236 HOUSING PROGRAMS SIMILAR TO THE WAIVER OF PREMIUMS NOW PROVIDED FOR IN THE SECTION 221(D)(3) RENTAL HOUSING PROGRAM.

WITH REGARD TO THE AGENCY ACTIONS TAKEN ON THE VARIOUS MATTERS WE REPORTED ON IN THE SUBSIDIZED HOUSING AREA, YOU ARE AWARE THAT THESE PROGRAMS WERE SUSPENDED, EFFECTIVE JANUARY 5, 1973, AND HUD IS CURRENTLY EVALUATING THESE PROGRAMS TO DETERMINE WHETHER THEY SHOULD BE REVISED, REPLACED, OR TERMINATED.

I WOULD LIKE NOW TO TURN TO THE AREA OF COMMUNITY DEVELOPMENT AND DISCUSS SOME OF OUR EFFORTS IN REVIEWING AND REPORTING ON THESE PROGRAMS.

AS YOU ARE AWARE, THE PROGRAMS OF THE DEPARTMENT WHICH HAVE BEEN COMBINED UNDER THE ASSISTANT SECRETARY FOR COMMUNITY DEVELOPMENT AND MORE RECENTLY BY SECRETARY LYNN UNDER THE ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, INCLUDE ALL THE PHYSICAL DEVELOPMENT PROGRAMS OF HUD, EXCEPT PROGRAMS COVERING HOUSING PRODUCTION AND HOUSING MANAGEMENT.

#### CODE ENFORCEMENT

BEGINNING WITH OUR WORK IN THE CODE ENFORCEMENT AREA, THE CONGRESS, AS YOU KNOW, DIRECTED THAT COMMUNITIES, TO BE ELIGIBLE FOR ASSISTANCE UNDER THE FEDERAL HOUSING PROGRAMS, MUST ADOPT AND ENFORCE HOUSING CODES TO HELP PREVENT DETERIORATION AND DECAY OF HOUSING AND ALSO TO AID IN STOPPING THE SPREAD OF URBAN BLIGHT. PRIMARILY, BECAUSE OF INCREASING CONGRESSIONAL AND PUBLIC CONCERN OVER THE DETERIORATION OF EXISTING HOUSING AND THE SPREAD OF URBAN BLIGHT, WE REVIEWED HUD'S EFFORTS TO (1) STIMULATE COMMUNITIES TO ADOPT AND CARRY OUT EFFECTIVE LOCAL HOUSING CODE ENFORCEMENT PROGRAMS AND (2) USE FEDERAL CODE ENFORCEMENT GRANT FUNDS TO ASSIST COMMUNITIES IN COMBATING HOUSING DETERIORATION.

THE OBJECTIVES OF THE CODE ENFORCEMENT PROGRAM--PREVENTING THE SPREAD OF BLIGHT AND PRESERVING GOOD NEIGHBORHOODS--COULD HAVE BEEN

ENHANCED IN OUR VIEW IF HUD HAD ADMINISTERED THE PROGRAM MORE EFFICIENTLY AND APPROVED PROJECTS ONLY IN AREAS WHERE HOUSING WAS BASICALLY SOUND AND COULD HAVE BEEN RESTORED BY THE ENFORCEMENT OF HOUSING CODES.

IN A REPORT TO THE CONGRESS, IN JUNE 1972, WE POINTED OUT THAT HOUSING DETERIORATION AND DECAY HAD NOT BEEN ARRESTED BECAUSE MANY COMMUNITIES HAD NOT ENFORCED HOUSING CODES EFFECTIVELY. OF 29 COMMUNITIES INCLUDED IN OUR REVIEW, 28 DID NOT HAVE EFFECTIVE CITY-WIDE LOCAL CODE ENFORCEMENT.

WE ARE FULLY AWARE OF THE PROBLEMS OF GETTING LOCAL COMMUNITIES TO ADOPT AND CARRY OUT EFFECTIVE CODE ENFORCEMENT PROGRAMS, AND THAT AS A RESULT HUD OFTEN EMPHASIZED CONSTRUCTION OF LOW- AND MODERATE-INCOME HOUSING, GIVING ONLY LOW PRIORITY TO LOCAL CODE ENFORCEMENT. HOWEVER, BECAUSE THE SHORTAGE OF LOW-INCOME HOUSING IS A VERY SERIOUS PROBLEM IN THIS COUNTRY AND BECAUSE IT IS MORE DIFFICULT AND EXPENSIVE TO CURE THAN TO PREVENT SLUMS, WE BELIEVE THAT HUD SHOULD STRIVE TO ACCOMPLISH THE NATION'S HOUSING GOAL NOT ONLY BY INCREASING THE SUPPLY OF HOUSING BUT ALSO BY INSISTING ON THE ADOPTION OF EFFECTIVE LOCAL CODE ENFORCEMENT TO PRESERVE AND UPGRADE EXISTING HOUSING.

WE NOTED ALSO THAT HUD'S CRITERIA FOR SELECTING CODE ENFORCEMENT AREAS WERE INADEQUATE. ALTHOUGH HUD HAD EVIDENCE TO SHOW THAT EXTENSIVE DETERIORATION EXISTED IN CERTAIN PROPOSED PROJECT AREAS, INDICATING A NEED FOR REHABILITATION OR REDEVELOPMENT, IT HAD APPROVED CODE ENFORCEMENT PROJECTS FOR THESE AREAS. OUR REVIEW OF 10 PROJECTS IN

TWO HUD REGIONS SHOWED THAT SEVEN PROJECTS WERE LOCATED IN AREAS THAT, WERE IN OUR OPINION--BASED ON HUD'S OWN CRITERIA--MORE APPROPRIATE FOR REHABILITATION OR REDEVELOPMENT THAN FOR CODE ENFORCEMENT ASSISTANCE.

THE HUD OBJECTIVE OF TOTAL CODE COMPLIANCE WITHIN 3 YEARS OFTEN WAS NOT ACHIEVED. WE NOTED THAT ALMOST 5 YEARS AFTER APPROVAL OF THE FIRST CODE ENFORCEMENT PROJECT, NONE OF THE PROJECTS HAD BEEN COMPLETED, ALTHOUGH 51 HAD BEEN IN EXISTENCE FOR MORE THAN 3 YEARS. DELAYS IN COMPLETING PROJECTS RESULTED, IN PART, WE BELIEVE, BECAUSE PROJECTS WERE NOT ADEQUATELY STAFFED AND WERE NOT ADEQUATELY MONITORED BY HUD.

DURING OUR REVIEW WE NOTED ALSO THAT HUD ATTEMPTED TO IMPROVE HOUSING BY SPENDING MILLIONS OF DOLLARS FOR CERTAIN PUBLIC IMPROVEMENTS, SUCH AS PAVING STREETS AND ALLEYS AND REPAIRING SIDEWALKS.

ALTHOUGH THE EMPHASIS OF THE CODE ENFORCEMENT GRANT PROGRAM WAS TO BE ON IMPROVEMENT OF HOUSING AND NOT ON PUBLIC IMPROVEMENTS, HUD APPROVED ABOUT \$131 MILLION--ABOUT 54 PERCENT OF ALL CODE ENFORCEMENT FUNDS--FOR PUBLIC IMPROVEMENTS. IF PUBLIC IMPROVEMENT SPENDING HAD BEEN LIMITED TO MINIMAL AMOUNTS AS INTENDED BY THE CONGRESS, MOST OF THE \$131 MILLION COULD HAVE BEEN USED FOR THE PRIMARY PURPOSE OF CODE ENFORCEMENT--IMPROVEMENT OF HOUSING.

WE MADE A NUMBER OF RECOMMENDATIONS TO THE SECRETARY OF HUD TO HELP IMPROVE HUD'S ADMINISTRATION OF THE PROGRAM AND TO REEMPHASIZE THE SLUM PREVENTION OBJECTIVES OF THE CODE ENFORCEMENT GRANT PROGRAM. IN RESPONSE, HUD STATED THAT THE CODE ENFORCEMENT PROGRAM HAD BECOME A

STEADILY MORE PRODUCTIVE MEANS OF CONSERVING THE NATION'S HOUSING SUPPLY AND TO FURTHER IMPROVE THE PROGRAM, HUD SAID THAT IT PLANNED CERTAIN MANAGEMENT IMPROVEMENTS AND ADMINISTRATIVE CHANGES.

#### OPEN-SPACE LAND

I WOULD NOW LIKE TO DISCUSS SOME OF OUR WORK UNDER ANOTHER COMMUNITY DEVELOPMENT PROGRAM--THE FEDERALLY ASSISTED OPEN-SPACE LAND PROGRAM. IN A REPORT DATED JUNE 16, 1971, TO THE CONGRESS, WE POINTED OUT THAT HUD HAD NOT ESTABLISHED PROCEDURES FOR INSURING THAT GRANTEES WERE OBTAINING HUD'S APPROVAL PRIOR TO THEIR LEASING OF OPEN-SPACE LAND AND THAT HUD HAD NOT DEVELOPED ANY REQUIREMENTS OR GUIDELINES ON THE USE OF REVENUES THAT WERE RECEIVED BY GRANTEES FROM THE LEASING OF LAND THEY HAD ACQUIRED UNDER THE PROGRAM. THE PURPOSE OF THE PROGRAM WAS TO PROVIDE FEDERAL ASSISTANCE TO HELP STATES AND LOCAL PUBLIC BODIES ACQUIRE LAND FOR SUCH PURPOSES AS CURBING URBAN SPRAWL, PROVIDING PARKS AND PRESERVING SCENIC AND HISTORICAL AREAS.

OUR EXAMINATION OF 21 OPEN-SPACE LAND PROJECTS--INVOLVING ABOUT 200 LEASE AGREEMENTS--SHOWED THAT 183 LEASE AGREEMENTS, OR ABOUT 92 PERCENT, HAD NOT BEEN APPROVED BY HUD. THE REVENUES RECEIVED BY THE GRANTEES UNDER THESE LEASE AGREEMENTS AMOUNTED TO ABOUT \$700,000. THESE FUNDS, HOWEVER, WERE DEPOSITED IN THE GRANTEE'S GENERAL OPERATING FUND ACCOUNT AND WERE NOT SET ASIDE AND UTILIZED FOR OPEN-SPACE LAND PROJECT ACTIVITIES.

WE SUGGESTED THAT HUD (1) ESTABLISH A SYSTEM OF PERIODIC SITE INSPECTIONS OF OPEN-SPACE PROJECTS TO INSURE THAT GRANTEES OBTAIN

HUD'S APPROVAL PRIOR TO THEIR LEASING OF OPEN-SPACE LAND, (2) ESTABLISH GUIDELINES FOR THE APPROVAL OF GRANTEE REQUESTS TO LEASE OPEN-SPACE LAND TO INSURE THAT THE PROPOSED LEASE IS COMPATIBLE WITH THE INTENT OF THE PROGRAM AND THE TIMELY DEVELOPMENT OF THE LAND FOR OPEN-SPACE USES, AND (3) PLACE RESTRICTIONS ON THE USE OF REVENUES RECEIVED FROM THE LEASING OF OPEN-SPACE LAND.

HUD ISSUED INSTRUCTIONS TO ALL OF ITS REGIONAL ADMINISTRATORS IMPLEMENTING OUR SUGGESTIONS.

IN A RELATED REPORT TO THE SECRETARY OF HUD ON MARCH 8, 1972, WE STATED THAT OUR REVIEW OF 26 OPEN-SPACE LAND PROJECTS SHOWED ALSO THAT FOR CERTAIN OF THESE PROJECTS

- LAND ACQUIRED FOR PARKS AND GENERAL RECREATIONAL AREAS HAD NOT BEEN DEVELOPED WITHIN A REASONABLE PERIOD OF TIME,
- LAND ACQUIRED TO HELP GUIDE FUTURE URBAN GROWTH AND DEVELOPMENT WAS BEING RETAINED ALTHOUGH IT APPEARED TO BE NO LONGER NEEDED FOR SUCH PURPOSES,
- GRANTEES CONVERTED LAND TO OTHER THAN OPEN-SPACE USES WITHOUT HUD'S KNOWLEDGE OR APPROVAL, AND
- GRANTEES DID NOT MAKE THE REQUIRED IDENTIFICATION THAT THE LAND WAS ACQUIRED UNDER THE FEDERALLY AIDED OPEN-SPACE PROGRAM AND DID NOT MAKE THE LAND AVAILABLE FOR THE USE OF THE GENERAL PUBLIC.

WE SUGGESTED THAT HUD REQUIRE ITS REGIONAL OFFICE REPRESENTATIVES TO MONITOR GRANTEE'S ACTIVITIES TO HELP INSURE THAT GRANTEES ARE COMPLYING FULLY WITH THE PROVISIONS OF THE HUD GRANTS AWARDED FOR THE ACQUISITION AND/OR DEVELOPMENT OF OPEN-SPACE LAND.

IN COMMENTING ON OUR REPORT, HUD CITED CERTAIN MEASURES IT HAD TAKEN AND PLANNED TO TAKE TO IMPROVE THE ADMINISTRATION OF THIS PROGRAM. HUD SAID THAT GRANTEEES WOULD BE REQUIRED TO REPORT REGULARLY ON WHETHER OPEN-SPACE LAND WAS BEING USED IN ACCORDANCE WITH THE PROVISIONS OF THE GRANT CONTRACTS AND THAT GRANTEEES WHO DID NOT SUBMIT THIS INFORMATION WOULD BE SUBJECT TO SITE VISITS AND APPROPRIATE ACTION BY HUD.

#### NEIGHBORHOOD FACILITIES GRANT PROGRAM

THE NEXT PROGRAM I WOULD LIKE TO DISCUSS IS THE NEIGHBORHOOD FACILITIES GRANT PROGRAM. UNDER THIS PROGRAM HUD AWARDS GRANTS TO LOCAL PUBLIC BODIES OR AGENCIES TO ASSIST THEM IN THE CONSTRUCTION OF NEIGHBORHOOD FACILITIES. HUD REQUIRES THAT THESE NEIGHBORHOOD FACILITIES, OR CENTERS AS THEY ARE COMMONLY REFERRED TO, SHOULD BE USED TO PROVIDE A WIDE RANGE OF SERVICES, SUCH AS HEALTH, WELFARE, RECREATION, AND CULTURAL SERVICES, TO THE RESIDENTS OF THE COMMUNITY. WE UNDERTOOK A REVIEW OF THIS PROGRAM IN SEVERAL LOCATIONS TO DETERMINE WHETHER GRANTEEES WERE ACTUALLY PROVIDING THE HUD-REQUIRED MULTISERVICE PROGRAMS.

IN A REPORT TO THE SECRETARY OF HUD IN 1972, WE POINTED OUT THAT MORE EFFECTIVE REVIEWS OF GRANTEE APPLICATIONS SHOULD BE PERFORMED BY HUD AND THAT HUD SHOULD ALSO INCREASE ITS EFFORTS TO HELP INSURE THAT GRANTEEES ESTABLISH AND OPERATE MULTISERVICE PROGRAMS. WE VISITED FOUR CENTERS LOCATED WITHIN THE JURISDICTION OF ONE HUD REGIONAL OFFICE AND NOTED THAT THREE OF THE GRANTEEES DID NOT ESTABLISH THE REQUIRED MULTISERVICE PROGRAMS. FURTHER, WE FOUND THAT EVIDENCE WAS AVAILABLE TO

HUD, BEFORE IT HAD AWARDED GRANTS OF ABOUT \$900,000 TO THE THREE CENTERS, WHICH SHOWED THAT GRANTEEES WOULD NOT BE ABLE TO PROVIDE VIABLE MULTI-SERVICE PROGRAMS.

WE RECOMMENDED THAT HUD PRESCRIBE MEASURES TO HELP INSURE THAT

- (1) GRANTEEES ESTABLISH AND PROPERLY IMPLEMENT MULTISERVICE PROGRAMS AND
- (2) DURING THE APPLICATION REVIEW PROCESS, PROJECTS ARE IDENTIFIED WHICH HAVE ONLY A MINIMAL POTENTIAL FOR MEETING THE BASIC GOALS AND OBJECTIVES OF THE PROGRAM TO DETERMINE WHETHER SUCH PROGRAMS SHOULD BE APPROVED.

HUD SAID IT HAD RECOGNIZED THERE WERE WEAKNESSES IN THE ADMINISTRATION OF THE NEIGHBORHOOD FACILITIES GRANT PROGRAM AND ACTIONS WOULD BE TAKEN TO CORRECT THOSE WEAKNESSES. THOSE ACTIONS INCLUDED A REVIEW OF THE PROGRAM TO DETERMINE THE TYPE OF SERVICES ACTUALLY BEING PROVIDED AT THE CENTERS. ALSO, HUD MET WITH OFFICIALS OF THE DEPARTMENT OF HEALTH, EDUCATION AND WELFARE (HEW) TO EXPLORE WAYS IN WHICH HEW'S SOCIAL SERVICE PROGRAMS COULD BE INCLUDED AMONG THE ACTIVITIES OF THE NEIGHBORHOOD CENTERS.

#### MODEL CITIES PROGRAM

FINALLY, I WOULD LIKE TO GIVE YOU A BRIEF OVERVIEW OF THE WORK WE HAVE PERFORMED IN THE MODEL CITIES PROGRAM AREA. WE HAVE ISSUED SEVERAL REPORTS WHICH I WOULD LIKE TO DISCUSS. IN JANUARY 1972 WE RECOMMENDED TO THE DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET (OMB) THAT ACTION BE TAKEN TO IMPROVE FEDERAL AGENCY COORDINATION AND PARTICIPATION IN THE MODEL CITIES PROGRAM.

IN THIS REPORT WE POINTED OUT THAT A FEDERAL INTERAGENCY STUDY TEAM HAD PREVIOUSLY SHOWN THAT FEDERAL AGENCY COMMITMENTS, BOTH FINANCIAL AS WELL AS STAFFING, TO THE MODEL CITIES PROGRAM HAD NOT BEEN ADEQUATE TO ACCOMPLISH THE OBJECTIVES OF THE PROGRAM. DURING OUR WORK, WE NOTED THAT HUD AND OTHER FEDERAL AGENCIES OFTEN HAD NOT AGREED ON THE APPROPRIATE LEVELS OF FEDERAL FUNDING AND STAFFING COMMITMENTS THAT WERE NECESSARY TO ACCOMPLISH THE CONGRESSIONAL GOALS OF THE MODEL CITIES PROGRAM. ACCORDINGLY, WE RECOMMENDED THAT THE DIRECTOR, OMB, MONITOR AND PERIODICALLY EVALUATE THE LEVEL OF FEDERAL AGENCIES' RESPONSES TO THE PROGRAM AND MAKE SUCH SUGGESTIONS AND RECOMMENDATIONS TO THE PARTICIPATING FEDERAL AGENCIES AS APPEAR TO BE APPROPRIATE UNDER THE CIRCUMSTANCES TO HELP INSURE THAT THE AGENCIES RESPOND TO THE MODEL CITIES CONCEPT AT A LEVEL THAT WAS CONSISTENT WITH THE ADMINISTRATION'S EXPRESSED SUPPORT OF THE PROGRAM.

OMB OFFICIALS SAID THE INTERAGENCY PROBLEMS UNDER THE MODEL CITIES PROGRAM WERE BEING CONSIDERED UNDER THE ADMINISTRATION'S PROPOSALS RELATIVE TO THE REORGANIZATION OF THE EXECUTIVE BRANCH OF THE FEDERAL GOVERNMENT.

IN ANOTHER REPORT WHICH WE ISSUED TO THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT ON JANUARY 9, 1973, WE DISCUSSED THE OPPORTUNITIES FOR IMPROVING THE MODEL CITIES PROGRAM IN SAN ANTONIO, TEXAS. ON THE BASIS OF OUR REVIEW OF THE PLANNING, DEVELOPMENT, AND IMPLEMENTATION OF THE PROGRAM IN THAT CITY, WE RECOMMENDED THAT THE SECRETARY REQUIRE THE LOCAL MODEL CITIES AGENCY TO SOLICIT THE VIEWS

OF MODEL NEIGHBORHOOD RESIDENTS IN EVALUATING MODEL CITIES PROGRAMS AND PROJECTS, COORDINATE ITS EFFORTS WITH THOSE OF ESTABLISHED AGENCIES, AND SOLICIT AND UTILIZE TECHNICAL ASSISTANCE FROM FEDERAL AGENCIES. HUD AGREED WITH OUR OVERALL FINDINGS AND RECOMMENDATIONS AND SAID THAT ITS DECENTRALIZATION OF THE MODEL CITIES PROGRAM TO ITS AREA OFFICES SHOULD STRENGTHEN THE PROGRAM AND HELP ALLEVIATE MANY OF THE PROBLEMS WE NOTED IN THE SAN ANTONIO PROGRAM.

IN A REPORT TO THE CONGRESS IN JANUARY 1973, WE SHOWED THAT THERE WERE OPPORTUNITIES TO IMPROVE THE MODEL CITIES PROGRAM IN KANSAS CITY AND SAINT LOUIS, MISSOURI, AND NEW ORLEANS, LOUISIANA. IN THE THREE CITIES, WE REVIEWED PROJECTS INITIATED IN FOUR SEPARATE FUNCTIONAL AREAS: (1) MANPOWER, (2) ECONOMIC DEVELOPMENT, (3) EDUCATION, AND (4) HEALTH. WE FOUND THAT THE CITIES HAD VARYING DEGREES OF SUCCESS IN ATTAINING THE ANNUAL GOALS OF THEIR MODEL CITIES PROJECTS. FOR EXAMPLE, IN THE EDUCATIONAL AREA, ALL CITIES ACCOMPLISHED THEIR GOALS: HOWEVER, IN THE HEALTH PROGRAM AREA WE FOUND THAT SEVERAL PROJECTS WERE NOT FULLY OPERATIONAL. ALTHOUGH IT WAS DIFFICULT TO SPECIFICALLY IDENTIFY THE MAJOR FACTORS WHICH HAD AFFECTED THE ABILITY OF THE LOCAL MODEL CITIES AGENCIES TO ATTAIN ALL THEIR ANNUAL PROJECT GOALS, WE BELIEVE THE FOLLOWING WEAKNESSES IN THE ADMINISTRATION OF THE PROGRAM BY HUD AND THE LOCAL AGENCIES MAY HAVE BEEN CONTRIBUTING FACTORS.

--THE CITIES, IN THEIR PLANS SUBMITTED TO HUD, USED DATA ON NEIGHBORHOOD CONDITIONS THAT WAS, IN MANY CASES, NEITHER CURRENT NOR SUFFICIENTLY COMPLETE TO INSURE SOUND MANAGEMENT DECISIONS ON THE EXTENT AND CAUSES OF NEIGHBORHOOD PROBLEMS.

--THE CITIES DID NOT USE HUD SUPPLEMENTAL FUNDS TO DEVELOP PROGRAMS CONTAINING NEW AND INNOVATIVE PROJECTS TO THE EXTENT WE BELIEVE WAS ANTICIPATED BY THE CONGRESS WHEN IT PASSED THE MODEL CITIES ACT; INSTEAD, SUPPLEMENTAL FUNDS WERE USED TO EXPAND EXISTING PROGRAMS.

--THE CITIES GENERALLY WERE NOT SUCCESSFUL IN OBTAINING FEDERAL GRANT-IN-AID FUNDS OR STATE AND LOCAL FUNDS TO SUPPORT THEIR MODEL CITIES PROGRAMS, AND

--THE CITIES DID NOT DEVELOP SUITABLE EVALUATION PLANS TO MEASURE PROGRESS IN ACCOMPLISHING OBJECTIVES OF THEIR MODEL CITIES PROGRAMS.

WE MADE SEVERAL RECOMMENDATIONS TO THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT WHICH WERE DESIGNED TO CORRECT THE WEAKNESSES WE NOTED IN THE ADMINISTRATION OF THE PROGRAM. HUD ADVISED US THAT OUR COMMENTS ON SPECIFIC PROGRAM AREAS WERE GENERALLY APPLICABLE TO THE ENTIRE MODEL CITIES PROGRAM.

IN ADDITION, AS A RESULT OF OUR REVIEW OF HUD'S PROCEDURES AND PRACTICES FOR PROVIDING TECHNICAL ASSISTANCE TO CITIES PARTICIPATING IN THE MODEL CITIES PROGRAM, WE ISSUED TWO REPORTS TO THE ASSISTANT SECRETARY. IN THESE REPORTS WE POINTED OUT THAT MONITORING OF TECHNICAL ASSISTANCE CONTRACTS BY HUD REGIONAL AND AREA OFFICES WAS VIRTUALLY NONEXISTENT AND THAT TECHNICAL ASSISTANCE PROVIDED BY HUD CONTRACTORS WAS, IN SOME CASES, LIMITED AND/OR INADEQUATE. IN ADDITION, WE POINTED OUT THAT HUD DID NOT OBTAIN, FROM THE LOCAL MODEL CITIES

AGENCIES RECEIVING THE TECHNICAL ASSISTANCE, INFORMATION ON THE PERFORMANCE OF THE CONTRACTORS DURING THE CONTRACT PERIOD OR AT THE CONCLUSION OF THE CONTRACT.

WE RECOMMENDED, THEREFORE, THAT HUD, AS A MINIMUM, REQUIRE LOCAL MODEL CITIES AGENCIES--FOR CURRENT AND FUTURE TECHNICAL ASSISTANCE CONTRACTS--TO PROVIDE PERIODIC REPORTS TO HUD DURING THE CONTRACT PERFORMANCE PERIOD, AND SUBMIT A FORMAL WRITTEN REPORT TO HUD AT THE CONCLUSION OF EACH CONTRACT TO HELP INSURE THAT THE TECHNICAL ASSISTANCE FURNISHED IS RESPONSIVE TO THE NEEDS OF THE CITIES AND TO AID IN MAKING THE NECESSARY EVALUATIONS OF CONTRACTORS' PERFORMANCE. IN ADDITION, WE RECOMMENDED THAT HUD REQUIRE ITS REGIONAL AND AREA OFFICES TO CLOSELY MONITOR THE ACTIVITIES OF HUD CONTRACTORS AND FURNISH HEAD-QUARTERS OFFICIALS WITH INFORMATION ON THE CONTRACTOR'S PERFORMANCE AND THE EFFECTIVENESS AND RESULTS OF THE ASSISTANCE PROVIDED TO LOCAL AGENCIES.

HUD AGREED WITH OUR FINDINGS AND, IN APRIL 1973, INFORMALLY ADVISED US THAT OUR RECOMMENDATIONS WERE BEING IMPLEMENTED.

THIS CONCLUDES MY PREPARED STATEMENT, MR. CHAIRMAN. WE SHALL BE PLEASED TO RESPOND TO ANY QUESTIONS THE MEMBERS OF THE SUBCOMMITTEE MAY HAVE.