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WASHINGTON, D.C. 20548
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The Honorable Warren G. Magnuson
United States Senate



R Dear Senator Magnuson:

In response to your requests of July 9 and December 20, 1973, we reviewed the practices and procedures followed in selecting a developer to construct a housing project for the elderly in the Casper, Wyoming, urban renewal area. The Department of Housing and Urban Development's (HUD's) Casper insuring office insured the mortgage on this project.

We interviewed representatives of the HUD regional office in Denver; the Casper HUD office; the Casper Urban Renewal Agency (Casper URA); the Casper Urban Renewal Board; and HUD headquarters in Washington, D.C. We also interviewed Mr. J. E. Jones, Jr. of Casper, the project developer, and reviewed pertinent records at both the Casper HUD office and the Casper URA office. We interviewed also Mr. G. L. Iseman, whose proposal to develop the project had been rejected and who, in an attachment to your July 9, 1973, letter, raised certain questions concerning the process used to select the project developer.

BACKGROUND

HUD's criteria for selecting a developer to construct housing in an urban renewal area are set forth in its Urban Renewal Handbook. These criteria require that local governing bodies (in this case the Casper City Council) must choose the method to select a developer. Such methods include fixed-price competition and direct negotiations with prospective developers. In November 1972 the Casper City Council said the developer for the subject project should be selected by the direct negotiation method.

According to HUD regulations, selecting a developer to construct housing in an urban renewal area is to be done by the local public agency, which in this instance is the Casper URA. Because the City Council approved direct negotiation for selecting a developer, the Casper URA was permitted to negotiate with each developer submitting a proposal.

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HUD regulations require that a HUD insuring office limit its participation in the development of housing in urban renewal areas to "elements of the proposed renewal project which bear directly on the suitability and character of residential redevelopment." According to HUD headquarters and Denver regional office officials, HUD is not permitted to select developers to construct housing in these areas. HUD's insuring offices' major responsibilities are to review and accept or reject the selected developers' applications for mortgage insurance.

THE CASPER URBAN RENEWAL PLAN

The City Council and HUD in May and September 1971, respectively, approved the urban renewal plan for the city of Casper. The plan called for constructing commercial and industrial facilities. It did not provide for constructing residential housing in this area. Residential housing, therefore, could not be constructed until the renewal plan, which according to HUD regulations has the "full force of law," had been amended.

In June 1971 Mr. Iseman contacted URA and HUD officials in Casper and suggested that a housing project for senior citizens be constructed in Casper. According to these officials, Mr. Iseman's suggestion had considerable merit. Mr. Iseman also expressed the belief that the opportunity to obtain the necessary financing for the project could be improved if the project were built in the Casper urban renewal area. According to Mr. Iseman, he met with the Casper Urban Renewal Board and Casper URA officials in July 1971 and requested that the urban renewal plan be amended to include constructing residential housing. The Casper Urban Renewal Board adopted a resolution in September 1971 amending the urban renewal plan to permit constructing residential housing in the area. According to meeting minutes, this resolution was proposed to the City Council in December 1971 but was not voted on.

According to the Casper URA Agency Counsel, he attended this meeting and local labor unions represented were very concerned about housing projects being constructed by an out-of-state builder using prefabricated or modular-type units.

Mr. Jones, the selected developer, told us that, in either January or February 1972, a Casper City Council official suggested that he submit a proposal to the Casper HUD office to construct housing for the elderly in the urban renewal area. Mr. Jones said the official indicated that the City Council would not rezone the land to permit constructing residential housing in the urban renewal

area until a local developer had expressed interest in such construction. In February 1972, the Casper City Council approved the amendment to the urban renewal plan and the required rezoning. According to Mr. Jones, he submitted his proposal to the Casper HUD office in March 1972. The HUD Denver regional office did not approve the amendment to the urban renewal plan because, contrary to HUD regulations, public hearings on the amendment had not been held. The Casper City Council subsequently held hearings, and HUD approved the amendment in May 1972.

SELECTION OF THE DEVELOPER

Mr. Jones and two other prospective developers said they submitted their proposals to construct housing for the elderly in the urban renewal area to the HUD office in Casper because they understood that HUD officials would select the developer.

Both the former Casper URA director and the present acting director advised us that selecting the developer in this case was left entirely to HUD because the Casper URA did not have the expertise to evaluate proposals the developers submitted. URA officials added that the HUD office would, in any event, have to review the developer's application for mortgage insurance for the project.

Casper HUD officials at an April 1972 meeting--before HUD regional office approval of the revised urban renewal plan--announced that Mr. Jones was selected as the developer for the project. According to Casper URA officials and members of the Urban Renewal Board who attended this meeting, the sole purpose of the meeting was for Casper HUD officials to announce their selection of a developer. According to the URA acting director, no one from the Casper URA or the Board objected to, or agreed with, the selection when Casper HUD officials announced it. Neither the Casper URA nor the Casper HUD office made a record of this meeting. The Casper URA acting director told us that Casper URA officials did not care who was selected to build the project.

Casper HUD officials, however, said their selecting Mr. Jones was "unofficial" and only "advisory." They said also they evaluated, at the request of URA, five proposals the prospective developers submitted. According to these officials, their evaluation showed that Mr. Jones' and Mr. Iseman's proposals were more desirable than the others and these two proposals were equally acceptable. These officials stated that they therefore selected Mr. Jones--on an advisory basis--primarily because he was a local developer. This factor, they added, was important to the project's construction and subsequent management because it would be more convenient to deal with a local developer in case problems arose. They stated also that a local developer, who was a civic leader in the

community, would help insure occupancy of the project which was being built in what was considered to be an undesirable section of the city.

Casper HUD officials told us that they had destroyed project records concerning selecting the developer because under HUD regulations, they were classified as miscellaneous outgoing correspondence, nonrecord, and could be disposed of after 6 months. We noted that the HUD office files did not include any records concerning activities which took place before the developer was selected.

According to Mr. Jones, the Casper HUD office advised him that he had been selected as the developer. Also Casper HUD notified Mr. Iseman by an April 5, 1972, letter of his rejection and advised him, "We appreciate your patience and the good format you presented to this office to help us arrive at our decision." We noted, however, that HUD regulations require that the local public agency (in this case Casper URA) notify unsuccessful developers of their rejection. Casper HUD officials said they issued the notification as a service to the Casper URA.

We discussed the selection process used for this project with HUD headquarters officials who told us that the Casper URA office was responsible for selecting the developer. According to these officials, HUD offices often advise local public agencies on such matters as selecting developers, however, it was not the role of the HUD office to select a developer for a local public agency.

In the attachment to your December 20, 1973, letter, Mr. Claude Martin, Agency Counsel for Casper URA, said that a letter to you from the Secretary of Housing and Urban Development, responding to your request for a HUD investigation of the questions raised by Mr. Iseman concerning the selection process, was in error because it concluded that the URA selected the developer to construct the housing project. Mr. Martin said that the Casper URA followed procedures which it had adopted for selling land in the urban renewal project. The Casper URA in November 1972 adopted these procedures which provided for Casper HUD to select the developer. Mr. Martin stated that therefore Casper HUD, and not Casper URA, had selected the developer.

Because the Casper HUD office destroyed records pertaining to selecting the developer and because we obtained conflicting information on this matter in discussions with Casper URA and Casper HUD officials regarding actions taken by each office, we were unable to determine who actually selected the developer.

However, we did find indications that the Casper HUD office was the primary office involved in selecting the developer. The Casper HUD office

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received proposals from developers interested in the project, evaluated the proposals submitted, and notified the developers of the acceptance or rejection of their proposals.

Although the Casper URA adopted procedures for disposing of the land which provided that Casper HUD would determine the developer to redevelop the property, this action was taken in November 1972, 7 months after the developer was selected. Also by providing that the Casper HUD office would select the developer, Casper URA procedures conflicted with HUD regulations, which require that the local public agency select a developer. In addition, it appears that the Casper URA accepted Mr. Jones as the developer by selling him the project site in December 1972.

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C2 As agreed with your office, we did not give HUD, Casper URA, Casper HUD, and other officials an opportunity to formally review and comment on this report. We have, however, discussed the information in the report with them and included their comments where appropriate. Also, as agreed, we are furnishing a copy of the report to Congressman Lloyd Meeds but do not plan to distribute the report further unless you agree or publicly announce its contents.

Sincerely yours,



Comptroller General
[Deputy of the United States

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