



Richmond City Council

The Voice of the People

Richmond, Virginia

Office of the Inspector General

March 4, 2019

Mrs. Selena Cuffee-Glenn
Chief Administrative Officer
City of Richmond

The Office of the Inspector General (OIG) has completed an investigation within the Department of Economic and Community Development (ECD) as it relates to an Economic Development Grant. This report, presents the results of the investigation.

Legal & City Policy Requirements:

1. In accordance with the Code of Virginia, §15.2-2511.2, the Inspector General is required to investigate all allegations of fraud, waste, and abuse.
2. City Code section 2-214 requires the Office of the Inspector General to conduct investigations of alleged wrongdoing.

Allegation:

The complaint alleges a developer received a \$200,000 grant in order to purchase a building at 201 W. Brookland Park Boulevard and assist in revitalizing the building. Per the complaint, the developer has not met the performance measures, one of which expired in March 2017.

Findings:

The investigator was able to confirm that the developer received two payments through a grant from the City of Richmond through the Economic Development Authority (EDA). The first payment of \$75,000 was issued on May 14, 2015. These funds were to be used solely for land acquisition and pre-development cost associated with the building located at 201 West Brookland Park Boulevard.

The remaining \$125,000 could be requested by the developer once the developer secured the financing source, as evidenced by a bank commitment letter.

The following is a time line of some of the events which lead to the release of the remaining \$125,000:

- April 27, 2015 - Original grant approved and \$75,000 released to developer on May 14, 2015.
- May 27, 2015 - Developer acquired the property.

- November 1, 2015 – Developer sends email to the former Deputy Chief Administrative Officer (DCAO) of Economic and Community Development (ECD) and copies a Council member and former Assistant to the DCAO of ECD, requesting release of the remaining \$125,000.
- December 11, 2015 – Council member sends email to the former DCAO of ECD to discuss Administration's willingness to amend ordinance.
- February 22, 2016 – Ordinance was adopted to remove the word “unconditional” from section 3.2 regarding the bank commitment letter. Additionally, milestone dates for the developer to complete construction with a certificate of occupancy were modified from May 1, 2016 to March 1, 2017.
- March 29, 2016 @5:23 PM – Former Assistant to the DCAO of ECD requested from EDA representative the release of the additional funds per request of the DCAO of ECD.
- March 29, 2016 @6:49 PM – The EDA representative replied to the former Assistant to the DCAO of ECD that they will be out until April 4, 2016 and to please contact them then.
- April 1, 2016 – EDA releases the additional \$125,000 to the developer.
- April 5, 2016 @1:44 PM - Former Assistant to the DCAO of ECD emails EDA and request that the additional funds of \$125,000 not be released to the developer. The EDA representative replied at 1:55 PM that the funds were released last week.

On April 1, 2016 the remaining \$125,000 was released to the developer. The investigator could not find any documentation that supports that a bank commitment letter was received by the developer.

The investigator was able to review two documents that were submitted by the developer to justify the release of the remaining funds. The first document from a financing source clearly stated to the developer that *“This letter is not a commitment to lend, but instead a non-binding letter of interest to further the discussion of project financing terms.”*

The second document from a second financing source stated, *“In order to close on entry, by one of our funds....we would need to complete additional underwriting and due diligence review, including reviews of final construction plans, contracts, environmental reports, financing commitments, and historic credit approvals.”*

The investigator found a subsequent email dated June 15, 2018 from the developer which states they have been in conversations with a previously mentioned financing source for two years. The developer stated *“we have not submitted our full loan package due to all the delays...it’s still in preliminary stages from a finance side, they are my preference.”*

The investigator interviewed the former DCAO in regards to this investigation. The former DCAO stated prior to his separation with the City he spoke with the Interim DCAO about meeting with the developer to get a status update of the project and if there was no movement he would enforce the default conditions of the performance agreement. The former DCAO did not provide specifics as to why the \$125,000 was released but mentioned about the project and revitalization of the corridor.

According to an interview conducted with the interim DCAO on February 15, 2019, he was not originally involved in this project and once he became interim DCAO, he got involved. Once involved, the interim DCAO contacted the developer and advised him that he needs to show receipts for expenses on the project or an account that shows the additional funds. During the interview, it was mentioned about the developer working with Virginia Union University (VUU) on this project.

On February 19, 2019 the investigator contacted VUU and the VUU official stated that there was a Memorandum of Understanding (MOU) between them and the developer for the Brookland Park Project. However, VUU was terminating their agreement based on concerns and had informed the developer of this decision with an official letter to follow.

The investigator interviewed the developer and the developer admitted that he was out of compliance with the performance goals. He mentioned turnover within the Department of ECD and VUU and the absence of a project manager from ECD. The developer also presented a document in which he referred to as a commitment letter, but the letter clearly states "*This letter is not a commitment to lend.*" When questioned about the letter, the developer stated it was a letter in support of the project and it was not technically a commitment letter, but a letter of interest to further the discussion of project financing terms.

Conclusion:

Based on the findings, the OIG concludes that the allegation is substantiated and the developer has not met the obligations under the Performance Agreement. Additionally, the OIG could not find a bank commitment letter supporting the release of the additional \$125,000. The OIG recommends the DCAO of ECD work with the EDA to take appropriate action in this matter to protect the City's financial and economic development interest. If you have any questions, please contact me at extension 5616.

Sincerely,

Louis G. Lassiter

Louis Lassiter, CPA
City Auditor/Interim Inspector General

cc: Douglas Dunlap, Interim DCAO Economic Development
Honorable City Council Members
City Audit Committee