



**ECONOMIC DEVELOPMENT
VIRTUAL TRAINING SESSION #2**

September 22, 2020

Pennsylvania Department of Community and
Economic Development (DCED)

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Introductions

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Overview

This Training

- Program design
- Underwriting
- Documentation
- CDBG vs CDBG-CV

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Overview

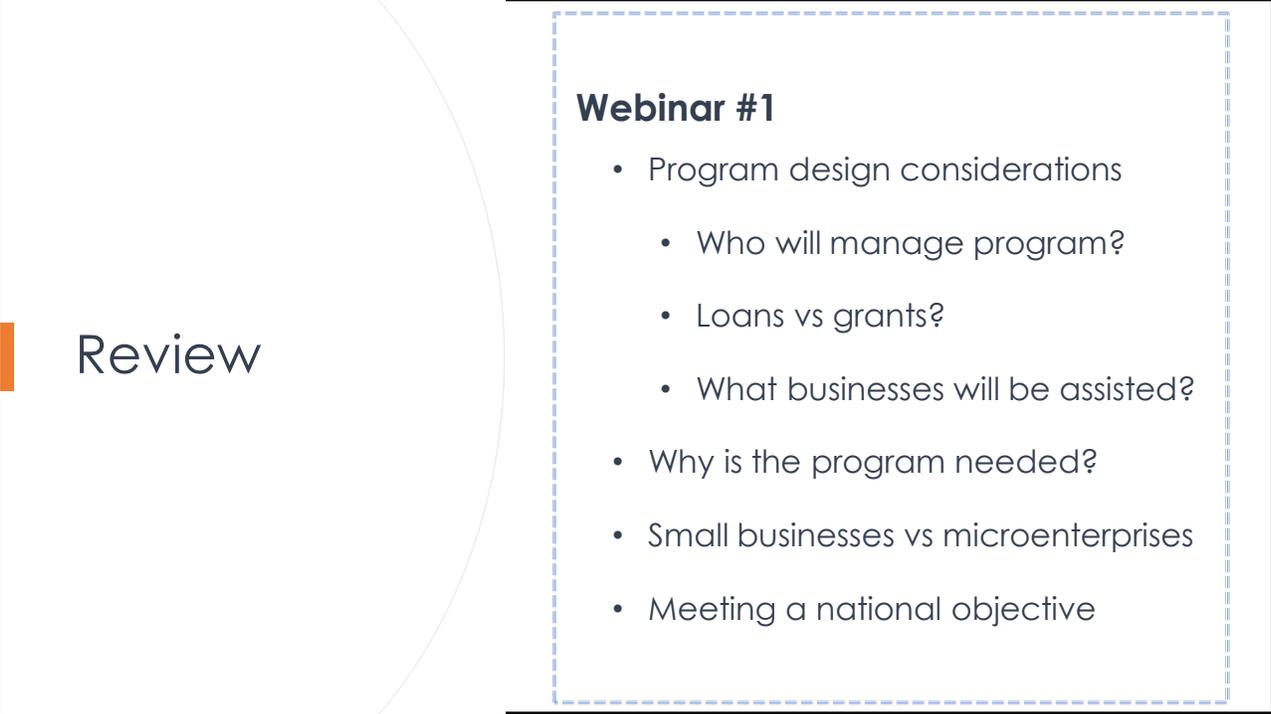
This Training

- Post award activities
- Program income and RLF
- Common pitfalls

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Program Design

1) Define program objectives

- What do you want to achieve?
- Know your target market
- Geographic Area
- Characteristics of target business/entrepreneurs
- Consult with lead local economic development agency re: need, demand, avoiding duplicative efforts

Small Businesses or
Microenterprises?

How much do
businesses need?

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Program Design

2) Determine technical and credit needs, Procedures

- Other sources of financing
- Types of credit needed
- Develop lending program
- Underwriting criteria
- Administrative procedures
- Monitoring and evaluation
- Loan criteria and fees

Discussion:

How to choose minimum and maximum loan/grant amounts?

What will happen for activities (businesses) out of compliance?

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Program Design

3) Design TA and training

- Offer in conjunction with financing
- Ensure TA program has funding
- Implement TA program component

Discussion:

What type of TA is appropriate for targeted businesses?
(Startups vs established businesses)

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4) Evaluate program administration

- City? Existing nonprofit? New organization?
- Does staff have the necessary skills to implement?
- Develop organizational structure
 - Loan committee, staffing, budget



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5) Establish delivery systems

- Marketing
- Application
- Screening, evaluation, and approval
- Closing and Disbursement
- Portfolio Management



Marketing Best Practices:

- Partner with business groups
- Use government social media channels
- Contact business improvement districts (BID)
- Direct mailing to business owners
- Inform city government leaders/councils

Make program basics clear- not buried in text
(Application location, website, program eligibility, financial limits, deadlines, program contact information)

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Underwriting

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Underwriting

Underwriting

- What is underwriting?
- When is it needed?
- Regulations vs best practices
- Small business vs microenterprise
- Startups vs established businesses
- CDBG-CV



Good underwriting demands reliable financial analysis

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Underwriting

Appendix A

Six steps:

- Cost Reasonableness
- Other financing sources committed
- Necessary funding (not substitute funds)
- Feasibility of project
- Reasonable private return
- CDBG funds disbursement

Is the project feasible? If so, does it need subsidy?

- If yes, why and how much?
- Under what conditions?

CFR 570.482

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Underwriting

Appendix A

Six steps:

- Cost Reasonableness

- Total project budget
- Bids/ standard prices/ documented costs
- Sources (if any other funding)
- Uses

CFR 570.482

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Underwriting

Appendix A

Six steps:

- Cost Reasonableness
- Other financing sources committed

- Sources (if any other funding) should be approved or contingent on only CDBG approval

CFR 570.482

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Underwriting

Appendix A

Six steps:

- Cost Reasonableness
- Other financing sources committed
- Necessary funding (not substitute funds)

- Project documents funding gap
- If loan, documents private financing denial/infeasibility

CFR 570.482

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Underwriting

Appendix A

Six steps:

- Cost Reasonableness
- Other financing sources committed
- Necessary funding (not substitute
- Feasibility of project

- Business will be able to achieve CDBG national objectives
- Business shows cash flow to pay debts/ obligations
- Documentation shows business will be successful in the future.

CFR 570.482

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Appendix A

Six steps:

- Cost Reasonableness
- Other financing sources committed
- Necessary funding (not substitute funds)
- Feasibility of project
- Reasonable* private return

- Business projects to achieve no more than standard rate-of-return on project
- No unreasonable developer / consulting fees associated with project

*Not defined by HUD

CFR 570.482

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Appendix A

Six steps:

- Cost Reasonableness
- Other financing sources committed
- Necessary funding (not substitute funds)
- Feasibility of project
- Reasonable private return
- CDBG funds disbursement

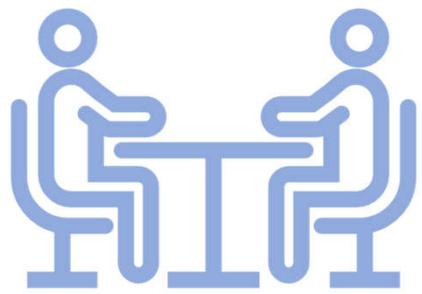
- CDBG disbursed proportionate to project costs.
- May reimburse only costs incurred
- No upfront cash

CFR 570.482

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Underwriting

Discussion



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Question Break

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Documentation

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Documentation

Documentation General Rule of Thumb

Is the activity allowed under CDBG? Prove it

Document each activity meeting each applicable regulation

Including:

- CDBG eligible
- National objective
- Public benefit standards
- Decision process/ Underwriting
- Environmental review
- Business application
- Receipts, invoices, draws
- Legal and contract documents

Economic development can be documentation-heavy. Make procedure, file checklists*

*Additional CDBG-CV Documentation (including DOB) & Information for IDIS

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Documentation

National Objective: LMA

Document

- Business location
- Description of essential goods or services provided
- Service area of business
- Primarily residential service area
- Census or survey- calculate LMI percent of service area
- Total beneficiaries, LMI beneficiaries



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Documentation

National Objective: LMC

Document

- Microenterprise owner(s) income determination as LMI
Third-party verification, not self-certification
- Five or fewer employees (including owner)
- *Don't* need to document public benefit standards



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Documentation

Job Creation & Retention (LMJ)

Activities must create or retain jobs AND
51% of FTE jobs must be held by or available to LMI persons

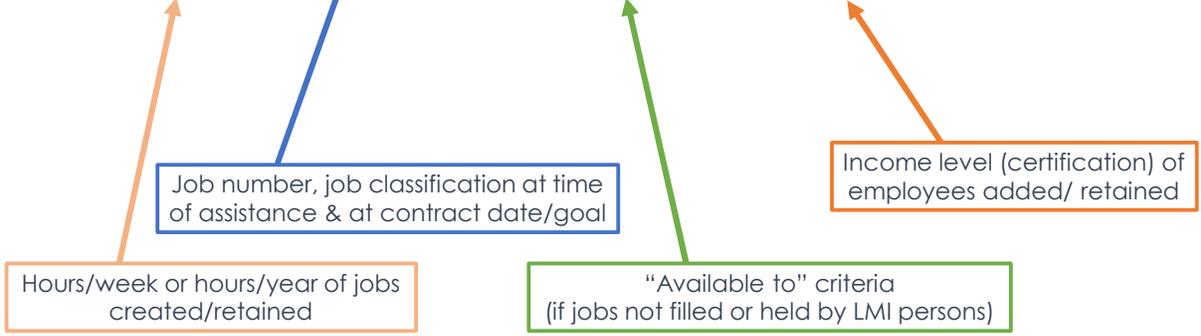


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Documentation

Job Creation & Retention (LMJ)

Activities must create or retain jobs AND
51% of FTE jobs must be held by or available to LMI persons



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Documentation

Job Creation & Retention (LMJ)

Income Certification

- Workers can self-certify income and other demographic info
- See templates & IDIS for all data/questions to include



*CDBG-CV Exceptions

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Documentation

Job Creation & Retention (LMJ)

Job Retention

- Document that jobs would be lost without CDBG
- Job must be held by LMI person or job expected to turn over in 2 years and will be filled by or "made available to" LMI person

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Documentation

Job Creation & Retention (LMJ)

Job Retention

For retained jobs held by 51% LMI persons

- Job title, FTE status, household size and income for each retained job

For retained jobs expected to turn over to LMI

- Job titles expected to turn over and basis for turnover assumption
- Actual turn over date, income status of person taking job
- If not taken by LMI, records that jobs were available to LMI interviewee name, date, income status, and income status of person hired

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Documentation

Job Creation & Retention (LMJ)

Job "Made available to" LMI person

- Written agreement with business listing job titles, descriptions, FTE status, pre-requisites/skills required
- Description of hiring actions taken, first consideration given to LMI, hiring process, names of persons interviewed, income status of persons interviewed
- Requires pre-planning. Should have partnerships with local agencies, etc to document making "best effort" to hire LMI

§ 570.483 (b)(4)

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Documentation

Job Creation & Retention (LMJ)

Job "Available to" LMI person

- No special skill/ training or education beyond H.S.
- Employee must give first consideration to LMI
- Written documentation
- Reasonable for employer to provide/peer or professional program benefits
- Jobs must be "held by" or "taken by" LMI
- Documentation that employee was LMI at time of hiring
- Self certification of income information from individuals
- Qualification/referral through qualifying program/agency
- Evidence can presume LMI
- Must have a written agreement with business

See regulations for detailed criteria

§ 570.483 (b)(4)

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Documentation

Job Creation & Retention (LMJ)

Job Counting

- Count all jobs created as direct result of CDBG \$
- Cannot stop counting at specified time or planned number of jobs
- Count first person to take position, not turn-over
- LMI based on current income, not salary of created job*

*CDBG-CV Exceptions

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Documentation

Job Creation & Retention (LMJ)

Job can be *presumed LMI* if either:

Job holder resides in either

- a) Census tract w/ 20% poverty and "general distress"
- b) Census tract w/ 30% poverty, Central Business District & "general distress"
- c) Census tract/block group with 70% LMI

Or

Business and job located in either

- a) Census tract with 20% poverty and "general distress"
- b) Census tract with 30% poverty, Central Business District, and "general distress"

*CDBG-CV Exceptions

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Documentation

Slum/Blight Area

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



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Documentation

Urgent Need

- Activities that alleviate emergency conditions
- Serious/immediate threat to health/welfare of the community
- Recently became urgent (generally 18 months)
- Inability of recipient to finance the activity on their own
- Usually no other means of funding



*CDBG-CV Exceptions

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Documentation

Public Benefit Standards

Document LMI

- CDBG \$
- Total beneficiaries
- Number LMI beneficiaries

Individual Activity Standards

- If activity creates jobs and provides goods/ services, qualifies if it passes at least one criterion
- Applied at time of CDBG obligation

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Requirement	CDBG	CDBG CV
Income Verification (Job Creation/Retention)	LMI Persons= Individuals who reside in a family whose total annual income is at or below 80% of median for County/MSA.	<ul style="list-style-type: none"> Grantees and employers may consider individuals that apply for or hold jobs to be members of one-person families Activities must prevent, prepare for, and respond to coronavirus. The recipient may substitute records showing the type of job and the annual wages or salary of the job (in lieu of maintaining records showing the person's family size and income to demonstrate LMI status) LMI = annual wages or salary of the job is equal to or less than the Section 8 low-income limit for a one-person family

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Requirement	CDBG	CDBG CV
Public Benefit Standard Individual Project	Create/Retain Job = \$35,000 Goods/Services per LMI person = \$350	Create/Retain Job = \$85,000 Goods/Services per LMI person = \$1,700
Public Benefit Standard Business Disruption Waiver		<ul style="list-style-type: none"> Document assistance was provided due to business disruption related to coronavirus. There is sufficient public benefit derived from the provision of assistance to stabilize or sustain businesses in the grantee's jurisdiction that suffer disruption due to coronavirus. Facilitation of business assistance for this purpose may help to avoid complete economic collapse within the grantee's jurisdiction.

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Requirement	CDBG	CDBG CV
Duplication of Benefits		<p>Must have duplication of benefits procedures for each activity/program. Must include, at minimum:</p> <ol style="list-style-type: none"> 1) A requirement that any person or entity receiving CDBG-CV assistance (including subrecipients and direct beneficiaries) must agree to repay assistance that is determined to be duplicative; and 2) A method of assessing whether the use of CDBG-CV funds will duplicate financial assistance that is already received or is likely to be received by acting reasonably to evaluate need and the resources available to meet that need.

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Program Income & RLF

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Program Income

- Gross income directly generated from a CDBG activity
- Program Income may return to ULG or its subrecipients
- Subject to CDBG rules in perpetuity
 - Funds never "expire" as federal dollars
 - May use for any CDBG-eligible project

CDBG-CV
Repayments become
regular CDBG Program
Income

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Program Income

- Income receipts totaling \$35,000 or less (per ULG) in a program year are not classified as program income
- Once this threshold is exceeded, all the money is considered program income, including the first \$35,000
- Repayment of ineligible activity isn't program income
- Subject to CDBG spending caps
- Per DCED, no Admin dollars from program income

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Revolving Loan Program (RLF)

- Revolving = Loans are repaid (interest or principal) and reloaned
- All repayment to RLF are program income
- Projects must comply with CDBG requirements
- Must be separate, interest-bearing fund (interest returned to fed gov)
- Interest earned by RLF loans- payed by borrowers- is program income



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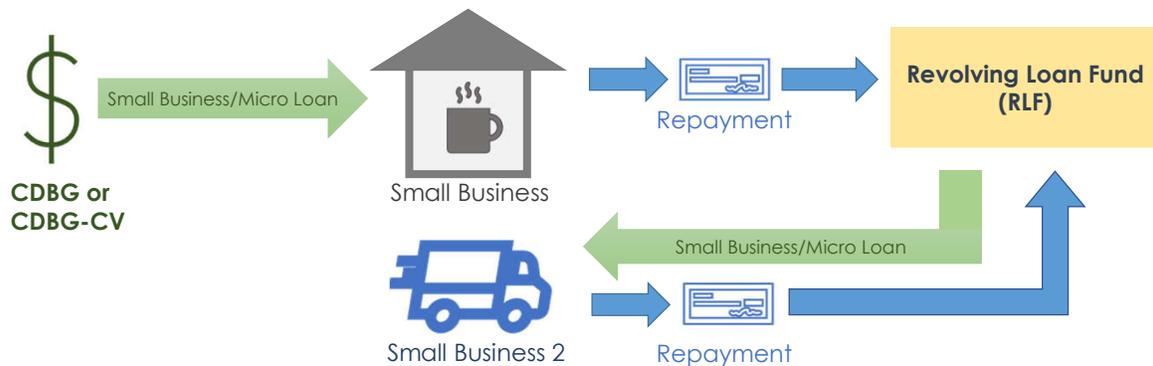
Revolving Loan Program (RLF)

- Loans are repaid (interest and/or principal) and reloaned
- Not capitalized with CDBG
- Repayment back to RLF account
- RLF reserved for one type of program (Small Business vs Microenterprise)
- To establish RLF, first talk to DCED



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Revolving Loan Program (RLF)



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Common Pitfalls

- Project Setup
- Public Benefit Standards Documentation
- National Objective
- Underwriting
- Income Documentation
- Administration
- Noncompliance Remedies

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Next Webinar

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Next Webinar

Office Hours



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Questions + Answers

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