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District Office of the Inspector General
Office of Audit
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No. 99-AT-202-1801

MEMORANDUM FOR: Elinor R. Bacon, Deputy Assistant Secretary, Office of Public Housing Investments, PT

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

SUBJECT: Hotline Complaints
Demolition of College Homes
Knoxville's Community Development Corporation
Knoxville, TN

We have completed a review of hotline complaints pertaining to a HOPE VI grant and related demolition application HUD approved for Knoxville's Community Development Corporation's (KCDC) 320-unit College Homes development in Knoxville, Tennessee. The complainants alleged that (1) HUD approved the demolition application based on inaccurate information, (2) College Homes does not meet HUD's criteria for demolition and HOPE VI funding, (3) KCDC deprived College Homes' residents of the opportunity to purchase the development, (4) funding was provided and KCDC began relocating tenants prior to the approval of the demolition application, (5) HUD acted inappropriately to bolster KCDC's public relations efforts against the residents, and (6) KCDC misrepresented College Homes' crime and drug activity.

We reviewed pertinent HUD regulations, examined relevant records at KCDC and HUD, met with the complainants and other supporters at College Homes, interviewed HUD and KCDC officials, and toured the development.

We found no evidence to support the contentions that College Homes should not have received HOPE VI and demolition funding, or that the project should not proceed as planned. Our findings with respect to the specific allegations are as follows:

Allegation (1): HUD approved KCDC's demolition application based on an inaccurate description of the property, which was virtually identical to the description of another demolition project in Brockton, Massachusetts. The situations were also similar in that both applications misrepresented the condition of the developments. Estimated renovation costs were greatly overstated in KCDC's application because of the rehabilitation option chosen. This resulted in an incorrect conclusion that it was not feasible to renovate College Homes.

We found isolated similarities in language in the Brockton and KCDC applications, such as “The units are situated together in a long row of buildings that form prison-like walls and create large tracts of indefensible space.” The similarities occurred because the same consultant prepared both applications. We selected the following significant items in the application in which to verify the accuracy of statements about College Homes:

- Structural Deficiencies
- Substantial Deterioration
- Design and Site Deficiencies
- Major Systems Deficiencies
- Accessibility Deficiencies
- Neighborhood Characteristics
- Crime and Disorder

We found the statements in KCDC's application to be generally supported and accurate.

HUD regulations (24 CFR 970.6(a)) state that HUD will not approve a project for demolition unless the project is obsolete as to physical condition, location, or other factors, and no reasonable program of modifications is feasible to return the project to useful life. HUD generally does not consider modification to be reasonable if the costs exceed 90 percent of the cost of new construction.

KCDC considered three other options before selecting the final renovation plan. The plan included demolishing 44 units and building an elderly high-rise and parking deck for \$24 million (111 percent of the cost of new construction). All of the options considered included some mix of demolition and unit replacement. KCDC obtained an independent, professional cost estimate on the final plan selected. KCDC did not consider any of the four options to be a viable solution to College Homes' obsolescence, but considered option four to be the most viable of the four. None of the options reduced density, improved the steep terrain, provided access to disabled residents and vehicles, or solved the problems of insulating and heating 57 year old buildings.

We believe KCDC's assessment of College Homes complied with the regulations. While less costly renovation alternatives are obviously possible, KCDC supported its conclusion that the renovation of the old buildings would be inefficient and do little to integrate College Homes into the surrounding community or create a mixed income neighborhood.

Allegation (2): College Homes does not meet the Federal criteria for developments to be demolished or for developments which are to receive HOPE VI funding.

Eligibility requirements for HOPE VI funding and demolition are contained in the HOPE VI Notification Of Funding Availability (NOFA) and 24 CFR 970.6, respectively. In 1996 Congress eliminated certain funding restrictions on housing authorities seeking HOPE VI funds and broadened the definition of "obsolete." Although HOPE VI continues to be aimed primarily at eliminating the most severely distressed developments, eligibility was opened to developments relatively well preserved, but showing signs of distress and meeting the broadened definition of obsolete. The HOPE VI NOFA defines an obsolete development as one:

- which has an occupancy density or building height that is significantly in excess of that which prevails in the neighborhood in which the project is located, a bedroom configuration that could be altered to better serve the needs of families seeking occupancy in dwellings of the public housing agency, significant security problems in and around the project, or significant physical deterioration or inefficient energy and utility systems; and
- for which the cost of redesign, rehabilitation or reconstruction exceeds 70 percent of the total development cost limits for new construction of similar units in the area.

College Homes meets the first criteria because it has 24 units per acre in a neighborhood of single family homes. The area has experienced significant security problems in the recent past prompting the local police to intensify its patrols and community programs. The project also has obsolete and inefficient energy and utility systems.

College Homes also meets the second criteria. Attachment 1, excerpted from the HOPE VI application, shows that the approved revitalization plan exceeds 70 percent of the total development cost limits established for the Knoxville area.

We concluded College Homes meets the revised eligibility requirements and the HOPE VI definition of obsolescence. As discussed under the first allegation, we also concluded College Homes meets the demolition eligibility criteria.

Allegation (3): KCDC did not properly consult with College Homes residents regarding their decision to demolish the development and did not give them the opportunity to purchase the property.

HUD regulations require the housing authority to develop the application in consultation with the tenants of the project involved, and any tenant organization, and if applicable, to offer to sell the property proposed for demolition to a duly formed resident organization (24 CFR 970.4 (a), 970.8, and 970.13).

As early as July 1997, KCDC disseminated through the HOPE VI Steering Committee its proposal to demolish College Homes. The Steering Committee included College Homes residents and their resident association president. The Steering Committee, the Knoxville Tenant Council, and residents all had an opportunity to provide input into KCDC's decision making process.

The offer to sell is supposed to occur prior to the submission of the demolition application to HUD. KCDC submitted the application to HUD on August 21, 1997, but, to our knowledge, did not offer to sell the development to the residents until January 21, 1998. In response to the offer, the resident association president declined on behalf of the tenants. KCDC submitted this information to HUD on February 23, 1998, showing compliance with the requirement, and HUD approved the application on April 15, 1998.

The issue of giving the residents an opportunity to purchase the property was previously raised and responded to by HUD's General Deputy Assistant Secretary on June 26, 1998, based on advice from HUD's Office of General Counsel. The issue had several components, including whether KCDC made a legitimate offer, the legal standing of a resident organization and those representing the organization, and the timeliness of the organization's response to the offer. Based on our review of these and other related documents, we concur with the General Deputy Assistant Secretary's decision.

Allegation (4): KCDC started moving College Homes residents prior to HUD's conditional approval of the demolition application on April 15, 1998.

This allegation is true, but was not a violation of HUD rules. HUD signed the HOPE VI grant agreement on January 26, 1998. Approval of the HOPE VI predevelopment budget, which occurred on July 15, 1998, governs when relocation funds may be spent. KCDC used non-federal funds to begin relocating residents in February 1998 that voluntarily relocated prior to approval of the predevelopment budget. KCDC letters notifying residents that they had to move did not go out until July 15, 1998.

Allegation (5): The local HUD office and the HUD Office of Public Housing Investments made inappropriate releases of information to and through KCDC, and issued letters of support in an attempt to bolster KCDC's public relations efforts against the residents.

The complaint refers to HUD's General Deputy Assistant Secretary's response of June 26, 1998, addressed to the complainant's attorney. HUD sent a copy of the letter to KCDC, who in turn faxed the letter to the local newspaper on July 2, 1998. The attorney said he had to obtain the letter from the newspaper. The delay in delivery of the letter to the attorney was unfortunate, but we have no reason to believe HUD was at fault.

We also reviewed letters to KCDC, the complainants and their attorney from HUD's PIH Director and Senior Community Builder in Knoxville. The letters were official correspondence written in response to requests from the residents and the attorney for information and answers. We saw nothing improper in any of the correspondence reviewed.

Allegation (6): KCDC moved the 11 residents, cited in their demolition application as 1997 drug evictions, into College Homes knowing of their drug background. KCDC lied about a resident who had a mental problem and was shot and killed in College Homes and exploited the death of a 5 year old shot at another development.

We found nothing to indicate KCDC knowingly moved residents into College Homes who had a history of drug problems. When we asked, the Director of Admissions stated this could not have occurred. KCDC has a policy against admitting drug offenders and adheres to a “one strike” eviction policy. The housing application specifically asks about drug charges and KCDC matches all applicants against police data to check for convictions prior to admission.

Newspaper accounts of the police shooting at College Homes were similar to KCDC’s application. Both stated that police were attempting to serve a warrant on the resident when the shooting occurred. Neither made mention of the resident’s mental state. We do not believe that KCDC misrepresented the facts or that the statement had a significant bearing on HUD’s decision to approve the demolition application.

The allegation that the drive by shooting of the 5 year old girl did not occur in College Homes is true. KCDC included news headlines in a pictorial overlay in their HOPE VI application contrasting today’s College Homes headlines with those of 1940. The 1940 overlay included articles on the opening of College Homes. The 1997 overlay had no articles identifiable to College Homes, but included generic headlines on drugs and crime. The 5 year old’s shooting was the only headline identifiable, and it occurred in another Knoxville public housing complex. We agree that KCDC improperly implied that it occurred in College Homes. However, considering the evidence, which we verified, of past high crime in College Homes, the implication had no effect on HUD’s approval.

If you have any questions regarding this matter, please call me at (404) 331-3369.

Attachments

Source: KCDC's Application for Fiscal Year 1997 HOPE VI Program Funding

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