



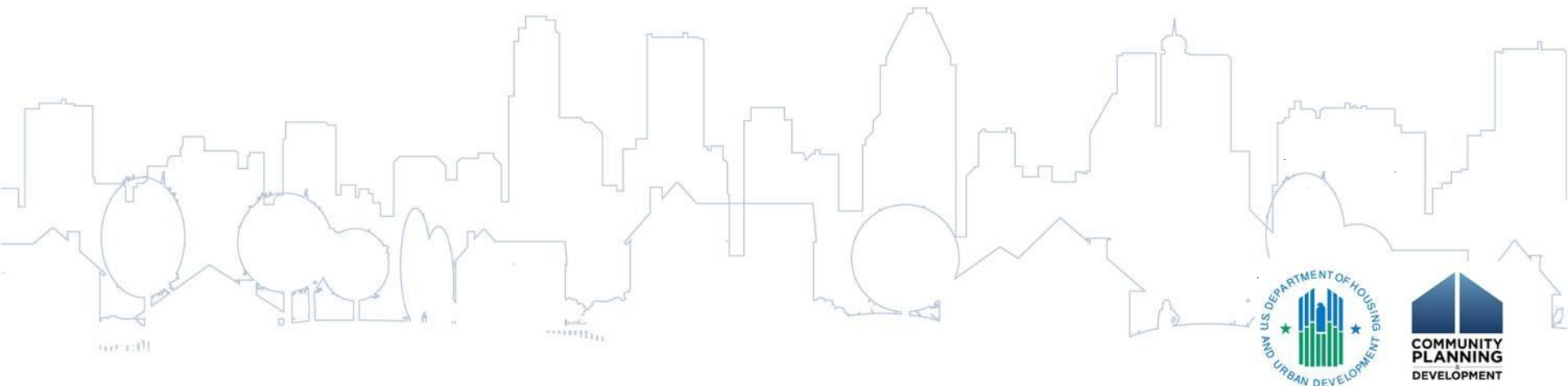
Community Development Block Grant Economic Development Forum

March 30, 2011



PARTICIPATING IN THE WEBINAR

- Call will last approximately 90 minutes.
- All callers are “muted” due to the high number of participants.
- The slides will be posted on the CDBG Program pages shortly.
- Webinar will be recorded for future use and made available for viewing/downloading.



PARTICIPATING IN THE WEBINAR

- If you are having audio difficulties, use telephone instead of your computer.
- If you have questions you are welcome to submit them throughout the presentation using the “questions” function on the GoToWebinar toolbar.
- A resource advisor will forward some questions to presenters to answer at the end of the webinar.
- If your question is not answered we will be developing additional economic development guidance and will post this on the website.





Community Development Block Grant Economic Development Forum

March 30, 2011



OVERVIEW OF TODAY'S PRESENTATION

- Scenarios, Questions and Answers that address:
 1. Eligibility, National Objectives, and Public Benefit Standards (and applicable documentation)

Diane Lobasso

Steve Rhodeside

James Höemann

2. Microenterprises and Commercial Rehabilitation

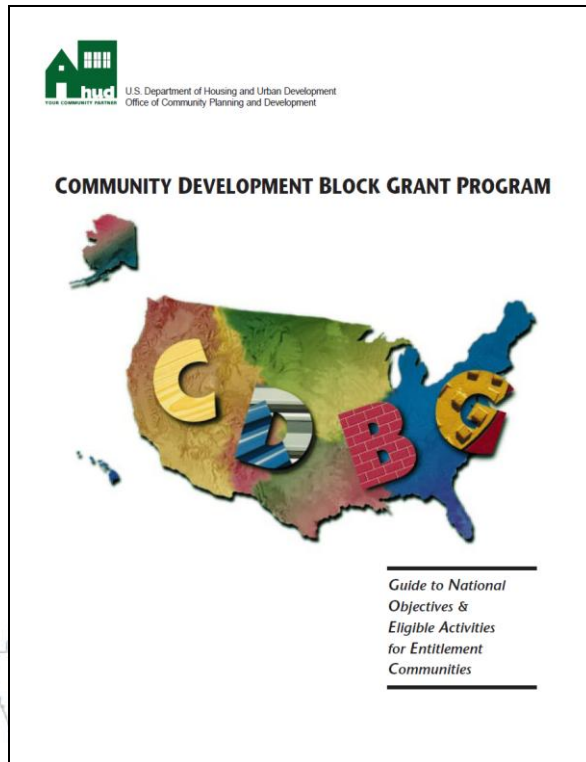
Steve Johnson

3. Section 108 loan Guarantee, Mixed-Use Development, Community Economic Development Project, and Neighborhood Revitalization Strategy Areas

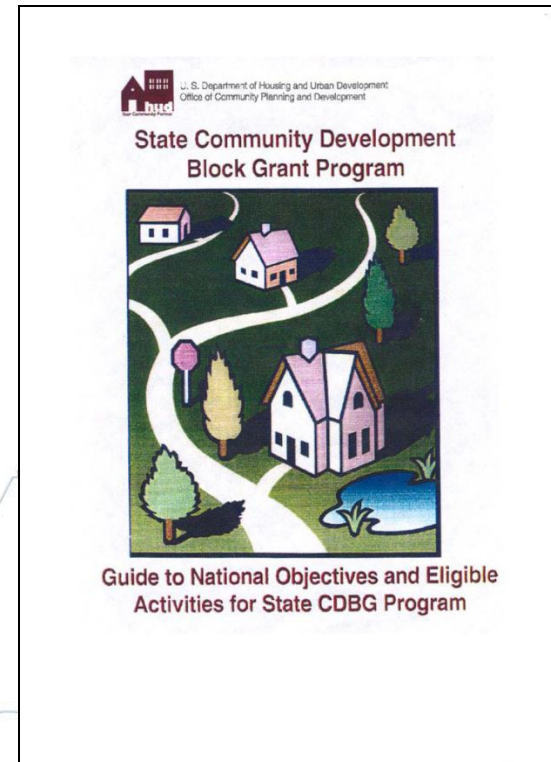
Hugh Allen

GUIDE TO NATIONAL OBJECTIVES

Entitlement Communities



States



ELIGIBILITY, NATIONAL OBJECTIVES AND PUBLIC BENEFIT STANDARDS FOR ECONOMIC DEVELOPMENT PROJECTS

Business Profile of Green Thumb Industries

- Located in the City of Hope, Florida with a plant in the City of New Town, Georgia
- Manufactures high end landscaping maintenance equipment
- 75 employees in Florida; 40 are low and moderate income (53%)
- 375 *total* jobs in the industrial park; 195 are low and moderate income (52%)
- Current financial status

ELIGIBILITY, NATIONAL OBJECTIVES AND PUBLIC BENEFIT STANDARDS FOR ECONOMIC DEVELOPMENT PROJECTS

Part I: Address current financial crisis

City of Hope will apply to the State of Florida for a two-tier grant:

1. New equipment to make Green Thumb more efficient and competitive
\$2,500,000
2. Water and sewer improvements that will serve all six parcels in the industrial park
\$4,500,000

ELIGIBILITY AND NATIONAL OBJECTIVE CONSIDERATIONS

- Eligible Activities: Assistance to a for-profit business pursuant to § 105(a)(17) and public improvements/facilities pursuant to 105(a)(2) of the Act.
- National Objective: Job retention under low and moderate income benefit
- LMI for infrastructure grant may be met by aggregating jobs created/retained by all such businesses

PUBLIC BENEFIT STANDARDS— INDIVIDUAL STANDARD

- Individual Standard—limit is \$50,000 per job created
 - $\$2,500,000/75 = \$33,333$ (PASS)
 - $\$4,500,000/375 = \$12,000$ (PASS)
- Important Notes:
 - All jobs retained in the business park are included in the second calculation
 - For national objective compliance, jobs exceeding \$10,000 must include any additional jobs created one year after the water/sewer improvements are completed.

PUBLIC BENEFIT STANDARDS— AGGREGATE STANDARD

- Aggregate Standard—limit is **\$35,000** for the State's entire economic development program
- State of Florida distributes \$40 M for ED activities for the 2010 Grant and plans to create/retain 1,500 jobs
- $\$40,000,000/1,500 = \$26,667$ (PASS)

UNDERWRITING GUIDELINES

Underwriting Guidelines are Voluntary

- Project costs must be reasonable
- Other financing should be committed
- CDBG should be additive
- Project must be financially viable
- Disbursements must occur on a pro-rata basis

DOCUMENTATION AND OTHER THINGS TO CONSIDER

Documenting Retained Low/Mod Jobs

- To establish jobs as being “retained,” the UGLG must document that the job would be lost without CDBG assistance.
 - Company’s notice to workers of layoffs unless funding comes through;
 - Public announcement of plant closing; or
 - Financial records indicating cutbacks or plant closing without financial assistance.

DOCUMENTATION AND OTHER THINGS TO CONSIDER

Documenting Jobs

- Must be a permanent position
 - Counted as Full Time Equivalent (FTE) so that 40 hours/week = 1 FTE
 - Jobs not lasting 12 months: Only counted if designed to provide employees yearly income (teachers vs. lifeguards)
- UGLG must keep records showing family income for the employees whose jobs are being retained
 - Family income for each employee is measured
 - Green Thumb: more than 51% of retained jobs are Low/Mod; therefore, UGLG does not have to document the family income of new employees resulting from job turnover.

DOCUMENTATION AND OTHER THINGS TO CONSIDER

Who makes required ED determinations: State or UGLG?

- UGLG is required to document that jobs will be lost w/o CDBG, per regulations.
- Both State & UGLG must have documentation (570.490) for HUD review and audits.
- If State provides funding to UGLG for ED and UGLG picks project, then UGLG has primary recordkeeping responsibility.
- If State has first come/first served application window, State will review project details prior to funding and determine project eligibility, meeting National Objectives, Public Benefit Standards, and other requirements.

RESTRICTION ON EMPLOYER RELOCATION

Part II: Conditions not improving sufficiently for Green Thumb; plan to close Georgia Plant and relocate 50 employees

- Applying for additional CDBG funds from the City of Hope to consolidate operations
- Green Thumb will move these employees into the unused warehouse space

RESTRICTION ON EMPLOYER RELOCATION

- Job Relocation Requirements: § 105(h) of the Act; § 570.482 (states), § 570.210 (entitlements)
- Important Principles Regarding Job Relocation
 - Directly Assist—§ 105(a)(1), (2), (4), (7), (14), (15), and (17)
 - Labor Market Areas
 - Significant Number of Jobs

RESTRICTION ON EMPLOYER RELOCATION

- Job Loss Thresholds
 - Loss of <26 jobs: not a significant loss
 - Loss of >499 jobs: significant loss
 - Loss of 26-499 jobs: significant if the job loss is more than .1% of the total number of persons in labor force in the labor market area (LMA)
- Green Thumb: 50 jobs moving from GA to Hope. Is the number of jobs in losing LMA more than 50,000?
 - If yes, insignificant job loss
 - If no, the CDBG assistance would not be permitted.

JOB TURNOVER ISSUES

Part III:

- One year after CDBG grants were completed
- Positions required specialized training
- FTE's held by LMI persons drops below 51%
- What must they do?

JOB TURNOVER ISSUES

Discussion:

- The positions retained are considered and not when they turn over
- Regulations present an either-or-both situation “at the time the CDBG assistance is provided”:
 - Job is known to be held by a LMI person
 - Turn over expected within two years
 - ✓ Job will be filled by or
 - ✓ Made available to LMI persons

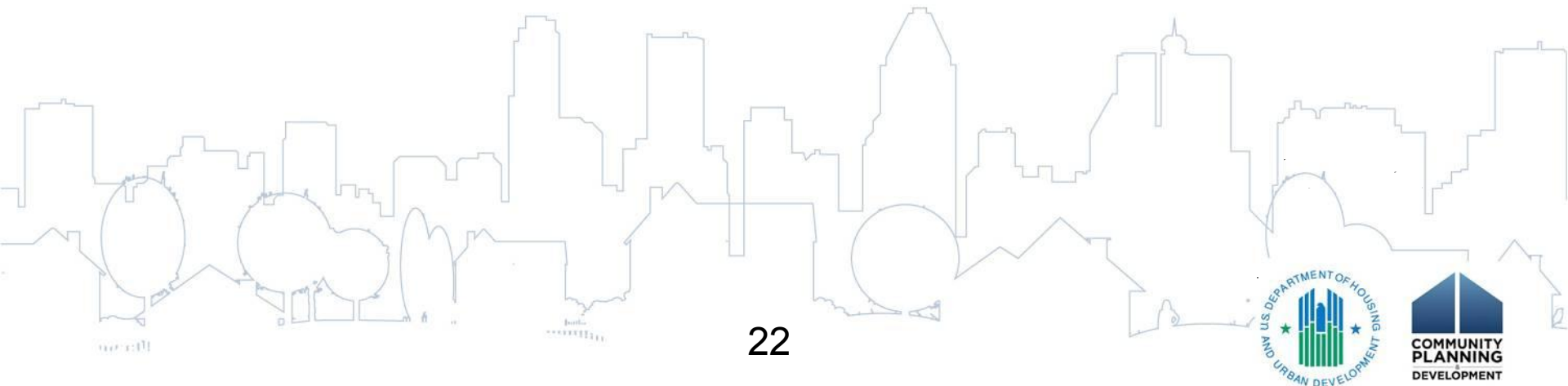
INDUSTRIAL PARK AT FULL CAPACITY

Part IV: Green Thumb Industries stabilizing and a new business will move into the industrial park's 2 open spec buildings

- Total Jobs created/retained by all businesses in the Park: 425 (50 new jobs created; 375 existing jobs)
- Final calculations for aggregate public benefit standard
- $\$4,500,000/375=\$12,000$
- New business and resulting jobs not considered due to time lapse (> 1 year) 570.483(b)(4)(vi)(F)(2)

COMPLIANCE ISSUES

Part V: What would happen if the City of Hope's industrial park did not meet a national objective or the public benefit standards when it reaches full capacity and was not creating additional jobs?



USING CDBG FOR COMMERCIAL REHABILITATION



COMMERCIAL REHABILITATION

SELECTING THE RIGHT ELIGIBLE ACTIVITY AND NATIONAL OBJECTIVE DEPENDS ON:

- What Types of Buildings?
- Who Is the Owner?
- What Types of Physical Improvements?
- Who Are the Occupants?
- What Benefit Are You Trying to Achieve?
- Are You Assisting the Business Owner, or the Building Owner?

---these are inter-related---

STRIP SHOPPING CENTER



FREESTANDING COMMERCIAL BUILDING



BIG BOX RETAIL CENTER



INDUSTRIAL BUILDING



COMMERCIAL REHABILITATION

Owned by private for profit business? Then you can do:

- Improvements to building exterior (not just façade)
- Correction of code violations
- Lead paint/asbestos abatement
- Historic preservation (as separate from rehabilitation)
- Anything that doesn't fit above (e.g. HVAC upgrades, tenant finishes) must be eligible as assistance to a for-profit business under 570.203(b)

Publicly owned or owned by nonprofit entity? Then you can do:

- Any rehabilitation work listed in 24 CFR 570.202(b), (d), (e), (f)
- Not limited to exterior work or code corrections
- Can include interior work, architectural barrier removal, tenant finishes, etc.

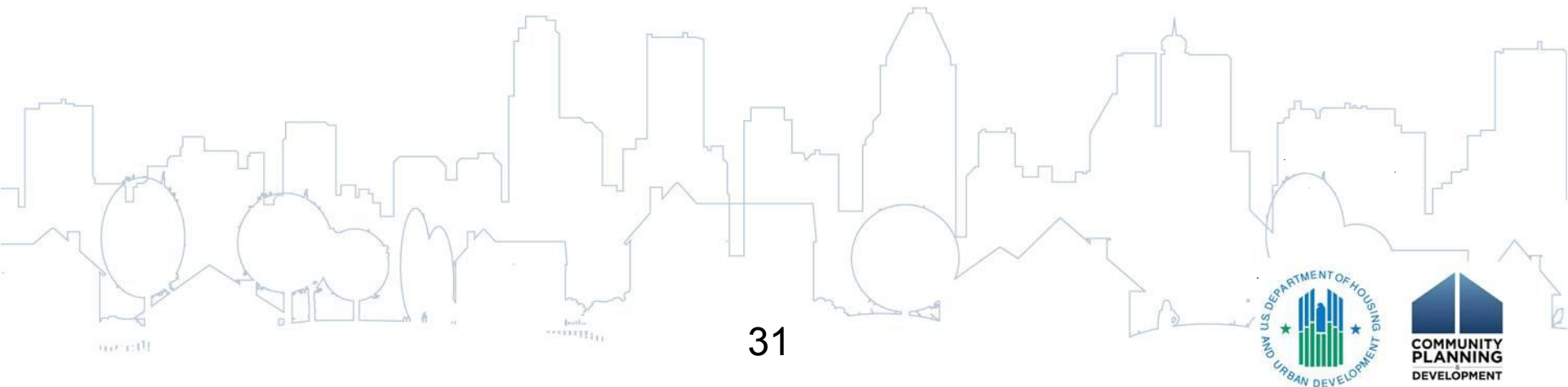
COMMERCIAL REHABILITATION

WHAT NATIONAL OBJECTIVE DEPENDS ON WHAT BENEFITS YOU WANT TO ACHIEVE

- Create/retain jobs?
- Improve physical appearance?
e.g. Main Street, blight elimination
- Provide retail goods & services to a low/moderate income neighborhood?
- Support an NRSA, CDFI, EZ/EC?

LMI AREA BENEFIT: 2 OPTIONS

- Provides (retail) goods/services to residents of an LMI Area
- Job Creation as LMI Area Benefit, for qualified areas



JOB CREATION ACTIVITIES AS LMI AREA BENEFIT

- Job creation activities carried out in an EZ/EC
 - Job creation activities carried out in an NRSA
 - Job creation activities carried out by a CDFI in a 51%+ LMI residential area
- ❑ These possibilities are not limited to just Commercial/Industrial Rehab – can be used for any economic development activity

PROVIDE RETAIL GOODS/SERVICES TO LMI AREA RESIDENTS

- Primarily residential LMI area
- The benefits (goods & services) are available to all the residents of the area
- What are basic retail goods & services?
- Different types of businesses have different service areas
- NOT for industrial, business-to-business
- This is not limited to just Commercial/Industrial Rehab – can apply to other economic development activities too

WHAT IS THE “SERVICE AREA”?

NO ONE SIZE FITS ALL ANSWER – DEPENDS ON:

- The Building – and who you are assisting:
 - Are you providing the assistance to individual store owners, or to the owner of the building?
 - Size - Small freestanding building with 1-2 storefronts vs. a Shopping Center vs. Big Box
 - Office Space vs. Retail
 - Are there existing tenants? Or is it vacant?
- Each assistance is its own activity and national objective documentation is activity-specific

WHAT IS THE “SERVICE AREA”?

NO ONE SIZE FITS ALL ANSWER – DEPENDS ON:

- The Location
 - Just being located in an LMI CT is not enough
 - Businesses must provide goods and services to the residents of the area
 - Is this in the Central Business District or major retail node? On a major highway? The service area may be citywide or regional

WHAT IS THE “SERVICE AREA”?

NO ONE SIZE FITS ALL ANSWER –DEPENDS ON:

- The Business(es)
 - How far away are other business of same type?
 - Is it the only one of its kind in town or in the region?
 - Ask the business: what is their retail trade area? What is their target demographic?
 - If it’s a shopping center, what’s the mix of businesses? How far away are similar scale centers with a comparable mix of businesses?
- You can choose not to serve certain types of business

DO THESE BUSINESSES PROVIDE GOODS & SERVICES TO LMI RESIDENTS?

- What's the service area of a shopping center like this?



HOW WILL YOU ENSURE THE OWNER RENTS THIS SPACE OUT TO A BUSINESS THAT PROVIDES GOODS & SERVICES TO AREA RESIDENTS?

- What about the 2nd floor?



FREESTANDING COMMERCIAL BUILDING



GIVEN THE SIZE OF THIS BUILDING, CAN YOU REALISTICALLY CLAIM THAT A BUSINESS LOCATING HERE SERVES ONLY THE IMMEDIATE SURROUNDING NEIGHBORHOOD?

- Can you legitimately claim this building has code violations, is blighted, or has health/safety issues?



INDUSTRIAL BUILDING



SLUM/BLIGHT REMOVAL

Area Basis:

- Defined area that meets state/ local definition of slum/blighted/ deteriorating/etc. (need not be officially designated)
- 25% of properties are deteriorated, contaminated, vacant, etc. under 570.208(b)
- The activity addresses conditions which contributed to the deterioration of the area
- Doesn't matter what businesses occupy the building

Spot Basis:

- Not in a blighted area
- Individual properties suffer blight/decay
- Rehabilitation is limited to eliminating specific conditions detrimental to public health & safety, under 570.208(b)(2)
- Note: detrimental health & safety conditions not necessarily equivalent to code violations
- This further limits the commercial rehab work you can do

WHAT ELSE APPLIES?

IF COMMERCIAL REHAB UNDER § 570.202:

- Public Benefit Standards? No
- Labor Standards? Yes, if construction costs >\$2000
- Environmental? Yes
- Anti-Pirating Prohibition? No
- Eminent Domain Prohibition? Yes
- Section 3? Yes, if \$\$ thresholds are met

USING CDBG FOR MICROENTERPRISE ASSISTANCE



MICROENTERPRISE ASSISTANCE

- Eligible under 24 CFR § 570.201(o), 42 USC § 5305(a)(22)
- Who can do it?
- What types of assistance can be provided?
- What types of assistance do the businesses need?
- What benefits do you hope to achieve?
- How do you meet a National Objective?

MICROENTERPRISE ASSISTANCE

WHO CAN CARRY OUT MICROENTERPRISE ASSISTANCE ACTIVITIES?

- Grantee
- Other public agencies & organizations
- Non-profit organizations
- For-profit entities (this is the only situation where a for-profit entity would be classified as a subrecipient in Entitlement program)

MICROENTERPRISE ASSISTANCE

WHAT QUALIFIES AS A MICROENTERPRISE?

- 5 or fewer employees, including the owner
- Start-up or existing business
- Part-time/hobby business going full-time
- Persons interested in starting a microenterprise (even if they end up not starting a business– that might be a positive outcome)

MICROENTERPRISE ASSISTANCE

WHAT KINDS OF ASSISTANCE CAN BE PROVIDED?

Regulations – “including but not limited to”:

- Financial Assistance (loans, grants, loan guarantees, etc.)
- Technical Assistance & Business Support Services
- General Support (peer support, child care, counseling, transportation, etc.)

What kinds of assistance do the businesses need?

WHAT KINDS OF ASSISTANCE CAN BE PROVIDED?

CDBG has no restrictions on:

- The forms of financial/technical/support services that can be provided
 - What the business uses the money for
 - Up to the grantee to decide in their program design/criteria
 - What's possible vs. what's a good idea
 - What the business needs vs. what it wants
- These considerations are not limited to Microenterprises – can apply to other economic development activities too

MICROENTERPRISE ASSISTANCE

OPTIONS FOR MEETING A NATIONAL OBJECTIVE

- Low/Mod Area Benefit – business provides goods/services to residents of an LMI area
- Low/Mod Area Benefit – business is in an NRSA, EZ/EC; or a CDFI activity
- Low/Mod Jobs – business will create or retain jobs & 51% are LMI
- Slum/blight – unlikely unless it's the building that needs assistance

MICROENTERPRISE ASSISTANCE

LIMITED CLIENTELE LOW/MOD BENEFIT

- Can use this only if the activity exclusively assists microenterprises
- If owner is LMI based on family income
- Can cherry-pick out the LMI owners and qualify them as limited clientele
- LMI status presumed for 3 years
- Doesn't matter what type of business, whether jobs will be created/retained
- If owner is not LMI, must meet another national objective criteria (LMA, LMJ)

WHAT IS SECTION 108?

- Administered as part of CDBG program
- Financing tool that allows communities and States to expand size of their CDBG programs (as much as 5 times their CDBG allocations)
- If activities meet CDBG requirements and loan meets Section 108 underwriting criteria, State or locality issues note for HUD's guarantee
- Notes are repaid with CDBG funds, program income, and/or other revenues

Mixed-Use EXAMPLE: OXFORD PLAZA AND DAVID BROWER CENTER (Berkeley, CA)

- Oxford Plaza
 - 41 spaces of ground-level parking
 - 8,100 square feet of retail
 - 97 units of affordable housing



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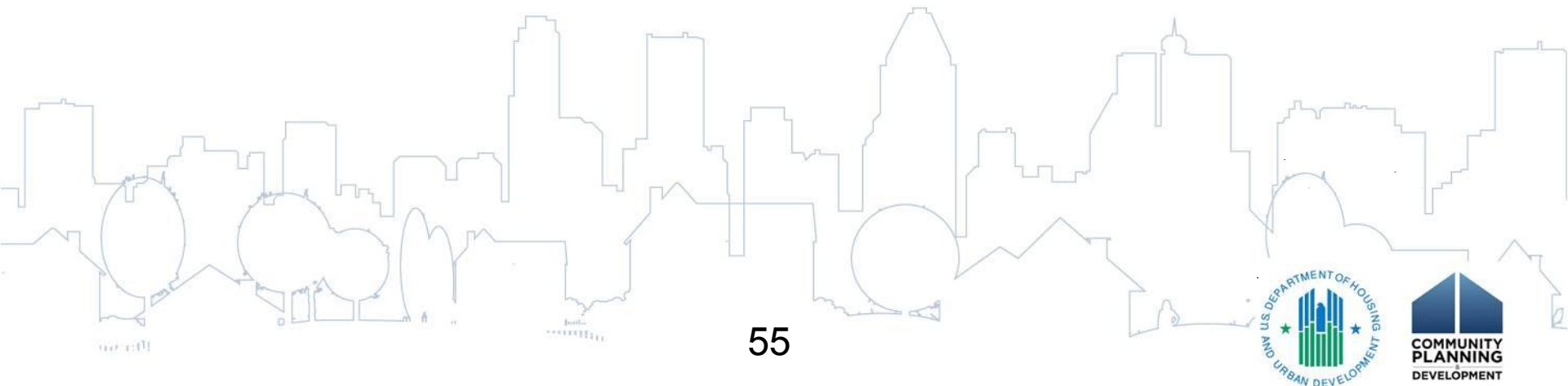
- David Brower Center
 - 33,000 square feet of rental office space for non-profit organizations
 - 7,400 square foot auditorium and conference center
 - 3,000 square foot restaurant

SECTION 108 FINANCING SPECIFICS

- Amount → up to five times annual CDBG award (every \$1 in CDBG funds can leverage \$5 in Section 108 Loan Guarantee financing)
 - Entitlement
 - State
- Maximum Term → 20 years

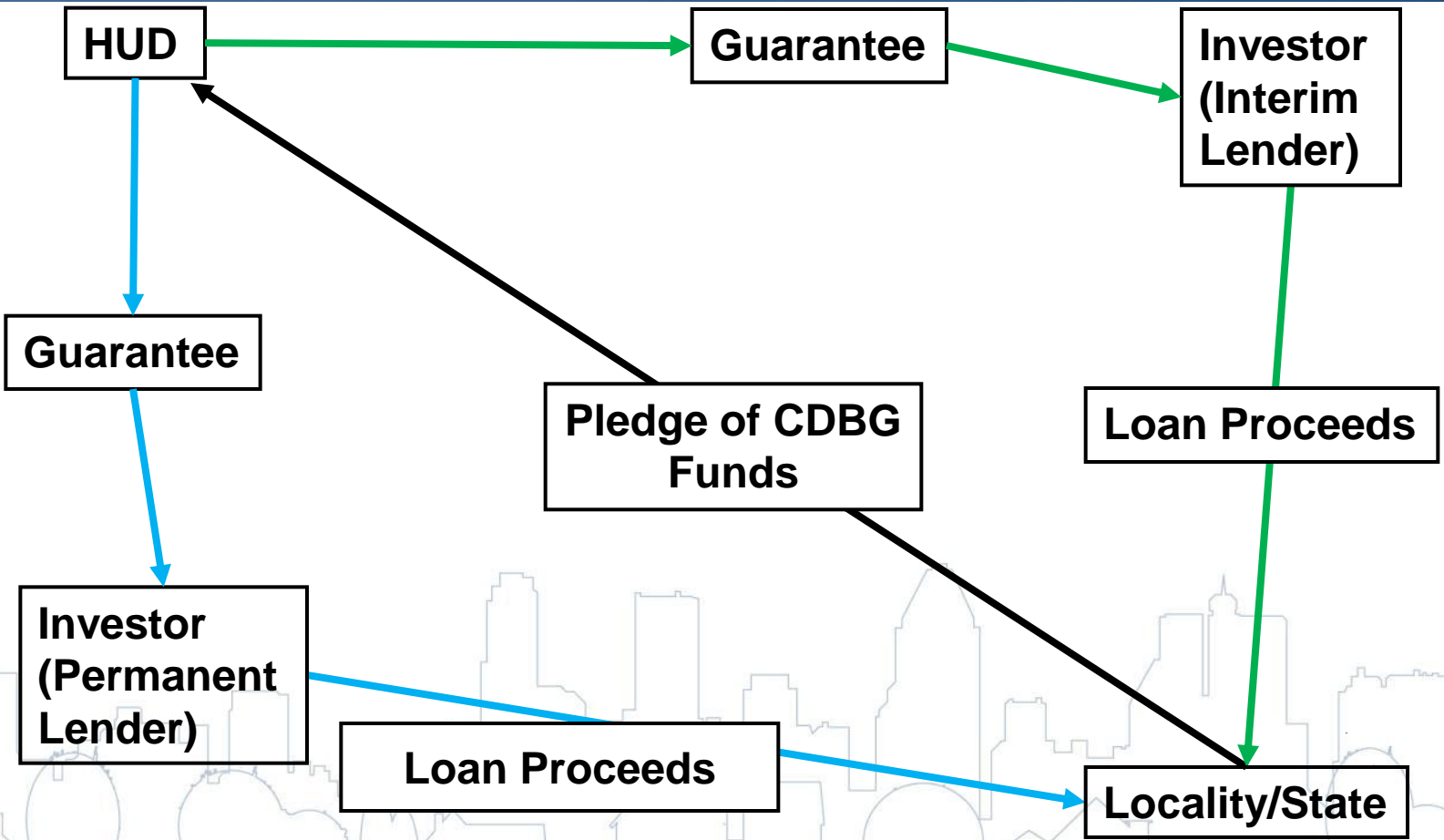
TYPES OF SECTION 108 FINANCING

- Interim – variable interest rate
- Permanent – fixed interest rate



SECTION 108

LOAN-GUARANTEE FINANCING



INTERIM SECTION 108 LOANS

- Interim loan available until public offering
- Fiscal Agent arranges sale of HUD-guaranteed note and services loan
 - Interest rate: Variable 90 day London Inter Bank Offered Rate (LIBOR) + 20 basis points, paid quarterly
 - HUD guarantees repayment of borrower's loan to investors
- Interim Lender currently a Money Market Fund (Federated Investors)

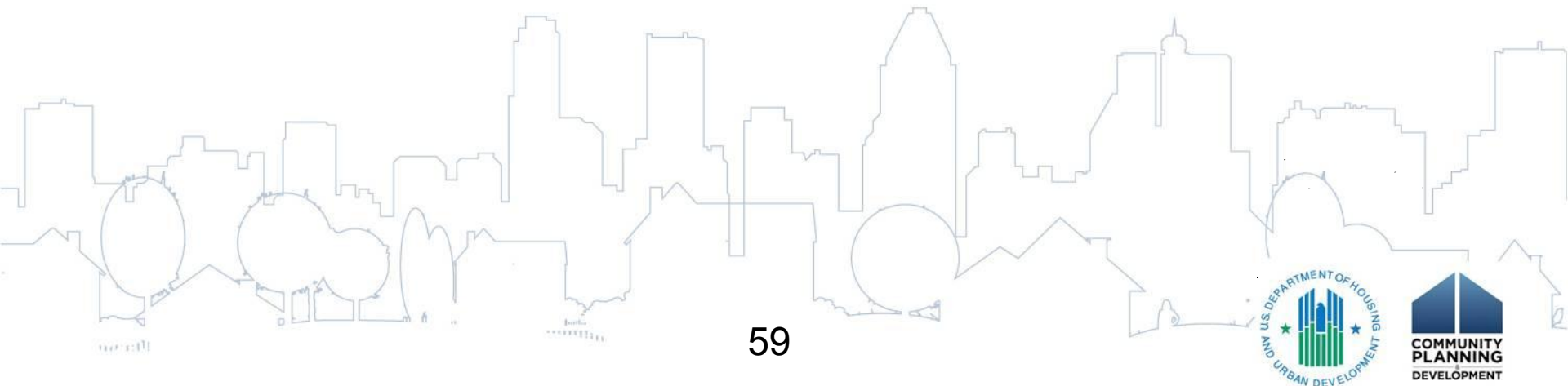
PERMANENT SECTION 108 LOANS

- Permanent – fixed interest rate
 - Public offering provides long-term, fixed-interest rate financing
 - “Public offering” conducted annually by Section 108 underwriting team
 - Interest rates—fixed; benchmarked on U.S. Treasury yields
 - Fees—includes underwriting, legal and printing costs
 - Loans serviced by trustee

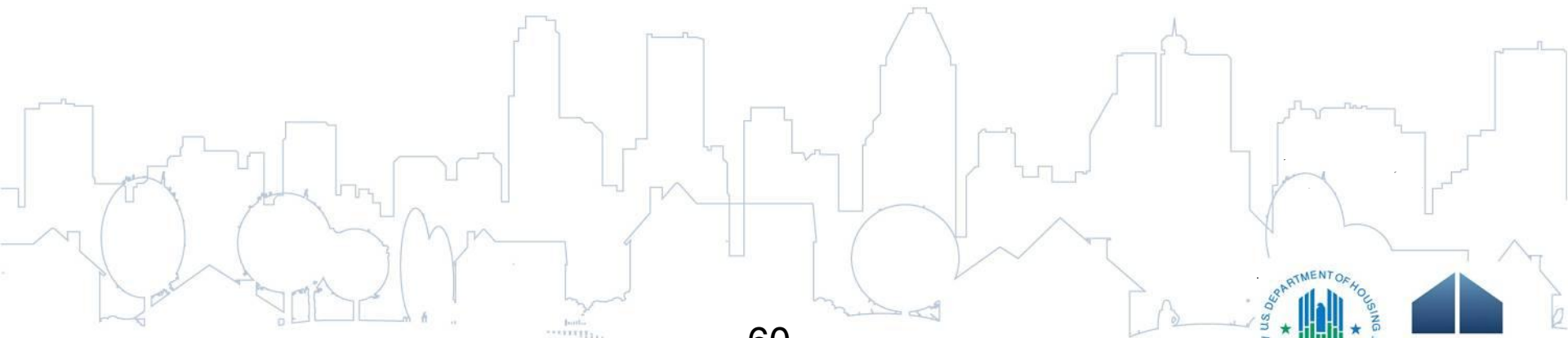
COMPARISON OF INTEREST RATES (March 2011)

- Prime Rate (variable) –3.25%
- Section 108: fixed (due 8/1/2031)** – 3.85%
- Section 108: variable – 0.31% plus 20 basis points

**If public offering were held in March



FACILITATING USE OF CDBG/SECTION 108 FUNDS FOR ECONOMIC DEVELOPMENT



PRESUMED LOW-MODERATE INCOME BENEFIT



Local Business

61



PRESUMED LOW-MODERATE INCOME BENEFIT

- May presume employee is LMI if:
 - Lives in Census tract with 70% LMI
 - Lives in Census tract within EZ/EC
 - Lives in Census tract with 20% poverty rate (30% poverty if it includes the CBD) and evidences pervasive poverty and general distress

-OR-

- Business/job is located in EC/EZ; OR area with 20% poverty rate (30% if area includes CBD) and evidences pervasive poverty and general distress

COMMUNITY ECO. DEV. PROJECT CARRIED OUT BY a CBDO/CHDO

- Under Section 108 Loan Guarantee Program, CBDOS or CBDO/CHDOs may carry out only a Community Economic Development Project

- Advantage – can address lack of affordable housing accessible to existing or planned jobs

- CBDO/CHDO economic development activities do trigger public benefit standards



Community-Based Development Organization

Or

CBDO/Community Housing Development Organization [24 CFR 570.204(a) and (c)(1)(2) or (3)]

NRSA FOR ENTITLEMENTS AND CRSA FOR STATES

- NRSA and CRSAs must be approved by HUD [24 CFR 570.208 (d)(5); or 570.483(d)(5)]
- Advantage for economic development (Option)
 - Reduce CDBG record keeping burden for jobs by meeting National Objective under area benefit [24 CFR 570.208 (a)(1)]. However, must meet public benefit standards.



Neighborhood Revitalization Strategy Area

CONCLUSION AND LIST OF RESOURCES

Training Opportunities in 2011

- Several live sessions and a webinar on the Economic Development Toolkit.

Resources

- CDBG Statute and the Code of Federal Regulations

<http://www.hud.gov/offices/cpd/lawsregs/index.cfm>

- Economic Development Toolkit

<http://www.hud.gov/offices/cpd/economicdevelopment/toolkit/index.cfm>