

February 6, 2000

**MEMORANDUM OF APPROVAL
RESIDENT PROTECTION AGREEMENT
MOVING TO WORK AGREEMENT**

U.S. Department of Housing and Urban Development

Chicago Housing Authority

MEMORANDUM OF APPROVAL AND RESIDENT PROTECTION AGREEMENT

PART I: HUD Responses to CHA List of "Commitments, Waivers, and Requests"

HUD's responses to the requests in CHA's list of "Commitments, Waivers, and Requests", dated January 6, 2000, are as follows:

1. Ten-year program commitment. Approved HUD agrees that a multiyear plan is required to address the issues confronting CHA. Therefore, except as otherwise provided below, and subject to HUD's authority to terminate its agreement with CHA and pursue other remedies (as described in item 2), the term of the funding commitments and program changes granted to CHA is ten years.
2. Termination clause. Approved. As CHA has requested, HUD will provide CHA with notice and a reasonable opportunity to be heard before terminating its agreement with CHA. Consistent with HUD's agreements with other Moving to Work sites, HUD may terminate its agreement or any or all approvals, or take any other corrective or remedial action, if CHA defaults, or is in substantial non-compliance with the agreement or the terms of an approval or for other good cause as determined by HUD.
3. Prospective Adverse Legislation and/or Regulation. Approved. In the event of any regulatory or legislative change significantly affecting the terms, conditions, or funding under this agreement, CHA and HUD will re-negotiate any affected provision.
4. HUD Liaison. Approved. As CHA has requested, HUD will appoint a liaison as a single point of contact within a reasonable time, so that issues that arise during implementation of CHA's plan can be addressed expeditiously. CHA likewise agrees to appoint a liaison to HUD. HUD will also appoint a liaison to the CAC to ensure that HUD continues to be aware of residents' concerns.
5. Block Grant Funding. Approved. PHAs receive HUD funds from three basic sources: Operating Funds, Capital Funds, and Section 8 voucher funds. By law, the amount that any single PHA receives from each of these sources is determined by three separate national formulas. With certain exceptions, the law prohibits a PHA's funds from these three sources from being commingled. One of Congress's concerns was that Capital Funds not be diverted to short-term operating uses at the expense of prudent longer-term investments, or that capital or section 8 funds be diverted to subsidize inefficient public housing operating practices.

Nevertheless, to give CHA the flexibility it has requested, HUD will permit the CHA to combine amounts from the Capital Fund and the Operating Fund into a block grant and use them for activities permitted for either the Capital Fund or the Operating Fund under the U.S Housing Act of 1937, as amended (the "1937 Act"). CHA may also

include tenant-based Section 8 assistance (including administrative fees) in the block grant, provided that CHA continues to make available the number of vouchers under contract, subject to a reasonable leasing schedule and temporary conversion for relocation or mobility counseling services as limited herein. In order to ensure adequate funding for the development needs identified in the Plan, no more than 20% of the amount allocated to CHA from the Capital Fund may be used for Operating Fund purposes. This is consistent with CHA's expressed intention of cutting its operating expenses and devoting more resources to addressing its capital improvement needs.

CHA has also requested assurances of a consistent and reliable capital development funding stream. HUD will, as requested by CHA, take several steps to establish a level funding stream for the CHA. First, HUD will issue a capital funding rule that will establish a base allocation of approximately \$139 million annually for 10 years, for a total of \$1.39 billion, assuming level Congressional appropriations. Second, under the rule, HUD will lock in this funding formula for 10 years irrespective of demolition. Third, to the extent permitted by law and applicable Notices of Funds Availability, HUD will set aside additional national funds in the 2000 and 2001 HOPE VI budget to provide sufficient funds to meet CHA's current projection of its total development and demolition cost for the ten year plan. Fourth, as stated in HUD's letter of November 15, 1999, HUD will make available an additional funding guarantee of at least \$350 million through the Community Development Block Grant (CDBG) Section 108 authority. Total projected funds provided to the CHA for development and demolition through these steps equals \$1.565 billion (not including CDBG funds). As a result, the CHA will replace or rehabilitate 25,000 public housing units.

HUD notes that the CHA is relying entirely on federal sources to fund CHA redevelopment. HUD encourages the City to bring the many resources at its disposal to the redevelopment process, including the use of low income tax credits for mixed income developments on public housing sites.

Regarding operating funds, CHA will receive level funding according to the formula described in Attachment A to this Memorandum. In addition, CHA will receive a block grant for drug elimination funds, (which is available for certain operating expenses subject to the rules of the drug elimination program) of approximately \$8.5 million per year, totaling \$85 million during the ten year life of the plan.

6. Relocation and Replacement Vouchers. Approved. To ensure that adequate relocation resources are available to CHA residents, HUD will provide a Section 8 voucher, subject to Congressional appropriations, for each public housing unit demolished for which a hard unit replacement is not provided.
7. Demolition Costs. Approved. In the FY 2000 budget and the proposed FY 2001 budget for the HOPE VI program, HUD has set aside sufficient funds nationally to

accommodate CHA's projected 10 year need for demolition funds. HUD will provide funding to meet CHA's request over a two-year period, subject to Congressional appropriations and to CHA submitting approvable applications for such funds that comply with the terms of the relevant notices of funding availability.

8. Relocation and Counseling Services. **Approved.** HUD agrees on the importance of relocation issues to the success of CHA's plan. Therefore, HUD will approve CHA's request to temporarily convert a portion of its Section 8 vouchers into a funding source of \$12.5 million for relocation costs. At the end of five years, a voucher will revert from temporary relocation services to permanent housing.
9. Forgiveness of Debt for Emergency Repairs. **Approved.** Congress required that emergency capital funds provided by HUD to a PHA should be repaid, since such funds are in excess of the PHA's formula share. However, because of CHA's need for capital improvement resources, HUD will defer repayment of CHA's currently outstanding emergency modernization loan for a period of ten (10) years.
10. Clarification of Development Regulations Regarding Mid-Rise Buildings. **Approved.** The 1937 Act generally prohibits the development of additional public housing for families in mid-rise or high-rise structures, since these are not appropriate environments for children. However, as CHA has requested, HUD will permit CHA to explore a variety of development options, and to develop mid-rise buildings where appropriate, to be determined in consultation with the CHA and residents on a case-by-case basis with HUD approval. Such HUD approval would constitute the necessary waiver.
11. Streamlined Demolition/Disposition Processing. **Approved.** The 1937 Act requires HUD approval of demolition and disposition requests to ensure that the supply of public housing is diminished only with good reason. As CHA has requested, HUD is creating a streamlined review process for demolition and disposition for Chicago's applications and will identify a single point of contact for CHA to facilitate this process
12. Augment Section 202 Viability Test with Market Viability Program. **Approved.** Congress mandated in 1996 that certain distressed public housing developments must be demolished if the cost to rehabilitate the development is greater than a Section 8 voucher ("Section 202 Viability Rule"). At this time, no waiver of those provisions is necessary for CHA to implement its plan. Three of the five mid or low rise developments identified by CHA are not subject to Section 202 (Trumbull, Altgeld-Murray, Ickes). However, CHA notes that these properties may be considered distressed under proposed regulations implementing the 1998 Public Housing Reform Act. If under the proposed rule, these properties are subject to Section 202, HUD will defer taking action under Section 202 for one year to enable the CHA to complete the RFP process for these developments. Likewise, with respect to the other two mid-rise or low-rise developments for which CHA requested authority to

undertake its market feasibility process (Cabrini Rowhouses and Dearborn), HUD will defer taking action under Section 202 for one year to enable the CHA to complete the RFP process for these developments.

13. Use of Capital Funds for Replacement Reserves. Approved. Use of replacement reserves generally has been limited in the public housing program because capital needs which require immediate attention far exceed the funding available. Nevertheless, as CHA has requested, HUD will review on a transaction-by-transaction basis CHA's request to use Capital Funds for a replacement reserve in mixed-finance transactions. HUD encourages CHA to pursue a wide variety of development opportunities in seeking to provide adequate replacement housing for CHA residents.
14. Clarification of Authority to Leverage Funds. Approved. Subject to Congressional appropriations, CHA may pledge its future funding streams to obtain public and private financing. CHA may also mortgage its assets, subject to prior HUD approval on a case-by-case basis. HUD has an obligation to ensure that the projected benefits of such transactions exceed the risk to public housing assets.
15. Use of MTW/Capital and/or Operating Funds for Annuities. Approved. As CHA has requested, HUD will review on a transaction-by-transaction basis CHA's request to use Capital Funds and/or Operating Funds for annuities. Again, HUD is concerned about setting aside scarce resources that could be used for current capital needs.
16. Rent Policies. Approved. The 1998 Act gives public housing authorities more latitude in setting rent policy than they have had in the past. However, in recognition that public housing and tenant-based assistance is a vital resource to extremely low-income families whose ability to pay rent is severely limited, the law generally does not permit rents to exceed 30% of a family's adjusted income. HUD will permit CHA to adopt reasonable rent policies that would encourage economic self-sufficiency. Such policies would only be adopted after full public comment, including consultation with the CAC/LAC, and formal amendment to CHA's Admissions and Occupancy policy. Any policy to increase tenant rents above levels permitted by the 1998 Public Housing Reform Act is subject to HUD review and approval, as is the amended Admissions and Occupancy Policy.
17. Bi-annual Recertifications. Approved. CHA may implement bi-annual recertifications for seniors as described in the waiver request. This change may increase CHA administrative savings.
18. Local Lease. Approved. Current lease regulations are designed to protect public housing tenants against unreasonable housing authority action. CHA, however, may adopt local lease provisions to encourage better community standards. As CHA has proposed, these provisions would be subject to State and local law, would not permit no-cause evictions, and would retain a grievance process. HUD agrees with CHA that

any such provisions may be adopted only after full public comment and hearing, including input from CAC/LAC, and formal amendment to CHA's Admission and Occupancy Policy. Unless HUD subsequently approves a waiver request from CHA, lease provisions must be consistent with the minimum requirements of leases established in 24 CFR 966.

19. Designated Housing. **Approved.** HUD will review and approve CHA's plan to designate any or all senior buildings as "senior only", provided that the plan meets the standards for approval of a designated housing plan and that adequate safeguards are in place for the disabled, including protections for disabled persons who are CHA residents and those seeking housing assistance. As CHA has proposed, any such designations will not affect existing residents and must provide accessible or adaptable units in redeveloped sites in excess of the 5% required by Section 504. CHA must consult with advocates for the disabled such as the Disability Rights Action Coalition for Housing and other disability advocate groups.
20. Obligation and Expenditure Rules and Reporting Requirements. **Approved.** HUD will waive the obligation and expenditure deadlines for the use of Capital Funds and CHA will not be required to report separately on obligation and expenditure rates. In accordance with CHA's proposal, such information would be reflected in CHA's annual consolidated financial report. HUD does question CHA's perceived need for this waiver, which will allow the CHA to carry unexpended balances, given CHA's intent that the Plan will allow CHA to expend Federal funds more efficiently.
21. Allowable costs. **Approved.** In modernization and development projects, CHA will be exempt from the HUD Modernization Handbook regarding allowable costs, provided that block grant funds are used for purposes of public housing and tenant-based assistance. As CHA notes, CHA will remain subject to OMB Circular A-87. This will give CHA greater flexibility in using its block grant funds.
22. HUD Review and Approval of the CHA Procurement Policy and Authority to Use Qualification-Based Procurement for Professional Services other than A&E Services. **Approved.** Housing authority procurements are subject to government-wide Federal rules to ensure integrity in the contracting process. At the same time, HUD supports CHA's efforts to find administrative savings that can be converted into funding for housing and services. Therefore, upon receiving CHA's proposal on procurement, HUD will review and approve a policy that eliminates the need for prior HUD approval of various contracting matters and allows CHA to use qualification-based procurement for certain professional services. HUD will continue to monitor to ensure that CHA's actions remain in compliance with the approved policy. HUD approval may be subject to OMB concurrence, which HUD will assist CHA in securing. The CHA will set goals of 50% for MBE/WBE and Section 3 businesses participating in construction contracts, to the fullest extent permitted by law, and will establish a program to encourage local hiring as required by Section 3 of the Housing Act of 1968.

23. Ability to Establish Local Leased Housing Program. **Approved** Once submitted, HUD will review and approve a request from CHA to establish a local leased housing program, subject to certain minimum standards, which include but are not limited to, compliance of all units with HQS requirements and assurances from CHA that basic tenant protections and fiscal controls are in place concerning the number of families served, subsidy levels, income targeting, lease terms, rent reasonableness, and tenant rents. This waiver gives CHA the flexibility to implement a housing voucher program that meets local needs, while ensuring that the program continues to serve the neediest families in an effective and efficient manner.
24. Project-Based Section 8. **Approved.** The law limits to 15% the portion of a housing authority's Section 8 vouchers that may be used for project based assistance. This limitation is to ensure that most vouchers can be used anywhere in a community, rather than requiring voucher users to locate in specific buildings. However, HUD will allow CHA to exceed the 15% limitation on project-basing of Section 8 vouchers, provided that CHA does not project-base vouchers in CHA-owned properties, and that CHA's program does not contribute to additional concentrations in certain properties or neighborhoods of extremely low-income families. HUD will monitor this policy closely.
25. Section 8 Inspection Protocols. **Approved in Part, Denied in Part.** CHA must continue inspection protocols for buildings over five years old. However, CHA may develop a local inspection protocol for buildings that have been constructed or substantially rehabilitated within the last five years. Inspections go to the heart of protecting the health and safety of tenants in federal subsidized housing.
26. Conversion of Vouchers for Expanded Mobility Counseling. **Approved.** HUD agrees on the importance of mobility counseling to the success of CHA's plan. Therefore, HUD will approve CHA's request to temporarily convert a portion of its Section 8 vouchers into a funding source of \$25 million for relocation costs. At the end of five years, a voucher will revert from temporary mobility counseling services to permanent housing.
27. Clarification of Authority under Block Grant to Create Endowment Trust for Supportive Services. **Approved.** CHA may use block grant funds to establish endowment trusts for supportive services. However, HUD again notes its concern that CHA not set aside for other purposes funds which are available to address immediate capital needs, which would counter CHA's extensive goals for redevelopment.
28. Wage Rate Monitoring. **Approved.** In order to reduce administrative costs, CHA may implement a streamlined wage-rate monitoring process, subject to compliance with Davis-Bacon wage rates and other Department of Labor requirements. The

Department of HUD will periodically (not less than annually) audit wage rates on all construction jobs of less than \$100,000 to ensure Davis-Bacon compliance.

29. Public Housing Assessment System (PHAS). Denied. The CHA has requested that CHA be exempt from the assessment system for public housing. This system provides an inspection protocol that monitors the quality and conditions of the public housing stock to ensure that minimum conditions of health and safety are met. Inspections of public housing units are the primary protection to ensure that public housing units are maintained in decent, safe, and sanitary condition as required by federal law. HUD recognizes that CHA has developed an extensive plan for reconstruction of public housing units, but this does not eliminate the obligation to provide decent, safe and sanitary housing units to residents of currently occupied units. HUD will therefore not waive the inspection system.

HUD believes that the CHA's request for a waiver of the inspection system is misplaced. Under the phase in of national, uniform inspection standards, CHA is subject only to advisory scores through March, 2001. After this time, and through March, 2003, assuming that CHA is making reasonable progress, CHA is subject to no penalty for failing to pass physical inspections for its developments, other than to produce a plan for recovery. To allay any concerns CHA may have, HUD will deem the CHA Plan for Transformation sufficient to meet the requirement for a recovery plan. CHA thus has over three years to meet the minimum standards for physical condition of occupied units. To assist CHA in meeting this goal, HUD will exempt vacant units and units scheduled for modernization from physical inspection scoring. If, at the end of that period, CHA is not able to pass PHAS, then CHA may request and HUD will give full consideration to a request for a deferral of any applicable administrative action in order to permit redevelopment and other activities under the Plan for Transformation to proceed.

PART II: CHA/HUD Resident Protection Agreement

The following is a statement of the agreements between CHA and HUD concerning tenant protection issues. Compliance with these agreements is a condition of HUD's continued approval of CHA's waiver requests.

A. Housing security

1. **Section 8 Market Study:** HUD will review each year the ability of the market to absorb additional voucher holders. This will include a market assessment on a scale HUD deems necessary to determine the market's ability to absorb the Section 8 voucher holders necessary for relocation, as well as an assessment of the success rates and locations of voucher users. No one will be forced to leave the city. CHA will provide any necessary information, will continue to conduct focus groups and otherwise seek to identify issues in voucher usage and will describe any steps taken to overcome barriers to the use of vouchers.
2. **Relocation and Demolition Schedules:** CHA will adjust its relocation and demolition schedules if the results of HUD's market review or HUD's assessment of success rates of voucher users indicate the need to do so. HUD's approval of demolition or section 202 mandatory conversion plans will contain this condition. If HUD neither has completed a market review nor has required changes based on its assessment of success rates of voucher holders, CHA may continue to proceed according to previously approved relocation and demolition schedules. Schedules for demolition of vacant buildings or for interim relocation to other public housing rather than Section 8 will not be affected by these HUD reviews.
3. **Monitoring of Section 8 Contract:** At HUD's direction in 1996, a private contractor took over responsibility for administration of the CHA's Section 8 program. This contract is critical to the administration of housing for almost 20,000 families. To promote additional housing opportunities, the new contract with the section 8 contractor shall continue to have both performance incentives for deconcentration and for basic sound program performance, as well as timeliness of administrative procedures including inspection of new units and rent negotiation. HUD will continue its close monitoring with respect to the contract and any amendments.
4. **Fair Housing Commitment:** The CHA will work with various organizations to expand landlord participation and receptiveness of neighbors, and will take special initiatives to expand choices for lead-safe housing and accessible housing (including CHA's proposed access improvement fund). In addition, CHA will partner with fair housing groups to combat discrimination against voucher holders

based on race, familial status, disability or source of income. CHA has agreed to contract for quarterly testing for fair housing compliance throughout the section 8 and public housing programs.

B. Relocation process and rights of relocatees

1. **Legally Enforceable Right to Return and Lease Amendment:** CHA has agreed that CHA residents to be displaced from buildings to be demolished or redeveloped will be offered public housing or Section 8 vouchers, and has agreed to various rights of Section 8 relocatees to return to public housing. CHA has indicated its commitment to adopting a legally enforceable lease amendment affirming residents' rights under the relocation process, and containing other protections regarding tenant rights. HUD's continued agreement to the waivers, approvals and other aspects of this agreement is expressly conditioned upon CHA's negotiation with the Central Advisory Council of a lease agreement containing satisfactory protections within a reasonable period.
2. **Relocation Counseling:** CHA's Plan for Transformation includes various protections for relocatees. As CHA has stated, families who must move from buildings to be demolished or redeveloped under the Plan for Transformation will receive extensive pre-move counseling, assistance in accessing services, Section 8 mobility counseling so that they can make informed choices and secure adequate housing, and post-move counseling. CHA also has committed to arrange for the physical move and make various move-related payments, in compliance with all applicable laws. In addition to meeting its legal obligations regarding offers of housing, final notices and other matters, CHA will provide written information and guidance at least six months prior to the date of such moves, and will begin work with each relocating family at that time. CHA also will provide at least 90 days' official notice of such moves. CHA has committed to provide second-move mobility counseling to all existing Section 8 families who indicate an intention to move, or who must move for various reasons.
3. As part of these steps, CHA will conduct an information campaign in a timely fashion to dispel myths about how vouchers work (e.g., misunderstandings regarding restriction of vouchers to certain neighborhoods or automatic termination of vouchers after one year), explain what kind of support will be available to relocatees and explain relocatees' choices.

C. Reuse of sites

1. CHA has agreed that it will convene working groups to determine the future of sites where demolition will occur, which will include representatives of CHA residents and other appropriate parties, in accordance with the redevelopment

process described in the Plan for Transformation as described in the plan in pp. 17-23. Any proposed reuse of a public housing site will be subject to HUD approval. CHA has agreed that with the funding identified herein, its plan will result in at least approximately 25,000 public housing units.

D. Income targeting

1. HUD and CHA clarify that the income targeting requirements of the United States Housing Act of 1937 will continue to apply. The targeting requirements are that at least 40% of new admissions to public housing and 75% of new voucher recipients each year have incomes below 30% of median.

E. Applicability of deconcentration requirements

1. Nothing in this agreement shall be construed to exempt or alter applicability to CHA of any statutory or regulatory requirement for deconcentration of poverty and income mixing requirements under the 1998 Public Housing Act.

F. Appropriate Approvals Under the Gautreaux Consent Decree

1. The CHA agrees to seek all appropriate review and approval under the terms of the Consent Decree. The approvals herein are contingent on the redevelopment activities in the Plan meeting the terms of the Consent Decree.

G. Nothing in this document shall constitute a waiver of any federal law or regulation except as stated herein. Nothing in this document shall restrict the rights of the Department of HUD to review, monitor, audit or request any information necessary to ensure CHA's progress in implementing the Plan for Transformation or CHA's compliance with the agreements and approvals herein.

H. Memorialization

1. The Plan for Transformation and list of commitments waivers and constitutes an approved MTW application subject to the approvals, conditions and agreements herein. These agreements are further memorialized in the accompanying Moving to Work Agreement.

MOVING TO WORK DEMONSTRATION AGREEMENT

This Agreement is entered into by and between the United States of America through the Department of Housing and Urban Development ("HUD") and the Chicago Housing Authority (the "Agency"). The term of this Agreement shall begin on the Date of Execution by HUD and continue for ten (10) years unless otherwise specified herein.

WHEREAS, Section 204 of the Omnibus Consolidated Rescissions and Appropriations Act of 1996 (Pub. L. 104-134) (the "1996 Appropriations Act") establishes the Public Housing/Section 8 Moving to Work Demonstration program ("MTW"); and

WHEREAS, Section 204(a) of the 1996 Appropriations Act provides that public housing agencies ("PHAs") and the Secretary of the Department of Housing and Urban Development (the "Secretary") shall: have the flexibility to design and test various approaches for providing and administering housing assistance that reduce cost and achieve greater cost effectiveness in Federal expenditures; give incentives to families with children whose heads of household are either working, seeking work, or are participating in job training, educational or other programs that assist in obtaining employment and becoming economically self-sufficient; and increase housing choices for low-income families; and

WHEREAS, HUD may permit agencies to combine funds from several HUD programs, and may exempt agencies from existing public and Indian housing and Section 8 certificate and voucher rules under Moving to Work Demonstration authority; and

WHEREAS, the Secretary has the authority to select up to thirty (30) agencies that administer the public housing and Section 8 programs to participate in the Moving to Work demonstration program; and

WHEREAS, on May 29, 1999 the City of Chicago and HUD entered into a Memorandum of Understanding (MOU) that outlined the mutual understanding and expectations regarding the transition of the CHA to local control; and

WHEREAS, as part of the MOU, the CHA agreed to submit to HUD an action plan identifying the regulatory flexibility, legislative flexibility, and resources necessary to accomplish the plan, which if acceptable, HUD would approve under the Moving to Work Demonstration authority provided by Section 204 of the 1996 Appropriations Act ; and

WHEREAS, on January 6, 2000 the CHA submitted its Plan for Transformation, List of Commitments (collectively referred to herein as "The Plan for Transformation"), Waivers and Requests, Annual Public Housing Agency Plan and Five Year Public Housing Agency Plan and accompanying documents, as its application for participation under MTW; and

WHEREAS, the Secretary has determined that the Plan for Transformation constitutes an appropriate application and satisfies and complies with the selection criteria and on that basis, has selected the CHA for participation in the MTW demonstration; and

WHEREAS, it is the aim of this demonstration to design and test innovative methods of providing housing and delivering services to low-income families in an efficient and cost effective manner, HUD and the Agency agree to fully cooperate with each other in order to make the MTW demonstration a success; and

WHEREAS, the parties desire to state the terms and conditions under which HUD will permit the Agency to participate in the Moving to Work Demonstration program as set forth in the Memorandum of Approval and Resident Protection Agreement, attached hereto.. The Memorandum of Approval and Resident Protection Agreement is hereby incorporated by reference into this Agreement.

NOW, THEREFORE, in reliance upon and in consideration of the mutual representations and obligations hereunder, the parties do agree as follows:

ARTICLE I. HUD Program Requirements and Other Federal Requirements.

- A. This Agreement supersedes the terms and conditions of the ACCs and the provisions of the United States Housing Act of 1937 (the "1937 Act") and HUD requirements to the extent necessary for the Agency to implement its MTW demonstration, as approved by HUD in this Agreement. All authorizations contained in this Agreement are for the length of the demonstration only, unless otherwise specified. Except as necessary to implement the Agency's activities described in the Memorandum of Approval and Resident Protection Agreement , the Agency is

subject to the requirements of the ACCs, the 1937 Act, and other HUD requirements. In the event of a specific conflict between this Agreement and the Memorandum of Approval and Resident Protection Agreement, the Memorandum of Approval and Resident Protection Agreement shall govern. Notwithstanding anything in this Agreement, the following provisions of the 1937 Act, as otherwise applicable, shall continue to apply to the Agency and/or assistance received pursuant to the 1937 Act:

1. The terms "low-income families" and "very low-income families" shall continue to be defined by reference to Section 3(b)(2) of the 1937 Act (42 U.S.C. 1437a(b)(2));
 2. Section 18 of the 1937 Act (42 U.S.C. 1437p, as amended by Section 1002(d) of Public Law 104-19, Section 201(b)(1) of Public Law 104-134, and Section 201(b) of Public Law 104-202), governing demolition and disposition, shall continue to apply to public housing notwithstanding any use of the housing under MTW; and
 3. Section 12 of the 1937 Act (42 U.S.C. 1437j), governing wage rates, shall apply to housing assisted under MTW unless tenant-based assistance is the only assistance received by participating families and the housing in which they reside receives no other assistance.
- B. To the extent described in the Memorandum of Approval and Resident Protection Agreement, as applicable and as approved by HUD, the Agency may combine operating subsidies provided under Section 9(e) of the 1937 Act (42 U.S.C. 1437g), capital funding provided under Section 9(d) of the 1937 Act (42 U.S.C. 1437l) and assistance provided under Section 8 of the 1937 Act for the certificate and voucher programs (42 U.S.C. 1437f) to fund HUD approved MTW activities.
- C. Unless otherwise provided herein, this Agreement does not apply to Section 8 assistance that is required: (a) to meet existing contractual obligations of the Agency to a third party (such as Housing Assistance Payment contracts with owners under the Agency's Section 8 certificate and voucher program); (b) for payments to other PHAs under Section 8 portability billing procedures; or (c) to meet particular purposes for which HUD has expressly committed the assistance to the Agency.
- D. The Agency agrees to comply with HUD requirements governing the MTW program. Such HUD requirements include, but are not limited to management, financial, accounting, or other requirements designed to adequately track and monitor the

Agency's use of HUD assistance. Notwithstanding other provisions of this Agreement, the Agency will be required to submit reports and financial statements as necessary in forms prescribed by HUD.

- E. The Agency agrees to cooperate fully with HUD and its contractors in the monitoring and evaluation of the MTW demonstration, to keep records and to submit reports and information to HUD as required of PHAs participating in the MTW program. Except as otherwise provided in this Agreement, the Agency shall submit an Annual Plan and Report as required by Section 5A of the 1937 Act (as amended), which shall include a separate section fully describing activities and uses of funding the Agency is undertaking through the MTW demonstration.
- F. Pursuant to the 1996 Appropriations Act, the amount of assistance that the Agency receives for public housing operating subsidies, public housing capital grants, and Section 8 assistance for certificates and vouchers will not be diminished by the Agency's participation in the MTW program.
- G. Any HUD assistance that the Agency is authorized to use in the MTW demonstration must be used in accordance with the Memorandum of Approval and Resident Protection. The Agency hereby certifies that this Agreement is subject to approval by the Agency's governing board, and that a copy of such board approval will be provided to HUD.
- H. As required by the 1998 Quality Housing and Work Responsibility Act, the Agency agrees that at least seventy-five percent (75%) of new the families assisted by the Agency's Section 8 program and at least 40% of the new families under the Public Housing Program will be very low-income families. The Agency agrees to comply with the requirements of Section 16(a) (3) of the 1937 Act (as amended). The Agency agrees to continue to assist substantially the same number of eligible low-income families under MTW, and to maintain a comparable mix of families by family size, as would have been served or assisted if HUD funding sources had not been used under the MTW demonstration.
- I. The Agency may adopt and implement any reasonable policies for setting rents for public housing, or rents or subsidy levels for tenant-based assistance, notwithstanding the U.S. Housing Act of 1937, subject to the Memorandum of Approval and Resident Protection Agreement.
- J. If applicable to activities under the Memorandum of Approval and Resident Protection Agreement, the Agency agrees to provide HUD with any documentation

that HUD needs to carry out its review under the National Environmental Policy Act (NEPA) and other related authorities and otherwise will assist HUD in complying with 24 CFR Part 50 environmental review procedures. The Agency further agrees (a) to carry out mitigating measures required by HUD or select an alternate eligible property, if permitted by HUD, and (b) not to acquire, rehabilitate, convert, lease, repair or construct property, or commit HUD or local funds to program activities involving eligible property without HUD's approval under 24 CFR Part 50.

- K. The Agency will comply with all applicable nondiscrimination and equal opportunity requirements set forth in 24 CFR 5.105(a), and will administer its programs and activities in a manner affirmatively to further fair housing. In particular, the Agency must make reasonable modifications and accommodations needed by applicants and residents and must make units accessible in accordance with the Needs Assessment and Transition Plan as required under Section 504 of the Rehabilitation Act of 1973 and its implementing regulations.
- L. HUD will review and approve under the statutory timeframe and subject to the Memorandum of Approval and Resident Protection Agreement, the CHA's submission with the Plan for Transformation of the Designated Housing Plan and Amendments, FY 99 and 00 Capital Budgets, FY 00 Operating Budget, Tenant Selection and Assignment Plan of the Admissions and Occupancy Policy, any submissions regarding Demolition/Disposition requests, the Annual Plan template, and any submissions pursuant to Section 202 of the 1996 HUD Appropriations Act.

ARTICLE II. Revision and Termination of Agency MTW Program

- A. With written HUD approval, this Agreement and the Memorandum of Approval and Resident Protection Agreement may be revised by the Agency during the course of the demonstration. The Agency shall request approval of a revision by written notification to HUD (delivered to the Office of Policy, Program, and Legislative Initiatives, or its successor, in the Office of Public and Indian Housing), accompanied by an approved board resolution, or equivalent, and certification that the Agency has satisfied all resident participation requirements. HUD will review proposed revisions within a reasonable period of time. When proposing amendments to this Agreement, the Agency will provide notice and a reasonable period within which residents may comment. The Agency will consider these comments prior to amending this Agreement.
- B. HUD will cooperate with the Agency to extend successful demonstration activities beyond the term of the MTW demonstration where feasible. To the extent that MTW activities will not continue past the term of the demonstration, the Agency shall fully cooperate with HUD in developing and implementing a transition plan for terminating

the Agency's MTW demonstration program and providing for the continued administration of the public housing and Section 8 programs, as applicable.

ARTICLE III. Default.

- A. Definition of Default. Use of funds subject to this Agreement for a purpose other than as authorized by this Agreement and the Statement of Authorizations; noncompliance with legislative, regulatory, or other requirements applicable to this Agreement; other material breach of this Agreement; or a material misrepresentation in the MTW Plan submission by the Agency shall be a default under this Agreement. The Agency's inability to pass PHAS and the consequences that follow shall not constitute a default.
- B. HUD's Determination of Default. If HUD determines that the agency is in default, HUD will give the Agency written notice of the default and of the corrective or remedial action required or ordered by HUD.
- C. Corrective or remedial actions HUD may require or order under this Agreement for Agency default include, but are not limited to the following:
1. Requiring the Agency to prepare and follow a HUD approved schedule of actions as provided in an amended Plan for Transformation for properly completing the activities approved under this Agreement;
 2. Canceling or revising the affected activities, revising the budget for activities as necessary, and substituting other eligible activities;
 3. Prohibiting payment or reimbursement for any MTW demonstration activities or for those activities affected by the default;
 4. Requiring reimbursement by the Agency to HUD for amounts used improperly.
 5. Changing the method of payment to the Agency;
 6. Suspending the Agency's authority to make draws or receive or use funds for affected activities;
 7. Reducing the Agency's funding in the amount affected by the default;

8. Terminating the Agency's funding as to further activities under the MTW demonstration;
9. Taking any other corrective or remedial action legally available; and
10. Taking action, as applicable, pursuant to the Section 8 and/or public housing Annual Contributions Contract.

ATTACHMENT A – OPERATING FUND AGREEMENT

1. The base year is CHA's FY1999 at 100% of subsidy eligibility (\$176,451,193), recalculated to include approximately 2000 additional deprogrammed units.
2. Except for the adjustments outlined in the following steps, no other subsidy adjustments will be made.
3. For Fiscal Years 2000-2002, the CHA will prepare its operating subsidy request by making the following annual adjustments to the base year amount in Number 1 above.
 - A. "Simplified Delta" of 0.005%.
 - B. The PFS annual inflation factor for Chicago.
 - C. Unit demolitions. The CHA will deduct from the base year amount (after adjusting for 3(A) and 3(B) above) unit demolitions planned for the subject year. In making this deduction the unit months following the scheduled date of demolition will be used, multiplied by the deprogrammed funding amount for that fiscal year (\$222.01 PUM in FY99, adjusted annually for inflation).
 - D. Congressional appropriations (i.e., pro-ration of subsidy when less than 100% funding of operating subsidy).
4. Year-end adjustments. The only year-end adjustments will be as follows.
 - A. Unit demolitions. Subsidy will be adjusted based on actual versus planned demolitions as well as units returned to stock (replacement housing). This year-end adjustment will then be applied to the subsidy calculations for the subsequent FY.
 - B. Any change during the year in congressional appropriations.
5. Prior to the end of the three year period referenced in (2), CHA and HUD agree to reconcile CHA's unit count. At the time of the reconciliation, CHA and HUD also agree to make any necessary adjustments to the procedures outlined above.

This Agreement is effective upon execution, and contingent upon approval by the Agency Board, except as otherwise provided herein.

CHICAGO HOUSING AUTHORITY

By Phillip Johnson
Its Chief Executive Officer

Date of Execution by Agency 2/6/00

UNITED STATES DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT

By Neil Luss
Its Assistant Secretary

Date of Execution by HUD 2/6/00

WITNESSED

Richard Daley
Honorable Richard Daley
City of Chicago

WITNESSED

Andrew Cuomo
Honorable Andrew Cuomo
U.S. Department of Housing and Urban Development

WITNESSED _____