United States Government Accountability Office

Report to Congressional Requesters

August 2023

AFFORDABLE HOUSING

Improvements Needed in HUD's Oversight of the Housing Trust Fund Program

GAO-23-105370

Highlights of GAO-23-105370, a report to congressional requesters

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Why GAO Did This Study

The U.S. faces a widespread shortage of affordable rental housing. Congress authorized HTF in 2008 to increase and preserve the supply of housing for people with the lowest incomes. HTF is funded by set-asides from Fannie Mae and Freddie Mac that began in fiscal year 2016. HUD administers HTF and allocates funding to state grantees.

GAO was asked to examine the use and oversight of HTF funds. This report examines (1) the number and production rate of HTF units; (2) how selected grantees have used HTF and other funding sources, and the development costs of their projects; and (3) HUD's HTF oversight and reporting.

GAO analyzed data from HUD and a nongeneralizable sample of 12 grantees (selected for diversity in location and project characteristics and accounting for about 42 percent of HTF funding in 2021) on HTF-assisted projects completed by March 1, 2022. GAO also reviewed program documents and interviewed HUD and grantee officials.

What GAO Recommends

GAO is making five recommendations, including that HUD centrally monitor HTF grantees' compliance with project completion timelines and data requirements, communicate the cost certification requirement to grantees, schedule and conduct a fraud risk assessment, and disclose limitations in external reports. HUD agreed with the recommendations and outlined planned actions to address them.

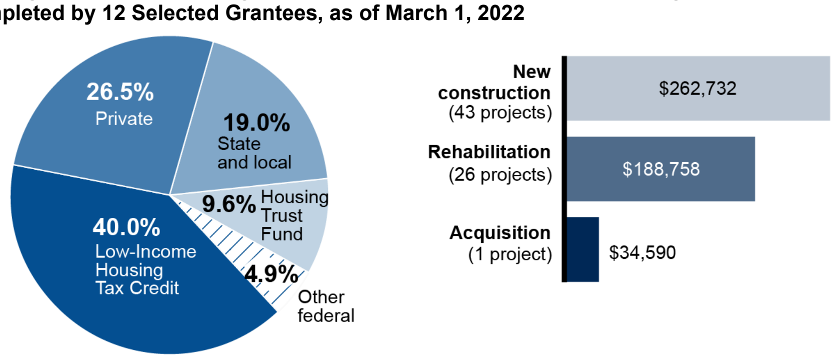
View GAO-23-105370. For more information, contact Jill Naamane at (202) 512-8678 or naamanej@gao.gov.

What GAO Found

As of March 1, 2022, Housing Trust Fund (HTF) grantees had developed 2,186 rental units (in 263 projects) for households with extremely low incomes (not exceeding 30 percent of the area median). Grantees had also committed HTF funds to another 519 projects with an estimated 6,646 units designated for extremely low-income households. Once grantees began receiving HTF funds in late 2016, production of completed units averaged about seven units per quarter from the fourth quarter of 2017 through 2018, but grew to almost 300 units per quarter in 2021.

For the 12 selected grantees GAO reviewed, HTF accounted for about 10 percent of the total funds for 70 completed projects. Equity from investors in Low-Income Housing Tax Credits was the largest funding source. The average development cost for these 70 projects was about $232,000 per unit but varied by project type and location. For example, new construction projects were more expensive per unit than rehabilitation projects (see figure).

Funding Sources and Average Per-Unit Development Costs for Housing Trust Fund Projects Completed by 12 Selected Grantees, as of March 1, 2022



Source: GAO analysis of data from selected grantees. | GAO-23-105370

The Department of Housing and Urban Development (HUD) monitors compliance with HTF funding commitment and expenditure deadlines, but weaknesses exist in its oversight and reporting. Specifically, HUD has not

- monitored grantee compliance with requirements for reporting project completion dates or data on total project units in HUD's information system;
- effectively communicated requirements for grantees to obtain cost certifications for completed HTF projects;
- conducted or scheduled a comprehensive assessment of fraud risks; and
- disclosed limitations in its external HTF reports that could lead to misinterpretation of project cost and funding data.

HUD officials said they are drafting procedures for field monitoring of HTF grantees that is expected to begin in fiscal year 2024. While this monitoring could help address some of the weaknesses GAO identified, HUD could take additional steps in the near term to help ensure that HTF funds are used efficiently and effectively and that Congress understands the program's performance.

Contents

Abbreviations

CPD	Office of Community Planning and Development
enterprises	government-sponsored enterprises
FERA	front-end risk assessment
FHFA	Federal Housing Finance Agency
HERA	Housing and Economic Recovery Act of 2008
HTF	Housing Trust Fund
HOME	HOME Investment Partnerships Program
HUD	Department of Housing and Urban Development
IDIS	Integrated Disbursement and Information System
LIHTC	Low-Income Housing Tax Credit
OMB	Office of Management and Budget

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August 8, 2023

The Honorable Patrick McHenry
Chairman
Committee on Financial Services
House of Representatives

The Honorable Warren Davidson
Chairman
Subcommittee on Housing and Insurance
Committee on Financial Services
House of Representatives

The Honorable French Hill
House of Representatives

The U.S. faces a widespread shortage of rental units that are affordable to very low- and extremely low-income renter households.[1] The Department of Housing and Urban Development (HUD) estimated that, in 2019, 62 affordable units were available for every 100 very low-income renter households, and 40 affordable units were available for every 100 extremely low-income renter households.[2] In response to the shortage of affordable housing, the Housing and Economic Recovery Act of 2008 (HERA) authorized the Housing Trust Fund (HTF) to provide grants to states to increase and preserve the supply of housing for people with the lowest incomes, including families experiencing homelessness.[3]

The HTF program is administered by HUD but is funded by annual set-asides from Freddie Mac and Fannie Mae—collectively, the government-

[1]In general, very low-income households are those with incomes that do not exceed 50 percent of the area median family income, and extremely low-income households are those with incomes that do not exceed 30 percent of the area median family income. 12 U.S.C §§ 4502(24) and 4502(27). In general, a unit is considered affordable if the gross rent (rent plus utility costs) does not exceed 30 percent of household income.

[2]Department of Housing and Urban Development, *Worst Case Housing Needs, 2021 Report to Congress* (Washington, D.C.: July 2021).

[3]Pub. L. No. 110-289, § 1131(b), 122 Stat. 2654, 2712 (codified at 12 U.S.C. § 4568(a)(1)).

sponsored enterprises (enterprises)—rather than by appropriations.[4] From 2016 (the year of the first set-aside) through June 2023, the enterprises transferred about $3 billion to HTF through the Department of the Treasury, including the largest transfer of about $740 million in 2022. HUD uses these funds to make annual formula grants to states for the production, rehabilitation, or preservation of housing for individuals with very low and extremely low incomes.[5] Multifamily housing projects developed using a combination of HTF funds and other funds generally include both HTF units (dwellings designated for households HTF is intended to serve) and non-HTF units.

You requested that we review the use and oversight of HTF funds. This report examines (1) the production rate, number, and type of HTF units completed; (2) how selected grantees have used HTF and other funding sources to develop HTF-assisted projects; (3) development costs of selected grantees' HTF-assisted projects; and (4) the extent to which HUD oversees selected HTF requirements, assesses fraud risks, and reports clear information on project costs and funding.

For all objectives, we reviewed HUD regulations, policies, and guidance for the HTF program. We also reviewed data and documentation and interviewed officials from a nongeneralizable sample of 12 HTF grantees selected to obtain diversity in geography, type of housing market, grant amount, and number of completed projects. Our selected grantees were the state agencies responsible for administering the HTF program in Arizona, California, Georgia, Maine, Massachusetts, Minnesota, Mississippi, New York, North Dakota, Tennessee, Utah, and

[4]The enterprises are congressionally chartered, for-profit, shareholder-owned corporations that purchase mortgages meeting certain criteria. They package the mortgages into securities sold to investors and, in exchange for a fee, guarantee the timely payment of interest and principal on the securities they issue. The enterprises have been in federal conservatorships since 2008. Because of concerns about the financial condition of the enterprises, the enterprises' regulator suspended the set-asides from November 2008 until January 2015.

[5]The Federal Housing Enterprises Financial Safety and Soundness Act of 1992 defines "State" to include "the States of the United States, the District of Columbia, Puerto Rico, Northern Mariana Islands, Guam, the Virgin Islands, American Samoa, the Trust Territory of the Pacific Islands, and any other territory or possession of the United States." 12 U.S.C § 4502(22).

Washington.[6] Collectively, these grantees accounted for about 42 percent of the HTF grant funds HUD allocated in 2021.

For the first objective, we analyzed data grantees submitted to HUD through the Integrated Disbursement and Information System (IDIS).[7] We obtained data on HTF activities from the start of the program through March 1, 2022.[8]

For the second objective, we reviewed documentation from our selected grantees describing their housing priorities and the eligibility and selection criteria they used to allocate 2021 HTF funds. We also interviewed officials from these grantees about their allocation strategies and any challenges they faced in using HTF funds. Additionally, we reviewed documentation and collected and analyzed data on funding sources from the grantees on all HTF-assisted projects they completed through March 1, 2022, a total of 70 projects.[9]

For the third objective, we created and analyzed a database of project development costs and characteristics for the 70 HTF-assisted projects completed by our 12 selected grantees. The database is not generalizable to all HTF grantees. To develop the database, we reviewed

[6]The state agencies that were designated to be HTF grantees representing these states are the Arizona Department of Housing, California Department of Housing and Community Development, Georgia Department of Community Affairs, Maine State Housing Authority, Massachusetts Department of Housing and Community Development, Minnesota Housing Finance Agency, Mississippi Home Corporation, New York State Housing Finance Agency, North Dakota Housing Finance Agency, Tennessee Housing Development Agency, Utah Housing and Community Development Division, and Washington State Department of Commerce.

[7]IDIS is the system used by HUD's Office of Community Planning and Development (CPD) for multiple programs, including HTF. Grantees use IDIS to track and draw down funds and program income and to record the results of CPD-funded activities. HUD uses the data grantees provide in IDIS to report on the performance of the CPD programs to Congress and other program stakeholders.

[8]To assess the reliability of HUD's IDIS data, we tested the data for missing values, outliers, and obvious errors and interviewed HUD officials about interpretations of various data fields, among other things. We concluded that the data were sufficiently reliable for purposes of describing the production rate, number, and basic characteristics of completed HTF units at the national level.

[9]For one selected grantee that had no completed projects in IDIS as of this date, we obtained information from the grantee to determine which of the grantee's projects could have been marked as complete as of March 1, 2022, and included those two projects in our analysis of project development costs.

final cost certifications, when available, and other final cost documents, such as project budgets, for projects without cost certifications.[10]

For the fourth objective, we reviewed HUD's policies, procedures, and guidance for HTF oversight. We also reviewed standard IDIS reports and data, plans, and other documentation from our selected grantees to assess grantees' compliance with requirements for planning, committing and expending funds, and controlling project costs. Additionally, we reviewed HUD's front-end risk assessment for the HTF program and assessed it against HUD's fraud risk management policy and leading practices for fraud risk assessments in GAO's Framework for Managing Fraud Risks in Federal Programs.[11] We reviewed HUD's monthly public reports on HTF production. We also compared the expenditure and production data that HUD reports against the Office of Management and Budget's (OMB) guidelines on reporting information to the public.[12] Additionally, we interviewed officials from HUD's Office of Community Planning and Development (CPD) and three CPD field offices with oversight responsibilities for six of our 12 selected grantees. Appendix I describes our scope and methodology in greater detail.

We conducted this performance audit from August 2021 to August 2023 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

[10]To assess the reliability of the project cost data, we tested the data for obvious errors in data entry, and we verified our project cost data by sending datasets to selected grantee officials. We concluded that the data were sufficiently reliable for purposes of describing the development costs of HTF-assisted projects completed by our selected grantees.

[11]Our review focused on component 2, "Plan Regular Fraud Risk Assessments and Assess Risks to Determine a Fraud Risk Profile." GAO, *A Framework for Managing Fraud Risks in Federal Programs*, GAO-15-593SP (Washington, D.C.: July 28, 2015).

[12]Office of Management and Budget, *Guidelines for Ensuring and Maximizing the Quality, Objectivity, Utility, and Integrity of Information Disseminated by Federal Agencies; Republication*, 67 Fed. Reg. 8452 (Feb. 22, 2002).

Background

Housing Trust Fund Set-Asides and Allocations

HERA created HTF and established set-asides from the enterprises as the dedicated funding source. Specifically, HERA requires the enterprises to annually set aside an amount equal to 4.2 basis points (0.042 percent) for each dollar of the unpaid principal balance of their total new business purchases. Sixty-five percent of the funds go to HTF, and 35 percent go to the Capital Magnet Fund, which is administered by Treasury.[13] The enterprises are prohibited from passing on the costs of their set-asides to mortgage originators.[14]

HERA allows the Federal Housing Finance Agency (FHFA), which regulates the enterprises, to suspend the transmission of funds under certain conditions.[15] Based on this authority, in November 2008, FHFA suspended the enterprises' set-asides and transmissions until further notice, citing that the transmissions would (1) further contribute to the financial instability of each enterprise and (2) cause the enterprises to increase the size of their draws on Treasury capital commitments.[16] FHFA's suspension of set-asides continued through 2014. In December 2014, FHFA lifted the suspension, effective January 2015, and the enterprises have transferred funds to HTF each year since 2016 (see fig.

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[13]12 U.S.C. § 4567(a). The Capital Magnet Fund, also established by HERA, offers competitively awarded grants to finance affordable housing and community revitalization efforts primarily to benefit low-income households. 12 U.S.C. § 4569.

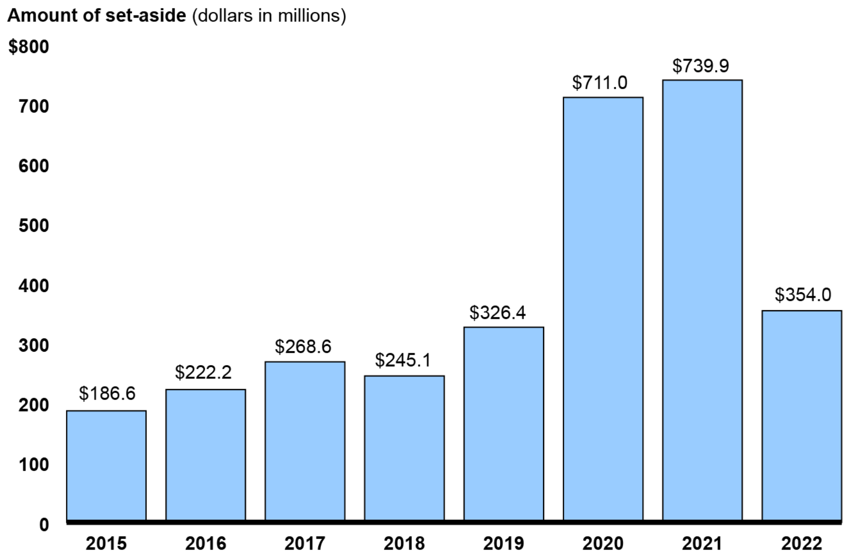
[14]12 U.S.C. § 4567(c). Federal Housing Finance Agency regulations state that no enterprise shall redirect or pass through the cost of any allocation to HTF through increased charges or fees, or decreased premiums to the originators of mortgages purchased or securitized by the enterprises. 12 C.F.R. § 1251.3.

[15]HERA states that the FHFA Director shall temporarily suspend the transmission of the enterprises' annual set-asides upon a finding that one or more conditions have been met. These conditions are (1) that the transmissions are contributing, or would contribute, to the financial instability of the enterprise; (2) that the transmissions are causing, or would cause, the enterprise to be classified as undercapitalized; or (3) that the transmissions are preventing, or would prevent, the enterprise from successfully completing a capital restoration plan. 12 U.S.C. § 4567(b).

[16]Using authority provided in HERA, Treasury committed to providing up to $445.5 billion in capital support to the enterprises while they are in conservatorship through senior preferred stock purchase agreements. As of December 31, 2022, the enterprises combined had received $191.4 billion in capital support from Treasury. If the enterprises were to incur major future losses, they would draw needed amounts from their remaining $254.1 billion in Treasury commitments.

1). The size of the set-asides grew substantially in 2021 because of increases in the enterprises' new business purchases.

Figure 1: Housing Trust Fund Set-Asides, 2015–2022



Source: GAO analysis of Fannie Mae and Freddie Mac annual reports. | GAO-23-105370

Note: The set-aside amounts for each year are transferred to the Housing Trust Fund in the following year.

HUD annually allocates HTF grant funds to states using a formula it applies to the enterprises' set-asides.[17] The formula considers the shortage of rental homes affordable and available to very low-income and extremely low-income renter households and the extent to which such households are living in substandard housing or spending more than one-half of their income on rent. The formula also considers the cost of construction in a given state relative to the national cost of construction.[18]

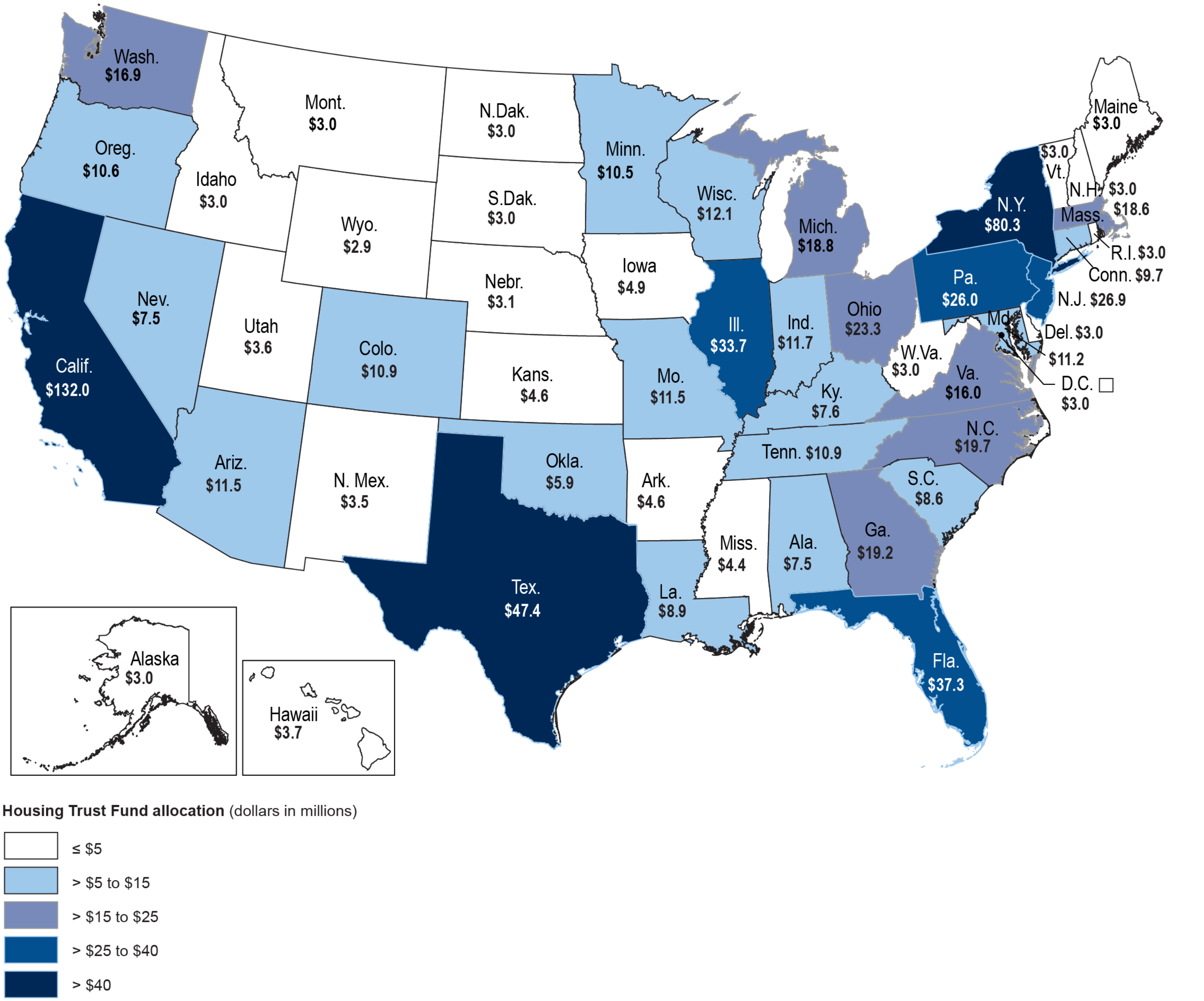
[17]12 U.S.C. § 4568(c)(3).

[18]Allocation amounts are based on four need factors as well as a construction cost-adjustment factor. The four need factors are a state's relative shortage of rental housing available to extremely low-income families; a state's relative shortage of rental housing available to very low-income families; the relative number of extremely low-income renter households living in substandard, overcrowded, or unaffordable units in a particular state; and the relative number of very low-income renter households living in substandard, overcrowded, or unaffordable units in a particular state. 24 C.F.R. § 93.51(a)-(d).

In addition to the allocation formula, HERA established a minimum annual grant of $3 million for each of the 50 states and the District of Columbia.[19] As shown in figure 2, in 2022, 21 states and the District of Columbia received less than $5 million and 23 states received between $5 million and $25 million. Allocations for the remaining seven states ranged from $26 million (Pennsylvania) to $132 million (California).

[19] 12 U.S.C. § 4568(c)(4)(C). In 2022, 13 states received HTF grants of less than $3 million to correct for overallocations made in 2017–2021 because of HUD calculation errors.

Figure 2: Housing Trust Fund Allocations for 2022, by State



Source: GAO presentation of Department of Housing and Urban Development data; Mapinfo (map). | GAO-23-105370

Note: Dollar amounts in the figure are rounded to one decimal place. In 2022, 13 states received Housing Trust Fund grants that were slightly less than $3 million to correct for overallocations made in 2017–2021 because of Department of Housing and Urban Development calculation errors.

States administer HTF through a state agency, such as a housing finance agency or a housing department. Each state must prepare an allocation plan that describes how it will distribute its HTF funds. The plan must include how the state will use the funds to address priority housing needs identified in its consolidated plan, what activities may be undertaken with the funds, and how recipients and projects will be selected to receive the funds.[20] States must include their HTF allocation plans in the annual action plans they are required to submit to HUD to receive HUD formula grants.

Housing Trust Fund Program Requirements

By statute, all HTF funds must benefit very low- or extremely low-income households.[21] HUD has indicated that at least 80 percent of the funds must be used for the production, rehabilitation, preservation, or operation of rental housing.[22] Up to 10 percent of the funds may be used to support homeownership for first-time homebuyers, and up to 10 percent may be used for grantee administration and planning costs.[23] By statute, at least

[20]A consolidated plan is a 3- to 5-year plan that describes community needs, resources, priorities, and proposed activities to be undertaken through HUD's CPD formula grant programs (Community Development Block Grant Program, HOME Investment Partnerships Program, Emergency Solutions Grants Program, Housing Opportunities for Persons with AIDS Program, and HTF). Grantees carry out their consolidated plans through annual action plans, which provide a concise summary of the actions, activities, and specific federal and nonfederal resources grantees will use to address the priority needs and specific goals in the consolidated plans. At the end of each program year, grantees must submit to HUD an annual performance report detailing progress they have made in meeting the goals and objectives outlined in their consolidated and action plans. HUD staff are required to review recipients' consolidated and annual action plans and annual performance reports.

[21]HTF regulations state that in any fiscal year in which the total amount of HTF funds available for allocation is less than $1 billion, grantees must use 100 percent of their HTF grant for the benefit of extremely low-income families or families with incomes at or below the poverty line (whichever is greater). In any fiscal year in which the total amount available for allocation of HTF funds is greater than $1 billion, grantees must use at least 75 percent of their grant for the benefit of extremely low-income families or families with incomes at or below the poverty line. Any HTF funds not used for the benefit of extremely low-income families or families with incomes at or below the poverty line must be used for very low-income families. 24 C.F.R. § 93.250.

[22]*See* 75 Fed. Reg. 66982. Up to one-third of each annual grant may be used for operating cost assistance and operating cost assistance reserves. Operating costs are costs for insurance, utilities, real property taxes, and maintenance and scheduled payments to a reserve for replacement of major systems (provided that the payments must be based on the useful life of each major system and expected replacement cost) of an HTF-assisted unit. 12 C.F.R. § 93.201(e)(1).

[23]App. II contains information on the use of HTF for administrative and planning expenses and HUD's oversight of these expenses.

75 percent of the funds for rental housing must benefit extremely low-income families or families with incomes at or below the poverty line.[24]

Housing projects with HTF investments (HTF-assisted projects) must designate a portion of the total units as HTF units, which must follow program income and rent restrictions. HTF regulations state that the proportion of total project development costs charged to the HTF program must not exceed the proportion of HTF units in the project, for projects in which the HTF-assisted and non-assisted units are comparable.[25] For example, if 20 percent of the units in a project are designated as HTF units comparable to non-assisted units, the HTF program may fund no more than 20 percent of the project's development costs. HTF rental units must follow income and rent restrictions for an affordability period of 30 years, and HTF homeownership units must meet an affordability period of 10, 20, or 30 years depending on the amount of HTF investment in the unit.[26]

By statute, grantees must commit HTF funds to eligible projects within 2 years of the date HUD makes the funds available.[27] Additionally, HUD regulations require grantees to expend HTF funds within 5 years of that date. HUD is to reduce or recapture any funds not committed or expended by the applicable deadline and reallocate the funds to all HTF grantees, except those from which the funds were recaptured, through the next year's HTF formula.

[24] 12 U.S.C. § 4568(c)(7).

[25] 24 C.F.R. § 93.200(c). For projects in which the HTF-assisted and non-assisted units are not comparable, development costs may be determined based on a method of cost allocation.

[26] 24 C.F.R. § 93.302(d) and 24 C.F.R. § 305(b). If recapture restrictions are used, HTF homeownership units that receive less than $30,000 in assistance are held to a 10 year affordability period, while units that receive between $30,000 and $50,000 are held to a 20 year affordability period. Homeownership units that receive more than $50,000 in assistance, must meet the affordability requirements for 30 years. Units that are not kept affordable for the required period are subject to recapture. These affordability period regulations were promulgated in an interim final rule. HUD has not issued a final rule for these requirements. A request for comment on the interim final rule has been issued and the Unified Agenda includes a reference to the rule See 86 Fed. Reg. 21984, April 26, 2021.

[27] 12 U.S.C. § 4568(c)(10)(B). Commitment occurs when the grantee has executed a legally binding written agreement with an eligible recipient, such as a housing developer, for a project that meets the definition of "commit to a specific local project" in HUD regulations. 24 C.F.R. § 93.2.

Grantees use IDIS to commit funds to activities, draw down funds, and report key HTF program information, including types of activities, expenditure rates, funding sources, and numbers of completed housing units. HUD uses grantee-submitted data to produce reports on program performance at the national and state levels. For example, the HTF National Production Report is a monthly cumulative summary report that includes the amount of allocations, commitments, and disbursements made by grantees; the amount and source of funds used in HTF-assisted projects; and the cost of completed HTF units.

HUD administers HTF through its CPD headquarters and field offices. According to CPD officials, CPD field offices will begin conducting in-depth monitoring reviews of HTF grantees in fiscal year 2024. Field office monitoring reviews provide oversight of grantees' compliance with statutory, regulatory, and grant requirements. Officials said risk-based monitoring of HTF by field offices will begin once CPD completes (1) development of monitoring exhibits (e.g., compliance checklists) for CPD field office staff and (2) integration of HTF into CPD's risk-based methodology for selecting programs and grantees for individual monitoring.[28]

Affordable Housing Development

Multifamily residential properties, such as apartment buildings, are generally financed with multifamily mortgage loans. Potential future income from rents is generally a key reason why developers pursue multifamily projects and is an important factor lenders use when evaluating multifamily mortgage applications. Multifamily projects that target lower-income households may not generate sufficient rental income to repay their mortgages and meet profitability targets, making them less attractive to developers and lenders.[29] To lower rents to levels that lower-income households can afford, developers seek various types of capital and operating subsidies to make projects financially feasible. For developments that serve very low- and extremely low-income

[28]HUD has established a risk analysis methodology for monitoring CPD grant programs and a handbook that contains guidelines and checklists CPD field staff use to assess grantees' compliance with applicable federal statutes, program regulations, and grant requirements.

[29]Congressional Research Service, *Multifamily Housing Finance and Selected Policy Issues*, R46480 (Washington, D.C.: Aug. 7, 2020).

households, such as those developed with HTF funds, several sources of financing assistance may be needed.[30]

Assistance for affordable multifamily housing developments can come in many forms of subsidy, including public and private sources of funding. The federal government encourages developers and lenders to invest in affordable multifamily properties by offering various incentives, including the Low-Income Housing Tax Credit (LIHTC), Federal Housing Administration multifamily mortgage insurance, Federal Home Loan Bank System affordable housing and community investment grants and loans, and HUD programs such as HTF and the HOME Investment Partnerships Program (HOME). State and local governments and private organizations may also offer incentives or programs to fund affordable multifamily housing.

The largest source of federal assistance for developing affordable rental housing is the LIHTC program, which provides federal income tax credits to encourage private equity investments (LIHTC equity) in the construction of new or rehabilitation of existing low-income housing. Each state receives an annual LIHTC allocation. States evaluate developers' proposals to use the tax credits against their allocation plans. State allocation plans identify priority housing needs and contain selection criteria for awarding credits.[31] In addition to meeting criteria outlined in an

[30]Elizabeth Kneebone and Carolina K. Reid, *The Complexity of Financing Low-Income Housing Tax Credit Housing in the United States* (Berkeley, CA: Terner Center for Housing Innovation, April 2021).

[31]Once a project is awarded tax credits, developers often attempt to obtain funding for the project by attracting investors willing to contribute equity financing. Developers typically sell an ownership interest in their LIHTC projects in exchange for equity from investors (a process commonly referred to as selling tax credits). The equity investments reduce debt burden on LIHTC projects, making it possible for project owners to offer lower, more affordable rents. Generally, investors buy an ownership interest in a LIHTC partnership (commonly referred to as buying tax credits) to lower their tax liability.

allocation plan, projects awarded tax credits must remain affordable to qualifying households for at least 30 years.[32]

The largest HUD-administered program that funds housing development is the HOME program. The program provides grants to state and local governments to undertake activities that address locally identified priority housing needs through the development or rehabilitation of housing for rent or homeownership, repair of substandard owner-occupied housing, or provision of tenant-based rental assistance. All HOME grantees must contribute or match no less than 25 cents for each dollar of HOME funds spent on affordable housing.

HTF Production Rates Have Risen over Time, and Most Units Are Newly Constructed

The Rate of Production Has Increased since HTF's Inception, and Many Projects Are in Development

HUD's and grantees' processes for planning, funding, and developing HTF-assisted projects involve multiple steps that take several years. First, HUD determines the annual funding awards for each grantee and issues a notice informing grantees of their allocation. HUD also establishes a timeline for grantees to submit their HTF allocation plans. The allocation plan is incorporated into the grantee's annual action plan, and thus follows the same timeline as HUD's other CPD grant programs. Once HUD receives the action plan, it must review and either approve the plan or disapprove the plan and provide grantees an opportunity to respond to any concerns within 45 days.

Once HUD approves the plan, it executes the grantee's HTF grant agreement, thereby obligating funds to grantees to commit to projects. In order to commit funds, grantees establish program guidelines,

[32]A project must reserve at least 20 percent of available units for households earning up to 50 percent of the area's median gross income (adjusted for family size) or at least 40 percent of units for households earning up to 60 percent of the area's median gross income (adjusted for family size) for the entire 30 years. 26 U.S.C. § 42(g)(1), (h)(6). The Consolidated Appropriations Act, 2018 amended these requirements to allow developers to reserve at least 40 percent of available units for households earning an average income no greater than 60 percent of area median gross income, with no individual tenant with an income above 80 percent of the area median gross income. Pub. L. No. 115-141, Div. T,§ 103 (2018), (amending 26 U.S.C. § 42 (g)(1)).

requirements, and eligibility criteria aligned with their annual action plan and solicit applications from eligible housing developers. Grantees are to evaluate or score applications against their own selection criteria and, before committing funds to a project, are required to perform an underwriting analysis that examines the sources and uses of funds and the reasonableness of estimated project costs, among other things. Grantees then execute a written agreement with each approved applicant and report to HUD that they have committed funds to a project.

Grantees are required to commit funds within 2 years of the date that HUD executes the HTF grant agreement (the point at which funds become available to the grantee). Multiple factors can affect the length of time it takes grantees to commit funds to projects, including project complexity, regulatory requirements, and the review of multiple funding sources.[33]

Once grantees commit HTF funds, they are responsible for ensuring that the funds are used in accordance with program requirements and written agreements. Grantees are also to review developers' requests for disbursement of funds. Grantees must spend funds within 5 years of the date that HUD executes the HTF grant agreement, or HUD could recapture the unexpended funds and reallocate them to other grantees.

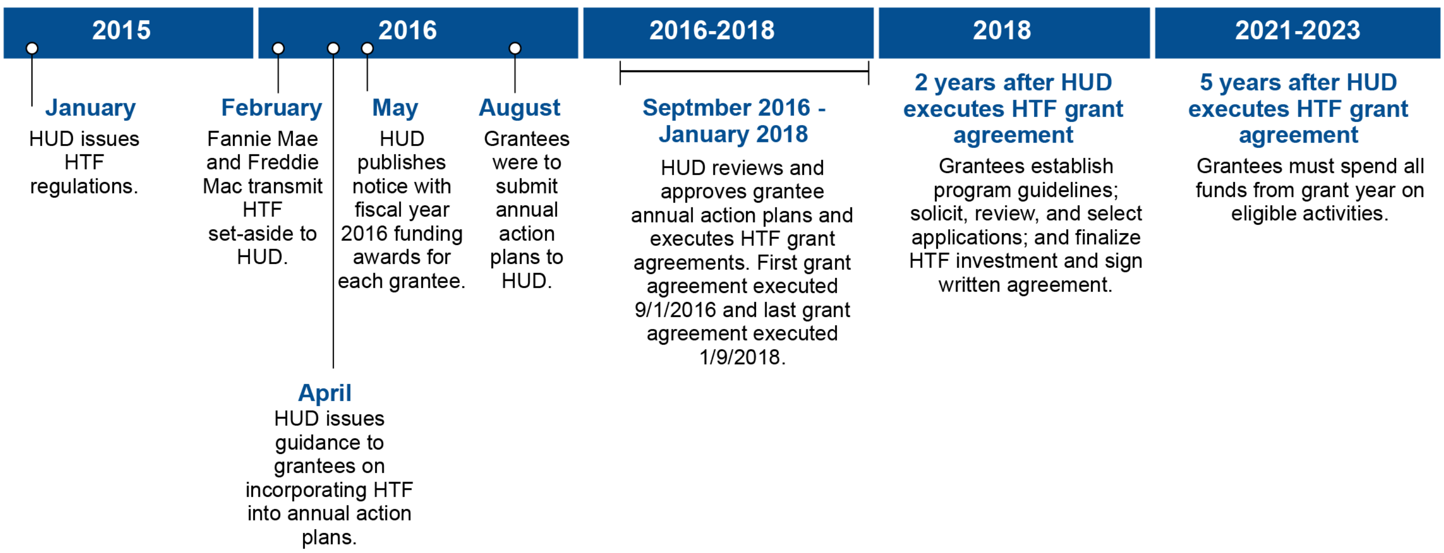
The time between when the enterprises set aside HTF funds and when grantees expend the funds and complete housing projects can be several years. As shown in figure 3, 2016 was the first year that funds were made available to grantees. The enterprises transmitted their first HTF set-asides to Treasury in February 2016. As discussed earlier, the enterprises are prohibited from passing on the costs of these set-asides to mortgage originators (see app. III for more information on FHFA's oversight of this prohibition).

HUD announced the first allocation to states in May 2016 and required grantees to submit their annual action plans, including the HTF portion, by August 2016. According to HUD officials, HUD reviewed all of the plans within the 45-day review period, but approving most plans took longer because grantees had not previously developed HTF plans and many plans needed revisions to meet HUD's requirements. HUD's first and last approvals of 2016 plans occurred on September 1, 2016, and January 9,

[33]These factors are not specific to committing HTF funds, but refer generally to committing funds for housing development.

2018, respectively. Grantees that had HTF grant agreements executed in September 2016 had commitment deadlines in September 2018 and expenditure deadlines in September 2021, while the grantee that executed its HTF grant agreement in January 2018 had a January 2020 commitment deadline and January 2023 expenditure deadline.

Figure 3: Timeline of Key Events for the 2016 Housing Trust Fund (HTF) Grant Year



Source: GAO summary of Department of Housing and Urban Development (HUD) information. | GAO-23-105370

The rate at which grantees have completed HTF units has generally increased since HUD approved the first HTF plans in late 2016, allowing project development to begin (see fig. 4).

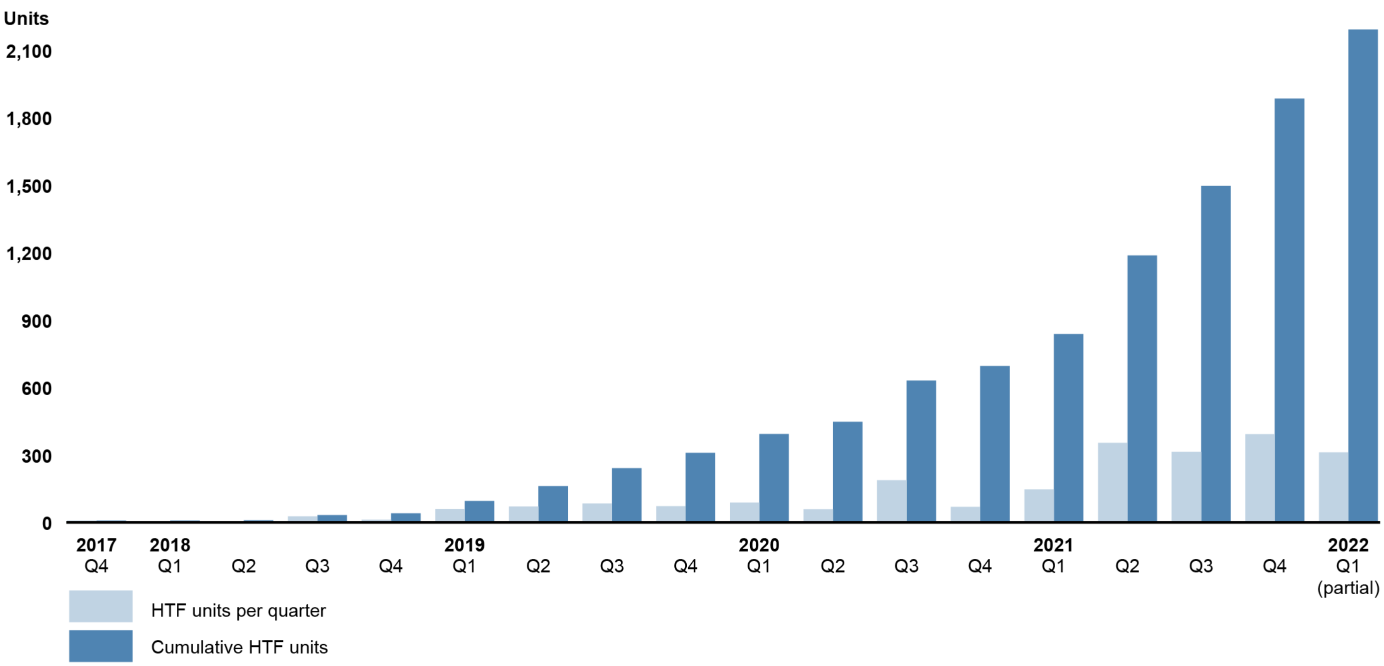
- HUD's IDIS data show that from the fourth quarter of 2017 through 2018, grantees completed an average of seven units per quarter, for a total of 36 HTF units.[34]
- In 2019, unit completions increased to an average of about 67 units per quarter, for an annual total of 269 HTF units.
- In 2020, average quarterly completions grew to about 97 units (for an annual total of 386 HTF units).

[34]Figures for completed units are based on grantee-submitted IDIS data for projects marked complete as of March 1, 2022.

- In 2021, average quarterly completions grew again to 297 units (for an annual total of 1,188 HTF units).

As of March 1, 2022, grantees had produced a total of 2,186 HTF units across 263 projects since the program's inception. In addition, grantees had committed to fund an additional 6,646 HTF units across 519 projects.[35]

Figure 4: Production of Housing Trust Fund (HTF) Units per Quarter and Cumulatively, November 27, 2017–March 1, 2022



Source: GAO analysis of Department of Housing and Urban Development data. | GAO-23-105370

Consistent with program regulations, the proportion of HTF units in projects completed by our selected grantees equaled or exceeded the proportion of HTF funding in the projects.[36] In the sample of 70 projects we reviewed, HTF funds were 9.6 percent of the total funding, but

[35]This analysis is based on IDIS data for projects in "open" status as of March 1, 2022.

[36]Grantees must designate the number of HTF units in a project, and these units must comply with income eligibility and rent restriction requirements. HTF regulations state that the proportion of total project development costs charged to the HTF program must not exceed the proportion of the HTF units in the project, for projects in which the HTF-assisted and non-assisted units are comparable. 24 C.F.R. § 93.200.

grantees designated 29 percent (1,041) of the total units (3,625) as HTF units. In comparison, if grantees had designated HTF units in proportion to the amount of HTF funds in the projects, they would have created 349 HTF units.

Grantees may weigh a number of factors when determining the number of HTF units to designate in a project. For example, four of our 12 selected grantees said they consider what is financially feasible for the project. Three grantees noted that they require or incentivize project applicants to designate more units to the lowest-income households—the population HTF is designed to serve—through their selection criteria. For example, one grantee requires at least 20 percent of the units in an HTF-assisted project to be designated as HTF units, while two grantees score applications higher when more units are designated as HTF.

Most Projects for Which Written Agreement Dates Were Available Took 1–3 Years to Complete

Of the HTF-assisted projects completed as of March 1, 2022, for which written agreement dates were available, most were completed within 1 to 3 years of the written agreement date (see fig. 5).[37] This date is the point at which grantees can begin spending HTF funds on a specific project. Because this analysis was limited to a subset of 145 projects for which the written agreement date was in IDIS or for which we were able to collect the date from our 12 selected grantees, it is not generalizable to all of the 263 projects completed as of March 1, 2022.[38]

About 77 percent of the projects (111) were completed within 3 years (36 months) of the written agreement date, including about 28 percent (40) that were completed within 2 years of that date. The median completion time was about 2.5 years (28.7 months).[39] Completion times for the middle 50 percent of our sample (from the 25th percentile to the 75th percentile) ranged from 23.3 months to 35.8 months. All the grantees we

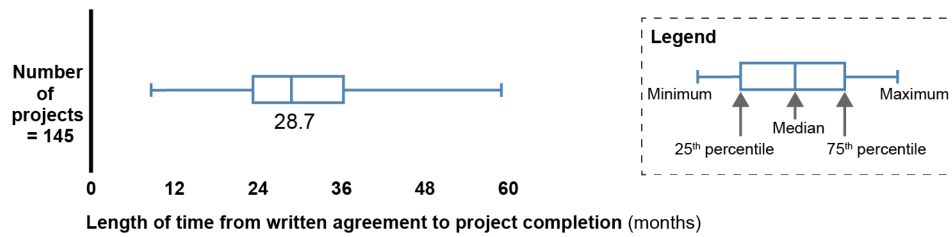
[37]We considered completed projects to be those marked as such in IDIS as of March 1, 2022.

[38]HUD did not collect written agreement dates until July 2021. To ensure consistency in how we measured project completion times, we limited our analysis to projects for which written agreement dates were available. As a result, the subset of projects we analyzed does not represent all completed projects. Additionally, 519 projects had committed funds but had not yet been completed as of March 1, 2022. It is possible that the median completion time of completed HTF projects will meaningfully increase or decrease as more projects reach completion.

[39]New construction and rehabilitation projects in our sample had similar median completion times (29.6 months and 28.6 months, respectively).

spoke with noted that market conditions—including labor and supply shortages and pandemic-related challenges—had caused construction delays for some projects.[40]

Figure 5: Length of Time to Complete Housing Trust Fund-Assisted Projects (Projects Completed as of March 1, 2022)



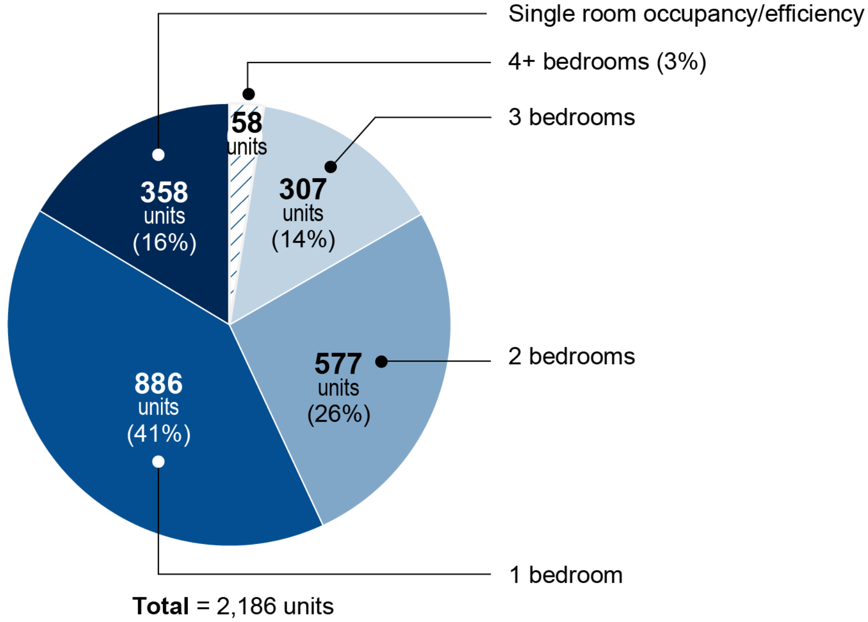
Source: GAO analysis of Department of Housing and Urban Development and grantee data. | GAO-23-105370

Most Completed Units Are One-Bedroom or Efficiency Rentals, and Most Are Newly Constructed

HUD's data as of March 1, 2022, show that all HTF funds were committed to or spent on rental units, and no funds were committed to or spent on homeownership activities. About 57 percent of the HTF units completed as of that date were efficiency or one-bedroom units, about 26 percent were two-bedroom units, and about 17 percent were units with three bedrooms or more (see fig. 6). According to HUD officials, homeownership is a less likely use of HTF funds because HTF is intended for very low- and extremely low-income households that may have difficulty obtaining a mortgage.

[40]Some grantees noted that these conditions were affecting all housing development projects, not only HTF-assisted projects.

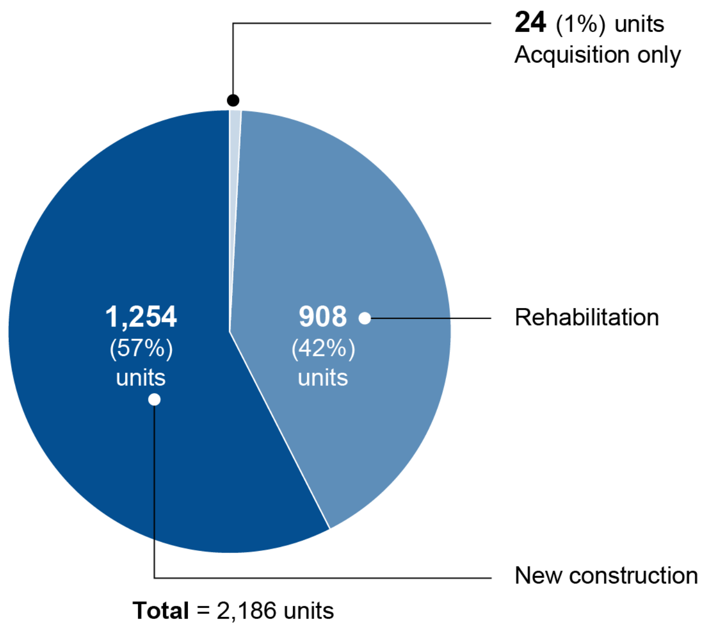
Figure 6: Number of Bedrooms in Housing Trust Fund Units in Projects Completed as of March 1, 2022



Source: GAO analysis of Department of Housing and Urban Development data. | GAO-23-105370

As shown in figure 7, a majority of the HTF-assisted units completed as of March 1, 2022, were newly constructed, as opposed to acquisitions only or rehabilitations of existing properties.

Figure 7: Type of Housing Trust Fund Units in Projects Completed as of March 1, 2022



Source: GAO analysis of Department of Housing and Urban development data. | GAO-23-105370

Note: “New construction” includes properties that were categorized as “acquisition and new construction,” and “rehabilitation” includes properties that were categorized as “acquisition and rehabilitation.”

Fifty-seven percent of completed HTF units (1,254 units in 164 projects) were newly constructed, while 42 percent of HTF units (908 units in 96 projects) were rehabilitated. The remaining 1 percent of units (24 units in three projects) were acquisition only.[41] Among projects in development as of March 1, 2022, 64 percent of the estimated units (4,275 units in 352 projects) were in new construction projects, while 35 percent of the estimated units (2,350 units in 158 projects) were in rehabilitation projects. Figures 8 and 9 provide pictures of HTF-assisted new construction and rehabilitation projects, respectively, in our selected states.

[41]For this analysis, we grouped properties categorized in IDIS as “rehabilitation” or “acquisition and rehabilitation” into a single “rehabilitation” category and properties categorized in IDIS as “new construction” or “acquisition and new construction” into a single “new construction” category.

Figure 8: Examples of Newly Constructed Housing Trust Fund-Assisted Projects

California’s Stonegate Village project contains 66 units, 14 of which are Housing Trust Fund (HTF) units.

Source: California Department of Housing and Community Development.

Arizona’s Heritage at Surprise project contains 100 units, 30 of which are HTF units.

Source: Arizona Department of Housing.

Maine’s Robert L. Harnois Apartments project contains 61 units, 13 of which are HTF units.

Source: Maine Housing.

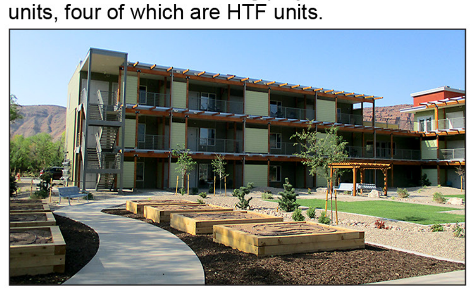
Minnesota’s White Oak Estates project contains 40 units, 20 of which are HTF units.

Source: Minnesota Housing Finance Agency.

New York’s Fairmont Park Apartments project contains 16 two-story buildings with a total of 34 units, all of which are HTF units.

Source: New York State Housing Finance Agency.

Utah’s MAPS Senior Living project contains 36 units, four of which are HTF units.

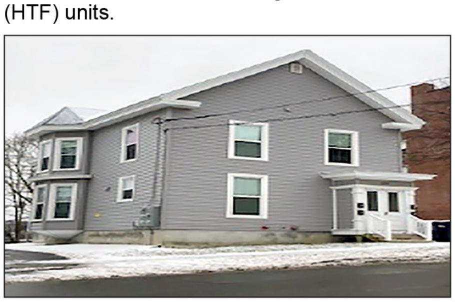


Source: Utah Housing and Community Development Division.

Source: See individual photos. | GAO-23-105370

Figure 9: Examples of Rehabilitated Housing Trust Fund-Assisted Projects

Maine’s Hammond Street project contains four units, all of which are Housing Trust Fund (HTF) units.



Source: Maine Housing.

Maine’s Friendship Hill House project contains nine units, all of which are HTF units.

Source: Maine Housing.

Utah’s Castle Country project contains 24 units, two of which are HTF units.

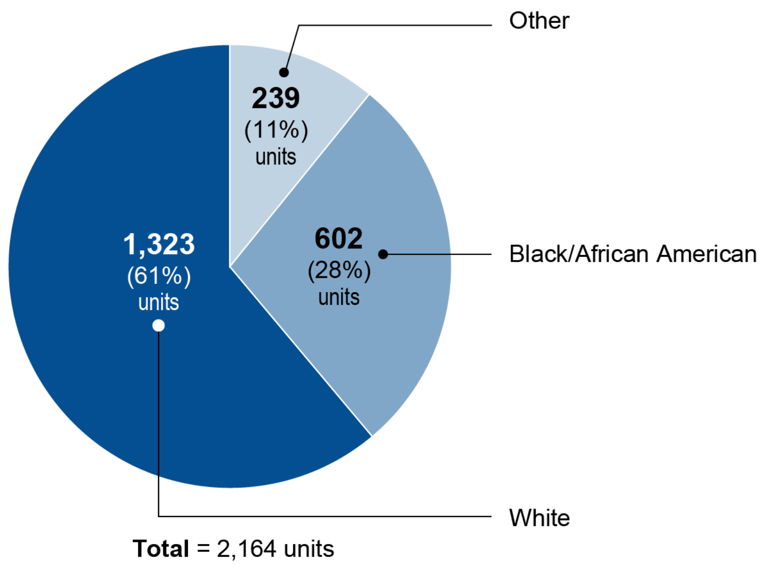
Source: Utah Housing and Community Development Division.

Source: See individual photos. | GAO-23-105370

Most completed HTF units are in projects located in metropolitan areas. About 73 percent of the HTF-assisted projects completed as of March 1, 2022—accounting for 80 percent of the total HTF units—are in metropolitan zip codes, while 26 percent of completed projects are in nonmetropolitan zip codes.[42] Among HTF-assisted projects that were in development as of that date, 82 percent are in metropolitan zip codes.

At project completion, grantees provide HUD with data on the beneficiaries of HTF units, including the head of household's race and any rental assistance the tenant receives. Among projects completed as of March 1, 2022, 61 percent of the units were rented by White households and 28 percent were rented by Black or African American households at the time of project completion (see fig. 10).

Figure 10: Race of Head of Household in Housing Trust Fund Units in Projects Completed as of March 1, 2022



Source: GAO analysis of Department of Housing and Urban Development data. | GAO-23-105370

[42]We classified project locations based on the 2015 county typology from the Department of Agriculture's Economic Research Service. The typology classifies U.S. counties as "metro" or "nonmetro." We used a HUD zip code-to-county crosswalk to link this county typology to the project zip codes. We classified a zip code as "metropolitan" if at least 50 percent of its residential addresses were located in a metropolitan county or counties. If not, we classified the zip code as nonmetropolitan. For two completed projects, we were unable to classify the project location.

Note: The "other" category includes heads of household identified as American Indian/Alaskan Native, Asian, Native Hawaiian/Other Pacific Islander, or multiracial. Of the 2,186 units in our sample, 22 units were missing information on the race of the head of household.

Additionally, 11 percent of the 2,186 occupied units were rented by households with Hispanic or Latino ethnicity. Most occupied HTF units were supported by rental subsidies, such as federal, state, or local project-based or tenant-based assistance. Only 26 percent of occupied HTF units did not have any rental assistance.

Selected Grantees Combined HTF and Other Funds to House Special Populations, and Some Changed Program Priorities over Time

Selected Grantees Aligned Allocation Processes with Those of Other Programs and Combined HTF with Other Funding Sources

All of our selected HTF grantees had written processes for allocating their HTF funds, and many aligned their HTF application process with those of other multifamily housing programs. These processes included application procedures, eligibility criteria, and criteria for ranking qualified applicants. For example, Minnesota incorporated the HTF application process into a consolidated process for requesting federal and state affordable housing funds rather than soliciting separate HTF applications. According to Minnesota officials, this approach allows them to award funds from different programs based on what programs best match the project. California officials said they time the release of their HTF notice of funding availability to coincide with other housing finance providers' release of information on funding availability, so that developers can see all of their financing options at once when applying.

In addition to consolidated applications, the grantees sometimes harmonized their HTF activities with limits or practices used in other programs. For example, as permitted by HTF regulations, nine of the selected grantees used HUD's maximum per-unit subsidy limits for the

HOME program as a basis for their HTF subsidy limits.[43] Additionally, in its combined handbook for the HOME and HTF programs, Minnesota outlines a unified approach for assessing the reasonableness of development costs in both programs.

Grantees also established requirements and guidance for combining HTF funds with funds from other housing programs. Grantees and housing developers generally use a mix of funding sources to develop HTF-assisted projects. The extent to which one source of funds is used to attract other funds, or to which multiple sources of funds are combined, is known as leveraging. In allocating their 2021 HTF grants, all of our 12 selected grantees encouraged or required applicants to secure other funding sources for their projects in order to receive HTF funds. Combining HTF with other funding sources helped stretch the amount of HTF funds they received over more projects. Seven of the grantees scored applications higher when non-HTF funding sources were part of the project's financing.

LIHTC equity was a common funding source, required or considered in other ways by all the selected grantees in their 2021 HTF planning documents. Grantees paired HTF with the LIHTC program in various ways and for different reasons. For example:

- New York officials said that instead of taking the time to develop program guidelines solely for HTF, they decided to use HTF funds as additional financing for LIHTC projects to ensure they committed and expended HTF funding within required time frames.
- Maine officials said that after some difficulties getting HTF funds committed and expended on time for permanent supportive housing projects (because of limitations in developer capacity), they decided to use HTF as supplemental financing for LIHTC projects starting in 2022 to help meet HTF deadlines.[44]

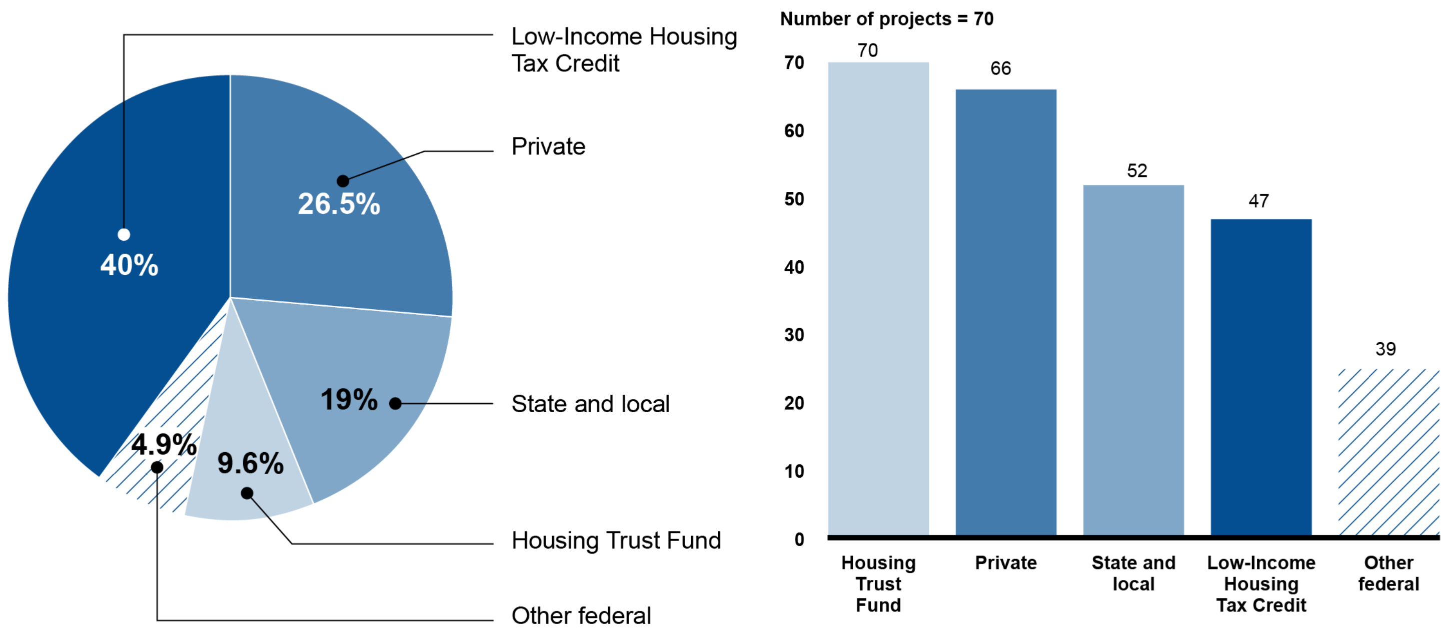
[43]According to HTF regulations, grantees must establish maximum limits on the total amount of HTF funds that can be used to develop each unit of nonluxury housing. These limits must be included in grantees' consolidated plans and updated annually. 24 C.F.R. § 93.300.

[44]In the Continuum of Care program, permanent supportive housing is permanent housing in which housing assistance (e.g., long-term leasing or rental assistance) and supportive services are provided to assist households with at least one member (adult or child) with a disability in achieving housing stability. 24 C.F.R. § 578.37(a)(1)(i).

- Mississippi officials told us they prefer using HTF funds in conjunction with certain LIHTC projects that provide a lower subsidy than other LIHTC projects because those projects require additional sources of financing to make them feasible.[45]
- Arizona officials said they primarily paired HTF with LIHTC projects in 2022 because they did not receive enough applications for HTF funds in response to separate HTF funding notices.

Each of the 70 completed projects in our sample used non-HTF funds to some extent. For all projects combined, HTF accounted for about 10 percent of the total funding (see fig. 11).[46]

Figure 11: Funding Sources in Housing Trust Fund-Assisted Projects Completed as of March 1, 2022, by Dollar Share and Project Frequency



Source: GAO analysis of data from selected grantees. | GAO-23-105370

[45]The officials specifically referred to projects that use what are known as 4 percent LIHTCs, which provide less subsidy than another form of the tax credit called 9 percent LIHTCs.

[46]Total funding can include amounts for purposes other than development costs, such as operational costs and reserves. We collected project documents from our 12 selected grantees for HTF-assisted projects completed by March 1, 2022. We reviewed project documentation to create a database that included information on project costs and funding sources. We used these data to analyze funding sources and their shares of total funding at the project and grantee levels.

Note: The “other federal” category includes funding sources such as the Federal Home Loan Bank System and the Department of Housing and Urban Development’s Community Development Block Grant and HOME Investment Partnerships programs.

Non-HTF funds generally represented larger proportions of total funding than HTF funds, as follows:

- LIHTC equity accounted for the largest share, representing about 40 percent of total funding. LIHTC equity supported 47 of the 70 projects in our sample.[47]
- Private funding constituted the second largest share—about 27 percent of the total—and was the most frequently used funding source in our sample (used in 66 projects). While 75 percent of private funding came in the form of loans, private sources also included grants, partner equity, deferred developer fees, and owner cash contributions.[48]
- State and local funding sources provided 19 percent of the total funding. A large majority of our selected projects (52) used state and local funds, the second most frequently used non-HTF funding source. State and local funds include state housing trust funds, tax-exempt bond proceeds, or other money from states, counties, or municipalities.
- The remaining 5 percent of funds came from other federal sources, including HUD’s Community Development Block Grant and HOME programs and the Federal Home Loan Bank System’s Affordable Housing Program.[49] This was the smallest funding source in terms of both frequency and share of total funding.

[47]For the 23 projects in our sample that did not use LIHTC equity, state and local funds (44 percent of the total) and private funds (31 percent of the total) were the largest funding shares. HTF funds accounted for about 21 percent of the total funding for these projects.

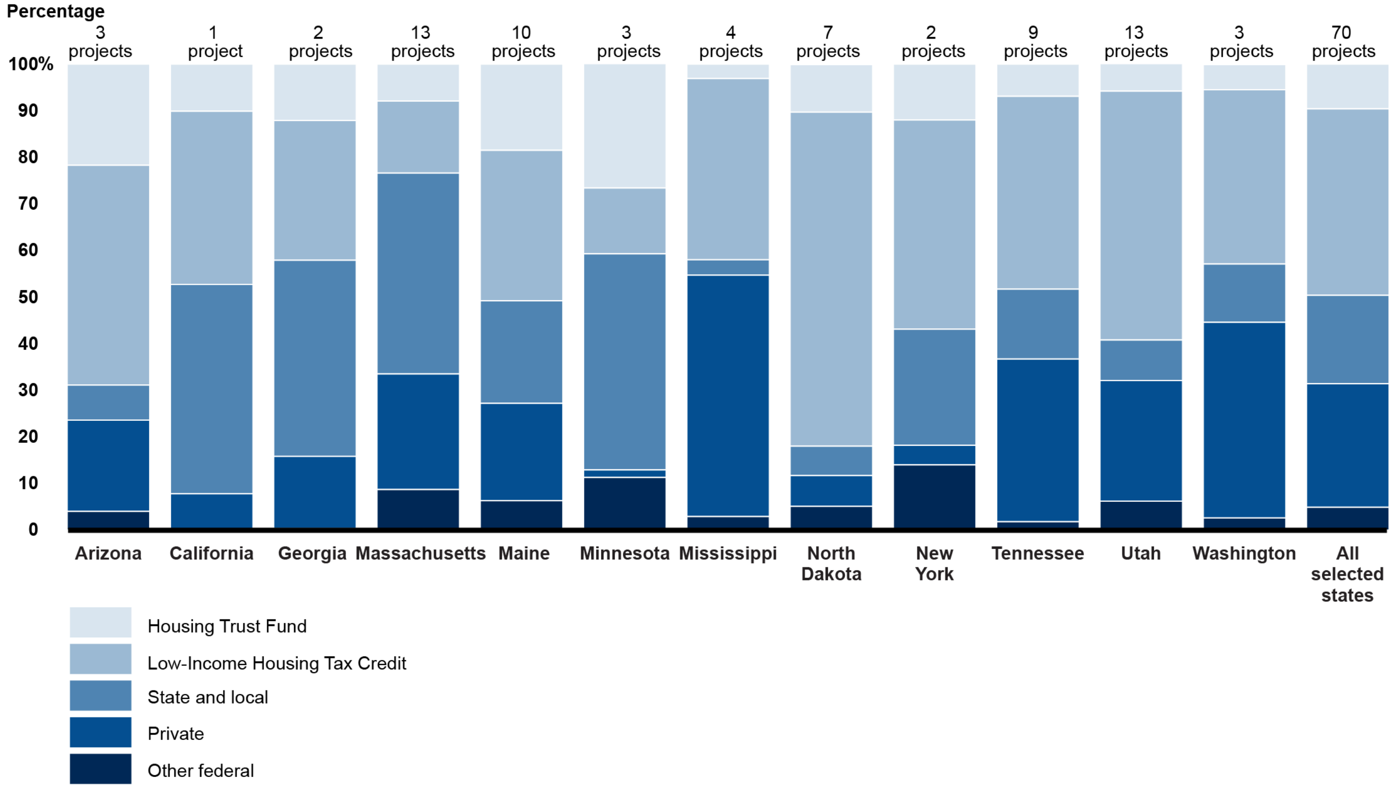
[48]A developer may defer its developer fee for overseeing the development of the property. The developer fee is typically limited to about 15 percent of the project’s total development cost. In general, deferred developer fees are paid from future capital contributions, cash flow (rents), or refinancing proceeds after a project is placed in service.

[49]By law, each Federal Home Loan Bank must contribute 10 percent of its earnings to an affordable housing program. 12 U.S.C. § 1430(j). These funds can be used to finance the purchase, construction, or rehabilitation of owner-occupied housing for low- or moderate-income households (those with incomes at 80 percent or less of the area median income) and the purchase, construction, or rehabilitation of rental housing where at least 20 percent of the units are affordable for and occupied by very low-income households (those with incomes at 50 percent or less of the area median income).

Additionally, the share of each funding source varied by grantee (see fig. 12).

- Minnesota's completed projects had the largest combined share of HTF funds in our sample. About one-quarter of the total funding came from HTF. In contrast, HTF represented about 3 percent of the funding for completed projects in Mississippi, the lowest HTF share in our sample.
- A large majority (72 percent) of North Dakota's total project funding was from LIHTCs, compared with about 16 percent for Massachusetts.
- California, Georgia, Massachusetts, and Minnesota had the largest shares of state and local funding—all in the approximately 42–46 percent range. In contrast, state and local funds accounted for less than 10 percent of total project funding in Arizona, Mississippi, North Dakota, and Utah.

Figure 12: Shares of Funding Sources for Housing Trust Fund-Assisted Projects Completed by Selected Grantees, as of March 1, 2022



Source: GAO analysis of data from selected grantees. | GAO-23-105370

Note: The "other federal" category includes funding sources such as the Federal Home Loan Bank System and the Department of Housing and Urban Development's Community Development Block Grant and HOME Investment Partnerships programs.

Selected Grantees' Allocation Priorities Have Included Housing Special Populations, and Some Grantees Have Changed Priorities

Our selected grantees considered a variety of priorities when administering the HTF program. Grantees generally used HTF funds to target special populations and build permanent supportive housing. Grantees also considered project and developer type, geographic distribution, and award limits when allocating funds. Grantees changed their allocation priorities over time, as needed.[50]

[50] We reviewed planning documents from 2021 for our selected grantees, so the priorities described in this section are generally from 2021. In interviews with the grantees, officials described how their allocation priorities have changed since the HTF program began in 2016, which is also reflected in this discussion.

Special Populations

Nine of our 12 selected grantees awarded HTF funds to projects that targeted special populations. Special populations include individuals experiencing homelessness, formerly incarcerated individuals, older adults, and veterans, among many others. For example, California and Massachusetts accepted applications only for projects serving special populations. Six grantees (Maine, Mississippi, New York, North Dakota, Utah, and Washington) prioritized special populations by awarding additional points for projects that specifically serve one or more. Mississippi, for example, listed several special populations in its 2021 plans, including individuals with disabilities, individuals with serious mental illness, formerly incarcerated individuals, youth aging out of the foster care system, and older adults. Minnesota accepted applications for several project types, including some for special populations. Additionally, California and North Dakota set aside some of their HTF funding for projects developed by members of Indian Tribes or located on reservations or in other tribal areas.

Permanent Supportive Housing

The same nine grantees that targeted special populations also prioritized developing permanent supportive housing with HTF funds. California, Maine, and Massachusetts accepted applications only for permanent supportive housing projects, and four grantees (Mississippi, New York, North Dakota, and Washington) awarded additional points for such applications. Permanent supportive housing projects were also among several project types for which Minnesota and Utah sought applications. Massachusetts officials told us that building permanent supportive housing is generally a high priority and that the HTF program's focus on households with the lowest incomes aligned well with this priority. Therefore, Massachusetts paired its HTF program with its state rental voucher program, which funds supportive services—such as skills training, job-search assistance, and mental health treatment—for individuals residing in HTF units. See figure 13 for examples of HTF-assisted projects that provide supportive services to residents.

Figure 13: Examples of Housing Trust Fund-Assisted Projects That Provide Supportive Services

Source: North Dakota Housing Finance Agency.

North Dakota's Century Cottages project, completed in 2020, serves older adults and has designated 13 of its 35 total units as Housing Trust Fund units. It offers supportive services such as grocery and personal shopping, transportation, light housekeeping, and meal preparation. The common areas are designed to accommodate mobility devices.

Source: Massachusetts Department of Housing and Community Development.

Massachusetts's Harbor and Lafayette Homes project, completed in 2019, has 26 affordable housing units, including seven Housing Trust Fund units. The project primarily targets extremely low-income and very low-income youth aging out of the state's foster care system. Residents receive supportive services, and the building is located in a historic urban neighborhood.

Source: Tennessee Housing Development Agency.

Tennessee's Dismas House, completed in 2020, provides affordable housing for formerly incarcerated men. Of the 70 total units, 54 units are transitional housing and 16 units are permanent supportive housing. Twelve of the 16 units are Housing Trust Fund units. The project features shared kitchens and bathrooms in a dorm-style facility and provides supportive services such as case management, recovery treatment, and employment placement assistance.

Source: See individual photos. | GAO-23-105370

Project and Developer Type

HTF grantees sometimes prioritized specific types of projects—such as rehabilitation or new construction—based on their particular needs. For example, North Dakota officials told us they prioritize funding rehabilitation projects because of the state's significant portfolio of aging properties. In contrast, Washington officials told us that when HTF was created, they decided, based on stakeholder input, to use HTF funds only for new construction projects to increase the state's supply of affordable housing.

Grantees also sometimes awarded HTF funds to specific developer and applicant types to align with state requirements and priorities. For example, Washington officials told us that only nonprofit developers, local governments, public housing authorities, and federally recognized Indian Tribes are eligible to apply for HTF funding, which they said is consistent with state rules. Massachusetts officials said that in light of their focus on building permanent supportive housing, only nonprofit developers or for-profit developers partnered with nonprofit entities could apply for HTF funding. According to the officials, the nonprofits they work with have more experience with providing services to special populations.

Geographic Distribution

All of our 12 selected grantees considered geography as a factor when allocating HTF funds. Specifically, grantees used HTF to aid housing development in areas of the state that lacked financing in order to distribute resources equitably or to meet other housing goals.

- **Rural areas.** Three grantees used their fund allocation processes to encourage the use of HTF funds in rural areas.[51] For example, California and Utah set aside a minimum of 20 percent of HTF funding for projects in rural areas. In addition, Tennessee and Utah awarded points for rural projects during the application scoring process.[52]
- **Underserved areas.** Six grantees (California, Mississippi, New York, North Dakota, Tennessee, and Washington) awarded points in their

[51]Some other grantees promoted rural projects in less direct ways. For example, Washington officials said rural projects generally have access to fewer funding opportunities, so they only score rural projects against other rural projects to ensure a fair evaluation process. In addition, the HTF allocation plans for Arizona and Mississippi specifically cite rural projects as one of several priorities.

[52]Tennessee officials also said their state's unique geography results in three main divisions (east, middle, and west), one of which is primarily rural. In response, they set up an award system in which they allocate HTF funds to the project with the highest score in each area before awarding HTF funds to the same area a second time.

application process for projects located in underserved areas. They identified these areas in different ways, including the number of people experiencing homelessness; a shortage of affordable rental housing; or areas designated as distressed, poverty reduction areas or federal Opportunity Zones.[53]

- **High-opportunity areas.** Seven grantees (Georgia, Maine, Massachusetts, Minnesota, Mississippi, New York, and Tennessee) prioritized the development of HTF-assisted projects located in high-opportunity areas. These areas have attributes such as low poverty rates, quality amenities, or sustainable employment that may help increase the economic mobility of residents. The grantees either awarded points for such projects in their scoring criteria, or listed their preference for high-opportunity areas as one of their state housing goals.

Minimum and Maximum HTF Awards

Our selected grantees' allocation strategies sometimes included setting minimum and maximum HTF award amounts in order to stretch funding across as many projects as possible, while also balancing other priorities. These award limits were especially important if a grantee received the minimum HTF allocation.[54] For example, Maine officials said they implemented a $1 million award cap in 2021 because the state received the minimum $3 million allocation that year. According to Maine officials, the cap ensured they could fund at least a few HTF projects that year.

Georgia and Tennessee chose to set both minimum and maximum award limits. Georgia officials said they set their 2021 minimum HTF award at $1.5 million to provide enough HTF funds to make an impact on project development and to encourage developers to secure other funding sources. At the same time, they set the 2021 maximum HTF award at $4 million to be able to fund multiple developments. Tennessee set HTF awards at a minimum of $100,000 and a maximum of $900,000 in 2021. Tennessee officials said this policy helped ensure they could fund at least one project in each of the state's three main geographic divisions. Tennessee raised its maximum award limit to $1.5 million in 2022 to reflect an increase in its HTF allocation.

[53]Opportunity Zones are economically distressed communities, defined by individual census tract. The designation of Opportunity Zones is meant to stimulate public and private investment in underserved communities.

[54]HERA requires HUD to provide each state and the District of Columbia a grant of at least $3 million. 12 U.S.C. § 4568(c)(4)(C).

Changing Priorities over Time

Six of our 12 grantees changed their HTF allocation strategy over time, which grantee officials said would help them use HTF funds more effectively. Some of the reasons for changes in strategy were to ease administrative challenges, allow for a wider use of HTF funds, and meet regulatory deadlines. For example:

- California officials said they originally coupled HTF funding with their Housing for a Healthy California Program from 2018 through 2021, as required by state law.[55] The program was designed to reduce financial burdens on state and local health resources (e.g., hospital emergency departments) by creating permanent supportive housing for individuals who are experiencing homelessness and are high-cost health care users. However, the officials said that coupling the two programs increased administrative complexity and made HTF funding less attractive to developers. Accordingly, in September 2021, California changed state law to make HTF a standalone permanent supportive housing program.[56] California officials said this change made the HTF program more flexible, while still keeping its focus on serving vulnerable populations.
- Arizona officials told us that in 2022, they began accepting applications for HTF funds for a broader range of projects, including both LIHTC and non-LIHTC projects, than they had before. The officials said they previously restricted their HTF notices of funding availability to specific types of projects, such as permanent supportive housing. However, the state did not receive enough applications and faced challenges in committing all of its HTF funds. Arizona officials said that by allowing for a wider variety of projects, including those ready to proceed immediately, they are better able to commit HTF funds in a timely manner.
- Maine originally applied HTF funds to its supportive housing program, but state officials told us that starting in 2022, they would instead allocate HTF funds to LIHTC projects that needed additional funding. Maine officials observed that the limited capacity of some supportive housing developers made it difficult for the developers to meet HTF deadlines and other program requirements. In addition, because

[55]California Assembly Bill 74, signed in October 2017, directed the California Department of Housing and Community Development to implement the Housing for a Healthy California Program using HTF allocations. *See* Cal. Stat. 2017, Ch. 777, Sec. 2.

[56]California Assembly Bill 816, signed in September 2021, enabled the California Department of Housing and Community Development to alter how it used its HTF allocation so that the funds were no longer required to be used only to implement the Housing for a Healthy California Program. *See* Cal. Stat. 2021, Ch. 296, Sec. 1.

Maine received the minimum $3 million HTF allocation, HTF awards needed to be combined with other, larger funding sources to develop housing projects. Similar to Arizona officials, Maine officials said that, going forward, they intend to prioritize projects that are ready to proceed to help ensure that developers complete projects within regulatory time frames.

Three other grantees changed their allocation strategies for other reasons. Specifically, in 2021, Georgia used HTF funds to support ongoing LIHTC projects that were experiencing funding gaps due to rising development costs. When Mississippi updated its consolidated plan in 2020, it adjusted the populations it prioritized for HTF so that they matched those identified in the updated plan. Finally, beginning in 2019, Tennessee decided to accept applications only from nonprofit developers and public housing agencies. Tennessee officials said these entities scored better against the state's criteria than for-profit developers, had access to fewer sources of funding, and facilitated the creation or preservation of more units for extremely low-income families.

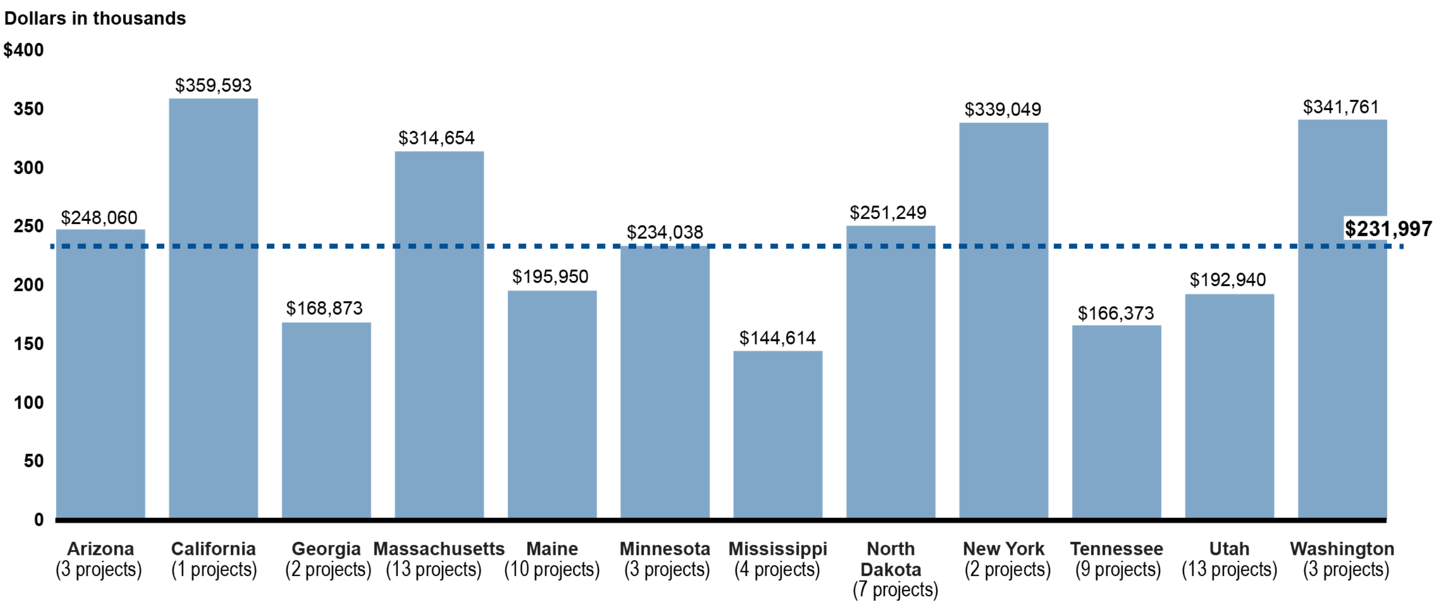
For Selected Grantees, Development Costs Varied by Grantee and Other Factors, Including Construction Type and Project Size

The Average Development Cost among Selected Projects Was About $232,000 Per Unit

The development costs of the 70 projects completed by our 12 selected grantees varied widely. The least expensive project (a land and building acquisition) was about $35,000 per unit, and the most expensive project (a new construction project) was about $472,000 per unit.

The average per-unit development cost of the 70 HTF projects was about $232,000.[57] As shown in figure 14, the average per-unit development cost varied among our selected grantees, as expected, given differences in local price levels, housing priorities, and real estate conditions. For example, land values and labor costs vary widely by location and affect the cost of real estate development. Additionally, new construction projects are generally more expensive than rehabilitation projects, but some states may prefer to create new housing stock or may lack suitable old housing stock to acquire and renovate. Furthermore, some states had a small number of completed projects, so the average costs may not reflect the typical project or unit.

Figure 14: Average Per-Unit Development Costs, by Selected Grantee, as of March 1, 2022



Source: GAO analysis of data from selected grantees. | GAO-23-105370

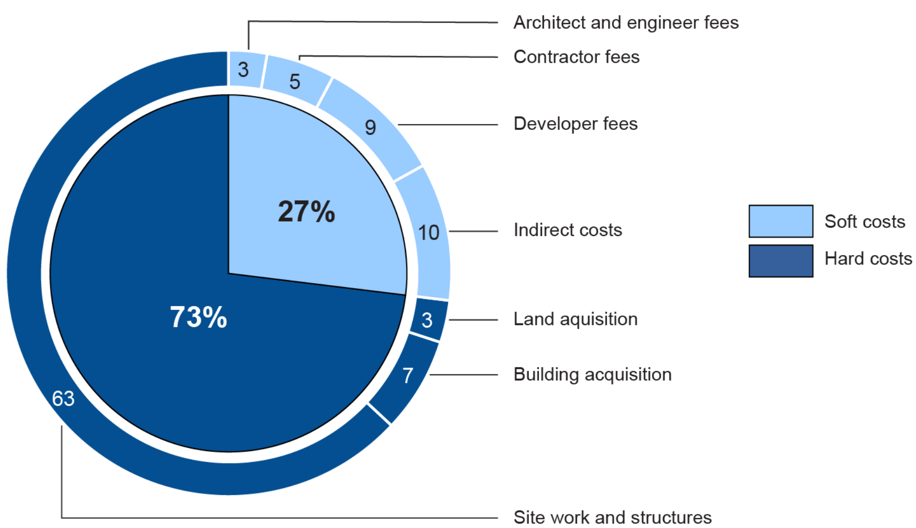
Given these varying factors across states, the average per-unit development cost of HTF-assisted projects ranged from a low of about $145,000 in Mississippi to a high of about $342,000 in Washington among the grantees that had more than one completed project as of

[57]We calculated the per-unit development cost of each project by dividing the total development cost of a project by the total number of units. We adjusted all of the per-unit cost figures to 2022 dollars using the Calendar Year Chain-Weighted Gross Domestic Product Price Index.

March 1, 2022. The average per-unit cost was less than $200,000 for four grantees (Georgia, Mississippi, Tennessee, and Utah), between $200,000 and $300,000 for four grantees (Arizona, Maine, Minnesota, and North Dakota), and over $300,000 for three grantees (Massachusetts, New York, and Washington). The per-unit development cost for the one completed project in California was $360,000.

As shown in figure 15, hard costs (which include costs for construction and physical assets such as land and existing structures) accounted for 73 percent of the total development costs of the projects in our sample. Soft costs (which include architect and engineering fees, contractor fees, developer fees, and other indirect costs) accounted for the remaining 27 percent.

Figure 15: Cost Categories as a Percentage of Development Costs in Projects Completed by Selected Housing Trust Fund Grantees, as of March 1, 2022



Source: GAO analysis of data from selected grantees. | GAO-23-105370

To provide some perspective on the per-unit development costs of HTF-assisted projects, we used a database of LIHTC project development costs built for a previous GAO report.[58] Where possible, we compared the per-unit costs of HTF-assisted projects with the per-unit costs of LIHTC projects that shared the same state and construction type (new construction or rehabilitation) and were similar in size.[59] Eleven of our HTF-assisted projects (located in Arizona, California, Georgia, New York, and Washington) matched to multiple LIHTC projects along those three dimensions.[60] Our analysis did not account for other project characteristics that can affect development costs and used a limited LIHTC comparison group in some cases.

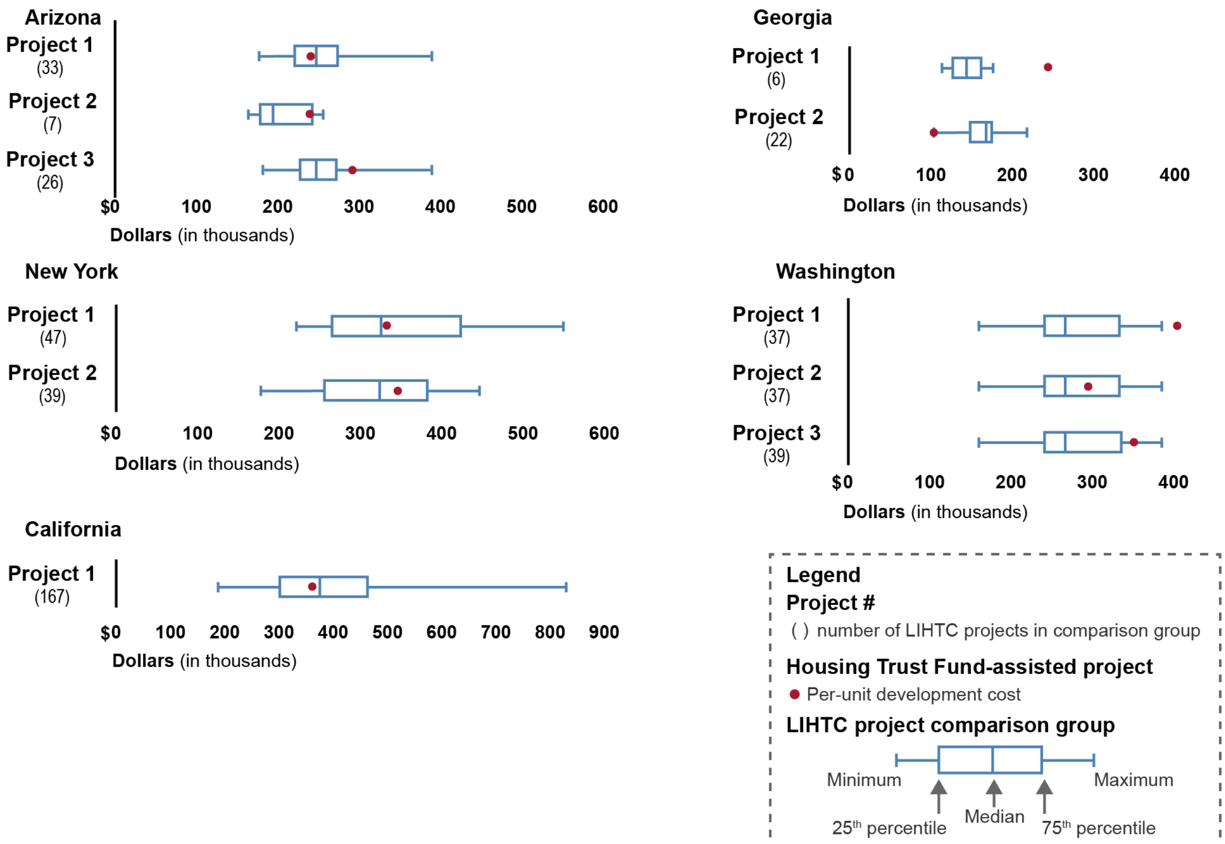
Nine of the 11 projects had per-unit development costs within the range of their LIHTC comparison groups, but the costs were higher or lower in the range depending on the specific project (see fig 16.). Among the nine projects, three fell below the 50th percentile (median) of the LIHTC comparison group, four fell between the 50th and 75th percentiles, and two fell between the 75th percentile and the maximum value.

[58]GAO, *Low-Income Housing Tax Credit: Improved Data and Oversight Would Strengthen Cost Assessment and Fraud Risk Management*, GAO-18-637 (Washington, D.C.: Sept. 18, 2018). Although lawmakers and others have expressed interest in comparing the cost of affordable housing projects developed with government funds with the cost of market-rate projects developed with private funds, we have previously reported that making such comparisons is difficult for several reasons. For example, cost data on market-rate projects are not readily available. Additionally, certain aspects of development costs of affordable housing projects may be higher than those for market-rate projects. For example, affordable housing may involve additional costs associated with using multiple funding sources and because of more durable and expensive construction components used to avoid replacements during project affordability periods. Further, public opposition to affordable housing projects may increase development costs by increasing development time frames.

[59]To make this comparison, we adjusted the HTF and LIHTC project costs to 2022 dollars using the Calendar Year Chain-Weighted Gross Domestic Product Price Index.

[60]We considered a LIHTC project to be similar in size if the total number of units in the project was within plus or minus 20 of the total number of units in the HTF-assisted project. We relaxed this criterion for one very large (200-unit) HTF-assisted project in Georgia in order to create a LIHTC comparison group. Specifically, we considered a LIHTC project to be similar in size if it had more than 100 units.

Figure 16: Per-Unit Development Costs for Selected Housing Trust Fund-Assisted Projects and Low-Income Housing Tax Credit (LIHTC) Project Comparison Groups



Source: GAO analysis of data from selected grantees. | GAO-23-105370

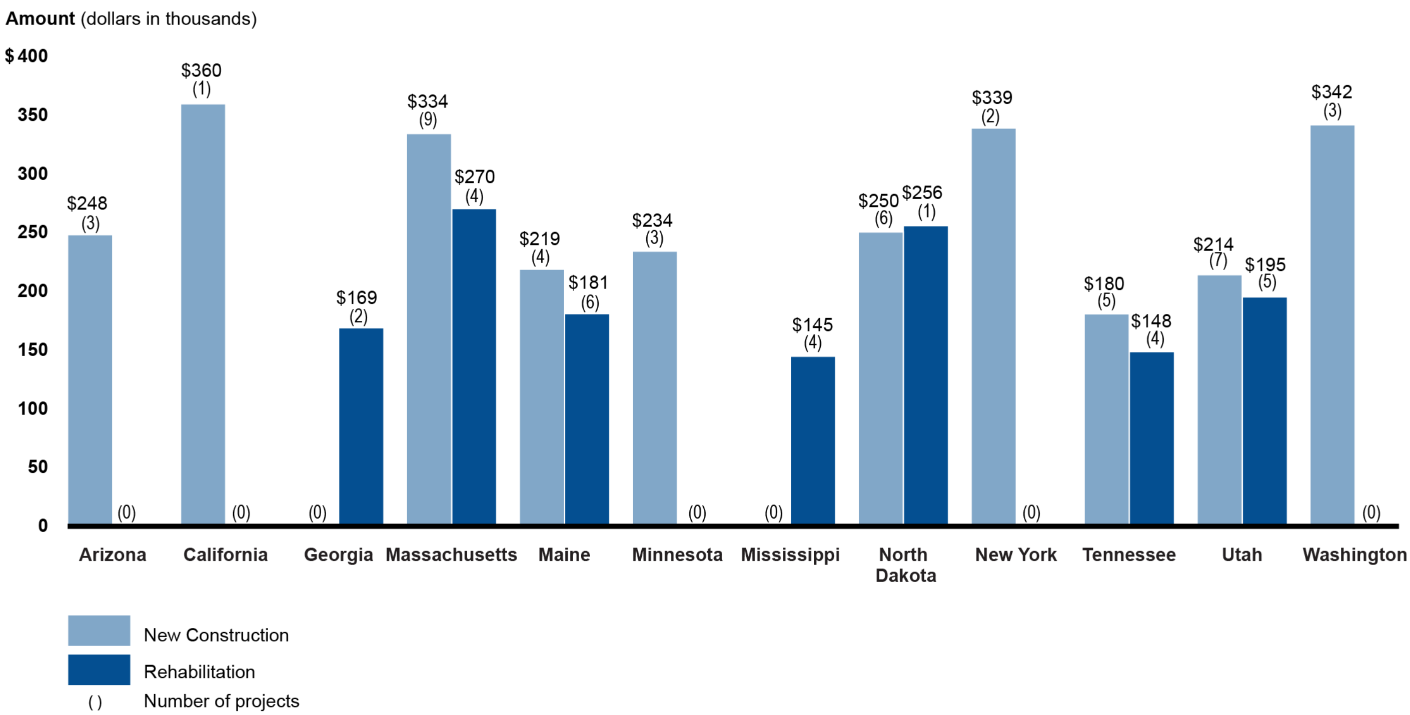
Note: The x-axis for California is scaled differently than the x-axis for other states to accommodate a wider cost range.

Two of the 11 HTF-assisted projects—located in Georgia and Washington—had per-unit costs above the range of their LIHTC comparison groups. These projects had characteristics that may help explain their relatively higher per-unit costs. For example, the Georgia project involved the acquisition and major rehabilitation of 56 buildings of various types spread across six different sites. The project also included development of a community center, a maintenance building, and other amenities. Also, the Washington project's urban location near public transit contributed to the project's relatively high land acquisition costs (about 10 percent of total development costs). The project also has other features associated with higher per-unit costs, such as elevators and a parking structure.

HTF Project Costs for Selected Grantees Varied Based on Project Characteristics

Not controlling for other factors that may influence costs, we found that the average per-unit development cost of new construction projects in our sample was about $74,000 higher than for rehabilitation projects (about $263,000 compared with about $189,000).[61] Excluding the one California project, the average per-unit development cost of new construction projects across the other 11 selected HTF grantees ranged from a low of about $180,000 in Tennessee to a high of about $342,000 in Washington (see fig. 17). The average per-unit development cost of rehabilitation projects ranged from a low of about $145,000 in Mississippi to a high of about $270,000 in Massachusetts.

Figure 17: Average Per-Unit Development Costs of Selected Housing Trust Fund Grantees, by Construction Type, as of March 1, 2022



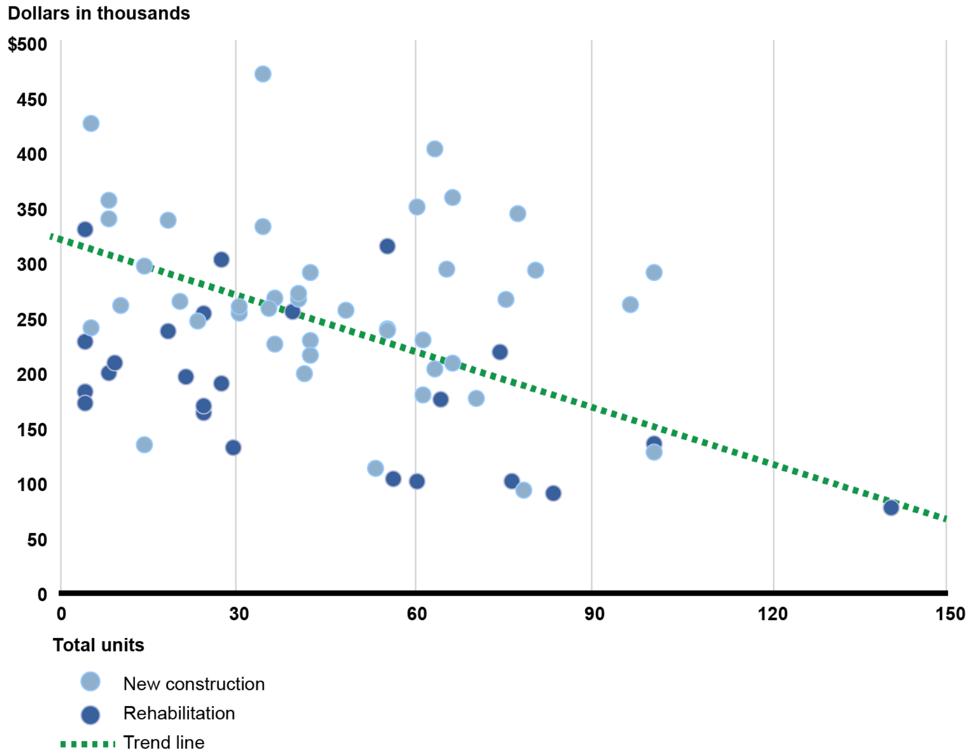
Source: GAO analysis of data from selected grantees. | GAO-23-105370

Per-unit development costs generally decreased as the number of units in a project increased, consistent with economies of scale in construction

[61]We had one acquisition-only project in our sample, and the per-unit development cost was about $35,000.

(see fig. 18).[62] While true across all construction types, this correlation was stronger for rehabilitation projects than for new construction projects.[63]

Figure 18: Per-Unit Development Cost for Selected Housing Trust Fund Grantees' Projects Completed as of March 1, 2022, by Number of Units in Project



Source: GAO analysis of data from selected grantees. | GAO-23-105370

Note: The figure excludes two outlier projects with 200 or more units and an acquisition-only project.

[62]Developers can benefit from economic efficiencies when construction and purchases are on a larger scale. We previously reported that LIHTC per-unit development costs increased as project size increased; see GAO-18-637.

[63]Correlation is the degree to which two variables' movements are associated. Our analysis used a statistical measure of association—the Pearson's correlation coefficient—which ranges in value from negative 1 to positive 1, with negative 1 indicating a perfect negative correlation, 0 an absence of correlation, and positive 1 a perfect positive correlation. The correlation coefficient was negative between project size and cost for all projects in the sample and in the subsets for construction type. However, the correlation was stronger for rehabilitation projects (-0.55) than for the new construction projects only (-0.30) or for the entire sample (-0.31).

Not controlling for other factors, we also found that the average per-unit development cost for projects with nonprofit developers was about $40,000 higher than costs for projects with for-profit developers (about $240,000 compared with about $201,000). Some studies have observed that nonprofit organizations may focus more on populations that are more costly to serve, such as special-needs tenants who may require additional or enhanced facilities.[64] Additionally, nonprofit developers may have higher costs than for-profit developers because they may (1) focus on smaller projects that tend to have higher per-unit costs on average or (2) be smaller organizations that produce fewer projects and that spend more time and resources on fundraising and market research.

HUD Reviews Allocation Plans and Funding Deadlines, but Weaknesses Exist in Its Oversight and Reporting

HUD Reviews Grantees' Allocation Plans for Completeness

HUD requires grantees to include an HTF allocation plan describing their intended distribution of HTF funds in their annual action plan. As with other HUD programs addressed in annual action plans, HUD provides grantees with a template in IDIS for the HTF allocation plan. The template is a series of questions to which the grantees provide written responses. It is focused on specific regulatory program requirements, such as whether the grantee will use subgrantees, eligibility and application requirements, selection criteria, and the maximum per-unit development subsidy.[65] Grantees can allocate up to 10 percent of their annual grant for

[64]For example, see Department of Housing and Community Development, California Tax Credit Allocation Committee, California Debt Limit Allocation Committee, and California Housing Finance Agency, *Affordable Housing Cost Study: Analysis of the Factors That Influence the Cost of Building Multifamily Affordable Housing in California* (Sacramento, Calif.: Oct. 6, 2014).

[65]The HTF allocation plan should describe how the grantee will distribute its HTF funds, including how it will use the funds to address its priority housing needs, what activities may be undertaken with those funds, and how recipients and projects will be selected to receive those funds. *See* 24 C.F.R. §§ 91.220(l)(5) and 91.320(k)(5). The consolidated plan regulations were amended to require the grantee's annual action plan to include its HTF allocation plan. 80 Fed. Reg. 5219, Jan. 30, 2015.

eligible administrative and planning activities, including preparation of their annual action plan (see app. II for additional information on the use of HTF funds for administration and planning).[66]

HUD's reviews of the annual action plans, including HTF allocation plans, focus on ensuring grantees have provided all the required information. Our review of the HTF allocation plans included in the 2021 annual action plans for our 12 selected grantees found that most of the required information was in the plans or in attachments to the plans. In the instances where certain information was not available in the plan or an attachment, it was accessible through other documents readily available on the grantees' websites. HUD officials told us that when information is not contained in the plan, field officials are to work with the grantee to make corrections and include the necessary information.

HUD officials told us they conducted an especially rigorous review of the 2016 allocation plans because those were the first plans grantees were required to prepare. Officials from both the relevant HUD field office and HUD headquarters reviewed grantees' 2016 HTF allocation plans against an HTF-specific checklist. HUD officials said they worked closely with some grantees to ensure their allocation plans met program requirements, a process that took more time than a typical review of grantee planning documents.[67] In 2018, HUD integrated this separate checklist into its consolidated plan and annual action plan checklist. Since then, field officials have annually reviewed HTF allocation plans using the integrated checklist.

HUD Monitors Financial Deadlines, but Its Oversight of Project Completion Requirements Is Limited

HUD has established processes and collects data from grantees through IDIS to monitor compliance with financial deadlines for commitment and

[66]24 C.F.R. § 93.202.

[67]Within 45 days of receiving grantees' plans, HUD is to approve the plans or notify grantees that their plans have been disapproved. Grantees with disapproved plans have the opportunity to revise or resubmit the plans within 45 days after the first notification of disapproval. HUD then has up to 30 days to approve or disapprove the revised plans. 24 C.F.R. § 91.500.

expenditure of HTF funds.[68] From the date HUD executes an HTF grant, the grantee has 2 years to commit and 5 years to expend all of the funds.[69] HUD evaluates grantees' adherence to these time frames using data that grantees enter into IDIS and that are reflected in HUD's Deadline Compliance Status Reports. These monthly reports show the commitment and expenditure deadlines and amount of uncommitted and unexpended funds for each grantee's annual grant. While grantees have near real-time access to their project data through IDIS, HUD also posts the Deadline Compliance Status Reports for all grantees on its website each month.

According to HUD officials, the agency's monitoring process includes several steps, starting with HUD headquarters officials reviewing these reports monthly, identifying grantees that are approaching deadlines for uncommitted or unexpended funds, and informing the grantees and relevant HUD field offices about the situation. The field offices may also send notices to at-risk grantees and provide them with guidance, as needed. In cases where a grantee technically met its commitment and expenditure deadlines but did not enter the information into IDIS on time, the grantee is allowed to submit supporting documentation to the field office to demonstrate compliance.

If the grantee cannot provide documentation that it complied with program deadlines, HUD must deobligate the uncommitted or unexpended amounts and reallocate those funds as required by statute.[70] Because the 2-year commitment requirement is statutory, HUD cannot waive or extend the deadline.[71] However, the 5-year expenditure requirement is regulatory, so HUD can waive it if there is good cause to do so. According

[68]In 2018, HUD issued a notice to grantees that defines commitment and expenditure requirements, describes how it will determine compliance with deadline requirements, and identifies the data and reports used to assess compliance status. Department of Housing and Urban Development, *Commitment and Expenditure Deadline Requirements for the Housing Trust Fund (HTF) Program*, CPD-18-12 (Washington, D.C.: Oct. 3, 2018).

[69]24 C.F.R. § 93.400(d). Although the written agreement date should signify the commitment date for each project, HUD did not collect written agreement dates until July 2021. Prior to that time, HUD used another date in IDIS—the initial funding date—as the commitment date. The initial funding date is system-generated and indicates when grantees first assigned funds to a project. In July 2021, HUD added a field in IDIS to collect written agreement dates.

[70]HUD reallocates the deobligated funds by formula in accordance with 24 C.F.R. § 93.54(a)(1).

[71]*See* 12 U.S.C § 4568(c)(10)(B).

to HUD officials, HUD has exercised its authority to deobligate and reallocate funds 20 times and waived the expenditure deadline once. For example, in 2019, one of our selected grantees had $885,530 in uncommitted funds to meet its 2017 HTF program commitment requirements by the commitment deadline, so HUD reduced the grantee's HTF allocation by that amount the following year and reallocated the funds to other grantees. Another of our selected grantees faced difficulty in meeting the expenditure deadline due to delays related to the pandemic and environmental lawsuits, so HUD waived the 5-year expenditure deadline, extending it by over a year.

Grantees also must meet a regulatory project completion deadline. Grantees must enter project completion information in IDIS and change the project's status to "completed," or otherwise provide HUD with such information within 120 days of the final project drawdown.[72] HTF regulations state that project completion occurs when all necessary title transfer requirements and construction work have been performed, the final drawdown has been disbursed for the project, and the project completion information, such as units, costs, and beneficiaries, has been entered in IDIS. For rental housing projects, project completion occurs upon completion of construction before occupancy.[73]

However, we identified two weaknesses in HUD's oversight of project completion requirements, as follows.

Project completion deadline. HUD does not have procedures for reviewing whether HTF grantees are entering completion information into IDIS within the 120-day regulatory deadline and has not conducted regular reviews. HUD generates HTF Open Activities Reports in IDIS that show the final drawdown date, when applicable, for each ongoing project. Our review of these reports for our 12 selected grantees found 14 projects for which more than 120 days had passed since the grantees made final drawdowns but for which the grantees had not yet entered completion information in IDIS.[74] The amount of time that had passed

[72]24 C.F.R. § 93.402(d). The IDIS User Manual and other HUD resources note that the regulation requires the grantee to mark HTF projects "completed" in IDIS. Department of Housing and Urban Development, *The HTF Program: IDIS for Grantees* (May 2017), p. 6-6.

[73]24 C.F.R. § 93.2.

[74]We reviewed Open Activities Reports as of January 31, 2023, for our 12 selected states, downloaded from HUD's website on March 7, 2023. We excluded one project for which funds were fully drawn but for which the last draw date was missing from the report.

since the final drawdown for these 14 projects ranged from 128 to 1,511 days. CPD headquarters officials we spoke with were unaware of these cases.

One reason for projects not meeting the 120-day deadline may be the way grantees used their HTF funds. For example, HUD officials said that when grantees use HTF funds to acquire land or property, they may draw down all of the funds early in the project cycle, but may not complete other project development activities until after the 120-day deadline.

However, grantees' confusion about project completion requirements may also be contributing to noncompliance in some cases. According to HUD officials, HUD has relied on the HTF regulations to communicate the requirement for designating projects as complete. Although the regulations state that project completion for rental housing occurs upon completion of construction before occupancy, some grantees we spoke with were unaware that occupancy was not a project completion requirement. Officials from six grantees told us they wait for all units in the property to be occupied before marking the project as complete in IDIS. One grantee explained that it marks projects as complete after all units are occupied and beneficiary information is available to avoid having to reopen the project record and enter beneficiary information at a later date.

Differences between HTF and LIHTC definitions of project completion may also be creating confusion for some grantees. In the LIHTC program, a key project completion milestone is the submission of the "placed-in-service" application—through which the developer certifies that the project is ready for occupancy and cost certifications are completed.[75] Because many HTF-assisted projects use LIHTC equity as a major funding source, grantees may be deferring to the LIHTC definition of complete and applying it to HTF. For example, one grantee said that completing a project in IDIS could be delayed because obtaining cost certifications may take longer than 120 days after the project's final drawdown.

Since HUD is not reviewing project completion times, it is not aware of grantee noncompliance with or misunderstanding of the HTF requirement. Although future monitoring by CPD field offices may identify such cases, CPD may not monitor every HTF grantee or program each year under its

[75]When a LIHTC project is placed in service, the developer must submit a final cost certification to the tax credit allocating agency. 26 C.F.R. § 1.42-17(a).

risk-based monitoring approach. Establishing a centralized process to regularly review open activities (similar to HUD's review of funding deadlines) would provide HUD greater assurance that grantees are entering HTF project completion information in a timely manner and would better position HUD to address grantees' potential confusion or any issues preventing project completions. Additionally, providing additional instruction to grantees about when to mark projects as complete in IDIS would help ensure that HUD's data on production of HTF units is current and complete.

Data on total units in completed projects. HUD's data on the total number of units (that is, HTF units plus non-HTF units) in completed HTF-assisted projects are inaccurate. However, CPD officials we spoke with had not identified any inaccuracies and did not have a centralized process for regularly identifying likely errors. These data are part of the information that HUD requires grantees to enter in IDIS at project completion. When grantees initially set up HTF project activities in IDIS, the system prepopulates the "total completed units" field using the number grantees entered in the "estimated HTF units" field. At project completion, grantees are to update the "total completed units" field.

However, the IDIS data may undercount the total number of units in completed HTF-assisted projects. We compared IDIS data against data we collected from our 12 selected grantees. Among the 68 completed projects in our sample for which we could make the comparison, we found that grantees had not entered accurate total units information in IDIS for 13.[76] For example, 12 of the 13 projects had a lower number of total units in IDIS than grantee data we reviewed. Additionally, for eight of the 13 projects—all of which had non-HTF units according to grantee documents—the number of total units and the number of HTF units in IDIS were the same. This implies that the grantees did not update the prepopulated number for total units when they entered project completion information. CPD headquarters officials acknowledged that grantees may be neglecting to update the prepopulated field, but they had not provided grantees additional guidance on updating the total units field.

Officials noted that CPD field offices will review the accuracy of the total units information and other IDIS data fields as part of in-depth program monitoring planned for fiscal year 2024. Additionally, they said that while

[76]We excluded the two New York projects in our sample of 70 projects from this analysis. As previously discussed, these projects met the criteria for completed projects but had no completion information in IDIS as of March 1, 2022.

information on total units is important for assessing compliance with certain requirements—including the minimum number of HTF units in a project—CPD field offices will use data from grantees' project files rather than from IDIS to do their compliance assessments.

CPD officials said that future monitoring by CPD field offices may identify inaccuracies in total-units data and lead to corrections. However, HTF grantees may not be subject to in-depth field monitoring every year. As a result, some inaccuracies could go undetected for long periods and reduce the usefulness of IDIS data for program evaluation and reporting. Additionally, underreporting of total units could potentially be avoided if grantees were more aware of the need to update the prepopulated data field at project completion.

Providing grantees additional instruction on data entry requirements and centrally reviewing the data for likely errors (e.g., projects with the same number of total units and HTF units) could result in more accurate information for future program monitoring and evaluation. For example, the total number of units in an HTF-assisted project is necessary to calculate both the per-unit cost—a potential indicator of cost reasonableness—and the share of units in HTF-assisted projects that serve very low- and extremely low-income households. In addition, enhancing grantees' understanding of data reporting requirements could reduce the amount of time that CPD field offices and grantees spend on identifying and correcting data inaccuracies after the fact.

Selected Grantees Have Taken Steps to Control Costs, but Some Did Not Comply with a Cost Certification Requirement

HTF Regulations Require Grantees to Establish Cost Controls

HTF regulations require HTF grantees to take steps that can help control project development costs. These steps help ensure that grantees do not allocate excessive funds to HTF projects and that HTF funds pay only for eligible costs, as follows:

- **Maximum subsidy limits.** Grantees must establish and communicate to HUD maximum limits on the total amount of HTF funds invested per unit in project development.[77] Grantees are required to apply an existing per-unit subsidy limit from another program, such as HOME, or establish a new limit based on actual development costs in their geographic area.

- **Subsidy layering reviews.** Grantees must review the funding sources and amounts for each project to ensure that projects do not use any more HTF funds, alone or in combination with other governmental subsidies, than necessary.
- **Cost certifications.** Grantees must obtain cost certifications prepared by certified public accountants at project completion. A cost certification is an audit of project information to determine a project's total development costs. HUD officials said cost certifications are key to mitigating fraud risks in the HTF program and help ensure that HTF funds pay only for actual project costs. Grantees must implement this control by including a provision in their written agreements with developers that requires the developers to submit a cost certification performed by a certified public accountant for each HTF-assisted project.[78]

Selected Grantees Had Procedures for Certain Cost Control Requirements and Implemented Additional Controls

All of our 12 selected grantees established policies and procedures to meet two of the cost control requirements and took additional steps not specifically required by HUD to manage costs. Specifically, all of the grantees established maximum subsidy limits. Eight grantees chose to apply HOME per-unit subsidy limits to HTF-assisted projects, and four grantees established their own limits. Grantees that established their own subsidy limits based them on the development costs of their previous affordable housing projects or on research by others on housing development costs in their geographic areas. All of the selected grantees also had subsidy layering review processes set forth in policies and guidance. In some cases, grantees had supplemental tools and checklists for implementing these processes.

All of our selected grantees indicated they also used one or more other cost control techniques not specifically required by HUD. These techniques included

- comparing proposed project budgets to the costs of similar prior projects or customized cost estimates;

[77]24 C.F.R. § 93.300(a).

[78]24 C.F.R. § 93.404(c)(2)(iii).

- imposing limits on certain professional fees, such as developer fees;
- comparing contractor invoices against supporting documentation and project budgets before making payments; and
- retaining a portion of HTF funds until project completion.

Most Selected Grantees Did Not Comply with the Cost Certification Requirement

However, the majority of our 12 selected grantees did not comply with the requirement to include the cost certification provision in their written agreements with developers and obtain cost certifications at project completion. Specifically:

- Six of the 12 grantees had at least one project with a written agreement that did not contain the cost certification provision.[79] In total, the written agreements for 29 of the 70 projects in our sample lacked the provision.
- Six of the 12 grantees—including three of the above—had at least one completed project for which they did not obtain a cost certification. In total, grantees did not obtain cost certifications for 29 of the 70 projects in our sample.
- As a result, nine of the 12 grantees either did not include the cost certification provision in at least one written agreement or did not obtain a cost certification for at least one completed project (or both).

In some cases, grantees obtained cost certifications even though the written agreements did not include a cost certification provision. Also, some grantees may have required and obtained cost certifications only because the projects used funds from the LIHTC program, which also has a cost certification requirement. For example, one grantee's completed HTF-assisted projects included some that used LIHTCs and others that did not. The grantee required and obtained cost certifications only for the projects that used LIHTCs.

Grantees may be confused or unaware of the cost certification requirement because some of HUD's communication with grantees has stressed HTF's similarity to HOME, which does not have this regulatory requirement. Additionally, HUD has not emphasized the cost certification requirement in guidance and training for grantees. For example, CPD periodically issues formal notices to all grantees that explain how HTF program regulations should be interpreted or applied, but none of the

[79]In one of these cases, the written agreement required a cost certification but did not specify that it must be performed by a certified public accountant. Nevertheless, the cost certification for the project was performed by a certified public accountant.

notices have discussed the cost certification requirement. Further, CPD provided a three-part training on the HTF program in June 2022, but the video presentations, slides, and transcripts did not include information about the requirement.

When we brought the results of our review to their attention in April 2023, CPD officials said the extent of noncompliance we found was very concerning and required attention. In response, on July 14, 2023, HUD posted a frequently asked question on HUD's HTF website to explain to HTF grantees that (1) the cost certification requirement should be included in the written agreement and (2) evidence of the certification should be in the project file. HUD officials also said that future in-depth monitoring will check for compliance with both of these requirements and that failure to obtain a certification is a program violation that requires correction.

While these are positive steps, CPD's efforts do not include the use of other communication tools, such as notices and training, that could help improve compliance with the cost certification requirement. Using such tools could help ensure that grantees understand the significance of the cost certification requirement and are interpreting and applying it correctly. Without effective communication of the requirement, HUD lacks reasonable assurance that HTF funds are being used only for actual project costs, and opportunities for mismanagement and fraudulent activity may increase.

HUD Has Not Comprehensively Assessed HTF Fraud Risks

Like other housing development and federal grant programs, HTF faces fraud risks.[80] GAO's Fraud Risk Framework describes leading practices for fraud risk management, including fraud risk assessments.[81] The Fraud Risk Framework emphasizes regularly conducting fraud risk assessments that are tailored to the program and that (1) identify inherent fraud risks affecting the program, (2) assess the likelihood and impact of those fraud risks, (3) determine fraud risk tolerance, (4) examine the suitability of existing fraud controls and prioritize residual fraud risks, and (5) document the results. In addition, HUD's fraud risk management policy,

[80]Fraud risk (which is a function of likelihood and impact) exists when people have an opportunity to engage in fraudulent activity, have an incentive or are under pressure to commit fraud, or are able to rationalize committing fraud. Fraud risk includes existing circumstances that provide an opportunity to commit fraud. Fraud relates to obtaining something of value through willful misrepresentation.

[81]See GAO-15-593SP.

which became effective March 31, 2022, identifies the responsibilities of senior program management to prevent, detect, and respond to fraud.[82] Similar to the Fraud Risk Framework, these responsibilities include performing regular fraud risk assessments of programs to identify inherent fraud risks, considering the effectiveness of existing controls, scoring the likelihood of the occurrence and impact of fraud, and developing a fraud risk management strategy to mitigate residual fraud risk exposure.

HUD assessed HTF fraud risks in 2017 as part of a front-end risk assessment (FERA). A FERA is a formal, documented review to determine the susceptibility of a new or substantially revised program or administration function to fraud, waste, abuse, and mismanagement. HUD's policy states that the purpose of a FERA is to detect conditions that may adversely affect the achievement of strategic, operational, compliance, and reporting objectives. FERAs are completed for new or significantly revised programs.

HUD's assessment of fraud risks as part of the HTF FERA was limited. Although the document summarizing the results of the FERA identifies several program risks, it does not identify key fraud risks that may be present in the program and that have arisen in other affordable housing programs. For example, the FERA document does not discuss the following potential risks:

- collusion between developers and contractors to inflate costs and submit fraudulent bills to obtain excess funds for personal financial gain,[83]
- contractors misrepresenting not using subcontractors, falsely characterizing subcontractors as employees, and either not paying

[82]Department of Housing and Urban Development, *Departmental Fraud Risk Management Policy (2022.1)* (Washington, D.C.: Mar. 31, 2022).

[83]For example, in 2016, a U.S. District Court sentenced several developers and contractors for a contract inflation scheme affecting numerous LIHTC projects in Florida. The scheme involved submitting fraudulently inflated cost information to the tax credit allocating agency. See Department of Justice's U.S. Attorney's Office for the Southern District of Florida, "Seven Defendants Sentenced Federally for Their Role in a $36 Million Fraud Scheme Involving Low-Income Housing Developments," press release, Dec. 12, 2016, https://www.justice.gov/usao-sdfl/pr/seven-defendants-sentenced-federally-their-role-36-million-fraud-scheme-involving-low.

them or paying wage rates lower than stipulated by the contract or by federal requirements,[84] and

- landlord falsifying tenant's information, such as income, to meet eligibility requirements for occupying affordable units, or landlords accepting rent subsidies for ineligible tenants.[85]

Additionally, based on the FERA document, the 2017 FERA did not assess the likelihood and impact of identified fraud risks, determine a fraud risk tolerance, or thoroughly identify and examine existing fraud controls. With respect to fraud controls, the document states that a series of grantee self-certifications in IDIS are intended to ensure the eligibility of projects and prevent fraud. The self-certifications address grantees' compliance with HTF program requirements, such as conducting subsidy layering reviews. The FERA document also states that IDIS prevents grantees from committing more funds than are available and from drawing down more funds than are committed to the project. Additionally, the document notes that IDIS requires two separate grantee staff to process every drawdown request, one to request the drawdown and one to approve it. Although CPD officials told us they consider HTF's cost certification requirement to be a tool for mitigating fraud risk, the FERA document does not cite the requirement.

The fraud controls discussed in the FERA document are limited because they rely on weak control mechanisms, do not directly focus on fraud risks, or are restricted to the activities of the grantees. For example, self-certifications can intentionally or unintentionally misrepresent information about grantees' activities because they do not provide independent

[84]For example, in 2019, a U.S. District Court sentenced two individuals for falsely and fraudulently representing the non-use of subcontractors and wages paid to subcontractors used in connection with a HUD low-income housing contract. See Department of Justice's U.S. Attorney's Office for the Southern District of Florida, "South Florida Construction Company Executives Sentenced Friday for Defrauding a Low Income Housing Development Program," press release, May 25, 2019, https://www.justice.gov/usao-sdfl/pr/south-florida-construction-company-executives-sentenced-friday-defrauding-low-income.

[85]For example, in 2021, the Department of Justice ordered a landlord from Pennsylvania to pay restitution to resolve allegations for illegally claiming subsidies from the HUD Housing Choice Voucher program while renting an apartment to a relative over a decade-long period. The settlement resolved allegations against the landlord, with no determination of liability. See Department of Justice's U.S. Attorney's Office for the Eastern District of Pennsylvania, "Landlord to Pay $90,000 under the False Claims Act for Violating HUD Rules by Renting Subsidized Section 8 Apartment to Relative," press release, July 1, 2021, https://www.justice.gov/usao-edpa/pr/landlord-pay-90000-under-false-claims-act-violating-hud-rules-renting-subsidized.

verification of those activities. To illustrate, in order to fund activities in IDIS, HTF grantees must self-certify in IDIS that they have fully executed a written agreement that meets regulatory requirements. However, several of our selected grantees did not comply with the regulatory requirement to include the cost certification provision in their written agreements. In addition, the IDIS limits on grantee commitments and expenditures are primarily budgetary controls to ensure that grantees spend only the amount of funds available, not fraud controls for preventing intentional misuse of funds for personal gain. Finally, none of the fraud-related controls HUD cites in the FERA explicitly focus on activities and entities below the grantee level, such as payments between developers, contractors, and subcontractors.

CPD officials said FERAs are not intended to replace periodic fraud risk assessments conducted under HUD's 2022 policy, and stated that such assessments have yet to occur. In April 2023, CPD officials said they were working on creating a fraud risk management program within CPD under the department's direction. The officials said CPD was working with the department to set a timeline for a fraud risk management maturation plan that will address (1) fraud risk management training and awareness for both HUD employees and grantees and (2) CPD's contribution to HUD's fraud risk data analytics and CPD-wide fraud risk assessments. The officials said that once CPD implements a fraud risk management program, fraud risk assessments and fraud data analytics will identify key fraud risks for individual programs.

CPD's planned actions have the potential to strengthen fraud risk management, but CPD does not have a time frame for implementing these plans. CPD also has not indicated whether its fraud risk assessments will follow leading practices in GAO's Fraud Risk Framework. The lack of in-depth program monitoring and significant noncompliance we identified with a key fraud control highlight the need for a more comprehensive assessment of fraud risks. Planning and conducting HTF fraud risk assessments that align with the Fraud Risk Framework and with HUD's 2022 policy could better ensure that CPD's control activities are effectively addressing the program's fraud risks within an established tolerable level.

HUD's Reporting on HTF Costs and Funding Could Be Misinterpreted

OMB has published guidelines designed to help agencies ensure the quality (including the utility and objectivity) of information they disseminate.[86] The guidelines define utility as “the usefulness of the information to its intended users, including the public.” The guidelines also state that objectivity includes whether federal agencies present disseminated information in a clear and complete manner and within the proper context.

HUD’s National HTF Production Reports, available on HUD’s public website, provide monthly updates on program funding and number of HTF units produced. The data in the reports are based on information that grantees submit to HUD through IDIS. The reports provide high-level information on the HTF program, such as the annual funding commitments and disbursements and number of completed HTF units per year. The reports also include a breakdown of completed HTF units by whether they are newly constructed or rehabilitated; whether they are rented or owner-occupied; bedroom count; and occupancy characteristics such as race and family size.

However, the production reports are inconsistent with OMB information guidelines because they are unclear in two ways that could lead users to draw incorrect conclusions about the HTF program, as follows.

No disclosure of potential underreporting of non-HTF funds. Report users could draw incorrect conclusions about the extent of leveraging in the HTF program because the reports do not disclose potential underreporting of non-HTF funds used in HTF-assisted projects. Federal agencies commonly include leverage measures among their program performance indicators because of interest from congressional and agency decision makers about how federal program dollars are being used in conjunction with private and other public funds. HUD cites the leveraging ratio in its congressional budget justifications for HTF as an indicator of program effectiveness.

Report users could conclude that the ratio of other dollars to HTF dollars in HTF-assisted projects is lower than it actually is. The leveraging section of HUD’s production report shows the total HTF dollars used in completed HTF-assisted projects, the total other dollars (non-HTF funds) used in those projects, and the ratio of those amounts. However, we found that HUD’s production report may understate the actual amount of

[86]Office of Management and Budget, *Guidelines for Ensuring and Maximizing the Quality, Objectivity, Utility, and Integrity of Information Disseminated by Federal Agencies; Republication*, 67 Fed. Reg. 8452 (Feb. 22, 2002).

other dollars. For example, for the projects in our sample, the data we collected directly from the grantees showed a total of $858.1 million, while IDIS data showed a total of $738.5 million (about 14 percent less).[87]

HUD does not disclose the potential underreporting in its production reports or its accompanying report explanation (which provides definitions for the report's data fields). HUD officials said they encourage and train grantees to enter information on other dollars into IDIS, but HUD does not require grantees to do so because officials said they do not need the information to monitor grantee compliance with program requirements. HUD officials told us they believe that most grantees are reporting information on other dollars in IDIS. However, they have not taken steps to verify that assumption, and our analysis found examples of underreporting in IDIS data.

No explanation that projects include non-HTF units. Another limitation in HUD's production reports could cause report users to misinterpret information about the number and cost of units in HTF-assisted projects. In response to observations we provided to HUD during the course of our work, HUD made some changes to the reports in April 2023 to help prevent misinterpretation by external users.[88] However, HUD has not provided accompanying explanations that could also be helpful. As shown in figure 19, the report contains fields labeled "Completed units" (which HUD defines as the total number of HTF units completed during the fiscal year) and "Total dollars for completed HTF projects" (which HUD defines as the total amount of HTF funds and other funds expended for completed HTF projects). HTF-assisted projects often include both HTF and non-HTF units, but HUD's report and report explanation do not make this clear or include data on the total number of units in the projects.

[87]This analysis includes 68 of the 70 projects in our sample of completed projects. It excludes two New York projects that were completed but had no completion information in IDIS as of March 1, 2022.

[88]HUD changed the data labels in the leveraging section of the report. HUD changed "units" to "projects" in all three places where "units" appeared to help clarify that "other dollars" and "total dollars" paid for more than just the HTF units.

Figure 19: Limitations in Housing Trust Fund (HTF) National Production Report

HTF Program Funding, Commitments, and Disbursements

Funding Commitments and Disbursements by Fiscal Year Source of Funds

Fiscal Year	Original Amount	Authorized Amount	Amount Committed	% Committed	Amount Disbursed	% Disbursed
2016	$173,549,659	$170,754,453	$170,754,453	100.00%	$166,819,291	97.70%
2017	$219,063,145	$210,219,147	$209,342,253	99.58%	$205,921,741	97.96%

Funding Commitments and Disbursements by Fiscal Year Source of Funds (Projects)

Fiscal Year	Project Authorized	Project Committed	Project Disbursed	% Disbursed
2016	$155,871,399	$156,064,457	$152,129,295	97.60%
2017	$193,646,963	$192,693,509	$190,418,404	98.33%

Leveraging

HTF Dollars for Completed HTF Projects	$389,007,470	Total Dollars for Completed HTF Projects	$4,180,451,732
OTHER Dollars for Completed HTF Projects	$3,791,444,262	Ratio of OTHER Dollars to HTF Dollars	9.75

HUD does not require grantees to report on non-HTF funding sources, so data on non-HTF funds are incomplete.

Program Production by Fiscal Year

	Completed Projects	Completed Units
Activity in FY 2017	$0	0
Activity in FY 2018	$3,072,612	28
Activity in FY 2019	$18,784,238	209
Activity in FY 2020	$39,691,641	389
Activity in FY 2021	$91,688,672	857
Activity in FY 2022	$162,347,897	1,497
Activity in FY 2023	$73,328,872	542
Total	**$388,913,931**	**3,522**

HTF-assisted projects generally include designated HTF units and non-HTF units, but only the number of HTF units is included in the report.

Source: GAO depiction of Department of Housing and Urban Development report. | GAO-23-105370

Note: The data in the figure are illustrative only.

As a result, a report user looking to calculate the per-unit cost of units in HTF-assisted projects might logically divide the value for “Total dollars for completed HTF projects” by the value for “Completed units.” However, the resulting per-unit cost would be greatly inflated, because HTF units are often only a relatively small fraction of the total units in an HTF-assisted project. The National Low Income Housing Coalition, a nonprofit advocacy group, expressed similar concerns about how the production reports are susceptible to misinterpretation because of the way the reports present certain funding and cost information.

Contrary to OMB’s guidelines on disseminating quality information, the production reports lack utility and objectivity because HUD has not addressed the report's limitations or made them clear to users.[89] HUD officials attributed the report's limitations to the standardized nature of the report template, which HUD uses for multiple programs. HUD officials said the template is not easily customizable, resulting in some field names that are not completely accurate. Although HUD has a report explanation document on its website that could disclose the report's limitations, HUD has not used it for this purpose. By disclosing the limitations of the HTF production report, HUD could better ensure that Congress and the public have a more accurate understanding of the performance of the HTF program.

Conclusions

The HTF program plays a key role in the federal response to the affordable housing shortage by targeting households with the lowest incomes. HUD is overseeing certain aspects of the program, including grantees' compliance with funding commitment and expenditure deadlines, and is planning to conduct more in-depth monitoring of grantees starting in fiscal year 2024. However, we identified weaknesses in HUD's oversight and reporting that the agency could begin to address now.

- Because HUD does not review grantees' final drawdown and completion dates, it has been unaware of grantee noncompliance with and confusion about the requirement to enter project completion information within 120 days of the final drawdown of funds. Conducting such reviews and providing grantees additional instruction on the requirement could help ensure timely completion of HTF-assisted projects and enhance the accuracy of HUD's data on HTF unit production.
- HUD could take additional steps to identify likely errors in IDIS total-units data and to instruct grantees on requirements for reporting these data. Doing so could enhance the quality of HUD's data on total units and thereby aid future monitoring and evaluation of the HTF program.
- HUD has not effectively communicated requirements for grantees to obtain cost certifications for completed HTF projects, as evidenced by the absence of cost certifications for many of the projects we reviewed. By enhancing communication of the requirement to grantees, HUD could increase compliance with the requirement and

[89]Office of Management and Budget, *Guidelines for Ensuring and Maximizing the Quality, Objectivity, Utility, and Integrity of Information Disseminated by Federal Agencies; Republication,* 67 Fed. Reg. 8452 (Feb. 22, 2002).

have greater assurance that HTF funds are paying only for actual project costs.

- Because HUD has not scheduled or conducted a comprehensive assessment of fraud risks in the HTF program, it is not well positioned to identify and mitigate risks that could reduce the program's efficiency and effectiveness.
- Lastly, HUD's public reports have limitations that could cause report users to misinterpret certain aspects of the program's performance. Without clear disclosure of these issues, HUD's reporting lacks the context needed to understand the funding and costs of HTF-assisted projects.

Recommendations for Executive Action

We are making five recommendations to HUD:

The Secretary of HUD should ensure that the Assistant Secretary for Community Planning and Development develops and implements a centralized process to monitor HTF grantees' compliance with the requirement to enter completion information in IDIS within 120 days of the final project drawdown and provides additional instruction to grantees about this requirement. (Recommendation 1)

The Secretary of HUD should ensure that the Assistant Secretary for Community Planning and Development develops and implements a centralized process to monitor data in IDIS on the total number of units in completed projects for likely errors and provides additional instruction to grantees about inputting these data. (Recommendation 2)

The Secretary of HUD should ensure that the Assistant Secretary for Community Planning and Development uses additional methods, such as formal notices and training, to enhance communication of the cost certification requirement to grantees. (Recommendation 3)

The Secretary of HUD should ensure that the Assistant Secretary for Community Planning and Development schedules and conducts a comprehensive assessment of HTF fraud risks in accordance with GAO's Fraud Risk Framework and HUD's fraud risk management policy. (Recommendation 4)

The Secretary of HUD should ensure that the Assistant Secretary for Community Planning and Development revises HUD's public reports on HTF to disclose that the amount of non-HTF funds may be underreported and that HTF units are only a portion of the total units in HTF-assisted projects. (Recommendation 5)

Agency Comments

We provided HUD and FHFA a draft of this report for their review and comment. HUD provided comments in an email from the Director of the Office of Affordable Housing Programs, a component of CPD. FHFA provided a technical comment, which we incorporated into the final report.

HUD concurred with all five of our recommendations.

- **Recommendation 1.** Regarding our recommendation to centrally monitor grantees' compliance with requirements for entering project completion information into IDIS, HUD agreed that better oversight of the requirement may lead to more timely project completion reporting. HUD said it will develop policies and procedures to conduct this oversight in 2024.
- **Recommendation 2.** Regarding our recommendation to monitor IDIS data on the total number of units in completed projects and to provide additional instruction to grantees about inputting these data, HUD said it will take action to ensure more accurate grantee reporting, given public and congressional interest in the total cost and financing of HTF projects. HUD also said that in its communication with HTF grantees, it will stress the importance of accurate reporting of total units and sources and amounts of other financing. Additionally, HUD said it will include review of the accuracy of IDIS reporting of total units in its HTF monitoring exhibits.
- **Recommendation 3.** Regarding our recommendation to better communicate the HTF cost certification requirement to grantees, HUD said it is concerned that some grantees are not complying with the requirement. As discussed in our report, HUD posted a frequently asked question on its HTF website on July 14, 2023, in response to our findings of noncompliance with the cost certification requirement. In its comments on our report, HUD said it plans to publish the same information on the HUD Exchange webpage—an online platform that provides program information, guidance, services, and tools to HUD grantees and other community partners—and to send a message to HUD's HTF Listserv announcing publication of the information. HUD also said it plans to develop a brief video describing the HTF cost certification requirement. Further, HUD said that its HTF monitoring exhibits will include review of both the written agreement provision and the requirement for submitting the cost certification.

- **Recommendation 4.** Regarding our recommendation to comprehensively assess HTF fraud risks, HUD said it is developing a fraud risk assessment template that it will use as a baseline for programmatic fraud risk assessments, including an assessment of HTF. HUD added that CPD has separately been working to address fraud risk in response to a HUD Office of Inspector General audit report, including steps to create a fraud risk inventory, develop program-specific fraud risk maps, and complete program-specific fraud risk assessments for CPD programs, including HTF.
- **Recommendation 5.** Regarding our recommendation to revise HUD's public reports on HTF, HUD noted changes it had already made to its HTF National Production Report in April 2023, as discussed in our report. HUD said it will also add explanatory language to the HTF National Production Report webpage to ensure that readers understand that there may be non-HTF units in HTF-assisted projects and that other funds reported as leverage for HTF-assisted projects may be underreported.

We are sending copies of this report to the appropriate congressional committees, the Secretary of Housing and Urban Development, and the Director of the Federal Housing Finance Agency. In addition, the report will be available at no charge on the GAO website at https://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-8678 or naamanej@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix IV.

Jill Naamane
Director, Financial Markets and Community Investment

Appendix I: Objectives, Scope, and Methodology

Our objectives were to examine (1) the production rate, number, and type of Housing Trust Fund (HTF) units completed; (2) how selected grantees have used HTF and other funding sources to develop HTF-assisted projects; (3) development costs of selected grantees' HTF-assisted projects; and (4) the extent to which the Department of Housing and Urban Development (HUD) oversees selected HTF requirements, assesses fraud risks, and reports clear information on project costs and funding.

To conduct this work, we selected a nongeneralizable sample of 12 grantees to obtain diversity in number of completed projects, grant amount, type of housing market, and geography. We used these 12 grantees as the focus for key parts of our analysis discussed in more detail later in this appendix. The grantees were the following:

- Arizona Department of Housing
- California Department of Housing and Community Development
- Georgia Department of Community Affairs
- Maine State Housing Authority
- Massachusetts Department of Housing and Community Development
- Minnesota Housing Finance Agency
- Mississippi Home Corporation
- New York State Housing Finance Agency
- North Dakota Housing Finance Agency
- Tennessee Housing Development Agency
- Utah Housing and Community Development Division
- Washington State Department of Commerce

To obtain diversity in our sample, we selected grantees by considering a number of factors. We first identified grantees that had completed one or more HTF projects as of January 19, 2022, according to data in HUD's Integrated Disbursement Information System (IDIS). We ranked those grantees in order of their number of completed HTF units and selected the top 10. We then ranked all HTF grantees in order of their 2021 HTF funding allocations and selected the two with the largest allocations—California and New York—which were not among the 10 grantees selected previously. These two grantees received about 30 percent of the total HTF funding in 2021.

To ensure that our 12 selected grantees provided geographic diversity, we categorized them by the four census regions (Northeast, South, Midwest, and West) and determined we had at least two grantees in each region. Additionally, we calculated median rent quartiles using the Census Bureau's American Community Survey data on 5-year (2015–2019) median rent costs, and determined we had at least two grantees represented in each quartile (based on state-level rents).

For all of our objectives, we reviewed HUD regulations, policies, and guidance for the HTF program, including requirements and procedures for allocating HTF funds, reporting data on HTF-assisted projects, and overseeing HTF activities. We also reviewed HUD's guides and user manuals for IDIS, which grantees use to submit data to HUD on their HTF activities. Additionally, we interviewed officials from the 12 selected grantees, HUD's Office of Community Planning and Development (CPD) headquarters, and three CPD field offices (in Boston, Massachusetts; Denver, Colorado; and San Francisco, California) with oversight responsibilities for six of our 12 selected grantees.

We also interviewed representatives from three organizations with knowledge of HTF or multifamily housing development generally: the National Council of State Housing Agencies, which represents many of the state entities that administer the HTF program; the National Low Income Housing Coalition, which advocates for preserving and expanding the supply of low-income housing and has collected and reported information on HTF projects; and the National Association of Home Builders, which has expertise in housing development costs.

Data Used in Our Analysis of HTF-Assisted Projects

For our nationwide analysis of HTF-assisted projects, we analyzed IDIS data for all grantees on their HTF activities from the start of the program in 2016 through March 1, 2022. Specifically, we obtained data from HUD on the open and completed activities funded by HTF, including the types of projects, the number of HTF and non-HTF units, key project dates, and beneficiary and unit-specific characteristics. We considered completed projects to be those marked as such in IDIS as of March 1, 2022.

To assess the reliability of these data, we performed electronic data testing to identify missing values, logical inconsistencies, outliers, or duplicates. We also interviewed knowledgeable HUD staff about how to interpret certain data fields and about known data limitations. Additionally, we corroborated the IDIS data with the data we collected directly from our selected grantees (discussed below) to check for any discrepancies. We concluded that the data were sufficiently reliable for purposes of describing the production rate, number, and basic characteristics of completed HTF units at the national level.

For our analysis of projects by our 12 selected HTF grantees, we compiled a database of project characteristics, funding sources, and development cost information for the 70 HTF-assisted projects the grantees had completed as of March 1, 2022. The 2021 HTF allocations for the 12 selected grantees accounted for about 42 percent of the total HTF allocation for 2021. Our analysis of the 70 projects is not generalizable to all projects or grantees.

To develop the database, we requested documentation and data from the grantees on their completed projects. Specifically, we requested information on project funding and development costs from sources such as final cost certifications, project budgets, and fund disbursement documents. We also requested information on project characteristics from sources such as project applications and project underwriting documents.

We manually entered the data on project funding, costs, and characteristics into electronic spreadsheets we created for each grantee. We verified the accuracy of data entries by having a second analyst verify the entries of the first analyst. After compiling the data, we compared our list of projects to IDIS data to verify the completeness of our sample. Although New York did not have any HTF-assisted projects marked as complete in IDIS as of March 1, 2022, information from the grantee indicated that two of its projects met the criteria for the completed designation as of that date. As a result, we included these two projects in our analysis of projects by our 12 grantees. We consolidated project information from the 12 selected grantees into a database using a statistical program to perform analyses across the entire sample.

The project characteristics we collected and included in our database were as follows:

- Address (street, city, state, and zip code)
- Construction type (new construction, rehabilitation, or acquisition)
- Developer type (for-profit or nonprofit)
- Funding sources, types, and amounts (for example, other federal sources and state and local funding)
- Number of buildings
- Number of HTF units and total units

Before calculating the development costs of all HTF-assisted projects, we first placed project costs into aggregated categories to determine the composition of costs in our project sample and to identify any costs not associated with development activities. With some modifications to account for program differences, we categorized project costs based on a framework developed for a prior GAO report on the development costs of Low-Income Housing Tax Credit (LIHTC) projects.[1] We used three hard-cost and four soft-cost categories:

- **Hard costs**
    - **Construction.** Costs related to the direct physical development of the project site and structures. These include change orders; construction trade material and labor (such as electrical, masonry, or roofing); construction contingencies; demolition; environmental remediation; furniture, fixtures, and equipment; landscaping and fencing; off-site and on-site improvements; other property assets (such as maintenance, office, or playground equipment); prevailing wages; rehabilitation activities; site security (if listed separately from contractor fees); tenant relocation; and utilities during construction.
    - **Existing structures.** The purchased or appraised value of acquired structures.
    - **Land.** The purchased or appraised value of acquired or leased land.
- **Soft costs**
    - **Architect and engineer fees.** Fees for architectural design and supervision and engineer services.
    - **Contractor fees.** Contractor general requirements, overhead, and profit.
    - **Developer fees.** Developer overhead and profit.
    - **Other soft costs.** Costs related to financing, predevelopment, professional services, and other indirect construction activities, as shown in the following examples. These include accounting; agency fees (such as application, reservation, allocation, extension, compliance monitoring, and waiver fees); appraisals; broker fees and closing costs; capital needs assessments;

[1]GAO, *Low-Income Housing Tax Credit: Improved Data and Oversight Would Strengthen Cost Assessment and Fraud Risk Management*, GAO-18-637 (Washington, D.C.: Sept. 18, 2018).

certifications; construction-management fees; project supervision or monitoring; consultant fees; credit reports; environmental reports (such as asbestos and lead-paint tests); green building and energy efficiency design services; impact and utility connection fees; inspections; insurance (such as builder's risk, general liability, hazard, and title insurance); surveys; legal fees; loan fees and interest (such as for predevelopment loans, construction loans, bridge loans, and permanent loans); market studies; payment or performance bonds; permits and other local fees; real estate taxes (during construction); soil borings and tests; and title searches and recording.

For our per-unit development cost calculation, we first calculated the development cost for each project in our sample by aggregating all cost line-items listed in project documentation. To isolate development costs, we then subtracted costs associated with prefunded reserves and post-construction activities, such as marketing and rent-up period operating expenses, from the total project cost. For each project, we then divided the total development cost by the total unit count to determine the per-unit cost.

To analyze costs by construction and developer type, we consolidated data fields to create three construction categories (new construction, rehabilitation, and acquisition) and two developer categories (for-profit and nonprofit). We used these new categories to recategorize certain projects in our sample. For example, if the project documentation indicated the construction type was both new construction and acquisition, we recategorized the project as a new construction project. Also, if the project documentation indicated the project had both a for-profit and a nonprofit developer, we recategorized the project as having a nonprofit developer.

To assess the reliability of the project data in our sample, we tested each data field for missing values and obvious errors. We also compared summary statistics from applicable data elements in our database to comparable data elements in HUD's IDIS database.[2] We discussed any missing information or potential inconsistencies with our selected grantees. Additionally, we sent our compiled data to the selected grantees for their review. We concluded that the data in our final

[2]Although these comparisons did not identify any significant issues with the data from our selected grantees, they did identify reliability issues with IDIS data on total units and non-HTF funding sources. We discuss these issues later in this appendix and in the body of the report.

database were sufficiently reliable for purposes of describing the development costs of projects completed by our selected grantees and the sources and amounts of funds used in those projects.

Production Rate, Number, and Type of HTF Units Completed

For our first objective, we reviewed documentation from HUD and our selected grantees on their processes for planning, funding, and developing HTF units. We also reviewed documentation from the Federal Housing Finance Agency (FHFA) on the timing of and process for establishing financial set-asides from the government-sponsored enterprises Fannie Mae and Freddie Mac (enterprises) to fund the HTF program. Based on this information, we developed a timeline of key events for the first HTF grant year (2016).

To determine HTF production rates, we used the national IDIS data discussed previously to calculate the total number of HTF units and HTF projects completed as of March 1, 2022, and the number of HTF units completed each quarter from the fourth quarter of 2017 (when the first units were completed) through part of the first quarter of 2022. We also calculated the number of additional HTF units and HTF-assisted projects that grantees had committed to funding as of March 1, 2022. For additional perspective, we used the data from our selected grantees to compare the proportion of HTF units in completed projects to the proportion of HTF funds in those projects.

To determine how long grantees took to complete projects once they executed written agreements with developers, we used a combination of the national IDIS data and the data from our selected grantees. Because HUD did not collect written agreement dates for all projects until July 2021, we limited our analysis to the 145 (out of 263) projects grantees had completed as of March 1, 2022, for which (1) there was a written agreement date in IDIS (111 projects) or (2) we determined the written agreement date from documentation collected from our 12 selected grantees (an additional 34 properties). As a result, our analysis is not generalizable to all projects completed as of that date.

For each of the 145 properties, we calculated the amount of time between the date the grantee executed the written agreement and the date the grantee marked the project as complete in IDIS. We then calculated the 25th percentile, median, 75th percentile, minimum, and maximum values for the resulting distribution of elapsed times. Additionally, we interviewed representatives from our selected grantees about factors that affected project timelines.

To determine the types of HTF units completed as of March 1, 2022, we analyzed the national IDIS data by tenure type (rental or homeownership), number of bedrooms (single-room occupancy/efficiency, one bedroom, two bedrooms, three bedrooms, or four or more bedrooms), and project type (acquisition, rehabilitation, or new construction). We calculated the number and percentage of HTF units in each of these categories, as well as the number of associated HTF-assisted projects in the tenure and project type categories.

We also analyzed HTF units by location type using project zip code information in the IDIS or state data. We classified project locations based on the 2015 county typology from the Department of Agriculture's Economic Research Service. The typology classifies U.S. counties as "metro" or "nonmetro." We used a HUD zip code-to-county crosswalk to link this county typology to the project zip codes. We classified a zip code as metropolitan if at least 50 percent of its residential addresses were located in a metropolitan county or counties. If not, we classified the zip code as nonmetropolitan. On the basis of this analysis, we calculated the number and percentage of completed HTF units and HTF-assisted projects in metropolitan and nonmetropolitan zip codes. For additional perspective, we repeated our analysis of tenure type, project type, and location type for HTF-assisted projects that were still in development as of March 1, 2022.

We also used the national IDIS data to examine characteristics of households benefitting from HTF units. The IDIS data include information submitted by grantees at the time of project completion on the race and ethnicity of the head of household and whether the household was receiving rental assistance. Based on the head-of-household information, we calculated the number and percentage of households in different racial categories (White, Black or African American, American Indian/Alaskan Native, Asian, Native Hawaiian/Other Pacific Islander, or multiracial) and in different ethnic categories (Hispanic or Latino, not Hispanic or Latino). Additionally, we calculated the number and percentage of households supported by rental subsidies.

To supplement our aforementioned review of the HTF funding process, we examined FHFA's oversight of the enterprises' compliance with the statutory prohibition on passing on the costs of HTF set-asides to mortgage originators (see app. III). We reviewed related work by FHFA's Office of Inspector General that covered the enterprises' set-asides for 2015 through 2017. In addition, we reviewed documentation on the set-asides for 2018 through 2021, including FHFA's communications with the enterprises, the enterprises' certifications of compliance with the statutory prohibition, and FHFA memorandums documenting the agency's independent assessment of compliance. We also interviewed FHFA officials about the steps they take each year to oversee compliance with the prohibition. Finally, we reviewed documentation on the enterprises' guarantee fees, annual guarantee activity, and capital reserves to obtain perspective on the enterprises' financial operations. We did not perform a financial audit of the enterprises' fees and set-asides to verify the enterprises' compliance with the prohibition.

Grantees' Use of HTF and Other Funding Sources

For our second objective, we reviewed documentation from our 12 selected grantees describing their housing priorities and the eligibility and selection criteria they used to allocate 2021 HTF funds. These documents included grantees' allocation plans and notices of funding availability. We also interviewed grantee officials about their fund allocation strategies, including how they used HTF funds in conjunction with other funding sources, whether they faced any challenges in using HTF funds, and whether their allocation priorities had changed over time. We used this information to compare grantees' priorities and criteria for using HTF funds, including serving specific populations, ensuring a fair geographic distribution of resources, and limiting award amounts.

Additionally, to illustrate how grantees used HTF funds with other types of funding, we analyzed information from our database of 70 completed HTF-assisted projects. At the project and grantee levels and for all projects combined, we calculated the shares of total project funding that came from the HTF program and from each of several other funding sources. The other funding sources included private funds, state and local funds, LIHTC investor equity, and other federal funds (for example, the Federal Home Loan Bank System's Affordable Housing Program and HUD's Community Development Block Grant and HOME Investment Partnerships programs). For the group of 70 projects, we also determined the frequency with which each funding source was used.

Development Costs of HTF-Assisted Projects

For our third objective, we used our database of 70 completed HTF-assisted projects to calculate the per-unit development cost (total development cost divided by total units) of each project. Because grantees completed the projects at different times, we converted all per-unit costs to 2022 dollars using the Calendar Year Chain-Weighted Gross Domestic Product Price Index to account for inflation.

We used the per-unit development costs of the individual projects to calculate the average per-unit development cost for our entire sample of

70 projects, as well as the average by grantee (except California, which had one completed project), by construction type (new construction or rehabilitation), and by developer type (for-profit or nonprofit). We then analyzed the extent of cost differences among the grantees and between construction and developer types.

To understand the degree to which per-unit development costs were associated with the number of units in a project, we calculated the Pearson's correlation coefficient for these two variables for our overall project sample and for new construction and rehabilitation projects separately. For all of these analyses, we excluded three projects with unusual characteristics: two projects that were outliers because they had 200 or more units and a third project that was acquisition-only.

To determine the composition of costs in our project sample, we used the cost category information in our project database. For each cost category, we summed the costs for all 70 projects and divided that sum by the total development cost of all projects to determine the cost category's percentage share. We also aggregated these percentage shares into broader hard-cost and soft-cost categories.

To contextualize the per-unit development costs of HTF-assisted projects, we used a database of LIHTC project development costs built for a previous GAO report.[3] To develop LIHTC comparison groups, we identified projects in our LIHTC database that were generally similar to HTF-assisted projects in our sample. For each HTF-assisted project, we selected a set of comparison LIHTC projects based on three criteria: (1) located in the same state, (2) same construction type (new construction or rehabilitation), and (3) total number of units within plus or minus 20 of the HTF-assisted project.[4] By applying these three criteria, we were able to construct LIHTC comparison groups for 11 of our HTF-assisted projects (located in Arizona, California, Georgia, New York, and Washington). The LIHTC comparison groups ranged in size from six properties to 167 properties.

For each of the 11 HTF-assisted properties, we compared the per-unit development cost to the distribution of per-unit development costs for the

[3]GAO-18-637.

[4]We relaxed the unit criterion for one very large (200-unit) HTF-assisted project in Georgia in order to create a LIHTC comparison group. Specifically, we included LIHTC projects in the comparison group if they had more than 100 units.

corresponding LIHTC comparison group, adjusting all costs to 2022 dollars using the Calendar Year Chain-Weighted Gross Domestic Product Price Index. Specifically, we calculated the 25th percentile, median, 75th percentile, minimum, and maximum values of the cost distribution for each LIHTC comparison group and determined where within that distribution the corresponding HTF-assisted project fell. Besides the three criteria discussed earlier, our analysis did not account for other project characteristics that can affect development costs and can result in cost differences between properties.

HUD's Oversight of Selected Requirements, Assessment of Fraud Risks, and Reporting on Project Costs and Funding

For our fourth objective, we focused on the following oversight, risk assessment, and reporting issues.

Oversight of HTF allocation plans. We reviewed HUD's policies and procedures for reviewing grantees' HTF allocation plans, including plan templates HUD provides to grantees and checklists HUD uses to review the plans.[5] We also reviewed 2021 allocation plans and supplemental documents from our 12 selected grantees to determine the extent to which the plans addressed regulatory requirements. We also interviewed CPD headquarters and field office officials about their processes for reviewing the plans.

Because HTF grantees can allocate up to 10 percent of their annual grant for eligible administrative and planning activities, we supplemented this work by reviewing grantees' use of HTF funds for those activities and HUD's oversight of administrative and planning costs (see app. II). We reviewed HTF regulations and IDIS controls concerning the maximum amount and allowable uses of HTF funds for administration and planning. For our selected grantees, we analyzed IDIS data to determine the percentage of HTF grant funds from 2016 through 2021 that they allocated to administrative and planning activities. We also collected summary data from the grantees on their HTF administrative and planning expenditures for 2016 through March 1, 2022 to identify common expense categories.

To determine how HUD oversees grantees' use of administrative and planning funds, we spoke with CPD officials about the scope of their

[5]The HTF allocation plan is a required annual plan that describes how the grantee will distribute its HTF funds, including how it will use the funds to address its priority housing needs, what activities may be undertaken with those funds, and how recipients and projects will be selected to receive those funds.

planned in-depth monitoring of grantees and their process for reviewing grantees' single audits (audits of grantees' expenditure of federal awards and of their financial statements).[6] For our selected grantees, we also searched the Federal Audit Clearinghouse for their 2019 and 2020 single audit reports. We reviewed the reports to determine whether the auditors included HTF expenditures in compliance testing and, if so, whether there were any deficiency findings or questioned costs. Finally, we reviewed our past work on HUD's implementation of single audit responsibilities and determined the extent to which HUD acted on our prior recommendations.[7]

Oversight of financial deadlines and project completion requirements. To assess HUD's oversight of these requirements, we reviewed HUD's HTF regulations, guidance to HTF grantees, and reports on grantees' HTF commitments and expenditures. We focused on four requirements for grantees: the 2-year deadline to commit funds, the 5-year deadline to expend funds, the 120-day deadline to mark a project as complete in IDIS after the final drawdown of HTF funds, and the requirement to update total-units information in IDIS at project completion.

We reviewed HUD's IDIS reports and interviewed CPD officials to determine whether HUD had processes and procedures in place to monitor compliance with these requirements and how the agency handled cases of noncompliance. For example, we reviewed HUD's Open Activities reports as of January 31, 2023, to identify any noncompliance with required time frames. We also tested the reliability of IDIS data on total units in completed HTF-assisted projects by comparing them with total-units data we collected from our 12 selected grantees.

Oversight of cost controls. To assess HUD's oversight of cost controls, we reviewed HTF regulations and program guidance to identify controls that can help limit the cost of HTF-assisted projects. These controls included maximum subsidy limits, subsidy layering reviews, and cost certifications.[8] For each of our 12 selected grantees, we reviewed their

[6]Under the Single Audit Act of 1984, as amended, non-federal entities that expend $750,000 or more in federal awards in a fiscal year are required to undergo a single audit or a program specific audit. Pub. L. No. 98-502, 98 Stat. 2327 (codified, as amended, at 31 U.S.C. §§ 7501-7506).

[7]GAO, *Single Audits: Improvements Needed in Selected Agencies' Oversight of Federal Awards*, GAO-17-159 (Washington D.C.: Feb. 16, 2017).

[8]24 C.F.R. §§ 93.300 and 93.404(c)(2)(iii).

policies and procedures regarding these controls and supplemental information on how they implemented the controls.

Because HUD developed the cost certification requirement specifically for the HTF program, we tested compliance with the requirement for all 70 HTF-assisted projects in our sample. HTF regulations state that grantees must include a provision in their written agreements with developers that requires the developers to submit a cost certification for each HTF-assisted project. We reviewed each of the 70 written agreements to determine if they contained the required provision. We also determined whether the grantees received cost certifications for the projects, regardless of whether the written agreements contained the required provision. We interviewed officials from our selected grantees to determine their understanding of the cost certification requirement. We also reviewed HUD's HTF training materials and webinars for grantees to determine the extent to which HUD emphasized the requirement in its communications with grantees.

We also collected information from our selected grantees about any steps they took in addition to HTF regulatory requirements to help control project development costs. Specifically, we reviewed documentation and interviewed grantee officials about cost controls such as imposing fee limits and comparing proposed project budgets with the costs of past projects.

Assessment of fraud risks. To evaluate HUD's assessment of fraud risks in the HTF program, we reviewed the HTF front-end risk assessment (FERA) HUD conducted and documented 2017. We evaluated the fraud-related portions of the FERA document against leading practices in GAO's A Framework for Managing Fraud Risks in Federal Programs (in particular, component 2, "Plan Regular Fraud Risk Assessments and Assess Risks to Determine a Fraud Risk Profile") and similar criteria in HUD's current fraud risk management policy.[9] We spoke with CPD officials about their plans to conduct any additional fraud risk assessments of the HTF program and about their planned implementation of HUD's risk management policy generally.

Reporting on HTF costs and funding. To determine the extent to which HUD reports clear information about the HTF program, we reviewed

[9]GAO, *A Framework for Managing Fraud Risks in Federal Programs*, GAO-15-593SP (Washington, D.C.: July 28, 2015).

HUD's monthly National Production Reports for HTF and the accompanying report explanation document. We evaluated the report and explanation document against criteria in the Office of Management and Budget's Guidelines for Ensuring and Maximizing the Quality, Objectivity, Utility, and Integrity of Information Disseminated by Federal Agencies.[10] We interviewed CPD officials about the contents and format of the report, including changes they made in April 2023 to address some known limitations. We also reviewed a public letter by the National Low-Income Housing Coalition that cited concerns about the report.

We conducted this performance audit from August 2021 to August 2023 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

[10]Office of Management and Budget, *Guidelines for Ensuring and Maximizing the Quality, Objectivity, Utility, and Integrity of Information Disseminated by Federal Agencies; Republication*, 67 Fed. Reg. 8452 (Feb. 22, 2002).

Appendix II: Use of Housing Trust Fund Grants for Administrative and Planning Costs

Housing Trust Fund (HTF) grantees can allocate up to 10 percent of their annual grant for eligible administrative and planning costs.[1] Eligible costs include those for overall program management, monitoring and evaluation, staff and overhead related to administering HTF, and preparation of strategic plans for submission to the Department of Housing and Urban Development (HUD). HUD requires grantees to maintain records documenting compliance with the 10 percent allowance for administrative and planning costs.[2]

HUD has an automated control to prevent grantees from using more than 10 percent of their HTF funds for administrative and planning purposes. HUD's Integrated Disbursement and Information System (IDIS), which grantees use to allocate and draw down funds for eligible activities, automatically allocates 10 percent of each grantee's annual grant to a subfund for administrative and planning activities.[3] Once grantees set up these activities in IDIS, they can draw down money from the subfund, but IDIS does not allow them to draw down more than the allocated amount. Among the 12 grantees we selected for review, types of administrative and planning expenses included salary, travel, legal fees, and printing costs.[4]

According to HUD, grantees are able to transfer money from the administration subfund to other types of activities, and some grantees have chosen to do this. Some grantees have used less than 10 percent of their HTF grant funds for administrative and planning costs, leaving more funds available for other eligible activities. Grantees share their intention to do so in their annual action plans and by reducing the amount of money in the IDIS administration subfund.[5] According to IDIS data as of

[1]24 C.F.R. § 93.202.

[2]24 C.F.R. § 93.407(a)(1).

[3]IDIS is the system used by HUD's Office of Community Planning and Development (CPD) to manage the disbursement of grant funds and to record information on CPD-funded activities.

[4]We selected a nongeneralizable sample of 12 grantees to obtain diversity in geography, type of housing market, HTF allocation size, and number of completed projects. Our selected grantees were the state agencies responsible for administering the HTF program in Arizona, California, Georgia, Maine, Massachusetts, Minnesota, Mississippi, New York, North Dakota, Tennessee, Utah, and Washington. We requested summary data from the grantees on their HTF administrative and planning expenditures for 2016 through March 1, 2022.

[5]In their annual action plans, grantees describe their method for distributing funds for multiple HUD programs, including HTF.

March 2022, nine of our 12 grantees had allocated no funds to the administration subfund in at least 1 year from 2016 through 2021. Additionally, four grantees allocated less than 10 percent in at least 1 year during that same period. Some grantees said they decreased or eliminated the allocation for administrative and planning costs because they had other resources to cover these costs. They said that by not using the full 10 percent allocation, they could use more of their HTF funds for activities that directly benefit extremely low-income households.

HUD has not directly examined grantees' use of HTF administrative and planning funds, but it plans to do so. HUD officials said that Office of Community Planning and Development (CPD) field offices will begin formal monitoring of HTF grantees in fiscal year 2024 and that this effort will include reviewing the eligibility of grantees' administrative and planning expenses.

HUD also has some oversight of grantees' use of administrative and planning funds through single audits (audits of grantees' expenditure of federal awards and of their financial statements).[6] Under the Single Audit Act of 1984, as amended, federal award recipients that expend $750,000 or more in federal awards in a fiscal year are required to undergo a single audit.[7] Single audits can identify deficiencies in the recipient's compliance with laws, regulations, contracts, or grant agreements and in its financial management and internal control systems. Federal awarding agencies are responsible for ensuring that grantees complete and submit single audit reports and for following up on audit findings to provide reasonable assurance that award recipients take timely and appropriate actions to correct any identified deficiencies.[8] Correcting such deficiencies can help

[6]Federal awards are federal financial assistance and cost-reimbursement contracts that nonfederal entities receive directly from federal awarding agencies or indirectly from pass-through entities. Federal financial assistance is assistance that nonfederal entities receive or administer in the form of grants, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance. 31 U.S.C. § 7501(a)(4) and (5).

[7]31 U.S.C. §§ 7501-7506.

[8]31 U.S.C. § 7502(f)(1); 2 C.F.R. § 200.513(c)(3).

reasonably assure the effective use of funds and reduce improper payments.[9]

Our review of single audit reports for 2019 and 2020 for our 12 selected grantees identified reports about four grantees that included HTF expenditures in the compliance testing.[10] None of the reports contained reportable findings or questioned costs about HTF.

CPD's implementation of single audit requirements was beyond the scope of our review. However, in a February 2017 report, we found that CPD had effectively designed policies and procedures to reasonably assure that award recipients completed and submitted single audit reports in a timely manner, but that weaknesses existed in CPD's policies and procedures for following up on and analyzing single audit findings.[11] We made two recommendations to CPD: (1) revise policies and procedures to reasonably assure that management decisions on single audit findings contain the required elements and are issued timely and (2) design and implement policies and procedures for identifying and managing high-risk and recurring single audit findings using a risk-based approach.

Although CPD disagreed with both recommendations, we closed the first one as implemented based on CPD training efforts and clarifying guidance on management decisions. As of June 2023, our second recommendation remained unimplemented. CPD has pointed to policies and procedures it has developed to incorporate compliance with single

[9]An improper payment is defined as any federal payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. 31 U.S.C. § 3351.

[10]Single auditors must determine whether a grantee has complied with federal statutes, regulations, and the terms and conditions of federal awards that may have a direct and material effect on each of the grantee's major federal programs. To determine a grantee's major programs, auditors must use a risk-based approach set forth in Office of Management and Budget regulations that accounts for the size of program awards, among other factors. As a result, the portions of a grantee's federal award expenditures that are not determined to be from major programs may not be subject to compliance testing by a single audit in any given year. *See* 2 C.F.R. § 200.501. Our review of the 2019 and 2020 single audit reports for the New York Housing Finance Agency found that the audits did not consider HTF expenditures in those years either in determining major programs or in compliance testing. In response, a New York state official said the single audits for both years will need to be restated to reflect HTF expenditures.

[11]GAO, *Single Audits: Improvements Needed in Selected Agencies' Oversight of Federal Awards*, GAO-17-159 (Washington D.C.: Feb. 16, 2017).

audit requirements and any single audit deficiencies in determining grantees' risk level for monitoring purposes.[12] However, these policies and procedures do not directly address the purpose of our recommendation, which is to identify and manage high-risk and recurring single audit findings that may span multiple grantees and potentially represent emerging or persistent issues.

[12]The results of the risk analysis provide the basis for developing the field office's monitoring work plan and individual grantee monitoring strategies. The monitoring plan includes identifying which grantees will be monitored, the method of monitoring (on-site or remote), programs and areas to be monitored, areas of technical assistance and training needed, resources needed, and projected time frames. Department of Housing and Urban Development, *Implementing Risk Analyses for Monitoring Community Planning and Development Grant Programs in FY 2023*, CPD-22-11 (Washington, D.C.: Oct. 7, 2022).

Appendix III: Federal Housing Finance Agency's Oversight of Enterprise Compliance with Set-Aside Requirements

Fannie Mae and Freddie Mac—collectively, the government-sponsored enterprises (enterprises)—are required to annually set aside an amount equal to 4.2 basis points (0.042 percent) for each dollar of the unpaid principal balance of their total new business purchases to support two affordable housing programs.[1] Specifically, 65 percent of the funds go to the Housing Trust Fund (HTF), which is administered by the Department of Housing and Urban Development, and 35 percent go to the Capital Magnet Fund, which is administered by the Department of the Treasury. By statute, the enterprises are prohibited from redirecting or passing through the cost of this set-aside to the originators of mortgages purchased or securitized by the enterprises, such as through increased charges or fees.[2] The enterprises' regulator, the Federal Housing Finance Agency (FHFA) is required to enforce this prohibition.[3]

On March 26, 2015, FHFA issued a final rule to implement this requirement.[4] Additionally, in a March 2015 letter to the enterprises, FHFA's General Counsel underscored the prohibition against passing on the costs of the set-asides through increased charges or fees to mortgage originators.

The annual process for determining compliance with the prohibition involves several steps (see fig. 20). First, FHFA notifies the enterprises of their set-aside certification and transfer responsibilities. Second, the enterprises provide written certifications stating that they have not raised their guarantee fees or imposed other charges or fees on mortgage originators for the purpose of covering the costs of the HTF set-aside. These certifications are signed by high-level executives responsible for single-family and multifamily financing, and include a short, high-level description of the process for obtaining the certification. Third,

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[1]The enterprises are congressionally chartered, for-profit, shareholder-owned corporations that purchase mortgages meeting certain criteria. They package the mortgages into securities that are sold to investors and, in exchange for a fee, guarantee the timely payment of interest and principal on the securities they issue. The enterprises have been in federal conservatorships since 2008. Due to concerns about their financial condition, the enterprises' regulator, the Federal Housing Finance Agency, suspended the enterprises' set-asides until January 1, 2015. Pub. L. No. 110-289, 122 Stat. 2711 (codified at 12 U.S.C. § 4567).

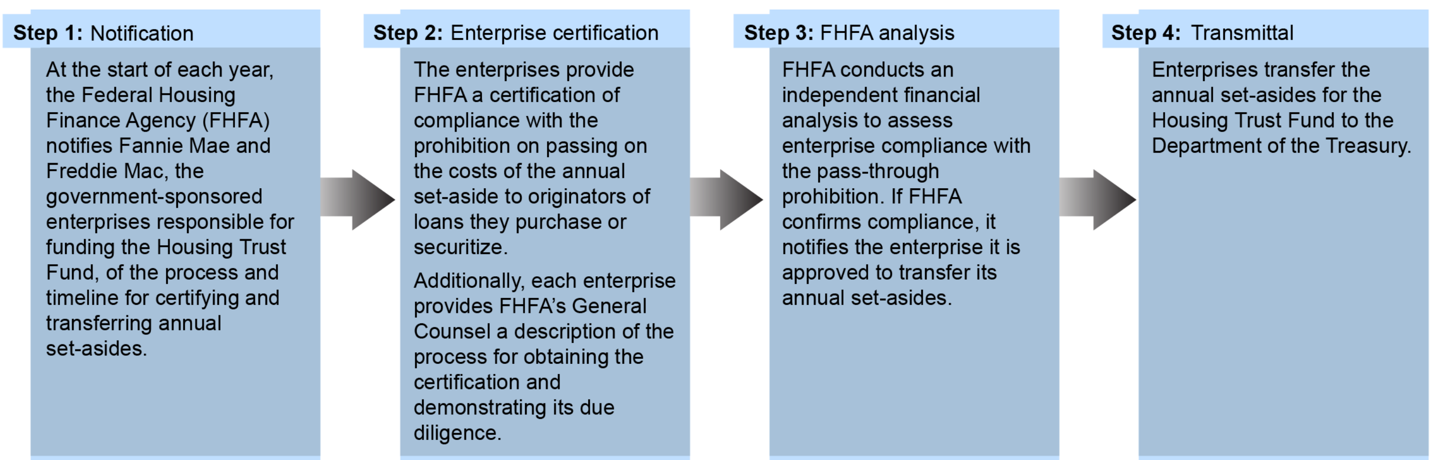
[2]12 U.S.C. § 4567(c).The enterprises' guarantee fees are intended to cover the credit risk and other administrative and operational costs that the enterprises incur when they acquire single-family loans from sellers.

[3]12 U.S.C. § 4567(d).

[4]79 Fed. Reg. 74595 (Dec. 16, 2014) and 80 Fed. Reg. 15885 (Mar. 26, 2015).

independent from the enterprise certification process, FHFA reviews the enterprises' financial data to assess compliance with the prohibition and documents the results in a memorandum. The analysis considers whether any changes in the guarantee fees and other fees the enterprises charge mortgage originators are consistent with changes in the credit characteristics of the loans the enterprises purchase and with FHFA requirements that affect the fees. Finally, if FHFA's assessment indicates compliance and the enterprises have provided their certifications, FHFA notifies the enterprises that they can transfer their HTF set-asides to the Department of the Treasury.

Figure 20: Key Steps in FHFA's Oversight of the Prohibition on the Enterprises Passing on Housing Trust Fund Costs



Source: GAO presentation of FHFA information. | GAO-23-105370

FHFA has followed this process every year beginning with the first set-aside in 2015 and has not identified any noncompliance by the enterprises. FHFA's Office of Inspector General found that FHFA implemented the process for the 2015–2017 set-asides.[5] Similarly, we found that FHFA implemented the process for the 2018–2021 set-asides.

[5]Federal Housing Finance Agency, Office of Inspector General, *Audit of FHFA's Oversight of the Enterprises' Affordable Housing Set-Asides and Allocations* (Washington, D.C.: Sept. 24, 2018).

Appendix IV: GAO Contact and Staff Acknowledgments

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In addition to the contact named above, Steve Westley (Assistant Director), Anar Jessani (Analyst in Charge), Christophe Beaumier, Marcia Carlsen, Dahlia Darwiche, Heather Dunahoo, William Harrison, Jill Lacey, Alberto Lopez, Sandra Mansour, Yann Panassie, Jason Rodriguez Masi, Jennifer Schwartz, and Jena Sinkfield made key contributions to this report.

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