



092721

UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

CIVIL DIVISION

MAR 14 1969

Dear Mr. Secretary:

BEST DOCUMENT AVAILABLE

The General Accounting Office has examined into the manner in which the Department of Housing and Urban Development (HUD) determined the amounts for which grants were made to public bodies to assist in the construction of basic water and/or sewer facilities. The objective of our examination was to determine whether the policies and procedures followed by HUD in determining the amounts for which grants were made resulted in assistance to the maximum practical number of public bodies. In this regard, HUD had reported that it had a backlog of 1,161 requests for financial assistance for water and sewer projects at June 30, 1967.

Our examination was performed at the HUD Regional Office in San Francisco, California (Region VI), and at the HUD Central Office in Washington, D. C. We reviewed pertinent legislation and applicable HUD policies, procedures and practices. We also interviewed HUD officials at the locations visited and examined pertinent records.

We found that HUD was making grants to public bodies qualifying for Federal assistance at the maximum percentage allowable under the authorizing legislation, with a maximum limitation of \$1.5 million for any one grant. On the basis of our examination, we believe that HUD could further the objectives of the program by varying the percentage of Federal assistance. Under such a system, those public bodies contributing most to the objectives of the program, or otherwise determined to be most deserving of financial assistance, could receive grants for a higher percentage of their project costs than the other public bodies. In this regard, the numeric rating system presently used by HUD to select projects which are to receive grants may be an acceptable method for determining the percentage of financial assistance that should be provided. In addition to furthering the objectives of the program, we believe that the use of a system of varying percentages would permit HUD to provide financial assistance to more public bodies. The details follow.

Section 702 of the Housing and Urban Development Act of 1965 (42 U.S.C.3101) authorized the Secretary of HUD to make grants to local bodies and agencies to assist in the financing of specific projects for basic water and/or sewer facilities. Subsection (b) of this section provides, in part, that, "The amount of any grant made under the authority of this section shall not exceed 50 per centum of the development cost of the project:", which is defined in section 706(c) as the cost of constructing the facility and of acquiring the land on which it is located, including necessary site improvements. The

714879 **092721**

maximum percentage may be as high as 90 percent where the economic and financial conditions of a community meet certain requirements specified in the act. However, to date only a few communities have met the eligibility requirements necessary for the higher grant percentage.

HUD's policy is to make every grant at 50 percent of the eligible cost of the project, with a maximum limitation of \$1.5 million for any one grant. Certain project costs incurred by the grantees such as those for engineering services, administrative, legal, audit, movable equipment and household connections and local distribution or collection laterals, are not considered eligible project costs.

We reviewed the 55 projects approved through February 1968 for Federal grant assistance in the area under the jurisdiction of HUD's Region VI office and noted that the grants were made at 50 percent of eligible costs, except in three cases where the grants were limited to \$1.5 million. Seventeen of these projects were selected for grant assistance after implementation of the numeric rating system.

The rating system has a maximum of 100 points and is designed to evaluate (1) comprehensive planning, (2) community and area needs, (3) financial and economic status, and (4) the benefits to be derived from the projects. We were informed that HUD implemented the rating system because the demand for funds under the basic water and sewer program significantly exceeded the funds available. Through use of the rating system, HUD identifies those projects that most nearly meet the objectives of the program.

The numeric ratings assigned to the 17 projects ranged from 40 to 62 points, indicating that the projects met program objectives to varying degrees. For example, while one of the primary program objectives is to promote the orderly development of communities through the encouragement of area-wide comprehensive planning, we noted that one city (with an overall score of 43 points) scored 2 points for comprehensive planning--which has a maximum weight of 20 points--while another (with an overall score of 55 points) had a rating of 14 points for this category.

In addition to the varying degrees to which the projects met program objectives, we noted that the communities apparently had varying financial and economic needs. For example, one community (with an overall score of 62 points) scored a total of 14 points for financial and economic status--which has maximum combined weight of 15 points--while another community (with an overall score of 43 points) scored

seven points for this category. While the higher number of points would indicate greater need for grant assistance because of the financial or economic conditions of the community, both of the communities received grants equal to 50 percent of their eligible project costs.

We found that the Region considered a project eligible for approval provided the numeric rating was not below the regional office median for ratings given all project applications during a particular period. However, as noted above, once a project was selected for participation, the extent to which the project met program objectives or the needs of the community requesting financial assistance did not affect the percentage of grant assistance.

Although HUD currently gives some recognition to the varying needs and accomplishments of public bodies during the selection of projects to be assisted, we believe it would be beneficial to further recognize these needs and accomplishments by varying the percentage of financial assistance. Under such a system, those public bodies doing the most to further the objectives of the program or those most in need of financial assistance, or both, would receive grants for a higher percentage of their project costs than the other public bodies.

We believe that such a system would benefit the program in two ways. First, we believe that it would help to accomplish the program objectives. If properly implemented, the system would encourage public bodies to do those things which would qualify them for the maximum percentage of assistance. Therefore, by basing the percentages on such program objectives as comprehensive planning, HUD would, in essence, be directing the efforts of the public bodies into activities that would do the most to accomplish the program objectives.

Second, we believe that the system would permit HUD to provide financial assistance to a greater number of public bodies. This would appear to be desirable because the requests for financial assistance under the program significantly exceeds the funds that are available. For example, through fiscal year 1968 a total of \$365 million had been appropriated for the program; whereas, through December 31, 1967, public bodies had requested financial assistance totaling \$2.8 billion. Further, indications are that requests for assistance under the program will continue to exceed the funds available. For example, during calendar year 1968 HUD received requests for assistance totaling \$731 million; whereas, the annual rate of funding has been less than \$200 million.

In our opinion, it would be feasible for HUD to establish a system by which grant amounts would be based upon varying percentages. As stated previously, since the numeric rating system used by HUD to select projects for participation considers project objectives and the financial needs of the public bodies, we believe that it might also serve as a basis for establishing the grant amounts.

Our suggestion that the numeric rating system be used as a basis for varying the percentage of grant assistance is based on the assumption that the system is meeting the objectives for which it was established and provides an effective means of identifying those projects which most nearly meet program objectives. It is recognized that some restructuring of the system and changes in emphasis placed on rating categories might be necessary before it could be used as an effective means of varying grant percentages. However, we believe that such restructuring or changes would not affect the basic principle suggested in this report.

Other systems for determining the amounts for which grants are made may also be practical. In this regard, we have noted that HUD has adopted criteria under the urban beautification and improvement program which results in grant amounts of varying percentages. The statutory maximum of grants made under that program is 50 percent of the eligible cost, the same as that authorized under the basic water and sewer program.

We also noted that the Farmers Home Administration, Department of Agriculture, which administers a water and sewer facilities grant program similar to that administered by HUD, imposes a financial need requirement on public bodies requesting grant assistance. The Administration varies the percentage of its contribution to the project costs on the basis of the need demonstrated by the public body.

We are not suggesting that either of the two aforementioned systems for determining grant amounts be utilized in the basic water and sewer program. They are mentioned solely to point out that it appears to be feasible to establish a system by which grant amounts would be based upon varying percentages.

CONCLUSION AND RECOMMENDATION

On the basis of our examination, we have concluded that HUD could establish grant amounts in a manner that would encourage public bodies

to take those actions which would contribute the most to the accomplishment of the objectives of the basic water and sewer program. We believe that the use of such a system would also permit HUD to provide financial assistance to more public bodies.

We recommend, therefore, that HUD examine into the feasibility of establishing basic water and sewer grant amounts in a manner that will vary the percentage of the Federal contribution to recognize either the degree to which public bodies contribute to the program objectives or the financial need of the public body, or both.

We also recommend that HUD consider the feasibility of varying the percentage of the Federal contribution under the other grant programs, such as the open-space land program, in which grant amounts are currently made at the maximum percentage authorized.

We appreciate the cooperation and courtesies extended to us by HUD personnel during our examination. A copy of this report is being sent to the Assistant Secretary for Metropolitan Development.

We would appreciate receiving your comments as to the action to be taken on this matter within 30 days from the date of this letter.

Sincerely yours,

Max Hirschhorn

Max Hirschhorn
Associate Director

The Honorable
The Secretary of Housing
and Urban Development