



# SIGTARP

Office of the Special Inspector General  
For The Troubled Asset Relief Program

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## **DEMOLITION-RELATED RISKS IN TARP-FUNDED BLIGHT PROGRAM MITIGATED THROUGH MICHIGAN STATE AGENCY'S IMPLEMENTATION OF SIGTARP RECOMMENDATIONS**

*Some level of risk remains based on contractor violations and the findings of the Army Corps of Engineers recent soil samples, requiring continued vigilance by the Michigan State Agency and for Treasury to implement SIGTARP's recommendations program-wide for future demolitions*

After the release of a 2017 SIGTARP audit detailing risks of hazardous material exposure, contaminated soil, and illegal dumping, across the Hardest Hit Fund's Blight Elimination Program, a new review by SIGTARP found that the Michigan Homeowner Assistance Nonprofit Corporation and the Michigan State Housing Development Agency (collectively "Michigan agency") have made significant progress in adopting most of SIGTARP's recommendations, although not all.

"By implementing many of SIGTARP's common-sense controls, the Michigan state agency is serving as an example to others in the Hardest Hit Fund's Blight Elimination Program," said Special Inspector General Christy Goldsmith Romero. "Steps taken by the Michigan agency include withholding payment of TARP dollars until it receives documents that help verify that demolitions were completed appropriately and legally, including inspection reports of open-holes to confirm all debris has been removed; waste manifests to protect against illegal dumping, and proof that clean dirt filled the hole. Continued vigilance is necessary as challenges remain. Contractors throughout the program have violated laws and rules on exposure to hazardous materials, the proper disposal of debris, and the use of clean dirt. Some are repeat offenders. With thousands of planned demolitions and Treasury holding the ultimate responsibility for the program, it is not too late for Treasury to ban contractors who are repeat offenders as SIGTARP previously recommended."

In November 2017, SIGTARP issued an evaluation based off of a report by the Army Corps of Engineers that found demolitions paid for by the Hardest Hit Fund's (HHF) \$806 million Blight Elimination Program could expose residents to three areas of risk: 1) proper removal and storage of asbestos and other hazardous material; 2) proper dumping of all debris and waste in appropriate landfills or recycling facilities; and 3) filling in the demolition hole with only clean soil. SIGTARP made six recommendations to Treasury that assist state agencies in fulfilling their contractual obligations to establish internal controls to ensure compliance with all laws and regulations, and to require best practices to increase program effectiveness and efficiency, while preventing costly fraud, waste, and abuse.

The Corps, on behalf of SIGTARP, was not the only one that found risk related to asbestos exposure. In December 2018, there was a \$100,000 court order against the City of Detroit and Detroit Land Bank related to asbestos. The Michigan Department of Environment, Great Lakes and Energy (“EGLE”) found violations at 12 HHF and 29 non-HHF demolition sites of federal and state air quality regulations relating to asbestos from February 2016 to May 2017. The judgment requires the city to retain asbestos inspectors with no financial relationship or stake in the outcome of the inspections, better training and accreditation, and the city to direct stopping demolitions after observing asbestos.

Nearly half (44%) of all Treasury-reported demolitions (16,543 of 37,950) in HHF occurred in the last two years, at a cost of nearly \$600 million in TARP funds.<sup>1</sup> Detroit was one of the first cities with TARP-funded demolitions, has the most TARP dollars of any city, already spending \$300 million. As of Treasury’s last reporting there remains \$74 million to be spent on blight demolition program-wide. SIGTARP initiated the evaluation in response to a request by U.S. Representatives Brenda Lawrence and Rashida Tlaib.

The U.S. Department of Treasury did not issue new program requirements to implement SIGTARP’s recommendations program-wide. Treasury had the Environmental Protection Agency advise the state agencies on best practices, and Treasury met regularly with the state agencies to discuss best practices but issued no new requirements. SIGTARP found that the Michigan agency made significant progress implementing many of SIGTARP’s 2017 recommendations. During this review, the Michigan agency also agreed to implement other recommendations, including weekly monitoring of contractors charged or fined for violations of environmental or safety requirements. These internal controls, along with improvements by the City of Detroit to monitor dirt go far to mitigate the risks previously raised by SIGTARP.

However, there is some ongoing risk:

- The Michigan agency did not implement SIGTARP’s recommendation to ban contractors with violations: require truck weight tickets proving that the weight of debris that left the demolition site matched the weight received at the landfill (to protect against illegal dumping); or to conduct periodic soil testing.
- From June 2017 to 2019, city records show at least 10 violations, including by some large contractors, such as knocking down houses prior to verification that all asbestos had been removed, failure to store asbestos in leak-tight properly labeled containers, knocking down the wrong house, illegal dumping, and failing to wet demolition debris.
- In 2019, EGLE found asbestos-containing material at three sites related to one contractor.
- In 2020, a contractor was held in violation for improper storage and stockpiling of demolition debris and soil, instead of taking it to the landfill.
- Between January and February 2019, the city’s backfill platform denied 71 backfill transactions from one contractor for failure to comply with requirements, resulting in stop work orders and corrective action plans to excavate the backfill and conduct soil testing.
- Soil tests by the Corps on behalf of SIGTARP in 2019 found that all four properties had elevated levels of arsenic at levels consistent with expectations for an urban area, but did not find asbestos. The Corps found: (1) backfill did not meet contract specifications at two sites; (2) brick pieces and other debris in fill material at three sites even though brick and concrete is not allowed; (3) three properties did not meet fill depth below grade requirements; and (4) density of backfill did not appear to be compacted appropriately at all four sites. The Corps’ Visual Inspection of one

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<sup>1</sup> From the third quarter 2017 to the third quarter 2019 (the latest Treasury data as of the drafting of this report).

demolition in process found that the city and its contractors appeared to follow best practices for earth moving, environmental control, and waste management.

Given that several of the contractors in Detroit, including larger contractors have already been held in violation of laws and rules, along with soil test results, Treasury will need to ensure that the Michigan agency is vigilant in overseeing demolitions to ensure its recently implemented controls are effective, and in areas where the agency did not implement SIGTARP's recommendations, including banning contractors. The Michigan agency's actions should also spur Treasury to require the same set of internal controls across all state agencies that continue to conduct demolitions.

### **About SIGTARP**

The Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) is a federal law enforcement agency that targets crime at financial institutions or in TARP housing programs and is an independent watchdog protecting the interests of the America people. SIGTARP investigations have resulted in the recovery of \$11 billion and 300 defendants sentenced to prison.

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