



# *Audit Report*

## **District Inspector General for Audit Southeast/Caribbean District**

*Report: 99-AT-241/242/255-1002      Issued: December 4, 1998*

TO:            John L. Perry, Director, Community Planning and Development Division, 4AD

FROM:        Nancy H. Cooper  
                District Inspector General for Audit-Southeast/Caribbean, 4AGA

SUBJECT:     Augusta-Richmond County Consolidated Government (ARC)  
                Community Development Block Grant, HOME, and  
                Urban Development Action Grant Programs  
                Augusta, Georgia

This report presents the results of our audit of ARC's administration of the Department of Housing and Urban Development's (HUD) Community Development Block Grant, HOME, and Urban Development Action Grant Programs. The grantee's comments to the four findings and associated recommendations are included as Appendix D with excerpts and the Office of Inspector General's (OIG) response incorporated into the Findings and Recommendations section of the report.

Please furnish this office a reply within 60 days on each recommendation describing: (1) the corrective taken; (2) the proposed corrective action and a planned implementation date; or (3) why action is not considered necessary. Also, please furnish us copies of any correspondence or directives issued as a result of the audit. Note that HUD Handbook 2000.06 REV-3 requires management decisions to be reached on all recommendations within 6 months of report issuance. It also provides guidance regarding interim actions and the format and content of your reply.

We are providing a copy of this report to the grantee.

We appreciate the cooperation of your staff during the audit. If you or your staff have any questions please contact me or Mike Gill, Assistant District Inspector General for Audit at 404 331-3369.

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# *Executive Summary*

This audit was conducted in response to a Congressional request concerning HUD funded programs administered by the City of Augusta (city). Prior to January 1996, the city government was responsible for administering HUD programs in the Augusta, Georgia, area. On January 1, 1996, the city and county governments combined to form the Augusta-Richmond County Consolidated Government (ARC). In January 1997, the area served by the consolidated government became the entitlement community for program funding purposes. Our audit objectives were to determine whether (1) Community Development Block Grant (CDBG) expenditures were eligible, properly supported, and met national program objectives, (2) CDBG economic development loans were properly made and effectively monitored, (3) an Urban Development Action Grant (UDAG) loan for development of a hotel, office, and convention center complex was effectively monitored, and (4) HOME funds were properly awarded to Community Housing Development Organizations (CHDO) and effectively monitored.

Our review disclosed no significant deficiencies regarding the city's award of HOME funds to CHDOs and its monitoring. However, we did find serious problems with the city's management of CDBG and UDAG funds. We identified about \$1.6 million of ineligible and \$.6 million of unsupported costs.

- The city's grant program to improve facades of commercial buildings in the downtown area did not meet national objectives of the CDBG Program. Our review of 27 of 46 construction projects funded by the city during calendar years 1992 through 1997 found 11 projects totaling about \$443,000 that did not address slum and blight and did not comply with city program policy. The city did not maintain adequate documentation on the other 16 projects totaling about \$588,000 to determine whether they met the objectives or complied with city policy. (See Appendices A and B) In addition, we identified inconsistency in the awards and requirements placed on some property owners by the city that had the appearance of favoritism. These deficiencies occurred, in part, because the city's administrative policy for awarding facade grants did not contain procedures for documenting files and monitoring and enforcing compliance. Also city program officials disregarded policy.
- From 1992 through 1996, the city made 10 special economic development loans to 9 for-profit entities totaling \$559,250. Three of the loans totaling about \$208,000 were forgiven by the city. At the time of our review in May 1998, seven of the entities (78 percent) had gone out of business owing the city about \$193,000. Recovery is not likely. Only one entity was current with its payments. (See Appendix C) Our review revealed that the city did not maintain documentation to determine if the loans met program requirements and/or national objectives. We found little evidence that the city monitored and enforced loan requirements. We also identified inconsistency in how some loans were handled that had the appearance of favoritism. (See Finding 1) These deficiencies occurred, in part, because the city had no written policies and procedures for making economic development loans, documenting files, and monitoring and enforcing

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compliance. Because of the nature and extent of the deficiencies, we consider \$559,250 ineligible.

- The city improperly charged the CDBG Program \$548,100 spent for street lighting and sidewalk improvements in 1995 and 1996. The city reported to HUD that these expenditures benefited low and moderate income persons. However, we determined that the projects did not meet this program objective because they were in commercial areas of downtown Augusta; not residential areas. The city improperly classified the costs as benefiting low and moderate income persons.
- The city may have lost millions in potential revenue and significantly reduced program benefits when it approved the refinancing of a developer's first mortgage without assessing the impact the refinancing had on the city. The mortgage was part of an agreement that the city had with the developer in order for the developer to obtain a 30-year \$7.5 million no-interest UDAG loan. The funds were needed to build a \$45.6 million hotel/office/conference center complex on the downtown river front. In return for the loan, the developer agreed to: (1) pay the city a percentage of the project's excess net cash flow based on certified financial reports and (2) employ up to 600 persons including 75 percent low and moderate income persons. We found that in addition to not assessing the impact of refinancing, the city had not obtained timely certified financial reports from the developer, and was unaware of the number of low and moderate income persons employed by the complex. These deficiencies occurred because the city did not effectively monitor and enforce agreement provisions.

These deficiencies primarily involved the city administration before consolidation of the city and county governments. The current administration recognizes that program management improvements are needed and has taken some corrective actions.

We recommend that you require the ARC to reimburse the CDBG Program for the ineligible costs, provide supporting documentation to determine eligibility of the unsupported costs (see Appendix A), and strengthen various management controls.

On August 14, 1998, we held an exit conference with HUD program officials who agreed with the findings and recommendations. We made several minor revisions to the draft report as a result of the exit conference held with ARC officials on August 19, 1998. The ARC provided its written comments on October 5, 1998. The grantee generally agreed with Findings 2 and 3 and disagreed with the other two findings. Applicable portions of the ARC's comments are incorporated along with our position into the Findings and Recommendations section of the report. The full text of the grantee's comments, excluding all but one attachment, is included as Appendix D.

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## Abbreviations

ARC	Augusta-Richmond County Consolidated Government
CDBG	Community Development Block Grant
CFR	Code of Federal Regulations
CHDO	Community Housing Development Organization
FY	Fiscal Year
HUD	Department of Housing and Urban Development
OIG	Office of the Inspector General
UDAG	Urban Development Action Grants

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# *Introduction*

## **BACKGROUND**

We initiated this audit in response to a Congressional request concerning HUD-funded programs administered by the City of Augusta (city). Prior to January 1996, the city government was responsible for administering HUD programs in the Augusta, Georgia, area. On January 1, 1996, the city and county governments combined to form ARC. In January 1997, the area served by the consolidated government became the entitlement community for program funding purposes.

Title I of the Housing and Community Development Act of 1974 (Public Law 93-383) established the CDBG Program. The program provides grants to States and local governments to aid in development of viable urban communities. Governments are to use grant funds to provide decent housing and suitable living environments and to expand economic opportunities, principally for persons of low and moderate income. All program projects and activities must meet one of the three national objectives of the CDBG program: (1) directly benefit low and moderate income persons, (2) aid in the elimination or prevention of slums and blight, or; (3) meet other community needs that have a particular urgency. The act requires CDBG recipients to certify that at least 70 percent of all program costs are spent to provide direct benefit to low and moderate income persons. Annual CDBG allocations to the City of Augusta for Federal fiscal years (FY) 1994 through 1996 were:

<u>FY</u>	<u>Allocation</u>
1994	\$2,376,000
1995	\$2,376,000
1996	\$2,309,000

The consolidated government's CDBG allocations for FY 1997 and 1998 were about \$2.9 million and \$2.8 million, respectively.

Section 119 of the Act established the UDAG Program. This program was created to assist cities and urban counties experiencing severe economic stress. Grants were made to local governments who used the funds to make loans to private developers for commercial, residential, or industrial projects. The program no longer exists; however, income from repayment of the loans can be currently used to fund CDBG-eligible activities (e.g., special economic development loans). Since program inception, the city has received UDAG grants totaling about \$10.2 million.

<u>FY</u>	<u>Amount</u>	<u>Project</u>
1983	\$ 1,430,000	Partridge Inn
1983	500,000	Mark Development Corporation
1983	200,000	YWCA
1985	500,000	Summerfield East Project
1987	<u>7,562,000</u>	Radisson Hotel, Office, Convention Center Complex
Total	<u>\$10,192,000</u>	

The HOME Program was created under Title II of the National Affordable Housing Act of 1990. It is designed to expand the supply of decent and affordable housing to low income citizens and to extend and strengthen partnerships among all levels of government and the private sector in the production and operation of affordable housing. The program requires that 15 percent of a grantee's annual allocation be set aside and used by non-profit CHDOs. The funds can only be used for development activities where the CHDO is the developer, sponsor, or owner of the assisted housing and has management control of the projects. HOME funds allocated to the City of Augusta for FY 1994 through 1996 were:

<u>FY</u>	<u>Allocation</u>
1994	\$ 593,000
1995	\$ 630,000
1996	\$ 591,000

The consolidated government was allocated HOME funds totaling about \$1.1 million for FY 1997 and \$1.2 million for FY 1998.

#### **AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY**

Our overall audit objectives were to determine whether: (1) CDBG expenditures were eligible, properly supported, and met national program objectives, (2) CDBG economic development loans were properly made and effectively monitored, (3) the UDAG loan for development of a hotel, office and convention center complex was effectively monitored, and (4) HOME funds were properly awarded to CHDOs and effectively monitored.

We conducted the audit at ARC's Housing and Neighborhood Development Office in Augusta, Georgia. We visited ARC property tax, planning commission, and city attorney offices. We also visited various project and activity sites in the community. The audit was primarily directed at program activities and expenditures in FYs 1995 through 1997. Audit coverage was extended to June 1998 and to prior periods as necessary to meet our audit objectives. Our field work was performed between January and May 1998. Sites visited and expenditures reviewed were judgmentally selected.

To accomplish our objectives, we:

- reviewed applicable laws, regulations and other HUD program requirements,
- evaluated city and ARC program policies and procedures,
- held discussions with various ARC and HUD officials,
- reviewed HUD monitoring and technical assistance reports,
- analyzed program action plans, budgets, and performance and expenditure reports,
- examined city and ARC project and activity files, and
- analyzed management controls including those associated with making loans, awarding subgrants, monitoring, accounting, and reporting on HUD-funded activities.

Our audit was conducted in accordance with generally accepted government auditing standards.



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# *Findings and Recommendations*

## **Finding 1**

### **The City's Facade Grant Program Did Not Address Slum and Blight**

The city's grant program to improve facades of commercial buildings in the downtown area did not meet national objectives of the CDBG Program. Our review of 27 of 46 construction projects funded by the city during calendar years 1992 through 1997 found 11 projects totaling about \$443,000 that did not address slum and blight and did not comply with city program policy. The city did not maintain adequate documentation on the other 16 projects totaling about \$588,000 to determine whether they met the objectives or complied with city policy. (See Appendix A and B) In addition, we identified inconsistency in the awards and requirements placed on some property owners by the city that had the appearance of favoritism. These deficiencies occurred in part, because the city's written administrative policy for awarding facade grants did not contain procedures for documenting files and monitoring and enforcing compliance. Also city program officials disregarded policy.

Title 24 of the Code of Federal Regulations (CFR) part 570.208(b) states that CDBG funds can be used to address slum and blight conditions provided: (1) the project is located in the designated slum and blight area that contains a substantial number of deteriorating buildings and, (2) activities (projects) address specific conditions which contributed to the area being designated a slum and blight area.

According to ARC's written program policy in effect from 1988 through 1994, objectives of the city's Facade Rehabilitation Program included protecting and preserving "as a community resource the large concentration of historic commercial buildings located in the Central Business District which has been designated as National Historic District," (underline added) and providing "incentive for private property owners to invest their own money in the rehabilitation of substandard buildings...." (The Broad Street Historic District was the primary historic district within the city's Central Business District.) This policy was revised in 1995 to include historic commercial buildings in other historic districts in the area.

In general, the city required that: (1) grant funds be spent on commercial buildings over 40 years old located in designated historic districts, (2) grant awards be limited to \$15,000 for a front facade and \$30,000 for two sides, if the building was on a corner, (3) owners match grant amounts with their own funds, and (4) owners sign security deeds which provided that grants be repaid if the buildings were sold within 5 years (20 percent of the grant was forgiven each year).

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From 1985 through 1997 the city awarded 124 facade grants totaling about \$3 million in CDBG funds. The city justified the use of CDBG funds for the facade program because facade projects would address slum and blight conditions in a designated area. Using building condition classifications established by the Richmond County Tax Assessor, the city formally designated most of the downtown area as an area of slum and blight. This determination was made because 25 percent of the buildings in the area were rated as below average condition (fair or poor).

#### CDBG Funds Spent On 11 Projects Did Not Address Slum And Blight

Our review of 27 building condition codes recorded on property tax records immediately preceding the award of the grants showed that 10 of the buildings were rated average or better (good, excellent). Therefore, the contributing factor the city used to designate the downtown area being a slum and blight area was not addressed by these grants. Of the 27 projects, 2 projects (including 1 building rated average or better) were located outside the designated slum and blight area. CDBG funds expended on these 11 projects totaled \$443,461. (See Appendices A and B)

We also found noncompliance with city program policy and many inconsistencies in grant amounts, areas where buildings were located, match amounts, match funding sources, and funding provided some owners (see Appendix B). Some inconsistencies had the appearance of favoritism. For example:

BL's Country Kitchen, 1117 Laney-Walker Boulevard - In 1994, a local state legislator was given a \$75,690 facade grant to help convert a vacant furniture store into a restaurant. The building was in the designated slum and blight area but not in the targeted historic area (Broad Street Historic District). It was rated as being in good condition by the city tax department before the award. The grant amount was more than five times the established limit because the city approved work on more than the building's façade. For example, previously undetected roof damage was found during the renovation. The city increased the original grant amount to cover the additional work. The city also provided the owner a \$83,000 economic development loan for work on the building's interior, an expense normally paid by the owner. In addition, the city allowed the owner to use the loan to meet the grant matching requirement. The loan was subsequently forgiven by the city. In May 1998, the restaurant closed. The owner recently requested another economic development loan for \$150,000 from the ARC to convert the building into a facility for training cooks and other restaurant workers. (See Finding 2)

The Pilgrim Building, 1143 Laney-Walker Boulevard - The owner of this building also owned BL's Country Kitchen. The building was in the designated slum and blight area but outside the targeted historic area. It was rated in good condition before the \$30,000 grant was funded in 1992. The city gave the owner the maximum amount allowed for facade work on a corner building (two sides). However, the funds were used for work on all four sides. The city also gave the owner another grant for \$60,000 from Special Purpose Local Option Sales Tax funds for interior work. This grant was used to satisfy the facade grant's matching requirement. The building currently houses the legislator's businesses.

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The Alpha House, 1025 12th Street - This building was in the slum and blight area but outside the targeted historic area. It was not a commercial building. It was used as a meeting house and activity center by a professional fraternity whose members included several local politicians. The building was rated as average condition before the grant was awarded in 1994. The \$30,000 facade grant was used for work on the whole building exterior including putting on a new roof. The city also gave the fraternity a \$50,000 grant from the sales tax fund that was used to meet the facade grant's match requirement.

La Maison Restaurant, 404 Telfair Street - This building housed an upscale French restaurant in the slum and blight area but outside the targeted historic area. It was rated in good condition by the tax department before the grant was made. In 1994, the owner was given \$29,165 by the city to repair and paint the building's exterior. The city waived the owner's matching requirement. There was no documentation to justify the waiver.

Davidson's Auto Service, 699 Reynolds Street - This building housed a large auto repair facility in the targeted historic area. However, it had no historical significance. It was rated in good condition by the tax department before the facade grant was funded in 1992. The grant was initially denied but after several meetings with city officials, the owner was given \$60,000. The garage was in front of a new high-rise condominium complex located in Augusta's river front area; the site of a major city redevelopment project (see Finding 4). Before and after pictures show that as a result of the grant work, the repair facility's facade more closely resembles the condominium's. The owner met the grant matching requirement using his own funds.

James H. Williams Building, 935-939 Laney-Walker Boulevard - The building was in the slum and blight area and in one of the targeted historic districts. It was rated in average condition by the city tax department before the grant was awarded in 1995. The building had three store fronts and was located on a corner. The owner could have qualified for a \$60,000 grant, but received \$45,000. While the grant work was ongoing previously undetected termite damage was uncovered. The city required the owner to pay for the repair. The facade work was halted until the owner complied. The owner also used his own money to meet the matching requirement.

#### The City's Project Files Were Not Adequately Documented

Project files were not sufficiently documented to justify use of CDBG funds. We determined that the files did not show the condition classification (e.g., good) of the buildings before facade grants were awarded or after the work was completed. The city also did not document the specific structural deficiencies addressed by the grants to improve the buildings' condition classifications. Also files were not always documented to show buildings' historical significance.

City policy also required that property owners match the grant amount with their own funds. However, we found that only four of the project files contained evidence that the match requirement was met by the owners. (ARC subsequently provided match documentation for three other projects.) For one other project, the city allowed owners to use other CDBG loan funds for their match and subsequently waived loan repayment. For two projects, the city allowed owners to use other city funds (e.g., sales tax) for their match. In one other case, the city waived the match. There was no documentation in the files to justify the waiver. Because the city did not enforce the match requirement, property owners received a significant benefit at taxpayer's expense.

We consider \$587,668 unsupported, because the other 16 project files reviewed did not contain documentation to justify the city's actions. ( See Appendices A and B )

The compliance deficiencies occurred, in part, because the city's written policy for awarding facade grants did not contain procedures for documenting files and monitoring and enforcing compliance. In addition, city program officials disregarded the policy.

### **ARC Comments**

In its response dated October 5, 1998, the ARC stated that it disagreed with our conclusion that its Facade Rehabilitation Program did not address slum and blight. The grantee said that the program did address a condition that attributed to the deterioration of the designated slum and blight area, namely the rundown exterior condition and appearance of historic properties. It stated that program files were documented to show the specific building deficiencies that were to be corrected. The files included copies of architect plans and specifications and demolition notes. ARC stated that each property was verified as historic. It said that initially the program was limited to one small area but was later expanded to several historic districts within the slum and blight area. It stated that the program has always been open, on a first-come first serve basis to owners of qualifying historic properties located in the designated area. ARC said that it assessed each grant application to determine eligibility and to identify any violations of the Conflict of Interest statute. Properties owned by or associated with elected officials were considered as long as the statute was not violated. ARC provided us documentation to show that match requirements were met on three additional projects.

### **OIG Response**

ARC provided no information that significantly changed the finding. Several minor revisions were made to clarify information and adjust figures.

## **Recommendations**

### **We recommend that you:**

- 1A. Require that ARC develop and implement written procedures for documenting files and monitoring and enforcing compliance. Assess compliance during future HUD monitoring reviews.
- 1B. Require that ARC reimburse the CDBG Program from non-federal sources for the \$443,461 in CDBG funds that did not meet program objectives for 11 facade projects.
- 1C. Require that ARC provide support for its actions on the other 16 projects reviewed and reimburse the CDBG Program from non-federal sources for all or any part of the \$587,668 that does not meet program and/or city requirements.
- ID. Require that ARC provide supporting documentation to assess eligibility for the other 19 projects we did not review and reimburse the CDBG Program for any ineligible expenditures.

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## Finding 2

### The City Mismanaged Its Special Economic Development Loan Program

From 1992 through 1996, the city made 10 special economic development loans to 9 for-profit entities totaling \$559,250. Three of the loans totaling about \$208,000 were forgiven by the city. At the time of our review in May 1998, seven of the entities (78 percent) had gone out of business owing the city about \$193,000. Recovery is not likely. Only one entity was current with its payments. (See Appendix C) ARC provided no documentation to determine if the loans met program requirements and/or national objectives. We found little evidence that the city monitored and enforced loan requirements. We also identified inconsistency in how some loans were handled that had the appearance of favoritism. (See Finding 1) These deficiencies occurred in part, because the city had no written policies and procedures for making economic development loans, documenting files, and monitoring and enforcing compliance. Because of the nature and extent of the deficiencies, we consider \$559,250 ineligible.

The city used UDAG program income to provide special economic development loans. Use of these funds is governed by CDBG program requirements. These include meeting one of the three program objectives and documenting compliance. Title 24 CFR part 570 provides that in making loans, the city must: (1) determine that assistance would not be excessive or otherwise enrich the owners, (2) perform a pre-loan analysis of business' unmet needs from private funding sources, (3) evaluate the public benefit, and (4) projects' financial feasibility and likelihood of success.

#### The City Had No Documentation To Support Eligibility

The city did not maintain documentation to determine whether the loans met program requirements and/or national objectives. We also found no evidence that the city exercised prudent lending practices. For example, none of the loans files contained formal loan applications, financial statements, credit reports, or business plans. We found no analyses of entities' economic viability, financial needs, or proposed use of the funds in meeting program objectives. Most files contained only letters requesting the loans. Few files contained any documentation that promised jobs were provided to low and moderate income persons.

#### The City Did Not Monitor and Enforce Compliance With Loan Requirements

We found no evidence that the city conducted site visits to verify promised employment of low and moderate income persons. For most loans that became delinquent, files contained no reminder or collection notices. There was also no indication that the city made any effort to recover pledged collateral.

### Inconsistency In How Some Loans Were Handled Had The Appearance of Favoritism

Three entities' loans totaling \$208,000 were forgiven by the city. Two of these loans were significantly more than other loans that were not forgiven. The loan files contained no justification for treating these entities different than the others. The two entities that received the large loans also received facade grants (see Finding 1). The city allowed one of the entities (BL's Country Kitchen) to use loan funds to meet its match requirement on the facade grant. As a result, the entity's owner (a State Senator) received a total of about \$159,000 from the city with few strings attached. The entity promised to employ at least 20 low and moderate income persons. At the time of our review in May 1998, BL's Country Kitchen was out of business.

### The City Had No Written Policies And Procedures

At the time of our review, five of the seven entities that received repayable loans were out of business owing the city about \$193,000. Recovery is not likely. Only one of the entities was current with its payments. Some of the problems with these loans could have been avoided if the city had written policies and procedures for making these type loans, documenting files, and monitoring and enforcing compliance.

In 1996, the city developed comprehensive written policies and procedures. Subsequent loan applications were processed in accordance with these requirements.

### **ARC Comments**

In response to the draft report, the ARC stated on October 5, 1998, that it agreed with the finding regarding lack of documentation and written policies and procedures. The ARC said that subsequent to consolidation of the city and county governments, it analyzed the outstanding loans to determine whether they could be collected but the documentation problem hindered the process. Some actions were taken to collect on several of the loans. The grantee stated that it objected to reimbursing the CDBG Program \$559,250 because the noncompliance occurred under a former administration and because OIG could not determine if the loans met program requirements. In addition, the ARC said that it had strengthened management controls including developing and implementing written policies and procedures for awarding economic development loans. It did not comment on the three loans to two entities totaling \$208,000 that were forgiven by the city. These actions had the appearance of favoritism.

### **OIG Response**

As reported, actions taken by ARC to strengthen management controls in this area have been effective. Subsequent loans we reviewed were processed in accordance with written policies and procedures. However, taking corrective actions and attributing lack of documentation to a former administration are not adequate reasons to waive repayment for noncompliance. The grantee is required to have effective management controls in place including maintaining sufficient documentation to support eligibility. It is also liable for the actions of the former administration. The ARC admitted in its response that it has no additional documentation than was provided to us during the audit. It stated that:

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*...ARC is not in a position to dispute or otherwise respond to the OIG's Finding 2 as to the former City's actual practices and procedures for approving these loans, as all of these events occurred prior to consolidation and the individuals responsible for administering these loan programs are no longer employed by ARC.*

Therefore, our recommendation regarding reimbursement of the ineligible costs is justified.

### **Recommendations**

#### **We recommend that you:**

- 2A. Require that when ARC writes off the uncollectible loans they send 1099 forms to the recipients.
- 2B. Require that ARC reimburse its CDBG Program \$559,250 from non-federal sources for the 10 special economic development loans that did not meet program requirements.



## **Finding 3**

### **Street Lighting and Sidewalk Improvements Did Not Benefit Low and Moderate Income Persons**

The city improperly charged the CDBG Program \$548,100 spent for street lighting and sidewalk improvements in 1995 and 1996. The city reported to HUD that these expenditures benefited low and moderate income persons. However, we determined that the projects did not meet this program objective because they were in commercial areas of downtown Augusta; not residential areas. The city improperly classified the costs as benefiting low and moderate income persons.

Title 24 CFR part 570 provides that at least 70 percent of costs spent on program activities must benefit low and moderate income persons. The area served by the activities must be primarily residential.

The city inappropriately charged \$393,163 to CDBG funds in 1995 and 1996 for costs of upgrading and replacing street lights in the downtown Augusta area; Broad Street (5th to 10th Street) and 11th and 12th Streets (Broad Street to Greene Street). It also charged \$154,937 to the CDBG Program for repairing and replacing sidewalks and curbs on Broad Street between 5th and 6th Streets during the same period. However, we determined that the areas in which the improvements were made were primarily commercial; not residential. For example, Broad Street between 5th and 6th Street is in the heart of the business district in downtown Augusta.

In order to show that 70 percent of CDBG costs benefited low and moderate income persons and avoid possible sanctions, in 1995 and 1996 the city reclassified costs of several of its street lighting and sidewalk improvement projects. In prior years the city had properly shown costs of similar projects in the downtown area as helping to improve its slum and blight areas. Because the costs did not benefit low and moderate income persons, we consider \$548,100 expended on these improvements ineligible program costs.

#### **ARC Comments**

On October 5, 1998, the ARC stated that it agreed with the finding. It said that it has taken action to ensure that future costs meet program requirements. However, rather than reimburse the CDBG Program \$548,100 for the ineligible program costs claimed in FYs 1995 and 1996, it requested that HUD allow revisions to its 1995 and 1996 certifications and show subsequent year (e.g., FY 1997) costs incurred in excess of 70 percent that benefited low and moderate income persons.

## **OIG Response**

To reach management decision, HUD should 1) review the eligibility of all costs incurred in FY 1997 and used to make up the shortfall in FYs 1995 and 1996 and 2) assess the adequacy of corrective actions taken by the grantee to ensure future costs meet program requirements.

## **Recommendations**

### **We recommend that you:**

- 3A. Require that ARC implements management controls to ensure that CDBG expenditures are properly classified.
- 3B. Require that ARC reimburse its CDBG Program \$548,100 from non-federal sources for the costs of ineligible street lighting and sidewalk improvements.

## Finding 4

### **Inadequate Monitoring of a UDAG Loan Agreement May Have Cost the City Millions and Significantly Reduced Program Benefits**

The city may have lost millions in potential revenue and significantly reduced program benefits when it approved the refinancing of a developer's first mortgage without assessing the impact the refinancing had on the city. The mortgage was part of an agreement that the city had with the developer in order for the developer to obtain a 30-year \$7.5 million no-interest UDAG loan. The funds were needed to build a \$45.6 million hotel/office/conference center complex on the downtown river front<sup>1</sup>. In return for the loan, the developer agreed to: (1) pay the city a percentage of the project's excess net cash flow based on certified financial reports and (2) employ up to 600 persons including 75 percent low and moderate income persons. We found that in addition to not assessing the impact of refinancing, the city had not obtained timely certified financial reports from the developer, and was unaware of the number of low and moderate income persons employed by the complex. These deficiencies occurred because the city did not effectively monitor and enforce agreement provisions.

#### Inadequate Monitoring May Have Cost the City at Least \$8 Million in Future Revenue

In November 1987, the city entered into an agreement with the Augusta Riverfront Limited Partnership for a \$7.5 million interest free UDAG loan. No payment was required until the first mortgage was paid-off. The term of the \$16 million first mortgage which began in 1992 was for 5 years with an option to extend it to 30 years if the developers did not obtain financing through private syndication. In 1996, the developers decided that they would refinance the first mortgage for 12 years rather than syndicate it or extend it to 30 years because the project was generating significant revenue. (As of December 31, 1996, the project had accumulated nearly \$7 million in its short-term investments.) The mortgage was refinanced for \$17 million.

As part of the 1987 agreement, the developer was to pay the city 20 percent of the project's annual excess net cash flow as contingent interest computed as follows:

Annual Gross Revenue
Less: Total Operating Expenses (exclusive of depreciation and amortization)
Debt Service
Net Cash Flow
Less: 15 Percent Return of the Developer's Investment Equity
Excess Net Cash Flow

<sup>1</sup> In addition to the UDAG loan, the city also put \$9.9 million into the project with improvements to the river front and parking facilities.

The project did not generate sufficient net cash flow the first 4 years of operation (1992 through 1995) to provide a return to the city. However, as of May 31, 1996, the project had an excess net cash flow of \$369,090. The city's share was determined to be \$73,818.

In September 1996, the city as second lien holder approved the developer's request for refinancing. The reduced loan term and increased loan amount increased debt service and reduced the project's net cash flow substantially. As a result, the city will not receive any return for 1997 and its return in future years will be substantially reduced.

Year*	Before Refinancing		After Refinancing	
	Net Cash Flow**	Due to City	Net Cash Flow**	Due to City
1996	\$ 1,884,641	\$73,818	\$1,884,641	\$73,818
1997	2,013,195	103,525	1,339,128	0
1998	2,077,314	116,352	1,392,693	0
1999	2,160,406	132,971	1,448,401	0
2000-2007	20,702,730	1,747,661	11,897,492	285,724
2008	3,074,932	315,876		
2009-2020	48,031,459	<u>6,020,965</u>		
	Total	<u>\$ 8,511,168</u>		<u>\$ 359,542</u>

\* As of May 31

\*\* In determining future net cash flow, we used the actual net cash flow from the developer's 1996 financial report as of May 31. We conservatively assumed revenue and expenses would remain at 1996 levels adjusted for inflation at 4 percent annually (the amount of increase used in developer's proposal). However, we noted that the developer's financial statements for the fiscal year ending December 31, 1997, showed that the project's net profit almost doubled from the prior year.

We found no evidence that the city considered the impact that refinancing would have on its future revenue. This may have occurred because the city had not obtained timely certified financial reports that were due 90 days after close of the operating year. The first check the city received from the developer for excess net cash flow for 1996 (12 months ending May 31, 1996) was not paid the city until March 1997. As a result, the city may not have been aware that the project's revenue and net cash flow had increased significantly since it began operations and was close to generating revenue for the city. For example, the project's net cash flow had increased 84 percent in 2 years (May 1993 through May 1995).

City officials stated that they had little choice but to approve the refinancing. We agree, as second lien holder on the first mortgage, the city had to subordinate its claim or the new lender would not have paid off the first mortgage. In a memorandum to ARC dated June 7, 1996, the new lender stated that "SouthTrust will require, as a condition to making the SouthTrust loan, that the security deed securing the UDAG loan be subordinated to the new security deed that will

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secure the SouthTrust loan. By subordinating the security deed securing the UDAG loan to the security deed securing the SouthTrust Loan, Augusta-Richmond County will maintain its current status as the second mortgage lender with respect to the Riverfront Center.” However, in subordinating its claim, the city had an opportunity that it did not take advantage of. We believe that the city could have negotiated some compensation for the lost revenue or amendments of other less favorable agreement provisions. Under the agreement, the developer pays the city nothing for its exclusive use of the convention center for 50 years. The developer also receives 50 percent of the fees charged other center users. The remaining revenue is deposited into an escrow account to be used to pay the center’s operating expenses and capital improvements. The city gets no direct revenue from the convention center. Also for 30 years the city cannot unilaterally increase the per vehicle parking fee charged the developer for use of an adjacent city parking lot.

#### Financial Data Submitted by the Developer Did Not Comply With the Loan Agreement

The city did not enforce provisions of the loan agreement that required that the developer submit timely certified financial reports. The agreement stated that the developer shall provide the city an annual financial report from an independent public accountant within 90 days after close of the operating year certifying to: (1) the project’s gross revenue, operating expenses (including debt service), and net cash flow, (2) developer’s investment equity, and (3) the amount of excess net cash flow due the city. The city did not obtain timely financial reports or annual audited financial statements from the developer. During our review, we obtained the project’s audited financial statements for 1992 through 1997 (ending December 31). The statements did not contain any net cash flow analyses.

We determined that the developer’s net cash flow analyses used to compute the city’s share since 1992 did not comply with the agreement. The developer used a different reporting period than required. It used a fiscal year ending May 31 rather than December 31 (end of the project operating year) used in preparing the developer’s financial statements. The developer claimed that a different reporting period was necessary because the project management company’s fiscal year was different. We found no reason that the cash flow analysis report could not be prepared for the same time period as the financial statements. There were several problems with using different reporting periods. The net cash flow analyses were prepared by an independent public accountant but were not certified as were the financial statements. Also, the analyses data could not be compared to data in the financial statements because the data was from different accounting periods.

#### The City Did Not Ensure That 75 Percent of Project Employees Were Low And Moderate Income

In its application for the UDAG loan, the developer estimated that 600 permanent jobs would be created by the project. Low and moderate income persons would fill 75 percent of these positions. The loan agreement stated that the developer would use its “best efforts” to achieve this employment. However, the agreement did not define “best efforts” and provided no penalty for not meeting employment goals.

We found no evidence the city assessed whether the developer achieved its employment goals. There were no employment studies or reports in the file. We determined that the project only created about 200 jobs. City officials did not know how many of these employees were low and moderate income. During our review ARC requested the developer periodically gather and report this data to them.

This project has been very successful for the developer. The city has shared some of this success. However, its share could have been much greater if it had better monitored and enforced agreement provisions.

### **ARC Comments**

In its response dated October 5, 1998, the ARC objected to our conclusion that in subordinating its claim the city had some leverage and an opportunity to negotiate more favorable terms in return for potential revenue lost to the city. It stated that there was never any intent nor legal right for the city or HUD to exercise such leverage. The grantee said that we gave no consideration to the benefit the city would receive from repayment of the UDAG loan after 12 years instead of 30 years. It also stated that all financial reporting requirements were met by the developer including timely reporting and correctly computing the project's net cash flow. ARC did not comment on its assessment of the project's employment goals.

### **OIG Comments**

As stated in the report, we agree that ARC had to subordinate its claim or the new lender would not have paid off the first mortgage. Also because of the 1990 amendment to the agreement, ARC was legally obligated to subordinate the claim. However, we continue to believe that although the city had no legal leverage at the time, it did have an opportunity and an obligation (had it assessed the monetary impact of the refinancing on the city) to negotiate more favorable agreement terms in return for the lost revenue. In addition, in developing our projections, we did consider the benefit the city would have received by repayment of the UDAG loan after 12 years versus 30 years. However, this benefit was offset by the future value of the projected lost revenue (conservatively estimated) before and after year 2008. Therefore, we did not show these amounts in our projections. The agreement terms are clear regarding the developer's financial reporting responsibilities. ARC needs to enforce them.

We revised the report regarding computation of the net cash flow.

### **Recommendations**

#### **We recommend that you:**

- 4A. Require that ARC develop written policies and procedures for monitoring and enforcing compliance with agreement provisions.

- 4 B. Require that ARC obtain timely the annual certified financial reports as specified by the agreement.
- 4C. Assess the adequacy of city monitoring during the next on site HUD review.

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# Management Controls

Management controls include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include systems for measuring, reporting, and monitoring program performance.

In planning and performing our audit, we considered the grantee's management controls to determine our audit procedures and not to provide assurance on the controls. Management is responsible for establishing effective controls.

We determined that the controls most relevant to our audit objectives pertained to the following:

1. Ensuring eligibility with program requirements.
2. Documenting compliance with the requirements including meeting national objectives.
3. Awarding and monitoring sub-recipients including recipients of subgrants and loans.
4. Establishing and implementing written program policies and procedures.

We assessed controls in place. We obtained an understanding of the auditee's procedures and HUD requirements and performed various substantive tests of the controls.

A significant weakness exists if controls do not give reasonable assurance that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.

Based on our review, we believe that significant weaknesses existed in all four management control areas mentioned above. Specific control weaknesses are discussed in the findings.



# *Follow-up on Prior Audits*

This is the first Office of Inspector General audit of the grantee's CDBG , UDAG, and HOME Programs.

The grantee's latest single audit report for the year-ended December 31, 1997, contained no current findings or unresolved prior findings related to any federally funded program.

# Appendices

## Appendix A

### Schedule Of Ineligible and Unsupported Costs

<b>Recommendation</b>	<b>Description</b>	<b>Ineligible</b>	<b>Unsupported</b>
1B	CDBG funded facade grants that did not meet program objectives.	\$443,461	
1C	CDBG funded facade grants that were not adequately documented.		\$587,668
2B	CDBG funded special economic development loans that did not meet program requirements.	559,250	
3B	CDBG funds paid for street lighting and sidewalk improvements that did not meet program objectives.	548,100	
	<b>TOTAL</b>	<b>\$1,550,811</b>	<b>\$587,668</b>

**Ineligible**

Costs not allowable by law, regulation, contract, or HUD or local agency policy.

**Unsupported**

Costs contested because they lack adequate documentation to support eligibility.

## Appendix B

### Ineligible and Unsupported Facade Grants

Description	Year	Historic District	Condition Code	Match	Ineligible	Unsupported
553, 557, 559 Broad Street	1992	Yes-4	Unknown	No		\$40,000
699 Reynolds Street	1992	Yes-5	Good	Yes	\$60,000	
1143 Laney-Walker Blvd.	1992	No-6	Good	1	30,000	
247-257 Broad Street	1992	No-6	Unknown	Yes		32,354
1108 Phillips Street	1992	No-6	Average	Yes	40,226	
968 Broad Street	1993	Yes-5	Fair	Yes		21,045
1298-1298 ½ Broad Street	1992	Yes-3	Fair	Yes		33,500
533 9 <sup>th</sup> Street	1993	No-6	Fair	No		30,000
1033 -1039 Broad Street	1993	Yes-3	Good	No	44,000	
1520-1522 12th Street	1993	No-6, 7	Average	No	29,380	
904-908 Broad Street	1993-94	Yes-5	Unknown	No		63,000
974 Broad Street	1993	Yes-4	Fair	No		15,000
976-978 Broad Street	1994	Yes-4	Fair	No		35,000
1006-1024 Broad Street	1993	Yes-3	Fair	No		91,412
302 6 <sup>th</sup> Street	1993	Yes-6	Fair	Yes		7,722
1009-1015 Broad Street	1994	Yes-4	Average	No	30,000	
404 Telfair Street	1994	No-6	Good	Waived	29,165	
1025 12 <sup>th</sup> Street	1994	No-6	Average	1	30,000	
1117 Laney-Walker Blvd.	1994	No-6	Good	2	75,690	
1257-1261 Broad Street	1994	Yes-5	Unknown	No		45,000
1800 Broad Street	1994	No-6, 7	Unknown	No	30,000	
1248 Broad Street	1994	Yes-3	Fair	No		32,635
204 13 <sup>th</sup> Street	1994	No-6	Fair	No		30,000
935-939 Laney-Walker Blvd.	1995	Yes-6	Average	Yes	45,000	
952 Broad Street	1995	Yes-3	Fair	No		21,000
954-956 Broad Street	1995	Yes-3	Fair	No		30,000
1030-1036 Broad Street	1995	Yes-3	Fair	No		60,000
<b>Total</b>					<b>\$443,461</b>	<b>\$ 587,668</b>

- 1 - Match provided by the city from Special Purpose Local Option Sales Tax funds.
- 2 - Match provided by the city from a forgiven economic development loan.
- 3 - Historically significant per Broad Street Historic District Inventory.
- 4 - Some historical significance.
- 5 - Not historically significant.
- 6 - Unknown historical significance.
- 7 - Outside the designated slum and blight area.

## Appendix C

### Ineligible Special Economic Development Loans

Recipient	Date	Amount	Balance	Status
Jema's Creative Learning Center	08/26/92	\$ 15,000	\$10,514	Delinquent-Out of Business*
Dent's Funeral Home	09/22/92	47,400	35,547	Delinquent-Still in Business
Wisteria Flowers and Gifts	12/08/92	46,460	41,200	Delinquent-Out of Business*
Ergo Sum Gallery	11/01/93	42,168	36,984	Delinquent-Out of Business*
BL's County Kitchen	07/18/94	83,222	N/A	Forgiven-Out of Business
Homer Joe's Fried Chicken	09/22/94	25,000	N/A	Forgiven-Out of Business
Betty's Boutique	10/17/94	25,000	29,614	Delinquent-Out of Business*
Ronlyn Corporation	12/13/95	100,000	94,611	Current-Still in Business
Southeastern Security Systems	12/29/95	75,000	75,000	Delinquent-Out of Business
Ronlyn Corporation	10/09/96	100,000	N/A	Forgiven-Still in Business
	Total	\$ 559,250	\$323,470	

\* No recovery expected.

## Appendix D

### ARC COMMENTS



LARRY E. SCONYERS  
MAYOR

October 5, 1998

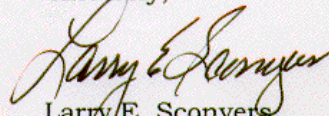
Ms. Nancy H. Cooper  
District Inspector General for Audit  
Department of Housing and Urban Development  
75 Spring Street, S.W., Room 3330  
Atlanta, GA 30303

Dear Ms. Cooper:

Herewith enclosed is Augusta-Richmond County's (ARC) response to the Office of the Inspector General's (OIG) audit of the Community Development Block Grant Program, the Community Development Economic Development Loan Program, the Urban Development Action Grant loan for development of a hotel and the award of HOME Investment Partnership funds to Community Housing Development Organizations.

The four (4) findings cited in the audit report have been adequately addressed. However, if you should have any questions concerning the responses, please contact Keven J. Mack, Director of the Housing and Neighborhood Development Department at (706) 821-1797.

Sincerely,



Larry E. Sconyers  
Mayor

LES/rlw

Enclosures

cc: John L. Perry, HUD

**CITY OF AUGUSTA'S RESPONSE TO FINDING # 1****HUD INSPECTOR GENERAL'S REPORT OF AUGUST 31, 1998****Introduction**

This report constitutes the city of Augusta's response to Finding Number 1 of the HUD Inspector General's revised draft audit report dated August 31, 1998. Finding Number 1 states that the city's Facade Rehabilitation Grant Program does not meet the national objectives of the CDBG Program. The audit report claims that between 1992 and 1997 the city funded ten (10) facade rehabilitation projects that did not meet the slum and blight national objective and did not comply with facade program policies. The audit report also alleges that the city did not maintain adequate documentation to support CDBG expenditures on another seventeen (17) facade projects. The audit claims there was noncompliance with program policies and inconsistencies related to grant amounts, the location of assisted buildings, match amounts, match funding sources, and funding provided some owners.

The remainder of this report provides the city's perspective on the Facade Rehabilitation Program policies and procedures, the eligibility of the program, how the program meets the slum and blight objective, the specific conditions of the buildings that were addressed by the rehabilitation work, and the factors that contributed to the deteriorated appearance of the buildings assisted under the program. The report also elaborates on the importance of the facade program in the context of overall downtown revitalization efforts in Augusta. Attachment #1 to the report provides additional information on the twenty-seven (27) projects in order to respond to the alleged inconsistencies in program administration. Attachment #2 responds to the Inspector General's questions about matching requirements on some facade projects.

**Facade Rehabilitation Program Policies and Procedures**

The city of Augusta has had policies and procedures in place for the Facade Rehabilitation Program since the program's inception in 1979. The program has always been open, on a first come first served basis, to owners of qualifying historic properties located in the project target areas. An application package has been distributed to anyone interested in the program. The application package has changed to some extent over the years, but has always included the objectives of the program, the criteria for qualifying properties, an application form, a sample facade easement agreement, and the responsibilities of the city and the property owner. As experience was gained, the application package was expanded to include a step-by-step outline of the entire facade rehabilitation process.

Program guidelines targeted facade assistance to buildings located "within or adjacent to the major areas of preservation concern and .... at least 40 years old with the major original facade features intact." Initially, the program's target area was limited to the 600 block of Broad Street. Upon designation of the downtown slum and blight area in 1983, the target area was expanded to include all of the central business district, the Pinch Gut (Olde Town) area, and the Laney-Walker

area. There is a high concentration of historic properties in the slum/blight area. There are four (4) National Register Historic Districts, - Broad Street, Greene Street, Pinch Gut, and Laney-Walker North - as well as part of the Augusta Canal National Historic Landmark in the slum/blight area. Four of the five National Register districts were designated between 1977 and 1980. Laney-Walker North was designated in 1985. Part of the southern half of the Laney Walker neighborhood has been identified as being eligible for the National Register. There also are approximately twenty (20) properties in the slum/blight area listed individually on the National Register. Adjacent to the slum/blight area are two other National Register Districts: Harrisburg-West End (1987) and Bethlehem (1997). All of these National Register districts have their roots in local historic property surveys dating back to the 1960's. In addition, downtown Augusta and Bethlehem have been designated as local historic districts under the city's historic preservation ordinance. Attachment # 5 is a map of historic districts in the city.

#### **Facade Grant Amounts**

Facade rehabilitation grant amounts have varied during the life of the program, but have been set at levels to assure the rehabilitation of all major features of the building's exterior. Generally speaking, the maximum amounts available were \$25,000-\$30,000 for corner buildings and \$12,000-\$15,000 for non-corner structures. In cases where buildings had multiple storefronts and were two or three stories tall, facade grants were made for each storefront. A three-tier level of funding was employed for a time during the early 1990's. This was done to encourage some repainting and limited rehabilitation projects, in addition to full rehabilitation. In a few cases, grant awards exceeded the allowable maximum because some building facades were relatively large and the estimated rehabilitation costs were high.

#### **Match Requirements**

The Inspector General questions the amount of matching work done on some facade rehabilitation projects. The city requires property owners to do work on the building in return for the facade rehabilitation assistance. This is to assure the owner's commitment to the structure and to the city's investment. The source and type of the match have never been issues, and have included contracted work and the in-kind donation of labor and materials. In all cases, matching work has to be done in accordance with the Secretary of the Interior's *Standards for Rehabilitation*. In the early years of the program, matching work had to be done on the interior of the structure. Later on, match requirements were changed to allow both interior and exterior work to count. Most recently, match requirements has included any work done by or on behalf of the owner within one year before or after the date of the facade grant award. Attachment #2 provides additional information about the matching amounts for the properties at issue in the Inspector General's report.

#### **Favoritism / Conflict of Interest**

The Inspector General letter states that some inconsistencies in the Facade Rehabilitation Program had the appearance of favoritism. When considering projects/programs, the city reviews each one individually to determine the eligibility and applicability of the Conflict of Interest statute. In the

case of the Facade Rehabilitation Program, the city looked at the importance of the buildings and the impact a facade rehabilitation would have in addressing slums/blighting conditions in or near a National Register Historic District. Properties owned by or associated with elected officials were also considered as long as the Conflict of Interest statute was not going to be violated.

This concept is illustrated in the examples outlined in the Inspector General's report. For example, 1117 Laney Walker Boulevard and 1143 Laney Walker Boulevard are currently owned by State Senator Charles Walker. The importance of these two buildings is that they are landmarks in the Laney Walker Neighborhood. 1117 Laney Walker Boulevard is significant because it was the location for one of the first minority owned furniture stores in Augusta. 1143 Laney Walker Boulevard was the former location for the Pilgrim Life and Health Insurance Company. The insurance company was one of the first insurance companies established by a minority entrepreneur serving minority clients. Another property outlined in Inspector General's report is 1025 12th Street which is currently owned by the Alpha Chi Lambda Fraternity. Although, two current commissioners are members of this fraternity, the importance of this building was the primary contributing factor. This property was once lived in by A.C. Griggs who was a black educator. The Richmond County Board of Education has also recognized Mr. Griggs' contribution to education by naming a school in his honor.

The primary goal of the Facade Rehabilitation Program is to ensure that the city maintains historically significant buildings without regard to the current owners unless there is a conflict of interest. The elected officials who are property owners of, or associated with, the landmark properties did not play a part in the decision making process nor did they vote on the projects. Therefore, the city believes that the Conflict of Interest statute has not been violated. Attachment #3 is a letter dated September 25, 1998 from the city attorney, James B. Wall, regarding the conflict of interest issue as it relates to the facade rehabilitation program.

#### **Eligibility of the Facade Rehabilitation Grant Program**

The city of Augusta has used CDBG funds to finance the Facade Rehabilitation Program since the program's inception in 1979. The Facade Rehabilitation Program is eligible for CDBG funding under 24 CFR 570.202(d) of the program regulations. This provision of the regulation states:

CDBG funds may be used for the rehabilitation, preservation, or restoration of historic properties, whether publicly or privately owned. Historic properties are those sites or structures that are either listed in or eligible to be listed in the National Register of Historic Places, listed in a State or local inventory of historic places, or designated as a State or local landmark or historic district by appropriate law or ordinance. Historic preservation, however, is not authorized for buildings for the general conduct of government.

The city of Augusta believes the Facade Rehabilitation Program is an activity that addresses slums or blight on an area basis per 24 CFR 570.208(b)(1) of the CDBG regulations. The program has been consistently targeted to rehabilitate and preserve historic properties located in the designated downtown slum and blight area. The slum and blight area designation includes the necessary



background information on deteriorated buildings and the public improvements that are in a general state of deterioration. Most importantly, the facade rehabilitation program addresses a condition that contributed to the deterioration of the area, namely the rundown exterior condition and appearance of historic properties.

Over the years, the Department of Housing and Urban Development (HUD) has concurred with both the eligibility of the facade rehabilitation program and the fact that it meets the slum/blight national objective. HUD has insisted that the city keep up-to-date information on the target area for the facade rehabilitation program. In a monitoring report dated August 21, 1992, HUD issued a finding that the city had not maintained adequate documentation on the designated downtown slum/blight area. In response, the city supplied HUD with additional documentation on the slum/blight area on November 13, 1992 and February 18, 1993. In a letter dated March 4, 1993, HUD stated that the updated slum/blight designation was acceptable and removed the finding. Attachment # 4 is a copy of HUD's March, 1993 letter.

#### **Meeting the Slum/Blight Objective**

The city of Augusta's facade grant program addresses the slum and blighting conditions as outlined in the city's slum and blight designation and in CDBG program regulations. The blighting condition that the program addresses is the deteriorated exterior condition and appearance of the historic structures. The facade rehabilitation program is designed to improve the appearance of the most visible facades of eligible historic buildings and encourage property owners to stabilize them and thereby prevent additional deterioration. It is not the purpose of the program to document or address all of the physical problems that a particular building might have.

The program is built on the established concept that historic buildings have character, qualities, and details that cannot be replicated by newer buildings. These characteristics are significant because, in many other respects (see discussion below), these buildings are obsolete in today's commercial real estate market. Many of these important characteristics are located on the exterior of the building, especially in the case of commercial structures. At the time the Facade Rehabilitation Program was established, the facades of many buildings were in poor condition. Together with federal historic rehabilitation tax credits, the program offered an important incentive for property owners to maintain and adaptively reuse historic structures.

The Inspector General contends that certain facade rehabilitation projects failed to meet the slum and blight objective in part because the buildings were rated in "average" or "good" condition in the 1993 slum/blight update. The Tax Assessors rating system used to classify the condition of buildings in the 1993 slum/blight area update has never been viewed as a definitive factor in determining whether or not a building received facade grant assistance. The Tax Assessors records simply provided the most readily available information on the general condition of all the buildings for use in creating an overall profile for the slum/blight area, as mandated by state law. We stress the word general because the Tax Assessors classification system is not based on a detailed inspection of every building. It is a classification system used in conjunction with periodic reassessment activities and is not a definitive statement on the physical condition of any one building. A windshield survey likely would have come up with a similar building profile for the

area. We believe the Tax Assessors classification system provided a reasonably accurate, though not definitive, profile of building conditions in the slum/blight area.

#### **Condition of the Buildings**

The Inspector General contends that facade program files do not contain information on the condition of buildings prior to rehabilitation. The pre-rehabilitation condition of the buildings in question is documented on the demolition notes included with the plans and specifications for each facade rehabilitation project. Copies of the plans and specifications are located in each of the facade program files. The demolition notes specify how each facade component should be treated and identify the specific problems to be remedied in completing the rehabilitation project. These are the problems that contributed to blight in the area and which the facade rehabilitation program sought to address. The specific problems varied from one building to another, but most often included the following: loose or missing bricks; deteriorated or missing mortar; deteriorated or missing window sashes, frames, and glazing; historic window openings that were completely blocked over; deteriorated or missing cornices; deteriorated or missing flashing, downspouts, and gutters; deteriorated or missing sealants; rotten wood soffit, fascia and trim; deteriorated or missing stucco; broken or missing terra cotta tiles; deteriorated or missing primer and paint; presence of lead-based paint; presence of old electrical conduit and signage; and deteriorated or missing storefront components (e.g. doors, display windows, bulkheads, framing, and transoms). In some cases, false fronts had been installed over the historic upper stories facades of buildings. In other cases, storefronts with non-historic materials (permastone, aluminum and plate glass) were encountered.

The intent of every facade rehabilitation project was to correct the types of problems identified in the previous paragraph. The plans and specifications for each project were prepared by a registered architect under contract to the city. In preparing each set of plans and specifications, the architect conducted field work, researched the history of the structure, and identified appropriate replacement materials in the absence of physical evidence. Since each project involved the use of federal funds, the architect also incorporated the Secretary of the Interior's *Standards for Rehabilitation* into the plans and specifications. The State Historic Preservation Officer (SHPO) verified that each property was historic, and reviewed all preliminary plans and specifications to assure compliance with the *Standards for Rehabilitation*. In many instances, the SHPO offered comments that were useful in assuring a sensitive rehabilitation of these historic structures.

#### **Obsolescence of the Buildings and Downtown**

The problems on the exterior of buildings as described in the previous sections resulted in large part from their obsolescence in the area's commercial real estate market. Several characteristics of the buildings themselves make them hard to use today. Many of the buildings either are too large or too small for conventional retail and office uses. Their narrow frontage and lack of display space makes it difficult to market products, attract attention, and compete with more modern retail establishments. Some building entrances are recessed to create more display space, but this modification is not practical on many buildings. Retailers have little use for upper story space in

older buildings, unless it can be used for storage. Heating, ventilation and air-conditioning systems either are nonexistent or inadequate to provide customers and clients with the comfort and convenience they experience in newer retail and office facilities. Deferred maintenance and insensitive changes to the storefront level result in front facades that are either in poor condition or look awkward because the storefront is more modern than the upper stories. The vacancy and abandonment of these buildings and storefronts gave the perception that downtown Augusta was in poor economic health.

In addition to physical shortcomings, buildings in downtown Augusta are at a competitive disadvantage to newer shopping centers and malls. Newer centers are located on roads with high visibility and close proximity to growing residential areas. In keeping with modern commercial development trends, these centers bring together a mix of "essential" retailers in one location, such as a grocery store, drug store, banks, apparel stores, and food vendors. They have ample off street parking and loading areas, and a circulation pattern that minimizes the conflicts between vehicles and pedestrians. All stores in a center or mall all located on one or two levels, have large display windows, and modern climate control systems. Retailers and shoppers benefit from such amenities as a coordinated marketing and advertising program, special events and sales, dedicated security personnel, public restrooms, and the presence of recreation and entertainment facilities.

Twenty years ago, downtown Augusta lacked many of the amenities that newer shopping centers have. In addition, downtown had to overcome some unique factors to improve its relative position. One of these factors, well documented in studies dating from the 1960s, is the linear nature of the Broad Street shopping district. The distance along Broad Street from 5th to 13th Streets is approximately one mile. As a result, shoppers either walk long distances or get in and out of their cars multiple times in order to comparison shop. Distributors and delivery personnel have the same distance obstacles to overcome. Another factor working against downtown is the presence of multiple at-grade railroad crossings. The Norfolk Southern mainline, located in the middle of Sixth Street, passes through the east end of the Central Business District and crosses Laney-Walker Boulevard before terminating in a rail yard. The CSX mainline bisects all of the numbered cross streets in downtown. A spur of the CSX passes through the western edge of Laney-Walker. these railroad lines impede the flow of vehicles and pedestrians, cause business delays, and discourage shoppers and visitors to downtown. Finally, the shift in population growth and economic activity to suburban areas has substantially reduced the captive markets for downtown businesses in recent decades.

#### **Overall Revitalization Efforts**

In closing, it is important to note that the facade rehabilitation program is but one component of a larger program to revitalize downtown Augusta. Revitalization of downtown is critical to the economic health and well being of Augusta, and efforts undertaken in the last fifteen to twenty years have been highly successful. All of the projects listed in the next paragraph have helped downtown adjust to the changing economic climate, and many have received recognition at state and federal levels. Those listed are the larger, more visible projects. Dozens of smaller, privately-funded projects not listed are just as important in reflecting the renewed interest and confidence in downtown and throughout the slum/blight area.

Since the publication of the original Downtown Development Program in 1982, over \$100 million has been invested in downtown Augusta to help it make the transition from being a general retail center to being a destination for specialty retail, entertainment, tourist and recreation facilities. Major downtown improvement projects completed in the last fifteen years include the Bankers First Block, Riverwalk Augusta, the Augusta Riverfront Center, the Augusta-Richmond County Museum, the Morris Museum of Art, the Riverfront Marina, Lamar Building Restoration, the Old Government House Restoration, Old Medical College Building Restoration, Bell Auditorium Restoration, the Sacred Heart Cultural Center, Davidson Fine Arts Magnet School Expansion, Fort Discovery, and Riverplace Condominiums. Armstrong Galleria was developed in the Laney Walker part of the slum/blight area, and the Richmond County Health Department is in the process of investing \$9.0 million in a new health facility on Laney-Walker Boulevard.

Other projects in the planning or development stages include the Augusta Canal Bikeway and Pedestrian Trail, the Georgia Golf Hall of Fame and Museum, the CSRA Center for Health Education (Healthtrek), and Springfield Village Park. Main Street Augusta, established in 1990 as a joint venture of Augusta-Richmond County and Historic Augusta, Inc., encourages economic improvement and physical renovation in downtown Augusta. The program also coordinates marketing and advertising for member businesses. The facade program itself has spurred the rehabilitation of buildings that are now occupied by businesses representing the new face of downtown. Examples include antique dealers, artists, restaurants, coffee shops, professional offices, specialty clothing stores, and furniture stores.

**CITY OF AUGUSTA'S RESPONSE TO FINDING #2****HUD INSPECTOR GENERAL'S REPORT OF AUGUST 31, 1998****Finding #2:**

The City Mismanaged Its Special Economic Development Loan Program

**Response:**

ARC does not dispute that the files maintained by the former City of Augusta as to its economic development loans lack a good deal of supporting documentation to those loans. Unfortunately, ARC is not in a position to dispute or otherwise respond to the OIG's Finding 2 as to the former City's actual practices and procedures for approving these loans, as all of these events occurred prior to consolidation and the individuals responsible for administering these loan programs are no longer employed by ARC.

However, with consolidation and the placement of a new administration over the Housing & Neighborhood Development Department, significant changes in the economic development loan programs have been made.

First, subsequent to consolidation, an analysis was made of the outstanding economic development loans. HUD and the County Attorney's office then determined what, if any, collection efforts at that point in time would be economically worthwhile.

In two cases, those of Jema's Creative Learning Center and Betty's Boutique, the businesses had filed for bankruptcy such that ARC was prohibited from continuing collection efforts. Claims were filed in the bankruptcy cases, however.

Collection efforts in other cases have been hindered by the lack of documentation for the loan and/or inadequacy of collateral. However, correspondence with at least one business owner has resulted in additional loan payments being received.

As noted by the OIG, in 1996, ARC adopted comprehensive written policies and procedures for its economic development loan programs. These policies and procedures include the requirement that a complete loan application must be received, with backup documentation to include credit reports, financial statements, etc.

Applications are then reviewed by an independent Loan Review Committee. The members of the committee include local bankers and business owners. The committee analyzes all loan applications to ensure that the proposed use of funds meets all program requirements, that the economic viability of the applicant is adequately demonstrated and evidenced, and that sufficient and appropriate collateral is available and pledged.

While, again, ARC is unable to comment specifically on practices of the former City and its employees, ARC believes that its efforts in this area, which have been outlined above, will ensure that its economic development loan program activities are carried out in a responsible and prudent manner.

Finally, ARC must object to Recommendation 2B of the OIG that ARC repay \$559,250 in connection with certain economic development loans. The OIG's finding in this regard was that:

The City did not maintain documentation to determine whether the loans met program requirements and/or national objectives.

In other words, the OIG finding was not that certain loans did not meet requirements, but rather that the OIG could not, for lack of documentation, determine that the loans did meet requirements. Requiring ARC to repay these monies, on the basis of this reasoning, and in light of the fact that ARC played no part in the former City's activities and has made extensive efforts (which apparently are to the satisfaction of OIG) to improve its program activities, seems unduly harsh. Therefore, ARC respectfully disagrees with this recommendation. ARC will implement Recommendation 2A as stated in the Report.

**CITY OF AUGUSTA'S RESPONSE TO FINDING # 3****HUD INSPECTOR GENERAL'S REPORT OF AUGUST 31, 1998****Finding #3:**

Street lighting and sidewalk improvements did not benefit low and moderate income persons.

**Response:**

The Inspector General's auditor discovered that the street lighting and sidewalk improvements expenditures outlined in the Grantee Performance Reports (GPR) for 1995 and 1996 were erroneously counted as benefiting low and moderate income persons. The city reviewed the GPRs and concurs with their finding. The expenditures should have been classified as aiding in the elimination or prevention of slums and blight.

During the reporting periods for 1995 and 1996, the Community Development Department was experiencing difficulties due to the untimely death of Shirley Henshaw, Financial Officer. Among the various responsibilities, Ms. Henshaw was responsible for ensuring that program expenditures benefiting low and moderate income person remained at or above the 70% minimum level. To track the expenditures, Ms. Henshaw would provide monthly status reports outlining project funding levels and program budgetary goals. After her death, this was not done.

In need of assistance, the Community Development Department temporarily assigned the financial functions of the department to two (2) existing staff persons who were not as familiar with the financial aspects of CDBG, but who could perform the basic functions. The city learned the importance of having a full time person in this capacity and began a search. However, during the interim, the 1995 GPR was completed and submitted to HUD.

In May of 1996, a new financial officer was hired but this person subsequently transferred to another department in February 1997. The City was left again without a financial officer to ensure the accuracy of the GPR.

The Housing and Neighborhood Development Department has taken corrective measures to ensure that the CDBG expenditures meet or exceed the minimum 70% threshold for benefiting low and moderate income persons. To date, HND has hired a financial officer who will be responsible for verifying the accuracy of the Final Statements and GPRs. This person also provides Monthly Financial Status Reports to the Director and other key staff persons. The Monthly Financial Reports outline the project code numbers, project names, beginning budget balances, expenditures, adjustments, and ending balances. The report provides the Director the opportunity to make necessary decisions regarding the expenditures on projects that do not meet the national objective to benefit low and moderate income persons. If the department is in

jeopardy of not meeting the minimum 70% benefit to low and moderate income persons objective, he can delay the notice to proceed on projects that do not meet the threshold.

The city hereby requests that HUD allow revisions to the 1995 and 1996 certifications to meet the minimum 70% threshold for expenditures benefiting low and moderate income persons over a three-year period, as provided for at 24 CFR 570.200 (a) (3). This is the most reasonable way to resolve Finding # 3, because the city has been able to meet the threshold in subsequent years. The Inspector General's report concurs with the city's certification that expenditures for the 1997 fiscal year exceeded the minimum 70% threshold. Currently, the financial officer is monitoring expenditures and it is anticipated that the 1998 fiscal year expenditures will also exceed the primary national objective of benefit to low and moderate income persons. The continuation of providing Monthly Financial Reports for the federally-assisted programs will ensure that the expenditures for 1999 and subsequent fiscal years will also meet or exceed the 70% benefit to low and moderate income persons.



**CITY OF AUGUSTA'S RESPONSE TO FINDING #4****HUD INSPECTOR GENERAL'S REPORT OF AUGUST 31, 1998****Finding #4:**

Inadequate Monitoring of a UDAG Loan Agreement May Have Cost the City Millions and Significantly Reduced Program Benefits

**Response:**

A. The City is criticized for consenting to Augusta Riverfront Limited Partnership's (ARLP) refinancing of its first mortgage. I disagree with the auditors conclusion because of the following reasons:

1. Over twelve years ago, Bankers First Corporation (BFC) began the effort to obtain a UDAG for the City to finance in part the development of the Augusta Riverfront Hotel/Office Building/Conference Center. The UDAG was preliminary approved on September 30, 1987. However, BFC was unable to obtain the required private investment and financing. After granting the City several extensions, HUD was prepared to terminate the UDAG to the City and award it to another municipality. Morris Communications Corporation (MCC) then entered into discussions with BFC and the City in an effort to save the UDAG for the City and continue the Riverfront Project. MCC and BFC led a local group of businesses and individuals to form ARLP. ARLP invested over \$9.2 million in the Riverfront Project. ARLP borrowed an additional \$17 million secured by a first lien against the Riverfront Project. This loan was obtained only after the first \$5 million was personally guaranteed by Mr. William S. Morris III, Chairman and CEO of MCC. Due to the financial market conditions at the time it was very difficult to obtain financing on the Augusta Riverfront Project. Because of these conditions, ARLP could not obtain permanent financing and was forced to accept a construction loan. This loan had a floating interest rate, a thirty year amortization with a seven year balloon payment. During the course of the seven years with fixed payments and the floating interest rate no reduction in principal occurred.

Recognizing the difficulty in financing the Project, HUD and the City consented to an amendment to the agreement providing ARLP with the option to refinance as often as it deemed necessary during the first seven years of the UDAG Permanent Loan Term. (See Exhibit E, Amendment #1 of the Agreement between the City and ARLP). Therefore, HUD and the City had pre-approved the refinancing that took place in 1996.

ARLP had no choice but to refinance since the balloon payment had come due on the construction loan. The new loan obtained in 1996 from SouthTrust Bank provides for \$15 million to be amortized over twelve years with a \$2 million balloon payment. This was the longest term to which the bank would agree at the time.

I disagree with the auditor when he says "However in subordinating its claim, the city had some leverage and an opportunity that it did not take advantage of". There was never any intent nor legal right for the City or HUD to exercise such leverage. It was an accepted fact from the beginning that the project would have to be refinanced. That was the reason for Amendment No. 1. A copy of the legal opinion is attached to this section.

2. City's Loss of Future Revenue

I disagree with the auditors calculations and conclusions.

The City had no legal right to prevent ARLP from refinancing. The auditor gives no consideration to the fact that the City will receive repayment of the UDAG much sooner if ARLP's first mortgage is for twelve years. The City will have the use of the funds at the end of 12 years instead of 30 years. The increase in the present value of the UDAG and the use of the funds after 12 years offset the auditor's contention that the City will lose future income.

B. Financial Data submitted by the Developer was not timely or accurate.

We believe that we have provided timely and accurate financial information as required under the terms of the UDAG agreement.

1. Timely Reporting

We have interpreted the agreement to require ARLP to report to the City 90 days after the end of its fiscal year. ARLP's fiscal year is December 31. Therefore, timely reporting to the City would be March 31<sup>st</sup> each year. At that time, ARLP is to provide a cash flow analysis as defined in the agreement. While such cash flow statement is to be provided 90 days after ARLP's Fiscal Year, the period covered by such cash flow calculation is for the year ended on May 31 each year. This is the interpretation given to the agreement by ARLP and all reporting requirements provided for in the agreement have been met.

2. Accuracy of the Calculations

Exhibit E Paragraph (bb)(v) of the HUD agreement sets out the formula to determine the City's participation in the cash flow of the Project. This section prohibits the

deduction from reserves for capital improvements and depreciation; however, it allows for additions to the developers original investment in the Project. It is only proper to allow for capital expenditures. Without such capital expenditures, the Project would deteriorate reducing the chance of success. Therefore, we believe the auditor is wrong in disallowing capital expenditures in his calculations. ARLP has made the appropriate calculations and has paid the City all that is due under the terms of the agreement.

In meetings that my colleagues and I had with the auditor, he came across as being very negative about the Riverfront Project. He complained that funds should not be used for projects such as this. He said these funds should have gone into low rent housing. He seemed determined to find fault.

This has been a very successful public private partnership. It has fulfilled the original objectives of the City, HUD and ARLP. While extremely risky in the beginning the Partners can now look to a reasonable return on their investment. The City and HUD have obtained their goals of improving the inner city, providing jobs, creating economic activity and increasing tax revenues. The taxes collected by the community to date directly from ARLP has exceeded \$6.5 million. Many more tax dollars have been realized from others due to economic activity in the area that would not have occurred without the Riverfront Project.



LARRY E. SCONYERS  
Mayor

LEE BEARD  
Mayor Pro Tem

## AUGUSTA-RICHMOND COUNTY COMMISSION

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August 21, 1998

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Reply to:  
P.O. BOX 2125  
Augusta, GA. 30903

Mr. Charles R. Oliver  
Administrator  
8th Floor, City-County Bldg.  
Augusta, GA 30911

RE: UDAG Grant Agreement B-87-AA-13-0095

Dear Randy:

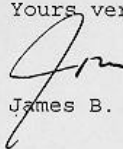
You have asked me to give a legal opinion as to whether or not Augusta was required to consent to the developer's refinancing by executing the Subordination Agreement to the first mortgage by the developer. I would call to your attention paragraph III(a)(3)(ee) of Exhibit E of the Grant Agreement, as amended by the First Amendment dated January 16, 1990, which states in part that the "entire principal balance of the UDAG Loan shall become immediately due and payable upon . . . (5) Refinance except that for the first 7 years of the UDAG Permanent Loan Term, the developer may refinance the First Mortgage as often as developer deems necessary provided that the First Mortgage debt financing does not exceed \$20,000,000 . . ., plus any further advances which are invested in the Project and approved by HUD and are required for its completion . . .".

The Interim and Permanent UDAG Loan is evidenced by a Promissory Note dated February 2, 1990, and therefore the developer had 7 years from the beginning of the term of the Permanent Loan ("completion of construction but in no event later than June 1, 1992") in which he had an absolute right to refinance. Accordingly, it is my opinion that the City had no alternative but to consent to the refinancing and approve the Subordination Agreement.

I trust this is sufficient; however, should you have any further questions, please let me know.

With best personal regards, I am

Yours very truly,

  
James B. Wall

JBW/sjp

**ATTACHMENT 1**

**SUPPORT DOCUMENTATION FOR THE FACADE PROJECTS  
REVIEWED BY THE INSPECTOR GENERAL'S AUDITOR**

**Support Documentation  
For The Facade Projects Reviewed By  
The Inspector General's Auditor**

**1. 553, 557, 559 Broad Street** (Gordon Military Store, Inc. - Gordon Pawn Shop)

This building is located in the Broad Street National Register Historic District. It is consistent with the Urban Redevelopment Plan and the overall conceptual plan for the 500 block as prepared by the Hinman Architectural Group. The conceptual plan encouraged the city and property owners to make major renovations and improvements on the 500 block of Broad Street. During this period, the city was promoting the Facade Rehabilitation Program and requesting that property owners participate in this program. The condition of the building prior to the rehabilitation is addressed in the Demolition Drawings as prepared by the architect. Also, pictures are available that display the deferred maintenance of the building. Since this property has three storefronts, it qualified for a \$45,000 grant.

The owner has not provided any documentation to verify meeting the match requirements. Currently, HND is in the process of contacting the owner to obtain relevant documentation.

**2. 699 Reynolds Street** (Davison's Auto Service, Inc.)

This building is located near the Broad Street National Register Historic District, and it was a strategic location for revitalization of the downtown area. The condition of the building prior to the facade rehabilitation is addressed in the Demolition Drawings as prepared by the architect. According to the demolition notes, some of the repairs included removing loose or cracked masonry and mortar, removing pipes, metal supports and conduit no longer in use, removing awning and dispose, etc. Also, pictures are available that display the deferred maintenance of the building.

The architect estimated that \$50,000 would be an adequate amount for the building facing Seventh and Reynolds Streets. However, once the bids were submitted, the lowest bid was \$78,500. The city considered the impact this building would have in this location if architectural details were added to the surface of the existing walls. The conclusion was that the additional detail would enhance the image of the structure.

The match documentation was reviewed by the Inspector General's auditor.

**3. 1143 Laney Walker Boulevard (Augusta Focus, Inc.)  
(A.K.A. Pilgrim Life & Health Insurance Building)**

This structure is located near the Laney Walker North National Register Historic District. According to a letter from the architect, the building is of historic significance and a landmark building in the Laney Walker Neighborhood. This letter also states that the building is structurally sound and most work would be for deferred maintenance and cosmetic repair. It would include replacing the storefront with wood or steel. Other demolition notes can be found in the Plans and Specifications for this building as prepared by the architect. Since this is a corner building, it qualified for a \$30,000 facade grant.

The match required for this building was provided by the city with Special Purpose Local Option Sales Tax funds. The staff reviewed the CDBG regulatory requirements and did not find a rule that specifically addressed local governments providing funds to assist with the implementation of CDBG eligible projects. Because of this, the department moved forward with the project and allowed the owner to use city funds to meet the match requirements.

**4. 247-257 Broad Street**

These buildings are located in the Pinch Gut National Register Historic District. According to the architect's recommendation, these buildings are approximately 80 years old and have historic significance to the neighborhood. The buildings also had most of the original features still intact. The wood siding required replacement, repair and repainting. The brick foundations required cleaning and repointing. The windows and doors needed to be repaired and reglazed. Other details of the structures prior to the facade grant are located in the Demolition Notes as prepared by the architect. Also, the Georgia Historic Preservation Office's letter states that the buildings are a contributing factor in this historic district.

The match documentation was reviewed by the Inspector General's auditor.

**5. 1108 Phillips Street (AKA Sorority House)  
(A.K.A. Tutt House)**

This building is located in the Laney Walker North National Register Historic District. The building as determined by the architect is of historic significance in the Laney Walker Neighborhood and requires substantial restoration efforts. The building is a wood frame single story structure with asbestos siding, brick foundation and wood front and side porch. Other details of the structure are located in the Demolition Drawings of the Plans and Specifications. Also, the Georgia Historic Preservation Office's letter states that the building is a contributing factor in this historic district.

The match documentation is located in Attachment 2. Also, the building is currently used as an educational institution that is open to the public to provide various services which include tutoring and mentoring programs for low and moderate income people.

**6. 968 Broad Street (Kisysa Designs Bridal Boutique)**

This structure is located in the Broad Street National Register Historic District. According to the architect's letter, the building's historical facade had been removed and would require rebuilding entirely. Because of the location in the Broad Street Historic District, a recommendation was made to approve the facade rehabilitation. Other details of the structure are located in the Demolition Drawings of the Plans and Specifications.

The match documentation is located in Attachment 2.

**7. 1298 - 1298 ½ Broad Street (Greater Augusta Crisis Pregnancy Center)**

This building is located in the Broad Street National Register Historic District and of a historic nature. The renovations for the building included making repairs and or replacements to the windows, storefront, doors, wood cornice, etc. Other details of the structure are located in the Demolition Drawings of the Plans and Specifications. Also, the Georgia Historic Preservation Office's letter states that the building is a contributing factor in this historic district and that the historic wooden cornice on the exterior facades should be retained and repaired rather than replaced. Since this is a corner building, it qualified for a \$30,000 facade grant.

The match documentation was reviewed by the Inspector General's auditor.

**8. 533 9th Street (Formerly the Red Star Hotel & Restaurant)**

This structure is located in a National Register-eligible district known as the Ninth Street Row District. The building is of historical significance to the neighborhood. According to the architect's report, it is a two story brick structure with wood infill with both facades which required major restoration work. Other details of the structure are located in the Demolition Drawings as prepared by the architect. This is a corner building which allowed the city to use up to \$30,000 in facade grant funds.

The architect has requested information from the owner on several occasions to verify the match requirements for the Facade Rehabilitation Program. However, the owner has not provided any documentation. Currently, HND is in the process of contacting the owner to obtain relevant documentation.

**9. 1033 Broad Street (Commercial Businesses)**

This structure is located in the Broad Street National Register Historic District. According to the Georgia Historic Preservation Office, this building contributes to the Broad Street Historic District. The initial condition of the building is outlined in the Demolition Drawings as prepared by the architect.

The owner has not provided any documentation to verify meeting the match requirements. Currently, HND is in the process of contacting the owner to obtain relevant documentation.



**10. 1520-1522 12th Street (E. Stafford Personal Care Home)**

This building is located in the Bethlehem National Register Historic District. According to the Georgia Historic Preservation Office, this property contributes to the Bethlehem Historic District. They also stated that the handrails on the structure should be made of wood to retain the historical significance. The initial condition of the building is outlined in the Demolition Drawings as prepared by the architect.

The architect has requested information from the owner on several occasions to verify the match requirements for the Facade Rehabilitation Program. However, the owner has not provided any documentation. Currently, HND is in the process of contacting the owner to obtain relevant documentation.

**11. 904-908 Broad Street (Commercial Businesses)**

This structure is located in the Broad Street National Register Historic District. According to the Georgia Historic Preservation Office, a determination could not be made regarding this building's contribution to the Broad Street Historic District before the removal of the artificial facade. The initial condition of the building is outlined in the Demolition Drawings as prepared by the architect.

The architect has requested information from the owner on several occasions to verify the match requirements for the Facade Rehabilitation Program. However, the owner has not provided any documentation. Currently, HND is in the process of contacting the owner to obtain relevant documentation.

**12. 974 Broad Street**

This structure is located in the Broad Street National Register Historic District. According to the Georgia Historic Preservation Office, this property contributes to the Broad Street Historic District. The initial condition of the building is outlined in the Demolition Drawings as prepared by the architect. Since the building consists of one storefront, it qualified for a \$15,000 facade grant.

The owner has not provided any documentation to verify meeting the match requirements. Currently, HND is in the process of contacting the owner to obtain relevant documentation.

**13. 976-978 Broad Street (Commercial Businesses)**

This structure is located in the Broad Street National Register Historic District. According to the Georgia Historic Preservation Office, the building contributes to the Broad Street Historic District. The initial condition of the building is outlined in the Demolition Drawings as prepared by the architect. Since this property has two storefronts, it qualified for a \$30,000 facade grant.

The owner has not provided any documentation to verify meeting the match requirements. Currently, HND is in the process of contacting the owner to obtain relevant documentation.

**14. 1006-1024 Broad Street (Artist Row)**

These structures are located in the Broad Street National Register Historic District. According to the Georgia Historic Preservation Office, this property contributes to the Broad Street Historic District. The architect's recommendation also outlines the importance of the buildings. The initial condition of the buildings is outlined in the Demolition Drawings as prepared by the architect. Since these buildings have numerous storefronts, combined they qualified for a facade grant up to \$120,000.

The owner has not provided any documentation to verify meeting the match requirements. Currently, HND is in the process of contacting the owner to obtain relevant documentation.

**15. 302 6th Street (Ergo Sum Gallery)**

This structure is located in the Broad Street National Register Historic District. According to the Georgia Historic Preservation Office, it is a contributing property to the Broad Street Historic District. The architect's recommendation also outlines the importance of the building. The initial condition of the building is addressed in the Demolition Drawings as prepared by the architect.

The match documentation is located in Attachment 2.

**16. 1009-1015 Broad Street (Augusta Gallery)**

This structure is located in the Broad Street National Register Historic District. According to the Georgia Historic Preservation Office, the property contributes to the Broad Street Historic District. The architect's recommendation also outlines the importance of the buildings. The initial condition of the buildings is outlined in the Demolition Drawings as prepared by the architect. Since this is a corner building, it qualified for a \$30,000 facade grant.

The owner has not provided any documentation to verify meeting the match requirements. Currently, HND is in the process of contacting the owner to obtain relevant documentation.

**17. 404 Telfair Street (La Maison On Telfair)**

This structure is located in the Pinch Gut National Register Historic District. According to the Georgia Historic Preservation Office, this is a contributing property to the Pinch Gut Historic District. The architect's recommendation also outlines the importance of the building. The initial condition of the building is outlined in the Demolition Drawings as prepared by the architect. Since this is a corner building, it qualified for a \$30,000 facade grant.

In the 1980s, this building received a facade grant. The new owner of the property alleged that the work performed on the building during the rehabilitation in the 1980s contributed to later water damage to the facade of the building. The owner began making improvements to the building prior to contacting the city to look into the matter. Once the city was contacted, they requested that the architect investigate the allegations to determine liability. Consequently, the architect was unable to determine if the damages were caused by the previous facade work or deferred maintenance. Because of that, the city decided to perform additional work on the building and waive the match requirements.

**18. 1025 12th Street (Alpha Chi Lambda Fraternity House) (A.K.A. A.C. Griggs House)**

This structure is located in the Laney Walker National Register Historic District. According to the Georgia Historic Preservation Office, this is a contributing property to the Laney Walker Historic District. The architect's recommendation also outlines the importance of the building to the Laney Walker Neighborhood. The initial condition of the building is outlined in the Demolition Drawings as prepared by the architect. Since this is a corner building, it qualified for a \$30,000 facade grant. Also, the building is currently used as an educational institution that is open to the public to provide various services which include tutoring and mentoring programs for low and moderate income people.

The match required for this building was provided by the city with Special Purpose Local Option Sales Tax funds. The staff reviewed the CDBG regulatory requirements and did not find a rule that specifically addressed local governments providing funds to assist with the implementation of CDBG eligible projects. Because of this, the department moved forward with the project and allowed the owner to use city funds to meet the match requirements.

**19. 1117 Laney Walker Boulevard (B.L.'s Restaurant and Catering Services)  
(A.K.A. B.L. Dent's Furniture Store)**

This structure is located near the National Register Laney Walker North Historic District. According to a letter from the architect, the building is of historic significance and a landmark building in the Laney Walker Community. The initial condition of the building is outlined in the Demolition Drawings as prepared by the architect.

The match required for this building was provided by the city with Special Purpose Local Option Sales Tax funds. The staff reviewed the CDBG regulatory requirements and did not find a rule that specifically addressed local governments providing funds to assist with the implementation of

CDBG eligible projects. Because of this, the department moved forward with the project and allowed the owner to use city funds to meet the match requirements.

**20. 1257-1261 Broad Street (Commercial Businesses)**  
(A.K.A. Augusta Fire Station)

This structure is located in the Broad Street National Register Historic District. According to the Georgia Historic Preservation Office, this is a contributing property to the Broad Street Historic District. The architect's recommendation outlines that the building consist of one 4-story building with five entries which was a former Augusta fire station. This building required extensive restoration to windows, brick cleaning, copins and stone work. The specific condition of the building is outlined in the Drawings and Specifications as prepared by the architect.

The architect has requested information from the owner on several occasions to verify the match requirements for the Facade Rehabilitation Program. However, the owner has not provided any documentation. Currently, HND is in the process of contacting the owner to obtain relevant documentation.

**21. 1800 Broad Street (Commercial Business)**

This structure is located in the Harrisburg-West End National Register Historic District. According to the Georgia Historic Preservation Office, this is a contributing property to this district. The architect's recommendation states that this structure is a masonry building with integral trim and copings. The building required extensive storefront rebuilding and reglazing. Also, a large amount of stucco and simulated stone was removed from the lower facade. The specific condition of the building is outlined in the Drawings and Specifications as prepared by the architect. Since this is a corner building, it qualified for a \$30,000 facade grant.

The architect has requested information from the owner on several occasions to verify the match requirements for the Facade Rehabilitation Program. However, the owner has not provided any documentation. Currently, HND is in the process of contacting the owner to obtain relevant documentation.

**22. 1248 Broad Street (Faulk Furniture Co.)**

This structure is located in the National Register Broad Street Historic District. According to the Georgia Historic Preservation Office, this is a contributing property to the Broad Street Historic District. The architect's recommendation states that the building is brick and in fair condition with need of extensive cleaning, window rebuilding, storefront rebuilding and reglazing. The entry area also required recessing to meet code requirements. The specific condition of the building is outlined in the Drawings and Specifications as prepared by the architect.

The architect has requested information from the owner on several occasions to verify the match requirements for the Facade Rehabilitation Program. However, the owner has not provided any documentation. Currently, HND is in the process of contacting the owner to obtain relevant documentation.

**23. 204 13th Street (E.G. Beddingfield's Building)**

This structure is located near the Broad Street National Register Historic District. According to the Georgia Historic Preservation Office, the building should be considered eligible for listing in the National Register of Historic Places as an intact example of a turn-of-the-century commercial building, and for its historic commercial activity. The specific condition of the building is outlined in the Drawings and Specifications as prepared by the architect. Since this is a corner building, it qualified for a \$30,000 facade grant.

The owner has not provided any documentation to verify meeting the match requirements. Currently, HND is in the process of contacting the owner to obtain relevant documentation.

**24. 935-939 Laney Walker Boulevard (Commercial Businesses)**

This structure is located near the Laney Walker North National Register Historic District. According to the architect's recommendation, the building was primarily stucco over cast masonry. The original windows were intact but they required some demolition and replacement. The support brackets of the original balcony remained and therefore a balcony was rebuilt. The specific condition of the building is outlined in the Drawings and Specifications as prepared by the architect. Since this building has three storefronts, it qualified for a \$45,000 facade grant.

The match documentation was reviewed by your staff.

**25. 952 Broad Street (Commercial Business)**

This structure is located in the National Register Broad Street Historic District. According to the Georgia Historic Preservation Office, this building is a contributing property to the Broad Street Historic District and that the retention of the building's original cast iron columns is important. The architect's recommendation outlines extensive renovations that were needed to improve the facade. Other initial conditions of the building are located in the Drawings and Specifications as prepared by the architect.

The architect has requested information from the owner on several occasions to verify the match requirements for the Facade Rehabilitation Program. However, the owner has not provided any documentation. Currently, HND is in the process of contacting the owner to obtain relevant documentation.

**26. 954-956 Broad Street (Commercial Businesses)**

This structure is located in the National Register Broad Street Historic District. According to the Georgia Historic Preservation Office, the building is a contributing property to the Broad Street Historic District and that the retention of the building's original cast iron columns is important. The architect's recommendation outlines extensive renovations that were needed to improve the facade. Other initial conditions of the building are located in the Drawings and Specifications as prepared by the architect. Since this building has two storefronts, it qualified for a \$30,000 facade grant.

The architect has requested information from the owner on several occasions to verify the match requirements for the Facade Rehabilitation Program. However, the owner has not provided any documentation. Currently, HND is in the process of contacting the owner to obtain relevant documentation.

**27. 1030-1036 Broad Street (Commercial Businesses)**

This structure is located in the National Register Broad Street Historic District. According to the Georgia Historic Preservation Office, the building is a contributing property to the Broad Street Historic District. The letter also states that as evidenced by a 1908 photograph, it is an example of an architecturally significant Art Deco facade and should be retained. The specific condition of the building is outlined in the Drawings and Specifications as prepared by the architect. Since this building has four (4) storefronts, it qualified for a \$60,000 facade grant.

The owner has not provided any documentation to verify meeting the match requirements. Currently, HND is in the process of contacting the owner to obtain relevant documentation.

## Appendix E

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