



U. S. Department of Housing and Urban Development

Knoxville Field Office, Region IV
John J. Duncan Federal Building
710 Locust Street, Suite 300
Knoxville, Tennessee 37902-2526

November 14, 2014

Ralph M. Perrey, Executive Director
Tennessee Housing Development Agency
Andrew Jackson Building
502 Deaderick Street, Third Floor
Nashville, TN 37243

Dear Mr. Perrey:

**SUBJECT: Consolidated End-of-Year Review - Program Year (PY) 2013
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 of Tennessee's consolidated planning process; reviewing management of funds; determining the progress made in carrying out HUD policies and programs; determining the compliance of funded activities with statutory and regulatory requirements; and determining the accuracy of required performance reports; as well as evaluating accomplishments in meeting key Departmental strategic goals and 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 2013 Program Year, for the period of July 1, 2013, to June 30, 2014.

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), in consultation with the Offices of Public Housing, Multifamily Housing, Single Family Housing, Chief Counsel, Fair Housing and Equal Opportunity and the Field Office Director, completed this assessment.

We congratulate the State of Tennessee and the Tennessee Housing Development Agency (THDA), the lead agency for the Consolidated Planning Programs, on the accomplishments toward implementing programs and policies, which carried out the strategies, as outlined in the 2010 Consolidated Plan (July 1, 2010, to June 30, 2015). The submitted Consolidated Annual Performance and Evaluation Report (CAPER) covers the period of July 1, 2013 - June 30, 2014, which is the fourth year of the five-year consolidated planning period. This Office applauds the State of Tennessee for this effort.

During the 2013 Program Year, the State of Tennessee implemented many worthwhile activities and programs and expended funds in a timely manner. 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. 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 Solutions Grants (ESG), and Housing Opportunities for Persons With AIDS (HOPWA) Programs.

We commend the State of Tennessee on the successful completion of grant activities utilizing the Neighborhood Stabilization Program (NSP) 1 and NSP 3 funds, administered by THDA. Further guidance will be provided on officially closing out the grants. Close out of the NSP grants are projected to begin during the 2014 program year.

The State of Tennessee was awarded three CDBG Supplemental Disaster Recovery grants: \$92,517,890 for 2008, \$30,906,517 for 2010, and \$13,810,000 for 2011. These grants are being administered by the Tennessee Department of Economic and Community Development (ECD). Significant progress has been made under the 2008 and 2010 disaster grants and all grant funds under the 2008 and 2010 disaster grants are expected to be fully expended by December 31, 2017. Additionally, the application submitted for the initial allocation of the 2011 Disaster Recovery grant was approved by this Office on January 21, 2014. Funds in the amount of \$5 million were obligated on February 14, 2014. These funds (\$5million) are required to be expended within two years of the date of obligation. Remaining disaster recovery funds in the amount of \$8,810,000 remain to be obligated. The application for the remaining funds should be submitted to this Office during the 2014 Federal fiscal year.

Based on the risk analysis review conducted by CPD, a number of the State's grants were monitored on site during the year. The State of Tennessee's CDBG Program and 2008 and 2010 CDBG Supplemental Disaster Recovery grants, as well a technical assistance progress review of the 2011 Disaster Recovery grant, administered ECD, were monitored on site in April 2014. Additionally, the State's HOME Program, administered by THDA, was monitored by this Office on site in July 2014. I am pleased to say that there were no findings or concerns as a result of the above reviews. ECD and THDA staff has taken considerable measures to make sure that grant funds are being committed and expended in a timely manner on eligible activities.

In the review of the CAPER, the information entered in the Integrated Disbursement Information System (IDIS), HUD Program Offices comments, and CPD staff discussions and/or knowledge of the State's activities during the 2013 Program Year, the following determinations and comments are offered as follows:

The CDBG Program - Administered by ECD

The State made available a total of 76 awards to new recipients during the reporting period totaling \$27,244,480 which included the amount awarded in 2013 (\$24,488,568) plus additional funds that were recaptured or unspent from completed projects from previous years as well as CDBG loan repayment funds from the CDBG Economic Development Loan Program. The awards included an imminent threat grant that was awarded outside of the regular round application process based on immediate need in the affected community. Based on information from the Performance Evaluation Report (PER) submitted with the CAPER, 251,859 persons were reported as beneficiaries of which 188,009 (75 percent) were low- to moderate income (LMI).

The largest portion of CDBG funds awarded in the reporting period (78.5 percent) continued to be designated for public facilities improvements, i.e., installation or rehabilitation of water and sewer systems. Other activities funded during the program year included: housing rehabilitation, clearance, relocation, administration and planning. Additionally, beginning in 2013, seven Commercial Façade projects of \$25,000 each were funded. During the program year, CDBG funds assisted with one affordable housing activity that included eight rehabilitated owner occupied housing 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. In addition, the State has greatly reduced its ratio of unexpended funds to 2.44 as of June 30, 2014, a vast improvement over last year's ratio of 2.88.

The HOME Program - Administered by THDA

The State of Tennessee's HOME Program provides affordable housing through homeowner rehabilitation, rental rehabilitation, homeownership and new construction. The State of Tennessee received an allocation of \$9,474,797 in 2013. During the program year, the HOME Program contributed to the completion of 152 units of affordable housing utilizing funds from various program years as well as program income. State subrecipients that were awarded 2013 HOME funds have proposed to provide for or rehabilitate an additional 464 units of affordable housing for LMI beneficiaries. The State continues to meet all commitment, community housing development organization (CHDO), and disbursement requirements.

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

During 2013, the State continued to expend its annual HOPWA allocation on homeless prevention activities by providing housing assistance (short-term rent, mortgage and utility

assistance), supportive services, permanent housing placement, and housing information services. During the reporting period, a total of \$902,360 in HOPWA funds was made available from HUD. The State retained \$27,060 for administration and awarded the remainder to seven project sponsors covering 77 counties in Tennessee. During the program year, the HOPWA Program reported 443 individuals with HIV/AIDS and 358 affected family members as beneficiaries. The largest portion of funds expended was used for short-term rent, mortgage and utility assistance.

The ESG Program - Administered by the THDA

The ESG Program provides affordable housing through it homeless assistance and homeless prevention activities, which include rapid re-housing and homelessness prevention. During the reporting period, the ESG Program assisted over 19,344 beneficiaries with ESG funds and provided 759 bed spaces. During FY 2013, \$2,226,946 was made available for the State's ESG Program. However, the new ESG Regulations published in January 2012 required a substantial amendment that was approved in July 2012. As a result, the changes to the ESG Program required THDA to deviate from the traditional July 1st award schedule which caused a gap in the funding of new awards during the 2013 program year. THDA ultimately awarded the 2013 ESG funds beginning July 1, 2014, and applications for the 2014 ESG funds were projected to begin in October 2014, with the award of those funds to successful applicants beginning in January 2015.

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 Program provides services for individuals and families who are homeless or at risk of homelessness. The HOME Program contributes to the special needs population by reserving up to 10 percent of its total HOME allocation for the Special Needs Set Aside. The HOPWA Program provides housing assistance and related supportive services to persons living with HIV/AIDS and their families.

Affirmatively Furthering Fair Housing

The Office of Fair Housing and Equal Opportunity (FHEO) reviewed the State of Tennessee's CAPER for compliance to the Affirmatively Furthering Fair Housing Related Program Requirements and recommended approval; however, there was one concern regarding the 2013 CAPER. Please review FHEO's memorandum which is enclosed to insure compliance in next year's CAPER.

As you are aware, the One CPD Technical Assistance Program has been very beneficial in addressing many local needs and priorities, and it has been changed to better assist our grantees. The name is changing to Community Compass and it will continue to provide technical assistance in implementing any local housing and community development activities. The procedures for access to such technical assistance are still being drafted. Once finalized, you will be informed of the process. In the meantime, please continue to submit your requests either through Knoxville CPD or at the technical assistance website.

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 Homeless Emergency Assistance and Rapid Transition to Housing Act of 2009 (HEARTH Act). In addition, here in Tennessee, we ask your assistance in considering funding activities to assist those homeless youth just coming out of foster care. This is a growing problem in Tennessee.

HUD will also continue to work with our grantees in implementing activities which promote and increase energy efficiency and make healthy home improvements, prevent foreclosures, preserve affordable rental housing, reduce residential vacancy rates, and reduce homelessness, including veterans, family and chronic homelessness. The Department will continue its quest to “transform the way it does business” with our partners to make sure our programs and funding are efficient, effective, transparent, and protecting the public trust. Major emphasis will continue on building sustainable communities free from discrimination and partnering with other Federal departments in these efforts. During the 2014 Program Year and as you plan for the 2015 Program Year, please pay close attention to the following:

1. **Frequent, Accurate, 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 program. Therefore, it is critical that your jurisdiction reports all accomplishments for each of its activities in a timely manner. 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. 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 funded program.
2. **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. 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. CPD and the Office of Affordable Housing Programs will continue tracking your jurisdiction’s progress in this area. Please note that failing to enter this information into IDIS has a negative impact on the State of Tennessee’s scores, and, subsequently, its National and State Ranking with other PJs. Also, CPD offers technical assistance to help PJs improve

their scores. As always, the Department continues to need accurate reporting on all Consolidated Planning programs.

3. **Timely Completion of Activities.** As we reviewed information in IDIS, a large number of stalled activities were observed. Please take time to review those activities to make sure that they are completed in a timely manner and that attention is focused on implementing stalled activities. As you know, this Department is always available to offer technical assistance and guidance.
4. **HOME Program Changes.** As a reminder, 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;
 - Makes several changes to the requirements of community housing development organizations (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.
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 Metropolitan Government 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, 2014 - September 30, 2015. The completed form has a submission date within 10 days of September 30th each year.

6. **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.

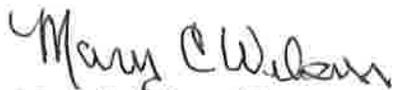
At this time, Section 3 Summary Reporting System remains unavailable for the submission of Form HUD 60002 by covered agencies. The Department is aware of the challenges that this inconvenience presents. Please be aware that no recipients will be held in noncompliance for failing to submit 2013 or 2014 Section 3 reports in time, and the unavailability of the system should not result in negative findings during the annual audits such as those conducted pursuant to the Single Audit Act (i.e., OMB Circular: A-133). HUD will notify recipients by email when the Section 3 Summary Reporting System is re-launched and will communicate new due dates at that time. You are encouraged to sign-up for the Section 3 listserv at www.hud.gov/section_3 to receive updates about the status of the system and other relevant information.

7. **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. All of the Department's programs are 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.

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 carryout the Consolidated Planning programs and that for the 2013 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 me at (865) 545-4391.

Very sincerely yours,



Mary C. Wilson, Director
Office of Community Planning
and Development

Enclosure

cc:

Honorable Bill Haslam

Governor, State of Tennessee

Bill Hagerty, Commissioner, ECD

Bettie Teasley Sulmers, THDA

Shanell L. McGoy, Ph.D., M.P.H., TDOH



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October 10, 2014

MEMORANDUM FOR: Mary Wilson, Director, Knoxville Office of Community Planning and Development, 4JD


FROM: Krista Mills, Fair Housing and Equal Opportunity, Region IV, Programs and Compliance Director, 4IEP

SUBJECT: Review of Consolidated Annual Performance Evaluation Report for Grantee: State of Tennessee Program Year 2013-2014

The Office of Fair Housing and Equal Opportunity (FHEO), Programs and Compliance Division, has reviewed the above Consolidated Annual Performance Evaluation Report (CAPER) on October 7, 2014, in accordance with HUD Regulations at 24 CFR 91.520(a) and the Fair Housing Act review criteria. FHEO recommends that the 2013-2014 CAPER be approved. Although approval is recommended, FHEO has noted the following fair housing concern to be communicated to the grantee regarding the 2013-2014 CAPER.

FHEO notes that the 2013-2014 CAPER described their citizen participation plan and affirmative outreach, but did not discuss affirmative steps to solicit participation in the CAPER process from disabled persons. FHEO also notes that the CAPER does not specifically articulate how notices concerning community meetings and comments were made to persons with disabilities in alternative formats when needed. Under its AFFH certification and Section 504 of the Rehabilitation Act of 1973, the grantee is obligated to ensure that persons with disabilities can effectively participate in CPD-funded programs and in community-participation meetings. The option for notices in alternative formats should be stated, published, and made available to persons with disabilities in all citizen participation processes, including the Consolidated Plan, Annual Action Plan, and CAPER. FHEO advises the jurisdiction to provide detailed information in future CAPERs pertaining to the affirmative steps taken to include the disabled population.

If technical assistance or clarification regarding the above deficiencies is needed, please contact Stephen D. Moore at Stephen.D.Moore@hud.gov or 865-474-8214.

HUD's mission is to create strong, sustainable, inclusive communities and quality affordable homes for all.