DOCUMENT RESUME

05708 - [B1246208] ~~Restricted~~ RELEASED

Potential Impacts of the Department of Housing and Urban Development's Consolidation of Multifamily Functions. GGD-78-69; B-191694. April 25, 1978. 4 pp. + enclosure (11 pp.).

Report to Sen. Warren G. Magnuson; Sen. Henry M. Jackson; by William J. Anderson (for Victor L. Lowe, Director, General Government Div.).

Issue Area: Intergovernmental Policies and Fiscal Relations: Consolidation/Reorganization of Federal Programs and Agencies (405).
Contact: General Government Div.
Budget Function: General Government: Executive Direction and Management (802).
Organization Concerned: Department of Housing and Urban Development.
Congressional Relevance: Sen. Warren G. Magnuson; Sen. Henry M. Jackson.

An analysis of the impact of Federal agency reorganizations on the State of Washington and other States in Federal region X indicated that the Department of Housing and Urban Development's (HUD's) planned consolidation of multifamily functions was causing the most concern at the local level. The HUD reorganization was designed to deal with the following problems: unclear assistant secretary authority and accountability; lack of clear, consistent, and timely headquarters' statements of policies, objectives, and interpretations to the field; processing delays from duplicative regional office participation; inadequate technical assistance at area offices; and the excessive overhead cost of the field office structure. Consolidation was predicted by local officials to have an adverse impact on the delivery of services. Developers added that increased distances between them and HUD offices would increase their costs and could result in their refusing to do business with HUD. HUD and State officials foresaw a deterioration of HUD's project management capabilities because of increased distances and reduced project monitoring. Developers and sponsors feared that consolidations would result in a loss of HUD familiarity with local housing needs and conditions, poor project selection, and construction inspection delays. HUD central office officials indicated that increased travel and staff stationed at outlying locations were available to prevent project management deterioration and were critical of too much local familiarity. (RRS)

6208

UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

RELEASED 5/5/78

GENERAL GOVERNMENT DIVISION

APR 25 1978

B-191694

The Honorable Warren G. Magnuson
The Honorable Henry M. Jackson
United States Senate

Dear Senators Magnuson and Jackson:

In your letter of January 16, 1978, you requested that we analyze the impact of Federal agency reorganizations on the State of Washington and other States in Federal region X. You stated that certain reorganizations pointed toward centralization in Washington, D.C., and were concerned about their rationale and interrelationship with presidential plans for executive branch reorganization. You expressed particular concern about the impact these reorganizations would have on intergovernmental working relationships; the delivery of program services to private citizens and public agencies at the State, regional, and local levels; and on Federal employment levels. You asked us to review the reorganization plans and actions of a number of Federal agencies.

During an interim briefing on March 23, 1978, we advised your staff that, of the various reorganizations reviewed, the Department of Housing and Urban Development's (HUD) planned consolidation of multifamily functions seemed to be causing the most concern at the local level. HUD plans to move multifamily insurance functions, responsibilities, and people by July 1, 1978, with some as early as May 15, 1978. Because of your interest in these moves, we agreed to provide this report on the potential impact of HUD's consolidation of multifamily functions and on related cost savings. We will subsequently report to you on the impact of the other Federal agency reorganizations.

The overall HUD reorganization was designed to deal with the following problems.

GGD-78-69

--Unclear assistant secretary authority and accountability.

--Lack of clear, consistent, and timely headquarters' statements of policies, objectives, and interpretations to the field.

--Processing delays from duplicative regional office participation in housing operations.

--Inadequate technical assistance at area offices.

--Excessive overhead cost of the field office structure.

A recent GAO report--"Department of Housing and Urban Development Reorganization Plans: Some Accomplishments But More Needed," FPCD-78-33, B-114860, April 10, 1978--explored in considerable detail how the HUD reorganization plan proposed to deal with these problems and whether the planned changes could be expected to correct them. We have provided a copy of this report as Enclosure II.

As you requested, we focused on the potential impact on service delivery of the HUD consolidation of multifamily functions in the western United States and on HUD's projected cost savings to HUD and industry. We did not study the overall HUD reorganization or its impacts on single family and block grant programs. Nor did we study other impacts which HUD identified as benefits of the consolidation. These include:

--improved efficiency, allowing HUD to continue program service delivery with a smaller staffing increase than their work measurement system would call for (valued by HUD at $2.4 million per year in its estimate of cost savings resulting from the reorganization), and

--improved coordination of multifamily housing with community planning and development (CPD) by placing CPD and multifamily housing under a common management (not given a dollar value by HUD in its estimate of cost savings).

We also did not review other aspects of the reorganization discussed in the prior GAO report cited above.

In studying the potential impact of the HUD consolidation of multifamily housing, we talked with HUD officials at the central office in Washington, D.C., and at HUD offices in regions VII, VIII, IX and X. We also met with developers, mortgage companies, nonprofit sponsors, public accountants, architects, and government housing authorities in nine western States. HUD central office officials told us that the testimony of local HUD officials was likely to be biased because of their personal concern over the reorganization. In situations such as this, all parties tend to have strongly held views and may overstate their positions. The views of those affected may be somewhat overstated. We believe, nevertheless, that their concerns merit consideration.

Many of the people we interviewed predicted that consolidation would have an adverse impact on the delivery of services. Some developers told us that added distances between them and HUD offices would increase their costs and could result in their refusing to do business with HUD. HUD central office officials said any added costs would not be significant enough to force most developers out of HUD programs; in fact they expect that the overall reorganization will result in savings to developers.

HUD field officials, project management officials and State housing officials foresee a deterioration of HUD's project management capabilities because of increased distances and reduced project monitoring. HUD central office officials told us that project management would not deteriorate because various techniques, such as increased travel and stationing staff at outlying locations, were available to prevent such deterioration.

Many developers, sponsors and others also fear that consolidations will result in a loss of HUD familiarity with local multifamily housing needs and conditions, poor project selections, and construction inspection delays. HUD central office officials, however, were critical of too much local familiarity, citing the need for greater independence and objectivity.

HUD's projected cost savings resulting from the reorganization are not well supported. HUD officials told us, however, that the reorganization was designed to deal with the problems discussed above and that cost savings were not central to the reorganization. However, HUD has provided cost savings estimates as part of their justification of the reorganization to Members of Congress. Cost savings represent HUD's valuation of the achievement of reorganization goals.

Enclosure I summarizes the concerns of those to whom we talked regarding the potential problems perceived by them to result from the consolidation of HUD's multifamily functions. These concerns cannot be fully validated because the consolidation has not yet occurred. Whether or not the concerns at the local level are as valid and significant as indicated to us could best be judged after actual implementation and a reasonable period of operation under the new organization. While we support the overall goals of HUD's reorganization directed toward streamlining HUD's operations, we believe that as any consolidations take place, HUD should carefully monitor program services in areas no longer served by local multifamily offices and be prepared to take remedial actions should deteriorations in program services occur.

Enclosure I also discusses in detail HUD's estimate of cost savings associated with the reorganization. At your request, we did not solicit written HUD comments. At the conclusion of our work, we held a conference with HUD central office officials, and their comments were considered in preparing the report.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of the report until 10 days from the date of the report. At that time we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,

Victor L. Lowe
Director

Enclosures

POTENTIAL IMPACTS OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT'S CONSOLIDATION OF MULTIFAMILY FUNCTIONS

On October 13, 1977, the Secretary of Housing and Urban Development (HUD) announced a major streamlining of HUD designed to institute a number of management improvements. The plan would reduce the role and staffing of regional offices, enhance the authority of assistant secretaries, upgrade various field offices, downgrade other field offices, and consolidate multifamily housing functions.

HUD expects the reorganization, including the consolidation of multifamily housing, to meet certain internal needs and to improve service delivery. HUD plans to

--reduce the overhead of the Department's field structure;

--eliminate regional offices from day-to-day program operations;

--clarify the authority and responsibilities of assistant secretaries;

--improve the clarity, consistency, and timeliness of central office statements of policy, objectives, and interpretations;

--improve technical assistance at area offices; and

--improve coordination of housing and community planning and development programs.

HUD maintains that greater efficiency will be achieved by consolidating multifamily specialists and that project applications will be processed faster. While maintaining that cost savings were not central to the needs for reorganization, HUD estimated that substantial savings would occur. These estimated savings are discussed on page 13.

HUD personnel levels are to increase at both the central office and field office levels; however, personnel levels in region X are to decrease by 29, and in Washington State by 10.

Nationally, multifamily functions are to be consolidated from 77 offices to 46 offices. Office consolidation decisions were generally based on an analysis of the workload at each location. Retention of the multifamily function at a given office required one of the following: 30 multifamily projects in the pipeline as of March 31, 1977; 300 Community Development Block Grant applications or preapplications as of March 31, 1977; or 90 entitlement or discretionary Community Development Block Grants processed in fiscal year 1976.

HUD did not uniformly apply the criteria to all offices. Some offices did not meet the workload criteria but are to retain multifamily functions. Further discussion of this matter can be found in Enclosure II, page 9.

LOCAL HUD OFFICIALS AND INDUSTRY REPRESENTATIVES SEE POTENTIAL ADVERSE IMPACT ON SERVICE DELIVERY

As a result of the multifamily consolidation, distances between HUD multifamily offices will be significantly increased, particularly in some areas of the western United States. HUD field officials, developers, mortgage bankers, and other interested parties told us that the increased distances would have adverse impacts on developers and others involved in HUD multifamily projects as well as on HUD's management capability. In 17 multifamily consolidations, distances between HUD multifamily offices will be increased to over 200 miles. Fifteen of these instances are west of the Mississippi, where a 54 percent reduction in offices offering multifamily functions is to take place. In 5 of these consolidations the distance between offices offering multifamily services will be greater than 500 miles. In one large group of States--Idaho, Montana, North Dakota, South Dakota, Wyoming, Colorado, Utah, Nevada, Arizona, and New Mexico--the number of HUD offices with multifamily functions will drop from 10 to one. In adjacent eastern Washington and eastern Oregon, the only multifamily function (Spokane) is to be transferred to Seattle. The maps on pages 8 and 9 show HUD offices in this western area with multifamily functions both before and after the planned consolidation.

As a result of the consolidations, some developers will have to travel much longer distances to reach the nearest HUD multifamily office. For example, developers and others who now deal with the HUD office in Helena, Montana, or Fargo, North Dakota, will have to travel to Denver, Colorado. The distance from Helena to Denver is 780 miles; from Fargo to Denver, 857 miles. Similarly, those who now deal with the HUD office in Albuquerque, New Mexico, will have to travel to Dallas, Texas, 638 miles from Albuquerque. These distances are equivalent to requiring developers and others in Chicago, Illinois, or Bangor, Maine, to travel to Washington, D.C., to do business with a HUD multifamily office. The 420 mile distance between Boise, Idaho, and Portland, Oregon, although these States are adjacent, is roughly equivalent to that between Cincinnati, Ohio, and Washington, D.C. The intra-state distance from Spokane, Washington, to Seattle, Washington--287 miles--is roughly equivalent to the distance between Boston, Massachusetts, and Philadelphia, Pennsylvania.

HUD officials told us multifamily functions were retained in Anchorage and Honolulu because of distance. However, HUD central office officials did not consider the impact of distance to be sufficient to retain multifamily functions elsewhere in the country.

<u>Some developers say they will drop out</u>

Some developers said they will not continue to do business with HUD after the consolidations because of increased distances. HUD field officials estimated that before construction of a multifamily project is started, a developer and others involved in the project (such as the architect, attorney, accountant, and mortgagee) are required to make at least 20 one-person trips to the HUD multifamily office. Using these estimates, a Montana developer, for example, would spend a total of $3,300 for plane transportation between Helena and Denver. A Spokane developer would spend about $2,400 in trips to Seattle. Additional meetings are required during construction (up to three a week according to one developer) and at closing. Transportation costs represent only a portion of the increased costs. The cost to developers of staff time spent in travel (estimated between $130 and $800 daily a person) could be substantial. Professionals, such as architects, attorneys, and public accoutants said added distances resulting from the consolidations will increase their fees.

Half of the 44 developers with whom we met told us that, because of added distances and related costs, they either would not continue to do business with HUD or were doubtful of continuing. For example, although currently sponsoring five projects, Farmers Home Administration officials in Albuquerque, New Mexico, told us they would no longer deal with HUD because of increased travel.

Generally, the developers willing to continue dealing with HUD were those already involved with the larger HUD projects. Some said they were willing to continue only if the increased costs were recovered.

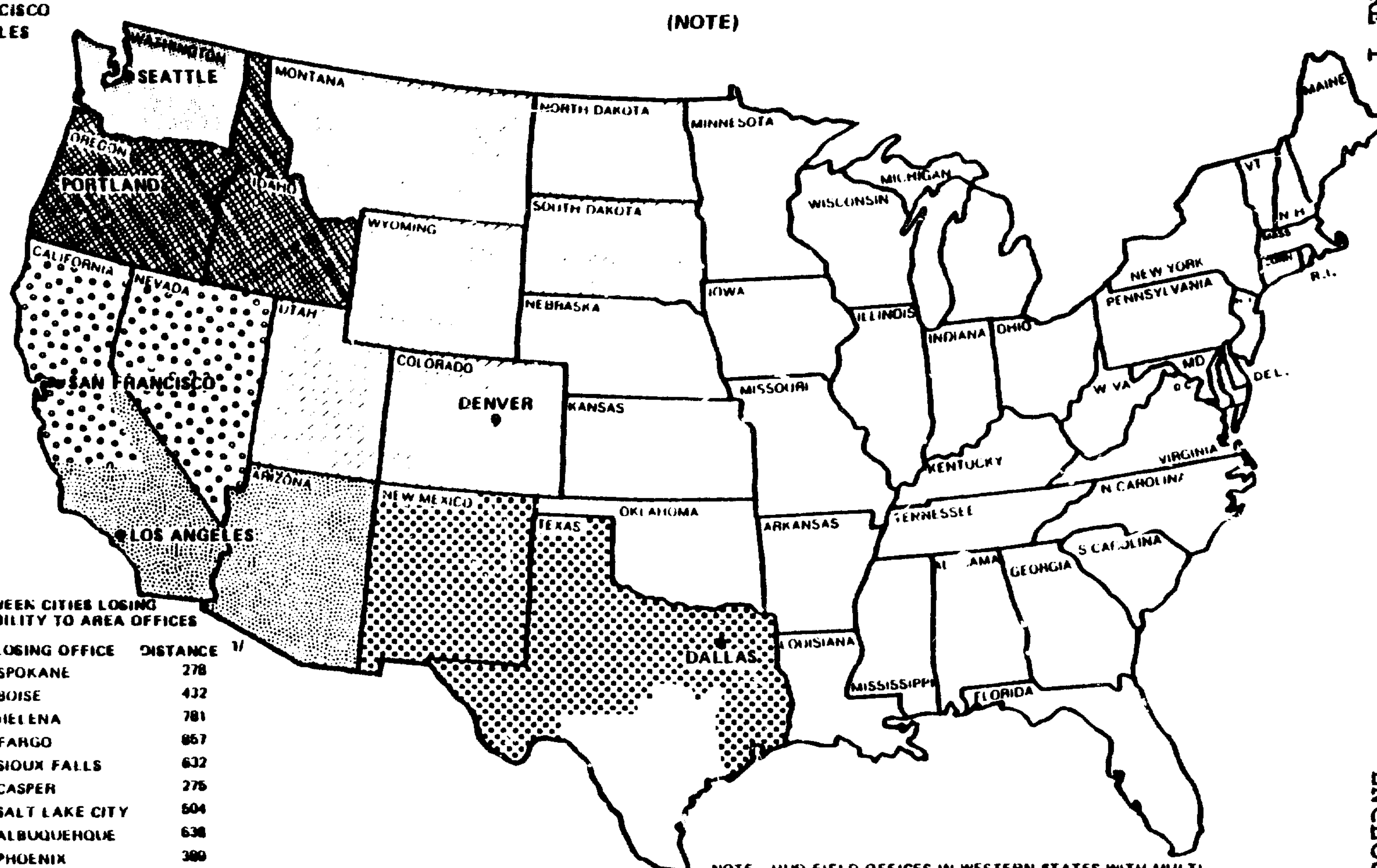
ENCLOSURE I

HUD FIELD OFFICES IN WESTERN STATES WITH MULTI-FAMILY CAPABILITY BEFORE REORGANIZATION

HUD FIELD OFFICES IN WESTERN STATES WITH MULTI-FAMILY CAPABILITY AFTER REORGANIZATION (NOTE)

HUD AREA OFFICES MULTI FAMILY RESPONSIBILITY AFTER REORGANIZATION

- SEATTLE
- PORTLAND
- DENVER
- SAN FRANCISCO
- LOS ANGELES
- DALLAS



DISTANCES BETWEEN CITIES LOSING MULTI FAMILY CAPABILITY TO AREA OFFICES

AREA OFFICE	LOSING OFFICE	DISTANCE 1/
SEATTLE	SPOKANE	278
PORTLAND	BOISE	432
DENVER	HELENA	781
DENVER	FARGO	867
DENVER	SIOUX FALLS	632
DENVER	CASPER	275
DENVER	SALT LAKE CITY	504
DALLAS	ALBUQUERQUE	638
LOS ANGELES	PHOENIX	380
SAN FRANCISCO	RENO	229

1/ STANDARD HIGHWAY MILEAGE GUIDE

NOTE HUD FIELD OFFICES IN WESTERN STATES WITH MULTI-FAMILY CAPABILITY AFTER REORGANIZATION ARE AREA OFFICES MAP DOES NOT INCLUDE THE SACRAMENTO SERVICE OFFICE WHICH HAS MULTI-FAMILY CAPABILITY BECAUSE IT REPORTS TO THE SAN FRANCISCO AREA OFFICE

ENCLOSURE I

Developers, both large and small, HUD field officials and other public officials told us that smaller and minority developers who are normally involved with smaller projects were more likely to discontinue HUD work. They said, as a result, smaller projects may not get built.

One HUD field official went so far as to predict the demise of HUD multifamily programs in rural areas. This potential result would seem to parallel the recommendation of HUD's Task Force on Housing Costs that more emphasis be given to the construction of large scale developments.

Mortgage company officials told us they would stop participating in HUD projects rather than do business with far-off HUD offices, especially for small projects. In Spokane, an official of one mortgage bank said that the movement of the multifamily function to Seattle will all but kill insured multifamily loans east of the Cascade Mountains (in Washington State).

HUD central office officials said, however, that any added costs would not be significant enough to force most developers out of HUD programs, and expect that the overall reorganization will result in savings to developers.

Concerns over reduced quality and speed of HUD operations in planning and construction phases

Many developers, sponsors, and others told us the consolidations would reduce HUD familiarity with local conditions and multifamily housing needs. They feared this would reduce the speed and quality of HUD multifamily operations during the planning and construction phases. They said it was essential for appraisers, for example, to be very familiar with local conditions and housing values. They cited numerous examples of distant offices' making serious mistakes in the past because of the lack of sufficient local knowledge. For example, an Albuquerque, New Mexico, housing official noted instances where the Dallas office, because of lack of familiarity with New Mexico conditions, had funded projects in New Mexico for which there was no economic base, had approved designs not compatible with climatic conditions, and had approved sites for which the cost of construction grossly exceeded the improved value.

HUD central office officials, however, were critical of too much local familiarity, citing the need for greater independence and objectivity at local HUD offices.

Developers and others told us they feared delayed progress payments during construction because of the multifamily consolidation. For example, one HUD multifamily employee is to be stationed in Helena, Montana, to perform required monthly site inspections of projects under construction in Montana. Currently this individual would be required to visit 16 construction locations monthly plus other visits to project locations. Developers fear delayed inspection visits could delay progress payments from mortgage companies and result in lost discounts to developers due to delayed payments to suppliers. One Albuquerque developer feared a $2,000 loss in prompt payment discounts during construction of one project due to delays in inspections and mortgagee progress payments. HUD central office officials, however, told us staff would travel as needed to meet inspection needs.

Concern over possible deterioration of HUD monitoring and project management

HUD field officials and firms which manage HUD projects expressed concerns over the adequacy of multifamily project management activities after the consolidations. An August 1977 HUD task force report on multifamily projects concluded that HUD had already been experiencing irregular and incomplete physical reviews and inadequate on-site project management of tenant screening, rent collection, and maintenance that was attributed in part to the lack of effective HUD oversight. HUD field officials believe the consolidation could cause additional problems in project oversight.

After construction, HUD-insured multifamily projects enter a period--usually 40 years--during which HUD monitors project activity and financial condition and reviews and approves rent increases and tenant eligibility. HUD visits projects for tenant changes, rent increases, major repairs, fire damage, equipment purchases, manager training and tenant complaints, including equal opportunity complaints. HUD regulations also require annual inspections of subsidized projects and inspections of non-subsidized projects every three years.

The following table shows for each location we visited the number of projects under management and the number of residence units represented, as of April 1978.

HUD office	Projects under management	Residence units under management
Albuquerque	205	16,102
Spokane	126	5,960
Sioux Falls	103	4,258
Helena	83	4,835

About 61 percent of these projects are subsidized and thus require visits at least once a year. HUD does not presently plan to station housing officials in region VIII outside of Denver to monitor project management. In region IX, however, the Los Angeles office plans to station six staff members in Phoenix, Arizona, to handle about 150 projects in Arizona. The acting director of the Phoenix office said that the assignment of staff in Phoenix was done to permit effective management. The Dallas office plans to station personnel in Albuquerque to conduct management reviews of insured multifamily housing, but management review of the 116 low-rent projects run by Public Housing Authorities is to be performed by Dallas based personnel.

HUD field officials, project management officials, and State housing officials expressed concerns that housing projects could not be adequately managed at the distances created by the consolidations. A HUD field official in region VIII told us that numerous project defaults could be expected after the consolidation because of inadequate project management.

Specific concerns were voiced with regard to:

--difficulty in submitting tenant complaints and receiving timely HUD response,

--delays in receiving approval of rent increases or equipment modifications,

--slower response to tenant complaints,

--fewer HUD management visits,

--delays in required inspection, with consequent delays in subsidized-tenant occupancy.

HUD central office officials stated that project management would not deteriorate because staff would travel sufficiently to provide needed services and staff might even be assigned to outlying locations.

HUD's estimate of the annual increase in travel costs--$200,000 nationwide--appears low to support the additional travel required by the 31 consolidations. Using 1977 travel and site visit information from files in the Sioux Falls, South Dakota, HUD office, we estimated that providing the same level of service from Denver to South Dakota alone would cost about $33,000 more per year in travel costs than from Sioux Falls. In Helena, Montana, HUD housing officials said required annual management reviews on 67 projects will cost as much as 10 times more for transportation and per diem after the consolidation than at present. And in Albuquerque, New Mexico, HUD officials estimated that required HUD preconstruction visits, construction inspections, and management visits would greatly increase travel costs in that area.

HUD'S COST SAVINGS PROJECTIONS

Although cost savings was not the major purpose for the HUD reorganization, HUD estimates that total annual savings of about $142 million to developers and to HUD will occur. Most of the projected savings are attributed to the multifamily consolidations, as shown on page 14.

Most of HUD's estimated savings would accrue to industry and depend on a projected 96-day decrease in the overall calendar time required to process multifamily applications. HUD officials indicated that the time savings would reduce HUD's present processing time by about 38 percent. HUD officials were not able to substantiate their claim that the reduction in HUD processing time would occur. HUD central office officials said that they believe the decrease in processing time will occur and that a target established by the work measurement system will be achieved. They agreed, however, that this belief was based solely on management judgment. We requested but were not provided documentation supporting the estimated time savings.

HUD field personnel, as well as most developers, did not agree that any processing time savings could be achieved. Of the developers and sponsors with whom we spoke, only two said they could foresee any speed-up. Mortgage companies' officers, architects, accountants, and attorneys we interviewed anticipated no processing speed-up after the consolidation, and many thought it would take longer. In South Dakota, developers compared the HUD reorganization with a past move of Veterans Administration (VA) housing functions into Minneapolis. They said this consolidation caused extended delays and inconvenience, and some said they no longer work with VA.

HUD PROJECTION OF REORGANIZATION'S ANNUAL COST SAVINGS

	PROJECTED ANNUAL SAVINGS (in millions)		
	To Industry	To HUD	Total
ATTRIBUTABLE DIRECTLY TO MULTIFAMILY CONSOLIDATIONS			
Faster application processing	$100.5	$ 3.3	$103.8
More efficient application processing		2.4	2.4
Delays in replacing personnel		2.9	2.9
Personnel grade reductions		1.4	1.4
Reduced computer operations and administrative services		0.6	0.6
	100.5	10.6	111.1 (78%)
ATTRIBUTABLE TO FACTORS NOT DIRECTLY RELATED TO THE CONSOLIDATIONS			
Faster processing of single family subdivision applications	12.8		12.8
Better multifamily project monitoring		12.6	12.6
Faster funds allocation		5.5	5.5
	12.8	18.1	30.9 (22%)
TOTAL PROJECTED SAVINGS	$113.3 (80%)	$28.7 (20%)	$142.0 (100%)

HUD central office officials were not able to document that overall time required to reach construction would be reduced even if their claimed reduction in HUD processing time did occur. Non-HUD factors, such as environmental impact statements and local government approvals, could limit the benefit of a HUD speed-up. The Chairman of the HUD Task Force on Housing Costs told us that local government processing was at least as important to the preconstruction time required as was HUD processing time. He said that without a complementary improvement in local government processing times, significant time savings would be impossible.

Finally, we questioned to what extent any HUD speed up will be due to the consolidations of multifamily functions. The Chairman of the HUD Task Force on Housing Costs and a regional HUD official both told us that the great bulk of any time savings would come from management improvements, not from the consolidations.

HUD used the concept of inflation-avoidance to calculate the dollar value of reducing the time required to process applications. Inflation-avoidance accounts for about 86 percent of HUD's total projected savings. Questions can be raised about the validity of this approach in valuing savings attributable to accelerated processing time. Economists generally do not believe that avoided inflation is a true economic savings because inflated costs would be paid with inflated dollars. Clearly there are benefits from a reduction in application processing time if construction is thereby initiated sooner. These benefits would exist even if prices were stable. Beginning construction sooner would save developers interest costs incurred for expenditures made before the start of project construction. Additionally, most would agree that there are benefits to society in obtaining needed housing at an earlier date.

Savings due to other factors

About $31 million of HUD's total projected savings of about $142 million is not attributable to the multifamily consolidation feature of the reorganization.

About $12.6 million of savings was estimated due to better project monitoring and fewer defaults of insured mortgages after the reorganization. Better monitoring of projects does not appear to be dependent upon the multifamily consolidation, and we were told, could actually be made more difficult by greater distances between HUD's offices and projects.

Moreover, this savings may be difficult to achieve considering losses of personnel with specialty skills, transfer of employees into different skill categories, and reduced employee morale resulting from grade reductions.

Another $5.5 million in savings was attributable to quicker processing of contract authority to field offices by avoiding allocations by regional offices. HUD officials agreed that this savings was not contingent on consolidating multifamily functions.

Similarly, the Deputy Director, of HUD's Office of Technical Support told us he estimates savings of $12.8 million from faster processing of applications for single-family housing subdivisions was not related to multifamily office consolidations but was instead a result of other management improvement actions taken as part of the overall HUD reorganization.

Additionally, HUD projected $2.9 million in savings from delayed hirings to fill vacancies created by those who leave HUD because of the consolidation. These projected savings are not valid because the value of the services is also lost unless, of course, HUD is overstaffed to the extent of the $2.9 million claimed.

Thus, questions exist about all of HUD's projected savings except some which we did not analyze--$1.4 million for grade reductions; $568,000 for ADP savings; and $2.4 million for certain staff time reductions.