

CDBG-CV Economic Development Quick Guide

CARES Act Virtual Conference

Tuesday, July 27, 2021



CDBG
CARES Act



Presenters



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Objective

To review the CDBG-CV Economic Development Quick Guide (<https://www.hudexchange.info/resource/6303/cdbg-cv-economic-development-quick-guide/>) which is intended to:

- Help grantees design and administer economic development programs that help to prevent, prepare for, and respond to the disruption and impacts of the coronavirus pandemic
- Provide key questions and considerations to help position your CDBG-CV funded special economic development and microenterprise assistance programs for successful compliance, underwriting and community impact

CDBG-CV and Economic Development : An Overview



First Steps

Have you gotten your Action Amendment Approved?

Grantees must obtain HUD approval of **all of the following** prior to incurring costs related to CDBG-CV activities:

- Action Plan or Substantial Amendment describing the use of CDBG-CV funds
- SF-424
- SF-424D
- Certifications at 24 CFR 91.225(a) and (b) or 24 CFR 91.325(a) and (b)

Using CDBG-CV Funds for Economic Development

- CDBG-CV funds must be used for activities that prevent, prepare for or respond to coronavirus
- Most CDBG-CV Economic Development activities **that help for profit businesses** will be either Special Economic Development or Microenterprise

What is Special Economic Development?

Per 24 CFR 570.203, a Special Economic Development Activity:

- Meets a National Objective (typically LMJ or LMA)
- Involves provision of financial assistance to private for-profit businesses for activities such as:
 - Acquisition of property
 - Clearance of structures
 - Construction, expansion or rehabilitation of a building
 - Purchase of equipment
 - Provision of operating capital
- Must be underwritten
- Must provide Public Benefit in the form of either (1) jobs or (2) goods and services to a low- and moderate-income area

What is a Microenterprise?

To be considered a microenterprise under HUD requirements, a business must:

- Have no more than five employees
- At least one of the employees must be the owner

Note: The SBA defines a microenterprise as ten or fewer employees. Grantees must use the HUD definition, not the SBA definition.

What is a Microenterprise Activity?

Eligible Microenterprise activities include providing:

- Credit, including but not limited to grants, loans, loan guarantees, Individual Development Accounts (IDAs), and other forms of financial support for the establishment, stabilization, and expansion of microenterprises;
- Technical assistance, advice, and business services to owners of microenterprises and persons developing microenterprises;
- General support to owners of microenterprises and persons developing microenterprises;
- General support may include such activities as peer support programs, counseling, childcare, or transportation; and
- Training, technical assistance, or other support services to increase the capacity of recipients or subrecipients to carry out microenterprise activities.

Other Microenterprise Considerations

- **Not** required to meet public benefit standards
- More options for meeting a National Objective, as the limited clientele criteria for LMI benefit can be applied to activities if the business owner is LMI

Needs Assessment Question:

- *Where are microenterprises?*
- *What do they need as we transition from crisis response to recovery investments?*

CDBG-CV Waivers and Alternative Requirements



Source of CDBG-CV Requirements

- Special appropriations (CDBG-CV, CDBG-DR, CDBG-MIT, NSP, etc.) are published in **Federal Register Notices (FRN)**
- CDBG regulations are the foundation of most special appropriations
- In the Federal Register Notices, HUD may waive some requirements and impose alternative requirements
 - In general, HUD cannot waive or alter cross-cutting requirements

In a nutshell: Follow CDBG regulations to implement your activities unless there is a waiver/alt requirement in the FRN!

Overall Benefit to LMI Persons

(III.B.5. (d)(iv) Overall Benefit to LMI Persons, Page 35)

- 70% of a grantee's total CDBG-CV allocation must be expended for activities that benefit Low- and Moderate-Income persons
- The CDBG-CV Overall Benefit must be tracked separately from a grantee's 2019 and 2020 CDBG entitlement funds, which are tracked on a program year basis

National Objectives

(III.B.5. (d) National Objectives, page 30)

- Economic development activities typically qualify under either Low-Mod Jobs (LMJ), Low-Mod Area (LMA), Limited Clientele (LMC) or Urgent Need
- To ensure the Overall Benefit is met, grantees should prioritize LMA, LMJ and LMC activities **before** Urgent Need
- Low-mod national objective subcategories are best thought of in terms of how they deliver benefit:
 - **Low-Mod Area** activities benefit all the residents of a low-mod area
 - **Low-Mod Jobs** activities benefit communities by creating or retaining jobs
 - **Limited Clientele** activities benefit LMI individuals, which may be determined by several different methods

Low-Mod Jobs National Objective

- Applies to activities that involve the employment of persons, the majority of whom are LMI persons
- Creates or retains permanent jobs, at least 51% of which, on a full time equivalent (FTE) basis, are either held by LMI persons or considered to be available to LMI persons
- Does not specify **total number** of jobs that must be created or retained, only that 51% must be available to LMI persons
 - Total number of jobs that must be created or retained depends on the Public Benefit Standards—***this is a separate requirement from LMJ.***

LMJ Flexibilities

Location-Based Presumption of LMI Benefit

(III.B.5. (d)(ii) Modification of Location Based Presumption of LMI Benefit for Job Creation and Retention National Objective Criteria, Page 32)

When documenting LMI jobs, grantee may presume a person is LMI if the census tract where they live or where the assisted business and job is located:

- Has a poverty rate of at least 20%; and
- Has evidence of pervasive poverty and general distress.

LMJ Flexibilities Cont.

Income Documentation

(III.B.5. (d)(iii) LMI Job Creation and Retention Records, Page 33)

- Grantees may consider individuals that apply for/hold jobs to be “households of one” for purposes of meeting income eligibility requirements, rather than considering the individual’s total family size and income
- Grantees may substitute records showing the type of job and the annual wages/salary of the job, instead of the individual’s income

Urgent Need

(III.B.5. (d)(i) Use of Urgent Need National Objective, Page 30)

Criterion	Documented By
Is the activity designed to alleviate existing conditions?	Activities to prevent, prepare for, or respond to coronavirus
Does the condition pose a serious and immediate threat to the health or welfare of the community that is of recent origin or that recently became urgent?	HHS Public Emergency Declaration, Federal Disaster Declaration, or State/local emergency declaration
Is the grantee or UGLG unable to finance the activity on its own, and are other sources of funds not available to carry out the activity?	Activities to prevent, prepare for, or respond to coronavirus

Underwriting Criteria for Special Economic Development Activities

(III.B.5. (c)(iv). Mandatory Evaluation of Special Economic Development Activities, Page 29)

Underwriting Criteria for Special Economic Development Activities must be developed and utilized consistently in the evaluation of projects to ensure:

- Activities prevent, prepare for, and/or respond to coronavirus
- Project costs are eligible, reasonable, clearly identified, and committed
- The project is financially feasible
- The return on the owner's equity investment will not be unreasonably high
- CDBG funds are disbursed on a pro rata basis with other finances provided to the project and not being substituted for non-Federal financial support

Public Benefit Standards

(III.B.5. (e)(i) Elimination of Aggregate Public Benefit Test, Page 36 and III.B.5. (e)(ii) Modification of Individual Public Benefit Standards, Page 37)

- Aggregate Standard is waived
- Individual Standard is modified—grantees have three options:
 - Activity must create or retain at least one (1) full-time permanent job per \$85,000 of CDBG-CV funds invested (up from \$50,000 per job) or
 - Activity must provide goods and services to residents of an area such that the number of LMI persons residing in the area served by the assisted businesses amounts to at least one (1) LMI person per \$1,700 of CDBG-CV funds invested, up from one (1) LMI person per \$1,000
 - CDBG-CV assistance was provided due to business disruption related to coronavirus, in which case no monetary standard applies
- Public Benefit Standards alone **do not** require grantees to track the percentage of jobs that are made available to LMI persons—that is required separately if the activity is qualified using the LMJ National Objective.

LMJ vs. Public Benefit—Not the Same Thing!

Public Benefit Standard

- 1 FTE job created or retained per \$85K in CDBG-CV funds (if public benefit is job creation/retention)—no minimum percentage LMI

Low-Mod Jobs National Objective

- 51% of all jobs created or retained must be held by or made available to LMI persons—regardless of total number of jobs created/retained

Opportunity Zones, Non-Profits, and Financing Mechanisms

(III.B.5. (f)(ii) Opportunity Zones and Related Flexibilities for Economic Development, Page 40)

- Assistance can be made through any financing mechanism (not just New Markets Tax Credits)
- Nonprofits may pass assistance through financing mechanisms to other entities for community economic development projects, especially in Opportunity Zones

Float Funded Activities

(III.B.6(a)(ii) Inapplicability of float-funded activities, Page 45)

- Grantees may not use CDBG-CV funds for float-funded activities
- During periods of economic distress, businesses may be better served with grants rather than amortizing loans or more complicated loan pools

Section 108 Loan Guarantees

(III.B.6(f) Relationship to Section 108 Loan Guarantees, Page 56)

- CDBG-CV funds may not be factored into a grantee's Section 108 borrowing authority
- Grantees can use CDBG-CV funds to make a direct payment of principal, interest, or any fees due under a Section 108 note **IF** the direct payment related to disruption or loss due to coronavirus
 - **EXAMPLE:** The revenue intended to be used to repay the Section 108 loan is insufficient due to reductions in revenue due to coronavirus
- Grantees can use CDBG-CV funds to supplement assistance to businesses initially provided with Section 108 funds when necessary to prevent, prepare for, and respond to coronavirus (e.g., financing working capital)
 - The documentation that the original assisted activity satisfies National Objective criteria shall be sufficient to demonstrate that the use of the guaranteed loan funds and the additional CDBG-CV assistance meet a CDBG national objective

Tie-Back to Coronavirus

(III.B.5. (f) Eligible Activities, Page 38)

- Grantees must document that all CDBG-CV funded activities help prevent, prepare for, and respond to coronavirus
- Note that activities must tie back to coronavirus, not necessarily beneficiaries. Examples:
 - Assistance to a business that will hire persons who became unemployed during 2020 due to coronavirus (even if the assisted business was not in operation at the time the coronavirus became a presidentially declared disaster)
 - Assistance to start-up businesses or to restart businesses closed since January 2020 to offset other business closures due to the economic effects of the coronavirus

Duplication of Benefits (DOB) – 1/3

(III.B.9 Duplication of Benefits, Page 61)

Grantees must develop and maintain adequate procedures to prevent DOB that require, at a minimum:

- Assessment of whether CDBG-CV funds will duplicate financial assistance already received by the business for related unmet need and period of performance.
- Any person or entity receiving CDBG-CV assistance (including subrecipients and direct beneficiaries) must agree to repay assistance determined to be duplicative (can be addressed through a subrogation clause in the assistance agreement)

Duplication of Benefits (DOB) – 2/3

(III.B.9 Duplication of Benefits, Page 61)

- Grantees should incorporate DOB review into their program design, application intake, and verification procedures
- Underwriting procedures should demonstrate the following:
 - How due diligence is conducted by grantee, subrecipient and/or contractor
 - How grantee and its subrecipients, contractors and/or partners assess and become familiar with other assistance sources
 - Working capital assistance needs to document that the grant or loan performance period in relation to the amount of assistance being provided is reasonable and whether a business has access to SBA or other funding during the same term
 - That monitoring includes a re-verification or calculation of the need at the end of the grant or loan performance period

Duplication of Benefits (DOB) – 3/3

(III.B.9 Duplication of Benefits, Page 61)

Potential sources of Duplication of Benefits for businesses:

- Economic Injury Disaster Loans
- Paycheck Protection Program Loans
- Restaurant Revitalization Fund Loans
- Shuttered Venue Operators Grant
- Other Small Business Administration (SBA) assistance
- Other federal, state and/or local assistance

Be clear on what is the purpose of the potentially duplicating benefit compared to intended purpose of CDBG-CV assistance.

Program Design and Delivery Considerations



Guiding Questions

What is the need or what problem are you trying to solve?

- Lack of working capital, supply chain gaps, unsafe or unsanitary conditions for workers and /or customers, unemployed workers in need of job training or placement, etc.

Who is best suited to do the work?

- Grantee, subrecipient, vendor, nonprofit, etc.

What will be required to manage the program or activity in a compliant manner?

- Policies and procedures, outreach, case management, DOB review, financial management, etc.

Other Factors to Consider

- Form of assistance: grants, loans, due on sale or forgivable loans and/or service contracts?
 - In a crisis, grants or forgivable loans may be more prudent than loan that must be serviced
- What is the minimum underwriting criteria needed to determine that the business is in good standing and has a plan for repayment and that proposed costs to be supported by the loan are reasonable?
- How will you assure that the loan maintains leverage if business does not perform?
 - For larger loans, this could mean security instruments and for smaller loans, a basic promissory note.
- Consider the three (3) year deadline to expend 80% of CDBG-CV grant funds when planning for the size and complexity of the program and types of activities that the program will support.

Cross-Cutting Federal Regulations

- Environmental Review Part 58
- Section 3
- Procurement
- Uniform Relocation Act
- Labor Standards
- Fair Housing and Equal Opportunity

Useful Resources



CDBG Economic Development Resources

- [HUD CDBG-CV Economic Development Quick Guide](#)
- [Economic Development Toolkit Manual](#)
- [Microenterprise Assistance Toolkit](#)
- [Economic Development Toolkit Slides](#)
- [24 CFR Part 570 \(HTML\) - 570.201\(o\), 570.203, 570.209](#)
- [Appendix A to Part 570 Guidelines and Objective for Evaluating Project Costs and Financial Requirements](#)
- [CDBG Economic Development Activities Matrix](#)
- [CDBG Economic Development Flow Chart](#)
- [Memo: Counting Jobs for Economic Development Activities](#)

General CDBG-CV Resources

- HUD [CDBG CORONAVIRUS-19 Resources](#) on HUD Exchange Landing Page:
- [Ask-A-Question](#): Link to AAQ desk for additional information or support
- [CDBG-CV regulatory Notice: FR-6218-N-01: Notice of Program Rules, Waivers, and Alternative Requirements Under the CARES Act for CDBG-CV Grants, FY 2019 and 2020 CDBG Grants, and for Other Formula Programs](#)
- [Frequently Asked Questions \(FAQ\): COVID-19 FAQs](#)
- [Duplication of Benefits \(DOB\) Guidance: CDBG-CV Duplication of Benefits Resources](#)
- [Section 108 Q&A related to Coronavirus: Section 108 Q&A for Borrowers Seeking Relief as a Result of Coronavirus](#)

Questions?



Thank You!

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