



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 19, 2013

Ralph M. Perrey, Executive Director
Tennessee Housing Development Agency
404 James Robertson Parkway, Suite 1200
Nashville, TN 37243-0900

Dear Mr. Perrey:

**SUBJECT: Consolidated End-of-Year Review - Program Year (PY) 2012
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 2012 Program Year, for the period of July 1, 2012, to June 30, 2013.

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, 2012 - June 30, 2013, which is the third year of the five year consolidated planning period. This Office applauds the State of Tennessee for this effort.

During the 2012 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 Development Block Grant (CDBG), HOME Investment Partnerships (HOME), Emergency Solutions Grant (ESG), and Housing Opportunities for Persons With AIDS (HOPWA) Programs.

We commend the State of Tennessee on the successful completion of grant activities using the Neighborhood Stabilization Program (NSP) 1, CDBG-Recovery, and Homeless Prevention and Rapid Rehousing Program funds. The last two programs have been officially close out.

Based on the risk analysis review conducted by CPD, the State of Tennessee's NSP 3 Program, administered by THDA, was monitored on site during the program year. I am pleased to say that there were no findings or concerns as a result of the review. THDA staff has taken considerable measures to make sure that the grant funds are committed and expended in a timely manner on eligible activities.

The State of Tennessee has been awarded two CDBG Supplemental Disaster Recovery grants: \$92,517,890 for 2008 and \$30,906,517 for 2010. Considerable amount of funds remain unexpended under both grants. The State is reminded that the Department of Economic and Community Development (ECD) has assured HUD that all grant funds under each grant will be fully expended by December 31, 2017. It should also be brought to the State's attention that the application submitted for the 2011 CDBG Supplemental Disaster Recovery grant was disapproved and the complete submission of financial certification information was not submitted. As allowed by program requirements, the application was for \$5,000,000 of the \$13,810,000 available. The application for the remaining funds will be submitted during the 2014 Federal fiscal year. CPD and the Disaster Recovery and Special Issues Division, HUD Headquarters will provide technical assistance and guidance to ECD staff on completing an acceptable application.

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 2012 Program Year, the following determinations and comments are offered as follows:

The CDBG Program - Administered by ECD

The Performance Evaluation Report (PER) indicated that of the 2012 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 58 awards to new recipients during the reporting period totaling

\$24,598,542 which included the amount awarded in 2012 (\$24,488,568) plus additional funds that were recaptured or unspent from completed projects.

The largest portion of CDBG funds awarded in the reporting period (77 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. During the program year, CDBG funds assisted with 33 affordable housing activities which acquired six housing units, created nine new units and rehabilitated 18 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 THDA

During the program year, the HOME Program contributed to the completion of 312 units of affordable housing, utilizing funds from various program years. Of the total units assisted, the majority (63.1 percent or 197 units) were rehabilitation projects. Other units assisted included new construction (73 units), acquisition and new construction (31 units), acquisition only (eight units), and acquisition and rehabilitation (three units). The State of Tennessee received an allocation of \$9,924,071 in 2012. On December 16, 2011, HUD published a new proposed regulation for the HOME Program which made significant changes to the HOME rule. Because the new HOME rule was applicable to 2012 grant funds, THDA opted not to accept any applications from recipients for 2012 until the new rule was released. Since the new rule was not published until July 24, 2013, THDA did not accept any applications or award any HOME funds during FY 2012-2013. The State continues to meet all commitment, community housing development organization (CHDO), and disbursement requirements. Also, this Office would like to recommend a closer tracking of HOME commitments and expenditures during the last 30 days leading up to the deadline since amounts may change daily.

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), supportive services, and housing information services. During the reporting period, a total of \$947,455 in HOPWA funds was made available from HUD. The State retained \$17,455 for administration and awarded the remainder to seven project sponsors covering 77 counties in Tennessee. During the program year, the HOPWA Program reported 468 individuals with

HIV/AIDS and 999 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

During FY 2012, \$3,619,757 was made available for the State's ESG Program. The total amount of funds consisted of the 2011 ESG Second Allocation of funding in the amount of \$863,348 and the 2012 allocation of \$2,756,409. In the 2011 ESG Second Allocation (\$863,348), two cities and 11 non-profit organizations were awarded funds on a competitive basis to provide homeless prevention and rapid re-housing services, Homeless Management Information Services (HMIS) and program administrative activities. The State of Tennessee's 2012 allocation funded the Small Cities set-Aside, City of Chattanooga, Tennessee Mental Health Regional Housing Coordinators set-aside, and the ESG competitive round. This allocation funded \$2,756,409 for the operation and maintenance of homeless shelters, essential services, homeless prevention, rapid re-housing, Homeless Management Information System (HMIS) and program administrative activities.

The State completed a total of 54 contracts and provided homeless assistance to 7,958 beneficiaries, of which the majority of beneficiaries (70 percent) earned between zero and thirty percent of the Area Median Income. ESG subrecipients provided 788 beds for homeless individuals.

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 HOPWA Program provides housing assistance and related supportive services to persons living with HIV/AIDS and their families. The HOME Program also contributes to the special needs population through the Special Needs Set Aside which may comprise of up to 10 percent of the total HOME allocation; however, as noted above, the FY 2012 funds were withheld during the reporting period and will be allocated during FY 2013.

Affirmatively Furthering Fair Housing

The Office of Fair Housing and Equal Opportunity (FHCO) reviewed the State's CAPER for compliance to the Affirmatively Furthering Fair Housing Related Program Requirements and has not recommended its approval until the receipt and its approval of a description of the jurisdiction's actions and efforts to address the following concerns and comments:

The Grantee should engage in affirmative outreach to solicit participations in the CAPER preparation process from eligible members of protected classes including racial, ethnic, and religious minorities, families with children, and persons with disabilities; the Grantee should list actions to conduct affirmative outreach to eligible members of protected classes including racial, ethnic, and religious minorities, families with children, and persons with disabilities under Citizen Participation; the Grantee should submit with the CAPER a copy of notices concerning community meetings and comments made to the Limited English Proficient (LEP) populations in

languages other than English; and the Grantee should specify all their activities to affirmatively further fair housing and list the amount of money spent on each activity.

Please submit the above required information within 30 days of the date of this letter to FHEO, with a copy to CPD, as follows:

Mr. Stephen Moore, Equal Opportunity Specialist
Office of Fair Housing and Equal Opportunity
U.S. Department of Housing and Urban Development
Knoxville Field Office
710 Locust Street, SW, Suite 300
Knoxville, TN 37902

Please contact Mr. Moore at (865) 474-8214 for assistance and clarification in providing the requested information. Failure to provide the required information may result in the monitoring of your jurisdiction's compliance to the Department's regulations and requirements.

Also, during this program year, FHEO will be conducting additional training to assist grantees in providing required information in the Consolidated Plans and CAPERs. You will be informed of the dates of the training.

As you know, 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 activities, please contact CPD.

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).

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. 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 2013 Program Year and as you plan for the 2014 Program Year, please pay close attention to the following:

1. **Required Use of e ConPlanning suite for submission of next Three to Five year Consolidated Plan.** In May 2012, CPD introduced the eCon Planning Suite, including the Consolidated Plan template in IDIS OnLine and the CPD Maps website. By creating a more cohesive planning and grants management framework and providing better data and a tool for analysis, the eCon Planning Suite supports grantees and the public to assess their needs and make strategic investment decisions. Consolidated Plan template in IDIS is required for all Consolidated Plans submitted on or after November 15, 2012. Grantees that are scheduled to submit Consolidated Plans to HUD after this date will use the template for both the Consolidated Plan and each Annual Action Plan. More training will be provided to grantees. The instructional manual for using eCon Planning Suite may be found at: http://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/about/co_nplan.
2. **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 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.
3. **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 American Recovery and Reinvestment Act of 2009 (ARRA) files. Currently, much focus is on cleaning up CDBG data to make sure the correct data is reflected in IDIS.
4. **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 the State of Tennessee's progress in this area. Please note that failing to enter this information into IDIS has a negative impact on the State'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.

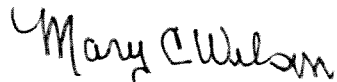
5. **Timely Completion of Activities.** As we reviewed information in IDIS, a large number of stalled activities were observed. Please take time to review those activities to make sure that they are completed in a timely manner and that attention is focused on implementing stalled activities. As you know, this Department is always available to offer technical assistance and guidance.
6. **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;
 - Makes 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.
7. **Minority Business Enterprise/Women Business Enterprise (MBE/WBE) Reporting.** Executive Orders 11432 and 11625 require all Federal agencies to promote MBE, including women business enterprises, participation in their programs. Your jurisdiction is encouraged to expand its efforts in these areas and submit the MBE/WBE report (HUD Form -2516) on the Consolidated Plan Program funds. The next MBE/WBE report, "Contract and Subcontract Activity," will cover the period of October 1, 2013 - September 30, 2014. 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, 2014.

8. **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, grantees cannot submit the 2013 reports until the new system is launched. Those wishing to submit “2012” or earlier reports can use the existing link from the website:
<http://www5.hud.gov:63001/apps/po/e/srs/Public/form.cfm>.
9. **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 Housing and Economic Recovery Act of 2008 (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.

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 2012 Program Year the progress has been acceptable. Nevertheless, the State is required to follow up with FHEO on the concerns noted in its review of the CAPER. 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

cc:

Honorable Bill Haslam, Governor, State of Tennessee

Mr. Bill Hagerty, Commissioner, ECD

Susan R. Cooper, MSN, RN, TDOH

Ms. Jeanee Seals, TDOH

Ms. Bettie Teasley Sulmers, THDA