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TO: Robert P. Cwieka, Acting Director, Office of Public and Indian Housing,
Massachusetts State Office, 1APH

FROM: 
Barry L. Savill, Regional Inspector General, Office of Audit, 1AGA

SUBJECT: Housing Authority of the City of Hartford
Disposition of Vacant Land at Charter Oak Terrace
Hotline Case Number HL-03-0465

INTRODUCTION

We performed a review of the Housing Authority of the City of Hartford's (the Authority) application to dispose of 49 acres of vacant land located at its Charter Oak Terrace public housing site. We initiated our review in response to a hotline complaint alleging that the Authority did not follow Federal regulations in its proposed leasing of the Charter Oak Terrace housing site. Our objectives were to determine the merits of the allegations made against the Authority and to identify areas or subjects warranting further review based on these allegations. Our review found that the Authority adhered to Federal regulations and additional work is not warranted.

Should you or your staff have any questions, please contact Cristine M. O'Rourke, Assistant Regional Inspector General for Audit, at 617-994-8380

METHODOLOGY AND SCOPE

To meet our objectives, we:

- Reviewed Federal requirements related to the demolition or disposition of public housing projects;
- Reviewed documentation provided by the Office of Management and Policy concerning the complaint against the Authority;
- Contacted staff from the Office of Public and Indian Housing, the Office of General Counsel and HUD's Special Applications Center; and
- Reviewed files and related correspondence maintained by HUD's Office of Public and Indian Housing and HUD's Special Applications Center.

We conducted our review in accordance with generally accepted government auditing standards.

SUMMARY

On March 22, 2002, the Authority submitted a disposition application to dispose of 49 acres of vacant land at its Charter Oak Terrace public housing site. On January 13, 2003, HUD's Special Applications Center approved the Authority's disposition application. The Authority intends to lease the vacant land to two commercial entities to develop retail and commercial space. HUD considers a long-term lease to be a disposition because the Authority cannot use the land for other purposes during the term of the lease. In this case, the Authority is retaining the ownership of the land.

On January 28, 2003, the Office of the Inspector General received a complaint against the Authority. The complainant requested that HUD investigate the Authority's disposition process before allowing the disposition to proceed. The complainant raised the following questions:

1. Did the Authority follow Federal regulations in its proposed leasing of the Charter Oak Terrace public housing site?
2. How was the market value of the site determined? Was there a public procedure used to obtain competitive proposals for use of the property? Was the Authority in compliance with the competitive procurement requirements?
3. How did the Authority justify to HUD that the leasing of the site would generate new jobs?

Our evaluation concluded that the Authority adhered to Federal regulations in applying for the disposition of vacant land at its Charter Oak Terrace public housing site and that HUD acted within its authority in approving the disposition application. The Authority complied with Section 18 of the United States Housing Act of 1937 and its implementing regulations, 24 CFR, Part 970.

BACKGROUND

On March 22, 2002, the Authority submitted a disposition application to HUD's Special Applications Center to dispose of 49 acres of vacant land at its Charter Oak Terrace public housing site. In its cover letter to the Special Applications Center, the Authority's Executive Director stated:

With the physical reinvention of over approximately 75% of its Low Income Public Housing units, the Authority is now poised to take yet one more innovative step, namely job creation and economic development. As part of the overall Charter Oak Plan back in 1995, it was contemplated that a large portion of the ABC section of Charter Oak would be converted into an economic development zone that could generate living wage or better jobs. Two years ago, the Authority selected a developer to "put together" a plan and implement this portion of the vision. The developer has done an excellent job including entering into a lease with the most successful retailer in the world.

The Special Applications Center initially approved the Authority's application on June 27, 2002. On January 13, 2003, the Special Applications Center issued a subsequent approval due to an inconsistency in its initial approval. The original approval letter described a proposed sale to a large retailer—instead of the lease to a developer proposed by the Authority. The January 13, 2003 approval superseded the original approval of June 27, 2002.

In its January 13, 2003 approval, the Special Applications Center stated the application was consistent with Section 18 of the Act, and the implementing regulations at 24 CFR, Part 970, including requirements related to consulting with residents and providing resident organizations the opportunity to purchase the property. Additionally, the Special Applications Center concurred with the Authority's determination that the 49 acres of vacant land at Charter Oak Terrace exceeded the needs of the housing agency by citing the following:

In 1995, [the Authority] created an economic development plan that included Charter Oak Terrace. Since the requirement for one-for-one replacement was removed from the regulation[s], [the Authority] has been unable to find sufficient funds to redevelop the remaining portion of the site for housing. [The Authority] proposes to dispose of the site in order to provide jobs for its residents and those individuals on its waiting list while also generating a cash stream for replacement housing elsewhere in the City of Hartford. The subject land has been vacant since the demolition of 680 units in 1995.

The Special Applications Center further stated in its January 13, 2003 approval:

[The Authority] proposed the disposition via a lease for approximately \$200,000 per year. The property will be leased to [two commercial entities], to develop retail and commercial space that will provide residents of Charter Oak Terrace with job opportunities. Therefore, the benefits arising from the negotiated sale are in the best interest of the public housing residents and [the Authority], and will result in a commensurate public benefit, as required in 24 CFR, Section 970.9(a).

The January 13, 2003 approval letter from HUD's Special Applications Center further advised that the Authority needed to submit an Outreach Plan to HUD of actions it will take to inform residents of the Authority of economic development and employment opportunities to be made available at the site. HUD plans to monitor this program to assure that residents are getting job opportunities and that low-income units are acquired/constructed in accordance with their current risk assessment requirements.

RESULTS OF REVIEW

With respect to the complainant's first question, our evaluation concluded that the Authority adhered to Federal regulations in applying for the disposition of vacant land at its Charter Oak Terrace public housing site and that HUD acted within its authority in approving the disposition application. We found the Authority to be in compliance with Section 18 of the United States Housing Act of 1937 and its implementing regulations, 24 CFR, Part 970.

The complainant's second question concerning the determination of the site's market value and whether the Authority followed competitive procurement requirements is not relevant. Federal regulations in 24 CFR 970.9(a) allow HUD to authorize:

1. A negotiated sale for reasons found to be in the best interests of the Authority or the Federal Government.
2. A sale for less than fair market value based on commensurate public benefit to the community, the Authority or the Federal Government.

We would like to reiterate that this transaction is a lease and not a sale. In this instance, the lease to a large retailer represents a transaction at less than fair market value. The development of retail and commercial space will provide residents with additional job opportunities while providing the surrounding area with an economic benefit in the way of an increased tax base and the attraction of additional retailers within the same development. This transaction represents the best interest of the public housing residents, the Authority, and HUD resulting in a commensurate public benefit, as required.

Furthermore, the Authority indicated an appraised value of \$6,520,000 for the development in its March 22, 2002 application. The Hartford Economic Development Commission anticipated the annual land lease payments in the “early stabilized years” to be between \$300,000 and \$450,000. The Hartford Economic Development Commission also expects that the land lease payments may increase to several times that amount over the 25 years of the lease. Assuming a yearly lease of \$300,000 over the 25-year term, the Authority will net \$7,500,000 while still owning the land at the end of the lease.

Lastly, the complainant questioned how the Authority justified to HUD that the leasing of the site would generate new jobs. The Authority is under no obligation to justify the generation of new jobs to HUD. HUD, in its assessment of the Authority’s application noted that the retail and commercial space would provide the residents of Charter Oak Terrace with job opportunities. These opportunities, in HUD’s opinion, represent the best interest of the public housing residents and the Authority resulting in a commensurate public benefit.

We agree that the job opportunities afforded the residents of the Authority and the surrounding communities represent a commensurate benefit. Since January 2003, the Hartford, Connecticut has had monthly unemployment rates exceeding five percent. As of August 2003, the U.S. Department of Labor reported 32,744 unemployed individuals out of a total labor workforce of 607,944. A need exists for job opportunities in Hartford, Connecticut. The Authority entered into Memoranda of Understanding with the developer, the developer’s principal tenant, and a regional development board that focus on the goal of creating job opportunities for public housing residents and those residents of Hartford, Connecticut. HUD approved these memoranda on March 7, 2003.

As stated in the January 13, 2003 approval letter from HUD’s Special Applications Center, we agree that HUD should monitor the progress of this development and the economic and job opportunities presented to the public housing residents of Hartford, CT.