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Audit Case Number 2001-FW-1004

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Jeff Ruster
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/SIGNED/

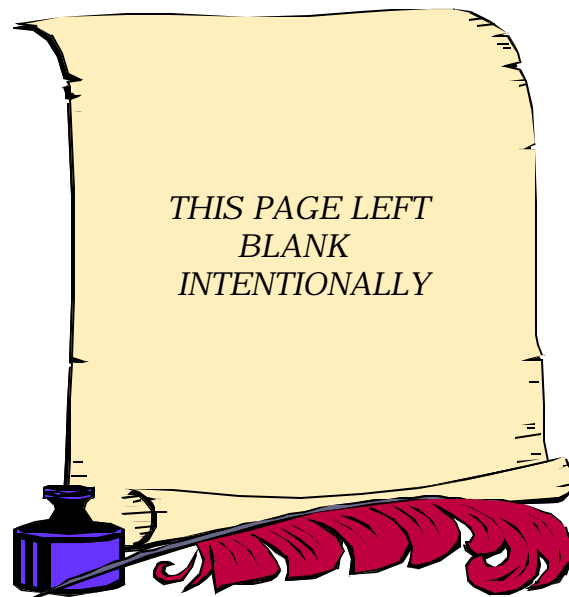
FROM: D. Michael Beard
District Inspector General for Audit, 6AGA

SUBJECT: Community Development Block Grant Section 108 Loan Program
City of San Antonio
San Antonio, Texas

We conducted an audit of the City of San Antonio's Section 108 Loan Program. The City used loan funds to finance development activities at Kelly Air Force Base in San Antonio, Texas. The audit report contains one finding. We are providing a copy of the report to the City.

Within 60 days please provide to us, for each recommendation, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or, (3) why you consider corrective action unnecessary. Also, please furnish us copies of correspondence or directives issued because of the audit.

If you have questions, please contact Jerry Thompson, Assistant District Inspector General for Audit, at (817) 978-9309.



Executive Summary

We conducted an audit of the City of San Antonio’s Community Development Block Grant (CDBG) Section 108 Loan Program to determine whether the City and its subrecipient, the Greater Kelly Development Authority, expended CDBG Section 108 loan funds for eligible activities in accordance with HUD regulations. We found that responsible City staff seemed unfamiliar with CDBG regulations and had not taken adequate steps to ensure compliance with applicable low- and moderate-income benefit and procurement requirements.

The City cannot support compliance with low-mod benefit requirements.

The City has spent over \$17 million¹ of the approved \$38.7 million in Program funds without ensuring compliance with important provisions of the Act² or HUD CDBG regulations. Although required by CDBG regulations, City staff: did not obtain a commitment from the assisted business, Boeing Company, to provide jobs to persons of low- and-moderate income; did not adequately monitor Program activities; and cannot show the Section 108 Program benefits predominately persons of low- and moderate-income. Available job creation reports are unreliable and show the latest low- and moderate-income job creation levels to be only about 26 percent instead of the required 51 percent.³ Because the City cannot adequately show benefit predominately to persons of low- and moderate-income, all expenditures of the Section 108 Program may be in danger of being ineligible.

The City paid questioned contract costs of about \$287,000.

City staff did not ensure its subrecipient, the Greater Kelly Development Authority, used procurement procedures that provide for full and open competition as required. The City did not formally review and evaluate the Greater Kelly Development Authority’s procurement procedures before authorizing the payment of contract costs totaling about \$287,000 for “pre-qualified” and “team” vendors. The Greater Kelly Development Authority used procurement procedures that did not require “pre-qualified” and “team” vendors to compete for contract awards as required by CDBG regulations. Therefore, we are questioning the reasonableness of costs for contracts awarded on a noncompetitive basis.

¹ As of December 21,2000.

² Title 1 of the Housing and Community Development Act of 1974 as amended (42 U.S.C. 5301 *et seq.*).

³ 24 CFR §570.208(a)(4)(i).

City staff seemed unfamiliar with requirements.

We believe City staff may have ignored, or did not become familiar with CDBG requirements because top administration officials “guaranteed” the award of Section 108 funds to San Antonio for the redevelopment of Kelly Air Force Base. City staff told us they had not performed comprehensive reviews to determine compliance with job creation and procurement requirements and wondered why we were so concerned. In November 1997, the Vice President visited San Antonio and announced that HUD was going to provide over \$35 million in loans to the City to attract new business to soften the blow of closing Kelly Air Force Base. The Vice President and HUD Secretary announced the Section 108 loan award on April 14, 1998. We believe the low- and moderate-income and procurement requirements apply regardless of the interest of high-level officials.

Recommendations

We are recommending HUD require the City to establish procedures to insure the Section 108 Program results in the employment of the required level of low- and moderate-income persons, suspend all Section 108 payments until they provide verifiable evidence to show compliance with job creation and procurement requirements, and repay all ineligible and unsupported costs from nonfederal funds.

Finding discussed with City officials.

We discussed these issues with City officials and staff during the audit and held an exit conference on April 18, 2001. The City provided us a written response on April 11, 2001. The City officials said our audit has helped the City ensure it will be in compliance with program requirements. They agreed with us in part on the procurement issues but did not agree they needed to show compliance with job creation eligibility requirements during the audit period. The City’s position is that the eligibility criteria for job creation cited in the report is not a compliance requirement until 18 months after completion of phase one, which is March 31, 2003. They said this is when the City must show the minimum number jobs were created and held by low- and moderate-income persons as specified in the loan application modification approved by HUD. However, the City intends to conduct a survey and analysis of the 2000 census and change the emphasis of the program from measuring percentages of low- and moderate-income jobs created to alleviating the effects of the base closure upon an economically distressed area. The City’s response did not change our

position. We have included a summary of the City's response in the finding and included the complete written response in Appendix B.

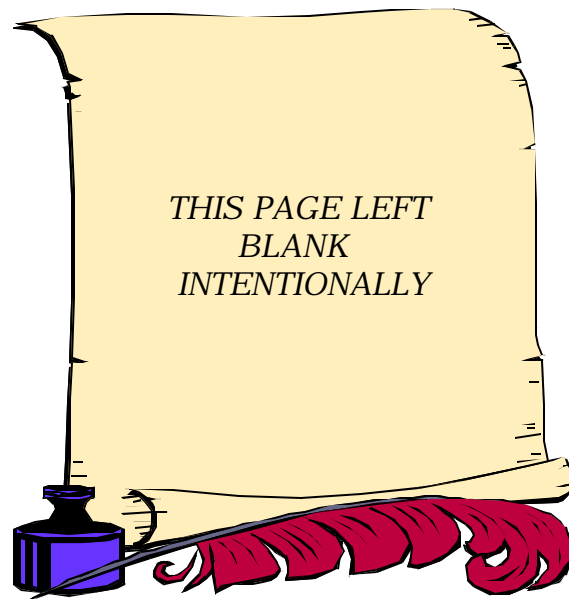


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Abbreviations

CDBG	Community Development Block Grant
CFR	Code of Federal Regulations
HUD	U. S. Department of Housing and Urban Development
OIG	Office of Inspector General

Introduction

Background

The City of San Antonio, Texas, is an entitlement recipient of HUD's Community Development Block Grant (CDBG) Program. The City operates under the Council-Manager form of government and receives Program funds of between \$10 million to \$12 million each year. The City's Department of Housing and Community Development administers Program activities and maintains Program records at 419 S. Main, Suite 200.

Title I of the Housing and Community Development Act of 1974 (Public Law 93-383) established the CDBG Program. The CDBG Program provides grants to states and units of local government to aid in the development of viable urban communities. Providing decent housing and a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income accomplish this. All program projects and activities must either benefit low- and moderate-income persons, aid in the elimination or prevention of slums and blight, or meet other community needs having a particular urgency.

The Housing and Community Development Act of 1977 (Public Law 95-128) expanded the CDBG Program to include loan guarantees. The Section 108 Loan Guarantee Assistance Program allows communities entitled to CDBG a means to finance up front certain large-scale projects beyond the scope that can be financed only by annual grants. Communities can borrow up to five times their annual CDBG amount. HUD guarantees the payments on the notes or other obligations that are used to fund the loans. Grantees are required to pledge current and future CDBG funds as security. All projects must meet the same national objectives as the CDBG Program.

San Antonio is home to four Air Force Bases⁴ including Kelly Air Force Base where approximately 12,000 people worked until 1995. The 1995 Base Realignment and Closure Commission recommended the closure of Kelly Air Force Base by July 2001.

⁴ Randolph, Brooks, Lackland, and Kelly.

In July 1995, immediately following the news of Kelly's closure and realignment, the City Council formed the Initial Base Adjustment Strategy Committee. On January 18, 1996, the City Council created the Greater Kelly Development Corporation, which they later rechartered as the Greater Kelly Development Authority. An 11-member board, appointed by the City Council, governs the Greater Kelly Development Authority. The board's mission is to represent San Antonio during the redevelopment of Kelly Air Force Base and to retain or create 21,000 good paying jobs by the year 2006.

Top administration officials "guaranteed" the award of Section 108 funds to San Antonio and said it was for the redevelopment of Kelly Air Force Base. The Vice President visited San Antonio on November 23, 1997, and guaranteed up to \$35 million in HUD Section 108 loans for Kelly Air Force Base. In a HUD press release dated April 14, 1998,⁵ the Vice President and HUD Secretary announced the approval of a \$38.7 million HUD loan to the City for "infrastructure improvements" at Kelly Air Force Base.

In a commitment letter and loan agreement dated July 27, 1998, the City loaned HUD Section 108 proceeds to the Greater Kelly Development Authority to fund major facility renovations at Kelly as required by Boeing. The City entered into a Regulatory Agreement with the Greater Kelly Development Authority effective August 4, 1998. The Agreement defines the terms and conditions, as restricted by HUD and City requirements, the two parties are to follow during the rehabilitation and operation of Kelly Air Force Base for the term of the loan. The agreement requires the Greater Kelly Development Authority to follow HUD recordkeeping and reporting regulations, and to maintain records showing that most of the Kelly jobs would be available to, or held by, low- and moderate-income persons.

On February 20, 1998, Boeing agreed to move some of its aerospace operations to Kelly Air Force Base and to hire as many as 850 Kelly workers. Boeing signed a sublease agreement with the Greater Kelly Development Authority on

⁵ HUD officially approved the City's \$38.7 million application for Section-108 loan funds on April 13, 1998.

April 17, 1998, agreeing to use Kelly facilities for aircraft repair and maintenance operations.⁶

Audit Objective, Scope, and Methodology

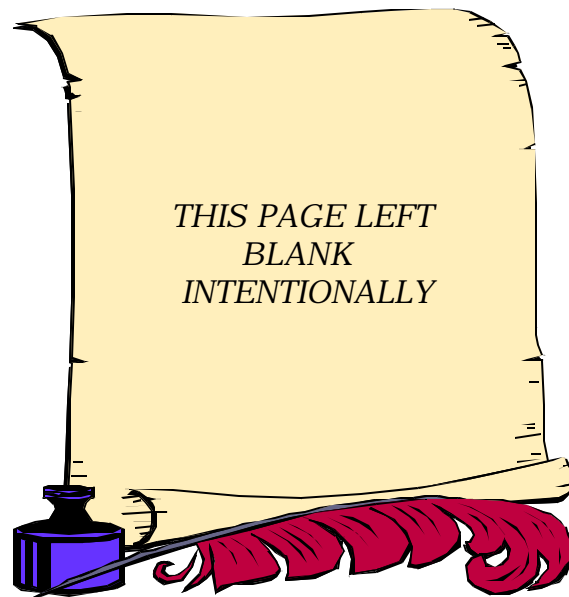
The audit objective was to determine if the City expended Section 108 loan funds for eligible activities in accordance with HUD regulations. To accomplish this objective, we:

- Obtained and reviewed applicable laws and CDBG regulations;
- Obtained and reviewed monitoring reports and correspondence from the City and the Greater Kelly Development Authority;
- Conducted interviews with HUD employees in San Antonio and Washington D. C.;
- Conducted interviews with employees of the City, the Greater Kelly Development Authority, and related entities;
- Obtained and reviewed accounting reports and other financial information from HUD offices in Washington D.C., the City, and the Greater Kelly Development Authority;
- Obtained an understanding of procurement policies, procedures, and controls at the City and the Greater Kelly Development Authority and related entities;
- Reviewed professional services and construction contracts awarded by the Greater Kelly Development Authority and related entities for compliance with federal and state requirements; and
- Obtained and analyzed job creation reports to determine compliance with the loan agreement, CDBG regulations, and the Act.

Audit Period

We substantially performed fieldwork from June 1999 through September 2000. The audit work was periodically delayed by other, higher priority audit assignments and personnel conflicts. The audit generally covers 2 calendar years ending December 31, 1999, although we extended the review period, when appropriate. We conducted the audit in accordance with generally accepted government auditing standards.

⁶ Boeing Sublease Agreement Paragraph 18.



The City's Section 108 Loan Program is in Danger of Not Meeting National Objectives

The City has spent over \$17 Million⁷ in Section 108 loan funds to redevelop Kelly Air Force Base without ensuring the activity meets the Program's national objectives and complies with HUD regulations. The \$17 million includes \$287,000 for contracts awarded without competition as required. The City agreed to use Program funds to create job opportunities for low- and moderate-income persons but has not followed key Program requirements. The City: (1) did not obtain a required commitment from Boeing Company to create low- and moderate-income jobs before spending Program funds to upgrade Boeing facilities; (2) did not adequately monitor Program activities; and (3) cannot show the Section 108 Program is generating low- and moderate-income job opportunities as required by CDBG regulations. Also, the City did not adequately monitor the Greater Kelly Development Authority to ensure maximum free and open competition when it awarded contracts under the Program. The City may have ignored, or did not become familiar with CDBG regulations because they believed the administration awarded Section 108 loan funds to ensure continued employment for displaced Kelly workers and not specifically to create job opportunities for predominately low- and moderate-income persons. Consequently, the City cannot show compliance with CDBG eligibility requirements and all Program expenditures may be ineligible.

Requirements

In determining eligibility, Title 24, Code of Federal Regulation (CFR), Section 570.200, provides that an activity may be assisted in whole or in part with CDBG funds only if the activity complies with all of the following: (1) Section 105 of the Act; (2) national objectives; (3) the primary objective; (4) environmental review procedures; and (5) cost principles. The primary objective of the CDBG Program⁸ as described in Title I of the Act (42 U.S.C. 5301), section 101(c) is the development of viable communities, decent housing, suitable living conditions, and economic opportunities *principally for persons of low and moderate income* (emphasis added).⁹

Title 24, CFR, Section 570.506 provides that each recipient shall establish and maintain sufficient records to enable the Secretary to determine whether the recipient has met the

⁷ As of December 21, 2000.

⁸ 24 CFR §570.1 (c).

⁹ 42 U.S.C. § 5301 sec. 101(c).

requirements. The City, as the recipient, is responsible for grant administration including monitoring¹⁰ and records keeping to ensure and to demonstrate compliance with all Program requirements.¹¹ The City must document that at least 51 percent of all jobs will be held by, or will be available to, low- and moderate-income persons.¹² Jobs that are not held by low- and moderate-income persons may be considered to be available to those persons only if: (1) special skills and training are not a pre-requisite or (2) the assisted business agrees to hire unqualified persons and provide training and (3) the grant recipient and assisted business take actions to ensure low- and moderate-income persons receive first consideration for filling such jobs.¹³

Where the recipient chooses to document that at least 51 percent of the jobs will be available to low- and moderate-income persons, documentation will include: (1) a written agreement containing: (a) a commitment by the assisted business that it will make at least 51 percent of the jobs available to low- and moderate-income persons and will provide training for any of those jobs requiring special skills or education; (b) a listing of the jobs to be created, which jobs will be held by low- and moderate-income persons, and which will require special skill and education; and (c) a description of actions to be taken by the recipient and the business to ensure low- and moderate-income persons receive first consideration for those jobs and (2) a listing by job title of the permanent jobs filled, which jobs were available to low- and moderate-income persons, and a description of how such consideration was given to such persons for those jobs. The description shall include what hiring process was used; which low- and moderate-income persons were interviewed for a particular job; and which low- and moderate-income persons were hired.¹⁴

CDBG grant recipients must also comply with OMB cost principles and federal procurement regulations¹⁵ that require: (1) costs reflect sound business practices, arms-length

¹⁰ 24 CFR §570.501(b).

¹¹ 24 CFR §570.506(b).

¹² 24 CFR §570.208(a)(4)(i).

¹³ 24 CFR §570.208(a)(4)(iii).

¹⁴ 24 CFR §570.506(b)(5).

¹⁵ 24 CFR §570.502(a) & 502(a)(12).

bargaining, and market prices for comparable goods or services;¹⁶ (2) competitive solicitation for all purchases in excess of \$100,000;¹⁷ (3) documentation sufficient to detail the significant history of a procurement;¹⁸ and (4) require all procurement be conducted in a manner providing full and open competition.¹⁹

The laws of the State of Texas require purchases above \$15,000 to be competitively selected through sealed bidding or sealed proposals.²⁰ Requests-for-Proposals must solicit [price] quotations and specify the relative importance of price and other evaluation factors.²¹ Texas Civil Statutes, Chapter 2254, require the selection of professional services on the bases of demonstrated competence and qualifications for a fair and reasonable price.

The City said it would use Section 108 funds to create jobs for predominately low- and moderate-income persons .

In its Section 108 loan application, the City stated Boeing would hire and train unqualified persons to help meet low- and moderate-income benefit requirements. The City certified that, in the aggregate, at least 70 percent of all CDBG funds as defined by Title 24, Section 570.3(e), to be expended during 1, 2, or 3 consecutive years specified for its CDBG Program will be for activities which benefit low- and moderate-income persons. Also, under the caption “Compliance with HUD National Objectives for Community Development,” the application stated:

“The Greater Kelly Development Corporation’s vision of creating economic opportunities for Kelly Air Force Base and San Antonio will be accomplished by maintaining Kelly as a world-class maintenance, manufacturing, and distribution based industrial park. As a result, a total of 21,000 good paying jobs will be created to support the activities, stimulated by Boeing, with the Section 108 assistance.”²²

¹⁶ OMB Circular A-87 Attachment A part C. Basic Guidelines.

¹⁷ 24 CFR §85.36(d)(1).

¹⁸ 24 CFR §85.36(d)(1).

¹⁹ 24CFR §85.36(c).

²⁰ Title 8 of the Texas Local Government Code, §252.021.

²¹ Title 8 of the Texas Local Government Code, §252.042.

²² Amended application, page 29.

Also:

“...Boeing fully intends to utilize the Department of Labor sponsored services provided by Alamo Workforce Development and the Texas Smart Jobs program to develop the maintenance skills of the San Antonio work force. What this specifically means is that Boeing has agreed to hire unqualified persons and will provide the necessary training utilizing the City of San Antonio’s Job Training Partnership Act (JTPA) sponsored programs.... This will serve to substantiate the City’s efforts to document that at least 51% of the jobs being created and retained will be available to and held by low- and moderate-income persons.”

The City listed Boeing as a key to the Kelly redevelopment and job creation plan and expected Boeing to hire local workers for over 95 percent of the positions created. The City also said Boeing would try to give low- and moderate-income persons first consideration for filling new jobs.

The City did not follow CDBG Program requirements.

The City did not ensure the Greater Kelly Development Authority obtained a written commitment from Boeing before releasing Program funds totaling over \$17 million to upgrade Boeing facilities. In September 2000, after more than a year since our first request for a copy of the agreement and job information, the City provided a “Draft” Employment Practices Plan and job report²³ that did not meet CDBG requirements. For example, the Plan did not include: a written commitment by the business to make 51 percent of the jobs available to low- and moderate-income persons; a provision for hiring and training unskilled workers for qualifying skilled positions; or planning and reporting provisions including: (a) a projection of full-time jobs to be created; (b) identification of which jobs would be available to low- and moderate-income persons; (c) required training; or (d) what actions would be taken to ensure low- and moderate-income persons receive first consideration for employment.

Although the City’s agreement with the Greater Kelly Development Authority included provisions for the employment

²³ Dated September 28, 2000.

of low- and moderate-income persons, the City did not ensure the agreement between the Greater Kelly Development Authority and Boeing contained similar provisions. The City and the Greater Kelly Development Authority entered into a Regulatory Agreement effective August 4, 1998. The Regulatory Agreement provides that at least 51 percent of the total jobs created be held by or made available to persons of low and moderate income in compliance with HUD CDBG national objectives described in 24 CFR §570.208(a)(4).²⁴ The Boeing Sublease agreement, dated April 17, 1998, between the Greater Kelly Development Authority and Boeing includes employment incentives for hiring displaced Kelly workers. Specifically, the agreement states, “Boeing will exert a good faith effort to attain at least 50% of the qualified local hires from either current and/or displaced Kelly AFB workers.”²⁵ The Sublease however does not include an incentive or provision for hiring predominately low- and moderate-income persons.

On August 17, 2000, a City Official told us the Boeing job creation commitment and agreement would be completed by the end of September 2000. However, as already noted, the draft employment practices plan and job report dated September 28, 2000, did not comply with CDBG regulations. We consider the Boeing commitment and job creation reports to be tardy, at minimum, because HUD approved the Program in 1998 and the City has expended over \$17 million dollars to upgrade Boeing facilities.

The City cannot show Kelly redevelopment activities are providing jobs predominately for persons of low and moderate income.

The City’s job reports show the Section 108 Program is creating many jobs for San Antonio residents including many jobs for persons of low- and moderate-income. However, the reports also show the City is not achieving a 51 percent job creation-level for low- and moderate-income persons as proposed in the City’s Section 108 loan application, and as required by CDBG regulations. Job creation reports provided by the City are unreliable because they contain many errors and inconsistencies and show low- and moderate-income job creation levels of only about 26 to 46 percent. For example, job reports included: empty income fields; erroneous

²⁴ Paragraph 6, “Employment Commitments”.

²⁵ Boeing Sublease Agreement dated April 17, 1998, Paragraph 33.2.

classifications of low- and moderate-income individuals; and changes in the number of dependents and income data for numerous low- and moderate-income individuals between reporting periods. The most recent job report, dated September 28, 2000, does not include cumulative job creation data and shows that persons of low and moderate income fill only about 26 percent of all new jobs created. The City's earlier reports dated August 24, 1999, and November 30, 1999, show low- and moderate-income job creation levels of between 43 and 46 percent. City staff questioned our concern for and were unfamiliar with low- and moderate-income classification criteria and job creation requirements. Now they are seeking technical assistance from the San Antonio HUD staff. This should ensure greater accuracy and consistency in any future job reports.

The City used Program funds to pay questioned contract costs of about \$287,000.

The City paid contract costs of about \$287,000 for "pre-qualified" and "team" vendors without ensuring compliance with procurement regulations. This is because: (1) the Greater Kelly Development Authority agreed to noncompetitively award contracts to "pre-qualified" and "team" vendors in their contract with EG&G Management Services and (2) the City did not formally review the Greater Kelly Development Authority's procurement policy and procedures before authorizing reimbursement to the Greater Kelly Development Authority for these contract costs.

On November 24, 1997, the Greater Kelly Development Authority entered into a professional and personal services contract with EG&G Management Services for Implementation Phase Services of the Kelly redevelopment plan. In the contract, EG&G agrees to provide technical, personal, and professional services either directly, or by engaging the services of subcontractors, agents, and representatives. Section II.C, "Professional, Personal and Technical Services Subcontracting Plan" directs EG&G to conduct on an annual basis an open competitive process to select prequalified subcontractors to perform work under the contract. This section also includes the following: "It is hereby acknowledged by [the Greater Kelly Development Authority] that current Contractor Team Members (existing Contractor team subcontractors) including: EG&G, Klynveld Peat Marwick Goerdeler (KPMG), United Parcel Service (UPS), Trammell Crow Company (TCC),

Operational Technologies, Inc. (OpTech), Saldana & Associates, Vickrey Associates, Ricondo & Associates, Foster CM Group, and J.D. Gonzalez Associates are considered “Pre-qualified” within their recognized disciplines and to the extent that they continue to provide satisfactory services for [the Greater Kelly Development Authority], will not need to participate in any annual pre-qualification selection process to be eligible for potential new work.”

The Greater Kelly Development Authority personnel said they did not conduct an annual competitive process as required by Section II.C. and agreed they awarded contracts to pre-qualified and team vendors without formal competition. Contracting personnel also said they did not formally document their rationale for the selection of pre-qualified and team vendors. The following table shows the vendors and amounts of the noncompetitive awards.

Vendor	Task Order	Authorized Amount	Paid by Sec. 108 funds ²⁶	Subtotals
Team vendors:				
Ricondo	1	\$ 274,942	\$ 70,945	
	1366	74,519	35,495	
Saldana	6	44,944	44,711	
Vickrey	4	108,565	93,973	
	10	38,540	20,415	
				\$ 264,540
Prequalified vendor:				
PDI	3	72,757	22,470	22,470
Total Questioned Contract Costs				\$287,010

The City did not adequately monitor job creation and procurement requirements.

City staff seemed unfamiliar with CDBG regulations and told us they had not performed comprehensive reviews to determine compliance with job creation and procurement requirements. Responsible City staff believed HUD provided Section 108 loan funds to ensure continued employment for Kelly workers and wondered why we were asking questions about compliance with low- and moderate-income job creation requirements. We believe they may have ignored, or did not become familiar with CDBG requirements because top administration officials

²⁶ As of May 30, 2000.

“guaranteed” the award of Section 108 funds to San Antonio for the redevelopment of Kelly Air Force Base.

Responsible staff at the City and the Greater Kelly Development Authority said top administration officials guaranteed Section 108 loan funds to ensure Kelly workers had a job when the base closed down. According to a November 24, 1997 newspaper article included in San Antonio Office of CPD²⁷ files, the Vice President came to San Antonio and “guaranteed” approval of the HUD Section 108 loan to help make Kelly “a world-class commercial center.” Also, on April 14, 1998, HUD issued a news release stating:

“The Clinton Administration will provide \$38.7 million in Department of Housing and Urban Development loan guarantees to San Antonio, TX for infrastructure improvements to attract a Boeing Co. aircraft maintenance facility expected to create more than 1,100 jobs at Kelly Air Force Base, Vice President Al Gore and HUD Secretary Andrew Cuomo announced today.”

Although top administration officials made these announcements, we do not believe this is a valid reason for the City to ignore key Program requirements including: monitoring responsibilities; the creation of jobs for predominately low- and moderate-income persons; and compliance with procurement regulations. The City’s Section 108 Program must meet a CDBG national objective to be eligible for CDBG assistance. The City applied for Section 108 assistance with the stated national objective of benefit to low- and moderate-income persons. Specifically, the City agreed to use Section 108 funds for job creation and retention activities pursuant to 24 CFR §570.208(a)(4). Since the City cannot show the Program is providing jobs for predominately low- and moderate-income persons, all Program expenditures are in danger of not meeting Section 108 eligibility requirements.

Auditee Comments

The City agreed to work with the Greater Kelly Development Authority and Boeing to develop a job-creation plan and to

²⁷ Community Planning and Development.

document the hiring of low- and moderate-income persons to fulfill the 51 percent requirement. The City also has obtained an agreement dated September 29, 2000, between Greater Kelly Development Authority and Boeing on employment practices and recordkeeping related to hiring low- and moderate- income persons. They are modifying the plan to include the required language. The City did not agree that any requirements related to the hiring of low- and moderate- income persons applied during the period of our review. They said HUD approved the City's modified application, which stated the creation of the specified number of low- and moderate- income jobs would not be required until 18 months after construction completion, or March 31, 2003. The City said because of this, the City does not concur with our job-creation conclusions. The City also said it is going to conduct a survey and analysis of the 2000 census to determine whether the project will qualify under the area benefit criteria instead of the criteria contained in its application. The City said it will work with HUD to shift the emphasis from measuring percentages of low- and moderate-income jobs created, to alleviating the effects of the base closure upon an economically distressed area.

The City agreed with the audit's procurement compliance conclusions with respect to the awarding of professional services contracts totaling approximately \$287,000. However, it did not agree that the City generally did not monitor the awarding of contracts. The City said it is currently withholding payment on \$95,295 related to professional services contracts because the documentation submitted does not meet the federal or local criteria for full and open competition. The City said it officially notified the Greater Kelly Development Authority on March 27, 2001, that all payments and reimbursements would be immediately suspended until such time as the issues outlined in the draft report are addressed and resolved. Also, on March 29, 2001, the City officially notified Greater Kelly Development Authority of the need for several documents to demonstrate progress toward meeting job creation requirements. The City plans to take other corrective action to assure compliance with procurement requirements, including conducting an independent review of Greater Kelly Development Authority's procurement activities and increasing monitoring. The City said it is committed to following up on the corrective actions already taken and planned to assure

compliance with all Loan Program requirements. The City's complete response is contained in Appendix B.

OIG Evaluation of Comments

Although the City did not agree with parts of the audit, the City's actions and planned actions appear responsive. The City's response did not change our position on the issues but we did make a minor revision to our draft related to the City's monitoring of contract awards. We agree the City monitored the awarding of contracts to some extent but we still believe it did not do it adequately to ensure full and open competition for all contracts awarded. We do not agree with the City's statement that compliance regarding job creation should not be required until 18 months after the end of the construction phase. Regardless of the City's statements, they were preparing occasional job creation reports but they were unreliable. The criteria stated in the finding show requirements for certain documentation to start before the actual creation of the jobs. Specifically, the City must comply with documentation requirements as provided by Title 24, Code of Federal Regulations, Section 570.506 (b)(5). Such documentation includes a written agreement containing the commitment by the assisted business to make at least 51 percent of the jobs available to low- and moderate-income individuals. It should also include a listing by job title of the permanent jobs to be created indicating which jobs will be available to low- and moderate-income persons, which jobs require special skills or education, and which jobs are part-time, if any. We believe, in response to the draft audit, the City's actions and planned actions to create 51 percent of the jobs for low- and moderate-income persons are steps in the right direction. We do not know whether the City can meet the program's national objectives by shifting the emphasis of the program from measuring the percentages of low- and moderate-income jobs created to alleviating the effects of the base closure upon an economically distressed area, as the City says it will attempt to do. Until the City takes sufficient steps to meet the national objectives, all expenditures of the program remain in danger of being ineligible.

Recommendations

We recommend HUD require the City to:

- 1A. Establish procedures to ensure the Section 108 Loan Program results in the employment of the required level of low- and moderate-income persons.
- 1B. Suspend all Section 108 payments for Kelly redevelopment activities until the City can provide a verifiable job creation plan and data supporting low- and moderate-income job creation levels of at least 51 percent.
- 1C. Reimburse the CDBG Program from nonfederal funds an amount equal to all Section 108 expenditures for Kelly redevelopment activities if the City cannot satisfactorily show the Program meets or exceeds the eligibility requirement to benefit low- and moderate-income persons.
- 1D. Conduct a formal review of procurement procedures used by the Greater Kelly Development Authority to ensure full and open competition for procurement and contract awards.
- 1E. If the City can show the Kelly redevelopment activities meet the Section 108 Program eligibility requirements, provide support for the reasonableness of the \$287,000 paid to “pre-qualified” and “team” vendors or reimburse the CDBG Program from nonfederal funds for any amounts not supported as reasonable and not awarded competitively.

We also recommend HUD:

- 1F. Review and determine if the Boeing agreement (response Attachment 5, Appendix B) is sufficient to ensure compliance with job-creation requirements, if it contains appropriate remedies for noncompliance, and if job-creation requirements should more appropriately be made part of the Boeing Sublease agreement, also

- 1G. Suspend Section 108 assistance payments to the City until the City can provide verifiable evidence to show sufficient progress is being made to meet the national objectives of the Program.

Management Controls

In planning and performing the audit, we obtained an understanding of the management controls relevant to the audit objectives. Management is responsible for establishing effective management controls, and in a broader sense, these include a plan of organization, methods, and procedures to ensure management goals are met. Management controls include the process for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Significant Controls.

The following significant controls were relevant to our audit objectives:

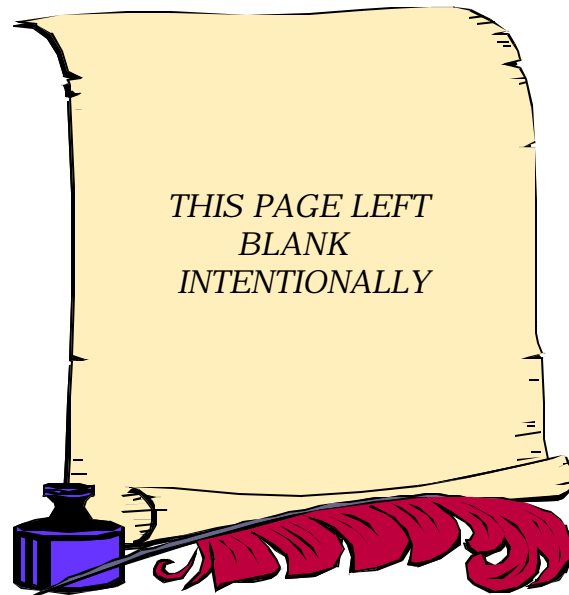
- Program administration.
- Compliance with laws and regulations.

We assessed these relevant control categories to the extent they impacted the audit objectives.

Significant Weakness.

A significant weakness exists if management controls do not give reasonable assurance resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports. Based on this review, we believe the following item to be a significant weakness:

- The City did not properly administer the Section 108 Loan Program by expending millions of CDBG funds without ensuring compliance with CDBG eligibility and federal and state procurement requirements (see Finding).

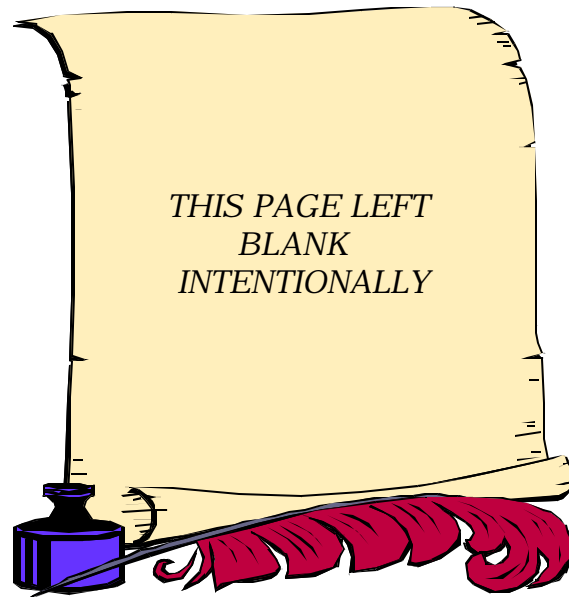


Schedule of Questioned Costs

<u>Issue</u>	<u>Type of Questioned Costs</u>
	<u>Unsupported</u> ^{1/}
1C. Program eligibility	<u>\$17,575,841</u> ^{2/}
TOTAL	<u><u>\$17,575,841</u></u>

1 Unsupported costs are those which eligibility cannot be clearly determined during the audit since such costs were not supported by adequate documentation to establish eligibility.

2 Program funds disbursed by the City to the Greater Kelly Development Authority as of December 21, 2000.



Auditee Comments



CITY OF SAN ANTONIO

P.O. BOX 53966
SAN ANTONIO, TEXAS 78263-3966

April 11, 2001

Mr. D. Michael Beard
District Inspector General for Audit
U.S. Department of Housing and Urban Development
Southwest District Office of Inspector General
819 Taylor Street, Room 13A09
Fort Worth, Texas 76102

Re: Audit Case Number 2001-FW-100

Dear Mr. Beard:

Enclosed is our response to the draft audit report, dated March 16, 2001. The report summarizes the results of your audit on the Community Development Block Grant (CDBG) Section 108 Loan Program administered by the City of San Antonio through the Greater Kelly Development Authority for the financing of development activities at Kelly Air Force Base. Thank you for extending the due date for our response to April 11, 2001.

We recognize the importance of being in compliance with HUD Section 108 Loan regulations and establishing procedures to permit verification that the City of San Antonio is complying with those regulations. Your audit has helped the City ensure it will be in compliance with program requirements.

We agree in part with the procurement issues addressed in the draft report. However, we do not agree with the job creation issues presented therein. The audit used certain criteria included in the City's March 19, 1998, Section 108 Loan Application as a basis for formulating many of its conclusions regarding compliance with CDBG eligibility requirements. However, the audit appears not to have taken into consideration the HUD approved modification, April 13, 1998, to the March 19, 1998, loan application. It is the City's position that the job creation eligibility criteria cited in the report would not be a compliance requirement until 18 months after completion of construction on phase one, the time specified in the loan application modification approved by HUD. The projected completion date is presently September 30, 2002. Further details regarding our position with respect to the finding are included in Enclosure 1.

Enclosure 1 contains our comments, and related supporting documentation where appropriate, in response to the Finding included in the draft report. It includes the actions taken since the conclusion of the field visit, the planned actions and expected completion dates, and where appropriate why we consider alternative management action necessary.

"AN EQUAL OPPORTUNITY EMPLOYER"


Mr. D. Michael Beard
April 11, 2001
Page 2

In instances where corrective action has been taken, we have identified the efforts taken already and included supporting documentation. For those instances where we do not agree with the conclusions in the draft report, we have explained our rationale for disagreement, offered alternative action, and/or where appropriate included documentation to support our rationale.

We appreciate the cooperation and patience demonstrated in this audit and will work diligently to ensure compliance with HUD regulations.

If you have any questions, please contact Andrew Cameron at (210) 207-6600 or Ramiro Cavazos at (210) 207-8040.

Sincerely,


Andrew W. Cameron
Director
Housing and Community Development


Ramiro Cavazos
Director
Economic Development

Enclosure

cc: Donna M. Abbenante, Acting General Deputy Assistant Secretary
for Community Planning and Development, D,
U.S. Department of Housing and Urban Development
Washington D.C.

Jeff Ruster, Deputy Assistant Secretary for Economic Development, DEE,
U.S. Department of Economic Development
Washington D.C.

John Maldonado, Director, Community Planning and Development Division, 6JD
U.S. Department of Housing and Urban Development
San Antonio, Texas

Terry M. Brechtel, City Manager, City of San Antonio

Christopher J. Brady, Assistant City Manager, City of San Antonio

George V. Pedraza, Assistant to City Manager, City of San Antonio

Enclosure 1

D. Michael Beard
April 11, 2001
Audit Case No: 2001-FW-100
Page 1

**OIG DRAFT REPORT FINDING
and
CITY OF SAN ANTONIO RESPONSE**

FINDING

(Draft report, page 5)

The City's Section 108 Loan Program is in Danger of Not Meeting National Objectives

The City has spent over \$17 Million in Section 108 loan funds to redevelop Kelly Air Force Base without ensuring the activity meets the Program's national objectives and complies with HUD regulations. The \$17 million includes \$287,000 for contracts awarded without competition as required. The City agreed to use Program funds to create job opportunities for low- and moderate-income persons but has not followed key Program requirements. The City: (1) did not obtain a required commitment from Boeing Company to create low- and moderate-income jobs before spending Program funds to upgrade Boeing facilities; (2) did not adequately monitor Program activities; and (3) cannot show the Section 108 Program is generating low- and moderate-income job opportunities as required by CDBG regulations. Also, the City did not monitor the Greater Kelly Development Authority to ensure maximum free and open competition when it awarded contracts under the Program. The City may have ignored, or did not become familiar with CDBG regulations because they believed the administration awarded Section 108 loan funds to ensure continued employment for displaced Kelly workers and not specifically to create job opportunities for predominately low- and moderate-income persons. Consequently, the City cannot show compliance with CDBG eligibility requirements and all Program expenditures may be ineligible.

CITY RESPONSE: NONCONCUR

The audit objective cited on page 3 of the draft report was "to determine if the City expended Section 108 loan funds for eligible activities in accordance with HUD regulations." The audit's conclusion was that "the City cannot show compliance with CDBG eligibility requirements and all Program expenditures may be ineligible."

The audit presumes a requirement that the City should be reporting on jobs created for the purpose of showing present compliance with CDBG eligibility requirements, before the time agreed to by HUD. It is apparent from footnote 22, included on page 7 of the draft report, that the audit used the March 19, 1998, original loan application as the basis for the timing of the audit, rather than the application as amended and approved by HUD on April 13, 1998 (Attachments 1, 2, and 3).

Enclosure 1

D. Michael Beard
April 11, 2001
Audit Case No: 2001-FW-100
Page 2

Based on the audit objective cited in the report and the April 13, 1998, HUD approved modification (**Attachment 1**), it is the City's position that the job creation eligibility criteria cited in the report would not be a compliance requirement until 18 months after completion of phase one, the time approved by HUD. The approved amendment (**Attachment 2**) modified pages 28-31 of the original March 19, 1998, loan application. Page 28, of the amended application (section subtitled "Community Development Objectives & Projected Use of the HUD Section 108 Guaranteed Loan Funds") stated:

"The City of San Antonio and GKDC will complete the project in two phases. The total 108 Loan budget is \$38.7 million. Phase one will require a total of \$24.7 million. The City of San Antonio and GKDC are committed to creating a minimum of 706 jobs in phase one. These positions will be created within eighteen (18) months after construction completion."

The 706 job positions referenced in the modification were not required to be created until within 18 months after the completion of phase one. As of this correspondence, the City has only spent approximately \$17.8 million of the \$24.7 million planned for phase one of the project. Construction related to phase one of the HUD Section 108 Loan assisted facilities, which will house the job creation requirements specified in the modification, is still incomplete, with a projected completion date of September 30, 2001 (**Attachment 4**). Based on the HUD approved amendment, it is unreasonable to expect reporting on compliance with job creation eligibility requirements before construction for phase one is complete and the related jobs have been created. The eligibility requirements cited in the report would not be applicable until 18 months after the projected completion of phase one, or March 31, 2003. Therefore, it is the City's position that job creation eligibility and reporting requirements were not required to be met during the period covered by the audit, June 1999 through September 2000. As a result, the City does not concur with the job creation conclusions included in the draft report and request they be eliminated.

Description of attached supporting documentation:

- | | |
|----------------------|--|
| Attachment 1: | April 13, 1998 Letter from Kenneth C. Williams, Deputy Assistant Secretary for Grant Programs, U.S. Department of Housing and Urban Development, Washington D.C. |
| Attachment 2: | April 10, 1998, Letter to Paul Webster, Director, Financial Management Division, U.S. Department of Housing and Urban Development, Washington D.C. |
| Attachment 3: | April 8, 1998, Letter to John Maldonado, Director Community Planning and Development, U.S. Department of Housing and Urban Development, San Antonio, Texas |
| Attachment 4: | March 26, 2001, Letter to Paul Webster, Director, Financial Management Division, U.S. Department of Housing and Urban Development, Washington D.C. |

Enclosure 1

D. Michael Beard
 April 11, 2001
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 Page 3

Other Allowable HUD Criteria Not Considered in the Audit. 24 CFR 570.209(d) specifies that if the grantee's actual level of benefit shows a pattern of substantial variation from the anticipated results, the grantee is expected to take all actions reasonably within its control to improve the accuracy of its projections. In accordance with this requirement, the City is comparing the actual level of benefit to the level of benefit anticipated when the CDBG assistance was obligated.

Further, 24 CFR 570.208(a)(4)(iv) and (v) specifies other criteria not considered in the audit that can be used for purposes of determining whether a job is held by or made available to a low/moderate-income person. A person may be assumed to be a low/moderate-income person *"if the assisted business is located within a census tract (or block numbering area that meets the requirements of paragraph (a)(4)(v) and the job under consideration is to be located within that census tract."* This paragraph specifies that a census tract qualifies for the presumptions permitted under paragraphs (a)(4)(iv)(A)(1) and (B) if it meets the following criteria: *"(A) it has a poverty rate of at least 20 percent as determined by the most recently available decennial census information; (B) it does not include any portion of a central business district,; and (C) it evidences pervasive poverty and general distress by meeting at least one of the following standards: (1) all block groups in the census tract have poverty rates of at least 20 percent; (2) the specific activity being undertaken is located in a block group that has a poverty rate of at least 20 percent; or (3) upon written request of the recipient, HUD determines that the census tract exhibits other objectively determinable signs of general distress such as high incidence of crime, narcotics use, homelessness, abandoned housing, and deteriorated infrastructure or substantial population decline."*

City's Planned Alternative Corrective Action. Based on evident signs of pervasive poverty and general distress of the area related to the decline of Kelly AFB, including the closing of former businesses and other signs of general distress in the communities surrounding Kelly, the City will conduct a survey and analyses of the year 2000 census and other statistical information related to the Kelly area for the purpose of demonstrating that the area qualifies for making jobs available to low/moderate-income persons under the 24 CFR 570.208(a)(4)(iv) and (v) criteria. Compliance with the area criteria could not be determined when the loan application was submitted since the base was still operating as an active Air Force installation and the beginning of the economic decline had not yet started. Also, census tract data is unavailable for military bases. The City will work with HUD prior to the post-construction compliance date to shift the Loan Program's emphasis from measuring percentages of low/moderate-income jobs created, to alleviating the effects of the closure upon an economically distressed area. This shift is allowable under HUD regulations and fits the intent of the program: preventing income decline for Kelly AFB workers and the area as a whole.

Depending on the availability of 2000 census and/or other available statistical information, the City expects to complete its survey by September 30, 2001. The City will forward the results of its survey along with a written request for HUD to make a determination that the created jobs

Enclosure 1

D. Michael Beard
April 11, 2001
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Page 4

qualify for the presumption of low/moderate-income consistent with the 24 CFR 570.208(a)(4)(v)(3) criteria summarized below:

- The census tract or area exhibits other objectively determinable signs of general distress (Based on the 2000 Census information, the City plans to survey the immediate surrounding area to demonstrate it has a poverty rate of at least 20%. The survey may include an Economic Impact Analysis.);
- The area does not include a central business district; and
- The area demonstrates pervasive poverty and general distress such as high incidence of crime, homelessness, abandoned housing, and deteriorated infrastructure.

The City is confident that the jobs created utilizing the assistance of the Section 108 loan will comply with the above criteria. Under these alternative criteria, the job creation eligibility criteria used in the audit to measure compliance would no longer be valid.

Estimated Completion Date: September 30, 2001

City's Additional Planned Corrective Action. In the interim, the City will work with Boeing and Greater Kelly Development Authority (GKDA) to document the hire of low/moderate-income individuals by Boeing and other benefiting employers and to develop an acceptable plan for meeting the original 51% target prior to the post-construction timeline. The City will also ensure that Boeing, GKDA, and the City understand, track, monitor and meet the requirements of the Loan Program as currently written. The plan will include renewed attempts to use: (1) available U.S. Department of Labor job training programs for providing training to low/moderate-income persons in an attempt to qualify low/moderate income individuals for the jobs created at Kelly, and (2) job placement opportunities available through the Texas Workforce Commission for making jobs available to low/moderate-income persons.

Estimated Completion Date: May 11, 2001

**CITY RESPONSE TO OTHER STATEMENTS INCLUDED IN THE FINDING ON
PAGE 5 OF THE DRAFT REPORT:**

Finding: *The City:*

- (1) did not obtain a required commitment from Boeing Company to create low- and moderate income jobs before spending Program funds to upgrade Boeing facilities;*
- (2) did not adequately monitor Program activities; and*

Enclosure 1

D. Michael Beard
 April 11, 2001
 Audit Case No: 2001-FW-100
 Page 5

(3) cannot show the Section 108 Program is generating low- and moderate-income job opportunities as required by CDBG regulations.

CITY RESPONSE to (1): NONCONCUR

The City has obtained agreement from GKDA and Boeing (**Attachment 5**) to report on and make jobs available to low/moderate-income persons to meet the 51% low/moderate-income hiring target. Additionally, the GKDA/Boeing submitted a plan to make jobs available to low/moderate-income persons. This plan is being modified to include the language required by 24 CFR 570.506(b)(5). Monitoring by the City and GKDA will ensure progress and compliance by the post-construction timeline.

CITY RESPONSE to (2) and (3): NONCONCUR

See response on pages 1 through 4 of this Enclosure.

Finding: *"Also, the City did not monitor the Greater Kelly Development Authority to ensure maximum free and open competition when it awarded contracts under the Program."*

CITY RESPONSE: CONCUR IN PART

We agree with the audit's procurement compliance conclusions with respect to the awarding of professional services contracts totaling approximately \$287,000. However, we do not agree with the inference that the City of San Antonio generally did not monitor the awarding of contracts. The \$287,000 represents a little over one percent (1%) of the \$17 million in contracts awarded by GKDA and monitored by the City. The audit took no exceptions with the \$16.9 million in construction contracts awarded by GKDA or with \$422,000 in other professional services contracts awarded by GKDA. Additionally, the City is currently withholding payment on \$95,295 related to professional services contracts because the documentation submitted does not meet the federal or local criteria for full and open competition.

City's Corrective Action Taken: The City has taken the following steps to ensure that all Loan Program funds were allowably spent and to ensure compliance with OMB, HUD, and local requirements:

- On March 27, 2001 the City officially notified GKDA that all payments and reimbursements would be immediately suspended until such time as the issues outlined in the draft report are addressed and resolved (**Attachment 6**).

Enclosure 1

D. Michael Beard
April 11, 2001
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Page 6

- On March 29, 2001 the City officially notified GKDA of the need for several documents to demonstrate progress toward meeting job creation requirements (**Attachment 7**).

City's Planned Corrective Action: The City will:

- Direct GKDA to obtain an independent review of all non competitively bid professional services contracts referenced in the report for the purpose of ensuring that all costs incurred are reasonable, necessary, and allowable. Any unallowable costs will be identified to HUD for appropriate resolution or repayment.
- Review GKDA's procurement procedures to ensure full compliance with all Loan Program rules and regulations.
- Increase its monitoring to ensure future compliance with OMB, HUD, and local competition requirements and ensure that all GKDA staff involved with the Loan Program are trained in compliance responsibilities.
- For professional contracts, specify to GKDA, the necessary documentation needed to support all invoices before any payment is made. The documentation will indicate how the contractor was selected, a copy of the Request for Proposal (where applicable), the rating system used to determine the successful contractor, and related price negotiation documentation.

Estimated Completion Date: May 11, 2001

FINAL COMMENTS. The City is committed to following up on the actions already taken and the planned actions identified in this response to assure its compliance with all Loan Program requirements. Again, we wish to thank the OIG for bringing the issues presented in the draft report to our attention so that the City may ensure compliance with the loan application as amended on April 13, 1998.



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410-7000

OFFICE OF THE ASSISTANT SECRETARY FOR
COMMUNITY PLANNING AND DEVELOPMENT

APR 13 1998

Drew

Honorable Howard W. Peak
Mayor of San Antonio
San Antonio, TX 78204

Dear Mayor Peak:

Please be informed that City of San Antonio's (hereafter "the City") request for loan guarantee assistance under Section 108 of the Housing and Community Development Act of 1974, as amended, has been approved. Such assistance is to consist of the guarantee of notes or other obligations in the principal amount of \$38,700,000.00, plus interest thereon, which shall be issued to finance activities described in application B-97-MC-48-0508.

This offer of commitment is subject, however, to the conditions specified in Item 8 of the Funding Approval (Form HUD-7082).

The first condition provides that in the event the City fails to submit notes or other obligations for inspection and guarantee by the Secretary of the Department of Housing and Urban Development (HUD) before June 1, 1999, the offer will expire as of such date.

The second condition provides that the repayment schedule for the guaranteed loan must be acceptable to HUD.

The third condition provides that the City shall provide additional security for the guaranteed loan and such additional security must be acceptable to HUD. The additional security shall be identified in the Contract for Loan Guarantee Assistance, specified by 24 CFR §570.705(b)(1), which will be executed at the time the guaranteed obligations are issued.


Please furnish us, at the address specified in the last paragraph of this letter, your timetable for execution of the activities described in your application. These activities will be financed through a public offering of Section 108 obligations. If you need funds prior to the next public offering, please notify HUD at the address below and instructions for obtaining interim financing will be provided.

Attachment 1
p. 1/4

In addition to the special conditions cited above, the release of funds for the project to be carried out with loan guarantee assistance is conditioned upon compliance by the City with all applicable provisions of the HUD Environmental Review Procedures (24 CFR Part 58). In this regard a request for release of funds must be approved by HUD prior to the obligation or utilization of funds for the project.

Please execute the three enclosed copies of the Funding Approval and return two copies to the Department of Housing and Urban Development, Office of Block Grant Assistance, Financial Management Division, Room 7180, 451 Seventh Street, S.W., Washington, D.C. 20410. One copy should be retained for your files. The Funding Approval amends the Grant Agreement authorized by HUD on October 13, 1997, under the Funding Approval for grant number B-97-MC-48-0508 to include loan guarantee assistance. The Grant Agreement thereby incorporates this Funding Approval, the loan guarantee application, and Subpart M of the block grant regulations governing loan guarantees, as well as such agreements, schedules, and other documentation required to be submitted or executed in connection therewith.

Very sincerely yours,


Kenneth C. Williams
Deputy Assistant Secretary
for Grant Programs

Enclosures

Attachment 1
p. 3/4

8. Special Conditions.

(a) In the event the Borrower fails to submit notes or other obligations for inspection and guarantee by the Secretary of the Department of Housing and Urban Development (the Secretary) before June 1, 1999, the offer will expire as of such date.

(b) The repayment schedule for the guaranteed loan must be acceptable to the Secretary.

(c) The Borrower shall provide additional security for the guaranteed loan and such additional security must be acceptable to the Secretary. The additional security shall be identified in the Contract for Loan Guarantee Assistance specified by 24 CFR §570.705(b)(1) which will be executed at the time the guaranteed obligations are issued.

Attachment 1
p. 3/4

Funding Approval/Agreement

Title I of the Housing and Community Development Act (Public Law 93-383)

U.S. Department of Housing and Urban Development
Office of Community Planning and Development
Community Development Block Grant Program

HI-00515R of 20515R

1. Name of Grantee (as shown in Item 5 of Standard Form-424)

City of San Antonio, Texas

3. Grantee's 9-Digit Tax ID Number

4. Date Use of Funds May Begin

2. Grantee's Complete Address (as shown in Item 5 of Standard Form-424)

Housing and Community

Development Department

419 S. Main, Suite 200

San Antonio, TX 78204

5a. Project / Grant Number 1

6a. Amount Approved

B-97-MC-48-0508

5b. Project / Grant Number 2

6b. Amount Approved

5c. Project / Grant Number 3

6c. Amount Approved

Grant Agreement

This Grant Agreement between the Department of Housing and Urban Development (HUD) and the above named Grantee is made pursuant to the authority of Title I of the Housing and Community Development Act of 1974, as amended, (42 U.S.C. 5301 et seq). The Grantee's submissions for Title I assistance, the HUD regulations at 24 CFR Part 570 (as now in effect and as may be amended from time to time), and this Funding Approval, including any special conditions, constitute part of the Agreement. Subject to the provisions of this Grant Agreement, HUD will make the funding assistance specified here available to the Grantee upon execution of the Agreement by the parties. The funding assistance specified in the Funding Approval may be used to pay costs incurred after the date specified in 4 above provided the activities to which such costs are related are carried out in compliance with all applicable requirements. Pre-agreement costs may not be paid with funding assistance specified here unless they are authorized in HUD regulations or approved by waiver and listed in the special conditions to the Funding Approval. The Grantee agrees to assume all of the responsibilities for environmental review, decision making, and actions, as specified and required in regulations issued by the Secretary pursuant to Section 104(g) of Title I and published in 24 CFR Part 58. The Grantee further acknowledges its responsibility for adherence to the Agreement by subrecipient entities to which it makes funding assistance hereunder available.

U.S. Department of Housing & Urban Development (signature, name, title, date)

Grantee (signature, name, title, date)

X Kenneth C. Williams, Deputy Assistant Secretary for Grant Programs

APR 13 1998

X City of San Antonio, Texas

7. Check Only One: Category of Title I Assistance for this Funding Action

a. Entitlement, Sec 106(b)

b. State-Administered, Sec 106(d)(1)

c. HUD-Administered Small Cities, Sec 106(d)(2)(B)

d. Indian CDBG Programs, Sec 106 (a)(1)

e. Surplus Urban Renewal Funds, Sec 112(b)

f. Special Purpose Grants, Sec 107

g. Loan Guarantee, Sec 108

B. Special Conditions (check one)

None

Attached

X

9a. Date HUD Received Submission:

9b. Date Grantee Notified:

9c. Date of Start of Program Year:

10. Check One:

a. Orig. Funding Approval

b. Amendment

c. Amendment Number

1

11. Amount of Community Development Block Grant

a. Funds Reserved For This Grantee

b. Funds Now Being Approved

c. Reservation To Be Cancelled (11a minus 11b)

FY 97

FY

FY

12a. Amount of Loan Guarantee Commitment Now Being Approved:

38,700,000

12b. Name & Complete Address of Public Agency

Loan Guarantee Acceptance Provisions for Designated Agencies

The public agency hereby accepts the Grant Agreement executed by the Department of Housing and Urban Development on the above date with respect to the above grant number(s) as Grantee designated to receive loan guarantee assistance, and agrees to comply with the terms and conditions of the Agreement, applicable regulations, and other requirements of HUD now or hereafter in effect, pertaining to the assistance provided it.

12c. Signature of Authorized Official (name, title, date) for Designated Public Agency

X

HUD Accounting Use Only

TAC

Batch 153 Program Y A Reg Area Document No.

176

Project Number

B-97-MC-48-0508

Project Number

Project Number

Project Number

Category

Amount

Effective Date

F

Amount

Amount

Attachment 1
p. 4/4

Date Entered PAS

Date Entered LOCCS

Batch Number

Transaction Code

Entered by:

Verified by:

Previous Editions are Obsolete

CITY OF SAN ANTONIO

FAXDate: 4/10/98Number of pages including cover sheet: 6

To:

Paul Webster

Phone:

Fax phone: (202) 708-1798CC: Stanley Simont *

From:

Jeanette BrownDepartment of Housing and
Community Development

419 South Main, Ste. 200

San Antonio, Texas 78204

Phone: (210) 207-6600

Fax phone: (210) 886-0006

REMARKS:



Urgent



For your review



Reply ASAP



Please comment

Hard copy to follow - over night express

Attachment 2
p. 1/6



April 10, 1998

Paul Webster, Director
Financial Management Division, Rm. 7180
U.S. Department of Housing
and Urban Development
451 Seventh Street, S.W.
Washington, D.C. 20410

Dear Mr. Webster:

On March 19, 1998, the City of San Antonio submitted a revised Section 108 Loan Guarantee application for \$38.7 million to be used for the renovations of property transferred from Kelly Air Force Base to the Greater Kelly Development Corporation.

The City of San Antonio (City) is submitting modifications to the Section 108 Guarantee Loan application in adherence to conversations with local Housing and Urban Development (HUD) CPD officials. The attached modifications are in reference to the national objective requirements regarding job retention and creation, and the aggregate public benefit.

It is the understanding of all parties involved that the number of jobs created is in compliance with the public benefit standard and must be held by or made available to, low and moderate income persons. It is also the City's understanding this verbiage will be contained in the contracts executed between the City and HUD. Additionally, this language shall be contained in all third party contracts resulting from this loan which are executed by the City.

The City appreciates the assistance provided by HUD and looks forward to hearing from you in the near future. I can be contacted at (210) 207-6600.

Sincerely,

Andrew W. Cameron, Director
Department of Housing
and Community Development

Atch.

Attachment 2
p. 2/6

People Getting Together To Rebuild Their Neighborhoods
419 SOUTH MAIN SUITE 200 SAN ANTONIO, TX 78204 TELEPHONE 210-220-3600 FAX 210-220-3620

**COMMUNITY DEVELOPMENT OBJECTIVES & PROJECTED USE OF THE
HUD SECTION 108 GUARANTEED LOAN FUNDS**

The closure of Kelly Air Force Base will negatively impact the economic efforts of existing small businesses in the contiguous area immediately adjacent to the base. As a result of the closure and realignment of Kelly Air Force Base, to be complete by July 2001, the Kelly Air Force Base will lose approximately 12,000 existing jobs (the San Antonio community will lose approximately 21,000 jobs). On November 24, 1997, nearly 1,000 Kelly civilian workers received reduction-in-force notices.

President Clinton acknowledged that the closing of Kelly Air Force Base would "have a severe economic impact and produce a 73% increase in San Antonio Hispanic unemployment."

The City of San Antonio will create a total of 1,106 jobs directly for the Aircraft Industry operations, fulfilling the aggregate public benefit standard of 24 CFR 570.209(B)(1). Additionally, it is acknowledged that regardless of the total number of created, as a result of the Section 108 assistance, at least 51% of the total jobs will be held by, or made available to low and moderate income persons.

Indirectly, it is estimated that approximately 3,512 additional jobs will be created in the surrounding community, as a result of the Boeing operation. These additional community jobs include professional contractors and small businesses providing services and materials needed by the Boeing facilities, logistics support, food service, and clerical positions.

The City of San Antonio and GKDC will complete the project in two phases. The total 108 Loan budget is \$38.7 million. Phase one will require a total of \$24.7 million. The City of San Antonio and GKDC are committed to creating a minimum of 706 jobs in phase one. These positions will be created within eighteen months after construction completion. Additional jobs are expected to be created pending facility upgrades, production capability assessment, and the award of additional work. The meeting of these conditions will initiate the implementation of phase two. If implemented, phase two will require the balance of the requested \$38.7 (\$13.3 million). Phase two of the project will create a minimum of 400 additional jobs by the year 2006.

As a result, the entire expenditure of the HUD Section 108 Loan Guarantee resources will support HUD's requirement that at least 70% of the City's CDBG funds, over a period of three (3) years, be of benefit to low and moderate income persons.

HUD SECTION 108 LOAN APPLICATION

28

Attachment 2
p. 3/6

CITY OF SAN ANTONIO

COMPLIANCE WITH HUD NATIONAL OBJECTIVES FOR COMMUNITY
DEVELOPMENT

(CONSISTENCY WITH LOCAL GOALS AND OBJECTIVES)

In response to the 1995 Base Realignment and Closure Commission's decision to close Kelly Air Force Base, the City adopted a goal of job creation, to be achieved through privatization-in-place of military aircraft maintenance, and the introduction of commercial industry to the facilities.

The City of San Antonio and the Greater Kelly Development Corporation's vision of creating economic opportunities for Kelly Air Force Base and San Antonio will be accomplished by maintaining Kelly as a world-class maintenance, manufacturing, and distribution based industrial park. As a result, a total of 21,000 good paying jobs will be created to support the activities stimulated by Boeing, with the Section 108 assistance.

Initially, The City of San Antonio, through Boeing will fill a minimum of 706 jobs. These positions will be created within eighteen months after the completion of construction. Boeing estimates the hiring of an additional 400 people for jobs that are expected to be created to meet future workloads by the year 2006. Boeing will create aircraft mechanic, sheet metal worker, and electrician positions, and Boeing intends to hire local workers for over 95% of the positions created.

Boeing intends to make these jobs available to low and moderate income individuals throughout the City of San Antonio. Moreover, Boeing fully intends to utilize the Department of Labor sponsored services provided by the Alamo Workforce Development and the Texas Smart Jobs Programs to develop the maintenance skills of the San Antonio work force.

What this specifically means is that Boeing has agreed to hire unqualified persons and will provide the necessary training, utilizing the City of San Antonio's Job Training Partnership Act (JTPA) sponsored programs. Furthermore, this will ensure low and moderate income persons receive first consideration for filling jobs being created as a result of additional contracts acquired by the Boeing Company.

The City of San Antonio and Greater Kelly Development Corporation is committed to creating at least 706 jobs in phase one, and an additional 400 jobs in phase two, if implemented. At least 51% of the total jobs created will be held by or made available to low and moderate income persons in compliance with HUD CDBG National Activity 507.208(a)(4) benefiting low and moderate income persons through job creation and/or retention. By creating the total number of jobs as established in phase one and/or phase two, the project will fulfill the aggregate public benefit standard of 24 CFR 570.209(b)(1). The City of San Antonio and Greater Kelly Development Corporation has established controls to maintain the records requirement of 507.506(b)(5).

HUD SECTION 108 LOAN APPLICATION

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Attachment 2
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CITY OF SAN ANTONIO

CITIZEN REVIEW AND PARTICIPATION

This HUD Section 108 Loan Guarantee application is supported by the City of San Antonio's Five Year Consolidated Plan (Fiscal Year 1995-2000), adopted by City Council on July 13, 1995, and subsequently approved by the U.S. Department of Housing and Urban Development, and is specifically addressed in the Plan's Part G Anti-Poverty Strategy, which states:

"To effectively reduce the poverty level, the City, as well as each resident of San Antonio must be committed to efforts which will enhance local employment availability [i.e., increase economic diversification attracting higher skill/higher pay jobs] and optimize employment preparedness [provide a trained, skilled, available work force required for industry diversification]."

In accordance with U.S. Department of Housing and Urban Development Community Development Block Grant (CDBG), and associated HUD Section 108 Loan regulations, the City of San Antonio completed the required Citizen Review and Participation requirements on December 18, 1997. In conformance with the City of San Antonio's Citizen Participation Plan for U.S. Department of Housing and Development Resources, following the publication in the newspaper of general circulation, informing citizens of the availability of this application for review, the City Council held a Public Hearing to provide citizens with an opportunity to comment. A copy of the taped Public Hearing is available for review in the Department of Housing and Community Development Office, located at 419 S. Main, Suite 200, San Antonio, Texas, 78204.

Upon receiving a positive response from the citizens, specifically Communities Organized for Public Service (COPS) and Metro Alliance (two of the major community action groups in San Antonio), the San Antonio City Council, passed ordinance number 87476, authorizing the acceptance from the U.S. Department of Housing and Urban Development, upon award, a Section 108 Loan in an amount up to \$38.7 million for the financing of the facility improvements at Kelly Air Force Base.

SUMMARY

The City of San Antonio has a unique opportunity to preserve and provide over 1,000 Kelly jobs lost as a result of the BRAC '95 decision to close the San Antonio Air Logistics Center. This opportunity is contingent upon securing a major aerospace corporation to lease the large aircraft facilities on Kelly, and to hire local employees. Boeing is committed to establishing a major new business in the facilities as a best-in-class large-aircraft maintenance modification center if the City is able to offer business incentives that are financially attractive to the company. To enter the market, Boeing requires immediate facility upgrades while at the same time maintaining the facility costs within general commercial industry cost standards.

HUD SECTION 108 LOAN APPLICATION

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Attachment 2
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CITY OF SAN ANTONIO

The HUD Section 108 Loan will assist the City in financing the facility improvements to support the creation of commercial jobs for the largely Hispanic population who are losing their jobs. Without these jobs the BRAC '95 Commission acknowledged that closing Kelly Air Force Base would have a severe economic impact, producing a 73% increase in San Antonio Hispanic unemployment. Favorable consideration of this HUD Section 108 Loan request will not only avert certain unemployment, but will also allow the City to secure a major employer committed to hiring local low and moderate income persons at a competitive wage.

HUD SECTION 108 LOAN APPLICATION

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Attachment 2
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April 8, 1998

John Maldonado, Director
Community Planning & Development
U.S. Department of Housing
and Urban Development
800 Dolorosa
San Antonio, TX. 78207-4563

Dear Mr. Maldonado:

On March 19, 1998, the City of San Antonio submitted a revised Section 108 Loan Guarantee application for \$38.7 million to be used for the renovations of property transferred from Kelly Air Force Base to the Greater Kelly Development Corporation.

The City of San Antonio (City) is submitting modifications to the Section 108 Guarantee Loan application in adherence to conversations with local Housing and Urban Development (HUD) CPD officials. The attached modifications are in reference to the national objective requirements regarding job retention and creation.

It is the understanding of all parties involved that the number of jobs created must be held by or made available to, low and moderate income persons. It is also the City's understanding this verbiage will be contained in the contracts executed between the City and HUD. Additionally, this language shall be contained in all third party contracts resulting from this loan which are executed by the City.

The City appreciates the assistance provided by HUD and looks forward to hearing from you in the near future. I can be contacted at (210) 207-6600.

Sincerely,

Andrew W. Cameron
Andrew W. Cameron, Director
Department of Housing
and Community Development

Attch.

Attachment 3
p. 1/5

People Getting Together To Rebuild Their Neighborhoods
419 SOUTH MAIN SUITE 200 SAN ANTONIO, TX 78204 TELEPHONE 210-220-3600 FAX 210-220-3620

CITY OF SAN ANTONIO

**COMMUNITY DEVELOPMENT OBJECTIVES & PROJECTED USE OF THE
HUD SECTION 108 GUARANTEED LOAN FUNDS**

The closure of Kelly Air Force Base will negatively impact the economic efforts of existing small businesses in the contiguous area immediately adjacent to the base. As a result of the closure and realignment of Kelly Airforce Base, to be complete by July 2001, the Kelly Air Force Base will lose approximately 12,000 existing jobs (the San Antonio community will lose approximately 21,000 jobs). On November 24, 1997, nearly 1,000 Kelly civilian workers received reduction-in-force notices.

President Clinton acknowledged that the closing of Kelly Air Force Base would "have a severe economic impact and produce a 73% increase in San Antonio Hispanic unemployment."

The City of San Antonio will create a total of 1,106 jobs directly for the Aircraft Industry operations, fulfilling the aggregate public benefit standard of 24 CFR 570.209(B)(1). Additionally, it is acknowledged that regardless of the total number of created, as a result of the Section 108 assistance, at least 51% of the total jobs will be held by, or made available to low and moderate income persons.

Indirectly, it is estimated that approximately 3,512 additional jobs will be created in the surrounding community, as a result of the Boeing operation. These additional community jobs include professional contractors and small businesses providing services and materials needed by the Boeing facilities, logistics support, food service, and clerical positions.

The City of San Antonio and GKDC will complete the project in two phases. The total 108 Loan budget is \$38.7 million. Phase one will require a total of \$24.7 million. The City of San Antonio and GKDC are committed to creating a minimum of 706 jobs in phase one. These positions will be created within eighteen months after construction completion. Additional jobs are expected to be created pending facility upgrades, production capability assessment, and the award of additional work. The meeting of these conditions will initiate the implementation of phase two. If implemented, phase two will require the balance of the requested \$38.7 (\$13.3 million). Phase two of the project will create a minimum of 400 additional jobs by the year 2006.

As a result, the entire expenditure of the HUD Section 108 Loan Guarantee resources will support HUD's requirement that at least 70% of the City's CDBG funds, over a period of three (3) years, be of benefit to low and moderate income persons.

Attachment 3
p. 2/5

HUD SECTION 108 LOAN APPLICATION

CITY OF SAN ANTONIO

COMPLIANCE WITH HUD NATIONAL OBJECTIVES FOR COMMUNITY
DEVELOPMENT(CONSISTENCY WITH LOCAL GOALS AND OBJECTIVES)

In response to the 1995 Base Realignment and Closure Commission's decision to close Kelly Air Force Base, the City adopted a goal of job creation, to be achieved through privatization-in-place of military aircraft maintenance, and the introduction of commercial industry to the facilities.

The City of San Antonio and the Greater Kelly Development Corporation's vision of creating economic opportunities for Kelly Air Force Base and San Antonio will be accomplished by maintaining Kelly as a world-class maintenance, manufacturing, and distribution based industrial park. As a result, a total of 21,000 good paying jobs will be created to support the activities stimulated by Boeing, with the Section 108 assistance.

Initially, The City of San Antonio, through Boeing will fill a minimum of 706 jobs. These positions will be created within eighteen months after the completion of construction. Boeing estimates the hiring of an additional 400 people for jobs that are expected to be created to meet future workloads by the year 2006. Boeing will create aircraft mechanic, sheet metal worker, and electrician positions, and Boeing intends to hire local workers for over 95% of the positions created.

Boeing intends to make these jobs available to low and moderate income individuals throughout the City of San Antonio. Moreover, Boeing fully intends to utilize the Department of Labor sponsored services provided by the Alamo Workforce Development and the Texas Smart Jobs Programs to develop the maintenance skills of the San Antonio work force.

What this specifically means is that Boeing has agreed to hire unqualified persons and will provide the necessary training, utilizing the City of San Antonio's Job Training Partnership Act (JTPA) sponsored programs. Furthermore, this will ensure low and moderate income persons receive first consideration for filling jobs being created as a result of additional contracts acquired by the Boeing Company.

The City of San Antonio and Greater Kelly Development Corporation is committed to creating at least 706 jobs in phase one, and an additional 400 jobs in phase two, if implemented. At least 51% of the total jobs created will be held by or made available to low and moderate income persons in compliance with HUD CDBG National Activity 507.208(a)(4) benefiting low and moderate income persons through job creation and/or retention. By creating the total number of jobs as established in phase one and/or phase two, the project will fulfill the aggregate public benefit standard of 24 CFR 570.209(b)(1). The City of San Antonio and Greater Kelly Development Corporation has established controls to maintain the records requirement of 507.506(b)(5).

Attachment 3
p. 3/6

HUD SECTION 108 LOAN APPLICATION

CITY OF SAN ANTONIO

CITIZEN REVIEW AND PARTICIPATION

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"To effectively reduce the poverty level, the City, as well as each resident of San Antonio must be committed to efforts which will enhance local employment availability [i.e., increase economic diversification attracting higher skill/higher pay jobs] and optimize employment preparedness [provide a trained, skilled, available work force required for industry diversification]."

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SUMMARY

The City of San Antonio has a unique opportunity to preserve and provide over 1,000 Kelly jobs lost as a result of the BRAC '95 decision to close the San Antonio Air Logistics Center. This opportunity is contingent upon securing a major aerospace corporation to lease the large aircraft facilities on Kelly, and to hire local employees. Boeing is committed to establishing a major new business in the facilities as a best-in-class large-aircraft maintenance modification center if the City is able to offer business incentives that are financially attractive to the company. To enter the market, Boeing requires immediate facility upgrades while at the same time maintaining the facility costs within general commercial industry cost standards.

HUD SECTION 108 LOAN APPLICATION

Attachment 3
p. 4/6

CITY OF SAN ANTONIO

The HUD Section 108 Loan will assist the City in financing the facility improvements to support the creation of commercial jobs for the largely Hispanic population who are losing their jobs. Without these jobs the BRAC '95 Commission acknowledged that closing Kelly Air Force Base would have a severe economic impact, producing a 73% increase in San Antonio Hispanic unemployment. Favorable consideration of this HUD Section 108 Loan request will not only avert certain unemployment, but will also allow the City to secure a major employer committed to hiring local low and moderate income persons at a competitive wage.

HUD SECTION 108 LOAN APPLICATION

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Attachment 3
p. 5/5



March 26, 2001

Paul Webster, Director
Financial Management Division
U.S. Department of Housing
And Urban Development
451 Seventh Street, S.W.
Washington, D.C. 20410

Dear Mr. Webster:

The City of San Antonio is requesting an extension of the HUD Section 108 Guaranteed Loan Disbursement Termination deadline from March 31, 2001 to September 30, 2001.

As you are aware, the City entered in to a sub-loan agreement with the Greater Kelly Development Authority in regards to the \$38.7 million for the redevelopment and privatization of Kelly Airforce Base. Attached you will find a detailed explanation of the request for an extension of the disbursement termination deadline.

If you should have any questions or need additional information, contact Jeanetta Tinsley at (210) 207-6600.

Andrew W. Cameron, Director
Department of Housing
And Community Development

Atchs.

Cc: Stan Gimont, HUD Financial Manager
Ramiro Cavazos, Director Economic Development
Milo Nitschke, Acting Director Finance

Attachment 4

**EMPLOYMENT PRACTICES, AREA DEVELOPMENT, AND
MAINTENANCE OF RECORDS AGREEMENT**

This Employment Practices, Area Development, And Maintenance Of Records Agreement ("Agreement") is made and entered into effective as of the 29 day of September 2000, by and between the Greater Kelly Development Authority ("GKDA") and The Boeing Company, a Delaware corporation ("Tenant"), for the purposes and considerations hereinafter set forth:

RECITALS:

- A. Prior to the execution and delivery of this Agreement, Tenant is acquiring a leasehold interest to those certain tracts of land known as Buildings 361, 363, 365, 377, 379 and portions of 375, together with non-exclusive ingress/egress thereto across certain streets and roads. Additionally, Tenant will have preferential use of the 3,630,875 square feet of aircraft ramp, run-up, and aircraft pads associated with the area. Tenant intends to rehabilitate the structures ("improvements") to improve the marketability of the Kelly Aircraft Industrial Complex. Collectively, the land and improvements will be referred to as the "Property."
- B. Prior to the execution and delivery of this Agreement, the GKDA obtained a HUD Section 108 loan in the amount of THIRTY-EIGHT MILLION SEVEN HUNDRED THOUSAND AND NO/100 DOLLARS (\$38,700,000). A part of the proceeds of this loan are being made available to defray a portion of the costs of rehabilitating and operating the Property.
- C. Tenant understands that the Loan funds are funds that have been loaned to GKDA by the City of San Antonio and the U.S. Department of Housing and Urban Development ("HUD") under the HUD Section 108 Loan Guarantee Program for economic development. One of the conditions under which the funds will be utilized to rehabilitate the Property is that Tenant will comply with federal, state, and local laws and regulations as required by HUD and the City.
- D. The purpose of this Agreement is to set forth the terms and conditions of the agreement between the GKDA and Tenant under which the rehabilitation and operation of the Property will be compliant with HUD and City requirements for the term of the Loan. This agreement shall apply to any amendments to the leasehold interest as it relates to the use of Section 108 loan guarantee funds.

NOW, THEREFORE, in consideration of the premises and of the mutual undertakings of the parties, it is hereby agreed as follows:


1. General Covenant. Tenant agrees that at all times during the term of the Loan, Tenant will comply with federal, state, and local laws and regulations as required for an economic development project under the HUD Section 108 Loan Guarantee Program and as required by the City's lending policies. The federal laws and regulations governing the Program include, but are not limited to the following: 12 USC 1701u (Economic opportunities for low- and very low-income persons); 24 CFR 570.500 (Subpart J - Grant Administration); and 24 CFR 570.700 (Subpart M - Loan Guarantees).
2. Employment Practices, Area Development, and Maintenance of Records.
 - (a) The Loan is administered under a program providing federal financial assistance from HUD and is subject to the requirements of Section 3 of the Housing and Urban Development Act of 1968, as amended (12 USC 1701u). Section 3 policy requires that to the greatest extent feasible opportunities for training and employment be directed toward lower income residents of the Project area.
 - (b) Tenant will establish and maintain sufficient records to enable an auditor to determine whether Tenant has met the Federal, State and Local laws, rules, regulations, and ordinances. Tenant will permit GKDA, City of San Antonio, and HUD, at all reasonable times, to have access to, and the right to inspect, audit and examine, all records and other documents of the Tenant related to compliance with the reporting requirements.

- (c) The tenant will comply with the provisions of said Section 3 (see above). Tenant hereby agrees to make available at least fifty-one percent (51%) of the jobs it creates to low and moderate income persons and will provide training for any of those jobs requiring special skills or education. Tenant shall demonstrate making available by accepting applications from all persons regardless of experience and will implement an on-going marketing program that recruits low and moderate income persons requiring training.
 - (d) Tenant will furnish a description of actions taken to ensure that low and moderate-income persons receive first consideration for those jobs as described in the marketing plan (Attachment A).
 - (e) Tenant will furnish to the GKDA, for forwarding to the City, within fifteen (15) days after each six (6) month period, ending September 30 and March 31, during the term of this Agreement, an Employee Data Report (Attachment B). The Human Resources Director of Tenant shall certify the report. The report will consist of two parts:
 - (1) Listing by job title of the permanent jobs filled, and which jobs of those were available to low and moderate income persons, and a description of how first consideration was given to such persons for those jobs. The description shall include what hiring process was used and which low and moderate-income persons were hired.
 - (2) Listing to include, without limitation, data on the residency, income, skill level, training, and permanent or temporary employment status of Tenant's employees, as well as the employees of all business tenants occupying part or all of the Tenant's property, by gender and further identified as members of a minority or non-minority group. Such employment data is necessary to enable the City to comply with the reporting requirements of HUD in connection with the use of Federal Funds, specifically 108 loan guarantee funds.
3. Employment Commitments. The GKDA and Tenant are committed to creating at least 706 jobs during the period of the initial funding authorization of \$25,000,000 of the Loan, and an additional 400 jobs during subsequent funding of the remaining balance of the Maximum Principal Balance. At least 51% of the total jobs created will be made available to low and moderate income persons in compliance with 24 CFR 570.208(a)(4) benefiting low and moderate income persons through job creation and/or retention. By creating the total number of jobs as established, the Project will fulfill the aggregate public benefit standard of 24 CFR 570.209(b)(1).
4. Other Federal Requirement. Tenant will comply with all federal laws, rules, and regulations applicable to the receipt and use of funds available under the Housing and Community Development Act of 1974, as amended.
5. Compliance Requirement. Tenant understands that certain compliance requirements are mandated by applicable laws or regulations contained in the City's Operational Guidelines and Federal Compliance Manual (attached) and that Tenant must at all times remain in compliance with such standards.
6. Binding Effect. This Agreement shall be binding upon the GKDA and Boeing, and their respective heirs, personal representatives, successors and assigns.

IN WITNESS WHEREOF, the parties have duly executed this Agreement on the date first set forth above.

GREATER KELLY DEVELOPMENT AUTHORITY

THE BOEING COMPANY

By: 

Paul Roberson
Executive Director

By: 

R.R. Berthold
Mgr. Contracts & Pricing
Aerospace Support

2 of 2

Attachment 5
p. 2/2

*** TOTAL PAGE: 03 ***



CITY OF SAN ANTONIO

ECONOMIC DEVELOPMENT DEPARTMENT
OFFICE OF THE DIRECTOR
P.O. BOX 839966
SAN ANTONIO, TEXAS 78283-3966
TEL: 210/207-8040
FAX: 210/207-8151

March 27, 2001

General Paul Roberson
Executive Director
Greater Kelly Development Authority
143 Billy Mitchell Blvd. Suite 6
San Antonio, Texas 78226-1816

Dear General Roberson:

As you know, we are in receipt of a copy of a draft Office of Inspector General report. This report outlines the results of a two-year long audit of the HUD 108 loan between the City of San Antonio and the Greater Kelly Development Authority.

The draft report raises serious issues of our combined administration of the HUD 108 loan and its eligibility. In light of those results, it is my opinion that until a time that the issues, as outlined in the draft report, are addressed and resolved, we must suspend all payments and reimbursements to the Greater Kelly Development Authority. As a result, it is our intent to immediately address the issues and mitigate any impact that this action will have on our operations at KELLYUSA.

Please feel free to contact me should you have any questions.

Sincerely,

Ramiro A. Cavazos
Director
Economic Development Department

cc: Andrew Cameron, Director
Housing & Community Development

*Attachment 6
p. 41*

AN EQUAL OPPORTUNITY EMPLOYER



CITY OF SAN ANTONIO

ECONOMIC DEVELOPMENT DEPARTMENT
OFFICE OF THE DIRECTOR
P.O. BOX 839966
SAN ANTONIO, TEXAS 78283-3966
TEL: 210/207-8040
FAX: 210/207-8151

March 29, 2001

Mr. Paul Roberson
Executive Director
Greater Kelly Development Authority
143 Billy Mitchell Blvd. Suite 6
San Antonio, Texas 78226-1816

Paul
Dear Mr. Roberson:

First of all, thank-you for your continued commitment and the progress made in the KELLYUSA redevelopment efforts. The Economic Development staff will continue to work in partnership with GKDA to strengthen the local economy.

As you know, we are under stringent time constraints to prepare a response to the draft report by the Office of the Inspector General. My staff will prepare the response. Therefore, we will need vital information and full cooperation from GKDA and Boeing to complete the task. While some of the information may be readily available, some may require greater efforts to gather. Please ensure that the City receives the information as soon as possible. Our staff will work closely with you to provide any assistance and direction related to the requested information.

Please provide the information for items 1 through 5 listed below by April 4, 2001. For information requested in item 6, please provide a date of completion of the document that describes the plan for making jobs available to low- and moderate-income persons. In addition, please provide the City a target date for implementation of the planned policy and procedures included in the plan document. If there are any circumstances that prevent you from providing the information requested in items 1 through 5, please provide a written explanation as to why the information can not be provided. The following items are requested in accordance with the timeframes established above:

1. A final draft of the revised Procurement Policy Manual officially submitted to the City for approval that complies with policies and procedures established in the Federal Compliance Manual (attached herein). The revised policy must include procedures used for the use of "pre-qualified" vendors.
2. A Cumulative Jobs Report providing the opportunity to verify physical addresses and household income as of the date of hire (unemployed status) to allow for verification that the persons on the report were low- to moderate-income persons.

Attachment 7

'AN EQUAL OPPORTUNITY EMPLOYER' *p. 1/2*

Page 2
Mr. Paul Roberson
March 29, 2001

3. All current and expired training agreements between Boeing and other training or educational institutions regarding job creation programs. (Reference discussion at the March 27, 2001 meeting regarding the need for Boeing to revise language in their agreement with Project Quest, specifically paragraph 5bi which states *"This understanding does not guarantee employment of Project Quest participants and may be modified or terminated by either party upon sixty days notice."* Language needs to be included prior to this statement that adopts language that mirrors policy included in HUD regulations as referred to in the OIG report.
4. A description of Boeing's current hiring practices/processes to provide jobs to or to make jobs available to low- and moderate-income persons. A description of what processes will be implemented to ensure that those persons who are qualified and that complete the necessary training are given first consideration for a job with Boeing. Please include a description of the process and procedures used for keeping records that can be audited to account for low- to moderate-income applicants, hires, non-hires, training provided in an effort to demonstrate Boeing's good faith effort to meet the requirements set forth in the Boeing sub-lease with GKDA.
5. A complete listing of all available jobs at Boeing (indicating whether or not the job requires specialized training and/or licenses).
6. A written implementation plan for making jobs available to low- and moderate-income persons, identifying the target dates for implementation of planned policy and procedures.

If you have any questions regarding the information requested in this correspondence, please contact Virginia Cobarrubias at 207-8152 or me at 207-8093. Again, thank-you for directing your resources to help the City respond to this critical report.

Sincerely,

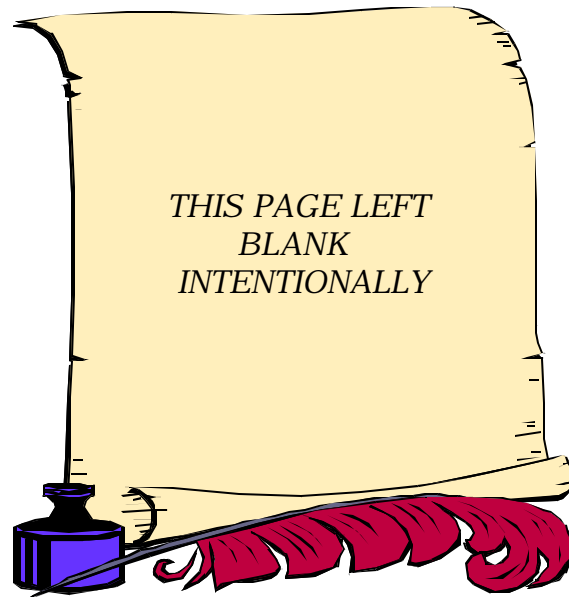


Ramiro A. Cavazos
Director
Economic Development Department

Attachment

cc: Veronica Zertuche
Andrew Cameron

Attachment 7
p. 2/2



Distribution

Secretary's Representative, 6AS
 Comptroller, 6AF
 Director, Accounting, 6AAF
 Acting General Deputy Assistant Secretary for CPD, D
 Deputy Assistant Secretary for Economic Development, DEE
 Director, Office of CPD, 6JD
 Deputy Secretary, SD (Room 10100)
 Chief of Staff, S (Room 10000)
 Office of General Counsel, C (Room 10214)
 Assistant Secretary for Housing/FHA, H (Room 9100)
 Assistant Secretary for Public & Indian Housing, P (Room 4100)
 Office of Policy Development and Research (Room 8100)
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 Assistant Secretary for Congressional and Intergovernmental Relations, J (Room 10120)
 Assistant Secretary for Administration, A (Room 10110)
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 FTW ALO, AF (2)
 CPD ALO, DOT (Room 7220) (2)
 Dept. ALO, FM (Room 2206) (2)
 Acquisitions Librarian, Library, AS (Room 8141)
 Director, Hsg. & Comm. Devel. Issues, **US GAO**, 441 G St. NW, Room 2T23
 Washington, DC 20548 **Attn: Stan Czerwinski**
 Henry A. Waxman, Ranking Member, Committee on Govt Reform,
 House of Rep., Washington, D.C. 20515
 The Honorable Fred Thompson, Chairman, Committee on Govt Affairs,
 U.S. Senate, Washington, D.C. 20510
 The Honorable Joseph Lieberman, Ranking Member, Committee on Govt Affairs,
 U.S. Senate, Washington, D.C. 20510
 Cindy Fogleman, Subcomm. on Gen. Oversight & Invest., Room 212,
 O'Neill House Ofc. Bldg., Washington, D.C. 20515
 The Honorable Dan Burton, Chairman, Committee on Govt Reform,
 House of Representatives, Washington, D.C. 20515
 Deputy Staff Director, Counsel, Subcommittee on Criminal Justice, Drug Policy & Human
 Resources, B373 Rayburn House Ofc. Bldg., Washington, D.C. 20515
 Steve Redburn, Chief, Housing Branch, Office of Management and Budget
 725 17th Street, NW, Room 9226, New Exec. Ofc. Bldg., Washington, D.C. 20503
 Andrew R. Cochran, Sr. Counsel, Committee on Financial Services,
 House of Representatives, Washington, D.C. 20515
 Inspector General, G
 Mayor, City of San Antonio
 City Manager, City of San Antonio

Texas State Auditor
Bennett, San Antonio Current