



U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

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November 21, 2012

Honorable Bill Haslam
Governor, State of Tennessee
State Capitol
Nashville, TN 37243-0001

Dear Governor Haslam:

**SUBJECT: Consolidated End-of-Year Review - Program Year (PY) 2011
State of Tennessee**

Annually, the U.S. Department of Housing and Urban Development (HUD) is required to conduct a review of performance by grant recipients. The review consists of: analyzing the State's consolidated planning process; reviewing management of funds; determining the progress made in carrying out your policies and programs; determining the compliance of funded activities with statutory and regulatory requirements; determining the accuracy of required performance reports; as well as evaluating the State's accomplishments in meeting key Departmental objectives. Concurrently, the Secretary of HUD must determine that the grant recipient is in compliance with the statutes and has the continuing capacity to implement and administer the programs for which assistance is received. This annual assessment covers the 2011 Program Year, for the period of July 1, 2011, to June 30, 2012.

In addition to meeting the mandates of the statutes, this assessment provides a basis for the State of Tennessee and HUD to work together collaboratively in achieving housing and community development goals. The Office of Community Planning and Development (CPD) completed the assessment in consultation with the Offices of Public Housing, Multifamily, Single Family Housing, Chief Counsel, Fair Housing and Equal Opportunity and the three Field Office Directors.

We congratulate the State of Tennessee on its accomplishments toward implementing its programs and policies. In this second year of the consolidated planning period, HUD funding was used to address the following HUD objectives: to create a suitable living environment, to provide decent housing, and to create economic activities. The State of Tennessee has established priorities and action steps that relate to both housing and non-housing community development needs which are outlined in the State's five-year Consolidated Plan approved in 2010. Program funds continue to be used in accordance with the requirements of the Consolidated Plan regulations and the applicable regulations governing the Community

Development Block Grant (CDBG), HOME Investment Partnerships (HOME), Emergency Shelter Grants (ESG), and Housing Opportunities for Persons With AIDS (HOPWA) Programs.

We commend the State on its efforts to expend Neighborhood Stabilization Program (NSP) 1, NSP2, NSP3, Homelessness Prevention and Rapid Re-Housing Program (HPRP), and CDBG-Recovery (CDBG-R) funds for eligible activities under Housing Recovery and Reinvestment (HERA) and the American Recovery and Reinvestment Act (ARRA).

The State of Tennessee received CDBG Supplemental Disaster Recovery funds in the amount of \$92,517,890 for disaster recovery appropriated under the consolidated Security, Disaster Assistance, and Continuing Appropriations Act, 2009 (Public Law 110-329), which was enacted September 30, 2008. The funds received under this appropriation are being used for the necessary expenses related to disaster relief, long-term recovery and restoration of infrastructure, housing, and economic revitalization in areas affected by the hurricanes, floods, and other natural disasters that occurred in 2008 in Tennessee. In September 2010 and February 2011, funds in the total amount of \$30,906,517 were received to continue to support the long-term disaster recovery resulting from the storms and flooding that occurred in the spring of 2010 in Tennessee. Although the 2008 grant is progressing, the Department has concerns regarding the 2010 grant. This was reflected in the monitoring of the grant, along with the 2008 grant, this summer. Although the Department is pleased on the State's commitment to have all of the activities completed and funds expended by December 31, 2017, the State is reminded that if no funds are expended under the 2010 grant within two years of the grant agreement's execution, the Department is authorized to deobligate and recapture the grant funds. Neither HUD nor the State wants this to occur. So, we encourage the State to expend the 2010 grant funds in an expeditious manner for essential disaster recovery activities as soon as possible. Knoxville CPD and the Disaster Recovery and Special Issues Division, HUD Headquarters, will continue to work with the State on this urgent matter.

Knoxville CPD also acknowledges the participation of your staff in the training sessions conducted on June 25 and 26, 2012. Training sessions were conducted via conference calls on: New Requirements under the HOME Program, the Requirements under the Homeless Emergency Assistance and Rapid Transition to Housing (HEARTH) Act, the New Consolidated Plan Submission system/process and Detecting Fraud. In addition, the State of Tennessee participated in a series of E-Con Planning Suite web-based training sessions.

In the review of the Consolidated Annual Performance and Evaluation Report (CAPER), the information entered in the Integrated Disbursement Information System (IDIS), HUD Program Offices comments, and CPD staff discussions/knowledge of the State's activities during the 2011 Program Year, the following determinations and comments are offered as follows:

The CDBG Program - Administered by the Tennessee Department of Economic and Community Development (ECD)

The Performance Evaluation Report (PER) indicated that of the 2011 CDBG Program funds that were made available to recipients during the program year, 100 percent of those funds were obligated to recipients to be used to benefit low- and moderate-income (LMI) persons. The State made available a total of 91 awards to new recipients during the reporting period totaling

\$23,955,506. The largest portion of CDBG funds awarded in the reporting period (81 percent) continued to be designated for public facilities improvements, i.e., installation and/or rehabilitation of water and sewer systems. Other activities funded during the program year included housing rehabilitation, clearance, and relocation. It was noted that CDBG funds assisted with 30 affordable housing activities which acquired four housing units, created 10 new units and rehabilitated 16 existing units. This Office continues to encourage the State to consider using CDBG funds to implement a program of assistance and loans to microenterprises and small businesses and for job training. Such activities would help provide a more comprehensive approach to community development, implement strategies in the Consolidated Plan and help with the State's initiatives to move families from welfare to work.

The State continued to meet the timely distribution of CDBG funds requirements in 24 Code of Federal Regulations (CFR) 570.494(a) by obligating 95 percent of its funds to units of local government within 12 months of the State signing its grant agreement with HUD, and 24 CFR 570(b)(1) that requires all of the state's annual grant (excluding state administration) be obligated and announced to units of general local government within 15 months of the State signing its grant agreement with HUD.

The HOME Investment Partnerships Program - Administered by the Tennessee Housing Development Agency (THDA)

The 2011 HOME grant funded 45 applications, totaling \$14,736,615, to provide 329 units of affordable housing to benefit LMI households through homeowner down payment assistance, homeowner rehabilitation, homeowner new construction, rental acquisition, rental rehabilitation, and rental new construction. The majority of units funded (233) were for homeowner rehabilitation (71 percent). HOME funds were allocated to three grand divisions, based upon the regional distribution of low-income households in non-entitlement areas throughout the State of Tennessee. The total award to Community Housing Development Organizations (CHDOs) was \$2,720,369. In addition, \$656,249 was awarded for special needs projects. The State continues to meet all commitment, CHDO, and disbursement requirements.

The HOPWA Program - Administered by the Tennessee Department of Health (TDOH)

The State continued to expend its annual HOPWA allocation on homeless prevention activities by providing housing assistance (short-term rent, mortgage and utility assistance) and supportive services. During the reporting period, a total of \$916,803 in HOPWA funds was made available from HUD. The State retained \$27,503 for administration and awarded a total of \$889,300 to seven project sponsors covering 77 counties in Tennessee. During the program year, the HOPWA Program reported 560 individuals with HIV/AIDS and 422 affected family members as beneficiaries. The largest portion of funds expended was used for housing assistance.

The ESG Program - Administered by the THDA

In July 2011, the State received \$1,534,841 under the first allocation of 2011 ESG funds. This first allocation of ESG funds was invested in the following categories: Small Cities Set-

aside, THDA Targeted Set-aside, Chattanooga Set-aside, and the ESG Competitive Round, plus State Administration. The State completed a total of 33 contracts and provided homeless assistance, to include essential services activities, to 33,178 beneficiaries throughout the State of Tennessee. During the program year, the ESG Program provided 1,641 bed spaces with the number increasing to 1,829 during the winter months. On January 4, 2012, the interim regulation for the Emergency Solutions Grant Program was made final. In order to receive the second allocation of funding for \$863,348 under the Emergency Solutions Grant Program, the State completed a substantial amendment to the Consolidated Plan. The second allocation of funding was awarded to the State in August 2012. Those funds have not yet been awarded to sub-recipients. The number of Tennesseans benefitting from the ESG Program will increase with the second allocation of funds which will primarily be dedicated toward rapid re-housing and homeless prevention activities.

Homeless and Special Needs Activities

In order to address the needs of homeless persons, as well as the special needs of persons that are not homeless, certain actions have been taken by THDA and the TDOH. The ESG and HOPWA Programs continue to address the needs of homeless persons and those threatened with homelessness throughout the State of Tennessee. Additionally, the HOME Special Needs Set Aside provided \$656,249 to provide housing assistance to persons with permanent or temporary disabilities. During the program year, this set aside was modified and became the Supportive Needs Set Aside through an amendment to the Consolidated Plan, which was approved on April 27, 2012. As the result of the Department working collaboratively with the State, efforts are underway to address homelessness with a state-wide approach. More work on this effort will occur during Program Year 2012, beginning with the "Convocation on Family Homelessness" scheduled for November 27, 2012, in Nashville, Tennessee.

Affirmatively Furthering Fair Housing

The Office of Fair Housing and Equal Opportunity (FHEO) reviewed the State's CAPER for compliance to the Civil Rights Related Program Requirements and has not recommended its approval until the receipt of and FHEO's approval of the Analysis of Impediments (AI) to Fair Housing study. The AI is expected to be completed by June 30, 2012. The funding for the AI is being handled through the Department of Economic and Community Development. Once the first draft of the AI is completed, please promptly submit a copy to FHEO and Knoxville CPD for review and comments. This may ensure that the final AI meets the Department's guidelines for approval prior to the submission of the Program Year 2013 Consolidated Annual Action Plan.

Also, FHEO, in partnership with Knoxville CPD, will be conducting training on the completion of an AI, as well as other required FHEO initiatives and reports, during the 2012 Program Year. It is imperative that the State has staff participating in the training and technical assistance sessions. The State staff will be contacted regarding the dates and times of the training/technical assistance sessions.

Consolidated Plan Enhancements

CPD has completed the enhancements to the Consolidated Plan, called the “eCon Planning Suite.” Although the enhancements are operational, the State of Tennessee will not be required to use this system until the submission of its next Five-Year Consolidated Plan. Nevertheless, the benefits of using it for the 2013 Consolidated Annual Action Plan are numerous, as it includes linking the Consolidated Plan to IDIS and providing a less intensive process for preparing the next CAPER. The OneCPD Technical Assistance Program is operational and if your jurisdiction has a need for technical assistance in implementing any local housing and community development activity, please contact Knoxville CPD at (865) 545-4391.

Again, the Department asks for your collaboration and partnership in several of our priorities and strategic goals, including: addressing the needs of returning veterans and their families and in addressing housing and providing supportive services for the homeless as governed by the HEARTH Act. Please be aware that this remains a major focus of the Department and HUD’s staff is available as you plan and implement these programs and activities.

HUD will also continue to work with our grantees in implementing activities which promote energy efficiency, reduce energy costs for our beneficiaries, and expand efforts to bring green building practices to HUD-financed or HUD-assisted new construction and rehabilitation projects. Major emphasis will continue on building sustainable communities and partnering with other Federal departments in these efforts. The Department will be on the forefront in implementing place-based management strategies. According to the Office of Management and Budget (OMB), place-based management “targets prosperity, equity, sustainability and livability of places” and examines how a place functions as well as adapts to variable market conditions.

During the 2012 Program Year and as you plan for the 2013 Program Year, please pay close attention to the following:

1. **Frequent and Up-to-date Reporting In IDIS.** At the end of each Federal fiscal year, HUD reports information on the accomplishments achieved using CDBG and HOME funds in its Annual Performance Report. This report uses the accomplishments reported by grantees in IDIS to measure the success of the Consolidated Planning Programs, especially HOME and CDBG, in achieving goals. This information is analyzed by the OMB and Congress and is an important consideration in future funding of the programs. Therefore, it is critical that you report all accomplishments for each of your activities for which you have accomplishments to report. While some activities will not have accomplishments for the current fiscal year, most will. In addition, where feasible, make sure to include entries relative to lead-based paint and energy “green” accomplishments. This will enable CPD to capture data needed in those areas.
2. **IDIS Cleanup of Reporting.** At the same time, please pay close attention to making sure that data entered into IDIS complies with the regulations and have

accomplishments which can be documented in your applicable formula and ARRA files. Currently, the focus is on cleaning up CDBG data to make sure the correct information is reflected in IDIS.

3. **The HOME Participating Jurisdictions (PJs) Open Activities Report.** The report is on HUD's website each month. It is available to assist PJs in identifying projects that may need to be cancelled or projects that remain in "open" status despite their having been completed. This report provides information on all HOME projects entered in IDIS that have not been completed. Its primary purpose is to enable PJs to regularly review and identify open projects that should be completed in IDIS or cancelled. A review of the September 30, 2012, HOME PJs Status of Open Activities Report revealed that the State had one open activity in final draw status past the 120 day deadline. This report can be found online at <http://www.hud.gov/offices/cpd/affordablehousing/reports/open>. Information on revising activity status begins on page 4-32 of the chapter.
4. **Timely Completion of Activities.** Please make every effort to complete and expedite progress with any stalled activity in IDIS. It is imperative that all activities are completed and closed out in a timely manner. This includes drawing down funds and updating the status of activities in an ongoing manner. As you know, this Department is always available to offer technical assistance and guidance.
5. **Minority Business Enterprise (MBE) Reporting.** Executive Orders 11432 and 11625 require all Federal agencies to promote MBE, including women business enterprises, participation in their programs. The State is encouraged to expand its efforts in these areas and submit the MBE report (HUD Form -2516) on the Consolidated Plan Program funds. The next MBE report, "Contract and Subcontract Activity," will cover the period of October 1, 2012 - September 30, 2013. The completed form has a submission date within 10 days of September 30th each year. The next report is required to be submitted by October 10, 2013.
6. **Conflict of Interest Requirements.** We would like to take this opportunity to remind all grantees of the conflict of interest regulations regarding all of the Consolidated Planning programs: CDBG at 24 CFR Part 570.611; HOME at 24 CFR Part 92.356, ESG at 24 CFR Part 576.57(d) and 24 CFR 570.611(d) & (e), and HOPWA at 24 CFR Part 574.625. The ARRA and HERA programs/activities are also governed by conflict of interest requirements. Each program provides information on what may be considered a conflict and who may be covered. In addition, each provides a process by which a grantee can contact CPD to request an exception to the conflict of interest regulations. Failure to comply with the conflict of interest provisions will result in funding connected to the conflict being questioned and disallowed. We encourage all of our grantees to implement conflict of interest procedures that will assist all employees, elected officials and subgrantees in being in compliance and will assist the grantee with early detection of possible conflict of interest matters. CPD and the Chief Counsel are always available to provide guidance on possible conflict of interest compliance matters.

7. **Section 3 Reporting.** The Department encourages compliance to Section 3 of the HUD Act of 1968, and implementing regulations at 24 CFR Part 135. Section 3 provides to the greatest extent feasible opportunities of employment and training be given to lower income residents of the project area and contracts be awarded to businesses located in or owned substantially by residents of the project area. It helps low-income residents gain the skills and jobs needed to become self-sufficient. The program also provides opportunities for qualified, low-income business owners to receive preference in bidding on HUD-funded contracts. Grantees are required each year to submit a Section 3 Report, which is due for entitlement grantees at the same time they submit their CAPERs. The report should be submitted to the General Opportunity Division Office in HUD Headquarters or may be submitted online at the following website: <http://www5.hud.gov:63001/apps/po/e/srs/Public/form.cfm>.

8. **HOME Program Changes.** Among the most significant changes are the following:

- Projects not completed within four years from the date of project commitment would be considered terminated and the jurisdiction must repay HOME funds invested in the project;
- Repayment of HOME funds would be required for any unit that is not rented to eligible tenants within 18 months of project completion;
- Homebuyer units that are not sold within six months of completion of rehabilitation or construction would be required to be converted to rental projects;
- There are several changes to the requirements of CHDOs and funding awarded to CHDOs; for example, general CHDO reservations would be eliminated and PJs would be required to commit CHDO set-aside funds to specific CHDO projects within 24 months. In addition, HUD would deobligate CHDO set-aside funds not expended within five years of obligation to the PJ;
- PJs would be required to assess a developer's capacity and financial condition, in addition to market need for the project and its long-term viability before committing HOME funds;
- PJs would be required to examine annually the financial condition of rental projects with at least ten HOME-assisted units;
- New property standard requirements and inspection requirements would be established;
- Mandatory program design considerations for homebuyer programs would be established; and,
- PJs would be required to develop and adopt written policies and procedures to improve program oversight, conduct risk-assessments, and more closely monitor sub-recipients.

As a result of our review of the CAPER and applicable information on progress and compliance, HUD has determined that the State of Tennessee has the continuing capacity to implement and carry out the Consolidated Planning programs and that for the 2011 Program Year the progress has been acceptable. You are invited to submit to this Office, within 30 days,

your written comments about the content of or conclusions expressed in this letter. Please make this letter available to the public within 30 days of its receipt or the submission of your comments to HUD.

We also encourage the sharing of this assessment report with: the media, those on your mailing list of interested persons, members of your advisory committee, and/or those who attended hearings or meetings. HUD will make this information available to the public upon request and may provide copies of this report to interested citizens and groups. If you have any questions, please call Mary C. Wilson, Director, Office of Community Planning and Development at (865) 545-4391 or me at (615) 515-8510.

Very sincerely yours,



Keith Richardson
Field Office Director

cc: Mr. Bill Hagerty, Commissioner, ECD
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