

PERFORMANCE AUDIT REPORT

**Supplement to the
Audit of Selected Housing Programs
At The Department of Commerce**

**A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
November 1991**

Legislative Post Audit Committee

Legislative Division of Post Audit

THE LEGISLATIVE POST Audit Committee and its audit agency, the Legislative Division of Post Audit, are the audit arm of Kansas government. The programs and activities of State government now cost about \$5 billion a year. As legislators and administrators try increasingly to allocate tax dollars effectively and make government work more efficiently, they need information to evaluate the work of governmental agencies. The audit work performed by Legislative Post Audit helps provide that information.

We conduct our audit work in accordance with applicable government auditing standards set forth by the U.S. General Accounting Office. These standards pertain to the auditor's professional qualifications, the quality of the audit work, and the characteristics of professional and meaningful reports. The standards also have been endorsed by the American Institute of Certified Public Accountants and adopted by the Legislative Post Audit Committee.

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PERFORMANCE AUDIT REPORT

SUPPLEMENT TO THE AUDIT OF SELECTED HOUSING PROGRAMS AT THE DEPARTMENT OF COMMERCE

OBTAINING AUDIT INFORMATION

This audit was conducted by Rick Riggs, Auditor, of the Division's staff. If you need any additional information about the audit's findings, please contact Mr. Riggs at the Division's offices.

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SUPPLEMENT TO THE AUDIT OF SELECTED HOUSING PROGRAMS AT THE DEPARTMENT OF COMMERCE

Summary of Legislative Post Audit's Findings

This audit provides descriptive information about two housing-related programs not covered in our earlier performance audit, Examining Issues Relating to Selected Housing Programs at the Department of Commerce. Those programs are the Small Cities Community Development Block Grant program and the Rental Rehabilitation program.

Has the Department of Commerce carried out its responsibilities for administering housing-related programs over the years? The Small Cities Community Development Block Grant program was instituted in Kansas in late 1983. The Department appears to have adequately supported the program, which provides funds for a wide range of local projects. Overall, localities' grant requests for housing projects have accounted for about six percent of all grant applications, and about six percent of the funds awarded. Nationally, states reported that for one recent year they spent 26 percent of their Small Cities grant funds for housing-related activities. Nationally, a total of 17 states set aside some portion of their Small Cities grant funds specifically for housing activities. Kansas officials said that they have considered such a set-aside in past years, but have never instituted one. Since 1984, the program has awarded an average of about \$14.2 million annually for projects; on average, about \$831,000 of that total went to housing activities each year.

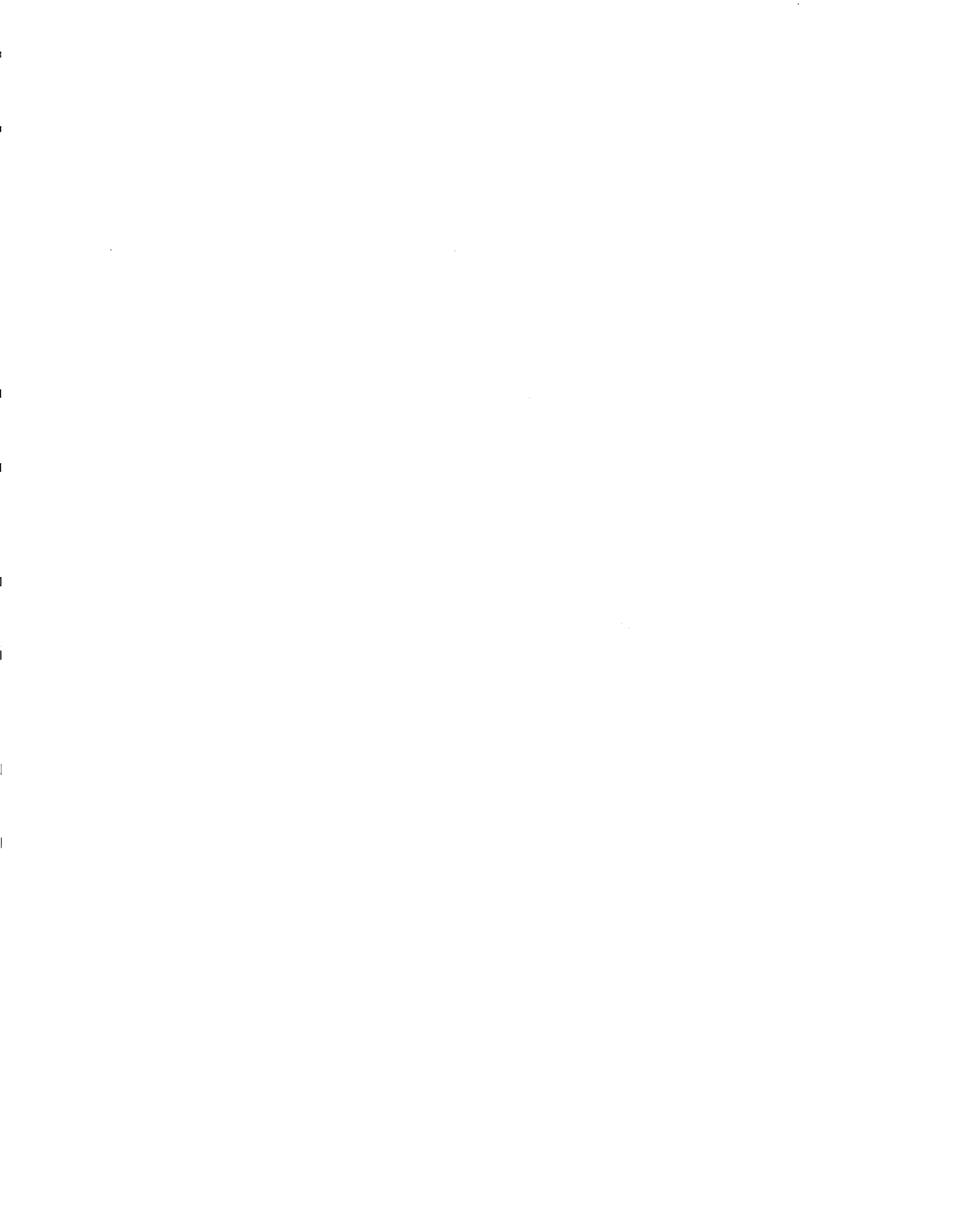
The Rental Rehabilitation program provides funds to localities to upgrade rental housing. Localities receive funds from the Department, who in turn commit the funds to specific projects. The program appears to have received adequate support from the Department since its introduction in 1988. Since then, it has awarded an average of about \$557,000 a year to Kansas cities.

This audit also provides some additional information on the Department's Low-Income Housing Tax Credit program, a program reviewed in depth in the earlier audit.

The report recommends that if the Legislature would like additional resources directed toward low income housing in the communities eligible for the Small Cities Community Development Block Grant program, it could consider directing the Department to institute a set-aside for housing projects. We would be happy to discuss this recommendation or any other items in the report with legislative committees, individual legislators, or other State officials.



Barbara J. Hinton
Acting Legislative Post Auditor



SUPPLEMENT TO THE AUDIT OF SELECTED HOUSING PROGRAMS AT THE DEPARTMENT OF COMMERCE

In August 1991, Legislative Post Audit completed an audit of selected housing programs at the Department of Commerce. That audit dealt with the following housing programs: Section Eight New Construction, Section Eight Existing Housing (Operation Homeless), Emergency Shelter Grants, Permanent Housing for the Homeless Handicapped, and the Low-Income Housing Tax Credit program.

Legislative concerns have been raised about two additional programs within the Department that are also related to housing: the housing activities included in the Small Cities Community Development Block Grant program, and the Rental Rehabilitation program. In addition, further descriptive questions have been raised about the Low-Income Housing Tax Credit Program.

To address these concerns, the Legislative Post Audit Committee authorized a performance audit to answer the following question:

Has the Department of Commerce carried out its responsibilities for administering housing-related programs over the years?

In the earlier housing audit we addressed concerns about the support that housing programs had received from the Department of Commerce, including how the programs had been shifted around between agencies, and whether the Department had fulfilled its statutory housing requirements. For the two programs reviewed here, we looked at those same issues. Also, in the previous audit we did significant audit work in the Low-Income Housing Tax Credit Program, but did not provide some of the same basic descriptive data as we did for the other housing activities we reviewed. That descriptive information is also presented in this report.

To answer this question, we reviewed federal requirements for the programs, interviewed program officials, and examined program planning documents and financial records. We reviewed performance data reported by grantees and by the federal government. We also contacted federal officials for information on other states' housing activities within the Small Cities Community Development Block Grant program, and reviewed the amount of new or rehabilitated housing each program has funded. In conducting this audit, we followed all applicable government auditing standards.

Generally, program officials said that the Department has adequately supported their activities in past years. We found that in comparison to other states, Kansas has devoted relatively little of its Small Cities Community Development Block Grant funds to housing, but officials said this was because few communities have requested housing grants. These findings will be discussed in more detail in the following sections.

Has the Department of Commerce Carried Out Its Responsibilities for Administering Housing-Related Programs Over the Years?

The Small Cities Community Development Block Grant and the Rental Rehabilitation programs' procedures appear to comply with all federal requirements for them, and program officials say the Department has adequately supported their activities in past years. Housing activities within the Small Cities Community Development Block Grant program constitute an average of about six percent of all grant amounts, substantially less than the national average, but Department officials said that communities make relatively few requests for housing grants, or have not made them a priority. These findings are discussed separately, by program, together with some background information about each program's purpose.

The Small Cities Community Development Block Grant Program Provides Funds for A Wide Range of Local Projects

The Small Cities Community Development Block Grant program is funded through the federal Department of Housing and Urban Development. Grant funds may be used only for activities that are eligible under the Housing and Community Development Act of 1974. These activities include such things as rehabilitating (or demolishing and rebuilding) the houses in blighted neighborhoods, improving public services or facilities designed to arrest a blighted area's decline, or removing architectural barriers to the elderly and handicapped.

Larger localities receive their grant allocations directly from the Department of Housing and Urban Development. In general, these "entitlement" localities are defined as communities within a Metropolitan Statistical Area, other cities with populations greater than 50,000, or counties with populations greater than 200,000, excluding the population of entitlement cities. In Kansas, areas receiving grant funds directly from the federal government are Kansas City, Lawrence, Leavenworth, Overland Park, Topeka, Wichita, and Johnson County exclusive of Overland Park.

Nationally, the Small Cities portion of the Community Development Block Grant program receives 30 percent of all program funds, with the rest going to the large metropolitan areas.

The Kansas program's goals include such things as encouragement of private investment and new business, promotion of a strong local government role in improving the community, and elimination of conditions detrimental to public health and safety. Although the program supports rehabilitation and related housing activities, it also funds construction of public facilities, economic development initiatives, disaster recovery, and other public purposes.

Generally, small cities and counties submit a request for grant funds to the Department. The grants can accomplish several things within the broad guidelines provided in federal law. For example, grants can be used to repair dilapidated houses in cases where the residents cannot afford to do their own repairs. They can fund repair or expansion of sewers, government buildings, or other public facilities used by the community. They can be used to buy and demolish substandard structures that are eyesores or a menace to public health, and they can fund emergency disaster relief.

The applications are evaluated, and successful applicants receive a grant. They must make regular reports to the Department, and the Department in turn uses that information to make reports to federal officials. Federal regulations require that Department staff monitor all grantees at least twice, including one visit after the work is completed. Program staff review such things as ensuring that the city got bids for the job, and (for housing rehabilitation work) that the homeowner was satisfied with the work done.

Housing-Related Activities Within the Small Cities Community Development Block Grant Program Appear to Have Received Adequate Support From the Department

Since its establishment in Kansas in October 1983, the Small Cities Community Development Block Grant program has always been housed within the Community Development Division of the Department of Commerce and its predecessor, the Department of Economic Development. Kansas officials have set annual goals for dividing up the total State allocation of grant funds among four grant categories: community improvement, economic development, urgent need, and planning. The table on the following page shows the targeted use of funds for the 1991 program year.

Small Cities Community Development Block Grant Applications Are Assigned Points and Ranked

Grants may be made in four categories: community improvement (which includes housing grants), economic development, urgent need, and planning. A point system for evaluating the applications was developed by the Small Cities Community Development Block Grant Advisory Task Force, a group comprising elected and appointed officials and community development professionals. After the grant applications are received, a review team uses a point system to rank the applications.

Grant applications are assigned points on a variety of criteria. For community improvement grants (including housing grants), those criteria are designed to measure community need and effort, and project quality and impact. For 1991, the point system looked like this:

1991 Point System for Ranking Community Improvement and Housing Grant Applications

Community need	150 points
Community effort	100
Project Quality and Impact	525
Low- and moderate-income benefit	<u>150</u>
Total points:	925 points

As the table shows, the most weight was assigned to project quality and impact. That factor is defined as: project need (200 points), project leverage and financing (100 points), and project impact (225 points).

As that table shows, community improvement and economic development are the largest categories, with urgent need grants and planning money comprising not more than about 10 percent of the total. All housing-related grants are included in the "community improvement" category.

**Allocation of Funds Among Grant Categories
For the 1991 Program Year**

<u>Grant Category</u>	<u>Allocation Goals</u>
Community Improvement	45% - 65%
Economic Development	25% - 50%
Urgent Need (Disaster) Set-Aside	5% - 10%
Planning	not more than 1%

Of the total amount of Small Cities Community Development Block Grant funds allocated to Kansas, the State is allowed to use \$100,000 plus two percent of the total for State administration costs. For any State administration expenses over that first \$100,000, the State must match the federal outlay dollar-for-dollar. Overall, no more than 20 percent of the total grant may be used for administrative, planning, or technical assistance costs at both the State and local levels. For fiscal year 1991, the total amount of Small Cities Community Development Block Grant funds allocated to Kansas was about \$14.0 million.

The following table shows the staffing and expenditures of the program since its start in Kansas:

**Staffing, Administrative Expenditures, and Grants for the
Small Cities Community Development Block Grant Program
1984-1990**

<u>Year (a)</u>	<u>FTE Staff</u>	<u>Administration Costs [State General Fund] (b)</u>	<u>Administration Costs [Federal Matching Funds]</u>	<u>Total State + Federal Admin. Costs</u>	<u>Total Grants To Localities</u>
1984	10.0 FTE	\$120,892	\$401,830	\$522,722	\$16,406,169
1985	10.0	116,239	261,651	377,890	16,519,008
1986	10.0	104,667	267,000	371,667	13,785,652
1987	10.0	125,390	323,930	449,320	13,750,061
1988	11.0	122,588	329,562	452,150	12,471,021
1989	12.0	171,149	346,000	517,149	13,739,999
1990	12.0	135,200	346,313	481,513	12,935,506
AVERAGE: 10.7 FTE		\$128,018	\$325,184	\$453,202	\$14,229,631

- (a) Staffing and administrative expenditure data is reported by fiscal year. Grant totals are shown by federal program year.
- (b) For fiscal years 1989 and 1990, a small amount (less than one percent) of the total was from the Economic Development Initiative Fund. In addition to these "hard-match" expenditures, the State also contributed "soft match" such as staff time for non-program employees, and allocated overhead costs.

As the table shows, the total awarded annually to local units was about \$14.2 million. It cost an average of about \$453,000 a year to administer the program, about \$128,000 of which (28.3 percent) came from State funds.

We interviewed Department officials to find out if they thought their program had received adequate support from the Department of Commerce over the years. The administrator of the Small Cities Community Development Block Grant program said that, overall, the program had been adequately supported by the Department. We found nothing in our review to indicate otherwise.

Relatively Little Money From the Small Cities Community Development Block Grant Program Goes To Fund Housing Projects

Legislative questions have been raised about the amount of federal money going to housing projects through the Small Cities Community Development Block Grant program. To address this concern, we compared the percentage of grant money going to housing projects in Kansas with the percentage nationwide. We had originally intended to get the same information from surrounding and similar states, but found that differences in how that information is collected and reported made it likely that the data would not be fully comparable.

The following table shows the amount of grant money going to housing projects as a percentage of all Small Cities Community Development Block Grant funds:

Portion of Resources the Small Cities Community Development Block Grant Program Used for Housing Projects

Year	FTE Staff Used for Housing (a)	Grant Funds Obligated To Housing Projects (b)	Total Grant Funds For All Projects (b)	Percent Of Total
1984	1.0 FTE	\$1,799,195	\$16,406,169	11.0%
1985	1.0	729,552	16,519,008	4.4
1986	1.0	315,997	13,785,652	2.3
1987	1.0	1,327,276	13,750,061	9.7
1988	1.1	225,000	12,471,021	1.8
1989	1.2	553,000	13,739,999	4.0
1990	1.2	870,000	12,935,506	6.7
Average:	1.1 FTE	\$831,431	\$14,229,631	5.8%

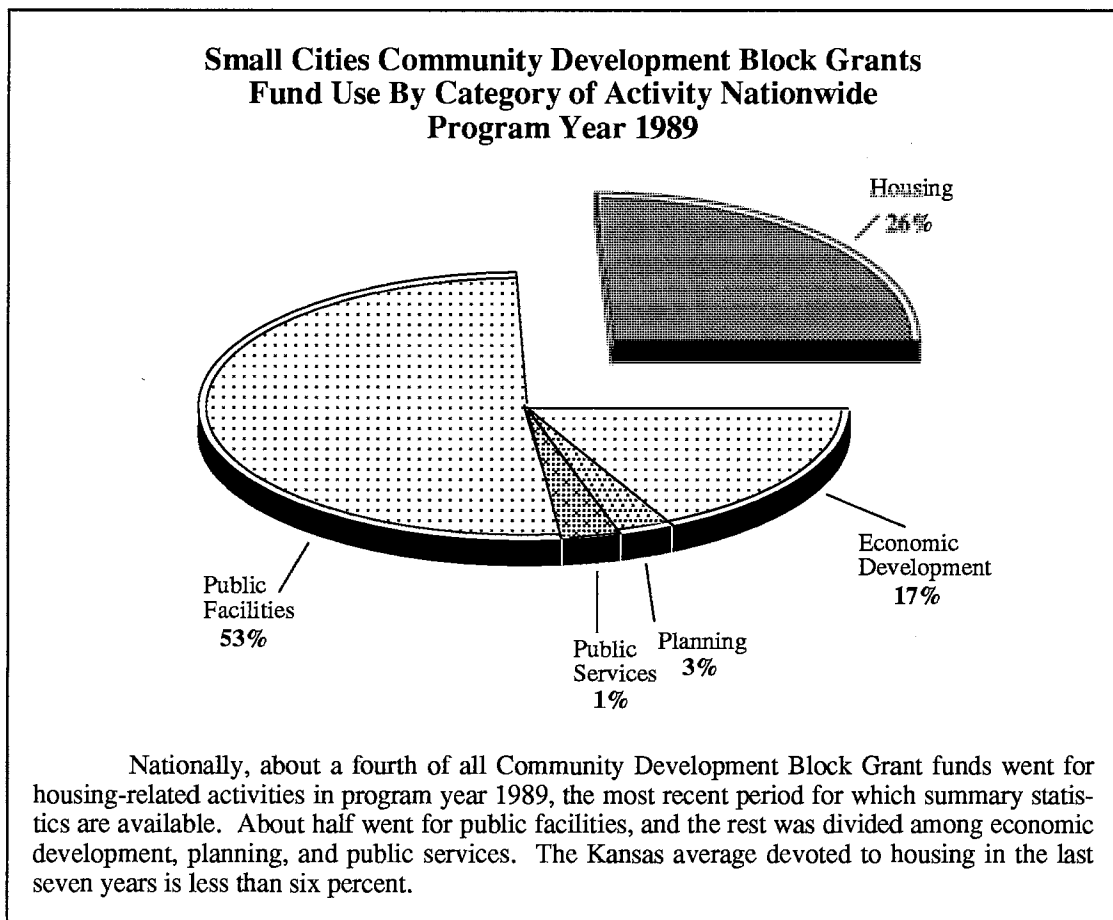
(a) Department officials estimated that about 10 percent of the total staff time of the Small Cities Community Development Block Grant program was taken up with housing projects and housing issues. Thus, for example, the 1.2 full-time-equivalent positions shown for fiscal year 1990 corresponds to the 12.0 positions that the entire Small Cities Community Development Block Grant program had in that year.

(b) Does not include dollars for State administration.

As the table shows, for program years 1984 through 1990, the percentage of block grant funds going to housing activities has varied over the years from a high of 11.0 percent in 1984 to a low of 1.8 percent in 1988. The average for the last seven years is just under six percent.

In addition to rehabilitation, housing activities include buying and tearing down buildings too deteriorated to repair, relocating people displaced by the projects, local project administration, and related expenses. In Kansas, rehabilitation accounted for an average of about 87.9 percent of all housing activity, with demolition, administration, and the like accounting for the rest. Nationally, rehabilitation accounted for 73.3 percent of all housing activity. In other words, of the Small Cities Community Development Block Grant dollars Kansas spends for housing projects, a higher proportion goes to actual rehabilitation of houses than the national average.

Nationwide, states spent about a fourth of their Small Cities Community Development Block Grant funds for housing in 1989. In a recent report to Congress, the federal Department of Housing and Urban Development said that the states on average spent 26 percent of their grant dollars for housing activities in program year 1989 (the most recent year for which compiled statistics are available). The proportions are shown in the following chart:



Localities (cities and counties) apply for and receive grant funds from the State program; as a result, under current procedures the program can award funds only to those projects for which funds are requested. According to data supplied to us by the Department for 1985 through 1991, only 99 of 1,599 project applications (6.2 percent) were for housing activities. Department officials cited two major reasons why relatively little of the available block grant money may be spent on housing.

- **Housing grants are more difficult for localities to administer because of the amount of work they entail.** For example, each homeowner whose property will be improved must be contacted, the property inspected, and the work to be done agreed upon. The locality must monitor the work in progress, and conduct another inspection upon completion of the project. All this requires a city building inspection department, housing administrator, or some other appropriate governmental official. Officials said that smaller cities usually don't have the necessary staff.
- **Localities may have higher priorities.** Department officials also said that, although a good housing proposal and a good sewer proposal theoretically stand an equal chance of getting funded under the program, one factor in the rating system described in the box on page 3 is the amount of "community effort" (matching money or other contribution) the locality is willing to put in. Officials said that although a community may be willing to match a Small Cities Community Development Block Grant for sewer work dollar-for-dollar, many communities are reluctant to put that much public money into housing. Thus, decisions at the local level can affect the likelihood that a housing project would be ranked highly enough to receive funding.

Some states set aside a portion of Small Cities funds just for housing. In general, block grant programs such as the Small Cities program have come to be preferred in recent years because they are less rigid and easier to administer than more narrowly defined categorical grants. The block grant concept allows localities to set their own priorities, within broad limits.

Within those limits, states can influence how localities spend their grant funds. One method that states use to influence local priorities is the special set-aside. Before making awards to local governments, most states divide their grant amount into categories based on the activities they want to emphasize. Localities then compete for funds within the categories. As long as local governments submitted applications for these funds, a set-aside would ensure that an appropriate portion of the grant went to fund the selected activity. Funds not applied for are then awarded for other kinds of projects.

For example, according to information supplied by the federal Department of Housing and Urban Development, 45 of the 49 states participating in the program earmarked some portion of their block grant funds for specific purposes. By far the most frequent activities for which funds were set aside were economic development activities. The Department of Housing and Urban Development also reported that 17 states employed a housing set-aside in fiscal year 1990, and 20 states used a set-aside that combined housing and public facilities projects. The amount of these set-asides

vary. Data for federal fiscal year 1987 (the most recent year for which this information was available) showed that Delaware set aside 58 percent of its allocation for housing, while Arizona set aside two percent.

Kansas sets general goals for the portion of its block grant funds to be devoted to broad categories such as economic development or community improvement, but has not set aside a specific amount of money for any particular activity except disaster relief (see the table at the top of page four). Department officials told us that they have proposed a housing set-aside to the Community Development Block Grant Advisory Task Force in past years, but the Task Force has rejected the idea. The Task Force's reasoning, according to the Department, was that if funds were set aside for housing, then advocacy groups for other kinds of projects would demand a set-aside to meet their needs as well.

The Rental Rehabilitation Program Provides Funds to Localities to Repair Rental Housing

The Rental Rehabilitation program, first offered in fiscal year 1988, is designed to rehabilitate rental property for use by lower-income families by making grants to localities who in turn use the money for specific projects.

The federal Department of Housing and Urban Development determines the grant allocation for the State as a whole, and then uses a formula to allocate a portion to each city with a population of 50,000 or more. Whatever money is left over after the metropolitan areas receive their share goes to the State program to administer. Department of Commerce officials said that most of the State's grantees are cities of between 20,000 and 50,000 population.

The Department of Commerce is responsible for ranking applications, awarding the grants to eligible localities, and monitoring the rehabilitation work. Officials report that 1991 was the first year in which ranking the applications was necessary, because this was the first year that more money was requested than was available. The localities receiving a grant then earmark funds to rehabilitate individual buildings or groups of buildings. The amount a city can award for a single project is based on a sliding scale; as much as \$8,500 can be awarded for a three-bedroom apartment. The landlord is required to match the amount awarded on a dollar-for-dollar basis. The Department has a pool of administration dollars available to help pay the cities' administration costs, but officials said that only Emporia has requested any of those funds.

The Rental Rehabilitation Program Appears To Have Received Adequate Support From the Department

The Rental Rehabilitation program has been located within the Small Cities Community Development Block Grant program in the Department of Commerce from its start in Kansas in fiscal year 1988 until January 1991. In January, it was

moved to the Department's Office of Housing. The program has been entirely federally funded, with no State matching funds requirement, and although the program staff make grant awards to communities, the actual grant payments come directly from the federal government. Those grant totals, along with staffing and administrative cost figures, are shown in the following table:

**Rental Rehabilitation Program
Staffing, Expenditures, and Grants
1987-1990**

<u>Year</u>	<u>FTE Staff</u>	<u>Administration Costs [Federal Funds Only]</u>	<u>Total Grants To Localities (a)</u>
1987	1.5	(b)	\$733,000
1988	1.5	\$28,090	638,100
1989	1.5	35,771	477,000
1990	1.5	27,266	381,202
AVERAGE:	1.5	\$30,376	\$557,326

(a) \$25,598 remains to be committed to projects from 1990 funds. The other amounts in this column equal the total the State was authorized to award to localities in each year.

(b) Administration costs in this year were paid from other operating funds and were not tracked separately for this program.

As the table shows, the Rental Rehabilitation program has awarded an average of about \$557,000 a year since 1987 to localities for renovation of rental housing, but the annual amount made available by the federal government has dropped by almost half since 1987. The program is authorized to spend up to 10 percent of the total State allocation for program administration, but the Kansas program has spent an average of only about \$30,000 a year. Department officials said that 1991 was the last year for funding of the program in its present form, although the federal government is expected to reinstitute the program at a later time. Officials said that they will continue to be responsible for monitoring existing projects for up to six years.

The table also shows that between program years 1987 and 1990, the program had 1.5 full-time equivalent staff. This consisted of a full-time clerical person and a half-time program specialist. In January 1991, the clerical position was reduced to half time.

Program officials told us that the Rental Rehabilitation program has received good support from the Department, and that the staff reduction has not proved to be a problem. A half-time clerical position, together with the half-time program specialist, is sufficient to handle the program's current workload, they said.

**Federal Benefits Administered by the Three Programs
Have Funded about 6,100 Housing Units**

The following table shows the number of units the Small Cities Community Development Block Grant program, the Rental Rehabilitation program, and the Low-Income Housing Tax Credit program have funded since their inception:

**Housing Units Funded by the Three Housing-Related Programs (a)
1984-1990**

Program Year	Community Development Block Grant Program(b)	Rental Rehabilitation Program	Low-Income Housing Tax Credit Program	Total Housing Units
1984	292	—	—	292
1985	133	—	—	133
1986	122	—	—	122
1987	132	—	1,255	1,387
1988	14	8	1,016	1,038
1989	182	68	1,002	1,252
1990	26	109	1,786	1,921
TOTAL UNITS:	901	185	5,059	6,145

- (a) The figures for the Small Cities Community Development Block Grant and the Rental Rehabilitation programs were taken from official reports from local units or from the Department of Housing and Urban Development. Figures for the Low-Income Housing Tax Credit Program were supplied by the Department.
- (b) Units rehabilitated only. In all, the Small Cities Community Development Block Grant program has counted 1,300 housing operations conducted, but this total includes demolitions, weatherizations, and other operations that may have been done on the same properties.

As the table shows, the federal financial assistance administered by the Small Cities Community Development Block Grant program, the Rental Rehabilitation program, and the Low-Income Housing Tax Credit program have funded work on a total of 6,145 houses or apartments since 1984.

**The Low-Income Housing Tax Credit Program
Has Allocated About \$2.9 Million in
Tax Credits Since 1987**

The Low-Income Housing Tax Credit program is designed to provide tax credits to developers who build or buy and renovate housing units that they agree to rent to low-income tenants for 15 to 30 years. Administration of the program is funded by fees paid by applicants. Developers who receive an allocation of tax credits through the program are entitled to take the allocated amount off their taxes for the following 10 years. Because the amount of credit granted is usually more than any one individual can claim, the excess credits are normally sold to investors who can then apply them to their own taxes.

Since its start in 1987, the program has been a part of the Department's Community Development Division. Our previous housing audit found significant problems with the operation of this program. The following table provides some descriptive information about the program not included in the earlier housing audit. It shows the staffing, expenditures, and tax credits allocated by the program since it began.

**Staffing, Administrative Expenditures, and Tax Credits Allocated
For the Low-Income Housing Tax Credit Program
1987-1990**

<u>Year</u>	<u>FTE Staff</u>	<u>Administration Costs [From Fee Fund] (a)</u>	<u>Tax Credits Allocated</u>
1987	1.0	\$0	\$2,095,235
1988	1.0	0	3,071,467
1989	1.0	45,404	3,108,750
1990	1.0	51,325	3,211,837
AVERAGE:	1.0	\$48,365	\$2,871,822

(a) In fiscal years 1987 and 1988, before fee fund balances built up sufficiently to support the program, administrative costs were paid out of the State General Fund. Expenditures for this program were not tracked separately for those years.

As the table shows, the program has had one full-time-equivalent position, the program administrator. According to agency officials, this was a special project employee until the beginning of fiscal year 1992, when it became a regular classified position. The program also had the use of Office of Housing clerical staff, but no secretary has been assigned specifically to the program. For State fiscal year 1989 and 1990, the program spent an average of about \$48,000 and awarded tax credits annually worth about \$2.9 million. For fiscal year 1991, a total of \$46,730 was spent for administration; all 1991 tax credits have not yet been awarded.

Conclusion

The Small Cities Community Development Block Grant and Rental Rehabilitation programs have not been shifted around between agencies, and program officials said they have sufficient staff to administer the available federal funding. Both programs appear to be contributing to additional or improved housing available to low-income people in Kansas.

The Small Cities Community Development Block Grant program is spending less of its money for housing than the average for similar programs nationwide. State officials say little money has been devoted to housing because few of the small cities served by this program have made housing-related requests under the program. Most states have set priorities for spending their grant funds by setting aside a portion of their grant moneys for certain kinds of activities, including housing projects. In Kansas, most of the priority-setting is done at the local level. The Department has proposed the idea of a housing set-aside in past years, but that idea apparently was rejected by the Community Development Block Grant Advisory Task Force. The Department could consider again setting aside money for housing projects in Kansas, but that could mean less money would be available for the other kinds of projects that many smaller Kansas communities have applied for.

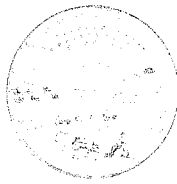
Recommendation

If the Legislature would like additional resources directed toward low-income housing in the communities eligible for the Small Cities Community Development Block Grant program, it could consider directing the Department to institute a set-aside for housing projects.

APPENDIX A

Agency Response

On October 22, 1991, we provided copies of the draft audit report to the Kansas Department of Commerce. Its response is included in this Appendix.



KANSAS

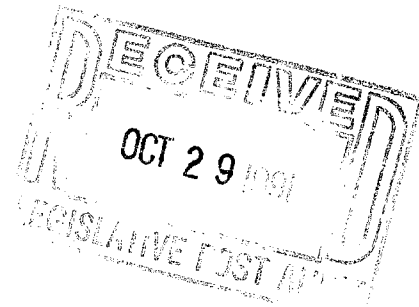
DEPARTMENT OF COMMERCE

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October 22, 1991

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RE: Supplement to the Audit of Selected Housing Programs at
the Department of Commerce

Dear Ms. Hinton:

We are pleased with the findings of the Post Audit concerning the use of Small Cities Community Development Block Grant and Rental Rehabilitation Program as well as the further descriptive information concerning the Low Income Housing Tax Credit Program. We would like, however, to raise a few additional points.

Issue One: Small Cities CDBG Program

It is somewhat misleading to indicate that there have been relatively few requests for housing assistance. In fact, from 1989 to 1991, we received 34 requests for housing assistance and funded only 11, or 32.3%, of those requests. In contrast we were able to fund 65.1% of the economic development loans to business and 39% of the grants for community improvements. We agree with the reasons given for why housing assistance requests were not funded. We do intend to place a greater emphasis on use of CDBG for housing assistance and are proposing the following for next year's program:

- 1) A 10% set-aside be established for housing projects to encourage local applicants.
- 2) A 2% set-aside for homeless shelter assistance also be made.

Barbara Hinton
October 22, 1991
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- 3) Since HUD now allows a wider range of housing activities under CDBG, the following additional housing activities will be permitted as eligible CDBG grants:
- a. Subsidization of interest rates and mortgage principal amounts for low and moderate income home buyers.
 - b. Provision of up to 50% of the down payment required for low and moderate income buyers.
 - c. Payment of any reasonable closing costs associated with home purchase incurred by a low or moderate income home buyer.

Again, these additional program areas would be at local option but would allow additional flexibility for local communities to prepare and fund housing assistance programs.

It is anticipated that the CDBG funds will be increased next year and that we should have at least \$15 million available for fiscal year 1992. It also envisioned that as the program income or economic development loans are repaid that we will need less CDBG funds for economic development activities and thus will make more money available for housing programs.

Issue Two: Rental Rehab


Although it is true that we have not spent the entire state allocation for program administration under the Rental Rehabilitation Program, it is prudent that we keep a reserve to handle administrative cost in future years. 1991 was the last year of funding for this program. However, our responsibility for monitoring the program will continue for the next six years. It is envisioned that we will use the entire administrative allocation over that period.

Issue Three: Low Income Housing Tax Credits

On the administrative costs from the fees of this program, it is true that we could and should use additional monies from the fee fund to support the actual administrative cost of this program. We are also envisioning additional monies to handle the yet to be defined monitoring requirements for administration of the Low Income Housing Tax Credit Program.

Thank you for collecting the information in the audit and allowing for us to respond.

Sincerely,


Laura E. Nicholl
Secretary

