



U. S. Department of Housing and Urban Development
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Audit-Related Memorandum
2000-SE-209-1801

January 19, 2000

MEMORANDUM FOR: Lynn Martin, Director, Office of Public Housing, OAPH

FROM: Frank E. Baca, District Inspector General for Audit, OAGA

SUBJECT: Seattle Housing Authority
Holly Park Hope VI Revitalization
Complaint Alleging Conflict Of Interest

In response to a citizen's complaint, we conducted a limited review of the Holly Park HOPE VI project. The complaint alleged that the Seattle Housing Authority (Authority) violated HUD conflict of interest requirements when it awarded contracts for the Holly Park implementation. Our review found that the Authority did not comply with HUD conflict of interest requirements in awarding two of these contracts, and another contract not included in the complaint. Specifically, the Authority awarded these three contracts to firms whose principals had inside knowledge of the project. This occurred because the Authority either ignored or was unaware of the conflict of interest provisions included in the HOPE VI planning and implementation Grant Agreements. These provisions prohibited the Authority from awarding contracts to individuals in a position to gain inside information. Conflicts of interest may jeopardize public trust in government and affect the impartiality of contract awards. Attachment A discusses in detail the results of our review.

We submitted the draft memorandum to the Seattle Housing Authority for comments on October 19, 1999. We received written comments from the Authority on November 4, 1999, and discussed the draft report with Authority officials at an exit conference on December 15, 1999. We reviewed and evaluated the auditee's comments. Attachment A includes a summary of the Authority's comments and our evaluation. The Authority's written comments are included in their entirety in Attachment B.

Within 60 days please furnish us, for the recommendation in this report, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Also, please furnish us copies of any correspondence or directives issued because of the review.

If you have any questions, please call me or Robert Woodard, Assistant District Inspector General for Audit, at 206-220-5360.

Attachments

Results of Review

In response to a citizen's complaint, we conducted a limited review of the Holly Park HOPE VI project. The complaint alleged that the Seattle Housing Authority (Authority) violated HUD conflict of interest requirements when it awarded contracts for Program Management, Financial Management Consultant, and Property Management services for the Holly Park implementation. Our review found the complaint to be partially valid. The Authority did not comply with HUD conflict of interest requirements in awarding two of these contracts: Program Management Services and Financial Consulting Services. In addition, our review disclosed that another contract not included in the complaint, for Property Management Consulting Services, was not awarded in compliance with HUD conflict of interest requirements. Specifically, the Authority awarded these three contracts to firms whose principals had inside knowledge of the project. The principals had obtained inside knowledge by having been members of a panel that had evaluated a developer's proposal for implementing the redevelopment. This occurred because the Authority either ignored or was unaware of the conflict of interest provisions included in the HOPE VI planning and implementation Grant Agreements. These provisions prohibited the Authority from awarding contracts to individuals in a position to gain inside information. Conflicts of interest may jeopardize public trust in government and affect the impartiality of contract awards.

Background

The HOPE VI program

HUD's Urban Revitalization Demonstration program, known as HOPE VI, was created to revitalize severely distressed or obsolete public housing developments. Funding for HOPE VI grants is authorized by each Fiscal Year's Notice of Funding Availability (NOFA), as published in the Federal Register.

The Holly Park Redevelopment Project

In August 1994 HUD awarded the Seattle Housing Authority (Authority) \$500,000 to plan the revitalization of the Holly Park public housing community. In February 1995 HUD awarded the Authority \$47,116,503 to carry out the the Holly Park Redevelopment Project. Holly Park is a low-income public housing community located in Southeast Seattle. The South Seattle area is beset with high unemployment, high crime rates, and gang activity. The revitalization plan is to replace the existing 893 old public housing units with 1,200 units of new, mixed income housing.

Chronology of HOPE VI contract awards

August 4, 1994 and February 2, 1995. HUD awards the Authority HOPE VI planning and implementation grants, respectively.

February 15, 1995. The Authority issues a nationwide Request for Proposal for an overall developer to implement the Holly Park

redevelopment. Only one firm, McCormack Baron and Associates of St. Louis, Missouri, responded to the Request for Proposal.

Sept-Oct 1995. The Authority convened a Panel of Experts to study McCormack Baron's proposal and recommend alternatives. The pro bono Panel of Experts consisted of 14 consultants, including designers and developers, tax credit equity financing experts, bond counselors and underwriters, property managers, real estate appraisers, and home buyer marketers.

November 27, 1995. In line with the Panel of Experts' recommendations, the Authority rejected McCormack Baron's proposal. Instead the Authority assumed the role of overall developer.

1996-97. The Authority issued Requests for Proposals and subsequently awarded contracts to local firms for Program Management, Financial Management Consultant, Property Management Consultant, and Property Management services.

The complaint

Our office received a citizen's complaint (March 10, 1999, and an addendum dated April 9, 1999) alleging that the Authority violated conflict of interest requirements when it awarded contracts for Program Management, Financial Management Consultant, and Property Management services for the Holly Park implementation. Specifically, the complaint alleged that the conflicts of interest occurred because:

- Two partners of Lorig Associates, L.L.C., in their roles as boardmember of the Authority and review panelist for the contract proposals, respectively, participated in the award of the developer contract to Popkin Development. The alleged conflict of interest occurred because Weinstein Copeland Architects, named in Popkin's bid as part of the Development Team, were retained by Lorig Associates between May 1994 and May 1996 to do the design work for a multimillion dollar project.
- At least five members of the Panel of Experts wound up with lucrative contracts to do the Holly Park project. The complaint states: "In effect, a group of local developers, contractors, and consultants, in their capacity as SHA appointees - key insiders - recommended to SHA that they hire locally. These same insiders then turned around as local bidders to bid for and obtain these lucrative contracts to do the Holly Park Project."

In addition, the complaint alleged the Authority's awarding of the Program Management contract to Popkin Development was irregular in that the Authority only interviewed one of six project applicants. Also, the complaint stated that most of the other companies bidding for the development contract had more experience in low income housing development than either Popkin or Weinstein Copeland.

*Review objectives
and methodology*

The purpose of our review was to determine if conflict of interests occurred in the Authority's awarding of the HOPE VI contracts. We also reviewed the contract awards to determine if they complied with HUD procurement requirements.

To achieve the review objectives we:

1. Reviewed the complaint and interviewed the complainant.
2. Reviewed the Planning Grant Agreement and the Implementation Grant Agreement.
3. Reviewed HUD procurement requirements, and examined the Authority's procurement process for compliance with HUD requirements for the major Holly Park contracts.
4. Obtained advice from the Office of Inspector General's legal counsel regarding conflict of interest requirements.
5. Interviewed appropriate Authority personnel and Panel of Experts members for their understanding of HUD requirements and any attendant circumstances.

*Conflict of interest
requirements*

The Code of Federal Regulations (24 CFR 85.36 (b)(3)) states in part:

“No employee, officer or agent of the grantee or subgrantee shall participate in selection, or in the award or administration of a contract supported by Federal funds if a conflict of interest, real or apparent, would be involved. Such a conflict would arise when:

- (i) The employee, officer or agent,
- (ii) Any member of his immediate family,
- (iii) His or her partner, or

(iv) An organization which employs, or is about to employ, any of the above, has a financial or other interest in the firm selected for award.”

Also, the Planning and Implementation Grant Agreements between the Seattle Housing Authority (SHA) and the Department of Housing and Urban Development for the Holly Park project state:

“1. In addition to the conflict of interest requirements in 24 CFR part 85, no person who is an employee, agent, consultant, officer, or elected or appointed official of the Grantee and who exercises or has exercised any functions or responsibilities with respect to activities assisted under this HOPE VI grant, or who is in a position to participate in a decision-making process or gain inside information with regard to such activities, may obtain a financial interest or benefit from the activity, or have an interest in any contract, subcontract, or agreement with respect thereto, or the proceeds thereunder, either for himself or herself or for those with whom he or she has family or business ties, during his or her tenure or for one year thereafter.

2. HUD may grant an exception to the exclusion in paragraph 1 of this Article on a case-by-case basis when it determines that such an exception will serve to further the purposes of HOPE VI and its effective and efficient administration.”

The Panel of Experts

In February 1995, the Authority issued a nationwide Request for Proposal (RFP) for a master developer to implement the Holly Park HOPE VI project. Only McCormack Baron & Associates submitted a response to the RFP.

Authority officials stated that, because there was only one proposal received they wanted to take every precaution and get all the expert advice that was available. To obtain advice from local experts in various fields, the Authority’s Director of Development, assembled a pro bono Panel of Experts to evaluate the responding developer’s proposal from all aspects; development, financing, legal, marketing investing, and marketing studies.

According to Authority officials, the Panel of Experts was formed primarily to evaluate the proposal of the developer and then to propose alternatives for the Project. The Authority wanted alternatives because it believed the developer's proposal did not contain enough information and the developer may not be willing to assume any risk for the Project.

The Authority invited local experts from different relevant disciplines to form a panel for the purposes of gathering and evaluating critical market data and strategic input regarding the Project. The Panel of Experts consisted of three designers and developers, three tax credit equity financing experts, a bond counsel and a bond underwriter, three property managers, a real estate appraiser, and a home buyer marketer. The Authority also hired a consultant to facilitate meetings and discussions with the Panel of Experts.

On October 26, 1995, the consultant submitted the Panel of Expert's *Development, Financing, and Implementation Report* for the Project to the Authority. According to the report, various members of the Panel of Experts attended a series of six meetings dealing with the Project from September 8, 1995 through October 18, 1995. Other attendees at these meetings included Authority Board members, officers and staff, and representatives of Holly Park residents.

One of the report's recommendations was that the Authority itself assume the role of master developer for the Project while relying on third party developers for the development and construction of the Project. Based on this recommendation, the Authority became the master developer for the Holly Park project, and rejected McCormack Baron's offer.

*The Authority
awards HOPE VI
contracts*

After rejecting McCormack Baron's offer, the Authority issued four Requests For Proposals for Program Management, Financial Management Consulting, Property Management Consulting, and Property Management services.

After review panels appointed by the Authority evaluated and rated the applicant responses to the RFPs, the Authority awarded the following contracts to:

- Popkin Development for Program Management services on April 11, 1996 (\$337,000),
- Devine and Gong, Inc. for Financial Consultant services on

April 11, 1996 (\$289,000),

- Pinnacle Realty Management for Property Management Consultant services on August 27, 1996 (\$25,000), and
- Quantum Management for Property Management services on December 8, 1997 (\$68,550).

The complaint was partially valid

The review found the complaint to be partially valid:

Regarding the allegation that there was a conflict of interest when two partners of Lorig Associates L.L.C. participated in the award of the developer contract to Popkin Development:

In our opinion, there was no evidence that the Authority violated HUD conflict of interest requirements. For there to be a conflict under the HUD regulations at 24 CFR (b)(3), whether real or apparent, the individual would have to have "...a financial or other interest in the firm selected for award." To have a financial or other interest such as to create a conflict of interest, the individuals would need a reason to be biased in the contract award decision, such as to obtain a financial benefit or some other benefit. The mere fact of awarding the contract to Popkin Development, who in turn sub-contracts with Weinstein Copeland, does not appear to confer any benefit on the individuals. To our knowledge, the partners had no financial, ownership or familial interest in Weinstein Copeland; their only interest is a private, presumably arm's length contractual relationship. That Weinstein Copeland might at some time give the partners gratuities or other favorable treatment in their private contractual dealings, solely because the partners participated in awarding the Holly Park contract to Popkin Development, who then sub-contracts with Weinstein Copeland, is too speculative for this situation to qualify as a conflict of interest, real or apparent.

Regarding the allegation that there was a conflict of interest when at least five members of the Panel of Experts were subsequently awarded three Holly Park contracts:

For two of the three contracts named in the complaint, plus a fourth contract not mentioned in the complaint, we concluded that the Authority violated conflict of interest requirements. The Authority awarded contracts for Program Management and Financial Management Consulting services (included in the complaint), and Property Management Consulting services (not included in the

complaint) to three companies. Four principals of these three firms had acted as consultants on the Panel of Expert less than one year prior to the contract awards and were in a position to gain inside information about the Holly Park project. This violated the conflict of interest provisions under the Grant Agreements. For one contract (Property Management services), the Authority awarded the contract more than one year after the one of the firm's principals served as a Panel of Experts member, and therefore the Authority did not violate conflict of interest requirements in that instance.

Regarding the allegation that the Authority's awarding of the Program Management contract to Popkin Development was irregular in that the Authority only interviewed one of six project applicants, and most of the other companies bidding for the development contract had more experience in low income housing development than either Popkin or Weinstein Copeland:

The Authority complied with HUD procurement requirements in awarding the HOPE VI contracts. For the program management contract, the Authority, in accordance with its policies and procedures and consistent with federal procurement requirements, evaluated and rated the six applicants and selected the highest rated applicant, which was Popkin Development. The Authority interviewed Popkin subsequent to the evaluation and rating process.

The Authority states it was not aware of the Grant Agreements' conflict of interest provisions

Authority officials told audit staff that some members of the Panel of Experts asked if service on the Panel would preclude the members' firms from later participating in the Holly Park project. The Authority's General Counsel said she told the Panel members they could serve on the Panel of Experts and still participate in the project. According to the Authority's General Counsel, she did not believe the conflict of interest existed because:

1. None of the Panel members was involved in awarding any contracts,
2. The Panel members were not paid for their services, and
3. The report issued by the Panel was made available to the general public.

The Authority's Counsel said she based her opinion on the conflict of interest requirement per the Code of Federal Regulations (24 CFR 85.36 (b)(3)). However the Authority's Counsel did not refer to, and was apparently unaware of the more stringent conflict of interest requirements included in the HOPE VI Grant Agreements, which preclude individuals who are in a position to gain inside information from participating in the HOPE VI project for a one

year period.

There is no excuse for the Authority not being familiar with, and following the Grant Agreement provisions, especially for grants of this magnitude. Conflicts of interest can lead the public to infer unethical behavior in both the private and public sectors. This jeopardizes the trust that citizens place in their government and adversely affects the credibility of the government agencies which manage public funds. Also, the conflicts of interest may have affected the outcome of the Holly Park contract awards, marring what should have been an impartial process.

**Auditee Comments
and OIG Evaluation**

The Authority responded in writing to the draft report in a November 4, 1999 letter (Appendix B).

**Authority response:
Conflict of interest**

The Authority disagreed that it violated the conflict of interest provisions contained in the HOPE VI Implementation Grant Agreement. The Authority indicated it correctly interpreted the conflict of interest provision which HUD clarified in HUD's subsequent HOPE VI Grant Agreements. The Executive Director quoted the Roxbury HOPE VI Grant Agreement conflict of interest provision, which states:

“In addition to the conflict of interest requirements in 24 CFR part 85, no person who is an employee, agent, consultant, (*but excluding an independent contractor*) officer, or elected or appointed official of the Grantee...(A person who is, or was, an independent contractor to the Grantee is not covered by this conflict of interest provision and, therefore, is not barred by this provision from competing for further contracts) (emphasis added) Article XIV, FY 1998 Revitalization Grant Agreement”

The Authority claimed that this is “a clear indication that HUD’s intent in the Holly Park Agreement was not to exclude independent contractors like the Panel of Experts from bidding on future redevelopment -related projects.”

**OIG evaluation:
Conflict of interest**

We disagree. As stated in the report, during the audit the Authority’s Legal Counsel indicated she was unaware of the Holly Park conflict of interest provision, and never mentioned the Roxbury provision. For the Authority to, after the fact, claim that they correctly interpreted the Holly Park provision based on the Roxbury “clarification” is unacceptable.

The Holly Park Grant Agreement clearly prohibits certain persons, including agents and consultants, from participating in Grant activities when those individuals had exercised some function or participated in a decision making process or gained some inside information with regard to such Grant activities. The OIG, as a separate matter, will evaluate the HOPE VI conflict of interest changes: however, the Holly Park agreement provisions are clear and straightforward.

It should be noted that both HOPE VI agreements provided the Authority with the opportunity to obtain a waiver from HUD regarding the conflict of interest provision when a case is made that to do so will further the purposes of HOPE VI and its effective and efficient administration.

Authority response:
Adverse impact of
the OIG's report

The Authority stated that the OIG's misinterpretation of the Grant Agreement language "...may very likely cause unfair and totally undeserved damage to the agency and the Holly Park Redevelopment project..." As an example the Authority cited the OIG's treatment of the "baseless allegations against Bruce Lorig and Associates." The Authority states that the OIG's report, if not corrected, "...will make it virtually impossible for any person or firm which may want to do business with the agency in the future to ever volunteer time and advice to the agency."

OIG evaluation:
Adverse impact of
the OIG report

We disagree. Any adverse impact would be the result of the Authority's non-adherence to conflict of interest requirements. The OIG has an obligation to make public disclosure of significant findings. Regarding Lorig and Associates, the draft report clearly stated there was no conflict of interest.

Authority response:
Gaining business
support and
expertise for the
Holly Park
redevelopment

The Authority stated it had never undertaken a project of such magnitude and complexity, and that one of the most valuable products of the Panel of Experts was to publicize and gain support for the project. Further, the Authority indicated the participants could not be considered as having a vested interest in who the overall developer was since they could have performed work in connection with the redevelopment regardless of who the developer was.

OIG evaluation:
Gaining business
support and
expertise for the
Holly Park
redevelopment

The OIG recognizes the difficulties and challenges the Authority has in such a large undertaking, and believes the Authority is wise in trying to obtain local support for the project. Whether or not the firms that obtained the contracts would have fared as well if

McCormack Baron had been the developer is speculative. This report simply points out that the Authority needs to be more aware of conflict of interest situations, whether real or apparent.

Authority response:
Procurement or
decision making

The Authority disagreed that the Panel of Experts were consultants that participated in the Authority's procurement process or any decision making process for the Holly Park project. Instead, the Authority indicated members of the Panel of Experts were volunteers consisting of active professionals and businesspersons who agreed to participate in discussions with one another and share their expertise with the Authority as it tried to sort out its alternatives.

OIG evaluation:
Procurement or
decision making

We disagree. The Authority solicited the Panel of Experts to augment the Authority's staff capacity in evaluating a single developer's proposal, and to consider and recommend alternative development options/strategies for the Authority so it could decide how to proceed with the Holly Park redevelopment.

We believe that these actions represent a procurement function (i.e. evaluating the proposal from a technical and price standpoint). The Authority lacked experience in administering such a large project and used the Panel of Experts as a unique evaluation tool. The Authority then relied on the Panel of Experts' recommendation when it decided to reject the single proposal and develop the project itself.

Authority response:
Inside information

The Authority disagreed that the panel of experts members were privy to "insider information" which presumably gave them an advantage over their competitors when bids for work were later solicited. The Authority's response states that inside information is information which is only known by persons inside an organization or with some sort of special relationship to the organization and unavailable to those on the outside. Their report was made available to all parties who submitted bids or proposals for work at Holly Park. Also, "...there is no evidence cited by the I.G. report nor does any exist that Panel members were shown favoritism in the procurement process which followed."

OIG evaluation:
Inside information

Whether the Panel of Experts members had access to inside information is something difficult to either prove or disprove. However, again, when dealing with conflict of interest issues appearances are a major concern. It is likely that people will assume that experts called upon to review highly complex and

technical issues, and develop alternatives and make recommendations, will be privy to insider information and have the opportunity to develop close relationships with the organization they are assisting. When panel members who serve as Authority advisors are subsequently awarded contracts for the same work for which they served as advisors, it is likely that people will assume there was favoritism involved. Whether or not the members in fact had insider information or were shown favoritism will not erase appearances to the contrary. It is unreasonable for the Authority to expect the OIG or HUD to prove the panel members had insider information. The Authority can avoid controversy by being aware of and following HUD conflict of interest requirements.

Recommendation

We recommend that the Office of Public Housing:

- 1A. Require the Authority to implement a policy to ensure that any decisions made by the Authority regarding conflict of interest issues are documented and retained with the related documents.

AUDITEE COMMENTS

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November 4, 1999

Frank E. Baca
District Inspector General for Audit
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909 First Avenue, Suite 125
Seattle, WA 98104-1000

Re: Draft Audit Memorandum for HOPE VI Program, Holly Park,
Seattle Housing Authority, Dated October 19, 1999

Dear Mr. Baca:

We appreciate the opportunity to comment on the draft audit memorandum you forwarded to us by letter dated October 19, 1999. In that draft audit memorandum the I.G. asserts that the Seattle Housing Authority violated the conflict of interest provisions contained in the HOPE VI Implementation Grant Agreement. The I.G. DOES NOT allege that any federal law, state law, local law or HUD rule or regulation has been violated. The pertinent language in the Grant Agreement reads as follows:

1. In addition to the conflict of interest requirements in 24 CFR part 85, no person who is an employee, agent, consultant, officer, or elected or appointed official of the Grantee and who *exercises or has exercised any functions or responsibilities* with respect to *activities* assisted under this HOPE VI grant, or who is in a position to *participate in a decision-making process or gain inside information* with regard to such activities, may obtain a financial interest or benefit from the activity, or have an interest in any contract, subcontract, or agreement with respect thereto or the proceeds thereunder, either for himself or herself or for those with whom he or she has family or business ties, during his or her tenure or for one year thereafter. (emphasis added)
2. HUD may grant an exception to the exclusion in paragraph 1 of this Article on a case-by-case basis when it determines that such an exception will serve to further the purposes of HOPE VI and its effective and efficient administration.

Significantly, the meaning of this language has been clarified in subsequent Grant Agreements for HOPE VI projects. The Grant Agreement for the Roxbury HOPE

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William Block, *Chair*, Peter Moy, *Vice Chair*, Marie Cook, Judith G. Fay, Harris Hoffman, Bettylou Valentine, Harry Thomas, *Executive Director*

VI redevelopment is identical except that it provides an exception for “independent contractors”:

In addition to the conflict of interest requirements in 24 CFR part 85, no person who is an employee, agent, consultant, *(but excluding an independent contractor)* officer, or elected or appointed official of the Grantee*(A person who is, or was, an independent contractor to the Grantee is not covered by this conflict of interest provision and, therefore, is not barred by this provision from competing for future contracts.)* (emphasis added) Article XIV, FY 1998 Revitalization Grant Agreement

Obviously, HUD sought to clarify the provision in the earlier Grant Agreements by adding the exclusion for independent contractors. This is a clear indication that HUD’s intent in the Holly Park Grant Agreement was not to exclude independent contractors like the Panel of Experts’ participants from bidding on future redevelopment-related work.

Regardless of which Grant Agreement one is seeking to interpret, there is no basis for the I.G.’s conclusion that the conflict of interest provision of the Agreement set forth in the first paragraph above was violated. The I.G. has misunderstood and/or misapplied this language to the Seattle Housing Authority’s early efforts to implement its HOPE VI vision at Holly Park. Unfortunately, this mistake on the part of the I.G., if not corrected, may very likely cause unfair and totally undeserved damage to the agency and the Holly Park Redevelopment project currently underway and to others who would lend their expertise for the public’s benefit. A clear example of this unfortunate impact is provided by the I.G.’s treatment of the baseless allegations made against Bruce Lorig and Associates. Mr. Lorig has given countless hours of his valuable time to make Holly Park a success without a cent of remuneration. Since Mr. Lorig had no contracts with SHA nor any ownership interests in any of the other businesses named, the allegation could never have supported a conflict of interest finding and should have been dismissed immediately. Instead, it lingered unresolved thereby perpetuating a myth, repeated in local newspapers, that Mr. Lorig was guilty of a conflict of interest when all he did was volunteer his expertise for a project he believed was going to provide, and, indeed, has provided a major benefit to our city. In a city the size and character of Seattle the impact of the I.G.’s report, if not corrected, will make it virtually impossible for any person or firm which may want to do business with the agency in the future to ever volunteer time and advice to the agency. This will prove a huge loss and will undoubtedly cause the costs of HOPE VI projects in Seattle to soar. This certainly was not the intent of the language in the Grant Agreement. More importantly, cutting off the flow of free and early discussion and advice concerning these sorts of projects surely does not serve the public good. Following the I.G.’s logic, should Bill Gates be precluded from making significant contributions to the Seattle Public Library simply because he sells his product to that governmental organization?

It is important to understand that at the time the so-called Panel of Experts assembled to advise the Authority as to whether it should go forward with the only developer which had submitted a proposal, re-solicit, or take some other route, the Seattle Housing Authority had never undertaken a project nearing the magnitude or complexity of the Holly Park redevelopment effort. It was an undertaking that was going to involve demolition and replatting of over 100 acres of property in the city's core. It was going to require considerable resources beyond the HOPE VI grant of \$47 million. It was absolutely crucial that the Authority develop broad-based support for the project. It had worked long and hard to develop support among the residents of Holly Park. But, the Authority did not yet have the support it would need among those businesses and individuals involved in planning, designing, building, and financing the Seattle of the future. One of the unstated purposes and most valuable products of the Panel of Experts was to publicize and gain support for this very important project which would change the face of Southeast Seattle.

The only way Authority personnel knew to accomplish this at a cost affordable to the project was to ask for volunteers among this finite group of active professionals and businesspersons. Many of the potential participants on the Panel of Experts made it clear that they would only agree to volunteer if they could be assured that they would be able to compete for work at Holly Park in the future, whether the agency went forward with the developer or chose some other path. Since most, if not all, of the participants could have been retained to perform work in connection with the redevelopment whether it was given to the developer or "kept" by the Authority, it cannot be said that the participants had a vested interest in either outcome. The I.G. report completely overlooks this fact.

The members of the Panel of Experts were not hired or otherwise retained as consultants. They were strictly volunteers who agreed to participate in discussions with one another and share their expertise with the agency as it tried to sort out its alternatives. The Authority did hire one of the tax credit experts to record the meetings and write up a report after they concluded. He was hired primarily as a scribe, not a consultant. The Authority leaders participating in the Panel of Experts wanted to listen and did not want to be burdened with the need to create a report. They felt it was important that the scribe be able to understand what was being said and, thus, chose someone with relevant expertise.

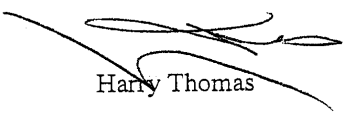
It is worth noting that at the point at which the Panel of Experts convened the Authority had already conducted a planning process relying on planners and architects whose services had been procured according to HUD rules and paid for with a HOPE VI Planning Grant. This process had produced a physical plan for the redevelopment, which had the support of the Holly Park residents and members of the surrounding community. The members of the Panel of Experts, thus, did not assume or exercise any responsibilities or functions with regard to activities eventually paid for with HOPE VI money. They did not have any

authority to make nor did they make a single decision with regard to any HOPE VI activities. They simply sat around a table on six different occasions and discussed the various development alternatives, made some recommendations, and, eventually, reached some degree of, though not total, consensus as to a number of different financial scenarios it was thought might work. Some of the recommendations were adopted; others were not. As it turned out, none of the financial scenarios generated were actually implemented. The process itself was very valuable, however, mainly because Authority personnel were educated as to how to put together and manage the redevelopment. With the help of the Panel Authority leadership arrived at the conclusion that the Authority had the expertise it needed to manage the project on its own and thereby keep the developer fees to reinvest in low income housing in Seattle.

The I.G. report suggests that the members of the Panel of Experts were privy to "inside information" which presumably gave them an advantage over their competitors when bids for work were later solicited. This is simply not the case. Inside information is information which is only known by persons inside an organization or with some sort of special relationship to the organization and unavailable to those on the outside. First, Washington State law (RCW 42.17 *et seq*) renders virtually all information considered and generated by the Panel of Experts public and, therefore, available to any citizen for the asking. There is practically nothing that could be considered to be "inside information" exchanged in connection with the Panel of Experts. Secondly, the report generated by the Panel of Experts was published and made available to all parties who submitted bids or proposals for work at Holly Park. This report was in addition to a lengthy report on the HOPE VI Planning process, also available to anyone who wanted it. Both reports were widely distributed. Finally, there is no evidence cited by the I.G. report nor does any exist that Panel members were shown favoritism in the procurement processes which followed. Some of their proposals were selected and some were not. In some cases Panel members competed against one another. There was free and open competition as required by HUD rules.

The Seattle Housing Authority respectfully requests that the I.G. consider these comments, review its draft audit related memorandum, and drop this finding from its report.

Sincerely,



Harry Thomas

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Ms. Cindy Fogleman, Subcommittee on Oversight and Investigations, Room 212, O'Neil House Office Building, Washington, DC, 20515-6143 (Hard Copy)

Director, Housing and Community Development Issue Area, United States General Accounting Office, 441 G Street, NW, Room 2474, Washington, DC, 20548
(Attention: Judy England-Joseph) (Hard Copy)

Deputy Staff Director, Counsel, Subcommittee on Criminal Justice, Drug Policy & Human Resources, B 373 Rayburn House Office Building, Washington, DC 20515 (Hard Copy)

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