

## CDBG Funding of Economic Development Loans

June 9, 1987

Mr. Jess T. Abrams, Jr.  
Director  
Housing and Community Services  
609 W. Sheridan  
Oklahoma City, OK 73102

Dear Mr. Abrams:

This is in response to your letter on behalf of the Council of Oklahoma City requesting our concurrence that the proposed loan to the Firestone Rubber Co. for the acquisition and installation of machinery is eligible for funding under the City's Community Development Block Grant (CDBG) program.

It is our understanding that Firestone has withdrawn its request for this loan; consequently, HUD's concurrence on the loan's eligibility is now a moot issue. However, since the City is considering the funding of other similar economic development loans under its CDBG program, we thought it would be useful to provide guidance in applying certain CDBG requirements that would have to be met in order for this and other comparable activities to be eligible under our program.

The proposed Firestone activity would be eligible under Section 570.203 of the CDBG regulations as assistance to private for-profit entities, provided that the City determined that such funding is "necessary or appropriate" to carry out an economic development project. The City would be required to maintain written documentation of its determination regarding the "necessary or appropriate" requirement. The City would have to include in its documentation the factors considered and the conclusions reached in making its determination regarding this requirement. In its subsequent monitoring of the City's performance, HUD would review the documentation to ensure that the amount of CDBG assistance provided to the business was not unreasonable considering the needs of the business and the City's objectives in funding the project.

According to Field staff, the City's objective in providing the \$7 million loan to Firestone would have been to prevent the plant's closing, thereby retaining 1700 jobs and creating an additional 200, which would be gained by the plant's establishing a third shift. The City's objective would be questionable in view of the public information on the negotiations between Firestone's management and union officials which reveals that Firestone plans to drastically reduce its workforce in order to economize on plant operations.

Your letter depicts the proposed activity as one that "is designed to create new and fill existing positions, as they become available, with at least 51 percent to low and moderate income persons..." As required under Section 570.200(a)(2), the City would have to document its claim that the proposed activity meets low/mod benefit through job creation and/or job retention. On the issue of job retention, we were unable to glean from your letter or other available information, the number of jobs that would be retained as a result of Firestone's reducing its workforce. In

any event, of the number of jobs retained, the City would be required to document that these jobs would clearly be lost without the CDBG assistance. In view of the company's decision to withdraw its request for the loan, this could have been difficult to demonstrate.

The City would also be required to document that either or both of the following conditions would apply with respect to at least 51 percent of the retained jobs at the time the CDBG assistance would be provided: The job was known to be held by a low or moderate income person; or the job can reasonably be expected to turn over within the following two years and that steps will be taken to ensure that it would be filled by or made available to a low or moderate income person upon turnover.

On the issue of job creation, the City would also have to keep documentation that would support the designation of the proposed activity as benefit to low and moderate income persons through job creation. At a minimum, the documentation should include information on the total number of jobs to be created, the timeframe of their creation and the total number that would be filled by or made available to low and moderate income persons as described under 570.208(a)(4).

Although the creation of the 200 jobs would have been questionable in view of Firestone's plans to drastically reduce its workforce, we did an analysis of the proposed activity based on job creation alone. Our analysis reveals an extremely high cost per job. The activities cited under the standards of 570.208(a) are considered to benefit low and moderate income persons in the "absence of substantial evidence to the contrary." Even though HUD has not established a fixed dollar limitation on the amount of assistance per job, it does take the position that a high amount of assistance per job could be "substantial evidence to the contrary" where a grantee claims the activity principally benefits low and moderate income persons.

Based on the \$7 million proposed loan, the average cost of each one of the 200 jobs would have been \$35,000.00. We would consider such a cost per job as "evidence" that the proposed activity might not principally benefit low and moderate income persons. Your letter does not mention the number of existing jobs that would be filled. If that number was known and added to the 200 jobs created, it would result in a lower average cost per job.

It is our understanding that Firestone may have withdrawn its loan request because of the Davis Bacon Wage Rates. We would like to point out that Davis Bacon would have applied, in this case, only to the labor involved in the installation of the new plant equipment. According to Field staff, this would have meant an increase in wage costs of only approximately ten percent over Firestone's prevailing wage rates.

Although HUD's prior concurrence is not required of the City to undertake an activity included in its final statement or in an amendment, HUD staff is willing to provide technical assistance to the City in evaluating the eligibility of other activities that it proposes to fund under its CDBG program.

Sincerely,

(signed)

Jack R. Stokvis  
General Deputy  
Assistant Secretary