COMMERCE

Documenting Benefit to Low- and Moderate-Income Persons

Community Development Block Grant Program

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Introduction

The Community Development Block Grant Program is a federally funded grant program designed to help communities with their greatest community development needs. The program was established by the Housing and Community Development Act of 1974 and is administered nationally by the U.S. Department of Housing and Urban Development.

National Objective

The three national objectives of the CDBG Program are benefiting low-and-moderate income persons, urgent need and prevention or elimination of slums or blight. The CDBG Public and Community Facilities Programs assist cities, towns and counties with projects such as constructing or upgrading drinking water systems, wastewater treatment facilities and community facilities, such as senior citizen centers, food banks, nursing homes or Head Start centers. CDBG application guidelines, grant administration manual and other relevant program information and resources are available on Commerce's website, commerce.mt.gov/Infrastructure-Planning/. Interested persons can also reach Commerce's Community MT Division at doccdd@mt.gov or 406-841-2770.

Benefit to LMI persons can be documented in three ways:

- Area-wide benefit by using the recorded LMI percentage as provided by the 2020 Census, according to HUD information, which is available on HUD's CDBG website, hudexchange.info/programs/cdbg/cdbg-low-moderate-income-data/
- Limited clientele by describing and documenting how the proposed project qualifies under limited clientele as defined by HUD
- Direct benefit by conducting a survey that meets the requirements of this CDBG handbook "Documenting Benefit to Low- and Moderate-Income Persons" and including a description of the process used to document direct benefit

The appropriate method to document benefit to LMI persons differs for each project and depends on the population served by the proposed CDBG funded activity. It is important to work with Commerce prior to submitting an application to ensure LMI compliance is met and the most current HUD data is used.

Area-Wide Benefit to LMI Persons

Area-wide benefit to LMI households occurs in project activities designed to serve needs in a specified geographic area where at least 51% of the population is LMI but will benefit all the residents of that area equally. Households need not qualify individually as the project serves the entire geographic area and all its households. In these cases, CDBG funding typically assists public facility construction that serves an entire project area or community.

The primary resource for documenting LMI benefits for proposed projects that will benefit a geographic area, such as a town or a neighborhood, is the U.S. Census American Community Survey data. From ACS data, HUD has prepared tables to show LMI information for each Montana county, census designated places, incorporated cities, towns, rural, unincorporated communities and census block groups. All applicants must use the most current HUD data. Commerce has made this data accessible on its census and target rate web page, commerce.mt.gov/Infrastructure-Planning/Resources/Census-and-Target-Rate, and has combined it with the Montana Coal Endowment Program’s calculation for water and wastewater target rates for all cities, towns and CDPs across Montana.

If the HUD LMI data lists the applicant's percentage of LMI as 51% or greater, this source can be cited by an applicant and would be considered acceptable documentation for CDBG eligibility. It is best practice to include a screenshot of the census and target rate table to confirm CDBG eligibility in the application. If the HUD

LMI data lists the applicant's percentage below 51%, the applicant might need to complete an income survey. All income surveys used for CDBG applications must receive written approval from Community MT prior to distribution.

The actual project area boundaries must be clearly delineated because they determine which households would be served, and therefore, affect the calculation of the LMI benefit. In reviewing proposed LMI benefit for a project, Community MT staff will evaluate how CDBG participation in the project would benefit LMI residents.

Example 1: Using a CDBG grant to install new water lines in a community where at least 51% of the households served by the project are LMI. The community's overall LMI percentage will be used to score LMI benefit since all the community's residents would share equally in the financial benefit from the CDBG assistance by receiving lower, monthly user charges.

Example 2: Using CDBG funds to pay the special improvement district assessments levied on households for installing sewer mains in a residential neighborhood would be a project area that encompasses only the specific homes served by the SID. In this case, CDBG would look for an income survey of the households within the SID area that would document the number and percentage of LMI households affected. That number would be the LMI percentage accepted for this project activity if less than 51% of households served by the project are LMI, the project would not be eligible for CDBG funding or, alternatively, could consider providing direct benefit, which is explained later.

HUD Resources – Demonstrating Area-Wide Benefit

The HUD Exchange has information available on its website for the ACS 5-Year LMI Survey Data, including Low-Mod Margin of Error for Places. This information can be found here:

hud.maps.arcgis.com/home/item.html?id=279eca0222754f8a954bbf8cf995a1a3#overview.

The HUD mapping application allows the user to view LMI information by county, CDP or census block group for any location within the U.S. This application overlays selected U.S. Census geographic boundaries on an aerial photograph or other base map option which can be printed.

Montana Department of Commerce Resources – Demonstrating Area-Wide Benefit

Area-wide benefit, LMI census data information for counties, cities, towns and unincorporated communities and median household income can also be found here: commerce.mt.gov/Infrastructure-Planning/Resources/Census-and-Target-Rate.

Special Note for Schools

Montana school districts considering seeking the sponsorship of a local government to submit a CDBG application to carry out a school improvement activity must be able to demonstrate that at least 51% of the households served by the school district are LMI. Just as the case for a CDBG local government applicant, this requirement can be met by using HUD data or by conducting an LMI income survey.

School districts must demonstrate that the school district boundary closely corresponds to the level of U.S. Census geography for which HUD data is available, whether for a local government, CDP, census tract, or census block group or else carry out an income survey. In some cases, it may be necessary to combine HUD summary data from several census areas to demonstrate that most of the district’s households are LMI. In all these cases, the school district should contact Community MT Division staff for guidance and assistance.

Limited Clientele Benefit

A benefit to limited clientele occurs when the project will help a specific group, rather than all residents in a geographic area. Limited clientele activities are presumed to provide at least 51% benefit to LMI persons. To qualify under the limited clientele category, the activity must meet one of the following two tests:

- **Test 1:** Benefit a clientele group established by HUD to be principally LMI persons, as follows:
    - abused children
    - elderly persons (age 62 or older)
    - battered spouses
    - homeless persons
    - adults meeting Bureau of Census' definition of severely disabled persons
    - illiterate adults
    - persons living with AIDS
    - migrant farm workers

24 Code of Federal Regulations Part 570, 483 (b) (2) Limited Clientele Activities.

- **Test 2:** Be of such nature that it may be reasonably concluded that the activity's clientele will primarily be LMI persons. For example: The minimal LMI requirement, 51%, can be met by using CDBG funds to assist a facility that will primarily serve an LMI clientele. One example would be a Head Start center, because the Head Start Program's federal requirements mandate that at least 90% of the children served come from lower-income families.

Limited clientele activities also include special projects directed to the removal of material and architectural barriers that restrict the mobility and accessibility of elderly or handicapped persons to publicly owned and privately owned non-residential buildings; improvements; and the common areas of residential structures containing more than one dwelling unit.

In some cases, the population to be surveyed may be the clientele served by a facility. As an example, a hospital might send an income survey form to all those people served during a preceding calendar or fiscal year to determine the LMI percentage of its clientele.

The applicant must provide documentation that verifies the services provided by the organization primarily serve a limited clientele population. In CDBG ranking reviews, the ranking team will decide whether adequate documentation has been provided. Applicants are encouraged to communicate with Community MT Division staff early; before the application due date.

Direct Benefit to LMI Households

A direct benefit activity occurs when the project provides assistance to an income-eligible household, such as:

- Rehabilitation of housing occupied by LMI households
- Public facility project that will pay utility hookup charges
- Assessments for only LMI households

Documenting LMI benefit for direct benefit projects is clear-cut, since LMI applicants for direct CDBG assistance must qualify according to current year HUD income limits for the county in which the project is located. Household applicants for direct CDBG assistance must provide verifiable documentation of their gross annual income. Beneficiaries must be advised that providing false information constitutes fraud under federal law.

Applicants may propose using CDBG funds to pay for the cost of water or sewer hookups, meter installation or special improvement district assessment costs which otherwise might be imposed on LMI households. Special requirements apply to projects financed, in part, by hookup charges or assessments on property, such as through a special improvement district. Please contact Community MT Division staff for assistance if that situation applies to your community.

When direct financial assistance to LMI persons or households is proposed, such as paying assessments or hook-up costs for LMI households, it is necessary to explain how LMI status will be documented by describing how the project will confirm the LMI status of beneficiaries and limit LMI benefits to only LMI households or persons. If necessary, describe how funds will be distributed first to low income and then to moderate-income beneficiaries, as funds are available.

Determining Low and Moderate Income

Commerce follows federal regulations to determine the eligibility of families and local governments for CDBG assistance. In the CDBG Program, income is the gross family income – that is, all payments from all sources received by each member of the household who is not a minor, even if temporarily absent. The CDBG Program follows 24 CFR Part 5.609 definition of income. Please work with Community MT Division staff to ensure all allowable definitions of income are included in your income survey.

Eligibility for assistance under the CDBG Program is dependent on serving LMI households related to the current median family income as determined by HUD for each Montana county, as follows:

Percent of MFI	Program Definition
50-80%	Moderate Income

<50%	Low Income

Each year, HUD publishes income limits according to household size for each of Montana's counties. For the most current income limit information, please visit HUD Income Limits.

Conducting Local Income Surveys

It is required for a community or entity interested in conducting an income survey to contact Community MT Division staff to consult about whether an income survey is advisable prior to the distribution of the survey. Keep in mind: If the survey and process are not properly documented, Community MT Division staff will use the HUD community LMI percentage based on U.S. Census Bureau data instead of results from a local income survey that fails to meet Commerce requirements. **Note:** It is required that all CDBG applicants considering an income survey consult with Commerce staff before distribution of that survey.

Commerce staff will work with applicants to determine when a survey is necessary or appropriate. The steps to determine if an income survey is necessary are:

1. Review and understand the applicant's proposed project
2. Review the current HUD LMI data based on ACS information
3. Evaluate either community-wide information, census tract or block group data as applicable

Those interested in distributing an income survey must coordinate with other funding agencies, especially when the applicant is proposing an income survey in the hopes of achieving a lower community median household income and qualify for grant assistance from other federal and state funders. Be aware that other funding agencies may have different survey requirements. Please contact those agencies and utilize the most stringent survey methodology and response rate. The distribution of the income survey cannot proceed until there is a consensus as to survey format and procedure with the applicant and among all the proper stakeholders.

Description of the Survey Process

Applicants must be able to document that the local income survey has met requirements for an income survey by:

- Describing the income survey methodology used
- Documenting that the methodology meets the CDBG requirements, including:
    - Use of current HUD LMI income limits
    - Use of an approved survey format
    - Minimum sample size
    - Documenting that the survey sample was either truly random or that the total benefiting population was surveyed
    - Notifying the respondent that they must be able to document the annual income reports, if requested

Only permanent, occupied households can be surveyed, which includes owner-occupied and rental units. Depending on the funders that will be using the data from the income survey, the definition of "permanent, occupied households" might be different. Please consult with Community MT Division staff if a question arises as to the status of a resident; either the registered voting place or where the resident resides most of the year and declares residency for income tax purposes is considered the occupant's residence. This may differ for other funding agencies and programs. If you are submitting an income survey that is to be used for multiple programs, please contact each program to ensure all requirements are met.

Survey Return Size

CDBG uses a formula that sets a minimum number for survey responses properly completed and returned to verify that income surveys have been conducted with a sound methodology. This number is based on the total population of the defined project's service area, such as a neighborhood, county water and sewer district, city, town or county.

Please refer to HUD Notices CPD-19-02, CPD-14-013 and CPD-24-04 for guidelines on conducting CDBG income surveys which can be found on Commerce's website.

A local income survey's sample size shall be determined using the following three criteria:

- If the number of households to be served by the project is 200 or fewer, the minimum percentage of properly completed surveys needs to provide a valid response rate of 67%; if the number of households to be served by the project is less than 50, contact Community MT Division staff.

- If a community has more than 200 households, the required minimum number of returned, completed surveys must be determined by the formula below:

$$\text{Required minimum number of returned surveys} = \frac{.25}{.000625 + \frac{.25}{\text{Population size}}} = \text{minimum survey return size}$$

The minimum survey return size in the formula provided above means the actual number of surveys properly completed and returned; not the number of households receiving the distributed survey.

Example: Assume your community has 1,000 households. The calculation is as follows:

- Step 1: 25 ÷ 1,000 = .00025
- Step 2: .00025 + .000625 = .000875
- Step 3: .25 ÷ .000875 = 285.71
- Round up the result of the formula. The minimum number of surveys that must be completed and returned for a valid process would be 286.

Communities conducting income surveys must get a return of surveys that reach the minimum sample size. For the purposes of most surveys, the population size in the formula is the number of households in your community. If there is doubt you have calculated the correct number, contact Community MT Division staff. Applicants should be prepared to make additional efforts, such as a follow-up mailing or more door-to-door interviews, until an adequate response rate is achieved.

The maximum margin of error establishes a standard that an income survey must be "at least as good as" the ACS LMI summary data, in conformance with the most recent HUD CDBG regulations, guidelines or more current summary data. The maximum margin of error of the local survey shall be the lesser of 10% of the margin of error on the HUD-provided data for the equivalent geography. For example, if HUD's data indicate an 8% margin of error, the local survey will be required to have a margin of error of 8% or less. If HUD's data indicates a 12% margin of error, the local income survey would be required to have a margin of error of 10% or less.

Randomizing the Survey

If the entire population of an identified area will not be surveyed, the households to be surveyed must be chosen at random. Every household in the population to be served by the project should have an equal chance of being included in the random sample. Before establishing such a sample, the applicant must identify all the individual households in your project area. For mail or phone surveys, consider motor vehicle registration records or utility records to provide a comprehensive list of households.

To determine the interval you will sample, divide your sample size into your population size. Next:

- If, for instance, you have 400 households and plan to survey a sample of 200 of them, take every other name (or for a door-to-door survey, visit every other house); or
- Number the list of 400 households and then find a web service, using free randomizer as your search keyword, to select the 200 numbered households to be surveyed; or
- List all 400 of the household addresses in your project area, mix them up in a hat, and draw the 200 house addresses you will need to meet your sample size.

Keep in mind, in this example, 200 is the minimum sample size. It is wiser to set a random sample large enough to accommodate surveys without responses. If a respondent refuses to sign, or at least initial and date the form, that survey may not be counted toward the required number of survey responses.

For all surveys, each unit in a multi-family structure, such as an apartment building, should be counted as a separate address. Call-back and follow-up visits should be made to sampled residences where no one was available for the initial interview. If the call-back visit is also unsuccessful, another random address should be interviewed.

Outreach Prior to Conducting a Survey

People are more likely to respond to an income survey if they know the reason for it. Publicity can include radio announcements, newspaper articles, utility bill inserts, posters in high-traffic areas and social media posts. Assure citizens that income information will be kept confidential and used only to apply for the grant. If the reasons for the survey are well-publicized, there may be a more favorable response by the public. In addition, a cover letter with a mailed questionnaire will let people know why the information is important.

Distribution and Collection of the Questionnaire/Survey Form

The following are various ways to conduct the income survey:

- Mailed questionnaires
- Door-to-door personal interviews
- Phone interviews by individual surveyors and distribution in public places or in the newspaper
- Using an online survey platform

In deciding how to conduct the survey and administer the questionnaire, applicants should consider several factors:

- Time
- Cost
- Available resources, e.g. volunteers, staff
- Desired rate of return

Mailed Questionnaires

If mailed, be sure to provide a stamped, self-addressed envelope to help ensure survey information will be received and handled in confidence. A community might color code survey forms to more readily determine if neighborhoods have concentrations of LMI families.

Applicants are encouraged to design a follow-up strategy to improve response rate if there are insufficient responses to meet the required minimum sample size. One method is to number each return envelope before mailing the survey and keep a confidential list of matching addresses and numbers. That way, a second mailing can be sent to those who did not respond, or the surveyor may directly contact them to explain the importance of the survey. This also provides a means for Commerce or HUD to verify the survey, if necessary.

Door-to-Door Personal Interviews

The most reliable and accurate method of conducting a survey is going door-to-door with trained interviewers. The surveyor(s) ask each question on the survey form. When the survey process is approached this way, the two-way communication allows for clarification of questions, as well as ensuring more complete coverage and response from the community. A disadvantage of the personal interview is that it cannot provide the level of privacy assured by a mailed questionnaire. Some people may be hesitant to disclose income levels or similar personal information to someone they know.

One compromise approach is to take a printed questionnaire door to door. The respondent can complete the questionnaire individually, place the questionnaire in a sealed envelope, and either return it to the interviewer immediately or by mail. Communities can provide drop boxes at a central location to return the survey envelope. This approach has the advantage of offering greater privacy and making the interviewer available to explain the importance of the survey or to clarify questions. When surveys will be completed immediately, they should be very brief, asking only for household income information.

Phone Interviews and Distribution in Public Places or in a Newspaper

Community MT Division strongly encourages the use of written survey forms rather than phone surveys, distribution in public places or a newspaper. If a phone survey is conducted, applicants must retain detailed logs of the households contacted and their responses. Distributing surveys in a public place or by newspaper, while uncomplicated, is unlikely to generate enough responses to meet Community MT Division's requirements and it is difficult to be sure that the correct audience of responders has been reached. Generally, in those cases where an entire population will benefit from a proposed CDBG project and a random survey method is selected, any survey that does not appear to be truly random will not be accepted.

Online Surveys

If a community wishes to utilize an online survey tool, there are several available that meet the requirements for an acceptable income survey. If an online survey is conducted, it needs to be in a format in which Community MT Division staff can review it prior to distribution.

After the survey is conducted, add the following documentation to the CDBG application:

- Blank income survey form
- Composite summary of all responses
- Description of the methodology undertaken to conduct the survey
- Total response rate
- New LMI percentage of the community
- Proof of Community MT Division staff approval

For **area-wide benefit** situations:

- Document that the proposed project area is principally residential

- Verify LMI benefit with HUD LMI data
- Verify LMI benefit with an income survey and adequately describe your methodology, as follows:
    - Document that correct HUD income limits were used
    - Provide a copy of the compliant survey form and a summary of results
    - Document that the minimum sample size requirement was met
    - Document that the sample was either random or included the total population

For projects involving **direct benefit** to LMI persons, describe how LMI status of people served will be documented. In these cases, the applicant must verify the income of beneficiaries and limit benefits to LMI persons only prior to distribution of funds.

Note: If an income survey is not properly documented or does not meet CDBG requirements, Community MT Division staff will use the LMI percentage based on census data instead of the results claimed from a local income survey to score the application. It is crucial that applicants considering undertaking an income survey consult with Community MT Division staff beforehand.

Calculating LMI Benefit for a Multiple Activity Project

Sometimes, a proposed project may include several different elements, parts of which may assist an entire geographic area and have other parts which would assist only a special group of people or improve only a part of a building. In these cases, contact Community MT Division staff to determine LMI benefit for these multiple activity projects or mixed-use building projects. In most cases, the LMI benefit can be pro-rated based on square footage and estimated project cost.

Records Retention

CDBG applicants are required to provide documentation to support the LMI benefit stated in the CDBG application. If a grant is awarded and the claimed LMI benefit is based on an income survey, all original survey documentation must be retained by the applicant for four years past the date of project closeout and must be available for review and verification, if necessary. Even if a project is not awarded a grant, it may be useful to retain the survey records, in case an applicant decides to re-apply in the future.

When Community MT Division staff monitors the project records, they will review documentation regarding benefit to LMI households. Please ensure all relevant income survey documentation is kept by the local government for a minimum of five years after the grant has closed out. Inadequate documentation to substantiate compliance with the LMI benefit requirement is considered sufficient grounds for Commerce to withdraw a grant award or require reimbursement of CDBG funds.

For this reason, it is very important for potential applicants to contact Commerce staff for guidance before undertaking an income survey. Again, copies of the submitted documents must be retained, with great care taken to maintain confidentiality.

Retaining Records for Direct LMI Benefit Projects

For direct LMI benefit situations, CDBG grantees must document the eligibility of households that will receive CDBG benefits. Beneficiaries may be required to submit documentation confirming gross annual income, like copies of their most recent income tax forms, Social Security documentation, bank statements, payroll or similar documents. Copies of the submitted documents must be retained, with great care taken to maintain confidentiality.