Introductions

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This Training
- Basics on CDBG for Pennsylvania ULGs considering a local small business financing program
- How the program could help local businesses
- Preview of program rules and requirements for ULGs

The Big Questions
- What types of businesses would you target with loans or grants? Where are they?
- What are the benefits of the businesses you would target? (Tourism, commercial district anchor, basic community needs, local ownership, employment base?)
Overview

The Big Questions

• What would businesses in your town need to survive? How can you determine this?

• What can CDBG be used for?

Program Considerations
Program Considerations
Know Why a Local Program is Needed

Public Funding
• Public assistance dollars for public good
  – Can be multiple benefits
• Fills gap left by private lenders (especially grants)
• Public transparency and support are essential

• What is the goal of the program?
• What are your eligibility factors?
• What are the benefits to the community?
• What are the opinions of the local business community?
Program Considerations

Know Why a Local Program is Needed

• What amounts and types of funding is needed?
  COVID a unique situation. CARES Act funding (CDBG-CV) has different rules than annual CDBG, relaxes some requirements for business assistance

• What other funding sources are in the community?
  Duplication of Benefits check for CDBG-CV

Program Considerations

Businesses Definitions

Which business financing program are you funding?

**Small Business**
Less than $1 million annual revenue
100 or fewer employees
At least 1 year business operation;

24 CFR 570 Subpart I 24 CI

**Microenterprise**
Five or fewer employees (includes owner) in business or starting a business

24 CFR § 570.482 (c) (1)
Program Considerations

Program Goals

- Maximize community benefit
  - Jobs
  - Sustain businesses
  - Prevent neighborhood decline
  - Increase incomes
  - etc
- 70% LMI Principal Benefit Test
- Individual goals* set by community
  *Realistic

National Objective
National Objective

Must Meet a National Objective

All CDBG activities must meet one of the following:
• Benefit low/moderate income persons
• Prevent or eliminate slum and blight
• Meet an urgent need

= “National Objective”

24 CFR § 570.480

All CDBG: 70% of all funds must assist low- and moderate-income (LMI) residents

24 CFR § 570.484

National Objective

National Objective for Business Financing Program

Low- and moderate-income:
Does not exceed 80% of median family income*

*Exception for CDBG-CV
National Objective

National Objective for Business Financing Program

Area Benefit
- Activities that benefit everyone in a service area
- At least 51% of residents in the service area must be LMI
- Must provide essential goods or services needed by, affordable to, and benefitting LMI residents.

24 CFR § 570.483(b)(1)
National Objective

National Objective for Business Financing Program

**Limited Clientele**
Activities that benefit specific populations (LMC)
Business Owner(s) Must be LMI

*Microenterprise Only*

24 CFR § 570.483(b)(2)(iv)

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National Objective

National Objective for Business Financing Program

**Jobs**
- Job creation or retention (LMJ)
- 51% of jobs created/retained must be available or held by LMI persons
- Jobs counted on FTE basis = 40 hours/week

24 CFR § 570.483(b)(4)
National Objective

**National Objective** for Business Financing Program

Area Basis: Defined area meets state blight definition
Spot Basis: Building/small area with specific conditions of blight or deterioration. Limited types of activities allowed

*Use if LMI benefit is not possible*

24 CFR § 570.483(c)

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National Objective

**National Objective** for Business Financing Program

- Poses a serious and immediate threat to the health or welfare of the community
- Of recent origin or recently became urgent
- The grantee is unable to finance the activity on its own
- Other resources of funding are not available to carry out the activity

24 CFR § 570.483(d)
National Objective: Urgent Need

**CDBG-CV Exception:** Grantee may certify that the activity is designed to alleviate existing conditions which pose a serious and immediate threat to the health or welfare of the community (due to coronavirus).

*Use if LMI is not possible*

24 CFR § 570.483(d)
Types of Financial Assistance

Decided by ULG

Forms of financial assistance:
- Grants
- Loans
- Forgivable* Loans

* Loan forgiven (grant) if conditions met

CDBG-CV: Watch for duplication of benefits

24 CFR § 570.203
### Types of Financial Assistance

<table>
<thead>
<tr>
<th>Definition</th>
<th>Grant</th>
<th>Loan</th>
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<tbody>
<tr>
<td>• Cash infusions to a business that does not require repayment (unless funds used for ineligible activity)</td>
<td>• The provision of a loan to a business or project; a specified timeframe (term) and/or conditions for repayment</td>
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<table>
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<tr>
<th>Pros</th>
<th>Grant</th>
<th>Loan</th>
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<tbody>
<tr>
<td>• Easy to administer</td>
<td>• Repayment means business is fully committed to the project</td>
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<tr>
<td>• May be only way to make project financially viable</td>
<td>• Funds can be re-loaned to assist other businesses</td>
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<table>
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<tr>
<th>Cons</th>
<th>Grant</th>
<th>Loan</th>
</tr>
</thead>
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<tr>
<td>• Funds are not replenished</td>
<td>• Requires risk management (expectations of repayments)</td>
<td></td>
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<tr>
<td>• May lead to lack of commitment by the business since it is not liable for repayment.</td>
<td>• More administration and paperwork / documentation</td>
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<td></td>
<td>• For some businesses, a loan will not be financially viable</td>
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**Public Benefit Standards**
Public Benefit Standards

Small Business

Must follow public benefit standards

Microenterprise

No public benefit standard needed

§ 570.482

Public Benefit Standards

Small Business

Must create or retain 1 FTE job / Up to $35,000

Or

Provide goods or services to 1 LMI person/ $350

§ 570.482(1)(2)
Public Benefit Standards

Exception: CDBG (CV)

Small Business

Must create or retain 1 FTE job / Up to $85,000
Or
Provide goods or services to 1 LMI person/ $1,750

Small Business

If the assistance was provided due to business disruption related to Coronavirus there is sufficient public benefit derived from the provision of assistance to...help avoid complete economic collapse
Documentation

National Objective
Public Benefit Standards

• LMI area (LMA)
• LMI job creation or retention (LMJ)
• LMI business owner (LMC)
• Slum/ blight
• Urgent need
Documentation

National Objective: Area Benefit

Document:
- Project service area
- Service area >51% LMI residents
- Service area is primarily residential
- How the project provides “essential goods or services"

24 CFR § 570.483 (b)(1)
24 CFR § 570.483 (f)(6)

Documentation

National Objective: Job Creation or Retention (LMJ)

Document:
- 51% of FTE jobs created/retained
- Family income documentation or self-certification provided by employee at time of CDBG assistance and/or when employee hired.

- CDBG-CV funds have alternate income certification and documentation options
Documentation

National Objective: Job Creation or Retention (LMJ)

- Number FTE positions at time of CDBG assistance
- Number FTE positions at time when activity completed (retention or hire (creation) (number set by ULG)

National Objective: Limited Clientele

Limited Clientele
Activities that benefit specific populations (LMC)
Microenterprise Business Owner(s) Must be LMI

Document: Income verification of microenterprise owner

Microenterprise
Documentation

National Objective: Slum/Blight Area

- Rare
- Date of designation of the area and its boundaries
- Description of the conditions which qualified the area at the time of its designation
- Description of the activity showing how it addressed a condition which led to the decline of the area.

Documentation

National Objective: Slum/Blight Spot

- Description of the specific condition of blight or physical decay treated
- Description of the assisted activity showing that it falls under one of the eligible activity types
Documentation

National Objective: Urgent Need

- Description of the condition addressed showing the nature and degree of threat
- Evidence the activity was designed to address the urgent need (certified by grantee)
- Information on the timing of the development of the serious condition
- Evidence that other financial resources to alleviate the need were not available

Program Design
Underwriting Preview

ULG ensures that:
- Project qualifies for CDBG
- Project costs reasonable
- All sources of financing are committed
- CDBG not substituted for non-Federal
- Project (business) is financially feasible
- Return on investment reasonable

24 CFR § 570.209  24 CFR Part 570 Appendix A
Program Design

Need to Know: Community Conditions

• Overall (program) funding amount available
• Other types of funding available (Duplication of benefits)
• Local business funding needs

Need to Know: Loan Approval Process

• Who will approve funding
• How applications will be advertised and distributed
• What forms need to be created and available to applicants
• How loans will be approved
Program Design

Need to Know: Financing Details

- Requirements for eligibility
- Minimum/maximum loan amounts
- Minimum leverage
- Cost per job maximum
- Minimum equity requirements
- Loan rates & terms
- Allowable project costs

Program Design

Need to Know: Program Management

- Financial management
- Environmental review
- Legal council
- Monitoring procedure
- Underwriting standards
- Review committee
- Documentation and record retention
- Portfolio management
- Loan payment processing
Next Webinar

- Underwriting details
- How to document
  - LMA
  - LMC
  - LMJ
  - Slum/Blight
  - Urgent need
  - Public benefit standards
- Counting jobs
- Program income
- RLF
- Crosscutting requirements
- Duplication of benefits
- Income certification
- CDBG vs CDBG-CV rules
- Common pitfalls
Questions + Answers

How can the program help local businesses?

Program setup?

Program rules and requirements for ULGs?

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