



# CDBG ECONOMIC DEVELOPMENT MANUAL

Appendix D

Department of Housing and Community Development  
2020 West El Camino Avenue  
Sacramento, California 95833



## Table of Contents

1	General Program Requirements .....	7
2	Eligible Entities .....	8
2.1	Eligible Grantees.....	8
2.2	Eligible Subrecipients.....	8
2.3	Contractors .....	8
2.4	Eligible Business Recipients .....	8
2.5	Additional Eligibility Requirements .....	9
2.5.1	SAM Unique Entity Identifier.....	9
2.5.2	Excluded Parties.....	10
2.5.3	Anti-Pirating Policy and Certification.....	10
3	Eligible Activities .....	11
3.1	Direct Assistance to Businesses .....	11
3.2	Commercial Rehabilitation by Public or Private Non-Profit Entities.....	12
3.3	Public Facilities and Improvements.....	13
3.4	Public Services .....	14
3.5	Planning Activities for Economic Development Purposes.....	15
3.6	Economic Development undertaken by Non-profit Development Organizations under 105(a)(15).....	16
3.7	Technical Assistance to Entities Carrying Out Economic Development Activities .....	16
3.8	Assistance to Microenterprises .....	17
3.9	Ineligible Activities.....	18
4	National Objectives.....	19
4.1	Overview .....	19
4.2	Tying the Correct National Objective to the Eligible CDBG Activity .....	19
4.3	Low- and Moderate-Income Limited Clientele (LMC).....	20
4.3.1	Microenterprise Activities.....	21
4.3.2	Public Service Activities.....	22
4.4	Low- and Moderate-Income Area Benefit (LMA).....	22
4.4.1	Assistance to For-profit Business .....	22
4.4.2	Clearance, Rehabilitation, Relocation and Construction of Buildings .....	22



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4.5	Low- and Moderate-Income Jobs (LMJ)	24
4.5.1	Job Creation	24
4.5.2	Job Retention	26
4.5.3	Deadlines and Timelines for Creating or Retaining Jobs	26
4.6	Addressing blight on an area basis (AB) and on a spot basis (SB)	27
4.7	Meeting urgent needs (URG)	27
5	Public Benefits Standards	28
5.1	Provision of Goods and Services Standard	28
5.2	Job Creation/Retention Standard	29
5.3	Ineligible Activities Due to Public Benefit Standards	30
6	Environmental Review	30
6.1	Activities WITHOUT Construction, Acquisition, or Construction-Related Activities	32
6.2	Activities WITH Construction, Acquisition, or Construction-Related Activities	32
6.3	Public Service and Technical Assistance Programs	32
6.4	Commercial Rehabilitation and/or Public Facilities or Infrastructure	32
7	Allowable Award Structures	32
7.1	Documentation Requirements	33
7.1.1	Agreement with the Assisted Business	33
7.1.2	Additional Documentation	34
7.1.3	Securing the Loan (Collateral)	34
7.1.4	Underwriting Requirements	35
8	Crosscutting Federal Regulations	36
8.1	Program and Project Level	36
9	Program Guidelines and Requirements	39
9.1	Program Design, Marketing, and Engagement	39
10	Application Intake Requirements	40
10.1	Protection of Personal Identifiable Information (PII)	40
10.2	Accessibility	41
10.3	Language Access	41
10.4	Appeals Process	41

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11	Recordkeeping Requirements .....	42
11.1	Program Level Minimum Documentation .....	43
11.2	Applicant Level Minimum Documentation .....	43
12	Economic Development Financial Management.....	43
13	Key Economic Development HUD Exchange Resources .....	44



### Version History

Version	Revision Description	Release Date
1	Initial version	7/1/22



## Overview

This manual applies to Community Development Block Grant (CDBG) eligible activities funded under the CDBG Economic Development (ED) Set-aside. Funding under this special set-aside is limited to certain activities that are eligible under the Housing and Community Development Act of 1974, as amended and the HUD implementing regulations applicable to the State CDBG Program. When designed thoughtfully using an equity driven lens, activities funded under this set-aside can deliver significant benefit to low-and moderate-income residents.

More information on equity driven program design can be found in *Appendix B: Equity and Belonging Toolkit* of the *CDBG Grants Management Manual* and *HCD's Equity Driven Program Design Training*.

HCD's goal is to be as flexible as possible – within the bounds of CDBG statutory and regulatory requirements – to help each Grantee meet its unique needs. Typical Economic Development Activities described in this document include:

- Direct Assistance to Business – Such as loans and grants for businesses and commercial real estate development projects, including providing technical assistance in the application process
- Commercial Rehabilitation – Such as investment in underserved commercial district to rehabilitate deteriorating or environmentally contaminated buildings
- Public Facilities and Improvements – Such as infrastructure improvements that support economic development activities
- Public Services – Such as general job readiness and skills training
- Planning Activities for Economic Development – Such as Economic Development Strategies
- Economic Development undertaken by Non-profit Development Organizations under 105(a)(15) – Such as assistance to non-profit development organizations for economic development, including but not limited to loans, grants, small business technical assistance and business counseling services
- Technical Assistance to Entities Carrying Out Economic Development Activities – Such as business or financial counseling
- Assistance to Microenterprises – Such as the provision of financial and technical assistance to help microenterprises

This document gives Grantees information to help guide the development of compliant CDBG-funded economic development activities and programs. It reviews the major implementation and compliance requirements, including eligible activities, National



Objectives, and underwriting and application intake requirements. It also includes information on the applicable federal overlays, which are the additional rules and regulations that a Grantee must follow when using CDBG funds for specific activities.

This document includes information from HUD Exchange tools that further detail CDBG requirements and best practices for CDBG economic development activities. These HUD Exchange resources are listed in Section 12 of this document.

This document does not replace the *Annual Notice of Funding Availability (NOFA)*; for more details on a particular allocation, including the application and award process, please read the *Annual Notice of Funding Availability (NOFA)* on the HCD website.

HCD has significantly revised and restructured this document from previous Economic Development chapters to achieve the following goals:

- Give increased flexibility and deference to Grantees in the design of their programs
- Remove barriers to program participation
- Increase program participation
- Streamline compliance requirements

CDBG-funded economic development activities should be designed to be responsive to the priorities, needs, and wisdom of community members and business owners who are most impacted by systemic inequities. Jurisdictions should begin by engaging impacted community members to learn about the barriers they currently face and the solutions they propose, and then design their activities and programs based on this engagement. These activities and programs must be designed to primarily benefit low- to moderate-income persons, and may:

- Be designed to meet the needs of local businesses who may otherwise face barriers to private financing
- Support diversification and growth of business sectors
- Prioritize areas of the community that have experienced disinvestment for regeneration or growth, including corridor- or place-based initiatives
- Prioritize and assist marginalized, underserved, and underrepresented businesses
- Support small and medium-sized enterprises and new or emerging enterprises
- Invest in physical infrastructure, such as providing access to municipal water or sewer
- Invest in community infrastructure, such as workforce development and breaking down barriers of access for small and emerging businesses

More information on developing mechanisms on gathering feedback and responding to needs, see *Appendix B: Equity and Belonging Toolkit*.



## 1 General Program Requirements

All CDBG activities must meet an eligible activity and National Objective, as described in *Chapter 2: National Objectives and Eligible Activities of the CDBG Grants Management Manual*. CDBG offers Grantees a high level of flexibility in choosing economic development program activities. Grantees can select eligible activities that best meet the needs of their communities, in accordance with the National Objectives and requirements of CDBG. Determining the category of eligible activities under which an activity falls is important for the following reasons:

- The regulations and statutes place different requirements and stipulations on different categories.
  - For example, HUD regulations and statute cap the amount of CDBG funds that can be used for public service (15%) and program administration and planning activities (20%), so it is important to keep those caps in mind as Grantees design their projects and programs. HCD publishes budget caps on these activities for Grantees in the *Annual NOFA* to make sure the state meets HUD's requirements.
- The category of eligibility may dictate the costs that are eligible, the National Objective under which the activity falls, and the applicable federal compliance rules that are triggered. Some examples include:
  - **Eligible Costs:** if Grantees award funds to a small business as a special economic development activity, that funding can be used by the small business to acquire equipment. If the funding is awarded to a local government as a public facilities activity, then that funding cannot be used to acquire equipment.
  - **National Objectives:** if Grantees award funds for a job training program, then the LM Area National Objective is not applicable. The activity benefits a specific group; therefore, LM Limited Clientele is the applicable National Objective. Economic development activities generally cannot meet the National Objective of LM Housing. The National Objectives used for economic development activities typically include LM Jobs, LM Limited Clientele, and/or LM Area.
  - **Crosscutting Requirements:** construction activities tend to trigger additional overlay compliance steps (e.g., for environmental reviews, labor compliance, etc.).



## 2 Eligible Entities

### 2.1 Eligible Grantees

HCD partners with rural cities and counties (Grantees) to improve the lives of their low- and moderate-income residents through the creation and expansion of community and economic development opportunities in support of livable communities. Eligible entities include:

- Non-entitlement jurisdictions (cities with populations under 50,000 and counties with populations under 200,000 in unincorporated areas that do not participate in the U.S. Department of Housing and Urban Development (HUD) CDBG entitlement program)
- Non-Federally Recognized Tribes
- Colonias as defined by the National Affordable Housing Act of 1990

### 2.2 Eligible Subrecipients

Eligible subrecipients that carry out CDBG economic development programs or activities include:

- Public or private non-profit agencies, authorities, or organizations
- Local governmental entities
- Institutions of Higher Education

Subrecipients are required to follow the same federal regulations and requirements that are imposed on the Grantee. Grantees are responsible for monitoring subrecipients for contractual obligations and compliance with CDBG regulations and requirements.

### 2.3 Contractors

Contractors are procured by Grantees or subrecipients and considered an extension of the Grantee or subrecipient to help administer the economic development eligible activity and/or program. Contractors procured for grant administrative services help guide the Grantee or subrecipient through program implementation and assists with compliance of CDBG regulations and requirements.

Contractors can also be procured by the Grantee or subrecipient to deliver services to the Economic Development program (i.e. Financial assistance provided to a microenterprise).

### 2.4 Eligible Business Recipients

Businesses eligible to receive CDBG financial assistance generally include the types of businesses listed below. Grantees are required to list which types of businesses are eligible within their program guidelines.

- Legally operating for-profit commercial enterprises



- Startup private for-profit commercial enterprises
- Microenterprises
- Recently acquired existing private for-profit enterprises that will continue same or similar operations

As part of eligibility review, all businesses are evaluated for their ability to operate and produce cash. Eligible businesses are not restricted by the number of owners or type of business ownership, but Grantees may put in place program guidelines that target businesses that are marginalized from or may struggle to access other economic development programs. However, the level of analysis that goes into eligibility review varies by ownership type (e.g., a sole proprietorship with limited assets may require a simple cash flow analysis, but a corporation with subsidiaries may require more complicated underwriting).

## 2.5 Additional Eligibility Requirements

### 2.5.1 SAM Unique Entity Identifier

Each business that receives CDBG assistance must have a Unique Entity Identifier generated by SAM.gov.

On **April 4, 2022**, the unique entity identifier used across the federal government changed from the DUNS Number to the Unique Entity ID (generated by SAM.gov).

- The Unique Entity ID is a 12-character alphanumeric ID assigned to an entity by SAM.gov.
- As part of this transition, the DUNS Number has been removed from SAM.gov.
- Entity registration, searching, and data entry in SAM.gov now require use of the new Unique Entity ID.
- Entities already registered in Sam.gov can find their Unique Entity ID by following the steps [here](#).
- Entities who are not registered in Sam.gov can get a Unique Entity ID [here](#).

#### Sub-recipients and Sub-contractors

A sub-recipient or subcontractor who is registered in SAM.gov *already has a Unique Entity ID assigned*. No action is necessary to get a Unique Entity ID. The Unique Entity ID must be provided to the prime and Grantee as soon as possible.

A sub-recipient or subcontractor who is *not* a registered entity in SAM.gov, must request a Unique Entity ID as soon as possible. Even if the entity already have a DUNS Number, they will need to request a Unique Entity ID. Refer to the [Guide to Getting a Unique Entity ID](#) if you want to get a Unique Entity ID (SAM) for your organization



without having to complete a full entity registration. If you only conduct certain types of transactions, such as reporting as a sub-awardee, you may not need to complete an entity registration. Your entity may only need a Unique Entity ID (UEI). **No SAM.gov entity registration will be required for you to get an ID.**

### 2.5.2 Excluded Parties

Grantees must not make any award to any organization which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, "Debarment and Suspension." This applies to any CDBG-assisted contract, loan, grant, etc. at any tier in the process.

### 2.5.3 Anti-Pirating Policy and Certification

Section 588 of the Quality Housing and Work Responsibility Act of 1998 prohibits States and local governments from using CDBG funds for employment relocation activities or "job pirating". Job pirating refers to the use of federal funds to lure or attract a business and its positions from one community to another community. CDBG funds may not be used to assist for-profit businesses, including expansions, as well as infrastructure improvement projects or business incubators which are designed to facilitate business relocation IF:

- The funding will be used to assist directly in the relocation of a plant, facility or operation; and
- The relocation is likely to result in a significant loss of jobs in the labor market area from which the relocation occurs. The following are definitions that will assist in determining if a business location falls under these provisions:
  - Labor Market Area (LMA): An economically integrated geographic area within which individuals can live and find employment within a reasonable distance or can readily change employment without changing their place of residence.
  - Operation: A business operation includes, but is not limited to, any equipment, employment opportunity, production capacity or product line of the business.
  - Significant Loss of Jobs: A loss of jobs is significant if the number of jobs to be lost in the Labor Market Area in which the affected business is currently located is equal to or greater than one-tenth of one percent of the total number of persons in the labor force of that Labor Market Area; OR in all cases if the loss of jobs is 500 or more.
- A job is considered to be lost due to the provision of CDBG assistance if the position is relocated within three years of the provision of assistance to the business. Notwithstanding the above definition, a loss of 25 positions or fewer does not constitute a significant loss of positions.



The grant agreement with the UGLG shall provide for reimbursement of any assistance provided to, or expanded on behalf of, the business in the event that assistance results in a relocation prohibited under this section. HCD can help the Grantee or business calculate whether the project is likely to result in a significant loss of jobs in the Labor Market Area as defined by HUD and this policy.

Before directly assisting a business with CDBG funds, the Grantee must receive the signed Anti-pirating certification from the assisted business. See *Appendix D-1: Anti-Pirating Certification*.

### 3 Eligible Activities

The [Housing and Community Development Act of 1974 \(HCDA\)](#) details the Eligible Activities that States can implement using CDBG funds. Because the eligible activities described in the State CDBG regulations (24 CFR 570.482) are minimal, states use the HCDA as the primary authority for determining eligibility of CDBG activities carried out by Grantees. States may also use the CDBG Entitlement Program regulations beginning at 24 CFR 570.201-207, or they may choose to use them as guidance. HCDA and the CDBG regulations allow Grantees to fund various types of economic development activities. The sections below provide a summary of the types of economic development activities that can be implemented using CDBG funding and includes the HCDA Section reference and CDBG Matrix Code for each eligible activity. CDBG Matrix Codes are used in IDIS On-Line for reporting purposes only.

#### 3.1 Direct Assistance to Businesses

Programs funded under this eligible activity typically include programs that provide grants, loans, and/or forgivable loans to eligible businesses. They may be administered by Grantees directly or through subrecipients (e.g., non-profit organizations or community development financial institutions). Administering entities may also choose to fund single projects using this eligible activity. Jurisdictions or their subrecipients may administer programs that provide support services or assistance to businesses for such things as working capital, acquisition or construction, assistance for other business expenses, job training, employment and job placement services, training for entrepreneurs, business and financial counseling.

Examples of Programs and Activities:

- Small Business Loan Program providing working capital loans to eligible small businesses
- Façade improvement program to eligible small businesses
- Construction by the Grantee or subrecipient of a business incubator designed to provide inexpensive space and assistance to new firms to help them become viable businesses



- Loans to for-profit businesses for expansion or development of commercial structure
- Assistance to a grocery store to purchase equipment

[HCDA Eligible Activity Reference](#): Section 105(a)(17), IDIS Matrix Codes 18A and 18B

- **Definition within HCDA Section 105(a)17:** provision of assistance to private, for-profit entities, when the assistance is appropriate to carry out an economic development project (that shall minimize, to the extent practicable, displacement of existing businesses and jobs in neighborhoods) that—
  - (A) creates or retains jobs for low- and moderate-income persons
  - (B) prevents or eliminates blight
  - (C) meets urgent needs
  - (D) creates or retains businesses owned by community residents
  - (E) assists businesses that provide goods or services needed by, and affordable to, low- and moderate-income residents or
  - (F) provides technical assistance to promote any of the activities under subparagraphs (A) through (E)
- **OTHER:** Providing economic development services in connection with otherwise eligible CDBG economic development activities.

### 3.2 Commercial Rehabilitation by Public or Private Non-Profit Entities

Programs or projects funded under this eligible activity typically include programs that provide grants, loans, and/or forgivable loans to eligible public or private non-profit organizations. If funded as an economic development activity, the assistance will typically result in the creation of jobs or in economic services that benefit a definable area. If administered as a program, they may be administered by Grantees directly or through subrecipients (e.g., non-profit organizations or community development financial institutions), but the end recipient of the funds must be a public or private non-profit to qualify under this eligible activity.

Examples of Programs and Activities:

- Façade improvements to a commercial structure owned by a public or private non-profit
- Rehabilitation for the correction of code violations
- Assistance to a non-profit health care organization for acquisition and rehabilitation of structure for health clinic available to low-income persons



- Loans to non-profit businesses for expansion or development of commercial structure

NOTE: Working capital and operating costs are NOT eligible expenses if awards are made under this eligible activity.

[HCDA Eligible Activity Reference](#): Sections 105(a)(14), IDIS Matrix Codes 17A, 17B, 17C and 17D

- **Definition within HCDA Section 105(a)14:** provision of assistance including loans (both interim and long-term) and grants for activities which are carried out by public or private nonprofit entities, including:
  - (A) acquisition of real property;
  - (B) acquisition, construction, reconstruction, rehabilitation, or installation of
    - (i) public facilities (except for buildings for the general conduct of government), site improvements, and utilities, and
    - (ii) commercial or industrial buildings or structures and other commercial or industrial real property improvements; and
  - (C) planning

### 3.3 Public Facilities and Improvements

When using this eligible activity, assistance is typically provided to a jurisdiction to install or improve public infrastructure that will provide a benefit to one or more commercial businesses. Jurisdictions may use CDBG funds to develop public facilities that are specifically related to creating employment and economic opportunities. This may include public infrastructure such as improved street intersections, water or sewer service in a business area that allow the businesses to create or retain jobs or provide new services to a community.

These projects or programs are typically implemented by Grantees directly or through subrecipient public entities (e.g., jurisdictions within counties). While the benefitting businesses do not construct the public infrastructure improvements, the businesses are required to enter into agreements with the Grantee or the subrecipient, in which they commit to meeting terms and conditions, including the requirements for reporting on meeting a National Objective (e.g., LM Job Creation or Retention). These types of improvements are often necessary in rural areas where infrastructure may not be sufficient to meet the diverse needs of local businesses. CDBG requires that the infrastructure provide services necessary to serve a specific business.

Some sample public facilities or infrastructure projects that can support businesses or economic development projects include:



- Expand sidewalks to allow for increased pedestrian traffic in historically underserved or economically distressed commercial district, which will allow the adjacent businesses to create new jobs.
- Water and sewage pipes on a street where a new local grocery store will be located on undeveloped land and will serve an area that is primarily residential and primarily LMI

[HCDA Eligible Activity Reference](#): Sections 105(a)(2), IDIS Matrix Code 14E

- **Definition within HCDA Section 105(a) 2:** Acquiring, constructing, reconstructing, rehabilitating, or installing commercial or industrial buildings, structures, and other real property equipment and improvements, including railroad spurs and similar extensions.

### 3.4 Public Services

NOTE: The availability of funds for this purpose is limited by HUD regulations for public services. Grantees may only apply for public services activities through the public services set-aside, even when the public services are in support of economic development.

Under this eligible activity, grants are typically provided to subrecipients (e.g., governmental entity or public or private non-profit organizations) to carry out the public service activities. In public service programs, CDBG funds may be used to pay for labor, supplies, materials, equipment, and operating costs. Some examples of ways to provide public services that promote or expand economic development include, but are not limited to:

- Assistance to local community college that is expanding training and support services to include high-demand vocational certifications and job placement services for low to moderate income individuals
- Assistance to a non-profit that provides business counseling or financial management training to microenterprise or LMI business owners

Please note:

- CDBG funds are meant to supplement, not supplant, other funding.
- Public service activities previously provided or supported by the local unit of government must document either (1) a new service or (2) a quantifiable increase in the level of services provided in the prior 12 months.



- There must be documentation in the file to support program statistics at the time of application and after use of CDBG funds.
- There are limitations on the amount that can be spent on public service activities; details on these limitations are included in the Public Services Set Aside within the *Annual NOFA*.

[HCDA Eligible Activity Reference](#): Section 105(a)(8), IDIS Matrix Codes 05H

- **Definition within HCDA Section 105(a) 8:** Provision of public services relevant to economic development include but are not limited to general job training and workforce childcare. For other eligible public services, see *Chapter 2 of the CDBG Grants Management Manual*.

### 3.5 Planning Activities for Economic Development Purposes

NOTE: The availability of funds for this purpose is limited by HUD regulations for planning activities.

Carrying out planning activities may be necessary for Grantees or their subrecipients to assess whether a project will be economically feasible, impactful, to foster collaboration, and/or to understand intended or unintended consequences of carrying out different economic development activities. The studies and plans are generally for economic development activities that meet CDBG National Objectives and provide principal benefit to low-income persons.

Examples of economic development planning activities include: community-wide economic development strategies and economic development project feasibility studies.

[HCDA Eligible Activity Reference](#): Section 105(a)(12) and 105(a)(16), IDIX Matrix Code 20

**Definition within HCD Section 105(a)(12):** Activities necessary:

- A. To develop a comprehensive community development plan, and
- B. To develop a policy-planning-management capacity so that the recipient of assistance under this title may more rationally and effectively
  - i. determine its needs,
  - ii. set long-term goals and short-term objectives,
  - iii. devise programs and activities to meet these goals and objectives,
  - iv. evaluate the progress of such programs in accomplishing these goals and objectives, and



- v. carry out management, coordination, and monitoring of activities necessary for effective planning implementation

### 3.6 Economic Development undertaken by Non-profit Development Organizations under 105(a)(15)

Organizations commonly funded under this eligible activity are Community Based Development Organizations (CBDOs) and local Community Development Financial Institutions (CDFIs). When funded under this eligible activity, these organizations typically receive grants from the Grantee to carry out an economic development program on behalf of the Grantee.

Programs funded under this activity typically provide grants, loans and/or partially forgivable loans to eligible businesses. Grantees should work closely with their HCD Representative before undertaking this activity to ensure that non-profit subrecipients are selected in compliance with the requirements of this eligible activity. Revolving Loan Funds (RFLs), although typically eligible under 105(a)(15), are currently ineligible under CDBG rounds.

[HCD Eligible Activity Reference](#): Section 105(a)(15), IDIS Matrix Codes 17A, 17B, 17C and 17D

- **Definition within HCD Section 105(a)15:** Assistance to community-based non-profit organizations, local development corporations, non-profit organizations serving the development needs of the communities in non-entitlement areas or entities organized under section 301(d) of the Small Business Investment Act of 1958 to carry out a neighborhood revitalization or community economic development or energy conservation project in furtherance of the objectives of section 101(c) of this title.

### 3.7 Technical Assistance to Entities Carrying Out Economic Development Activities

Assistance funded under this eligible activity is intended to help public or nonprofit organizations expand their ability or their operations to support businesses or carry out economic development activities. Examples include:

- Training and technical assistance, or other support services to increase capacity of Grantees or subrecipients to carry out microenterprise activities.
- Technical assistance to non-profit organizations who are new to CDBG program administration, but have experience running local grant or loan programs, to help them carry out a compliant and local economic development program.

[HCD Eligible Activity Reference](#): Section 105(a)(19), IDIS Matrix Code 19C



- **Definition within HCDA Section 105(a) 19:** Provision of technical assistance to public or private nonprofit entities to increase the capacity of such entities to carry out eligible neighborhood revitalization or economic development activities, which assistance cannot be considered a planning cost as defined in paragraph (12) [of the HCDA] or administrative cost as defined paragraph (13) [of the HCDA].

### 3.8 Assistance to Microenterprises

Programs or projects funded under this eligible activity typically provide grants, loans, and/or forgivable loans and/or technical assistance to eligible microenterprise businesses. The programs may be administered by Grantees directly or through subrecipients (e.g., non-profit organizations or community development financial institutions).

Examples of Programs and Activities:

- Assisting in the expansion of a small house cleaning service with two employees
- Technical assistance program for start-up microenterprises, including the creation of business and marketing plans

[HCDA Eligible Activity Reference:](#) Section 105(a)(22), IDIS Matrix Code 18C

**Definition within HCDA Section 105(a)22:** Provision of assistance to microenterprise businesses. A microenterprise is defined as a commercial enterprise that has five or fewer employees, one or more of whom owns the enterprise. Assistance to microenterprises include:

- Grants, loans, loan guarantees and other forms of financial support for the establishment, stabilization, and expansion of microenterprises
- Technical assistance, training, counseling, and business support services to owners of microenterprises and persons developing microenterprises, including assistance, advice and support relating to developing business plans, securing funding, conducting marketing and other microenterprise activities
- General support, such as peer support programs, counseling, childcare, and transportation, to owners of microenterprises and persons developing microenterprises

Assistance to microenterprises can also be carried out under HCD Section 105(a)(15) and 105(a)(17); however, public benefit standards and underwriting requirements will apply if carried out under 105(a)(15) or (17). Public benefit standards and underwriting requirements do not apply for assistance provided under 105(a)(22). However, Grantees are still required to ensure awards and costs are reasonable.



Assistance provided under this eligible activity is not subject to public services caps, as this is not a public service activity.

### 3.9 Ineligible Activities

In general, the following activities are **ineligible** for CDBG assistance related to Economic Development:

- Activities providing financial assistance to a professional sports team
- Activities providing financial assistance to a privately-owned recreational facility that serves predominantly higher-income clientele
- Assistance to a for-profit business while that business or any other business owned by the same person(s) or entity is the subject of unresolved findings of noncompliance relating to previous CDBG assistance
- Assistance to a for-profit or non-profit enterprise where the assistance would result in a conflict of interest between the jurisdiction and/or its agents
- Activities providing financial assistance for lobbying or other political activities
- Businesses located in HUD entitlement communities are ineligible under the HCD's CDBG Program
- Job pirating: Direct assistance to a business, including a business expansion, in the relocation of a plant, facility, or operation from one labor market area to another labor market area if the relocation is likely to result in a significant loss of jobs in the original labor market area from which the relocation occurs
  - Labor Market Area: Is an economically integrated geographic area where individuals can live and work within a reasonable distance or can readily change employment without changing their place of residence
  - Significant loss of jobs: The loss of 25 or fewer jobs would not constitute a significant job loss, while the loss of 500 or more jobs would likely invoke the anti-job pirating rule. Job losses between 25 and 500 must be less than one tenth of one percent of the area's labor force to avoid being counted as significant
  - A job is considered to be lost due to the provision of CDBG assistance if the job is relocated within 3 years of the provision of assistance to the business
  - Operation: A business operation includes, but is not limited to, any equipment, production capacity, services or product line of the business

In addition, Grantees or their subrecipients are required to review applicant businesses to ensure the following:

- The applicant does not have unresolved federal or state tax obligations or delinquencies



- The applicant is not on the federal excluded entities list AND
- The business operations are physically located within the Grantee's jurisdictional limits and substantially benefit a Grantee's residents.

Federal regulations at 24 CFR 570.482(f) provide guidance on eligible and ineligible economic development (ED) activities. For a complete list of CDBG ineligible activities, refer to *Chapter 2 of the CDBG Grants Management Manual* and [HUD's Guide to National Objectives and Eligible Activities for State CDBG Programs](#).

## 4 National Objectives

### 4.1 Overview

In addition to meeting one of the eligible activities and the eligibility requirements above, all activities – other than administration and planning activities - funded with CDBG must meet a National Objective. For a complete review of HUD's National Objectives, refer to *Chapter 2 of the CDBG Grants Management Manual*. This section contains guidance specific to National Objectives for economic development activities.

The national objectives listed below may be used for economic development activities:

- Activities benefiting low- and moderate-income persons
  - Low- and moderate-income area benefit (LMA)
  - Low- and moderate-income limited clientele (LMC)
  - Low- and moderate-income jobs (LMJ)
- Prevention/elimination of blight
  - Addressing blight on an area basis (AB)
  - Addressing blight on a spot basis (SB)
- Meeting urgent needs (URG)

NOTE: Low- and -Moderate Housing (LMH) may NOT be used for economic development activities.

### 4.2 Tying the Correct National Objective to the Eligible CDBG Activity

HCD makes initial determinations regarding eligibility and National Objective compliance at the time Grantee grant applications are reviewed. Additionally, Grantees with approved projects or programs must maintain documentation in each applicant and program file to show that the National Objective requirements were met prior to closing



out the grant contract. Therefore, Grantees should read the requirements below closely for their respective National Objectives to ensure compliance with HUD’s recordkeeping requirements.

The chart below lists the eligible CDBG economic development activities and the corresponding National Objectives that can be used for each activity. The acronyms from the table are listed in the bullets above.

HUD Matrix Code	Eligible Activity	LMA	LMC	LMJ	AB	SB	URG
14E	Rehabilitation of publicly or privately owned commercial/industrial	Y	Y	Y	Y	Y	Y
17A	Commercial/industrial land acquisition/disposition	Y	Y	Y	Y	Y	Y
17B	Commercial/industrial infrastructure development	Y	Y	Y	Y	<b>N</b>	Y
17C	Commercial/industrial building acquisition, construction, rehabilitation	Y	Y	Y	Y	Y	Y
17D	Other commercial/industrial improvements	Y	Y	Y	Y	Y	Y
18A	ED direct financial assistance to for-profits	Y	<b>N</b>	Y	Y	<b>N</b>	Y
18B	ED technical assistance	Y	Y	Y	Y	<b>N</b>	Y
18C	Micro-enterprise assistance	Y	Y	Y	Y	<b>N</b>	Y

For the full list of HUD Matrix Codes, please reference the [HUD CDBG Matrix Codes and Matrix Code Definitions](#) guidance from the HUD Exchange.

### 4.3 Low- and Moderate-Income Limited Clientele (LMC)

HUD Regulation: [24 CFR 570.483\(b\)\(2\)](#)

The LM Limited Clientele National Objective can be used for activities that provide benefits to a specific group of persons rather than everyone in an area generally. Some examples of how LMC may be used in the context of economic developments are listed



below:

- Microenterprise activities:
  - Provide training and technical assistance to LMI persons on business plan writing and marketing
  - Develop a grant/loan program to provide microenterprise businesses with financial assistance
- Public services activities:
  - Create a basic job skills training for survivors of domestic violence
  - Develop a truck driving program to meet the needs of area businesses
  - Create a construction job training program restricted to residents of the local public housing complex

### 4.3.1 Microenterprise Activities

Assistance to microenterprises may meet the LMC- Microenterprise (LMC) National Objective if the business meets the definition of a microenterprise and the owner(s) of the business is(are) LMI. A microenterprise is defined as a commercial enterprise that has five or fewer employees, one or more of whom owns the enterprise.

- Use of national objective eliminates the need to review job creation or retention numbers, and also eliminates the need to review the income of the jobs created or retained employees.
- A microenterprise owner(s) is considered to be LMI for 3 years after the income is verified, so the Grantee or their subrecipient is not required to re-validate their income during that 3-year presumption period.
- However, if additional financing is required, the business must still meet the definition of a microenterprise, as defined by HUD.
- More information on using CDBG assistance to support microenterprises can be found in in HUD's [CDBG Microenterprise Assistance Toolkit](#).

#### Ways to Document LMC for Microenterprise:

- 51% LMI – Documentation that at least 51% of beneficiaries are LMI
- 100% LMI - Documentation that all owners receiving direct financial assistance are determined to be

HCD has provided *Appendix D-2: Microenterprise Adjusted Gross Income Worksheet*, *Appendix D-3: Microenterprise Income Certification*, and *Appendix D-4: Certification of Zero Income* to assist Grantees in documenting compliance with the LMC National Objective for microenterprise assistance activities.

NOTE: If any owner does not qualify as LMI, then the microenterprise may still qualify for CDBG financial assistance under a different National Objective listed below, including LM Jobs and LM Area.



### 4.3.2 Public Service Activities

Some economic development projects support LMI individuals with job training and placement or other support services such as peer support, counseling, childcare, and transportation. This could also include public services that support economic development activities. This type of project may qualify under the LM Limited Clientele (LMC) National Objective, per the bullets listed above.

- **Ways to Document LMC for Public Services Presumed Group** - Documentation that the program is restricted to a HUD presumed group, such as houseless person and adults with functional illiteracy
- 51% LMI – Documentation that at least 51% of beneficiaries are LMI
- Nature and Location - Documentation that the program is restricted to a location that ensures the beneficiaries are at least 51% LMI, like public housing

Additional information on how to document the LMC National Objectives can be found in Chapter 2, Section 2.2.2. of the CDBG Grants Management Manual.

## 4.4 Low- and Moderate-Income Area Benefit (LMA)

HUD Regulation: [24 CFR 570.483\(b\)\(1\)](#)

The Low- and Moderate-Income Area Benefit national objective can be used for economic development activities that provide necessary goods or services that are available to all residents located in an area that is primarily residential and the area is at least 51% LMI. Some examples of how LMA may be used in the context of economic development are listed below:

### 4.4.1 Assistance to For-profit Business

In order to provide financial assistance to a for-profit business within an LMI Area, the business must be providing goods and services that would benefit and be affordable to LMI persons.

- Provide a grant to a business to open a grocery store serving an LMI area.
- Provide a grant to a business to open an auto mechanic shop. The shop cannot be limited to high-end and/or foreign model cars.

### 4.4.2 Clearance, Rehabilitation, Relocation and Construction of Buildings



In order a grantee to conduct clearance, rehab, relocation and construction of buildings within an LMI Area, the business(es) benefitting from the activities must provide goods and services that would benefit and be affordable to LMI persons.

- Rehabilitation of a commercial space to be leased by a dental office serving an LMI area.
- Site clearance for the construction of a grocery store serving an LMI area.

### **Ways to Document LMA:**

There are multiple conditions that must be reviewed and documented to determine whether a business can qualify under LM Area Benefit:

- The Grantee must review and approve the geographic boundary (map) of the service area of the business
  - The service area may align - but does not need to align - with census tracts or block grants
  - Grantees may, at the discretion of HCD, use either HUD-provided data comparing census data with appropriate low- and moderate-income levels or survey data that is methodologically sound
  - When defining the service area, the Grantee must consider comparable services provided by other businesses in the service area and consider accessibility
- The business services must be available to all residents in the defined service area
  - There must be documentation that the business is providing goods and services to that are available to all residents in the service area. Goods and services that are available to all residents may include such services as grocery stores, laundromats, dry cleaners, pharmacies, health care, etc. A high-end business, real estate company, or other company that does not provide services that are available to all residents – regardless of income, accessibility needs, or other similar limiting features – would not be able to qualify under LM Area
- The service area must be primarily residential
- At least 51 percent of the residents in the defined area must be low- and moderate- income persons
- 

Additional information on how to document the LMA National Objectives can be found in *Chapter 2, Section 2.2.1. of the CDBG Grants Management Manual.*



## 4.5 Low- and Moderate-Income Jobs (LMJ)

HUD Regulation: [24 CFR 570.483\(b\)\(4\)](#)

Many economic activities carried out with CDBG funds will result in new jobs being created (LM Jobs Created). CDBG funds may also help struggling businesses carry out activities that will help them retain employees whose jobs would be at-risk without CDBG assistance (LM Jobs Retained). To use the LM Jobs Created or Retained National Objectives, HUD regulations require that at least 51 percent of jobs count as LMI jobs (see below for additional detail). This does not mean that the businesses must pay low wages to LMI households to count jobs as LMI; it means that the position must be held by or made available to persons who are members of LMI families at the time of job application (for jobs created) or at the time the job is at risk (job retention). Businesses must provide a written commitment of the total number of jobs to be created or retained because of the CDBG funded activities.

When certifying job creation/retention activities, the following policies apply:

- Part-time jobs must be converted to full-time equivalent positions (FTE). HCD calculates 1 FTE at 30 hours a week or 1560 hours per year. If Grantees use different thresholds for defining 1 FTE, those should be described in program guidelines
- Only permanent jobs may be counted
- Seasonal jobs may be counted only if the season is long enough for the job to be considered the employee's principal occupation
- Jobs indirectly created or retained by an assisted activity may not be counted (for example construction jobs to complete the awarded CDBG activity are not considered permanent for the CDBG award, as those jobs are not maintained beyond the life of the construction contract)
- While not a requirement of 24 CFR 570.483(b)(4), to ensure adherence to the anti-pirating law, transferred jobs (those that involve one employee moving from one location to another) may not be counted

### 4.5.1 Job Creation

To use the LM Jobs Created National Objective, HUD regulations require that at least 51 percent of jobs to be held by or made available to persons whose total family household income is low- or moderate-income.

Created jobs are only considered to be held by LMI persons when the job is actually filled by a LMI person.

Created jobs are only considered to be “made available to” LMI persons when:



- Special skills that can only be acquired with substantial training or work experience or education beyond high school are not a prerequisite to fill such jobs; OR
- The business agrees to hire unqualified persons and provide training in any special skills required for created jobs; AND
- The Grantee and the assisted business take actions to ensure that LMI persons receive first consideration for filling such jobs.

### **Ways to Document LMJ (Job Creation):**

Documentation on availability of jobs for LMI persons should include evidence of affirmative marketing efforts by the business (e.g., advertisements, fliers, postings, outreach).

Recordkeeping requirements include documenting the financial status of the business, the projected total number of jobs created, and the projected number of total LMI persons benefiting from the activity. The following is an outline of the documents that should be maintained by Grantees:

- Written agreement specifying a commitment from the assisted business to hire LMI persons:
  - The type of job(s) and whether the job(s) will be full or part time
  - Actions that the business will take to ensure that at least 51 percent of the hires will be held by or made available to LMI persons
- For created jobs that will be held by LMI persons, the records maintained by Grantees must contain:
  - A listing by job title of the jobs created and the jobs filled
  - The name and income status of the person who filled each position
  - The full-time equivalency status of the jobs
- For created jobs that will be made available to LMI persons, evidence must show:
  - The title and description of the jobs made available
  - The full-time equivalency status of the job
  - Prerequisites for the job
  - Special skills or education required for the job, if any
  - The business commitment to provide needed training for such jobs
    - Documentation of how first consideration was given to LMI persons
      - Applications, Interviews, etc.

*Appendix D-5: Sample Self Certification of Income Form* has been provided for Grantee use. Grantees may develop their own form, but self-certifications must include all information in Appendix D-5 at a minimum.



### 4.5.2 Job Retention

For job retention activities, Grantees must document that the jobs would be lost without the CDBG assistance. Businesses may meet this National Objective if either or both of the following conditions apply:

- At least 51 percent of the jobs at risk are held by LMI persons; or
- At least 51 percent of the jobs retained can reasonably be expected to turn over within the following two years and steps will be taken to ensure that the jobs will be filled by or made available to LMI persons upon turnover.

#### **Ways to Document LMJ (Job Retention):**

There must be clear and objective documentation that permanent jobs will be lost without CDBG assistance. For these purposes, “clear and objective” evidence would include:

- Evidence of a public announcement or publication regarding potential job reduction, or
- Documentation to support job retention claim, including but not limited to financial statements, supplier statements, inventory records, newspaper articles, demonstrating that, in all likelihood, the business would need to reduce employees in the near future without the planned CDBG intervention, or
- Evidence of notice issued to potentially affected employees

Additional document that should be maintained by Grantees includes:

- Written agreement specifying a commitment from the assisted business to retain a total number of jobs, of which at least 51% must be retained by LMI persons
  - The type of job(s) and whether the job(s) will be full or part time
  - Actions that the business will take to ensure that at least 51 percent of the jobs will be held by LMI persons

### 4.5.3 Deadlines and Timelines for Creating or Retaining Jobs

Grantees must define in their program policies or agreement documents the length of time that businesses have to create the jobs or to retain jobs. As a best practice:

- The Grantee or subrecipient should define in their guidelines and/or award documents the timespan, including start and end dates for creating the required number of jobs
- The deadline cannot extend beyond three years
- The Grantee may have policies and procedures allowing for extension requests, if unforeseen circumstances arise

Documentation maintained by the Grantee should include business payroll records over time, employee pay stubs, and other evidence of continued employment including job



tracking requirements, monitoring, and periodic reporting on the status of created or retained jobs. The business must continue to collect income verifications from all job applicants and employees hired until hiring is complete and the jobs are monitored or verified by the Grantee.

HCD has provided *Appendix D-5: Sample Self-Certification of Income* to assist Grantees in documenting compliance with the LMJ National Objective for job creation and/or retention activities.

Additional information on how to document the LMJ National Objectives can be found in *Chapter 2, Section 2.2.4. of the CDBG Grants Management Manual*.

## 4.6 Addressing blight on an area basis (AB) and on a spot basis (SB)

HUD Regulation: [24 CFR 570.483\(c\)\(1-2\)](#)

HCD understands and acknowledges that the term “slums” may be offensive and/or trauma-filled to individuals. This is currently a HUD regulatory term, and HCD strives to minimize the appearance of this term throughout this document by using Area Blight and Spot Blight wherever possible.

HCD has included the Area Blight and Spot Blight National Objectives as options for Grantees running programs or administering projects, as it may provide additional flexibility for Grantees to help meet their community development goals. When considering the use of this National Objective, Grantees should ensure that they receive prior approval from HCD. Because the use of this National Objective does not contribute to HCD’s required LMI expenditures, the use of this National Objective will be approved on a limited basis. Grantees seeking to use this National Objective may be required to demonstrate how the proposed activity benefits low- or moderate-income households, including an analysis of potential detrimental impacts to LMI communities, and proactive steps that will be taken to prevent these detrimental impacts.

Additional information on how to document the Area Blight and Spot Blight National Objectives can be found in *Chapter 2, Section 2.3 of the CDBG Grants Management Manual*.

## 4.7 Meeting urgent needs (URG)

HUD Regulation: [24 CFR 570.483\(d\)](#)

Grantees may experience emergency conditions that warrant investments in economic development activities that do not clearly provide a benefit to LMI persons. For example, a Grantee may have experienced an earthquake and needs to help local businesses



recover or repair damages in order to provide essential goods and services to the impacted communities.

When considering the use of this National Objective, Grantees should ensure that they receive prior approval from HCD. Because the use of this National Objective does not contribute to HCD's required LMI expenditures, the use of this National Objective will be approved on a limited basis. Grantees seeking to use this National Objective may be required to demonstrate how the proposed activity benefits to low- or moderate-income households, including an analysis of potential detrimental impacts to LMI communities.

Additional information on the steps that Grantees are required to take and the documentation requirements for using the urgent need National Objective can be found in *Chapter 2, Section 2.4 of the CDBG Grants Management Manual*.

## 5 Public Benefits Standards

When CDBG funds are used for certain economic development projects or infrastructure improvements carried out for the purpose of creating/retaining jobs for LMI persons, or to assist local businesses that provide essential goods and services in predominately LMI communities, the CDBG rules require the application of public benefit standards. For additional information, see 24 CFR 570.482(f).

- These mandatory standards ensure that at least a minimum level of public benefit is obtained from the expenditure of CDBG funds
- While a business may be eligible or need additional assistance, Grantees cannot provide assistance that exceeds the public benefit standards, and they may be required to adjust awards to comply with these standards
- These mandatory standards apply to activities carried out under HCDA Sections [105\(a\)\(2\)](#), [105\(a\)\(14\)](#), [105\(a\)\(15\)](#), and [105\(a\)\(17\)](#)
- They are not applicable to microenterprise activities funded under [105\(a\)\(22\)](#)
- Grantees must calculate the public benefit standard prior to application to HCD

There are two ways to apply the Public Benefit standard, described in the following sections.

### 5.1 Provision of Goods and Services Standard

To meet the public benefit standard by applying the provision of goods and services standard:



- The amount of assistance provided to the eligible business (if the assistance is provided directly to the business) or the cost of the public facility/infrastructure that will benefit the business cannot exceed \$350 per LMI person residing in the area served by the assisted business
- The exception to this is if the business is in a census tract with at least 20% poverty or in a 70% LMI service area. In a 20% poverty or 70% LMI service area, the cost per LMI resident cannot exceed \$1,000

## 5.2 Job Creation/Retention Standard

To meet the public benefit standard by applying the job creation/retention standard:

- The public benefit calculation begins by determining the total number of jobs to be directly created or retained by each business as a result of CDBG assistance
- The total CDBG cost per job is then calculated by:
  - The total dollar amount of CDBG funds to be spent for the activity (not including general administration costs), divided by the total number of jobs to be created or retained as a result of the project being undertaken.
    - HCD defines an FTE as at least 30 hours per week or 1,560 hours per year. If a permanent, part-time job is created, determine the proportion of an FTE that is created and use it in the calculation.
    - This calculation may not include the following jobs: temporary workers, temporary construction jobs related to the construction of the CDBG-funded project, third-party contractors, persons working less than 469 hours per year, or existing jobs that were relocated to another facility.
  - If the activity is a public facility or infrastructure improvement that benefits multiple businesses directly, then all jobs from all businesses directly benefitting must be included in this calculation
- The amount of assistance provided to the eligible business (if the assistance is provided directly to the business) or the cost of the public facility/infrastructure that will directly benefit the business(es) cannot exceed \$35,000 of CDBG assistance per full-time equivalent, permanent job created or retained
- If the Grantee is carrying out a public facility or infrastructure project that will provide \$10,000 or more per job created/retained, all businesses who will benefit from the infrastructure improvements, must enter into agreements committing to the creation or retention of the jobs. This includes businesses which, as a result of the public facility/improvement, locate or expand in the service area of the public facility/improvement between the date HCD awards the CDBG funds and one year after the physical completion of the public facility/improvement.



It should be noted that an activity that is subject to the Public Benefit standards does not have to use the same factor for meeting that standard as it does for meeting national objective requirements. For example, assistance to a grocery store serving a L/M income neighborhood that also retains some jobs may qualify as meeting the national objective based on the area served while the grant recipient may choose to qualify it under the Public Benefit standards based on the retained jobs.

The fact that an activity qualifies for national objective purposes under one of the Slum/Blight subcategories or even under the Urgent Need category does not affect its need to separately meet the Public Benefit standards.

### 5.3 Ineligible Activities Due to Public Benefit Standards

- Any activity which falls into one or more of the categories below is considered by HUD to provide insufficient public benefit. Therefore, under no circumstances, will the following activities be eligible for CDBG assistance: General promotion of the community as a whole
- Assistance to a professional sports 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 employment of, or other benefits to, LMI persons
- Acquisition of land for which a specific use has not been identified (land banking)
- Assistance to a for-profit business that is the subject of unresolved findings of noncompliance related to previous CDBG assistance

For additional information on CDBG Public Benefit Standards, see 24 CFR 570.482(f)(4).

## 6 Environmental Review

All activities using CDBG funds must receive environmental clearance before obligating or expending funds. Each activity is subject to completing a National Environmental Policy Act of 1969 (NEPA) environmental review in accordance with 24 CFR Part 58. The Grantee is responsible for the completeness and accuracy of the reviews. The purpose of this section is to demonstrate the level of environmental review necessary for the various types of economic development activities. For additional information on environmental review requirements, please see *Chapter 3: Environmental Review of the CDBG Grants Management Manual*.

Type of Environmental Review	Activities	Other Compliance Required
<b>Exempt (24 CFR Par 58.34)</b> – Exempt from performing NEPA level EA or EIS	<ul style="list-style-type: none"> <li>• Environmental and other studies</li> <li>• Information and financial services</li> <li>• Administrative and management</li> </ul>	1. Although the activities listed to the left are exempt from NEPA, Grantees must still



Type of Environmental Review	Activities	Other Compliance Required
	<p>activities</p> <ul style="list-style-type: none"> <li>• Public services that will not have a physical impact (e.g., crime prevention, childcare, and counseling)</li> <li>• Inspections and testing of properties for hazards</li> <li>• Purchase of insurance</li> <li>• Purchase of tools</li> <li>• Engineering or design</li> <li>• Technical assistance and training</li> <li>• Payment of principal and interest on loans made or obligated by HUD</li> </ul>	<p>document in writing its determination that the project meets the exemption.</p> <p>2. The activity is still subject to compliance with 24 CFR 58.6 and must document review of those requirements (i.e., compliance with FEMA National Flood Insurance Program, Coastal Barrier Resources Act, and Runway Clear Zone)</p>
<p><b>Categorically Excluded Subject to the Statutory Requirements (24 CFR 35(a))</b>            - Activities in this category are not subject to a NEPA EA or EIS but are subject to other Federal environmental laws listed in 24 CFR 58.5</p>	<ul style="list-style-type: none"> <li>• Acquisition, repair, improvement, reconstruction, or rehabilitation of public facilities or other improvements that do not change size or capacity of existing features more than 20%</li> <li>• Project does not include changes in land use</li> <li>• The estimated cost of rehabilitation is less than 75% of total estimated cost to replace</li> </ul>	<p>1. The review and completion of the Statutory Checklist must be documented in the Environmental Review Record for the project.</p> <p>2. The activity is still subject to those compliance with 24 CFR 58.6 and must document review of requirements (i.e., compliance with FEMA National Flood Insurance Program, Coastal Barrier Resources Act, and Runway Clear Zone)</p>
<p><b>Categorically Excluded Not Subject to the Statutory Requirements (24 CFR 35(b))</b>            - Activities in this category are not subject to a NEPA EA or EIS AND are not subject to review of other Federal environmental laws listed in 24 CFR 58.5 as it has been determined that the following activities would not alter any conditions that would require a review or compliance.</p>	<ul style="list-style-type: none"> <li>• Tenant-based rental assistance</li> <li>• Supportive services such as health care, day care, nutritional services, short-term payments for rents/utilities, and similar activities that do not impact the natural environment</li> <li>• Economic development activities not associated with construction or expansion of operations</li> <li>• Operating costs including maintenance (generally applies only to non-profit operations)</li> </ul>	<p>1. The review and completion of the activity must be documented in the Environmental Review Record for the project.</p> <p>2. The activity is still subject to compliance with 24 CFR 58.6 and must document review of those requirements (i.e., compliance with FEMA National Flood Insurance Program, Coastal Barrier Resources Act, and Runway Clear Zone)</p>
<p><b>Environmental Assessments</b></p>	<p>For additional information and for detailed instructions and checklists, please review <i>Chapter 3 of the CDBG Grants Management Manual</i>.</p>	



## 6.1 Activities WITHOUT Construction, Acquisition, or Construction-Related Activities

Most assistance associated with this type of program such as working capital, moveable equipment and inventory costs will be Categorically Excluded Activities Not Subject to 24 CFR part 58.35(b). Grantees must complete an environmental review for each loan or grant issued to a business. Grantees may also complete a program-wide environmental review for all funds allocated to the program, provided their program is limited to activities covered under **Categorically Excluded Not Subject to the Statutory Requirements (24 CFR 58.35(b))**.

## 6.2 Activities WITH Construction, Acquisition, or Construction-Related Activities

Environmental reviews for grant or loan programs that include any type of construction, acquisition, installation, or other construction-related activity must be completed for each loan or grant issued to a business. The level of environmental review will depend on the activity approved for each loan or grant.

For more information on the environmental review process, please see the *CDBG Grants Management Manual, Chapter 3*.

## 6.3 Public Service and Technical Assistance Programs

Grantees may complete a program-wide environmental review for these activities. This includes such programs as job training, microenterprise technical assistance and other activities that fall under Exempt Activities 24 CFR Part 58.34(a).

## 6.4 Commercial Rehabilitation and/or Public Facilities or Infrastructure

Each of these types of eligible activities will generally and likely require an individual environmental review or environmental assessment. The level of environmental review will depend on the activity.

Find out more about environmental reviews in *Chapter 3: Environmental Review of the CDBG Grants Management Manual* and the [HUD Environmental Review](#) website.

## 7 Allowable Award Structures

Grantees may choose to structure awards as grants, forgivable loans, repayable loans, loan guarantees, or a combination of multiple structures. Grantees must summarize and document in their program guidelines and program files the rationale for the award structure. When making this determination, Grantees should consider the following:

- The nature of the activity that will be carried out and whether that activity will generate revenue that can or should be repaid. For example:



- It may not be feasible for a non-profit carrying out technical assistance activities for underserved businesses to repay a loan because the services they provide are free to the businesses and therefore the organization does not have excess revenue to repay a loan.
- When performing the underwriting of a for-profit business, the projections indicate the business will be extremely profitable and it would result in an unreasonable return on the owner's investment for the award to be structured as anything other than a fully or partially repayable loan.
- Does the Grantee want to provide low-barrier capital investments to microenterprises? If yes, a grant or forgivable loan program may be best.
- Does the program want to support the expansion of a medium commercial enterprise because it will result in significant jobs for their community, but they also want to ensure the return on investment is not too great for the owners? If yes, a loan program may be best.
- Impact of Underwriting requirements
  - Grantees must ensure projects are underwritten when undertaking certain CDBG activities. Depending on the nature of the activities and the Grantee or subrecipient underwriting processes, it may not be reasonable to structure awards as grants, or it may not be feasible to structure awards as loans.
- Reducing barriers to underserved and disadvantaged businesses
- Post-award terms and conditions. If Grantees have terms and conditions that businesses must meet after they receive the award, it may be practical for the Grantee to structure the award as a loan or as a forgivable loan that is dependent upon the completion of the post-award terms or conditions. This approach adds some “teeth” to the requirements. Some common post-award terms and conditions include:
  - Job creation or retention requirements
  - Public benefit standards
  - Performance requirements
  - Compliance with crosscutting requirements

## 7.1 Documentation Requirements

### 7.1.1 Agreement with the Assisted Business

Before directly assisting a business with CDBG funds, Grantees must sign a written agreement with the assisted business, which must include:

- Applicable activity (HUD matrix code) as established in Exhibit E of the Standard Agreement (application scope of work and budget)



- Language that the agreement is contingent upon receiving Authority to Use Grant Funds from HCD
- Language addressing that all relocation requirements have been met including mitigation and payments to displaced persons, if required
- Language related to meeting the national objective and complying with all applicable crosscutting requirements, which can be incorporated as standard language in award documents, or Grantees may choose to customize the requirements based on the specific eligible use of funds for each business

Standard loan documentation may include but is not limited to promissory notes, loan agreements, mortgages, and other appropriate documents. All security documents must be recorded. A sample agreement has been provided as *Appendix D-6: Sample Job Creation/Retention Agreement*.

### 7.1.2 Additional Documentation

Documentation should include the following information (as applicable):

- Real Property Transfer
  - Title indicating the property is free and clear for transfer as offered
  - Any deed limitations, covenants, or restrictions applicable to the property
- Security and Collateral Documents (as applicable)
  - Certification that property records have been researched
  - Certification that the collateral position(s) required is available
  - Certification that the CDBG loan is not subordinated below the level required by the Standard Agreement between the State and the Grantee

All security documents must be recorded with the State or county jurisdiction to assure proper lien filing dependent on the security involved.

**NOTE:** In cases where Grantees rely on third parties (e.g., consultants, title companies), the Grantees are responsible for overseeing their work. As such, HCD strongly encourages Grantees to incorporate the requirements of this chapter into their policies and procedures.

### 7.1.3 Securing the Loan (Collateral)

Grantees may decide whether to secure CDBG loans by recording liens on real property, equipment, through personal guarantees, or through other means. Security documents or liens should clearly identify the position for which security is offered. Mortgages against real property should include, at a minimum, the following:



- A legal description of the property
- Certification of ownership
- Identification of any claims against the property

In addition to securing real property, Grantees must file a UCC-1 financing statement giving notice of an interest in personal property including furniture, fixtures, and equipment. The financing statement must include a detailed description of the items to be secured including, but not limited to, the make, model number, and serial number of each item of equipment. See *Tool D-1: Loan Certification Form*

NOTE: Security agreements must be filed with the appropriate State or County jurisdiction, dependent on collateral involved.

#### 7.1.4 Underwriting Requirements

Underwriting guidelines provide the recipient with a framework for financially underwriting and selecting CDBG-assisted economic development projects that are financially viable and make the most effective use of the CDBG funds. HUD outlines the *Guidelines and Objectives for Evaluating Project Costs and Financial Requirements in Appendix A to Part 570 of the CFR*. The use of these underwriting guidelines is **mandatory** for participation in the State CDBG Program. For additional guidance on the specific HCD Underwriting Guidelines, see *Appendix D-7: HCD Underwriting Guidelines*.

These underwriting guidelines recognize that different levels of review are appropriate to consider differences in the size and scope of proposed projects.

The objectives of the underwriting requirements are to ensure:

- **All project costs are reasonable.** Grantees should obtain an itemization of all project costs and review each cost for cost reasonableness to avoid providing too much or too little CDBG assistance.
- **All sources of project financing are committed.** Grantees should review all projected sources of financing necessary to accomplish the proposed economic development project and determine that such financing is in place so that HCD does not fund projects that cannot be completed.
- **To the extent practicable, CDBG funds are not substituted for non-Federal financial support.** Grantees should obtain specific information on how CDBG funds do not replace non-federal assistance that may be available for the same



purpose without placing an undue financial or administrative burden on the business or applicant. For example, if the business has access to other local grants, then these should not be substituted with CDBG funds. However, if the business qualifies for a private market rate loan, but the project would not be financially feasible with the debt from that loan, then it may be appropriate to award CDBG funds.

- **The project is financially feasible.** A project is financially feasible if all the assumptions about the market share, sales levels, growth potential, projections of revenue and expenses (cash flow), and debt service are realistic. Grantees should evaluate each of these areas to determine if there is a reasonable chance of success. Grantees risk their ability to meet a National Objective and the public benefit requirements if the project is not financially feasible, which could result in a recapture of CDBG funds.
- **To the extent practicable, the return on the owner's equity investment is not unreasonably high.** A CDBG assisted activity should provide no more than a reasonable return on investment to the owner of the assisted enterprise, based on industry rates of return, local conditions, and project risk. Grantees should adjust the amount, type, and terms of assistance to give the business owner a reasonable return on his/her/their investment.
- **To the extent practicable, CDBG funds are disbursed on a pro rata basis with other finances provided to the project.** CDBG funds used to finance economic development activities should be disbursed proportionally with other funding sources. The goal of this guideline is to put protections in place to keep the CDBG funds from being at greater risk than non-CDBG project funds. The idea is that if all funders provide proportionate funding in the project, they are more likely to all be committed to ensuring the project is completed and successful. However, there may be some cases where it is not practicable (meaning it cannot be done or put into practice successfully) for CDBG funds to go in on a pro rata basis, and Grantees should ensure files are clearly documented and supported for why it is reasonable to fund a project in a way other than on a pro rata basis.

## 8 Crosscutting Federal Regulations

### 8.1 Program and Project Level

Economic development activities funded by HCD are subject to all applicable crosscutting federal regulations, which are described in the other chapters of the *CDBG Grants Management Manual*. This section highlights how these requirements apply to CDBG economic development activities, but please reference other chapters for more details.

Equity and	Appendix B: Equity and Belonging Toolkit provides comprehensive
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Belonging	information on thoughtfully designing programs with an equity driven lens.
Program Administration	In general, all the requirements explained in <i>Chapter 4: Additional Grantee Requirements of the CDBG Grants Management Manual</i> apply to economic development. Additional information on meaningful public participation and equitable program design can be found in <i>Appendix B: Equity and Belonging Toolkit</i> .
Environmental Review	No CDBG funds for economic development may be committed or drawn down until the environmental review is completed. Grantees must follow all the rules described in <i>Chapter 3: Environmental Review of the CDBG Grants Management Manual</i> and should read them carefully.
Financial Management	<i>Chapter 6: Financial Management of the CDBG Grants Management Manual</i> provides an overview of the financial management requirements. In addition to all the standard financial requirements, economic development Grantees must follow procedures pertaining to agreements, leases, loan documents, and security.
Procurement and Contracting	Certain economic development activities directly undertaken by Grantees may trigger procurement requirements. However, procurement requirements do not apply to activities undertaken by private, for-profit entities receiving CDBG assistance, though costs must be reviewed to ensure reasonableness and eligibility. Grantees should review <i>Chapter 5: Procurement of the CDBG Grants Management Manual</i> to ensure that all contracting requirements are met including ensuring the inclusion of all applicable required provisions in contract documents. In addition, if Grantees choose to use subrecipients (e.g., qualified non-profit organizations or other jurisdictions) to carry out their programs, the Grantees should have the subrecipient selection process detailed in their program files. Additional information on equity in procurement and hiring practices can be found in <i>Appendix B: Equity and Belonging Toolkit</i> .
Labor Standards	As noted in <i>Chapter 7: Labor Standards of the CDBG Grants Management Manual</i> , the federal and state labor standards provisions apply to CDBG-funded economic development projects involving construction activities. The Davis Bacon and the Copeland Anti-Kickback Act are triggered for any economic development activity where construction costs assisted with CDBG funds exceed \$2,000. Other types of project activities could also trigger Davis Bacon requirements. Grantees should seek HCD guidance prior to deciding to provide assistance to projects involving construction or construction-related activities.
Acquisition and Relocation	The Uniform Relocation Assistance and Real Property Acquisition Act (URA) is applicable to CDBG economic development activities when acquiring real property or displacing persons for a project or



	<p>program with HUD financial assistance. <i>Chapter 8: Acquisition</i> and <i>Chapter 9: Relocation of the CDBG Grants Management Manual</i> discusses these requirements in detail.</p> <p>The use of eminent domain is strictly prohibited when using CDBG funds for economic development purposes. See <i>Chapter 8: Acquisition of the CDBG Grants Management Manual</i> for more detailed information.</p> <p>Relocation can be triggered by economic development activities. See <i>Chapter 9: Relocation of the CDBG Grants Management Manual</i> for details on relocation requirements. Additional information on unintended consequences of acquisition and relocation can be found in <i>Appendix B: Equity and Belonging Toolkit</i>.</p>
Fair Housing & Equal Opportunity	<p>The fair housing and equal opportunity requirements described in <i>Chapter 4: Grantee Requirements of the CDBG Grants Management Manual</i> are applicable to economic development projects. Grantees should ensure compliance with the requirements stated in <i>Chapter 4</i>, as applicable. Additional information on meaningful public participation and equitable program design can be found in <i>Appendix B: Equity and Belonging Toolkit</i>.</p>
Section 504	<p>Grantees and subrecipients receiving CDBG funds must ensure activities are accessible to and usable by individuals with disabilities in accordance with 24 CFR Part 8. If Grantees or subrecipients employ 15 or more persons, they must appoint a disability coordinator and grievance procedures and publish a statement of compliance. A <a href="#">Section 504 Self-evaluation</a> should be completed to document the jurisdiction’s compliance with Section 504 federal regulations. This form is typically collected by HCD during the application process, but Grantees should maintain the form within the program files. When structural changes to a non-housing facility are made to achieve program accessibility, a transition plan should be developed. See 24 CFR Part 8 for more detailed information.</p>
Section 3	<p>Applicability of Section 3 under economic development applies to commercial/private improvements for economic development or public construction. When activities that receive \$200,000 or more in CDBG or other HUD assistance, Grantees, subrecipients, contractors and subcontractors must comply with Section 3. See <i>Chapter 5: Procurement of the CDBG Grants Management Manual</i> for detailed information on Section 3.</p>
Reporting and Recordkeeping	<p>Economic development projects follow the standard HCD requirements for reporting and recordkeeping. Grantees should review <i>Chapter 10: Reporting and Recordkeeping of the CDBG Grants Management Manual</i> for specific information on the reporting and recordkeeping requirements.</p>
Amendments	<p>Economic development projects follow the standard HCD</p>



and Closeout	requirements for grant revisions and amendments. Grantees should review <i>Chapter 6: Financial Management of the CDBG Grants Management Manual</i> for information on the revisions and amendment process. In preparing the Project Completion Report at closeout, there are certain special requirements that apply to economic development projects. These requirements may be found in <i>Chapter 12: Closeout of the CDBG Grants Management Manual</i> .
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## 9 Program Guidelines and Requirements

Each Grantee is required to develop program guidelines when carrying out programs that will be accessed by applicants and beneficiaries of their program.

For economic development programs, at a minimum, Grantee program guidelines should include the following elements:

- Program Description and Purpose
- Engagement, Marketing, and Outreach
- Approaches to Ensuring Program Accessibility
- Eligibility Criteria
- National Objectives and Procedures for Documenting How to Meet a National Objective
- Eligible Uses of Funds
- Documentation Requirements
- Underwriting Requirements
- Award Structure
- Program Maximums
- Loan and/or Grant Conditions
- Program Monitoring
- Program Reporting
- Anti-Fraud, Waste and Abuse
- Crosscutting Compliance
- Appeals Processes

HCD has provided a sample of business assistance program guidelines as *Appendix D-8: Sample Business Assistance Program Guidelines*.

### 9.1 Program Design, Marketing, and Engagement

During program design, Grantees are encouraged to center the voices of people in protected classes, including but not limited to Black, Native and Indigenous,



Latino/Latina/Latinx, Asian, Pacific Islanders, and other people of color, LGBTQ+ persons, and people with lived experience in housing insecurity, houselessness, and economic insecurity. These efforts should inform how Grantees undertake program marketing, outreach and engagement activities that prioritize individuals, businesses, and households that have been historically underserved by state and local programs. Undertaking meaningful and sustained inclusive engagement strategies helps address disproportionate outcomes in local projects and programs. Grantees are required to report on all engagement, marketing, and outreach efforts undertaken during design and program implementation. Some examples of how to carry out meaningful and sustainable inclusive engagement are listed below:

- Incorporate representative advisory bodies for community level planning and decision making into economic development programs. The advisory bodies or committees should represent the diversity of the community that could be served by the program even if the entire community has not historically been served by similar programs
- Conduct outreach, marketing, and engagement in community forums to encourage program feedback (e.g., churches, community centers, other community or culturally specific gathering sites or events)
- Translate meeting, planning, and program marketing materials in multiple languages and make those materials accessible on the jurisdiction's website as well as locations where community members traditionally seek and share information
- Engage community-based and culturally responsive organizations to help with program design and marketing
- Conduct community meetings at times and locations accessible to people in protected classes. This can include holding meetings at locations with trusted community organizations or institutions
- Take specific steps to ensure the funds are accessible to smaller and non-traditional organizations that serve communities of color but may not have previously participated formally in the administration of government programs
- Take specific steps to ensure programs are accessible to businesses that may not have previously participated in government programs and/or that serve marginalized communities

## 10 Application Intake Requirements

### 10.1 Protection of Personal Identifiable Information (PII)

It is critical for Grantees, their subrecipients, and their vendors to safeguard PII during the application intake process and while maintaining this information in the system of record. PII must be handled carefully to prevent possible harm to applicants. Grantees



must have written policies and procedures in place to ensure protection and avoid the mishandling of PII. Additional information on how to safeguard PII can be found on the US Department of Homeland Security website at:

<https://www.dhs.gov/xlibrary/assets/privacy/privacy-safeguarding-pii-factsheet.pdf>

- Collect only the minimum about of PII required to successfully process applications
- Store PII and applicant files in the system of record. PII should not be on shared network drives or portable devices

More information on the protection of personally identifiable information can be found in *Chapter 10: Reporting and Recordkeeping of the CDBG Grants Management Manual*.

## 10.2 Accessibility

Programs must be accessible for all eligible applicants to apply. Accessibility includes access to program information, intake centers, program availability, etc. Programs should not preclude individuals or entities from applying. Things such as the physical location of intake centers, technology, hours of operation, availability of childcare during application times, fees, language barriers, time or duration a program is available for entry limit accessibility to programs.

Generally, federally assisted buildings and facilities must be accessible. Grantees are required to make reasonable accommodations for all applicants who require additional support. Completing the [Section 504 Self-evaluation](#) in the program design phase will help evaluate the accessibility of the program to individuals with disabilities.

## 10.3 Language Access

Grantees are required to make reasonable efforts to provide language assistance to ensure meaningful access for people with limited English proficiency to the Grantee's programs and activities. All local governments are required to follow the measures outlined *Chapter 4: Additional Grantee Requirements, Section 4.6 of the CDBG Grants Management Manual* to determine if a Language Access Plan (LAP) is required for the program. The LAP will identify program materials to be made available to Limited English Proficiency persons. Grantees are encouraged to help break down as many barriers of access to persons of Limited English Proficiency. Costs related to the translation of program documents and updating the jurisdiction's CDBG section of their website are eligible activity delivery expenses under the CDBG grant.

## 10.4 Appeals Process

Program policies and procedures should clearly define the appeals process applicants follow when they want to appeal a program decision. The appeals process should be shared with applicants at the time of application and should be detailed in the Grantee



program guidelines. Considerations for the appeals process include the items listed below:

- Deadlines by which an applicant may appeal a decision – this should balance the needs of the Grantee to administer and closeout a program with the needs of applicants and the struggles they may have in meeting unreasonably short appeals deadlines
- The method by which an appeal may be received from the applicant – again considering the balance of the capacity of the Grantee and the capacity of the applicant, Grantees should strive to reduce the barriers for the applicant to be able to submit an appeal. For example, a Grantee may allow applicants to submit written appeals via mail, email or online (if available)
- Appeals Review Committee – ensure the committee is representative of the diversity of applicants and has lived experience that mirrors the nature of the assistance provided by the program to have a balanced committee process
- Timeframe to respond to appeals – ensure the committee and the Grantee are positioned to be reasonably responsive so that applicants do not experience unnecessary delays, confusion, or harm from an extended response process

Items that should be included in appeals should be low barrier and include multiple pathways. The general categories of items that should be included in the appeals process and policy are listed below:

- Reasons an applicant can appeal (e.g., eligibility, award calculation, etc.)
- Request for justification and documentation to support appeal
- Methods to submit an appeal
- Best practices dictate that Grantees provide information on accessing free or reduced-fee legal services

All local governments are required to develop a Complaints and Appeals process as outlined *Chapter 4: Additional Grantee Requirements, of the CDBG Grants Management Manual*.

## 11 Recordkeeping Requirements

Maintaining program records is important in successful management of CDBG funds. The filing system used should be easy to follow and provide a historical account of activities for examination and review by auditors, HCD or HUD. Program records must be retained for three years after the State closes the program year funds with HUD. Grantees should retain all CDBG records until notified by HCD.

Subrecipients must also maintain detailed records on its organization, financial, and administrative systems of each CDBG-funded project or activity, for the same period outlined above.



See *Chapter 10: Reporting and Recordkeeping of the CDBG Grants Management Manual* for additional guidance on recordkeeping.

### 11.1 Program Level Minimum Documentation

At a minimum, program files should include the following documentation:

- Program guidelines or policies and procedures
- Program application template and forms
- Program engagement and outreach efforts
- Subrecipient monitoring plan, technical assistance, progress reports, financial records and completed monitoring reviews and reports
- Environmental Reviews
- Documentation of compliance with all applicable crosscutting requirements

### 11.2 Applicant Level Minimum Documentation

At a minimum, applicant files should include the following documentation:

- Completed application with supporting documentation (e.g. financial statements, business registration, UEI, no federal debarment, applicable business licenses, etc.)
- Applicant demographic data
- Award determination (e.g., approval, denial, appeals letters)
- Award calculation
- Award documents (e.g. promissory note, grant agreement, etc.)
- Security (collateral) documents, if applicable
- Documentation of meeting program or award terms and conditions
- National Objective(s) support documentation
- Environmental review
- Underwriting
- Eligible uses of funds support documentation
- Crosscutting compliance support documentation
- Case management notes and correspondence with applicant through the full lifecycle of the award (intake through closeout)

## 12 Economic Development Financial Management

Grantees must tie all expenses charged to an economic development CDBG project or program directly to meeting the activities and/or National Objectives specified in the Standard Agreement. Uses of funds are also limited per HUD expenditure requirements. For additional information, see *Chapter 6: Financial Management, of the CDBG Grants Management Manual*.



### 13 Key Economic Development HUD Exchange Resources

[HCDA Eligible Activities for States](#)

[HUD Guide to National Objectives and Eligible Activities for States](#)

[HUD Economic Development Toolkit Manual](#)

[HUD Microenterprise Assistance Toolkit](#)