

Community Development Block Grant Economic Development Program (CDBG-ED)

Application Guidelines

Applications for new projects are accepted year-round subject to available funding.

DOCCDD@mt.gov

https://comdev.mt.gov/Programs-and-Boards/Community-Development-Block-Grant-Program/Economic-Development

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CDBG-ED Application

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Alternative accessible formats of this document will be provided upon request. If you need this document in an alternative format, such as large print, Braille, audio tape, or computer diskette, please contact the Montana Department of Commerce Community MT at (406) 841-2770, TDD (406) 841-2702, or the Relay Services number, 711.

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GRANT APPLICATION GUIDELINES FOR THE
COMMUNITY DEVELOPMENT BLOCK GRANT ECONOMIC DEVELOPMENT PROGRAM (CDBG-ED)

I. Introduction

The State of Montana (State) Department of Commerce (Commerce) receives an annual funding allocation from the U.S. Department of Housing and Urban Development's (HUD) Community Development Block Grant Program (CDBG) to help communities provide decent housing, suitable living environments, and expanded economic opportunities for the state's low- and moderate-income (LMI) residents**.** These CDBG Economic Development (CDBG-ED) application guidelines establish the process for obtaining CDBG assistance for job creation, retention, and training activities.

The CDBG application guidelines, grant administration manual, and other relevant information and resources are available on the Department of Commerce (Commerce) website https://www.comdev.mt.gov/Programs-and-Boards/Community-Development-Block-Grant-Program/. Interested persons may also contact Community MT staff at DOCCDD@mt.gov or (406) 841-2770.

II. Eligible Applicants

Eligible applicants for CDBG assistance include Montana cities and towns with populations under 50,000 and counties with populations under 200,000 (currently all Montana cities, towns, and counties except Billings, Great Falls, and Missoula, which each receive a CDBG entitlement allocation directly from HUD). Tribal governments are not eligible applicants for state CDBG funds but are eligible for Indian CDBG funds allocated directly from HUD. Eligible local governments may apply for CDBG funds for project activities predominantly benefitting residents of Indian reservations.

Local governments may directly undertake eligible economic development activities, or local governments may apply on behalf of a business or organization – known as the subrecipient – undertaking the activity. Subrecipients may include but are not limited to:

- For-profit entities
- Non-profit entities
- Certified Regional Development Corporations (CRDCs)
- Economic Development Organizations (EDO's)

Additional Considerations

Applications for new projects are accepted year-round subject to available funding. The maximum funding amount is $525,000 per local government in a program year.

Eligible applicants are limited to local governments, but Commerce encourages local governments to work with partner organizations, as listed above to complete CDBG-ED projects. The local government, in accordance with applicable procurement requirements, will decide the nature and extent of partner organizations' involvement in CDBG-assisted projects; project roles and responsibilities will be established in the project management plan. In limited circumstances, and with Commerce's approval, Commerce may allow a city, town, or county to have more than one CDBG-ED application and/or project open at one time.

Anti-Pirating

CDBG-ED funds cannot be used to directly assist a business to relocate a business from one Montana labor market area to another. The purpose of the CDBG-ED program is to create jobs, but not if assistance will result in other jobs being lost in a community or region. Under federal anti-pirating statutes, CDBG-ED funds cannot be used to assist directly in the relocation of any industrial or commercial plant, facility, or operation, from one area to another, if the relocation is likely to result in a significant loss of employment in the labor market area from which the relocation occurs. More information can be found at 24 CFR §570.482(h) and here: https://files.hudexchange.info/resources/documents/CDBG-Memorandum-Job-Pirating-Activities.pdf

Conflict of Interest

No employee, officer or agent covered by the conflict of interest provisions who exercise or have exercised any functions or responsibilities with respect to activities assisted with CDBG-ED-funded projects or who are in a position to participate in a decision-making process or gain inside information with regard to these activities may obtain a financial interest or financial benefit from the CDBG-assisted activity, or have a financial interest in any contract, subcontract, or agreement with respect to the CDBG-assisted activity, or the proceeds from such activity, either for themselves or those with whom they have business or immediate family ties, during their tenure or for one year thereafter.

Recipients must comply with the Conflict of Interest provisions in 24 CFR §570.489. Any potential or actual conflict of interest must be disclosed to Commerce to coordinate efforts to inform the public and to ensure proper steps are taken to address the conflict.

Grant or Loan

CDBG-ED awards typically take the form of a grant to the local government which then provides a low-interest loan (2% interest rate) to the subrecipient. The Commerce review committee may recommend a lower interest rate based on the details of the application, the needs of the project, review of the project financials, and the local public benefit and impact of the project.

Similarly, the Commerce review committee may award a portion or the entirety of the requested funds in the form of a grant to the subrecipient. Such determinations may be largely reserved for organizations that serve a clear and defined public benefit or projects that are within areas of significant LMI individuals.

III. Eligible Projects

The CDBG-ED program requires projects to meet HUD's national objective to benefit persons of low- and moderate-income (LMI). As a result, CDBG-ED funding may be used to create, retain, or train jobs in Montana where at least 51% of the project's beneficiaries are LMI persons.

Documenting LMI Benefit

CDBG-ED applicants must demonstrate that at least 51% of the project's beneficiaries are LMI persons in one of the following ways.

- CDBG-ED projects may qualify based on "LMI Job Creation or Retention," meaning they demonstrate that at least 51% of the jobs (computed on a full-time equivalent basis) will be made available to or held by LMI persons.
- CDBG-ED projects that benefit all residents of a particular area may qualify based on "area benefit."
- CDBG-ED projects that benefit a specific group may qualify based on "limited clientele."

IV. Eligible Activities

The maximum grant award will not exceed $35,000 per job created or retained, or $5,000 per job trained, up to $525,000. Applicants must contribute matching funds equal to at least 1:1 of the total CDBG-ED funds requested unless a waiver request is approved.

The following activities are eligible for CDBG-ED assistance:

- Job Creation

    a. For projects involving the creation of jobs, the jobs should be held by or available to LMI persons. Jobs are considered available to LMI persons when: 1) there is not a prerequisite for special skills that can only be acquired with substantial training, work experience, or education beyond high school, or the subrecipient agrees to hire persons and provide training; and 2) the subrecipient takes actions to ensure that LMI persons receive first consideration for filling these jobs.

- Job Retention

    b. For projects involving the retention of jobs, the income levels should be documented using a household's prior year income. The verification forms should be completed no more than 30 days prior to submittal of the application.
    c. The application must provide clear and objective evidence that, without the CDBG-ED assistance, the jobs would be lost.

- Job Training

- Direct grant administration expenses, up to a maximum 8% of the total CDBG budget for the project.

1. Job Creation and Retention

Job creation project activities may include, but are not limited to:

- Grants or loans to subrecipients for:
    - Land or building acquisition
    - Purchase of equipment
    - Working capital
    - Construction of new facilities
    - Rehabilitation of current facilities

2. Job Training

Job training activities may include, but are not limited to:

- Grants to subrecipients for:
    - Labor, supplies, and materials involved in the job training
    - Purchase or lease of the equipment, facility, or other property involved in the job training
- Job training activities must involve a new service or a quantifiable increase in the service.

Ineligible Activities

The following activities are ineligible for CDBG-ED funding:

- Any unauthorized costs incurred prior to the date identified in the Notice of Award letter;
- Buildings for the general conduct of government;
- General government expenses;
- Financing for political activities or engaging in other partisan political activities;
- Potentially other activities not specifically listed in 24 CFR § 570.482 – please contact Community MT staff to ensure that an activity is eligible for CDBG-ED funding.

V. Additional Considerations

Successful applicants must comply with all applicable parts of the Housing and Community Development Act of 1974, as amended, 42 U.S.C. § 5301, et seq.; the applicable Department of Housing and Urban Development (HUD) regulations, including but not limited to 24 CFR Part 570 and Form HUD-4010; all administrative directives and procedures established by the Department, including the most recent version of the CDBG/NSP Grant Administration Manual; and all other applicable local, state, and federal laws, regulations, administrative directives, procedures, ordinances, or resolutions.

CDBG-ED Underwriting Criteria

CDBG-ED funds are public investments and carry with them unique requirements and expectations that constitute a public value. HUD regulations outline basic project underwriting guidelines to assure that state programs administering federal CDBG funds uphold the federal CDBG objectives. Montana CDBG-ED funds must meet basic minimum underwriting standards that are based on a combination of the following criteria:

- HUD minimum standards for investments (as stated in HUD 24 CFR §570.482)
- Business loan underwriting standards

HUD Minimum Standards for Investments

1. Project costs are reasonable
2. Sources of project financing necessary for successful project are committed
3. CDBG funds are not substituted for non-Federal financial support
4. Financial feasibility of the project
5. Avoiding an unreasonably high return on equity investment to owner of the project
6. CDBG funds are disbursed on a pro rata basis with other finances provided to the project

1. Project Costs are Reasonable

Review of project budget that includes detail of sources and use of funds. An overly large budget may waste limited public resources or inflate expenses or fees while an understated budget could jeopardize the overall success of the project. Comparison of proposal with comparable projects and industry standards.

2. Sources of Project Financing Necessary for Successful Project are Committed

Confirmation of committed funds and fund capacity allow for sufficient assessment and application of funds necessary to proceed to successful completion of project within a reasonable timeframe.

3. CDBG Funds are not Substituted for non-Federal Financial Support

Demonstrated need for public investment due to limited owner personal equity and that a bank or financing institution has reached their lending limit on the project or will not fund the project. Analysis will vary based on the nature and complexity of the project, as financing for for-profit businesses have a higher degree of expectation of appropriate levels of private investment.

4. Financial Feasibility of the Project

The project should be viable with the CDBG investment and result in a public benefit of creation and retention of LMI jobs. The project should achieve a level of operation that is successful in the short and long term and should provide sufficient cash flow to repay debt, repay public investment, meet the community development objectives, or fulfill feasibility for at least the terms of the loan.

5. Avoiding an Unreasonably High Return on Equity Investment to Owner of the Project

Owner return on the project should be reasonable given both the equity invested and the risk taken and should be compared to similar projects within the region. Repayment terms should be consistent with the use of the funds

and based on the financial structure of the project. The potential of low interest-bearing loans for-profit business require analyzing and judging the merits of individual projects.

6. CDBG Funds are Disbursed on a Pro Rata Basis with Other Finances Provided to the Project

CDBG funds cannot be the first funds invested into a project, but rather should be disbursed in proportion to the percentage of the project they fund or to other project funding sources.

Business Loan Underwriting Standards

- Assess overall creditworthiness of prospective borrower through review of company and personal financial statements.
- Evaluate historical trends, financial statements, cash flow projections, management performance, market and industry conditions, capital structure, and collateral analysis.
- Order and analyze reports including credit, appraisal, and business plan.
- Level of equity invested in business and capacity of business income in relation to debt.

$35,000 per Full-Time Equivalent (FTE) Job Maximum

The amount of CDBG-ED funds requested per FTE job for the proposed project may not exceed $35,000 per job unless a waiver is requested and approved by Commerce.

Match

Local governments or subrecipients must contribute funds equal to at least 1:1 of the total project cost unless a waiver request is approved. Sources of eligible matching funds may include:

- Local bank loans or other cash;
- Loan or grant funds from a state or federal program;
- Funds expended for project related expenses directly related to the proposed project during the period 18 months prior to the CDBG-ED application submittal;
- Land or materials provided by the applicant to the project, if appraised by a licensed appraiser within a two-year period preceding the application submittal. Land or materials that cannot accurately and fairly be assigned a uniform monetary value are ineligible as matching funds.

Match Waiver

In cases of extreme financial hardship and where the public's health or safety is affected, applicants may request Commerce to waive the match requirement.

Public Notice and Participation

To receive CDBG funds, both Commerce and applicants for funds must carry out citizen participation in a manner that complies with the 2020-2025 Montana Consolidated Plan. For a proposed project to be eligible for CDBG funds, the applicant must hold a minimum of two public hearings prior to submission of the CDBG application.

The first public hearing provides a forum for considering overall community needs and potentially competing or alternative projects for CDBG funding within the local government's jurisdiction. In order to ensure the public participation is relevant and timely, the overall community needs hearing should be within 12 months prior to the date of application.

The second public hearing must be held once the applicant has selected the specific proposed project for CDBG funding. The purpose of the second public hearing is to give citizens and potential beneficiaries of the proposed CDBG project (especially LMI persons) or residents of the project area adequate opportunity to consider the potential impacts and benefits of the community's proposed project and to comment on it, before the community submits the application.

Program Income

Program income is income earned by a grantee from a CDBG-supported activity, such as repayments of principal or interest to a local Revolving Loan Fund (RLF) program generated by subrecipient loans. These funds are usually received after a project has been completed and closed out and are retained at the local level. CDBG grantees may form sub-grantee relationships with nonprofit organizations to administer RLFs. In this scenario, the CDBG grantee would pass the funds on to a nonprofit organization. The nonprofit would use those funds to make loans, such as for business expansion or housing rehabilitation.

After Project Closeout - For the years of 1992 and prior Commerce encourages the use of program income for CDBG eligible activities that assist a minimum of 51% low and moderate-income persons and program income should be expended on activities as specified in the local government's program income plan and/or closeout agreement. After the years of 1993 and Later: CDBG activity funds must be used on CDBG eligible activities that principally benefit low and moderate-income persons (at least 51%). In addition, all program income received by a grantee after closeout must continue to be used in accordance all the applicable federal requirements (Davis Bacon wage rates, environmental review, non-discrimination, etc.). As such, all regulations and requirements that applied during the term of the project will apply to the program income received after closeout. Program income must be managed and maintained, and Commerce may ask to review local RLF financials maintained by a local government or by an organization on a local government's behalf.

Uniform Relocation Assistance and Real Property Acquisition Policies Act (URA)

URA requirements apply if the proposed project includes acquisition regardless of whether CDBG funds that components or another component such as rehabilitation, construction, or demolition.

Applicants must demonstrate that the project will comply with requirements of the URA. If proposing acquisition, applicants must provide documentation that the property can be purchased or leased within six (6) months of the date of tentative grant award. Applicants should consult the CDBG Grant Administration Manual for additional information.

In particular, if applicants are contemplating CDBG assistance to properties already occupied by residential households or businesses, a General Information Notice (GIN) should be sent as soon as possible to all occupants informing them that the land on which they reside or building which they occupy is being considered to receive CDBG assistance and informing them that there is no intent to evict the occupants or involuntarily relocate them as a result of the proposed CDBG activity.

Land or easements must also not be firmly committed for purchase with CDBG funds or with any other proposed project funds until all CDBG-required URA and environmental review procedures, including a release of funds by Commerce, has been completed. If formal agreements to purchase either land or easements with CDBG or other project funds are executed prior to conduct of the required CDBG environmental review, the integrity of the URA and environmental review process is jeopardized and CDBG funding may be lost. Applicants are required to submit an Anti-displacement and Relocation Assistance Plan with the application, if applicable. HUD's Guideform Residential Anti-displacement And Relocation Assistance Plan can be found at https://www.hud.gov/sites/documents/1378X34CPDH.PDF.

NOTE: Applicants should be cautious if starting a project before Commerce has approved it and the recipient has a signed contract with Commerce. CDBG grantees are required to adhere to various federal, state, and programmatic laws and requirements. Failure to do so could result in project activities not being eligible for CDBG funds. Applicants that plan to commence a project before it has been approved for funding should discuss their plans with the CDBG staff to ensure that they have sufficient matching funds as required by the program and do not take any steps that could violate federal or state laws or regulations.

VI. Application Submission

Application Deadline and How to Submit

Please see the CDBG website for submission deadlines and instructions on submitting applications.

Alternative accessible formats of the application will be provided upon request. Commerce does not discriminate based on disability in admission to, access to, or operation of its programs, services, or activities. Therefore, individuals who need the application in an alternative format, or need to submit the application by other means, should contact Community MT at (406) 841-2770. Please provide as much advance notice as possible for these requests.

VII. Application Review Process

Community MT Division staff reviews CDBG-ED applications for both technical feasibility and the extent to which the proposed project relates to each of the CDBG-ED ranking criteria. Commerce may request additional information when reviewing an application in order to clarify responses or ensure the project meets national and state CDBG objectives. The Director of Commerce makes all final decisions on grant awards.

VIII. Administrative Procedures and Requirements

Please see the CDBG Grant Administration Manual on the Commerce website for information on how to administer a CDBG project at https://comdev.mt.gov/Programs-and-Boards/Community-Development-Block-Grant-Program/CDBG-Grant-Administration-Manual.