

HUD may seek Grand Hotel refund

▷ Continued from Page 1A

Zion Development executive director Brad Roos said officials of the nonprofit affiliate of Zion Lutheran Church have provided the city with information to help satisfy federal regulators on the Grand Hotel issue.

Roos said there was some confusion initially about whether federal rules on competitive bidding applied to Zion. HUD determined that the church-backed development group constitutes a "sub-recipient" of federal funds.

Zion has not been involved in discussions about how to handle the possible reimbursement.

"That's between HUD and the city," Roos said.

In April 1997, city officials pledged about \$900,000 in financial aid when Zion Development bought the beleaguered Grand Hotel, 1146 Broadway, in hopes of transforming it into apartments.

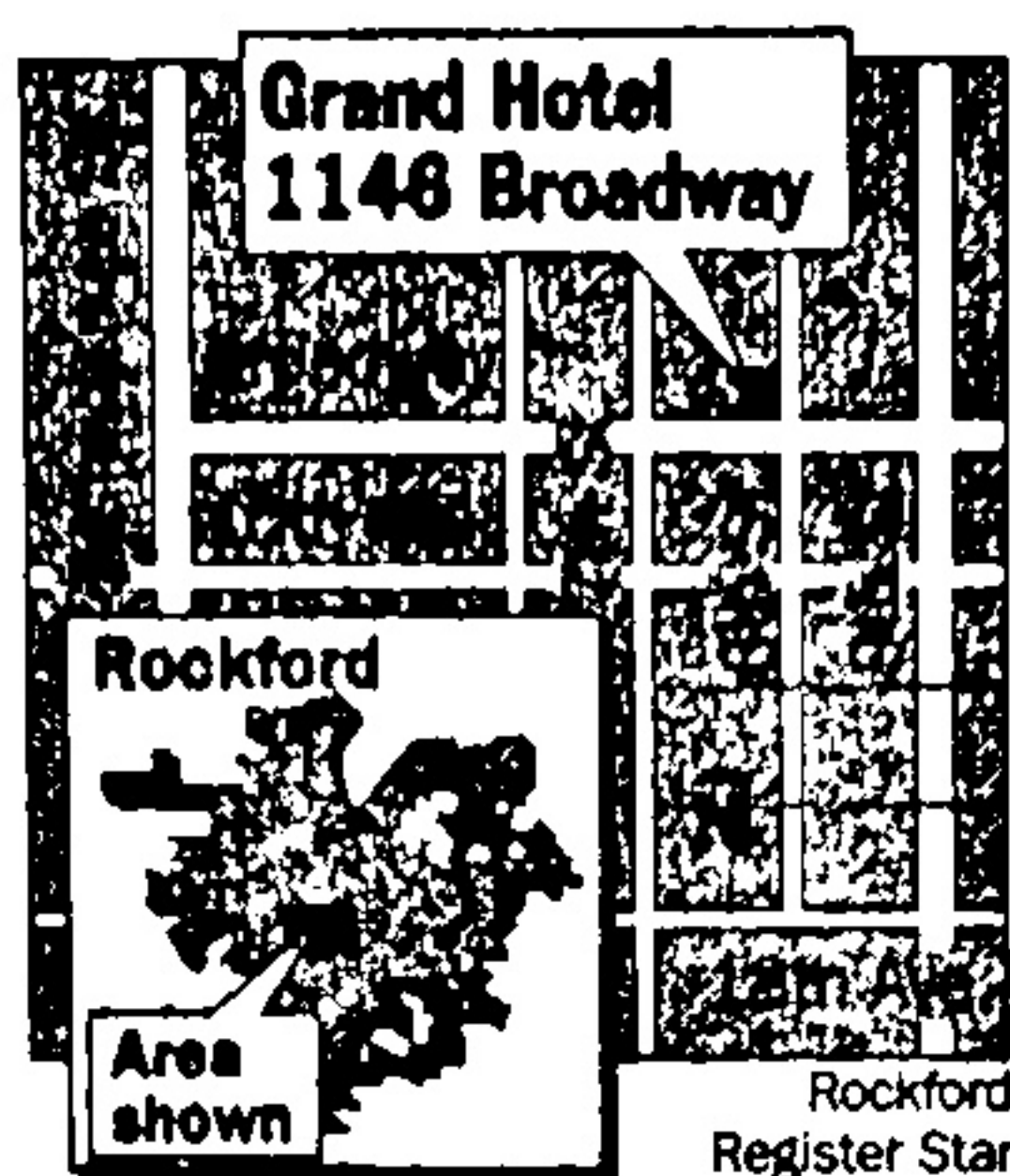
Zion hired Executive Protection & Investigation to purge the hotel of drug dealers, prostitutes and other problems. The company provided 24-hour-a-day armed guards for 10 months at a cost of about \$170,000.

HUD records indicate more than \$280,000 was allocated for guards and other security measures during 1997 and 1998.

Federal officials generally are complimentary of the Grand Hotel takeover and other initiatives of the community development department. But HUD ordered an on-site review of the department last year after detecting repeated problems with Rockford's accounting of federal development funds.

HUD allocates about \$4 million a year to the city to assist with business and housing development in blighted sections of the city.

A special report in the Rockford Register Star last March examined



how the community development department has spent those funds over the years, including the accounting problems cited by HUD. The newspaper later filed Freedom of Information requests to obtain results of the federal agency's on-site review, as well as related public records.

HUD staffers again cited poor record-keeping at City Hall, at one point urging the city to establish uniformity so that "funding can be more clearly tracked."

Federal examiners said records were confusing on a \$50,000 loan for improvements to Main Island Lounge. The tavern at 1701 S. Main St. used the city loan to launch a \$190,000 expansion.

City officials reassured HUD by providing a detailed breakdown of the 1993 project, which included a loan from First of America Bank.

Main Island Lounge owner Bobby Tisdale could not be reached for comment. Richardson had little information about the project because it occurred before she joined the community development department in May.

City Administrator Einar Forsman said efforts are under way to improve record-keeping in the community development department. The staff has been beefed up, and the city has bought new computers.

Forsman said one reason

Richardson was hired was because she is keenly aware of federal regulatory requirements.

Another concern expressed by HUD examiners in the recent review involved the closing of Rockford Neighborhood Redevelopment Corp., a nonprofit development agency that had received about \$180,000 from the city.

The redevelopment corporation was contracted by the city to acquire deteriorated residential properties. The city then would loan the agency money and forgive the loans if it fulfilled its pledge to rehabilitate the properties into decent housing.

Rockford Neighborhood Redevelopment, which was affiliated with Second Congregational Church, closed its doors last spring with several city-backed projects still in the works.

HUD administrators urged the city to explain its strategy for dealing with the agency's closing, saying federal regulators were concerned about "the significant investment of HUD funds."

The Rev. Haines Moffat, pastor of Second Congregational, declined to comment on how the agency's shutdown affected the city.

Vicki Manson, neighborhood development director in the community development department, said city officials remain uncertain whether any funds will be lost. She said officials are working to find a buyer for each property who will adhere to the original terms of the city loans.

Manson said the city scrutinizes nonprofit developers before investing in them. But she said financial problems such as those experienced by Rockford Redevelopment are not uncommon.

"We knew they were having difficulties," she said. "All the not-for-profits struggle. Housing development is not an easy task."