



Chapter 2: National Objectives and Eligible Activities

Overview

This chapter describes the federal requirement that all CDBG-funded activities fulfill one of three National Objectives established by Congress. The following paragraphs discuss the process of choosing the right one of the three National Objectives. This includes the process for accurately documenting how and why the proposed activities qualify under the chosen objective.

Federal regulations stipulate that before any activity can be funded in whole or in part with CDBG funds, it must be determined that the activity (e.g., housing, public infrastructure) is eligible under Title I of the Housing and Community Development Act of 1974, as amended. In addition, CDBG requirements mandate that each funded activity must meet one of the three established National Objectives.

To achieve these goals, the CDBG regulations define eligible activities and the National Objectives that each activity must meet.

Projects and programs funded in whole or in part with CDBG funds not only have to qualify as eligible under HUD regulations, they must also meet at least one of the three National Objectives.

Section 2.1 Meeting a National Objective

The primary objective of the CDBG program is to develop viable communities by helping to provide decent housing, suitable living environments, and expanding economic opportunities principally for persons of low-to-moderate income.

[24 CFR 570.483](#)

This section will describe the criteria which must be met and the records which must be maintained in order for an activity to be considered to have met a national objective of the CDBG program. The three National Objectives are:

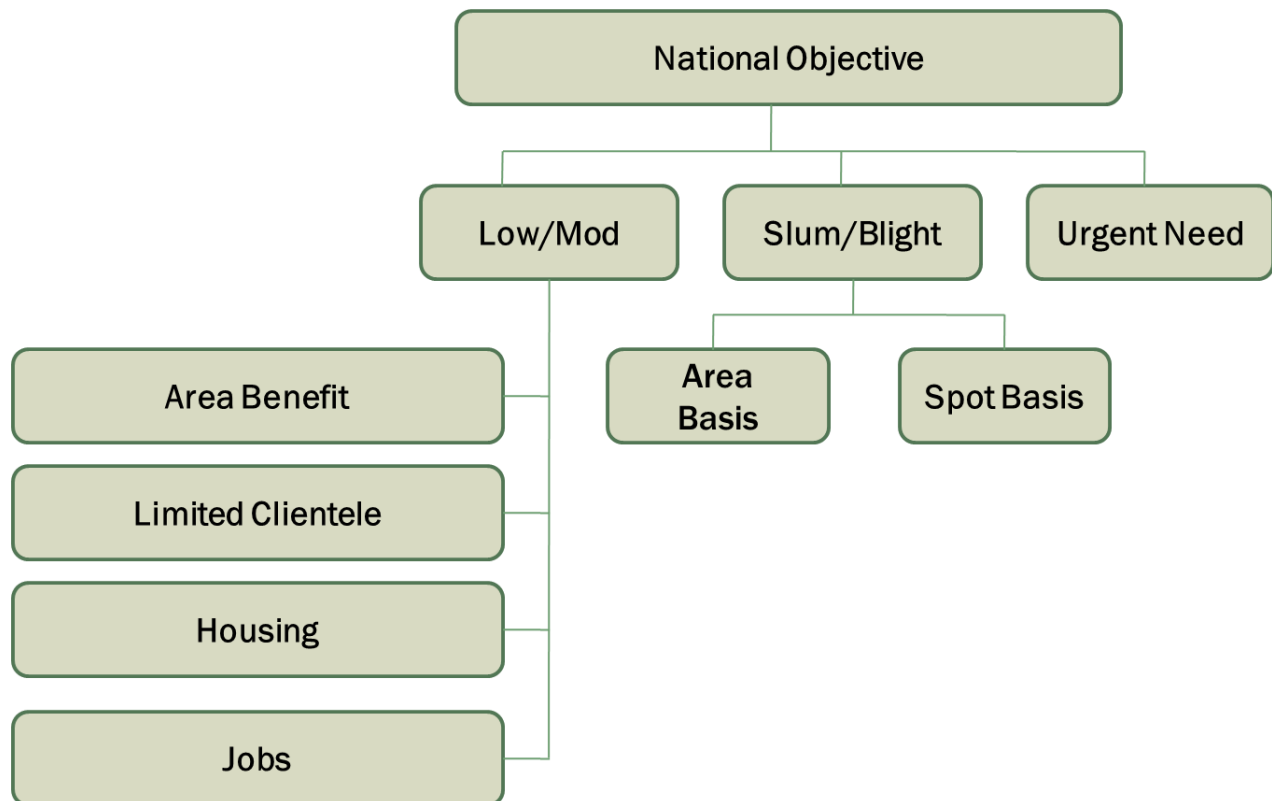
1. Provide benefits to Low- and Moderate-Income persons,
2. Aid in the prevention or elimination of slums or blight, or



3. Provide funding for projects that have a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community

Any activity that fails to meet one or more of the applicable tests for meeting a national objective is in noncompliance with CDBG rules.

The diagram below illustrates the three HUD National Objectives and the ways a project or program can qualify under each.



Section 2.2 Benefit to Low-to-moderate Income Persons (Low/Mod)

The Low/Mod National Objective is often referred to as the primary National Objective because HUD regulations require that at least 70 percent of CDBG funds awarded benefit low- and moderate-income persons.

Low/Mod persons are those whose family or household adjusted gross income does not exceed the HUD CDBG income limits.



Activities that benefit Low/Mod persons are divided into four sub-categories:

- ❖ Area-benefit activities
- ❖ Limited Clientele activities
- ❖ Job creation/retention activities
- ❖ Housing activities

2.2.1 Low/Mod Area Benefit (LMA)

For the Low/Mod Area Benefit (LMA) objective, benefits must be available to all the residents of a designated service area in which at least 51 percent of the residents are Low/Mod. If census tracts or block groups are used to define the area, Grantees should use U.S. Census data together with HUD CDBG Income Limits to determine eligibility. For service areas not aligned with census tracts or block groups, Grantees must conduct surveys, or other HCD authorized alternative data set, to determine the Low/Mod percentage for the area.

Grantees are allowed maximum flexibility in defining activity service areas. If the determination is reasonable, it is generally accepted. In all cases, the area *must* be contiguous and represent the entire area in which the activity is provided. Activities of the same type that are provided in different areas must be considered separately on the basis of their individual service area. The Low/Mod Area Benefit objective provides CDBG benefits for Low/Mod persons. The designated service area must therefore consist of a primarily residential community.

In determining whether an activity will actually benefit Low/Mod residents, the net effect of the completed activity is considered. The mere location of an activity in a Low/Mod area does not conclusively demonstrate that the activity benefits Low/Mod persons. Not all activities that take place within a particular area will benefit that entire area.

For example, typical area benefit activities include:

- Street and Sidewalk Improvements
- Water and sewer lines
- Acquisition of land to be used for a park
- Construction of a community center
- Rehabilitation of a community library

A project is considered to be of Low/Mod Area Benefit if at least 51 percent of the residents within the defined geographic area qualify as Low/Mod Defining the geographic boundaries for an area-wide project can be accomplished by answering two questions:



- 1) Who are the beneficiaries of the project? and
- 2) Where do they live?

Depending on the type of project, the defined geographic area could be as small as a single neighborhood within a town, or as large as multiple counties.

Documenting Compliance with Low/Mod Area Benefit Requirements

The records that the Grantee must develop and maintain to show compliance with Low/Mod Area Benefit are:

- A map clearly showing the boundaries of the activity area
- A copy of the action(s) taken by the Grantee to define the boundaries, including an explanation of the basis for determining the boundaries
- The percentage of Low/Mod persons residing in the service area, including a copy of the data used to determine that percentage

Documenting Eligibility with Census Data

For activity areas aligned with census tracts and block groups, appropriate census data must be used to establish the Low/Mod population of the area. HUD annually provides detailed data showing the percentage of Low/Mod persons in each incorporated jurisdiction, census tract and block group. If the geographic service area for a proposed activity is generally the same as a census tract or block group(s), then HUD data may be used to justify the income characteristics of the area served.

If HUD data does not show that the service area consists of at least 51 percent Low/Mod, and the Grantee has reason to believe the data is incorrect or no longer valid, the Grantee may request HCD authorization to conduct income surveys to document changes in areawide population or incomes since the census. Also, if the service area is not generally the same as a census tract or block group, then an applicant must conduct income surveys to determine and document the Low/Mod percentage for that service area.

Documenting Eligibility with Income Surveys

An applicant may conduct a methodologically-sound income survey to establish the percentage of Low/Mod persons in the CDBG project area.



Income Surveys may be used to ascertain whether or not a CDBG-funded activity which is designed to benefit a particular area qualifies as primarily benefiting Low/Mod persons. Income limits by family size are available from HCD based on data updated annually by HUD. This information is provided by city and county. All survey methodology must be approved by HCD prior to the start of the survey. HCD will accept surveys that are no more than 3 years old. Completed surveys and documented approval by HCD must be a permanent part of project records and be accessible and available for review upon request.

[CPD Notice 19-02](#)

[HUD Income Limits](#)

Detailed information on properly conducting Income Surveys can be found on in HUD Notice CPD-19-02.

2.2.2 Low/Mod Limited Clientele (LMC)

Under the Low/Mod Limited Clientele objective, benefits are provided to a specific group of eligible persons rather than every person in a defined service area. The activity may benefit particular persons without regard to the area in which they reside, or it may provide benefit on an area basis but only to a specific group of persons who reside in the area. In either case, at least 51 percent of the beneficiaries of the activity must be Low/Mod To qualify under this subcategory, an LMC activity must meet ONE of the following tests:

[24 CFR 570.483\(b\)\(2\)\(ii\)\(A\)](#)

1. Exclusively benefit clientele who are generally presumed by HUD to be principally Low/Mod income persons. The following groups are currently presumed by HUD to be comprised principally of LMI persons:
 - ✓ Abused children,
 - ✓ Elderly persons,
 - ✓ Battered spouses,
 - ✓ Homeless persons,
 - ✓ Adults meeting Bureau of Census' definition of severely disabled adults,
 - ✓ Illiterate adults;
 - ✓ Persons living with AIDS, and



- ✓ Migrant farm workers.

Benefit Low/Mod persons comprising at least 51% of the clientele served. Information on individual family size and income is required to show evidence that incomes do not exceed the HUD CDBG Income Limits. This information is required even if the service or product provided is exclusively restricted to Low/Mod persons

[24 CFR 570.483\(b\)\(2\)\(ii\)\(B\) and \(C\)](#)

2. Be of such nature and in such location that it may reasonably be concluded that the activity's clientele will primarily be Low/Mod persons (for example, a day care center that is designed to serve residents of a public housing complex).

[24 CFR 570.483\(b\)\(2\)\(ii\)\(D\)](#)

3. Be an activity that serves to remove material or architectural barriers to the mobility or accessibility of elderly persons or of adults meeting the Bureau of the Census' Current Population Reports definition of "severely disabled," provided it is restricted, to the extent practicable, to the removal of such barriers by assisting:

[24 CFR 570.483\(b\)\(2\)\(iii\)](#)

- ✓ The reconstruction of a public facility or improvement, or portion thereof, that does not qualify under the Low/Mod Area Benefit criteria;
- ✓ The rehabilitation of a privately-owned nonresidential building or improvement that does not qualify under the Low/Mod Area criteria or the Low/Mod Jobs criteria; or
- ✓ The rehabilitation of the common areas of a residential structure that contains more than one dwelling unit and that does not qualify under Low/Mod Housing criteria.
- ✓ Be a microenterprise assistance activity carried out in accordance with CDBG regulations with respect to microenterprise owners or developers who are Low/Mod.

[24 CFR 570.483\(b\)\(2\)\(iv\)](#)

Note that once a microenterprise owner or developer is qualified as Low/Mod, that qualification stands for up to three years solely for purposes of providing microenterprise assistance.



Activities that would be expected to qualify under the Low/Mod Limited Clientele subcategory would be:

- Construction of a Senior Center
- Public services for the Homeless
- Assistance to L/M income persons developing a microenterprise
- Meals on wheels for the elderly
- Construction of job training facilities for severely disabled adults

Documenting Compliance with Low/Mod Limited Clientele Requirements

Grantees must document how proposed activities will benefit Low/Mod persons in conformance with federal law. The type of documentation necessary depends upon the users of the facility. Some proposed projects may involve more than one program/activity with different clientele and different documentation. The following describes what information must be submitted for different types of Low/Mod Limited Clientele activities:

Limited Clientele Based on Presumed Benefit.

Documentation consisting of, but not limited to, consumer information, photographs, product/service information, marketing materials, statistical data, public records, and personal observations that demonstrates that the product or service is delivered to a clientele, 51% of whom are described in one or more of the following population groups:

- Abused children
- Battered Spouses
- Elderly
- Severely Disabled Adults
- Homeless Persons
- Illiterate Persons
- Persons Living with AIDS
- Migrant Farm Workers

Limited Clientele Based on Family Size and Income.

1. The documentation required for Limited Clientele projects differs for direct benefit and indirect benefit activities.

[HUD Income Limits](#)



- a. Direct Benefit – requires verifiable source documentation such as filed income tax return(s) for all persons over 18 in each family that receives benefits. At least 51% of the persons or households served must be Low/Mod. Example of direct benefit: Emergency financial payment assistance, tuition payment
 - b. Indirect Benefit – derived from a completed self-certification form for all persons receiving benefits, based on family income. Example of indirect benefit: food bank, access to childcare facility, or access to a health clinic
2. HCD maintains current HUD income limits on the HCD website. Required documentation shall consist of a project file containing the application/request for assistance and all pertinent information leading to the Grantee’s determination to approve CDBG assistance, as follows:
- a. A summary, based on documented information on family size and household income of each customer/user, that shows the number and percentages of clientele having incomes above and below the CDBG Income Limits. The information may be from existing program files or applications maintained by the business/agency seeking CDBG assistance, or it can be collected using an income certification form. Certification templates are available in the HCD Grants Network.
 - b. Individual information forms gathered by the applicant do not have to be included with the application for assistance, but such documentation should be maintained in individual project /program files and be available for upon request.

Limited Clientele Based on Nature and Location of the Facility Documentation

File materials consisting of, but not limited to, consumer information, photographs, product/service information, marketing materials, statistical data, public records, and personal observation that demonstrate that the activity to be assisted, by nature of the location and type of product/service provided, establishes a premise for its use by predominantly Low/Mod persons.

Limited Clientele Based on the Removal of Barriers

File materials consisting of, but not limited to, consumer information, photographs, product/service information, marketing materials, statistical data, public records, and personal observation that demonstrate that the barrier removal primarily serves one or more of the eligible categories of persons.



Limited Clientele Based on Microenterprise

Income data, ownership records, certifications, public records marketing materials, licenses, tax records, payroll and other documents that demonstrate that the business owner/developer is Low/Mod and operates or seeks to operate an eligible microenterprise business.

2.2.3 Low/Mod Housing

The Low/Mod Housing objective (LMH) is carried out for the purpose of providing or improving permanent, residential structures that will be occupied by Low/Mod households upon completion. This would include, but not necessarily be limited to, the acquisition or rehabilitation of residential property, or the conversion of nonresidential property to residential.

To qualify under the Low/Mod Housing National Objective, the activity must result in housing that will be occupied by Low/Mod households upon completion. The housing can be either owner- or renter-occupied and can be either single-family or multi-family structures. When the housing is to be rented, in order for a dwelling unit to be considered to benefit an LMI household, it must be occupied by the household at affordable rents (see Documenting Compliance below for information on determining affordable rents).

Occupancy Rules

Occupancy of the assisted housing by Low/Mod households under this subcategory is determined using the following general rules:

- ✓ An assisted single-family structure must be occupied by a Low/Mod household,
- ✓ An assisted two-family structure (duplex) must provide at least one unit for occupancy by a Low/Mod household, and
- ✓ An assisted multi-family structure containing more than two units must provide at least 51 percent of the units for occupancy by Low/Mod households.



Exception: An exception to these rules applies to new construction of non-elderly multi-family rental units. Grantees should seek HCD guidance on projects involving this activity.

Activities that would be expected to qualify under the Low/Mod Housing subcategory would be:

- Acquisition of property to be used for permanent housing
- Rehabilitation of permanent housing
- Conversion of non-residential structures to permanent housing
- Home ownership assistance to a Low/Mod household
- Residential property connections to water and sewer systems

Documenting Compliance for Low/Mod Housing Eligibility

In order to demonstrate compliance, the grant recipient must maintain the following records:

- A copy of the written agreement with each developer, owner or landlord of property receiving CDBG assistance indicating the total number of dwelling units in each multi-unit structure to be assisted and the number of housing units which will be occupied by Low/Mod households after assistance.
- The general project budget showing the total cost of the project or activity, the amount and percentage of CDBG assistance, and the specific components of project activity that will utilize CDBG funds.
- For each unit claimed to be occupied by a Low/Mod household, the size and combined adjusted gross income of the household.
- For rental housing only, rents in CDBG-assisted rental projects must be set at levels which are affordable to Low/Mod households. Grantees are required to adopt and make public their standards for determining “affordable rents.” The generally accepted affordability standard is that households pay no more than 30 percent of income for rent and utilities. However, use of this standard is not required by CDBG regulations. Grantees may want to establish rent limits or ceilings based on local LMI limits and bedroom sizes, however, each project must be undertaken in such a manner as to ensure that rents are truly affordable to Low/Mod households. To document rental affordability, the Grantee must maintain the following records:
 - A schedule of the rent to be charged after assistance for each dwelling unit in each structure assisted. The methodology used to establish rent limits must be the same for all like units. Some examples of ways to establish rent limits include:



- Use the rent calculations found in California Health and Safety Code in Sections 50052.5 and 50053. U
 - Use the published HOME rent limits
 - Use a calculation of 30% of documented income of the Low/Mod households assisted. NOTE: It is difficult to track and recalculate if a household's income changes frequently.
 - Use the rents set by the California Tax Credit Allocation Committee
- For each property acquired for housing development on which there are no structures, evidence of commitments ensuring that all compliance criteria will be met when the structures are built.

2.2.4 Low/Mod Jobs (LMJ)

Most job creation or retention activities emanate from special economic development activities that meet the Low/Mod objective in the following way:

Involve the employment of persons, the majority of whom are Low/Mod persons (e.g., a retail clothing store that creates or retains jobs principally for Low/Mod persons). This section provides the criteria for the Low/Mod Jobs standard. A Low/Mod jobs activity is one that creates or retains permanent jobs, at least 51% of which, on a full time equivalent (FTE) basis, are either held by Low/Mod persons or considered to be available to Low/Mod persons.

Jobs that are not held (filled) by Low/Mod persons may be claimed to be “available” to a Low/Mod person only when:

1. The jobs do not require special skills or certifications that can only be acquired with substantial training or work experience and education beyond high school is not a prerequisite to fill such a job, unless the business agrees to hire an unqualified person and provide training; AND
2. The assisted business takes actions to ensure that Low/Mod persons receive “first consideration” for filling of jobs. Evidence must include a description of how first consideration is to be given to Low/Mod persons for filling jobs, what hiring process will be used, which Low/Mod persons were interviewed for each job, and which Low/Mod persons were hired. The business is obligated to prove that the following criteria of providing “first consideration” has been met:



- a. The business must use a hiring practice that, under usual circumstances, would result in more than 51 percent of Low-/Mod persons interviewed for applicable jobs being hired; and
- b. The business must provide evidence that a sufficient number of Low/Mod job applicants were given serious consideration and genuine opportunity to fill available positions; and
- c. The distance from residence and availability of transportation to the job site must be reasonable before a particular Low/Mod person may be considered a serious applicant for the job.

Documenting Compliance with Low/Mod Jobs Requirements

When assistance is provided to a business for the purpose of creating or retaining jobs, the Grantee must have on file a written agreement with the business specifying the specific number of jobs to be created or retained, a description of each job by type, and whether the job will be full- or part-time. The agreement must also specify the actions the business and the Grantee will take to ensure that at least 51 percent of the jobs created or retained will benefit Low/Mod persons pursuant to CDBG rules.

[Appendix 2-1: HCD Job Creation - Job Retention Certification](#)

For each activity determined to benefit Low/Mod persons based on jobs to be created or retained by Low/Mod persons, the Grantee must maintain the following information in the applicant file:

- ✓ The number of jobs to be created and/or retained by the assisted activity,

The nature of existing jobs (skilled, semiskilled, unskilled), and the nature of additional jobs expected to be created

- ✓ Evidence to support a reasonable conclusion that at least 51% of jobs created will be filled by Low/Mod persons
- ✓ Evidence of actions taken to assure accessibility of the jobs to areas where substantial numbers of Low/Mod persons reside

Evidence of any special outreach and/or training directed toward Low/Mod persons.



Job creation: Compliance

When demonstrating that at least 51 percent of the jobs created will be available to Low/Mod persons, individual file documentation for each assisted business must include:

A written commitment by the business that at least 51 percent of full-time equivalent jobs will be made available to Low/Mod persons and that, if necessary to fulfill the commitment, training will be provided for jobs requiring special skills or education.

- ✓ A listing by job title of all employees at the time the application for assistance is submitted;
- ✓ A listing, by job title, of the total permanent jobs to be created, indicating which jobs will be available to Low/Mod persons, which jobs require special skills or education, and which jobs are part-time;
- ✓ Evidence supporting the estimate of the total number of jobs to be created;
- ✓ A description of actions to be taken by the recipient and business to ensure that Low/Mod persons will receive first consideration for these jobs;
- ✓ A listing, by job title, race, ethnicity, gender and handicapped status of the permanent jobs created; which jobs were made available to Low/Mod persons and a description of how first consideration was given to such persons for those jobs. That description should include the hiring process used; the number of Low/Mod persons considered for each job; and the number of Low/Mod persons actually hired;
- ✓ A description of how the LMI status of those given first consideration was determined; and
- ✓ A description of how the total number of jobs created was determined, including baseline and final payroll documents.

[Appendix 2-2: HCD Job Creation and Job Progress Report](#)

Job Retention: Compliance

The individual project file must contain clear, objective evidence and documentation that jobs would be lost without the CDBG assistance; The following are requirements for documenting records that support compliance with job retention goals.

Clear and objective evidence that in the absence of the CDBG assistance the jobs will be lost; Evidence should include, but not be limited to, cash flow records, payroll records, evidence of



new debt, comparative profit/loss statements.

- ✓ A written commitment by the business to meet the standard for retained jobs involving the employment of Low/Mod persons; and
- ✓ A listing by job title, race, ethnicity, gender and handicapped status of all permanent full and part-time employees at the time assistance is provided.

Section 2.3 Elimination of Slum/Blight

Public and/or private facilities requiring improvements that aid in the prevention or elimination of slums and/or blighted conditions in a designated slum/blight area may qualify for CDBG funding under the National Objective of Elimination of Slum and Blight. Activities that qualify under the objective are either clearly **eliminating** objectively determinable signs of blight in a defined, designated **Slum/Blight area (“area blight”)** or are **strictly limited to addressing** specific instances of blight outside a defined, designated area (“spot blight”).

Accordingly, the subcategories under this national objective are:

- Addressing Slum/Blight on an area basis; and
- Addressing Slum/Blight on a spot basis.

[24 CFR 570.483\(c\)\(1\)](#)

[24 CFR 570.483\(c\)\(2\)](#)

2.3.1 Slum/Blight Area

Grantees must seek prior approval from HCD to submit an application under the Slum/Blight Area subcategory.

Activities that would be expected to qualify under the Slum/Blight Area subcategory would be:

- Acquisition and Clearance of Blighted Properties
- Rehabilitation of substandard housing
- Commercial revitalization through façade improvements
- Removal of environmental contamination on a property to enable redevelopment for a specific use



To qualify under the national objective of Slum/Blight on an **area** basis, an activity must meet **all** of the following criteria:

1. The area must be officially-designated by the Grantee and must meet a locally-adopted definition of a slum, blighted, deteriorated, or deteriorating area consistent with the requirements of [California Health and Safety Code 33030-33039](#) and the area must exhibit signs of economic disinvestment as indicated by at least one of the following physical signs of blight or decay:

[Appendix 2-3: HCD Blight Sample Resolution - Definitions](#)

- a. a substantial number of deteriorated or deteriorating buildings throughout the area. HCD will consider this test to have been met if at least twenty-five percent (25%) of all the buildings in the area meet the state or local definition of:
 - i.* deteriorated or deteriorating;
 - ii.* abandoned;
 - iii.* experiencing chronic high occupancy turnover rates or chronic vacancy rates in commercial or industrial buildings;
 - iv.* experiencing significant declines in property values or abnormally low property values relative to other areas in the community; or
 - v.* known or suspected environmental contamination
- b. Substantial public improvements throughout the area in a general state of deterioration. (For this purpose, it would be insufficient for only one type of public improvement, such as a sewer system, to be in a state of deterioration; rather, the public improvements taken as a whole must clearly exhibit signs of deterioration.)

2. Documentation must be maintained by the Grantee on the boundaries of the area and the conditions that qualified the area at the time of its designation. The recipient must establish definitions of the conditions (listed above) and maintain records to substantiate how the area met the Slum/Blight criteria.

3. Activities to be assisted with CDBG funds must be limited to those that address one or more of the conditions that contributed to the deterioration of the area. (Note that this does not limit the activities to those that address the blight or decay itself, but it allows an activity to qualify if it can be shown to address a condition that is deemed to have contributed to the decline of the area.)



Once an area has been properly designated as a Slum/Blight area under these provisions, the Grantee may continue to assist activities that are designed to address a condition that caused the decline of the area even if the area has been brought to a point where it could no longer meet the tests for physical evidence of blight. However, if regulatory requirements have become more stringent since the area was designated, a new designation would be required in accordance with the new criteria before additional activities could be assisted with CDBG funds.

NOTE: The area must be re-designated every 10 years for continued qualification

Activities that would be expected to qualify under the Slum/Blight Area subcategory would be:

- Acquisition and Clearance of Blighted Properties
- Rehabilitation of substandard housing
- Commercial revitalization through façade improvements
- Removal of environmental contamination on a property to enable redevelopment for a specific use

2.3.2 Slum/Blight Spot

To comply with the national objective of elimination of Slum/Blight on a Spot Basis, an activity must meet the following criteria:

1. The activity must be designed to eliminate specific conditions of blight, physical decay or environmental contamination not located in a designated Slum/Blight area; and
2. The activity must be limited to one or more of the following:
 - ✓ Acquisition;
 - ✓ Clearance;
 - ✓ Remediation of environmentally contaminated properties;
 - ✓ Relocation;
 - ✓ Historic Preservation; or
 - ✓ Rehabilitation of buildings, limited to the elimination of specific conditions detrimental to public health and safety.



Acquisition or relocation activities must be a precursor to another eligible activity (funded with CDBG or other resources) that directly eliminates the specific conditions of blight or physical decay, or environmental contamination. A proposed reuse plan need not be in place before CDBG funds can be spent.

Activities that would be expected to qualify under the Slum/Blight Spot subcategory would be:

- Historic preservation of a blighted building.
- Demolition of a vacant, deteriorated, and abandoned building.
- Removal of environmental contamination on a property to enable redevelopment for a specific use.
- Elimination of faulty wiring, falling plaster and other similar conditions from a residential building which are detrimental to potential occupants.

For example, a Grantee could clean up a contaminated site without acquiring the site; however, if the Grantee first acquired the site, the project would be considered to meet the Slum/Blight national objective criteria only after clean-up occurred.

Documenting Compliance with Slum/Blight Requirements

In order to document compliance, the Grantee must maintain:

- Clear, concise, detailed record of the area blight, including but not limited to photographs, maps, public records, comparative reports, planning studies, code inspections.
- Clear, concise, detailed record of each activity undertaken to eliminate blighted conditions, including information showing how the activity eliminated conditions detrimental to public health and safety
- Appropriate compliance documentation includes, but is not limited to, photographs, plans, blueprints, maps, public records, comparative reports.



Section 2.4 Urgent Need

To comply with the national objective of meeting community development needs having a particular urgency, an activity must be designed to alleviate existing conditions declared as an emergency by Federal/State government and which meet all of the following criteria:

[24 CFR 570.483\(d\)](#)

1. The conditions pose a serious and immediate threat to the health and safety of the community, AND
2. The conditions Are of recent origin or recently became urgent, AND
3. The Grantee is unable to finance the activity on its own, AND
4. No other sources of funding are available to carry out the activity, as certified by both the HCD and the Grantee.

Use of the Urgent Need national objective is rare. It is designed only for those activities that alleviate dire emergency conditions.

Activities that would be expected to qualify under the Urgent Need National Objective would be:

- Acquisition of property located in a flood plain that was severely damaged by a recent flood.
- Public facility improvements such as reconstruction of a fire station that was severely damaged by a tornado.
- Demolition of structures that were severely damaged by an earthquake.
- Interim assistance such as emergency neighborhood debris clean-up after a tornado.



Section 2.5 Eligible Activities

As stated earlier, every project, program, or activity that receives CDBG funds through HCD must meet two criteria: the project must meet a National Objective and it must also be an Eligible Activity. The following activities are an all-inclusive list of federally eligible activities. HCD priorities will be set each year in the Consolidated Plan and/or Action Plan Update and eligible activities for that funding year will be described in the CDBG Method of Distribution (MOD).

Categories of Eligible Activity
Acquisition of Real Property
Public Facilities and Improvements and Privately-Owned Utilities
Code Enforcement
Clearance, Rehabilitation, Reconstruction, and Construction of Buildings (including Housing)
Architectural Barrier Removal
Loss of Rental Income
Disposition of Real Property
Public Services
Payment of Non-Federal Share
Relocation
Planning and Capacity Building
Program Administration
Economic Assistance to For Profit Businesses
Housing Services
Microenterprise Assistance
Homeownership Assistance
Lead Based Paint Hazard Evaluation and Reduction



2.5.1 Acquisition of Real Property

CDBG funds may be used by the Grantee to acquire real property in whole or in part by purchase, long-term lease, donation, or otherwise. In order to be considered acquisition, a permanent interest in the property must be obtained. Long-term leases can be considered to constitute a permanent interest for this purpose. HCD has established that an initial lease period of 15 years or more gives sufficient control to the acquiring party to constitute a permanent interest.

Real property to be acquired could include:

- ✓ Land
- ✓ Easements,
- ✓ Rights-of-way,
- ✓ Buildings and other real property improvements, or
- ✓ Other interests in the real property.

Activities that may be assisted with CDBG funds under this category include the cost of surveys to identify the property to be acquired, appraisals, the preparation of legal documents, recordation fees, and other costs that are necessary to accomplish effect the acquisition.

National Objectives – Acquisition of Real Property		
National Objective	Qualifies If...	Example
Low/Mod Area Benefit	The acquired property will be used for an activity that benefits all the residents in a particular area that is primarily residential, and in which at least 51 percent of residents are Low/Mod	Purchase of land for use as a park serving a primarily residential neighborhood that is predominantly Low/Mod
Low/Mod Limited Clientele	The property will be used for an activity the benefits of which will be limited to a specific group of people; at least 51 percent of who are Low/Mod	Acquisition of a building to be converted into a sheltered workshop for developmentally disabled adults.



National Objectives – Acquisition of Real Property		
National Objective	Qualifies If...	Example
Low/Mod Housing	The property will be used for housing to be occupied by Low/Mod households	Assisting in the development of a multi-family housing structure that will provide at least 51% of the units at affordable rents to Low/Mod tenants.
Low/Mod Jobs	The property acquired is to be used for an activity that will create or retain permanent jobs at least 51 percent of which will benefit Low/Mod income persons.	Acquisition of vacant land for commercial development that will provide permanent new jobs, 51% of which will be pledged and reserved for occupancy by Low/Mod persons.
Slum/Blight Area	The acquired property is in an area designated by the Grantee as a blighted area, and the property will be used in a manner that addresses one or more of the conditions that contributed to the deterioration of the area.	Acquisition of deteriorated buildings located in a blighted area for rehabilitation or demolition.
Slum/Blight Spot	The acquisition of property is located outside a designated blighted area and the acquisition is a prerequisite for clearance that will eliminate specific conditions of blight or physical decay on a spot basis	The acquisition and demolition of a grain elevator on dilapidated property that is detrimental to public health and safety.
Urgent Need	The acquisition is part of an activity designed to alleviate conditions that are a serious threat to the health and welfare of the community, as certified by the Grantee and approved by HCD. The conditions must be of recent origin or urgency and must lack other sources of funds, including Grantee financing.	Acquisition of property located in a floodplain that was severely damaged by a recent flood.



2.5.2 Public Facilities & Improvements and Privately-Owned Utilities

CDBG funds may be used by the Grantee or other public or private nonprofit entities for the:

- ✓ Acquisition (including long-term leases for initial periods of 15 years or more),
- ✓ Construction,
- ✓ Reconstruction,
- ✓ Rehabilitation (including removal of architectural barriers to accessibility), or
- ✓ Installation of public improvements or facilities (except for buildings used for the general conduct of government).

CDBG regulations define the terms “public facilities” or “public improvements.” However, HCD has broadly interpreted these to include all improvements and facilities that are either publicly owned or that are traditionally provided by the government, or owned by a nonprofit, and operated so as to be open to the general public. Such facilities include firehouses, libraries, and housing shelters. Public improvements include streets, sidewalks, curbs and gutters, parks, playgrounds, water and sewer lines, flood and drainage improvements, parking lots, utility lines, broadband infrastructure and service delivery, and aesthetic amenities on public property such as trees, sculptures, pools of water and fountains, and other works of art.

Facilities designed for use in providing shelter for persons having special needs are considered to be public facilities (and not permanent housing), and thus are covered under this category of basic eligibility. Such shelters include nursing homes, convalescent homes, hospitals, shelters for victims of domestic violence, shelters and transitional facilities/housing for the homeless, itinerant farm workers, group homes for the developmentally disabled, and shelters for disaster victims.

In the CDBG program, site improvements of any kind made to publicly owned property are considered a “public improvement” eligible for assistance under this category. This distinction would be of particular importance if a community sought to construct new housing on a publicly owned property--direct CDBG assistance could not be used for new construction of the housing, but could be used for site preparation and improvements such as water and sewer connections and development of streets and sidewalks.

Public facilities and improvements authorized under this category do not include:



- ✓ Expenditures for buildings used for the general conduct of government
- ✓ Costs of operating or maintaining public facilities or improvements;
- ✓ purchase or lease of construction equipment;
- ✓ Purchase of furnishings and personal items such as uniforms;
- ✓ New construction of public housing

Other Considerations

Water/sewer hook-ups:

The costs of connecting individual properties (such as private homes) to service collection or distribution lines are NOT eligible as a public facility. Similarly, costs of constructing, installing, or reconstructing water wells, septic tanks, drain fields, etc. for individual properties are not eligible as a public facility. These activities must be classified as a cost of construction or rehabilitation of a building, as appropriate.

Disaster Shelters:

Although the rehabilitation or construction of a facility exclusively for use as a disaster/emergency shelter is not eligible, CDBG funds can be used in the construction or rehabilitation of an otherwise eligible public facility (such as community centers, social services centers or libraries) that include design elements which allow the building to be used as an emergency shelter when necessary.

Title to public facilities:

Nonprofit entities frequently hold title to and operate facilities such as senior centers, centers for the handicapped, and neighborhood facilities. When such facilities are owned by nonprofit entities, they may qualify for assistance under this category only if they are made available to the general public.

Facilities containing both eligible and ineligible uses:

An otherwise eligible public facility maybe assisted with CDBG funds even if it is part of a multiple use building containing ineligible uses, if:

- ✓ The facility will occupy a designated and discrete area within the larger facility; and
- ✓ The Grantee can determine the costs attributable to the facility as separate and distinct from the overall costs of the multiple use building Allowable costs are limited to those attributable to the eligible portion of the building or facility.



Fees

Reasonable fees may be charged for the use of the facilities assisted with CDBG funds, to the extent that such fees are not excessive and do not preclude use or participation by Low/Mod persons

National Objectives - Public Facilities and Improvements and Privately-Owned Utilities		
National Objective	Qualifies If...	Example
Low/Mod Area Benefit	The public facility or improvement will benefit all residents of a designated area that is primarily residential in which at least 51% of residents are Low/Mod persons	Paving of a gravel road; and the installation of a drainage system; repair/replacement of sidewalks; tree-planting
Low/Mod Limited Clientele	The public facility or improvement will benefit a specific population group or groups assumed to be Low/Mod by HUD definition or documented to be Low/Mod through income. At least 51% of beneficiaries must meet Low/Mod requirements.	Rehabilitation of a building to be used as a center for training severely disable adults to enable them to live independently.
Low/Mod Housing	The public facility or improvement exclusively assists in the provision of housing to be occupied by Low/Mod persons	Site improvements on publicly owned land to serve a new apartment structure to be rented to Low/Mod households at affordable rents.
Low/Mod Jobs	The improvement is determined to be necessary to facilitate the creation or retention of jobs for Low/Mod persons	Roads, bridges, increased access to support expansion of a commercial or industrial business that will create new jobs for Low/Mod persons.



National Objectives - Public Facilities and Improvements and Privately-Owned Utilities		
National Objective	Qualifies If...	Example
Slum/Blight Area	The improvement is carried out in an officially designated Slum/Blight area and addresses one or more conditions which contributed to the deterioration of the area.	Renovation of an abandoned, deteriorated building for use as a community center.
Slum/Blight pot	The Improvement facilitates the preservation of historic structures or designations or supports activities that eliminate conditions detrimental to public health and safety outside of a designated slum/blight area.	Rehabilitation/restoration of a severely deteriorated building of historical significance located outside a designated Slum/Blight area.
Urgent Need	The improvement is part of an activity designed to alleviate conditions that are a serious threat to the health and welfare of the community, as certified by the Grantee and approved by HCD. The conditions must be of recent origin or urgency and must lack other sources of funds, including Grantee financing.	Extension of municipal water system distribution lines into a residential area where private wells have recently been found to be contaminated

2.5.3 Code Enforcement

Code enforcement involves the payment of salaries and overhead costs directly related to the enforcement of state and/or local codes.

CDBG funds may be used only for intensified code enforcement efforts in deteriorating or deteriorated areas where such action is combined with other public or private actions designed to arrest the decline of the area. Eligible code enforcement activities do not include the costs of



correcting code violations identified during routine inspections.

National Objectives - Code Enforcement		
National Objective	Qualifies If...	Example
Low/Mod Area	Enforcement constitutes a comprehensive, intensified door-to-door inspection program that is part of a multi-faceted effort to arrest decline in a designated deteriorated or deteriorating area wherein at least 51% of residents are Low/Mod.	Door-to-door code inspections in a high percentage rental property area of absentee ownership.
Low/Mod Limited Clientele	Not applicable	Not applicable
Low/Mod Housing	Not applicable	Not applicable
Low/Mod Jobs	Not applicable	Not applicable
Slum/Blight Area	The code enforcement is part of an intensified comprehensive program designed to address one or more of the conditions which contributed to the deterioration of the area.	Building inspections for code violations in a designated blighted area, which are part of a comprehensive effort to arrest decline in that area.
Slum/Blight Spot	Not applicable	Not applicable
Urgent Need	In rare, unusual circumstances, the enforcement is part of a comprehensive effort to address recent or emerging conditions posing an urgent and immediate threat to public health and safety for which other assistance is not available.	Code enforcement inspections aiding housing recovery in a residential area where hundreds were displaced by floods.



2.5.4 Clearance, Rehabilitation, Reconstruction, and Construction of Buildings

CDBG funds may be used by the grant recipient or other public or private nonprofit entities for:

- ✓ clearance, demolition, removal, reconstruction, and rehabilitation of buildings; and
- ✓ lead-based paint hazard evaluation and reduction, as defined by HUD

Clearance Activities and Considerations

Under this category, CDBG funds may be used for:

- ✓ Clearance, demolition, and removal of buildings and improvements;
- ✓ Relocation of buildings and other structures to new locations;
- ✓ Remediation of known or suspected environmental contamination, including project-specific environmental assessment costs not otherwise eligible; and
- ✓ Demolition of HUD-assisted or HUD-owned housing units with prior approval of HUD.

Where activities under this category are integral to the construction of a building or improvement on the cleared property, and where such construction is also to be assisted with CDBG funds, the clearance activities may be treated as a part of the construction costs and need not be qualified separately under the program.

National Objectives – Clearance		
National Objective	Qualifies If...	Example
Low/Mod Area	The cleared property will be used for a purpose the benefits of which are available to ALL the residents in a particular area, and at least 51% of those residents are LMI persons.	Demolishing a vacant structure and removing debris to develop a community park and playground that benefit all residents of a designated eligible residential area
Low/Mod Limited Clientele	The cleared property will be used for an activity that benefits a specific population group 51% of whom are presumed or	Demolishing a seriously dilapidated structure from the site on which a new senior center will be built.



National Objectives – Clearance		
National Objective	Qualifies If...	Example
	verified as Low/Mod .	
Low/Mod Housing	The cleared property will be used for providing affordable housing for Low/Mod households.	Demolishing seriously dilapidated buildings being used as temporary housing for migrant farm workers to make room for new migrant farm worker housing.
Low/Mod Jobs	The clearance supports or facilitates an activity that will create or retain permanent jobs, 51% of which are for Low/Mod persons	Clearance of an environmentally contaminated site on which a new business will locate and agrees that at least 51% of the jobs to be created will be for LMI persons.
Slum/Blight Area	The clearance activity is within an officially designated Slum/Blight area and will address one or more of the conditions that contributed to the deterioration of the area.	Using CDBG funds to demolish one or more deteriorated buildings located in a designated blighted area.
Slum/Blight Spot	The clearance activity is undertaken to eliminate specific conditions of blight or decay on a spot basis that is not within a designated Slum/Blight or area.	Demolition of an abandoned and deteriorated grain elevator, the presence of which is detrimental to public health and safety.
Urgent Need	The clearance is part a comprehensive effort to address recent or emerging conditions posing an urgent and immediate threat to public health and safety for which other assistance is not available.	Clearance of a building that was destroyed by fire or tornado that constitutes a safety hazard to the community.

Rehabilitation Activities and Considerations for Low/Mod Housing

Section 105(a)(4) of the HCDA provides limited information on the types of property eligible



under this category. Therefore, HCD has included the following as interpretive guidance. For specific project eligibility, contact HCD.

Eligible Property

- ✓ Residential property, privately or publicly owned. This includes manufactured housing when such housing is an integral part of the community's housing stock and is classified as real property.

Commercial or industrial property, with the stipulation that for-profit ownership limits available assistance to exterior improvements and correction of code violations, unless the clearance is carried out pursuant to a Special Economic Development activity

- ✓ Additions to existing buildings when they are incidental to the rehabilitation of the property, and do not materially increase the size or function of the building.

Eligible Types of Assistance

- ✓ **Labor & Materials:** Costs of labor, materials, supplies and other expenses required for the rehabilitation of property, including repair or replacement of principal fixtures and components of existing structures (for example, HVAC systems)
- ✓ **HOME Administrative Costs: Administrative costs associated with administration of the HOME program Financing:** Grants, loans, loan guarantees, interest supplements, and other forms of financial assistance
- ✓ **Refinancing:** Loans for refinancing existing indebtedness secured by a property being rehabilitated with CDBG funds, if such refinancing is determined by the Grantee to be necessary or appropriate to
- ✓ **Property Acquisition:** Assistance to private individuals and entities (whether profit or not-for-profit) to acquire residential properties for the purpose of rehabilitation and to rehabilitate residential properties *for use or resale*
- ✓ **Security Devices: Purchase and** installation costs of sprinkler systems, smoke detectors, dead bolt locks, and other devices for security purposes.
- ✓ **Insurance:** Initial homeowner warranty premiums and, where needed to protect the grant recipient's interest in properties securing a rehabilitation loan, hazard insurance premiums, as well as flood insurance premiums for covered properties



- ✓ **Conservation:** Expenses necessary to increase the efficient use of water and other natural resources, and improvements designed to increase the efficient use of energy, including purchase, installation and/or modification of energy saving home improvement equipment and systems.
- ✓ **Water and Sewer:** Costs of connecting existing residential structures to water distribution lines or local sewer collection lines, or installing wells, septic tanks, septic fields for individual houses, as well as replacing any of the above.
- ✓ **Tools:** Costs of acquiring tools to lend to owners, tenants, and others who will use the tools to carry out rehabilitation.
- ✓ **Barrier Removal:** Costs to remove architectural barriers that restrict the mobility and accessibility of elderly and severely disabled persons to buildings and improvements that are eligible for rehabilitation under this category.
- ✓ **Landscaping, Sidewalks, and Driveways:** installation or replacement of landscape materials, sidewalks, and driveways when incidental to other rehabilitation of the property.
- ✓ **Renovation of Closed Buildings:** The conversion of a closed building from one use to another (for example, the renovation of a closed school building to residential use). Note that rehabilitation of a closed building for re-use as a public facility would be eligible as a public facility.
- ✓ **Historic Preservation:** costs of preserving or restoring properties that have been officially designated as having historical significance, whether privately or publicly owned, except that buildings used for the general conduct of government may not be restored or preserved with CDBG assistance.
- ✓ **Lead-based Paint Hazard Evaluation and Reduction:** The costs of evaluating and treating lead-based paint in conjunction with other eligible rehabilitation activities. In addition to the actual abatement work itself, eligible costs include testing the blood of exposed children to determine the lead levels, inspections and home tests for lead hazards, temporary relocation of families during lead control work, community education and outreach, job training for lead hazard control workers, and collection and analysis of data on lead hazards.
- ✓ **Rehabilitation Services:** Staff costs and related expenses required for outreach efforts, program marketing, rehabilitation counseling, screening potential applicant households



and structures, energy audits, plans and specifications for repairs, loan underwriting and processing, inspections, and other services related to assisting owners, tenants, contractors, and other entities that are participating or seeking to participate in rehabilitation activities eligible under this category.

Rehabilitation does not include:

- ✓ Creation of a secondary housing unit attached to a primary unit;
- ✓ Installation of luxury items, such as a swimming pool;
- ✓ Costs of equipment, furnishings, or other personal property not an integral structural fixture, such as a window air conditioner; or
- ✓ The value of a homeowner’s sweat equity invested in the rehabilitation of their own property.

National Objectives – Rehabilitation		
National Objective	Qualifies If...	Example
Low/Mod Area	Rehabilitation will benefit all the residents of a qualifying Low/Mod primarily residential area.	Facade improvements to a commercial strip consisting of neighborhood-serving businesses and agencies
Low/Mod Limited Clientele	Not applicable	Not applicable
Low/Mod Housing	Rehabilitation will result in decent, affordable housing reserved for occupancy by Low/Mod households	Conversion of an abandoned warehouse into rental housing for Low/Mod households at affordable rents.
Low/Mod Jobs	Rehabilitation of a nonresidential facility will create or retain jobs for Low/Mod persons	Modernization of industrial loading docks to accommodate larger deliveries that require increased workers per shift.
Slum/Blight Area	Rehabilitation covers substandard structures located in an officially-designated Slum/Blight area	Rehabilitation of an abandoned factory in a Slum/Blight Area to entice a commercial business to locate a branch store in the redeveloping area.



National Objectives – Rehabilitation		
National Objective	Qualifies If...	Example
Slum/Blight Spot	Rehabilitation is located outside a designated Slum/Blight area and is limited to the elimination of specific conditions of blight or decay that are detrimental to public health and safety.	Rehabilitation of an old deteriorating community center exhibiting falling plaster and open accessible areas that pose safety hazards.
Urgent Need	In rare, unusual circumstances, the rehabilitation is part of a comprehensive effort to address recent or emerging conditions posing an urgent and immediate threat to public health and safety for which other assistance is not available.	Rehabilitation of condemned housing that has been badly damaged by a tornado

Construction of Buildings Activities and Considerations

Activities in support of new housing construction may be carried out using CDBG funds even though other resources are covering the actual construction costs. The following are examples of supportive activities:

- ✓ Acquisition of sites on which buildings will be constructed for use or resale as housing;
- ✓ Clearance of toxic contaminants of property to be used for the new construction of housing;
- ✓ Site improvements to publicly owned land to enable the property to be used for the new construction of housing, provided the improvements are undertaken while the property is still in public ownership; and
- ✓ The cost of disposing of real property, acquired with CDBG funds, for new construction of housing.

National Objectives – Construction of Buildings (including Housing)		
National Objective	Qualifies If...	Example
Low/Mod Area	Not applicable	Not applicable
Low/Mod Limited Clientele	Not applicable	Not applicable



Low/Mod Housing	Low/Mod households will occupy the new housing and rents (if applicable) will be affordable for Low/Mod tenants	New construction of “last resort” housing necessary for replacement housing for Low/Mod households displaced by a CDBG-assisted project.
Low/Mod Jobs	Not applicable	Not applicable
Slum/Blight Area	(1) The new housing is located within a designated Slum/Blight area and (2) Development of new housing addresses one of the conditions that contributed to the deterioration of the area.	New, modest-income rental housing constructed by a nonprofit Community Development Corporation on a formerly contaminated site
Slum/Blight Spot	Not applicable	Not applicable
Urgent Need	In rare, unusual circumstances, the construction is part of a comprehensive effort to address recent or emerging conditions posing an urgent and immediate threat to public health and safety for which other assistance is not available.	Housing urgently needed to replace whole neighborhoods destroyed by fire

2.5.5 Architectural Barrier Removal

The removal of material and architectural barriers that restrict the accessibility or mobility of elderly or handicapped persons is an explicitly eligible activity for CDGB assistance.

If the construction or rehabilitation of a building is otherwise eligible for CDBG assistance, architectural barrier removal activity should be funded as an integral part of construction or rehabilitation under the appropriate eligible activity. If a building or facility is not otherwise eligible under an assistance category then the removal of architectural barriers in such a building or facility will be eligible under this category. The most obvious example of such an activity would be the removal of architectural barriers in a building for the general conduct of government.

Complying with National Objectives

Since the cost of removing existing barriers is specifically eligible the removal of accessibility



barriers may be presumed to meet the Low/Mod Limited Clientele criteria if the costs of removal are restricted, to the extent practicable, to:

- ✓ reconstruction of a public facility or improvement, or portion thereof, that does not meet the criteria for Low/Mod Area rehabilitation of a privately-owned nonresidential building or improvement that does not meet the criteria for Low/Mod Area or Low/Mod Jobs
- ✓ rehabilitation of the common areas of a residential structure that contains more than one dwelling unit and that does not meet the criteria for Low/Mod Housing

2.5.6 Loss of Rental Income

CDBG funds may be used to pay housing owners for the loss of rental income incurred in holding, for temporary periods, housing units to be used for the relocation of individuals and families displaced by CDBG-assisted activities.

The statutory requirements concerning displacement require that certain replacement housing be made available to displaced person(s) If the displaced person requires a type of housing unit that is scarce in that community, it may be necessary for the Grantee to secure a temporary adequate, available unit to be held for the person(s) until the displacement actually occurs.

Complying with National Objectives

Compliance of this activity with the national objectives of the CDBG program must be based on the underlying relocation activity.

If the activity resulting in the relocation assistance to a displaced person qualifies on the basis of benefit to Low/Mod persons, then assistance to housing owners for losses incurred in holding units for those displaced persons also qualifies as benefiting Low/Mod persons, even if the displaced household itself is not Low/Mod.

NOTE: If the relocation assistance to displaced persons qualifies under the “Slum/Blight” or “Urgent Need” national objective, then assistance to housing owners for losses incurred in holding units for those displaced persons would also qualify under “Slum/Blight” or “Urgent Need,” as applicable.



2.5.7 Public Services

Under this category, CDBG funds may be used to provide public services (including labor, supplies, materials, and other costs), pursuant to the following criteria;

The public service must be either:

1. A new service; or
2. A quantifiable increase in the level of a service above that which has been provided by or on behalf of the Grantee (through funds raised by the Grantee or received by the Grantee from the state) during the 12 months prior to submission of an application.

Public services include, but are not limited to:

- ✓ Childcare,
- ✓ Health care,
- ✓ Job training (training a qualified pool of candidates for unspecified jobs.)
- ✓ Recreation programs,
- ✓ Education programs,
- ✓ Public safety services,
- ✓ Services for senior citizens,
- ✓ Services for homeless persons, and victims of domestic violence,
- ✓ Drug abuse counseling and treatment,
- ✓ Energy conservation counseling and testing,
- ✓ Homebuyer down payment assistance,
- ✓ Emergency assistance payments (for example, to keep tenants from losing housing), and
- ✓ Legal services (including walk-in legal counseling, foreclosure mitigation and prevention, landlord/tenant matters, veterans and public benefit appeals, child support orders, reasonable accommodations for persons with disabilities, and consumer protection).

The cost of operating and maintaining that portion of a facility in which the service is located is also considered to be eligible under the category of Public Services, even if such costs are the only CDBG-funded contributions for those services.

The following **are not** eligible public services under this category:



- ✓ Political activities;
- ✓ Ongoing grants or non-emergency payments (defined as more than three consecutive months) to individuals for food, clothing, rent, utilities, or other income payments.
- ✓ Payment of expenses in connection with litigation against the Grantee, subrecipients, or contractors

National Objectives – Public Services		
National Objective	Qualifies If...	Example
Low/Mod Area	The public service is available to all the residents in a designated primarily residential area, in which at least 51% of residents are Low/Mod.	Operation of after-school programs for children attending an elementary school in a designated eligible area.
Low/Mod Limited Clientele	The public service is provided to a specific category of a people, at least 51% of whom are Low/Mod	Provision of meals to the homeless. (Most public services qualify under this category.)
Low/Mod Housing	Not applicable	Not applicable
Low/Mod Jobs	Not applicable	Not applicable
Slum/Blight Area	The public service is provided within a designated Slum/Blight area and addresses one or more conditions which contributed to the deterioration of the area.	Provision of crime prevention counseling to residents of a designated Slum/Blight area.
Slum/Blight Spot	Not applicable	Not applicable
Urgent Need	The public service is part of a comprehensive effort to address recent or emerging conditions posing an urgent and immediate threat to public health and safety for which other assistance is not available.	Additional police protection to prevent looting in an area damaged by a tornado.



2.5.8 Payment of Non-Federal Share

This provision does not make any additional activities eligible for CDBG assistance because it limits the use of CDBG funds to paying the non-federal share only for activities that are otherwise eligible for CDBG assistance. Therefore, any proposed use of CDBG funds to pay the non-federal share of a federal grant-in-aid program should be evaluated against the requirements of the applicable eligibility category.

It should also be noted that the authority to use CDBG funds for the non-federal share of another program does not override any specific restriction against that use that may be contained in the statutory or regulatory requirements for other federal programs. For example, the HOME program requires a non-federal match, but specifically states that CDBG expenditures may not count towards meeting that requirement.

2.5.9 Relocation

CDBG funds may be used for relocation payments and assistance to displaced persons, including:

- ✓ Individuals,
- ✓ Families,
- ✓ Businesses,
- ✓ Nonprofit organizations, and
- ✓ Farms

Complying with National Objectives

Determining compliance of this activity with the national objectives of the CDBG program is based on the underlying relocation activity.

[24 CFR 570.488](#)

[24 CFR 570.606](#)

Relocation payments are **required** in certain circumstances.

Where such assistance is **required**, the activity may qualify as meeting the national objective of benefiting Low/Mod persons only where the acquisition or rehabilitation causing the relocation can also qualify under that objective.



If the grant recipient acquires property for construction of a public facility that will serve an area that qualifies under the Slum/Blight objective but cannot qualify as benefiting Low/Mod, assistance to those displaced by such activity would qualify under the Slum/Blight objective *even if most or all of the displaced persons are Low/Mod*. This is because the grant recipient is required by law to make such payments and therefore it must be viewed as an integral part of the displacing activity.

2.5.10 Planning and Capacity Building

HCD may also award CDBG funds to Grantees for planning purposes in which planning is the only activity, or in which the planning activity is unrelated to any other activity funded as part of the grant. These are often referred to as “*planning-only grants*” or “*planning-only activities*.” CDBG funds may be used under this category for activities designed to improve the Grantee’s overall capacity to undertake and manage local programs and projects under the CDBG program.

CDBG funds may be used for:

- ✓ Studies,
- ✓ Analysis,
- ✓ Data gathering,
- ✓ Preparation of plans, and
- ✓ Identification of actions that will implement plans.

The types of plans which may be assisted with CDBG funds include, but are not limited to:

- ✓ Comprehensive plans;
- ✓ Individual project plans;
- ✓ Community development plans;
- ✓ Capital improvement programs;
- ✓ Small area and neighborhood plans;
- ✓ Local analyses of impediments to fair housing choice;
- ✓ Environmental and historic preservation studies; and



- ✓ Functional plans (such as plans for housing, land use, energy conservation, or economic development).

*Planning and capacity building activities do **not** include:*

- ✓ Engineering, architectural, and design costs related to a specific project (engineering specifications; working drawings, bid documents)
- ✓ Other costs of implementing plans.

Complying with National Objectives

Planning-only grants or activities must comply with the requirements of Low/Mod or Slum/Blight national objectives. Planning-only grants or activities can meet the Low/Mod objective if it can be shown that at least 51 percent of the persons who would benefit from implementation of the plan are Low/Mod.

[24 CFR 570.483\(b\)\(5\)](#)

[24 CFR 570.483\(c\)\(3\)](#)

Planning-only grants or activities can meet the Slum/Blight national objective if the plans are for a Slum/Blight area, or if all the elements of the planning are both necessary for and related to an activity which, if implemented, could be shown to meet the Slum/Blight national objective criteria.

2.5.11 Program Administration

CDBG funds may be used to fund reasonable program administration costs related to the planning and execution of community development activities assisted in whole or in part with CDBG funds. Program administration costs include staff and related costs required for overall CDBG program management, coordination, monitoring, reporting, and evaluation.

Other activities eligible under this category include:

- Citizen participation costs,
- Fair housing activities,
- Indirect costs charged using an accepted cost allocation plan,
- Staff and overhead costs and
- Certain costs of administering a federally- designated Empowerment Zone or Enterprise Community.



2.5.12 Assistance to For-Profit Businesses

Activities eligible under this section include:

- ✓ Loans,
- ✓ Grants, or
- ✓ Other direct financial assistance to pay for the expansion of a factory or commercial business, or the establishment of a new facility or business.

For example, the CDBG funds could be provided to a for-profit company to:

- Purchase land;
 - Construct a building or other improvements;
 - Renovate an existing building to accommodate the business;
 - Construct tenant improvements/finishes;
 - Lease space in or purchase an existing building;
 - Purchase capital equipment;
 - Purchase inventory;
 - Use as working capital;
 - Provide employees with higher wages or fringe benefits (such as health insurance) that the company would not otherwise provide; and
 - Provide job training to newly hired employees who otherwise would not qualify for those jobs.
- ✓ Technical assistance to a business facing bankruptcy or otherwise at-risk.
 - ✓ Providing services or benefits to newly hired employees that allow them to hold the jobs, such as transportation to the jobsite or day care assistance. The company could provide subsidies or vouchers to employees to obtain such services on their own; or the company could provide these services directly for their employees (for example, operating an on-site day care center); or the company could contract with a third party to provide/operate these services (for example, contracting with a bus service to transport employees to work).

*Economic development activities do **not** include:*

- ✓ Lobbying or other political activities.



- ✓ Assisting directly in the relocation of any industrial or commercial plant, facility, or operation from one area to another area, if the relocation is likely to result in a significant loss of employment in the labor market area from which the relocation occurs.

[24 CFR 570.482\(h\)](#)

National Objectives – Assistance to For-Profit Businesses		
National Objective	Qualifies If...	Example
Low/Mod Area	The assistance is to a business that provides goods or services to residents of a designated Low/Mod area	Working capital or expansion loan to a neighborhood business such as a grocery store or laundromat,
Low/Mod Limited Clientele	The only use of CDBG is to provide job training or other employment support services as part of an-eligible economic development project, and the percentage of CDBG funds assisting the project does not exceed the percentage of Low/Mod persons assisted by the project	Training for 30 new employees, ten of whom (30%) are Low/Mod, where CDBG pays no more than 30% of the total cost of the project, including the training.
Low/Mod Jobs	The assisted project involves the creation or retention of jobs, wherein at least 51% of jobs created or retained are filled or made available to Low/Mod persons.	Financial assistance to a manufacturer for a facility expansion that will create permanent jobs
Slum/Blight Area	The assistance is to a business in a designated Slum/Blight area and addresses one or more of the conditions that contributed to the deterioration of the area.	A loan to a private development company to acquire and clear an abandoned rail yard to accommodate the development of an industrial park.



National Objectives – Assistance to For-Profit Businesses		
National Objective	Qualifies If...	Example
Slum/Blight Spot	<p>The assistance is to a business located outside of a designated Slum/Blight area and assistance is limited to activity necessary to address specific conditions detrimental to public safety and health.</p> <p>CDBG assistance is limited to:</p> <ul style="list-style-type: none"> • acquisition, • clearance, • relocation, • historic preservation, and • building rehabilitation. 	<p>Financial assistance to a factory to clean up its old, abandoned site and demolish a dilapidated structure.</p>
Urgent Need	<p>The assistance to a commercial or industrial business is designed to alleviate existing conditions and the grant recipient certifies that such conditions pose a serious and immediate threat to the health or welfare of the community, they are of recent origin or recently became urgent, the grant recipient is unable to finance the activity on its own, and other sources of funds are not available.</p>	<p>Provision of direct assistance to reconstruct the only grocery store in a small, remote town that was damaged by a tornado, where no other funds are available for the reconstruction.</p>

Other Important Considerations

Job Pirating:

It is common practice in the economic development field for communities to compete for site selection of new commercial or industrial facilities. One of the more controversial aspects of

[Appendix 2-4: HCD Anti-Pirating Policy](#)



this practice occurs when communities offer CDBG assistance to a business to induce the business to move existing operations from another community. The gaining community seeks to provide new jobs for its residents, but those gains sometimes come at the expense of employees currently holding jobs with that business in another community, who are not in a position to follow their employer (and their job) to a new location. This practice has come to be known as “job relocation,” or more commonly, “job piracy.”

CDBG funds are prohibited from assisting “directly in the relocation of any industrial or commercial plant, facility, or operation, from (one) area to another, if the relocation is likely to result in a significant loss of employment in the labor market area from which the relocation occurs.”

Eminent Domain:

Grantees should be aware that there is a prohibition on the use of CDBG funds in conjunction with eminent domain. This prohibition is not in the Housing and Community Development Act but is contained in each annual HUD Appropriations Act.

For Grantees, this means quite simply CDBG funds may not be used for any project wherein eminent domain has been utilized by a federal, state or local government.

Underwriting Requirements:

HUD has developed minimum underwriting guidelines to assist Grantees in selecting economic development projects, that are financially viable and will result in the most effective use of CDBG funds. Projects must demonstrate a sufficient benefit in return for the CDBG investment. While these guidelines are voluntary, Grantees must, at a minimum, meet the 24 CFR 570 Appendix A minimum standards to assess projects.

[24 CFR 570 Appendix A](#)

The objectives of the guidelines are to ensure that:

1. Project costs are reasonable;
2. All sources of project financing are committed;
3. To the extent practicable, CDBG funds are not substituted for non-federal financial support;
4. Project is financially feasible;
5. To the extent practicable, the return of the owner’s equity investment will not be unreasonably high; and



6. To the extent practicable, CDBG funds are disbursed on a pro-rata basis with other project financing

These guidelines do not apply to public facilities or microenterprise activities.

More detailed information on HCD's underwriting requirements can be found in Appendix 2-5: Underwriting Requirements.

[Appendix 2-5:
Underwriting
Requirements](#)

Public Benefit Standards:

Grantees should be aware that the public benefit standards and underwriting guidelines apply to job training and other economic development services activities funded with CDBG if the activity is funded as assistance to businesses under Section 105(a)(17) of the Housing and Community Development Act of 1975, even though they may not involve direct financial assistance to a business. Furthermore, it is important to remember that the public benefit standards are part of the statutory eligibility requirements of the program. Their applicability is triggered by the **eligibility** category under which the activity is funded, **not by what national objective** the activity is designed to address.

[HCDA Eligible
Activities for States](#)

By regulation, HUD has also included under this requirement, under certain circumstances, a public improvement activity that qualifies under the Low/Mod Jobs subcategory of the Low/Mod national objective.

[24 CFR 570.
483\(b\)\(4\)\(vi\)\(F\)](#)

Individual Standards:

An activity is considered to provide INSUFFICIENT public benefit and cannot be assisted with CDBG funds if the amount of CDBG assistance exceeds *\$50,000 per full-time equivalent job created or retained* or *\$1000 per Low/Mod person benefiting* from an activity that provides goods or services to residents of a Low/Mod Area.

The effect of these dollar limits is that, if an activity could both create or retain jobs AND provide goods or services to persons, it must fail *both* dollar standards to be precluded on the basis of these individual activity standards (and thus ineligible to be carried out using CDBG funds).

There are certain kinds of economic development activities that by their nature *fail* to provide sufficient public benefit. They are:

- ✓ An activity in which the Grantee promotes the community as a whole (as opposed to promotion of specific areas and programs);
- ✓ Assistance to a professional sport team;



- ✓ Assistance to privately-owned recreational facilities that serve a predominantly higher-income clientele, where the recreational benefit to be derived by users or members clearly outweighs the employment or other benefits to Low/Mod persons;
- ✓ Acquisition of land for which a specific proposed re-use has not yet been identified; and
- ✓ Assistance to a for-profit business whose owner is the subject of unresolved findings of noncompliance relating to previous CDBG assistance provided to that business or another business owned by the same person.

Therefore, any activity subject to the Public Benefit standards that falls into any of the above descriptions **may not be assisted with CDBG funds** regardless of any other aspect of the activity.

NOTE: In order to comply with federal requirements, HCD requires all projects meet the Aggregate Standards.

Activities that are subject to the Public Benefit standards and pass the individual activity tests outlined above also must generally, in the aggregate, either:

- ✓ Create or retain at least *one full-time equivalent, permanent job per \$35,000* of CDBG funds used for all such activities or
- ✓ Provide goods or services to residents of an area, such that the number of Low/Mod persons residing in the area served by the assisted businesses amounts to at least *one L/M income person per \$350* of CDBG funds used for all such activities.

As with the individual standards, if the activity can both create or retain jobs AND provide goods or services to residents of an area, the grant recipient may elect to apply either of the above aggregate standards to the activity. However, only **one** standard shall be used for each such activity. That is, if the grant recipient elects to use the area standard, any jobs created or retained by the activity are not to be counted for purposes of applying that aggregate standard.

2.5.13 Housing Services

CDBG funds may be used to pay costs in support of activities eligible for funding under the HOME program. This includes services such as housing counseling in connection with tenant-based rental assistance and affordable housing projects, energy auditing, preparation of work specifications, loan processing, inspections, tenant selection, management of tenant-based rental assistance, and other services related to assisting owners, tenants, contractors, and other entities participating or seeking to participate in the HOME program.



Complying with National Objectives

Since CDBG assistance must also meet HOME income targeting requirements, see the discussion under Low/Mod Housing in the National Objective section above, to determine how these services can meet the CDBG national objectives.

NOTE: Activities funded under this provision are not prohibited from qualifying under other CDBG national objectives, but the requirement to comply with HOME criteria makes Low/Mod Housing the clear alternative for CDBG compliance.

2.5.14 Microenterprise Assistance

Activities assisted under microenterprise is limited to the provision of assistance to public and private organizations, agencies, and other entities (including nonprofit and for-profit entities) to enable such entities to facilitate economic development by:

1. Providing credit (including providing direct loans and loan guarantees, establishing revolving loan funds, and facilitating peer lending programs) for the establishment, stabilization, and expansion of microenterprises;
2. Providing technical assistance, advice, and business support services (including assistance, advice, and support relating to developing business plans, securing funding, conducting marketing, and otherwise engaging in microenterprise activities) to owners of microenterprises and persons developing microenterprises; and
3. Providing general support (such as peer support programs and counseling) to owners of microenterprises and persons developing microenterprises.

Complying with National Objectives

Because microenterprises are for-profit businesses, most of the guidelines for meeting national objectives under other economic development eligibility categories also apply here. There is one notable exception, however. A microenterprise assistance activity may qualify under the Low/Mod Limited Clientele national objective criteria if it assists microenterprise owners and developers of a microenterprise who are Low/Mod. If such assistance is provided to owners/persons developing a microenterprise who are not Low/Mod, it would not qualify under Limited Clientele, but would need to meet the requirements of other subcategories (for example, Low/Mod Area or Low/Mod Jobs).

More detailed information on utilizing Microenterprise Assistance can be found in the HCD Microenterprise Guide, which will be released at a later date. Contact your CDBG program



representative if you need Microenterprise Assistance.

National Objectives – Microenterprise Assistance		
National Objective	Qualifies If...	Example
Low/Mod Area	The microenterprise provides services to a residential area wherein at least 51% of persons are Low/Mod	Working capital loan to a small neighborhood sundries store that qualifies as a microenterprise business
Low/Mod Limited Clientele	Assistance is provided to a microenterprise owner or developer who is Low/Mod	Assisting a dry-cleaning business to expand or providing a loan to an employee of a trucking firm to purchase his/her own rig to establish a microenterprise business
Low/Mod Jobs	The microenterprise assisted will create or retain jobs, 51 percent or more of which will benefit Low/Mod persons	Assisting in the expansion of a house cleaning service that requires hiring of another worker

2.5.15 Homeownership Assistance

The specific purposes for which financial assistance using CDBG funds may be provided under this category are to:

- Subsidize interest rates and mortgage principal amounts, including making a grant to reduce the effective interest rate on the amount needed by the purchaser to an affordable level. (The funds granted would have to be applied towards the purchase price.) Alternatively, the grant recipient/subrecipient could make a subordinate loan for part of the purchase price, at little or no interest, for an amount of funds the payments on which, together with that required under the first mortgage, would be affordable to the purchaser.
- Finance the cost of acquiring property already occupied by the household at terms needed to make the purchase affordable.
- Pay all or part of the premium (on behalf of the purchaser) for mortgage insurance required up-front by a private mortgagee. (This would include the cost for private



mortgage insurance.)

- Pay any or all the reasonable closing costs associated with the home purchase on behalf of the purchaser.
- Pay up to 50 percent of the down payment required by the mortgagee for the purchase on behalf of the purchaser.

Complying with National Objectives

CDBG funds authorized under this category are limited to assisting Low/Mod households, therefore any such use of funds must qualify under the national objective of Low/Mod Housing (LMH).

2.5.16 Lead-based Paint Hazard Evaluation and Reduction

The costs associated with the evaluation and reduction of lead-based paint hazards are eligible expenses under CDBG whether undertaken alone or in conjunction with other rehabilitation. Lead-based paint evaluation and abatement can either be completed as its own activity or as part of a rehabilitation activity. Typically, these expenses might include:

- Inspecting buildings for possible lead-based paint hazards;
- Testing surfaces to see if they contain-lead based paint;
- The abatement of lead hazards; and
- Payment of temporary relocation costs to protect residents from hazards while abatement work is taking place.

Complying with National Objectives

Lead-based paint hazard evaluation and reduction activities may qualify under the Low/Mod Housing. In order to provide these activities for homeownership units, the residents of the units must be Low/Mod.

For rental units the following conditions must be met:

- Rents must be set at levels which are affordable to Low/Mod persons. Grantees must adopt standards for determining “affordable rents”.
- The general rule is that 51 percent of the units in each assisted structure are to be occupied by Low/Mod households.



Single unit properties must be occupied by a Low/Mod household. In structures with two units, at least one must be occupied by a Low/Mod household. For properties with three or more units, at least 51 percent must be occupied by Low/Mod households.

Section 2.6 Ineligible Activities

In general, any activity not specifically authorized under CDBG statute or regulations is ineligible for CDBG funds. In addition, the statute specifically stipulates that the following activities may not be assisted with CDBG funds:

1. Buildings for the general conduct of government, except to create accessibility for disabled population (e.g., city hall);
2. General government expenses;
3. Political activities;
4. Purchase of equipment or furnishings for a property. This excludes certain types of manufacturing equipment connected with economic development activities and the purchase of fire trucks as firefighting equipment;
5. New housing construction and Income Payments (Income Payments are defined as direct payments to subsidize rent and/or utilities);
6. Operating and maintenance expenses for public facilities, improvements and services, and
7. Lobbying activities.

NOTE: CDBG-assisted facilities may not be used as collateral during any part of the grant period