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RELEASED

Selected Aspects Of The Operation Of The St. Louis Housing Authority

B-118718

Department of Housing and
Urban Development

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

089274

~~APRIL 15, 1971~~ APRIL 21, 1971

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-118718

Dear Mr. Clay:

The General Accounting Office has examined into selected aspects of the operation of the St. Louis Housing Authority, which develops, owns, and operates low-rent public housing projects in St. Louis, Missouri. The review was made in accordance with your request of February 13, 1970, and subsequent discussions with you and your staff.

The results of our examination are summarized in the digest. We plan to make no further distribution of this report unless copies are specifically requested, and then we shall make distribution only after your agreement has been obtained or public announcement has been made by you concerning the contents of the report.

We did not obtain written comments on the matters discussed in this report from the Department of Housing and Urban Development, the St. Louis Housing Authority, the St. Louis Housing Authority's board of commissioners, or the St. Louis Civic Alliance. This fact should be taken into consideration in any use made of the information presented.

We trust that the information furnished will serve the purpose of your request.

Sincerely yours,

Comptroller General
of the United States

The Honorable William L. Clay
House of Representatives

COMPTROLLER GENERAL'S REPORT TO THE HONORABLE WILLIAM L. CLAY HOUSE OF REPRESENTATIVES

SELECTED ASPECTS OF THE OPERATION OF THE ST. LOUIS HOUSING AUTHORITY Department of Housing and Urban Development B-118718

D I G E S T

WHY THE REVIEW WAS MADE

In October 1969, the tenants of low-rent public housing in St. Louis, Missouri, ended a 9-month rent strike against the St. Louis Housing Authority (hereinafter referred to as the Authority). The strike settlement agreement provided for management of the projects by a newly formed coalition including tenants, community leaders, and Teamsters Union officials, known as the St. Louis Civic Alliance for Housing (hereinafter referred to as the Alliance), and for the appointment of a new board of commissioners of the Authority. Two members of the board were to be tenants of low-rent public housing.

At the request of Congressman William L. Clay, the General Accounting Office (GAO) reviewed seven areas of the Authority's operations in relation to requirements established by the Department of Housing and Urban Development (HUD). (See pp. 4 to 7.) The areas are discussed under italic subheadings in the following section.

The Authority as of June 1970 had about 8,000 housing units, in operation or under construction, for which HUD was providing most of the funds.

GAO did not obtain written comments on the matters discussed in this report from HUD, the Authority, the Authority's board of commissioners, or the Alliance.

FINDINGS AND CONCLUSIONS

Arrangements between Authority and Alliance

The management of low-rent public housing by the Alliance contemplated by the rent strike settlement agreement did not materialize. An Alliance report in April 1970 indicated that a management contract was being prepared. Alliance officials, however, advised GAO that the management idea had been abandoned. The Authority's board of commissioners said that it was unaware of this and informed GAO that a written agreement was needed which would define the roles of all parties involved in St. Louis public housing. HUD officials stated that they considered the Authority's board of commissioners to be the official body operating St. Louis public housing. (See pp. 8 to 14.)

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APRIL 21, 1971

Turnkey housing projects

The developers of the Authority's 25 "turnkey" housing projects were selected before the Alliance was formed. (Turnkey housing refers to projects constructed by a private developer on his own site for subsequent purchase by a local housing authority.) GAO found that four members and/or executives of the Alliance had an interest in six of the 25 turnkey projects as either project developers or consultants to the developers. Those six projects were initiated and received HUD approval prior to the formation of the Alliance. The Authority had awarded a contract for one of the projects in July 1969. The final price for the remaining projects had not been negotiated at the time of GAO's review. (See pp. 15 to 25.)

Tenants appointed to board

As a condition for ending the rent strike, two tenants were appointed to the Authority's board of commissioners in October 1969. These tenants were appointed about 2 months after the Missouri attorney general had expressed the opinion that such appointments were contrary to Missouri law. The HUD General Counsel, in November 1969, issued a legal opinion indicating that HUD had no objection to, and indeed encouraged, the appointment of tenants as commissioners when permissible under State and local law. (See pp. 26 to 31.)

The rental rate charged one of the tenants on the board of commissioners was reduced at the time new rent schedules were put into effect, on the basis of the tenant's statement that he had no income. This action was subsequent to his appointment to the board of commissioners. (See pp. 32 to 35.)

Dismissal of employees

In February 1970, the Authority terminated the services of 103 employees, who were selected by a private management consultant employed by the Alliance. The consultant could provide no documentation to support the manner of selection. He informed GAO that the criteria used were primarily economic as he had been directed by the Alliance to reduce the Authority's payroll as much as possible. By March 31, 1970, 31 of the terminated employees had been rehired by the Authority. HUD had no requirements for housing authority personnel practices other than that housing authorities follow personnel policies compatible with local practice. (See pp. 36 to 39.)

Rents withheld

Rents amounting to $769,205 were not paid during the rent strike. During the first 3 months of the strike, some of the tenant strikers paid rent to strike leaders, who deposited the funds in bank accounts. Through court action, the Authority obtained $108,017 of those funds. Subsequently, the strike leaders collected additional rentals of $112,907,

which were returned to the tenants when the strike ended. The application of rents attached by the court and rent credits and adjustments required by the strike settlement agreement reduced the rent owed to the Authority after the strike to $344,600. (See pp. 40 to 46.)

Status of delinquent rents

As of March 31, 1970, rents totaling $698,600 were owed to the Authority, including $537,100 owed by resident tenants and $161,500 owed by tenants who had vacated. The Authority took no significant actions to collect delinquent rents from the end of the rent strike in October 1969 until June 1970 because of the delay caused by the computation and application of various rent credits required by the strike settlement agreement. In June 1970, the Authority began filing lawsuits against resident tenants for collection of rents not paid by tenants subsequent to the rent strike. Tenants who had vacated were told that, unless they paid, their accounts would be given to a collection agency. The collection agency's fee is 50 percent of the amount collected. Neither the Alliance nor HUD has taken an active role in the collection of delinquent rents owed to the Authority. (See pp. 47 to 52.)

Modernization program

In January 1970, HUD approved the Authority's plan for a $1.1 million modernization program prepared by the Alliance. Funds were made available from unexpended money previously provided by HUD for another program, contingent upon the Authority's agreement to terminate work on the other program at the earliest practicable date.

In fiscal year 1970, HUD allocated another $5 million in modernization funds for the Authority. The $5 million was not made available because a physical security program had not been established for St. Louis public housing. (See pp. 53 to 59.)

Contents

ABBREVIATIONS

CPA	Certified Public Accountant
GAO	General Accounting Office
HUD	Department of Housing and Urban Development

COMPTROLLER GENERAL'S REPORT TO THE HONORABLE WILLIAM L. CLAY HOUSE OF REPRESENTATIVES

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CHAPTER 1

INTRODUCTION

The General Accounting Office has reviewed selected aspects of the operation of the St. Louis Housing Authority, St. Louis, Missouri, following a rent strike by tenants of low-rent housing projects owned by the Authority. The Housing Act of 1937, as amended (42 U.S.C. 1401), authorizes the Department of Housing and Urban Development (HUD) to conduct a program of housing assistance under which local governments establish independent legal entities--known as local housing authorities--to develop, own, and operate low-rent public housing projects.

Our review was made in response to a request by Congressman William L. Clay in a letter to us dated February 13, 1970. At a meeting with the Congressman on March 2, 1970, we agreed to examine into the:

1. Contractual arrangements between the Authority and the St. Louis Civic Alliance for Housing, a coalition including community leaders and Teamsters Union officials.

2. Compliance with HUD requirements dealing with conflicts of interest on turnkey housing proposals, particularly the proposal for the James House project.

3. Inclusion of two public housing tenants on the board of commissioners of the Authority and the rent status and income eligibility of these two members.

4. Compliance with HUD regulations in the dismissal of about 100 employees of the Authority and the subsequent rehiring of some of them.

5. Disposition of rent moneys withheld by some tenants of the Authority's low-rent public housing projects during a 9-month rent strike.

6. Action being taken to collect delinquent rents owed by the tenants.

7. Amounts of modernization funds received by the Authority from HUD and the use being made of such funds.

The scope of our review is described in chapter 9.

In an attempt to have rents reduced and conditions improved, some of the tenants of the Authority's low-rent public housing projects withheld rent payments during the period February 1, 1969, to October 29, 1969. In June 1969, attempts to settle the rent strike reached an impasse and the Mayor of St. Louis requested Mr. Harold J. Gibbons, president of Teamsters Joint Council No. 13, to help solve the public housing dilemma by heading a civic fund-raising committee. Mr. Gibbons expressed the belief that the fund-raising approach would not provide a solution; however, he did initiate a series of meetings with Teamsters Union staff members to evaluate the entire St. Louis public housing situation. Subsequently a HUD task force surveyed the Authority's operations and held discussions with Teamsters officials. The task force reported to HUD that it was impressed with the expertise of the Teamsters representatives and recommended that management and operation of the St. Louis public housing program be turned over to the Teamsters.

In August 1969, the strike leaders urged Mr. Gibbons to assume leadership in the settlement of the strike. Mr. Gibbons accepted the strike leaders' invitation and initiated a series of meetings with community leaders to develop a coalition designed to settle the strike and supervise the St. Louis housing operations. On October 10, 1969, a coalition was formed which adopted the name St. Louis Civic Alliance for Housing. The Alliance included in its membership prominent professional, business, and religious leaders; tenants of public housing; and labor union officials, including Teamsters officials. The Alliance accepted a strike settlement program negotiated by Mr. Gibbons with the rent strike leaders and the Authority's new board of commissioners.

A memorandum of intent and understanding dated October 29, 1969, which incorporated the agreements negotiated, was executed by Mr. Gibbons, the strike leaders, and the commissioners of the Authority. It showed that the Authority's previous board of commissioners had resigned and that on October 28, 1969, the Mayor of St. Louis appointed the new commissioners, who had been recommended by the Alliance. The memorandum included a reduced schedule of rents and provided for the formation of a tenant affairs board, consisting of a tenant representative from each of the Authority's low-rent housing projects, to promote tenant participation in the management of the public housing. Other provisions of the memorandum were as follows:

1. The Authority would enter into a management contract with the Alliance for the administration, management, and improvement of the physical environment of the housing projects.

2. Two members of the Authority's board of commissioners would henceforth be tenants.

3. All withheld rents in custody of strike leaders would be returned to the tenants for payment to the Authority.

4. For tenants who had resided in conventional public housing since February 1, 1969, when the rent strike began, rent credits would be given, represented by the difference between rent paid under the present rent schedule (effective October 1, 1968) and the preceding rent schedule.

5. The Authority would drop the more than 500 lawsuits filed against the tenants during the rent strike and would assume all court costs.

6. All tenants who were in arrears in their rent payments would be allowed to pay the arrearages over a 2-year period.

7. After determination of the amount due from each tenant, a committee on withheld rents, appointed by the rent strike chairman of each project, would

determine the hardship cases and work out repayment schedules for each tenant.

8. The Authority would provide necessary office space, equipment, and materials for the tenant affairs board and its operations.

9. Training would be provided to the tenants of one or more of the projects which would result in the establishment of a tenant management corporation, or corporations, to assume all administrative and financial responsibilities of the projects.

The Alliance's operating guidelines dated November 10, 1969, showed that the aim of the Alliance was to find solutions to the problems facing the Authority through organization and technical investigation, including direct supervision of the Authority. The Alliance established 21 committees to review various areas of the Authority's operations. Teamsters representatives were assigned as technicians to nine of the committees and as advisors or resource persons to five of the committees. The president of the Alliance (Mr. Gibbons), the executive assistant to the president (Mr. Arthur E. Klein), and the acting director of the Alliance (Mr. Terence K. McCormack) were Teamsters officials.

The initial year's operating budget of the Alliance was $350,000 for which funds were to be solicited from the community. Its headquarters was in rented space in the Teamsters Council Plaza in St. Louis.

CHAPTER 2

ARRANGEMENTS BETWEEN THE ST. LOUIS HOUSING AUTHORITY AND THE CIVIC ALLIANCE FOR HOUSING FOR THE MANAGEMENT OF PUBLIC HOUSING IN ST. LOUIS

The Authority has no contract with the Alliance for the Alliance's management of public housing in St. Louis. Although a contract for the Alliance to manage the Authority's housing projects was agreed to in the October 1969 settlement of the rent strike, Alliance officials informed us that the idea had been abandoned because of legal obstacles to such a contract. A HUD attorney advised us that such a contract could involve conflicts of interest since certain Alliance officials are developers of, or consultants to developers of, turnkey housing projects for the Authority. Turnkey projects are housing projects constructed by a private developer on its own site for subsequent purchase by a local housing authority.

Members of the Authority's new board of commissioners (hereinafter referred to as the Board) and officials of the Alliance advised us that the Alliance was functioning only in an advisory capacity. Our review showed, however, that Alliance officials had attended both open and closed meetings of the Board and that the Board had adopted all the Alliance's recommendations of record. No minutes have been kept of closed meetings since February 1970.

In addition, the Authority's records showed that there had been extensive Alliance involvement in housing operations and that each member of the new Board had signed an undated letter of resignation and submitted it to the Alliance.

STATUS OF THE PROPOSED MANAGEMENT CONTRACT

On April 15, 1970, the Alliance issued a report on the management of its public housing activities. The report stated that the proposed contract for the management of public housing in St. Louis was not sufficiently finalized for

submission to HUD for approval as unforeseen problems and exigencies had arisen requiring changes.

On June 22, 1970, we met with Messrs. Arthur E. klein and Terence K. McCormack, Alliance executives, to discuss Alliance activities and the status of the proposed management contract. They stated that the Alliance was no longer interested in obtaining a management contract and that the idea had been abandoned. They said that the management idea was a philosophical concept which was discussed when the Alliance was being formed but that it was later discovered that there were many legal problems to such an arrangement.

The commissioners of the Authority informed us that they were not aware that the Alliance no longer anticipated the obtaining of a management contract. They stated that the Authority and the Alliance were working from day to day as though there were a formal contract and that they understood the Alliance attorneys were in the process of writing such a contract. They said that, in their opinion, there must be a written agreement to define the roles of all parties involved in St. Louis public housing.

An Assistant Counsel for HUD advised us that HUD probably would not approve a contract with the Alliance for the management of public housing in St. Louis since Alliance members were involved as turnkey housing developers for the Authority. He said that HUD had no legal basis for ruling on a possible conflict of interest under the current arrangement, since it would be difficult to establish that the Alliance controlled the Authority, but that a conflict of interest would exist through Alliance participation in turnkey projects if the Alliance did in fact control the Authority.

ALLIANCE INVOLVEMENT IN HOUSING OPERATIONS

The initial meeting of the new board of commissioners of the Authority was held on November 2, 1969. The Board agreed that the Authority would enter into an agreement with the Alliance for the management of public housing projects in St. Louis. At this meeting Messrs. Arthur E. Klein and Terence K. McCormack, Alliance executives, were retained for a period of a year as dollar-a-year consultants to the Board. Mr. Klein had informed the Board that he and Mr. McCormack were consultants to developers of three turn-key housing projects of the Authority.

In a second meeting on November 12, 1969, the Board approved the guidelines for the operation of the Alliance. Board actions in this meeting and in subsequent meetings show extensive Alliance involvement in housing operations as follows:

1. The Board authorized Messrs. Klein and McCormack to prepare and execute letters of authorization which would permit Alliance officials to review Authority records and documents, to meet and interview its staff, and to have access to all its housing projects.

2. The Board authorized Mr. Klein to reorganize the Authority's office and field staffs, to designate and assign certain of the Authority's staff to new positions and responsibilities, and to deal directly with the Authority's employees in implementing revised methods and procedures.

3. The Board authorized Mr. Klein to institute a purchase order system providing that no material or obligation for outside maintenance services could be incurred by anyone except those designated in advance by Mr. Klein.

4. The Board questioned the legal relationship between the Alliance and the Board and questioned whether the Board could legally authorize the Alliance staff to implement decisions before a contract for

management of public housing in St. Louis had been entered into by the Alliance and the Board. In a letter dated December 24, 1969, an Alliance attorney stated that he had prepared a tentative draft of a management contract which had been submitted to the rent strikers' attorney and to Mr. Klein for review. The attorney stated that he considered such a contract to be legal in all respects if entered into by the Board. The Board accepted the letter as legal advice providing firm ground for proceeding with authorizing the Alliance to execute its program for management of the Authority's housing projects as outlined and approved by Alliance directors.

5. The Board approved all the Alliance task force committees' reports that were approved previously by the Alliance's executive committee and board of directors and authorized the Alliance to proceed on the recommendations contained therein.

6. Mr. Klein presented to the Board a list of the Authority's employees to be terminated. The list had been previously submitted to and approved by the Alliance directors. The Board unanimously accepted the recommended list of terminations. (See chapter 5.)

7. Mr. McCormack reported to the Board that a tenant affairs team had been formed and that Mr. Jim Pace, a Teamsters official, had been assigned to coordinate all existing tenant committees. The Board authorized Mr. McCormack, working with the team, to proceed with a program for modernizing the Authority's housing projects where practical.

8. Mr. McCormack presented to the Board a letter that he had drafted to the HUD regional office at Fort Worth, Texas, enumerating the specifics of the modernization program, along with a copy of the operating budget for the Authority. He told the Board that he was going to the HUD regional office and wanted to take along the letter, the budget, and other data. The Board approved his request.

9. All meetings held by the new Board through February 10, 1970, had been closed meetings and were conducted at the Alliance headquarters with various Alliance representatives in attendance. Discussions by the Board on February 3, 1970, included suggestions that in the future the Board would conduct a closed special or executive meeting first for ticklish subjects and then have an open meeting. Certain items would be left off the agenda for the open meeting and held over for the next executive session. The Board decided on February 10, 1970, that closed meetings would be held on alternate weeks at the Alliance headquarters where Messrs. Klein and McCormack would be available and that no minutes would be kept of the closed meetings.

10. On February 10, 1970, the Board members discussed their undated resignation letters signed at the time of their appointments and requested clarification of the conditions under which the letters could be effected. The Authority's attorney suggested that the letters be considered as agreements to cooperate rather than resignations. Mr. Klein reminded the Board that, under the terms and conditions of the rent strike settlement, the commissioners had given their undated letters of resignation to the Alliance to be used only at the direction of the Alliance's board of directors after consultation with the tenant affairs board.

11. On April 7, 1970, the Board accepted the resignations of Messrs. Klein and McCormack as Board consultants. The resignations were offered after the HUD regional office ruled on February 27, 1970, that their participation as both consultants to the Board and to developers of turnkey housing projects for the Authority was a violation of the conflict-of-interest provisions of Missouri State law.

COMMISSIONERS' UNDATED LETTERS OF RESIGNATION

We discussed the undated letters of resignation signed by the members of the Board with Alliance executives, the commissioners, and HUD officials. None of these people expressed concern that the letters gave the Alliance undue influence in the management of the Authority.

The Alliance executives said the letters were required

--to ensure that the commissioners would comply with the terms of the strike settlement agreement,

--as a protection to the community since the commissioners were untried and could improperly administer the Authoriy, and

--to prevent the commissioners from dispensing with the services of the Alliance and the tenant affairs board.

The Alliance executives stated that the Alliance acts only in an advisory capacity, makes no decisions for the Authority, and that the Board can accept, reject, or modify Alliance suggestions. They said that the closed meetings with the Board are educational sessions held for the purpose of better informing and preparing the members of the Board for their duties and that no official decisions are made during these meetings.

The commissioners said that they did not object to the Alliance having the resignation letters and that they viewed the administration of the Authority as a team effort with responsibility shared by the commissioners, the Alliance, and the tenants. According to them, any commissioner who impeded the harmony of the team should be removed. They stated that Mr. Gibbons had assured them that the resignation letters could only be exercised by the Alliance's board of directors and the tenant affairs board, not by any one individual.

The commissioners told us that they were initially under the impression that the Board would be a rubber-stamp

organization to approve the Alliance's activities but that they were taking a far more active role in housing affairs than originally contemplated. They said that the Alliance participation was strictly on an advisory basis and that the Alliance had not tried to dominate the Board.

The HUD representatives stated that they had no official knowledge that the Alliance held the commissioners' undated letters of resignation. The HUD Acting Assistant Regional Counsel for Housing Assistance said that there was no law or HUD policy prohibiting such an arrangement and that a commissioner technically remained in office, even if he resigned during his appointed term, until a new commissioner was appointed by the mayor of the city.

Concerning the undated resignation letters submitted by the commissioners upon their appointment to the Alliance, we note that Missouri law provides that city housing authority commissioners can be appointed and removed only by the mayor of the city. The law provides further that the mayor can remove a commissioner for reasons of inefficiency, neglect of duty, or misconduct in office after charges against the commissioner have been presented in a hearing. In light of all the facts and circumstances, there could be some question as to whether such resignations would be binding if dated and accepted by the mayor, and the commissioner involved objected to such acceptance and demanded a hearing. The commissioners informed us, however, that they felt that any commissioner who impeded the harmony of the team should be removed.

Representatives of the HUD regional office advised us that they were familiar with the Alliance's operating guidelines but did not know the extent of authority actually vested in the Alliance. They said that the HUD regional office considered the Authority's board of commissioners to be the official body operating St. Louis public housing and that the Alliance involvement was acceptable in an advisory capacity only. They informed us that the regional office had conducted no official business with the Alliance and that they had told Alliance officials that HUD would deal only with official Board-approved matters.

CHAPTER 3

COMPLIANCE WITH HUD REGULATIONS ON POSSIBLE CONFLICTS OF INTEREST REGARDING TURNKEY HOUSING PROPOSALS

The Alliance was not involved in the selection of developers for the Authority's 25 turnkey housing projects since the developers were selected before the Alliance was formed. Developers and/or developer consultants for six of these projects, however, later became Alliance members and executives. We noted at the time of our review that the final price had not been negotiated for five of these six projects. HUD regulations regarding conflict of interest in these turnkey projects apply only to officers and employees of the Authority.

HUD regulations regarding turnkey housing projects outline specific steps to be followed by a local housing authority in establishing a turnkey project. The process is initiated by advertising in newspapers and other news media for proposals by developers. The regulations require that the advertisement provide a general description of the project, including the number of units and rooms, type of housing, and the type of location desired. After a developer is selected through evaluation of the proposals by the housing authority and HUD, the project progresses through 11 additional steps leading to the start of construction. These steps include obtaining independent appraisals of the value of the land and estimates of the construction costs, conducting price negotiations, and executing (with HUD approval) a contract between the local housing authority and the developer.

The regulations require that two independent land appraisals and two independent construction cost estimates be obtained by the housing authority and be used in the evaluation of a developer's proposal. If there is no substantial variance (10 percent or more) in the two land appraisals, HUD may establish as the maximum price the average of the two land appraisals. Construction costs must not be greater

than the midpoint of the two independent cost estimates. HUD may require additional cost estimates to permit a valid determination of cost "*** whenever there is a difference between the first two cost estimates so substantial or difficult of reconciliation ***". If the developer's proposed price is substantially above the midpoint of the two approved cost estimates, the authority is required to advise the developer to reduce his price or withdraw.

The HUD Low-Rent Housing Manual, section on turnkey housing, provides a sample contract to be used by local housing authorities. It contains the following conflict-of-interest provisions:

> "No member, officer, or employee of the Purchaser during his tenure or for one year thereafter shall have any interest, direct or indirect, in this Agreement or the proceeds thereof."

The annual contributions contract executed between HUD and a local housing authority under which HUD contributes to the cost of development of housing projects, includes similar conflict-of-interest provisions. The annual contributions contract provides that, if any present or former member, officer, or employee of a local housing authority acquires or had acquired, prior to the beginning of his tenure, any interest in a project of the authority and if the interest is immediately disclosed to the authority, the authority may waive the conflict-of-interest prohibition. The member, officer, or employee, however, may not participate in any action by the authority relating to his interest.

SELECTION OF TURNKEY DEVELOPERS

HUD, as of May 13, 1970, had allocated 3,444 turnkey housing units to the Authority, which accepted 25 proposals from developers for the construction of 2,997 units. HUD's files for each of the 25 projects showed that the proposals had been accepted by the Authority before October 1969 when the Alliance was formed. The HUD Fort Worth Regional Office approved 18 of these proposals for construction of 1,809 units.

INVOLVEMENT OF ALLIANCE MEMBERS AND EXECUTIVES IN TURNKEY PROJECTS

The Authority's records show that four members and executives of the Alliance were involved in six of the turnkey projects to the extent indicated below.

Project MO 1-10 (James House--155 units for the elderly)

This project was initiated on June 12, 1967, when the minister of the St. James A. M. E. Church sent a letter to the executive director of the Authority stating that the church desired to initiate and manage a turnkey project for the elderly. On the same date, the Reliance Construction Company submitted a proposal for construction of the project as a joint venture with the church. The proposal was submitted through Mr. Arthur E. Klein, a consultant, who in October 1969 became executive assistant to the president of the Alliance. The Authority forwarded the proposal to the HUD Fort Worth Regional Office, which approved it on October 13, 1967.

The Reliance initial proposal was for 150 units. On November 20, 1967, Mr. Klein, on behalf of Reliance, submitted an alternate proposal for 155 units estimated to cost $2,620,065, including land. This amount was below two independent construction estimates of $2,702,386 and $2,716,906, net of actual land cost of $118,839. The alternate proposal of Reliance was approved by HUD prior to the formation of the Alliance. On June 30, 1969, however, Reliance relinquished all rights as developer to the St. James A. M. E. Church and remained only as the general contractor for the project. On July 1, 1969, the Authority awarded a contract to St. James A. M. E. Church in the amount of $2,620,065 for the construction of 155 housing units.

Project MO 1-19 (397 units for the elderly)

In a letter dated December 13, 1967, Mr. Arthur E. Klein, acting for Jack Dubinsky and Sons and H. B. Deal Construction Company, a joint venture, submitted a proposal to the Authority for the construction of 398 housing units for the elderly at a unit cost of $16,950. The proposal was approved by HUD on September 26, 1968. On April 25, 1969,

Mr. Klein submitted a revised proposal for the construction of the project at a total cost of $6,868,100 for 397 units, or a unit price of $17,300. The proposal showed that the increase of $350 in the unit price was caused by inflation, higher interest rates, and the inclusion of air conditioning in the project.

The revised proposal cost of $6,868,100 included $549,895 for the land and $6,318,205 for construction. The two independent land appraisals for the project were only $472,500 and $485,000. By letter dated June 3, 1969, the HUD regional office advised the Authority that the maximum land value that would be approved for the project was $478,750, the average of the two independent appraisals. In a negotiation conference held at the HUD regional office on July 1, 1969, however, the maximum price for the land was set at $509,000. The minutes of the negotiation conference do not show why the maximum price for the land was set higher than the average of the two independent appraisals. A HUD representative who attended the conference told us that he could not recall the reason for the difference. This action was taken prior to the formation of the Alliance.

The two independent construction cost estimates obtained by the Authority were $5,760,440 and $5,584,434 which were considerably lower than the developer's proposed cost of $6,318,205. In August 1969, both estimators reaffirmed their estimates. On August 29, 1969, the Authority forwarded these estimates to the HUD regional office, stated that the Authority disagreed with the independent estimates, and requested that the developer's proposed construction costs be included in a letter of intent until the estimates could be updated on the basis of final drawings. The Authority's letter stated that the proposed price, which included air conditioning, was below the price of other projects without air conditioning.

We were informed by Authority representatives that the HUD regional office agreed that the independent estimates were understated and suggested that additional estimates be secured at the developer's expense. Two additional independent estimates dated April 18 and 20, 1970, in the amounts of $5,594,961 and $5,541,026, were still substantially lower

than the developer's proposed cost. On May 18, 1970, the developer again requested HUD's regional office to consent to have its proposed cost incorporated into a letter of intent on the basis that estimates based on final drawings would substantiate the proposed cost. Authority personnel stated that the HUD regional office had advised the developer to prepare its plans in detail and have the Authority secure additional cost estimates at the developer's expense.

The developer forwarded to the Authority updated drawings for the project and agreed to pay for the additional cost estimates. The third set of independent estimates dated June 26 and July 2, 1970, in the amounts of $6,261,378 and $7,718,853, were an average of about $672,000 higher than the developer's proposed cost of $6,318,205. On July 10, 1970, the Authority forwarded these estimates to the HUD regional office along with a summary of the project history and requested HUD to decide what further steps should be taken on the project. As of July 31, 1970, HUD had not replied to the Authority's request.

Project MO 1-20 (201 units for the elderly)

The initial proposal for the project was submitted to the Authority by Mr. Arthur E. Klein, consultant to the developer--the Council Plaza Redevelopment Corporation--on February 27, 1968. The proposal was for the construction of 121 units at a cost of $2,057,000, or $17,000 a unit. On September 25, 1968, the Authority notified the developer that it had approved the project. On October 31, 1968, Mr. Klein submitted a revised proposal for 200 units at a cost of $3,400,000, or $17,000 a unit. Under this revised proposal, all individual apartment kitchens were eliminated and replaced with a central dining facility to permit an increase in the number of units.

In a letter dated October 27, 1969, Mr. Terence K. McCormack, on behalf of the developer, submitted a third proposal for 201 units at a cost of $3,517,500, or $17,500 a unit, including $175,000 for the land. Mr. McCormack, a Teamsters official, was also the acting director of the Alliance. The letter stated that the increased cost had been caused by the inclusion of kitchen equipment, increased financing costs, and an anticipated increase in the cost of labor and materials.

The developer of this project--Council Plaza Redevelopment Corporation--submitted a developer's statement of disclosure of interest to the St. Louis Land Clearance Authority. The statement showed that the corporation was owned by various Teamsters Union locals. Mr. Harold J. Gibbons, president of the Teamsters Joint Council No. 13, who later became president of the Alliance, was president of the corporation.

On December 8, 1969, a negotiation conference was held for this project. The minutes of the conference showed that a cost for the project could not be negotiated because the land appraisals and construction cost estimates had not been received but that HUD appeared to consider the developer's cost of $3,517,500 to be acceptable. The land appraisals and the construction estimates received after the conference are compared with the developer's October 27, 1969, proposal below.

	Land	Construction
Developer's proposal of October 27, 1969	$175,000	$3,342,500
Appraisal 1	100,500	
Appraisal 2	173,000	
Cost estimate 1		3,096,000
Cost estimate 2		3,434,027

As of April 27, 1970, a cost had not been negotiated for this project.

Project MO 1-24 (29 units for general occupancy and 96 units for the elderly)

The initial proposal for this project was submitted to the Authority by the developer on June 24, 1968, for the construction of 104 units at a cost of $1,819,888. The developer's statement of disclosure of interest showed that the developer was a partnership composed of Mr. James E. Hurt, Jr. and R. Jerome Williams, M.D., each owning a 50-percent interest. On December 6, 1968, the HUD regional office approved the proposed project.

In September 1969, the developer submitted a revised proposal for 125 units at a cost of $2,275,700. Dr. Williams became a member of the Alliance in October 1969.

On April 13, 1970, the developer advised the Authority that, because of the lapse of time since the proposal was submitted, the cost estimates would have to be revised. On July 9, 1970, the developer submitted a revised cost estimate of $2,371,050. A cost for the project had not been negotiated as of September 16, 1970, because independent construction cost estimates had not been received. On July 2, 1970, however, the HUD regional office and the developer arrived at a negotiated cost of $110,000 for the land which is comparable to the average of the independent land appraisals of $98,500 and $125,000.

Project MO 1-26 (24 units for general occupancy)

Initially this project was to consist of 20 units located on land owned by the St. Louis Land Clearance Authority. In September 1968, five developers responded to the St. Louis Housing Authority's request for proposals for the construction of the project. After reviewing the proposals, the Authority's housing development section considered three of the proposals to be acceptable, those of Harold Garner and Associates; Vanguard Bond and Mortgage Co., Inc.; and Reliance Construction Company but preferred the proposal submitted by Harold Garner and Associates. In a joint meeting of the St. Louis Housing Authority and the St. Louis Land Clearance Authority on October 10, 1968, however, the proposal of the Reliance Construction Company was selected for recommendation to the housing authority's board of commissioners for approval. On November 4, 1968, the Authority's executive director notified the board of commissioners that the Authority's staff recommended that the Reliance proposal be accepted.

On November 19, 1968, however, the Authority notified Vanguard Bond and Mortgage Co., Inc., that its proposal had been approved by the board of commissioners during a November 18, 1968, meeting. Vanguard proposed the construction of the project at a cost of $359,540 or $17,977 a unit. Neither the Authority's files nor the minutes of the

meeting indicated the basis for the approval of Vanguard's proposal. An Authority official advised us that the former Board, which was replaced in October 1969, did not advise the staff as to its reasons for selection of the Vanguard proposal.

The developer's statement of disclosure of interest showed that the president of Vanguard was Dr. Jerome Williams, who became a member of the Alliance in October 1969. In March 1969, the developer submitted a revised proposal for construction of 24 units at a total estimated cost of $451,293 or $18,804 a unit. HUD approved the project on May 8, 1969.

The Authority's files showed that a feasibility conference was held at the HUD Fort Worth Regional Office on April 10, 1970, and that a land price of $19,300, established by the St. Louis Land Clearance Authority as owner of the land, was accepted by HUD.

Project MO 1-27 (33 units for general occupancy)

By a letter dated January 24, 1969, Mr. Terence McCormack, consultant to the Reliance Construction Company, submitted a proposal to the Authority for the construction of 33 units at a cost of $602,250. On May 8, 1969, the HUD regional office approved the proposed project.

On May 1, 1970, the developer notified the Authority that a citizens' organization in the construction area objected to the proposed project and that it had no further interest in developing the project. An Authority official told us that the community objected to the project because the developer was Caucasian and the community feared that whites might live in the project. As of June 30, 1970, the Authority had not notified HUD that the developer was no longer interested in the project.

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The chairman of the board of commissioners advised us in a letter dated July 17, 1970, that the Board had discussed with Authority officials the involvement of Messrs. Klein and McCormack, Alliance executives, in the turnkey projects.

The letter stated that Authority staff members had assured the Board that Mr. Klein, Mr. McCormack, and other members of the Alliance had not gained any privileged information from the Authority's files pertaining to turnkey projects and that the Board had found no instances where Alliance members had received any consideration above or beyond the scope of turnkey regulations as they are known to the Authority. The letter stated also that the director of development had assured the Board that neither Mr. Klein nor Mr. McCormack had exerted any influence or pressure to further their particular turnkey projects and had initiated no other turnkey projects after their involvement with the Alliance.

TURNKEY DEVELOPER CONSULTANTS ALSO SERVING AS CONSULTANTS TO BOARD OF COMMISSIONERS

As previously stated, the new board of commissioners, during its initial meeting on November 2, 1969, appointed Messrs. Klein and McCormack, Alliance executives, to act as consultants to the Board for an annual remuneration of a dollar. Mr. Klein advised the Board that he and Mr. McCormack would accept the positions only if the Board was fully advised of their participation in turnkey projects of the Authority. The final price for two of the projects had not been negotiated at that time. The Board unanimously resolved that Messrs. Klein and McCormack be retained as consultants for a period of a year without prejudice to their continued consulting on the three projects. Messrs. Klein and McCormack agreed that they would not accept any other private clients whose projects would be affected by actions of the Authority.

The Authority's chief attorney in a letter dated February 18, 1970, advised the HUD regional office of these appointments and stated that HUD auditors had indicated the appointments involved a conflict of interest under the provisions of the annual contributions contract. The chief attorney requested HUD to determine whether a conflict of interest was involved and, if so, to provide a waiver of the contract provisions so that Messrs. Klein and McCormack could continue as Board consultants.

In a letter dated February 27, 1970, the HUD Assistant Regional Administrator for Housing Assistance advised the Authority that, as consultants of the Authority, Messrs. Klein and McCormack were prohibited by Missouri law from serving as developer consultants for the turnkey projects and that HUD could not waive the contract provisions to permit them to serve as consultants to both the Authority and the turnkey developers. The letter stated that such a waiver would set a precedent for actions detrimental to the public interest over which HUD would have no control and would not measure up to the standard of conduct which is expected, required, and considered appropriate for housing authority officials and employees.

Messrs. Klein and McCormack tendered their resignations as Board consultants and the Board accepted them during a meeting on April 7, 1970. No significant actions were taken by the Board on the Authority's turnkey projects during the tenure of Messrs. Klein and McCormack as Board consultants.

CHAPTER 4

PUBLIC HOUSING TENANTS ON THE AUTHORITY'S BOARD OF COMMISSIONERS AND THE STATUS OF THEIR RENTS

The board of commissioners of the Authority included two members who were tenants in the Authority's low-rent housing projects. These tenants were appointed as commissioners about 2 months after the attorney general of Missouri had expressed the opinion that tenants of low-rent housing projects are not eligible to be appointed as commissioners of a local housing authority created under provisions of Missouri law. We were informed by the board of commissioners of the Authority that the attorney general's opinion did not have the effect of law and the legality of this action would have to be decided by the courts. HUD was aware of the State attorney general's opinion and did not object to, nor did its regulations forbid, the appointment of the tenants to the Authority's board of commissioners.

The Authority lowered the rental rate of $37 a month charged to one of these tenants to the minimum monthly rental of $20 after his appointment as a commissioner. The rental rate of $37 had been established on the basis of the Authority's estimate of the tenant's annual income but was reduced on the basis of the tenant's statements that he had no annual income.[1] The other tenant's rental was based on her income which was supported by documentary evidence and was not reduced by the Authority after she was appointed as a commissioner.

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[1]Income as defined by the Authority is not confined to earnings. It includes income from all sources, e.g., withdrawal from savings, welfare grants, and the subsistence portion of scholarships.

INCLUSION OF TWO TENANTS ON THE AUTHORITY'S BOARD OF COMMISSIONERS

One of the conditions presented by the rent strike leaders for ending the rent strike was the appointment of a new board of commissioners. Another condition required that two members of the Board would henceforth be tenants of public housing if such membership would not be held to be unlawful by any court of competent jurisdiction.

On October 28, 1969, the Mayor of St. Louis appointed the following members to the Authority's new board of commissioners.

1. Mrs. Thelma Green--tenant
2. Mr. Clarence Swarm--tenant
3. Rev. Donald Register
4. Rev. Carl Dudley
5. Mr. Frank Boykin

Missouri State law provisions relative to the eligibility and qualification for housing authority commissioners are included in sections 99.050 and 99.060 of the "Revised Statutes of the State of Missouri, 1959." The law states, in part, as follows:

> Section 99.050--"the mayor shall appoint five persons who shall be taxpayers who have resided in said city for five years prior to such appointment as commissioners of the authority created for said city ***. No commissioner of an authority may be an officer or employee of the city or county for which the authority is created ***."
>
> Section 99.060--"No commissioner or employee of an authority shall acquire any interest direct or indirect in any housing project ***. If any commissioner or employee of an authority owns or controls an interest direct or indirect in any property included or planned to be included in any housing project, he immediately shall disclose the same in writing to the authority and such disclosure shall be entered

upon the minutes of the authority. Failure so to disclose such interest shall constitute misconduct in office. Upon such disclosure such commissioner or employee shall not participate in any action by the authority affecting such property."

On March 6, 1969, the final day for introduction of new legislation in the 75th General Assembly of the State of Missouri (1969), a bill was introduced that would specifically allow the appointment of public housing tenants as housing authority commissioners. The bill was not acted upon by the legislature.

On August 11, 1969, the attorney general of the State of Missouri issued an opinion, in response to a request from a Missouri State senator, on whether a tenant of a housing authority created under Missouri law could be one of the commissioners of the authority. The attorney general replied to the request as follows:

"Section 99.060, may be summarized as prohibiting a commissioner from exercising his authority and judgment on any matter in which he has an interest in the housing project. As a tenant, his interest would encompass the entire operation of the project from the amount of rent to the state of repair and sanitation. We see no area, as a practical matter, where the tenant does not have an interest in the housing project.

We believe that the phrase 'interest direct or indirect in any housing project' applies to the relationship a commissioner has which would affect his official actions because of his determination of matters affecting himself as a tenant and is not limited to contracts for services or materials to be furnished by him or his interest in property of the project. Section 99.060, specifically prohibits a commissioner having any interest in any project property or project contract but goes further and prohibits his having any interest in a housing project. This 'interest' proscribed by the statutes demonstrates a

legislative intent to prohibit a commissioner from having an interest in the project as a tenant which in turn could affect his actions as commissioner in any way."

The attorney general's opinion concluded with the following statement.

"It is the opinion of this office that a tenant is not eligible to be appointed to the office of commissioner in a municipal housing project created under provisions of Chapter 99, RSMo1959."

The board of commissioners of the Authority advised us that the attorney general's opinion was merely one man's opinion and did not have the effect of law. The commissioners advised us that, in their opinion, tenant participation was necessary for public housing to succeed and, if necessary, applicable laws should be changed.

The HUD Acting Assistant Regional Counsel for Housing Assistance, Fort Worth Regional Office, provided us with a copy of the following legal opinion (No. 204 dated November 28, 1969) by the HUD General Counsel relative to the appointment of public housing tenants to serve as housing authority commissioners.

"*** Although this Department has not as yet established an official policy on this subject, I think it is fair to state that HUD has no objection to, and indeed encourages, the appointment of tenants as housing authority commissioners to the extent it is permissible under applicable state and local law. Such appointments would seem beneficial to both the tenants and the housing authority in that tenants would have a representative to voice their concerns in decisions affecting them and the authority would be given a direct conduit to ascertain tenant thinking on important issues and to explain to the tenants the authority's reasoning in the actions it takes.

"To date, no decided case on this question has been brought to our attention, although Opinions have been rendered by the Attorney General in California (finding such appointment to be permissible) and in Missouri (where the opposite holding was made while construing an almost identical statute). I should add that at the present time tenants are serving on the housing authority boards in New Haven, Hartford, and Norwalk, Connecticut; Cambridge and Boston, Massachusetts; Catskill, New York; Muskegon Heights, Michigan; Chicago, Illinois; and Columbia, Missouri. The last-mentioned appointment, made approximately a year prior to the rent adverse Attorney General's Opinion, and the subsequent announcement that, as part of the settlement of the lengthy St. Louis rent strike, two tenants will be named to the city's housing authority, make it seem likely that the validity of the Opinion expressed by the Missouri Attorney General will be tested in court.

"There is no general Federal government conflict of interest policy that would have applicability to this question of appointing tenants as commissioners. There is also no provision of Federal Housing law which would seem to bear on this issue. Some local officials, however, have felt that it is necessary to have the involved local housing authority waive, and HUD approve the waiver of, the conflict of interest provision (section 515) of the Annual Contributions Contract (ACC) between the housing authority and HUD. (Section 515 provides that the housing authority shall not enter into any contract, subcontract, or arrangement in which a member has direct or indirect interest). It is this Department's position that we will readily waive section 515 in cases in which local officials think that such action is necessary."

The Acting Assistant Regional Counsel informed us that HUD headquarters was well aware that tenants had been

appointed to the Authority's board of commissioners and that it had voiced no objections. He stated that, as indicated by the HUD General Counsel's opinion, there is no general Federal Government conflict-of-interest policy that would have applicability to this question of appointing tenants as commissioners and that there is no provision of the Federal housing law which bears on this issue.

Section 515 of the annual contributions contract between HUD and the Authority provides that the Authority not enter into any contract, subcontract, or arrangement in which a member has a direct or indirect interest. The HUD Acting Assistant Regional Counsel in June 1970 advised us that the Authority had not requested HUD approval of a waiver of section 515 but that, if such a request had been made, the waiver would undoubtedly have been approved in accordance with the HUD General Counsel's opinion.

Public Law 91-609, however, dated December 31, 1970, amended section 1 of the Housing Act of 1937 by adding:

> "It is the sense of the Congress that no person should be barred from serving on the board of directors or similar governing body of a local public housing agency because of his tenancy in a low-rent housing project."

RENT STATUS AND INCOME ELIGIBILITY OF TENANT-COMMISSIONERS

The Authority's records revealed the following information relative to the rent status and income eligibility of the two public housing tenants on the Authority's board of commissioners.

Mr. Clarence Swarm

Mr. Swarm and his wife have been residents of the Cochran low-rent housing project since November 18, 1960. According to information in the Authority's records Mr. Swarm has not provided documentation of his income as required by Authority regulations since his initial occupancy of the project. According to his "application for admission," his annual income from self-employment was shown as $2,000. The Authority accepted, as evidence of his income, a statement from a local minister that Mr. Swarm and his wife lived on a yearly budget of $2,000.

In the first reexamination for continued occupancy--and to establish a rental rate in January 1962--and in subsequent reexaminations through 1966, the Authority was unable to obtain documentation of the Swarm's annual income in accordance with its established procedures. Mr. Swarm repeatedly advised Authority officials that he was self-employed and could not furnish documentation to support his income but signed statements that were generally identical to the following one.

> "I, Clarence L. Swarm, hereby state I supplement my expenses such as Rent, Food, etc., from the sale of Personal Property, Equipment, Items (Inventory), which I owned before I moved into the Project. I do not file Income Tax return. The above statement is true and complete to the best of my knowledge. I fully understand any false statement given by me can result in the cancellation of my exiting lease."

In each instance, the Authority arbitrarily established the Swarms' annual income at $1,820. An Authority official

advised us that the $1,820 was the standard figure used by the Authority as the annual income of self-employed persons when required documentation of annual income could not be furnished. He stated also that the $1,820 was less than the maximum income limit for continued occupancy and was below the maximum income for the minimum monthly rental rate. He advised us further that the Swarms had been charged minimum rental rates for their unit since their initial occupancy in 1960.

The Authority records show that, during the period January 1962 through May 1968, the Authority tried various means of determining the source and extent of the Swarms' income, including contacting the welfare agency to determine if it had an application or registration on the Swarms, but always with negative results.

On April 15, 1968, Mr. Swarm refused to sign a new lease because it showed the Swarms' annual income was $1,820 as estimated by the Authority. At the time Mr. Swarm stated his income for the year was zero.

The Authority omitted the amount ($1,820) of annual income when it retyped the Swarms' lease dated May 21, 1968, and Mr. Swarm signed the lease on June 12, 1968. The new lease increased the Swarms' rental rate from $45 a month to $50, which was the minimum rental rate charged by the Authority at that time and which the Swarms continued to pay monthly until February 1969 when the tenant rent strike started.

In accordance with the rent strike settlement agreement of October 29, 1969, the Authority established a reduced rent schedule retroactive to October 1, 1969. Basically, this reduced rent schedule set the maximum annual rentals at 25 percent of a tenants adjusted annual income and established a minimum rental rate of $20 a month. On November 13, 1969, the Authority adjusted the Swarms' monthly rental rate from $50 to $37 in accordance with the reduced rent schedule. In establishing the $37 rent rate, however, the Authority again based it on an estimated annual income of $1,820 which Mr. Swarm had previously protested. On November 21, 1969, Mr. Swarm again protested the use of the $1,820 annual income determination and

insisted that he had no income. Therefore the Authority reduced the Swarms' monthly rent to $20 which was the minimum rate on the new rent schedule and changed the records to show Mr. Swarms' annual income as zero.

The chief of the Authority's rental and occupancy section informed us that the $1,820 estimated annual income had not directly affected the rent charged the Swarms prior to implementation of the reduced rent schedule in November 1969 but that the estimated $1,820 income did directly affect the rental rate charged under the new rent schedule as indicated above. She stated that, when Mr. Swarm complained about the estimated $1,820 income on November 21, 1969, she could not say that Mr. Swarm should pay an additional $17 a month on the basis of her opinion alone, since the Authority had no documentation to support that he had any income. She indicated that she did not believe that Mr. Swarm had "no income," since he and his wife rode public transportation daily, they appeared to be well fed, and they paid their rent. She stated that she re-set Mr. Swarm's rent at $20 on the basis that to exist he must have had at least an annual income of $1,007 which was the maximum income allowable for the minimum rental rate of $20.

On June 9, 1970, the Authority reviewed Mr. Swarm's file to determine if his rent should be adjusted under the provisions of section 213 of the Housing and Urban Development Act of 1969. Under this law, a tenant with no income would be entitled to free rent; however, the Authority did not reduce Mr. Swarm's monthly rent. The chief of the rental and occupancy section stated that there was no basis for changing the rental rate and that, although the Authority did not know the amount of Mr. Swarm's income, it had no verification that his income was zero. This official stated also that common sense and observation of Mr. Swarm's appearance indicated that he had some income and that, if he actually had no income, he should have applied for welfare and old age assistance, and such income, if received, would result in a rental higher than the $20 rate currently charged.

Mr. Swarm paid no rent during the tenant strike, and as of October 31, 1969, he owed back rents totaling $465. As of June 10, 1970, Mr. Swarm had paid a rental of $20 for

each month since the end of the rent strike, and the amount of the back rent owed had been reduced to $55 by rent credits required by the strike settlement agreement and cash payments made by Mr. Swarm. The rent credits granted to Mr. Swarm at the end of the rent strike were reviewed by us and found to be accurate and in accordance with the provisions of the rent strike settlement agreement.

Mrs. Thelma Green

Mrs. Green has been a resident of the Carr Square low-rent housing project since March 2, 1943. Authority records show Mrs. Green's income consists entirely of welfare payments and child-support payments. Mrs. Green provided documentation showing her annual income and the Authority verified it in accordance with the established procedures.

The monthly rental charged to Mrs. Green from February 1969 through June 1969 was $60 in accordance with rent schedules in effect at that time and from July 1969 through November 1969 was $68 in accordance with revised rent schedules based on income information obtained from Mrs. Green in April 1969 during an annual reexamination of her file for continued occupancy. This annual reexamination showed that Mrs. Green's annual income at that time was $1,392. In November 1969, Mrs. Green's rental rate was reduced, retroactive to October 1969, to $24 per month on the basis of her annual income, verified in April 1969, in accordance with the revised rent schedule which was a condition of the rent strike settlement agreement.

Mrs. Green paid no rent during the rent strike, and as of October 31, 1969, she owed back rents totaling $581. According to Authority records, Mrs. Green has paid the rental charge of $24 each month since the end of the rent strike and her back rent has been reduced to zero by rent credits required by the strike settlement agreement and cash payments made by Mrs. Green. The credits applied to the balance owed by Mrs. Green at the end of the rent strike were reviewed by us and found to be accurate and computed in accordance with conditions of the rent strike settlement agreement.

CHAPTER 5

DISMISSAL OF EMPLOYEES

On February 6, 1970, the Authority notified 103 of its employees that their services would be terminated as of February 20, 1970. These dismissals were recommended by a management consultant as part of a program designed to reduce costs and improve efficiency of the Authority. HUD had no specific regulations regarding housing authority employment policies, but the 2-week termination notice was in compliance with the Authority's personnel procedures. As of April 20, 1970, 31 of the terminated employees had been rehired by the Authority.

The management consultant was not employed by the Authority but had been hired by the Alliance as part of the staff assigned to a task force committee for housing authority staff review. This committee was established by the Alliance to perform:

> "Complete evaluation of organizational structure of the Housing Authority regarding lines of authority, operational procedures and where responsibility begins and ends within the staff structure...and to further evaluate the quality of persons involved in day-to-day tenant relationships and ascertain the competencies and social concerns of all personnel."

Three Alliance members were assigned to the committee--a religious leader, a bank executive, and an educator. The committee was assigned a staff composed of the management consultant, a building maintenance specialist, a representative of the tenant affairs board, and the Authority's director of personnel.

The management consultant submitted recommendations for reducing the number of employees of the Authority in a December 11, 1969, letter to the Alliance. The committee endorsed the recommendations during a meeting on December 16, 1969, but only the chairman (the only member of the committee present), a staff member, the acting director of the Alliance, and the consultant were at the meeting. The

board of directors of the Alliance accepted the recommendations on December 22, 1969, and on February 3, 1970, Mr. Arthur E. Klein presented the recommendations to the Authority's board of commissioners which unanimously accepted them.

The management consultant's letter of December 11, 1969, also contained a number of recommended organizational and staff changes for the Authority. The letter showed that the Authority's staffing included excessive layers of management and diffused lines of authority which resulted in slow and poor decisions and excessive paper work. The consultant recommended the (1) abolition of the housing and social service divisions, (2) assignment of additional responsibilities to the project managers, (3) centralization of the accounting, credit, and collections activities, (4) elimination of maintenance specialists and the use, instead, of general-purpose maintenance men, and (5) consolidation of project management into five project groupings rather than the then-existing nine separate project offices. The consultant proposed also that the Authority's staff be reduced by 129 positions, including 61 office positions and 68 maintenance and custodial positions, at an estimated annual savings of $902,000.

The management consultant informed us that he had been responsible for the final recommendations regarding the dismissal of the employees. He stated that he had been directed by the Alliance to recommend changes which would reduce the Authority's payroll as much as possible, hopefully, up to $1.5 million a year and that Alliance executives had espressed disappointment when his recommendations resulted in a reduction of only $902,000. He said that the Alliance had given him no instructions as to individual employees who should be discharged or retained.

The consultant informed us that he had determined the number of positions to be eliminated by analysis of each job, considering its physical and mental aspects and its contribution to organization and planning. He provided no documentation to indicate how he had selected individual employees to be terminated or the positions to be eliminated. During discussions with us, however, he made the following statements relative to terminations in each area of operations. Administrative people were terminated generally

because their jobs were abolished. An exception was in the legal section where analysis indicated that the work load required only one attorney. For economic reasons, an attorney with an annual salary of $10,462 was retained instead of an attorney with an annual salary of $20,000. Seniority was not considered in terminating employees in administrative positions, but custodial and maintenance people were terminated principally on the basis of seniority. The number of skilled craftsmen was reduced, and the duties of these craftsmen were assumed by lower paid general maintenance employees with the concurrence of the trade unions involved.

We found that the consultant had previously been associated with a consulting company. The president of the consulting company confirmed the consultant's prior employment and advised us that his performance while with the company had been very satisfactory. In commenting on the consultant's character, educational background, technical competence, and judgment, the president recommended him without reservation.

The terminations announced by the Board of commissioners on February 6, 1970, reduced the number of employees from 335 to 232. Of the 103 employees terminated, 23.3 percent were Caucasians. The percentages of Caucasian employees to total employees before and after the terminations were 24.2 percent and 24.6 percent respectively.

The acting executive director of the Authority told us that fewer employees had been dismissed than had been recommended by the consultant because 23 employees had resigned and thus had reduced the number to be terminated to 106. He added that he and the consultant had reviewed the termination list and had further reduced the number to be dismissed to 103.

On February 6, 1970, each of the 103 employees was given 2 weeks' severance pay along with a letter signed by the board of commissioners which stated that the employee was being terminated for economic reasons. The employees were not required to remain on duty for the 2-week period covered by the severance pay. The 2 weeks' notice was in accordance with personnel procedures adopted by the board of commissioners in a meeting held January 27, 1970. Previous

procedures required a 30-day notice. The Authority's procedures were changed in January on the basis of a legal opinion of the Authority's general counsel that the procedures could be revised to conform with personnel practices of the St. Louis Land Clearance Authority which on January 2, 1970, had revised its notice period from 30 days to 2 weeks.

We found that the Authority had placed the names of the 103 terminated employees on a preferential reemployment list. The president of the Alliance submitted a letter to all Alliance members that requested their assistance in finding suitable employment for the terminated employees. The personnel section of the Authority made numerous efforts to assist these employees in finding employment.

As of April 20, 1970, 31 of these employees had been rehired by the Authority, 20 in their previous positions. The Authority's records for five of the employees showed that they were custodians and had been rehired on the basis that they were erroneously included in the staff reduction. The Authority's personnel director told us that the other 15 employees (12 custodians and three firemen) had been reinstated after project managers and maintenance foremen had complained that the cutback was too severe. The Director also informed us that the number of employees to be reinstated had been determined by the Alliance's management consultant. Of the 11 additional persons rehired, eight were rehired to fill vacancies and three to fill temporary positions.

HUD regional office representatives informed us that they had felt for some time that the Authority was overstaffed and had considered the staff reduction to be an elimination of unneeded positions. They informed us also that HUD had not become involved in the hiring and firing of housing authority personnel, since HUD regulations required only that housing authorities adopt and comply with personnel policies comparable to local practice. According to these HUD officials, this is generally interpreted to mean the practice of the local city government. The Authority's personnel director told us that the Authority's personnel policy and procedures were based on the personnel policy and procedures of the city of St. Louis.

CHAPTER 6

DISPOSITION OF AND ACCOUNTING FOR RENT MONEY NOT PAID DURING THE TENANT RENT STRIKE

The Authority's records showed that rents amounting to $769,205 had not been paid to the Authority by tenants during the period of the strike. This amount included $681,193 owed by tenants who were residing in the projects when the rent strike ended and $88,012 owed by tenants who had moved from the projects before the rent strike ended. After application of rent credits and other adjustments agreed to in the strike settlement, the balance of rent due from tenants for the strike period was $344,609. (See table on p. 44.)

The Authority's records did not show how much of the $769,205 was withheld by tenant strikers as opposed to tenants who were merely delinquent or were possibly using the strike as a convenient excuse for not paying rent. The records indicated, however, that some tenants had been making their rent payments (hereinafter referred to as withheld rents) to strike leaders. These rent payments amounted to about $220,900.

The memorandum of intent and understanding signed at the end of the rent strike and dated October 29, 1969, included the following agreements: (1) tenants who were in arrears in their rent payments were to be allowed 2 years in which to repay the full amount of the rents owed, (2) a repayment schedule for each tenant was to be established after completion of an audit of strike leaders' finances by a firm, or firms, of Certified Public Accountants (CPAs), (3) repayment schedules were to be established for each tenant by a committee on withheld rents for each project, with committee members to be appointed by the rent strike chairman in each project, (4) rent credits were to be allowed to tenants who had resided in the public housing projects since February 1, 1969, and who had paid higher rent than was charged by the Authority before October 1, 1968, (5) a new rent schedule was to be established and made retroactive to October 1, 1969,

and (6) lawsuits against tenants initiated by the Authority during the strike would be dismissed and court costs would be paid by the Authority.

WITHHELD RENT DEPOSITED IN BANKS

During the first 3 months of the strike, rents of tenants participating in the strike were collected by the strike leaders and deposited in bank accounts established by the strike leaders for this purpose. The Authority filed a lawsuit, on April 23, 1969, petitioning the court to require the banks and strike leaders to pay the withheld rents to the Authority. When the suit was filed, the banks froze the accounts which contained $108,580 and rejected the rent strikers demands for withdrawal of funds. On May 21, 1969, the banks placed all the money in the rent strikers' accounts into the custody of the court.

The Authority received $108,580 from the court and recorded it in a special disbursing fund account. On the basis of a CPA's audit, as required by the memorandum of intent and understanding, $108,017 was applied to rents owed by tenants. The amount of rent paid by each tenant to the strike leaders was determined from lists prepared during the CPA's audit of strike leaders' finances and from information supplied by the strike leaders. The lists showed the amounts collected by the strike leaders at each project by tenant name and apartment number.

In addition to the $108,017 applied to rents owed by tenants, refunds totaling $509 were made by the Authority for (1) amounts which the banks had erroneously placed in the custody of the court and (2) the duplicate payment of rent by a tenant. The amount of rent credited to tenants' accounts for the 3-month period and the above refunds totaled $108,526 or $54 less than the amount of funds received from the court. The difference of $54 resulted because the moneys received from the court and collections by strike leaders as identified by the CPA's audit did not agree.

Although we did not attempt to verify the accuracy of the adjustments made to tenants rental accounts or refunds made to tenants, we noted that the Authority had received

complaints from tenants which indicated that errors might have occurred in distributing the amounts received from the court. For example, a former tenant of the Blumeyer project complained that she did not receive full credit for rent money that she had paid to the rent strike leader in her housing project. The tenant stated that, although she had paid the rent strike leader $140, the Authority had given her credit for only $70. She provided the Authority with canceled checks to document her claim. Authority officials told us that an additional credit of $70 could not be given to the tenant, even though it appeared that she had a valid claim, since the Authority had accounted for all but $54 of the rent money received from the court. The officials stated that the Authority would not credit tenants with amounts that totaled more than the $108,580 received from the court but that this complaint and any others received by the Authority would be referred to the CPA firm for resolution.

RENT MONEY HELD
BY STRIKE LEADERS

After the Authority filed its lawsuit, the strike leaders began holding rent money collected from tenants in safe-deposit boxes and other places. According to the lists prepared by the CPA firm, the money collected by the strike leaders after the lawsuit was filed totaled $112,907.

The October 29, 1969, memorandum of intent and understanding stated that all withheld rents in the control or physical custody of the strike leaders would be returned to the striking tenants "*** under such circumstances and conditions as shall be reasonably calculated to cause same to be paid over to the Authority with prompt dispatch." A strike leader advised us that these funds had been returned to the tenants when the strike ended. He also informed us that some strike leaders had encouraged the tenants to take advantage of the strike settlement conditions which allowed the tenants up to 2 years to repay the full amount of all rents owed.

During visits to various low-rent housing projects, we interviewed 28 tenants to ascertain the difficulties they might have experienced in receiving credit for or return of

amounts paid to the rent strike leaders after the rent money deposited in the banks was attached by the court. Of the 28 tenants, 11 informed us that they had paid rent to the strike leaders but had experienced no difficulties in obtaining credits or refunds and had heard of no difficulties experienced by other tenants. Of the tenants we interviewed, 17 advised us that they had not paid rent to the strike leaders.

STATUS OF RENTS OWED
FOR STRIKE PERIOD

An official of the Authority informed us that all rent credit computations required by the strike settlement agreement as outlined on pages 6, 7, 40, and 41 were completed and recorded on the Authority's records as of July 22, 1970. After deduction of the required rent credits and the withheld rent attached by the court and paid to the Authority, the rent not paid of $769,205 during the rent strike period was reduced to $344,609, as summarized below.

Total rents not paid from February 1, 1969, through October 31, 1969 (rent strike period)		$769,205
Less rent funds attached by the court and applied to rents owed by tenants		108,017
		661,188
Less rent credits allowed as part of the rent strike settlement agreement:		
Rent credits (adjusting rents owed by tenants for month of October 1969 to level of new rent schedule effective October 1, 1969)	$108,871	
Rent credits (adjusting rents owed by tenants for the period February 1 through September 30, 1969, to level of rent charged immediately prior to October 1, 1968)	188,075	
Credits for cost of lawsuits charged to tenant accounts--cost to be paid by the Authority	19,633	316,579
Balance of rents owed during rent strike due from tenants after credits		$344,609

The rent strike settlement agreement provided that, after the CPA firm completed the audit of the rent strike leaders' finances, the Authority would compute the applicable rent credits and provide the rent strike chairman at each project with a list of tenants in his project whose rent payments were in arrears. The list showed the net

amount that each tenant owed. Each rent strike chairman was to appoint a committee on withheld rents. These committees were to establish an equitable payment schedule for each tenant which would provide for the tenant to repay the net rent owed within 2 years. As of July 1, 1970, 300 tenants had signed rent repayment agreements providing for the repayment of back rents totaling $106,340.

We noted that the agreements for 281 of the 300 tenants were not limited to rents owed for the strike period but also included rents for other months which were in arrears at the date the rent payment agreements were established. An Authority official informed us that he would not object to this practice as long as the money was collected. For action taken to collect rent owed by the tenants who moved before the strike ended, see chapter 7.

As of June 1970, some portion of the rent owed by tenants was paid; however, identification of the amount paid would have required analysis of about 5,600 tenant ledger accounts which we deemed impractical. We did examine, however, the Authority's tenant ledger accounts for 48 selected tenants and determined that some portion of the rent owed by the 48 tenants had been paid, as indicated in the following summary:

Rent not paid by 48 tenants during rent strike		$26,839
Less rent credits:		
Credits for tenants' share of money attached by court	$4,472	
Rent credits per strike settlement agreement	4,035	
Total credits per strike settlement		8,507
Back rent owed after rent credits		18,332
Less cash payments		5,029
Balance of rent owed--June 1970		$13,303

The accounts showed that as of June 1970 nine of these tenants had paid the amounts owed in full, 13 had made payments to reduce the amounts owed, and 26 had made no payments.

Alliance executives and HUD regional office personnel informed us that they had not been involved in collecting rents owed. A consultant to the Secretary of HUD, however, was involved in the rent strike settlement negotiations when the procedures for payment of the rents owed were established.

CHAPTER 7

STATUS OF DELINQUENT RENTALS

Records of the Authority show that the total amount of delinquent rentals owed by tenants at September 30, 1968, the end of the Authority's fiscal year, was about $69,600 and that by March 31, 1970, the amount owed had increased to about $671,700. This increase was primarily the result of rents not paid by tenants during the rent strike. (See ch. 6.)

After making adjustment for credits during the applicable period, delinquent rentals owed by tenants increased as shown below.

	Transactions		
	10-1-68 to 9-30-69	10-1-69 to 3-31-70	Balance owed by tenants
Amount owed on September 30, 1968			$ 69,600
Rents and other charges	$4,915,500	$1,516,700	
Credits pursuant to strike settlement agreement	101,100	217,800	
Collections	4,373,200	1,138,000	
Total credits and collections	4,474,300	1,355,800	
Increase in amounts owed	$ 441,200	$ 160,900	602,100
Amount owed on March 31, 1970			$671,700

The March 31, 1970, balance of $671,700 represents the net of $698,600 owed to the Authority and $26,900 which the Authority owed tenants with credit balances. Of the $698,600 owed to the Authority, $537,100 was owed by tenants residing in the housing projects and $161,500 was owed by tenants who had moved out of the projects.

The Authority's records showed that, on March 31, 1970, 5,647 tenants were living in the low-rent housing projects and that 2,257, or about 40 percent, were delinquent in their rent payments. Of the $537,100 owed by tenants residing in the projects at March 31, 1970, $489,800 had been owed by 1,410 tenants for periods in excess of 3 months.

Examples of tenants who owed substantial amounts of delinquent rent at March 31, 1970, follow.

Tenant A

The tenant paid no rent after March 11, 1969, when he paid the rent due on March 1, 1969. After making this payment, the tenant still owed $73 which was due for the month of February 1969. As of June 1, 1970, after application of retroactive rent and court cost credits, the balance owed by the tenant amounted to $1,073. On June 18, 1970, the tenant vacated the housing unit after receiving notice that the Authority planned to initiate a lawsuit for the delinquent rent.

Tenant B

The tenant paid no rent after August 4, 1969, when he paid the rent due on August 1, 1969. A balance of $89 due for the month of July 1969 remained unpaid. As of April 1, 1970, the rent owed by the tenant amounted to $716. On April 8, 1970, the tenant vacated the housing unit without giving notice to the housing manager. After application of credits for retroactive rent, a security deposit, and a portion of the April 1970 rent, the balance owed was $627.27. On June 22, 1970, the Authority turned this account over to a collection agency.

Tenant C

The tenant paid his March 1969 rent on March 28, 1969, and made no further payments until March 1970. After the March 1969 payment, he owed $107, which represented rent due for the month of February 1969 and $10 for court costs. As of April 1, 1970, after application of rent and court cost credits and a March 1970 rent

payment, he owed $1,212.15. On June 3, 1970, the tenant agreed to pay $50.51 monthly which would result in payment of the amount owed over a 2-year period.

EFFORTS TAKEN TO COLLECT DELINQUENT RENTALS

During the rent strike, the Authority filed more than 500 lawsuits against tenants for collection of delinquent rents and possession of the housing units. The lawsuits were in conformance with the Authority's procedures which had been in effect since April 1966 and with HUD's recommended rent collection procedures. The rent strike settlement agreement stated that the lawsuits would be dismissed and that the cooperation of the tenant affairs board would be enlisted by the Authority before filing additional suits. The criteria for filing lawsuits for the collection of rent were to be established jointly by the tenant affairs board and the Authority.

On May 18, 1970, the acting executive director of the Authority provided the managers of each housing project with new rent collection procedures. The procedures provided for participation by the tenant affairs board in decisions regarding time extensions for the payment of delinquent rentals or lawsuits for the collection of the rents. The tenants affairs board was authorized to direct the Authority as to whether to sue delinquent tenants or to follow some other course which would ensure that the delinquent rent would be immediately paid in full.

On May 18, 1970, the Authority's acting executive director issued a special notice to all public housing residents that delinquent rentals due for the period October 1, 1969, through May 31, 1970, must be paid in full no later than 3:30 p.m. on May 29, 1970. The notice stated that failure to pay would result in eviction proceedings against the tenant. He also provided each housing project manager with a copy of a form letter to be sent to delinquent tenants who did not comply with the special notice of May 18, 1970, and who had not contacted the tenant affairs board to report a hardship. The form letter provided space for insertion of the amount owed and stated that a suit would be

filed against the tenant unless the Authority received full payment of the delinquent rent within 3 days.

From June 2 to June 15, 1970, the Authority mailed such letters to 53 tenants. By June 30, 1970, the Authority had filed lawsuits against 20 of the 53 tenants; however, one of these lawsuits was canceled because the tenant moved out of the housing project the day before the suit was filed. Of the remaining 33 tenants who received letters, three signed payment agreements, two others vacated their premises, and no action had been taken relative to the other 28 tenants as of July 1970. These actions were the first significant collection efforts made by the Authority after the rent strike ended in October 1969.

Alliance and HUD regional office representatives advised us that they had no active role in collecting the delinquent rents. The HUD officials stated that "Recommended Rent Collection Procedures" had been issued by the regional office to all housing authorities but that they were only recommendations.

COLLECTION OF DELINQUENT RENTALS OWED BY VACATED TENANTS

A form letter was generally used by the Authority to notify vacated tenants of the amount of delinquent rents owed and to request payment as soon as possible. The letter advised the vacated tenants that their accounts would be submitted to a collection agency if no response was received within 7 days.

We were advised by Authority personnel that the collection agency's fee was 50 percent of the amount collected. Therefore, assuming that the Authority is unsuccessful in collecting the $161,500 owed on March 31, 1970, by vacated tenants, the maximum the Authority can expect to recover by sending the accounts to the collection agency is $80,750.

The acting executive director of the Authority advised us that delinquent accounts of $10 or more were submitted to the collection agency. Vacated tenants' accounts which are returned by the collection agency as uncollectible are considered worthless by the Authority and are then written

off at the end of each fiscal quarter with the approval of the board of commissioners.

During the fiscal year ended September 30, 1969, the Authority's former board of commissioners approved the write-off of vacated tenants' accounts amounting to about $72,600. The new board of commissioners had not approved the write-off of any vacated tenants' accounts as of June 30, 1970.

Our review of records on vacated tenants' accounts submitted to the collection agency during the period October 1, 1968, through March 31, 1970, showed:

Accounts with collection agency on 9-30-68		$ 21,127
Add new accounts sent to agency from 10-1-68 to 9-30-69		116,552
		137,679
Less accounts returned as uncollectible by the collection agency	$81,514	
Agency's collections	10,257	91,771
Accounts with collection agency on 9-30-69		45,908
Add new accounts sent to collection agency from 10-1-69 to 3-31-70		32,736
		78,644
Less accounts returned as uncollectible by the collection agency	44,799	
Agency's collections	9,290	
Credits for moneys attached by court during rent strike	1,597	55,686
Accounts with collection agency on 3-31-70		$ 22,958

We were advised by Authority personnel that the Authority had not approved the write-off of many vacated tenants' accounts and had delayed sending many vacated tenants'

accounts to the collection agency after the rent strike ended because they were awaiting the completion of the computation and recording of the rent credits which reduced the delinquent rents owed by vacated tenants as well as those owed by resident tenants. As previously stated, the rent credit computations were not completed and recorded on the Authority's records until July 22, 1970.

We were advised by HUD regional office personnel that HUD became involved with the write-off of delinquent rents only during financial audits of the housing authorities and that this involvement extended only to determining whether the write-off of delinquent rents had been approved by the Authority's board of commissioners.

CHAPTER 8

APPROVAL AND USE OF MODERNIZATION FUNDS

On January 19, 1970, HUD approved the expenditure of $1.1 million by the Authority for a modernization program prepared by the Alliance after the tenant rent strike ended. The funds for the program were made available from unexpended funds previously provided by HUD under a rejuvenation program. HUD's approval of the modernization program was contingent upon the Authority's agreement to terminate work on the other program at the earliest practicable date. On May 19, 1970, the Authority requested HUD's approval of an additional program estimated to cost about $1.4 million to provide security services for the housing projects. On August 26, 1970, HUD headquarters advised the Fort Worth Regional Office that the proposed program was not approved because the providing of security services was not considered by HUD to be a part of the modernization program but that the regional office was authorized to approve the proposed program as an operating activity of the Authority to the extent that it was determined to be feasible from an operational and financial standpoint.

Prior to the tenant rent strike, the Authority had requested HUD's approval of an extensive modernization program; however, HUD did not approve the program because the Authority did not meet HUD's requirements.

HUD procedures state that the purpose of a modernization program is to upgrade low-rent housing projects through a comprehensive program involving (1) the correction of extensive physical deterioration of the site, structures, or equipment, (2) the replacement of outmoded equipment or outmoded aspects of structures, and/or (3) improvements in the grounds, structures, or equipment by alteration or by the provision of additional structures or equipment. The procedures also provide for any needed improvement in the management of the projects. Therefore the HUD procedures require local authorities to develop long- and short-range programs in the following areas.

"(a) Modernization and rehabilitation of buildings and grounds.

"(b) Involvement of the tenants in the plans and programs for the modernization of the project, changes in management policies and practices, and expanded services and facilities.

"(c) Expansion of community service programs and of community facilities where needed to meet the requirements of the program.

"(d) Intensification of efforts to assist low-income families to realize their potential for economic advance.

"(e) Increased employment by Local Authorities of low-income tenants."

Funds for modernization programs are advanced by HUD as temporary loans; when the work is completed, the local housing authority obtains permanent financing through the sale of notes or bonds to the public and uses the proceeds to repay the loans. The amount of permanent financing becomes a part of the total development cost of the program for which HUD provides financial assistance in the form of annual contributions. The annual contributions are used by the local housing authority to retire the notes or bonds.

MODERNIZATION PROGRAMS AFTER THE RENT STRIKE

On July 29, 1965, HUD approved an Authority budget of about $6.9 million for a rejuvenation program for work to be performed at two (Pruitt and Igoe) low-rent housing projects. This rejuvenation work was stopped on March 1, 1970, in accordance with the Authority's agreement with HUD that work on this program would be suspended when HUD approved the expenditure of $1.1 million modernization funds in January 1970. The Authority had recorded expenditures of $4.8 million for rejuvenation work at the Pruitt and Igoe projects.

After the St. Louis Civic Alliance for Housing was formed, the Alliance established a task force committee and staff to recommend a modernization program for the Authority. The recommended program, which was estimated to cost $1.1 million, was presented to the HUD regional office on January 14, 1970, by the acting director of the Alliance and a consultant to the Secretary of HUD. The program was a combination consolidation and modernization program which provided for the modernization of vacant apartments and the moving of tenants from partially occupied buildings into the rehabilitated apartments. Buildings totally vacated were to be fenced and secured from vandalism. It was anticipated that this would provide significant savings in operational and maintenance costs.

On January 19, 1970, the HUD regional office authorized the expenditure of $1.1 million and advised the Authority that the funds were available from unexpended funds previously approved for the rejuvenation of the Pruitt and Igoe projects. The regional office stated that its approval was contingent upon the Authority's agreement to suspend, at the earliest practicable date, rejuvenation work under way at the Pruitt and Igoe projects. The $1.1 million program is referred to as "Phase I" of the total modernization program which had not been fully planned as of June 22, 1970.

The Authority had incurred costs of $101,855 for work under phase I by May 31, 1970. The budget and costs incurred are shown by work item below.

Work item	Approved budget	Costs incurred
Administrative overhead	$ 75,000	$ 33,484
Architectural engineering services	70,000	4,465
Fence vacant buildings	66,000	3,500
Unit remodeling	483,000	55,239
Elevator repairs	81,200	1,674
Moving costs	80,800	-
Guard service	144,000	3,493
Contingency	100,000	-
Total	$1,100,000	$101,855

On May 19, 1970, the Authority requested HUD's approval of an additional program estimated to cost about $1.4 million to provide security services for all the Authority's housing projects. This request was supported by a report on a study made by the University of Missouri--St. Louis which was initiated and financed by the Alliance.

On May 27, 1970, the HUD regional office forwarded the Authority's budget for the $1.4 million modernization program to HUD headquarters in Washington, D.C., with the following comments.

> "We have reviewed the proposal and recommend your approval for the following reasons:
>
> "1. This security is necessary before Phase I of their modernization program can continue. Their original request was predicated upon the implementation of a security program.
>
> "2. Security is required before favorable action can be taken to correct the existing problem of excess vacancies.
>
> "3. The proposed security program does involve tenants and includes employment of tenants. Most of the one million plus dollars for nontechnical salaries will be paid to tenants.
>
> "4. The last audit report stated that one-third of maintenance cost was due to vandalism. This must be reduced to protect ordinary maintenance as well as physical modernization of the structures."

On August 26, 1970, HUD headquarters informed the regional office that it did not consider the cost of providing security services, except for the cost of capital equipment, as part of modernization but that it would not object to the approval of the proposed program as an operating activity to the extent that the program was determined to be feasible from an operational and financial standpoint.

MODERNIZATION PROGRAMS
BEFORE THE RENT STRIKE

On April 22, 1968, the Authority submitted a low-rent public housing modernization program budget of $9.4 million to the HUD regional office. Deletions made by the regional office reduced the budget submitted by the Authority to $7.3 million.

The HUD regional office advised the Authority that approval of its request for modernization funds was contingent upon a firm commitment that the Authority would take certain actions which would contribute materially to the social and economic advancement of tenants and to a realistic plan for achievement of financial solvency.

On May 23, 1968, the regional office submitted the Authority's adjusted modernization program budget to HUD headquarters. The regional office advised its headquarters that the $7.3 million included $222,704 for reimbursement of the Authority's operating funds for nonroutine expenditures made during the period July 1, 1967, to March 31, 1968. The regional office recommended that immediate authorization be granted the Authority to reimburse its operating funds from development funds previously allocated for rejuvenation of the Pruitt and Igoe projects. The regional office stated that the rejuvenation funds could be reimbursed from the first advance of modernization funds.

On August 7, 1968, the HUD headquarters approved the regional office recommendation for reimbursement of the $222,704 but stated that approval of the total modernization program would not be given until the Authority adopted an effective tenant services program, including meaningful tenant involvement.

The records showed that Authority officials visited the HUD headquarters office to work out details of a modernization program that would meet HUD's requirements. On March 10, 1969, the regional office was advised by its headquarters that the modernization program had been reactivated but was reduced from $7.3 million to $5 million which could be used for any projects except Pruitt and Igoe. The Authority submitted a revised modernization budget of

$5.5 million to the HUD regional office on March 12, 1969, and a plan for adding social services personnel to the Authority's staff.

On March 18, 1969, the regional office submitted the revised budget to its headquarters and recommended reductions to $5 million and prompt approval of the program. This recommendation was made about 1-1/2 months after the rent strike started on February 1, 1969.

The Authority, not having received any notice of approval by May 20, 1969, requested the regional office to furnish information on the status of the approval of its modernization budget. The regional office replied that it could not determine whether any funds would be made available for the program and that the Authority should proceed on the assumption the modernization program would not be approved.

HUD's records showed that, on October 15, 1969, the HUD Assistant Secretary for Renewal and Housing Assistance stated that the modernization funds in the amount of $5 million were being withheld because prior to June 30, 1969, when HUD's fiscal year 1969 funds expired, the Authority had not met HUD's requirement that the Authority adopt an effective tenant services program, including meaningful tenant involvement. He stated that fiscal year 1970 funds were being withheld pending action by the Congress on HUD's 1970 appropriation.

In January 1970, the HUD headquarters furnished the regional office with information which showed that $5 million was allocated for the Authority's modernization program for fiscal year 1970. HUD later withdrew this allocation with the understanding that it would be reinstated in fiscal year 1971.

A regional office official advised us that the $5 million was not made available for use by the Authority because HUD was not going to spend additional modernization funds in St. Louis until physical security of public housing was ensured. He informed us that the $5 million would be reallocated after HUD updated a modernization survey it had made in April 1968. He stated, however, that the follow-on modernization survey would not be performed until the results

of the $1.1 million modernization program were evaluated and a physical security program was satisfactorily established because earlier rejuvenation improvements at the Pruitt and Igoe projects were promptly destroyed by vandals.

CHAPTER 9

SCOPE OF REVIEW

The review was performed primarily at the office of the St. Louis Housing Authority in St. Louis, Missouri. During the review, information was also obtained at the various low-rent housing projects of the Authority, including discussions with tenants residing in the projects. We reviewed pertinent regulations and documents and interviewed officials of the Department of Housing and Urban Development's headquarters in Washington, D.C., and regional office in Fort Worth, Texas. Discussions were held with officials of the St. Louis Civic Alliance for Housing, members of the board of commissioners of the Authority, and five other persons in St. Louis who--Congressman William L. Clay believed--could supply information pertinent to our work.

U.S. GAO Wash., D.C.