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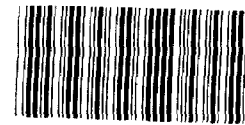
General Accounting Office

District Could Get More For Urban Renewal Property, But HUD Debt Will Be Repaid

District urban renewal land sales should generate sufficient revenue to satisfy the remaining debt to the Department of Housing and Urban Development, but it is not certain that the District is receiving the best possible prices for such properties. Although the District has no formal guidelines for disposing of urban renewal property, it generally follows guidelines established by HUD. These guidelines afford local jurisdictions considerable flexibility in handling urban renewal property.

As a result, controversy exists concerning the sales of urban renewal property, sales prices, and selection of developers.

To ensure that the District obtains the best possible price for its property sales and to minimize controversy regarding the sales, GAO recommends ways for the Mayor to formalize and implement procedures for property disposition.



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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

GENERAL GOVERNMENT
DIVISION

B-204207

The Honorable William Proxmire
Ranking Minority Member
Committee on Appropriations
United States Senate

Dear Senator Proxmire:

As you requested, we have examined selected aspects of the District's urban renewal property disposition activity.

Our review showed that District urban renewal property sales should generate sufficient revenues to satisfy the remaining indebtedness to the Department of Housing and Urban Development (HUD). We are not certain, however, that the District is receiving the best possible price for such properties. Sales prices are based on appraised values and are not set through competitive bidding or public auction; awards are made based on design competition and other criteria. The District has no formal procedures for disposing of urban renewal property, although it generally follows HUD guidelines which offer local agencies substantial latitude. We did find some instances where HUD guidelines were not followed which we will describe later in this report. The basis for selecting one developer over another is not clear, and the District's records provide little documentation in this regard. The District generally agreed with our recommendations but took exception to certain matters contained in the report. The District's comments are included in the appendix and are discussed beginning on page 12.

The urban renewal program was established by the Housing Act of 1949 (42 U.S.C. 1441). The Housing and Community Development Act of 1974 (42 U.S.C. 5301 et seq.) 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. HUD, the responsible Federal

entity, generally 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. In the District, the former Redevelopment Land Agency (RLA) was the responsible local public agency. The agency was eliminated under the District's home rule charter and only the RLA Board remains to complete urban renewal activities with the assistance of the District's Department of Housing and Community Development (DHCD).

The District's program began in the early 1950's. Data is not available at either the Federal or local level to show with certainty how much Federal money was provided for the District's program, but we were able to learn that at least \$249 million was involved. According to HUD records, the District's outstanding debt to HUD was \$23 million as of December 1981.

The District is selling urban renewal properties for substantially less per square foot than recent private sales. Real estate values have recently risen in downtown Washington, D.C., east of 15th Street. Some privately owned parcels recently sold for approximately \$500 per square foot. We recognize that some land in the downtown urban renewal area is less desirable and will not sell for the same price. The District, however, has sold property for under \$150 per square foot. These District property sales caused a somewhat heated controversy and the issue was widely reported in the local press. Complaints of underpriced land sales and preferential treatment to the selected developers were lodged against the District.

As a result of the controversy, Councilmember Jarvis has proposed the Redevelopment Land Agency Sale or Lease Review Act of 1981. The proposed legislation would amend the District of Columbia Redevelopment Act of 1945 by requiring that lease or sale agreements between the RLA Board and developers be submitted to the Council along with a report analyzing the selection of the developer. The Council would be allowed 30 days to review the sale or lease and could veto the selection under the provisions of the proposed legislation.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objectives were to ascertain:

- whether there will be sufficient revenue generated by urban renewal property sales to repay the District's obligation to HUD;
- how sale prices were determined and whether they were reasonable; and
- whether urban renewal property sales were made in accordance with HUD and District procedures.

We examined the disposition process for three downtown urban renewal properties (parcels 2, 3, and 5; parcel 4; and parcel 6) that are currently in the final stages of disposition. We also made limited inquiries concerning the sale of urban renewal properties in other parts of the city to assure ourselves that the downtown area properties were not being handled uniquely. We reviewed HUD records to try to ascertain the extent of Federal financial participation in the District's urban renewal program and the extent of the District's remaining obligation to HUD. We discussed with HUD officials the disposition of the three downtown parcels, the extent to which the District was complying with HUD requirements, the reasonableness of the sales prices on the two properties for which the sales price had been set, and the ultimate disposition of property and use of sales proceeds after the District's obligation to HUD is satisfied.

We reviewed District records to ascertain the extent to which disposition procedures were followed, whether the sales prices for the two properties sold were supported by appraisals, and whether the reasons for selection of one developer over the others were documented.

We met with appraisers to discuss the appraisals of the downtown properties and the reasonableness of established sales prices. We also met with RLA Board members to discuss the selection of developers and the reasonableness of the disposition method used in the District. We held more general discussions with potential developers and with an interested citizen. We also met with HUD's Inspector General's staff and reviewed his most recent audit report and the related workpapers on RLA Board activities.

Our work was performed in accordance with GAO's current "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions."

URBAN RENEWAL PROPERTY SALES PROCEEDS
WILL SATISFY REMAINING DEBT

District urban renewal property sales will generate sufficient revenue to satisfy the remaining \$23 million debt to HUD. The District owns 69 urban renewal properties consisting of 102 acres which should generate revenue far in excess of the remaining \$23 million obligation. The table below shows details on the status and prices for the parcels in various disposition stages.

Status and Prices of Urban Renewal Properties

<u>Status</u>	<u>Number of parcels</u>	<u>Future land sale proceeds</u>	<u>Recommended prices</u>	<u>Number of acres</u>
Awarded, sales prices set	10	\$31,078,000	-	14.17
Awarded, no sales prices set	25	-	a/ \$10,585,890	40.32
Offered, no award, no sales prices set	4	-	b/ 455,000	13.13
Parcels not offered	<u>30</u>	<u>-</u>	<u>-</u>	<u>34.04</u>
Total	<u>69</u>	<u>\$31,078,000</u>	<u>\$11,040,890</u>	<u>101.66</u>

a/Of the 25 parcels, only 14, comprising 22 acres, are included in this price.

b/Of the four parcels, only one, comprising 1.35 acres, is included in this price.

DHCD officials could not state when the 14 other parcels offered would have prices recommended or prices set. A District official informed us that 29 of the 30 properties shown in our table as not offered will be offered in 1982.

Sufficient revenue should be generated from the 25 properties where sale prices are set or recommended to satisfy the existing obligation to HUD. Two other dispositions currently in process should also generate substantial revenue. Parcels 2, 3, and 5, which comprise one of the three dispositions in the

downtown area, were initially appraised at \$33 million; a subsequent appraisal set the value at about \$61 million. No price had been recommended for this property as of December 1981. Parcels 47 and 49, commonly referred to as the Portal site, are considered by District officials to be the prime remaining urban renewal parcels; prices have not yet been recommended for these properties.

Once the District repays the obligation to HUD, it may sell the remaining urban renewal properties at whatever price and under any disposition method it chooses. The property must be used in accordance with the Urban Renewal Plan and the proceeds of the sales, while accruing to the District, are supposed to be used for eligible community development activities. Recent changes in the community development block grant program eliminate the requirement for cities to submit applications for HUD approval and merely require a statement of objectives which is not subject to approval. Accordingly, urban renewal property sales proceeds will be available to the District with little HUD control over how they are used.

DISTRICT MAY NOT BE OBTAINING HIGHEST PRICE FOR URBAN RENEWAL PROPERTY

We could not ascertain whether the District obtained the best price for the property in the downtown area because the District did not test the market to see what interested buyers would be willing to pay for what seems to be very desirable property. Also, sales prices were based on appraisals that were not always updated. Both HUD and District officials informed us that they are more concerned with redevelopment of the property in accordance with the Urban Renewal Plan than with obtaining the highest possible price for the property. Both the media and private citizens have complained that sales prices for the downtown properties were too low compared to private sales of other nearby properties.

The District has selected the developer for the three urban renewal properties in the downtown urban renewal area, and sales prices are set for two of the properties as shown below:

	<u>Sales price</u>	<u>Price per square foot</u>
Parcel 4	\$ 2,500,000	\$133
Parcel 6	\$17,000,000	\$141

The sales price for the third property had not been established as of December 8, 1981; however, as pointed out earlier, the most recent assessment for the property is about \$61 million, which amounts to \$377 per square foot.

Market not tested

To dispose of the three downtown area properties, the District used fixed price that was based on appraisals and competition that was based on design and other criteria. The prospectuses state that the selling price will be the fair market value for the parcels, as determined by the agency, based on current independent appraisals.

Although HUD procedures allow other methods to be utilized that would test the market, such as public auction and sealed bids, Board members and District officials told us those methods of disposition are not used because it is an RLA Board practice to use fixed price that is based on appraisals and competition that is based on design. Public auction and sealed bids, according to Board members, are considered to be contrary to urban development because these methods would eliminate small firms from participating and would result in construction of commercial office buildings that would not create the 24-hour activity desired in the downtown area.

Appraisals may not reflect true market value

RLA Board actions may have caused urban renewal properties to be valued at less than the fair market value. The sales prices of urban renewal properties are based on appraisals. However, these appraised values could be higher because the Board does not always require updated appraisals. Also, the Board gave specific instructions to one appraiser to consider specific uses for some properties which substantially affected the appraised value; the Board subsequently ordered another appraisal for highest and best use as required by HUD procedures. The effect of these two Board actions is shown by the following examples.

- One downtown urban renewal parcel was appraised in October 1980, about 9 months before the sales price was established. An updated appraisal was not made although downtown properties that reportedly would have sold in May 1979 for about \$200 a square foot were now selling for over \$500 a square foot as shown by several recent downtown property sales. The appraiser informed us that an updated appraisal on this parcel would have resulted in a higher appraised value.
- In one instance a \$33 million appraisal was made considering the developer's intended uses rather than highest and best use as required by HUD's procedures. However, a subsequent appraisal ordered by the Board at highest and best use resulted in an appraised value of about \$61 million. The Board and the developer are currently discussing the sales price of the parcels.

Sales price not a primary concern

Sales price is not a primary concern in the disposition of urban renewal property according to District officials and Board members. These officials said they are more concerned with redeveloping an area in accordance with the plan than with getting the highest price possible for urban renewal property. HUD officials also said that redeveloping the area in accordance with the plan is more important than obtaining the highest price for the property. They said that the urban renewal program was not intended to be a profitmaking program.

It seems to us that both HUD and the District should be concerned with obtaining the highest possible price for urban renewal properties, within the parameters of the Urban Renewal Plan. Adherence to one of these premises does not automatically preclude adherence to the other. In the cases we examined, no effort was made to test the market during a period when it was dramatically escalating.

District believes sales prices are reasonable

The District believes the prices received for urban renewal properties are reasonable because they are based on independent appraisals and because restrictions imposed by the Urban Renewal Plan lower market value. However, as pointed out earlier, the appraisal report on one of the downtown parcels was done in October 1980, about 9 months before the sales price was established. An updated appraisal was not requested, according to Board members, because

- the appraisal was within the 18 months allowed by HUD;
- the appraisal was recent enough in their opinion; and
- the public hearing to establish a price was moved from March to July at the Board's discretion, and not the developer's, because DHCD had not completed the relocation of tenants on the parcel.

However, HUD's procedures state that new appraisal evidence is required if there is any significant change in the market. It seems to us that the market had changed significantly. Therefore, an updated appraisal would have led to a higher sales price because, according to the appraiser, an updated appraisal would have resulted in a higher appraised value.

RLA Board members also believe that the prices received for urban renewal properties were reasonable because restrictions

imposed by the Urban Renewal Plan generate a lower market value. However, the appraiser told us that market value would only be decreased by 10 percent because of the Urban Renewal Plan restrictions.

EXTENT OF COMPLIANCE WITH PROCEDURES

The District generally adheres to HUD's procedures in the disposition of urban renewal property. However, HUD procedures give the local agencies substantial latitude and HUD does not always enforce strict compliance with its requirements. The District does not have approved procedures on the disposition of urban renewal property, an issue raised in a recent HUD audit report.

The District complied with most, but not all, of HUD's procedures. The District complied with the procedures addressing method of disposition, sales price, public hearing, independent appraisals, and timeliness of appraisals. However, the District did not comply with certain other requirements or documentation did not exist to indicate compliance. For example: sales prices were not established prior to offering the properties under fixed price procedures followed by the District; redeveloper's statement for public disclosure and redeveloper's statement of qualifications and financial responsibility were not always obtained; copies of advertisements were not in the files; appraisers were not checked against HUD's debarred list, according to a DHCD Real Estate Division official; and records did not indicate how appraisers were selected.

The Administrator of DHCD's Development Administration agreed that parcels did not have sales prices established prior to offering the property. The Administrator also stated that the Development Administration checked appraisers against HUD's list of debarred appraisers, but he could not attest to what the Real Estate Division did. Finally, he said that the sale of the three downtown parcels had been advertised. There is no data in the files to support these actions, and he did not provide any at the time of our discussion.

HUD's procedures offer local agencies substantial latitude in areas that significantly affect the way and price at which urban renewal property is sold. For example:

- Procedures allow for any of five methods and related combinations to be utilized in the disposition of urban renewal property, even if the method chosen would not result in the highest possible price.

- Sales prices cannot be less than fair market value based on independent appraisals, but the appraisals may be as much as 18 months old.
- Sales prices are not subject to HUD approval unless HUD is subsidizing the project.
- Local agencies may use any selection criteria they want because none are specified in HUD's procedures.

The appearance of looseness in program operations results from the substantial discretion HUD allows local agencies, the lack of District procedures for handling urban renewal property within the framework of this discretion, and HUD's failure to enforce certain of its requirements, as follows:

- HUD specified in a closeout agreement that the District submit a semiannual inventory on the status and value of urban renewal properties. However, the District has not done so and HUD has not taken any action to obtain the reports.
- The District does not have approved procedures on the disposition of urban renewal property. HUD's Inspector General pointed this out, along with other deficiencies, in an audit report dated June 23, 1980. The District was given an extension to September 30, 1982, to implement written procedures that would eliminate deficiencies noted in the audit report.
- Prices are not established prior to offering parcels (a matter noted in the HUD report). However, the District continues to set sales prices after parcels are offered.

The District has had draft procedures, since December 1979, on the disposition of Board-owned urban renewal property. However, the procedures were only recently approved and, according to a District official, are to be published in the D.C. Register for public comment. As of December 14, 1981, the draft procedures had not been published.

BASIS FOR DEVELOPER SELECTION NOT CLEAR

We were unable to ascertain why the successful developers were selected over other developers submitting proposals. The records available for our review provided little data to demonstrate that one proposal was superior to others. RLA Board members provided little insight into what went into the selection decision. The public record on developer selection was at best limited and, more often than not, was incomplete.

Selection criteria

Four common elements are stated as selection criteria in the prospectuses for the three downtown properties: experience of the development team, financial ability, development program, and design concept. Minority participation and local participation were also cited in one prospectus.

According to most Board members, selection of developers is a subjective matter that is based on personal judgement. They also stated that each Board member could consider different criteria as the most important. Board members told us that they consider minority participation and local participation to be the most important elements although these elements were not mentioned in two of the prospectuses as selection criteria. Board members stated that they believed it was fair to consider minority participation and local participation even though they were not included in the prospectuses. They also stated that these items were added to the subsequent prospectus for parcel 6.

Public hearing records

HUD's procedures require that disposal of urban renewal property be open to public scrutiny. However, public records of District urban renewal sales contain only limited information to indicate why one developer was selected over other developers.

Public hearing records contain limited information on deliberations by Board members in evaluating the developer's submission. Also, there are limited comments to indicate why a particular developer was favored. For example:

- During a Board meeting on a downtown parcel, Board members arbitrarily eliminated three of the five developers' submissions from consideration without any deliberation on the five submissions.
- At the same meeting the record also showed that only one of five Board members, in discussing the successful developer, stated why that developer was deemed to be superior; another merely stated that he agreed. Two other Board members made no comment, and the last Board member pointed out the negative aspects of the submission being discussed.

District files incomplete and not maintained in a logical order

District files on urban renewal disposition did not contain all required information; did not document in an orderly fashion all pertinent steps in the disposition process; and did not

provide sufficient evidence to indicate that all required steps in the process were accomplished. For example, documents not in the files were public hearing transcripts, interviews with developers not selected, staff evaluations, proposals submitted but not selected, newspaper advertisements, and rebuttal comments and testimony of others at public hearings. We requested this data; however, District officials could not locate all of the data and encountered substantial problems in locating some.

The District is attempting to correct these deficiencies by implementing a records management system, according to a DHCD official. He said the system, as of December 1981, was in a very early stage. We found that the records management system has not been implemented to a degree where urban renewal files were either complete or in a logical order.

District files should contain all pertinent information and document, in an orderly fashion, all pertinent steps of the disposition process so that

--the disposition process can pass the test of public scrutiny as required by HUD guidelines and complaints of underpriced land sales and preferential treatment to selected developers can be minimized, and

--the District is in compliance with HUD procedures that agency files shall contain a full record of all actions with respect to selection of an appraiser.

CONCLUSIONS

District urban renewal property sales should generate revenue in excess of the \$23 million obligation to HUD. We were not able to determine if the best possible sales prices were received for urban renewal properties because the market was not tested and appraisals used as the selling price were not current. If more current appraisals were available, the District may have received higher prices for its properties.

We could not ascertain the basis for selecting one developer over the others. The public records provide little insight into this activity, and the District's disposition files were incomplete and poorly maintained.

The District, for the most part, adheres to HUD's procedures in selling urban renewal properties. However, HUD does not require the District to strictly comply with all procedures. Also, HUD's procedures provide cities substantial latitude in disposing of urban renewal properties. This latitude, the lack of District procedures for handling urban renewal property, and HUD's failure

to enforce certain of its requirements give the appearance of a loosely run activity and, as a result, much controversy exists concerning the sales of urban renewal property, sales prices, and selection of developers.

RECOMMENDATIONS

To ensure that the best price possible is obtained from urban renewal property sales and to minimize controversy that has surrounded recent sales, we recommend that the Mayor require the RLA Board to formalize and implement procedures for property disposition which provide for the following:

- Use of either sealed bids or public auction, within the parameters of the intended uses and restrictions applicable to the property, to determine what buyers are willing to pay.
- Criteria for developer selection.
- Orderly and complete property disposition files.
- Documentation of the process of selection and price determination.
- A public record of the reasons a particular developer is selected.

AGENCY COMMENTS AND OUR EVALUATION

The City Administrator, commenting on our draft report on behalf of the Mayor, concurred with most of our recommendations, although he provided little in the way of defining the actions planned to deal with the problems we reported. He said, however, that the District disagrees with two matters contained in the report. The first deals with the degree of concern over price vis-a-vis compliance with the Urban Renewal Plan; the second deals with the value of land in the downtown area. The City Administrator went on to say, however, that our recommendation for testing the market was instructive and that procedures would be developed to do so.

We reported that District officials, RLA Board members, and HUD officials are not primarily concerned with sales price in the disposition of urban renewal property. Rather, these officials are more concerned with redeveloping an area in accordance with the plan. The City Administrator said that our comment does not accurately reflect local intent and that it must be recognized that the Urban Renewal Plan is law in the District and represents many years of planning. He concluded that the Board must give plan conformity a high priority in its consideration. Our report

points out on page 7 that adherence to the premise of conformity to the plan does not automatically preclude adherence to the premise of obtaining the best price for urban renewal property within the parameters of the plan.

The second matter with which the District took issue dealt with the value of land in the downtown urban renewal area. We pointed out that some privately owned property recently sold for \$500 per square foot and acknowledged that some land in the downtown urban renewal area is less desirable and will not sell for the same price. We reported, however, that the District has sold property in the downtown area for under \$150 per square foot and pointed out that we were unable to ascertain whether these sales were made at the best price because the market had not been tested. In one case involving a somewhat dated appraisal, the appraiser advised us that an updated appraisal would have resulted in a higher appraised value.

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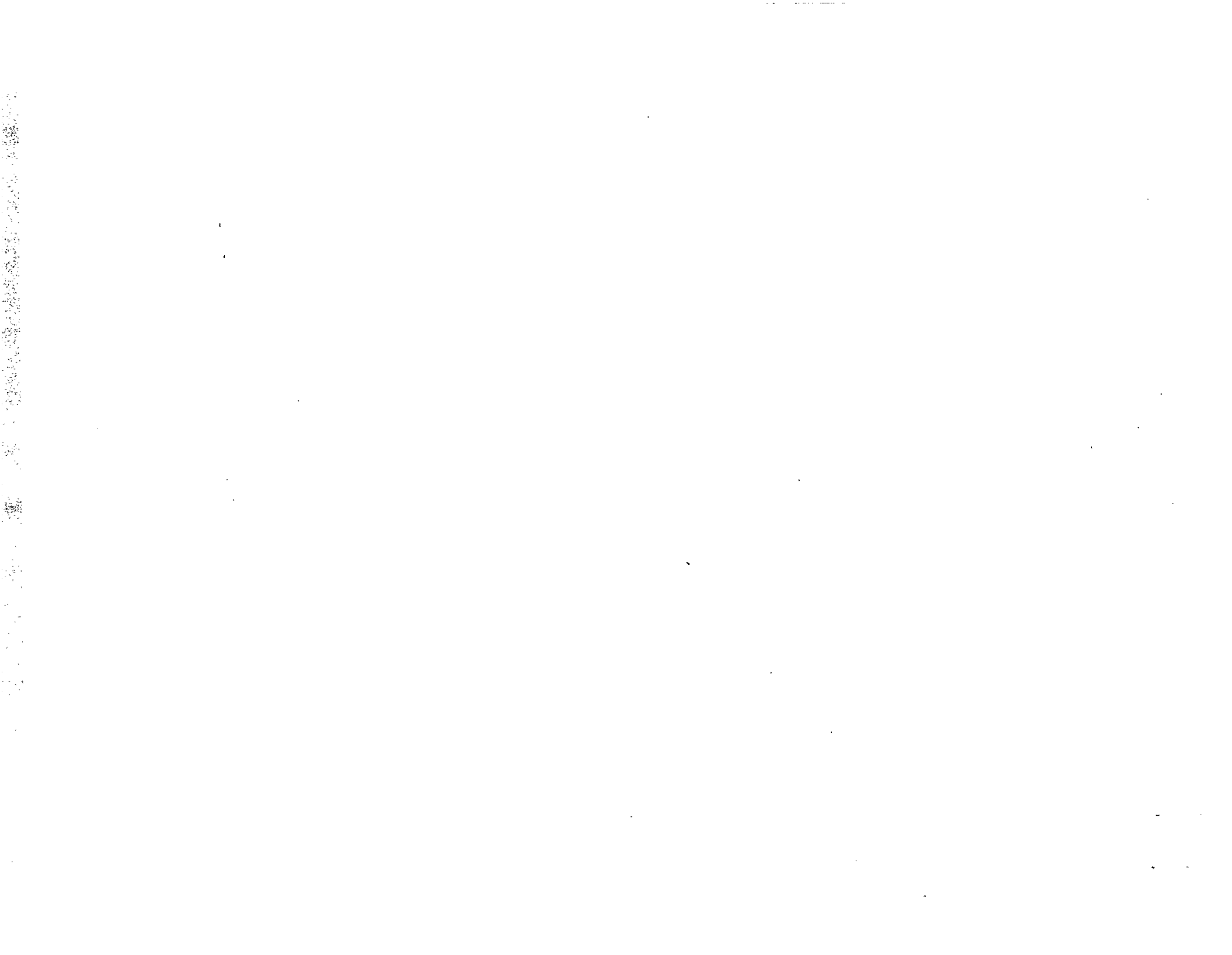
Section 736 (b) of the District of Columbia Self-Government and Governmental Reorganization Act (Public Law 93-198, 87 Stat. 774), approved December 24, 1973, requires the Mayor, within 90 days after receiving our audit report, to state in writing to the District Council what has been done to comply with our recommendations and to send a copy of the statement to the Congress. Section 442 (a) (5) of the same act also requires the Mayor to report, in the District of Columbia's annual budget request to the Congress, on the status of efforts to comply with such recommendations.

As requested by your office, we will not release the report until 30 days after it is provided to you, unless your office makes its contents public before that time. We will distribute the report after 30 days in accordance with our normal distribution policies.

Sincerely yours,

W. J. Anderson

William J. Anderson
Director



GOVERNMENT OF THE DISTRICT OF COLUMBIA
EXECUTIVE OFFICE

OFFICE OF THE CITY ADMINISTRATOR

ELIJAH B. ROGERS
CITY ADMINISTRATOR
1350 E STREET, N.W. - ROOM 507
WASHINGTON, D.C. 20004

JAN 26 1982

Mr. William J. Anderson
Director
U.S. General Accounting Office
441 G Street, N.W., Room 3866
Washington, D.C. 20548

Dear Mr. Anderson:

Thank you for the opportunity to comment on the draft GAO Report on Urban Renewal Land Disposition.

First, let me indicate that we were pleased that your review confirmed that the District generally follows the Department of Housing and Urban Development's (HUD) guidelines in the sale of urban renewal property, and that the District is rapidly retiring long term Urban Renewal debts. The repayment of these obligations will allow the District to rapidly develop our more difficult areas, particularly those torn by the 1968 riots, and in need of direct financial assistance.

The recommendation of a new process to dispose of land is one that has merit and deserves our full attention. While we are concerned that the highest price consideration does not do violence to our objectives of jobs for District residents and opportunities for small business, we do not believe that the concepts are mutually exclusive.

As you know, the Urban Renewal statute allows flexibility for cities to cause development that meets local priorities. We concur that procedures must be maintained to increase public understanding and to decrease controversy.

The legislative intent of the Urban Renewal program does not lockstep general purpose government into solely highest and best use developments. Many cities have utilized Urban Renewal land for convention centers, athletic facilities, hotels and other developments that synergise broad revitalization strategies in a manner that is causing the rebirth of a number of central cities. Under these provisions, cities such as

Baltimore, Philadelphia and Boston for example, have created clear financial and regulatory incentives for Urban Renewal land development that help solve difficult urban problems such as employment or enhancement of their tax base.

While much of your report is supportable, we disagree with the following issues:

1. Your comment that both HUD and District officials are more concerned about the Urban Renewal Plan rather than price, does not accurately reflect local intent. It must be recognized that the Urban Renewal Plan is law in the District and represents many years of agonizing planning. The Urban Renewal Plan developed in partnership with affected citizens, is a major commitment of this government to cause requested development as close to the plan as possible. Therefore, the Redevelopment Land Agency (RLA) Board must give plan conformity a high priority in its considerations.
2. We are concerned by the implication in the report that \$500 per square foot represents fair market value for downtown property, in comparison with RLA established values of \$133 and \$141 per square foot on two sites and a preliminary value of \$377 on 3 other sites. A few isolated private sales at a high value cannot be viewed in isolation as representing the true value of land for a large surrounding area. For example, recent appraisals of downtown land indicate the following range of private sales prices of land in downtown during 1980-81:

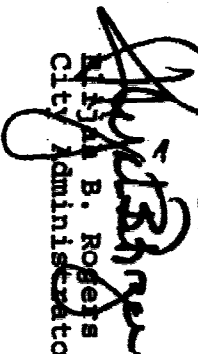
<u>Price Range</u>	<u>No. of Sales</u>
\$78-199/square foot	13
\$200-299/square foot	8
\$300-399/square foot	2
\$400+/square foot	3

However, your recommendation for better ways of testing the market is instructive and procedures will be developed towards these ends.

As you know, draft rules for the Disposition of Urban Renewal Land have been published for public comment. These comments will be taken seriously, along with your report, as we move quickly to solidify the process in clear and understandable language.

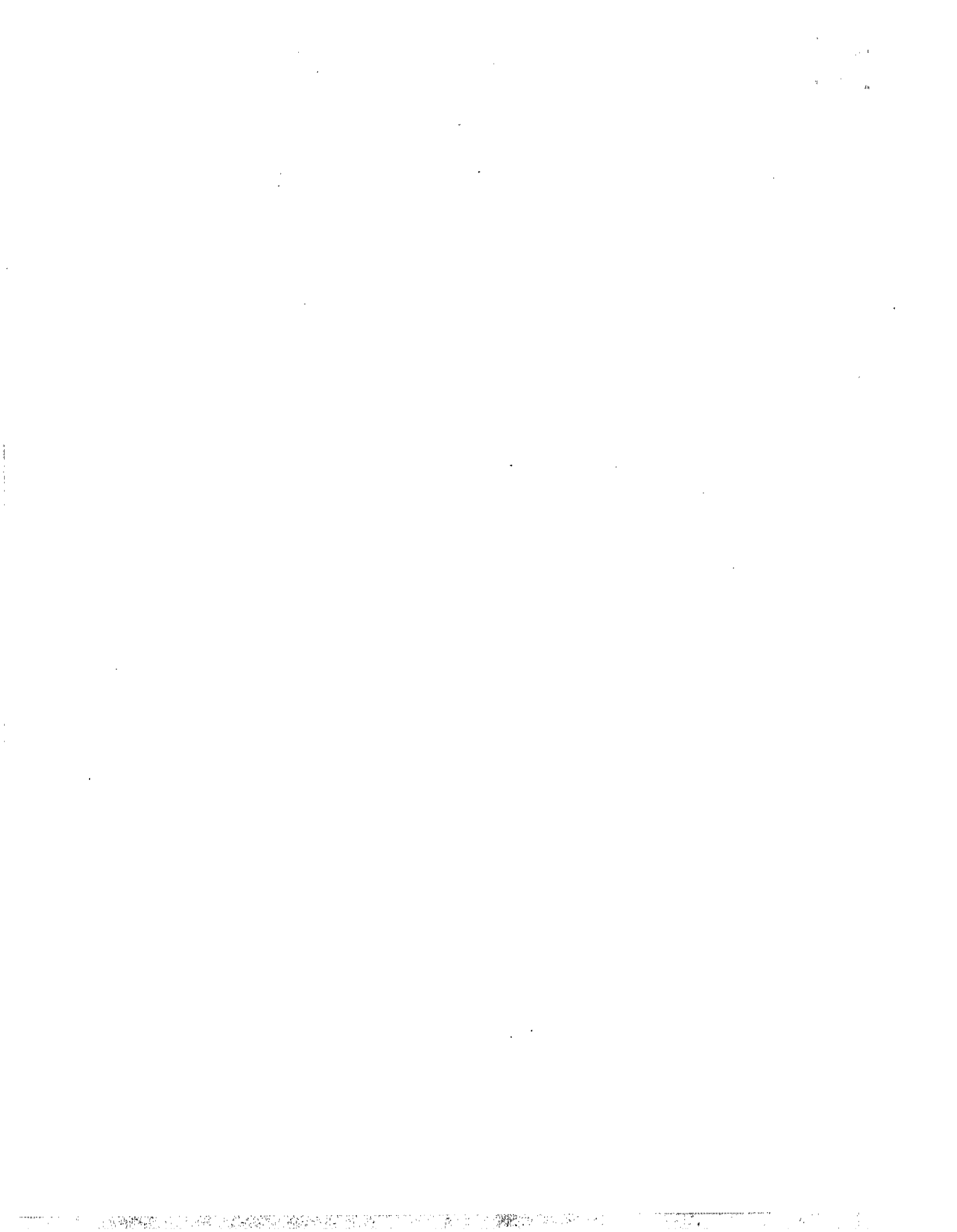
While there are other areas that we perceive as issues for further discussion, the overall intent of the report is to provide guidance for program improvement. My staff has had intensive discussions with your auditors on this matter, and progress has already been observable along the lines that you suggest.

Sincerely,



William B. Rogers
City Administrator





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