WASTE REPORT for September 26, 2016

Aloha to Waste

According to the Inspector General (IG) for the Department of Housing and Urban Development, the City and County of **Honolulu (City) wasted nearly $10 million of Community Development Block Grant (CDBG) money for no other reason than to just spend federal money fast… so they could remain eligible to receive more federal funds.**[1]

The CDBG program is a grant for local governments to help develop affordable housing and economic opportunities primarily for low- and middle-income persons. While grant money can be rolled into the next fiscal year, local governments are not allowed to just sit on this money. By the end of a grant year, available funds cannot exceed 150% of the current year grant award – the timeliness test. If a community breaks this timeliness test two years in a row, they may lose CDBG funding for the next year.[2]

According to the IG, Honolulu's bureaucratic structure led it to perennially fail the timeliness test every other year. However, in 2013, the City was in risk of breaching the two-year rule and possibly losing CDBG money - **until it cooked up a plan to fast track some big spending.**

First, **the City came up with an alternate process for approving CDBG projects, which, according to the IG, "had few requirements and was subjective."**[3] Then, the City put out a "brief" request for proposals for an acquisition project: high cost in one transaction. They further required the project to move fast – fast enough to prevent the two-year rule from being violated. Ultimately, the City approved a proposal to purchase the Hibiscus Hill Apartments in Waipahu.[4]

Hibiscus Hill was not even up for sale, which of course put the owner in a "name your price" kind of situation. **The property ended up selling for about <u>25% above the appraised value</u> – meaning taxpayers overpaid by about $1.9 million.**[5]

Why Hibiscus Hill? Good question. The original proposal stated that rent at Hibiscus Hill had increased 40% over the preceding 3 years, but that claim was not substantiated. However, the appraiser found rents at the apartment complex were at the lower end of the local rental market. Further, since the property acquisition, rents have increased, in some cases "significantly."[6] This led the IG to conclude, **"Therefore, the acquisition apparently did not serve a meaningful purpose and the City did not support that it was necessary."**[7] True, unless the City's real purpose was just to spend money quickly to preserve their access to CDBG grant dollars.

The grant recipients' proposal included a promise to spend $1 million (of their money) renovating all 80 units in the complex. Yet, two years later, only eight units were renovated at a cost of just over $146k. Further, 50 units were to be deemed "affordable," a promise which the City itself decided in 2015 was unmet.[8]

Nonetheless, Honolulu did not breach the timeliness test two years running and is still eligible to receive CDBG money…

And the taxpayer is only out $10 million.

[1] https://www.hudoig.gov/sites/default/files/documents/2016-LA-1009.pdf
[2] Ibid.
[3] Ibid.
[4] http://www.eahhousing.org/pages/apartmentdetail/117
[5] https://www.hudoig.gov/sites/default/files/documents/2016-LA-1009.pdf
[6] Ibid.
[7] Ibid.
[8] Ibid.