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United States General Accounting Office
Washington, DC 20548

Resources, Community, and
Economic Development Division

B-285045

June 9, 2000

The Honorable Wayne Allard
Chairman
The Honorable Rick Santorum
Vice Chairman
Subcommittee on Housing and Transportation
Committee on Banking, Housing and Urban Affairs
United States Senate

The Honorable Arlen Specter
Chairman
Subcommittee on Labor, Health and
Human Services and Education
Committee on Appropriations
United States Senate

Subject: Community Development: Information on the Efforts by the City of Philadelphia, Pennsylvania, to Relocate and Compensate Residents of the Logan Triangle Area

In 1987, the city of Philadelphia, Pennsylvania, delineated the boundaries of a 17-block area containing over 900 townhouses, known as the Logan Triangle Area, and established a relocation plan to assist the property owners and tenants residing in this area. The relocation of Logan Triangle residents was necessary because their homes, which were built on an ash and cinder landfill between 1910 and 1930, were sinking. Relocation under the city's plan was voluntary and consisted of an offer to purchase Logan homes and/or relocate tenants if they desired to move. It also established a cut-off date for receiving relocation benefits. Anyone who either moved into or acquired a home in the Logan Triangle after August 29, 1986, was deemed "ineligible" to receive benefits under the federal Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970,[1] as amended (Uniform Relocation Act), which requires payments for the fair market value of homes, rental assistance for tenants, and reimbursements for other costs, such as moving expenses. Because the Uniform Relocation Act does not provide funding for these relocation activities, the city is using the Department of Housing and Urban Development's (HUD) Community Development Block Grant

[1] The Uniform Relocation Act provides for relocation assistance, and when applicable, just compensation, subject to state law, for the acquisition of property, to individuals who have been displaced, as a result of programs or projects undertaken by a federal agency or with federal financial assistance. The displacement can occur as a result of the acquisition, demolition, or rehabilitation of real property.

program (referred to as the block grant program) to provide the benefits mandated by the act. This program provides federal funds to help grantees—cities and urban counties—finance projects and services for local residents and the operating expenses for administering the projects and services.

Benefits to residents were funneled through the Logan Assistance Corporation (Corporation), a nonprofit organization founded by the city of Philadelphia in 1987. Since then, the Corporation, which holds a contract with the city's Office of Housing and Community Development, has received about $34.3 million from the city of Philadelphia, the state of Pennsylvania, and HUD to relocate Logan residents. HUD was the source of most of these funds ($28.9 million, or 84 percent). This is because the city has chosen to allocate a portion of its annual block grant program entitlement funds provided by HUD to the Logan acquisition and relocation activities— $23.1 million. HUD has also provided an additional $5.8 million through its Special Purpose Grants. The city pointed out that while HUD is the source of most of the funds used to relocate and compensate Logan residents, the city considers block grant program funds to be an entitlement to the city and the decision to allocate these funds to Logan residents represents its contribution to the Logan effort. In addition, the city has provided $3.7 million to demolish unoccupied properties.

Concerned about the progress the Corporation has made in relocating Logan residents, you asked us to address the following two questions:

- What is the status of relocations of property owners and tenants in the Logan Triangle Area?

- What are the management challenges the Corporation faces in completing the remaining relocations?

This letter summarizes the information presented to your staff at our briefing on April 7, 2000. Enclosure I contain the materials we presented at that time, along with some additional information requested by your staff as a result of the briefing and updated information on the funding levels provided by the city.

Status of Relocations

We found that as of December 31, 1999, the Corporation had relocated and/or compensated 499 Logan Triangle property owners and tenants, or about 70 percent of the 714 owners and tenants eligible to be relocated and compensated. The remaining 215 eligible property owners who have not been relocated or compensated by the Corporation consist of

- 186 property owners who moved on their own without receiving compensation and may be difficult to locate, and

- 29 owners, with occupied properties (16 homeowners and 13 ineligible tenants/squatters).

According to a March 2000 Relocation Plan authorized by the Corporation, it will cost an estimated $15.2 million to complete the relocation and compensation effort over the next 3 years—$13.1 million to fund the benefit payments to the remaining 215 eligible property owners and $2.1 million to cover the Corporation's associated operating expenses.

In addition to the 714 owners and tenants eligible to receive relocation benefits, there are an additional 193 ineligible properties (for which relocation benefits cannot be paid under the Uniform Relocation Act) remaining in the Logan Triangle, as of December 31, 1999. Of these 193 ineligible properties,[2]

- 175 were unoccupied and mostly vacant lots because of demolition,[3] and
- 18 were occupied by either homeowners or tenants.

Management Challenges Faced by the Corporation

The Corporation faces several management challenges in completing the remaining 215 eligible relocations and/or compensations. According to HUD, the city is obligated under the Uniform Relocation Act to compensate some, if not all, of the 186 former eligible Logan Triangle property owners who moved on their own without receiving compensation. In order to do so, the city must locate these property owners, which may be difficult, particularly if these owners moved out of town or out of state. If the city decides to retain the Corporation to perform this task, the Corporation may need to hire additional staff with investigative skills to locate these owners or contract out for this type of service. Also, assisting and convincing the remaining 29 eligible property owners to sell their properties has been a problem for the Corporation because most of these owners have poor credit histories, multiple property liens, and/or lower incomes because of a disability or retirement. These financial problems prevent many of the homeowners from obtaining financing to purchase replacement housing. As of March 22, 2000, about $2.4 million[4] was available to the Corporation to pay for housing acquisitions, relocations, and administrative costs.

In February 2000, HUD interviewed responsible officials of the city's Office of Housing and Community Development and prepared a status report, which included the following findings related to the management challenges faced by the Corporation in completing the remaining relocations:

- There is currently no agreed on time frame to locate and compensate the 186 eligible property owners who previously vacated their properties.

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[2] The Corporation was unable to provide us with the number of ineligible tenants currently residing in the Logan Triangle because it is not responsible for identifying or assisting these tenants.

[3] As of January 2000, the city of Philadelphia had demolished 862 houses in the Logan Triangle.

[4] The $2.4 million is included in the estimated $15.2 million to relocate or compensate the remaining eligible owners.

- The Corporation's office space is in poor condition. According to the Corporation's executive director, this makes it difficult to retain qualified staff.

In addition to the challenges associated with the remaining residents eligible for relocation benefits, both Corporation and city officials told us that they would like to find a way of relocating the 18 ineligible homeowners and tenants who still remain in the Logan Triangle. As one possibility for addressing the challenge of providing financial assistance to these remaining ineligible residents, we found that the city, at its option, may use HUD block grant program funds to provide relocation assistance to persons who are not subject to the Uniform Relocation Act. HUD notified the city of the availability of this option in a letter dated March 22, 2000. It also noted that HUD block grant program funds could be used by the city to provide additional relocation assistance to eligible resident property owners whose financial situation limits their relocation options to acquire comparable housing. Subsequently, the city asked HUD for clarifying information on the option. On May 10, 2000, HUD responded to the city's letter for clarification, but according to the city's Director of Housing and Community Development, some inconsistencies remain for which the city will seek further clarification.

Agency Comments

We provided a draft copy of this report to HUD and to the city of Philadelphia's Office of Housing and Community Development for their review and comment.

Both HUD and the city of Philadelphia generally agreed with the facts presented in the draft report. HUD's comments are in enclosure II. The city of Philadelphia's comments and our response are in enclosure III.

In addition, the city commented that it does not concur with the budget or the relocation schedule of the Corporation that it will take $15.2 million and 3 years to complete the relocations and compensations of the remaining eligible Logan property owners. We agree that the cost of completing these compensations and the time in which they will be completed cannot be determined with certainty. However, we have included the Corporation's estimate because it provides an approximation of the funds and time that may be needed to complete the compensation of eligible property owners.

Scope and Methodology

In conducting our review, we visited the city of Philadelphia in February 2000 and interviewed HUD Philadelphia field office officials; city officials from its Office of Housing and Community Development and Redevelopment Authority and the Councilwoman representing the Logan Triangle Area; the Corporation's board chairman and staff; and Logan residents and clergymen. We also interviewed HUD officials in Washington, D.C. In addition, we reviewed HUD and Office of Housing and Community Development monitoring reports on the Corporation; documents and plans provided by the Corporation and the Office of Housing and Community Development related to funding sources, expenditures, and the number of relocations completed and that

remain to be completed; the Corporation's contract with Office of Housing and Community Development; and the last two financial audits of the Corporation prepared by an independent public accountant for fiscal years 1998 and 1999.

We performed our review from January through April 2000 in accordance with generally accepted government auditing standards.

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As arranged with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 3 days from the date of this letter. At that time, we will send copies of this report to the Honorable Andrew Cuomo, the Secretary of Housing and Urban Development; Philadelphia's Office of Housing and Community Development; the Corporation; and Councilwoman Marian Tasco. We will make copies available to others on request.

Please call me at (202) 512-7632 if you or your staff have any questions about this report. Key contributors to this report were James Vitarello, Patrick Doerning, and Robert Procaccini.

Stanley J. Czerwinski
Associate Director, Housing and Community
Development Issues

Enclosures - 3

- Briefing for Senators:
- Rick Santorum,
- Arlen Specter, and
- Wayne Allard
- April 7, 2000

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Briefing Overview

- Requesters' Concerns
- Objectives
- Background
- Objective 1: Status of Relocations of Logan Property Owners and Tenants
- Objective 2: Remaining Management Challenges

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Requesters' Concerns

- Logan Triangle - 17 square blocks in Philadelphia where nearly all homes were sinking.
- In 1987, the city of Philadelphia committed to offer to purchase homes and relocate residents.
- Logan Assistance Corporation (LAC) formed in 1987 by the city to manage relocations.
- After 13 years and the receipt of $34.3 million (mostly from HUD), LAC has yet to complete all relocations and compensations.

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Objectives

- What is the status of relocations of property owners and tenants in Logan Triangle?

- What are the management challenges LAC faces in completing the remaining relocations?

Background: Logan Triangle Problem

- Over 900 townhouses and a few commercial properties.
- Homes built on unstable landfill of ash and cinder.
- To be eligible for acquisition and relocation benefits under the federal Uniform Relocation Act:
  - A property owner must have owned a Logan home at least 180 days before August 29, 1986.
  - A tenant must have moved into a Logan home before August 29, 1986.

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Background: Funding

- $38 million provided for Logan activities from 1987 through June 30, 2000
  - $34.3 million to LAC for acquisition and relocation activities
    - $20.7 million in city's Section 108 loan funds
    - $5.8 million in HUD Special Purpose Grants
    - $5.3 million in state funds
    - $2.4 million in city's discretionary CDBG entitlement
    - $60,000 from city's general fund
  - $3.7 million from city funds for demolitions

- $35.6 million, or 94%, expended through March 22, 2000

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Background: Relocation Assistance

- LAC provided the following relocation benefits to homeowners and tenants based on the Uniform Relocation Act:
  - Homeowners - fair market value of home, as if not sinking, additional benefits if comparable replacement home costs are more than the Logan home, and other costs, such as moving;
  - Tenants - 42 months of rental assistance payments and moving expenses; and
  - Absentee property owners, primarily limited to fair market value of the home, have not yet received benefits.

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Background: LAC Board of Directors and Staffing Levels per LAC Contract

Board of Directors: 12 Members (4 vacancies)

Staff Positions	Status
Executive Director	Filled
Deputy Director	Filled
Finance Director	Filled
Secretary	Filled
Relocation Supervisor	Filled
Relocation Specialist	Filled
Relocation Specialist	Filled
Relocation Specialist	Filled (part-time)
Real Estate Manager	Vacant
R/E Special Trainee	Vacant
Housing Maintenance	Vacant

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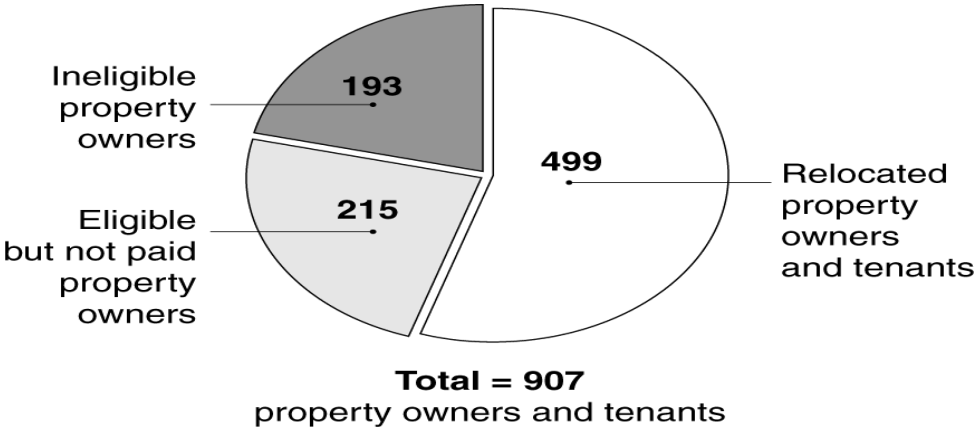
Objective 1: Status of Relocations and Compensation of Logan Property Owners and Tenants, as of December 31, 1999



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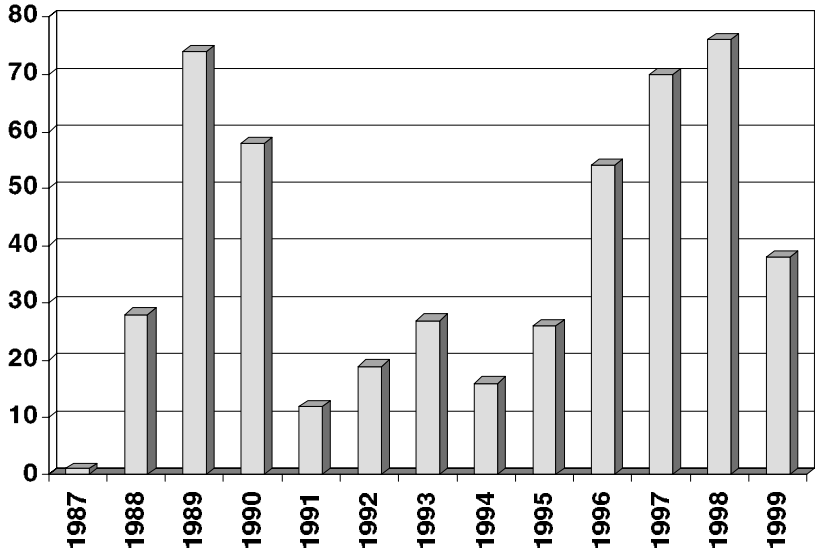
Relocations by Calendar Year



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Objective 1: Status of Relocations

- Of the 499 Logan owners (434) and tenants (65) who were paid relocation benefits, 184 were relocated in the last 3 years (more than any comparable time).
- Of the 215 owners not yet provided benefits:
  - 186 no longer live in the Logan Triangle and may be difficult to locate.

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Objective 1: Status of Relocations

- 29 owners with occupied properties in the Logan Triangle (16 homeowners and 13 absentee owners) either
  - Have property liens or financial problems, and/or
  - Are unwilling to leave their Logan homes.

- As of March 22, 2000, LAC estimates it will cost $15.2 million (including operating expenses) and take 3 years to complete the Logan relocations and compensations.

- 18 of the 193 homes owned by ineligible property owners were occupied by homeowners or tenants.

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Objective 2: Remaining Management Challenges

- Identify and compensate up to 186 eligible property owners who no longer live in the Logan Triangle.
  - City believes LAC could identify and compensate these property owners, provided it acquires additional investigative skills to locate them.
  - City has not decided on whether to use LAC to do this work.
  - City will need to devote funding in future years to compensate up to 186 of these owners.

Objective 2: Remaining Management Challenges

- Acquire 29 eligible occupied properties and relocate current eligible households.
  - For owners with financial problems, LAC is trying to reduce the amount of property liens and find them affordable replacement homes.
  - Since acquisitions under the city's operations plan are voluntary, some owners may continue to be unwilling to relocate.
  - About $2.4 million of the $34.3 million was available to pay for and manage these relocations as of March 22, 2000.

Comments From the Department of Housing and Urban Development

Enclosure II

Comments From the Department of Housing and Urban Development

U.S. Department of Housing and Urban Development
Washington, D.C. 20410-7000

OFFICE OF ASSISTANT SECRETARY
FOR COMMUNITY PLANNING AND DEVELOPMENT

May 19, 2000

Mr. Robert Procaccini
Assistant Director
General Accounting Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Procaccini:

We had an opportunity to review and discuss with the General Accounting Office (GAO) the report on the Logan sinking homes problem in Philadelphia, Pennsylvania. Our headquarters and field office in Philadelphia worked closely with GAO during the time period of the review, and provided comments for change to be incorporated into the final report. It is our opinion that the report accurately reflects events, both past and present, and the current status of conditions affecting the Logan sinking homes issue.

We stand committed to continue our support in helping to bring this matter to a final, successful conclusion.

Sincerely,

William H. Eargle, Jr.
Comptroller

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Comments From the City of Philadelphia

Enclosure III

Comments From the City of Philadelphia

CITY OF PHILADELPHIA

OFFICE OF HOUSING AND
COMMUNITY DEVELOPMENT
1234 MARKET STREET, 17TH FLOOR
PHILADELPHIA, PA 19107
(215) 686-9750
FAX (215) 686-9801
TDD (215) 686-9803

JOHN KROMER
DIRECTOR

May 19, 2000

Stanley J. Czerwinski
Associate Director, Housing and Community
Development Issues
United States General Accounting Office
Washington, D.C. 20548

RE: GAO Report on Logan Triangle Area

Dear Mr. Czerwinski,

Thank you for providing the City of Philadelphia with the opportunity to review the draft report on the Logan Triangle Area (Logan) and submit a response. In general, the City concurs with the findings of the GAO report. The City has provided over $34 million to the Logan Assistance Corporation (LAC) over the past 13 years to assist in the acquisition and relocation activities. Much of that money has been provided at the City's discretion, through allocations of the annual Community Development Block Grant entitlement from HUD. The GAO report confirms the City's position that the vast majority of relocations in Logan have been completed and the next challenge is to address the remaining compensations.

Following are the specific responses to the GAO report.

See comment 1.

1) Some discrepancy remains about the number of households remaining to be served. The City concurs that 16 eligible occupied households remain to be relocated. The other 13 occupied properties are occupied by ineligible tenants. The owners of those properties may be eligible to receive some compensation, either as eligible resident owners or absentee owners, depending, in part, on their individual circumstances and if and when they lived in Logan. It is the City's position that those thirteen owners should be added to the class of eligible property owners who do not now live in Logan, revising that number upwards from 186 to 199.

In addition, the City does not believe that all 186 property owners designated in the report as having moved on their own without receiving compensation, were, in fact, all resident owners.

Enclosure III

Stanley J. Czerwinski
Page 2.

Some may have been absentee owners in the first place. The City estimates that up to 20% of the 186 (or more appropriately 199) property owners may have been absentee owners. The real number of eligible former resident owners cannot be determined until LAC staff members take applications and review documentation submitted by the owners.

See comment 2.

2) It is important to point out that although HUD is the source of funds for most of the money committed to the Logan Triangle Area, the City made the decision to allocate most of those funds. The City committed $2.4 million in CDBG funds to Logan, as well as $20.7 million in Section 108 Loan Guarantee funds. The Section 108 Loan funds are pledging future years' CDBG entitlements and must be repaid to HUD. This $23.1 million committed to Logan was a resource of the City that could have been allocated to other CDBG-eligible activities, such as vacant structure rehabilitation, rehabilitation grants to homeowners, housing counseling services, job training programs, etc. In addition, the City has provided $3.7 million in demolition funds for Logan.

By original source, therefore, HUD has provided 76% of the funding for Logan since FY 1986, the State has provided 14% and the City has provided 10%. However, counting current and future CDBG money as the entitlement it is, the City has contributed 71% of the money allocated to Logan since FY 1986, HUD 15%, and the State 14%. These figures do not include the up to $1 million the City has committed in FY 2001 funds for the environmental remediation of the vacant land.

See comment 3.

3) The report references a Relocation Plan prepared by LAC, which suggests it will take $15.2 million and three years to complete relocation and compensation of the remaining eligible Logan property owners. The City does not concur with either the budget, or the schedule. The cost of completing the compensations cannot be determined until people submit applications with the appropriate documentation. In addition, the City has committed $3 million a year in Section 108 Loan funds to Logan activities for the past five years. Given the other demands on the resources, the City cannot increase its funding of LAC to meet the proposed three year schedule.

See comment 4.

4) The City disagrees with the statements attributed to it in the HUD report of February 2000, regarding the competitive nature of the LAC salaries and the office conditions. It is not the City's position that the LAC salaries are not competitive, nor that the salaries contribute to the management challenges faced by LAC in any way. The real issue for completing the relocations and compensations in Logan is one of resources. The City simply does not have the resources to increase the number of relocations and compensations completed each year. The funding source for LAC is the City's annual CDBG entitlement, and more funds cannot be allocated to LAC without jeopardizing other City housing and community development programs.

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Page 3.

See comment 5.

5) HUD responded to the City's inquiries regarding the applicability of the Uniform Relocation Act to Logan residents in a letter dated May 10, 2000. However, the letter still contains some inconsistencies and the City will be seeking further clarification from HUD.

I want to thank you for the thoughtful attention the GAO staff brought to preparing this report. Mr. James Vitarello was particularly helpful.

Should you have any questions about the City response, or need further information, please feel free to contact Deborah McColloch, Deputy Director, at 215-686-9774.

Sincerely,

John Kromer
Director

logan36

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GAO Comments

The following are GAO's comments on the city of Philadelphia's letter dated May 19, 2000.

1. We have included these 13 properties with the 16 homeowner properties rather than add them to the 186 eligible property owners who do not now live in Logan in order to maintain the distinction between occupied and unoccupied properties.

Since the city acknowledges that the real number of resident owners, as opposed to the absentee owners, cannot be precisely determined at this time, we have decided not to change the "186 property owners who moved on their own without receiving compensation." Moreover, both resident and absentee property owners may be eligible to receive relocation benefits.

2. We have modified our report to reflect the suggested changes.

3. The city commented that it does not concur with the budget or the relocation schedule of the Corporation, and that it will take $15.2 million and 3 years to complete the relocations and compensations of the remaining eligible Logan property owners. We agree that the cost of completing these compensations and the time in which they will be completed cannot be determined with certainty. However, we have included the Corporation's estimate because it provides an approximation of the funds and time that may be needed to complete the compensation of eligible property owners.

4. The city commented that it disagreed with this statement regarding the competitive nature of the Corporation's salaries and the condition of the Corporation's office space. Subsequently, the Deputy Director of the Office of Housing and Community Development told us that the city agreed that the Corporation's office space is in poor condition. As a result, we deleted the statement in the draft report that staff salaries were not competitive.

5. We have modified our report to reflect the suggested changes.

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