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UNITED STATES GENERAL ACCOUNTING OFFICE
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STATEMENT OF
JOHN H. LUKE, ASSOCIATE DIRECTOR
HOUSING AND COMMUNITY DEVELOPMENT PROGRAMS
U.S. GENERAL ACCOUNTING OFFICE
BEFORE THE
SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
ON
HUD'S REVIEW OF AN URBAN DEVELOPMENT
ACTION GRANT TO WILMINGTON, NORTH CAROLINA

Mr. Chairman and Members of the Subcommittee:

We are here today at your request to discuss the findings of our recent report, issued February 12, 1986, on the Department of Housing and Urban Development's (HUD's) award of a \$4 million Urban Development Action Grant (UDAG) to the city of Wilmington, North Carolina. This grant, as you are aware, was for the purpose of providing financial assistance to purchase and renovate an industrial plant in Wilmington, North Carolina to be used for manufacturing cranes. The American Hoist and Derrick Company (Amhoist) of St. Paul, Minnesota was the developer/manufacturer.

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Mr. [REDACTED], our review was performed in response to your request dated March 7, 1985. This work, which was also requested by Congressman Vento and Committee Chairman St Germain, was directed at reviewing whether the procedures HUD used in reviewing and approving the grant to the city of Wilmington were adequate for determining compliance with Section 119 (h) of the Housing and Community Development Act of 1974, as amended. Also, we examined whether the grant represents a relocation under section 119 (h) of the Act. In the performance of our review, we reviewed applicable HUD records and documents and interviewed officials representing HUD, Amhoist, and the city of Wilmington. We also visited Amhoist's facilities in St. Paul, Minnesota and Wilmington, North Carolina.

Our testimony today highlights our findings 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. This provision, as you are aware, is 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 affect on the employment and economic base of the area from which the relocation is made.

In summary, we concluded that (1) HUD's review was not adequate and (2) this grant is a relocation within the context of

section 119 (h). These findings are based principally on the fact that information was available to HUD prior to approving the grant which showed that a relocation might occur and Amhoist is now manufacturing the same mid-sized cranes at its Wilmington plant as it traditionally manufactured at its St. Paul plant.

In approving the Wilmington UDAG grant, HUD did not in our view adequately identify the inherent relocation possibilities of the project. For example, we found that during HUD's review of the application, it had information which showed that Amhoist was transferring virtually all usable manufacturing equipment from its St. Paul plant to Wilmington. Information such as this should have alerted HUD to the possibility that the manufacture of mid-sized cranes produced in St. Paul might be shifted to Wilmington. Because shifting these manufacturing operations would result in the loss of jobs--ultimately, about 200--HUD, prior to approving the grant, should have examined the application in greater detail to assure itself that a relocation would not occur or, alternatively, determined whether the relocation of these facilities would have a significant and adverse affect on the employment or economic base of St. Paul as required by section 119 (h).

Our review of HUD's award of this grant showed 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 also that this represented 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.

Following its approval of the grant in November 1984, HUD received inquiries and questions from congressional sources and other interested parties concerning the adequacy of its determination that a relocation was not involved other than the transfer of the 25 supervisory employees. These inquiries prompted HUD in February 1985 to reexamine its earlier decision. HUD then concluded, on the basis of information developed during its subsequent inquiry that, while Amhoist intended to manufacture a new product line in Wilmington, it also planned to shift to Wilmington future orders for mid-sized cranes that it previously manufactured in St. Paul. HUD concluded, therefore, that, to the extent that cranes traditionally produced in St. Paul as part of its normal operations would now be produced in Wilmington, the Wilmington project would amount to a relocation.

To prevent the project from becoming a relocation, HUD required that an amendment be added to the grant agreement in April 1985--4 months after the grant agreement was executed. The amendment stated that Amhoist should not "assemble or prepare for

shipment" of the Wilmington project, specific models of cranes that it previously manufactured in St. Paul. HUD officials said this specific language was intended to prevent Amhoist from conducting the same principal operation at the Wilmington plant that it conducted in St. Paul. HUD officials stated that they believed the principal St. Paul plant operation was the assembly and preparation for shipment of traditional mid-sized cranes. Amhoist signed the amendment on April 19, 1985.

Based on our review, we concluded that the principal operation of the St. Paul plant was the manufacture of mid-sized cranes. We noted that Amhoist was manufacturing the same mid-sized cranes at the Wilmington project that it did at its St. Paul plant. Accordingly, 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.

In discussing this with Amhoist officials, they said 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 discussed this matter with HUD officials and told them that in our opinion, the grant amendment had not achieved the intended purpose. These officials said that they would look into the

situation and take whatever action was needed to resolve the matter. As of January 1986, however, HUD still had not decided on what action, if any, it will take. Following the issuance of our report, however, HUD took action to stop any further drawdowns against the remaining UDAG funds available under this grant--about \$1.2 million. In addition, the Secretary has referred the matter to the Department of Justice for appropriate action, alleging breach of the restrictive covenant by Amhoist.

Mr. Chairman, this concludes my prepared statement. I would be glad to respond to any questions that you or the members of the Subcommittee might have.

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Mr. Chairman, this concludes my prepared statement. I would be glad to respond to any questions that you or the members of the Subcommittee might have.