

GAO

Report to Congressional Requesters

February 1986

COMMUNITY DEVELOPMENT

HUD Review of Urban Development Action Grant to Wilmington, N.C.



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**Resources, Community, and
Economic Development Division****B-217893**

February 12, 1986

The Honorable Bruce F. Vento
House of RepresentativesThe Honorable Fernand J. St Germain
Chairman, Committee on Banking, Finance
and Urban Affairs
House of RepresentativesThe Honorable Henry B. Gonzalez
Chairman, Subcommittee on Housing
and Community Development
Committee on Banking, Finance and
Urban Affairs
House of Representatives

In response to your March 7, 1985, request, we reviewed the Department of Housing and Urban Development's (HUD's) decision to award a \$4 million Urban Development Action Grant (UDAG) to the city of Wilmington, North Carolina, for the purpose of providing financial assistance to purchase and renovate a vacant industrial plant to be used for manufacturing cranes. The American Hoist and Derrick Company (Amhoist) of St. Paul, Minnesota, was the developer/manufacturer. This report addresses your concern regarding the adequacy of HUD's review in awarding this grant with respect to the anti-pirating provision (Section 119(h)) of the Housing and Community Development Act of 1974, as amended. As you are aware, this provision is intended to prevent the use of UDAG assistance for the relocation of industrial or commercial plants and facilities from one area to another unless the Secretary of HUD determines that such a relocation would not have a significant and adverse impact on the employment and economic base of the area from which the relocation is made.

Our review of HUD's December 1984 UDAG award to the city of Wilmington revealed that HUD concluded that, except for the transfer of 25 supervisory positions, the project was not a relocation within the context of the anti-pirating provision of the act and that therefore a significant and adverse impact analysis was not required. This determination was made primarily on the basis of information provided by Amhoist and the city of Wilmington that Amhoist was expanding its operations to manufacture larger cranes in Wilmington than those that were being manufactured in St. Paul.

HUD concluded that this was an expansion of Amhoist's operations because it planned to manufacture a new product line (larger sized cranes) which could not be produced at the St. Paul facility. Nevertheless, because of the continuing concerns that were expressed to the Secretary of HUD by congressional sources and others that a relocation within the context of section 119(h) was occurring and to help prevent a future violation of the anti-pirating provision, the Secretary of HUD added an amendment to the grant agreement in April 1985—4 months after the grant agreement was executed. The amendment stated that Amhoist would not "assemble or prepare for shipment" at the Wilmington project specific models of cranes that it had previously manufactured in St. Paul. HUD officials said that this specific language was intended to prevent Amhoist from conducting the same principal operation at the Wilmington plant that it conducted in St. Paul. The principal St. Paul plant operation was defined by HUD officials as the assembly and preparation for shipment of traditional mid-sized St. Paul cranes. Amhoist signed the amendment on April 19, 1985.

On the basis of our review of the St. Paul operations, we conclude that the principal operation of the St. Paul plant was the manufacture of traditional mid-sized St. Paul cranes. Amhoist, at the time of our review, was manufacturing these same cranes at the Wilmington UDAG project site. Amhoist officials said that, in their view, they were complying with the amendment because they were not assembling or preparing for shipment mid-sized cranes at the UDAG project site but instead were using facilities a short distance from the project site for this purpose.

In August 1985, we met with HUD officials and told them that, in our opinion, the grant amendment had not achieved HUD's intended purpose of ensuring that the principal operation of the St. Paul plant would not be conducted at the Wilmington UDAG-assisted project. HUD officials said that they would reexamine the situation and take action, as appropriate, to resolve the matter. However, as of January 1986, HUD had not decided what action, if any, would be taken on the matter.

HUD officials believe sufficient remedies are available to the Department if it finds that the grant agreement, as amended, has been violated. According to HUD officials, these remedies include such actions as suspending further drawdowns against any remaining funds available under the grant (about \$1.18 million as of Jan. 1986), seeking an injunction to restrain the company from continuing any further production of the mid-sized cranes covered by the amended grant agreement, and instituting an action to recapture all funds made available under the