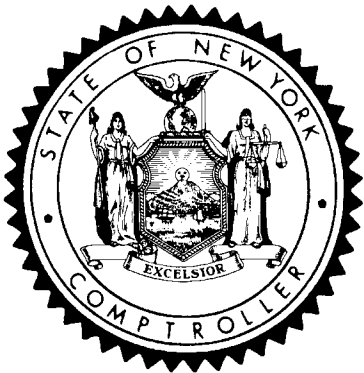


***State of New York***  
***Office of the State Comptroller***  
***Division of Management Audit***  
***and State Financial Services***

**NEW YORK CITY DEPARTMENT OF  
HOUSING PRESERVATION AND  
DEVELOPMENT**

**REHABILITATION AND DISPOSAL OF  
CITY-OWNED BUILDINGS**

**REPORT 99-N-5**



***H. Carl McCall***  
*Comptroller*



# State of New York Office of the State Comptroller

---

---

**Division of Management Audit and State Financial Services**

**Report 99-N-5**

Mr. Richard T. Roberts  
Commissioner  
New York City Department of  
Housing Preservation and Development  
100 Gold Street  
New York, NY 10038

Dear Mr. Roberts:

The following is a report on our audit of the Department of Housing Preservation and Development concerning the rehabilitation and disposal of City-owned buildings.

This audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution; Article II, Section 8 of the State Finance Law; and Article III of the General Municipal Law. Major contributors to this report are listed in Appendix A.

*Office of the State Comptroller  
Division of Management Audit  
and State Financial Services*

May 31, 2000

---

---

# Executive Summary

---

---

## New York City Department of Housing Preservation and Development Rehabilitation and Disposal of City-Owned Buildings

---

---

### Scope of Audit

The New York City (City) Department of Housing Preservation and Development (HPD) was created to preserve, upgrade and develop affordable and decent housing for residents of the City. Beginning in the late 1970s, through "In Rem" (tax foreclosure) actions, the City took ownership of a massive inventory of deteriorated and/or abandoned buildings. HPD's Division of Property Management (DPM) manages and maintains more than 3,000 such buildings until they are transferred to the Division of Alternative Management Programs (DAMP), which promotes and administers the rehabilitation and disposition of occupied and adjacent vacant City-owned residential properties for use as affordable housing through a number of programs, including the Neighborhood Entrepreneurs Program (NEP), Neighborhood Redevelopment Program (NRP) and Tenant Interim Lease Program (TIL). During fiscal years 1998 and 1999, HPD was responsible for expending approximately \$75 million and \$146 million, respectively, in public funds for the rehabilitation of buildings under these three programs.

Our audit addressed the following question about the procedures used by HPD to rehabilitate and/or dispose of City-owned buildings through the NEP, NRP and TIL programs during the period January 1, 1997 through November 30, 1999:

! Did HPD follow an adequate process for rehabilitating and privatizing City-owned buildings?

This audit was originally scheduled to be initiated in 1997. At that time, the City of New York challenged the Comptroller's legal authority to conduct non-financial audits of City Mayoral agencies. The Comptroller's authority to conduct these audits was confirmed by the New York Court of Appeals in a decision rendered April 1, 1999.

---

### Audit Observations and Conclusions

Unaudited statistics in the Mayor's Management Report show that HPD sold 206 buildings with 2,225 units and 251 buildings with 2,596 units in the City fiscal years ended June 30, 1998 and 1999, respectively, to various for-profit and not-for-profit groups. Notwithstanding this accomplishment, we found that HPD needs to improve the process it follows for rehabilitating and privatizing City-owned buildings to help ensure the availability of affordable and decent housing for City residents.

---

---

To facilitate the return of City-owned buildings to private ownership in an efficient and timely manner, we believe that HPD needs a formal, written strategic plan for the overall disposition of these buildings. Although HPD officials explained the various factors they consider when selecting buildings for rehabilitation and disposal, they lacked a formal plan with identified priorities to guide the disposal of buildings. Without a plan and associated benchmarks, HPD officials lack the ability to assess their progress in meeting HPD's mission of providing decent and affordable housing through rehabilitating and privatizing City-owned property. We also found that HPD does not have an effective system to track the movement and status of all buildings that are in the City's inventory. (See pp. 7-8)

We found that City-owned buildings are not being returned to private owners in a timely fashion. Timeliness is also important because the City pays for fuel, repairs and rehabilitation while buildings are in City ownership. These expenditures increase in proportion to the length of time a building remains in DAMP or DPM. In addition, buildings in City ownership do not generate income for the City in the form of real estate taxes and water and sewer charges. Our analysis of the history of 252 buildings found that they had remained in the NEP, NRP and TIL programs an average of more than 14, 11 and 16 years, respectively, and that the total period of time buildings were in City ownership ranged from 2 years to as long as 31 years. (See pp. 8-9)

We found other areas where HPD needs to improve the process for rehabilitating and disposing of City-owned buildings. For example, HPD does not adequately oversee the selection of entrepreneurs for its NEP program to ensure that they are qualified to participate. HPD also needs to take additional steps to maximize competition when soliciting contractors for rehabilitation work to ensure such work is performed at the lowest possible cost. We also found numerous instances where buildings were not completely rehabilitated within the required times frames. (See pp. 11-20)

Our report contains 14 recommendations to address these and other issues we identified during our audit.

---

## **Comments of HPD Officials**

In response to many of our recommendations, HPD officials either restated existing procedures, without recognizing the findings which gave rise to the recommendations, or they did not directly respond to the recommendations. A complete copy of HPD's response is included as Appendix B to this report.

---

---

---

# Contents

---

---

---

## Introduction

Background . . . . .	1
Audit Scope, Objective and Methodology . . . . .	3
Response of HPD Officials to Audit . . . . .	4

---

## Rehabilitation and Disposal of City-Owned Buildings

Timeliness of Privatization of City-Owned Buildings . . . . .	7
Recommendations . . . . .	9
Selection of NEP Entrepreneurs . . . . .	11
Recommendations . . . . .	13
Sale of City-Owned Buildings . . . . .	14
Recommendations . . . . .	15
Absence of Formal Agreements . . . . .	16
Recommendation . . . . .	16
Solicitation of Contractors . . . . .	16
Recommendations . . . . .	18
Length of Time to Rehabilitate Projects . . . . .	19
Recommendations . . . . .	21
Tax Compliance . . . . .	22
Recommendation . . . . .	23

---

## Appendix A

Major Contributors to This Report

---

## Appendix B

Response of Department of Housing Preservation and Development Officials

---

---

---

# Introduction

---

---

---

## Background

The New York City (City) Department of Housing Preservation and Development (HPD) was created in 1977, under Local Law 29, to preserve, upgrade and develop affordable and decent housing for residents of the City. HPD is also responsible for monitoring and enforcing the City's residential housing code. During the City fiscal years ended June 30, 1998 and 1999, HPD expended approximately \$404 million and \$387 million, respectively, to pursue its mission.

Beginning in the late 1970s, through "In Rem" (tax foreclosure) actions, the City took ownership of a massive inventory of deteriorated and/or abandoned buildings. HPD's Division of Property Management (DPM) manages and maintains more than 3,000 such buildings, most of which are occupied, as indicated in the following table:

<b>Fiscal Year</b>	<b>Vacant City-Owned Buildings</b>	<b>Occupied City-Owned Buildings</b>	<b>Total City-Owned Buildings</b>
1998	1,021	2,537	3,558
1999	869	2,306	3,175

To revive, preserve, upgrade and develop City neighborhoods, HPD strives to dispose of the buildings it owns by periodically transferring them from DPM to its Division of Alternative Management Programs (DAMP). DAMP rehabilitates and sells City-owned occupied buildings to responsible tenant cooperatives (associations) and also sells City-owned buildings that may be either vacant or occupied to responsible community-based not-for-profit organizations and local entrepreneurs for subsequent rehabilitation and rental. Significant public and private funds are invested in rehabilitating these buildings to ensure their long-term viability. Funding for rehabilitation comes from the City, State and Federal governments, as well as private banks.

DAMP promotes and administers the disposition and rehabilitation of occupied and adjacent vacant City-owned residential properties for use as affordable housing through a number of programs, including the following:

Neighborhood Entrepreneurs Program (NEP) - This program enables experienced for-profit community-based property owners and managers to manage, rehabilitate and acquire clusters of occupied and adjacent vacant City-owned buildings for rental housing. These entrepreneurs apply to participate in the program through a Request for Qualifications (RFQ) that is administered jointly by HPD and the

---

---

New York City Housing Partnership Development Corporation. The Partnership provides technical assistance to new owners and contracts with not-for-profit organizations to provide tenant support.

Neighborhood Redevelopment Program (NRP) - This program enables community based not-for-profit organizations to manage, rehabilitate and then acquire clusters of occupied and adjacent vacant City-owned buildings for rental housing. These organizations are selected through an RFQ administered jointly by HPD, the Local Initiatives Support Corporation (LISC), and the Enterprise Foundation (Enterprise). LISC/Enterprise provide technical assistance to the not-for-profit organizations on an as-needed basis.

Tenant Interim Lease Program (TIL) - This program allows tenants to manage and eventually purchase their own buildings. To be accepted into the program, tenant associations enter into a lease with the City to maintain and manage the buildings in which they live. The program trains the associations in building management, maintenance and financial record-keeping. HPD funds the building's rehabilitation and then sells it to the tenants. TIL is unique because it is the only program in which HPD rehabilitates the property before it is sold.

NEP, NRP and TIL are part of a broader City initiative called "Building Blocks," in which HPD coordinates the resources needed to stabilize and redevelop clusters of buildings within an area. During the City fiscal years 1998 and 1999, HPD was responsible for expending approximately \$75 million and \$146 million, respectively, in public funds (City and Non-City) for the rehabilitation of buildings under these three programs, as follows:

**Expenditures for the Rehabilitation of City-Owned Buildings - NEP/NRP/TIL  
(in thousands)**

Program	1998 Fiscal Year			1999 Fiscal Year		
	Total	City	Non-City	Total	City	Non-City
NEP	\$10,894	\$1,796	\$9,098	\$77,415	\$29,498	\$47,917
NRP	\$35,687	\$9,628	\$26,059	\$43,583	\$15,272	\$28,311
TIL	\$28,639	\$20,719	\$7,920	\$24,596	\$14,856	\$9,740
Total	\$75,220	\$32,143	\$43,077	\$145,594	\$59,626	\$85,968

---

Other programs within DAMP include the Neighborhood Homes Program, Tenant Interim Lease Pilot Program, Tenant Ownership Program and Asset Sales. We did not include these programs in the scope of our audit because they are relatively new, or they do not require significant HPD subsidies.

---

## **Audit Scope, Objective and Methodology**

We examined the procedures used by HPD to rehabilitate and/or dispose of City-owned buildings under its largest programs, NEP, NRP and TIL, during the period January 1, 1997 through November 30, 1999. As we deemed necessary, we considered data and information that preceded 1997. The objective of our performance audit was to assess the adequacy of the process followed by DAMP to dispose of and rehabilitate City-owned buildings. To accomplish our objective, we interviewed officials at HPD, as well as selected officials from the Partnership and LISC/Enterprise, selected construction managers hired by HPD to manage the rehabilitation of TIL projects, and selected officials of various tenant associations. We reviewed HPD policies, procedures, guidelines, and laws, and examined various records and documents relating to the selection of entrepreneurs, the rehabilitation and privatization of City-owned property, and the real estate, sewer, and water taxes history of samples of City-owned properties that were sold by HPD. We also visited selected City-owned property sites.

As is our practice, we notify agency officials at the outset of each audit that we will be requesting a representation letter in which agency management provides assurances, to the best of their knowledge, concerning the relevance, accuracy and competence of the evidence provided to the auditors during the course of the audit. The representation letter is intended to confirm oral representations made to the auditors and to reduce the likelihood of misunderstandings. In the representation letter, agency officials assert that, to the best of their knowledge, all relevant financial and programmatic records and related data have been provided to the auditors. Agency officials further affirm that either the agency has complied with all laws, rules and regulations applicable to its operations that would have a significant effect on the operating practices being audited, or that any exceptions have been disclosed to the auditors.

However, officials at the New York City Mayor's Office of Operations have informed us that, as a matter of policy, Mayoral agency officials will not provide representation letters in connection with our audits. As a result, we lack assurance from HPD officials that all relevant information was provided to us during this audit. We consider this refusal to provide a representation letter to be a scope limitation on our audit. Therefore, readers of this report should consider the potential effect of this scope limitation on the findings and conclusions presented in this report.



---

We conducted our audit in accordance with generally accepted government auditing standards. Such standards require that we plan and perform our audit to adequately assess those operations that are included in our audit scope. Further, these standards require that we understand HPD's internal control structure and its compliance with those laws, rules and regulations that are relevant to the operations included in our audit scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operating records and applying such other auditing procedures as we consider necessary in the circumstances. An audit also includes assessing the estimates, judgments and decisions made by management. We believe that our audit provides a reasonable basis for our findings, conclusions and recommendations.

We use a risk-based approach when selecting activities to be audited. This approach focuses our audit effort on those operations that have been identified through a preliminary survey as having the greatest probability for needing improvement. Consequently, by design, finite audit resources are used to identify where and how improvements can be made. Thus, little audit effort is devoted to reviewing operations that may be relatively efficient or effective. As a result, our audit reports are prepared on an "exception basis." This report, therefore, highlights those areas needing improvement and does not address activities that may be functioning properly.

---

## **Response of HPD Officials to Audit**

We provided draft copies of the matters presented in this report to HPD officials for their review and comment. Their comments were considered in preparing this report and are included as Appendix B.

In responding to many of the recommendations contained in the draft report, HPD officials either restated existing procedures, without recognizing the findings which gave rise to the recommendations, or they did not directly respond to the recommendations. For example, our first recommendation is that HPD should develop a formal, written strategic plan for the disposition of City-owned property, including information related to the various stages of disposition and benchmarks to monitor the length of time the property is owned by the City. Our recommendation was driven by an absence of written criteria for the selection of buildings to be rehabilitated and returned to private ownership and by the length of time buildings remain in City ownership. In response to this recommendation, HPD officials provided a general description of their overall plan, strategy and methods for disposing of buildings. However, HPD did not address the need for or lack of a written plan. Accordingly, we have included Auditor's Comments parenthetically after many of the recommendations, to reaffirm the intent of our recommendations.

---

Within 90 days after final release of this report, we request that the Commissioner of the Department of Housing Preservation and Development report to the State Comptroller, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons therefor.



---

---

# Rehabilitation and Disposal of City-Owned Buildings

---

---

Unaudited statistics in the Mayor's Management Report show that HPD sold 206 buildings with 2,225 units and 251 buildings with 2,596 units in City fiscal years ended June 30, 1998 and 1999, respectively, to various for-profit and not-for-profit groups. Notwithstanding this accomplishment, we found that HPD needs to improve the process it follows for rehabilitating and privatizing its inventory of City-owned buildings to help ensure the availability of affordable and decent housing for City residents. HPD has no formal, written strategic plan for guiding the disposal of its buildings, which contributes to the fact that properties remain in City-ownership for extended periods of time. In addition, we found that HPD does not adequately oversee the selection of entrepreneurs for its NEP program, does not charge the maximum allowable for NEP buildings, and does not maximize competition when soliciting contractors for rehabilitation work. These and other issues are discussed in the following sections of this report.

---

## Timeliness of Privatization of City-Owned Buildings

To facilitate the return of City-owned buildings to private ownership in an efficient and timely manner, we believe that HPD needs a formal, written strategic plan for the overall disposition of these buildings. However, we found that HPD does not develop a formal plan for disposing of City-owned buildings.

HPD officials told us that although the agency's goal is to return City-owned property to private owners, a disposal plan is not developed for individual buildings when each building is taken into City ownership. The officials stated that the selection of buildings for disposal is driven by several factors, such as the availability of funds for rehabilitation, which buildings are most in need of renovation, and input from neighborhood task forces, including representatives of community boards, community-based not-for-profit groups, and local real estate and other business associations. HPD officials also stated that the length of time a building is in City ownership is not a criterion for selecting which buildings are to be rehabilitated or sold. Furthermore, they said that during the 1980s and early 1990s, HPD focused on identifying and selling City-owned buildings that did not need substantial rehabilitation.

While we recognize the validity of the factors cited by HPD officials in the disposition of City-owned buildings, in our judgment, HPD should develop a formal, written strategic plan to guide the disposal of buildings. Without a written plan and associated benchmarks, HPD officials lack the ability to identify priorities and to assess their progress in meeting HPD's mission of providing decent and affordable housing through rehabilitating and privatizing City-owned property. We also believe that any such plan should consider the length of time that properties are in City ownership. We believe timeliness

---

is important because delays postpone the return of buildings to private ownership and also because the City pays for fuel, repairs and rehabilitation while a building is in City ownership. These expenditures increase in proportion to the length of time that a building remains in DAMP or DPM. In addition, buildings in City ownership do not generate income for the City in the form of real estate taxes and water and sewer charges.

To evaluate the timeliness of HPD's privatization of City-owned buildings, we reviewed files relating to 252 buildings that were sold through the NEP, NRP and TIL programs. We randomly selected 30 of the 78 buildings that were rehabilitated and sold through TIL, 132 of the 470 buildings that were sold and rehabilitated through NEP, and 90 of the 271 buildings that were sold and rehabilitated through NRP. Our analysis revealed that City-owned buildings are not being returned to private owners in a timely fashion. As shown in the following table, we found that the 252 buildings remained in the NEP, NRP and TIL programs an average of more than 14, 11 and 16 years, respectively, and that the period of time buildings were in City-ownership ranged from 2 years to as long as 31 years.

<b>Program</b>	<b>Number of Buildings in Sample</b>	<b>Range of Time in City Ownership</b>	<b>Average Time in City Ownership</b>
NEP	132	3 years to 31 years	14.5 years
NRP	90	2 years to 20 years	11.5 years
TIL	30	6 years to 28 years	16.3 years

The following are two examples which illustrate the length of time buildings can remain in City-ownership as well as the costs associated to maintain and rehabilitate them. In one instance, the City took ownership of a building in August 1978. The building was transferred to DAMP in July 1995 where it was rehabilitated by HPD and then sold to its tenants in May 1998. During this period of City ownership that lasted almost 20 years, HPD expended approximately \$5.8 million on rehabilitation and other repairs. In another instance, the City took ownership of a building in August 1984. The building was transferred to DAMP in November 1989, was rehabilitated, and then was sold in June 1999. During the 15 years that the building was in City ownership, HPD expended approximately \$2.3 million on rehabilitation and other repairs.

We also found that, since 1978, approximately 198 buildings containing 3,780 dwelling units and 59 commercial units were transferred from DAMP back to DPM. Returning buildings to DPM from DAMP defeats the intent and spirit of HPD's "Building Blocks" initiative and also delays the return of

---

City-owned buildings to private owners and to the tax rolls. Twenty-one of these buildings containing 67 dwelling units and 3 commercial units have been returned to DPM since September 1997. DAMP officials could not determine whether these were the only buildings that had been returned to DPM since 1978, or how often the same buildings had been transferred between DAMP and DPM. In addition, they could not identify the DAMP program from which the buildings were returned.

We asked HPD officials whether the agency tracks the return of buildings from DAMP to DPM. An HPD official stated that there is a database system in place to track the movement of buildings that have been in DPM and DAMP for extended periods of time, which provides a report listing all buildings and their history. However, DAMP program officials disagreed, stating that this report does not adequately track individual buildings nor does it track the program from which the building was returned. These same program officials told us they knew that some of the buildings on the report were from a specific program only because of their historical knowledge of the buildings in question. Moreover, they stated that such historical knowledge is being lost as senior employees leave HPD service.

### **Recommendations**

1. Develop a formal, written strategic plan for the disposition of City-owned property. Include information related to the various stages of disposition and establish benchmarks to monitor the length of time the property is owned by the City.

(HPD officials stated their overall plan is to dispose of every building in the agency's inventory, their disposition strategy is the implementation of the specific DAMP programs, and the method by which buildings enter these programs is managed through a process of cooperation with the Division of Property Management and the Office of Planning and Intergovernmental Affairs. According to HPD officials, they select buildings for disposition based on physical condition and characteristics of the buildings,

---

## **Recommendations (Cont'd)**

a neighborhood planning strategy called clustering, and the tenancy of the buildings. They acknowledged that length of time will impact operating expense for an individual building, but stated that the aggregate operating budget is better served by focusing on buildings in distress for rehabilitation and sale.)

Auditor's Comment: While HPD has an overall conceptual plan to dispose of every building in its inventory, it does not have a written plan which articulates and prioritizes the various criteria that it uses to decide which buildings will be rehabilitated and when. In our judgment, clearly defined criteria for rehabilitating and disposing of City-owned buildings would facilitate the decision making process and enable HPD officials to assess their progress in meeting their overall plan.

2. Develop a system to adequately track the movement and status of all buildings that are in the City's inventory.

(HPD officials stated that both DAMP and DPM have adequate systems in place to track the movement and status of buildings in City ownership, including monthly reports providing listings of buildings that are moved from DPM to DAMP and from DAMP to DPM, and that more narrative information is not critical to the disposition effort. The officials stated they will ensure that DAMP program staff is aware of where such information is available.)

Auditor's Comment: We acknowledge in our report the existence of a database system to track the movement of buildings that have been in DPM and DAMP for extended periods of time. However, as stated on page 9 of our report, DAMP program officials told us that the existing system does not adequately track individual buildings nor does it track the program from which the buildings were returned. In our judgment, specific knowledge of the reasons why buildings are transferred from DAMP back to DPM may enable program managers to identify and correct weaknesses in program implementation.

---

## **Selection of NEP Entrepreneurs**

NEP was created in 1994 as a unique program to allow small entrepreneurs, such as local, community-based for-profit real estate management companies, and minority- and woman-owned enterprises that have a commitment to their neighborhoods, to participate in the City's property disposition programs. The June 15, 1995 Memorandum of Understanding between the City of New York acting through HPD and the Housing Partnership Development Corporation (Partnership) states that HPD and the Neighborhood Partnership Housing Development Fund Company, a not-for-profit corporation formed by the Partnership, may issue RFQs to solicit interest from qualified entrepreneurs in developing properties under NEP. Moreover, the Partnership in consultation with HPD is required to review the responses and all submissions to the RFQ and to investigate the private sector references of all respondents. Although the Partnership receives the responses from the RFQs, it must provide copies to HPD within two weeks. HPD is responsible for reviewing the Partnership's recommendations for entrepreneur selection.

The May 1, 1997 RFQ issued by the Partnership for NEP established threshold and competitive selection criteria for the evaluation of the entrepreneurs. Threshold criteria required that entrepreneurs (including the principal, or principals collectively, holding majority ownership and control of at least 51 percent of the business) demonstrate their experience in managing the rehabilitation of occupied multi-family buildings; demonstrate that they were residents of the target area, or that their "business generated at least 75 percent of its gross revenues from target neighborhoods during the (three previous) years;" and that the entrepreneur's annual gross revenue and net worth are each less than \$1.5 million. Each entrepreneur was also required to demonstrate that he or she did not own more than 250 apartment units, had managed more than 50 units during the three years preceding the date of the application to the program, and had access to \$50,000 in cash for initial operating expenses.

We randomly selected the names of 15 of 22 entrepreneurs who were awarded clusters of City-owned property based on the May 1, 1997 RFQ. We asked HPD and Partnership officials to provide us with the applications and supporting documentation that were submitted by these 15 entrepreneurs in response to the RFQ. HPD officials provided us with summary information on the 15 and told us to contact the Partnership for additional information. Partnership officials provided files for 14 of these entrepreneurs; they stated that the remaining entrepreneur had met the criteria from a previous RFQ and had thus been "rolled-over" to this round.

We reviewed the 14 provided files and found that HPD had not adequately monitored the RFQ process, as required, and therefore could not be assured that the Partnership had performed a comprehensive and accurate evaluation of the entrepreneurs to the May 1, 1997 RFQ. HPD officials relied upon the



---

recommendations of the Partnership. However, we found that the documentation provided to HPD and to us was incomplete. For example, we found that the 14 files provided to us by the Partnership did not contain all documents, such as verification of the number of units owned, the number of units managed, and background checks, that were required to support the selection of the successful respondents. Moreover, HPD officials could not provide the missing information. In the absence of sufficient documentation, we could not determine and HPD cannot be assured that these 14 entrepreneurs, and the one entrepreneur whose qualifications were rolled-over, had met the criteria in the May 1, 1997 RFQ. For one of the 14, for which sufficient information was available, we determined that an entrepreneur had not met the criteria established in the RFQ. This respondent was not a resident of New York City, and did not have a business with gross revenue of more than 75 percent from the target area, as required.

As indicated previously, to qualify under the May 1, 1997 RFQ, entrepreneurs must generate at least 75 percent of their gross revenues from targeted neighborhoods over the prior three years. However, we found that the Partnership uses the number of units owned by an entrepreneur rather than the amount of income generated by the units when determining whether the 75 percent threshold was met by an applicant. In addition, the Partnership does not use a consistent approach when calculating the threshold. For some entrepreneurs, the principals' units were included in the determination for the 75 percent threshold, while in other cases they were not. Moreover, neither the Partnership nor HPD had verified that the applicants were actually the owners or managers of all the dwelling units they had identified in support of their applications. Therefore, HPD cannot be assured that these respondents hold the required experience to take on the management of these buildings.

Because of the procedural weaknesses we found, there is a risk that entrepreneurs who were selected to participate in the NEP had not met the criteria stated in the RFQ and therefore were not qualified.

---

## **Recommendations**

3. Ensure that Partnership officials perform a comprehensive evaluation of RFQ entrepreneurs, and that all entrepreneurs meet requirements of the specific RFQ for which they are selected.
4. Require that adequate and complete documentation pertaining to the evaluation and selection of entrepreneurs be maintained by HPD and the Partnership.

(In response to recommendations 3 and 4, HPD officials stated that HPD, in conjunction with the Partnership, performs a thorough review of prospective NEP entrepreneurs and that all reasonable steps are being taken to review application packages. Additionally, according to HPD officials, the MOU requires adequate and complete documentation concerning the evaluation and selection of entrepreneurs.)

Auditor's Comment: As explained on pages 11 and 12 of our report, we found that HPD had not adequately monitored the RFQ process.

In one case, an entrepreneur selected by the Partnership had not met the criteria established in the RFQ. In other cases, the files provided to us by the Partnership did not contain all documents required and necessary to support the selection of entrepreneurs. In the absence of sufficient documentation, HPD lacks assurance that entrepreneurs are qualified.

5. Calculate the 75 percent threshold based on dollars earned rather than on the number of units owned or managed as required by the RFQ.

(According to HPD officials, the threshold criteria for the Round V RFQ issued on December 13, 1999 stated that the business must have "generated at least 75% of its gross revenues from Target Neighborhoods during the last 3 years.")

---

### **Recommendations (Cont'd)**

Auditor's Comment: The language contained in the December 1999 RFQ is identical to the language contained in the May 1997 RFQ noted in our report. As stated on page 12 of our report, the Partnership incorrectly used the number of units owned, rather than gross revenue, when determining whether entrepreneurs met the 75% eligibility threshold. In our judgment, HPD officials need to clarify the 75% eligibility threshold and take steps to ensure the Partnership correctly applies it in determining the eligibility of entrepreneurs.

6. Ensure that revenues from principals are included in the calculation of gross revenue as required by the RFQ.

(HPD officials agreed with this recommendation.)

---

## **Sale of City-Owned Buildings**

In a form letter HPD sends to tenants interested in applying for the TIL program, HPD indicates that buildings in that program are for sale to their tenants for a price of \$250 per dwelling unit. In addition, the NRP manual requires HPD to sell buildings in that program to not-for-profit organizations at a price of \$1 per building. For NEP, the only program we audited that sold properties to for-profit entrepreneurs, the Memorandum of Understanding (MOU) between the City, acting through HPD, and the Partnership entitles HPD to sell clusters of buildings to the entrepreneurs for up to \$2,500 per dwelling unit. HPD retained the right to modify the selling price from time to time for the entire program or for any individual project.

For NEP, we randomly sampled 16 building clusters, consisting of 132 buildings, with a total of 1,402 dwelling units. We found that HPD sold each of these buildings to for-profit entrepreneurs for the minimal price of \$1 per building. In fact, notwithstanding the MOU, HPD officials stated that they have never charged for-profit entrepreneurs more than \$1 for a building since the inception of the NEP program. Moreover, HPD officials could not document that they had modified the MOU to reflect a sales price of \$1 per building, nor could they document that they had ever modified the selling price from time to time. Had the 132 buildings in our sample (which had an aggregate market value of \$21.2 million at the time of disposal) been sold for \$2,500 per dwelling unit, HPD would have realized a total of \$3,505,000 in revenue, instead of the \$132 actually paid by the for-profit entrepreneurs for the purchase of these buildings. We question HPD's price of \$1 per building for the sale of NEP properties to for-profit entrepreneurs. Considering that it charges tenants in the TIL program \$250 per dwelling unit, we believe it

---

would not be unreasonable for HPD to charge the for-profit entrepreneurs in the NEP program up to the \$2,500 maximum per dwelling unit allowed by the MOU. In addition, by charging a minimal sale price of \$1 per dwelling unit, HPD is foregoing income, which in the case of our sampled clusters, amounted to over \$3.5 million. The additional income earned from the sale of buildings for \$2,500 per unit could be used to fund the rehabilitation of other City-owned buildings, thus providing more affordable and decent housing to City residents.

HPD representatives said that the buildings were sold for \$1 each because it did not make sense nor was it their intent to sell the buildings for \$2,500 per dwelling unit since HPD subsidizes each cluster's development. Moreover, they said that requiring for-profit entrepreneurs to pay a \$2,500 sales price per dwelling unit would obligate the for-profit entrepreneurs to maintain larger mortgages and higher development costs. However, we found that each entrepreneur receives a development fee (i.e., profit). HPD's records indicated that the development fee for each of the clusters in our sample was greater than the potential cost of the buildings, even if they had been sold for \$2,500 per unit. For example, the development fee for one of the clusters in our sample, consisting of 22 buildings with a total of 132 dwelling units, was \$723,000. Since entrepreneurs are expected to pay the disposition price for their cluster out of the development fee, the \$723,000 development fee was more than enough to cover the potential sales price of \$330,000 (132 dwelling units at \$2,500 per unit). In addition, for-profit entrepreneurs are entitled to receive other fees from HPD.

### **Recommendations**

7. Consider selling NEP buildings for \$2,500 per dwelling unit, as permitted in the MOU.
8. In those instances where NEP buildings are not sold for the maximum price per dwelling unit permitted in the MOU, document the determination of the selling price.

(In response to recommendations 7 and 8, HPD officials stated they would modify the Memorandum of Understanding to reflect the \$1 per building sales price.)

---

## Absence of Formal Agreements

NRP is governed by Chapter 30 of the Rules of the City of New York. These rules govern the procedures for: (1) selecting buildings and sponsors for the program; (2) providing subsidies for projects; (3) project operation; (4) determination and establishment of rents; and (5) providing notices to tenants. However, Chapter 30 does not promulgate rules or specific roles and responsibilities that entities such as the Local Initiatives Support Corporation (LISC) or the Enterprise Foundation (Enterprise) are to follow in managing NRP or assisting in disposing of City-owned property.

We found that HPD formed partnerships with LISC and Enterprise to dispose of City-owned buildings under NRP. However, there is no written agreement, similar to the MOU for NEP (see page 11), between the City and LISC or between the City and Enterprise. Such an agreement should set forth the understanding of the parties concerning their joint participation in the NRP, and should establish the specific responsibilities of LISC and Enterprise in managing the disposal and rehabilitation of City-owned property. HPD officials told us that they prepared a draft MOU early in 1999, but have taken no further action to finalize it. The absence of such a formal agreement increases the potential for inconsistencies in disposing of City-owned property under NRP.

### Recommendation

9. Formalize the relationship between the City and LISC/Enterprise that allows LISC/Enterprise to assist the City in the disposition and rehabilitation of City-owned property. At a minimum, such agreement should be in the form of a Memorandum of Understanding.

(HPD officials stated they would revise and execute the draft Memorandum.)

---

## Solicitation of Contractors

The purpose of the City's Procurement Policy Board Rules (Rules) is to ensure the fair and equitable treatment of all persons who deal with the City's procurement system and to foster effective broad-based competition among all segments of the vendor community. Section 3-02 (c) (e) (2) of these Rules defines bidding time as the period between the date of public advertisement of the Invitation for Bids and the time and date set for receipt of the bids. Moreover, the Rules require that the solicitation for procurement made by competitive sealed bid be published at least once in the City Record, a daily newspaper for advertising City contracts, and that the bidding time not be fewer than 15 calendar days before the bid opening date for each primary contract that is equal to or greater than \$15,000. Section 3-05 (a)

---

states that sole source procurement shall be used only when there is just one source for the required good, service or construction task. In addition, the 1989 report by the Governor's Task Force on Organized Crime concerning corruption and racketeering in the New York City construction industry recommended that every effort should be made to foster and encourage as much business competition as possible in the construction industry, because increased competition reduces the opportunities to engage in collusive bidding and other fraudulent practices.

HPD contracts with construction managers (CMs) to manage the rehabilitation of buildings in the TIL program. The management responsibilities of these CMs include soliciting primary contractors to perform rehabilitation on TIL projects. We reviewed the solicitation of primary contractors for a random sample of 30 buildings that had been rehabilitated under the TIL program. We found that for 12 of the 30 projects, contractors were given fewer than 15 days in which to submit their bids. Contract files for another 10 of the 30 projects did not contain information that would allow us to determine whether contractors had been given the 15 days required by the Rules.

HPD officials told us they do not require CMs to comply with the minimum 15-day bidding time requirement when soliciting bids, because the CMs are not contracting directly with the City but rather with a third-party contractor. Instead, CMs are required to comply with the terms of their individual contracts with HPD. These contracts do not require a minimum length of time between the first date of advertisement of the solicitation of bids and the bid opening date; they require the CMs to advertise in the City Record for just five consecutive business days for the solicitation of sealed bids for each primary contract that is equal to or greater than \$15,000. In our judgment, it is in the best interest of the programs for HPD to increase the minimum period of time for contractors to respond to bid solicitations, which should be comparable to the time period required by the Rules. We believe such increased time could generate more competition among contractors.

We also reviewed the solicitation of contractors for a random sample of 16 clusters of buildings that had been rehabilitated through NEP. Although HPD officials provided rehabilitation files for the 16 projects, seven files contained no solicitation information. Hence, we were unable to verify that HPD benefitted from adequate competition among contractors. For seven of the remaining nine files, the information showed that solicitations were sent to two to six contractors. Solicitations for the two remaining projects were sole-sourced. We believe that the solicitation of only a few contractors limits competition and prevents the City from obtaining the best value contract.

---

We also reviewed the solicitation of contractors for a random sample of 20 clusters of buildings that had been rehabilitated through NRP. We found that selection of contractors for the rehabilitation of 3 of the 20 building clusters had been sole-sourced to specific contractors. Moreover, solicitations were sent to three to five contractors for each of the 17 remaining clusters of buildings. As a result, bids were submitted by just two to five contractors for each project.

Entrepreneurs and representatives for the not-for-profit organizations are allowed by HPD to use a limited solicitation process which requires them to send solicitations to from three to five names on a list of pre-qualified contractors when selecting contractors to rehabilitate buildings under NEP and NRP. However, we believe that HPD should solicit additional contractors to provide increased competition. An HPD official indicated that its new goal was to solicit five contractors.

HPD's practices limit the time period during which contractors can respond to Invitations to Bid as well as the number of contractors that are solicited to bid. We found that generally the same pool of contractors bid on these projects. As a result, HPD's practices limit competition, and it is generally accepted that limited competition increases the cost of rehabilitation.

### **Recommendations**

10. Amend the terms of the individual contracts with construction managers to require that construction managers allow contractors a minimum period of time comparable to the 15 days allowed by the New York City Procurement Policy Board Rules in which to respond to solicitations for the TIL program.

(HPD officials stated that the procurements undertaken by the Construction Management (CM) firms are subject to the terms of the CM contract with HPD rather than the City's PPB Rules.)

Auditor's Comment: We recognize on page 17 of our report that the CMs under contract with HPD are not required to comply with the City's PPB Rules requiring that bidding time not be fewer than 15 calendar days. However, in our judgment, if HPD were to increase the minimum period of time that its CMs allow

---

### **Recommendations (Cont'd)**

contractors to respond to bid solicitations, in conformity with the PPB requirement, more competition among contractors could be generated, which in turn could lower the costs of rehabilitating TIL projects.

11. Solicit a greater number of qualified contractors to bid on NEP and NRP projects.

(HPD officials stated their belief that the current guideline of five contractors for a procurement is sufficient to maintain competition and ensure responsiveness of bidders.)

Auditor's Comment: We acknowledge that the current guideline of five contractors for a procurement is an improvement over prior procedures, whereby as few as two contractors were solicited. In this regard, we believe it is incumbent upon HPD officials to monitor the response rate to bid solicitations, to ensure that a sufficient level of competition is actually achieved.

---

## **Length of Time to Rehabilitate Projects**

The contract between the CMs hired by HPD to manage building rehabilitations under the TIL program and the primary contractors gives the contractors from 7 to 12 months to complete the rehabilitation of each building. NRP and NEP guidelines allow contractors approximately 12 to 24 months, or an average of 18 months, to rehabilitate each cluster of buildings assigned to their programs. We found numerous instances where buildings were not completely rehabilitated within the required time frames, as follows:

- ! We found that 8 of the 30 TIL program rehabilitation projects that we reviewed took from 13 to 33 months to be completed.
- ! We found that it took an average of 25 months to rehabilitate each of the 16 clusters of buildings in NEP. Some clusters were rehabilitated in as few as 12 months while others took as much as 37 months.
- ! We found that the rehabilitation of 12 of the 20 clusters of buildings in our sample of NRP rehabilitation projects took from 19 to 32 months to be completed.

We were unable to determine the specific causes for delays for each project that did not meet the required time frames because information of this nature



---

was not readily available. However, in response to our audit findings, HPD representatives told us that the buildings being rehabilitated are occupied by tenants who often must be relocated, thus delaying the start and the completion of the rehabilitation. HPD representatives work with entrepreneurs, tenant associations and not-for-profit groups to relocate tenants to City-owned and/or private apartments. Tenants are either relocated to other apartments within the building that is being rehabilitated or to apartments within other buildings. Delays occur in relocating some tenants either because the tenant refuses to move or because an acceptable apartment cannot be obtained in a timely manner.

We interviewed five CMs and officials from the TIL, NEP and NRP programs. They told us that a relocation plan for each building or cluster of buildings is prepared after the rehabilitation contract is signed. We believe that the plan should be initiated when the building is approved for rehabilitation rather than when the rehabilitation project has been bid and a contract signed. This practice would allow more time to identify adequate alternative housing for tenants who must be relocated. Moreover, CMs told us that they occasionally identify vacant apartments in buildings that are located in other HPD programs within DAMP and DPM. However, without coordination between the CMs and the various HPD programs, the CMs do not know whether those vacant apartments are already reserved for other relocation projects in other programs. They suggest that HPD representatives improve their coordination and communication so that they are aware of all available vacant apartments that could be used to relocate tenants. HPD representatives told us that they have reorganized some of their departments and that DAMP and DPM now report to one deputy commissioner. This reorganization should improve coordination and communication.

HPD representatives also stated that when the completion of one project is delayed, it delays the start of other projects. Delays also increase the total cost of project rehabilitation because additional expenditures must then be incurred for security to protect the project that is being rehabilitated.

---

## **Recommendations**

12. Actively monitor all rehabilitation projects to help ensure that the contractors are meeting the time frames specified in their contracts with the CMs. Ensure that the reasons for delays are documented.

(HPD officials stated that TIL program staff meet bi-weekly with HPD's Division of Architecture, Construction and Engineering who oversee the rehabilitation work. The officials also stated that they continue to implement systems to ensure that projects are kept on schedule.)

Auditor's Comment: In implementing systems to ensure projects are kept on schedule, we encourage HPD officials to include provision for documenting the reasons for delays in the rehabilitation of TIL, NEP and NRP buildings.

13. Pre-plan and coordinate efforts among various HPD departments and not-for-profit organizations to identify available City-owned and privately-owned dwelling units for use as temporary relocation units so that rehabilitation can proceed on schedule.

(HPD officials stated that they devote considerable effort, staff resources and time in both DAMP and DPM to managing the relocation process effectively. The officials further stated that they work with non-profits and entrepreneurs to identify units within their portfolios. The officials also noted that, as they successfully dispose of City-owned buildings, they reduce the availability of relocation resources.)

Auditor's Comment: We acknowledge HPD's efforts to manage the relocation process effectively. However, we restate our belief that the relocation process must start at the time a building is approved for rehabilitation, to increase the likelihood that rehabilitation projects will not be delayed pending the identification of suitable apartments for tenants needing relocation.

---

## Tax Compliance

The City imposes real estate taxes and water and sewer taxes on all real property located in New York City. However, the law provides for, and HPD administers through its Tax Incentive Office, tax exemptions and abatements for certain properties that qualify. Properties in the TIL program generally qualify for tax exemptions but can also obtain tax abatement if the owners apply for the abatement. Properties in the NEP and NRP generally qualify for tax abatement. Tax exemption relieves a property owner from the increase in assessed value which would otherwise occur as a result of significant renovation work. Abatement reduces existing taxes by a percentage of the cost of the work performed. The City Department of Finance (Finance) may revoke tax exemptions and abatements if real estate taxes and water and sewer charges remain unpaid for at least one year, or three years, depending on the type of property. In addition, Finance can also start foreclosure proceedings or place a tax lien on the property and then sell the lien to a third party.

We evaluated the payment history of the 258 formerly City-owned properties (252 buildings and 6 vacant lots) that had been in our three samples that were sold via the TIL, NEP and NRP programs. We found that as of December 2, 1999, a total of 65 of these properties owed past-due real estate taxes, and 141 of the 258 also owed past-due water and sewer charges, which had been incurred since the City disposed of them. The past-due taxes and charges totaled \$2.6 million. For example, we noted the following:

- ! Ten of the 30 tenant associations in the TIL program owed a total of \$64,855 in real estate taxes and nine of the 30 owed a total of \$33,623 in water and sewer charges.
- ! Thirty-four of the 90 buildings that were sold under the NRP owed a total of \$1.5 million in real estate taxes, while 48 of them owed a total of \$288,000 in water and sewer taxes.
- ! Twenty-one of the 132 buildings in NEP owed a total of \$164,266 in real estate taxes, and 85 of the buildings owed a total of \$543,064 in water and sewer taxes.

HPD officials told us that properties sold through NEP and NRP may have not yet received or applied for their tax abatements. When the owners of these properties apply for the tax abatements, Finance will retroactively credit them, thereby eliminating a majority of the unpaid balances. However, the owners of the buildings that were sold through NEP and NRP still must pay water and sewer charges. HPD does not provide a dedicated representative to assist TIL building owners in applying for tax abatements, as it does for the NEP and NRP programs. Because of the tax delinquency and lack of payment of water and sewer charges, there is a risk that these buildings may be returned to City ownership or may be disposed of through

---

third-party actions if the City places a tax lien on the property. If this occurs, the goal of HPD's "Building Blocks" initiative will be thwarted.

### **Recommendation**

14. Offer the necessary technical assistance to building owners and tenant associations to help ensure the full and timely payment of taxes, including:

- ! ensuring that owners who obtained their properties through NEP and NRP apply for tax abatements in a timely manner.
- ! informing tenant associations in the TIL program about the various tax abatements and exemptions that are available to them. Assist the tenant associations in applying for available tax abatements and exemptions.

(HPD officials stated that the privatization effort undertaken through DAMP relies upon owners who are able to act responsibly. The officials noted several of their initiatives: in NEP, they underwrite the cost of the tax abatement filing fee into the project; the Tax Incentive Division offers seminars to non-profits on applying for a tax abatement; and, they encourage new owners to complete the tax exemption application immediately upon title transfer.)

Auditor's Comment: While we recognize HPD's efforts regarding tax compliance, we encourage officials to proactively assist property owners in the NEP, NRP and TIL programs to pay their taxes and avoid tax delinquency.

---

---

# Major Contributors to This Report

---

---

Kevin McClune  
Howard Feigenbaum  
Walter Mendelson  
Stu Dolgon  
Kenrick Sifontes  
Tenneh Blamah  
Legendre Ambrose  
Alina Mattie  
Donna Sylvester  
Robert Tabi  
Geraldine Walker  
Paul Bachman



**DEPARTMENT OF HOUSING PRESERVATION  
AND DEVELOPMENT**

RICHARD T. ROBERTS, Commissioner

**Office of Administration and Technical Services**

100 GOLD STREET, NEW YORK, N.Y. 10038

SYLVIA MARAIA, Deputy Commissioner

May 1, 2000

Stuart Dolgon  
Principal Auditor  
Office of the State Comptroller  
270 Broadway - 19<sup>th</sup> Floor  
New York, New York 10007

**Re: Audit of HPD's Rehabilitation and Disposal of City-Owned Buildings  
Audit Number : 99-N-5**

Dear Mr. Dolgon:

The following represents the Department of Housing Preservation and Development's response to your audit of the Rehabilitation and Disposal of City-Owned Buildings.

If you have any additional questions please call Deputy Commissioner Sylvia J. Maraia at 863-6600.

Thank you.

Sincerely,

Richard T. Roberts



**Breaking New Ground**

[www.ci.nyc.ny.us/html/hpd](http://www.ci.nyc.ny.us/html/hpd)

---

**HPD RESPONSE TO THE NYS COMPTROLLERS AUDIT REPORT OF THE  
REHABILITATION AND DISPOSAL OF CITY-OWNED PROPERTY**

Timeliness of Privatization of City-Owned Buildings

Recommendation 1: Develop a formal written strategic plan for the disposition of City owned property. Include information related to the various stages of disposition and establish benchmarks to monitor the length of time the property is owned by the City.

**Response:**

**HPD's overall plan is to dispose of every building in the Agency's inventory. Our disposition strategy is the implementation of the specific DAMP programs. The method by which buildings enter these programs is managed through a process of close cooperation with the Division of Property Management (DPM) and the Office of Planning and Intergovernmental Affairs.**

**HPD selects buildings for disposition based on the physical condition and characteristics of the buildings, a comprehensive neighborhood planning strategy called clustering, and the tenancy of the buildings. These guidelines take precedent over the length of time a building is in City-ownership. We focus on physical conditions and neighborhood planning to dispose of City-owned property most efficiently, ensure safe living conditions for tenants, and create neighborhoods that can sustain the rehabilitated buildings in the future to avoid another cycle of abandonment.**

*Physical Condition:* Some buildings that came into City-ownership in later years were in worse physical condition than those acquired earlier. These buildings will require immediate work replacing critical systems to ensure the building's integrity and safe living conditions for tenants. In such cases, we prioritize, where feasible, to rehabilitate and sell those buildings which are in worse condition, first. Additionally, the size of a building will impact its disposition plan; larger buildings with more tenants usually represent a more pressing need for disposition.

*Clustering:* We select groups of buildings in targeted neighborhoods instead of individual buildings scattered throughout large geographical areas. This has a greater impact on neighborhoods and also aids temporary relocation by providing more potential relocation units. It is also a more efficient rehabilitation process to work on a group of buildings at one time, through one owner.

*Tenancy:* In some of our programs tenants can self select to enter homeownership programs (TIL and TOP). We cannot control which buildings will select these options.

**While it is true that length of time will impact operating expense for an individual building, the aggregate operating budget is better served by focusing on buildings in distress for rehabilitation and sale.**

---

Recommendation 2: Develop a system to adequately track the movement and status of all buildings that are in the City's inventory.

**Response:**

**Both DAMP and DPM have adequate systems in place to track the movement and status of buildings in City ownership. Monthly reports provide listings of buildings that are moved from DPM to DAMP and conversely, from DAMP to DPM. More narrative information related to historical movement of buildings between DAMP and DPM is not critical to the disposition effort. Current conditions are the basis of decision making and are not reflected in the historical data. We will endeavor to ensure that DAMP program staff is aware of where such information is located.**

Selection of NEP Entrepreneurs

Recommendation 3: Ensure that Partnership officials perform a comprehensive evaluation of RFQ entrepreneurs, and that all entrepreneurs meet the requirements of the specific RFQ for which they are selected.

**Response:**

**The Agency, in conjunction with the Partnership, performs a thorough review of applicants through site visits, verification of data, and reference checks. The Agency believes that all reasonable steps are being taken to review application packages.**

**As required in the Memorandum of Understanding that HPD has with the New York City Housing Partnership, the Partnership submits a list of all the applicants to us within two weeks after the deadline for RFQ's. The Partnership reviews the applications of all the respondents for initial threshold criteria. They then forward to HPD a report indicating which applicants passed threshold and why the others did not. The Partnership, in consultation with HPD, then investigates the references of the final applicants and makes its recommendations to HPD for final designation. The submissions include any rating sheets and/or any supporting documentation to ensure adequate review.**

Recommendation 4: Require that adequate and complete documentation pertaining to the evaluation and selection of entrepreneurs be maintained by HPD and the Partnership.

**Response:**

**As stated in the MOU, we currently require that complete documentation on the evaluation and selection process be maintained by HPD and the Partnership**

Recommendation 5: Calculate the 75 percent threshold based on dollars earned rather than on the number of units owned or managed as required by the RFQ.

**Response:**

**In the Round V RFQ for NEP issued on December 13, 1999, the threshold criteria for Neighborhood Based Private, For Profit Business state that the business must have**



---

**“generated at least 75% of its gross revenues from Target Neighborhoods during the last 3 years.”**

Recommendation 6: Ensure that revenues from principals are included in the calculation of gross revenue as required in the RFQ.

**Response:**

**The RFQ states that the Threshold Criteria applies to the principal or principals collectively, holding majority ownership and control of at least 51%. Through the monitoring process described above, we will ensure that this is followed.**

Sale of City-Owned Buildings

Recommendation 7: Consider selling the NEP buildings for \$2500 per dwelling unit, as permitted in the MOU.

**Response:**

**Buildings sold through NEP are subject to restricted use and income, due to the sources of financing. The rental income does not generate sufficient funds to support private financing for rehabilitation and could not support the additional burden of a \$2,500 per unit sales price. The level of City subsidy required means that a larger sales price is merely self-financed. However, the auditors suggested earlier that we modify the Memorandum of Understanding to reflect the \$1 per building sales price, and we agreed.**

Recommendation 8: In those instances where NEP buildings are not sold for the maximum price per dwelling unit permitted in the MOU, document the determination of the selling price.

**Response:**

**We will modify the Memorandum of Understanding to reflect the \$1 per building sales price.**

Absence of Formal Agreements

Recommendation 9: Formalize the relationship between the City and LISC/Enterprise that allows LISC/Enterprise to assist the City in the disposition and rehabilitation of City owned property. At a minimum, such formalization should be in the form of a Memorandum of Agreement.

**Response:**

**We concur and will revise and execute the draft Memorandum.**

---

Solicitation of Contractors

Recommendation 10: Amend the terms of the individual contracts with construction managers to require that construction managers allow contractors a minimum period of time comparable to the 15 days allowed by the New York City Procurement Policy Board Rules in which to respond to solicitations for the Tenant Interim Lease Program.

**Response:**

**The contract between the City and the Construction Management(CM) firms outlines the terms of the solicitations. The procurement instrument which is subject to PPB guidelines is the Request for Proposals issued by the City for the Construction Management firms. The procurements undertaken by the Construction Management firms are subject to the terms of the CM contract rather than the PPB Rules. The City is not a party to the contracts between the CM's.**

Recommendation 11: Solicit a greater number of qualified contractors to bid on NEP and NRP projects.

**Response:**

**The Agency believes that the current guideline of five contractors for a procurement is sufficient to maintain competition and ensure responsiveness from bidders. The initial projects undertaken in NEP and NRP were sole source negotiations. Upon review, the Agency determined that introducing a bid process was preferable to sole source negotiations in achieving competitive pricing in a reasonable time period. We changed both NEP and NRP to call for a prequalified shortlist of bidders.**

Length of Time to Rehabilitate Projects

Recommendation 12: Actively monitor all rehabilitation projects to help ensure that the contracts are meeting the time frames specified in their contracts with the CM's. Ensure that the reasons for delays are documented.

**TIL program staff meet bi-weekly with HPD's Division of Architecture, Construction and Engineering who oversee the rehabilitation work. We continue to implement systems to ensure that projects are kept on schedule.**

Recommendation 13: Pre-plan and coordinate efforts amongst various HPD departments and not-for-profit organizations to identify available City-owned and privately-owned dwelling units for use as temporary relocations units so that rehabilitation can proceed on schedule.

**Response:**

**The Agency devotes considerable effort, staff resources and time in both DAMP and the Division of Property Management to managing the relocation process effectively. Furthermore, we work with non-profits and entrepreneurs to identify units within their**

---

**portfolios. As we continue to successfully dispose of City-owned buildings, we reduce our relocation resources because there are fewer vacant units in our inventory. We believe that relocation will continue to be the biggest challenge in undertaking these projects and appreciate the Comptroller's recognition of the difficulties in identifying relocation resources.**

Tax Compliance

Recommendation 14: Offer the necessary technical assistance to building owners and tenant associations to help ensure the full and timely payment of taxes, including,

- Ensuring that owners who obtained their properties through NEP and NRP apply for tax abatements in a timely manner.
- Informing Tenant Associations in the TIL Program about the various tax abatement and exemptions that are available to them. Assist them in applying for available tax abatements and exemptions.

**Response:**

**We concur with the Comptroller's assessment that tax payments are an important indicator for the Agency to monitor, however, it is important to note that the privatization effort undertaken through DAMP relies upon owners who are able to act responsibly. In NRP, we underwrite the cost of the tax abatement filing fee into the project. Our Tax Incentive Division offers seminars for non-profits on applying for J-51 and 420-c. We encourage the new owners to complete the tax exemption application immediately upon title transfer. In NEP, we underwrite the cost of a J-51 expeditor into the project.**

**Tenant Associations who choose to apply for J-51 hire their own expeditors. Additionally, once the buildings are sold, they are eligible for HDFC tax cap. This is an as-of-right cap and DAMP sends in the paperwork to the Department of Finance.**