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The Honorable Robert Morgan
United States Senate

Dear Senator Morgan:

In your January 8, 1976, letter, you requested us to examine certain real estate transactions by the Greensboro Redevelopment Commission in Greensboro, North Carolina which involved a write-down of about \$2 million and the later sale of redevelopment property for about \$200,000 less than the established appraised value. The sale involved land which the Redevelopment Commission acquired in 31 separate parcels for \$2,363,174, beginning in August 1971. Although the land was valued under Department of Housing and Urban Development approved procedures at \$595,600, it was later sold to the Greensboro News Company in September 1974 for \$391,248.

[Examination of

On March 19, 1976, we briefed you on the results of our examination. As you requested, we are providing a summary of the information presented at that briefing.

We conducted our work at the Department of Housing and Urban Development headquarters, Washington, D.C., and the Department area office and the Greensboro Redevelopment Commission, Greensboro, North Carolina.

BACKGROUND

The urban renewal program was established by the Housing Act of 1949 (42 U.S.C. 1441). The program was terminated by the Housing and Community Development Act of 1974 (42 U.S.C. 5301 et seq.) which consolidated several categorical programs, including the urban renewal program, into one block grant program.

One of the primary purposes of the urban renewal program was to assist communities in the clearance of slums and blighted areas for subsequent redevelopment. The program represented a three-sided partnership of the Federal Government, local government, and private enterprise. The

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Department provided two-thirds of the total urban renewal project costs in communities of more than 50,000 persons and three-fourths of the cost in communities of 50,000 and less. The local government provided the remainder of the necessary funding and, through a local public agency or authority, prepared an urban renewal plan, acquired land, demolished structures, relocated residents, and disposed of the land primarily to private developers for redevelopment. Private developers purchased the land and developed it according to the approved urban renewal plan.

POLICY AND PROCEDURES
GOVERNING THE SALE

In disposing of land acquired for redevelopment purposes, the Greensboro Redevelopment Commission was required to follow Department procedures and North Carolina statutes. Our examination of the sale disclosed that all applicable provisions were followed except a Department procedure which requires that land not be sold for less than the established value.

For the sale of land to the Greensboro News Company, Department procedures required the Redevelopment Commission to:

- Have the property appraised by two qualified appraisers.
- Have the appraisals reviewed by a qualified review appraiser.
- Establish a fair reuse value of the property based on the review appraisal. Fair reuse value means the fair market value of the property for its highest and best uses permitted under the urban renewal plan.
- Offer the property for sale in accordance with North Carolina statutes.
- Accept not less than the fair reuse value established for the property.
- Obtain Department approval of the redeveloper selected as the successful bidder.
- Publish a public disclosure notice of the intent to dispose of the property.
- Obtain Department approval of the final sale.

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A provision of the North Carolina statutes required the Redevelopment Commission to advertise the property for sale by public notice, by publication once each week for 2 consecutive weeks in a newspaper having a general circulation in the municipality.

DEPARTMENT AREA OFFICE AND
GREENSBORO REDEVELOPMENT
COMMISSION ACTIONS

In March 1971 the Redevelopment Commission adopted a redevelopment plan for the downtown area of Greensboro, North Carolina. In August 1971 the Redevelopment Commission began acquiring land. The first tract acquired was the site of the King Cotton Hotel which was combined with several additional tracts as disposal parcel D-1. (See enc. I.) Between July 1972 and May 1973, the Redevelopment Commission attempted to market the property. A national advertising campaign was conducted, and several companies were interested in the property; however, none of the interested companies followed up. Although one company bid on the property, the bid contained contingencies and was not acceptable.

In March, May, and June 1973, the Redevelopment Commission acquired tracts of land in disposal parcels G-3, D-1b, and G-1, respectively. (See enc. I.) In April 1974 the Redevelopment Commission announced a bid opening date for these four disposal parcels. The fair reuse value which had been established for the four parcels was \$444,100. On May 14, 1974, the Redevelopment Commission received a bid of \$314,484 from the Greensboro News Company for five disposal parcels--the four listed above plus parcel G-1b. (See enc. I.) The Redevelopment Commission accepted the bid but did so in error because the bid price was below the fair reuse value which had been established and because the bid included one parcel which had not been advertised. The bid was later rejected.

On June 14, 1974, the Redevelopment Commission contacted one of the appraisers who had appraised the subject property about the difference in the established fair reuse value of the property and the bid price which had been received. The Redevelopment Commission pointed out that the only offer received was for \$314,000--about \$230,000 below the established value of \$544,000 for the five parcels. The Redevelopment Commission listed several reasons why the offer should be seriously considered. Among the reasons were that the property had been offered for sale for about 2 years and that shopping center construction in outlying areas had

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likely killed any hope of securing a retail development on the property. The Redevelopment Commission asked for the appraiser's professional opinion on whether the bid should be accepted. On June 19, 1974, the appraiser responded that the price was reasonable and that the bid should be accepted. He cited factors listed by the Redevelopment Commission on June 14, 1974, along with others, including the scarcity of capital for building purposes.

The Redevelopment Commission readvertised the property for sale on July 22, 1974. The property advertised was the five parcels previously bid on by the Greensboro News Company plus a sixth, parcel J-1. (See enc. I.)

On August 6, 1974, a bid of \$391,248 was received from the Greensboro News Company. The bid was approved by the Redevelopment Commission and the Greensboro City Council. On August 8, 1974, the Redevelopment Commission notified the Department area office that a bid of \$391,248 was received and requested approval even though the bid was less than the established reuse value of \$595,600 for the six parcels.

On August 20, 1974, the Department area office approved the bid price even though it was less than the established value. Factors cited as justification were (1) since the land had been offered several times over a long period of time, it would be advantageous to the Federal Government to approve the sale at the diminished proceeds and (2) the further cost of interest, administration, advertising, and other carrying costs may nullify recapture at a greater rate and delay closeout of the project. On September 3, 1974, the contract between the Redevelopment Commission and the Greensboro News Company was executed.

DEPARTMENT POSITION
ON THE SALE PRICE

We contacted Department headquarters officials for additional information and clarification of the rationale for accepting less than the established value for the property and they provided the following information as representing the Department's position on the transaction.

Headquarters officials stated that the evidence indicated that the price accepted for the property (\$391,248) was the actual fair reuse value rather than the established value of \$595,600. They pointed out that the June 19, 1974, letter from the local appraiser to the

Redevelopment Commission recommending acceptance of the bid of \$314,000 indicated that when the factors cited in the letter were reconsidered the actual fair reuse value was less than had been established.

Headquarters officials agreed, however, that Department policies and procedures for establishing fair reuse value were violated because two appraisals should have been obtained and a third appraiser should have reviewed them to establish a new fair reuse value. They agreed that the area office, not the Redevelopment Commission, was responsible for the deviation from required procedures since the Redevelopment Commission asked for and received approval from the area office before making the sale.

Department officials contend that there is no conclusive evidence on which a determination can be made that the disposition price was not in accord with the Federal statutory requirement for fair reuse value. As discussed in the following section, we were unable to determine whether there was a violation of law.

GAO RESPONSES TO
SPECIFIC QUESTIONS

1. Was there a violation of law in the disposition of Greensboro urban renewal property to the Greensboro News Company?

We are unable to determine whether there was a violation of law. Although the property was sold for less than the established fair reuse value, there is evidence to indicate, as the Department contends, that the actual value of the property at the time of the sale was less than the established value. Because the Department did not require the Redevelopment Commission to establish a new value as required by Department policy and procedures, the Department had no assurance that the property was sold for the actual fair reuse value. The legality of the sale, however, cannot now be determined without first establishing the actual value of the property at the time of the sale.

2. How does the write-down on the Greensboro project compare with averages or normal results experienced in North Carolina and throughout the Nation?

Land write-down is the difference between the total cost of acquiring, clearing, and holding the

land until disposition and the amount for which it is sold. There is no information available on averages in North Carolina or nation-wide. Development of such information would require extensive time and effort, and the information would not be very meaningful because the actual amount of write-down varies from project to project for numerous reasons including

- a. zoned uses of the property before and after urban renewal and
 - b. disposition proceeds are not categorized into comparable categories (i.e., land may be sold, donated to public agency, leased, or retained for varying periods without sale while operating costs continue to increase).
3. How could the provisions be tightened to prevent such losses in the future?

The write-down is a normal process in urban renewal to induce private developers to build on renewal land as a means of helping cities revitalize areas suffering from extensive urban blight and deterioration. Land write-down is the program's chief incentive or inducement to the private developers.

In establishing the urban renewal program, the Congress recognized that the cost of such things as acquiring developed land, clearing it, and relocating residents would exceed the proceeds obtained from selling cleared land which must be developed according to very specific purposes as set forth in the urban renewal plan. The act's legislative history showed that the Congress envisioned that the write-down would allow cleared land to be offered to private investors at less cost than they would have had to pay to obtain and clear the land on the private market, thus initiating increased demand for developing the renewal land.

Department policy and procedures are adequate to insure that the land is sold at a fair value. In the Greensboro transaction, however, the area office did not follow the established policy and procedures. A Department headquarters official told us that the area office had been notified that the established policy and procedures should have been followed for the transaction in question and of the necessity for adhering to such policy and procedures for subsequent sales.

4. Does the study reveal any economic, social, or esthetic evidence sufficient to justify the write-down of some \$2 million?

Obviously, economic, social, and esthetic benefits were obtained from the project. Redevelopment activities on the subject property have helped to eliminate a blighted area in downtown Greensboro. Before the property was acquired by the Redevelopment Commission it contained the old King Cotton Hotel and many small retail establishments which were poorly maintained. Redevelopment activities are replacing these establishments with a large, new, attractive structure of considerable value which will also generate additional tax revenue for the City of Greensboro. In our opinion, however, most of the benefits are not quantifiable and their worth cannot be readily measured against the cost of the urban renewal project.

INTEREST SHOWN BY THE GREENSBORO
BOARD OF EDUCATION

4 / During our March 19, 1976, meeting you inquired about the nature and extent of interest shown in the urban renewal project property by the Greensboro Board of Education. DLE CB08

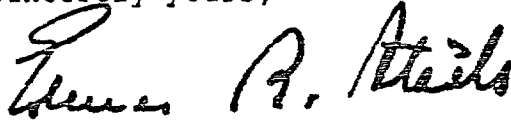
Our examination showed that the Board of Education did not submit a bid for the property. We were informed by an official of the Redevelopment Commission that the Board of Education never expressed any real interest in the property to the Redevelopment Commission. The Chairman of the Board of Education advised us that at one time the Board was interested in acquiring the property but did not submit a bid. We were advised that, in any event, the property could not have been sold to the Board of Education without changes in the redevelopment plan because the plan provided for commercial use. We were further advised that the Redevelopment Commission assisted the Board of Education in obtaining an alternate site.

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As your office requested, we did not give Department of Redevelopment Commission officials an opportunity to formally review and comment on the matters discussed in this report. However, we have discussed these matters with officials of these organizations and have included their comments where appropriate.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "James A. Steels".

Comptroller General
of the United States

Enclosure

MAP SHOWING PROPERTY SOLD TO THE GREENSBORO NEWS COMPANY

