



Small Business Financing for Economic Recovery

Using CDBG-DR for Economic Development

International Economic Development Council

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CDBG Statutory Primary Objective

- Development of viable urban communities, principally for low/mod persons through:
 - Decent housing
 - Suitable living environment
 - Expanded economic opportunity
- While CDBG can be used for disaster relief, it is not its primary intent or use
 - Thus, must fit disaster recovery into CDBG recovery framework

CDBG Statute & Regulations

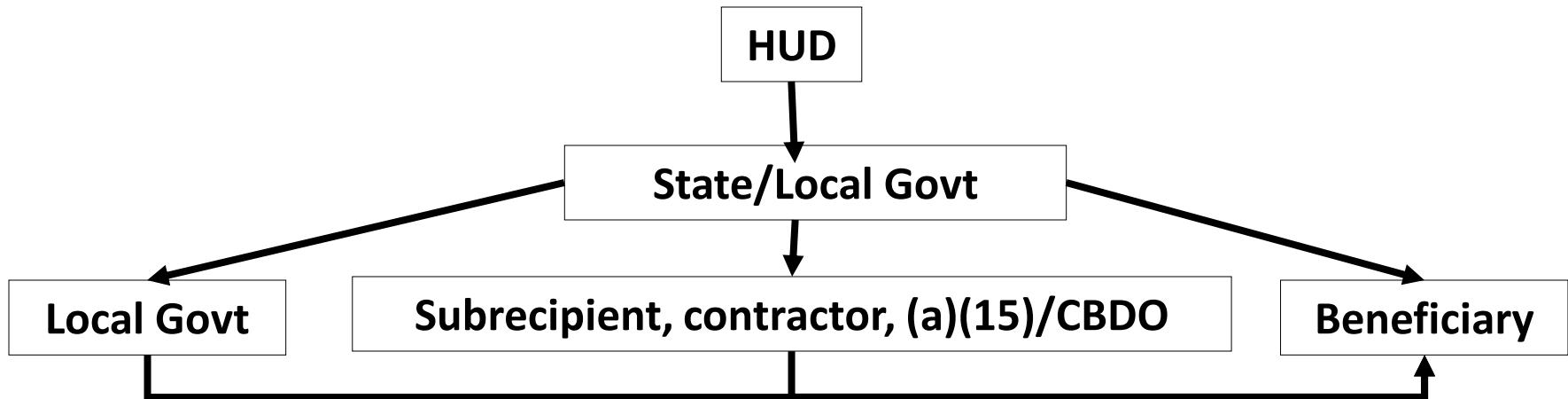
- Housing & Community Development Act
 - See especially Section 105
- Found at 24 CFR 570
- Entitlement programs at Subparts A, C, D, J, K
- State and Small Cities Program at Subpart I of the regs
 - Maximum feasible deference is given to the states
- CDBG-DR has additional flexibility & HUD has demonstrated willingness to work with grantees to obtain regulatory waivers

CDBG Partners and Roles

- Key partners in CDBG programs include:
 - HUD
 - The State
 - Units of Local Government (ULGs)
 - Subrecipients
 - Nonprofits acting under 105(a)(15)/CBDOS
 - Contractors
 - Beneficiaries

Money Flow – Major Differences between CDBG & CDBG-DR

- A state recipient has waivers for disaster funds
 - Usually states must work via Local Units of Government
 - States have a waiver for Disaster Recovery
 - May run programs directly or through subrecipients
 - Usually states cannot assist direct entitlement areas
 - State has waiver of this for disaster recovery
 - May provide assistance in direct entitlement communities



Selecting CDBG-DR Projects and Activities

- Each activity selected MUST
 - Be disaster related in that it clearly demonstrates a connection to addressing an impact of the disaster
 - Not duplicate other assistance
 - Meet a national objective
 - Be CDBG eligible (according to regulations and waivers)
 - Be outlined in a HUD-approved Action Plan
 - Comply with applicable other federal requirements

- Answers to these questions are critical to:
 - Assisting the project
 - Identifying appropriate funding process steps

Duplication of Benefits

- Federal law prohibits any person, business concern or other entity from receiving Federal funds for any loss where they have also received financial assistance covering the same loss under:
 - Any other federal, state or local program
 - Nonprofits or charities
 - Insurance proceeds
- A duplication of benefits (DOB) occurs when
 - Beneficiary receives assistance, and
 - Assistance is from multiple sources, and
 - The assistance amount **exceeds** the need for a particular recovery purpose
- DOB prohibition only applies to CDBG-DR funds

Meeting a National Objective

- All CDBG-DR funded activities must meet one of three national objectives:
 - Benefit low/mod (income) persons,
 - Prevent or eliminate slums and blight, OR
 - Meet an urgent need
- For CDBG-DR funds – 50% of the allocation must target expenditures to meet LMI national objective (70% for regular CDBG)

Economic Development National Objectives

- Economic development projects typically fall under Low/Mod Job Creation/Retention
 - 51% of FTE held by or available to LMI persons
 - CDBG-DR has waiver allowing use of job salary & single person household
- Must document:
 - How jobs will be created or jobs will be lost without CDBG (retained jobs)
 - How jobs made available to or held by LMI
- Track jobs for reasonable period of time (not defined in regulations) as long as jobs are still being created

Economic Development National Objectives (cont)

- Some activities may qualify under other Low/Mod national objective categories
 - Micro-enterprises: limited clientele
 - Job training: limited clientele
 - Service type businesses: area benefit
- Some economic development activities may meet Slum/Blight Area national objective
 - Activities must be in a designated Slum/Blight Area or rehab under Spot Slum/Blight
 - Activities must address conditions of deterioration

Economic Development National Objectives (cont)

- To meet urgent need test:
 - Existing conditions pose serious & immediate threat to health/welfare of community
 - Existing conditions are recent or have recently become urgent
 - Recipient cannot finance on its own
 - Other financing sources not available
- Waiver allows grantee to document how all activities respond to disaster-related impact (Reference to Action Plan data on type, scale and location of impacts)

Categories of Eligible Activities

- The following general categories of CDBG-DR activities are fundable:
 - Housing and real property activities
 - Economic development
 - Public services
 - Public facilities
 - Code enforcement
 - FEMA/federal program match
 - Planning and administration
- All activities to be funded must demonstrate tie to the disaster

Ineligible Activities

- Activities that are generally ineligible:
 - Buildings for the conduct of general government
 - General government expenses
 - Political activities
 - New housing construction
 - Income payments
 - Purchases of equipment
 - Operating and maintenance costs
- Upon request or through the specific Federal Notice HUD may grant waivers to permit some of these activities

Eligible Economic Development Activities

- Special economic development activities
- Community-based development organizations/105(a)(15) organizations
- Technical assistance to businesses
- Microenterprise activities
- Commercial rehabilitation
- Infrastructure to assist businesses
- Job training

Special Economic Development Activities

- Acquire, construct, rehabilitate, reconstruct or install commercial/industrial buildings or equipment
 - By recipient or subrecipient only
- Assistance to for-profit businesses
- Economic development services in connection with special economic development activities

Special Economic Development Activities (cont)

- Special economic development has flexibility in types of assistance to businesses
 - Grants
 - Loans
 - Guarantees
 - Technical assistance & support services
- May meet several different national objectives; depends on business & location
- Triggers the requirement for public benefit standards – CDBG-DR has alternate for components of this

105(a)(15) Nonprofits/CDBOs

- CDBOs may carry out three kinds of projects:
 - Community economic development
 - Neighborhood revitalization
 - Energy conservation
- If job training done through a CDBO, doesn't count against public services cap
- CDBO economic development activities do trigger public benefit standards

Technical Assistance to Businesses

- Helps reduce risk of business failure
- Often focused on business plan development or legal and accounting issues
- Often offered in conjunction with financial assistance
- Critical to programs directed to start-ups
- Under CDBG:
 - As part of special economic development
 - As a micro enterprise assistance task
 - As a public service
 - Through a CBDO

Microenterprise Assistance

- CDBG can fund micro enterprise assistance
- Micro enterprise defined as:
 - Owners or persons who work toward developing, expanding or stabilizing a business
 - Commercial enterprise with ≤ 5 employees (including owner)
- Note: This definition differs from SBA
- May provide assistance as loans, grants and other forms of financial support
- Other support activities eligible:
 - TA, advice, and business services to owners and persons developing microenterprises
 - General support to owner and persons developing microenterprises
 - Training and TA to build recipient and subrecipient capacity

Microenterprise Assistance (cont)

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

Commercial Rehabilitation

- Rehabilitation of commercial or industrial structures
- If private, for-profit owner:
 - Rehabilitation limited to exterior of building and correction of code violations
 - Other improvements must be carried out under the special economic development category
- Not subject to public benefit standards

Infrastructure for Economic Development

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

Job Training

- Help unemployed or under-employed persons gain skills to meet labor market demands
- Linked to job placement
- Job training is eligible under CDBG:
 - As a public service
 - As part of special economic development project
 - As part of microenterprise activities

Examples of Economic Development Programs funded with CDBG-DR

- Business loans and grants
- Revolving Loan Funds
- Targeted Industry Assistance
- Community Revitalization Planning and Implementation

Business Loans & Grants

- Demonstrably restores and improves local economy
- Provides quick response to address business losses in times of disaster
- Finances rehab, equipment, inventory, working capital
- With waiver can reimburse business expenditures, streamlining compliance with SOME Federal regulations
- Subject to Duplication of Benefits analysis
- With planning, builds economic development infrastructure to provide lasting legacy

Revolving Loan Funds

- Provides source of renewable business financing to support business recovery and future growth
- A revolving fund is a separate fund (independent of other CDBG program accounts) set up for the purpose of carrying out specific activities. These activities generate payments to the account for use in carrying out the same types of activities
- Cannot capitalize with lump sum draw down
 - Funded by repayment of CDBG loans

Revolving Loan Funds (cont)

- Projects must comply with CDBG requirements in perpetuity
- Program income that is held in a revolving fund must be used before additional grant funds are drawn down for revolving fund activities
- Interest earned from RLF loans is program income
- Typical borrowers:
 - Existing businesses
 - Startup ventures
 - Developers
 - Nonprofits
 - Microenterprises

Targeted Industry Assistance

- Allows programs to be tailored to address specific business sectors important to the local economy
- Examples:
 - Tourism marketing – in tourism based economy, lets public know that area is “open for business” - used very effectively after 9/11, New Orleans post-Katrina, Jersey Shore
 - Fishing Industry grant program – small grants with relaxed underwriting designed to assist shrimpers and oyster fishermen post-Katrina

Community Revitalization

- Allows funding for both planning and implementation
- Effective in improving defined retail/commercial areas
- Funding for infrastructure, facades, public improvements, business assistance
- Example:
 - Bay St. Louis, MS: significant investment in the public spaces, infrastructure and business created vibrant waterfront commercial area. Led by Hancock County Chamber of Commerce

Lessons Learned

- Identify and address needs
- Continuously monitor and “fine tune” programs
- Assess capacity of partners and provide training and guidance as needed
- Create program design guidelines, and process flow charts
- Develop and disseminate policies and procedures
- Identify data needs at the onset and design system for data collection and analysis

Lessons Learned (cont.)

- Internal and external communication
- Written agreements
- Documentation

Questions?

Thank you!

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