

CDBG Economic Development Challenges and Solutions

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How Did We Get Here?

- “It’s the economy, stupid” – 1992 campaign
- HUD expected to do its part.
- Empowerment zones, EDI grants...
- CDBG reg revision – 1995
 - Intended to promote use of CDBG for economic development purposes

CDBG Reg Revision-1995

- A HUD goal: “Provide economic lift to distressed cities”
- CDBG “a potentially a major contributor”
- HUD “recognizes it will need to change both the perception and the reality concerning usefulness of CDBG for Economic Development”

Over Time CDBG for Economic Development More Difficult and Less Important

- Fewer Supplemental Funding Sources
- Diminished Local Staff Resources
- Smaller Entitlement Amounts
- Audit Findings
- Loan Defaults
- More Community Lending

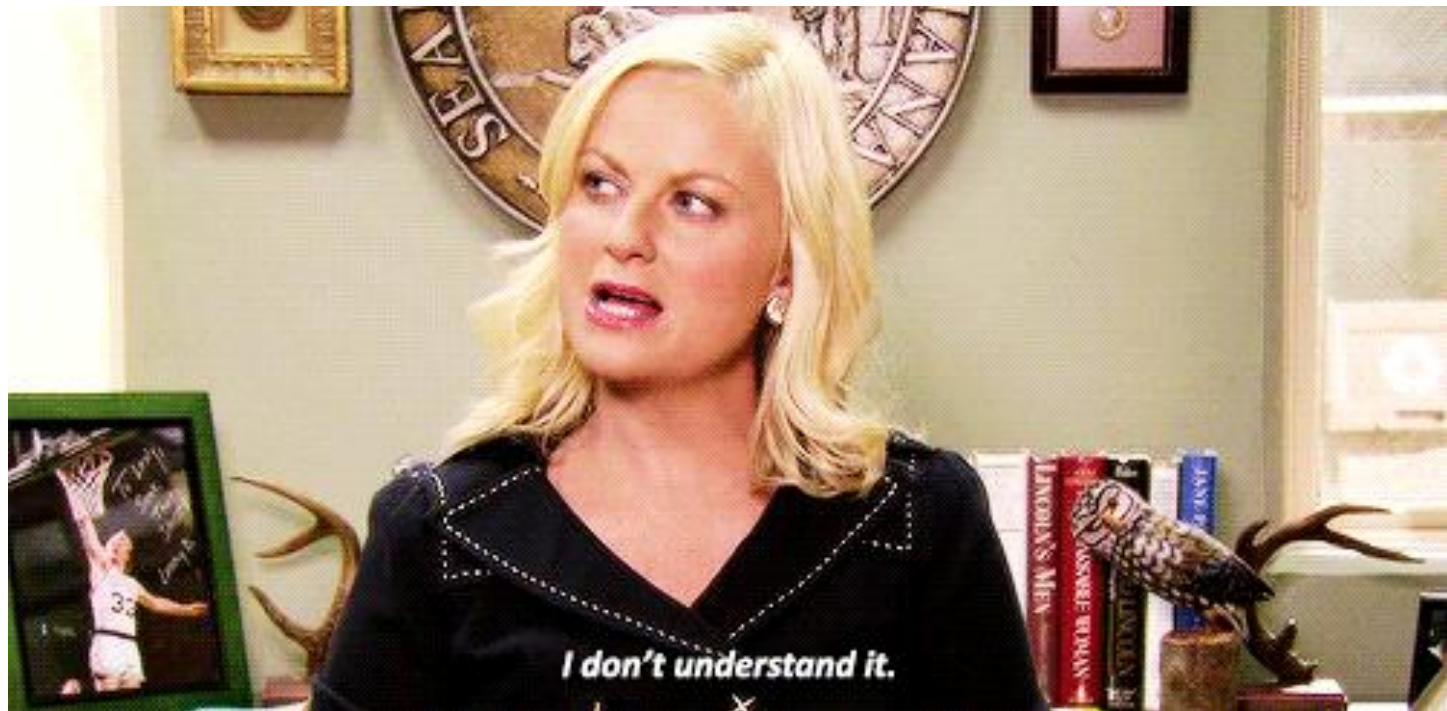
Yet, Many Elected Officials Still Want to See Economic Development



Top Five Challenges Today

- Public Benefit
- Job Creation National Objective
- Underwriting
- Davis Bacon
- National Objective Failure

Public Benefit is Confusing



Public Benefit The Easy Way

- Simplify – Avoid confusion between aggregate and individual and use aggregate as default.
- Makes counting, documentation and explanation to political leaders easier.

Simplifying Public Benefit

- Only 2 to pick from: Jobs created (or retained) or services provided
- Easy formulas – Using aggregate number
 - \$35,000 in loans allowed for each permanent job committed
 - \$350 in loans allowed for each LMI resident served by the business. So if you want to lend a bodega \$10,000 you have to show 29 LMI persons served. **PRETTY GENEROUS!**

Public Benefit cont.

- Job creation is prospective – do the calculation from the business’s application and document the file.
- Services provided based on business’s and grantee’s agreement on service area. Use Census Tracts to extent possible. Be reasonable: a bodega may serve one census tract, a large bakery may serve an entire city.
- It’s LMI Persons, Not Total – so some math.

Job Creation Never Works Out as Expected

- Business said 5 jobs and created only 4, 3 of which are LMI. What should I do?
- Celebrate and close out the project in IDIS. You met your LMI jobs requirement.

What About Public Benefit?

- HUD says Public Benefit requirement is prospective.
- If total job creation does not turn out as expected HUD says, “take steps to improve accuracy of projections.”

LMI Jobs — “Held by” or “Available to”

- Two very different requirements.
- Choose approach based on your capacity and type and capacity of business.
- Can use a different approach for each business.

Taken By

- Basic income certification.
- Use same forms you might use for a public service.
- The business has to show the majority of those hired as a result of assistance are members of LMI families pre-hiring.
- Problems when business not comfortable in administering certification form or is not timely.

Available To

- Requires higher level of sophistication and documentation from business and grantee.
- Special skills that can only be acquired with substantial training or work experience or education beyond high school are NOT a prerequisite or business agrees to hire and train.
- Grantee and business take actions to ensure LMI persons receive first consideration.

No LMI Jobs Created — What do I do?

- Three things may save you from a finding:
 - Good overall documentation
 - Sound underwriting
 - Loan repayments
- May need to take collection action

Underwriting

- Not as difficult as HOME.
- 6 Basic Items in HUD guidance.
- HUD has said, “different levels of review are appropriate to take into account differences in the size and scope...”

Underwriting-Micro Enterprise Loans

- Not required to underwrite assistance to micro enterprises.
- Make sure business qualifies as a micro enterprise AND make sure you have a micro enterprise program.
- Basic due diligence: financials, sound business plan, financial reliability, good cost estimate, understand purpose of assistance.
- Provide small business TA if necessary.

Underwriting – File Documentation

- Clear, understandable application.
- Financial analysis with a conclusion.
 - HUD Guidance has 6 questions.
- Executed documents – whatever policies and procedures call for.
- Evidence work was completed,

Davis Bacon

- Avoid funding construction if possible.
- Working capital, marketing material, purchase of equipment all good options.
- If Davis Bacon can't be avoided:
 - Be prepared to provide additional CDBG;
 - Assist business owner with cost estimates.

Section 108 Loan Guarantees

- The original CDBG economic development product.

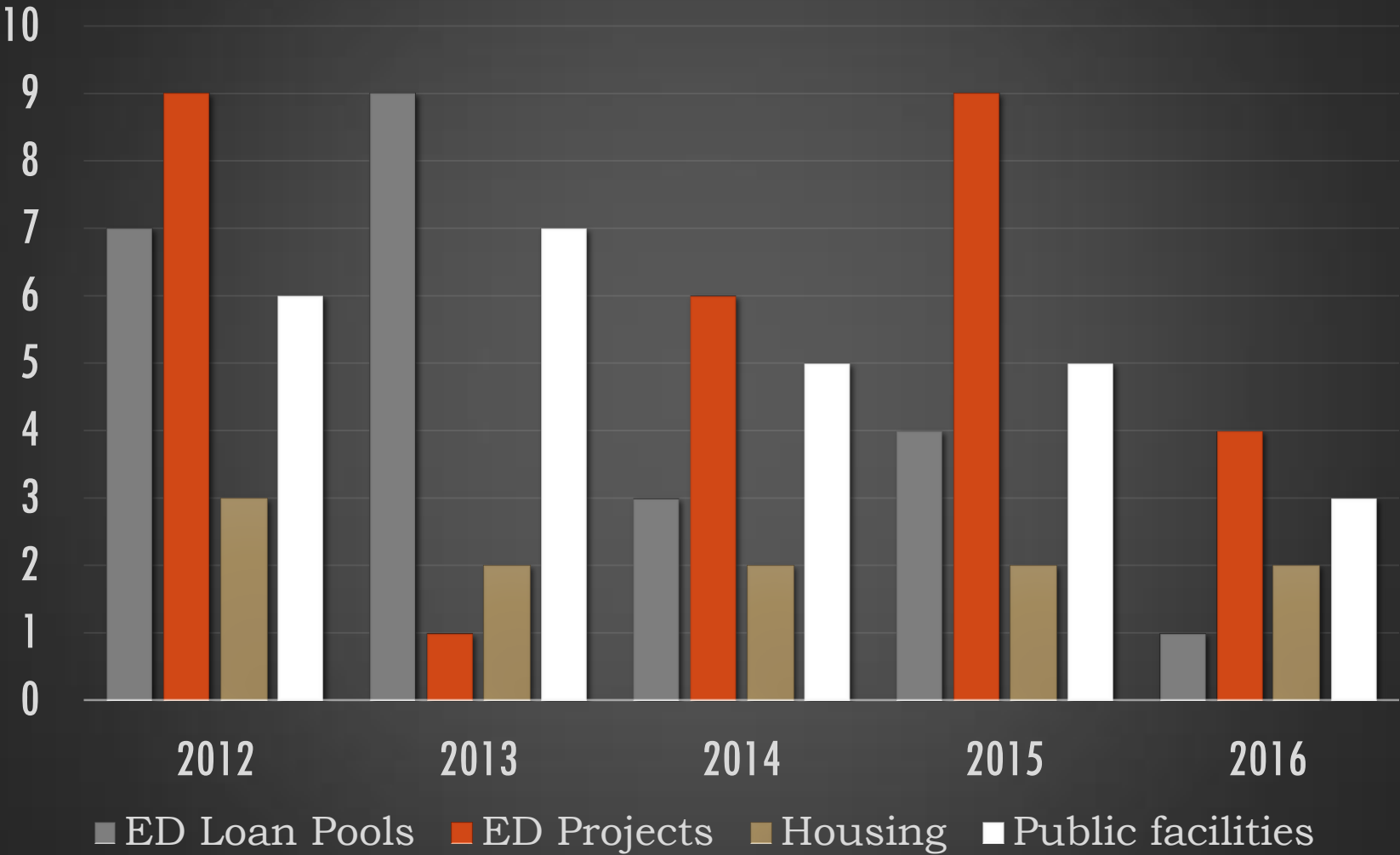
Section 108 Loan Guarantees

- What's happening nationally.

108 Loan Activity 2012-2016

	2012	2013	2014	2015	2016	Total
ED Loan Pools	7	9	3	4	1	24
ED Projects	9	1	6	9	4	29
Housing	3	2	2	2	2	11
Public facilities	6	7	5	5	3	26
	25	19	16	20	10	90

108 Loan Activity 2012-2016



Questions and Feedback
