

New Standards for a New Century:

The Transformation of HUD's Systems for Monitoring and
Enforcing the Quality of HUD-Assisted Housing

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Executive Summary

New Standards for a New Century: The Transformation of HUD's Systems for Monitoring and Enforcing the Quality of HUD-Assisted Housing^a

In the past two years, the U.S. Department of Housing and Urban Development (HUD) has developed and implemented a new system of assessment, monitoring, and enforcement to ensure the quality of the HUD-assisted housing stock. The design of the new system addresses longstanding concerns with the Department's ability to fulfill its statutory mandate, as set out in the Housing Act of 1937, to provide decent, safe, and sanitary housing in good repair. The system supports two key missions set out in HUD Secretary Andrew Cuomo's HUD 2020 Management Reform Plan of 1997: to empower people and communities and to restore the public trust.

To implement the new system, HUD has established three new agencies: the Real Estate Assessment Center ("Assessment Center") assesses the condition and performance of public and multifamily housing, while the Departmental Enforcement Center ("Enforcement Center") and the Office of Troubled Agency Recovery, with two associated Centers ("Recovery Centers"), help to remediate any identified problems and enforce basic quality standards.

Why the New System Is Needed

Almost three million low-income households—most of them families with children, seniors, or persons with disabilities—live in rental units subsidized or insured by HUD. Some 1.1 million live in the approximately 14,000 developments owned and managed by the Nation's 3,200 local public housing agencies (PHAs). The remainder live in approximately 30,000 privately owned and operated multifamily assisted housing properties.^b

Monitoring the condition, management, and viability of these 44,000 subsidized properties is a huge but necessary task. The residents of public and multifamily housing are entitled to homes that are decent, safe, and in good

^a For purposes of this report, the term "HUD-assisted housing" includes public housing, properties with project-based Section 8 assistance or other project-based assistance, and FHA multifamily insured properties.

^b In addition to the project-based subsidies that are the subject of this report, more than 1.4 million households have Federal rental vouchers that help them afford the costs of rental housing that they locate in the private market.

repair. Without an effective system of oversight, there is no way to ensure that the residents are protected. Moreover, HUD has a fiduciary obligation to the American people to ensure accountability in the expenditure of Federal funds for its assisted housing stock. HUD must ensure that landlords who receive public money to invest in and maintain their properties are not pocketing the Federal funds that should be going to help tenants.

Prior to the HUD 2020 management reforms, HUD lacked an effective system for assessing, monitoring, and enforcing quality standards for its assisted rental housing. HUD knew that problems existed with the quality of some of its public and multifamily housing stock. However, its earlier monitoring system was insufficient to allow the Department to identify problems quickly, accurately report their extent, and target resources to the properties with the worst problems. Even where the prior monitoring system effectively evaluated certain aspects of performance, the scope was usually incomplete—the system looked at a narrow range of indicators that didn't reflect a full picture of housing quality. It also did not provide regular input from residents on what they thought of their communities.

The prior monitoring system suffered from a host of other problems that undermined the Federal oversight role. Responsibilities for enforcement were assigned to the same HUD personnel who needed to develop positive working relationships with the housing providers they serviced, creating potential role conflicts. Data systems were often antiquated, cumbersome, and not well integrated. HUD lacked the basic information necessary even to identify the location of all its developments, let alone the data on physical and financial conditions needed to enforce quality standards.

As Secretary Cuomo commented in 1999 on the release of a report^c on the new Assessment Center:

For too long, when people heard the words “subsidized housing,” they immediately thought of another government program gone wrong. The truth is a small number of problems overshadowed the real success of affordable housing in our Nation. But perception is everything, and for our part, HUD never demonstrated that we could effectively account for the quality of the housing we support.

HUD's challenge was to build a new system for assessment, monitoring, and compliance with a downsized workforce at a time when Congress and others were demanding less, not more, involvement from the Federal Government. Its response to this challenge was laid out in the HUD 2020 Management Reform Plan. HUD created three new dedicated agencies: an Assessment Center to

^c U.S. Department of Housing and Urban Development, *A House in Order: Results From the First National Assessment of HUD Housing*, cover letter, May 1999.

assess the condition of both multifamily and public housing; an Office of Troubled Agency Recovery with two associated Recovery Centers to provide technical assistance and support for public housing agencies; and an Enforcement Center to follow up on referrals by the Assessment Center and other HUD offices.

The New System for Monitoring and Enforcing Housing Quality

In consultation with local provider partners, industry organizations, advocacy groups, resident groups, and other stakeholders, HUD has moved from an organizational plan to its new assessment, monitoring, and enforcement system in less than three years. The three offices that implement this system are fully operational:

- **Real Estate Assessment Center.** The Assessment Center provides independent assessments of the physical quality and financial condition of public housing and multifamily developments. It also assesses the management capacity of public housing agencies and resident satisfaction with public housing developments. The Assessment Center uses the Public Housing Assessment System (PHAS), a versatile, state-of-the-art, multicomponent, integrated database to assess the performance of PHAs. The Assessment Center also uses two of the four PHAS components to assess the condition of multifamily properties. Assessments trigger remediation efforts by the Recovery Centers for PHAs and investigations by the Enforcement Center for multifamily properties.
- **Troubled Agency Recovery Centers.** The two Recovery Centers, under the aegis of the Office of Troubled Agency Recovery, work with housing agencies with “troubled” performance ratings to develop remediation plans and provide targeted technical assistance.
- **Departmental Enforcement Center.** The Enforcement Center uses a variety of legal and programmatic tools to enforce quality standards at multifamily properties. The Enforcement Center is also charged with seeking receivership for PHAs that do not show sufficient progress under the Recovery Centers.

Principal Benefits of the New System

The new system of assessment and enforcement has greatly strengthened HUD’s monitoring capabilities. Specifically, the new system gives HUD the capacity to:

- **Use limited resources more effectively by reorganizing the division of functions across offices.** The new system has consolidated the assessment, remediation, and enforcement functions into specialist centers, allowing HUD’s program offices to concentrate on servicing and support. This

reorganization puts the assessment and enforcement functions in the hands of specialists trained in these functions and removes the potential conflict of interest that occurs when the same offices are assigned both service and compliance functions.

- **Accurately assess the performance of HUD’s public housing and multifamily assisted developments.** The new system establishes, for the first time, a consistent set of performance indicators for the physical and financial condition of public and multifamily housing. Using state-of-the-art technology, standardized protocols, independent inspectors and auditors, and a series of quality assurance checks at every stage of the assessment process, the new system reduces subjectivity and promotes fairness in the assessment process. The new system enables HUD to identify and differentiate between situations where early intervention may prevent relatively small problems from becoming serious and situations where remediation of serious problems is necessary. It also enables HUD to identify and reward strong performers.
- **Provide effective mechanisms for dealing with the most serious problems.** Under the new system, troubled PHAs are referred to the Recovery Centers, where Center staff, who have extensive program knowledge as well as specialist expertise in dealing with problems in areas such as financial management, facilities management, and information systems, provide critical input into the development of recovery strategies. The Recovery Centers also provide technical assistance targeted to the individual agency’s problems. Substandard multifamily properties are referred to the Enforcement Center, where staff draw on a wide range of program, financial, and legal expertise to deal with the most complex and difficult problems in multifamily housing.
- **Provide incentives for self-improvement by assisted-housing providers.** The new system provides a “carrot” to PHAs and multifamily property owners to improve performance by offering rewards, such as less frequent inspections to high performers. At the same time, it provides a “stick” in the form of the Enforcement Center. Early experience indicates that the very existence of an effective and credible enforcement system encourages compliance.
- **Establish a baseline against which to measure progress in the physical condition of HUD-assisted stock.** The Assessment Center has completed a comprehensive survey of the physical condition of the HUD-assisted stock as a whole, including both public and multifamily housing. It has thus created a national baseline against which to measure future progress. In FY 1999, 80 percent of public housing developments and 86 percent of multifamily properties were found to be in standard or excellent condition, indicating that, while there is room for improvement, the vast majority of properties are

in decent condition.

- **Live up to its fiduciary responsibility to taxpayers.** HUD's oversight role is crucial to ensuring that assisted families live in decent and safe housing and that recipients of Federal funds are held accountable for how they spend the public's money. By establishing its new assessment and enforcement system and by continuing to work with its affordable housing partners to implement and improve it, HUD is more effectively meeting its fiduciary obligations.

Together, these new capabilities ensure that the Department is better positioned to meet its mandate to provide decent, safe, and sanitary housing to the low-income residents who live in HUD-assisted properties.

Accomplishments

The new monitoring and enforcement system has already developed a strong track record. It is helping HUD meet its fundamental fiduciary obligation to ensure effective oversight of the expenditure of Federal funds, fulfill its statutory responsibilities to the residents of assisted housing and taxpayers, and regain the public trust. The system has gained significant recognition within a few short years. The data system developed for the financial assessment of multifamily properties won a Best Practice Award from the Association of Government Accountants and a technology award at the E-Gov 2000 conference from the Government Solutions Center. The physical inspection system won the Government Technology Leadership Award from *Government Executive* magazine in December 1999. The U.S. Department of Agriculture is establishing its own enforcement center based on the HUD model.

Highlights of the Centers' accomplishments to date are listed below.

The Assessment Center has:

- Developed and implemented protocols for assessing physical and financial condition, management capacity, and resident services and satisfaction in consultation with HUD's affordable housing partners.
- Provided an accurate count and a first-ever overview of HUD-assisted housing and its physical condition.
- Completed over 60,000 physical inspections to date.
- Reviewed financial statements for more than 31,600 multifamily assisted properties and more than 2,100 public housing agencies.
- Performed assessments of management capacity and resident satisfaction in more than 3,150 PHAs.

The Enforcement Center has:

- Received 1,595 multifamily property referrals between September 1,

1998, and August 15, 2000.

- Resolved 728 multifamily cases:
 - ◊ Forty-two percent of the cases were resolved after a comprehensive evaluation by the Enforcement Center determined either that the problem had been remedied or that no enforcement action was necessary. These cases were returned to the Office of Housing for normal servicing. In practically all of these cases, the owner, as a combined effect of the score it received from the Assessment Center and the property's referral to the Enforcement Center, took steps to avoid further Enforcement Center action, such as fixing up the property or reimbursing HUD for questionable payments.^d
 - ◊ Twenty-one percent were resolved after an action plan (or other negotiated action) was agreed upon by the Enforcement Center, the Multifamily Hub, and the owner to resolve the property's problems.
 - ◊ Thirty-five percent were resolved through unilateral action taken by the Enforcement Center.
 - ◊ Two percent were resolved by referral to HUD's Inspector General or the Department of Justice.
- Through its actions in multifamily cases, saved HUD and taxpayers \$8.3 million through reimbursements by multifamily property owners for misused funds or past inflation of funding requests and \$14.4 million through abatement or termination of Section 8 contracts.
- Spurred owners to invest \$46 million in their properties through negotiated actions.

The Recovery Centers have:

- Worked with 97 troubled housing agencies and restored over half of these (52 percent) to recovered status.
- Provided \$9.6 million in contract technical assistance services to troubled agencies in FY 1999, with an average value per agency of \$80,000.
- Reduced the average time for troubled agency recovery from 1.5 years to 8.3 months.

^d Actions taken by owners to avoid Enforcement Center action in these cases generated considerable savings for HUD and owner investment in properties in addition to the savings and investment in properties reported in the bullets in the main text.

Findings on Physical Conditions

One of the new assessment system's major accomplishments to date has been to provide a first-ever overview of the physical condition of HUD-assisted housing, a basic indicator of the quality of life of residents. Highlights:

- Approximately 84 percent of all properties in the HUD-assisted stock were in standard or excellent condition.^e About one-third (32 percent) were in excellent condition.
- The majority of both multifamily properties and public housing developments were in standard or excellent condition, including 86 percent of the multifamily properties and 80 percent of public housing properties. More than one-third (36 percent) of multifamily properties and approximately one-fourth of public housing developments were in excellent condition.
- Overall, 16 percent of multifamily and public housing developments were in substandard condition, including 14 percent of multifamily properties and 20 percent of public housing developments.
- Larger properties and properties located in the Northeast or in central cities were more likely to receive assessments indicating substandard condition.

About the Report

Chapter 1 explains why HUD's new system of monitoring and enforcement was needed, how it is structured, and what it has accomplished. Chapter 2 explains how the new system works, Chapter 3 discusses some of its accomplishments, and Chapter 4 presents baseline data on HUD-assisted housing provided from the first year of physical inspections under the Assessment Center.

^e See Chapter 4 for discussion of the different categories used to classify performance.

