

August 1992

HOMELESSNESS

Single Room Occupancy Program Achieves Goals, but HUD Can Increase Impact



147674

**RESTRICTED--Not to be released outside the
General Accounting Office unless specifically
approved by the Office of Congressional
Relations.**

555237

RELEASED



United States
General Accounting Office
Washington, D.C. 20548

**Resources, Community, and
Economic Development Division**

B-248798

August 27, 1992

The Honorable John Glenn
Chairman, Committee on
Governmental Affairs
United States Senate

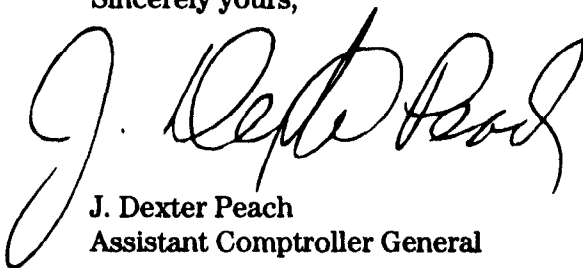
Dear Mr. Chairman:

This report responds to your request that we review the Department of Housing and Urban Development's (HUD) Section 8 Moderate Rehabilitation Program for Single Room Occupancy (SRO) Dwellings for Homeless Individuals. The report discusses the extent to which the program is providing adequate housing and making available supportive services for the homeless. It recommends ways in which HUD can tailor its management practices to better meet program needs.

As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of this letter. At that time, we will send copies to the Secretary of Housing and Urban Development and other interested parties. We will also make copies available to others upon request.

This work was performed under the direction of Judy A. England-Joseph, Director, Housing and Community Development Issues, who can be reached on (202) 275-5525 if you or your staff have any questions. Major contributors to this report are listed in appendix IV.

Sincerely yours,



J. Dexter Peach
Assistant Comptroller General

Executive Summary

Purpose

Between 1960 and the mid-1980s, the United States lost approximately 1 million rooms designed to house single persons—about one-half of its total supply. Single persons, for whom such single room occupancy (SRO) buildings are designed, constitute the majority of the homeless population. To address the housing needs of the single homeless, the Congress in 1987 created the Section 8 Moderate Rehabilitation Program for Single Room Occupancy Dwellings for Homeless Individuals (SRO program) as part of the Stewart B. McKinney Homeless Assistance Act.

The Chairman of the Senate Committee on Governmental Affairs asked GAO to determine whether the SRO program is meeting its goals of creating adequate housing and making supportive services available to the single homeless for as long as needed. As agreed, GAO also evaluated the Department of Housing and Urban Development's (HUD) oversight of projects in development, reviews of projects' financial feasibility, and requirement to use tenant waiting lists developed by local public housing agencies (PHA).

Background

HUD approved \$258.2 million of fiscal year 1987 through 1991 appropriations for rent subsidies to create about 6,100 new SRO units in 91 cities. (Funds were not appropriated for fiscal year 1988.) HUD works through PHAs to competitively award 10-year rent subsidies for rehabilitated SRO units to owners of private projects. The PHAs are responsible for monitoring the projects throughout the rehabilitation process and during subsequent operation, while HUD field offices are responsible for overseeing the PHAs. Homeless individuals who are capable of independent living in an environment with supportive services are to have priority for the subsidized units and are expected to pay rent equal to 30 percent of their income.

Results in Brief

Consistent with program goals, SRO projects have generated housing (1,575 units completed in 46 projects through fiscal year 1991). These projects were serving the homeless—about 88 percent of the tenants were homeless immediately before moving into the SRO projects. The vast majority of the units were inspected and found to be clean, decent, and safe during fiscal year 1991.

The operating SRO projects also are making supportive services (e.g., employment counseling) available to tenants and allowing tenants to stay for as long as they need, provided that they pay their rent and comply with

house rules. About 35 percent of these projects reported to GAO that most of the tenants that had left during fiscal year 1991 did so because they did not pay rent or did not follow rules. Another 21 percent of the projects reported that most tenants had left because they had obtained a house or an apartment.

Despite the accomplishments of the SRO program, HUD management has not maximized the program's potential benefits. About 600 more homeless people could have been housed if the opening of 13 additional projects had not been delayed by a variety of circumstances, particularly financial difficulties. HUD followed certain practices in the SRO program that have not worked well for the homeless clientele it serves. These practices have been used in other section 8 rent subsidy programs whose primary clientele are not homeless. These practices include a limited financial review of projects, a requirement that projects fill vacancies from PHA-developed applicant waiting lists, and program oversight that has not ensured the timely opening of rehabilitated projects. HUD has an excellent opportunity to revise these practices because it recently moved the SRO program to the office responsible for other programs assisting the homeless and is reevaluating management practices, including monitoring improvements.

Principal Findings

SRO Projects Are Meeting Program Goals

At the end of fiscal year 1991, the SRO program was providing rent subsidies to 46 operating SRO projects with a total of 1,575 subsidized living units. These SRO projects gave homeless individuals priority for vacant units; 88 percent of tenants were homeless immediately before moving into the SRO buildings.

During fiscal year 1991, 45 of the 46 operating SRO projects were inspected at least once by either PHA or HUD personnel to assess compliance with federal housing quality standards. These standards are used to determine whether federally subsidized low-income housing is clean, decent, and safe. Twenty-four of the projects had no violations. In all, over 1,900 unit inspections were conducted, and 93 percent had no violations. GAO did not determine the severity of all violations but reviewed the inspection reports for the six judgmentally selected SRO projects that it visited and found most violations to be relatively minor.

The SRO legislation does not require (or authorize the funding for) supportive services. However, through its subsidy approval process, HUD places great importance on the availability of supportive services to help SRO tenants live independently. All 46 operating SRO projects make some supportive services available. Forty-two provide on-site services, such as individual case workers and employment and budget counseling. All but one SRO project refer tenants to nearby off-site providers for some services, such as medical care, substance abuse treatment, and job training. Most of these services are within 15 minutes of the SRO project by public transportation.

Unlike other assistance programs for the homeless, the SRO program has no statutory or regulatory time limits on residency, thus allowing SRO projects to provide permanent housing. None of the 46 operating SRO projects limited residency as long as tenants paid their rent and complied with house rules. Nonpayment of rent or not following rules was cited by about 35 percent of the projects as the most frequent reason tenants left during fiscal year 1991. In contrast, tenants moving to their own house or apartment was cited as the most frequent reason by about 21 percent of the SRO projects. The 46 operating SRO projects experienced an average turnover rate of 53 percent during fiscal year 1991.

Some HUD Management Practices Have Not Worked Well for SRO Projects

Although the SRO program has generated 1,575 living units, it has not achieved its full potential for assisting the homeless. Hundreds of units are not available because financial and other problems have delayed project openings. On average, it took the 46 operating SRO projects 12 months to open after HUD approval. However, 13 additional projects that HUD approved for subsidies using fiscal year 1987 and 1989 appropriations have substantially exceeded HUD's expected time frame of between 15 and 16 months to complete development. These projects had not opened by May 1, 1992—32 or more months after HUD had approved them. They represent 606 units, about 27 percent of all SRO units HUD approved for subsidization with fiscal year 1987 and 1989 appropriations.

HUD did not aggressively track the progress of the 13 projects or help resolve their problems. Neither did HUD pursue the allowable remedies of shifting the subsidies to other projects in the local area or canceling the subsidies. Pursuing these remedies would be counterproductive for 10 of the projects because their rehabilitation is now under way. However, such action may be warranted for three projects because HUD and the PHAS

involved have yet to execute subsidy contracts for them and rehabilitation has not begun.

HUD adopted management practices for the SRO program from its other section 8 rent subsidy programs, but several of these procedures have not worked well for SRO projects serving the homeless. One such practice, a limited financial review of prospective projects, does not address the overall financial feasibility of rehabilitating and operating SRO projects. HUD's financial review of SRO projects, as with the traditional section 8 projects, focuses on the cost of eligible items used to calculate the amount of rent subsidy HUD will pay. The review does not assess whether the projects will be on firm financial footing when total rehabilitation and subsequent operating costs are considered. As of May 1992, eight projects HUD had approved for subsidization with fiscal year 1987 and 1989 appropriations had not opened because of financial difficulties. Half of the 46 SRO projects operated at a deficit in fiscal year 1991.

To ensure fairness, HUD also adopted a section 8 requirement that SRO projects fill vacancies from PHA-developed waiting lists of eligible persons. This has proven impractical for many SRO projects. Many SRO project operators told GAO of problems with the lists, such as outdated entries and difficulty in tracking down homeless persons who have no mailing address or telephone. Moreover, SRO projects that use other sources to find tenants have been more successful in renting units to homeless persons than SRO projects that rely exclusively on PHA waiting lists.

Finally, because HUD has monitored PHA performance under the SRO program as part of the section 8 programs, the monitoring has been infrequent and has not ensured that all projects open in a reasonable time. HUD field offices were aware of the 13 delayed project openings but took no action either to help resolve the projects' problems or to shift or cancel the subsidies. Responding to a February 1991 recommendation from HUD's Office of Inspector General (OIG), HUD has drafted but not issued guidance to PHAs on how to monitor SRO projects. As of May 1992, HUD's Office of Special Needs Assistance Programs, which assumed responsibility for managing the SRO program in February 1992, was reevaluating SRO management practices, reviewing the draft monitoring guidelines for PHAs, and deciding on other actions to implement the OIG's recommendations for improving program monitoring. However, this office had no definitive schedule for completing these tasks.

Recommendations

GAO recommends that HUD (1) determine whether it would be in the best interest of the homeless and the government to shift or cancel subsidies for three SRO projects that are to be funded with fiscal year 1987 and 1989 appropriations and for which contracts with PHAs have not been executed, (2) expand financial reviews to ensure that future SRO projects have adequate financial resources to cover all projected rehabilitation and operating costs, and (3) remove the current requirement to use PHA-developed waiting lists to allow local SRO operators the option of filling vacancies with other sources. In conjunction with the latter action, HUD should instruct PHAs to make sure during monitoring visits that projects using other sources fill vacancies fairly, giving priority to single homeless persons.

Agency Comments

GAO discussed its findings with the directors and other officials of both the former and current HUD offices responsible for managing the SRO program. These officials generally agreed with GAO's findings and recommendations and provided updated information that GAO incorporated into this report. As requested, GAO did not obtain written comments on this report.

Contents

Executive Summary		2
Chapter 1		10
Introduction	SRO Program Operations	10
	GAO Reviewed 46 Operational SRO Projects	12
	The Relationship of the SRO Program to Other HUD Rent Subsidy Programs	20
	Objectives, Scope, and Methodology	21
Chapter 2		24
Operating SRO Projects Are Meeting Program Goals	SRO Program Has Created Adequate Housing for Homeless Individuals	24
	Variety of Supportive Services Are Available	27
	Residency Not Restricted, but Many Projects Have Frequent Turnover	29
	Conclusions	31
Chapter 3		33
HUD Management Has Not Maximized SRO Program Benefits	HUD Has Not Ensured Timely Opening of SRO Projects	33
	SRO Program Has Been Managed Like Other Section 8 Rent Subsidy Programs	36
	HUD's Financial Review Procedures Have Not Worked Well for SRO Projects	36
	PHA Waiting Lists Are Impractical and Less Effective Than Other Methods of Locating Tenants	40
	HUD in Process of Correcting Monitoring Weaknesses Identified by the OIG	43
	Transfer of SRO Program to SNAPs May Help Increase Impact	45
	Conclusions	45
	Recommendations	46
	Agency Views	47
Appendixes		
	Appendix I: Selected Characteristics of SRO Projects GAO Surveyed	48
	Appendix II: Location of Operating SRO Projects GAO Surveyed	56
	Appendix III: Selected Information on 13 Unopened SRO Projects Funded With Fiscal Year 1987 and 1989 Appropriations	57

Appendix IV: Major Contributors to This Report	59
---	-----------

Tables

Table 1.1: SRO Program Subsidies Approved by Fiscal Year	11
Table 1.2: Six SRO Projects GAO Visited	22
Table 2.1: SRO Project Turnover Rates for Fiscal Year 1991	30

Figures

Figure 1.1: Hotel Before and After Rehabilitation as an SRO Project	13
Figure 1.2: Abandoned Laundry Before and After Rehabilitation as an SRO Project	14
Figure 1.3: Bathroom and Bedroom Before and After Renovation for SRO Project	15
Figure 1.4: Private Bedrooms and Shared Bathroom/Kitchen Facilities at SRO Projects	17
Figure 1.5: Community Room at SRO Project	18
Figure 1.6: Security System, Laundry Room, and Dining Room at SRO Project	19
Figure 2.1: Extent to Which SRO Projects Housed Formerly Homeless Persons on September 30, 1991	25
Figure 2.2: Supportive Services Available On-Site and Off-Site	28
Figure 2.3: Most Frequently Cited Reasons by SRO Projects for Tenants Leaving	31
Figure 3.1: Status as of May 1, 1992, of Unopened SRO Projects Approved for Subsidization With Fiscal Year 1987 and 1989 Appropriations	35
Figure 3.2: Financial Operating Results for 46 SRO Projects During Their Last Fiscal Year	39
Figure 3.3: Types of Waiting Lists SRO Projects Used to Locate Tenants	41
Figure 3.4: Usefulness of Different Types of Waiting Lists in Housing Formerly Homeless Tenants in SRO Projects	43

Abbreviations

AIDS	acquired immunodeficiency syndrome
GAO	General Accounting Office
HUD	Department of Housing and Urban Development
OIG	Office of Inspector General
PHA	public housing agency
SNAPs	Office of Special Needs Assistance Programs
SRO	single room occupancy

Introduction

Approximately 70 percent of the homeless population are single men and women, out of a total estimated homeless population of between 250,000 and 3 million. An unknown number of this single homeless population formerly lived in single room occupancy (SRO) housing. (An SRO building has multiple one-room living units designed for single persons.) The supply of this housing has been severely reduced over the past 30 years, however, partly as a result of public urban renewal and private gentrification. Between 1960 and the mid-1980s, the United States lost approximately 1 million SRO units, about one-half of all available SRO units.

The loss of SRO projects has been particularly severe in certain large cities, such as New York (more than 110,000 SRO units lost between 1970 and 1983), Chicago (18,000 units lost between 1973 and 1984), and Los Angeles (more than one-half of the downtown units demolished between 1970 and 1985). Some smaller cities, such as Duluth, Minnesota, and Nashville, Tennessee, also have lost large portions of their SRO units.

To help meet the need for additional affordable housing for single homeless men and women, the Congress in 1987 created the Section 8 Moderate Rehabilitation Program for Single Room Occupancy Dwellings for Homeless Individuals as part of the Stewart B. McKinney Homeless Assistance Act (P.L. 100-77).

SRO Program Operations

Under the 1987 act, the Department of Housing and Urban Development (HUD) is to competitively award rental subsidies to public housing agencies (PHA) that best demonstrate both a need for SRO dwellings for the homeless and an ability to create such housing quickly and efficiently. Under the SRO program, both nonprofit and for-profit building owners who rehabilitate a substandard property to create SRO units receive guaranteed federal rent subsidies for those units for 10 years, subject to renewal for an additional 10 years. The subsidy is equal to the difference between the rent the tenant pays, which is limited to 30 percent of the tenant's adjusted monthly income, and an agreed-upon rent, which cannot exceed HUD's fair market rent for similar units in the local area. This agreed-upon rent (called the contract rent) is designed to cover certain operating costs and to allow the owner to recoup allowable rehabilitation costs.

During HUD's annual competition for the rent subsidies (funds were not appropriated for fiscal year 1988), public housing agencies propose specific projects for funding. HUD ranks the proposals using a number of criteria, including the provision of supportive services designed to help

tenants live on their own. Although these services are not a prerequisite for an award, they are an important factor in HUD's award decisions. The cost of supportive services, however, is not reimbursable through the federal rent subsidy.

After a project is selected to receive subsidies, HUD and the sponsoring PHA enter into an annual contributions contract. This contract guarantees that federal funds will be available to cover the subsidies and the PHA's administrative costs. The latter are costs the PHA incurs in carrying out administrative responsibilities, such as determining the eligibility of prospective tenants, issuing monthly subsidy payments, periodically inspecting the projects for compliance with federal housing quality standards, conducting active outreach efforts to inform homeless persons about the program, and generally overseeing the project. HUD field offices, in turn, are responsible for monitoring how well PHAs carry out their administrative responsibilities. Once HUD and a PHA sign the annual contributions contract, the PHA and the SRO project owner sign a contract that establishes the conditions under which rental assistance will be paid (the housing assistance payment contract). Rehabilitation work cannot begin until these contracts are signed.

HUD approved \$258.2 million of fiscal year 1987 through 1991 appropriations for subsidies under the SRO program (see table 1.1). The subsidies were intended to help create about 6,100 new SRO units in 91 cities. The program's first SRO project opened in February 1988. As of May 31, 1992, 53 SRO projects were open, making available approximately 1,862 units. On average, the 53 SRO projects have been in operation for almost 30 months, ranging from 1 month to almost 53 months.

Table 1.1: SRO Program Subsidies Approved by Fiscal Year

Dollars in millions			
Fiscal year ^a appropriated	Amount of approved rent subsidies	SRO projects to be funded	Estimated units to be rehabilitated
1987	\$35.0	30	1,024
1989	45.0	28	1,213
1990	73.2	46	1,612
1991	105.0	50	2,235
Total	\$258.2	154	6,084

^aFunds for the SRO program were not appropriated for fiscal year 1988.

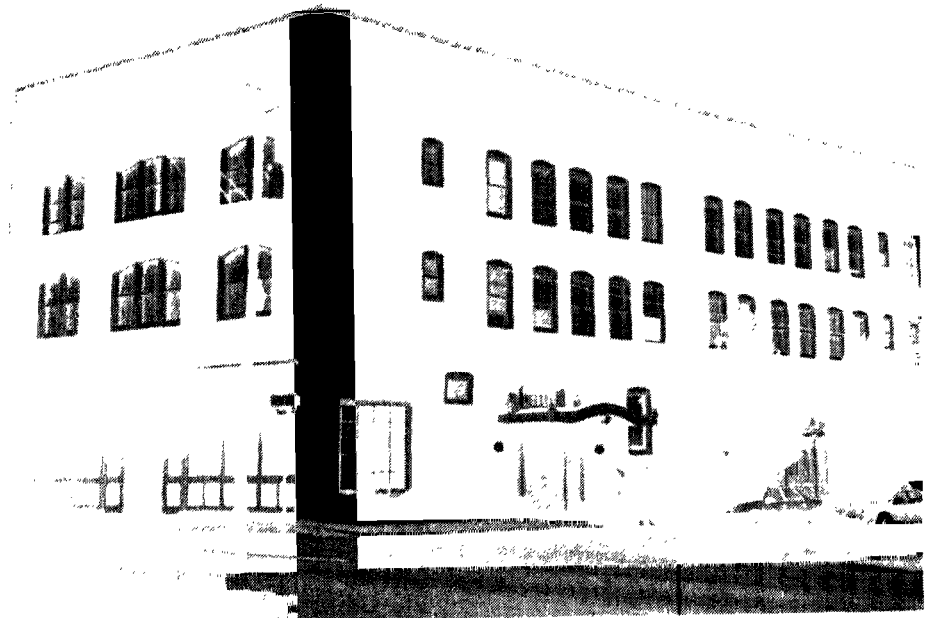
GAO Reviewed 46 Operational SRO Projects

We obtained information on the 46 SRO projects that were operational as of September 30, 1991. These projects varied in size from 5 to 109 subsidized units,¹ with the average being 34 subsidized units. Almost 61 percent of the projects (28 of 46) were owned by nonprofit organizations, with the remainder owned by for-profit organizations. The average monthly contract rent for units at these projects was \$326, as of December 1991. Contract rents for individual projects ranged from \$203 per month for a project in Puerto Rico to \$577 per month for a project in San Francisco. (See app. I for the location and key characteristics of the 46 projects.)

While detailed descriptive information about the projects was not available centrally from HUD, we did obtain such information for the six projects we visited during our review. The six projects were rehabilitated from diverse structures, ranging from old hotels to an abandoned commercial laundry facility. (See figs. 1.1 to 1.3).

¹The project with 109 units was subsidized with fiscal year 1987 appropriations. Beginning with fiscal year 1990 appropriations, HUD imposed a limit of 100 subsidized units in any one project to keep projects at what it considered a manageable size.

**Figure 1.1: Hotel Before and After
Rehabilitation as an SRO Project**



**Figure 1.2: Abandoned Laundry Before
and After Rehabilitation as an SRO
Project**

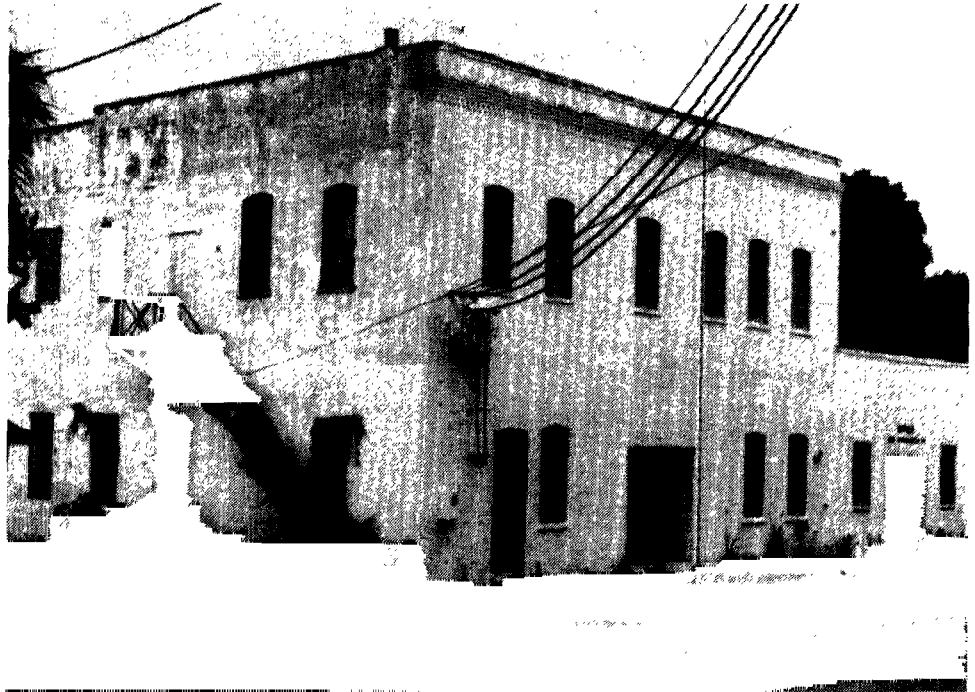


Figure 1.3: Bathroom and Bedroom Before and After Renovation for SRO Project



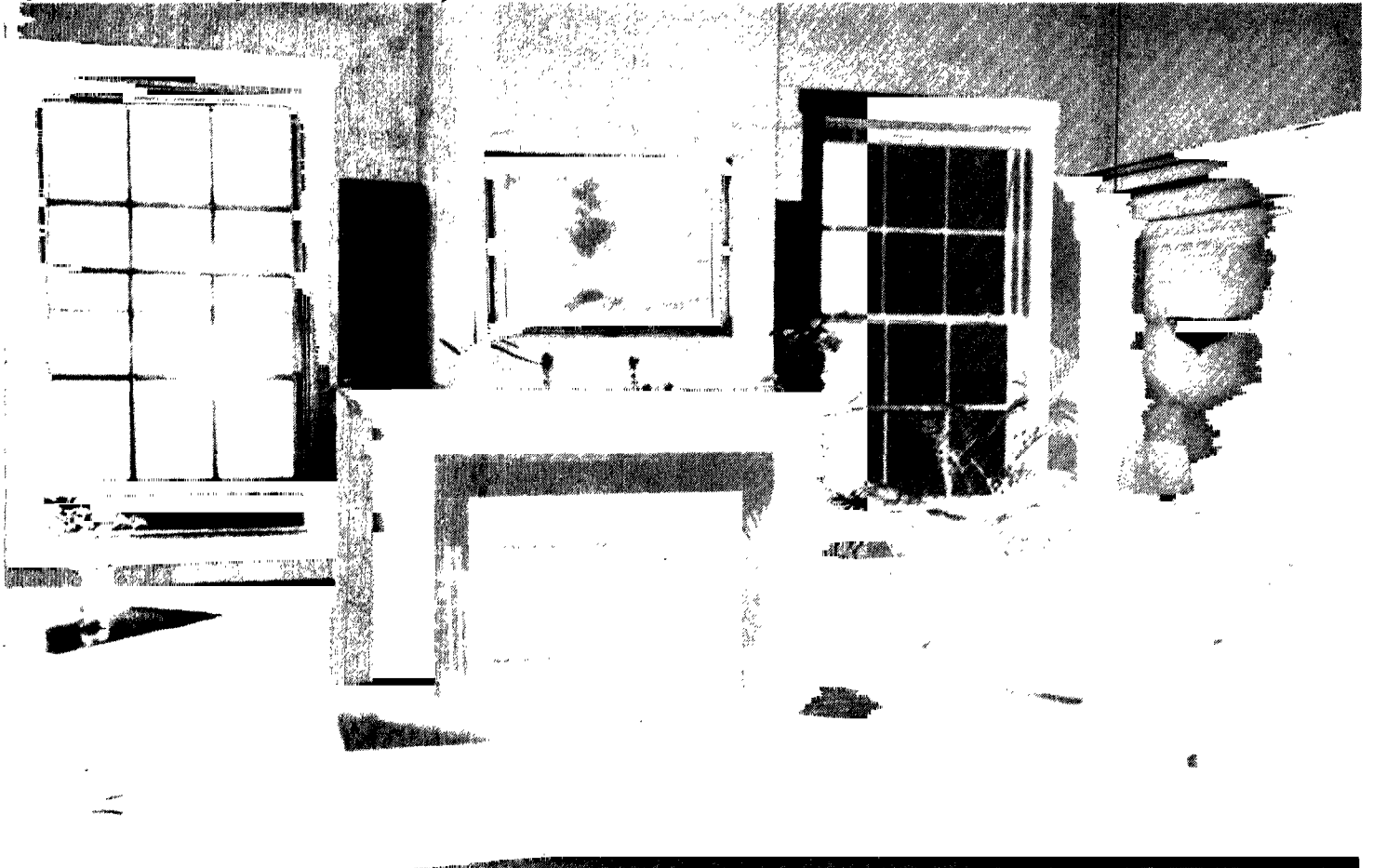
All six of the SRO projects that we visited provided tenants with a private bedroom with basic furnishings (including a bed and dresser) and shared bathroom facilities. (See fig. 1.4.) Five of the six SRO projects provided the room furnishings at no additional cost, whereas one project charged the tenants an additional \$10 a month for the furnishings. Three projects also supplied bed sheets and towels at no additional cost.

Figure 1.4: Private Bedrooms and Shared Bathroom/Kitchen Facilities at SRO Projects



The six SRO projects all had common areas for tenants, such as dining rooms and community rooms with card tables and televisions. Two projects also had recreational areas, including basketball and gym equipment. One of the projects operated a kitchen that prepared and sold meals to the tenants, whereas three other projects had kitchen facilities where tenants could store food and cook their own meals. Two SRO projects also had laundry rooms with washers and dryers, and another project had a chapel. (See figs. 1.5 to 1.6.)

Figure 1.5: Community Room at SRO Project



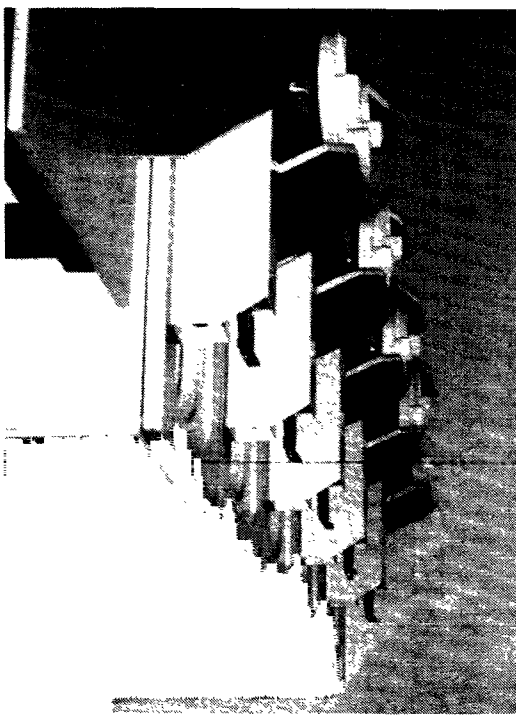
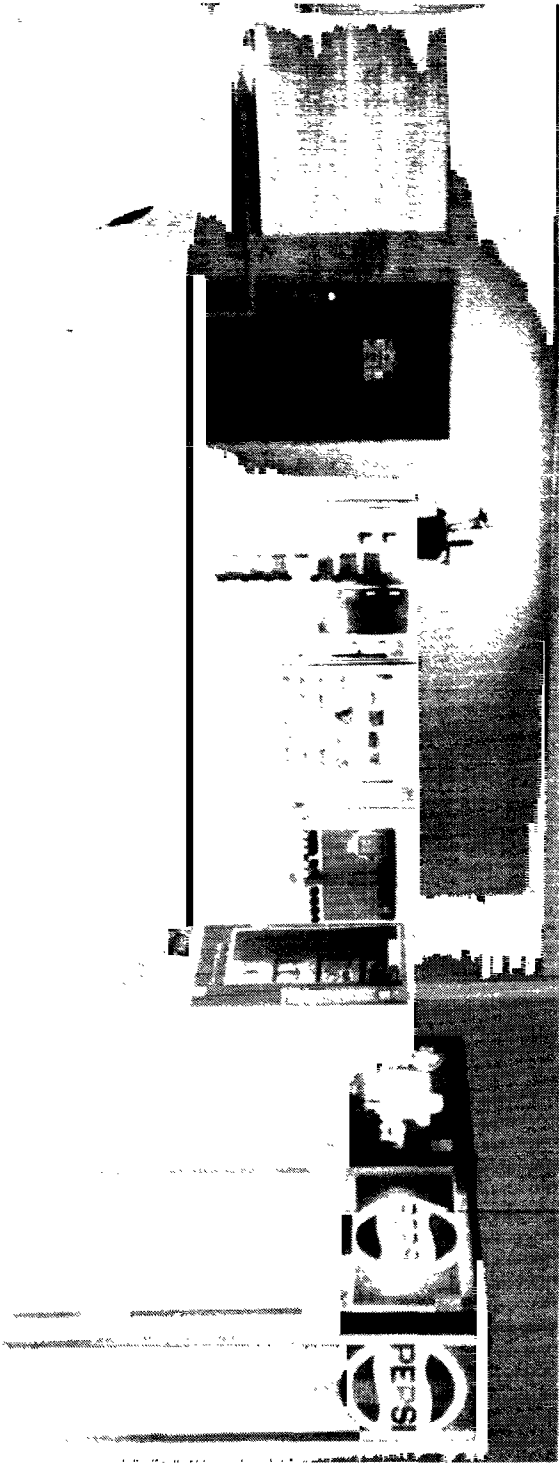


Figure 1.6: Security System, Laundry Room, and Dining Room at SRO Project



The Relationship of the SRO Program to Other HUD Rent Subsidy Programs

The SRO program is part of HUD's larger, traditional low-income housing assistance programs authorized under section 8 of the U.S. Housing Act, as amended (42 U.S.C. 1437 *et seq.*). First established in 1974, section 8 programs subsidize household rent payments in existing privately owned housing by paying a portion of the rents for low-income (but usually not formerly homeless) tenants. Unlike the SRO program, these other section 8 programs focus almost entirely on projects serving families rather than single individuals. In February 1992, the SRO program was removed from HUD's Moderate Rehabilitation Division and placed under the management of the Office of Special Needs Assistance Programs (SNAPS), which manages HUD's other homelessness assistance programs.

There are several similar but distinct section 8 programs, all of which are administered at the local level by PHAs. Section 8 programs include a Moderate Rehabilitation Program (primarily for projects serving families), the Existing Housing Certificate and Voucher Programs, and the SRO Moderate Rehabilitation Program that we reviewed. In fiscal year 1991, the federal government allocated about \$8.9 billion for section 8 programs, of which \$105 million went to the SRO program.

The SRO Moderate Rehabilitation Program is also similar to, but distinct from, a more recent SRO program for homeless individuals enacted as one of several components of HUD's Shelter Plus Care initiative. The Shelter Plus Care SRO program was authorized by the National Affordable Housing Act of 1990 and was first funded in fiscal year 1992 with \$73.3 million. HUD awarded \$36.8 million in May 1992 to 15 SRO projects to subsidize 706 units. According to HUD officials, HUD did not award the full \$73.3 million because it did not receive enough eligible applications.

Like the program we reviewed, the Shelter Plus Care SRO program provides rent subsidies to SRO projects for homeless individuals. However, the Shelter Plus Care SRO program differs from the SRO Moderate Rehabilitation Program in two ways. First, it specifically targets homeless individuals who have serious mental illnesses, chronic problems with alcohol and/or drugs, or acquired immunodeficiency syndrome (AIDS) and related diseases. At least 50 percent of the federal rent subsidies must be used for the seriously mentally ill and persons with chronic drug and/or alcohol problems. Second, recipients of Shelter Plus Care SRO funds (states, local government organizations, Indian tribes, or PHAs) are required to match the rental subsidies provided with an equal value of supportive services for the assisted tenants. Funding for the supportive

services must come from other federal or nonfederal sources, although the value of in-kind donations may be counted toward the required match.

Objectives, Scope, and Methodology

The Chairman of the Senate Committee on Governmental Affairs asked GAO to determine whether the SRO Moderate Rehabilitation Program is meeting the goals of (1) creating housing, primarily for homeless individuals, that is clean, decent, and safe; (2) providing supportive services to help homeless individuals live independently; and (3) allowing individuals to stay in the SRO units for as long as needed. As agreed with the Chairman's office, we also reviewed selected aspects of HUD's program management: (1) oversight of projects in development, (2) financial review procedures for SRO projects, and (3) required use of PHA-developed waiting lists to fill vacancies in SRO projects. We limited our review to these aspects of HUD program management so as not to duplicate the areas covered by a 1991 HUD Office of Inspector General (OIG) review of the SRO program.² We did, however, determine what actions HUD had taken to correct weaknesses the OIG found in HUD's monitoring of PHA performance under the SRO program.

To determine whether the SRO program is meeting its goals, we obtained information on the 46 SRO projects that were operating as of September 30, 1991. We conducted a structured telephone survey of the 46 SRO projects, which represent about 30 percent of the 154 SRO projects that HUD approved through fiscal year 1991. We obtained information on tenant characteristics, occupancy levels for fiscal year 1991, the number of tenants who moved out during fiscal year 1991, the reasons tenants moved out, the availability of supportive services, the financial condition of the SRO project for its last complete fiscal year, and the SRO project's method of identifying future tenants. We conducted our telephone survey during December 2-23, 1991. During February 20-25, 1992, we made follow-up telephone calls to the 46 SRO projects to ask questions about their policies on the length of tenant stay.

We also mailed questionnaires in November 1991 to the 34 PHAs that were administratively responsible for the 46 operating SRO projects. Information obtained included data on project size, results of health and safety (housing quality standards) inspections for fiscal year 1991, and tenant occupancy during fiscal year 1991.

²Audit of the Single Room Occupancy Program, (91-AO-119-0002, Feb. 13, 1991).

We supplemented the data collected by telephone and mail surveys with more detailed information obtained through site visits to six judgmentally selected SRO projects and the six PHAs responsible for administering them. We selected the six SRO projects to obtain a mix of size, geographic location, and type of tenants served. (See table 1.2.) We used a structured instrument to collect these data. At the six SRO projects, we also interviewed 35 tenants who were selected by the SRO project managers. We asked each of these tenants questions to determine where they were before coming to the SRO project, their use of supportive services, and their general level of satisfaction with the SRO project. We made these site visits between October and December 1991.

Table 1.2: Six SRO Projects GAO Visited

SRO project location	Number of units	Type of tenants served
Grand Rapids, Michigan	86	General homeless
Jacksonville, Florida	109	General homeless
Providence, Rhode Island	90	General homeless
Salem, Oregon	21	Homeless women and former drug users
San Francisco, California	32	Homeless persons with AIDS
Shreveport, Louisiana	45	General homeless and homeless persons with mental illnesses

To assess the selected aspects of HUD management, we reviewed the previously identified 1991 HUD OIG report on the SRO program; HUD's Federal Managers Financial Integrity Act report for fiscal year 1989; HUD OIG semiannual reports to the Congress for fiscal years 1988 through 1991; relevant HUD regulations, policies, and handbooks; and HUD's project application files for fiscal years 1987, 1989, and 1990. We also interviewed HUD headquarters officials responsible for managing the SRO program (those in HUD's Moderate Rehabilitation Division who formerly managed the program and those in SNAPS who have managed it since February 1992). We also interviewed HUD personnel and reviewed project files at the six HUD field offices with oversight responsibility for the six SRO projects we visited. These field offices are located in Grand Rapids, Michigan; Jacksonville, Florida; New Orleans, Louisiana; Portland, Oregon; Providence, Rhode Island; and San Francisco, California. These field offices are also responsible for another 2 of the 46 operating SRO projects.

Our audit work was performed between May 1991 and June 1992 in accordance with generally accepted government auditing standards. As

requested, we did not obtain written agency comments on this report. However, we discussed its contents with the Director and other officials of HUD's SNAPS and with the former Director of HUD's Moderate Rehabilitation Division. The officials generally agreed with our findings but provided some updated information that we incorporated into this report. Additional views of these officials relating to our recommendations are contained in chapter 3.

Operating SRO Projects Are Meeting Program Goals

The 46 SRO projects that were operating as of September 30, 1991, were generally meeting program goals. They have provided housing that is occupied mostly by formerly homeless persons. The vast majority of the SRO units are clean, decent, and safe. Some supportive services are available to the tenants, either at the SRO project or nearby. The SRO projects are also providing housing for tenants for as long as they need it, provided the tenants pay their share of the rent and abide by house rules. However, few tenants that we interviewed planned to live in their SRO project permanently. Many of the SRO projects have experienced frequent turnover, for both positive and negative reasons. Some tenants have moved on to better housing, while others have been evicted for not paying rent or not complying with house rules.

While the McKinney Act does not specifically define goals for the SRO program, several basic goals are implicit in the act and related regulations. The McKinney legislation authorizes the use of section 8 funds to create SRO housing through the moderate rehabilitation of existing buildings. In addition, the legislation specifies that homeless individuals should be given priority in the renting of these SRO units. The goal of providing housing that is clean, decent, and safe is common to HUD's regulations for all federally subsidized section 8 housing. Unlike its other homeless assistance programs, the McKinney Act specifies no limit on the time persons may reside in SRO projects, thus allowing tenants to stay for as long as needed. While not specifically required for SRO projects by the McKinney Act or HUD's implementing regulations, HUD's award procedures place importance on the availability of supportive services as a necessary element to help formerly homeless persons successfully live on their own.

SRO Program Has Created Adequate Housing for Homeless Individuals

The SRO program has added to the SRO housing stock rooms that primarily serve the formerly homeless and that meet federal housing quality standards.

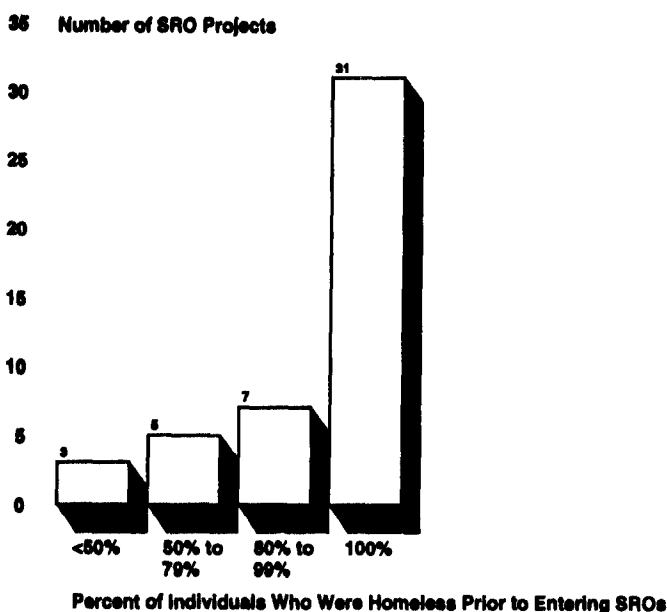
SRO Housing Primarily Serves Formerly Homeless

The SRO program has created badly needed housing for single homeless persons. As of September 30, 1991, 46 SRO projects were operational, providing a total of 1,575 rehabilitated living units. These SRO projects are for the most part serving the single homeless population. All 46 SRO projects reported that they give priority to homeless individuals in the renting of units. Although an individual does not have to be homeless to be

eligible to rent a unit in the subsidized SRO projects, almost two-thirds of the 46 SRO projects reported that their total tenant population was previously homeless.¹ (See fig. 2.1.)

As of September 30, 1991, 88 percent of the tenants in all the projects (or 1,324 individuals) were homeless prior to renting their SRO unit. One SRO project reported that only 33 percent of its tenants were formerly homeless. This particular SRO project was operating as a residential hotel at the time rehabilitation work started and was 90 percent occupied by former hotel residents when it first opened as a SRO project. Since its opening, vacancies have been filled with homeless individuals.

Figure 2.1: Extent to Which SRO Projects Housed Formerly Homeless Persons on September 30, 1991



Most projects indicated that they rented to the general homeless population, although some projects said that they also target specific homeless groups, such as the mentally disabled, substance abusers, and the elderly. The homeless came from a variety of living situations. At the

¹SRO projects can provide affordable housing for nonhomeless individuals who meet the income eligibility test for section 8 rent subsidy. Section 8 eligibility is in most instances limited to households (an individual in the case of SROs) with incomes that do not exceed 80 percent of the median income for the local area.

SRO projects we visited, many of the tenants came from shelters, the street, or temporary arrangements with friends or relatives.

The 46 operating projects averaged a 94-percent occupancy rate as of September 30, 1991, and more than half of the SRO projects reported 100-percent occupancy. This compares favorably with 1989 U.S. Census data showing an average occupancy rate of 87 percent for efficiency-type units (the closest Census category to SRO projects).

SRO Projects Meet Housing Quality Standards

All SRO units are required to meet HUD's housing quality standards, which are the official criteria for determining whether the housing is clean, decent, and safe. The standards include specifications for various aspects of the facility—the outside grounds and neighborhood, water supply, lighting, and electricity. HUD requires PHAs to inspect each unit annually and prior to leasing it to a new tenant. If a unit fails any housing quality standard, it fails the inspection and must be reinspected to ensure that all violations are corrected.

Tenants of the 46 operating SRO projects are generally living in clean, decent, and safe housing. Most units complied with federal housing quality standards.

According to the administering PHAs, 45 of the 46 operating SRO projects were inspected during fiscal year 1991.² In total, 1,912 unit inspections were made³ and 93 percent of the units (1,786) passed. Seven percent of the inspections resulted in failed units (126), mostly because of electrical, plumbing and heating, smoke detector, and security problems.

Specific violations could reflect a wide range of problems, from minor to severe. Although we did not ask PHAs to judge the severity of the reported violations, our more detailed review of inspection reports at the six sites we visited indicated that in general the violations were not severe. We found the six SRO projects to be generally clean and free of any obvious safety hazards. The types of violations we found included such things as dirty bathrooms, carpet damage, missing electrical switch covers, and

²The one project not inspected during fiscal year 1991 opened on June 5, 1991, about 4 months before the end of the fiscal year. PHAs are responsible for inspecting for compliance with federal quality standards, and PHA personnel conducted over 99 percent of the inspections reported to us. HUD personnel conduct a limited number of these inspections as part of a periodic management review of PHA operations.

³There were more unit inspections than units because some units were inspected more than once.

dirty walls. Tenants also told us during our visits that they were generally satisfied with their rooms and the overall facilities.

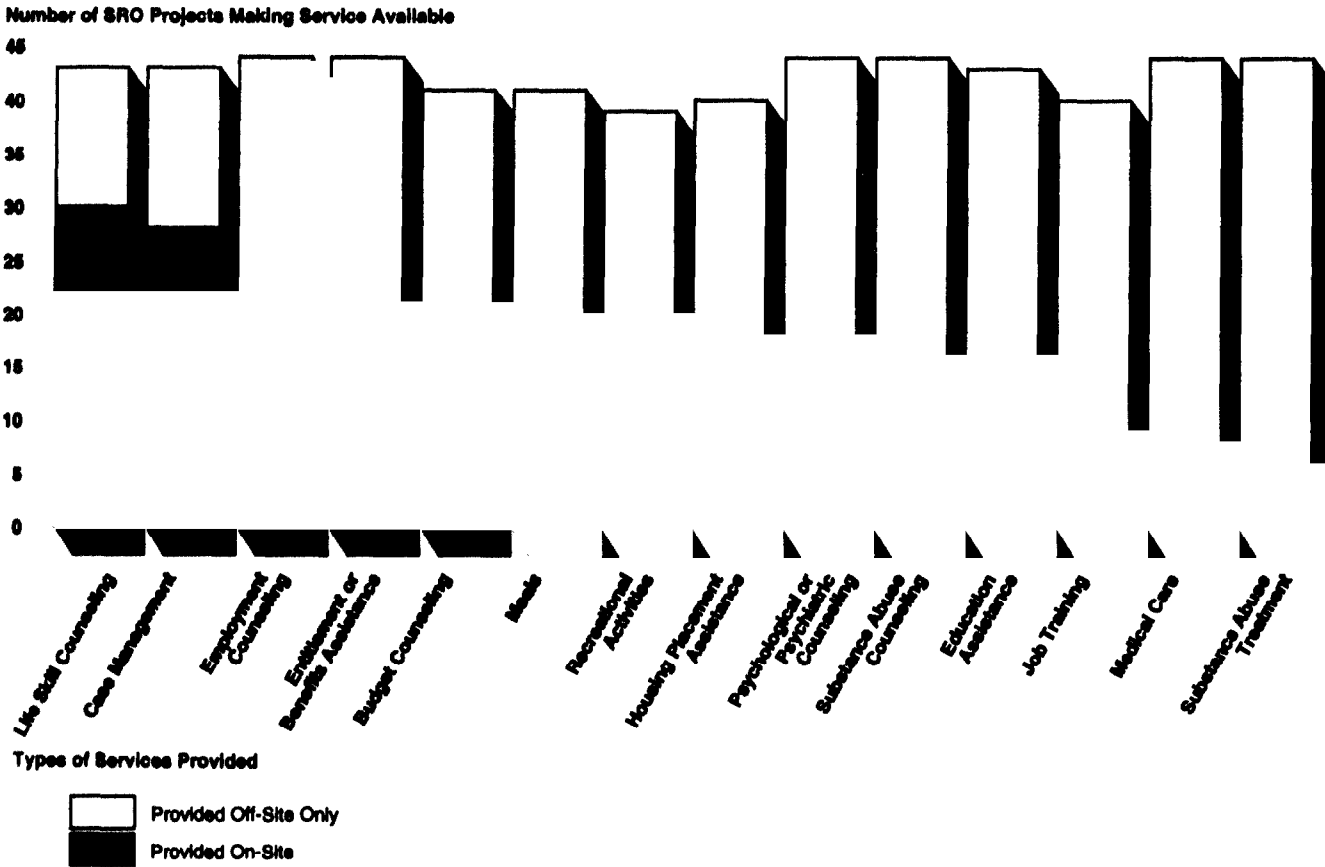
Variety of Supportive Services Are Available

Although the McKinney Act does not require nor authorize funding for supportive services, HUD emphasizes the need for such services in its selection of projects to subsidize. HUD has placed increasing importance on supportive services since the SRO program was established in fiscal year 1987. In that year, availability of supportive services accounted for 7 of 100 maximum points in HUD's scoring of individual applications; supportive services account for up to 20 of 100 maximum points in 1992. According to HUD project selection officials, no SRO project has been approved that did not include plans in its application to provide supportive services.

All 46 SRO projects reported that some supportive services are available to their tenants, either at the SRO project or through referrals to nearby service providers. (See fig. 2.2.) Supportive services, such as case management (counselor assigned to work individually with tenants) and substance abuse treatment, are designed to address the variety of personal, social, and economic problems that prevent homeless people from functioning successfully in society.

**Chapter 2
Operating SRO Projects Are Meeting
Program Goals**

Figure 2.2: Supportive Services Available On-Site and Off-Site



Notes: Projects providing services on-site may also have the same services available off-site.

Each bar does not equal 46 SRO projects because some projects indicated that they did not provide the service on-site or off-site.

Forty-two SRO projects reported that some services are available to tenants on-site. Forty-five of the 46 operating SRO projects said they refer tenants to nearby off-site providers for certain services, such as medical care, substance abuse treatment, and job training. Most of these providers could be reached by public transportation within 15 minutes of the SRO project.

We asked the 35 tenants we interviewed about the services they used. Twenty-seven tenants said that they had used at least one service, and 19 said they had used more than one. Most of the 35 tenants also indicated that they were satisfied with the supportive services they received at the facilities.

Because supportive services are not covered by the federal rent subsidy, we also asked the six projects how they paid for supportive services. Three projects said that they did not pay for the supportive services provided to their tenants but used the resources of local service agencies. Two projects incurred costs of under \$20,000 annually, which represented less than 4 percent of their operating costs. One project, which serves persons with AIDS, received grants from the city of San Francisco ranging from \$430,000 to \$523,000 annually for the supportive services.

Residency Not Restricted, but Many Projects Have Frequent Turnover

Unlike other federally funded programs for the homeless, such as transitional housing and emergency shelters, the SRO program has no limit on the length of time tenants may live in the subsidized facility. Therefore, none of the 46 operating SRO projects restrict residency, as long as tenants paid their portion of the rent and complied with project rules.

All 46 operating projects reported that tenants sign 1-year leases when they enter their facilities, as required by HUD regulations. The Director of HUD's Moderate Rehabilitation Division told us that the 1-year lease is intended to reinforce the "permanent" nature of the SRO housing. According to rough estimates provided to us by the 46 operating SRO projects, tenants live in their units an average of 13.4 months. Average stays estimated by individual projects ranged from 4 to 36 months.

The 46 operating projects experienced a 53-percent average turnover⁴ of tenants between October 1, 1990, and September 30, 1991. As shown in table 2.1, the range of turnover at individual projects was quite wide, from zero to 165 percent. Slightly more than half of the projects reported turnover rates of 50 percent or less, while three SRO projects reported rates of more than 100 percent.

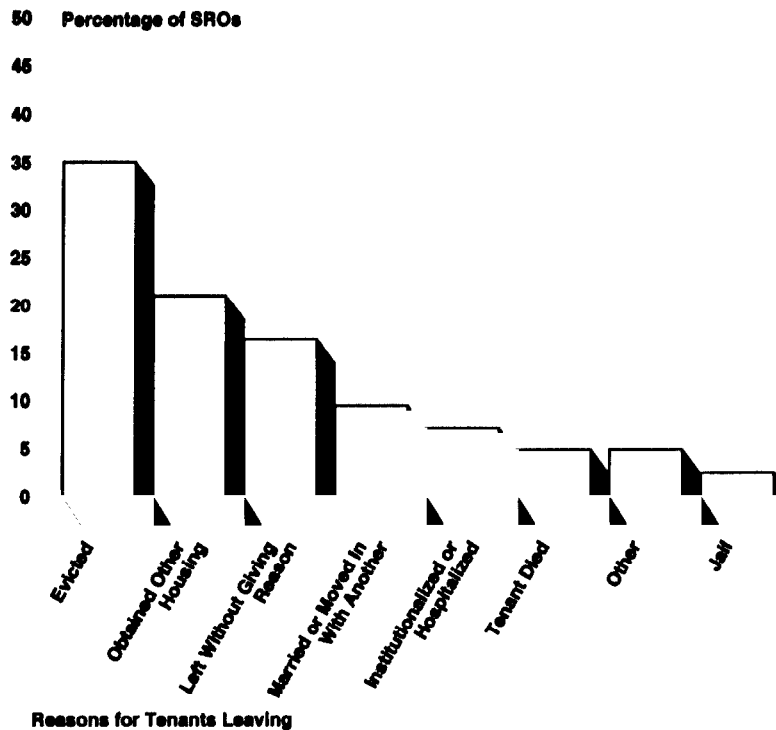
⁴We calculated the turnover rate by dividing the number of tenants who moved out of an SRO project by the number of living units in the SRO project for Oct. 1, 1990, through Sept. 30, 1991. The 53-percent average turnover rate does not take into account units that may not have been rented during the period. If such units were eliminated from the calculation, the average turnover rate would be slightly higher.

**Table 2.1: SRO Project Turnover Rates
for Fiscal Year 1991**

Turnover rates	Number of SRO projects
0% to 25%	15
26% to 50%	9
51% to 75%	6
76% to 100%	13
101% to 125%	0
126% to 150%	2
165%	1

Tenants moved out of the SRO projects for various reasons. About 35 percent of the SRO projects reported that eviction for not paying rent or not following house rules was the most frequent reason tenants left. Although none of the SRO projects cited returning to homelessness as the most frequent reason tenants left, tenants who were evicted or left without giving a reason may have returned to homelessness. By contrast, about 21 percent of the SRO projects said obtaining another form of housing (such as their own house or apartment) was the most frequent reason tenants left their facilities. In this regard, 28 of the 35 SRO project tenants we interviewed said they did not view the SRO project in which they were living as their permanent home. Tenants gave several reasons for this, including a desire to have a private bath and a kitchen in their living quarters and a dislike for certain SRO project house rules, such as restrictions on visits by friends and relatives. (See fig. 2.3.)

Figure 2.3: Most Frequently Cited Reasons by SRO Projects for Tenants Leaving



Notes: Tenants obtained other housing by either (1) moving into an apartment or house or (2) transferring to publicly assisted housing.

The reasons for tenants leaving were reported by 43 SRO projects that had had some tenant turnover during fiscal year 1991.

Conclusions

The 46 operating SRO projects are generally achieving program goals. They have provided almost 1,600 SRO units and over 1,300 formerly homeless individuals were living in subsidized housing units that are clean, decent, and safe.

Moreover, as HUD's project selection procedures emphasize, all 46 SRO projects were making available some level of supportive services to their tenants, either at the project or by referral to nearby off-site providers, most of whom were easily accessible by public transportation. Consistent with the lack of legislative time limits on residency, none of the 46 projects restricted how long tenants in good standing could live in their unit. However, most of the tenants we spoke to did not intend to live

permanently at the SRO project. While it was estimated that tenants stay an average of 13.4 months, the 46 projects reported a 53-percent average turnover in fiscal year 1991. The reasons for this turnover were both positive and negative. Some tenants moved on to better quarters, such as their own apartment or house, while others were evicted for failure to pay their rent or for violating house rules.

HUD Management Has Not Maximized SRO Program Benefits

Although operating SRO projects are generally meeting program goals, HUD has not maximized this program's potential benefits for providing housing for single homeless individuals. As of May 1, 1992, projects accounting for about 27 percent of the SRO units approved for rent subsidization with fiscal year 1987 and 1989 appropriations had not opened, and HUD had done little to prevent lengthy delays in opening these projects.

HUD applied management practices to the SRO program that were designed for programs to subsidize rental housing for section 8 low-income (but not usually homeless) families. Some of these procedures have not promoted achievement of the SRO program's full potential.

In particular, section 8 financial reviews focus on ensuring that HUD pays the proper rent subsidy, but they do not require HUD to assess the overall financial feasibility of SRO projects. Partly as a consequence of this focus, eight SRO projects that HUD approved for rent subsidization using fiscal year 1987 and 1989 appropriations had not opened by May 1, 1992, and half the open projects were operating at a deficit. In addition, section 8 waiting list requirements have proven impractical when trying to locate homeless prospective tenants who have no address or telephone. Many SRO projects have found other methods more effective in identifying homeless individuals who want SRO housing.

In February 1992 HUD moved administration of the SRO program from the section 8 Moderate Rehabilitation Division to the office that manages HUD's other homeless assistance programs. This office is now reevaluating SRO management procedures, including actions the HUD OIG recommended to improve SRO program monitoring.

HUD Has Not Ensured Timely Opening of SRO Projects

As of May 1, 1992, 13 projects accounting for about 27 percent of the units approved for subsidization with fiscal year 1987 and 1989 appropriations had not opened within HUD's expected time frame. Consequently, unopened projects is the principal reason that the SRO program has not achieved its full potential for assisting the homeless. Moreover, HUD has taken little action to prevent lengthy delays for the SRO projects.

Thirteen Projects Have Not Opened in Expected Time

HUD officials normally expect SRO projects to open within 15 to 16 months of HUD approval. This time frame, known as the development phase, consists of two components: 3 to 4 months for HUD to execute a contract with the administering PHA (required before rehabilitation can begin) and

12 months for the project to complete rehabilitation work. This time frame seems reasonable when compared with the experiences of the 46 SRO projects that had opened by the end of fiscal year 1991. Although 13 of the SRO projects took longer than 16 months to open, the 46 projects opened about 12 months after HUD approval, on average. The time taken to open the 46 SRO projects ranged from 2 months to 22.5 months.

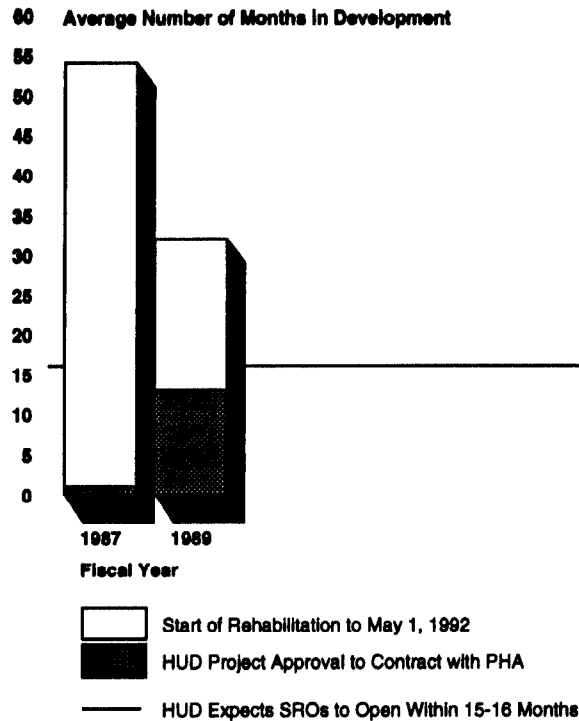
However, as of May 1, 1992, 13 other SRO projects (accounting for 606 units) had not opened, even though 32 or more months had elapsed since HUD approval. HUD has committed over \$20 million for 10 years of rent subsidies to these 13 unopened projects (1 fiscal year 1987 project and 12 fiscal year 1989 projects). Eight of these projects had not opened because of financial problems. The remaining five had not opened for a variety of other reasons. (See app. III for information on each of the 13 projects.)

Although HUD expects to execute contracts with PHAs within 3 to 4 months after project approval, it took an average of about 11 months (ranging from 1 to 18 months) to execute contracts for 10 of the 13 unopened SRO projects. Only 2 of the 10 contracts were executed within the expected 4 months. As of May 1, 1992, 32 months after project approval, the other three SRO projects still did not have signed contracts.

The three unopened SRO projects without signed contracts were approved by HUD for subsidization with fiscal year 1989 appropriations. According to HUD officials, one of these three projects was delayed because it did not get anticipated income tax credits for low-income housing to help with financing, while two proposed sites proved to be financially infeasible for the second of the three projects. Delays on the third project occurred because the original owner backed out of the project and the project needed clearance from the state historic preservation agency. Delays in executing contracts for the other eight unopened projects were due to several factors, including the owner's violating HUD regulations by starting rehabilitation before approval was given, inadequate PHA administrative plans, and delays in obtaining state approval.

According to HUD regulations, the rehabilitation work on the SRO projects should take no longer than 12 months. Yet, as of May 1, 1992, all 10 unopened SRO projects that had started rehabilitation had been in that phase for more than 12 months, ranging from 14 to 53 months. The 10 projects had been in rehabilitation for 23 months, on average. (See fig. 3.1.)

Figure 3.1: Status as of May 1, 1992, of Unopened SRO Projects Approved for Subsidization With Fiscal Year 1987 and 1989 Appropriations



Note: One fiscal year 1987 project and 12 fiscal year 1989 projects had not opened as of May 1, 1992.

HUD Does Not Aggressively Monitor Progress

HUD has not actively tracked the progress that unopened SRO projects are making towards opening. HUD headquarters personnel were not familiar with the status of the unopened SRO projects when we questioned them about it in March 1992. All HUD field offices are required to report to headquarters on the results of required site visits during the development phase, but no reports had been received by HUD headquarters as of December 1991.

Although HUD policy requires its field offices to make at least one site visit to projects once the rehabilitation work begins, field office personnel visited only 4 of the 10 SRO projects that had reached that phase. The field offices had some general information about the 13 unopened projects, but they had not aggressively tracked their progress nor acted to help the projects resolve their problems, to shift the subsidy to another local project, or to cancel the subsidies, as allowed by section 8 regulations. HUD field office personnel said they could not more actively monitor the projects because of limited staff resources.

Section 8 regulations allow HUD two options if approved SRO projects do not open on time. The section 8 subsidy may be shifted to another acceptable project in the same local area or the subsidy may be canceled. If the subsidy is canceled, however, the money is returned to the U.S. Treasury and is not available for other SRO projects.

SRO Program Has Been Managed Like Other Section 8 Rent Subsidy Programs

HUD has administered the SRO program as it has its much larger section 8 rent subsidy programs. HUD program officials pointed out that the SRO program was authorized as a section 8 program even though that authorization was enacted in the Stewart B. McKinney Homeless Assistance Act. Because of SRO's small size in comparison to the other section 8 programs,¹ HUD did not develop implementing regulations or guidelines specific to the homeless assistance aspects of the SRO program. Instead, it adopted existing guidance from the other section 8 rent assistance programs.

Because the SRO program differs in several important respects from the other section 8 programs, several of the general section 8 management procedures have not worked well. The SRO program has three important differences from the other section 8 programs: It (1) assists single persons rather than families, (2) is targeted to the homeless rather than to the larger population of low-income households that usually are not homeless, and (3) is the only section 8 program that expects projects to provide supportive services to tenants. We identified two practices, discussed below, that have hindered the SRO program from fully meeting its goal to provide housing to homeless individuals.

HUD's Financial Review Procedures Have Not Worked Well for SRO Projects

HUD's financial review of SRO projects has not ensured that projects are on sound financial footing and able to open in a reasonable time. This has contributed to delays in the opening of eight projects and deficit operations for half of the open SRO projects.

Because HUD has followed general section 8 procedures, its financial review during the application approval process and the development phase is limited to ensuring that HUD pays the proper rent subsidy rather than to examining the overall financial viability of a project. Under these procedures, HUD does not review costs that are ineligible for calculating rents or costs that are beyond the moderate rehabilitation limit but that

¹SRO program funding for fiscal year 1991 was \$105 million, compared with almost \$9 billion for all the section 8 programs.

are important to the operation of the SRO project. However, HUD has implemented required reviews to ensure that SRO projects are not oversubsidized by combining SRO program rent subsidies and federal low-income housing tax credits.

Financial Reviews Do Not Determine Total Project Feasibility

HUD does not assess whether proposed SRO projects will have sufficient income to cover all projected costs for rehabilitation and subsequent operation. By adopting financial review procedures for section 8 moderate rehabilitation projects, HUD has limited its role to reviewing only the proposed SRO project rents.

PHAS are required to estimate rents for proposed projects that are based on cost estimates to rehabilitate, own, manage, and maintain the SRO projects. HUD's review of this information consists of checks to see that rents (1) are calculated correctly, (2) include only eligible costs,² and (3) do not exceed the maximum allowed for the area in which the project is located.

While HUD may review proposed project rents at several points in the development phase, it does not review costs, such as furniture, security, and supportive services, that are not covered by rent subsidies but are necessary for SRO projects serving the homeless population. The six SRO projects we visited furnished units and provided security, such as guards and television cameras in the hallways. Forty-two of the 46 operating SRO projects also provided on-site supportive services.

HUD also limits the amount of eligible rehabilitation costs that can be covered by the rents. For fiscal year 1992, such costs are limited to \$15,500 per unit. In reviewing proposed projects, HUD only looks at rehabilitation costs within the limit and does not assess whether the SRO project owner can cover rehabilitation costs in excess of the ceiling. Four of the six SRO projects that we visited exceeded the rehabilitation cost limits by about \$200 to more than \$11,000 a unit.

SRO Projects Have Experienced Financial Problems

Although a comprehensive financial review is no guarantee that SRO projects will avoid financial difficulties, HUD has recognized that inadequate financial review can lead to problems. Nevertheless, HUD has approved financially questionable projects that have yet to open.

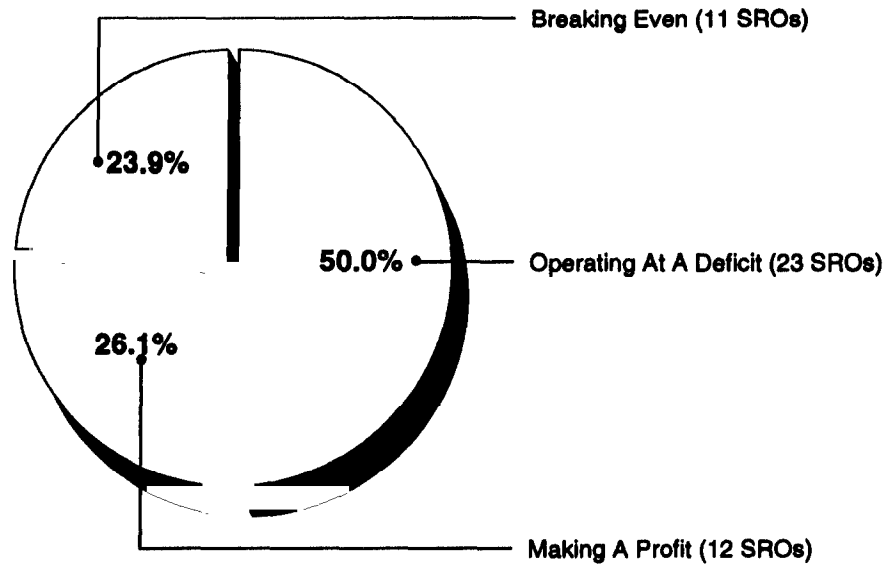
²Under the section 8 rental subsidy program, eligible costs that are covered by rents include expenses for rehabilitation, mortgages, utilities, insurance, taxes, management, and routine maintenance.

In guidance to PHAs, HUD cautioned that considerable time and money is wasted for both the PHA and the SRO project owner if a project originally selected on the basis of an unrealistic financial analysis has to be eliminated later in processing.

Nevertheless, as of May 1, 1992, eight SRO projects approved at least 32 months earlier had not opened, partly because of financial problems. For example, one project has not opened because of insufficient financing to complete the rehabilitation work. The owner cannot obtain a bank loan because the allowable rents would not be enough to cover the repayment of the loan. In two other cases, HUD approved SRO projects even though the PHA had not submitted enough information for HUD to determine whether the projects' eligible costs could be covered by the maximum allowable rents. The eight projects were approved by HUD for rent subsidization using fiscal year 1987 and 1989 appropriations and represent about 22 percent (499 of 2,237 units) of all SRO units approved for those years.

In addition, SRO projects in operation have also experienced financial difficulties. Some of these were the result of underestimated costs in project planning that HUD did not identify during its limited financial reviews. In our survey of the 46 operating SRO projects, 23 reported that they operated at a deficit during their last fiscal year. (See fig. 3.2.) On average, the 23 SRO projects failed to cover almost 20 percent of their annual expenses; operating costs exceeded rental income by 1 percent to 80 percent for the 23 SRO projects.

Figure 3.2: Financial Operating Results for 46 SRO Projects During Their Last Fiscal Year



Only one SRO project reported to us that it may stop operating during the next year because of the deficits. However, the deficits have forced some SRO projects to seek rent increases to cover unexpected costs. During our visits to six SRO projects, we found that one exceeded its projected rehabilitation costs by about 21 percent because it had not factored into its estimate some repair work needed to complete the project. The added debt to cover the unexpected increase in the rehabilitation costs contributed to the project's exceeding its projected total operating costs by 132 percent. This resulted in nearly a 20-percent rent increase in the first year of operation and the elimination of some planned on-site supportive services. Another SRO project has requested a rent increase of almost 17 percent because it cannot meet the cost of providing security for the facility.

HUD Reviews SRO Projects Using Tax Credits to Identify Excess Subsidization

For approved SRO projects, HUD is implementing a 1989 legislative requirement to prevent excessive federal subsidization. The HUD Reform Act of 1989 requires HUD to ensure that housing project developers and owners do not receive excessive profits or subsidies by combining tax

credits granted for rehabilitating low-income housing with HUD section 8 subsidies on the same project.

According to HUD's policy statement implementing this requirement, all project owners who entered into an agreement with a PHA on or after March 8, 1990, to rehabilitate a building must either certify that they are not using low-income housing tax credits or provide HUD with financing plans so that HUD can determine whether the projects are oversubsidized. HUD determined that it did not have the legal authority to extend the requirement to agreements made before the March date.

Thirty-six of 124 approved SRO projects subject to the requirement have notified HUD that they plan to use low-income housing tax credits to help finance their operations. As of May 1992, HUD had reviewed the financial plans for 8 of the 36 projects and reduced the rents for 3 of them. HUD plans to review the remaining 28 projects, although it has not established a time frame to complete the review.

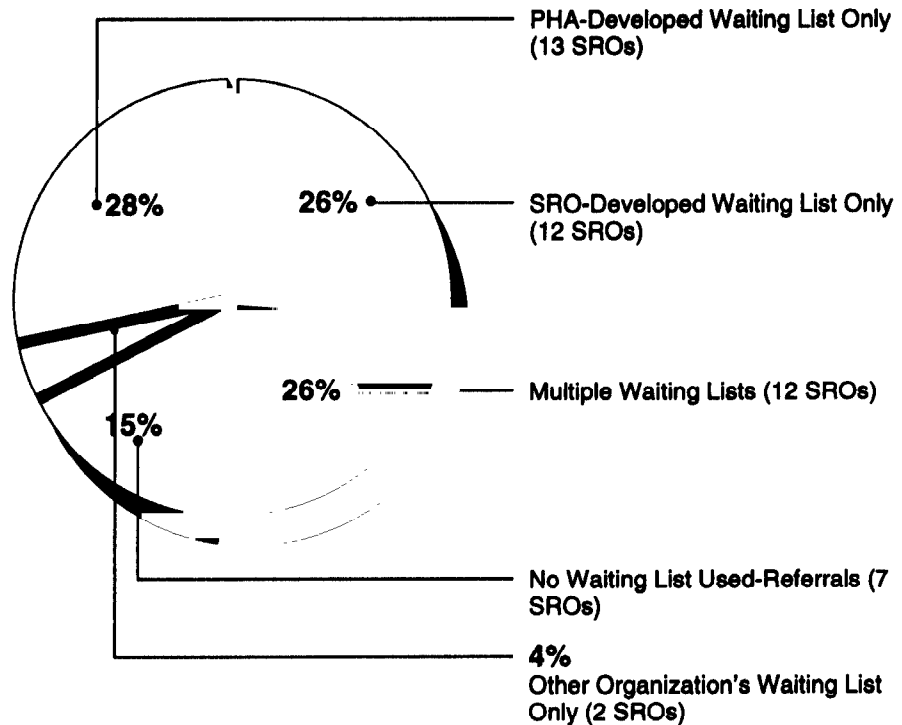
PHA Waiting Lists Are Impractical and Less Effective Than Other Methods of Locating Tenants

Just as it requires waiting lists for its other section 8 programs to ensure subsidized units are rented fairly, HUD requires PHAs to establish and maintain separate waiting lists of applicants for SRO units. PHAs are directed to place on their SRO waiting lists the names of individuals already on their waiting list for the other section 8 programs if PHAs determine that the individuals are homeless. While it is not an absolute requirement that individuals be homeless to be on the SRO waiting lists, homeless individuals on the lists are required to receive priority for vacant units. If the PHA cannot refer a sufficient number of interested applicants from its SRO waiting list to an SRO project within 30 days of a vacancy notice, the SRO program regulations allow the SRO project to then solicit applications from homeless individuals not on the PHA's SRO waiting list.

Because these SRO waiting lists often are not useful for the homeless population SRO projects are to serve, neither PHAs nor SRO projects have fully complied with the waiting list requirement. Thirty-four PHAs were responsible for administering the 46 SRO projects operating as of September 31, 1991. Thirteen of these PHAs, which administer 18 SRO projects, have not developed an SRO waiting list. The remaining 21 PHAs have developed lists, but 5 of the 28 SRO projects for which they were responsible do not use the lists at all. Therefore, half of the 46 SRO projects did not use a PHA-developed SRO waiting list. Of the 23 projects that used such waiting lists, 13 reported that they relied solely on these waiting lists.

The other 10 reported that they used a PHA waiting list in combination with other means of finding tenants, including waiting lists the SRO projects themselves developed and other local service organizations' referrals of homeless individuals interested in an SRO unit. Figure 3.3 summarizes the types of waiting lists SRO projects used to locate tenants.

Figure 3.3: Types of Waiting Lists SRO Projects Used to Locate Tenants



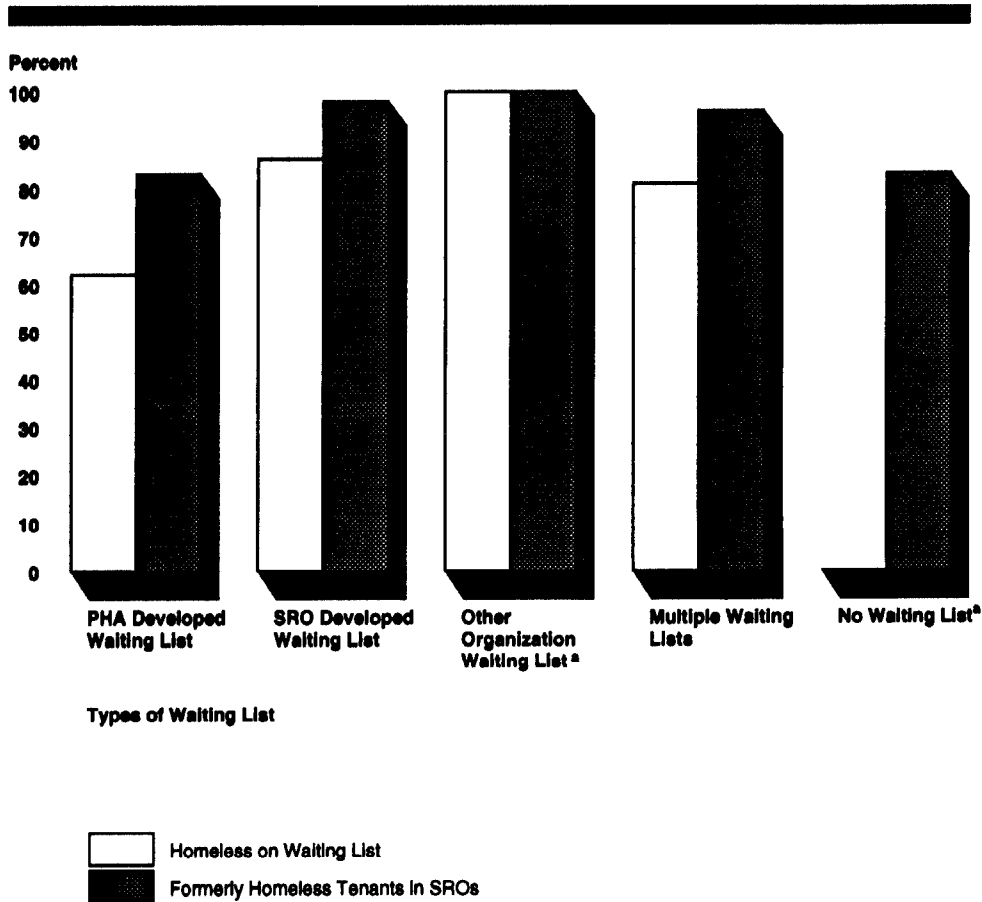
Seven SRO projects that had used PHA-developed SRO waiting lists reported that they had experienced problems with the lists, and three of these projects subsequently stopped using the lists. The problems reported included outdated lists and difficulty in locating homeless individuals who had no mailing address or telephone. HUD reported similar problems with PHA-developed waiting lists in a congressionally required assessment of the SRO program's first year of operations.³ The SRO projects used multiple sources to fill vacancies with homeless individuals.

³Report to Congress on SROs for the Homeless Section 8 Moderate Rehabilitation Program (Mar. 1990).

Despite its findings, HUD has not acted either to enforce or relax the PHA waiting list requirement for the SRO program. HUD did, however, subsequently implement a more flexible waiting list rule for its new Shelter Plus Care SRO program. Because this program will serve a special homeless population (those with serious mental illness or chronic drug and/or alcohol problems or those who have AIDS and related diseases), HUD decided these SRO projects would not be required to use PHA-developed waiting lists to fill vacancies. However, this same reasoning could also be applied to the SRO program we reviewed because many of the SRO projects are serving the same special segments of the homeless population. According to our survey, 16 of the 46 SRO projects rent to the mentally ill and 10 rent to chronic substance abusers.

Because of problems with their use, PHA-developed SRO waiting lists have been somewhat less effective than other means SRO projects have used to fill vacancies with homeless individuals. (See fig. 3.4.) In general, PHA waiting lists contained a smaller proportion of homeless persons than waiting lists developed by either the SRO projects themselves or by a local service organization. For example, homeless persons constituted 62 percent of those on PHA waiting lists as of September 30, 1991, compared with 86 percent for lists developed by the SRO projects themselves. More importantly, projects that used only PHA waiting lists had a smaller proportion of formerly homeless tenants than projects using other types of lists, or even no waiting list at all. For example, the 13 SRO projects that relied exclusively on PHA waiting lists were, on average, 83 percent occupied by formerly homeless persons as of September 30, 1991, compared with 98 percent for SRO projects that used their own lists exclusively.

Figure 3.4: Usefulness of Different Types of Waiting Lists in Housing Formerly Homeless Tenants in SRO Projects



*Excludes data for one SRO project in each of these categories because the information was unknown.

HUD in Process of Correcting Monitoring Weaknesses Identified by the OIG

HUD's Office of Inspector General (OIG) reported several weaknesses in HUD field office and PHA monitoring of the SRO program in February 1991.⁴ The OIG found that HUD did not give the program any special monitoring attention, despite the program's special homeless assistance goals. This resulted in inadequate HUD field office attention to certain aspects of the SRO program, particularly supportive services. The OIG also found that HUD field offices did not conduct the required number of reviews during the development phase of SRO projects and did not monitor the PHAS' performance during this phase. As a result, the OIG said that HUD

⁴Audit of the Single Room Occupancy Program, Office of Inspector General (91-AO-119-0002, Feb. 13, 1991).

monitoring missed program deficiencies and opportunities to provide timely assistance.

HUD section 8 Moderate Rehabilitation Division officials managing the SRO program at that time told us they did not believe extensive HUD monitoring of individual SRO projects was necessary because the PHAs, not HUD, are responsible for ensuring that the SRO projects are meeting program goals. However, the OIG also found weaknesses in PHA monitoring of SRO projects for program goals. For example, the OIG reported that PHAs were not ensuring that SRO projects made promised supportive services available to tenants.

The SRO program may get only very limited coverage in routine HUD management reviews of PHAs because of its relatively small size. Every 4 years HUD field offices are responsible for conducting management reviews of all HUD-funded housing programs, including the various section 8 programs, administered by PHAs in their jurisdiction. As a consequence, only two of the six HUD field offices that we visited had conducted a management review of a PHA that administered an operating SRO project. Furthermore, because of the large number of section 8 housing units that an individual PHA may administer, only a small sample of the SRO units are actually examined by HUD. For example, only 2 of a 109-unit SRO project were looked at during one of the two HUD-conducted PHA management reviews.

In response to the OIG's findings, HUD issued a memorandum in July 1991 to its field offices reminding them of the SRO program monitoring requirements. The memorandum required, for the first time, that field offices monitor the availability of supportive services in projects, beginning with projects funded with fiscal year 1990 appropriations. However, according to a Moderate Rehabilitation Division official, this requirement was not fully implemented by the end of fiscal year 1991 because of a shortage of travel funds.

In addition, HUD's Moderate Rehabilitation Division developed two new SRO project monitoring handbooks for the PHAs to use. However, issuance of the handbooks has been delayed due to the transfer of program management responsibility in February 1992 from the Moderate Rehabilitation Division to the SNAPS office.

Transfer of SRO Program to SNAPS May Help Increase Impact

SNAPS now manages all of HUD's homeless assistance programs. The transfer of the SRO program was made to ensure that it focuses on the special needs of homeless individuals and that it is coordinated with HUD's other homeless programs. In addition, SNAPS' management plans to augment the SRO program with staff from its other programs.

As of June 1992, SNAPS' officials were reviewing HUD's past management policies and procedures for the SRO program, including the draft monitoring handbooks developed by the section 8 Moderate Rehabilitation Division. However, according to the Director of SNAPS, that office had not developed any specific management strategy for the SRO program, nor had it set a date to implement the monitoring improvements recommended by the OIG, such as written guidance to HUD field offices and PHAS.

Conclusions

The full potential of the SRO program to assist single homeless persons has not been realized, in part because of HUD's past management approach. Certain procedures and requirements that may be adequate for the other section 8 rent subsidy programs have not worked well for facilities serving the homeless.

About 600 more homeless individuals could have been housed for more than a year if all SRO projects approved for rent subsidization by HUD with fiscal year 1987 and 1989 appropriations had opened on time. A variety of problems have delayed opening of the 13 projects that were to provide the SRO units. While HUD was aware that the projects were overdue, it took no action to resolve the situation. It neither tried to help the projects address their problems nor acted to shift or cancel the federal rent subsidies. It would be counterproductive to shift or cancel subsidies for the 10 projects that now are under contract with PHAS and have rehabilitation under way. However, such action may be warranted for the three projects not yet under contract.

Financial problems are the reason 8 of the 13 projects have not opened. While even the most comprehensive financial review of proposed projects is no guarantee against future problems, we believe more complete HUD reviews would increase the chances of approved projects' opening on time. Comprehensive financial reviews are particularly important for SRO projects because of the limited funds available for the SRO program and the need to provide adequate housing and supportive services to single homeless persons.

HUD's requirement that SRO projects use PHA waiting lists to identify tenants has proven impractical in some instances and generally less effective than other means of identifying homeless persons to occupy SRO projects. While we recognize the importance of renting available units fairly, we believe this objective could be accomplished equally well through the use of waiting lists developed by the projects themselves or by other organizations serving the homeless. PHAS could continue to ensure that projects fill vacancies fairly during required monitoring of the projects, as is required with PHA-developed lists. We believe relaxation of this requirement would make it easier for SRO projects to find and rent subsidized SRO units to the homeless and would not constitute a significant change because most SRO projects do not now rely solely on PHA waiting lists.

Although it is too early to predict how it will affect SRO program effectiveness, the transfer of SRO program responsibility to the SNAPS office offers a good opportunity to reassess program policy and practices and make changes needed to maximize the potential benefits of this program. The SNAPS office is currently reviewing the procedures that have been used to manage the SRO program but has not yet developed its own management strategy. It also is reviewing much needed program monitoring guidelines for PHAS drafted by the section 8 Moderate Rehabilitation Division and is considering other actions to implement the OIG's program monitoring recommendations. SNAPS has not, however, set a timetable for completing these important tasks.

Recommendations

We recommend that the Secretary of HUD direct the Office of Special Needs Assistance Programs to reexamine the three unopened SRO projects to be funded with fiscal year 1989 appropriations and for which HUD does not have contracts executed with PHAS. This review should determine whether shifting or canceling the SRO project subsidies would be in the best interest of the homeless and the government.

We recommend that the Secretary also direct the Office of Special Needs Assistance Programs, before committing subsidy funds, to expand the financial reviews of SRO projects to determine if projects are financially feasible and have adequate financial resources to cover all projected rehabilitation and operating costs. Such a review should provide greater assurance that approved projects open in a timely manner.

We also recommend that the Secretary of HUD revise the current requirement for PHA-developed waiting lists for SRO projects so that local SRO operators have the option of filling vacancies from their own waiting lists. In conjunction with this action, the Secretary should instruct PHAs to ensure that projects using their own lists fill vacancies fairly, giving priority to single homeless persons, and should incorporate this assessment into their routine monitoring visits to SRO projects.

Agency Views

During our exit conference, HUD program officials pointed out that the agency's review of an SRO project's financial feasibility should include an examination of all estimated project costs. However, the officials also stated that the scope of their financial reviews has been consistent with the existing section 8 regulations. The officials believed that the PHA-developed waiting list requirement could probably be eased.

Selected Characteristics of SRO Projects GAO Surveyed

SRO location and telephone number	Type of owner	Date opened	Contract rent
Phoenix, Ariz. ^a	Nonprofit	9/27/88	\$326
Tucson, Ariz. 602-791-0898	Profit	12/01/90	\$354
Batesville, Ark. 501-368-5200	Nonprofit	5/15/91	\$211
Sacramento, Calif. ^a	Profit	11/23/88	\$343
San Francisco, Calif. ^a	Nonprofit	4/15/91	\$489
San Francisco, Calif. 415-863-6572	Nonprofit	10/20/88	\$577
Pueblo, Colo. 719-544-6373	Profit	7/01/88	\$271
Jacksonville, Fla. 904-353-0099	Profit	10/19/88	\$334
Dubuque, Ia. 319-583-6918	Profit	6/01/91	\$233
Louisville, Ky. 502-587-7405	Nonprofit	8/09/88	\$273
Louisville, Ky. 502-774-2964	Nonprofit	7/01/88	\$227
Louisville, Ky. ^a	Nonprofit	3/18/91	\$237

**Appendix I
Selected Characteristics of SRO Projects
GAO Surveyed**

Tenant characteristics	Number of subsidized living units	Occupancy rate 9/30/91	Percent of formerly homeless 9/30/91	Turnover rate for FY 1991	Examples of services available on-site
General homeless, mentally ill, substance abusers, victims of domestic violence, elderly, unemployed, women	31	100	100	68	Case management, recreational activities
Mentally ill	23	100	100	22	Case management, psychological/ psychiatric and life skill counseling, transportation
Mentally ill	40	75	100	18	Case management, entitlement/benefits assistance, psychological/ psychiatric and life skill counseling
General homeless, substance abusers, victims of domestic violence, unemployed	20	100	85	45	Recreational activities
General homeless, substance abusers, victims of domestic violence, unemployed	60	100	100	33	Case management, entitlement/benefits assistance, education assistance, employment and life skill counseling
AIDS	32	100	78	128	Case management; entitlement/benefits assistance; psychological/ psychiatric, life skill, and pastoral counseling; medical care
General homeless, mentally ill, patients in a specific medical facility	14	100	100	100	Case management, entitlement/benefits assistance, psychological/ psychiatric and life skill counseling
General homeless	109	94	69	83	Entitlement/benefits assistance, clothing, transportation
General homeless, men	11	100	45	0	Case management
General homeless, unemployed, men	41	100	98	95	Employment and life skill counseling, residence counselor
General homeless, women	15	87	100	33	Case management, entitlement/benefits assistance, life skill counseling
General homeless, mentally ill, substance abusers, victims of domestic violence, unemployed, women	24	96	100	54	Case management, education assistance, employment and life skill counseling

(continued)

**Appendix I
Selected Characteristics of SRO Projects
GAO Surveyed**

SRO location and telephone number	Type of owner	Date opened	Contract rent
Shreveport, La. 318-424-9179	Profit	12/17/90	\$268
Shreveport, La. 318-424-9179	Profit	7/05/88	\$272
Cambridge, Mass. 617-491-6050	Nonprofit	6/01/91	\$510
Cambridge, Mass. 617-436-6726	Nonprofit	7/23/91	\$544
Rockville, Md. 301-762-8682	Nonprofit	6/05/91	\$486
Lewiston, Me. 207-782-2273	Profit	9/07/88	\$317
Lewiston, Me. 207-782-2273	Profit	12/13/88	\$323
Grand Rapids, Mich. 616-454-0928	Profit	4/01/89	\$295
Minneapolis, Minn. 612-341-3148	Nonprofit	4/26/88	\$315
Duluth, Minn. 218-722-1196	Nonprofit	6/28/88	\$258
Duluth, Minn. 218-722-7161	Nonprofit	6/30/88	\$260
St. Paul, Minn. 612-227-2637	Nonprofit	6/04/91	\$330
Jamestown, N.D. 701-252-6264	Profit	7/05/91	\$245
Trenton, N.J. 609-396-8291	Nonprofit	7/11/89	\$407
Brooklyn, N.Y. 718-875-2113	Profit	11/01/88	\$388
New York, N.Y. 212-721-7324	Nonprofit	4/01/89	\$375

**Appendix I
Selected Characteristics of SRO Projects
GAO Surveyed**

Tenant characteristics	Number of subsidized living units	Occupancy rate 9/30/91	Percent of formerly homeless 9/30/91	Turnover rate for FY 1991	Examples of services available on-site
General homeless, substance abusers	46	93	100	165	Case management, employment counseling and psychological/ psychiatric, life skill, and substance abuse counseling
General homeless, mentally ill	45	100	80	76	Case management, entitlement/benefits assistance, psychological/ psychiatric counseling, transportation
General homeless, women	29	69	100	0	Case management, entitlement/benefits assistance
General homeless	8	88	100	0	Case management, entitlement/benefits assistance
General homeless, men, employed	5	80	100	20	Case management, entitlement/benefits assistance, employment and psychological/ psychiatric counseling
General homeless, mentally ill	9	78	100	78	Case management, life skill counseling
General homeless, mentally ill	6	50	100	83	Case management, life skill counseling
General homeless	86	95	62	84	Case management, entitlement/benefits assistance, AIDS prevention seminar, free message service, legal assistance
General homeless	16	94	100	25	Employment and life skill counseling
General homeless	12	100	100	42	Entitlement/benefits assistance, life skill counseling
Income eligible for section 8 housing subsidy	41	100	88	78	Education assistance, employment counseling
General homeless	75	100	100	17	Case management, entitlement/benefits assistance, psychological/ psychiatric and life skill counseling
Mentally ill	12	100	50	17	Case management, entitlement/benefits assistance
General homeless, women	20	100	100	60	Psychological/ psychiatric and life skill counseling
General homeless, elderly	24	92	100	21	Case management
Mentally ill, elderly	42	100	100	14	Case management, entitlement/benefits assistance, psychological/ psychiatric and life skill counseling

(continued)

**Appendix I
Selected Characteristics of SRO Projects
GAO Surveyed**

SRO location and telephone number	Type of owner	Date opened	Contract rent
Schenectady, N.Y. ^a	Nonprofit	3/01/89	\$293
Portland, Oreg. 503-232-8735	Nonprofit	7/02/88	\$266
Salem, Oreg. 503-364-9596	Profit	7/02/90	\$336
Philadelphia, Pa. 215-236-0230	Nonprofit	9/20/88	\$358
Philadelphia, Pa. ^a	Nonprofit	1/11/89	\$297
Philadelphia, Pa. ^a	Nonprofit	4/15/88	\$274
Mayaguez, P.R. 809-832-7364	Nonprofit	3/01/89	\$203
Newport, R.I. 401-846-3120	Profit	9/01/88	\$444
Providence, R.I. 401-456-0010	Nonprofit	7/01/90	\$388
Amarillo, Tex. 806-655-1111	Profit	5/27/88	\$253
Amarillo, Tex. 806-376-4100	Nonprofit	4/15/88	\$207
Burlington, Vt. ^a	Nonprofit	1/31/91	\$392
Seattle, Wash. 206-343-5427	Nonprofit	9/01/88	\$339

**Appendix I
Selected Characteristics of SRO Projects
GAO Surveyed**

Tenant characteristics	Number of subsidized living units	Occupancy rate 9/30/91	Percent of formerly homeless 9/30/91	Turnover rate for FY 1991	Examples of services available on-site
General homeless, mentally ill, substance abusers, victims of domestic violence, elderly, unemployed, AIDS, men, refugees	41	90	100	15	Case management, entitlement/benefits assistance, job training, substance abuse treatment and counseling
General homeless, women	57	86	100	84	Case management
Women, former drug users	21	100	52	81	Recreational activities
General homeless, mentally ill, substance abusers, elderly, unemployed, AIDS	44	98	100	14	Case management, psychological/ psychiatric counseling, substance abuse treatment and counseling
General homeless, substance abusers, victims of domestic violence, unemployed	23	100	100	43	Entitlement/benefits assistance, job training, psychological/ psychiatric counseling
General homeless, mentally ill, substance abusers, victims of domestic violence, elderly, unemployed, AIDS, women	23	100	100	43	Case management, housing placement assistance
General homeless	42	88	100	38	None on-site
General homeless, mentally ill	66	100	95	58	Entitlement/benefits assistance, psychological/ psychiatric counseling, budget counseling
General homeless	90	88	33	37	Entitlement/benefits assistance, psychological/ psychiatric counseling
General homeless	21	100	100	76	None on-site
General homeless, mentally ill	12	92	Unknown	25	None on-site
General homeless, mentally ill, victims of domestic violence, elderly, unemployed, AIDS, former substance abusers	18	100	100	33	Education assistance, life skill counseling
General homeless	45	100	96	76	Meals

(continued)

**Appendix I
Selected Characteristics of SRO Projects
GAO Surveyed**

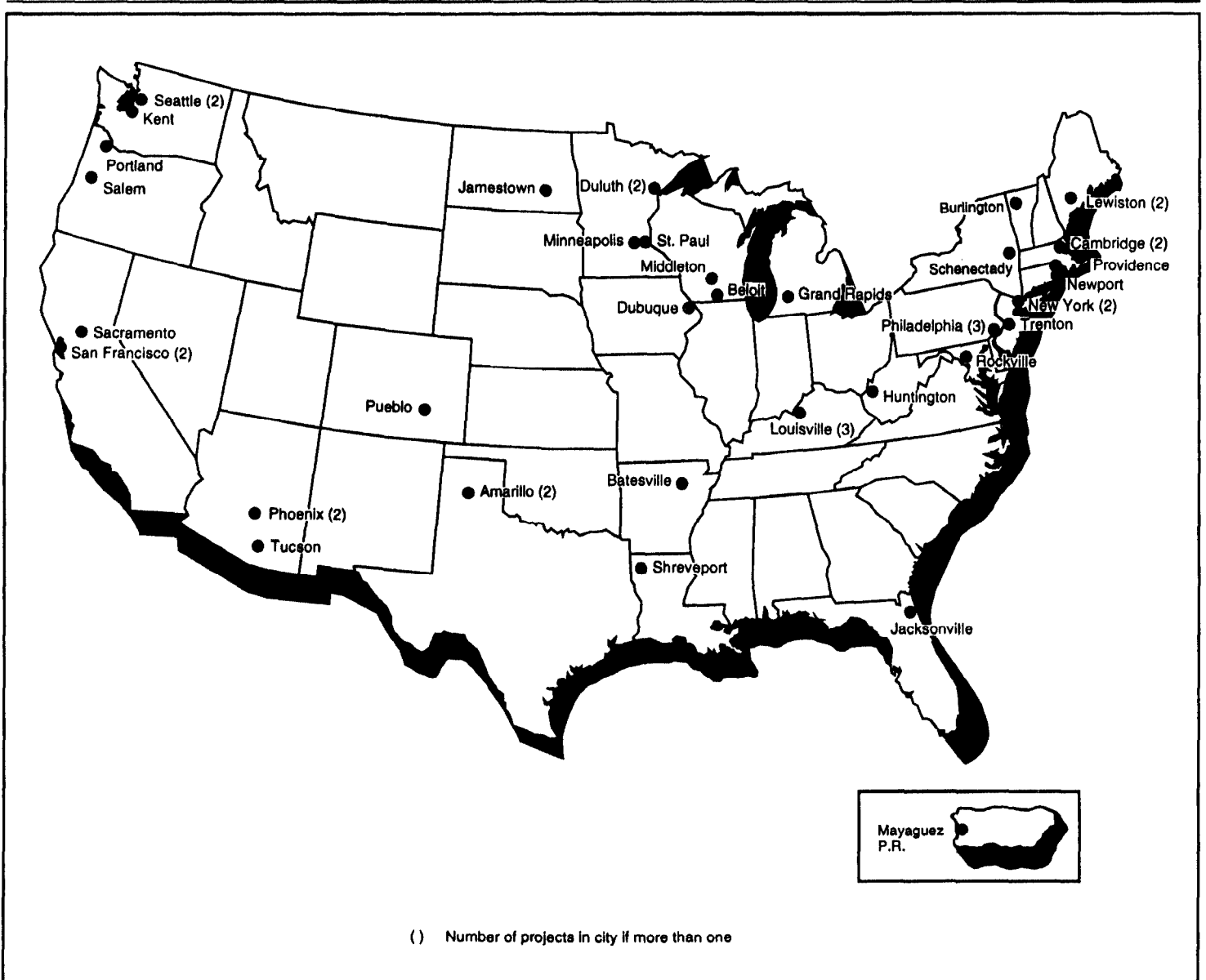
SRO location and telephone number	Type of owner	Date opened	Contract rent
Seattle, Wash. 206-340-0410	Nonprofit	10/10/88	\$337
Kent, Wash. 206-854-4406	Profit	2/21/91	\$306
Huntington, W.Va. 304-523-2764	Nonprofit	4/24/91	\$269
Beloit, Wis. 608-365-4787	Profit	4/01/91	\$274
Middleton, Wis. 608-255-5644	Profit	2/01/88	\$288

**Appendix I
Selected Characteristics of SRO Projects
GAO Surveyed**

Tenant characteristics	Number of subsidized living units	Occupancy rate 9/30/91	Percent of formerly homeless 9/30/91	Turnover rate for FY 1991	Examples of services available on-site
General homeless, elderly, men	53	100	100	49	Case management, entitlement/benefits assistance, psychological/ psychiatric and life skill counseling, laundry and linen service
Substance abusers, women	15	100	87	67	Case management, life skill counseling
General homeless	53	100	79	23	Case management, entitlement/benefits assistance, psychological/ psychiatric counseling, laundry service
General homeless, men	45	98	100	140	Psychological/ psychiatric counseling
General homeless, men	10	100	100	80	None on-site

*To help ensure the safety of tenants living in SRO projects that rent to victims of domestic violence, we have identified only the cities and states in which such projects are located.

Location of Operating SRO Projects GAO Surveyed



Note: Numbers in parentheses indicate the number of projects in a city if more than one.

Selected Information on 13 Unopened SRO Projects Funded With Fiscal Year 1987 and 1989 Appropriations

Project location	Approved with fiscal year funding	Approved subsidized living units	HUD funds committed ^a	Funds spent ^b	Annual contributions contract signed	Reasons for delays ^c
Flagstaff, Ariz.	1989	6	\$221,040	0	Yes	Original site was financially infeasible due to the cost of repairing termite damage, and the rehabilitation at the new site was delayed until the owner obtained financing for the cost of the required sprinkler system
Phoenix, Ariz.	1987	16	\$627,840	0	Yes	Private financing was not available due to the savings and loan crisis, and the required sprinkler system was too expensive
Jacksonville, Fla.	1989	134	\$4,486,320	0	Yes	Owner cannot get financing because of the limit on the maximum rents allowed with a tax credit
Boston, Mass.	1989	9	\$725,760	0	Yes	Original owner violated a HUD regulation by starting rehabilitation without PHA approval
New York, N.Y.	1989	24	\$1,025,280	0	Yes	HUD delayed signing the annual contribution contract until the PHA improved its administrative plan
Portland, Oreg.	1989	92	\$3,191,040	\$264,474 ^d	Yes	HUD is reviewing the project's tax credit to determine if the rents will be sufficient to cover the costs to operate the project
Portland, Oreg.	1989	32	\$930,720	^d	Yes	Owner had to find a substitute for the original site and is trying to obtain financing for a new site
Columbia, S.C.	1989	120	\$3,772,800	0	No	Project was financially infeasible because the projected profits from rents would be too low because the owner lost the tax credit
Knoxville, Tenn.	1989	16	\$456,960	0	Yes	Fire at site
San Antonio, Tex.	1989	88	\$2,798,400	0	Yes	Owner lacks financing to include on-site supportive services

(continued)

**Appendix III
Selected Information on 18 Unopened SRO
Projects Funded With Fiscal Year 1987 and
1989 Appropriations**

Project location	Approved with fiscal year funding	Approved subsidized living units	HUD funds committed^a	Funds spent^b	Annual contributions contract signed	Reasons for delays^c
Roanoke, Va.	1989	46	\$1,330,320	0	No	Original owner backed out, and the annual contributions contract has been delayed until the project obtains the required state historic preservation clearance
Burlington, Vt.	1989	12	\$522,720	0	Yes	Owner had to find a new site with fewer units because of community resistance to the original proposed larger project
Everett, Wash.	1989	11	\$401,280	0	No	First two sites became too expensive to rehabilitate for the planned on-site supportive services

^aHUD has committed these funds to pay for rent subsidies for 10 years.

^bFunds spent as of June 10, 1992.

^cReasons for the delays were provided by HUD field offices, as of June 10, 1992.

^dHUD could not tell us for which of the two SRO projects in Portland, Oregon, the administering PHA had received \$264,474 for management costs.

Major Contributors to This Report

**Resources,
Community, and
Economic
Development
Division, Washington,
D.C.**

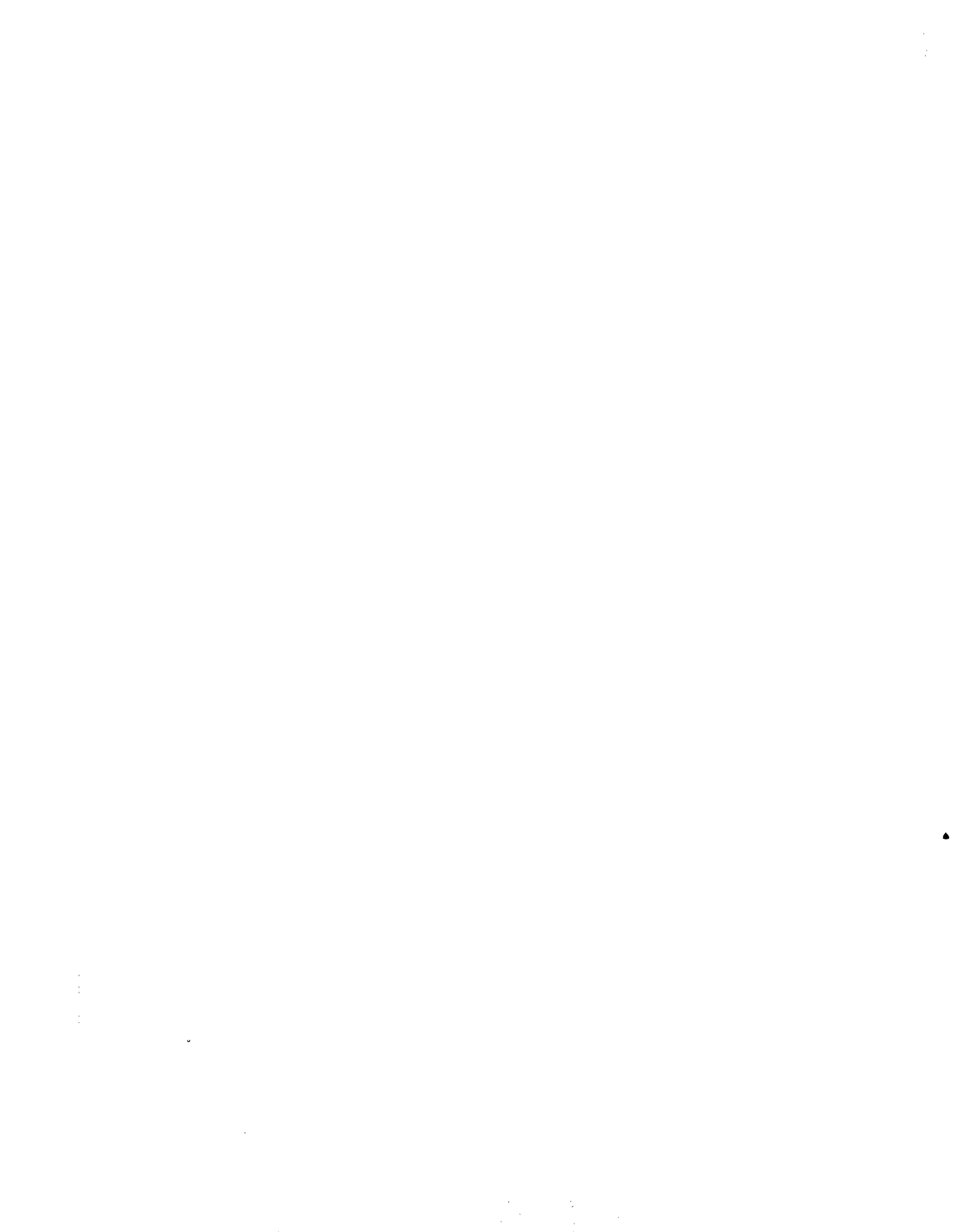
**Marnie Shaul, Assistant Director
Woodliff Jenkins, Assignment Manager
Jason Lee, Operations Research Analyst**

**New York Regional
Office**

**Thomas A. Repasch, Jr., Regional Assignment Manager
Norman A. Krieger, Evaluator-in-Charge
Frank Grossman, Site Senior
Patricia Scanlon, Evaluator**

**Los Angeles Regional
Office**

**James D. Moses, Regional Management Representative
Susan Abdalla, Site Senior
James Russell, Evaluator**



Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are \$2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

**U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20877**

Orders may also be placed by calling (202) 275-6241.

United States
General Accounting Office
Washington, D.C. 20548

Official Business
Penalty for Private Use \$300

First-Class Mail
Postage & Fees Paid
GAO
Permit No. G100