OFFICE OF AUDIT
REGION 3
PHILADELPHIA, PA

OFFICE of INSPECTOR GENERAL

UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Luzerne County Office of Community Development, Wilkes-Barre, PA

Community Development Block Grant-Funded Business Development Loan Program

2013-PH-1001

OCTOBER 31, 2012

Issue Date: October 31, 2012

Audit Report Number: 2013-PH-1001

TO: Nadab O. Bynum, Director, Office of Community Planning and Development, Philadelphia Regional Office, 3AD

//signed//

FROM: John P. Buck, Regional Inspector General for Audit, Philadelphia Region, 3AGA

SUBJECT: Luzerne County, PA, Did Not Properly Evaluate, Underwrite, and Monitor a High-Risk Loan

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG), final results of our review of Luzerne County, PA's $6 million loan of Community Development Block Grant funds to CityVest to revitalize the historic Hotel Sterling and surrounding properties.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8L, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at http://www.hudoig.gov.

If you have any questions or comments about this report, please do not hesitate to call me at 215-430-6729.

October 31, 2012

Luzerne County, PA, Did Not Properly Evaluate, Underwrite, and Monitor a High-Risk Loan

Highlights

Audit Report 2013-PH-1001

What We Audited and Why

We audited Luzerne County's $6 million loan of Community Development Block Grant funds to CityVest that was expected to be used to revitalize the historic Hotel Sterling and surrounding properties. We did the audit because HUD Office of Inspector General (OIG) audit report 2012-PH-0001[1] identified this long standing open Block Grant activity and because we received a citizen complaint alleging possible misappropriation of these funds. Our objective was to determine whether the County properly evaluated and underwrote its loan to CityVest and whether the project met its designated national objective.

What We Recommend

We recommend that HUD require the County to reimburse its business development loan program $6 million from non-Federal funds for the ineligible expenditures related to the Hotel Sterling project and that it require the County to develop and implement comprehensive procedures for evaluating, underwriting and monitoring proposed projects.

What We Found

The County did not properly evaluate, underwrite, and monitor its loan to CityVest. After nearly 10 years and $6 million expended, the project won't meet its designated national objective of job creation. The County and the City of Wilkes-Barre plan to demolish the hotel and clear the site although no permanent jobs were ever created. Therefore, the $6 million in Block Grant funds expended for this project is an ineligible expenditure of taxpayer dollars. CityVest also used HUD funds inappropriately to make an unreasonable and unnecessary expenditure of $303,000 to satisfy two municipal liens against a property that it had purchased. It was the responsibility of the former property owner to satisfy the liens.

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[1] "HUD Needed To Improve Its Use of Its Integrated Disbursement and Information System To Oversee Its Community Development Block Grant Program," dated October 31, 2011

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BACKGROUND AND OBJECTIVE

Luzerne County, PA, is a Community Development Block Grant entitlement grantee. The U.S. Department of Housing and Urban Development (HUD) annually awards grants to entitlement grantees to carry out a wide range of community development activities directed toward revitalizing neighborhoods, economic development, and providing improved community facilities and services. The County consists of 76 municipalities, governed by a three-member board of commissioners. It manages its community development programs through its Office of Community Development located at 54 West Union Street, Wilkes-Barre, PA. The executive director of the Office of Community Development is Mr. Andrew D. Reilly.

The County's Business Development Loan Program is an economic development tool, funded by HUD's Community Development Block Grant program. The primary objective of the loan program is to stimulate economic growth in Luzerne County by providing financial incentives leading to the creation of new businesses or the expansion of existing businesses in the County, creating new employment opportunities and strengthening existing jobs, stabilizing or increasing the tax base, and increasing private investment. The County's board of commissioners, through the County's Office of Community Development, is responsible for the development, administration, implementation, monitoring, and evaluation of the loan program. The loan program provides low-interest financing to firms carrying out eligible economic development type projects meeting program objectives.

CityVest is a not-for-profit community development corporation, based in Wilkes-Barre, PA. Its mission is to undertake housing and commercial development projects to advance the economic revitalization of northeastern Pennsylvania's Wyoming Valley, particularly the downtown urban centers of Wilkes-Barre, Nanticoke, and Pittston. CityVest was founded in September 2000. In September 2011, its board of directors considered dissolving the organization. Board meeting minutes indicated that it did not dissolve at the urging of the County's board of commissioners.

On October 2, 2002, CityVest submitted an application to the County requesting a loan of $4 million to revitalize the Hotel Sterling site, located in Wilkes-Barre, PA, including the surrounding properties. The County entered into a $4 million, 20-year loan agreement with CityVest on November 6, 2002. The agreement required CityVest to create 150 permanent full-time-equivalent jobs with 80 of those jobs benefiting low- and moderate-income persons. In September 2006, CityVest requested an additional $2 million loan for the project. On March 22, 2007, the County amended its loan agreement with CityVest and provided an additional $2 million for the project. The revised agreement required CityVest to increase the number of permanent full-time-equivalent jobs to 175 and the number of those jobs benefiting low- and moderate-income persons to 90.

Our objective was to determine whether the County properly evaluated and underwrote its loan to CityVest and whether the project met its designated national objective.

RESULTS OF AUDIT

Finding: The County Did Not Properly Evaluate, Underwrite, and Monitor a High-Risk Loan

The County did not properly evaluate and underwrite its loan of $6 million to CityVest. The project won't meet its job creation national objective. This condition occurred because the County lacked comprehensive procedures for evaluating and underwriting proposed projects before approving business development loans and did not properly monitor the project. The County's lack of objective evaluation and underwriting of the project and its lack of proper project monitoring contributed to $6 million in Block Grant funds being spent on an incomplete project that failed to achieve its job creation national objective. The County believed its evaluation and monitoring procedures were sufficient. Since the project won't meet its designated national program objective, the related funds were ineligible program expenditures.

The County Was Responsible for Evaluating and Underwriting the Loan

The County was responsible for properly evaluating and underwriting its $6 million loan to CityVest. HUD regulations at 24 CFR (Code of Federal Regulations) 570.209(a) provide the County guidelines designed to provide a framework for financially underwriting and selecting Block Grant-assisted economic development projects that are financially viable and will make the most effective use of Block Grant funds. The objectives of the underwriting guidelines include ensuring that project costs are reasonable; all sources of project financing are committed; the project is financially feasible; and to the extent practicable, Block Grant funds are disbursed on a pro rata basis with other finances provided to the project. However, the County's policies and procedures for evaluating and underwriting its Block Grant loans consisted solely of a single-page checklist that failed to adequately cover key HUD guidelines.

HUD's underwriting guidelines recognized that different levels of review may be appropriate to take into account the size and scope of a proposed project. Although the HUD guidelines for evaluating project costs and financial requirements are not mandatory, HUD expects recipients to properly evaluate and underwrite these loans. HUD expects recipients, when they develop their own programs and underwriting criteria, to take these factors into account.

Given that the $6 million loan the County made to CityVest was by far the largest loan in its business development loan portfolio,[2] it was reasonable to expect the County to have conducted more than a cursory level of evaluation and underwriting before making the loan.

The County Approved the Loan Although the Project Lacked a Plan

In the description of the proposed project in its October 2, 2002, loan application, CityVest stated that "the exact future usage of the Hotel Sterling is unknown. CityVest intends to seek developers to assist and/or operate the site at a later date." Despite these statements, the County entered into a $4 million loan agreement with CityVest on November 6, 2002, or 35 days later.

The County Did Not Ensure That Other Project Funds Were Committed to the Project

The County did not ensure that all needed sources of project funding were committed at the time the loan agreement was signed. CityVest's October 2, 2002, loan application showed that the budget for the project included the developer's equity of $850,000 and $3.2 million in funds from other sources (see appendix C). A footnote at the bottom of the page stated that CityVest intended to seek funding from at least five other Federal and State sources. However, the same footnote also stated, "CityVest has not received approval for any of this funding yet." The audit evidence showed, however, that CityVest never applied for $2.2 million of the $3.2 million it reportedly expected to obtain from other sources to complete the project.

In the November 6, 2002, loan agreement, 35 days after CityVest applied for the loan, the budget for the project again included the developer's equity of $850,000[3] and $3.2 million in funds from other sources (see appendix D). However, at the bottom of the page were five footnotes indicating that the sources of other funds were HUD, the U.S. Department of Commerce, the U.S. Economic Development Administration, the U.S. Environmental Protection Agency, and the Pennsylvania Department of Community and Economic Development. The County had documentation to demonstrate that CityVest received a $1 million grant from HUD for the project at the time the loan agreement was signed. However, the grant was to be used for the Hotel Sterling project and another

[2] The County's Business Development Loan Program portfolio as of February 29, 2012, consisted of 61 loans. There were 37 loans of $500,000 or less, 10 loans between $500,000 and $1 million, 13 loans between $1 million and $3.6 million, and 1 loan that was greater than $3.6 million—the $6 million loan to CityVest.

[3] Loan agreement exhibits A and B made CityVest responsible for the developer's equity of $850,000.

project. The grant agreement did not indicate the amount of funds CityVest would use for each project.

Lastly, the County's Business Development Loan Program Handbook stated that the program was intended to finance projects that would have a positive impact on the County by leveraging a significant amount of private investment.[4] However, the planned financing for this project did not include private funds, although the president and chief executive officer of Guaranty Bank was a member of CityVest's board of directors.

The County Did Not Properly Assess the Feasibility of the Project and Evaluate the Project's Costs

The County alleged that a feasibility study for the project was performed in 2001 to support its evaluation of the project and its costs. The nine-page document, dated June 15, 2001, and labeled a feasibility study, contained five pages of photographs and drawings of the project site and a page providing information on the physical location of the project site and background on CityVest. Although the remaining three pages were numbered, the pages were labeled "sample budget scenario" for "site considerations;" "project construction components;" and "soft costs and summaries." All three pages were marked "DRAFT" in bold letters. This nine-page document did not constitute a valid feasibility study because, as stated in its October 2002 loan application, CityVest did not know the exact future use of the Hotel Sterling. Without knowing the exact future use of the site, there were no valid, detailed project costs to be reviewed. Moreover, CityVest paid for this study. There was no evidence that the County performed an independent evaluation to assess the prospects for the project's success. It was not clear what CityVest intended to do with the loan funds.

The County's policies and procedures for its business development loan program included a single-page financial analysis checklist for evaluating loans. The County believed its evaluation procedures were sufficient. The County completed this form for the CityVest loan. However, the form did not provide sufficient evidence that the County performed a detailed evaluation of the project costs. The County marked 7 of the 10 checklist factors "N/A." It marked the other three factors affirmatively, indicating that it had obtained cashflow statements, examined the proposed costs, and tested for reasonableness of the costs. However, there was no cashflow statement in the County's files and no documentation to demonstrate that it had examined and tested the reasonableness of the costs. The only document attached to the checklist was a simple spreadsheet showing a project square footage and cost summary over two phases

[4] Leveraging a significant amount of private investment was the first of three impacts listed in the handbook.

for the project and a list of funding sources for the first phase. The list of funding sources totaled nearly $22.4 million, including $13 million in private funding. However, as stated above, the exact future use of the Hotel Sterling was unknown, and the financing for this project, as disclosed in the loan agreement, did not include private funds. Therefore, the relevance of the data on the spreadsheet was dubious.

The Project Did Not Comply With HUD's Jurisdiction Requirements

The County did not have documentation in its files to demonstrate that it complied with jurisdiction requirements before or after making its loan to CityVest. The regulations at 24 CFR 570.309 state that Block Grant funds may assist an activity outside the jurisdiction of the grantee only if the grantee determines that such an activity is necessary to further the purposes of the Housing and Community Development Act of 1974 and the recipient's community development objectives and that reasonable benefits from the activity will accrue to residents within the jurisdiction of the grantee. The regulations also require the grantee to document the basis for such determination before providing Block Grant funds for the activity. In this case, the County was the grantee, and the City of Wilkes-Barre (also an entitlement grantee like the County) was the recipient because the Hotel Sterling is located in Wilkes-Barre.

The County Did Not Properly Monitor the Project

The County had no documentation in its loan files to demonstrate that it properly monitored the project. The County's monitoring procedures were weak. They focused solely on job creation. They did not include procedures for monitoring a project's progress toward completion of its objective and its compliance with HUD's and other applicable requirements. The County believed its monitoring procedures were sufficient. Regulations at 24 CFR 85.40(a) state that grantees are responsible for managing the day-to-day operations of grant- and subgrant-supported activities. Grantees must monitor grant- and subgrant-supported activities to ensure compliance with applicable Federal requirements and that performance goals are achieved.

On September 6, 2006, CityVest requested an additional $2 million loan to supplement the $4 million it had already received from the County for the project. On September 21, 2006, the County's board of commissioners granted preliminary approval to increase the amount of the loan because CityVest claimed that it needed the funds to enable it to proceed with the next redevelopment steps without delay. The project budget from the amended loan agreement showed that

$200,000 was budgeted for land or building acquisition (see appendix E), which was no increase from the original budget included in the original loan agreement, and $500,000 was budgeted for professional and financial fees (see appendix E), which was an increase of $400,000 from the budget included in the original loan agreement. However, as of September 2006, CityVest had spent $525,000, more than two and a half times the budgeted amount, on land or building acquisition and $938,287, nearly twice as much the budgeted amount, on professional and financial fees (see appendix F). Moreover, although the project budget showed that $4 million was budgeted for construction, which was an increase of $1.5 million from the budget included in the original loan agreement, CityVest spent only $67,739 on construction costs. CityVest spent $3.2 million on demolition costs. Classifying these costs as construction costs rather than demolition costs, which is what they were, was misleading. The County should have reported the actual expense amounts to the board of commissioners and other involved parties. The County had the ability to provide this information because it drew down Block Grant funds and released them to CityVest based upon the presentation of receipts by CityVest for approved expenditures. The regulations at 24 CFR 570.209(c) state that if, after the grantee enters into a contract to provide assistance to a project, the scope or financial elements of the project change to the extent that a significant contract amendment is appropriate, the project should be reevaluated under the guidelines of 24 CFR 570.209 and the recipient's guidelines. Without complete and accurate expenditure data, decision makers and other involved parties lacked significant information on which to evaluate the future of the project.

The County Did Not Ensure That Required Audits Were Performed

The County did not ensure that CityVest complied with the audit requirements of Office of Management and Budget (OMB) Circular A-133[5] and its loan agreement. OMB Circular A-133 requires non-Federal entities that expend $500,000 or more in Federal funds in any given fiscal year[6] to have an independent audit conducted that complies with the requirements of the circular.[7] The loan agreement and amended loan agreement reiterated these requirements.

[5] Audits of States, Local Governments, and Non-Profit Organizations

[6] The threshold amount for conducting an audit was increased from $300,000 to $500,000 for fiscal years ending after December 31, 2003.

[7] If Federal funds expended in any fiscal year total $500,000 or more and funding is from more than one Federal program, a single audit must be conducted. If Federal funds expended in any fiscal year total $500,000 or more and are from only one Federal program, the recipient has the option to have a program-specific audit conducted. A single audit means an audit that includes both the entity's financial statements and the Federal awards. A program-specific audit means an audit of one Federal program. Generally, non-Federal entities that expend less than $500,000 per year in Federal awards are exempt from Federal audit requirements for that year.

However, the County had no copies of these required audits in its files, although at least three audits should have been completed. The County stated that CityVest's fiscal year was September 1 to August 31. The table below shows the expenditure of loan funds by CityVest's fiscal year.

CityVest fiscal year	Total loan expenditures	OMB dollar threshold for audit
2003	$284,657	$300,000
2004	$130,717	$500,000
2005	$311,027	$500,000
2006	$915,054	$500,000
2007	$3,690,122	$500,000
2008	$668,317	$500,000
Total	**$5,999,894**	

In addition, the loan agreements required CityVest to have program audits conducted in any fiscal year in which it expended Federal funds of less than $500,000. The agreements required the audits to be conducted annually and submitted to the Luzerne County Office of Community Development. Therefore, CityVest was required to conduct audits annually. However, the County had no copies of any of these required audits in its files.

CityVest Incurred an Unreasonable and Unnecessary Expense

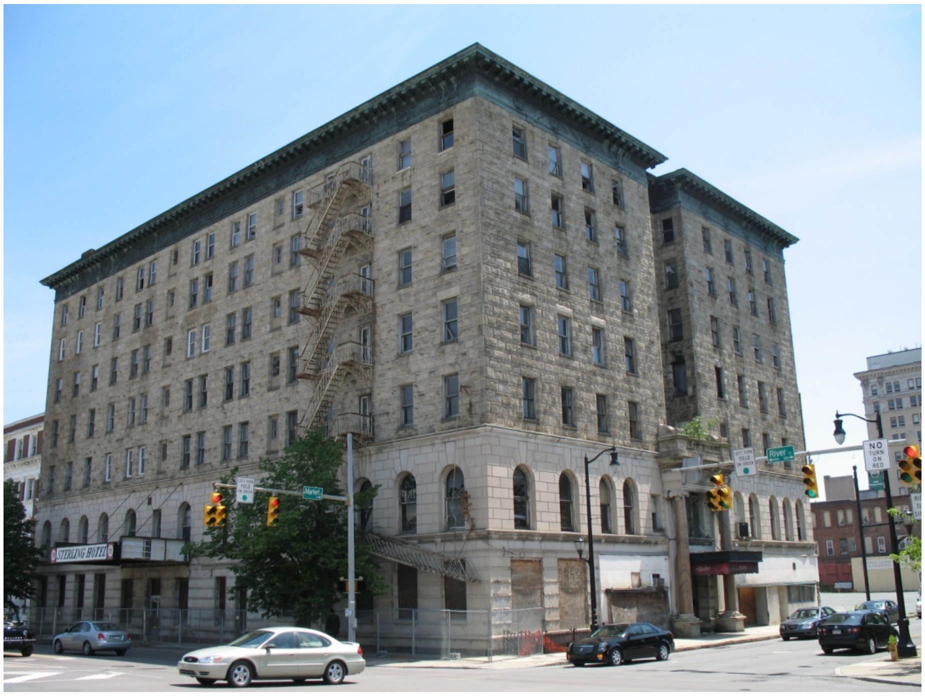
CityVest incurred an unreasonable and unnecessary expense when it expended $303,000 in loan funds to satisfy municipal liens on a property that it purchased, which was adjacent to the Hotel Sterling. The City of Wilkes-Barre filed the municipal liens on June 20, 2005, against the former property owner for demolition work. CityVest acquired the property on March 20, 2006. On December 1, 2006, the City billed CityVest $303,000 to satisfy the liens. On March 12, 2007, the County drew down $303,000 in Block Grant funds to pay the liens. However, payment of the liens was the responsibility of the former property owner. If CityVest had paid off the liens at the time of settlement, the $303,000 should have been deducted from the sale price of the property, which is customary, but in this case, it was not because the liens were not recorded on the settlement sheet.

Regulations at 2 CFR Part 225, appendix A(C)(1)(a) and (i), state that costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards and be the net of all applicable credits. Regulations at 2 CFR Part 225, appendix A(C)(2), state that a cost is reasonable if in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when governmental units or components are predominately federally funded. In determining reasonableness of a given cost, consideration should be given to whether the cost is of a type generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the Federal award.

The Project Had Not Met Its Designated National Objective

CityVest has spent $6 million in Block Grant funds on the Hotel Sterling project. Ultimately, the loan agreement required CityVest to create 175 permanent full-time-equivalent jobs, with 90 of those jobs benefiting low- and moderate-income persons. All Block Grant-assisted activities are required to meet the program's eligibility criteria found in 24 CFR 570.200 to 570.206 and one of the three national program objectives described in 24 CFR 570.208.[8] The regulations at 24 CFR 570.506(b) require the County to maintain records demonstrating that each activity meets the Block Grant program's national objective requirements. For this project, the national objective to be achieved was benefit to low- and moderate-income persons through job creation or retention activities. However, as of August 2012, the project was not complete, and no jobs had been created. The following pictures show the condition of the hotel.

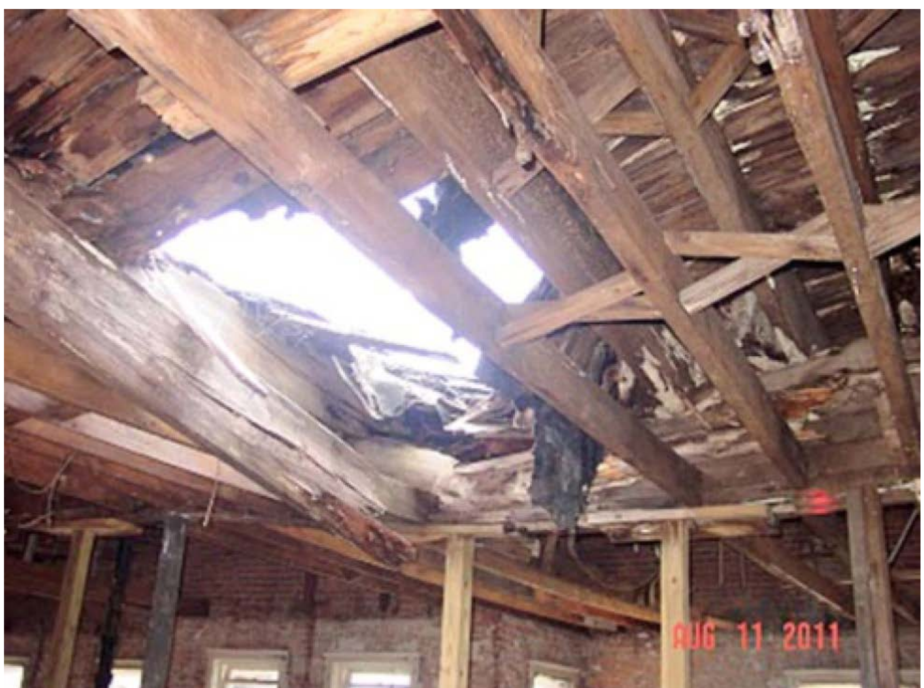
[8] Block Grant-assisted activities must meet one of the three national program objectives: (1) benefit low- and moderate-income persons, (2) prevent or eliminate slums or blight, and (3) meet community development needs having a particular urgency.



Front and side view of the hotel, May 25, 2011

Front view of the hotel, May 25, 2011

Rear view of the hotel, May 25, 2011

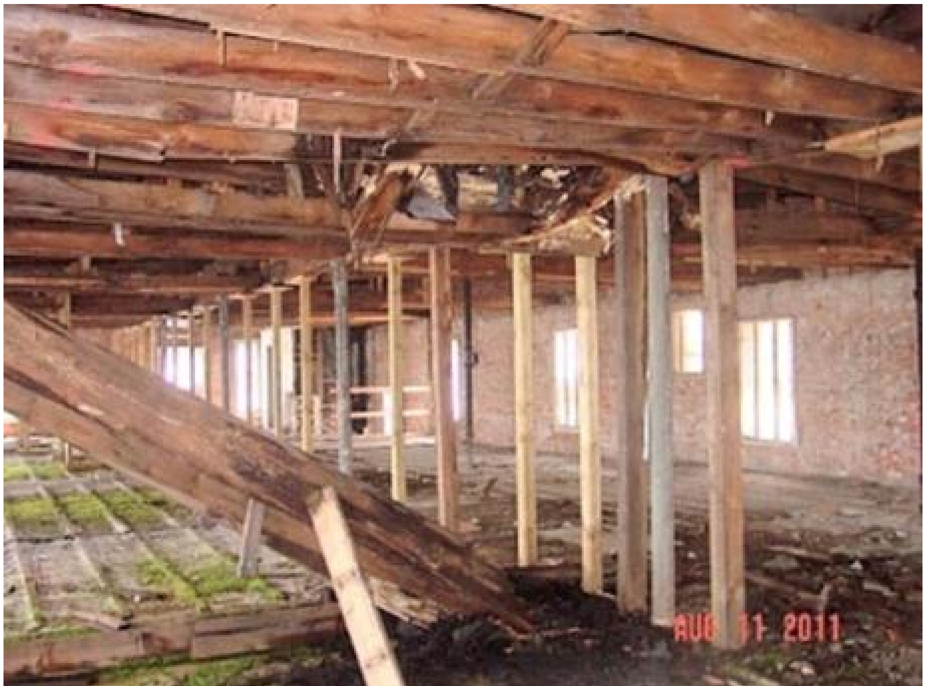


Roof of the hotel, August 11, 2011[9]

[9] Photographs from the November 18, 2011, edition of the Citizen's Voice

Interior of the hotel, August 9, 2011[9]

Interior of the hotel, August 9, 2011[9]



Roof of the hotel, August 11, 2011 [9]

The Project Will Not Meet Its Designated National Objective

The project will not meet its designated national objective because the City of Wilkes-Barre declared the structure unsafe and now the City and the County plan to demolish the hotel. The City solicited requests for proposals for demolition and the demolition will cost about $500,000. The City requested that the County split the demolition cost with it. As a result, nearly 10 years would have passed since the County entered into its initial loan agreement with CityVest, and $6 million in Block Grant funds would have been spent on a deteriorated hotel and a project that won't meet its national program objective.

HUD Questioned the Eligibility of the Project Based on Its Failure To Meet a National Objective

From September 9 to October 19, 2011, HUD's Philadelphia Office of Community Planning and Development conducted a remote monitoring review of the County's open and canceled Block Grant projects. This effort was also a result of HUD Office of Inspector General (OIG) audit report 2012-PH-0001. HUD determined that the CityVest project did not meet its national objective criteria and questioned whether the project would meet it in the future. Later, the Philadelphia office appealed to the HUD headquarters Office of Block Grant Assistance to determine whether this activity should be canceled from the County's Block Grant inventory and whether it should apply sanctions against the County. As of the date of this audit report, HUD headquarters had not made a decision regarding this project.

Conclusion

The County did not properly evaluate and underwrite its loan to CityVest. The project won't meet its designated job creation national objective. The County lacked procedures to properly evaluate and underwrite its loan to CityVest and did not properly monitor the project. As a result, the County disbursed $6 million in Block Grant funds for a project that failed to achieve its job creation national objective. Therefore, the $6 million expended for this project was ineligible. To correct this situation, the County needs to reimburse its loan program $6 million and develop and implement comprehensive procedures for (1) evaluating and underwriting proposed projects before approving applications for business development loans, and (2) monitoring Block Grant-assisted activities.

Recommendations

We recommend that the Director of HUD's Philadelphia Office of Community Planning and Development direct the County to

1A. Reimburse its business development loan program $5,999,894 from non-Federal funds for the ineligible expenditures related to the Hotel Sterling project.

1B. Develop and implement comprehensive procedures for evaluating and underwriting proposed projects before approving applications for business development loans.

1C. Develop and implement comprehensive procedures for effectively monitoring Block Grant-assisted activities.

SCOPE AND METHODOLOGY

We conducted the audit from March through June 2012 at the County's office located at 54 West Union Street, Wilkes-Barre, PA, and at our office located in Philadelphia, PA. The audit covered the period January 2010 through February 2012 but was expanded when necessary to include other periods. We did not rely on any computer-processed data during the audit.

To achieve our audit objective, we

- Obtained relevant background information.
- Reviewed HUD regulations at 24 CFR Part 570 regarding the Community Development Block Grant program and other applicable HUD regulations and guidance.
- Reviewed minutes from meetings of the County's board of commissioners and CityVest's board of directors.
- Reviewed the County's policies and procedures as outlined in its Business Development Loan Program Handbook related to loan applications, loan approvals, monitoring and evaluation, and closing.
- Interviewed relevant County staff and officials from HUD's Philadelphia Office of Community Planning and Development.
- Reviewed the County's business development loan portfolio.
- Reviewed CityVest's loan application and loan agreements.
- Reviewed loan fund draws totaling $6 million and the documentation supporting those expenditures.
- Reviewed the June 15, 2001, feasibility study for the project and other correspondence and documentation maintained in the County's files for the CityVest loan.
- Observed and photographed the physical condition of the Sterling Hotel.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

INTERNAL CONTROLS

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objective:

- Policies and procedures that the County implemented to ensure that activities met established program objectives and requirements.

- Policies and procedures that the County implemented to ensure that resource use was consistent with applicable laws and regulations.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiency

Based on our review, we believe that the following item is a significant deficiency:

- The County lacked comprehensive procedures for (1) evaluating and underwriting proposed projects before approving applications for business development loans, and (2) effectively monitoring Block Grant-assisted activities.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible 1/
1A	$5,999,894

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation **Auditee Comments**

ROBERT C. LAWTON
County Manager

COUNTY COUNCIL
TIM MCGINLEY, CHAIRMAN
LINDA MCCLOSKY HOUCK, VICE CHAIRMAN
JAMES BOBECK
EDWARD A. BROMINSKI
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STEPHEN J. URBAN
RICK WILLIAMS

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ANDREW D. REILLY
Executive Director

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54 WEST UNION STREET, WILKES-BARRE, PA 18701
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September 28, 2012

Mr. John P. Buck
U.S. Department of Housing and Urban Development
Office of Inspector General
Regional Inspector General for Audit
100 Penn Square East, Suite 10205
Philadelphia, PA 19107

RE: Draft Audit Response

Dear Mr. Buck:

I am writing to respond to the Draft Audit of Luzerne County's Community Development Block Grant Business Development Loan Program. I would however, first like to thank you for the professionalism displayed by Greg Burgwald in working with my office on the difficult task of auditing this very successful program.

Comment 1

It is important to note that Luzerne County's Business Development Loan Program (BDLP), which started in 1982, has a portfolio valued at $48.5 million. Since its inception, the Program has funded 669 loans totaling $235,690,576, with a CDBG investment of $26.3 million, the last of which was drawn from Treasury in 2000. **These loans created 16,613 jobs, of which 12,921 are low/mod (78%), and 5,343 jobs were retained.** The cost per job is $14,187.12. These facts were included in our June 19th letter to Mr. Burgwald as well as, Ms. Jane Vincent and Mr. Nadab Bynum of the Regional Office on June 28th and Mr. Burgwald on July 3rd. We were expecting that our complete response would be incorporated in the "Draft" Audit, but they were not.

Comment 2

First we would like to comment regarding the purposes of the Audit as follows:

What RIGA audited and Why----the then newly elected County Controller filed a complaint with HUD alleging misappropriation of funds as well as your personal review of certain dated files.

Luzerne County Comment

Comment 3

Comment 4

Misappropriate means that the funds were turned to a wrong purpose. This is an important point in view of the Controller's audit which showed no funds missing. Perhaps, the word "misappropriate" should be changed to a more appropriate description of what is alleged to have occurred. Furthermore while much information can be gathered from IDIS data, the IDIS system is not regulated therefore the information drawn from that source is not an official record of HUD.

What RIGA Found--- The finding claims Luzerne County did not PROPERLY (emphasis added) evaluate and underwrite the $6 Million loan to City Vest and the project did not meet its job creation goal.

Luzerne County Comment

Comment 5

a) The word "properly" does not appear in any HUD regulation.

Comment 6

Comment 7

Comment 8

Comment 9

b) Although OIG claims 24 CFR 570.209(a) is applicable notwithstanding language that states HUD's suggested Guidelines "are not mandatory" and that "use" of HUD's Guidelines or a local standard by Luzerne County is required "to conduct basic underwriting prior to the provision of CDBG financial assistance to a FOR-PROFIT BUSINESS (emphasis added)." City Vest is a not-for-profit entity. Thus, there is no HUD requirement at 570.209(a) applicable to City Vest however, a thorough evaluation was done.

c) Furthermore, a "basic evaluation occurred." Prior to the loan application being submitted, the County and City Vest received a feasibility study by a nationally known architect (who happens to be in Wilkes-Barre and Philadelphia) which evaluated both the structure and costs to cure. It was prepared in June, 2001, prior to the loan application (copy attached). It is a thorough evaluation. The OCD also submitted a written "evaluation" to the Commissioners prior to their approval on October 16, 2002.

What RIGA Recommended----HUD require the County to repay the Program with non- Federal funds and adopt BLDP Procedures to improve the Program Requirements.

Luzerne County Comment

Comment 10

The County has had BLDP procedures in place for over 35 years and continues to update same to meet current needs and HUD requirements.

Comment 11

The BLDP funding for this Project and all projects undertaken since 2000 include no U.S. Treasury originated CDBG funds. Loan repayment from this Project and those in the future will continue to be funded from recycled BLDP funds therefore no repayment is required or necessary.

DRAFT AUDIT FINDING

THE COUNTY DID NOT PROPERLY EVALUATE, UNDERWRITE, AND MONITOR A HIGH RISK LOAN

Comment 12

Comment 13

1. RIGA claims the County only conducted a cursory level of underwriting.
2. RIGA claims the County lacked a Plan for the Sterling.
3. RIGA claims the County and City Vest should have had other funds in place to share the financial burden.
4. RIGA claims the County did not Properly Assess Project Feasibility and Evaluate Cost of the Project.
5. RIGA claims the Project did not comply with HUD's Jurisdiction Requirements.
6. RIGA claims the County did not properly monitor the Project.
7. RIGA claims the County did not ensure that required audits were performed.
8. RIGA claims City Vest incurred an unreasonable and unnecessary expense.
9. RIGA claims the Project has not met designated National Objectives.

Luzerne County Comment

Comment 14

Comment 17

Comment 9

1. The Sterling Project was the focus of downtown redevelopment as early as 1984. In fact, the project was the main focus on the Wilkes-Barre 1992 Downtown Development Plan. For these reasons, City Vest, a non-profit Developer of last resort (not a Subrecipient) embarked on the process to save this historic property. With overwhelming support from the community, the County authorized assistance to City Vest in order to undertake this important economic development project and potential job creator of benefit to both the City and County. The actual County benefit determination occurred on October 16, 2002 when the Project was presented to the then County Commissioners by the previous Director of the Office of Community Development.

Comment 14

Comment 15

2. As stated previously, actual restoration and financial planning began in earnest in 1984 and continued until 2010. Throughout the process the historic preservation of the Sterling was part of the effort since the property was and remains on the National Register of Historic Places. The new proposed development on a cleared site will go a long way toward the original employment target for County residents. The site and new development will carry a symbol of the historic nature of the property.

Comment 14
Comment 16

3. There is no program, Federal, State, or local that can equal the flexibility that CDBG local funding can provide. It is the only such program available to places like Luzerne County or Wilkes-Barre that have the remotest chance of preserving the local communities in our Country. Usually if a HUD supported program similar to CDBG is undertaken it is successful. Even the Sterling Project will be successful when a new developer begins their development and the accompanying jobs are created for County L/M citizens and eventually the property will be back on the tax rolls.

Comment 14

4. The Sterling Hotel Historic Preservation and Economic Revitalization Project has been fully supported by County and City Officials, as well as the Private sector for almost 30 years. Thousands public-private volunteer hours have been expended on this most important undertaking, not only to save the structure but to use it as revenue producing facility that the citizens of Luzerne County will treasure. Although the original plans have been amended, the County expects a new developer will be able to carry on the work already begun for the site and create the new jobs aimed at supporting the original goals and revitalize Wilkes-Barre, the County Seat of Luzerne County.

Comment 9

5. On 10/16/02, the former OCD Director appeared before the Luzerne County Commissioners to explain the County employment, economic, tax revenue, and historic preservation benefits from the Sterling revitalization project. The Staff evaluation and determination was made on 10/2/02. Both documents are attached.

Comment 17
Comment 14

6. The County and the HUD Regional CPD Office monitored the Sterling Project on numerous occasions over the past 10 years. This Project was undertaken by a non-profit developer and not a subrecipient. Every dollar that has been expended for this Project has been reviewed and monitored by County Staff. The County's Monitoring Plan is reviewed annually and revisions are made as appropriate. Please note, City Vest is a non-profit developer and responsible for all phases of the work. The construction objectives of this development are carried out by the developer not the County OCD.

Comment 18

Comment 19

7. City Vest is a non profit developer not a subrecipient, therefore they are not guided by 24 CFR Part 84. The County does however, review each City Vest invoice in detail and have the payments approved by the County Council and Manager (previously by the County Commissioners). The County Single Audit that covered City Vest was available but not requested during the review.

Comment 14
Comment 20

Comment 14
Comment 21

8. City Vest did what was necessary to gain clear title to the Sterling. Every dollar spent by City Vest as a non- profit developer was reasonable and necessary to carry out the Project. Over such a long period of time (almost 30 years) liens mounted and many unexpected issues surfaced. City Vest never wasted any funds awarded by the County for the project. There were many roadblocks that surfaced and were dealt with by City Vest to achieve the near impossible tasks that went with this development. It was finally determined that to complete the Project, considering public safety and even more cost together with dangerous conditions that could be harmful to the general public as well as the builders that the Project was terminated and the Sterling will be demolished. The County is fortunate in the final analysis, to restart the Project and ultimately succeed in redeveloping the site to create the jobs for County citizens.

Comment 22

9. The Sterling Project actually qualifies under two different but compatible eligible activities. First, the Project is on the National Register of Historic Places and no matter what else happens the requirement to carry out that recognition and responsibility will be obtained by eliminating slum and blight. Alternately the County expects the project will create low and moderate income jobs per the original intent of the loan.

Comment 16
Comment 21
Comment 11

The County believes that the recycled economic funds already invested in the project will ultimately lead a redeveloped site that will stimulate the downtown development process, generate tax revenue, and ultimately lead to increased economic opportunities for low and moderate income residents of the County. Due to the nature of the situation to impose a financial sanction would be counterproductive especially in light of the fact that BLDP funds

3

Comment 23

have been recycled many times and have no clear relationship to current U.S. Treasury funds. The CDBG regulations allow for other than financial sanctions if guidance is required to be imposed.

Please do not hesitate contact me if you have any questions regarding this response.

Sincerely,

Andrew D. Reilly

Andrew D. Reilly

Attachment(s)

cc: Jane C. W. Vincent
Nadab O. Bynum
Ileana Colon
Dave Kasperowicz
Greg Burgwald

4

OCD will recommend the following to the Board of Commissioners at the meeting of 10/16/02:

$4,000,000 BDLP Loan to assist in financing acquisition and restoration costs related to the development of the Hotel Sterling projected.

Funds to be disbursed over a 3 year period

$2,000,000 available 2002
$1,000,000 available 2003 and 2004

Loan Terms: 20 years, 0%; with first $1,000,000 forgiven at 20% a year for 5 years

Initial funding release will consist of $200,000 toward the purchase price at the Sheriff sale

Upon acquisition, County and CityVest will immediately address stabilization requirements outlined by the PA Historical & Museum Commission to insure no further damage to the structures during the design and assessment stages of the project

Balance of OCD funding will be utilized for eligible economic development activities, as costs are incurred

City Vest and the County will work very closely on the development and design process, and efforts to obtain additional financial backing for the project

BDLP funding is vital for these initial stages to enable CityVest to bring the property to a stabilized level that will ultimately generate interests by development teams

The project will ultimately lead to increased economic opportunities for County residents through the development of downtown office and retail space that will create jobs; the project will stimulate the downtown development process; generate tax revenue; and return a historically significant building that has play a significant role in the area's history to active reuse.

LUZERNE COUNTY COMMISSIONERS
THOMAS P. PIZANO, CHAIRMAN
THOMAS A. MAKOWSKI, ESQ.
STEPHEN A. URBAN

JAMES M. TORBIK, Chief Clerk

SANDRA J. RUSSELL
Director

JAMES P. BLAUM, ESQ.
County Solicitor

E-Mail:
luzcoocd@epix.net

LUZERNE COUNTY
OFFICE OF COMMUNITY DEVELOPMENT
54 West Union Street, Wilkes-Barre, PA. 18711

(570) 824-7214
FAX (570) 829-2910
TDD (570) 825-1860

TO: File

RE: Staff Determination of Need for BDLP Assistance
Recipient: CityVest
Loan Number: BDS-02-J02-D
Loan Amount: $4,000,000
Term: To Be Negotiated.
Rate: To Be Negotiated

In determining whether assistance to the aforementioned Recipient is necessary and/or appropriate, consideration has been given to the statement of need, public benefit, job creation and retention, summary project costs, and financial documents provided by the Recipient in the BDLP Application.

Upon analysis of the aforementioned information, it has been determined that the BDLP loan amount requested is necessary for carrying out the activities by the Recipient, as described in the BDLP Application.

COMMENTS:

Needs of Business: Non-profit community development corporation with a mission to undertake development projects to enhance the economic revitalization of the downtown urban centers of Wyoming Valley has endeavored to restore the former Hotel Sterling building, which has become a blighting influence in downtown Wilkes-Barre due to neglect and bankruptcy on behalf of the ownership. If successful, this major endeavor is seen as a possible catalyst to the downtown revitalization effort in this city. This corporation has assembled a variety of skilled business professionals to guide and promote its projects; however a major stumbling block at this time is the lack of adequate funds to encounter a project of this magnitude. The proposed developer has injected its available equity and will seek in excess of $3,000,000 from various Federal and State sources, to account for 50% of the funding needed to acquire and restore the property to make it marketable for commercial development. The BDLP funds provide the necessary gap funding to make this endeavor possible, since conventional financing is not practicable due to the nature of this project.

BDL-8

Public Benefit: Initially, this project will have a positive impact by taking an extremely blighted and otherwise useless property and returning it to a functional use, thereby increasing the real estate tax base for the community. During the restoration phase of the project, at least 60 temporary construction jobs can be expected to be available. Ultimately, it is anticipated that 150 new, full-time equivalent, permanent employment positions will be created, with at least 80 expected to be made available to persons from low/moderate income backgrounds. Therefore, the the local wage tax base will also be strengthened because of this endeavor.

Financial Analysis: The proposed developer's most recent fiscal year financial statement indicates that the debt to equity position of the corporation is about 7 to 1; however a further review of the financial data indicates that $285,000 of funds has been reported as deferred revenue, which accounts for grants that have been received, but for which no expenses have been incurred, thus the aforementioned ratio would become .76 to 1, which shows that the corporation has some equity to work with. The combination of funding from Federal and State sources, along with the BDLP injection which is proposed will allow this developer to restore this major real estate located in a prominent downtown location to a condition where it will be attractive for prime commercial development, at which point CityVest will be in a position to maintain an ownership factor which will allow for the debt service obligations to be met.

Most small businesses fail within their first years of operation because they are undercapitalized and lack proper management skills. According to Dunn and Bradstreet, "The cash operating cycle, or the time it takes after an investment of funds in products or services to receive cash from customers, is significant. The dimensions can be managed by controlling the level of cash to be invested in inventories and receivables." For example:

> A business startup/expansion is faced with maximum expenditures and minimum returns during the first year of operation. The BDLP was developed to offset the uneven balance (cash flow) that can affect the performance of the business. A business requires working capital in the early stages of growth and OCD takes into account that the availability of equity will be needed by the business to help service daily operations and to meet any unforeseen expenses. With an adequate cash level, the business risk of having to incur additional short-term debt is reduced. The BDLP loan helps the business to be in a more sensitive situation at the end of the loan term. It is a one-year guaranteed "bridge loan" designed to provide a pathway to a reasonable and adequate rate of return and recognizing at the same time that many factors can affect the business projections, both positively and adversely. This is how OCD balances the guaranteed maximum returns to us with the economic health of the project.

ATE: 10/14/02

Joseph M. Duey
Loan Counselor

BDL-8

OIG Evaluation of Auditee Comments

Comment 1 The County's statements are unsupported. We did not audit the County's program from its inception.

Comment 2 As part of our normal process, we included the auditee's complete written response to the draft report as an appendix in the final audit report.

Comment 3 The audit report reflects the language from the complaint. The complaint alleged possible misappropriation of funds. The Inspector General Act of 1978 gave HUD OIG the authority to initiate, carry out and complete independent and objective audits of HUD programs and operations. We initiate audits based on information obtained from program officials, program research, complaints, congressional requests and risk assessments. These audits include performance audits, which determine whether programs are achieving the desired results or benefits in an efficient and effective manner.

Comment 4 The Integrated Disbursement and Information System (IDIS) is the drawdown and reporting system for all of HUD's Office of Community Planning and Development (CPD) formula grant programs including the Block Grant program. The other CPD formula grant programs covered by the System are the HOME Investment Partnerships program, Emergency Shelter Grant, and Housing Opportunities for Persons with AIDS. Grantees also use the System for tracking American Recovery and Reinvestment Act of 2009 CPD programs. As a nationwide database, the System is intended to provide HUD with current information regarding CPD activities underway across the Nation, including funding data. The System is used by HUD in managing the activities of more than 1,200 HUD grantees, including urban counties and States, which use the System to plan projects and activities, draw down program funds, and report on accomplishments. HUD also uses the System to generate reports used within and outside HUD, including the public, participating jurisdictions, and Congress. Grantees are able to update, change, cancel, reopen, and increase or decrease project funding in the System without review by HUD.

Comment 5 The County's statement is unsupported. The word "properly" does in fact appear in regulations applicable to the County's program, for example, in the regulations at 24 CFR 570.509 and 2 CFR Part 225. However, we used the words "did not properly" in the audit report to summarize and characterize our overall conclusion regarding the County's lack of evaluation, underwriting, and monitoring of its $6 million loan to CityVest.

Comment 6 As stated in the audit report, the County was responsible for properly evaluating and underwriting its $6 million loan to CityVest. HUD regulations at 24 CFR 570.209(a) provide the County guidelines designed to provide a framework for financially underwriting and selecting Block Grant-assisted economic development projects that are financially viable and will make the most effective use of Block Grant funds. The objectives of the underwriting guidelines include ensuring that project costs are reasonable; all sources of project financing are committed; the project is financially feasible; and to the extent practicable, Block Grant funds are disbursed on a pro rata basis with other finances provided to the project. However, the County's policies and procedures for evaluating and underwriting its Block Grant loans consisted solely of a single-page checklist that failed to adequately cover key HUD guidelines. HUD's underwriting guidelines recognized that different levels of review may be appropriate to take into account the size and scope of a proposed project. Although the HUD guidelines for evaluating project costs and financial requirements are not mandatory, HUD expects recipients to properly evaluate and underwrite these loans. HUD expects recipients, when they develop their own programs and underwriting criteria, to take these factors into account. Given that the $6 million loan the County made to CityVest was by far the largest loan in its business development loan portfolio, it was reasonable to expect the County to have conducted more than a cursory level of evaluation and underwriting before making the loan.

Comment 7 We disagree with the County's assertion that a thorough evaluation was done. As stated in the audit report, the County approved the loan although the project lacked a plan; the County did not ensure that other project funds were committed to the project; the County did not properly assess the feasibility of the project and evaluate the project's costs; the project did not comply with HUD's jurisdiction requirements; the County did not properly monitor the project; and the County did not ensure that required audits were performed.

Comment 8 Contrary to the County's assertion, it did not include a copy of the June 2001 study with its written response to the audit report. As stated in the audit report, the County alleged that a feasibility study for the project was performed in 2001 to support its evaluation of the project and its costs. The nine-page document, dated June 15, 2001, and labeled a feasibility study, contained five pages of photographs and drawings of the project site and a page providing information on the physical location of the project site and background on CityVest. Although the remaining three pages were numbered, the pages were labeled "sample budget scenario" for "site considerations;" "project construction components;" and "soft costs and summaries." All three pages were marked "DRAFT" in bold letters. This nine-page document did not constitute a valid feasibility study because, as stated in its October 2002 loan application, CityVest did not know the exact future use of the Hotel Sterling. Without knowing the exact future use of the site, there were no valid, detailed project costs to be reviewed. Moreover, CityVest paid for this study. There was no evidence that the County performed an independent evaluation to assess the prospects for the project's success. It was not clear what CityVest intended to do with the loan funds.

Comment 9 The Office of Community Development's written "evaluation" to the commissioners prior to their approval of CityVest's loan application on October 16, 2002, stated that it was based upon information contained in CityVest's loan application. As stated in the audit report, we found no evidence that the County performed an independent evaluation to assess the prospects for the project's success.

Comment 10 In light of the County's statement, we expect that it will be receptive to our recommendations and implement corrective actions to meet the intent of those recommendations.

Comment 11 The County provided no documentation to support its statements. Since the County's business development loan program was originated with Block Grant funding the subsequent repayment of loaned funds and the interest earned on the loaned funds are considered Block Grant funds.

Comment 12 The audit report stated that the County approved a loan for a project that lacked a plan.

Comment 13 The audit report stated the County did not ensure that other project funds were committed to the project.

Comment 14 The County provided no documentation to support these statements.

Comment 15 Susquehanna Real Estate LP issued a study dated March 31, 2011, that offered options for redevelopment of the Hotel Sterling site. It stated that after a comprehensive gathering and analysis of studies, information, and plans as well as a physical review and inspection of the building, the Susquehanna team concluded that there were three possible alternative development strategies. Each was detailed and analyzed in the context of financial costs and feasibility, historic and public perspective, practicality, legal and liability issues, as well as the implementation factor - a scoring that reflects the likelihood of being able to overcome challenges in order to actually get a project going. In addition, there were critical building factors present that weighed on each alternative. Because of a rapidly deteriorating building condition, time and inertia were working against the interests of those seeking to initiate a successful redevelopment strategy. Having been open to the elements for an extended period, and with the resulting water infiltration, the building had suffered sufficient degradation to the point where a series of events such as major snow load, high wind storm, or movement of the make-shift support bracing could result in a catastrophic failure of the building or integrity of the exterior facade. Because of all of these factors, there was urgency in coming to a decision on how to move forward. Although numerous possibilities and combinations were potentially available for discussion and review, the team reduced these down to the three basic options detailed as follows:

1. Preservation and restoration of the existing building
2. Partial demolition with retention of the 1st and 2nd levels
3. Complete demolition and site preparation

Susquehanna stated that each of these options was considered in the context of likely uses appropriate for the building and site based on the findings of the team's marketing research. Susquehanna concluded that the full demolition option represented the most rational and economic approach while preserving the opportunity to develop the site when market conditions will allow it to achieve its highest and best use. The costs of this approach to resolve the immediate issues facing the building are in the range of $1 to $2 million allowing for some site enhancement until a new major development can be implemented. The City solicited requests for proposals for demolition and the County commissioners voted on September 25, 2012, to demolish the hotel. The estimated cost of the demolition was $492,729.

Comment 16 The County's statement is unsupported. The success of the new developer, the accompanying jobs to be created, and tax revenue to be generated remain to be seen. The County believed that the first developer (CityVest) would be successful revitalizing the Hotel Sterling site and after 10 years since first agreeing to loan it funds, $6 million has been spent on a project that failed to achieve its job creation national objective resulting in a deteriorated hotel that the City and County now plan to demolish.

Comment 17 Contrary to the County's assertion, CityVest was a subrecipient. The regulations at 24 CFR 570.500(c) define a subrecipient as a public or private nonprofit agency, authority, or organization, or authorized for-profit entity receiving Block Grant funds from the recipient or another subrecipient to undertake activities eligible for such assistance.

Comment 18 We did not make any reference to 24 CFR Part 84 in the audit report.

Comment 19 As stated in the audit report, the County did not ensure that CityVest complied with the audit requirements of Office of Management and Budget (OMB) Circular A-133 and its loan agreement. OMB Circular A-133 required non-Federal entities that expended $500,000 or more[10] of Federal funds in any given fiscal year to have an independent audit conducted that complied with the requirements of the circular. The loan agreement and amended loan agreement reiterated these requirements. However, the County had no copies of these required audits in its files although at least three audits should have been completed. We did not request a copy of the County's Single Audit because it would not address these requirements. Regardless, at the exit conference, we asked the County to provide any documentation that it believed we needed to consider to address any issues

[10] See footnote 6.

presented in the draft audit report and the County provided no additional documentation.

Comment 20 We disagree with the County's assertion. As stated in the audit report, CityVest incurred an unreasonable and unnecessary expense. On June 20, 2005, the City of Wilkes-Barre filed two municipal liens against the former owner of a property that CityVest acquired on March 20, 2006. The former property owner was responsible for paying the liens. If CityVest had paid off the liens at the time of settlement, the $303,000 should have been deducted from the sale price of the property, which is customary, but in this case, it was not because the liens were not recorded on the settlement sheet.

Comment 21 We disagree with the County's characterization of this situation as fortunate. In our opinion, we believe the exact opposite is true. Due to its failure to properly evaluate, underwrite, and monitor its loan to CityVest, the County allowed $6 million to be spent on project that failed to achieve its job creation national objective resulting in a deteriorated hotel that now needs to be demolished. The ultimate success of redeveloping the site to create jobs for County residents has yet to be demonstrated.

Comment 22 The County qualified its loan of Block Grant funds to CityVest based on an expectation that the project would create at least 80 permanent full-time-equivalent jobs benefiting low- and moderate-income persons. That has not happened nor has the expenditure of the $6 million of Block grant funds for this project resulted in the elimination of slum and blight. Rather, the County's failure to properly evaluate, underwrite, and monitor this project has contributed to the site of the Hotel Sterling being a blight in the community over the last 10 years.

Comment 23 As stated in the audit report, since the project failed to achieve its job creation national objective, the $6 million expended for this project was ineligible. Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.

Appendix C

PROJECT BUDGET FROM LOAN APPLICATION

** These expenses are estimated, and actual expenses will change based upon the ultimate use of the facility. A revised estimate will be provided when the costs are more ascertainable.

G. PROPOSED SOURCES AND USES OF FUNDS - PROJECT BUDGET

	Business Development Loan Funds	Developer's Equity	Other *** Source	Other Source	TOTAL
Provide Names of Other Sources:					
1. Land and/or Building Acquisition	$ 200,000.00	$ 800,000.00	$ 1,000,000.00	$	$ 2,000,000.00
2. Construction Costs to Contractor	2,500,000.00**	50,000.00	2,000,000.00		4,550,000.00
3. Professional/Financial Fees	100,000.00**		50,000.00		150,000.00
4. Machinery & Equipment	1,200,000.00**		100,000.00		1,300,000.00
5. Working Capital (Mfg. only)					
TOTAL	$4,000,000.00	$ 850,000.00	$ 3,150,000.00	$	$8,000,000.00

H. PROPOSED PROJECT PERFORMANCE SCHEDULE

Provide breakdown of projected usage of Business Development Loan Funds indicated above for a twelve month period or other period as applicable (attach additional sheet if needed).

Indicate month and year below	Land and/or Building Acquisition	Construction Costs to Contractor	Professional Fees and/or Financial Fees	Machinery & Equipment	Working Capital	TOTAL
1. 11/02	$ Building Acquisition, Title Insurance, Property Survey *	$	$	$	$	$
2. 11/02 - 2/03	Structural Analysis, Environmental Analysis, Development of Stabilization/Mothball Program *					
3. 2/03-6/03	Property Stabilization/Mothball Program *					
4. 11/02-	Prepared Development Plan and Request for Qualifications from Developers *					
5. 6/03-	Redevelopment of Property *					
6.						
7.						
8.						
9.	*Note - These dates are based upon reasonable estimates and may change once the intended use of the facility is better determined. A revised schedule will be provided at a later date.					
10.						
11.						
12.						
TOTAL	$	$	$	$	$	$

***CityVest intends to seek funding from the U.S. Department of Commerce, Economic Development Administration, the U.S. Housing and Urban Development Agency, the Environmentwnfields Program, the Pennsylvania Department of Community and Economic Development, and other federal and state funding sources. CityVest has not received approval for any of this funding yet.

Appendix D

PROJECT BUDGET FROM LOAN AGREEMENT

EXHIBIT D
PROJECT BUDGET - SUMMARY OF PROPOSED EXPENDITURES

A. Eligible BDLP Activity
B. Other Activities Costs

SOURCES OF PERMANENT FINANCING

	BDLP FUNDS	Developer's Equity	Other Funds	TOTAL
A 1. Land and/or building acquisition	$ 200,000	$ 800,000	1),2),3),4),5) $1,000,000	$2,000,000
A 2. Construction cost to Contractor	$2,500,000	$ 50,000	1),2),3),4),5) $2,000,000	$4,550,000
A 3. Professional/Financial Fees	$ 100,000		1),2),3),4),5) $ 50,000	$ 150,000
A 4. Machinery/Equipment	$1,200,000		1),2),3),4),5) $ 100,000	$3,300,000
A 5. Working Capital				
TOTAL PROJECT COSTS (summary of lines A-1 to B-4)	$4,000,000	$ 850,000	$3,150,000	$8,000,000

NOTES: * 1) U.S. Department of Housing & Urban Development
* 2) U.S. Department of Commerce
* 3) U.S. Economic Development Administration
* 4) U.S. Environmental Protection Agency
* 5) PA Department of Community & Economic Development

* And/or other funding entitites. Prior to release of funding for each phase of the Project, Recipient shall demonstrate evidence of non-BDLP funds needed to insure completion of that particular phase of the Project

EXHIBIT D PAGE 1 OF 1

Appendix E

PROJECT BUDGET FROM AMENDED LOAN AGREEMENT

Recipient: CityVest

Loan Number: BDS-02-J02-R

AMENDMENT TO EXHIBIT D

PROJECT BUDGET - SUMMARY OF PROPOSED EXPENDITURES

EXHIBIT D

	SOURCES OF NON-COUNTY FINANCING			
Eligible BDLP Activity	**BDLP FUNDS**	**DEVELOPER'S EQUITY**	**OTHER FUNDS**	**TOTAL**
A.1. Land and/or Building Acquisition	$ 200,000	$ 800,000	1,/2,/3,/4,/5 $1,000,000	**$2,000,000**
A.2. Construction Cost to Contractor	$4,000,000	$ 50,000	1,/2,/3,/4,/5 $2,000,000	**$6,050,000**
A.3. Professional/ Financial Fees	$ 500,000		1,/2,/3,/4,/5 $ 50,000	**$ 550,000**
A.4. Machinery/ Equipment	$1,300,000		1,/2,/3,/4,/5 $ 100,000	**$3,400,000**
A.5. Working Capital				
TOTAL PROJECTS COSTS	**$6,000,000**	**$ 850,000**	**$3,150,000**	**$10,000,000**

(Summary of lines A-1 to A-5)

NOTES: 1) US Department of Housing & Urban Development
2) US Department of Commerce
3) US Economic Development Administration
4) US Environmental Protection Agency
5) PA Department of Community & Economic Development

Eligibility:
CR _
SED X
PI _

Loan Counselor:

____

Appendix F

CITYVEST EXPENDITURE SUMMARY

Total expenditures

Description	Amount	Percentage
Demolition	$3,213,714	53.6%
Acquisitions	$1,497,144	25.0%
Real estate advisor fees	$688,540	11.5%
Engineering fees	$302,645	5.0%
Attorney fees	$124,180	2.1%
Insurance fees	$92,281	1.5%
Construction	$67,739	1.1%
Miscellaneous fees	$13,651	0.2%
Total	**$5,999,894**	**100%**

Expenditures as of August 31, 2006, by project budget

Project budget cost description	Amount expended	Project budget – loan agreement
A1. Land or building acquisition	$525,000	$200,000
A2. Construction cost to contractor	$178,168	$2,500,000
A3. Professional and financial fees	$938,287	$100,000
A4. Machinery and equipment	$0	$1,200,000
Total	**$1,641,455**	**$4,000,000**

Total expenditures compared to loan agreement project budgets

Project budget cost description	Amount expended	Project budget - loan agreement	Project budget - amended loan agreement
A1. Land or building acquisition	$1,497,144	$200,000	$200,000
A2. Construction cost to contractor	$3,281,453	$2,500,000	$4,000,000
A3. Professional and financial fees	$1,221,297	$100,000	$500,000
A4. Machinery and equipment	$0	$1,200,000	$1,300,000
Total	**$5,999,894**	**$4,000,000**	**$6,000,000**