

Date: December 1, 2008

From: James Betbeze

To: Larry Paul Manley, Executive Director
Texas Department of Housing & Community Affairs

Re: Failing Self-Help Housing Initiative

I. Introduction. This assessment was prepared at the request of Homero Cabello, director of the Office of Colonia Initiatives (OCI) to address the problems of the failing Self-Help Housing Initiative (SHHI) which was implemented in November 1996 in an attempt to deliver basic housing assistance to people of the *colonias* located along the Texas/Mexico Border in the counties of El Paso, Webb, Starr, Hidalgo and Cameron/Willacy. The objectives of the initiative were to: a) build affordable new homes in the target colonias, b) rehabilitate existing homes, c) convert contracts-for-deeds to traditional mortgages, and d) to provide families with technical assistance. Five non-profit organizations (NPOs) were awarded two-year contracts to fulfill these objectives. With only 7 months remaining of the contract, there is no question that the initiative is miserably failing to meet its goal of providing housing assistance to the residents of the colonias. The question we bring to you is whether to continue these contracts and attempt to make late course corrections, or to cancel the contracts and begin again. As the following analysis will demonstrate, it is my careful and considered opinion that the best course of action is to cancel the existing contracts, reformulate this initiative, and begin again. It should also be stated at the outset that this entire proposal is based on the premise that the public provisioning of what has been a traditionally

privately provisioned good is good thing¹. I believe that this program is ultimately about investing in the human capital of Texas, and that investment in the human capital of the state will lead to a rise in the capital stock of the state, which will, in turn, stimulate economic growth that will lead to an even higher standard of living for residents of the colonias (Miller *et al*, 2008, p. 21).

II. Major Issues. The problems that have plagued SHHI can be grouped into three areas: A) government failures, B) NPO failures and C) lack of stakeholder buy-in. In order to understand the assessment that lead to my final recommendation, these issues must be examined in more detail.

A. Government failures. Partnerships within governments, between governments and between governments and non-government agencies (NGOs) are still a relatively new phenomenon and so it is no surprise that many of the government failures stem from an unfamiliarity with the new world of networked public administration and contracts– an indirect approach to service delivery that requires a different approach and different skills than traditional methods (Goldsmith & Eggers, 2004, p. 6; Kettl, 2002, p. 53). OCI failed to establish good networks between municipal, state and federal government that would have facilitated the work of the NPOs. For example, disagreements between the various agencies and organizations and agencies over contract language and the failure to account for mandated environmental reviews delayed the start-up of the projects by almost 9 months. This lack of networks also highlighted the lack of flexibility that has so long characterized government work, but that is necessary for this new

¹ See Chapter 7 of *Public Finance and Public Policy* (Gruber, 2007, pp. 177-200) for a more complete discussion of determining when it may be beneficial for government to assist with the provision of private goods.

networked environment (Gulick in Denhardt, 2004, p. 46), and subsequently hindered the abilities of the NPOs to do their work.

Additionally, and perhaps most seriously, OCI did not engage in sufficient research and analysis of the targeted problem(s), nor did it complete any effective strategic planning as a means of properly beginning the service process by clearly defining the objectives (as limited by the resources available), and identifying the best means for achieving those objectives (Cohen & Eimicke, 1995, p. 196). This led to a contract process which, from drafting to selection and awarding, was seriously flawed. For example, most of the NPOs were too small to take on the goals of the initiative and most had had little direct housing-related experience. And, as mentioned earlier, disputes about contract language led to significant delays. Contracts do offer government the potential to achieve goals it might not be able to achieve on its own thereby increasing productivity (Klingner & Nalbandian, 2003, p. 102). But, unless the government agency is skilled in managing contracts, a new set of obstacles will arise. To overcome or prevent these obstacles, OCI needed another new skill set that includes, but is not limited to: the ability to properly draft contracts and clarify tasks, the ability to correctly assess the capabilities of contractors, and a clear understanding of the various government policies and regulations that might impact the work – for example, reimbursement procedures (Cohen & Eimicke, 2002, p. 147). Finally, all of these issues combined suggest that OCI has suffered from lack of effective leadership throughout this process. For, as Northouse states, “Leadership is a process whereby an individual influences a group of individuals to achieve a common goal

(2004, p.3). Unfortunately, it does not appear that OCI assumed such a role, and instead left the NPOs to their own devices. But, the blame cannot be entirely laid at the feet of government.

B. NPO failures. The primary weaknesses of the NPOs were poor leadership that led to over-ambitious goals, based upon their size and lack of relevant experience; poor administrative management, as evidenced through the lack of the necessary infrastructure to meet the goals (Greene in Denhardt & Denhardt, 2006, p. 115); and poor financial management, as shown by their non-compliance with government regulations with regards to record keeping (Denhardt & Denhardt, 2006, pp. 116-117).

C. Lack of stakeholder buy-in. Both government and the NPOs failed to consider the importance of stakeholder buy-in, generally accepted as a necessary component of successful public projects in this time of shared governance when moving forward with SHHI. As Stivers argues, governance is not just about exercising authority over people, and that it must incorporate a social reality of interconnectedness between citizens and their government (2008, pp. 101-102). In addition to not collaborating with the communities of the colonias before embarking on the development of SHHI, the program has displayed few attempts to collaborate now that the project has been initiated. Furthermore, it appears that both OCI and the NPOs displayed an alarming lack of cultural competency in failing to realize the significance of cultural factors and the way these would impact buy-in (E.g. the unwillingness of many colonias residents to convert their contract-for-deed into a traditional mortgage). This is particularly egregious when you

consider that over 25% of the population of Texas is Hispanic (Masci and Greenblatt, 2003, figure, p. 224), and that the NPOs contracted had been founded to specifically work with Hispanic populations. As Mitchell (2007) writes, “cultural competency presents an opportunity to address the incomplete and often times inaccurate public services and public programs provided to minority populations. A focus on cultural competency increases the relevancy of a public agency’s administration, services and programs” (p. 622, emphasis mine).

III. Option 1: Capacity building. One option to consider is to continue working with the NPOs who were awarded the original contracts and provide them the assistance necessary to meet the objectives of the SHHI initiative.

A. Capacity building of NPOs. Surprisingly, it appears that no one considered the roadblocks that would arise from a lack of adequate financing. Most of the NPOs did not have the capital to cover expenses up front, yet most of the monies devoted to the initiative were only available through a reimbursement process that entailed approvals and transfers from county to state to federal governments. Furthermore, the NPOs sought to use funding for unallowable expenses such as administrative costs such as salaries, operating costs such as those incurred in attempts to borrow interim funding, and applying the funds to other projects not directly part of the proposals submitted for the SHHI. In order to solve this problem, OCI would have to negotiate with all levels of government (but most especially the federal government) to change the restrictions on Community Development Block Grant Funding, or provide state funds to directly cover the up-front costs of the NPOs.

The proposals of the NPOs were also based on the assumption of obtaining funding from other sources, yet they had failed to raise these funds. In order to solve this problem, OCI would have to engage in helping the NPOs raise funds on their own – something not very practical in light of the amount of funds needed, the short time frame in which the money must be raised, and the complete lack of experience OCI holds in charitable fundraising. As Cabello himself stated “we picked the wrong source of funding – CDBG money’s not flexible enough” (Varley, 1998, p. 5). Needless to say, Cabello’s statement does point to an error on the part of OCI to develop a proper understanding of their funding source, but this will be discussed later.

More importantly however, aside from funding issues, the small size of most of the contractors means that the NPOs lack the infrastructure in staffing and other resources to handle the scope of the SHHI. Correction of this would require a significant infusion of money and other resources, and this would in turn result in a significant drain on OCI’s resources.

B. Better oversight of and education for the NPOs. As has often been noted in the non-profit world, many non-profits have been started and are run by people with high ideals, much passion, and tremendous commitment to the cause(s) they serve, but rarely do these individuals bring good management and/or business skills to the table (Greene, 2001, p. 1; Kong, 2007, p. 727; Lohmann, 2007, pp. 440-441). Furthermore, a major tenet of New Public Management is accountability. As public administration adopts an operational model that is based more and more upon private enterprise models, this has become increasingly

important. This has been exacerbated by the fact that the actual service delivery is now at the end of increasingly lengthy “chains of delegation.” Such a long distance makes oversight difficult, but all the more necessary (Lynn, Jr., 2006, p. 143.).

Some actions that would help remediate this would be:

- 1. Budgeting Training.** For an initiative such as this, performance budgeting would appear to be the best approach. OCI should provide education to the NPOs on how to construct an effective performance-based budget, that is, one based on strategic planning and performance measurement (Lee *et al*, 2004, p. 124). Although time consuming, this method of budgeting has the advantage of helping to keep the organization focused on its mission, its goals *and* its objectives.
- 2. Proper Accounting.** Some of the centers had failed to engage in proper accounting procedures (e.g. mixing funds from different sources allocated for different programs). Training on accepted accounting standards as established by the Federal Accounting Standards Advisory Board would be essential, both to ensure the NPOs were able to continue to access government monies, and to aid OCI in the ability to provide proper oversight and to hold the NPOs accountable in a way that would meet public standards designed to guard against fraud (Lee *et al*, 2004, pp. 364-366).
- 3. Mission-shift.** Several of the NPOs had failed to stay on track with the established goals of the initiative and had begun to branch out and use funding for other programming, apparently not realizing the problem with this course of action. As mentioned in the previous section, education on the

necessity of the appropriate use of funding would be necessary. However, it appears these NPOs would also benefit from help with strategic planning.

For, when “goal setting, performance assessment and management systems are weak,” unplanned outcomes are more likely (Copestake, 2007, p. 25).

C. Assessment: Although some of these recommendations (the education/training and oversight) would not require a large outlay of resources on the part of OCI, several other issues, most notably the lack of capacity on the part the NPOs would require a significant commitment of time, resources and funding that it would almost seem to defeat the purpose of contracting out this initiative. With this much direct involvement required, one could make a strong argument that OCI should just assume responsibility for the initiative itself. This would, in turn, present a set of problems that the reason contracting out has developed as a tool of modern public administration. Some such reasons are increased efficiency, new innovations in service delivery, expertise, and reduced expenses (Van Slice, 2007, p. 157; Goldsmith & Eggers, 2004, pp. 66). For this reason, I do not recommend adopting a mid-course correctional approach. Instead, as outlined in the following section, I believe the best strategy would be to cancel the existing contracts with the current NPO partners and issue a new RFP.

IV. Option 2: Issue new RFP. As outlined in section III, some of the problems resulting in the failure of SHHI can be attributed to the current contractors. However, I believe these are not the root cause of the dilemma. I believe OCI made several critical errors in the initial development stages of SHHI that can only be effectively remedied by

beginning again. What follows are my recommendations as to what I feel is necessary for SHHI to fulfill its original mission.

A. Research and planning. Judging from information revealed in the case, OCI neglected to engage in sufficient research, which would hopefully have led to more effective planning, from the very beginning of the process. Goals were only broadly defined and there does not appear to have been a well-developed road map of how to proceed. It does not appear that OCI held a comprehensive understanding of either the physical conditions of the colonias or the socio-cultural landscape of colonias inhabitants, or what problems these factors might cause. Nor did it have many specific ideas of how the mechanics of the initiative might work and, instead, relied on the NPOs to develop these. Finally, OCI's lack of oversight signals an abrogation of responsibility that raises serious ethical concerns about oversight of the NPOs and accountability to the public. As Williams (in Geuras and Garofalo, 2005) warns, too often the reinvention movement of government, which includes networked government and contracting, runs the risk of government agents using these new methods to "circumvent accountability mechanisms," and avoid other problems that plague modern service delivery (p. 293).

1. Strategic planning to revise goals & objectives. The model I recommend is Total Quality Management (TQM) because it focuses on collaboration with suppliers, continuous analysis of process and close communication with "customers" (Cohen and Brand, 1993, in Cohen and Eimicke, 2002, p. 127). For example, although the initial objectives of the

SHHI were laudable, OCI failed to examine available resources and capacity levels (of both itself and potential contractors). When developing a new RFP, it is imperative that OCI examine the capacity of potential bidders before attempting to determine specific objectives. It could then tailor objectives to that which is possible given the capacity of the potential contractors.

2. Better understand current colonias conditions. Field research was lacking from the existing initiative. Before setting goals and objectives, OCI must examine the current physical conditions of the colonias being considered. Currently, 4 of the 5 colonias selected for home improvements are actually relatively well-off. Additionally, other colonias lacked the basic infrastructure to qualify for some of the programs (E.g. no water service prevented money being loaned for construction, renovation, or mortgages under existing state and federal regulations). This one example is a good argument to change objectives to include spending money on establishing plumbing and sewage systems before allotting funds to home improvement programs.

3. Adopt established best practices. The restrictive regulations at state and federal levels prevented the most ambitious of SHHI's goals from moving forward – converting contracts-for-deeds to traditional mortgages is not feasible since most of the colonias' residents cannot qualify for mortgages using the qualifiers set by the state and the federal government. Additionally, the NPOs cannot use the grant funds to pay for the cost of borrowing interim funds to pay for the mortgages. The initiative needs to adopt a more

entrepreneurial approach to meeting this objective. Luckily, a successful example can be found in the work done by the Neighborhood Housing Services of Chicago. This agency established a program that provided the home loans directly to the borrowers. Expenses were covered by funding from a variety of sources: fees from the origination and sales of loans, and base capital from major banks seeking to improve their reputation and qualify for federal incentives (Husock, 2002).² Eventually, the increasingly predatory practices of the banks (making sub-prime mortgages available), and decreasing regulation has led to a sustainability issue for the Chicago program. We can learn from that and avoid at least some of those potential problems by seeking funding, not from the banks, but from philanthropic foundations and even the federal government itself (new grant proposals properly written and submitted to the correct federal agencies would allow for the use of grant moneys to cover the initial loan costs until the system could “get rolling”). Another benefit of becoming a “direct lender” is that the NPOs could then set their own criteria for loan eligibility.

4. Coordination of efforts. When selecting contractors, OCI should ensure that there is a minimal amount of service-delivery overlap between the contractors. Rather than assigning specific colonias to different NPOs, it would be better to assign different contractors to specific objectives (that they are best qualified to handle) and let each contractor provide its services for all of the colonias chosen for the SHHI.

² This business model was identified prior to the current mortgage crisis and was intended to be a major component of my recommendations. As this memo is set in the time of the SHHI crisis, and as I address some of the problems this program later faced, I feel it is still valid to use for the purposes of this paper.

As mentioned several times, SHHI did not establish good networks when it failed to develop good communication lines between the various levels of government, the NPOs and the different agencies and organizations that ended up involved with the initiative. For example, if one were to use a modified version of the iron triangle model of the public policy process (Theodoulou and Kofinis, 2004, pp. 50-52), you can see that it is important that the various policy arenas (in this case the state government, the federal government and the NPOs) have strong connections and clear lines of communications. I propose that, as part of the planning process, an ad hoc committee be formed from representatives from these three arenas to explore possible conflicts and roadblocks that might arise due to existing policies and regulations enforced in each of the arenas. There are also other triangles that would warrant such committees. For example, the NPOs, the colonias and the municipal governments represent another triangle whose connections and lines of communication must be strengthened. If you adopt this recommendation, it would be both appropriate, and feasible, for OCI to manage these committees as part of its oversight role.

B. Selection of contractors. The current contractors have failed to meet the objectives of SHHI, primarily due to the fact that their capacity level does not match the targets set out in their proposals. Per section IV.A.1, OCI must first establish the basic capacity levels of potential contractors. This will allow for the formation of realistic objectives while also helping OCI select the best contractors for the job. However, it should be pointed out that, although this proposal recommends

canceling the existing contracts and issuing a new RFP, there is no reason the current contractors should be banned from this new bidding cycle. If they are able to develop more realistic proposals that meet the revised objectives of the recommended strategic planning, then they should be given due consideration for re-awarding the contracts. But, in addition to a better contractor selection process, other steps must be taken:

- 1. Clarify expectations of contractors (better contracts).** Much time was lost negotiating the existing contracts. Before finalizing the awarding of the contracts and beginning the initiative, this issue must be handled. When the finalists are selected, OCI must work to make sure the expectations of the contracts are clear. Due to both OCI and the NPOs unfamiliarity with this process, I believe it would be in the best interest of the initiative to hire a professional consultant to aid in this process. In the long run, this will save time that will more than justify the expense of the consultant.
- 2. Develop ongoing assessment plan (better oversight).** Another step in the development of better relationships with contractors is the development of methods to regularly assess the progress of the contractors. Not only will this allow OCI to identify budding problems more quickly, but it will also provide a tool by which OCI can satisfactorily fulfill its duty to remain transparent and accountable to the public. There are many ways to engage in evaluation. I recommended adopting the Program Assessment Rating Tool (PART), developed by the Office of Management and Budget (OMB). PART is a comprehensive, standardized diagnostic tool that assesses the purpose,

design, management and results of a program. Since its implementation in 2002, PART has been responsible for helping OMB evaluate approximately 20% of the programs it examined, so I feel this justifies its use (Shipman, 2005, pp. 55-56). Furthermore, PART examines both efficiency *and* effectiveness. As Frederickson in Denhardt (2004) pointed out, public administration cannot seek efficiency alone. Any theory of public administration must include the imperative that programs are effective in that they are responsive to the public – a requirement to maintain an approach in accord with the tenets of democracy (p. 191).

C. Develop stakeholder buy-in. By employing some simple, and inexpensive, qualitative research methods along with some educational programming, the new SHHI should be able to create stakeholder buy-in and eliminate, or at least minimize, some of the issues that arose from the lack of buy-in to the original initiative. Buy-in requires shared vision. In order to reach this point, I propose adopting some of the tenets of a marketing tool, the Delphi model of branding as discussed by Virgo and de Chernatony (2006, pp. 383-390).

The Delphic model begins with qualitative research to identify the major themes identified by stakeholders with regards to the ultimate goal of the project. It works by taking the different visions the stakeholders may hold and gradually molding them into a single cohesive vision by examining the purpose of the project and aligning it with the values of the stakeholders to demonstrate how the future environment that will be created by the project is desirable to those involved (see figure in Appendix I).

To begin this process, I believe OCI should go into the colonias and hold both town hall meetings as well as the more personal tool of focus groups to identify what the residents of the colonias feel are the roadblocks to home improvement and home ownership. These methods can also be used to identify what values the residents may (or may not) associate with these objectives.

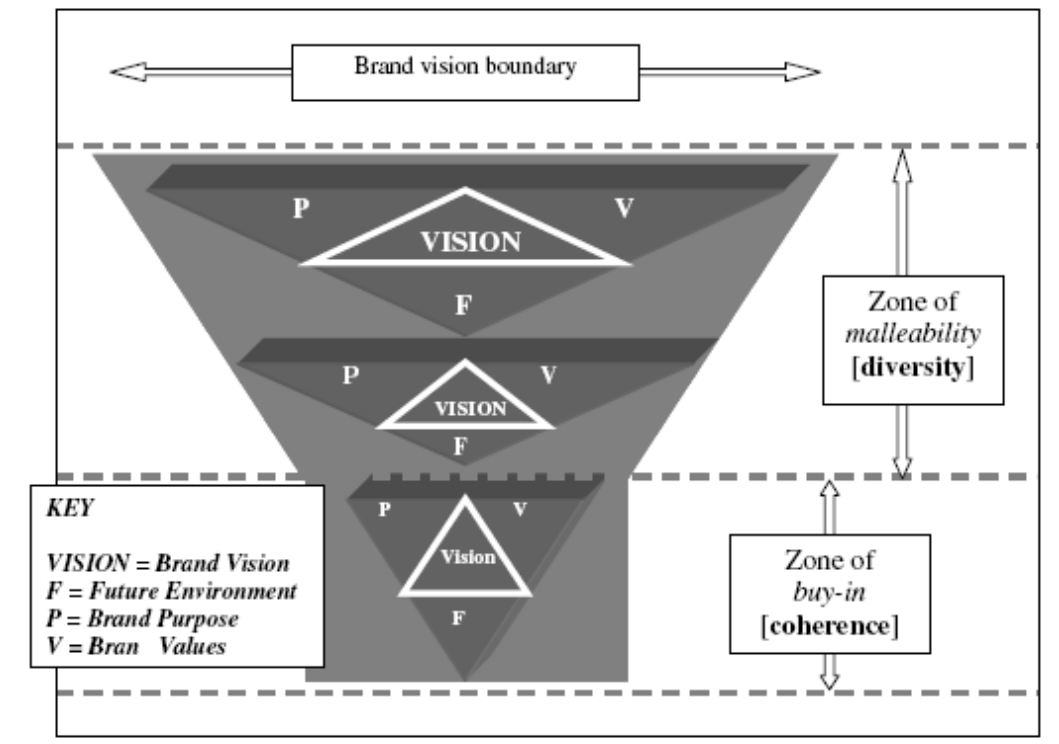
As has been seen, there are some cultural roadblocks to creating this shared value - namely, the negative perception of debt by the residents of the colonias. This is where educational programming comes into play. I recommend the development of a program similar to that employed by the Community Housing Development Corporation of North Richmond (<http://www.chdcnr.com/Homebuyer.htm>, n.d.). This model is comprehensive in that it offers both pre- and post-purchase education and counseling, including education on the appropriate use of debt as means of developing economic independence.

V. Summary. I believe the proposal outlined above is a feasible model that will lead to the successful implementation of a Self-Help Housing Initiative that will achieve the ultimate goals of improving the standard of living for colonias' residents and furthering economic security and independence of those residents. This proposal begins with a premise that justifies government intervention in an area where market failure in the distribution of some traditionally private goods has hurt the overall economic status of the state and residents of Texas border towns. It adopts a method of networked service delivery that has proven effective (and necessary) in the increasingly complex world of modern public administration.

Furthermore, the proposal is comprehensive in its scope. It begins with strategic planning, bases its recommendations and objectives on research, addresses organizational and management concerns with regards to networking and contracting out, offers an appropriate model of budgeting, and an established model of program evaluation. This proposal also displays an awareness of the perennial dichotomous problem of public administration - the balance that must be maintained between efficiency and effectiveness/responsiveness in accordance with the tenets of public administration under a democratic system. Additionally, it demonstrates concern with the ethics of accountability that must always be a part of public service delivery. And, finally, this proposal corrects an egregious oversight of the original initiative by including recommendations that will help create stakeholder buy-in thereby ensuring a truly democratic process of service delivery.

Thank you for your consideration. Please do not hesitate to contact me should you have any questions or require any clarification of the recommendations provided above.

Appendix I



Virgo and de Chernatony (2006, p. 384)

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