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# PUBLIC HOUSING

## HUD's Takeover of the Housing Authority of New Orleans

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Mr. Chairman and Members of the Subcommittee:

We are pleased to have this opportunity to discuss the operational problems at the Housing Authority of New Orleans (HANO), some of the causes of those problems, and the Department of Housing and Urban Development's (HUD) efforts over the years to correct them. Our testimony summarizes our report issued in May of this year that described the events that led to HUD's takeover of HANO's operations.<sup>1</sup>

In summary, we found the following:

- Two operational problems have stood out over the years as significant and continuing obstacles to improving HANO's performance. They are HANO's inability to perform (1) routine maintenance—repairs to plumbing, heating, and electrical systems—and consistent inspection and upkeep of its buildings and grounds and (2) major modernization and rehabilitation work such as replacing roofs and heating systems or demolishing unsafe buildings. These problems, coupled with persistent interference into HANO's daily operations by its board of commissioners, have posed major obstacles to HANO's ability to provide decent housing to its residents.
- To help HANO's management overcome its operational problems, HUD has taken numerous actions over the last decade, such as withholding funding, twice requiring that the housing authority be managed by a commercial property management firm, and sanctioning the board of commissioners. These actions have had little impact on housing conditions, however. A November 1995 survey by HUD showed that over 90 percent of a random sample of HANO's apartments did not meet HUD's housing quality standards, and the housing authority's operational performance was at its lowest measured level.
- After a 1994 partnership agreement with the Mayor of New Orleans failed to improve HANO's performance, in early February 1996 the Secretary declared the housing authority in breach of its contract and negotiated with the Mayor a second agreement to determine and accomplish the steps necessary to improve the living conditions in HANO's public housing.

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## Background

Under the Housing Act of 1937, as amended, HUD contracts with housing authorities to provide subsidies and grants for operating expenses and modernizing deteriorated housing. In return, housing authorities agree to provide residents with decent, safe, and sanitary housing. In New Orleans,

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<sup>1</sup>Public Housing: HUD Takes Over the Housing Authority of New Orleans (GAO/RCED-96-67, May 3, 1996).

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as in many other cities, the mayor appoints a governing body or board of commissioners who, in turn, hires the local housing authority's executive director and may approve other top management positions. The board provides the housing authority with policy guidance, while the executive director is responsible for day-to-day operations.<sup>2</sup> Both are responsible for complying with the terms of the housing authority's contract with HUD.

If a housing authority does not comply with terms of the contract, HUD can declare the authority in substantial breach of the contract. Historically, however, HUD has made limited use of this authority and when it has declared a breach, the results have been mixed. In late 1985, HUD took over the troubled East St. Louis Housing Authority and hired a private manager, who operated the housing authority for 6 years. This housing authority is no longer troubled. In contrast, HUD's intervention with the Detroit Housing Authority was not as successful. HUD declared Detroit in breach of its contract in October 1992 but did not place it in receivership or take it over. Currently, the Detroit Housing Authority remains on HUD's list of troubled authorities and is still receiving significant technical assistance from HUD.

Pending legislation in both the House and Senate would significantly reduce the time the Secretary of HUD would be permitted to wait before taking over troubled housing authorities, such as HANO. The Secretary would be required to take a more aggressive approach with such authorities, ensuring some resolution of the problems and better protection for the residents living in these authorities. While the Secretary would maintain flexibility in dealing with troubled authorities, he would be required to take over, within 180 days, authorities that have performance histories similar to HANO's. However, after the Secretary takes over an authority, the legislation would not prevent the Secretary from entering into cooperative agreements with local governments to encourage their involvement.

HANO is one of our nation's 10 largest housing authorities, ranking 7th in size with about 13,000 units and providing homes to over 24,000 people in 10 developments. HANO receives approximately \$30 million in operating subsidies each year. To modernize HANO's buildings and systems, HUD provided HANO with nearly \$90 million in 1994 and over \$37 million in 1995; HANO qualifies for \$27 million in modernization funding in 1996. That these funds are needed to correct the social and physical distress of HANO's

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<sup>2</sup>The responsibilities of HANO's board are outlined in the housing authority's contract with HUD and HUD handbooks.

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developments is not in question: HUD's Deputy Secretary for Distressed and Troubled Housing Recovery recently described HANO's developments as disproportionately substandard—by age of housing stock, deteriorated condition, resident distress, poverty, and social isolation—when compared with other large housing authorities in the nation.

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## HANO Has Suffered From Ineffective Maintenance and Modernization Efforts

Numerous reports by HUD, HUD's Inspector General (IG), GAO, and consultants have documented HANO's decline since it was first designated by HUD as troubled in 1979. The reports attribute this decline to HANO's lack of an effective maintenance program, HANO's inability to carry out major modernization and rehabilitation projects, and the persistent interference into HANO's operations by its board of commissioners.

After over a decade of focused effort to rectify maintenance problems at HANO, HUD's IG reported in 1994 that in a random sample of HANO's housing units, all 150 units failed to meet HUD's housing quality standards because of missing ceilings, holes in walls, loose and peeling paint, and roach infestations. The report further stated that no maintenance improvements had occurred at HANO since HUD's IG had last been there over 10 years earlier. In addition, a consultant hired in 1995 by HUD to review HANO's performance cited ineffective maintenance and modernization as serious problems and stated that despite the presence of a professional property management contractor, HANO's performance score had declined significantly from 47 (out of a possible 100, with a score of 60 denoting "troubled" status) in 1993 to 26 in 1994. The acting director of HUD's Office of Troubled Agency Recovery told us recently that the score has risen to 29.

The record of audit and independent reports shows that many interrelated conditions underlie HANO's lack of progress toward improving its operations. One of these factors has been HANO's policy-making body—its board of commissioners. For example, in contradiction of HUD's guidance, the board did not effectively govern the authority and persisted in adversely interfering in the housing authority's daily operations. Such behavior resulted in canceled modernization contracts and delays in HUD-mandated improvement actions.

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## HUD's Attempts to Solve HANO's Problems Have Not Proven Effective

As we reported in May, HUD has taken many actions over the last decade to stimulate management improvements at HANO. HUD has withheld funding, twice required that the authority be managed by a commercial property management firm, sanctioned the board of commissioners, and negotiated in 1994 directly with the Mayor to establish a partnership between HUD and the City of New Orleans to avoid declaring the authority in breach of its contract with HUD. (See app. I.)

As far back as 1983, HUD's IG identified significant and pervasive operational and managerial deficiencies at HANO.<sup>3</sup> In 1984, HUD withheld approximately \$10 million in modernization funding because HANO's performance had not improved. Although HANO remained on HUD's troubled list, HUD reinstated modernization funding the following year. HUD's own 1988 comprehensive management review of HANO revealed 241 findings of deficiencies similar to those reported by the IG. As a result, HUD required HANO's board of commissioners to enter into a Memorandum of Agreement that placed HANO under a private manager. Private management, however, did not prove to be effective, resulted in few lasting improvements over its 5-year duration (1988-1993), and did not enable HANO to be removed from HUD's troubled list.

In 1991, HUD attempted to prevent HANO's board of commissioners from continuing to interfere with the housing authority's daily operations by issuing a "limited denial of participation" against the board.<sup>4</sup> HUD rescinded the denial a year later when the board agreed to resign and the Mayor appointed a new board. Later, the chairman of the new board resigned under pressure from HUD because of allegations that he interfered with and impeded the private manager's effort to improve HANO.

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## HUD Tried Partnership Before Declaring Breach of Contract

In 1994, HUD's IG recommended that HUD take over HANO and contract out its functions. At about the same time, a new Mayor elected to the City of New Orleans appointed a new board of commissioners. Both HANO and the Mayor wanted to return the authority to a traditional structure by removing the private manager and hiring a permanent executive director. But recognizing that HANO's management and physical conditions were continuing to decline, and to avoid HUD's declaring breach and to maintain local participation in HANO's recovery efforts, HUD's Secretary and the new

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<sup>3</sup>Housing Authority of New Orleans: Low Income Housing Program (HUD/OIG/Region VI-84-FW-201-1014/NO-84-26, Dec. 29, 1983).

<sup>4</sup>A limited denial is a temporary enforcement action effective for 1 year at most to prevent local officials from participating in all or part of a housing authority's activities.

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Mayor entered into a partnership agreement in September 1994. This partnership did not prove successful, and in February 1996 HUD entered into a second partnership with the new Mayor, removed the housing authority from the control of the board of commissioners, and took possession of HANO's assets.

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### The First Partnership Agreement Was Not Successful

In 1994, HUD's Secretary and the Mayor agreed to form an executive council that would provide policy guidance for HANO's board, maintain the private manager on a month-to-month basis until a permanent executive director could be hired, and develop a 6-month strategic plan. Initial partnership objectives were not met, however, because the board allowed the private management contract to expire and did not hire an executive director and other key managers for HANO. HUD subsequently revised the partnership agreement to include a transitional management structure. Later, other milestones in the agreement were missed.

In September 1995, HUD began assembling a 15-member transitional management team comprising HUD staff, staff from high-performing housing authorities, and staff on loan from the City of New Orleans. The team's purpose was to stabilize HANO's operations until an executive director and upper-level managers could be hired. Some members of the team remained at HANO for up to 7 months, at a cost to HUD of about \$480,000 for salaries and living expenses. By gaining control over and reducing the 21,000 outstanding maintenance work orders and implementing standard contracting procedures, the team was able to stabilize, to some extent, HANO's critical operations. The partnership agreement also required HANO to develop a 6-month strategic plan within 45 days and to hire a permanent executive director within 90 days. The strategic plan was not completed until 10 months later and, although HUD provided HANO with additional funding to search for an executive director, this position was not filled until April 1995—4 months later than stipulated in the agreement.

HANO's performance scores made little improvement from September 1994—when the partnership was initiated—to the time when an independent contractor assessed the housing authority's performance in June 1995. The independent assessment lowered HANO's 1994 performance score from approximately 61 to 26 and predicted limited improvements in 1995. The assessment also found modernization to be one of HANO's most troubled areas and focused on HANO's inability to spend backlogged funds and obtain quality work.

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HUD's November 1995 housing quality inspection indicated a further lack of improvement at HANO during the time it was under the 1994 agreement. The inspection found that 93 percent (70 of 75) of the occupied units that were randomly selected from HANO's 10 developments failed HUD's quality standards for housing. Inspectors described the conditions as "deplorable, unsafe, and in many instances unfit for human habitation." Furthermore, the inspectors said that they found no visible indication that maintenance staff were deployed on-site, that they were responding to scheduled maintenance, or that recent maintenance work had been done in any of the units, even though many of the tenants reported broken space heaters and other problems that should have been addressed.

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## HUD Declared Breach and Established a Second Partnership Agreement

The lack of progress under the first partnership agreement, the results of the independent assessment, and the dismal results of the housing quality inspection prompted HUD's Secretary to initiate an action to declare HANO in substantial breach of its contract in December 1995. On February 8, 1996, after lengthy negotiations with the new Mayor, HUD's Secretary declared the housing authority to be in substantial breach of its contract with HUD. HUD removed HANO from the oversight of its Board of Commissioners, and obtained control of all properties and assets. In addition, HUD's Secretary and the new Mayor entered into a second partnership—"the Cooperative Endeavor Agreement"—that provides for establishing plans and quantifiable performance targets for which they will share administrative oversight and responsibility.

Under the agreement, HANO's executive director and management staff remain in place under the direction of an executive monitor. The housing authority's staff is supplemented by HUD staff—an 11-member team working on-site at HANO. As part of the agreement, HUD's Secretary explicitly retains his right to appoint or request judicial appointment of a receiver to manage HANO.

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Mr. Chairman, this concludes our statement. We would be pleased to answer any questions that you, the Subcommittee Members, or other Members of Congress may have at this time.



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# Time Line of Events Related to HUD's Oversight of the Housing Authority of New Orleans

Date	Event
June 26, 1979	The Department of Housing and Urban Development (HUD) designates the Housing Authority of New Orleans (HANO) as troubled for the first time, and HANO remains on HUD's troubled list from 1979 to present where it is currently ranked as the lowest performing large housing authority.
Oct. 7, 1988	HUD releases a Comprehensive Management Review of HANO containing 241 findings, many are similar to the issues raised in a 1983 report by HUD's Office of the Inspector General (OIG).
Oct. 27, 1988	HUD and HANO enter into a Memorandum of Agreement requiring HANO to contract with a private firm to manage the housing authority's day-to-day operations.
Sept. 9, 1991	HUD issues a Limited Denial of Participation to every member of HANO's Board of Commissioners for inappropriately interfering with HANO's day-to-day operations. The New Orleans Mayor and HUD agree that the Mayor should appoint a new board.
Mar. 1993	HUD pressures HANO's board chairman into resigning because he interfered with and impeded the private manager's efforts to manage the housing authority.
June 29, 1994	HUD's OIG releases an audit report of HANO stating that HANO is in breach of its contract with HUD to provide decent, safe, and sanitary housing because all 150 housing units chosen at random failed to meet housing quality standards.
Sept. 1994	HUD's Secretary enters into a partnership with New Orleans' Mayor to avoid declaring HANO in breach of its contract. The partnership states that HANO will hire an executive director and develop a strategic plan with performance targets detailing management improvements.
Dec. 11, 1995	HUD's Secretary agrees that conditions warrant declaring HANO in substantial breach of its contract.
Feb. 8, 1996	HUD's Secretary declares HANO in substantial breach of its contract, takes control of the authority's properties, and enters into a second partnership with the Mayor.

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