

CDBG-CV Program: Economic Development Quick Guide

INTRODUCTION

This Quick Guide provides resources 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 using CDBG-CV and 2019 and 2020 CDBG entitlement funds. This Quick Guide provides key questions and considerations to help position your CDBG-CV funded special economic development and microenterprise assistance programs ([24 CFR 570.203](#), [570.209](#) and [Appendix A & 570.201\(o\)](#) for Entitlements or [42 U.S.C. 5305\(a\)\(14\)](#) and [\(17\)](#) (or section 105(a)(14) and (17) of the HCDA) and [42 U.S.C. 5305\(a\)\(22\)](#) (or section 105(a)(22) of the HCDA) for States) for successful compliance, underwriting and community impact.

As grantees develop CDBG-CV economic development programs, it is helpful to review the existing CDBG regulations referenced above and the [CDBG Economic Development Toolkit](#), as well as recent HUD guidance from the CDBG-CV [Federal Register Notice](#), FAQs and resources found at [CDBG Resources](#).

ECONOMIC DEVELOPMENT

Grantees may use CDBG-CV funds only for activities that prevent, prepare for, and respond to coronavirus. It is likely that most CDBG-CV Economic Development activities will be funded under special economic development and microenterprise assistance categories.

A. Special Economic Development

The key consideration for special economic development is that CDBG funds may be used to provide direct assistance to for-profit businesses so long as the activity meets a National Objective and, as stated in [§570.203](#), satisfies a two-part test:

- **Eligibility:** Financial assistance to private for-profit businesses to (for example) acquire property; clear structures; build, expand or rehabilitate a building; purchase equipment; and/or provide operating capital. Forms of assistance include loans, loan guarantees, and grants; *and*
- **Public Benefit:** Assistance must be underwritten and provide either (1) jobs or (2) goods and services to a low- and moderate-income area (see below for details).

B. Microenterprise

HUD defines a “[microenterprise](#)” as a commercial enterprise that has five (5) or fewer employees, one (1) or more of whom is the owner. (Note: The SBA definition of a microenterprise as a business employing fewer than ten (10) employees is frequently used in declared disasters; however, grantees must use the HUD definition when determining if microenterprise activities are an eligible use of CDBG-CV funds.) 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.

Unlike special economic development, CDBG microenterprise activities do not require a public benefit test. Also, microenterprise activities have 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.

See the [Microenterprise Assistance Toolkit](#) for more details and remember the defining differences of how SBA defines microenterprise.

C. Community-Based Development Organizations (CBDOs)

HUD provides CBDOs with flexibilities to undertake CDBG-funded community and economic development activities as part of a neighborhood revitalization plan within a specific target area. For more information, see [§570.204](#) and/or [Basically CDBG Chapter 2.2.5](#).

CARES ACT REQUIREMENTS AND FLEXIBILITIES

The [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](#) provides the following Waivers and Alternative Requirements that are relevant to Economic Development:

A. National Objective and Overall Benefit

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

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

Grantees must invest at least 70% of CDBG-CV grant funds for activities that benefit LMI persons. Grantees should track expenditure of CDBG-CV funds to meet the 70% LMI benefit separately from the 2019 and 2020 CDBG entitlement funds, which are tracked on a program year basis. To facilitate compliance with the 70% “overall benefit” criteria, grantees should give first consideration to LMI benefit activities such as LMI jobs, limited clientele, or area benefit *before* urgent need.

1. Low- And Moderate-Income Jobs Created or Retained (LMJ)

The LMJ National Objective can be applied to activities that involve the employment of persons, the majority of whom are LMI persons. An LMJ activity is one which 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.

The CDBG-CV Notice provides two important flexibilities for documenting LMJ compliance:

- a. **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, CDBG regulations allow grantees to 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%;
- Does not include a central business district unless it has a poverty rate of at least 30%; and
- Has evidence of pervasive poverty and general distress.

The CDBG-CV Notice standardizes the minimum poverty rate at 20% by eliminating the higher percentage for central business districts.

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

The CDBG-CV Notice:

- Allows grantees to 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; and
- Allows grantees to substitute records showing the type of job and the annual wages/salary of the job, instead of the individual’s income.

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

([§570.208\(c\)](#) for Entitlements and [§570.483\(d\)](#) for States) – Documentation must identify that the urgent need is to prevent, prepare for, and/or respond to coronavirus and address the following criteria:

- Criterion 1: Is the activity designed to alleviate existing conditions?
 - Documented by activities to prevent, prepare for, or respond to coronavirus.
- Criterion 2: 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?
 - Documented by HHS Public Emergency Declaration, Federal Disaster Declaration, or State/local emergency declaration.
- Criterion 3: 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?
 - Documented by activities to prevent, prepare for, or respond to coronavirus.

B. 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; and
- 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.

C. Public Benefit Standards That Apply to Special Economic Development

Activities (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)

HUD waived the standard for aggregate public benefit ([§570.209\(b\)\(1\) and \(2\)](#)) *and* revised the individual standard ([§570.209\(b\)\(3\) and \(4\)](#)) for CDBG-CV eligible projects.

1. Aggregate Standard

- Aggregate standard is waived.

2. Individual Standard

- Activity must create or retain at least one (1) full-time permanent job per \$85,000 of CDBG-CV funds invested, up from \$35,000 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.
- HUD is also providing an alternative individual public benefit standard to allow grantees to demonstrate that CDBG assistance was provided due to business disruption related to coronavirus (in which case, no monetary standard applies).

D. Opportunity Zones, Non-Profits, and Financing Mechanisms

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

This Waiver and Alternative Requirement:

1. Clarifies that assistance can be made through any financing mechanism (not just New Markets Tax Credits).
2. Expands [§570.204](#) to allow nonprofits to pass assistance through financing mechanisms to other entities for community economic development projects, especially in Opportunity Zones.

E. 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. Many businesses during a period of economic distress may be better served with a grant rather than an amortizing loan and/or more complicated guaranteed loan pools, until the crisis ends and recovery begins.

F. Section 108 Loan Guarantees

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

1. CDBG-CV funds may not be factored into a grantee's Section 108 borrowing authority.
2. Grantees can use CDBG-CV funds to make a direct payment of principal, interest, or any fees due under a Section 108 note to prevent, prepare for, and respond to coronavirus.
3. Grantees must document that direct payment is related to the disruption and/or losses due to coronavirus (e.g., the revenue intended to be used to repay the Section 108 loan is insufficient due to reductions in revenue due to coronavirus).
4. Grantees can supplement assistance to businesses initially provided with Section 108 funds by using CDBG-CV 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.

See Section 108 Q&A related to coronavirus, [Section 108 Q&A for Borrowers Seeking Relief as a Result of Coronavirus](#).

G. Eligible Activities Must Have Tie-Back to Coronavirus

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

Grantees have flexibility to invest CDBG-CV funds to address a range of needs within CDBG special economic development and microenterprise-eligible uses. *However*, grantees must provide evidence of how such CDBG-CV activities help prevent, prepare for, and respond to coronavirus.

Tie-back does not mean that each assisted business or LMI person must have been negatively affected by the pandemic. The grantee may choose to design its activity to drive economic recovery as a response to the coronavirus recession in many sectors of the economy. For example, a grantee may choose to assist a business that will hire persons who became unemployed during 2020. Or a grantee may choose to assist start-up businesses or to restart businesses closed since January 2020 to offset business closures due to the economic effects of the coronavirus.

H. Duplication of Benefits (DOB)

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

Grantees must develop and maintain adequate procedures to prevent a duplication of benefits that address each activity or program. Grantee policies and procedures must, at a minimum, require that:

1. Grantees must assess whether CDBG-CV funds will duplicate financial assistance already received for related unmet need and period of performance.
2. Any person or entity receiving CDBG-CV assistance (including subrecipients and direct beneficiaries) must agree to repay assistance that is determined to be duplicative (this is typically addressed through a subrogation clause in the assistance agreement); and
3. Grantees providing CDBG-CV funded economic development assistance should incorporate their DOB review process into their program design, application intake, and verification procedures, and underwriting procedures should demonstrate the following:
 - a. How due diligence is conducted by grantee, subrecipient and/or contractor;
 - b. How grantee and its subrecipients, contractors and/or partners assess and become familiar with other assistance sources. This must also include assessment of the timing of those federal, state, and/or local government sources that may be available to pay for coronavirus-related needs;
 - c. 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;
 - d. That monitoring includes a re-verification or calculation of the need at the end of the grant or loan performance period.

See Duplication of Benefits (DOB) Guidance, [CDBG-CV Duplication of Benefits Resources](#).

PROGRAM DESIGN AND DELIVERY CONSIDERATIONS

WHAT PROBLEM DO YOU SEEK TO SOLVE WITH THE PROPOSED ECONOMIC DEVELOPMENT AND/OR SMALL BUSINESS ASSISTANCE INTERVENTION?

- **Market Adaptation:** Financing and retooling small businesses/microenterprises to provide working capital for operations and modifications, new market niches arising during the pandemic (such as filling supply chain gaps with manufacturing in the U.S.) to comply with CDC distancing guidelines and other support for business and job retention.
- **Community Interventions** to help improve safety for commercial corridors; office and workspace; and retail, food, and leisure locations.

- **Workforce Development** training and placement assistance for workers in coronavirus relief and recovery service delivery.
- **Safety Improvements to Business Facilities for Customers and Workforce:** Provision of fixtures, equipment, systems, and personal protective equipment services to prevent, prepare for, and respond to coronavirus.
- **Stabilizing commercial property** to respond to coronavirus-driven economic shifts by identifying and adapting newly empty or underused office and commercial spaces into mixed-use developments or other purposes.

Factors to Consider:

1. Determine the optimal form of assistance based on identified needs: grants, loans, due on sale or forgivable loans and/or service contracts.
2. Recognize that in a crisis, a grant or forgivable loan may be more prudent than an amortizing loan. As the pandemic transitions from crisis to recovery, there may be opportunities for loans.
3. Determine the underwriting criteria that makes most sense for the type of assistance being offered. For example, underwriting for small loans may focus on the basic CDBG underwriting criteria, with an emphasis on determining 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.
4. For loan programs, consider the mechanisms that should be used to assure that the loan maintains leverage if the business does not perform. For larger loans, this could mean security instruments and for smaller loans, a basic promissory note.
5. 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.

WHAT IS THE IDENTIFIED NEED IN COMMUNITY AND MARKET?

- What data is available to support the needs assessment for proposed program design?
- What funding and services already exist? What works well? Where are the gaps to justify investment of CDBG-CV funds?

WHICH ENTITIES ARE BEST SUITED TO DO THE WORK?

- CDBG-CV Grantees – Entitlement or State
- Subrecipients (CBDOs, Nonprofits, Small Business Development Corporations, CDFIs)
- Private For-Profit Service Firms
- Intergovernmental Agencies

In addition to financial assistance, CDBG-CV affords grantees the opportunity to provide businesses technical services in connection with eligible economic development activities to address:

1. Market adaptation, e.g., outreach efforts to market goods or services through provision of curbside delivery
2. How to review and underwrite applications for assistance
3. Training of work force and implementation of subsequent health and safety measures

WHAT ARE THE MANAGEMENT REQUIREMENTS OF THE PROPOSED PROGRAM?

- Project / program, compliance, and financial management
- Marketing, outreach, and application process
- Technical services through the grant or loan performance period

- Dissemination of information and training
- Compliance and monitoring during loan or grant term, loan servicing and closeout
- reporting

WHAT OTHER FEDERAL CROSS-CUTTING REGULATIONS APPLY?

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

USEFUL 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](#)

HUD CDBG Economic Development Toolkit on HUD Exchange Landing Page:

- [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](#)



	ECONOMIC IMPACT / CHALLENGE (UNMET NEED)	DEVELOPMENT TREATMENT / SOLUTION (ELIGIBLE ACTIVITIES)	ELIGIBLE RECIPIENTS	TYPES OF ASSISTANCE
<p>Direct Assistance to For-Profit Businesses 24 CFR 570.203(b) or 42 USC 5305(a)(17) CDBG Matrix Code 18A</p>	<ul style="list-style-type: none"> ▪ Liquidity to cover working capital expenses ▪ Capital to adapt to new market conditions and to mitigate risk in terms of business facilities, equipment, systems, and staffing 	<ul style="list-style-type: none"> ▪ Working capital ▪ Acquire property ▪ Clear structures ▪ Build, expand or rehabilitate a building ▪ Purchase equipment or provide operating capital 	<ul style="list-style-type: none"> ▪ Private For-Profit Businesses classified as Direct Beneficiaries 	<ul style="list-style-type: none"> ▪ Grants ▪ Amortizing Loans ▪ Forgivable Loans
<p>Economic Development Technical Assistance Services to For-Profit Businesses 24 CFR 570.203(c) or 42 USC 5305(a)(17) CDBG Matrix Code 18B</p>	<ul style="list-style-type: none"> ▪ Technical assistance and/or case management services to build capacity to prevent, prepare for, and respond to coronavirus 	<ul style="list-style-type: none"> ▪ Workshops ▪ Assistance in developing business plans ▪ Marketing ▪ Referrals to lenders or technical resources ▪ Also use 18B for activity delivery costs eligible under 24 CFR 570.203(c) 	<ul style="list-style-type: none"> ▪ Private For-Profit Businesses as Direct Beneficiaries 	<ul style="list-style-type: none"> ▪ Direct Assistance via grantee or subrecipient
<p>Economic Development: Microenterprise Assistance 24 CFR 570.201(o) or 42 USC 5305(a)(22) & 24 CFR 570.482(c) CDBG Matrix Code 18C</p>	<ul style="list-style-type: none"> ▪ Expanded financial assistance and services to help microenterprises to prevent, prepare for, and respond to coronavirus 	<ul style="list-style-type: none"> ▪ Financial assistance ▪ Technical assistance ▪ General services to owners and developers of microenterprises such as training or daycare costs ▪ The activity must be designed to exclusively serve microenterprises 	<ul style="list-style-type: none"> ▪ Microenterprises 	<ul style="list-style-type: none"> ▪ Grants ▪ Amortizing Loans ▪ Forgivable Loans