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Report to the Chairwoman, Subcommittee on Housing and Community Opportunity, Committee on Financial Services, House of Representatives

January 2008

HUD AND TREASURY PROGRAMS

More Information on Leverage Measures' Accuracy and Linkage to Program Goals Is Needed in Assessing Performance

GAO Accountability * Integrity * Reliability

GAO-08-136

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Highlights

Highlights of GAO-08-136, a report to the Chairwoman, Subcommittee on Housing and Community Opportunity, Committee on Financial Services, House of Representatives

Why GAO Did This Study

This is the second of two reports on the leveraging of federal funds in housing and community and economic development programs. Leveraging involves using a source of funds to attract other funds or combining multiple sources of funds.

This report examines (1) the leverage measures and the transparency of the data and methods used to calculate them, and (2) the relevance of such measures in assessing performance that the Department of Housing and Urban Development (HUD) and the Department of the Treasury (Treasury) reported for six selected programs. To complete this work, GAO reviewed agency policies and reports, interviewed officials, and analyzed agency data.

What GAO Recommends

GAO recommends that the agencies disclose information on (1) the data and methods used to calculate leverage measures and (2) the relevance of the measures to program goals and further that OMB (1) issue guidance on how to calculate, describe, and use leverage measures and (2) re-evaluate the use of such measures and disclose their relevance to program goals in future performance reviews.

HUD and Treasury provided detailed written comments on several of GAO's findings, which were incorporated as appropriate. OMB did not comment on the report.

To view the full product, including the scope and methodology, click on GAO-08-136. For more information, contact William B. Shear at (202) 512-8678 or shearw@gao.gov.

What GAO Found

The leverage measures (such as ratios) HUD and Treasury reported for the selected programs in performance, budget, and other documents lacked transparency because the agencies generally did not disclose the limitations of the data or the methods used to calculate them. Based on its review of available leveraging data and interviews with HUD and Treasury officials, GAO found that the leverage measures the agencies reported for the selected programs were based on incomplete data and thus did not capture the actual extent of leveraging in the programs. GAO also found that while the agencies generally reported measures that described the ratio of all other funds (federal, state, local, and private funds) to program funds, alternative measures that described the total federal investment or total private investment in a program provided considerably different results—also potentially of value to decision makers—about the extent of leveraging in a program. GAO regularly has reported that clearly communicating data limitations and their potential impact may foster appropriate use of data; however, no agency-specific or governmentwide guidance directs what agencies should disclose about the leverage measures they report for the selected programs. Consequently, absent specific information on how these measures were calculated and their limitations, decision makers would not have sufficient information to understand their meaning and determine how they could and should be used in performance assessment, budgeting, and other contexts.

Leverage measures can provide basic information about the programs GAO reviewed; however, their relevance in assessing the performance of these programs varies considerably. For all of the programs GAO reviewed, leverage measures can describe inputs, or the resources used to support program activities, and may be useful for conveying basic financial information. To the extent that leveraging is a goal or expected activity of a program (as in the three Treasury programs), leverage measures generally can describe program outputs, or the products or services delivered (such as total leveraged funds), and may be used along with other performance indicators to assess the efficiency and effectiveness of a program in meeting its goals. In cases where leveraging is not clearly and appropriately linked to program goals and activities (as in the three HUD programs), use of such measures to describe program outputs could be misleading and result in adverse consequences. Although leveraging had limited relevance to the goals and activities of the selected HUD programs, GAO found that the Office of Management and Budget (OMB) and the agency often cited leverage measures for the programs in performance- and budget-related reviews and documents. Their continued use of leverage measures in these contexts could unnecessarily encourage HUD to place more importance on leveraging than meeting the stated goals of the selected programs.

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Abbreviation

CDBG	Community Development Block Grant
CDE	Community Development Entity
CDFI	Community Development Financial Institution
GPRA	Government Performance and Results Act of 1993
HOME	HOME Investment Partnerships
HUD	Department of Housing and Urban Development
IDIS	Integrated Disbursement and Information System
LEED	Leadership in Energy and Environmental Design
OMB	Office of Management and Budget
PART	Program Assessment Rating Tool
PHA	public housing agency
SAAHC	San Antonio Alternative Housing Corporation
Treasury	Department of the Treasury

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United States Government Accountability Office
Washington, DC 20548

January 18, 2008

The Honorable Maxine Waters
Chairwoman
Subcommittee on Housing and Community Opportunity
Committee on Financial Services
House of Representatives

Dear Madam Chairwoman:

In a period of increasingly tight budgets for federal housing and community and economic development programs, congressional, executive, and agency decision makers have focused on how best to distribute scarce federal resources to achieve the greatest benefits—in particular, the extent to which federal programs leverage private and other public funds. In response, federal agencies often cite leverage measures in strategic planning, performance, and budget reports, and on their Web sites to demonstrate how successful they have been at attracting other funds to carry out program goals.[1]

Under the provisions of the Government Performance and Results Act of 1993 (GPRA), federal agencies are required to measure and report the performance of their programs.[2] GPRA was designed to inform congressional and executive decision making by providing objective information on the relative efficiency and effectiveness of federal programs and spending. A key provision of the act is to create closer and clearer links between the process of allocating scarce resources and the expected results to be achieved with these resources, which can increase the government's capacity to assess competing claims for federal dollars. Under GPRA, agencies also must complete strategic plans in which they define their missions, establish results-oriented goals, and identify strategies to achieve those goals; prepare annual performance plans that articulate goals aligned with long-term strategies; and issue annual performance reports in which they report on actions taken to achieve

[1]Leverage measures—for example, leverage ratios, total dollars leveraged, and leverage factors—provide information on the extent to which a program or project has been successful in attracting or combining other funds.

[2]Pub. L. No. 103-62, 31 U.S.C. 1115 *et seq.*

these goals.[3] However, federal agencies have faced challenges in identifying program goals and performance measures that go beyond summarizing program activities—for example, the number of clients served—to distinguishing desired outcomes or results—for example, improving economic self-sufficiency among clients served.[4]

Further, the current administration has made integrating performance information into budget deliberations a priority under the President's Management Agenda.[5] The Program Assessment Rating Tool (PART), which the Office of Management and Budget (OMB) designed, is a central element of this initiative and consists of a standard series of questions meant to serve as a diagnostic tool. PART draws on available program performance and evaluation information, including leverage measures, to form conclusions about program results and develop follow-on actions intended to improve those results. As we have reported previously, access to credible information on program performance is critical to the success of any program assessment effort, including PART.[6]

As discussed in a May 2007 report on leveraging federal funds for housing and community and economic development, leveraging can be defined in two ways: (1) using a relatively small amount of federal funds to attract private investment and (2) combining or layering program funds with other federal, state, local, and private sources of funds.[7] Leveraging also can occur at the institutional or project level—at the institutional level, an entity pools funds from multiple sources, which later are used to finance a portfolio of projects; at the project level, an entity leverages funds as necessary for discrete projects. Further, while leveraging may be useful and stretch scarce resources, the extent of its use can depend upon local economic conditions and may have unintended consequences, such as the substitution of federal funds for private funds that otherwise would have

[3]As mentioned previously, it is in these types of reports that agencies often report leverage measures for their programs.

[4]See GAO, *Managing for Results: Analytic Challenges in Measuring Performance*, GAO/HEHS/GGD-97-138 (Washington, D.C.: May 30, 1997).

[5]See Executive Office of the President, Office of Management and Budget, *The President's Management Agenda* (Washington, D.C., 2002).

[6]See GAO, *Performance Budgeting: PART Focuses Attention on Program Performance, but More Can Be Done to Engage Congress*, GAO-06-28 (Washington, D.C.: Oct. 28, 2005).

[7]See GAO, *Leveraging Federal Funds for Housing, Community, and Economic Development*, GAO-07-768R (Washington, D.C.: May 25, 2007).

been contributed to a program or project. Despite differences in how and under what circumstances programs leverage, little scrutiny has been placed on the leverage measures these programs report and how agencies, OMB, and others use such measures to assess performance.

This is the second of two reports undertaken in response to your request that we examine leveraging as it relates to federal housing and community and economic development programs.[8] For this report, we examined the Department of Housing and Urban Development's (HUD) Community Development Block Grant (CDBG), HOME Investment Partnerships (HOME), and HOPE VI programs and the Department of the Treasury's (Treasury) Community Development Financial Institutions (CDFI) Financial Assistance, Low-Income Housing Tax Credit, and New Markets Tax Credit programs.[9] Specifically, this report examines (1) the leverage measures HUD and Treasury reported for the selected housing and community and economic development programs and the transparency of the data and methods used to calculate them and (2) the relevance of leverage measures in assessing the performance of the selected programs. This report also provides examples of how federal funds have been leveraged in the selected programs (see app. II).

To examine the leverage measures HUD and Treasury reported for each of the selected programs and the transparency of the data and methods used to calculate them, we reviewed relevant program regulations and guidance, our prior reports and reports of others, and interviewed agency officials and other stakeholders. Based on this information, we requested from HUD and Treasury data they use to measure the extent of leveraging (for example, data on sources and amounts of funds, or other financial data, commonly referred to as "leveraging data") in the CDBG, HOME, and HOPE VI programs and the CDFI and New Markets Tax Credit programs, respectively, and assessed their reliability in accordance with our

[8]Our first report, GAO-07-768R, discussed stakeholder perspectives on the use, measurement, and implications of leveraging federal funds for housing and community and economic development as well as the types of data the Department of Housing and Urban Development collects that could be used to measure the extent of leveraging in its Section 108 Loan Guarantee program.

[9]The background section of this report provides information on the purpose and scope of these programs. Throughout this report, we refer to the CDFI Financial Assistance program as the CDFI program. As discussed in the background section of this report, the CDBG and HOME programs do not have statutory or regulatory leveraging requirements.

standards.[10] Because the Low-Income Housing Tax Credit program does not have a single, complete source of data on the extent of leveraging, we surveyed the housing finance agencies—those organizations that are responsible for administering the program—to determine what data they collect on the extent of leveraging that occurs in the program. To examine the relevance of leverage measures in assessing the performance of the selected housing and community and economic development programs, we reviewed our and OMB's reports on performance measurement; agency strategic plans and annual performance plans, performance and accountability reports, and budget justifications; and industry and other literature such as agency reports, press releases, and Web sites.[11] We also interviewed federal agency officials and other individuals with knowledge of or experience in housing and community and economic development. As part of this work, we also conducted site visits in five states and collected information on how federal funds have been leveraged for a number of projects or initiatives that received funding from the programs included in our review. Appendix I contains a more detailed description of our scope and methodology. We conducted this performance audit in Chicago, Illinois; San Antonio and Laredo, Texas; Philadelphia and Chester, Pennsylvania; Portland and Salem, Oregon; Seattle and Tokeland, Washington; and Washington, D.C., from November 2006 to January 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Results in Brief

The leverage measures HUD and Treasury reported for the selected programs lacked transparency because the agencies generally did not disclose the limitations of the data or the methods used to calculate them. We found that for reasons including incomplete reporting of data, the measures HUD and Treasury reported for the CDBG, HOME, HOPE VI, CDFI, and New Markets Tax Credit programs did not reflect the actual

[10]See GAO, *Assessing the Reliability of Computer-Processed Data*, GAO-02-15G (Washington, D.C.: Sept. 2002). As explained in further detail in app. I, we were unable to determine the reliability of HUD's CDBG and HOME leveraging data.

[11]A budget justification is the set of documents an agency submits to congressional appropriation committees in support of its budget request.

extent of leveraging that occurred in the programs. For example, Treasury lacked leveraging data for approximately 26 percent of New Markets Tax Credit projects, which could potentially result in an underestimation of the leveraging that occurred in the program. However, we found that when the agencies reported leverage measures for the selected programs in performance and budget reports, and in other sources, they neither fully disclosed these data limitations, nor consistently disclosed the method they used to calculate the measures. Based on our discussions with agency officials, we found that the agencies generally reported leverage measures that described the ratio of all other funds (other federal, state, local, and private funds) to program funds. However, these measures can be calculated in multiple ways to present different results, such as the extent to which federal funds are used with nonfederal funds. There is no agency-specific or governmentwide guidance on what agencies should disclose about the leverage measures they report or how they calculate them for the selected programs. We previously have reported that clearly communicating data limitations and their potential impact may foster appropriate use of data. Absent specific information on how the agencies calculated reported leverage measures for the selected programs and the limitations of those measures, decision makers do not have sufficient information to understand their meaning and how they can and should be used in performance assessment, budgeting, and other contexts.

Leverage measures can provide basic financial information about the programs included in our review; however, their relevance in assessing the performance of the selected programs varies considerably. For all programs, leverage measures can describe inputs, or the resources used to support program activities, and may be useful for conveying basic financial information. To the extent that leveraging is a goal or core (expected) activity of a program, leverage measures generally can describe program outputs, or the products or services delivered (such as total leveraged funds) and may be used with other performance indicators to assess the efficiency and effectiveness of a program in meeting its goals. Among the programs we reviewed, leveraging is directly linked to the goals and activities of the CDFI, Low-Income Housing Tax Credit, and New Markets Tax Credit programs. Each of the three programs was designed to leverage in multiple ways—the CDFI program requires CDFIs to leverage additional funds as a condition of receiving program funds, while the tax credit programs automatically generate private investment for housing and community and economic development activities. As a result, OMB and Treasury's use of leverage measures to describe and assess the performance of these programs generally was appropriate. In contrast, leveraging is not linked directly to the program goals and core activities of the selected HUD programs (CDBG, HOME, and HOPE VI). Leveraging may be a strategy some funding recipients employ, either by choice or out of necessity, to meet these programs' goals. Thus, using leveraging to assess impact or success in meeting goals may create adverse or conflicting incentives for the agency and funding recipients; for example, giving funding priority to projects that leverage more over those that leverage less, but which may fill a greater or more immediate need within a community. Specifically, emphasizing the importance of leveraging in a program that provides housing for low-income communities could result in providing relatively more federal funding to projects that serve higher-income households and less funding to needier communities, which may experience difficulty in attracting other funding. Despite the limited relevance of leveraging to the goals of the CDBG, HOME, and HOPE VI programs, we found that OMB and HUD often cited leverage measures for the programs in performance- and budget-related reviews and documents, including PART reviews.

To ensure that leverage measures provide accurate, relevant, and useful information to Congress and others, this report makes recommendations to the Secretaries of HUD and Treasury to disclose information on the completeness and accuracy of the data and the methods used to calculate such measures, and if used as a performance indicator, how such measures link to program goals and core activities. This report further recommends that the Director of OMB provide guidance to help agencies determine how to calculate, describe, and use leverage measures in a manner that is consistent with their programs' design, and re-evaluate the use of such measures and disclose their relevance to program goals and activities in future PART or other performance reviews of the selected programs.

We received written comments on a draft of this report from HUD and Treasury, which are included in appendixes V and VI, respectively. We also provided a draft of this report to OMB for review, but no comments were provided. In a letter from the Acting Deputy Assistant Secretary for Grant Programs, HUD noted that it was pleased with the results presented in our draft report, but provided several detailed comments on and suggested changes to our findings related to the CDBG and HOME programs (see app. V). For example, HUD expressed concern that the draft report did not sufficiently emphasize that the CDBG and HOME programs do not have statutory or regulatory leveraging requirements or that the agency currently does not publish a leverage measure for the CDBG program. We incorporated language into the report to address these comments. In addition, HUD said that it would work to improve the quality of leveraging data CDBG grantees report to the agency, an effort that would, in part, address one of our recommendations to the agency. HUD's Office of Public and Indian Housing also provided technical comments related to the HOPE VI program, which we incorporated as appropriate.

In a letter from the Director of the Community Development Financial Institutions Fund, Treasury expressed appreciation for our finding that each of the agency's programs included in our review was designed to leverage. Although Treasury did not specifically comment on our recommendations, it provided several detailed comments related to the agency's calculation of leverage measures for the CDFI and New Markets Tax Credit programs (see app. VI). For example, while Treasury agreed with our description of the limitations of the data used to calculate leverage measures for the CDFI and New Markets Tax Credit programs, it stated that the calculated measures provided reasonable approximations of the leveraging that occurs in the programs despite these limitations. However, we continue to believe that these limitations (which are described in our report and Treasury's comment letter) potentially could have an impact on the accuracy of the leverage measures Treasury calculated for the programs and thus should be adequately disclosed. Accordingly, we did not change the report in response to these comments. Consistent with our findings and recommendations, in its comment letter, Treasury acknowledged the importance of disclosing data limitations and calculation methodologies, noting that it has done so on numerous occasions with respect to the CDFI program and stating that it would make every effort to include such information in any publication of a leverage measure for the New Markets Tax Credit program.[12] HUD's and Treasury's comments are discussed in greater detail at the end of this letter.

Background

HUD's CDBG, HOME, and HOPE VI programs and Treasury's CDFI, Low-Income Housing Tax Credit, and New Markets Tax Credit programs are among a number of federal programs that fund housing and community and economic development. In varying degrees, these programs leverage other funds to help finance their initiatives and projects. As we reported in a May 2007 report, some of these programs define leveraging as using one source of funds to attract additional sources of funds, while others define

[12]We and Treasury both noted that the agency currently does not publish a measure for the New Markets Tax Credit program.

leveraging more broadly as the layering or combining of different sources of funds.[13] Further, and as described below, some of these programs leverage at the institutional and project levels, while some leverage only at the project level. At the institutional level, an organization (such as a group of investors or a community or other development authority) pools funds from multiple sources, which are then used to finance a portfolio of projects. At the project level, an organization (such as a state or local agency) leverages funds as necessary to finance discrete projects.

Housing and Community and Economic Development Program Overviews

We highlight below the purpose, structure, and activities of the three HUD programs and three Treasury programs that we reviewed. Appendix II describes in more detail how leveraging occurs in the selected Treasury programs.

CDBG Program

The CDBG program is the federal government's principal community development program. It provides annual grants on a formula basis to entitlement communities—principal cities of metropolitan statistical areas, other metropolitan cities with populations of at least 50,000, and qualified urban counties—and states to develop viable urban communities by providing decent housing and a suitable living environment, and by expanding economic opportunities, principally for low- and moderate-income persons.[14] Under the CDBG program, communities and states develop their own programs and funding priorities. However, all funded activities must meet one of three national objectives: primarily benefit low- and moderate-income persons, aid in the prevention or elimination of slums and blight, or meet community development needs of particular urgency (because existing conditions pose a serious and immediate threat to the health or welfare of the community and other financial resources are not available to meet such needs). Although the CDBG program has no statutory or regulatory leveraging requirement, some projects funded under the program use CDBG funds to leverage additional funds to finance development costs. In fiscal year 2007, Congress appropriated approximately $3.7 billion to the CDBG program for formula distribution,

[13] See GAO-07-768R.

[14] The CDBG program was authorized under Title I of the Housing and Community Development Act of 1974 (Pub. L. 93-383, as amended, 42 U.S.C. 5301 *et seq.*). In 1981, Congress amended the act to allow states the opportunity to administer CDBG funds for nonentitlement communities—units of general local government that do not receive CDBG funds directly from HUD as part of the entitlement program.

and HUD allocated these funds to 1,133 entitlement communities, 49 states, and Puerto Rico.[15]

HOME Program

HOME provides formula grants to states and localities—certain cities, counties, or consortiums of cities and counties—to fund a wide range of activities to benefit low-income people.[16] Under the HOME program, states and localities may use program funds to finance a broad range of activities, such as providing eligible homeowners and new homebuyers with home purchase or rehabilitation financing assistance and building or rehabilitating housing for rent or ownership. States and localities also may use HOME funds to provide tenant-based rental assistance.[17] The program requires states and localities to match 25 percent of expended program funds with monetary or certain in-kind contributions, such as donated materials or voluntary labor.[18] This match requirement was designed to elicit local resources in support of affordable housing. Like the CDBG program, the HOME program has no statutory or regulatory leveraging requirement; however, some projects funded under the program use HOME funds to leverage additional funds to finance development costs. In fiscal year 2007, Congress appropriated approximately $1.8 billion to the HOME program, and HUD allocated these funds to 589 localities, the 50 states, and Puerto Rico.

[15]The State of Hawaii permanently has elected not to receive CDBG program funding. As a result, HUD awards these state-level funds directly to Hawaii's three nonentitlement communities.

[16]HOME was authorized under Title II of the Cranston-Gonzalez National Affordable Housing Act of 1990, as amended (Pub. L. 101-625, 42 U.S.C. 12721, *et seq.*). States administer HOME funds for localities that do not qualify to receive allocations directly from HUD.

[17]Under a tenant-based rental assistance program, states and localities allocate HOME funds to eligible households for the payment of rent on units of their choosing.

[18]HOME matching contribution requirements are outlined in 24 C.F.R. 92.218-92.222. See also, U.S. Department of Housing and Urban Development Community Development and Planning, *HOME Program Match Guidance*, Notice: CPD 97-03 (Washington, D.C., Mar. 27, 1997).

HOPE VI Program

HOPE VI is part of HUD's effort to transform public housing.[19] By providing funds for a combination of capital improvements and community and supportive services, the HOPE VI revitalization grant program seeks to (1) improve the living environment for residents of severely distressed public housing through the demolition, rehabilitation, reconfiguration, or replacement of obsolete units; (2) revitalize sites on which such severely distressed public housing is located, and contribute to the improvement of the surrounding neighborhood; (3) provide housing that will avoid or decrease the concentration of very-low income families; and (4) build sustainable communities. Any public housing agency (PHA) that has severely distressed public housing units in its inventory is eligible to apply for a HOPE VI revitalization grant. Recipients of revitalization grants must match 5 percent of the grant with other funds, and HUD awards PHAs that demonstrate an ability to leverage additional points in the HOPE VI application process.[20] In fiscal year 2006, HUD made four HOPE VI revitalization grants totaling approximately $72 million.[21]

CDFI Program

Through the CDFI program, Treasury's CDFI Fund provides CDFIs with financial assistance in the form of grants, loans, equity investments, and deposits to enhance their ability to make loans and investments and provide services for the benefit of designated investment areas, targeted

[19]In 1989, Congress created the National Commission on Severely Distressed Public Housing (Pub. L. 101-235) to assess the state of the nation's public housing and make recommendations for its improvement. The commission's 1992 report to Congress—see National Commission of Severely Distressed Public Housing, *Final Report of the National Commission on Severely Distressed Public Housing* (Washington, D.C., Aug. 1992)—recommended the establishment of a demonstration program to implement its proposals for change, which included addressing the needs of public housing residents and improving the physical conditions of public housing. Congress authorized and funded the Urban Revitalization Demonstration Program, or HOPE VI, through annual appropriations bills until 1998, when HOPE VI was authorized through fiscal year 2002 under § 535 of the Quality Housing and Work Responsibility Act of 1998, as amended (42 U.S.C. 1437v), and subsequently reauthorized through fiscal year 2008.

[20]HUD outlines HOPE VI match and leverage requirements in annual notices of funding availability. For example, see "Supplement to the Fiscal Year (FY) 2006 SuperNOFA for HUD's Discretionary Programs: NOFAs for the HOPE VI Revitalization Grants Program and HOPE VI Main Street Grants Program; Notice," 71 *Federal Register* 18496-18560 (Apr. 11, 2006). Leverage is one of several rating factors HUD considers in the HOPE VI application process. Other rating factors include capacity of the development team, need, resident and community involvement, community and supportive services, relocation, fair housing and equal opportunity, well-functioning communities, and soundness of approach.

[21]Applications for fiscal year 2007 HOPE VI funding were due Nov. 7, 2007.

populations, or both.[22] CDFIs must match (leverage) their financial assistance awards dollar-for-dollar with funds of the same type (equity investment, loan, deposit, or grant) from nonfederal sources.[23] CDFI funds can be used for economic development (job creation, business development, and commercial real estate development), affordable housing (housing development and homeownership), and community development financial services (provision of basic banking services to underserved communities and financial literacy training). In 2007, Treasury made approximately $26 million in financial assistance awards to 49 CDFIs.[24]

Low-Income Housing Tax Credit Program

Under the Low-Income Housing Tax Credit program, states are authorized to allocate federal tax credits to private investors as an incentive to develop rental housing for low-income households.[25] The equity generated by the sale of the credits is used to lower the financing costs of housing developments by reducing the debt or equity the developer otherwise

[22]The CDFI Fund within Treasury administers the CDFI program. The Fund was established as a bipartisan initiative under the Riegle Community Development and Regulatory Improvement Act of 1994 (Pub. L. 103-325, 12 U.S.C. 4701 *et seq.)* to promote economic revitalization and community development through investment in and assistance to CDFIs through several programs, including the CDFI and Bank Enterprise Award programs. Investment areas and targeted populations are defined in 12 C.F.R. § 1805.201(b)(3). CDFIs are private profit-making and nonprofit financial institutions that provide financial services to distressed geographic areas and populations that are underserved by conventional lenders and investors. Common types of CDFI organizations include community development banks, community development credit unions, nonprofit community development loan funds, microenterprise loan funds, and community development venture capital funds.

[23]CDFIs also may use their program and match funds to leverage additional debt from banks and other lending institutions. Together, program funds, match funds, and debt comprise institutional leverage in the program. At the project level, funding recipients may use grants or loans from CDFIs to leverage funds from other public and private sources to finance project costs. App. II describes in more detail how leveraging occurs in the CDFI program.

[24]Before receiving any financial assistance through the CDFI program, a CDFI must be certified by Treasury; that is, meet six statutory and regulatory criteria: (1) have a primary mission of promoting community development; (2) principally serve an investment area or targeted population; (3) be an insured depository institution, or make loans or development investments as its predominant business activity; (4) provide development services—such as technical assistance or counseling—with its financing activity; (5) maintain accountability to its target market; and (6) be a nongovernmental entity and not be controlled by any governmental entities.

[25]The Tax Reform Act of 1986 (Pub. L. No. 99-514, 26 U.S.C. 42) authorized the Low-Income Housing Tax Credit program.

would incur or contribute.[26] Investors who purchase the tax credits may claim the credits annually for 10 years. To receive Low-Income Housing Tax Credit financing, properties must meet certain rent and tenant income requirements: (1) at least 20 percent of the units in the property must be reserved for individuals or families with incomes of 50 percent or less of the area median income, or at least 40 percent of the units must be reserved for individuals or families with incomes of 60 percent or less of the area median income; and (2) rents for affordable units are restricted to 30 percent of the applicable income limit (that is, 50 percent or 60 percent of the area median income). Each state receives an allocation of the greater of $1.75 per capita or $2 million annually, adjusted by a cost of living factor ($1.95 or $2.275 million in 2007).[27] The program costs the federal government an estimated $5 billion annually in forgone tax revenue and is the government's largest housing production program.

New Markets Tax Credit Program

The New Markets Tax Credit program permits taxpayers to receive a credit against federal income taxes for making qualified equity investments in designated Community Development Entities (CDE), which must in turn make investments in low-income communities.[28] Qualified low-income community investments include (1) any capital or equity investment in, or loan to, any qualified, active, low-income community business; (2) the purchase from another CDE of any loan made by such entity that is a qualified low-income community investment; (3) financial counseling and other services to businesses located in, and residents of, low-income communities; and (4) certain equity investments in, or loans to, a CDE. The credit provided to the investor totals 39 percent of the cost of the investment and is claimed over a 7-year period. In addition,

[26] App. II describes in more detail how leveraging occurs in the Low-Income Housing Tax Credit program.

[27] See 26 U.S.C. 42(h)(3)(C) and Rev. Proc. 2006-53, 2006-48 I.R.B. 996. Low-Income Housing Tax Credits are offered at two rates, 9 percent and 4 percent. Most new construction and substantial rehabilitation projects are eligible for 9 percent credits. Projects that are financed through the issuance of tax-exempt bonds automatically may qualify for 4 percent credits. Credits awarded to these projects are not subject to the per capita limit; however, the underlying bonds are subject to the state private activity bond cap.

[28] The Community Renewal Tax Relief Act of 2000 (Pub. L. No. 106-554, 26 U.S.C. 45D) authorized the New Markets Tax Credit program, which Treasury's CDFI Fund administers. A CDE is a domestic corporation or partnership that is an intermediary vehicle for the provision of loans, investments, or financial counseling in low-income communities through the New Markets Tax Credit program. CDEs must be certified as such by Treasury. App. II describes in more detail how leveraging occurs in the New Markets Tax Credit program.

Treasury scores those applications in which CDEs demonstrate an ability to leverage additional funds more favorably.[29] In fiscal year 2007, Treasury awarded $3.9 billion in New Markets Tax Credits (totaling approximately $1.5 billion in forgone federal tax revenue) to 61 CDEs.

Reported Leverage Measures Lacked Transparency Because Agencies Generally Did Not Disclose Data Limitations or Calculation Methods

The leverage measures (such as ratios) HUD and Treasury reported for the selected programs in performance, budget, and other documents lacked transparency because the agencies generally did not disclose the limitations of the data or the methods used to calculate them. Based on our review of available leveraging data and interviews with HUD and Treasury officials, we found that the leverage measures the agencies reported for the selected programs were based on incomplete data and thus did not capture the actual extent of leveraging in the programs. We also found that while the agencies generally reported measures that described the ratio of all other funds (federal, state, local, and private funds) to program funds, alternative measures that described the total federal investment or total private investment in a program provided considerably different results—also potentially of value to decision makers—about the extent of leveraging in a program. Further, no agency-specific or governmentwide guidance directs what agencies should disclose about the leverage measures they report for the selected programs; however, we regularly have reported that clearly communicating data limitations and their potential impact may foster appropriate use of data.[30] Consequently, absent specific information on how these measures were calculated and their limitations, decision makers would not have sufficient information to understand their meaning and determine how they could and should be used in performance assessment, budgeting, and other contexts.

[29]See "Notice of Allocation Availability Inviting Applicants for the CY 2007 Allocation Round of the New Markets Tax Credit Program," 71 *Federal Register*, 70835, 70841 (Dec. 6, 2006).

[30]For additional information on the effect of data limitations on performance measurement, see GAO, *Performance Reporting: Few Agencies Reported on the Completeness and Reliability of Performance Data*, GAO-02-372 (Washington, D.C.: Apr. 26, 2002); *Managing for Results: Challenges Agencies Face in Producing Credible Performance Information*, GAO/GGD-00-52 (Washington, D.C.: Feb. 4, 2000); *Performance Plans: Selected Approaches for Verification and Validation of Agency Performance Information*, GAO/GGD-99-139 (Washington, D.C.: July 30, 1999); and *Agency Performance Plans: Examples of Practices That Can Improve Usefulness to Decisionmakers*, GAO/GGD/AIMD-99-69 (Washington, D.C.: Feb. 26, 1999).

HUD and Treasury Did Not Always Disclose Limitations of Data Used to Determine Leverage Measures for the Selected Programs

Based on our review of available leveraging data and interviews with HUD and Treasury officials, we found that the leverage measures the agencies reported for the selected programs were based on incomplete data and did not capture the actual extent of leveraging that may have occurred in each of the programs.[31] We also found that HUD and Treasury did not always disclose these limitations when they published the measures. Table 1 describes the limitations associated with the underlying data used for determining leverage measures for each of the selected programs.

Table 1: Limitations of Agencies' Leveraging Data and Potential Effect on Reported Leverage Measures

Program(s)	Data limitation	Effect of data limitation on leverage measure[a]
CDBG and HOME	The database HUD used to collect leveraging data for the programs did not distinguish between nonresponses, which default to zero, and actual entries of zero (that is, $0).[b]	Assuming that some grantees failed to enter funding information (which would appear in the data as $0), the total amount of leveraging that occurred in each program potentially would be underestimated.
HOPE VI	HUD's database captures data on leveraging that occurred in completed phases of HOPE VI developments rather than data on leveraging that occurred in completed HOPE VI developments (which comprise multiple phases of development).	To the extent that HOPE VI developments included in the calculation did not include all phases of construction, the total amount of leveraging that occurred in the program potentially would be underestimated.
CDFI	In its calculation of institutional leverage, Treasury assumed match leverage—that is, the ratio of nonfederal match funds to program funds—to be 1 to 1. According to Treasury officials, CDFIs may attract more than $1 in nonfederal funds for every $1 received in program funds; however, the agency does not collect data on match contributions that exceed the $1 requirement.	To the extent that match funds exceeded the reported 1 to 1 ratio, the total amount of leveraging that occurred in the program potentially would be underestimated.[c]

[31]App. III describes the leverage measures HUD and Treasury reported for each of the selected programs. HUD and Treasury currently do not publish leverage measures for the CDBG and New Markets Tax Credit programs, respectively; however, officials from both agencies said that they plan to publish measures for the programs in the near future. In comments on this report, HUD clarified that the agency will post program year 2006 leveraging and other CDBG data on its Web site in grantee profiles by Dec. 31, 2007. According to HUD, these profiles will reflect funds leveraged as reported by CDBG grantees. In some cases, the amount leveraged may be zero as grantees either failed to report or did not leverage other funding sources.

Program(s)	Data limitation	Effect of data limitation on leverage measure[a]
Low-Income Housing Tax Credit	Treasury does not collect leveraging data or report a leverage measure for the program.[d]	Not applicable.
New Markets Tax Credit	Treasury assumed that CDEs contribute 100 percent of available tax credit equity to qualified low-income community investments even though program regulations permit CDEs to retain up to 15 percent of the equity for administrative and other purposes.[e]	To the extent one or more CDEs contributed less than 100 percent of available tax credit equity to qualified low-income community investments, the total amount of leveraging that occurred in the program potentially would be overestimated.
	Project-level data were unavailable for 26 percent of the projects funded under the program.	To the extent projects for which data were unavailable leveraged additional funds at the project level, the total amount of leveraging that occurred in the program potentially would be underestimated.

Source: GAO analysis of HUD and Treasury leveraging data.

[a]As a result of the data limitations described in this table, we generally were unable to determine the extent to which agency-reported leverage measures for the selected programs were over- or underestimated.

[b]According to HUD officials, the agency has no mechanism to determine whether zeros were nonresponses or $0 responses. Because it is not possible to distinguish between nonreponses and $0 responses, we were unable to determine the reliability of the leveraging data for the CDBG and HOME programs. Further, since HUD started collecting leveraging data for the CDBG program in December of 2005, only about half of all program administrators had reported relevant data to the agency. To the extent projects for which data were not available leveraged funds, the total amount of leveraging that occurred in the CDBG program potentially would be underestimated. See app. I for a more detailed discussion of our assessment of the reliability of the leveraging data for these programs.

[c]Treasury's potential underestimation of match leverage in the program affects its calculation of institutional leverage (which comprises match leverage and debt leverage) and total program leverage. See app. III for a more detailed discussion on how Treasury calculated a leverage measure for the CDFI program.

[d]Treasury only tracks taxpayers' compliance with rules for claiming Low-Income Housing Tax Credits. No agency or organization collects data that could be used to calculate leverage measures for the program.

[e]See 26 C.F.R. 1.45D-1(c). According to Treasury officials, CDEs generally contribute more than the required minimum amount to qualified low-income community investments; however, data were not available to determine actual contributions.

In our assessment of HUD's and Treasury's use of leverage measures in strategic planning, annual performance and budget documents, on their Web sites, and in other published reports, we found that the agencies did not routinely disclose the limitations to the leveraging data (outlined in table 1) they used to compute leverage measures for the selected programs. For example, the only place in which Treasury included discussions of known limitations to the data used to calculate a leverage measure for the CDFI program was in periodic agency reports on the extent of leveraging in the program.[32] Treasury's Web site and key performance and budgeting documents provide little to no information on data limitations associated with the CDFI program leverage measure. Similarly, while HUD cited leverage measures on its Web site and in budget documents for the HOME and HOPE VI programs, respectively, the agency did not disclose the limitations of the data used to compute the reported leverage measures for the programs.[33]

Further, no agency-specific or governmentwide guidance directs what agencies should disclose about the leverage measures they report for the selected programs; however, we regularly have reported on the need for agencies to collect and report on credible and reliable data for performance budgeting and other purposes.[34] For example, cautioning decision makers and others about significant data limitations allows them to judge the credibility of the data and use them in appropriate ways. We also noted that all data have limitations that may hinder their use for certain purposes, and decision makers and others may not have enough familiarity with the data to recognize the significance of the shortcomings. Therefore, we concluded that appropriate use of data may be fostered by clearly communicating how and to what extent data limitations affect assessments of performance.[35] OMB also has stressed the importance of making clear to policymakers and others what individual performance indicators measure. According to OMB, doing so helps decision makers

[32]See The Community Development Financial Institutions Fund, U.S. Department of the Treasury, "CDFIs Leverage CDFI Program Awards Nearly $27 to $1" (Washington, D.C., Feb. 13, 2007) and The Community Development Financial Institutions Fund, U.S. Department of the Treasury, "CDFIs Leverage CDFI Program Awards Nearly $20 to $1!" (Washington, D.C., Mar. 2005). In comments on this report, Treasury noted that the agency also disclosed data limitations in Community Development Financial Institutions Fund, "Growth, Diversity, Impact: A Snapshot of CDFIs in FY 2003" (Washington, D.C., June 1, 2007).

[33]HUD and Treasury currently do not publish leverage measures for the CDBG and New Markets Tax Credit programs, respectively; however, officials from both agencies said that they plan to publish measures for the programs in the near future.

[34]For example, see GAO-02-372, GAO/GGD-00-52, GAO/GGD-99-139, and GAO/GGD/AIMD-99-69.

[35]See GAO/GGD-99-139.

understand what should be expected of an overall program.[36] To the extent that HUD and Treasury were not clear about the limitations of the measures they calculated for the selected programs, they potentially misrepresented (either positively or negatively) the extent of leveraging that occurred in these programs. If decision makers are unaware of the limitations of the agencies' reported leverage measures and take them at face value, they could misuse them in making funding decisions or performance evaluations on the programs (which also may have implications on the budget process).

Agencies Also Generally Did Not Disclose Methods Used to Calculate Leverage Measures Even Though Alternative Calculation Methods Can Provide Significantly Different Results

In our assessment of HUD's and Treasury's use of leverage measures in strategic planning, annual performance and budget documents, on their Web sites, and in other published reports, we also found that the agencies did not routinely disclose information on the methods they used to calculate leverage measures for the selected programs. For instance, in its fiscal year 2008 budget justification, HUD reported that the HOPE VI program leveraged $634 million over a 6-month period in 2007, without further explanation of how the measure was derived. Similarly, Treasury's Web site noted that on average CDFIs leveraged program funds 20 to 1, but did not explain what types of funds (public or private) were leveraged.

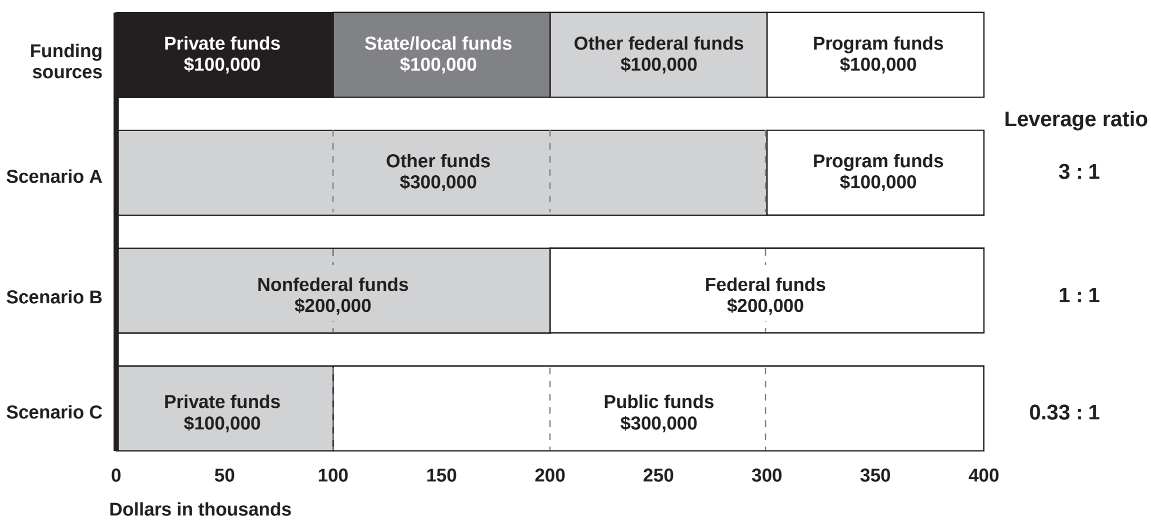
Based on our discussions with agency officials, we found that the leverage measures HUD and Treasury calculated for each of the selected programs generally described the ratio of all other funds contributed to a program (including other federal, state, local, and private funds) to program funds.[37] However, these measures can be calculated in multiple ways that describe leveraging from different perspectives, such as the extent that federal funds are used with nonfederal funds or public funds are used with private funds, which underscore the importance of disclosing the calculation methods used. As illustrated in figure 1, leverage measures for a single

[36]For example, see Office of Management and Budget, *Performance Measurement Challenges and Strategies* (Washington, D.C., June 18, 2003). Federal agencies also are expected to adhere to OMB guidelines for ensuring and maximizing the quality of the data they report to the public. See "Guidelines for Ensuring and Maximizing the Quality, Objectivity, Utility, and Integrity of Information Disseminated by Federal Agencies; Notice; Republication," 67 *Federal Register* 8452-8460 (Feb. 22, 2002).

[37]According to agency officials, Treasury plans to report a measure for the New Markets Tax Credit program that describes the total potential amount of investment generated by tax credits. However, Treasury's approach for calculating this measure is different from the approach used by other programs when measuring leveraging. App. III discusses the differences in Treasury's approach.

program could vary considerably depending on how funding categories were combined (that is, program funds, other federal funds, state and local funds, and private funds).[38]

Figure 1: Calculation Scenarios for a Hypothetical Program



Source: GAO.

Scenario A in figure 1 generally represents how the agencies presented leverage measures for the selected programs. The alternate leverage measures presented in scenarios B and C provide additional information that could be more useful to policymakers and investors than measures that describe the ratio of all other funds to program funds. For example, to help inform decisions made as part of the annual appropriations process, policymakers may be interested in determining the extent of total federal contributions made to projects funded under a particular program (scenario B). Alternatively, to assess the potential risk of investing in a federally sponsored development project in a low-income community, a private investor might be interested in knowing the proportion of private investment to public investment in the program (scenario C). Some private investors might perceive a relatively low ratio as an indication that the program carried a high level of investment risk and thus a higher potential

[38] App. III describes the leverage measures HUD and Treasury reported for each of the selected programs.

for losses.[39] Further, more detailed information on all the different sources of funding could be useful in describing the extent to which one federal program is leveraging funds from another federal program (that is, the extent to which federal programs cross-subsidize one another) and could be particularly relevant to policymakers during annual budget deliberations.

In addition, for the CDFI and New Markets Tax Credit programs (which leverage at both the institutional and the project levels), disclosing information on institutional and project-level leveraging could be more useful to policymakers and investors than a total program leverage measure.[40] For example, providing such information would assist policymakers and investors in understanding the extent to which institutional leveraging could be used to manage project-level investment risks—a program with a high institutional leverage ratio but a low project leverage ratio might be one which invests in riskier projects than a program with a low institutional leverage ratio but a high project leverage ratio. As we discussed in our previous report on leveraging federal funds, investments at the institutional level generally are isolated from the investment risks associated with discrete projects.[41]

In appendix II we present multiple calculation scenarios for each of the selected programs. Consistent with our hypothetical demonstrations in figure 1, our calculations show considerably different results between the leverage measures the agencies reported (that is, the ratio of all other funds to program funds) and measures that describe either (1) the ratios of nonfederal funds to federal funds and private funds to public funds or (2) institutional and project leverage ratios.[42]

[39] Investment risk is the potential for fluctuation in the value of an investment, which could result in loss of principal.

[40] The background section and app. II provide information on how these programs leverage.

[41] See GAO-07-768R. At the institutional level, a CDFI, for example, groups together projects with varying levels of risk in a diversified portfolio, which hedges risks associated with any particular project or type of project.

[42] HUD's and Treasury's ability to recalculate leverage measures in the manner described in fig. 1 depends on how they collect leveraging data and on their method of calculation. As described in app. III, we were not able to recalculate the leverage measures of some of the selected programs to reflect all of the scenarios in fig. 1.

As a result of not having more specific information about how these measures were calculated, decision makers would not have sufficient information to understand their meaning and how they can and should be used in performance assessment, budgeting, and other contexts. Further, as previously discussed, there is no agency-specific or governmentwide guidance on what agencies should report about how (or the extent to which) leveraging occurs in their programs. However, in other contexts, our prior work and that of OMB has stressed the value in agencies' disclosing this type of information to ensure decision makers not only are aware of what is being reported about a program, but how that information can and should be used to inform their budget, performance, and other decisions.[43]

Leverage Measures Provide Basic Financial Information, but the Extent to Which They Are Relevant for Assessing Program Performance Varies

Leverage measures can provide basic financial information about the programs included in our review; however, their relevance in assessing the performance of these programs varies considerably. For all of the programs we reviewed, leverage measures can describe inputs, or the resources used to support program activities, and may be useful for conveying basic financial information. To the extent that leveraging is a goal or core (expected) activity of a program (as in the three Treasury programs), leverage measures generally can describe program outputs, or the products or services delivered (such as total leveraged funds), and may be used along with other performance indicators to assess the efficiency and effectiveness of a program in meeting its goals. In cases where leveraging is not clearly and appropriately linked to program goals and activities (as in the three HUD programs), use of such measures to describe program outputs could be misleading and result in adverse consequences, such as giving funding priority to projects that leverage more over those that leverage less, but which may fill a greater or more immediate need within a community. Although leveraging had limited relevance to the goals and activities of the selected HUD programs, we found that OMB and the agency often cited leverage measures for the programs in performance- and budget-related reviews and documents. Their continued use of leverage measures in these contexts could unnecessarily encourage HUD to place more importance on leveraging

[43]For example, see GAO-02-372, GAO/GGD-00-52, GAO/GGD-99-139, and GAO/GGD/AIMD-99-69, and Office of Management and Budget, *Performance Challenges and Strategies* (Washington, D.C., June 18, 2003).

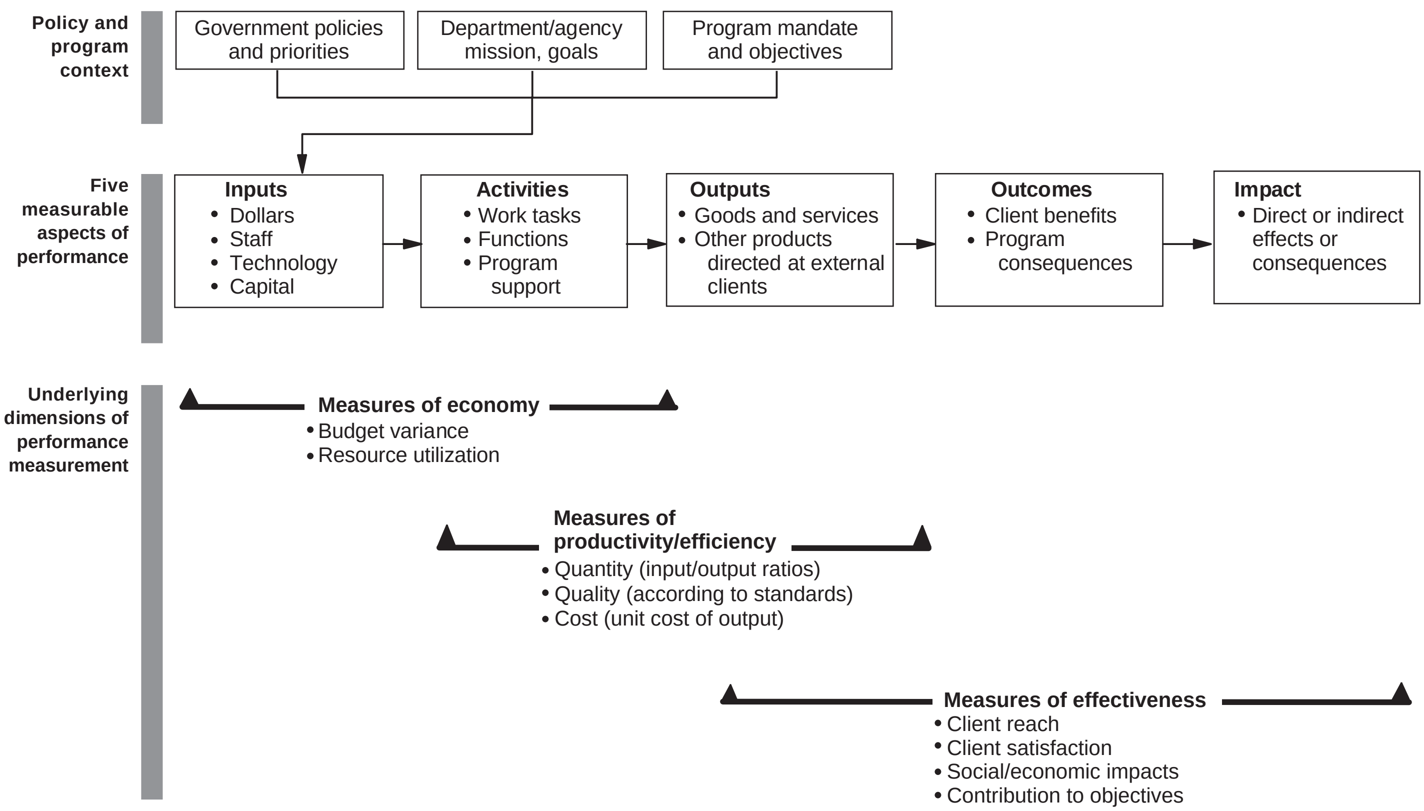
than meeting the stated goals of the CDBG, HOME, and HOPE VI programs.

Leverage Measures Can Provide Basic Financial Information about a Program, and if Linked to Program Goals and Core Activities, More Detailed Performance Information

Leverage measures generally can be used to describe the sources and amounts of funds contributed to a program, and if linked to a program's goals and core activities, they also can provide more detailed information about the program's performance. On a basic level and for all of the programs we reviewed, leverage measures convey information on inputs—that is, the specific sources of funds used to implement program activities. For example, leverage measures can provide information on the relative contributions made by different types of investors (private and public) to a program or project and the overall resources committed—this information could be used to inform agency budgeting exercises or financial analyses. To the extent that leveraging is a goal or core (expected) activity of a program, leverage measures generally can describe program outputs (in addition to program inputs) and be used with other performance indicators to measure the efficiency or effectiveness of a program in reaching its goals (see fig. 2). Previously we have reported that for performance measures to be useful in assessing program performance, they should be linked or aligned with program goals and cover the activities that an entity is expected to perform to support the intent of the program.[44] Generally, leveraging would not be an outcome measure for any of the selected programs—outcomes describe program benefits or consequences (such as the impact of leveraging on community development), whereas outputs generally measure quantities produced (total dollars leveraged).

[44]See GAO, *Tax Administration: IRS Needs to Further Refine Its Tax Filing Season Performance Measures*, GAO-03-143 (Washington, D.C.: Nov. 22, 2002). We also noted that measures should be clearly stated, consistent with the methodologies used to calculate them, and balanced. (Typically, agencies develop a suite of goals and measures covering the various priorities of their programs. Balance exists when the suite of measures covers those priorities.)

Figure 2: Performance Measurement Model



Source: Adapted from OMB.

The Importance of Leverage Measures in Assessing the Performance of the Selected Programs Varies

Leverage measures can be used to assess the performance of programs that were designed to leverage (that is, in which leveraging is directly related to the goals and core activities of the program), but are less meaningful in assessing the performance programs that do not have explicit leverage requirements. Each of the three Treasury programs was designed to leverage other funds in a number of ways and, as a result, leveraging directly relates to each program's goals and core activities and leverage measures can be used to describe program outputs. Under the CDFI program, CDFIs must match federal program funds at least dollar-for-dollar with nonfederal funds as a condition of receiving program funds. The match requirement is intended to increase the sustainability of CDFIs (by increasing private-sector investment in them) as well as their ability to make investments serving low-income individuals and communities. Although not required to do so, CDFIs use program and match funds to leverage debt and further increase their lending resources. Funding recipients (for example, small businesses) also may use their grants or loans from CDFIs to leverage additional funds to help finance their projects. In this way, leveraging at the project level also relates closely to the CDFI program's goal of increasing investment in low-income individuals and communities.

Similarly, the tax credit programs were designed to automatically generate private-sector equity investments in the production of affordable housing (in the case of the Low-Income Housing Tax Credit program) and community and economic development (in the case of the New Markets Tax Credit program).[45] Further, the application processes for both programs were designed to encourage additional leveraging. Under the Low-Income Housing Tax Credit program, in order to limit the federal share of housing development project costs, states are to provide no more tax credits to projects than necessary for their financial viability.[46] Under the New Markets Tax Credit program, Treasury considers CDEs' potential to leverage other sources of funds (in addition to the qualified low-income community investment they plan to make using the tax credit equity) for the projects they sponsor as a factor in scoring the tax credit allocation applications.[47]

In cases where leverage measures are not clearly and appropriately linked to program goals and core activities, use of such measures to describe program outputs could result in adverse consequences; for example, by encouraging agencies to place more importance on leveraging than on meeting their stated goals. This trade-off is directly apparent in the use of

[45]For measurement purposes, all or a portion of tax credit equity is considered a federal source of funds, as (all or a portion of) the equity represents forgone federal tax revenue. However, the equity gained through the sale or offering of tax credits likely would not be contributed to projects funded under these programs in the absence of the credit, and therefore may be considered leveraged funds.

[46]The Internal Revenue Code provides broad guidance to states for allocating tax credit awards, requiring them to consider, among other things, the extent of a project's financing gap, or the difference between the cost of a project and the amount of nontax credit financing that a project can raise to cover those development costs (that is, leveraged funds). See 26 U.S.C. 42(m)(2).

[47]See 71 *Federal Register*, 70835, 70841 (Dec. 6, 2006).

leverage measures as outputs for the CDBG and HOME programs.[48] While leveraging may be a strategy some funding recipients employ (either by choice or out of necessity) to meet these programs' goals, none of these programs originally was designed to leverage (meaning, leveraging generally is not a goal or core activity in these programs). Thus, using leveraging to assess the success or impact of these programs in meeting their goals may result in agencies and funding recipients serving fewer lower-income communities or households (as originally intended by these programs) and more moderate-income communities and households (those that are better able to attract additional funds because they pose relatively less risk to investors).

HUD set a leveraging goal for the HOPE VI program in the agency's most recent strategic plan and its fiscal year 2007 annual performance plan and fiscal year 2008 budget justification. According to HUD officials, while leveraging has long been a rating factor in the program's application process, its relative importance in financing HOPE VI developments has increased over time as program appropriations have declined. While leveraging may help HUD meet the HOPE VI program goal to create mixed-income communities, its use may involve trade-offs, as it may conflict with another program goal—providing housing for extremely-low, very-low, and low-income households.[49] For example, increased reliance on leveraged funds from other programs or sources that may have different requirements (such as higher income limits) potentially could affect the demographic composition of HOPE VI developments.

Previously, we have reported several limitations to the usefulness of leverage measures in providing detailed information about federal programs and the projects they fund (regardless of whether or not those programs were designed to leverage).[50] Although leveraging can be a useful tool and public- and private-sector officials regard it favorably, according

[48]HUD distinguishes between matched funds and leveraged funds in the HOME and HOPE VI programs. Thus, for purposes of our discussion on performance measurement, we consider match and leverage to be distinct activities in these programs. As discussed later in this report, HUD has not identified leveraging as a performance measure for CDBG or HOME programs.

[49]Extremely-low-income households earn 30 percent or less of the area median income; very-low-income households earn 50 percent or less; and low-income households earn 80 percent or less. Although income limits vary by location, all residents of public housing must be at least low income.

[50]See GAO-07-768R.

to many of the officials we contacted, if considered independently of other information, leverage measures can provide misleading information about the success or impact of a program or project. For example, many said that factors such as the local economy or availability of investors within a certain geographic area could have a positive or negative impact on a project's ability to leverage additional funds, and thus its leverage ratio. That is, projects in vibrant communities likely may have higher leverage ratios than those in distressed communities. As a result, leverage measures are not sufficient to make judgments about the relative success of projects or programs without other descriptive information. Leverage measures also do not account for the level of substitution of federal funds for otherwise available private funds that might occur in programs or projects. Although difficult to measure, information on substitution might be useful in assessing how effectively federal funds were utilized in a program or project. Officials we contacted noted that having information on the risk position of different contributions to a project might be useful in assessing the extent of substitution that occurred. For instance, the level of substitution in a project in which the federal government assumed more risk (by taking a subordinate position) than nonfederal investors could be lower than the level of substitution in a project in which the federal government assumed less risk (by taking a senior position).[51]

OMB and the Agencies Did Not Always Link Leveraging to Program Goals and Core Activities in Performance-related Reviews and Reports

When OMB and the agencies cited leverage measures in performance- and budget-related reviews and documents, they did not always link leveraging to program goals and core activities—in some cases, OMB and the agencies used leveraging to assess the performance of the selected programs despite its limited relevance to program goals and core activities. According to OMB officials, the agency considers leveraging to be an output measure for each of the selected HUD programs. Consistent with this view, OMB used leveraging as an output measure in its PART reviews of these programs, although leveraging generally was not linked to the goals and core activities of the programs.[52] For example, in its 2003 PART review of the CDBG program, OMB recommended that HUD

[51]Senior debt must be repaid before subordinated debt receives any payment in the event of default.

[52]PART asks a series of questions about a program's performance and management; OMB assigns programs an overall rating—effective, moderately effective, adequate, ineffective, or results not demonstrated—based on the results of its PART reviews. OMB conducted PART reviews of the three HUD programs in 2003.

implement a new performance measurement system that included information on the amount of money leveraged from other sources.[53] The agency developed steps to address this recommendation in the program improvement plan it developed with OMB in 2006 (in response to the PART assessment's finding that the program lacked specific annual performance measures that demonstrated progress on achieving long-term goals).[54] We have noted that federal programs, in particular federal block grant programs, have faced difficulties but could benefit from defining program goals and performance measures that go beyond describing program activities to describe outcomes or results.[55] However, because leveraging is not a required activity or explicit goal of the CDBG program (as discussed previously), its value in evaluating the performance of the program is limited. Further, in its PART review of the HOME program, OMB used leverage measures to compare the performance of the HOME program with that of the CDBG program. Such a comparison does not facilitate evaluations of these programs in the context of their intended goals (neither of which is to leverage).

While using leveraging as an output measure for the CDFI and New Markets Tax Credit programs is consistent with the programs' goals and core activities as discussed above, OMB identified leveraging as an outcome measure for the CDFI program in its 2004 PART review despite the fact that, as discussed previously, leveraging cannot be used to measure the impact of the program.[56] Further, the agency equated leveraging with program effectiveness in its 2004 PART review of the New Markets Tax Credit program. (As described in fig. 2, outcome measures are used to assess the effectiveness of programs in achieving desired

[53]In its 2003 PART review of the CDBG program, OMB rated the program "ineffective."

[54]HUD started collecting leveraging data for the program and plans to publish measures on its Web site by the end of calendar year 2007. HUD does not plan to cite leverage goals or measures in any of its performance and budget documents.

[55]Specifically, we found that program design has implications for the availability of performance information. Among the programs reviewed, relatively few collected uniform data on outcomes of state or local activities. Collecting such data requires conditions—uniformity of activities, objectives, and measures—that do not always exist under many flexible program designs. See GAO/HEHS/GGD-98-137 and GAO, *Grant Programs: Design Features Shape Flexibility, Accountability, and Performance Information*, GAO/GGD-98-137 (Washington, D.C.: June 22, 1998).

[56]OMB conducted PART reviews of the CDFI program and the Internal Revenue Service's administration of the New Markets Tax Credit program in 2004. To date, OMB has not conducted a PART review of the Low-Income Housing Tax Credit program.

results. As we have discussed throughout this report, outcome measures should be designed to assess the benefits or consequences of a program—leverage measures by themselves cannot provide information on the impact these programs have had on their targeted populations and communities.)

As we observed in our 2004 review of OMB's PART process, the goals and measures OMB defines in its PART reviews are designed to meet the needs of executive decision makers during the budget formulation process, and thus may be inconsistent with the goals and measures federal agencies have developed in response to GPRA, which may be developed at a higher, strategic level and less relevant to OMB's budget decision-making process.[57] As a result of OMB's focus on the budget process, we found that its judgment about appropriate goals and measures for a program may be substituted for agency judgments. These findings generally are consistent with our observations on OMB's use of leverage measures in the PART reviews of the selected programs we reviewed for this report. We observed that the agencies identified leveraging as a performance measure in their performance- and budget-related reports for some of the selected programs despite its sometimes limited relevance to program goals and core activities.

Table 2 describes HUD's use of leverage measures for the HOME and HOPE VI programs in its strategic planning and other performance- and budget-related documents or contexts.[58] In the case of the HOME program, although leveraging was not linked to the program's goals and core activities, HUD equated more leveraging with better performance by ranking states and localities on their ability to leverage other sources of funds. For the HOPE VI program, HUD primarily used leveraging as a measure for its goal of providing decent, affordable housing through the improvement of the physical quality of public housing. However, HUD generally did not discuss how leveraging would help the agency in achieving this goal. HUD also linked leveraging to the HOPE VI goal of creating mixed-income housing. Although increased leveraging in a program designed to provide affordable housing could result in trade-offs, HUD's performance- and budget-related documents did not discuss the

[57]See GAO, *Performance Budgeting: Observations on the Use of OMB's Program Assessment Rating Tool for the Fiscal Year 2004 Budget*, GAO-04-174 (Washington, D.C.: Jan. 30, 2004).

[58]HUD does not publish a leverage measure for the CDBG program.

impact of (or the potential unintended consequences of) leveraging on the ability of the program to meet this goal.

Table 2: HUD's Use of Leverage Measures in Performance Assessment and Other Documents

Program and document	Measure and linkage to program goals
CDBG	
None	Not applicable
HOME	
Performance Snapshot Reports	**Measure:** According to HUD's explanation of performance categories presented in the snapshot reports, a leveraging ratio of 4 to 1 is considered indicative of significant leveraging. Therefore, any state or locality with a leveraging ratio of 4 to 1 and greater would receive a designation of 100 percent (a ranking of 1). Any state or locality with a leveraging ratio of less than 4 to 1 would receive a lower score. For example, a leveraging ratio of 2 to 1 (half of 4 to 1) would receive a designation of 50 percent. **Linkage:** Although used to make performance-related comparisons among grantees, HUD does not link leveraging to HOME program goals in these reports.
HOPE VI	
2006-2011 Strategic Plan	**Measure:** The HOPE VI program will leverage $4 billion in private financing between 2006 and 2011. **Linkage:** Leveraging in the HOPE VI program is linked to HUD's mission to promote decent, affordable housing. Programmatic strategic goals under this mission include, among other things, (1) expanding access to and availability of decent, affordable rental housing; (2) improving the physical quality of public and assisted housing; and (3) facilitating more effective delivery of affordable housing by reforming public housing. However, the plan does not provide details on how leveraging in the HOPE VI program facilitates HUD meeting the mission and related strategic goals.
Fiscal Year 2007 Annual Performance Plan	**Measure:** The HOPE VI program will leverage $800 million in other financing in fiscal year 2007. **Linkage:** Leveraging in the HOPE VI program is linked to HUD's mission to promote decent, affordable housing and more specifically to the agency's strategic goal of improving the physical quality of public housing. However, in HUD's more detailed discussion of how leveraging would help achieve this mission and its related goal, the agency links leveraging to the creation of mixed-income communities, rather than the stated goal (improving the physical quality of public housing).
Fiscal Year 2008 Budget Justification	**Measure:** The HOPE VI program will leverage $800 million in other financing in fiscal year 2008. **Linkage:** Leveraging is linked to the creation of mixed-income communities. HUD specifically asserts that the formation of new public and private partnerships is key in ensuring the long-term sustainability of public housing development and the leveraging of public and private resources to transform isolated public housing communities into sustainable, mixed-income communities with a wide range of family incomes. HUD provides no discussion of how leveraging links to or positively or negatively affects another of the program's missions—to promote decent, affordable housing—or strategic goals—to improve the physical quality of public housing.

Source: HUD publications.

Note: According to HUD officials, the $800 million HOPE VI leverage goal reported in the agency's fiscal year 2007 annual performance plan and fiscal year 2008 budget justification recently was revised to $650 million. In comments on a draft of this report, HUD officials noted that the agency posted revised performance documents on its Web site reflecting this change.

Finally, as described in table 3, Treasury generally linked leveraging with the goals and core activities of the CDFI and New Markets Tax Credit programs.[59] For example, Treasury noted that leveraging in the CDFI program helps build CDFIs' capacity to make loans and other investments in low-income communities. Because Treasury to date has not reported publicly the extent of leveraging in the New Markets Tax Credit program, the agency's performance- and budget-related documents only discuss the extent of institutional leverage in the program. As with the CDFI program, Treasury linked institutional leveraging to the program's goal of attracting private-sector capital to low-income communities.

Table 3: Treasury's Use of Leverage Measures in Performance Assessment and Other Documents

Program and document	Measure and linkage to program goals
CDFI	
Fiscal Year 2006 Performance and Accountability Report	**Measure:** 186 CDFIs leveraged $1.4 billion in fiscal year 2005. **Linkage:** Total leveraging is used to measure progress in meeting the program's goal to build the capacity and coverage of CDFIs to provide credit, capital, and related services to otherwise underserved markets. According to the report, Treasury provides financial assistance through the CDFI program in the form of grants, loans, and equity investments to CDFIs. Financial assistance awards are made to CDFIs that have comprehensive business plans for creating community development impact and that demonstrate an ability to leverage private-sector sources of capital.
Fiscal Year 2006 Justification for Appropriations and Performance Plans (CDFI Fund breakout)	**Measure:** The approximately $12.4 million in fiscal year 2008 program funds should result in an additional $335 million raised and deployed in low-income communities. **Linkage:** Same as above.
Low-Income Housing Tax Credit	
None	Not applicable

[59]Treasury does not collect or report leverage data for the Low-Income Housing Tax Credit program.

Program and document	Measure and linkage to program goals
New Markets Tax Credit	
Fiscal Year 2006 Performance and Accountability Report	**Measure:** Treasury awarded $4.1 billion dollars to 63 CDEs in fiscal year 2006 (institutional leverage). **Linkage:** Equity investments (or funds leveraged at the institutional level) are used to measure progress in meeting the program's goal to attract private-sector capital into low-income communities through CDEs. The New Markets Tax Credit program is intended to spur private-sector capital into low-income areas through CDEs, which in turn make loans and equity investments in businesses and real estate projects in low-income communities. By making an equity investment in a CDE, individual and corporate investors can receive a tax credit against their federal income taxes worth 39 percent of the value of the amount invested in the CDE over 7 years.
Fiscal Year 2006 Justification for Appropriations and Performance Plans (CDFI Fund breakout)	**Measure:** The fiscal year 2008 allocation round will provide tax credit allocations supporting $3.5 billion in investor capital (institutional leverage). **Linkage:** Same as above.

Source: Treasury publications.

Conclusions

With the increased focus of federal agencies on performance management, budgeting, and financial reporting, leveraging has come to be seen as an effective and efficient means of delivering more impact per dollar of federal investment, particularly in a period of increasingly tight budgets and competing funding priorities. While agencies have collected and presented leveraging information in strategic planning, performance, and budget reports, and on their Web sites, agencies disclose little or no information on methods of data collection or how leverage measures were calculated, in part because there is no agency-specific or governmentwide guidance on how to calculate, describe, and use leverage measures in a manner that is consistent with the programs' design. Information on methodology is important in the leveraging context because of the limitations of leveraging measures and data collection issues. For example, in the case of the CDBG and HOME programs, leveraging may be underestimated because HUD's database does not distinguish between zero responses (for example, where no leveraging occurred) and blank responses (for example, where leveraging data may be incomplete). Moreover, measures such as ratios may not disclose the details necessary to understand which component funding sources were being compared, and as demonstrated, the ratios can vary considerably depending on what information an agency is trying to convey about a program (for example, the extent of public or private investment in a program). Further, data collection and completeness are issues because not all the programs are required to report leveraging, and in many cases agencies are unable to capture data on all leveraging that may be occurring in a program (for example, project leveraging). Absent specific information on how leverage measures were calculated and their potential limitations, decision makers do not have sufficient information to understand their meaning and how they can and should be used in performance assessment, budgeting, and other contexts.

Moreover, the relevance of leveraging to performance measurement is dependent on the context of the program being analyzed. Because leveraging is not an intended activity carried out to achieve program goals or a goal unto itself for some of the selected housing and community and economic development programs in our review, measures such as ratios are not indicative of program or project performance (outcomes and impact). Rather, such measures are indicative only of resource utilization. Nevertheless, even in cases where they were not reflective of program performance, agencies presented leverage measures in strategic plans, annual performance plans, performance and accountability reports, and budget justifications. The use of leverage measures in such contexts could lead decision makers to presuppose that the information was indicative of program impacts in cases where leveraging actually might say very little about the success of a program, such as the ability of a program to improve the living conditions of the urban poor.

Despite the issues surrounding the utility of leverage measures, we note the valid and useful purposes for which the measures may be used, particularly in instances where leveraging is an intended activity or goal. For instance, decision makers and practitioners in the area of affordable housing and community and economic development may utilize leverage measures to report basic information on how federal funds were combined with other funds for a program or project. Such information could be instructive in ascertaining trends in the involvement of private-sector investors or local governments in federally sponsored initiatives, or identifying demographic trends that could adversely or positively affect the ability of program funds to attract other funds. Additionally, the measures may aid management and Congress in their oversight of programs and strategic planning for future budgets. Further, when directly linked to program goals and activities and considered with other performance measures, leverage measures also could provide insight into the success of a program, including its impact on targeted populations and communities.

The valid and useful purposes to which leverage measures may be put underline the importance of transparency for federal agencies in communicating the limitations of such measures and how they are calculated. The agencies administering the housing and community and economic development programs we reviewed could improve the transparency of the leverage measures they use by including information about the completeness and accuracy of the data and methods used to compute the measures. Further, the agencies could discuss the relevance of leveraging to a program's stated goals and activities. The publication of such information in conjunction with the measures themselves would increase the accuracy of the information being conveyed and provide perspectives that would allow various users to assess the potential of the measures to serve as relevant and accurate indicators of program or project outputs and, in some cases, outcomes or impact. However, the opportunities to better describe, assess, and report the role of leveraging in housing and community and economic development programs do not rest solely with the agencies administering those programs. OMB, because it plays a key role in assessing the performance of federal agencies and developing and tracking compliance with performance goals, has an opportunity to refine its understanding and use of leverage measures in future PART and other performance reviews by carefully considering the role of leveraging in carrying out program goals and activities. Specifically, in its performance assessments of the selected programs, OMB could provide information on how leveraging may support or conflict with a program's intended purpose. This is particularly important because the accuracy of measures and the relationship of leveraging to program goals and thus performance can vary considerably across the housing and community and economic development programs we reviewed.

Recommendations for Executive Action

To ensure that leverage measures provide accurate, useful, and relevant information to Congress and others, we recommend that the Secretaries of HUD and the Treasury consider disclosing the following when they publish such measures for the programs included in our review:

- Presentation of leverage measures should be accompanied by information about the completeness and accuracy of the data and the method(s) used to calculate the measures (for example, with leverage ratios, information on what sources of funds were compared, such as private funds to public funds or nonfederal funds to federal funds).

- Presentation of leverage measures should be accompanied by a discussion of the relevance of the measure in assessing the program's performance. For example, the agencies should discuss the extent to which leverage measures are linked to program goals and core activities.

We further recommend that the Director of OMB

- provide guidance to help agencies determine how to calculate, describe, and use leverage measures in a manner consistent with the programs' design; and
- re-evaluate the use of leverage measures and disclose their relevance to program goals and activities in future PART or other performance reviews of the selected programs.

Agency Comments and Our Evaluation

We received written comments on a draft of this report from HUD and Treasury, which are included in appendixes V and VI, respectively. HUD's Office of Public and Indian Housing also provided technical comments related to the HOPE VI program, which we incorporated as appropriate. We also provided a draft of this report to OMB for review, but no comments were provided.

In a letter from the Acting Deputy Assistant Secretary for Grant Programs, HUD noted that it was pleased with the results presented in our draft report, but provided several detailed comments on and suggested changes to our findings related to the CDBG and HOME programs (see app. V). Specifically, HUD expressed concern that the draft report (1) did not sufficiently emphasize that the CDBG and HOME programs do not have statutory or regulatory leveraging requirements; (2) did not sufficiently emphasize that the agency currently does not publish a leverage measure for the CDBG program; (3) incorrectly stated that the agency did not disclose limitations to the data or methods used to calculate leverage measures for the HOME program, which are reported on HUD's Web site; and (4) contends that leveraging affects the funding decisions HUD makes for CDBG and HOME (HUD noted that all funding decisions are made at the state or local level and are not approved by the agency).

With respect to HUD's first two concerns, we incorporated additional language into the report to further emphasize that the CDBG and HOME programs do not have leveraging requirements and that the agency does not publish a leverage measure for the CDBG program. In its letter, HUD agreed to work to improve the quality of leveraging data CDBG grantees report to the agency, which would address, in part, our recommendation that the agencies disclose information about the completeness and accuracy of the data and the method(s) used to calculate leverage measures.

Concerning HUD's comment that the draft report incorrectly stated that the agency did not disclose limitations to the data or methods used to calculate leverage measures for the HOME program, which are reported on HUD's Web site, we acknowledge that HUD's Web site included information on the method used to calculate leverage measures for the HOME program (that is, the ratio of other funds to program funds). However, HUD has not provided information on the limitations to the data used to calculate those measures. Specifically, the database HUD used to collect leveraging data for the program did not distinguish between nonresponses, which default to zero, and actual entries of zero; assuming that some grantees failed to enter funding information, the total amount of leveraging that occurred in the program (or in a specific state or locality) potentially would be underestimated. Accordingly, we did not change the report.

Finally, with respect to HUD's concern that the draft report contends that leveraging affects the funding decisions HUD makes for CDBG and HOME, our report did not state that HUD or grantees make funding decisions based on leveraging; rather, the report noted the potential consequences of using leveraging as a performance indicator for programs that were not designed to leverage. Specifically, we found that leveraging may be a strategy some funding recipients employ, either by choice or out of necessity, to meet the goals of the CDBG and HOME programs. Thus, using a leverage measure to assess the impact or success in meeting goals may create adverse or conflicting incentives for the agency and its grantees as well as Congress and other decision makers; for example, by giving funding priority to projects that leverage more over those that leverage less, but which may fill a greater or more immediate need within a community. In response to this comment, we added language to the report to emphasize that HUD has not identified leveraging as a performance measure for either program.

In a letter from the Director of the Community Development Financial Institutions Fund, Treasury expressed appreciation for our finding that each of the agency's programs included in our review was designed to leverage. Although Treasury did not specifically comment on our recommendations, it provided several detailed comments primarily related to the agency's calculation of leverage measures for the CDFI and New Markets Tax Credit programs (see app. VI). Specifically, Treasury commented on our findings that (1) the leverage measures Treasury reported for its programs lacked transparency because the agency did not disclose the limitations of the data or the methods used to calculate them; (2) the leverage measures did not reflect the actual extent of leveraging in the CDFI program due to incomplete data; (3) missing project-level data for the New Markets Tax Credit program potentially led to misestimations of leveraging in the program; and (4) the leverage measure Treasury calculated for the New Markets Tax program was a multiplier ratio, not a leverage ratio.

With respect to its first comment on our findings, Treasury stated that on multiple occasions the agency has publicly disclosed its calculation method for the CDFI program. In the report, we listed two publications in which Treasury disclosed its calculation methodologies and limitations to the data it used to compute a leverage ratio for the CDFI program.[60] To this list, we added the additional report Treasury cited in its letter.[61] However, we continue to believe that disclosure of the methodologies and limitations of the data used to calculate the leverage measures is important, particularly in key budget and performance documents, which policymakers often rely on to make funding and management decisions. As discussed in the report, Treasury did not disclose such information about its leverage calculation for the CDFI program in these key documents. For example, in the fiscal year 2006 Performance and Accountability Report and Justification for Appropriations and Performance Plans, Treasury reported leverage ratios for the CDFI program and emphasized its importance in achieving program goals, but did not include any discussions of the measures' data limitations or calculation methods. Accordingly, we did not change our finding that Treasury's reporting of such information was inconsistent and that it should further disclose its data limitations and calculation methods in key budget and performance documents.

Concerning Treasury's comment on our finding that the leverage measure the agency calculated for the CDFI program did not reflect the actual extent of leveraging due to incomplete data, Treasury stated that although it was aware that the match leverage—that is, the ratio of nonfederal match funds to program funds—may actually exceed the statutory requirement of a 1 to 1 ratio, it is not appropriate or necessary to include

[60]See The Community Development Financial Institutions Fund, U.S. Department of the Treasury, "CDFIs Leverage CDFI Program Awards Nearly $27 to $1" (Washington, D.C., Feb. 13, 2007) and The Community Development Financial Institutions Fund, U.S. Department of the Treasury, "CDFIs Leverage CDFI Program Awards Nearly $20 to $1!" (Washington, D.C., Mar. 2005).

[61]See Community Development Financial Institutions Fund, "Growth, Diversity, Impact: A Snapshot of CDFIs in FY 2003" (Washington, D.C., June 1, 2007).

excess matching funds that exceed the requirement. We continue to believe that excluding excess matching funds from the leverage calculation (which typically includes all other sources of funds) understates the actual extent of leveraging that occurs in the program. Accordingly, we did not change the report in this regard. If Treasury chooses to continue to exclude such amounts from future, published leverage calculations for the program, we believe that it should disclose this and its potential impact on the leverage measure, consistent with the recommendations included in this report.

Concerning Treasury's comment on our finding that missing project-level data for the New Markets Tax Credit program potentially led to misestimations of leveraging in the program, Treasury stated in its letter that the leverage measure for the program would not substantially be different if complete data were available and that the calculated measures provided a reasonable approximation of the leveraging that occurs in the program. We reported that (1) leverage data were not available for 26 percent of New Markets Tax Credit projects and (2) Treasury assumed that CDEs contribute 100 percent of tax credit equity to qualified low-income community investments, even though CDEs are permitted to retain up to 15 percent of such equity for administrative and other purposes. We noted that the former case could lead to an underestimation of the extent of leveraging and the latter an overestimation of the extent of leveraging that occurred in the program. As discussed above with respect to the CDFI program, these data limitations potentially could have an impact on the leverage measure Treasury calculated for the program. In its letter, Treasury agreed with our description of these limitations, but did not provide any specific evidence of the impact of missing project-level data on these measures. Treasury also acknowledged the importance of disclosing such information, stating it would make every effort to include a discussion of these and other data limitations, as well as its calculation methodologies, when and if it publishes leverage measure for the program.[62] In response to these comments, we did not change the report.

Finally, with respect to our finding that the leverage measure Treasury calculated for the New Markets Tax Credit program for purposes of this report was a multiplier ratio, Treasury stated that the measure was a leverage ratio, calculated consistent with GAO guidance outlined in the

[62]As discussed throughout this report, Treasury currently does not publish a leverage measure for the New Markets Tax Credit program.

report. However, we reported the measure Treasury reported for the New Markets Tax Credit program was not a leverage ratio, but rather a money multiplier or multiplier ratio. A multiplier ratio measures the total amount of investment $1 in tax credits potentially can generate in low-income communities, whereas a leverage ratio measures the additional amount of investment relative to a source of funds (such as program funds). According to Treasury officials with whom we spoke, the agency included the cost of the credit ($0.25) on "both sides of the ratio," consistent with the calculation of a multiplier ratio, but overstating the extent of leveraging that occurred in the program. Our purpose in making a distinction between leverage ratios and multiplier ratios was to highlight the need for adequate disclosure of calculation methods and data limitations so that decision makers understand how to interpret these measures and how these measures compare with those reported by other programs. Without such information, it would not be possible for decision makers to assess the reliability of the measures or the comparability of the measures reported by other programs. If Treasury publishes the measure it calculated for the New Markets Tax Credit program, we believe it is incumbent upon the agency to provide a discussion as to how the measure was calculated in an attempt to provide complete information to decision makers (see app. III). Further, Treasury acknowledged in its letter it would do so, stating it would "make every effort to include a discussion of data methodologies and limitations" when it publishes leverage measure for the program. Accordingly, we did not change the report in response to this comment.

HUD's and Treasury's letters also included several comments that were technical in nature, which we incorporated as appropriate.

As agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies of this report to the Ranking Member, Subcommittee on Housing and Community Opportunity, Committee on Financial Services, the Secretaries of Housing and Urban Development and the Department of the Treasury, the Director of the Office of Management and Budget, and other interested congressional committees. We also will make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at http://www.gao.gov.

If you or your staff have any questions concerning this report, please contact me at (202) 512-8678 or at shearw@gao.gov. Contact points for our Office of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix VII.

Sincerely,

William B. Shear

William B. Shear
Director, Financial Markets
and Community Investment

Appendix I: Objectives, Scope, and Methodology

The objectives of this report were to examine (1) the leverage measures the Department of Housing and Urban Development (HUD) and the Department of the Treasury (Treasury) reported for the selected housing and community and economic development programs and the transparency of the data and methods used to calculate them and (2) the relevance of leverage measures in assessing the performance of the selected programs. Our review focused on HUD's Community Development Block Grant (CDBG), HOME Investment Partnership (HOME), and HOPE VI programs and the Treasury's Community Development Financial Institutions (CDFI), Low-Income Housing Tax Credit, and New Markets Tax Credit programs.

To examine the leverage measures HUD and Treasury reported for each of the selected programs and the transparency of the data and methods used to calculate them, we reviewed relevant program regulations and guidance, our prior reports, and reports of others, and interviewed agency officials and other stakeholders. Based on this information, we requested from HUD and Treasury data they use to measure the extent of leveraging (for example, data on the sources and amounts of funds, or other financial data, commonly referred to as "leveraging data") in the CDBG, HOME, and HOPE VI programs and the CDFI and New Markets Tax Credit programs, respectively. We did not request Low-Income Housing Tax Credit data from HUD or Treasury because neither maintains a database with detailed information on leveraging.[1]

- For both the CDBG and HOME programs, we requested leveraging data on completed program activities that were aggregated at the local level from HUD's Integrated Disbursement and Information System (IDIS), which contains information on activities funded by a number of grant programs (including the CDBG and HOME programs).[2] The CDBG data were from December 1, 2005, and May 1, 2007, and the HOME data were from

[1]HUD maintains the National Low-Income Housing Tax Credit database that collects information on different funding sources used in tax credit projects (such as tax-exempt bond financing, Rural Housing Service Section 515 or Federal Housing Administration loans, and HUD funds), but not the dollar amounts of these sources. As a result, we did not use the data in HUD's database to assess the extent of leveraging in the program.

[2]The CDBG program provides formula-based grants to metropolitan cities and urban counties, known as entitlement communities, and to states for distribution to nonentitlement communities, which may carry out activities directly or award funds to subrecipients. Similarly, the HOME program provides formula-based grants to states and localities (certain cities, counties, or consortiums of cities and counties), which can administer these grants on their own, or with or through third parties or subgrantees.

October 1, 2005, and September 30, 2006.[3] To assess the reliability of the data for both programs we (1) performed basic electronic testing of data elements associated with the financing used by state and local agencies that administer the programs—for example, we checked for missing data; (2) reviewed existing information about the data and IDIS; (3) replicated the leverage measure that HUD reported for each program; and (4) interviewed agency officials knowledgeable about the data. As a result of these tests, we found several limitations with these data, specifically that they were largely self-reported by program administrators and were not validated. In addition, IDIS does not distinguish between nonresponses, which default to zero, and actual zero (that is, $0) responses; as such, the data may underreport the total amount of leveraging that occurred in the programs. Further, the data may be incomplete because HUD does not require state and local agencies to report leveraging data because leveraging is not a required activity in either the CDBG or the HOME program, and HUD only started collecting leveraging data for the CDBG program in December 2005 (only about half of all program administrators have reported relevant data to the agency). Due to these limitations, we were unable to determine the reliability of the precise dollar amounts that were used in combination with the CDBG and HOME funds. We use the leverage measures that HUD derived from the data to illustrate how leverage measures can be calculated in different ways, but the values should not be used to represent actual dollars leveraged.

- To assess the reliability of HUD's HOPE VI program leveraging data on the 55 HOPE VI projects completed (that is, projects in which all phases of construction were fully completed and actual funding amounts were reported) as of March 2006, we (1) performed basic electronic testing of data elements associated with the financing used by the public housing agencies that administer the program; (2) reviewed existing information about the data and HUD's HOPE VI Internet-based Grant Management Reporting System Prototype (HOPE VI database); and (3) interviewed HUD officials knowledgeable about the data.[4] In addition, we interviewed

[3]HUD uses data from fiscal year 1992 through the most recent month to calculate the leverage measure it publishes for the HOME program. However, because HUD officials raised questions about the quality of the pre-2004 HOME data, we used fiscal year 2006 data in our calculations of the program's leverage measure.

[4]The HOPE VI program provides grants to public housing agencies to replace severely distressed public housing units with attractive, economically viable communities that often combine public housing with other affordable or market-priced housing units. HUD's HOPE VI data collection contract expired on Mar. 31, 2006, due to the delayed approval of the agency's technical assistance plan. Since that date, HUD has not been able to collect subsequent quarters' data in its online database.

officials from five randomly selected public housing agencies (PHA) that received a HOPE VI grant to determine the accuracy and completeness of the data in the HOPE VI database as it pertained to the PHAs' specific HOPE VI project. We determined that the data were sufficiently reliable for the purpose of this report.[5]

- For the CDFI program, we discussed with agency officials the calculation method used to compute the program's leverage measure, including any assumptions made, the completeness and accuracy of the data used in the calculation, and any other known limitations to the measure or the data used to calculate it. Unlike the CDBG, HOME, and HOPE VI programs, we did not request project-level data Treasury uses to calculate a leverage measure for the program.[6] Rather, Treasury provided us with a spreadsheet containing the calculation method and nationally aggregated data used to calculate leverage measures for each of the last 6 reporting years. We determined that Treasury's calculation method was appropriate and supporting data were sufficiently reliable for the purpose of calculating an approximation of the funds being leveraged in the program. However, based on our conversations with agency officials, we also noted several limitations in Treasury's calculation method and the supporting data. Specifically (1) the data were largely self-reported by CDFIs and were not validated and (2) Treasury assumed that matching contributions do not exceed $1 for every $1 in program funds, which likely understates the extent of institutional-level leveraging in the program (because many of the CDFIs exceed the match requirement, according to Treasury officials).

- To assess the reliability of the data Treasury provided on project-level leveraging in the New Markets Tax Credit program, we (1) performed basic electronic tests of the data elements associated with the financing used by Community Development Entities (CDE), (2) reviewed existing information about the data, (3) replicated the project-level leverage measure Treasury calculated for the program, and (4) interviewed agency officials knowledgeable about the data. We determined that the project-

[5]HUD's reported leverage measure is based on all leveraging that occurred between Oct. 1, 2005, and May 31, 2006, and does not necessarily include all phases of all development projects. Because substantial leveraging can occur in a development from the time HUD makes a HOPE VI grant to the time all phases of construction are completed, we determined that data on completed projects would more accurately reflect the extent of leveraging that occurred in the program.

[6]Treasury uses CDFIs' audited financial data (including net assets and liabilities) to calculate the extent of leveraging in the program.

level data were sufficiently reliable for purposes of calculating a project-level leverage measure for the program. However, we also noted some limitations in the project-level data, specifically that (1) they were largely self-reported by CDEs and were not validated, and (2) about 26 percent (139 out of 538) of the CDEs that were awarded New Markets Tax Credits did not report data.

- To determine what leveraging data were available for the Low-Income Housing Tax Credit program at the state level and whether such data were maintained electronically, we conducted a telephone survey of the entire population of 57 allocating agencies, which included 50 state agencies, the District of Columbia, Puerto Rico, and the Virgin Islands; one suballocating agency in the District of Columbia; two suballocating agencies in the State of New York; and a suballocating agency in Chicago.[7] Our pretested survey achieved a 79 percent response rate. On the basis of 45 responses to the following questions—(1) Does your agency have data in its database on the specific types of financing sources that are used in each Low-Income Housing Tax Credit project? and (2) Does your agency have the dollar amounts contributed by each financing source used in the project in the database?—we found that 25 allocating agencies collect the dollar amounts contributed by specific financing sources and keep that data electronically.[8] Because not all allocating agencies collected leveraging data and those that did used different software applications to maintain their data, we determined that it would be difficult to collect aggregate data to report a national leverage measure for the program.

To examine the relevance of leverage measures in assessing the performance of the selected programs, we reviewed our reports and those of the Office of Management and Budget (OMB) on performance measurement; agency strategic plans and annual performance plans, budget justifications and performance and accountability reports; and industry, and other literature such as agency press releases and Web sites. We also interviewed representatives from Treasury, HUD, and OMB. Additionally, we interviewed representatives of the following industry

[7]Fifty-nine agencies receive a Low-Income Housing Tax Credit allocation; however, we excluded 2, suballocating agencies (the California Housing Finance Agency and the Massachusetts Housing Finance Agency) because officials of these agencies told us to contact the primary Low-Income Housing Tax Credit allocating agency in their state. A suballocating agency receives a portion of its state's Low-Income Housing Tax Credit allocation from the primary allocating agency in the state.

[8]We did not review available data to determine their reliability and calculate an estimated leverage measure for the program.

groups and other organizations involved in housing and community and economic development initiatives:

- City of Chicago Department of Housing;
- Coalition of Community Development Financial Institutions;
- Coastal Enterprises, Inc.;
- Community First Fund;
- Council of State Community and Economic Development Agencies;
- Enterprise Community Partners;
- International Economic Development Council;
- Harvard University's Joint Center for Housing Studies;
- John D. and Catherine T. MacArthur Foundation;
- Living Cities: The National Community Development Initiative;
- Local Initiatives Support Corporation;
- National Association of Affordable Housing Lenders;
- National Association of Development Organizations;
- National Association of Housing and Redevelopment Officials;
- National Community Development Association;
- National Community Investment Fund;
- National Council of State Housing Agencies;
- National Development Council;
- National Urban League;
- NeighborWorks America;
- New Hampshire Community Loan Fund;
- New Markets Tax Credit Coalition;
- Reinvestment Fund; and
- Western Massachusetts Enterprise Fund, Inc.

Further, as part of this work, we conducted site visits and collected information on how federal funds have been leveraged in housing and community and economic development projects, 20 of which we toured. Specifically, we conducted site visits in Chicago, Illinois; Laredo and San Antonio, Texas; Chester and Philadelphia, Pennsylvania; Portland and

Salem, Oregon; and Seattle and Tokeland, Washington. We selected these areas to obtain perspectives from a variety of regions with attributes such as difficult-to-develop areas, rural and urban classifications, and lower- and higher-cost areas that affect the extent of leveraging. We used a nongeneralizable, illustrative sampling approach to select a range of housing and community and economic development projects or initiatives to tour. More specifically, our criteria were (1) projects were substantially completed in the last 5 years, (2) funds of each of the programs in our review were utilized in at least one of the projects selected, and (3) projects had two or more funding sources. In the cases where program officials maintained comprehensive lists of projects, we used such lists to randomly select projects; otherwise, we used available project information (for example, from program administrator Web sites) in conjunction with information from program administrators to select projects that generally met our criteria. In selecting the projects we illustrate in this report, we further considered several factors including the availability and completeness of leveraging data, the creativity in the projects' financing and design, the type of development or initiative, whether the project was located in a rural area, and the general geographic location of the project. Appendix II provides examples of how federal funds have been leveraged in the selected programs.

We conducted this performance audit in Chicago, Illinois; San Antonio and Laredo, Texas; Philadelphia and Chester, Pennsylvania; Portland and Salem, Oregon; Seattle and Tokeland, Washington; and Washington, D.C., from November 2006 to January 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Transactions Structures for the Selected Treasury Programs

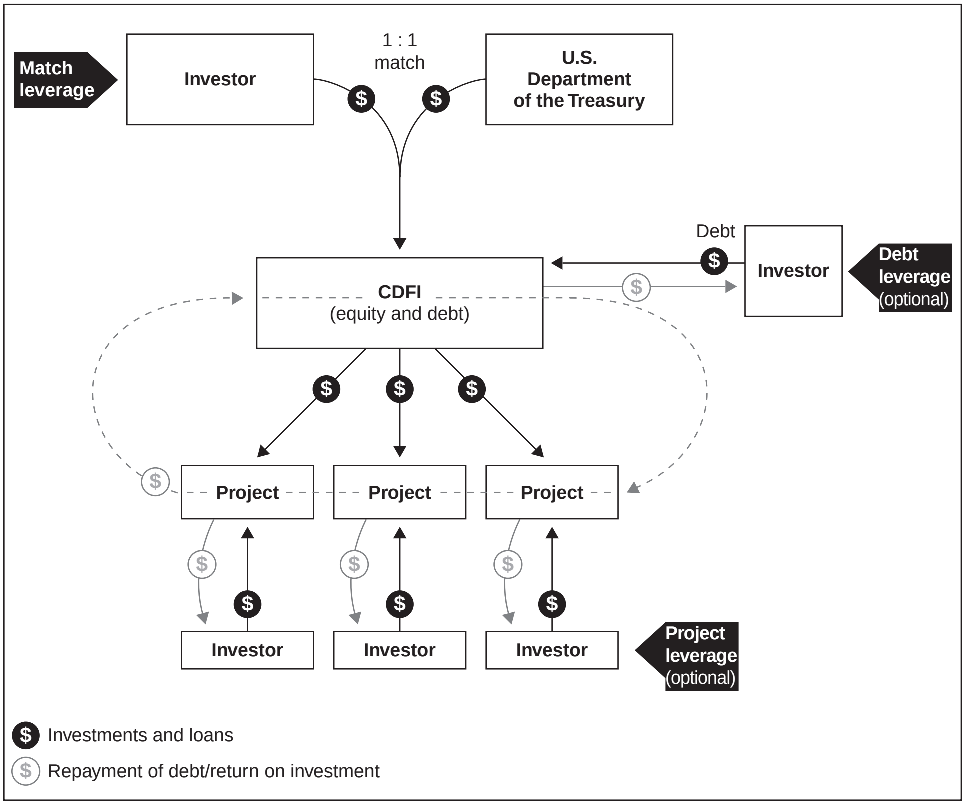
Figures 3 through 6 describe how the CDFI, Low-Income Housing Tax Credit, and New Markets Tax Credit programs leverage funds for housing and community and economic development.[1]

CDFI Program

As illustrated in figure 3, CDFIs must match CDFI program funds dollar-for-dollar with funds from nonfederal sources such as local governments or private foundations (match leverage). CDFIs use these program and match funds to attract private debt from lenders (debt leverage). Together, match and debt leverage represent institutional leverage in the CDFI program. CDFIs use the pooled equity and debt to make loans to a number of development projects. Additional leverage also may occur at the project level—individual projects may use their CDFI funds to leverage funding (equity or debt) from other investors, such as foundations, nonprofits, banks, and local governments. Projects (borrowers) repay principal and interest to their investors, including the CDFI. CDFIs use these payments to make subsequent loans to additional projects and repay lenders.

[1]The background section of this report provides information on the purpose and scope of these programs.

Figure 3: CDFI Transaction Structure

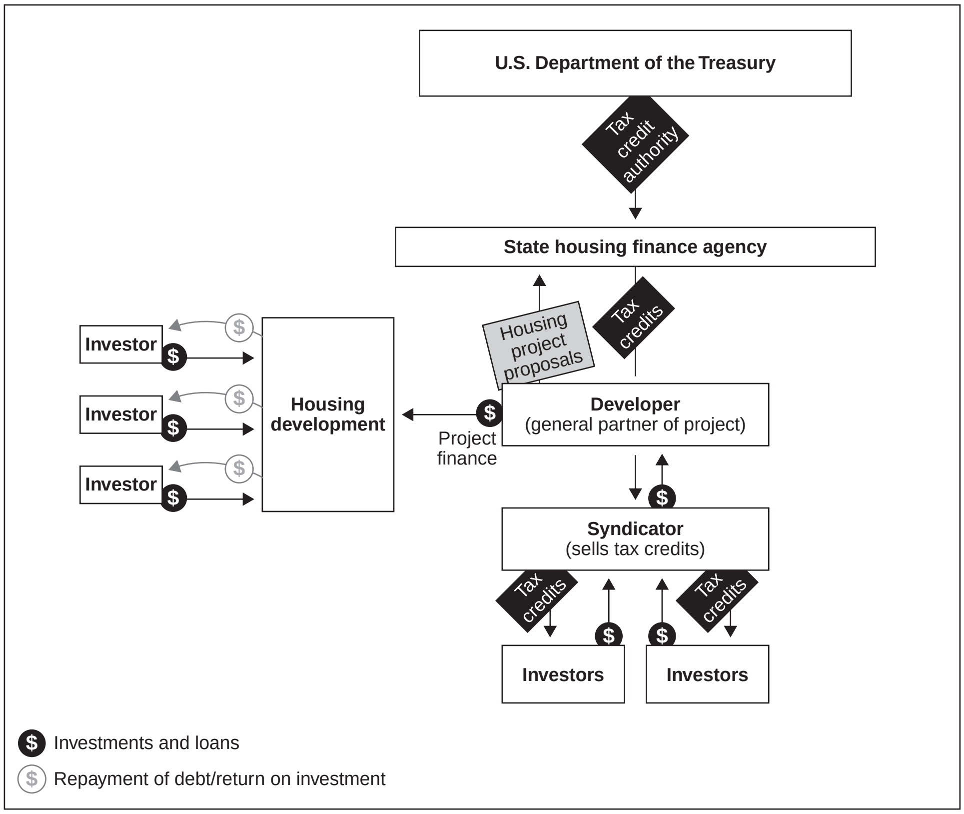


Source: GAO.

Low-Income Housing Tax Credit Program

As illustrated in figure 4, states, through their state housing finance agencies, are authorized to allocate Low-Income Housing Tax Credits to housing projects. Project developers can sell their tax credits directly to an investor(s) or a syndicator (which assembles a group of investors and acts as the group's representative). The money investors pay for the tax credits is paid into the projects as equity financing. Generally, investors (including individuals, foundations, and state and local governments) contribute this equity, which is combined with non-tax credit financing sources (such as mortgages) in individual projects to fund development costs.

Figure 4: Low-Income Housing Tax Credit Syndication Transaction Structure

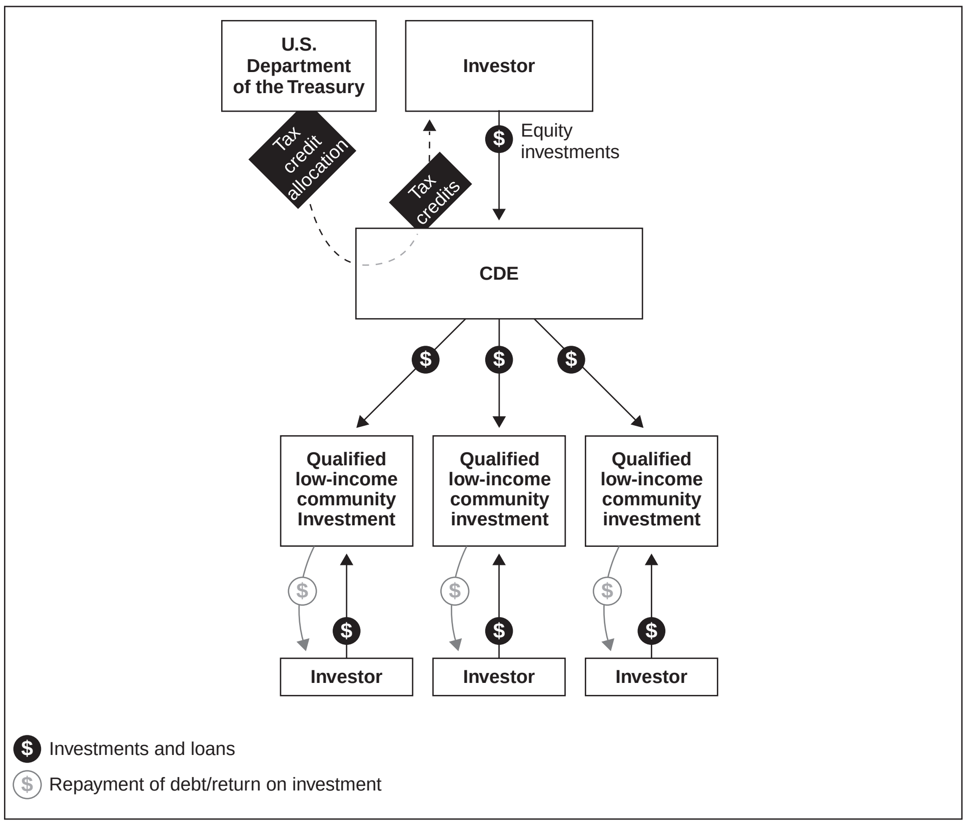


Source: GAO.

New Markets Tax Credit Program

As illustrated in figure 5, under the New Markets Tax Credit program, Treasury competitively awards tax credits to CDEs (such as a financial institution or nonprofit organization), which offer the credits to investors (including individuals, groups of investors, or corporations). The equity or debt generated from such an offering is used to finance eligible investments or projects, as described above. In turn, these investments and projects may use New Markets Tax Credit equity to leverage additional equity and debt to finance development or related costs.

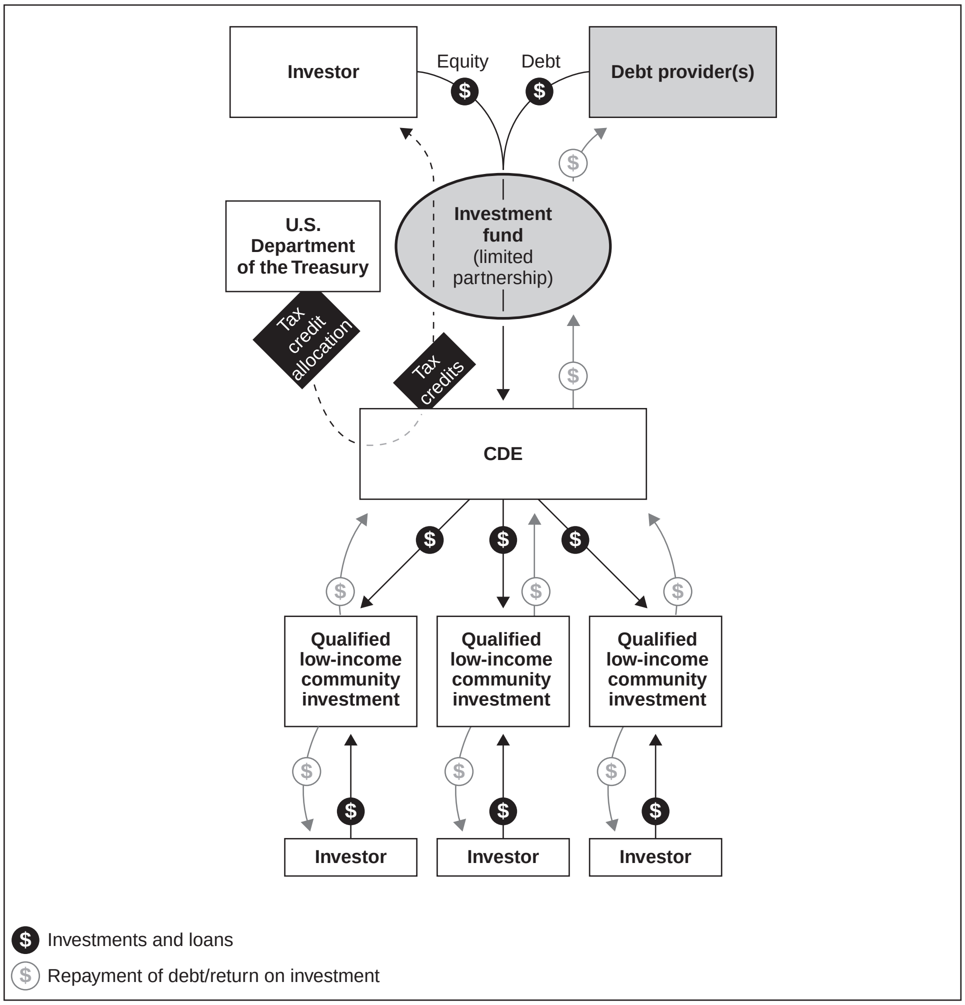
Figure 5: New Markets Tax Credit Basic Transaction Structure



Source: GAO.

As illustrated in figure 6, rather than offering tax credits directly to investors, under a leveraged transaction structure, a CDE may offer credits to an investment fund. The investment fund pools equity generated from the credit offering with other equity and debt, and loans the funds to the CDE, which in turn makes qualified low-income community investments.

Figure 6: New Markets Tax Credit Leveraged Transaction Structure



Source: GAO.

Appendix III: Agency-reported Leverage Measures and Our Recalculations

Table 4 outlines the leverage measures HUD and Treasury calculated for the CDBG, HOME, HOPE VI, CDFI, Low-Income Housing Tax Credit, and New Markets Tax Credit programs. Following table 4, we present several leverage measure calculation scenarios for the selected programs.

Table 4: Agency-reported Leverage Measures by Program

Program	Reported leverage measure[a, b]
HUD	
CDBG	4.98:1[c]
HOME	3.54:1
HOPE VI	$634 million[d]
Treasury	
CDFI	26.82:1
Low-Income Housing Tax Credits	None[e]
New Markets Tax Credits	13.12:1[f]

Source: HUD and Treasury data.

[a]While HUD and Treasury generally reported leverage measures that reflected the ratio of all other funds to program funds for each of the selected programs, the data used to calculate them varied by program and covered different periods because the programs have different reporting schedules and requirements for funding recipients. The CDBG ratio is based on data from Dec. 1, 2005, through May 1, 2007; the HOME ratio is based on data from fiscal year 1992 through Aug. 31, 2007; the HOPE VI measure is based on data from July 1, 2005, to Mar. 31, 2006; the CDFI ratio is based on fiscal year 2005 data; and the New Markets Tax Credit ratio is based on data from calendar years 2001 through 2005.

[b]All reported measures represent total program leverage. Treasury also reports institutional and project measures for the CDFI and New Markets Tax Credit programs—5.50 to 1 and 21.31 to 1, respectively, for the CDFI program and 4.00 to 1 and 3.28 to 1, respectively, for the New Markets Tax Credit program.

[c]HUD currently does not publicly report the leverage ratio it reported to us for purposes of this report.

[d]Data on the amount of HOPE VI funding PHAs expended between July 1, 2005, and Mar. 31, 2006, were not available; therefore, we could not convert the $634 million measure HUD reported into a leverage ratio.

[e]No agency collects leveraging data that could be used to calculate a leverage measure for the Low-Income Housing Tax Credit program. As a result, we contacted the housing finance agencies—the agencies that are responsible for administering the program—to determine if they collected leveraging data and whether they maintained their records electronically. Of the 45 housing finance agencies that responded (79 percent response rate), 25 collect the dollar amounts contributed by specific funding sources and keep that data electronically. We did not review available data to determine its reliability or calculate an estimated leverage measure for the program.

[f]Treasury currently does not publicly report the leverage measure it reported to us for purposes of this report. The measure Treasury reported for the New Markets Tax Credit program is not a leverage ratio, but rather a money multiplier or multiplier ratio. A multiplier ratio measures the total amount of investment $1 in tax credits potentially can generate in low-income communities, whereas a leverage ratio measures the additional amount of investment relative to a source of funds (in this case, program funds, or the cost of the credit).

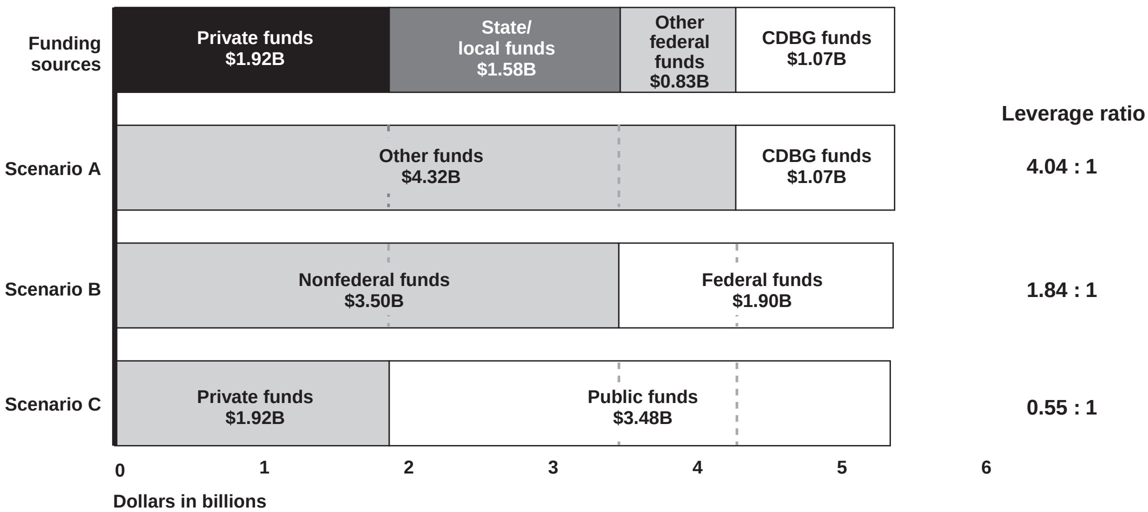
Recalculations of Agency-reported Leverage Measures

Figures 7, 8, and 9 illustrate the leverage ratios HUD reported for the CDBG, HOME, and HOPE VI programs, respectively (scenario A), and our recalculations of the those measures to convey the ratio of nonfederal funds to federal funds (scenario B) and public funds to private funds (scenario C).[1]

Based on cumulative data from December 1, 2005, to May 1, 2007, HUD estimated the leverage ratio for the CDBG program to be 4.98 to 1 (other funds to CDBG program funds). However, we could not determine in which category some CDBG funding data belonged; thus, we excluded these data and revised the 4.98 to 1 ratio to 4.04 to 1 (scenario A in fig. 7). Using the revised dataset, we then recalculated the measure to convey the ratio of nonfederal funds to federal funds (1.84 to 1, scenario B in fig. 7) and the ratio of private funds to public funds (0.55 to 1, scenario C in fig. 7).

[1]We use HUD's CDBG and HOME leverage ratios for illustrative purposes to demonstrate measurement alternatives; however, the values presented in the related figures should not be construed as representing actual leveraging. We discuss the limitations of the leveraging data the agencies and we used to calculate these leverage measures earlier in this report. App. I contains more detailed descriptions of our assessments of the reliability of the agencies' leveraging data.

Figure 7: Recalculated Leverage Measures for the CDBG Program



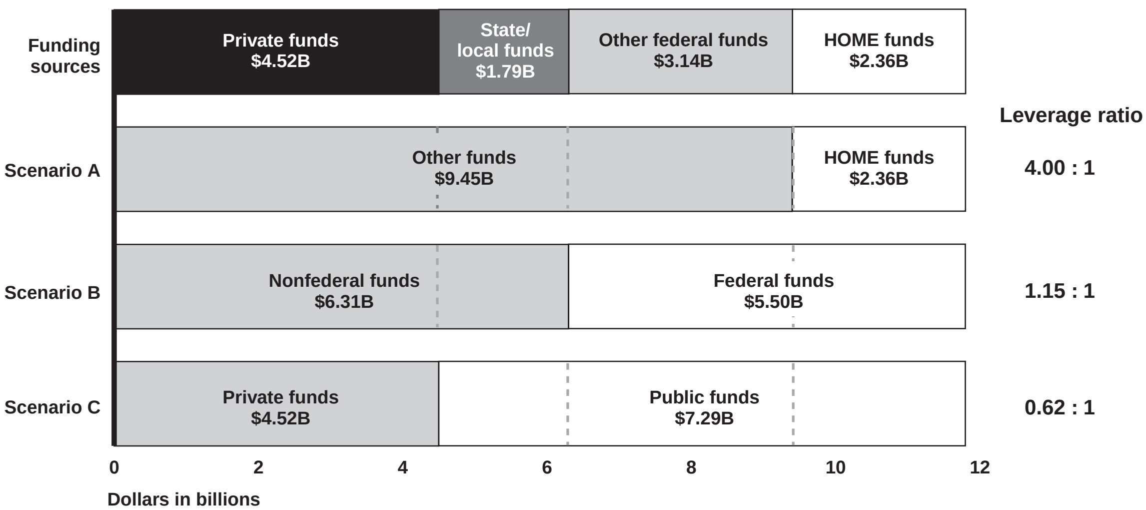
Source: GAO analysis of HUD calculations.

Notes: The agency-reported leverage ratio (4.98 to 1) shown in table 4 includes funds recorded in an “other funds” category, which represents approximately 18 percent of all non-CDBG funds. According to HUD officials, CDBG grantees use the other funds category for all financing sources that do not have a specific data field, including Low-Income Tax Credit equity. We excluded this category from our analysis in this figure because it was not clear in which category(ies)—other federal, state and local, or private—these funds actually belonged. Thus, for purposes of this illustration, the leverage measure for the program is 4.04 to 1. The leverage ratios presented in this figure are for illustrative purposes and do not represent actual leveraging values.

Based on data on HOME activities completed in fiscal year 2006, HUD estimated the leverage ratio for the HOME program to be 4.00 to 1 (all other funds to HOME program funds). Using these same data, we recalculated the measure to convey the ratio of nonfederal funds to federal funds (1.15 to 1, scenario B in fig. 8), and the ratio of private funds to public funds (0.62 to 1, scenario C in fig. 8).[2]

[2]The program leverage measure HUD publishes on its Web site is cumulative from fiscal year 1992 through the most recent month; thus, it may differ slightly from the leverage measure presented in this report. We used fiscal year 2006 data to calculate this measure because, according to HUD officials, fiscal year 2003 and earlier data are not as complete as later data. Further, while HUD’s and our program leverage measures account for all completed HOME activities (rental and homeownership), the measures for states and localities on HUD’s Web site only account for completed rental activities.

Figure 8: Recalculated Leverage Measures for the HOME Program



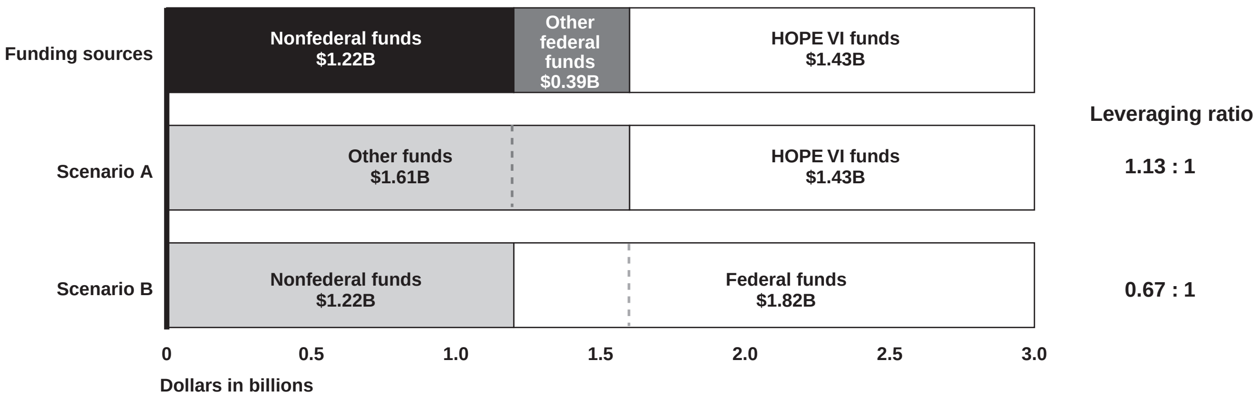
Source: GAO analysis of HUD calculations.

Note: For purposes of this analysis, we included Low-Income Housing Tax Credit equity in the other federal funds category because the equity represents forgone federal income and, therefore, is a direct cost to the federal government. However, states and localities report Low-Income Housing Tax Credit data and other federal funds data in separate fields in HUD's database. The leverage ratios presented in this figure are for illustrative purposes and do not represent actual leveraging values.

Using data on the 55 HOPE VI projects completed (that is, projects in which all phases of construction were fully completed) as of March 31, 2006, we determined the leverage ratio of other funds to program funds to be 1.13 to 1 (scenario A in fig. 9).[3] Using the same data, we recalculated the measure to convey the ratio of nonfederal funds to federal funds (0.67 to 1, scenario B in fig. 9).

[3]HUD's reported leverage measure (see table 4) is based on all leveraging that occurred between Oct. 1, 2005, and May 31, 2006, rather than on data for completed developments or completed phases of developments. Because substantial leveraging can occur in a development from the time HUD makes a HOPE VI grant to the time all phases of construction are completed, we determined that data on completed projects would more accurately reflect the extent of leveraging that occurred in the program. Therefore, we used data on completed projects for purposes of this analysis. HUD's HOPE VI data collection contract expired on Mar. 31, 2006—as of that date, HUD stopped collecting HOPE VI data in its online Grant Management Reporting System Prototype database. Therefore, our calculation includes HOPE VI developments completed as of Mar. 31, 2006.

Figure 9: Recalculated Leverage Measures for the HOPE VI Program



Source: GAO analysis of HUD data.

Notes: We were unable to calculate a measure to express the ratio of public to private funds in the HOPE VI program because the HOPE VI database does not distinguish between private funds and other nonfederal funds.

In scenario B, Low-Income Housing Tax Credit equity is included in the nonfederal funds category because the HOPE VI database tracks tax credit equity in the nonfederal funds category. We generally consider such equity as federal funds because it represents forgone federal income and, therefore, a direct cost to the federal government—thus, the extent of the federal investment in the program, as illustrated in scenario B, is likely underestimated. We previously have found that Low-Income Housing Tax Credit equity can account for a substantial percentage of leveraged funds in a HOPE VI development. See GAO, *Public Housing: HOPE VI Leveraging Has Increased, but HUD Has Not Met Annual Reporting Requirement*, GAO-03-91 (Washington, D.C.: Nov. 15, 2002).

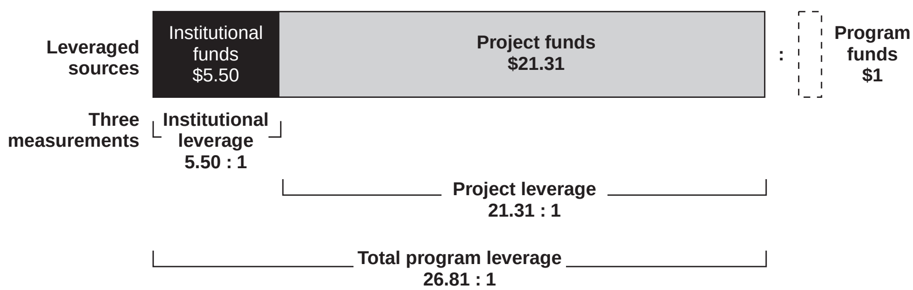
Unlike the HUD programs, we generally were not able to recalculate the leverage measures Treasury reported for the CDFI and New Markets Tax credit programs to convey the extent of public and private investment in them because available leveraging data did not distinguish between or correctly categorize public and private contributions in either program. However, we were able to deconstruct the measures to approximate the extent of institutional and project leverage in them (see figs. 10 and 11).[4]

In the CDFI program, match leverage (that is, the ratio of nonfederal match funds to program funds) represented approximately one-fifth of total institutional leverage, while debt leverage (that is, additional private debt CDFIs were able to attract with program funds and matched funds

[4]At the institutional level, an organization (such as a group of investors or a community or other development authority) pools funds from multiple sources, which then are used to finance a portfolio of projects. At the project level, an organization (such as a state or local agency) leverages funds as necessary for discrete projects.

combined) represented four-fifths of total institutional leverage, according to Treasury data.[5] A majority of the total leverage that occurred in the CDFI program in fiscal year 2005 occurred at the project level—according to Treasury data, for every $1 of federal funds the agency contributed to CDFIs, they were able to leverage an additional $21.31 at the project level (see fig. 10).[6]

Figure 10: Institutional and Project Leverage in the CDFI Program



Source: GAO analysis of Treasury data.

Notes: Treasury assumed match leverage to be 1 to 1, even though CDFIs may attract more than $1 in nonfederal funds for every $1 received in program funds. Because match data were not complete, this calculation only approximates the extent of leveraging in the program.

Match leverage is the ratio of match funds to program funds. Debt leverage is equal to liabilities/net assets multiplied by match leverage. Project leverage is equal to (match leverage + debt leverage) x (total project costs/total loan origination amounts).

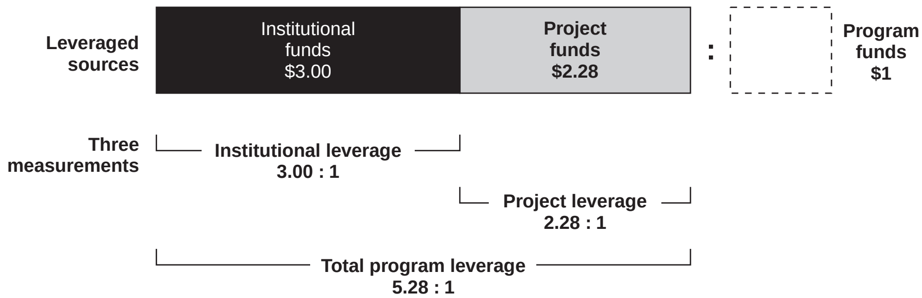
In the New Markets Tax Credit program, institutional leverage (that is, net equity generated through the offering of the credits) represented approximately 58 percent of total leveraging that occurred in the program,

[5]The background section and app. II provide more information on how leveraging occurs in the CDFI program.

[6]Treasury has reported that project leverage in the CDFI program can vary considerably by loan purpose—for example, in fiscal year 2003 the highest median project leverage ratios were for multifamily housing rehabilitation (8.53 to 1) and construction (5.35 to 1), while the lowest were for business loans (between 0.60 to 1 and 0.81 to 1). See The Community Development Financial Institutions Fund, U.S. Department of the Treasury, *CDFIs Leverage CDFI Program Awards Nearly $20 to $1!* (Washington, D.C., Mar. 2005).

while project leverage represented approximately 42 percent of total leveraging (see fig.11).[7]

Figure 11: Institutional and Project Leverage in the New Markets Tax Credit Program



Source: GAO.

Note: Of the 538 projects for which Treasury had project-level leveraging data, 399, or 74 percent reported data in the public sources field (either $0 or a positive amount); 139, or 26 percent left the field blank. Because the public sources of data were not complete, this calculation only approximates the extent of public investment in the program.

The leverage measure(s) reported in the figure differs from Treasury's reported measure in table 1—the 13.12 to 1 ratio Treasury computed for the New Markets Tax Credit program overstates the extent of leveraging that occurred in the program because it describes the total amount of investment $1 in tax credits potentially can generate in low-income communities, rather than the additional amount of investment directly acquired as a result of receiving other sources of funding (for example, program funds, or in the case of the New Markets Tax Credit program, the cost of the credit or forgone federal revenue). Using Treasury data, we computed a leverage measure for the program, which is presented in the figure.

[7]The calculations of institutional and total leverage are based on the after-tax value of the credit ($0.25). Using the nominal cost of the credit ($0.39) as the other selected programs generally used, institutional leverage would be 1.56 to 1 and total leverage would be 3.84 to 1. The background section and app. II provide more information on how leveraging occurs in the New Markets Tax Credit program.

Appendix IV: Housing and Community and Economic Development Project Profiles

To determine how federal funds have been leveraged in HUD's CDBG, HOME, and HOPE VI programs and Treasury's CDFI, Low-Income Housing Tax Credit, and New Markets Tax Credit programs, we toured and obtained information on a number of projects that used funds from the selected programs in combination with other federal, state, local, and private funds for housing and community and economic development. Appendix I describes how we selected the communities to visit and the projects to include in this report.

HUD's CDBG, HOME, and HOPE VI programs and Treasury's CDFI, Low-Income Housing Tax Credit, and New Markets Tax Credit programs are among a number of federal programs that fund housing and community and economic development.[1] Specific information about the features of these programs follows:

- CDBG provides annual grants on a formula basis to entitlement communities and states to develop viable urban communities by providing decent housing and a suitable living environment, and by expanding opportunities, principally for low- and moderate-income persons. Under CDBG, communities and states develop their own programs and funding priorities.
- HOME provides formula grants to states and localities to fund a range of activities that buy, build, and rehabilitate affordable housing for rent or homeownership or provide direct rental assistance to low-income households.
- HOPE VI is part of HUD's effort to transform public housing by providing grants that fund the demolition of severely distressed public housing; the capital costs of major rehabilitation, new construction, and other physical improvements; and other resident-related services.
- Through the CDFI program, Treasury provides CDFIs with financial assistance in the form of grants, loans, equity investments, and deposits to enhance their ability to make loans and investments and provide services for the benefit of low-income communities and persons. CDFI funds can be used for economic development, affordable housing, and community development financial services.

[1]The background section of this report provides more detailed information on the selected programs.

- Under the Low-Income Housing Tax Credit program, states are authorized to allocate federal tax credits as an incentive to private investors to develop rental housing for low-income households. The equity generated by the sale of tax credits is used to lower the financing costs of housing developments by reducing the debt or equity the developer otherwise would incur or contribute.

- The New Markets Tax Credit program permits taxpayers to receive a credit against federal income taxes for making qualified equity investments in CDEs. CDEs use the equity generated by the sale of the credits to make investments in qualified low-income businesses.

Figures 12 through 14 illustrate several projects that leveraged federal funds for the development of affordable housing. Figures 15 through 20 illustrate several projects that leveraged federal funds for community and economic development activities.

Figure 12: Hilltop Oaks Apartments, San Antonio, Texas

Project overview

Hilltop Oaks Apartments sits on 11 acres and has 336 units of affordable family housing—40 efficiency units, 136 one-bedroom units, 128 two-bedroom units, and 32 three-bedroom units.[a] Originally constructed in 1978, the property showed signs of deterioration, including graffiti markings and lack of maintenance, when the San Antonio Alternative Housing Corporation (SAAHC) acquired and rehabilitated the property in 2004. The rehabilitated property includes a recreational common room, a learning center equipped with computers, a shared courtyard, basketball courts, and two swimming pools.

Project financing

The total development cost of the Hilltop Oaks Apartments project was approximately $19.5 million. As shown in the table, the project was funded primarily with tax-exempt bond proceeds and Low-Income Housing Tax Credit equity. According to SAAHC officials, these two funding sources were essential for allowing the project to move forward, and it is unlikely that the project could have been completed without them. Officials further stated that the city of San Antonio was willing to take a subordinate lending position for the deal, indicating that there was significant local commitment to the project.

Financing Sources for Hilltop Oaks Apartments

Financing source	Amount	Percentage of total
Tax-exempt bond proceeds	$11,000,000	56.5%
The National Equity Fund, Inc. Low-Income Housing Tax Credit equity[b]	5,298,020	27.2
City of San Antonio Rental Rehabilitation loan[c]	1,350,000	6.9
San Antonio Alternative Housing Corporation deferred developers fee	1,332,958	6.8
San Antonio Alternative Housing Corporation loan	500,000	2.6
Total	**$19,480,978**	**100%**

Sources: SAAHC (information); GAO (analysis, photo).

[a]All units in the development are reserved for individuals and families who earn 60 percent or less of the area median income.

[b]SAAHC used 4 percent Low-Income Housing Tax Credits to help finance the Hilltop Oaks Apartments project.

[c]The City of San Antonio Rental Rehabilitation loan primarily consists of HOME funds.

Figure 13: Near North Apartments, Chicago, Illinois

Project overview

Near North Apartments provides housing for formerly homeless and other very low-income individuals, providing them with case management and other supportive services, such as job training and substance abuse counseling. The development contains 96 units, 50 that are subsidized with HUD Shelter Plus Care funds and 46 that are subsidized with Section 8 funds.[a] Forty-eight units are reserved for people with limited incomes who may have previously lived in other types of public, subsidized, or temporary housing, and the remaining 48 units are reserved for people who are homeless or disabled.

Near North Apartments was developed and is owned and operated by Mercy Housing Lakefront, a major provider of supportive housing in Chicago. Helmut Jahn designed the building, which is LEED certified, equipped with solar thermal collectors and wind turbines for energy efficiency, a rainwater harvesting system for irrigation, and a gray water (water recycling) system.[b]

Project financing

The total development cost for the project was approximately $13.7 million (about $142,000 per unit).[c] As described in the table, the City of Chicago, the Illinois Housing Development Authority, the Federal Home Loan Bank, HUD, and various private entities contributed funds toward the development of the project.

Financing Sources for Near North Apartments

Financing source	Amount	Percentage of total
Low-Income Housing Tax Credit equity	$6,486,000	37.1%
City of Chicago land donation	3,600,000[d]	20.6
HOME Investment Partnership funds	2,500,000	14.3
Illinois Housing Development Authority Donations Tax Credits	1,548,000	8.9
City of Chicago Tax Increment Financing	1,000,000	5.7
Illinois Housing Development Authority Illinois Affordable Housing Trust Fund	750,000	4.3
Federal Home Loan Bank loan	750,000	4.3
HUD Supportive Housing Program funds	400,000	2.3
Private funds (donations)	230,000	1.3
Supplier donations	200,000[e]	1.1
Total	**$17,464,000**[f]	**100%**[g]

Sources: City of Chicago Department of Housing (information); GAO (analysis, photo).

[a]The Shelter Plus Care program provides rental assistance for hard-to-serve homeless persons with disabilities in conjunction with supportive services funded from sources outside the program. Project-based Section 8 vouchers are a component of a public housing agency's Housing Choice Voucher program. A housing agency can attach up to 20 percent of its voucher assistance to specific housing units if the owner agrees to either rehabilitate or construct the units, or set aside a portion of the units in an existing development.

[b]The Leadership in Energy and Environmental Design (LEED) Green Building Rating System is the nationally accepted benchmark for the design, construction, and operation of high-performance green buildings. To earn certification, a building project must meet certain prerequisites and performance benchmarks (credits) within each category. Projects are awarded Certified, Silver, Gold, or Platinum certification depending on the number of credits they achieve.

[c]This amount represents the total development cost minus the donations made by the city of Chicago and suppliers.

[d]This amount represents the value of the donation. The city of Chicago sold the land to the developer for $1.

[e]This amount represents the value of the donation.

[f]The total includes the value of all donations. Total development costs less donations were equal to $13,664,000.

[g]Percentages do not add to 100 due to rounding.

Figure 14: New Columbia, Portland, Oregon

Project overview

The Housing Authority of Portland used a $35 million HOPE VI revitalization grant in conjunction with other public and private sources of funds to redevelop the former Columbia Villa housing project. Built in 1942, Columbia Villa initially served as housing for World War II shipyard workers and was later converted to public housing. According to Housing Authority of Portland officials, Columbia Villa's deteriorating infrastructure and inferior building design posed dangers to residents and, as a result, financial liability for the housing agency. Further, the housing development and its 1,300 low-income residents were physically and socially isolated from the surrounding community.

New Columbia is the $156 million revitalization of the Columbia Villa site. The goals of the New Columbia project were to remove the social isolation of the community by reconnecting it to the surrounding neighborhood and reduce the concentration of poverty through the development of a mixed-income community. The revitalized site includes a small grocery store and a coffee shop, as well as several stops along the city's public transit routes. Further, New Columbia has 850 units, including public housing, affordable rental housing, elderly housing, and market-rate homes. The development is LEED certified and features an onsite storm water management system, solar demonstration buildings, tree preservation, and streets made with recycled concrete.[a] In addition, New Columbia includes new parks and public facilities, such as a community center, recreational facilities (including a new Boys and Girls Club), day care, an adult learning center, and a new elementary school.

During the planning of the development, the Housing Authority of Portland selected multiple contractors to design and build housing, which provided variety in the community's design. The design strategy complemented the mixed-income model by facilitating the housing authority's goal of not making units occupied by lower-income families particularly visible. In addition, the housing agency engaged with several stakeholders during the planning process—35 individuals served on a community advisory committee, including current residents, area neighbors, advocates, developers, and service providers. According to Housing Authority of Portland officials, the committee was instrumental in all aspects and phases of planning and the housing agency attributed much of the success of the project to the collaborative efforts, which identified common goals and strategies to achieve such goals.

The Rosa Parks School was financed primarily with equity from the sale of New Markets Tax Credits. The Housing Authority of Portland conceived the school as part of the overall HOPE VI redevelopment. Approximately 450 students, many of whom are from low- and moderate-income families, were enrolled when the elementary school opened for the 2006-2007 school year.

Financing Sources for New Columbia

Financing source	Amount	Percentage of total
Low-income Tax Credit equity	$58,773,766	37.6%
U.S. Department of Housing and Urban Development HOPE VI revitalization grant	35,000,000	22.4
City of Portland infrastructure funds	18,968,000	12.1
Tax Exempt Bond proceeds	10,405,000	6.7
Property disposition	10,031,295	6.4
General partner capital fund and land proceeds	7,300,000	4.7
General partner contributions	4,543,056	2.9
Conventional financing	3,969,946	2.5
Housing Authority of Portland funding	2,840,990	1.8
Interest earnings and community support	1,905,961	1.2
Deferred developer fee	1,398,721	0.9
FHL Bank Affordable Housing Program grant	847,767	0.5
Green loans	274,363	0.2
U.S. Department of Housing and Urban Development Neighborhood Networks grant	250,000	0.2
Total	**$156,508,865**	**100%**[b]

Financing Sources for Rosa Parks Elementary School

Financing source	Amount	Percentage of total
New Markets Tax Credit equity[c]	$8,800,000	66.6%
Housing Authority of Portland funding	2,725,000	20.6
Bank of America Community Development Corporation loan	1,693,292	12.8
Total	**$13,218,292**	**100%**

Project financing

As shown in the tables, New Columbia and the Rosa Parks School received funding from a variety of public and private sources. The total development cost for New Columbia was approximately $156.5 million; the total development cost for the Rosa Parks School was approximately $13.2 million.

Sources: The Housing Authority of Portland and Enterprise Community Partners Inc (information); GAO (analysis, photos).

[a]The Leadership in Energy and Environmental Design (LEED) Green Building Rating System is the nationally accepted benchmark for the design, construction, and operation of high-performance green buildings. To earn certification, a building project must meet certain prerequisites and performance benchmarks (credits) within each category. Projects are awarded Certified, Silver, Gold, or Platinum certification depending on the number of credits they achieve.

[b]Percentages do not add to 100 due to rounding.

[c]Enterprise Community Partners, Inc. formed a partnership with Bank of America to facilitate the allocation of the New Markets Tax Credits.

Figure 15: ACCION Texas, San Antonio, Texas

Project overview

Launched in San Antonio in 1994, ACCION Texas is a nonprofit, certified CDFI whose mission is to provide loans to small business owners lacking access to commercial credit. ACCION Texas makes business loans that help microentrepreneurs strengthen their businesses, stabilize their incomes, create additional employment, and contribute to the economic revitalization of their communities. As of March 31, 2007, ACCION Texas has made approximately 8,000 loans to more than 5,200 clients in San Antonio, Houston, Austin, Brownsville, McAllen, El Paso, Dallas/Ft. Worth, Corpus Christi, and other communities in Texas. ACCION Texas has received several financial assistance awards through the CDFI program, which it has matched with a variety of bank, corporate, foundation, government, and private grants, as well as private debt and charitable donations.

ACCION Texas's loans have 2.5 year terms and fixed interest rates, generally between 10 and 17 percent. Loan amounts range from between $500 and $50,000, and some loans leverage other private debt (with ACCION Texas typically taking a subordinate position). Rates and loan amounts are determined based on a proprietary risk model—the model has been populated with financial and other information ACCION Texas has gathered on more than 1,600 clients. According to ACCION Texas officials, many of the organization's clients are immigrant "mattress savers"—they have little to no financial history and tend to be distrustful of financial institutions. One of the main goals of the microlending program has been financial literacy and education, and ACCION Texas has made ongoing efforts to educate clients on how to pay taxes, manage debt, and, ultimately, improve their credit ratings. Because ACCION's clients have such low credit scores and limited financial histories, they are typically unable to access credit through traditional, commercial sources.[a] According to ACCION Texas officials, approximately 40 percent of their clients are repeat customers.

Project examples

The following three projects are examples of businesses that received loans from ACCION Texas.

Fast Tax Refunds

Located in Laredo, the owner of Fast Tax Refunds used her loan from ACCION Texas to purchase a new computer and tax-filing software, as well as for tax-preparation training.

Designs International

After buying out her partner who was retiring, the owner of Designs International in Laredo used her ACCION Texas loan to purchase a truck, install ceiling fans, and purchase a computer for her business.

La Princesita Bakery

La Princesita Bakery located in a colonia on the outskirts of Laredo[b] received two loans from ACCION Texas—the owners used the first to purchase a commercial oven and refrigerator and the second for working capital. As a result of these loans, the bakery has increased its production by 75 percent and has been able to hire employees and extend its product line.

Sources: ACCION Texas (information); GAO (analysis, photos).

[a]The average credit score for ACCION Texas's clients is 570, which generally is below what is required to obtain credit in the commercial market.

[b]A colonia is an unincorporated community along the U.S.-Mexico border.

Figure 16: Avenue North, Philadelphia, Pennsylvania

Project overview

The Avenue North development, located at the intersection of Broad Street and Cecil B. Moore Avenue in North Philadelphia, is the largest private development in the history of the North Philadelphia, Temple University neighborhood. The development consists of three components: the Pearl Theatre, a seven-screen movie theater; the Shops at Avenue North, which include 30 retail storefronts; and high-density student housing. The movie theater, named after the neighborhood's long-closed Pearl Theatre, was the key component of the Avenue North development. Eager to revive the once vibrant arts and entertainment scene in the neighborhood, residents and community groups made approval of the development contingent on the inclusion of a move theater in the project.

Project financing

Two development companies failed to make the development work—neither could convince a movie theater to assume the risk of opening in a neighborhood dominated by students and low-income families. Rather than trying to convince a movie theater to independently develop and operate the theater, the developer acted as the theater owner, using New Markets Tax Credit equity from The Reinvestment Fund to mitigate the operating risks (see table).[a] The developer contracts the day-to-day operations of the theater to Regal Entertainment. Income from the student housing component of the development is used to defray the costs of operating the movie theater and make payments on loans to the project's other investors.

Financing Sources for Avenue North Retail and Movie Theater

Financing source	Amount	Percentage of total
Citizens Bank New Markets Tax Credit loan[b]	$10,000,000	52.9%
Citizens Bank--Construction Loan A	5,000,000	26.5
Citizens Bank loan (bridge loan for a grant)	2,000,000	10.6
Citizens Bank--Construction Loan B	1,900,000	10.1
Total	**$18,900,000**	**100%**

Sources: The Reinvestment Fund and GAO (analysis, photographs).

[a]The Reinvestment Fund is a certified CDE and CDFI. The Fund received New Markets Tax Credit allocations in 2003 and 2006 totaling approximately $113.5 million.

[b]The Reinvestment Fund provided the New Markets Tax Credit allocation, and Citizens Bank was the New Markets Tax Credit investor. Citizens Bank agreed to assume The Reinvestment Fund's debt after the 7-year tax credit term expired and also agreed to keep its loans below the market rate for 15 years.

Figure 17: Gerding Theater at the Armory, Portland, Oregon

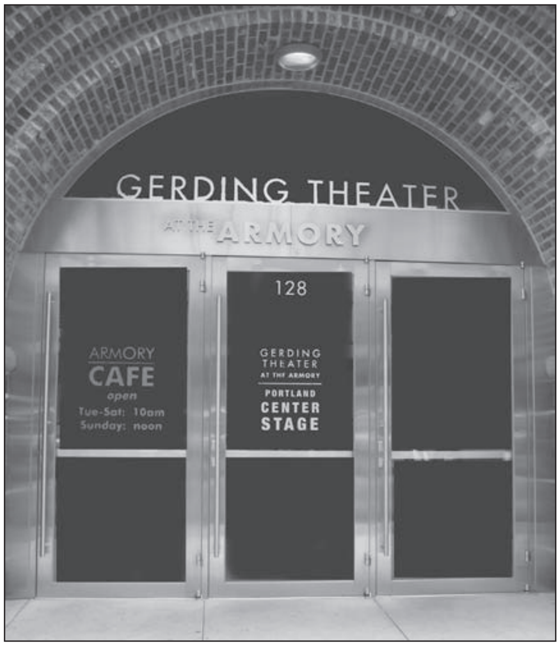
Project overview

The Portland Armory, built in 1891, is listed on the National Register of Historic Places and is one of the largest 19th century buildings in Portland. The Armory is located in an Enterprise Community and a designated Urban Renewal Area and is a CDFI Fund designated Qualified Low-Income Community.[a] The Gerding Theater at the Armory redevelopment project was intended to preserve the historic building, expand the city's arts facilities, and create and expand connections between arts organizations and the community. The rehabilitated building is LEED Platinum certified, the highest rating granted by the U.S. Green Building Council—the building includes a rainwater harvesting system, and is designed to achieve energy cost savings of 30 percent over standard new-construction buildings.[b]

The rehabilitation of the Armory and the permanent relocation of Portland Center Stage—a nonprofit performing arts organization—to the space is predicted to produce a total economic impact of $116.4 million, $15.8 million in new direct, indirect, and induced fiscal resources, and 552 direct, indirect, and induced full-time jobs, during the 24-month construction phase and the first 10 years of operation.

Project financing

The total development cost for the project was $36.1 million. As shown in the table, several public and private entities contributed funds toward the development of the project.



Financing Sources for Gerding Theater at the Armory

Financing source	Amount	Percentage of total
New Markets Tax Credit equity	$12,750,000	35.3%
U.S. Bank loan	8,640,000	23.9
Armory Theater Fund loan	6,000,000	16.6
City of Portland Tax Increment Financing	4,600,000	12.7
Historic Tax Credit Equity	3,910,000	10.8
Oregon Business Energy Tax Credit equity	150,000	0.4
Oregon Energy Trust grant	50,000	0.1
Total	**$36,100,000**	**100%**[c]

Sources: Portland Family of Funds (information); GAO (analysis, photo).

[a]The Enterprise Community program (part of the larger Empowerment Zone/Enterprise Community program) is a large-scale federal effort directed at the revitalization of impoverished rural and urban communities. The program provides grants to public and private entities for social services and community redevelopment and tax benefits to local businesses to attract or retain jobs and businesses in distressed communities. The State of Oregon's Urban Renewal program is a state-authorized redevelopment and finance program designed to help communities improve and redevelop areas that are physically deteriorated, suffering economic stagnation, unsafe, or poorly planned.

[b]The Leadership in Energy and Environmental Design (LEED) Green Building Rating System is the nationally accepted benchmark for the design, construction, and operation of high-performance green buildings. To earn certification, a building project must meet certain prerequisites and performance benchmarks (credits) within each category. Projects are awarded Certified, Silver, Gold, or Platinum certification depending on the number of credits they achieve.

[c]Percentages do not add to 100 due to rounding.

Figure 18: New Hampshire Community Loan Fund Manufactured Housing Program: Exeter River Cooperative, Exeter, New Hampshire

Program overview

The New Hampshire Community Loan Fund's Manufactured Housing Park Program helps residents of manufactured housing parks buy and manage their parks as cooperatives to help stabilize costs and improve living conditions.[a] More broadly, the program helps preserve affordable housing in New Hampshire. While they may own their homes, residents of manufactured housing parks typically rent the lots on which their homes sit from investor-landlords and are thus vulnerable to increased rents resulting from events, such as a sale of the park. In 1988, the New Hampshire legislature adopted a law that gave residents of manufactured housing parks an opportunity to negotiate in good faith with park owners to acquire the park in the event the owner decided to sell it.[b] Under the Manufactured Housing Park Program, the Loan Fund assists residents in forming a cooperative—the legal entity that will purchase and govern the park—and provides low-cost, subordinate financing to the cooperative. Subordinate financing allows the cooperative to obtain additional, often low-cost financing from commercial lenders that otherwise may shy from making loans to a newly formed cooperative with no financial history. In addition, the Loan Fund offers purchase, refinance, and home equity loans to residents in cooperative communities, products that may be difficult or expensive to obtain in the commercial market.

Project overview

When residents of the Exeter River Cooperative in Exeter, N.H. received notice from their park owner that he planned to sell the park, they contacted the Loan Fund to help them form a cooperative and make a purchase offer. With residents' purchase of the park, 392 property renters became property owners. According to the Exeter River Cooperative president, since residents purchased the park, they have taken greater pride in their community and homes—many have planted gardens, constructed additions to their homes, and taken an active role in the governance of the park. Many also have refinanced their homes or sought other financial assistance, such as small business financing, through the Loan Fund.

Project financing

The total development cost of the project—including the mortgage, closing costs, and other related fees and expenses—was approximately $16.3 million. The cooperative obtained two loans to finance a mortgage of $15 million.

Financing Sources for Exeter River Coooperative

Financing source	Amount	Percentage of total
Citizens Bank loan	$13,260,000	81.5%
New Hampshire Community Loan Fund loan A	2,340,000	14.4
New Hampshire Community Loan Fund loan B	661,000	4.1
Total	**$16,261,000**	**100%**[c]

Sources: The New Hampshire Community Loan Fund (information); GAO (analysis, photo).

[a]As a certified CDFI, the New Hampshire Community Loan Fund has received assistance from Treasury. As required under the CDFI program, the Loan Fund matched (leveraged) this assistance with nonfederal funds.

[b]N.H. Rev. Stat. sec. 205-A:21.

[c]Percentages do not add to 100 due to rounding.

Figure 19: Seattle Cooperative Children's Center, Seattle, Washington

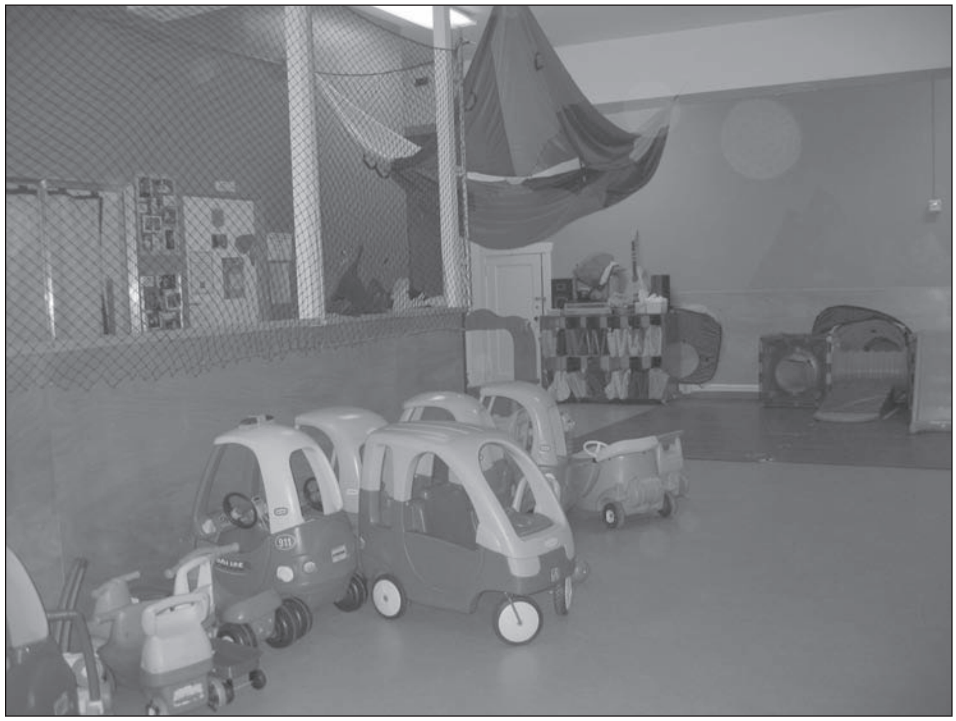
Project overview

The Cooperative Children's Center was organized in 1972 with a mission of providing an environment where teachers, parents, and children could work together to facilitate social, emotional, cognitive, and physical growth. The center serves 42 children ranging in age from 12 months to 5 years. To facilitate a family atmosphere and involve parents more actively in their children's day-to-day activities, parents are required to volunteer in the classroom from 2 to 3 hours per week, attend center-led workshops, and participate in other center-related business and social events.

The center relies on charitable donations to fund its day-to-day operations; however, when it desired to make improvements to its facilities in 2005, the center sought a loan from Shorebank Enterprise Cascadia, a certified CDFI, to fill the gap between total project costs and available equity.[a]

Project financing

According to Shorebank Enterprise Cascadia officials, the biggest challenge in structuring this deal was the collateral—the center's assets largely consisted of child-care materials and equipment. To secure the loan, Shorebank Enterprise Cascadia required several of the center's board members to provide limited personal guarantees. As shown in the table, the center contributed a majority of the funds (raised through fundraising events and donations) used to finance the project.



Financing Sources for the Seattle Cooperative Children's Center

Financing source	Amount	Percentage of total
Owner equity	$125,631	65.9%
Shorebank Enterprise Cascadia loan	65,000	34.1
Total	**$190,631**	**100%**

Sources: Shorebank Enterprise Cascadia (information); GAO (analysis, photo).

[a]As a certified CDFI, Shorebank Enterprise Cascadia has received assistance from Treasury. As required under the CDFI program, Shorebank Enterprise Cascadia matched (leveraged) this assistance with nonfederal funds.

Figure 20: Shoalwater Bay Wellness Center, Tokeland, Washington

Project overview

Completed in May 2005, the Shoalwater Bay Wellness Center offers medical, dental, drug and alcohol counseling, mental health, and prescription drug services to the 264 Shoalwater Bay Indian Tribe members, as well as to other Native Americans and residents of southwest Washington state.[a] In 1992, the Shoalwater Bay Tribal Council declared a health emergency based on documented high prenatal and neonatal infant mortality rates within the tribe. At the time, residents in the area, including Shoalwater Bay Indians, had to drive more than 80 miles to a neighboring reservation to seek medical care. Although the tribe funded the construction of an ambulatory health center in 1994 to help address the lack of medical care in the immediate area, the facility lacked space for examination rooms and staff. The tribe's new Wellness Center has six examination rooms, two doctors, two dentists, and an onsite pharmacy. The Wellness Center also hosts visiting specialists, including a chiropractor and a massage therapist. In 2006, the Wellness Center had more than 6,000 visits each to the medical and dental facilities.

Project financing

The total development cost for the Shoalwater Bay Wellness Center was approximately $3.6 million. As shown in the table, the tribe used New Markets Tax Credit equity to leverage a number of other sources of funds, including a low-interest private loan (approximately 6 percent annual interest) and federal grants. Fees generated from patients with health insurance are used to make payments on the senior loan. Leveraging additional funding with the New Markets Tax Credit equity allowed the tribe to expand its services beyond its immediate members to other lower-income tribal and nontribal residents in the area.

Financing Sources for the Shoalwater Bay Wellness Center

Financing source	Amount	Percentage of total
New Markets Tax Credit equity from Shorebank Enterprise Cascadia	$1,600,000	44.7%
Bank of the Pacific, Loan	1,000,000	27.9
Owner equity (Shoalwater Bay Indian Tribe)	607,141	16.9
U.S. Department of Housing and Urban Development Indian Community Development Block Grant funds	323,000	9.0
U.S. Dept of Health and Human Services grant	52,614	1.5
Total	**$3,582,755**	**100%**

Sources: Shorebank Enterprise Cascadia (information); GAO (analysis, photos).

[a]The Shoalwater Bay Tribe resides on the coast of Washington at Willapa Bay, near Tokeland, Washington. The original Shoalwater Reservation was established on September 22, 1866; the tribe gained federal recognition on March 10, 1971, and adopted a constitution and elected a tribal council shortly thereafter.

Appendix V: Comments from the Department of Housing and Urban Development, Office of Community Planning and Development

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-7000

OFFICE OF COMMUNITY PLANNING
AND DEVELOPMENT

DEC 6 2007

Mr. William B. Shear
Director, Financial Markets and
Community Investment
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 21548

Dear Mr. Shear:

This letter provides the comments of HUD's Office of Community Planning and Development (CPD) on the draft GAO report entitled "*More Information on Leverage Measures' Accuracy and Linkage to Program Goals Is Needed in Assessing Performance*" (GAO-08-136). The Department appreciates this opportunity to respond to the draft report.

In general, CPD is pleased with the results presented in the draft report but does have several comments that should be incorporated in order to highlight certain facts. CPD requests that a strong statement be made early in the report that neither the Community Development Block Grant (CDBG) nor HOME Investment Partnerships (HOME) programs have statutory or regulatory provisions requiring leverage of other funding sources. Ideally this statement would be included on page four, paragraph two, where the CDBG and HOME programs are identified as subjects of the draft report. We recognize that such statements are made at various points in the draft report but desire to ensure that this critical fact is conveyed as early as possible and as often as possible.

As CPD does not have a formal leverage measure for the CDBG program, we are concerned with the language on page six, paragraph one, sentence one, that "[T]he leverage measures ... lacked transparency because the agencies generally did not disclose the limitations of the data or methods used to calculate them." Further, the draft report contains, in multiple places, similar language which leaves the impression that HUD provides a CDBG leverage measure. CPD asks that all such instances be revised in some manner to reflect that CPD does not report a CDBG leverage measure.

CPD is also concerned with the same language regarding the HOME program. HOME participating jurisdictions may voluntarily report leveraging on a project-level basis to demonstrate the program's ability to leverage other public and private funding. The results of this reporting are found on the HOME Program National Production Report and SNAPSHOT of HOME Program Performance. CPD identifies the source of the data and limitations of the calculations used to determine the amount of leverage on the National Production Report and the SNAPSHOT report's accompanying "Explanation of Performance Categories."

Page 7 of the report contends that some funding recipients use leveraging to prioritize funding decisions "giving funding priority to projects that leverage more over those that leverage less, but which may fill a greater or more immediate need within a community". CPD formula programs emphasize local decision making, meaning CPD does not approve CDBG grantees' or HOME participating jurisdictions' project funding decisions. Moreover, CDBG has no leveraging measure on which to base local funding decisions and while HOME does report leveraging ratios for individual participating jurisdictions, the ratio is based solely on completed rental projects, which is one of the four eligible activity types of HOME. Therefore, CPD requests that the language on page 7 and all other instances where it is implied or stated that leveraging affects funding decisions for CDBG and HOME be modified to indicate that funding decisions are made locally and that leveraged funds on a project level basis are not approved by CPD.

Footnote 32 on page 18 of the draft report indicates that HUD will publish a CDBG leverage measure by the end of calendar year 2007. This statement is repeated in footnote 54 on page 28. It was CPD's intent to convey that, beginning with program year 2006 CDBG grantees profiles, CPD would post the leverage amount reported by each grantee. These grantee profiles, posted on HUD's website, provide summary information with respect to grantee uses of CDBG funds during the program year. More than 80 percent of program year 2006 profiles for CDBG grantees will be posted as of December 31, 2007 and will reflect funds leveraged as reported by the grantees. In some cases, the amount leveraged may be zero as grantees either failed to report or did not leverage other funding sources.

Further, it is CPD's intent to continue to work during FY 2008 to increase the percentage of CDBG grantees that voluntarily report leverage data and other program information through IDIS. Concurrently, CPD will attempt to improve the quality of leverage data through closer analysis of the data provided by grantees. CPD proposes to follow upon this GAO report to produce a program-wide leverage measure for the CDBG program in the fall of 2008. This effort will build upon improvements in the level and quality of grantee reporting during FY 2008. This effort would, in part, address the Recommendations for Executive Action presented on page 36 of the draft report.

Footnote 54 on page 28 addresses HUD's view on the value of leveraging measures to assess program performance. CPD recommends that the opening clause of the first sentence be deleted because it is not relevant to the point being made.

CPD also finds GAO's recalculation of HOME leveraging data in Appendix III, purportedly based on 2006 data provided by the Office of Affordable Housing Programs, unclear. Different results may be obtained depending on the specific criteria applied to the data in performing the recalculation. Specifically, it is not evident from the report if data on HOME projects funded in 2006, completed in 2006, or funded with 2006 HOME dollars was used in the recalculation. CPD asks that GAO clarify the data criteria used in the recalculation.

If you have any questions regarding this response, please contact me at (202) 708-3587.

Sincerely,

Richard J. Kennedy

Richard J. Kennedy
Acting Deputy Assistant Secretary
for Grant Programs

Appendix VI: Comments from the Department of the Treasury, Community Development Financial Institutions Fund

DEPARTMENT OF THE TREASURY
COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND
601 THIRTEENTH STREET, NW, SUITE 200 SOUTH
WASHINGTON, DC 20005

DIRECTOR

December 11, 2007

Mr. William B. Shear
Director, Financial Markets and Community Investments
U.S. Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Shear:

Thank you for providing the Community Development Financial Institutions (CDFI) Fund, an office within the U.S. Department of Treasury, with the opportunity to comment on the draft Government Accountability Office (GAO) report, "HUD and Treasury Programs: More Information on Leverage Measures' Accuracy and Linkage to Program Goals Is Needed in Assessing Performance."

Before addressing specific elements of the draft report, I want to acknowledge the professionalism of the GAO staff; particularly the efforts that they have made to understand our programs. We appreciate the GAO's finding that each of the three Treasury programs (the Low-Income Housing Tax Credit Program; the New Markets Tax Credit Program; the CDFI Program) was "designed to leverage other funds in a number of ways and, as a result, leveraging directly relates to each program's goals and core activities and leverage measures can be used to describe program outputs." We share your belief that this leveraging component sets these programs apart from other programs that you may have evaluated and, indeed, from many other Federal government programs.

With respect to other elements and findings of your report, we do have several comments to offer:

1. ***Disclosure of methodology for determining leverage figures.*** The GAO draft report states that, when presenting leverage measures for the selected programs in performance and budget reports, and in other resources, "The leverage measures HUD and Treasury reported for the selected programs lacked transparency because the agencies generally did not disclose the limitations of the data or the methods used to calculate them" (page 6). The CDFI Fund cannot comment on the data collection or disclosure practice of the other agencies participating in this study. However, with respect to the CDFI Program, the CDFI Fund has publicly disclosed its methodologies on multiple occasions -- including reports issued as early as March of 2005 ("CDFIs Leverage CDFI Program Awards Nearly $20 to $1"), and as recently as July of 2007 ("Growth, Diversity, Impact: A Snapshot of CDFIs in FY 2003").

With respect to the NMTC Program, the CDFI Fund has not provided information relating to the leveraging of program dollars in performance and budget reports or in any other public sources. It is therefore inappropriate to include the NMTC Program as part of this report's findings relating to the public disclosure of data limitations or methodologies – since NMTC leverage data has never before been publicly released by the CDFI Fund. That being said, to the extent the CDFI Fund does release leveraging figures in the future, it will make every effort to include a discussion of data methodologies and limitations.

2. ***Incomplete Reporting of Data.*** The draft GAO report states that "the leverage measures the agencies reported for the selected programs were based on incomplete data and thus did not capture the actual extent of leveraging in the programs." (pg. 15). With respect to the CDFI Program, the draft report notes that there may actually be additional leveraging at the institutional level that occurs beyond the 1:1 match of CDFI Program award dollars, since many awardees procure nonfederal funds that exceed their final award amounts. The statutory requirement of the CDFI Program is that awardees produce 1:1 ratio of nonfederal matching funds for CDFI Program awards. Therefore, the CDFI Fund collects the matching fund data necessary to ensure that this statutory requirement is satisfied. The CDFI Fund is aware that the actual leveraging of CDFI Program awards may exceed the 1:1 ratio, but does not feel it is appropriate to include excess matching fund sources as part of the CDFI Fund's leveraging calculations.

   The draft GAO report includes two observations with respect to the CDFI Fund's reporting of NMTC leveraging data:

   a. ***Project-level data was unavailable for 26 percent of NMTC projects, which could lead to a potential underestimation of total leveraging*** *(page 16).* The CDFI Fund collects project-level data on every NMTC transaction. NMTC Program participants are asked to indicate the total project costs, including both NMTC contributions and other contributions. Through the initial four years of data collection under the NMTC Program, this project cost data field was optional, not mandatory (the requirements for data submissions have since been changed to make this a mandatory field). The draft GAO report indicates that the missing project data values from the earlier years could result in underestimating total leverage across all of the years of the program. However, the CDFI Fund believes that the 74 percent of projects for which data was available is sufficiently representative of the entire pool of NMTC transactions to support its determination that, on average, each $1 of NMTC investment proceeds supports a total investment of $3.28 at the project level.

   b. ***Treasury assumed that CDEs contribute 100 percent of tax credit equity to qualified low-income community investments, even though CDEs are permitted to retain up to 15 percent for administrative and other purposes*** *(page 16).* This is a valid observation. However, the CDFI Fund does not believe that its

c. leveraging calculations would be substantially different if the non-invested proceeds were excluded. In order to increase the likelihood of receiving an allocation award, most CDEs commit to investing significantly more than the minimally required 85 percent of tax credit proceeds into projects. In the 2007 allocation round, for example, 60 of the 61 awardees indicated that at least 95 percent of their tax credit proceeds would be invested in qualified projects, including 49 that committed to investing at least 97 percent of their proceeds into qualifying projects.

3. ***The NMTC leveraging ratio of 13.12:1 is not a "leverage" ratio, but rather a "multiplier" ratio.*** The CDFI Fund believes that its presentation of the NMTC leverage is appropriate and consistent with GAO guidance. As stated in the draft GAO report, leveraging can be defined as "using a relatively small amount of federal funds to attract private investment." (page 3). In the context of a tax credit program, where federal funds are not directly provided to a project, the federal funds are represented by foregone tax revenue. In the case of the NMTC Program, it has been estimated that each $1 of equity invested in a project results in a net tax revenue loss to the Federal government of 25 cents[1]. As stated above, this 25 cent investment, on average, results in a total of $3.28 invested at the project level – for a true leveraging ratio of over 13:1 [$3.28/.25 = 13.12].

We thank you for the opportunity to share these comments with you, and hope that they will inform your preparation of the final report.

Sincerely,

Donna Gambrell

Donna Gambrell
Director

[1] While initially the tax credit would appear to represent lost tax revenue to the Federal government of 39 cents for each dollar invested, the cost basis of the investment is reduced by the amount of the credits claimed. Therefore, the investor has to pay taxes (generally at a corporate tax rate of 35%) on the 39 cents of credits claimed, which reduces the cost of the credit to the Federal government from 39 cents to approximately 25 cents [.39 * (1-.35) = .2535].

Appendix VII: GAO Contact and Staff Acknowledgments

GAO Contact

William B. Shear, (202) 512-8678 or shearw@gao.gov

Acknowledgments

In addition to the contact named above Marianne Anderson, William Bates, Elizabeth Curda, Daniel Garcia-Diaz, Terence Lam, Alison Martin, John McGrail, Jackie Nowicki, Josephine Perez, Barbara Roesmann, Cory Roman, and Charles Wilson Jr. made key contributions to this report.

Related GAO Products

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