



# Using State Community Development Block Grant Funds to Promote Economic Development

March 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

- Please call into the webinar using the audio information, and log into the viewing portion using the Live Meeting link.
- If you have questions on the material that is covered today, you are welcome to submit them throughout the presentation using the “Q&A” function on the Live Meeting toolbar.
- A resource advisor will forward some questions to presenters to answer at the end of the webinar.
- HUD will be developing additional guidance on Economic Development.





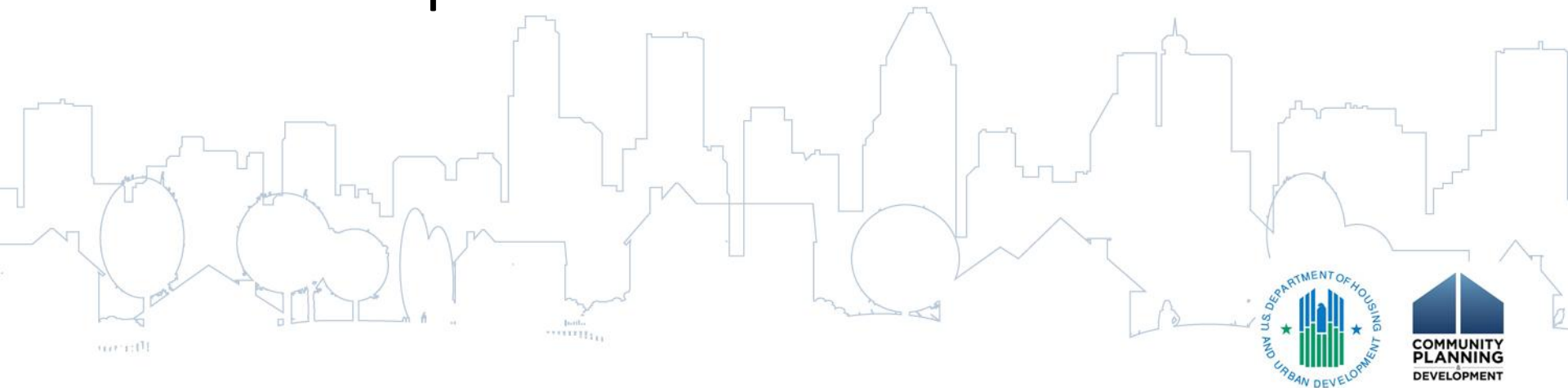
# Using State Community Development Block Grant Funds to Promote Economic Development

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# OVERVIEW OF TODAY'S PRESENTATION

- Eligibility
- National Objectives
- Underwriting Guidelines
- Public Benefit Standards
- Other Requirements



# ELIGIBLE ECONOMIC DEVELOPMENT ACTIVITIES

- Funding for-profit businesses and activities carried out by non-profit entities
- Technical assistance to businesses
- Microenterprise activities
- Commercial rehabilitation
- Non-profit organizations serving non-entitlement communities
- Infrastructure to assist businesses
- Job training



# FUNDING FOR-PROFIT BUSINESSES AND ACTIVITIES CARRIED OUT BY NON-PROFIT ENTITIES

- Acquire, construct, rehabilitate, reconstruct or install commercial/industrial buildings or equipment
  - By unit of general local government recipient or subawardee only
- Assistance to for-profits
- Economic development services in connection with special economic development activities



# FUNDING FOR-PROFIT BUSINESSES AND ACTIVITIES CARRIED OUT BY NON-PROFIT ENTITIES (CONTINUED)

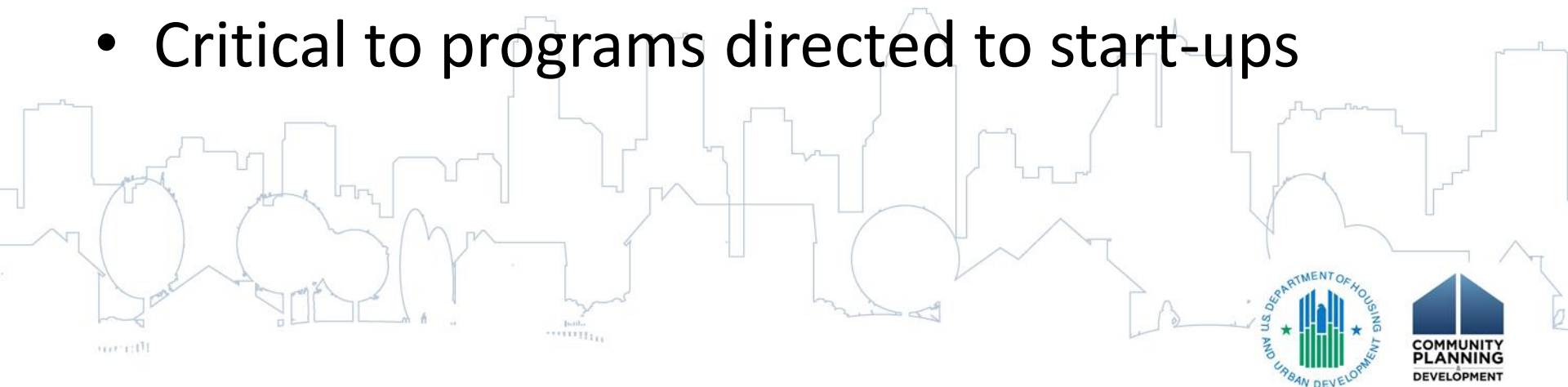
- Flexibility in types of assistance to businesses
  - Grants
  - Loans
  - Guarantees
  - Technical Assistance & Support Services
- May meet several different national objectives; depends on business and location
- Triggers the requirement for public benefit standards





# TECHNICAL ASSISTANCE TO BUSINESSES

- Helps reduce risk of business failure
- Often focused on business plan development or legal and accounting issues
- Often offered in conjunction with financial assistance
- Critical to programs directed to start-ups



# TECHNICAL ASSISTANCE TO BUSINESSES (CONTINUED)

- Under CDBG:
  - As part of economic development
    - Caveat: must meet public benefit standards
  - As a public service
  - Through a non-profit organization serving non-entitlement areas
    - Must also meet public benefit standards



# MICROENTERPRISE ASSISTANCE

- CDBG can fund micro enterprise assistance
- Microenterprise =
  - Owners or persons who work toward developing, expand, stabilize business
  - Commercial enterprise with  $\leq 5$  employees (including owner)
- Note: this definition differs from SBA



# MICROENTERPRISE ASSISTANCE (CONTINUED)

- May provide assistance as loans, grants and other forms of financial support
- Other support activities eligible:
  - TA, advice, and business services to owners and persons developing microenterprises
  - General support to owner and persons developing microenterprises
  - Training and TA to build recipient and subrecipient capacity



# MICROENTERPRISE ASSISTANCE (CONTINUED)

- Can do TA and training to increase capacity of recipient/subrecipient to do microenterprise programs
- No limit on amount or type of CDBG loan/grant to each microenterprise
- Not subject to public benefit test if separate program under § 105(a)(22)
- Owner not required to be LMI, but remember must meet a national objective



# COMMERCIAL REHABILITATION

- Rehabilitation of commercial or industrial structures – §105(a)(4); EC regulations for guidance
- If private, for-profit owner:
  - Rehabilitation limited to exterior of building and correction of code violations
  - Other improvements must be carried out pursuant economic development to a for-profit business under §105(a)(17).
- Not subject to public benefit standards if carried out under §105(a)(4)



# NON-PROFIT DEVELOPMENT ORGANIZATIONS-105(a)(15)

- Nonprofit organizations serving the development needs of communities in non-entitlement areas.
- May carry out three kinds of projects
  - Community economic development
  - Neighborhood revitalization
  - Energy conservation
- 105(a)(15) activities trigger public benefit standards
- Job training activities are exempt from PS cap when carried out by 105(a)(15) organization



# INFRASTRUCTURE FOR ECONOMIC DEVELOPMENT

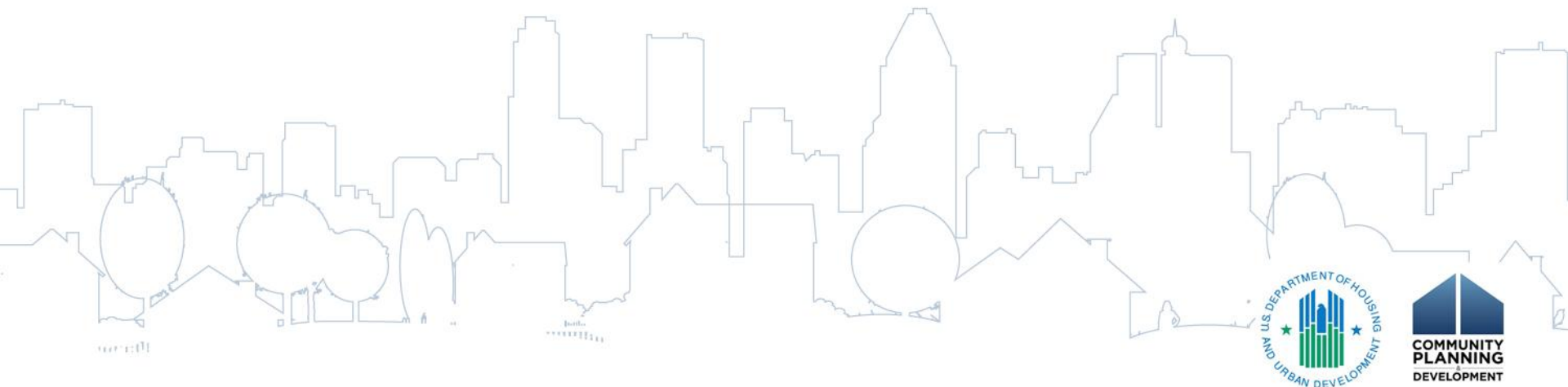
- Roads, streets, sewers that are:
  - Leading to business location
  - Within an industrial park
  - On a business site
- If public facility must be owned by public agency/nonprofit
- If owned by business, conduct as assistance to a for profit business.
- Triggers the public benefit standard if using the jobs national objective standard and obligates more than \$10,000/job





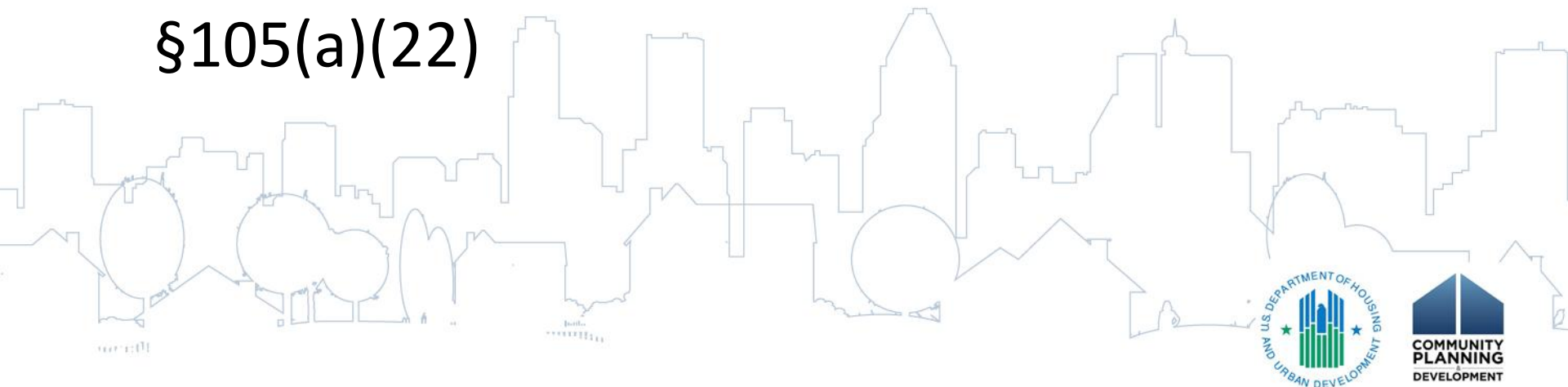
# JOB TRAINING

- Help unemployed or under-employed gain skills to meet labor market demands
- Linked to job placement
- TA and entrepreneurial training to owners of micro-enterprises



# JOB TRAINING (CONTINUED)

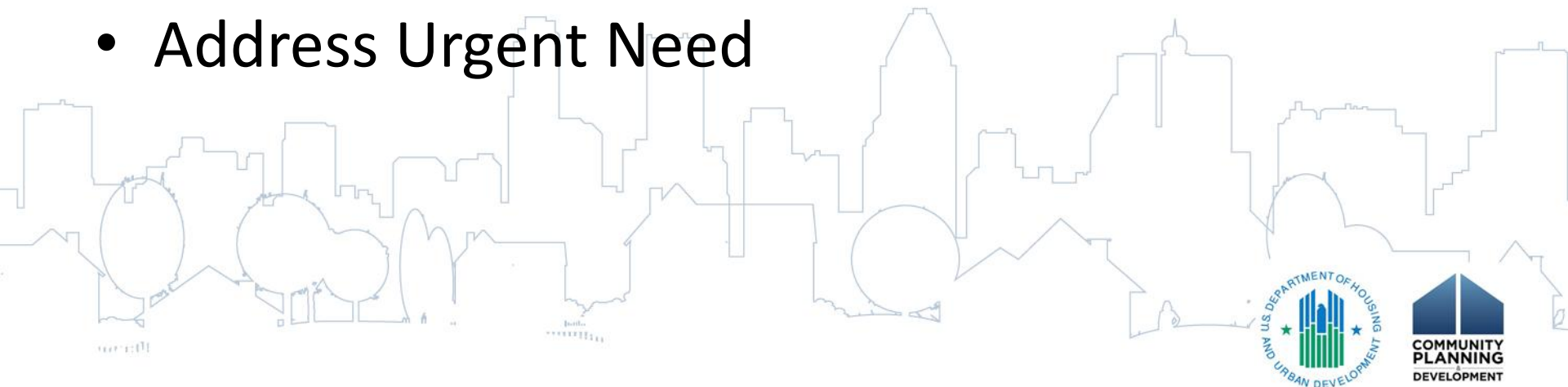
- As a public service -- §105(a)(8)
- As part of economic development to a for-profit business— §105(a)(17)
- By § 105(a)(15) organizations
- As part of micro-enterprise activities -- §105(a)(22)



# ECONOMIC DEVELOPMENT NATIONAL OBJECTIVES

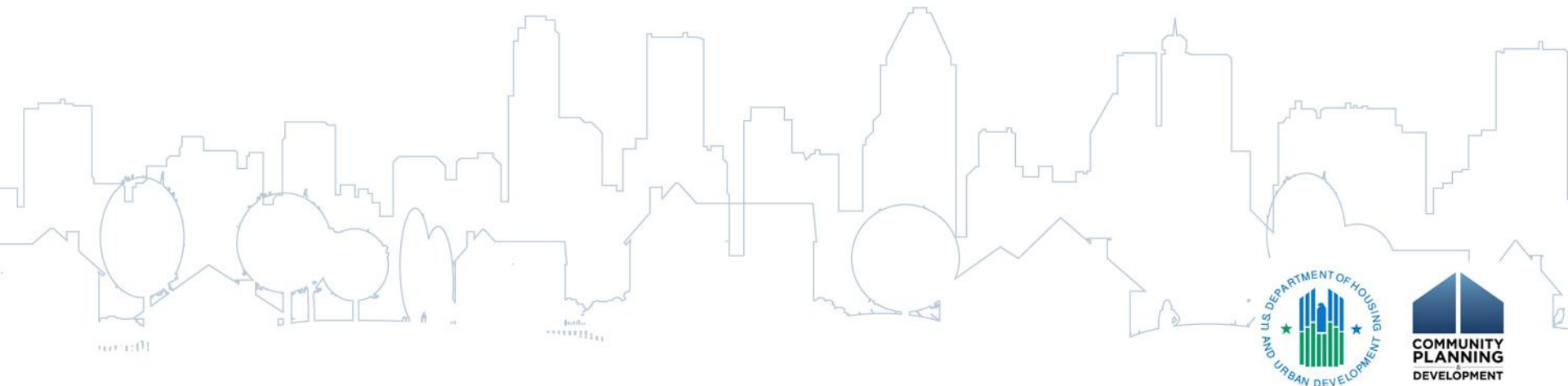
Every CDBG Activity Must Meet a National Objective:

- Principally Benefit Low/Moderate Income Persons
- Eliminate Slums/Blight
- Address Urgent Need



# LOW AND MODERATE INCOME JOBS NATIONAL OBJECTIVE

- Economic development projects typically fall under Low/Mod Job Creation/Retention
- 51% of jobs must be for LMI persons
- Based on family income, not salary of the job
- Full-Time Equivalent, and permanent positions



# LOW AND MODERATE INCOME JOBS NATIONAL OBJECTIVE-CONTINUED

- Be sure to document:
  - How jobs will be created or jobs will be lost without CDBG (retained jobs)
  - How jobs made available to or held by LMI
- Track jobs for reasonable period of time (not defined in regulations) as long as jobs are still being created



# LOW AND MODERATE INCOME JOBS NATIONAL OBJECTIVE-CONTINUED

- May presume person is LMI if:
  - Lives in Census tract with 70% LMI
  - Lives in Census tract within EZ/EC
  - Lives in Census tract area with poverty rate of 20% and no CBD (unless 30% poverty) and evidences pervasive poverty and general distress
  - Business/job is located in EC/EZ; **OR** area with poverty rate of 20% and no CBD (unless 30% poverty) and evidences pervasive poverty and general distress



# OTHER NATIONAL OBJECTIVES

- Some activities may qualify under other Low/Mod national objective categories
  - Microbusinesses (limited clientele)
  - Job training (limited clientele)
  - Service type businesses (area benefit)
- Some economic development activities can meet the Slum/ Blight national objective
  - Activities must address conditions of deterioration
  - Ensure remaining activities meet the 70% requirement for low-and moderate-income persons



# EVALUATING ECONOMIC DEVELOPMENT PROJECTS

- Evaluation and selection of economic development projects has two parts:
  - Voluntary underwriting guidelines
  - Mandatory public benefit standards
    - ☐ Maintain documentation





# VOLUNTARY UNDERWRITING GUIDELINES

- States should ensure that:
  - Project costs reasonable
  - All sources of financing are committed
  - CDBG not substituted for non-federal funds
  - Project is financially feasible
  - Return on investment reasonable
  - CDBG funds distributed pro-rata
- States can develop underwriting guidelines, but they must be practicable and comply with public benefit standards



# PUBLIC BENEFIT STANDARDS

- Mandatory for:
  - 105(a)(14) & and 105(a)(17) activities
  - Projects undertaken by a non-profit development organization , as applicable, under §105(a)(15), and
  - Public facility or improvement projects (105(a)(2)) classified under Low/Mod Job Creation/Retention where more than \$10,000/job in CDBG assistance
- Not applicable to microenterprise activities -- §105(a)(22), or commercial rehabilitation -- §105(a)(4)



# CALCULATING PUBLIC BENEFIT

- Two options for determining benefit:
  - Jobs created or retained
  - Goods or services provided to LMI persons
- Projects must meet individual test
- Entire grant must meet aggregate test
- Applied at time of CDBG obligation, and
- Assessed upon completion, based on actual achievements

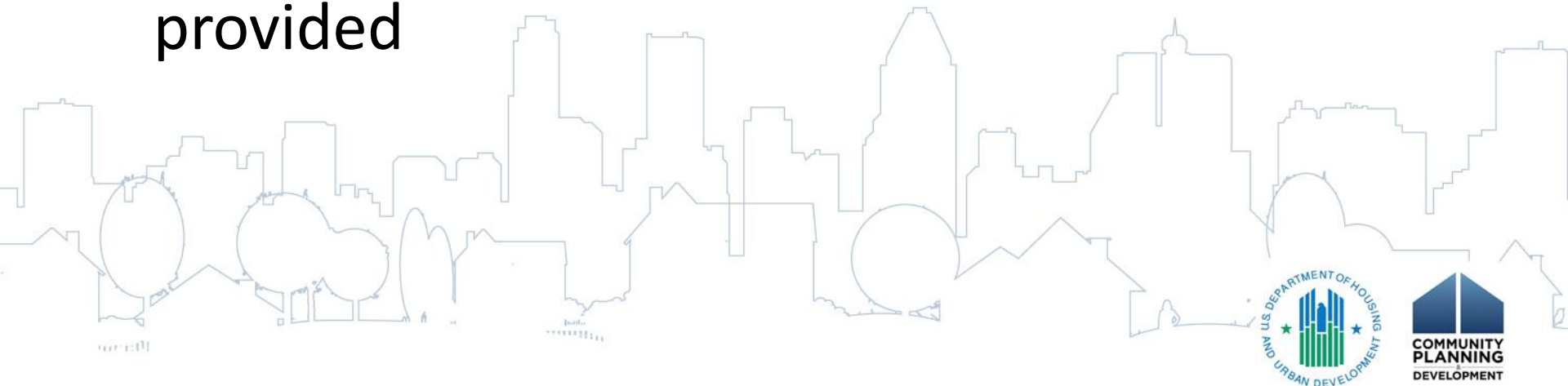


# INDIVIDUAL STANDARDS

- May not exceed \$50,000 in obligations per FTE permanent job created or retained

OR

- May not exceed \$1,000 in obligations per LMI person to which goods or services are provided



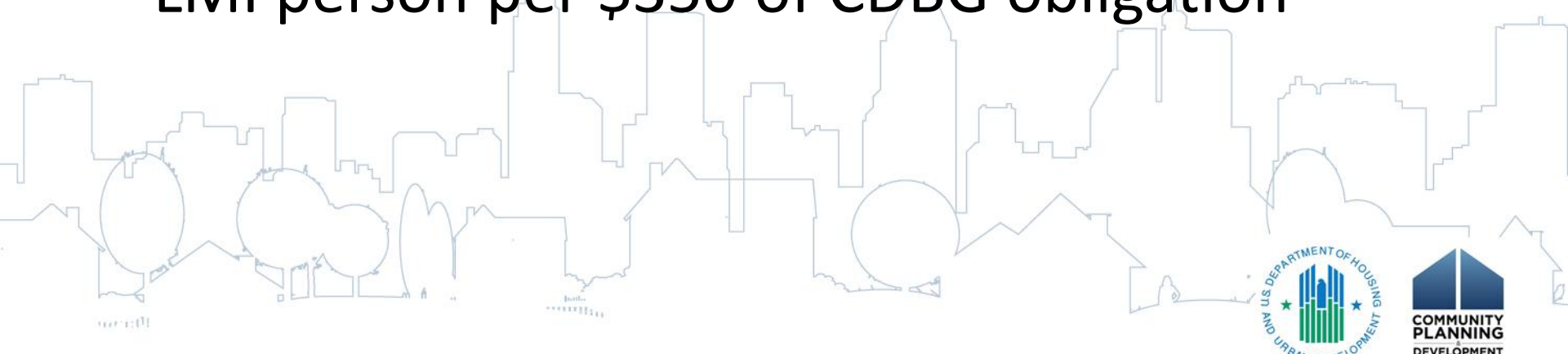
# APPLYING THE INDIVIDUAL STANDARDS

- Activities that create both jobs and LMI services are disqualified only if amounts exceed *both* standards
- Standards applied at time of obligation
- When job-training only activity, jobs considered created or retained for applying standards



# AGGREGATE STANDARDS

- Create or retain at least one full-time (FTE) permanent job per \$35,000 of CDBG funds obligated
  - OR
- Provide goods and/or services to at least one LMI person per \$350 of CDBG obligation



# APPLYING THE AGGREGATE STANDARDS

- Applies to all activities obligated from each annual grant.
- Depending upon activity, applicable to job creation or LMI goods/services, but *not both*
- When training only activity, jobs considered created or retained
- Certain activities may be excluded from aggregate standards



# PROHIBITION ON USE OF CDBG FUNDS FOR EMPLOYER RELOCATION ACTIVITIES

- Job pirating is prohibited
  - If the UGLG assists in the relocation of a plant, facility or operation AND
  - Relocation will result in a significant loss of jobs in another geographic area of the U.S.
- Significant Loss is defined as:
  - The number of jobs lost is equal or greater than 1/10<sup>th</sup> of 1% in the labor market area OR a loss of 500 or more jobs; projects with 25 jobs or fewer are exempt





# PROHIBITION ON USE OF CDBG FUNDS WITH EMINENT DOMAIN

- FY 2006 and subsequent appropriations
- CDBG and other Federal funds restricted when a Federal, State or local projects seeks to use eminent domain, except for a public use.
- Public use does not include economic development primarily benefiting private entities



# STATE CDBG ACTIVITIES BENEFITING ENTITLEMENT COMMUNITY RESIDENTS

- State CDBG funds are to be used to benefit non-entitlement residents.
- The State must determine that the UGLG has identified the community development and housing needs of its non-entitlement areas and has demonstrated that the activity will meet those needs.



# CONCLUSION AND LIST OF RESOURCES

## Resources

- E-mail box for March 30 webinar

[CDBGEDquestions@hud.gov](mailto:CDBGEDquestions@hud.gov)

- CDBG Statute and the Code of Federal Regulations

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

- Federal Register Notices on Job Relocation and Eminent Domain

[http://www.hud.gov/offices/cpd/economicdevelopment/toolkit/Job\\_Pirating\\_Final\\_Rule.pdf](http://www.hud.gov/offices/cpd/economicdevelopment/toolkit/Job_Pirating_Final_Rule.pdf)

<http://edocket.access.gpo.gov/2006/pdf/06-6258.pdf>

- Economic Development Toolkit

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

