



APPENDIX H VERSION 2.0

Appendix H: Program Expectations for Economic Development Activities

This outline identifies the program expectations and parameters for Economic Development programs funded with both CARES Act funds and 2019-2020 CDBG allocation funds for job retention activities. These parameters are intended to provide limited-term minimum standards for program operations to respond to the current economic impacts due to COVID-19 impacts. Local jurisdictions, Tribal governments, and Colonias are encouraged to design their local programs to address local needs and priorities within these parameters.

These parameters are aligned with HUD's current requirements for the CDBG program. This document will be updated as required to help local jurisdictions, Tribal governments and Colonias meet the needs of their communities and to ensure programs are compliant with updated guidance from HUD. This document will also be supplemented with an upcoming economic development chapter for CDBG and appendices for CDBG-CV in the Grants Management Manual.

Version Number	Date	Amendments
1.0		Original document
2.0	9/7/2021	<ul style="list-style-type: none">- Expanded applicability to include local jurisdictions, Tribal governments and Colonias.- Expanded allowable LM national objectives.- Clarified program and project eligibility minimum requirements and flexibility. Specified the requirement for grantees to maintain program design decisions in program guidelines and maintain applicant-level documentation.- Modified the definition of allowable operating expenses and working capital uses of funds.- Highlighted that additional federal cross-cutting requirements apply when assistance is provided for construction-related activities.- Modified the requirements for the length of time a business must be in operation to qualify for CDBG-CV assistance.- Modified the requirements related to businesses with tax liens.- Clarified the requirements and flexibility for microenterprise programs.- Added the CDBG underwriting criteria and requirements for grantees to identify their underwriting processes in program guidelines.- Provided additional clarification on procurement requirements.- Added Additional Resources section.

Economic Development for COVID-19 response is generally intended to provide support for activities that meet a low-to-moderate income (LMI) national objective. Jurisdictions, Tribal governments, and Colonias (grantees) may provide assistance for activities that meet the national objectives of LM Limited Clientele, LM Job Retention, LM Job Creation, and/or LM Area, as applicable to the design of and eligible activities within their programs. Grantees will be expected to follow program parameters required by HUD and identified in the upcoming grants management manual. Grantees who have identified a COVID-19 response, recovery or prevention need that cannot meet an LMI national objective, but can meet the urgent need national objective, are encouraged to reach out to their HCD representative. CARES Act (CV) funding questions should be directed to CDBG@hcd.ca.gov and 2019-2020 CDBG Allocation funding question should be directed to CDBG@hcd.ca.gov.

Economic Development – COVID-19 Loan and Grant Parameters Flexible Financing

NOTE: This guidance provides temporary parameters for COVID-19 and is limited to CDBG-CV and FY 2019/2020 CDBG funding

Flexible Financing Loan and Grant Requirements:

1. All CDBG-CV program funds must:
 - a. Meet a national objective;
 - b. Be a CDBG eligible activity;
 - c. Be an eligible activity that prepares for, prevents, or responds to coronavirus (“COVID-19 nexus”); and
 - d. Meet applicable public benefit test requirements
2. Business Assistance - Up to \$100k forgivable (if the business is qualified). Total loan amount determined by grantee based on underwriting.
3. Microenterprise - Up to \$100k forgivable (if the business is qualified). Total loan amount determined by grantee based on underwriting.
4. Jurisdictions, Tribal governments, and Colonias may choose to provide CDBG-CV and FY2019/2020 CDBG awards to businesses and microenterprises as loans, forgivable loans, and/or grants. Details of award structure and forgiveness or compliance terms must be consistently applied and detailed in the grantee’s program guidelines and award document.

Uses of Funds

General:

- While demonstrating a revenue loss or decline may be a way to demonstrate an applicant's COVID-19 nexus, CDBG-CV funds cannot be used to pay for lost revenue. CDBG-CV funds must be used for actual costs incurred.
- CDBG-CV economic development eligible uses of funds are described in the general categories listed below.
- Local jurisdictions, Tribal governments and Colonias must describe which costs are eligible in their program guidelines and award documents.
- All proof of uses of funds (receipts, purchase orders, payrolls, employer paid benefits, rent or mortgage payments, etc.) must be documented in program participant files.

Eligible Uses of Funds:

1. Operating Expenses (OE) & Working Capital (W/C)
 - a) Generally, OE and W/C expenses include such items as payroll, insurance, lease or mortgage payments, utility payments, inventory, marketing, accounting, and supplies. Eligible OE and W/C expenses must be defined in grantee program guidelines and award documents. The amount awarded for OE and W/C must be necessary and reasonable (for example, supported by pre-COVID [year end 2019] financial information).
2. Furniture, Fixtures, and Equipment (FF&E)
 - a) Support operational needs to address COVID requirements for opening and operating.
 - b) Supported by list of FF&E and cost (vendor proposals).
 - c) Additional federal cross-cutting requirements apply to construction activities, including the installation of permanent fixtures or non-movable equipment.
3. Capital Improvements
 - a) Limited to responding to modifications required to address COVID related impacts (e.g., drive thru, curbside pickup, no touch entries).
 - b) Additional federal cross-cutting requirements apply to construction activities.

Criteria/Limitations for Loans and Grants

1. Length of time in business
 - a) Local jurisdictions, Tribal governments, and Colonias define in their program guidelines requirements for how long a business or microenterprise has to have been in operation in order to qualify for assistance.
 - b) If a grantee chooses to make new businesses or microenterprises – which includes entities established after March 2020 - eligible for assistance, then the grantee must have clear processes in their program guidelines for demonstrating the following:
 - i. Documentation and criteria for directly addressing and documenting how the activity prepares for, prevents, or responds to coronavirus (“COVID-19 nexus”), since the business was not in operation until after the disaster declaration; and
 - ii. Additional underwriting steps that specifically address and mitigate the risks associated with providing assistance to new or start-up businesses.
 - **Exception:** If a grantee is providing such services as business counseling, training, and technical assistance to new or start-up businesses or microenterprises, then the additional underwriting is not required.
2. Less than 25 full-time equivalent (FTE) employees prior to March 1, 2020. Maximum 4 part-time employees = 1 FTE
3. For calculating non-salary employee jobs created/retained numbers, grantees must collect information on the average hours worked per week and divide that average by 30 hours/week to determine their FTE status.
 - a) To determine if those jobs are LMI or non-LMI, grantees may follow the CDBG-CV alternative requirement or follow the regular CDBG methodology for determining whether jobs are held by or made available to LMI persons. Grantees must describe the methodology(ies) used in their program guidelines.
4. Company financial information prior to March 1, 2020 (income/expense, current sources and uses, account payables/account receivables).

5. Generally, businesses cannot have tax liens. If the business has outstanding taxes due, must provide proof of active participation in approved payment plan.
6. Credit check. Not for scoring criteria. Management of credit prior to March 1 (charge offs, liens (may be eligibility factor), legal entity, extended credit).
7. TA strongly encouraged for financial assistance including follow up due diligence after business commences operations.
8. Must be a legal operating entity
9. Evidence of all required operating permits and licensing.

Terms of Forgiveness (if qualified)

1. Level of forgiveness up to 100% (if qualified) or award may be structured as a grant with award conditions
2. If all terms and conditions met, loan is forgiven at the end of the forgiveness period. Minimum 3 months.
3. Advances may be allowed for no more than 30 days for operating expenses and working capital.
4. Retain jobs for period of forgiveness.
5. National objective is met at the end of the forgiveness period. Minimum 3 months.

Other Considerations

1. No duplication of funds
 - a) Other funding sources - Applications and/or approved financing.
 - b) Insurance payments - Must be expended first.
2. Microenterprise.
 - a) Identify date established as microenterprise.
 - b) When using LM Limited Clientele (LMC) national objective:
 - Verify number of employees (less than 5 employees, including owner(s)).
 - Verify household income verification of owners:
 - Grantees describe in program guidelines whether they are following Part 5 or adjusted gross income

methodology for calculating and documenting owner household income. Grantees must consistently apply the selected methodology within the program.

- If a microenterprise does not meet the LMC requirements, grantees may choose to review microenterprises for compliance with another LM national objective (e.g., LM Area or LM Jobs Retention or Creation). In such cases, the activity switches from assistance to microenterprises (HCDA Section 105(a) 22), to special economic development activities (HCDA Section 105(a) 17).

- c) Income self-certifications per CDBG program requirements.
- d) Program guidelines must include the grantee steps for carrying out HUD underwriting standards. Additional guidance can be found in [HCD's Minimum Underwriting Standards](#).
 - That project costs are reasonable
 - That all sources of project financing are committed
 - That to the extent practicable, CDBG funds are not substituted for non-Federal financial support
 - That the project is financially feasible
 - That to the extent practicable, the return on the owner's equity investment will not be unreasonably high and
 - That to the extent practicable, CDBG funds are disbursed on a pro rata basis with other finances provided to the project

Program/General Requirements

1. All project files must include the following documentation:
 - a) Duns Number
 - b) Confirmation the recipient is not debarred from receiving federal funds.
 - c) NEPA compliance
 - d) Jurisdiction information
 - e) CDBG Federal overlay compliance

- **NOTE:** additional federal cross-cutting compliance requirements are triggered when undertaking construction-related or acquisition activities

2. Procurement

- Grantees must follow the procurement regulations set forth in 2 CFR 200.318 – 200.326 when procuring goods or services from vendors to support the delivery or administration of CDBG-CV economic development programs. Additional guidance on procurement requirements can be found in [Chapter 5 of the HCD Grants Management Manual.](#)
- When state and local procurement requirements exceed the minimum provisions for procurement under 2 CFR 200 – the grantee should comply with the more stringent state or local procurement standards.
- If grantees procure vendors who are new to CDBG economic development programs, they should notify their HCD representative and request technical assistance and training resources to help build the capacity of the grantee and their vendors
 - **NOTE:** while grantees are not required to procure non-profit or public entities who serve as subrecipients, grantees can ask for technical assistance and training from their HCD representative to help build the capacity of program subrecipients.
- Procurement documents and files must include all applicable compliance documentation. Some critical compliance components are listed below, but grantees should reach out to their HCD representatives if they have any procurement questions, ideally prior to starting or completing the procurement process:
 - Pre-award independent cost estimate (must be performed prior to receiving bids or proposals)
 - Documentation outlining the procurement method that is being followed (e.g., micro-purchase, small purchase, sealed bid, competitive bid [e.g., RFP or RFQ], etc.)
 - **NOTE:** Each procurement method described in 2 CFR 200 requires different levels of documentation and processes. If state or local procurement requirements are more stringent than the ones described in 2 CFR

200, then grantees are generally required to follow the more stringent requirements. If you have any questions, please reach out to your HCD representative.

- Copy of the procurement documents, which must contain all applicable required components, such as:
 - Scope of Work
 - Experience requirements, which allow for fair and open competition
 - Scoring Criteria
 - Federal regulations and reference to federal funding source(s)
 - Bonding and insurance requirements
 - Process for utilizing local business and small, minority contractors
 - DUNS and sam.gov registration information
 - Conflict of Interest
 - Handling, opening, and reviewing bids (for sealed bid process only)
 - Environmental review record for procured goods or services
 - Documentation of award selection process
 - Documentation of cost or price analysis
 - Signed agreement with vendor
 - Invoices and activity logs
 - Contract modifications and updated cost or price analysis, as applicable

3. Misc.

- a) Grantees must adopt and maintain program guidelines, to include version tables as program guidelines are updated or amended.
- b) Loans will be self-certified by grantee and underwriter.
- c) Grantees must monitor program subrecipients and/or vendors.

- d) If grantees have any questions about the requirements for these programs, they are encouraged to reach out to their HCD representative for technical assistance or training.

*GMS Application requirements - Required.

Additional Resources

- [HUD CDBG-CV Economic Development Quick Guide](#)
- [Using CDBG-CV Funds for Rural Economic Development: HUD Quick Guide](#)