

Implementing Effective Economic Development Programs Using CDBG-CV Funds

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CDBG
CARES Act



Welcome

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Agenda

- Market and programmatic challenges
- Business assistance and economic development programs
- Funding sources currently used for economic recovery efforts
- What is the “best fit” for your CDBG-CV funding?
- CARES Act CDBG-CV flexibilities
- Designing and launching a program
- Program design considerations
- Next steps and things to consider
- Program examples
- Q & A and resources

Introductions

- Sue Southon, ICF
- Mickie Valente, ICF subcontractor

Market and Programmatic Challenges

Market Challenges - National

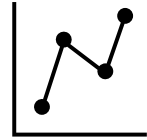
- Recovery slower and adaptations more challenging for small businesses, particularly those serving underserved areas
- Existing, time limited resources, are not matching pace of economic recovery
- Ways of “doing business” changing as a result of COVID 19 – possibly permanently
- Smaller businesses lack the knowledge and resources to avail themselves of available assistance

Market Challenges - Local

- Local economies challenged by COVID closures
- Demand greater than available assistance
- Local government options limited
- Furloughed and displaced employees need retraining and placement assistance
- Payroll Protection Program not available to all small businesses
- Economic development strategies retooled to support new realities
- Commercial foreclosures coming. Need to find uses for empty commercial spaces – mixed use or housing

Programmatic Challenges Impacting CDBG-CV Utilization

- Lack of data to assess need/opportunities in some local market areas
- Need to focus on addressing market challenges and supporting recovery
- Evaluate supply chain opportunities
- Support businesses to respond to new markets created as a result of pandemic (e.g., zoom schooling, telemedicine, online commerce)
- Technical assistance to support new business models and operations



Programmatic Challenges Impacting CDBG-CV Utilization

- Ensuring no Duplication of Benefits (DOB) – a new concept for many grantees
- Rethinking how recovery may look different (e.g., workforce skills, increased use of internet)
- Opportunity Costs – how has COVID impacted traditional economic and community development organizations and their pipelines?



Business Assistance and Economic Development Models

Typical Economic Development Related Assistance Using CARES Act Funding

- Direct assistance for market adaptation
 - Working capital to small businesses and micro-enterprises
 - Facility safety (retrofit) improvements
- Community interventions to help improve safety
 - Commercial corridor improvements
 - Creating food and leisure locations in public areas
- Technical assistance to businesses
 - Virtual recovery centers – traditional business assistance delivered online
- Workforce development
 - Match to industries likely to grow as a result of the infusion of American Recovery Act funding received (e.g., construction trades, IT, healthcare)
 - Support for expansion of training to support return to work (childcare, early education)

Funding Sources Currently Used for Economic Recovery Efforts

Common Funding Sources for Economic Development Activities

- Small Business Administration
 - Payroll Protection Program
 - Economic Injury Disaster Loans (EIL)
 - SBA Express Bridge Loans
 - SBA Debt Relief
- Department of Treasury
- Economic Development Administration
- FEMA (Economic Recovery Resource Roadmap)
- Health & Human Services
- State & local funding

What is the “Best Fit” for your CDBG-CV Funding?

Why Should Grantees use CDBG-CV for Economic Development Programs?

- Can be used to fill an unmet need businesses have due to impact of Coronavirus that was not addressed by other funding sources available
- Businesses and business districts may need assistance to make necessary changes to re-open and operate safely, repurpose vacant spaces
- Waivers granted in the Federal Register notice (FR-6218-N-01) make it easier to use for economic development activities
- It's possible to connect economic development activities to re-housing and re-training initiatives

Examples of Eligible Local Economic Development (Recovery) Activities

- Direct assistance to private, for-profit businesses and microenterprises (e.g., grants, loan guarantees, technical assistance) – **economic development**
- Special economic development activities that support commercial or industrial development (e.g., acquisition, rehab, infrastructure support) done by a municipality or subrecipient partner – **economic development**
- Provision of PPE, workforce retaining – **public service**
- Retooling and technology activities – **economic development**
- Public facilities/spaces changes – **public facilities**

CARES Act CDBG-CV Flexibilities

CDBG-CV Flexibilities

- **Low Mod Area Benefit (LMA)** - providing business assistance to service-oriented business serving areas that have at least 51% LMI and are primarily residential
 - Must have a defined and documented service area that is predominantly LMI
 - Customer base is predominantly LMI
 - Grocery store
 - Childcare center
 - Laundromat
 - Location-based presumption of LMI benefit for CBD job creation/retention
 - **Census tracts containing portion of CBD must have poverty rate of at least 20%**

CDBG-CV Flexibilities

- **Low Mod Jobs (LMJ)** - creation or retention of jobs
 - For funded activities that **retain** jobs, there must be sufficient information documenting that the jobs would have been lost without the CDBG-CV assistance and that one or both of the following applies to at least 51 percent of the jobs:
 - Job is held by a LMI person;
 - Job can reasonably be expected to turn over within the following two years and steps will be taken to ensure that the job will be filled by, or made available to, a LMI person.
 - **51% of the jobs created or retained must be made available to or held by persons whose household income does not exceed that of a 1-person household at 80%**
 - Jobs must be calculated based on Full Time Equivalents (FTEs)

CDBG-CV Flexibilities

- **Public benefit standard**

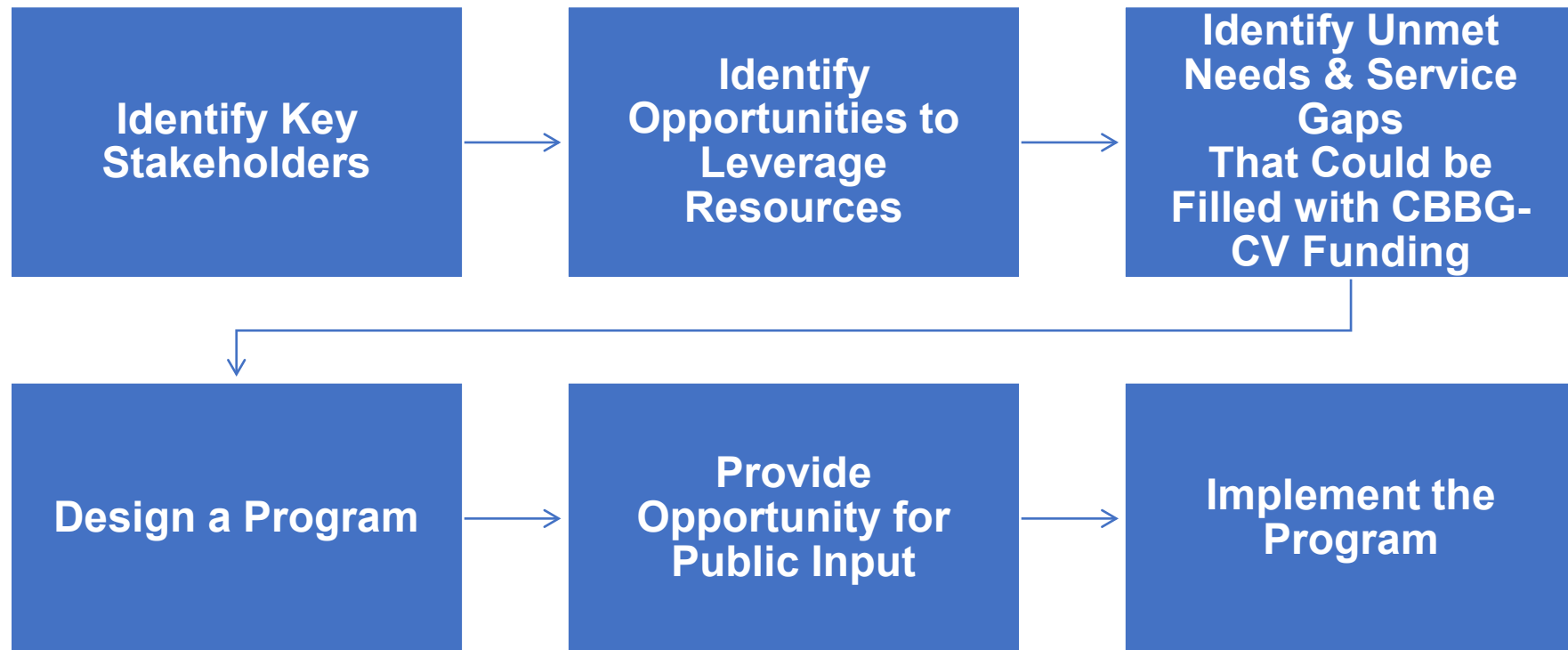
- Aggregate Public Benefit Test eliminated
- Individual Public Benefit Standard can be met in one of three ways:
 - CDBG-CV alternative requirement - 1 FTE or equivalent for each \$85,000 of CDBG-CV funds expended
 - Number of LMI persons residing in area served by assisted business amount to at least one LMI person per \$1,700 of CDBG-CV funds
 - Assistance was provided due to business disruption related to coronavirus (no monetary standard applies)

CDBG-CV Flexibilities

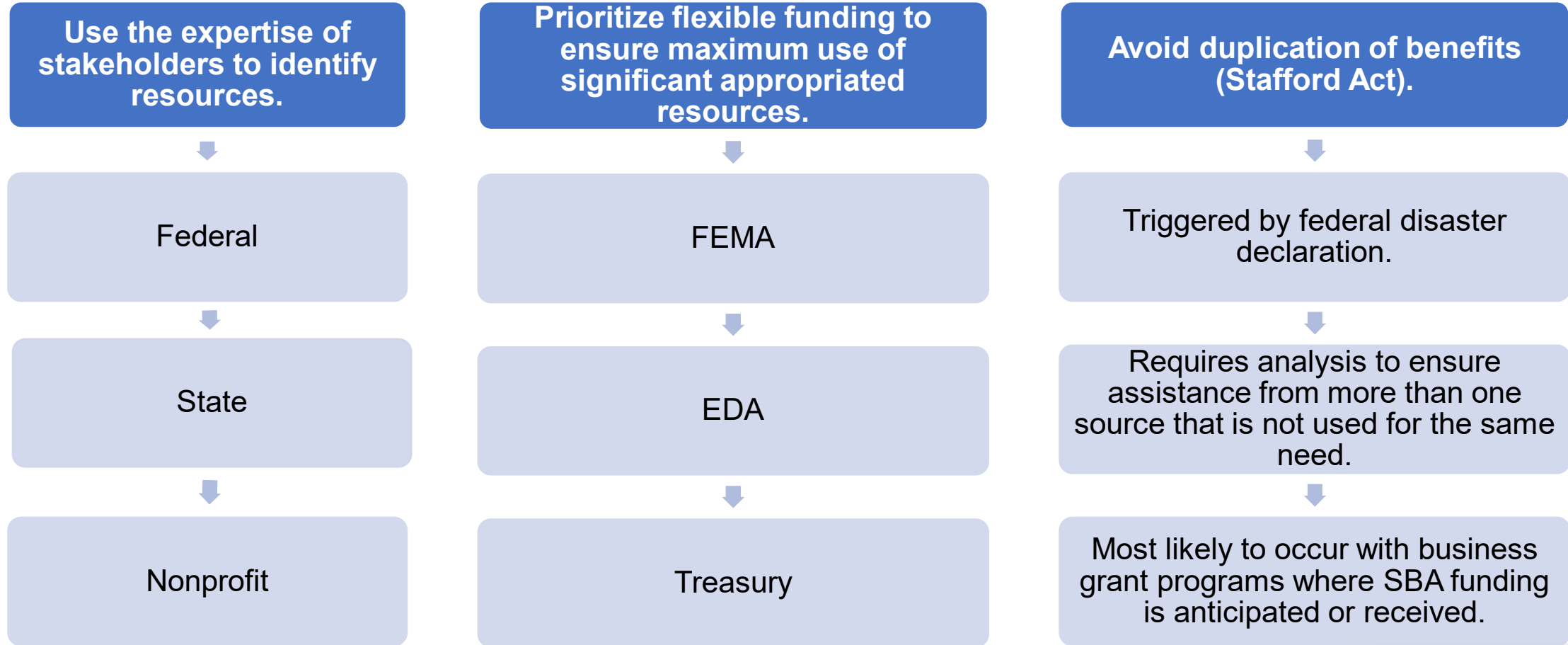
- Public services – normally capped at 15% of grant amount
 - **Cap lifted**
 - **Funded program must represent quantifiable increase in existing service and must tie to COVID (prevent, prepare and respond)**
- 70% of total allocation must benefit Low-Moderate Income
 - **All funds must be documented to prevent, prepare for, or respond to coronavirus**

Designing and Launching a Program

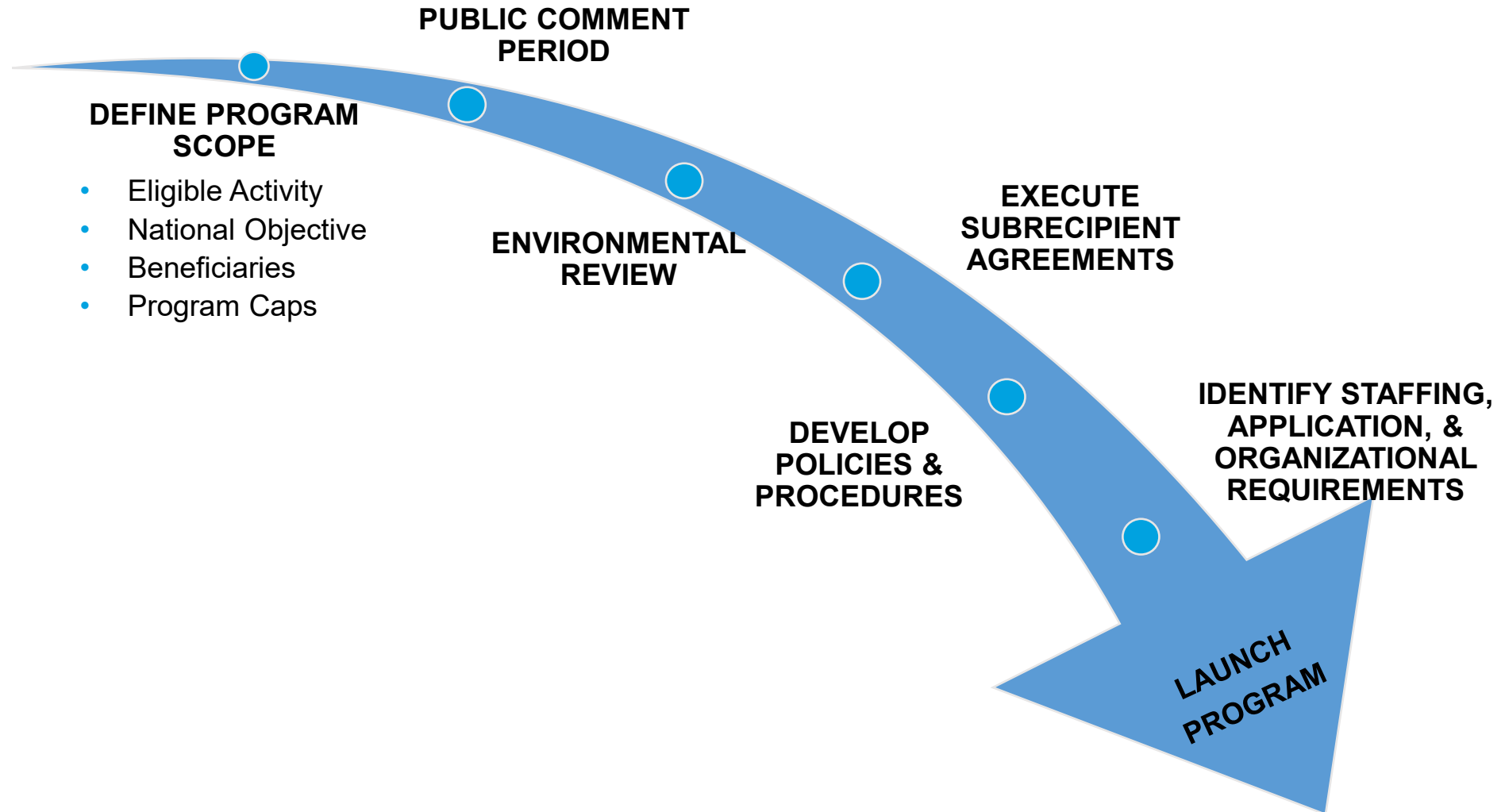
Operationalizing a CDBG-CV Program



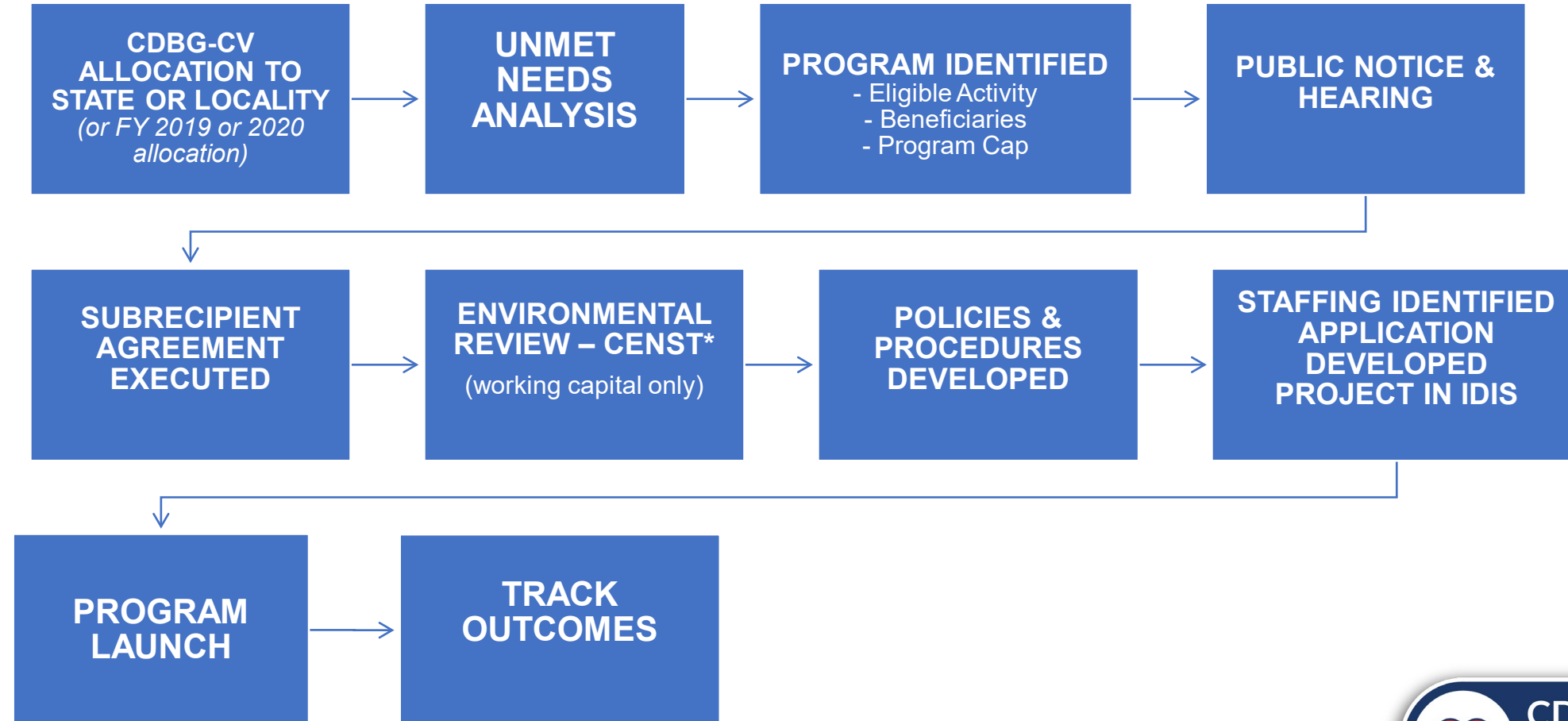
Identify Opportunities to Leverage Resources



Program Designed to Meet Identified Need



Business Grant/Loan Program



Things to consider

- Grant versus loan
 - Applicants in need will be more apt to apply for grants
 - Loan programs will require ongoing monitoring (staffing consideration)
 - Account for program income
- Working capital versus retrofit/COVID adaptations
 - Retrofit will require higher level of environmental review, but may spend funds faster and help with 3 year expenditure deadline.

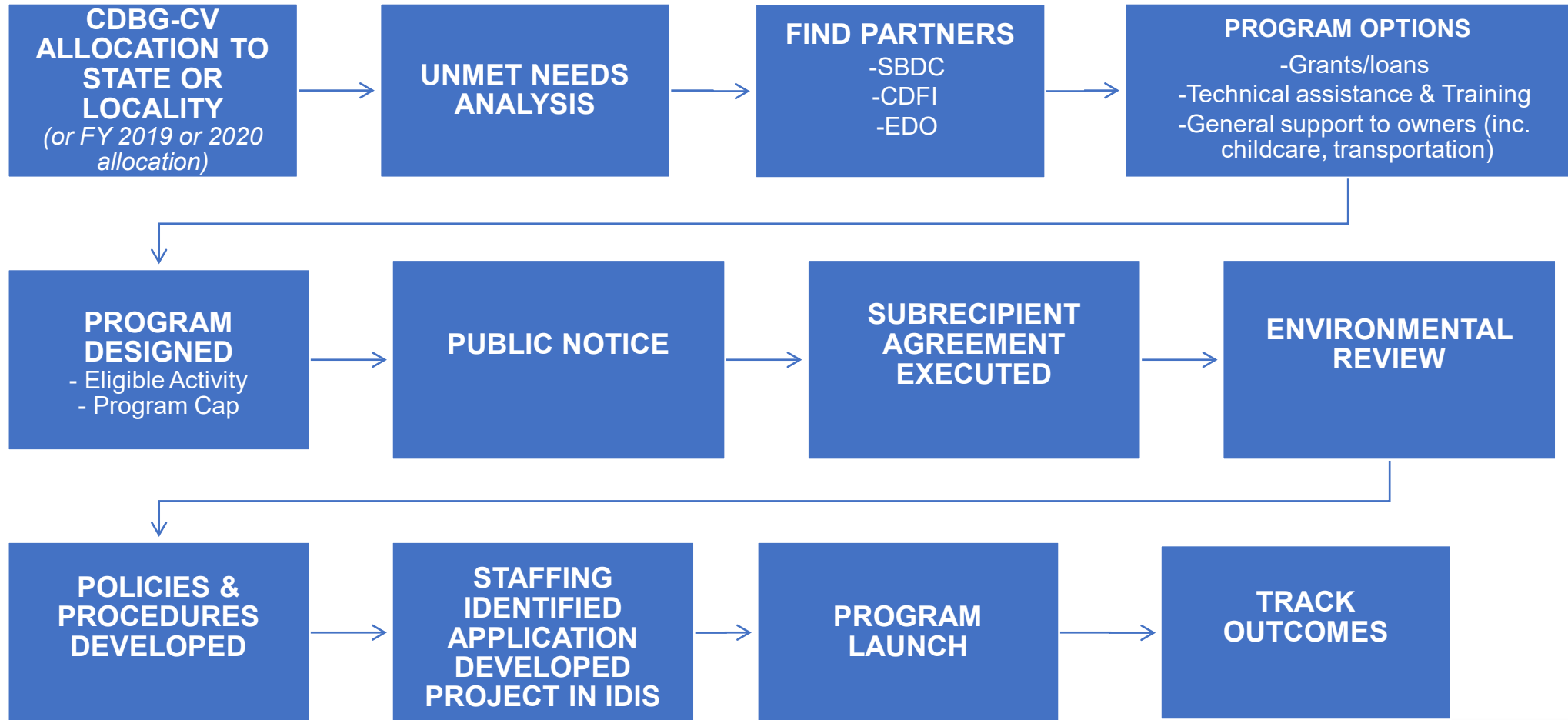
Flexibilities and Requirements

- Flexibilities
 - LMI Jobs – based on salary, does not require household income verification
 - LM Area Benefit – Census tracts including CBD need poverty rate of 20%
 - Public benefit requirements
- Requirements
 - Underwriting required
 - Duplication of benefits analysis

Other Potential Funding Sources

- Commerce/EDA: Revolving Loan Funds
- SBA: Economic Injury Disaster Loan, Express Bridge Loan
- Treasury: Coronavirus Relief Fund
- USDA/Rural Development: Rural Economic Development Loan & Grant

Assistance to Microenterprises



Microenterprise Development

- Microenterprise = commercial enterprise with five or fewer workers
- Special flexibilities for serving this subset of the business community:
 - 24 CFR 50.201 (o) – Entitlements
 - HCDA 105(a)(22) – States

Documenting National Objective

- LM Limited Clientele – if business owner is LMI (eliminates need to track job creation/retention)
- LM Jobs – if owner is not LMI

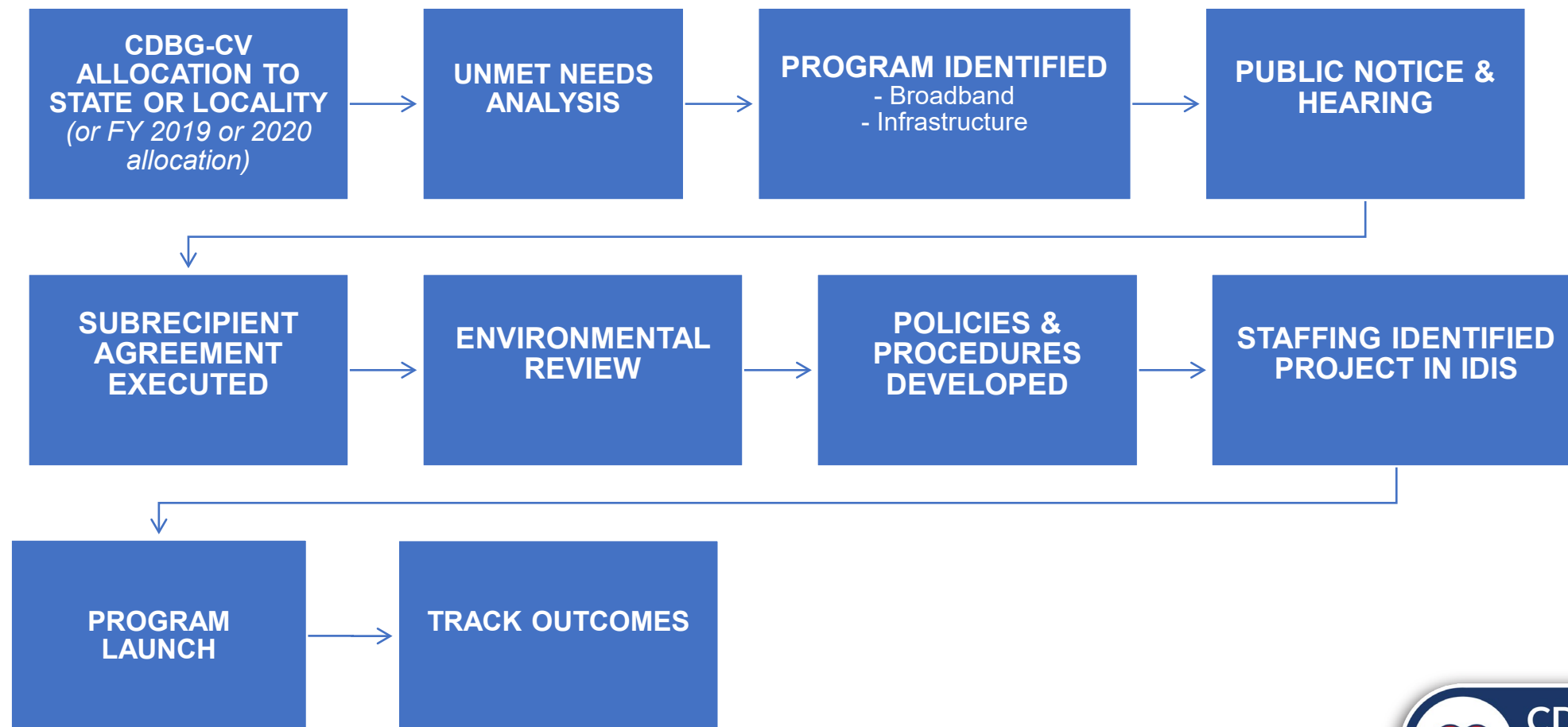
Program Design for Microenterprise

- Identify and research target market
 - Geographic area
 - Types of businesses essential to area
- Determine technical and credit needs of target
 - Types of credit services most needed
 - Who trains and supports businesses in underserved market segments
- Design program
 - Grant/loan
 - Technical assistance
 - Childcare, transportation services to support owner

Other Potential Funding Sources

- Treasury: Coronavirus Relief Fund
- USDA/Rural Development: Rural Microentrepreneur Assistance Program
- Treasury – funding for CDFI's
- EDA – revolving loan funds and other resources

Community Infrastructure



Things to consider

- Broadband and other public infrastructure support businesses by providing investments that enable them to reopen and remain open safely
- Reconfigure public spaces to allow for social distancing
- Support movement of small businesses to online commerce

Other Potential Funding Sources

- Treasury: American Rescue Plan Act
- Commerce/Economic Development Administration: Economic Adjustment and Public Works Assistance, Broadband USA
- USDA/Rural Development: Community Connect, Rural Broadband Access Loan & Grant Program

Program Design Considerations

Program Design Considerations

- Keep programs simple – over regulation and complexity slows implementation and discourages participation
- Be aware of the CDBG-CV specific waivers and alternative requirements that will help with implementation
 - Pre-award cost reimbursement
- All cross-cutting federal requirements still apply, such as:
 - Environmental review
 - Davis Bacon & Related Acts (DBRA)
 - Section 3 Economic Opportunities
 - Fair Housing and Equal Opportunity

Program Design Considerations

- Grantees can use funds for economic development projects where funds pass through a financing mechanism – e.g., Qualified Opportunity Zone Fund, New Markets Tax Credits
- Grantees can assist nonprofit organizations (e.g., CBDOs, CDFIs) serving the development needs of the jurisdiction by carrying out community development projects in this manner
- In both instances it must be documented that the funded activity prevents, prepares for, or responds to coronavirus

Program Design Considerations

- Detailed policies, procedure and process maps needed for all programs
- States must set aside a portion of the 2nd round allocation for use by non-entitlement units of government
 - Can be NO LESS than the amount of the 1st round allocation
- States carrying out activities in tribal areas must get the consent of the Indian tribe of the jurisdiction

Implementation Models – State Specific Considerations

- Waiver allowing direct action by states gives states the option to use different program implementation models
 - Directly running a program
 - Partnering with other subrecipients
 - Distributing funding to local governments to implement programs
 - Using a combination of models
- Determine who is best suited to do the work
- State grantees can use more than one model, but must specify in Action Plan

Meeting a National Objective

- Once the eligible activity has been identified – determine the appropriate national objective
- 70% of funding received must have low-moderate income benefit
- Documentation is critical
- Program design must support documentation of selected national objective
- Plan upfront to meet all compliance requirements
- Activity will address existing conditions within 18 months of:
 - HHS public health emergency declaration (1/27/2020) OR
 - Presidential declaration (3/1/2020) OR
 - Date of state declaration

Duplication of Benefits (DOB)

- Use of CDBG-CV funds requires a duplication of benefits analysis due disaster declaration that invoked the Stafford Act
- A duplication occurs when a beneficiary receives assistance from multiple sources that exceeds the need for the same recovery item
- Ensures federal government is the last source of recovery funding made available
- All activities are subject to a duplication of benefits analysis

Duplication of Benefits (DOB)

- The amount of duplication is the amount of assistance that was provided that exceeded the need
- Assistance is NOT duplicative when two or more sources contribute to the same need and the total assistance did not exceed the total need
 - Can combine different forms of assistance to meet recovery needs
- Assistance is NOT duplicative when used for a different recovery need that is a permissible and legitimate use of the funds

Duplication of Benefits (DOB)

- Subrogation agreement required to ensure that any duplicative assistance received by beneficiary is recaptured by grantee
- Potential sources of duplicative funding
 - CARES Act (Treasury)
 - Payroll Protection Plan (PPP)
 - American Rescue Plan (ARP)
 - SBA loans
 - FEMA
 - Business interruption insurance

Underwriting

Underwriting requirements (24 CFR Appendix A – Guidelines and Objectives for Evaluating Project Costs and Financial Requirements) – particularly important when funding businesses

- Project costs are necessary and reasonable
- All sources of project funding are committed
- CDBG-CV funds are not substituted for non-Federal financial support
- Project is financially feasible
- Return on owner's equity investment will not be unreasonably high
- CDBG-CV funds are distributed on a pro rata basis with other financing provided to the project

Underwriting

Underwriting requirements- practical considerations:

- Are other resources committed?
 - What is the disbursement schedule
 - Pari passu preferred
- Is the project feasible
 - Will the business survive?
 - Jobs be created/retained?
 - Loan repaid (if assistance structured as repayable loan)?

Underwriting

Underwriting requirements- practical considerations:

- What financial documents will be required from the owner?
- Are all sources and uses of funds clearly identified?
- Are project costs reasonable and eligible?
- Is the owner's equity reasonable (no undue enrichment)?

Next Steps & Things to Consider

Things to Consider

- Enlist stakeholders to help identify and prioritize greatest economic recovery needs, with particular focus on identifying unmet needs or sectors and potential new markets or opportunities
- For what type of businesses will assistance make the greatest impact on community priorities/other important businesses (supplier chains)?
- What are the critical businesses in your community and what do they need? Broadband access? Technical support?

Things to Consider

- Should program be managed in house or sub-recipient?
- Who will you need to develop and implement a successful program? What expertise is needed?
- What resources will grantee/subrecipient need to deliver the programs?
- How will program delivery be documented? Reporting requirements, metrics, dashboard reports
- Period of performance is 6 years, BUT 80% of funds must be expended by end of third grant year or the difference may be subject to recapture

Leverage & Enhance Existing Programs Supported with Other Resources

- SBA (PPP, EIDL)
- EDA (strategic planning, organizational capacity)
- Treasury (economic impact payments)
- FEMA (federal disaster declaration)
- NEA (arts and cultural organizations)
- And all new resources provided through the American Rescue Plan Act

Program Example

Economic Development Initiatives

- Bridge loan (state)
- Commercial rent assistance (state)
- Data (economic impact information portal)
- PPE
- Business grants (county)
- Business training and technical assistance (university)
- Assistance to arts and cultural organizations
- Community Partners Grant

Q & A

Resources

Resources

- CPD COVID-19 Grantee Guidance
 - https://www.hud.gov/program_offices/comm_planning/covid-19
- CDBG-CV Resources
 - <https://www.hudexchange.info/programs/cdbg-cv/>
- CDBG-CV Federal Register Notice (FR-6218-N-01)
 - <https://www.hud.gov/sites/dfiles/CPD/documents/FR-6218-N-01-CDBG-CV-clean-8-7-20-header-for-posting.pdf>
- CDBG Economic Development Toolkit
 - <https://www.hudexchange.info/resource/2376/cdbg-economic-development-toolkit/>
- Using CDBG and CDBG-CV to Support Pandemic Recovery
 - <https://www.hud.gov/sites/dfiles/CPD/documents/Quick-Guide-CDBG-CV-PPR-Tieback-Flexibilities-043020212.pdf>
- FEMA Economic Recovery Resource Roadmap
 - https://www.fema.gov/sites/default/files/documents/fema_covid-19-economic-recovery-resource-roadmap-version2.0_06-22-2021.pdf

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