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January 9, 2003

2003-FW-1802

MEMORANDUM FOR: Richard Kennedy
Director
Office of Block Grant Assistance, DGB

FROM: D. Michael Beard
Regional Inspector General for Audit, 6AGA

SUBJECT: Sale of Hargest College
City of Houston CDBG
Houston, Texas

INTRODUCTION

In response to an anonymous complaint, we reviewed the sale of Hargest College (College) in Houston, Texas. The complaint alleged the sale of the College by the City of Houston (City) to Midtown Redevelopment Authority (Midtown)¹ was for substantially less than fair market value. It was also alleged the director of Midtown purchased the property for less than fair market value due to political contributions for, and jobs provided to family members of the Mayor of the City of Houston (Mayor). The complaint also alleged the City obtained a \$1.1 million dollar HUD grant to renovate the College under false pretenses and the City actually spent the funds on other properties. Our objectives in performing the review were to determine: (1) if the property was sold at less than fair market value; (2) if the sales price was based on other than an arms length transaction; and (3) if the \$1.1 million grant was obtained under false pretenses.

This report does not have any recommendations and does not require a response. If you have any questions, please contact Theresa Carroll, Assistant Regional Inspector General for Audit, at (817) 978-9309.

¹ The City established Midtown Redevelopment Authority in order to conduct business for the Midtown Tax Increment Reinvestment Zone (Zone). The Zone is a special district created by the City Council to attract new investment to the area.

SCOPE AND METHODOLOGY

In performing the review, we interviewed staff at HUD, the City, and Midtown. In addition, we reviewed relevant HUD regulations, public campaign contribution records, financial statements, personnel documents of Midtown, sales documents relevant to the sale, and the grant agreement and amendments. Certain documents pertaining to the original loan to the College were unavailable for review.²

BACKGROUND

In 1992, the City's Housing & Community Development Department foreclosed on Hargest College located at 2800 Main Street in Houston, Texas. Several years prior, the City awarded the College a loan from its CDBG funds. The property remained vacant and unused for several years. In January 1997, Midtown submitted an offer to purchase the property for \$300,000. In addition, Midtown agreed to pay the first \$140,000 in back taxes owed on the property. At that time, an independent appraisal valued the property at \$450,000.³ However, an environmental survey of the property determined that remediation of the property was necessary.⁴ Midtown was unable to close on the property. In 1998, Midtown again submitted an offer to purchase the property for \$300,000. In 1998, Chase Bank, who financed the transaction for Midtown, appraised the property at \$650,000.⁵ The City sold the property to Midtown for the original sales price of \$300,000. In addition, Midtown paid \$178,083 in back taxes owed on the property at closing.

RESULTS OF REVIEW

Allegation 1: The City sold the College to Midtown for substantially less than fair market value.

Conclusion: We could not validate or refute the allegation.

Our review of available documentation pertaining to the sale of Hargest College did not substantiate the complaint. In addition to the sales price of \$300,000, Midtown was responsible for \$178,083 in back taxes, and environmental remediation of the property subsequent to the sale⁶.

² The City made the original loan to the College in 1987.

³ Appraisal did not take into consideration the delinquent taxes owed on the property. As of September 1, 1997, the delinquent taxes were \$292,859.82 including penalties and interest.

⁴ The environmental survey revealed that a gas station was located on the property in the early 1900's.

⁵ This appraisal did not include any environmental remediation costs nor did it take into consideration the delinquent taxes still owed on the property.

⁶ The closing statement included \$50,000 put into an escrow account by the City. However, any amount over and above the \$50,000 was the responsibility of Midtown.

Allegation 2: Midtown purchased Hargest College for less than fair market value due to political contributions for, and jobs provided to family members of the Mayor.

Conclusion: The allegation is not valid.

Review of Midtown's audited financial statements and review of Public Campaign Contribution Records for the Mayor for the time period from September 1998 through March 1999 revealed no contributions from Midtown or its employees. In addition, review of Midtown's personnel files revealed that they employed no member of the Mayor's family.

Allegation 3: The City obtained a \$1.1 million dollar HUD grant to renovate the College under false pretenses and actually spent the grant money on other properties.

Conclusion: We determined that a portion of the complaint was invalid, a portion was valid, and a portion could not be validated or refuted.

The City did receive a \$1.1 million dollar grant to renovate the College. However, the Department of Commerce awarded the grant, not HUD. Initially, the grant was to renovate the College, but later amendments to the grant made it available for other properties. Since this was a Department of Commerce grant, we did not perform audit steps to determine if it was obtained under false pretenses.

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