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VIA ELECTRONIC MAIL

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**Re: ACHA Response to Notice of Substantial Default**

In response to the United States Department of Housing and Urban Development's (HUD's) Notice of Substantial Default and potential federal takeover issued 7/21/2025 (Att. 1), the Atlantic City Housing Authority (ACHA) through this written response formally disagrees with the determination because the tangible improvements made by the agency and multiple denied requests for HUD assistance were not reflected in the aforementioned letter. ACHA proposes an alternate resolution that will not only build on the progress that has been made over the past year and a half but also avoid creating additional instability for our more than 1,500 residents (4% of Atlantic City's population) that is likely to result from a takeover.

ACHA's efforts to increase occupancy, improve unit physical conditions, improve the Authority's financial score, and repositioning efforts are all detailed in the appendices and attachments that follow. ACHA has made significant progress in good faith towards completion of all HUD-identified deficiencies. At this time, however, the current administration's improvements are yet to be recognized. The Public Housing Assessment System (PHAS) scores identified in HUD's notice to ACHA (Att. 2) speak to the systemic problems that the agency had been experiencing. It is important to acknowledge that the scores (3/31/22-3/31/23) precede both the current team and the recovery agreement itself and therefore is not indicative of the current state of ACHA.

Decades of disinvestment in public housing by HUD has produced a nationwide challenge of failing critical infrastructure and a capital needs backlog of approximately \$90B. ACHA and its residents' portion of this backlog is \$200M+ in immediate capital needs. ACHA receives less than \$5M in annual capital funding. This imbalance is the product of decades of deferred maintenance, inadequate capital planning, and general mismanagement by previous administrations. These challenges began materializing decades before the current team was involved at ACHA and have manifested as emergencies over the last several years.

In July 2021, HUD placed ACHA under Zero Threshold Oversight and designated the agency as financially troubled with significant management deficiencies. Over the following eight (8) months, despite HUD oversight, conditions at ACHA properties deteriorated further, leading to the agency being formally designated as "troubled" for its March 31, 2022 fiscal year. In September 2022, ACHA appointed a new part-time interim Executive Director, who promptly began raising alarms—both verbally and in writing—about the worsening conditions at many of the ACHA sites. Collaborating with the newly appointed HUD Newark PIH Director, ACHA successfully worked its way out of Zero Threshold Oversight by December 2022 (Att. 3) and began implementing measures to triage the most emergent conditions that were identified at that time.

The Housing Authority's Board, in its governance role, took the following actions to create the framework necessary to substantively address the aforementioned issues: 1) assembled a team of contracted consulting professionals in the areas of housing management, HUD compliance, redevelopment, project management, social services, architectural & engineering services, and procurement/finance; 2) hired a full time Executive Director (Thomas Sahlin) with demonstrated experience in improving the operational performance of a troubled/substandard public housing agency, as well as proven success with and an intimate understanding of redevelopment. While procuring professional services has been portrayed in the press as "wasteful spending," it was evident to the Board that due to the number and severity of the challenges ACHA was facing, a team of experienced professionals in their respective fields would need to be involved in the recovery effort under the leadership of the Executive Director.

When the current Executive Director was appointed to the position in late October of 2023, many key internal positions were still vacant. The Executive Director first updated the Organizational Chart with approval from the Board (and HUD, as is required for troubled agencies) and filled vacancies in the positions of Director of Section 8, Modernization Coordinator, Procurement Coordinator, Chief Financial Officer, and Director of HR. New, expanded-role positions were created to increase operational efficiency (EX: Confidential Aide → Office Manager). Departments were expanded within budget limitations to ensure that each department could function. This was a stark contrast to what the Executive Director observed when first hired; due to prior instability, some departments were almost entirely absent of staff. The process of filling vacancies within an already troubled agency was a long and tedious process, as many qualified individuals within the public housing community were reluctant to join an organization whose reputation was overtly negative due to its situation at the time. In addition to filling critical roles within the organization, hundreds of training hours were provided to all staff in areas of policy updates, programmatic compliance, procurement, and finance, among others. (Att. 4)

On January 3, 2024, ACHA and HUD officially entered into the Recovery Agreement. The agreement contained no definitive end date and featured ambitious, metric-based milestones which ACHA expressed immediate concerns about completing. Moreover, ACHA believed that it had two (2) fiscal years from the date of execution (through 3/31/26) to meet the terms and conditions detailed in the agreement – as was HUD's general practice for similar Recovery Agreements

throughout the country. This is supported by the federal regulations which provide troubled authorities with a 2-year period to show “substantial improvement” from troubled designation. Specifically, in accordance with 24 CFR 902.75(d), PHAs can show “substantial improvement” through improved PHAS assessment scores received at least 12 months and 24 months after the initial notice of troubled performer designation. However, in this case, ACHA has yet to receive any assessment performed after 3/31/23, meaning that HUD has yet to issue to date any report that 1) is reflective of the work accomplished by ACHA since the Recovery Agreement was entered into; or 2) could substantiate whether tangible improvement was achieved. In fact, as we stand today, we are still less than two (2) years from the initial troubled designation. On March 31, 2025 – only fourteen (14) months after execution of the Recovery Agreement - ACHA formally requested HUD’s consideration of an extension to the original timetables of the Recovery Agreement (Att. 5) but was subsequently denied the same only eleven (11) days later. ACHA firmly believes this was an equitable request, especially given HUD’s precedent of permitting the Irvington Housing Authority in excess of sixty (60) months to recover from their troubled status (Att. 6). ACHA should be afforded the ability to utilize, at minimum, a full period of at least twenty-four (24) months to cure HUD’s identified deficiencies. In short, HUD has made its conclusion before even providing the ACHA an adequate opportunity to address the decades-long problems that exist.

Over the last nineteen (19) months, significant progress has been made toward curing all identified deficiencies in HUD’s Compliance Review, which concluded on March 10, 2023 (Att. 7). To date, HUD has acknowledged that ACHA has completed 101 of the 110 corrective action items that HUD created from the aforementioned review. The nine (9) remaining items are all nearing completion, as is illustrated in Attachment 8, and all remaining items are on schedule to be completed well in advance of the traditionally calculated deadline of FYE 3/31/26. In addition to those items, a new heating system has been installed at Stanley Holmes Village, risk of gas explosions has been mitigated, the most vulnerable residents have been transferred out of the Third Village, and a roadmap for redevelopment has been created.

The tangible progress discussed in the preceding paragraphs is reported to HUD on a regular basis. ACHA had been meeting weekly with HUD’s Newark Field Office until 3/10/2025 to review activities pertaining to the identified deficiencies at ACHA. The weekly meetings were then relaxed to bi-weekly as the number of issues necessitating discussion had been significantly reduced by ACHA. HUD’s Principal Deputy Assistant Secretary (PDAS), regional staff, and senatorial staff have also met with ACHA periodically to see first-hand how ACHA has been addressing the most critical issues that have been affecting our residents.

Ultimately, federal resources alone are insufficient to resolve all existing problems throughout the ACHA portfolio. Meaningful improvements for residents will not be realized employing the same strategies of decades past. ACHA is now aggressively advancing towards asset repositioning through public/private partnerships and leveraging non-federal resources to deliver on our mission for our residents. That mission is about much more than buildings, land, and finances; it is rooted

in public service, the well-being of the residents we serve, and one of the most important foundations of a stable, healthy life. That foundation is safe, decent, affordable housing – a foundation that has historically been in short supply. Our mission, our purpose is to provide that foundation. Our residents deserve it as it is a basic human right, and it is our responsibility to deliver. The progress realized over the past nineteen (19) months is the result of the hard work of a collection of individuals (i.e. Board, staff, and vendors) who not only have the skill sets necessary to overcome the various stumbling blocks ahead of us, but the selfless commitment to improving the quality of life for the residents we serve.

A federal takeover will introduce additional instability in our residents' lives. Instead, HUD and ACHA must closely coordinate our efforts to continue the mission that we share, which is to provide improved housing to our residents while continuing to be responsible stewards of limited taxpayer resources. ACHA needs strong support from the highest levels of the federal administration to avoid being bogged down by traditional barriers and red tape – repositioning the aging housing stock of ACHA cannot move at the historical pace of government. A focused alliance between HUD Washington, HUD Newark, and ACHA will greatly accelerate completion of the plan that is already in motion.

## Appendix I

### Metric: Increase Occupancy

- Performance Requirement: increase occupancy rate for low rent public housing program to at least 96%
- No later than 3/31/2024, contract with managing agent.... Any property under 96%
- Arrive at 96% at each of public housing properties
- 3/31/2025: HUD's stated occupancy rate was 71.4%

ACHA has and continues to take deliberate steps to increase occupancy throughout its portfolio. Foremost, the remainder of the 147 units in Stanley Holmes Village III, which is now entirely vacant, are in the process of being taken offline and placed into HUD-approved vacant status. This reduction in Stanley units will increase our calculated occupancy rate by 10%. Deferred maintenance over several decades yielded failing heat and hot water systems in all three villages at Stanley Holmes; failures peaked in the winter of 2023. Transferring residents out of Village III—which had proven unmanageable—allowed ACHA to deliver heat and hot water to all 272 units in Villages I and II. Given the limited budget available, ACHA employed this strategy to limit the scope of where replacement investment was needed to sustain heat and hot water service for Villages I and II.

In addition to the 117 units already offline in Stanley Village III, ACHA is also taking offline 33 units within Villages I and II as well as 167 units across its other Asset Management Projects (AMPs). These units are being taken offline because the scope of repairs necessary to make the units lease-ready due to previously deferred capital improvements exceeds the capacity of our in-house staff—even if supplemented by contractors. This determination stems from our Physical Needs Assessment findings, which have identified systemic and severe issues that must be corrected (e.g., building envelopes, mechanical systems, roofs, windows, etc) the funding for which is entirely inadequate.

### **When accounting for offline units, ACHAs true current occupancy rate is 92%.**

The initial focus for unit turn efforts was at Stanley Villages I and II to accommodate residents transferring out of Village III. When maintenance made ready sufficient units to receive Village III residents, they then shifted their efforts to other ACHA properties. In 2025, ACHA has focused its unit turn efforts on those which are of improved physical condition relative to other vacancies. This progress is significant, given the fact that as recently as 2022, ACHA maintenance did not

have an adequate inventory of tools to accomplish basic tasks. Tools were promptly procured so maintenance could more effectively perform.

To raise the occupancy rate from 92% to 96%, ACHA will continue to turn units utilizing a combination of maintenance personnel supplemented by union laborers. To accelerate the unit turnover rate, ACHA went out to bid for a contractor via public solicitation. Unfortunately, ACHA did not receive any bids that could be awarded due to unreasonable pricing. Moreover, only one bid was received. Due to the price and limited number of respondents, ACHA is going back out to bid and soliciting more responses.

A variable to consider when planning unit turns is the condition of the underlying infrastructure within buildings (e.g. boilers, distribution piping, etc). When buildings are in such disrepair that a system failure is likely, it will be a sunk cost to turn a unit only to have no hot water because pipes inside the walls failed. Aware of this dilemma, ACHA is prioritizing turns of units that have experienced no observable effect of the underlying issues referenced above. This approach will accelerate the process of making units that are not currently deemed to be at risk / vulnerable to inhabitation due to the identified physical needs issues that ACHA does not have adequate capital funding to address.

ACHA realizes that the process of fully repositioning public housing developments takes multiple years from start to finish. For that reason, we must make available as many units as possible to alleviate the shortage in availability of affordable units to accommodate demand in Atlantic City, which has experienced a 60% increase in homelessness (per Press of Atlantic City article dated 7/29/25).

## Appendix II

### Metric: Improve Physical Conditions of Dwelling Units

#### A)

- Performance Requirement: developments scoring < 60% on individual physical inspection...
- Procure PNA... work with PNA vendor to program identified capital projects... make contract award

#### B)

- Performance Requirement: increase physical sub-indicator (“PASS” on the PHAS assessment to 60%
- OR... contract with managing agent to operate all developments not achieving 60%

In 2022-2023, ACHA’s oldest AMP, Stanley Holmes Village (SHV), was experiencing regular heat and hot water outages, gas line leaks, collapsed sewer lines and breaks in domestic water lines, among other issues. The boilers were 60 years old, and the piping that delivered heat, hot water, and gas was beyond serviceable due in large part to ACHA’s historical strategy of patching repairs rather than comprehensively replacing failed sections. Piping issues were exacerbated by Hurricane Sandy, during which piping was further damaged by salt water. When the pipes failed in crawl spaces underneath resident buildings, 220-degree steam would flash, creating an environment ripe for mold generation and rodent / insect infestation. Addressing the challenge was made far more difficult because the most recent engineering documentation available was over 70 years old. This necessitated time-consuming inspections and walkdowns to generate a basic level of engineering documentation before substantive plans (Att. 9) could be developed and acted upon.

Gas leaks were the primary concern, as it could result in an explosion. These conditions without question constituted an emergency, and ACHA responded in kind. Sniff tests in crawl spaces identified a reading of 6500 parts-per-million (PPM). This extremely elevated level of gas could result in explosion from the smallest spark. ACHA immediately evacuated the building at risk while simultaneously coordinating with local utilities to shut the gas off.

ACHA procured an Architecture & Engineering (A&E) firm in March 2024, within three months of signing the Recovery Agreement. The A&E firm was procured to conduct a PNA for the entire ACHA portfolio to identify and quantify the issues present (Att. 10). The A&E firm also designed the heating system solution at Stanley Village in the wake of failing boilers and crawl space piping to deliver uninterrupted heat and hot water to Stanley residents. ACHA’s priority during this emergency period was to return heat and hot water service to residents, so the A&E firm was

instructed to focus all efforts on the heating system solution. Once the heating system was in the construction phase, the A&E firm pivoted their focus to the PNAs.

With support from the A&E firm, independent construction managers, and a local mechanical contractor, ACHA successfully replaced the old, fire-tube boilers with new, high-efficiency boilers, replaced the boiler room pumps and motors, replaced all crawl space piping in the sixteen (16) buildings which comprise Villages I and II, repaired and stress-tested previous gas line repairs, ensuring no explosion risk. To support efficient future operations, a Building Automation System (BAS) was also designed and installed. This state-of-the-art BAS provides visibility into system health and identification of system vulnerabilities, enabling prompt resolution to any issues that arise.

The investments to improve the physical conditions of dwelling units at SHV were accomplished in a remarkably short timeline and with a limited capital budget. Value engineering design and ensuring contractor accountability yielded a fully functional heat and hot water system that was delivered under budget (\$3.8M). Moreover, the improvements to the heating system and residents lived experience were accomplished amidst continued outages in Village III, where crawl space pipes were not replaced (due to financial and time constraints). Residents moved out of Village III in accordance with the HUD-approved Transfer Plan (*Att. II*) that ACHA deployed to move residents to immediately improved living conditions.

The positive results of investments made at Stanley Villages I and II are most evident in comparing the average number of residents in hotels during heating season in 2023 / 2024 vs. 2024 / 2025. In the former heating season, residents per night averaged thirty (30); the latter heating season the average was less than five (5) residents per night, a reduction of around 85%. This clearly illustrates the effectiveness of ACHA's strategy to replace boilers and crawl space piping in the sixteen (16) buildings closest to the boiler room, and consolidating the heating loop from three villages to two. It cannot be understated the marked difference between the crisis environment from 2023 / 2024, to the measured and managed heating season of 2024 / 2025.

Upon completion of the PNAs by the A&E Firm, ACHA began assessing the items identified as "critical" in the PNAs and is evaluating each critical item with the lead ACHA plumber and mechanical contractor superintendent.

ACHA is also in the process of replacing HVAC units at its Scattered Site (AMP006) properties that have run to failure (due to zero maintenance) over multiple decades. This will greatly improve the quality of life for Scattered Site residents. While our mechanical contractor is addressing the failing HVAC systems, our A&E firm simultaneously began developing roofing assessments and specifications for repair / replacement. The completion of HVAC and roof repairs will positively impact ACHA's physical score.

In September 2024, ACHA responded to a Notice of Funding Opportunity (NOFO) for troubled housing authorities to improve the physical conditions and occupancy. ACHA was not awarded

the funding opportunity, despite having a need and compliant application. If ACHA had been granted the funding, it would have enabled ACHA to address additional capital needs in a more accelerated timeframe.

Regarding the performance requirement and hiring an outside agency to manage properties under 60%, funding is not available to support this effort within our budget.

ACHA is confident that upon completion of the pending critical actions identified in the PNA (subject to adequate funding availability), its developments' scores will be greater than the minimum acceptable 60% identified in the recovery agreement.

## Appendix III

### Metric: Improve Financial Performance

- 6(a) – Performance Requirement: submit unaudited and audited financial statements for FY2022 (within 3 months of agreement execution)
- 6(b) – Submit unaudited and audited financial statements for FY2023
- 6(c) – Increase financial sub-indicator (“FASS”) on the PHAS assessment to 60%

The root cause of many issues at ACHA leads back to financial performance and funding. Because federal funding to housing authorities is largely inadequate, it is imperative that effective, efficient management be employed.

Although the ACHA had substandard PHAS scores to begin with, its failure to provide audited financial reports to HUD for FYE 3-31-2022 dropped its financial indicator from 23.42 to -0- due to a Late Presumptive Failure (LPF). The -0- on ACHA’s financial indicator lowered its overall score from 68.42 to 45, leading to a troubled designation that was technically avoidable. A focused effort to resolve this deficiency has been, and continues to be, in progress. Research into the matter showed that the audit not being completed was attributable to the Finance Director at that time. As the auditor conveyed after the current Executive Director inquired, the three primary contributing factors for the failed completion of the audit was the finance department’s inability or refusal to a) provide complete documentation, b) schedule interviews necessary to test internal controls, and c) maintain responsiveness to the audit team (Att 12).

Since then, ACHA has procured both a new auditor and fee accountant, hired a Chief Financial Officer, and caught up on two (2) years of incomplete audits (FYE 3/31/2022 and 3/31/2023) despite numerous logistical challenges.

When the Executive Director was appointed in late October 2023, he immediately created a plan to make current ACHAs financial reporting status. The E.D., acknowledging that the FYE 3/31/2023 audit report was due to be submitted to HUD no later than 12/31/2023, submitted an extension request due to the fact that the 3/31/2022 audit had to be completed prior to the 3/31/2023 audit commenced (Att. 13a). The extension request was cancelled by HUD, resulting in an LPF and score of -0- on ACHA’s financial indicator once again. Both of the outstanding audits were completed and submitted in February and June of 2024, respectively. Catching up on both audits, while necessary, was not positively reflected on ACHA’s PHAS score because HUD was not willing to grant an extension to the due date.

Two critical components of any Public Housing Authority’s financial reporting process – a Chief Financial Officer and Fee Accountant – were absent as of the beginning of CY 2024. In light of this, the E.D. submitted an extension request to the submission of unaudited FYE 3/31/2024 financials to HUD in May 2024 (Att 13b), which was granted by HUD. The hiring process for the CFO position necessitated multiple rounds of postings, which ultimately resulted in the position

being filled in August 2024. Procuring a Fee Accountant closely mirrored the CFO hiring process in that multiple rounds of solicitation were necessary to award a contract to a qualified firm, which also concluded in August 2024. Upon onboarding of both key roles, the unaudited FYE 3/31/2024 financials were submitted in November 2024. An extension request to the corresponding audited financials was submitted due to the same root cause of the delays in completed the unaudited submission (Att. 13c). This extension, however, was rejected by HUD. As of 7/24/2025, the FYE 3/31/2024 audit report had been completed and is currently pending acceptance by the Board so it can be submitted to HUD. Ultimately, if HUD remains unwilling to consider a waiver to the deadline for submission of the audited financials the ACHA will yet again receive an LPF and -0- for its 2024 PHAS score. Despite ACHA taking every action available to us, our financial indicator will not reflect the progress made without HUD’s assistance.

With regard to the FYE 3/31/2025 financials, ACHA submitted the unaudited financial data on time and is on track to meet the 12/31/2025 deadline for the audited submission.

The table below summarizes the three (3) aforementioned fiscal year audit statuses:

<b>FISCAL YR</b>	<b>UNAUDITED</b>	<b>UNAUDITED</b>	<b>HUD APPROVED</b>	<b>COMMENTS</b>
2022	COMPLETE	COMPLETE	YES	Score “0” due to late submit
2023	COMPLETE	COMPLETE	YES	Score “0” due to late submit
2024	COMPLETE	COMPLETE	NO	Pending Board Approval
2025	COMPLETE	12/31/2025	NO	IN PROGRESS

ACHA’s board and senior leadership are committed to being the most responsible stewards of ACHA funding and deploying federal appropriations in the manner which delivers the most return on investment for its residents. This commitment to being fiscally responsible is most evident in the Stanley crisis response: ACHA resolved the heating and hot water crisis with an extremely limited budget in a time-sensitive environment and heightened scrutiny.

## Appendix IV

### Metric: Reposition Public Housing

- Performance Requirement: evaluate all opportunities to reposition
- Submit evaluation of repositioning opportunities for all public housing properties; detailed plan and timeline...

As previously stated, ACHA's physical needs solutions are hampered by a lack of resources: \$200M+ in identified deficiencies (per A&E PNA) and less than \$5M in annual capital funding. This equation is so out of balance that bold and creative repositioning solutions are necessary to overcome. ACHA has identified the roadmap to repositioning its antiquated assets by identifying best practices and lessons learned from other housing authorities that have navigated similar challenges. A recent visit with the Philadelphia Housing Authority identified successful strategies it employed that ACHA plans to utilize a variation of. Additionally, ACHA tasked its A&E firm (which has prior housing authority redevelopment experience), to produce some conceptual renderings for a newly developed complex on the now vacant Village III (Att. 14). Acutely aware of the need for redevelopment, ACHA is thoroughly vetting all options available (e.g. RAD, Section 18, mixed income and mixed use). There is a serious need in Atlantic City for residential, mixed use, veteran / workforce housing, and community space. ACHA has partnered with various higher education, non-profit organizations, and healthcare entities that will be instrumental in a well-rounded revitalization effort. These critical community stakeholders that are partnering with the ACHA will play an integral role in delivering quality, critical resources to residents of ACHA and Atlantic City at large – which will benefit the entire community.

A Section 18 Application is in progress and ACHA anticipates submitting it to HUD by October 1, 2025. ACHA will submit sooner if major milestones are realized earlier than anticipated. The Part 58 Environmental Review must be completed by a qualified entity with the authorization of the City of Atlantic City in its role as the Responsible Entity (RE) and included in the application. ACHA is also preparing a request for qualifications (RFQ) to identify a pool of developers who can partner with ACHA to co-develop the remainder of its portfolio.

ACHA is initiating a series of discussions with all stakeholders. Discussing the plan with the ACHA Board, City of Atlantic City, all residents and specific resident organizations will ensure primary concerns are heard and addressed. ACHA is currently in the process of re-establishing the Resident Advisory Board (RAB). The recently established Tenant Association (TA) for Stanley Holmes completed its TA training on Saturday, 7/26/2025.

In 2016, New Jersey Governor Chris Christie stripped ACHA of its Redevelopment classification, putting control of all redevelopment in the States hands. Since the inception of public housing in 1937, the United States Government has not met its statutory requirement in providing necessary funds to Authorities to operate and maintain assets. Consequently, statutory requirements will never be fully met by Authorities at current and anticipated funding levels.

ACHA is scheduling multiple board retreats over the next 90 days to discuss and further refine plans for the repositioning of all ACHA public housing developments. This will ensure that the community is involved in determining the best path forward for its residents. As was discussed during the PDAS's visit to Atlantic City, NJ on May 2, 2025, ACHA needs HUD's support to truncate the time necessary to deliver improved housing for ACHA residents. Specifically, ACHA will need HUD to quickly review and approve the applications for Section 18 Demo and issue Tenant Protection Vouchers to allow the ACHA to vacate its properties in preparation for demolition and new construction.

At the conclusion of our envisioned roadmap ACHA will have transformed its business model to more closely reflect that of a public / private (hybrid) asset management entity. Doing so will allow ACHA to adjust to changes in funding formulas, operate more efficiently, and provide the highest level of services and quality of life for our residents.