Economic Recovery & Resilience Toolkit

Using HUD's Community Planning and Development Programs

Enterprise

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About Enterprise Community Partners

Enterprise is a national nonprofit that exists to make a good home possible for the millions of families without one. We support community development organizations on the ground, aggregate and invest capital for impact, advance housing policy at every level of government, and build and manage communities ourselves. Since 1982, we have invested $54 billion and created 873,000 homes across all 50 states, the District of Columbia and Puerto Rico – all to make home and community places of pride, power and belonging. Join us at enterprisecommunity.org.

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Contents

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Key Definitions

Economic Development – programs, policies or activities that seek to improve the economic well-being and quality of life for a community.

Economic Recovery – occurs when an economy strengthens after a period of recession.

Equality – the state of being equal, especially in status, rights and opportunities.

Equity – the state, quality or ideal of being just, impartial and fair.

Equity Lens – a cognitive framing construct centered on inquiry-based process that poses questions to help decision makers focus on equity in their process and outcomes.

Historically Disadvantaged Residents/Neighborhoods/Businesses – include (a) certain qualifying census tracts, (b) any Tribal land, or (c) any territory or possession of the United States.

Low and Moderate Income (LMI) – defined as having income levels lower than 80% of the area median income (AMI). An LMI geography is a census tract in which the median family income of households or residents are less than 80% AMI of the surrounding metropolitan statistical area (MSA).

Resilience – a community's ability to minimize damage and recover quickly from extreme events and changing conditions.

Introduction

Purpose and Goal

Economic development is a powerful tool that can have a profound impact on households, communities, and entire regions. This Toolkit from the U.S. Department of Housing & Urban Development (HUD) is designed to help HUD grantees and their partners plan for and use Community Development Block Grant (CDBG) funding – combined with other federal and private funds – to develop and implement policies, programs, and projects that respond to their community's needs and promote a strong, sustainable economy.

Photo by Uriel Mont from Pexels

In the years following the 2008 recession, the United States recovered unevenly, with some local economies rebounding to pre-recession levels of economic growth and others struggling to regain lost jobs and local industries. Many communities across the country saw employment opportunities and wages decline, accompanied by lagging incomes and increases in the cost of living.

In a 2015 survey of its members, the National League of Cities measured the performance of key local economic indicators, particularly in cities with populations of 100,000 or more. However, persistent poverty, lack of affordable housing, and workforce skill gaps dampened the ability of all residents to benefit from economic growth and impeded cities' longer-term economic stability.

When COVID-19 hit in early 2020, it triggered a wave of business closures and job losses that sent the national economy into crisis. While the long-term effects of the pandemic remain unknown, research from the Brookings Institute shows that it wiped out nearly 113 months of job growth in the United States and decreased small business revenue by 20 percent.

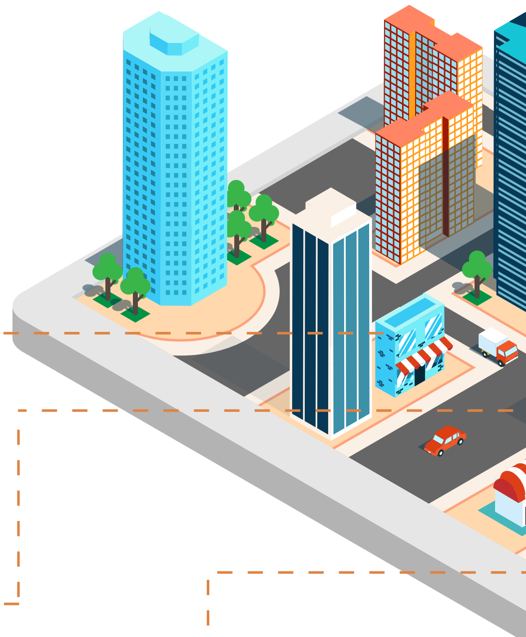
In both of these scenarios – and in response to natural disasters and other, less extreme economic events – local leaders need to have tools at the ready to strategically, collaboratively, and equitably lead their communities through recovery.

In this Toolkit and the accompanying Implementation Guides, HUD grantees will find insights, ideas, and resources to design effective economic development initiatives that prioritize making local businesses more competitive and creating attractive job opportunities for residents. The tools are designed to help HUD grantees, other government entities, and community partners integrate an equity lens into their work, with a heightened focus on the goal of ensuring an equitable recovery so that those hardest hit by economic crises benefit most from the deployment of recovery funds and programs. With the use of this Toolkit and the Implementation Guides, local governments and their partners will find ideas to take concrete steps toward this goal.

Seven Areas of Focus

Job Training:

Training, coaching, or mentorship for individuals entering the workforce or seeking to develop and enhance skills to facilitate better access to permanent jobs that pay a living wage and meet local business needs.



Small Business:

A business that is independently owned and operated and which is not dominant in its field of operation. Typically, small businesses have between five and 500 employees, though the federal definition depends on the sector. Small businesses exist in every industry, from tech to childcare, and their leaders can have a wide range of educational and professional experience.

Microenterprises:

As defined by HUD: A subclass of small businesses defined in the Housing and Community Development Act of 1974 as those with five or fewer employees. Often a self-employed founder is moving out of the informal economy and requires specific financial and technical assistance to add payroll jobs.

Business incubators:

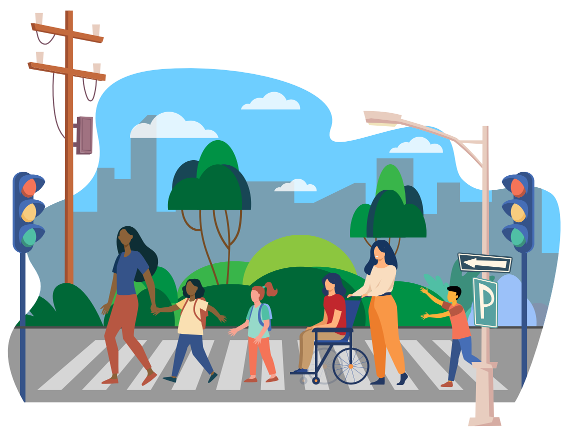
Shared-use facilities – newly constructed or adaptively reused – that provide mentorship and support to small businesses and microenterprises to help entrepreneurs survive the early startup phase and graduate into the regional economy. Incubators are often seen as a community's hub for an entire business-support ecosystem for entrepreneurs. Assistance may be targeted to the incubator itself or to the businesses operating within it.

Commercial Rehabilitation:

Efforts to improve the quality of commercial and retail districts by assisting private businesses with exterior improvements or rectifying existing code violations.

Large-Scale Commercial Development:

Construction or rehabilitation of retail centers, commercial facilities, industrial areas, and public commercial spaces to transform neighborhoods.



Infrastructure:

The basic physical and organizational structures and facilities needed to support economic development, including roads, transit, electricity, and sidewalks. In recent years, the understanding of critical infrastructure has expanded to include nontraditional forms of infrastructure like last-mile broadband capacity, resilient energy and environmental features, and supportive services.

Icons - National Objectives

- LMA Low Mod Area Benefit (LMA)
- LMC Low Mod Limited Clientele (LMC)
- LMJ Low Mod Job Creation or Retention Activities (LMJ)
- SBA Slums and Blight Area Basis (SBA)
- SBS Slums and Blight Spot Basis (SBS)
- SBR Slums and Blight Urban Renewal (SBR) *(State programs only)*
- Urgent Need

Icons - Regulatory Context

- Public benefit standards
- Underwriting requirements

All images on this spread, courtesy of: freepik

The Case for Equity in Economic Recovery

In recent years, equity has become a major focus for communities prioritizing inclusive, sustainable community building. It has become a focal point for many HUD grantees and other local governments as they work to improve local economic conditions for historically disadvantaged neighborhoods.

City life photo created by freepik

For the purposes of this guide, equity is defined as "the state, quality, or ideal of being just, impartial, and fair" and recognizes that people and neighborhoods start from different places and, therefore, require different approaches.

- Equity is outcome focused.
    - When focused on equity, communities make investments to ensure that neighborhoods, businesses, households, and individuals receive the unique level and type of support they need to thrive.
- Equity is asset based.
    - Equity frameworks recognize the unique value of each resident and that these residents have skills, talents and resources that are critical to creating strong communities.
- Equality is input focused.
    - When focused on equality, communities provide the same amount of investment to neighborhoods, businesses, households, and individuals, regardless of their current need.

This distinction highlights the need to acknowledge existing and persistent inequities and adjust actions to address those imbalances. In doing so, local governments (and other organizations) are able to address structural inequities on how policies and programs are implemented, creating more lasting change in the community. Further, adopting an equity lens in planning for economic recovery acknowledges the uneven impact of historic disinvestment on low - and moderate-income (LMI) residents and historically disadvantaged residents and neighborhoods and the pivotal role these communities play in the broader region's long-term prosperity.

A History of Inequity in the United States

Over the course of the last century, federal, state, and local governments have adopted policies and implemented programs resulting in deep social, racial, and economic inequities. Today, grantees across the United States are still dealing with the long-standing impacts of these policy decisions.

Photo courtesy of Enterprise Community Partners

Examples of key federal and local actions that led directly to the social, racial, and economic inequities still present today include:

Photo courtesy of NY Times

Federal Housing Agency (FHA) underwriting guidelines – also known as "redlining" – limited the flow of capital into and out of predominantly non-white neighborhoods. The practice was adopted by private lenders as a best practice and systemically excluded Black people from the home mortgage market, instilled racially-biased home sales practices, and resulted in segregated neighborhoods characterized by depressed property values and limited resources.


Photo courtesy of Digital Scholarship Lab, University of Richmond

Between 1949 and 1974, the federal government adopted urban renewal as its approach to improving conditions in cities. Urban renewal projects varied widely, but typically involved demolishing "blighted" properties to build new housing, highways, and commercial development. Urban renewal spurred the demolition of historic structures, displaced low-income households and Black-owned businesses, and undermined community networks, with particularly devastating impacts in Black communities.

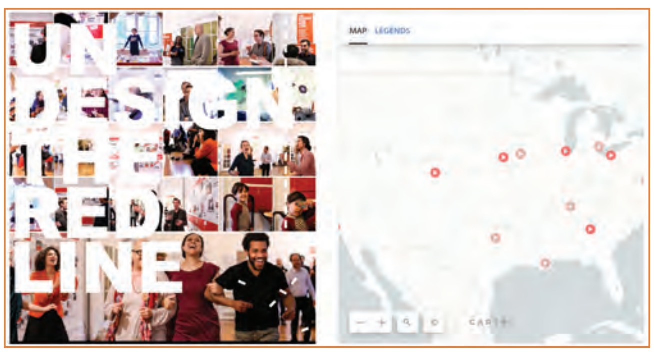
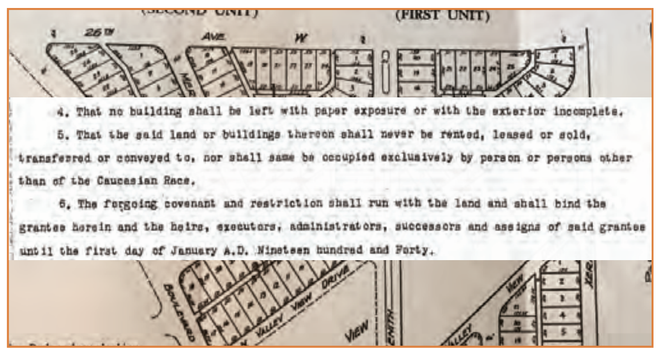


Photo courtesy of Designing the WE

Federal assistance to homebuyers (e.g., FHA loans, G.I. Bill) in the decades following World War II spurred suburban housing development that sparked an exodus of white residents and resources from cities.


(FIRST UNIT)

4. That no building shall be left with paper exposure or with the exterior incomplete.

5. That the said land or buildings thereon shall never be rented, leased or sold, transferred or conveyed to, nor shall same be occupied exclusively by person or persons other than of the Caucasian Race.

6. The forgoing covenant and restriction shall run with the land and shall bind the grantee herein and the heirs, executors, administrators, successors and assigns of said grantee until the first day of January A.D. Nineteen hundred and Forty.

Photo courtesy of University of Minnesota, Mapping Prejudice

Restrictive covenants barred non-whites from buying or renting homes in many suburban neighborhoods, and Black homebuyers were excluded from accessing G.I. Bill benefits to secure mortgages. Covenants varied over time and geography, with some excluding Jewish and other immigrant groups. Covenants were commonplace until 1968, when the passage of the Fair Housing Act made them illegal.

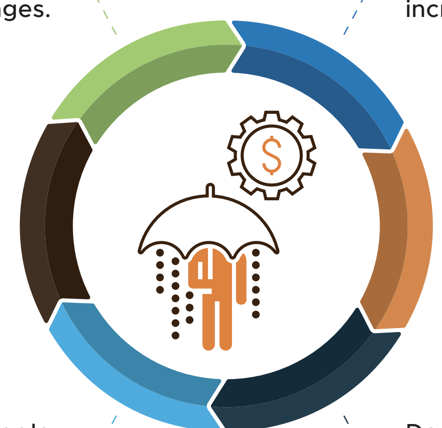
> *"Over the course of the program's life, federal officials approved over $13 billion in grants to more than 1,200 cities, ranging in population size from a few thousand to several million. Although there is no precise count of persons displaced or structures demolished, we do know that hundreds of thousands of families lost their homes to urban renewal. State and federal highway construction displaced hundreds of thousands more."*
>
> – inclusivehistorian.com

The Cycle of Economic Distress

In recent years, rekindling investment in historically disadvantaged neighborhoods has proven extremely challenging, with many grantees finding that these neighborhoods have become marginalized and are stuck in a cycle of economic distress.

Persistent poverty is exacerbated by economic distress, high unemployment, and lower wages.

Persistently high unemployment rates, fewer jobs, and lower wages result in increasingly high poverty rates.



Lower educational attainment levels negatively impact the local job market as employers seek talent pools with higher skills.

Local governments dependent on income and property tax revenues to fund operations and services have limited capacity to support struggling residents and neighborhoods.

Under-resourced schools struggle to provide high-quality education to students; educational attainment levels drop as a result.

Decreased property tax revenues result in reduced funding for local school districts.

Planning for an equitable economic recovery provides grantees the opportunity to break this cycle by addressing the policy and program missteps of the past. For example, by working collaboratively with members of a [targeted small business community](), grantees can design programs that increase successful funding applications for businesses located in LMI neighborhoods. Supporting the growth of these enterprises generates employment opportunities for neighbors and local tax revenue, which provides the foundation for economic growth.

Inequitable Impacts of Economic Shocks

The impact of economic, social, and climate shocks (e.g., recessions, global market shifts, regional downturns, natural disasters) is often broadly felt across jurisdictions. However, not all neighborhoods and residents recover equally. The neighborhoods and residents that have been historically disadvantaged by inequitable policies are caught in the cycle described above and are often the hardest hit and slowest to recover when these new shocks hit.

In part, this is because economic growth policies and programs are too often enacted with a cookie-cutter, equality-based approach that misses the opportunity to focus support where it is needed most. This is compounded by the fact that economically vulnerable communities struggle to successfully apply for – and be awarded – financial support, even when it is available to them.

> ***"More equitable and inclusive places will have greater opportunities for economic mobility among residents. These localities will also more easily connect to external markets, producing stronger, longer-term growth. Inclusive growth policies that move the needle towards equity in our nation's cities are therefore more important than ever."***
>
> **– National League of Cities**

More so than other economic events, the COVID-19 pandemic has affected every corner of the world. Every community has had to adapt and adapt again as circumstances have changed rapidly. It was clear within the first few months of the pandemic, however, that certain subsets of the U.S. population were hit harder than others.

A June 2020 National Bureau of Economic Research study on the impact of COVID-19 on small business owners at the start of the pandemic reported devastating losses as a result of necessary shutdowns and public health mandates. Between February and April 2020, there was a 3.3 million decrease in active business owners (22 percent), with disproportionate impacts on woman- (25 percent), immigrant- (36 percent), Black- (41 percent), and Hispanic American-owned (32 percent business).

A September 2020 Pew Research Center study found that one in four employed adults struggled to pay bills due to job loss or reduced hours and wages. Reports of financial struggles were more common among Black and Hispanic Americans, adults with lower incomes, and those lacking a college degree. More than half of Hispanic Americans reported that they or someone in their household were laid off or took a pay cut due to COVID-19, while 43 percent of Black adults and 47 percent of Asian Americans reported similar experiences.

According to the National Community Reinvestment Corporation and ResilINC, when federal Paycheck Protection Program (PPP) funding became available to assist businesses, many of the LMI- and Emergency Injury Disaster Loan (EIDL) programs funded under the CARES Act failed to reach Minority Business Enterprises (MBEs) with the same timeliness and breadth that it reached white-owned small businesses and large corporations. In the 30 counties hardest hit by COVID-19, the New York Federal Reserve reports that only 15-20% of businesses received PPP funding. The report also cites findings by UnidoUS and Color of Change that only one in ten Hispanic and Black-owned small businesses received the full amount of assistance for which they applied.

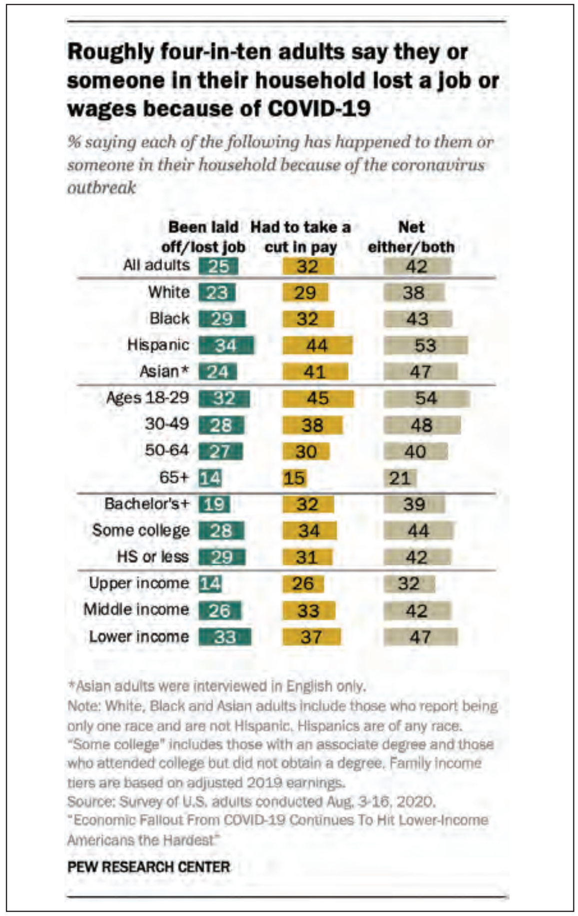


Chart courtesy of Pew Reasearch Center

Debt vector created by pch.vector - www.freepik.com

Investing in an Equitable Future

Grantees have the opportunity to approach economic recovery with an eye towards achieving equitable outcomes for LMI and/or historically disadvantaged residents, and businesses located in areas that have been historically disadvantaged for decades or sometimes, centuries. This helps strengthen the economic prospects of those specific residents or neighborhoods and, in doing so, makes the larger jurisdiction more competitive. This wholistic approach to economic recovery also improves the community's resilience to future shocks, better positioning it for long-term, sustainable economic stability or growth.

Effective and equitable economic recovery requires cross-sector collaboration to ensure residents, employees and business owners can access needed resources. Ensuring that economic recovery addresses the disparate impacts that the COVID-19 pandemic and other economic shocks have on LMI residents and historically disadvantaged neighborhoods requires concerted effort from local governments and their partners. It also requires a paradigm shift, and a new approach to economic planning and program design.

This Toolkit includes information, best practices, and recommendations for economic recovery programs and policies across seven topic areas. Each section includes a "Considerations for an Equitable Economic Recovery" spotlight with recommendations about ways to apply an equity lens to economic recovery planning. In addition, the accompanying **Planning and Equity Implementation Guide** provides detailed guidance on how to conduct a local equity assessment to inform economic recovery program design and implementation.

Section 3

Section 3 of the Housing and Community Development Act of 1968 requires states, counties, public housing authorities, and cities receiving HUD funds to direct employment and contracting opportunities to low- and very low-income persons residing in the areas where HUD investments are made. Section 3 enhances the overall benefit of the housing and public construction investments by requiring meaningful participation (measured in work hours) from low-income unemployed or underemployed residents in the area. Under the 2020 Section 3 Final Rule at 24 CFR Part 75, Section 3, equity is promoted by defining three classes of workers – regular workers, Section 3 workers, and Targeted Section 3 workers. The latter of these often require the most support finding stable employment that pays a **living wage**. The Final rule requires that at least 25 percent of the work hours on a Section 3 project are completed by Section 3 workers and at least 5 percent of the work hours on a project are completed by Targeted Section 3 workers.

Photo by RODNAE Productions from Pexels

Who Can Use This Toolkit?

Overview

Economic recovery following a recession or downturn traditionally requires concerted cross-sector initiatives to address the resulting increase in unemployment and ensure a region's continued or resurgent ability to attract and retain businesses. The primary target audiences for this Toolkit are grantees receiving Community Development Block Grant (CDBG), CDBG-CARES Act (CDBG-CV), and other related CDBG funding sources, such as CDBG-DR and Section 108. However, community-based organizations (CBOs) and other economic development leaders may also use this Toolkit to understand how they can leverage public and private funds, partner with local stakeholders, and develop appropriate strategies to lead their communities out of economic stagnation.

Business phone photo created by rawpixel.com - www.freepik.com

How to Use this Toolkit and the Implementation Guides

Overview

This Toolkit works together with the six Implementation Guides. The Toolkit lays the foundation and provides the reader guidance on seven common and high-impact economic development activities that are frequently used to create new employment opportunities and enhance a community's competitiveness:

- Job training
- Small Business
- Microenterprise
- Business Incubators
- Commercial Rehabilitation
- Commercial Development
- Infrastructure

Photo by by Anna Shvets from Pexels

Each topic section in the Toolkit provides an overview of when and how to launch the specific strategy in partnership with and within a community. It also includes a list of eligible activities, key considerations to ensure the activity is undertaken with equity in mind, and strategies to leverage a diverse range of funding sources, including federal and private funding. Case studies are highlighted throughout this document and the Implementation Guides to demonstrate successful examples of the strategies in action.

In addition to the Toolkit, six Implementation Guides were designed to serve as companion pieces. While not every topic in the Toolkit has a matching Implementation Guide, the Guides outline the practical steps grantees can take to implement specific strategies.

The Guides focus on:

- Small Grantees
- State Grantees
- Planning and Equity in Economic Recovery
- Commercial Redevelopment
- Small Business and Microenterprise
- Job Training

Planning for Equitable Economic Recovery

Overview

Planning is an iterative critical component and should be done at various stages including prior to a disaster or shock. Planning is also asset based, focusing on community strengths to develop unique strategies. Whether launching a green job training program or revitalizing an abandoned strip mall, inclusive, data-driven, coordinated planning ensures that the appropriate stakeholders are engaged in the entire process. Effective stakeholder engagement, especially during the Consolidated Planning process, can help focus recovery efforts where interventions are needed most, and establish recovery goals that are understood and shared by all. Refer to the Equity and Planning Implementation Guide for more resources and guidance on this topic.

Target support where it is needed most.

- Although low- and moderate-income (LMI) residents and neighborhoods are often hardest hit in economic downturns and during natural disasters, traditional economic development activities frequently overlook them. Consider focusing multiple anchor projects in LMI neighborhoods to catalyze growth. Identify local assets such as labor, institutions, infrastructure, and land. Address potential barriers to access and engagement, such as poor internet access, non-traditional work schedules, language barriers, and mistrust of government.

Think regionally and long term.

- When selecting projects and project sites, consider not only where interventions may have the most impact, but also the type of intervention that will maximize that impact. Understanding the economic resources and priorities of the surrounding area allows grantees to leverage existing momentum or differentiate from neighboring jurisdictions. Evaluating sector trends to anticipate future needs and barriers in the region increases the likelihood of a project's long-term success. For major initiatives, cross-jurisdictional solutions bring more resources to bear when serious investment is required. When assessing how local economies can contribute to a larger regional economy, communities can leverage economic resources to grow with cohesion.

Form representative committees.

- A critical first step in designing equitable economic development programs is to ensure the right people are involved in the process from the outset. Recovery planning should include diverse perspectives that are representative of the entire jurisdiction but especially of the neighborhoods targeted for investment. This ensures the needs of all interested and affected parties are heard as part of the assessment, planning, implementation, and evaluation of a project. Planning committees should be open to new members as needs are identified and gaps are realized. Planning is not static, but is a continuous process that evolves, and therefore, committees should evolve with the process by bringing on additional perspectives.

Recruit the right partners.

- In addition to collaborating with local residents, most economic development projects involve collaboration between local government departments, state or regional governments, regional council or council of governments (COG)s, metropolitan planning organizations (MPO)s, partner jurisdictions, implementing agencies, and the private and nonprofit sectors. Ensure that partners share recovery priorities (e.g., living wages, hyperlocal hiring, equity outcomes) before bringing them on board.

Identify community assets.

- Understanding community assets helps to provide information about the strengths and resources of a community. Once strengths are identified, grantees can more easily think about how to build on these assets to address community needs. Identifying assets promotes community involvement, ownership, and empowerment. Community assets can include but are not limited to: human capital, structural institutions (universities, places of worship, recreational centers, etc.), citizen associations, existing businesses including nonprofit organizations and government anchors, green spaces, infrastructure (including transportation), and community history.

Determine community needs.

- Economic development activities can address a range of needs, gaps, and issues within a jurisdiction. Prior to launching a program, grantees should identify community assets, and conduct qualitative and quantitative evaluations of community needs, as well as the implementation capacity of the grantee and its partners. Whether completed as part of the Consolidated Plan process or separately, grantees should establish a foundational understanding of the assets and the needs, and who is best positioned to help. The Equity and Planning Implementation Guide is a tool that highlights resources and guidance.

Clearly define project objectives and goals.

- Work closely with the targeted neighborhood residents and businesses to establish intentional goals, and focus project outcomes to ensure robust, positive impacts in those neighborhoods. Strive for consensus on what a successful project will look like, considering not just the outputs (e.g., create 15 new jobs), but the outcomes (e.g., increased standard of living in the targeted neighborhood).

Consider diverse funding mechanisms, especially for larger projects.

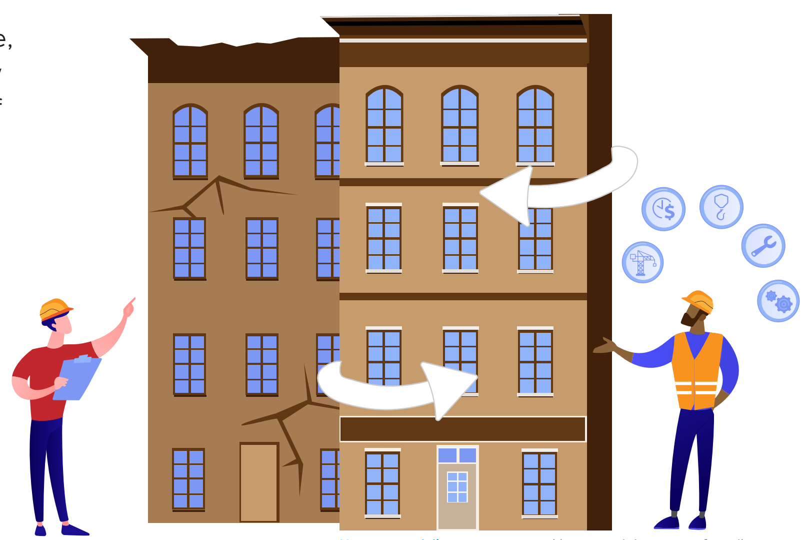
- Leverage other federal, state, local and private financing to maximize recovery impacts, keeping in mind that funding sources will likely have unique requirements. Establish strategies to mitigate risk and expand the impact of federal funding through customized loan and financing programs.

Lead by example.

- Through intentional procurement processes, grantees can support small and Minority and/or Women Business Enterprises (M/WBEs) and strengthen the local economy. Grantees can ensure that procurement processes prioritize the creation and growth of new microenterprises, while economic development agencies can elevate the importance of local small businesses by encouraging institutional partners to buy from them. Grantees can also prioritize hiring locally, advertising openings in and recruiting heavily from historically disadvantaged neighborhoods. If residents of these neighborhoods lack the skills and capacity, target programs to these neighborhoods.

Meet people where they are.

- It is not enough to design a great program. The opportunity must be promoted and communicated in target neighborhoods. Think critically about how to simplify and streamline any application processes to ensure they are accessible and inviting to business owners with varying levels of sophistication and resources.



Home remodeling vector created by vectorjuice - www.freepik.com

Job Training

Overview

Job training is essential for building [economic ecosystems](#) that connect both unemployed and underemployed workers with high quality job opportunities that increase earning potential and offer sustainable, permanent employment. Effective job training programs connect workers with the resources to develop new skills and areas of expertise. The best programs also incentivize employers to hire, retain, and train workers from [historically disadvantaged neighborhoods](#), addressing both local job supply and demand. Ultimately, job training programs complement and support the growth of key industries and businesses in a region by providing a consistent and reliable pipeline of talent for core business sectors and functions. This makes job training an effective tool to attract new businesses and retain existing companies in the community.

Further Reading

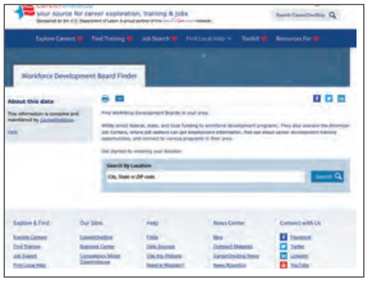
Grantees interested in more detail on specific steps to follow and ways to stay in compliance with HUD regulations should consult the linked [Job Training Implementation Guide](#).

Photo by fauxels from Pexels

Job training programs are best structured by leveraging existing community assets to meet the unique needs of a community, with programs designed to upskill employees currently working in trades that are leaving an area or becoming extinct. Job training can also prepare workers for [fast growing occupations](#) such as wind turbine service technicians, solar panel installers, or restaurant cooks. In identifying the needs of existing and emerging employers, grantees can refer to analysis and planning published by a regional or statewide Workforce [Investment Board](#) funded by the U.S. Department of Labor. Grantees can add value to existing job training initiatives by focusing on activities that may not be eligible for support from other agencies, such as wraparound services (e.g., childcare, transportation access, housing) to ensure that participants are well supported in the transition to full-time employment after completing a training program. Grantees may also choose to focus on soft skills that enhance the workforce readiness of program participants.

Workforce Development Board

To find a Workforce Development Board in your area, visit:



https://www.careeronestop.org/LocalHelp/WorkforceDevelopment/find-workforce-development-boards.aspx

Grantees ideally approach a potential job training program by looking across industries, infrastructure, and amenities to conduct a comprehensive assessment of labor markets and workforce systems and gather input from industry leaders. This helps develop an understanding of how the current labor pool aligns with the skills needed to fulfill current and anticipated labor requirements. With this information, grantees can determine, customize, and catalyze the deployment of the right combination of resources to maximize impact.

LMA LMC SBA !

Eligible Activities

Unless associated with a special economic development activity or carried out by a CBDO, job training programs are considered a public service activity and count against the public service cap. However, activities taking place in a HUD-approved Neighborhood Revitalization Strategy Area (NRSA) or Community Revitalization Strategy Area (CRSA), can exceed the public services cap. Like other public service activities, to be eligible, the initiative must be a new service or a quantifiable increase in service due to the allocation of CDBG resources. Eligible costs for a job training activity include:

- Costs of facilities, instructors, supplies, or equipment for the job training program
- Costs of marketing and promoting the job training program
- Costs of delivering the job training program
- Stipends for training participants to defray participation costs such as transportation or meals

Getting Started

Key Design Considerations:

- Survey area businesses to identify key skill gaps and needs.
- Map existing training programs, schools, or technical training institutes in the area to identify existing programs that can be tailored or adapted to respond to business surveys.
- Consult with stakeholders such as nonprofits, high schools, community colleges, and local unemployment boards for current data on training needs and characteristics of unemployed/underemployed individuals.
- Partner with local businesses to participate in and help facilitate trainings.
- Target trainings around a combination of soft and hard skills.
- Facilitate job fairs with regional businesses for program participants nearing graduation.
- Align with priorities of the local Workforce Investment Board and the capacities of their key training providers (e.g., regional organizations, community colleges, Community Based Development Organizations (CBDOs).

Photo by Katerina Holmes from Pexels

Considerations for an Equitable Economic Recovery

After an economic shock, there is a critical need for job training programs to focus on groups within the jurisdiction that are most severely impacted. Historically disadvantaged residents, including racial minorities, women, and new citizens, are often disproportionately impacted by external shocks. In the first two months of the COVID-19 pandemic, 24 percent of Black workers left the labor force or were laid off (compared to 18 percent of white workers). Further, Pew Research identified that from February 2020 to February 2021, a significantly greater share of women left the labor force (2.4 million) compared to men (1.8 million). Efforts to return workers to the workforce after the pandemic – or any other economic shock – must be calibrated to meet the highest needs of the jurisdiction. Structuring a job training program that serves as a pathway to re-employment in new, permanent positions is critical to individual recovery, but it is just as essential to regional recovery.

For job-seeking residents to be upwardly mobile, they must have access to good economic opportunities that are relative to their skills and experience levels, regardless of their income, educational level, gender, race, disability, veteran status, language abilities, or past involvement with the criminal justice system. Employers and policy makers can develop job training opportunities – from strategy to implementation – that recognize and connect to the diversity in a jurisdiction and increase access to good paying jobs, especially for groups that have historically been left out of industries with attractive wages.

To achieve this, grantees can partner with competitively advantaged employers to incentivize the recruitment and hiring of employees who are either involved in or have recently completed job training or apprenticeship programs (including returning citizens) through grants or loan programs. These programs may also target trainings for subpopulations such as high school students and provide broadband access to them and their families for the duration of the session. Grantees should always work closely with local organizations to help design the program, and then to market and promote the program to low- and moderate- income (LMI) residents and neighborhoods to ensure that the program is well advertised and seriously considered by potential participants. This increases the likelihood that the program will attract a wide range of skill sets and backgrounds and ultimately meet the needs of the target industries. This engagement may also lead to commitments from local businesses to a first source program that prioritizes trainees; even better, businesses might agree to learn-as-you-earn opportunities (such as an apprenticeship programs), reducing a financial barrier to job training for LMI residents.

Getting Started

Program Examples:

- Broker connections between established firms and training providers to create a talent pipeline connecting low- and moderate-income (LMI) residents to available jobs that require specific upskilling.
- Provide job training that is tied to a "first-source" hiring policy for businesses receiving economic assistance, in which they are required to first interview candidates from the jurisdiction's job training program.
- Provide sector-based training through partnering with local existing institutional actors (community colleges or technical schools), where people are trained for existing jobs in high-demand sectors that pay well for workers without four-year college degrees.
- Provide job training to individuals impacted by businesses closures, COVID-19, or other shocks to the community's economic system.
- Establish initiatives offering students access to an employer-connected education or training experience, allowing high school students to gain workplace skills for academic credit and cultivate their interest and abilities for entrepreneurship.

Funding Opportunities

Job training programs may be funded exclusively by CDBG or in coordination with other federal, state, or local programs. As part of the planning process, grantees should explore how to braid other funding sources to expand the reach and impact of job training programs. Grantees can obtain in-kind contributions from local organizations or businesses in the form of training space, trainers, or supplies. Grantees can consult with organizations such as the Chamber of Commerce, community colleges, and large employers for the possibility of in-kind support. Additional funding sources include but are not limited to:

- Economic Development Agency
- U. S. Department of Agriculture
- Department of Labor, including Career One-Stop Business Center
- HUD's Section 108 Loan Guarantee Program
- Office of Energy Efficiency & Renewable Energy
- Grants.gov

Case Studies

Growing Opportunity Training Programs "GO"

Started in 2012, Growing Opportunities Training Program "GO" in the City of Charlottesville, Virginia, helps chronically unemployed residents find and retain jobs after two- to eight-week pre-employment training programs for work in public transportation, electrician apprenticeships, and nursing assistant certification.

- City of Charlottesville, VA
- Projects with similar components could be eligible under the following National Objectives: LMA, LMAFI, LMASA, LMC, LMCMC, LMJ, LMJP, SBA, SBS, SBR, URG
    - Matrix Code: 18B, 18C,
- Projects with similar components could be eligible under the following Eligible Activities: Economic Development: Technical Assistance, Microenterprise Assistance (24 CFR 570.203(a); 24 CFR 570.203(c); 24 CFR 570.201(o)).

Training class photo created by master1305 - www.freepik.com

Small Business

Overview

According to research published by the Small Business Administration (SBA), small businesses are an anchor of the U.S. economy, accounting for 65 percent of new jobs since 2000 and 44 percent of the country's economic activity. They also drive innovation within the economy, producing 16 times more new patents per employee than large patenting firms do.

Further Reading

Grantees interested in more detail on specific steps to follow and ways to stay in compliance with HUD regulations should consult the linked Small Business Implementation Guide.

Photo by Clem Onojeghuo from Pexels

Despite these contributions, small businesses do not always have the same access to tax benefits and state or local incentives as their larger counterparts and may require creative forms of assistance to expand and grow, especially during economic recessions or shocks. The needs of small businesses may fall in areas that are not immediately obvious, such as enabling their access to affordable broadband for online retail or learning how to apply modern, IT-enabled point-of-sale technology to a retail business.

Small-business assistance is essential to stabilize key employers at risk of closure and catalyze more equitable local economies. With continuous planning and the right financial and technical assistance, small businesses can improve their ability to adapt to changing economic conditions, establish a path for sustainable growth, and generate quality jobs that are accessible to all segments of the jurisdiction.

Understanding the Broad Scope of Small Business Needs

While small businesses are generally grouped together, it is important to remember that the term represents a diverse segment of a jurisdiction's economy: it can be a 15-person landscaping company or 150-person software firm. Civic leaders need to continuously work closely with local businesses, community-based organizations, and residents to understand the obstacles that small business owners face and identify specific assistance they need. This helps ensure that interventions are targeted at the sectors with the most potential for cultivating high-quality jobs accessible to local labor markets and tailored to address the actual needs within a jurisdiction and/or neighborhood.

LMA LMC SBA !

Eligible Activities

Small business assistance is eligible as a special economic development activity (24 CFR 570.203). Special economic development activities can be broad and flexible in how they are implemented by the grantee. Activities may include:

- Providing direct financial aid in the form of loans, grants, loan guarantees, and other types of financial instruments to assist private, for-profit businesses.
- Providing technical assistance to help owners improve their business acumen and develop more resilient service-delivery models.
- Working with local nonprofit organizations such as Community Development Corporations (CDCs), Small Business Development Centers (SBDCs), and Service Corps of Retired Executives (SCORE) to carry out these types of activities. The Federal Reserve noted that nearly 80 percent of Black and Asian-owned businesses reported that they were in weak financial shape (compared to 54 percent of white-owned businesses).

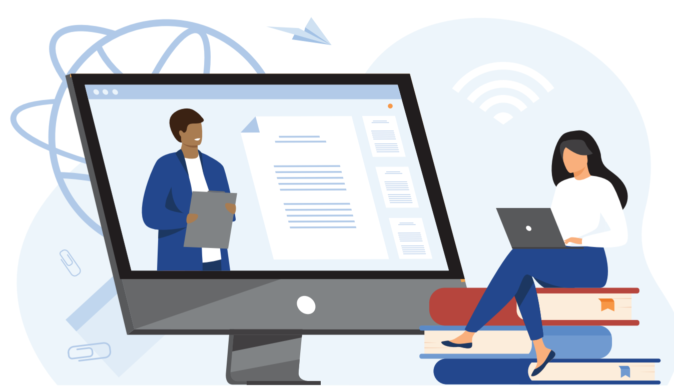
Considerations for an Equitable Economic Recovery

For decades, traditional business lending approaches have used risk assessment models that made it difficult for Minority and/or Women Business Enterprises (M/WBE) and startups to access resources and support. Economic shocks tend to exacerbate this disparity among small business owners. According to the Cleveland Federal Reserve Bank, for example, the number of Black business owners decreased by 41 percent between winter and spring of 2020 due to the COVID-19 pandemic, compared to a 17 percent drop in white business owners.

Further, government programs and other mainstream funding sources meant to assist small business owners in these moments of crisis have often bypassed those businesses hit hardest. As noted previously, the first round of Paycheck Protection Program (PPP) funding included in the COVID-19 recovery package heavily skewed to white-owned businesses. A year into the pandemic, a study by the Federal Reserve noted that nearly 80 percent of Black and Asian-owned businesses reported that they were in weak financial shape (compared to 54 percent of white-owned businesses).

To address these discrepancies, local leaders may target additional small business support to counteract the uneven effect on M/WBEs, and those businesses located in low- and moderate-income (LMI) neighborhoods. When planning such a program, grantees can work collaboratively with members of the target community and partner with local nonprofits and other community-based organizations to establish effective needs-based program priorities.

With thoughtful, intentional investment, grantees can ensure all small businesses can recover from economic shocks and that they – and the local community – remain competitive and participate fully in currently unfolding economic trends, such as green-job creation.



Education illustration vector created by pch.vector - www.freepik.com

Funding Opportunities

Successfully applying for and being awarded business assistance can be complicated and time consuming – two factors particularly challenging for small businesses. Small business owners are often deterred from participating in assistance programs when the time commitment to apply seems to outweigh the level of assistance they could receive. To address this concern, grantees can identify all funding sources available and leverage each source to ensure the needs of small businesses are being met. Grantees should also consider funding opportunities that can be used to provide technical assistance to potential applicants to ensure a more inclusive applicant pool.

Specific funding opportunities may include but are not limited to:

- American Rescue Plan (ARP) funding such as programs for Restaurant Revitalization and Economic Injury grants and loans
- Community Development Finance Institutions (CDFIs) including not just loan programs but associated technical assistance
- SBA loan funds and SBA-guaranteed bank loans
- Small Business Innovation Research and Small Business Technology Transfer program for small businesses to engage in federal research/research and development
- Economic Development Administration
- Department of Health and Human Services
- National Endowment for the Arts – Challenge America
- State, county, and municipal economic development offices or authorities that may have capacity to make grants or loans, often identified through their membership in statewide economic development associations or councils
    - Small Business Development Centers (SBDCs)

Getting Started

Key Design Considerations:

- Survey area businesses to understand financing, training, and technical assistance gaps.
- Map existing programs that have either served or continue to serve the business community to identify programs that can either be expanded or modified to align with community needs
- Identify other available funding to layer or leverage with Community Development Block Grant (CDBG)/ CDBG-CV assistance such as private lending from local commercial banks with or without SBA enhancements.
- Partner with groups (including local banks) that have a defined focus on a local business corridor or on entrepreneurs from a specific background (e.g., women, minorities, immigrants, veterans, the disabled) to promote the small-business assistance program and support applicants through the process.
- Understand and connect with the broader regional economic development strategy that is driving opportunity for small-business development.

Program Examples

- Establish grant or loan programs for existing businesses to expand point of sale systems and to provide more web- and app-based services to clientele.
- Provide architectural consults and corresponding rehabilitation grants to businesses to meet changing clientele demands or to ensure compliance with local public health requirements.
- Provide loans to businesses for working capital to expand operations and purchase supplies or equipment.
- Convene cohorts of businesses to promote peer-to-peer exchanges.
- Align and coordinate businesses located in the same commercial area to co-market and promote activities and services.

Additional funding resources available directly to businesses include, but not limited to:

- Federal Express Small Business Grant Contest (FedEx has been holding this contest since 2012)
- Inclusive Backing – Main Street America by American Express

As with all applications, it is important to read through the eligibility and application process of each grant. Some sources are primarily for small businesses, while others may be applicable if the initiative is aligned with the funding source's mission.

Case Study
Women's Economic Ventures

In Santa Barbara, California, the city identified that nearly 30 percent of all businesses in the county were owned and operated by female entrepreneurs and more than 10 percent of the region's business were retail establishments. To support these businesses and expand operations and competitiveness, Santa Barbara offered a 14-week Self Employment Training program. Participating businesses also had access to the Women's Economic Ventures Small Business Loan Fund, originally seeded with CDBG funds and matched by local banks. Through this program, Santa Barbara has diversified and expanded the local economy.

- Santa Barbara, CA
- Projects with similar components could be eligible under the following National Objectives: LMC, LMA, LMJ, U/N, SBA
    - Matrix Code: 18B, 18C
- Projects with similar components could be eligible under the following Eligible Activities: Special Economic Development Activity (24 CFR 570.203(a); 24 CFR 570.203(c); 24 CFR 570.201(o)).

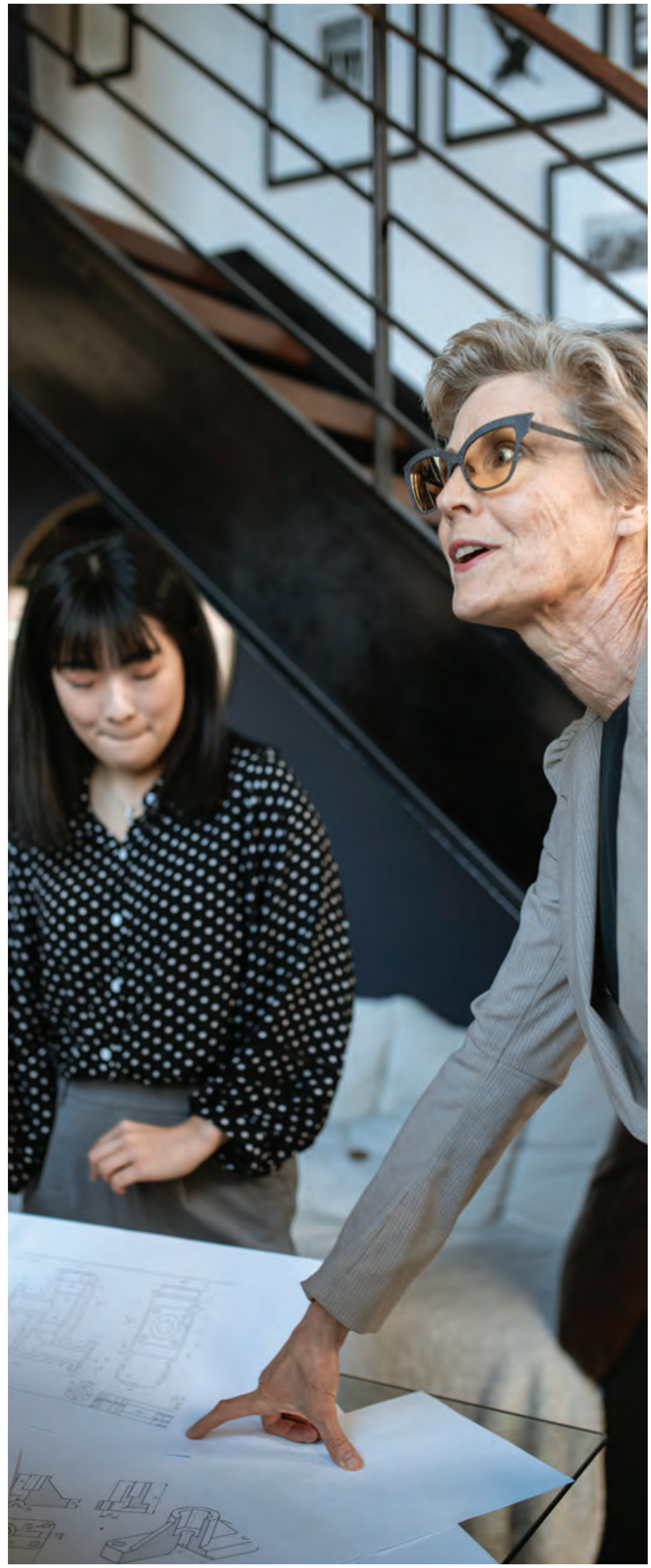


Photo by RODNAE Productions from Pexels

Microenterprise

Overview

According to the U.S. Census Bureau, microenterprises - defined by HUD as having five or fewer employees (including owners) – comprise 92 percent of all business in the United States. Supporting the creation of sustainable microenterprises is one of the fastest routes to create wealth among the people who start them. Research also shows that microenterprise entrepreneurs are job creators, most commonly for people in their own neighborhoods.

Further Reading

Grantees interested in more detail on specific steps to follow and ways to stay in compliance with HUD regulations should consult the linked Small Business and Microenterprise Implementation Guide.

Photo by RODNAE Productions from Pexels

Like small businesses, the range of microenterprises is broad, spanning retailers, contractors, child-care providers, restauranteurs, caterers, specialty food producers, artisanal designers, and specialized manufacturers – even certain high-tech startups. What every microenterprise has in common is difficulty raising startup and working capital from conventional sources because they often lack the collateral necessary to secure traditional financing. Instead, they need to engage with entities that deeply understand the microenterprise sector and are willing to both finance new startups and provide them with critical technical assistance on managerial and operational issues.

Many microenterprises were hit especially hard by the COVID-19 pandemic because they lacked the reserves to adapt to rapidly changing conditions, and were often unable to take advantage of recovery programs (like the Paycheck Protection Program (PPP)) that required careful documentation and access to banking institutions. This experience was devastating for many microenterprise owners, but not unique to the pandemic; it often happens when natural disasters strike or after sudden economic downturns.

In addition to financing challenges, microenterprises are often owned by inexperienced entrepreneurs who may be entering a new field or specialty. Practical startup assistance, like instruction and mentoring in entrepreneurship, marketing, legal issues, real estate, and accounting, is often equally applicable to both high-tech and community-based microenterprises and can be provided in an incubator setting or on an out-call basis.

Proactively equipping these microenterprise entrepreneurs with tailored management and technical assistance, offering non-traditional financing, and connecting them to local networks of decision-makers significantly improves the probability of both their short-term survival after a crisis and their long-term competitiveness. In addition, strengthening specific microenterprises can have a ripple effect on the surrounding neighborhood, as it reflects positively on the area as a good place to start and run a business, and attracts further investment.

LMA LMJ

Eligible Activities

- Microenterprise assistance (e.g., loans, grants, technical assistance, or coaching)
- General supportive services to owners of microenterprises and persons establishing microenterprises including childcare, transportation, counseling, and peer support groups
- Special activities of a Community-Based Development Organization (CBDO) that may offer financing

Getting Started

Key Design Considerations:

- Partner with community colleges and incubators to identify potential entrepreneurs and start-up businesses.
- Revise zoning codes and licensing to allow for more flexibility for at-home business startups such as residential kitchens.
- Provide training and support to assist businesses in applying for the program.
- Leverage Main Streets, Chambers of Commerce, and other trade association groups to market and promote the program.

Program Examples

- Provide low-interest loans or microgrants to microenterprises operating in low- and moderate-income (LMI) neighborhoods to acquire supplies, equipment, and product.
- Collaborate with the local business associations to facilitate a coaching series for individuals interested in entrepreneurship.
- Connect businesses with coaches to identify specific needs such as marketing, budgets, or supply chain management and provide ongoing technical assistance to address those needs.
- Provide small at-home businesses with affordable access to city-owned or leased storefronts to formalize their operations and grow their business and clientele.
- Stand up and operate a “makerspace” with traditional and advanced manufacturing tools, where creative and artisanal entrepreneurs can produce low-run volumes of new products.

Considerations for an Equitable Economic Recovery

According to the Federal Reserve Bank of Chicago, LMI and non-LMI neighborhoods have a similar rate of microbusiness formation. However, there are higher percentages of microenterprises in LMI neighborhoods, and these businesses tend to have lower revenue than their counterparts in non-LMI neighborhoods. Traditional lending practices have historically made it difficult for microenterprises to access startup or growth capital to facilitate expansion and hiring; this challenge has been exacerbated for historically disadvantaged residents and neighborhoods, and LMI neighborhoods. Identifying and supporting successful microenterprises as they grow is an important way for grantees to show traditional financial institutions that community entrepreneurs can be a good investment, which will create opportunities for growth among other microenterprises in the future.

Grantees can take several key steps when focusing support on microenterprises that have received less investment historically. Outreach to microenterprises about financial assistance, mentoring, or other available support should be done by trusted organizations within the target neighborhood or by organizations with diverse and inclusive boards and management teams. Grantees should select venues for outreach that are geographically convenient to neighborhood entrepreneurs, translate materials into languages commonly used in the community, and host virtual events that are accessible by smartphone (and confirm that access is not inhibited by inadequate broadband connectivity). Finally, mentors assigned to microenterprises receiving assistance should be leaders from the surrounding community who have themselves built durable businesses.

In moments of recovery, grantees also have an opportunity to connect microenterprises with local anchor institutions by encouraging government agencies and neighboring "eds & meds" (i.e., universities and hospitals) that have large procurement budgets, to view neighboring microenterprises as preferred suppliers of needed products and services. In addition to steady business, these agencies and institutions can offer feedback on products, operations, and potential expansions. By teaching microenterprises how best to serve the existing and anticipated purchasing needs of these larger institutions, these partnerships help improve the long-term competitiveness of the microenterprises.

Funding Opportunities

The startup financing needs of community-based microenterprises are nearly always better served by entities operating outside of the formal financial sector. All efforts to provide management and technical assistance to microenterprises can involve intermediary CBDOs, colleges, or universities that have support from federal or state agencies for such services including but not limited to:

- Community Development Finance Institutions (CDFIs) recognized and sponsored by the U.S. Department of the Treasury are efficient and experienced lenders comfortable with the microenterprise sector.
- Other state, regional, and locally-funded economic development organizations, such as community banks and credit unions, chambers of commerce, and other nonprofits which have the capacity to make micro-grants or loans.
- CBDOs actively working in the community that can take advantage of special activity eligibility under the CDBG regulations.
- Public or nonprofit entities working directly with businesses.
- Small Business Development Centers (SBDCs) funded by the Small Business Administration (SBA) and states represent the best-known and most-experienced network of technical assistance providers. The SBA also funds a network of Women's Business Centers and other resources.
- The Minority Business Development Agency (MBDA) in the U.S. Department of Commerce likewise funds a network of technical-assistance centers focused squarely on the needs of businesses owned by members of minority and underrepresented groups.
- Procurement Technical Assistance Centers funded by the U.S. Department of Defense and Small Business Transportation Resource Centers funded by the U.S. Department of Transportation help microenterprise owners compete for government procurement opportunities.
- Manufacturing Extension Partnership (MEP) centers funded by the U.S. Department of Commerce and the states focus specifically on helping manufacturers, including artisanal manufacturers that classify as microenterprises, become and stay competitive.

Regulatory Context

- The Public Benefit Standard and Underwriting Requirement is not applicable to microenterprise activities if funded under Microenterprise §570.201(o). Therefore, CDBG assistance programs aimed strictly at microenterprises can be far simpler to operate than traditional economic development initiatives.
- For additional regulatory resources, please refer to the Microenterprise Assistance Toolkit on HUD Exchange and the Microenterprise and Small Business Implementation Guide.

Case Study

Latino Economic Development Center

A collaboration between Bon Secours Community Works, Kaiser Permanente, and the Latino Economic Development Center (LEDC) provides local entrepreneurs with one-on-one business advice and coaching, consulting services, financial support, and intense business training. Participants also have access to LEDC's microloan program that offers loans from $500 to $250,000. Participants to the program must be within an eligible low-income census tract, be minority-owned, and have been providing services for two years. There is no cost for this program due to the mix of private funding from Kaiser Permanente and Bon Secours. LEDC's microloan program receives primary funding from the U.S. Small Business Administration.

- Baltimore, MD
- Projects with similar components could be eligible under the following National Objectives: LMC, LMA, LMJ, U/N, SBA
    - Matrix Code: 18B, 18C,
- Projects with similar components could be eligible under the following Eligible Activities: Microenterprise Assistance; Special Economic Development Activity (24 CFR 570.203(a); 24 CFR 570.203(c); 24 CFR 570.201(o)).

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Business Incubators

Overview

Business incubators are specially designed programs to help young startups innovate and grow. They usually provide workspaces, mentorship, education, and access to investors for startups or sole entrepreneurs. While incubators don't typically offer financing, they foster a supportive environment that can enhance businesses' management, leadership, and operational capacity.

Photo by Christina Morillo from Pexels

Well-managed business incubators focus on helping new startups stay competitive by providing the training, mentoring, and connectivity to customers that allows them to thrive in the marketplace. By focusing business assistance in a single place, they make neighborhoods more competitive for investment, both by improving the management of specific enterprises and by signaling more broadly that nearby small businesses and microenterprises will receive all the resources and support they need to succeed. In this sense, incubators provide a comprehensive business-support ecosystem for a community.

Successful business incubators share several common characteristics, including:

- A written mission statement
- Selection of tenant-clients based on fit with that mission
- Clients' specific needs for mentoring and support reviewed at entry
- Ability to showcase clients to the community of potential customers
- A realistic plan for collection of rents and service fees

- In too many cases, incubator sponsors stress the availability of low-cost space above everything else and fail to budget or plan for instruction and mentoring that teaches owners of small businesses and microenterprises how to start, operate, and grow. An incubator without such programming may attract businesses with low potential, or even worse, stand largely empty.

To create the most dynamic and successful program, incubator sponsors should provide their tenants with meaningful ways to engage with the broader community. Incubator advisory boards should feature incubator graduates, professional services staff (e.g., accountants or lawyers), government or institutional purchasing departments staff, and economic-development specialists.

Anchor tenants are key players in a successful business incubator and can fulfill several roles. Obviously, local entrepreneurs will become anchor tenants. But incubator sponsors should also recruit established firms that already work with entrepreneurs. This could include providers of micro-financing or government-funded programs that offer small companies insight into selling their products and services to large businesses or institutions.

Anchor tenants can also run customized job training programs that strengthen the skills of the local labor pool and increase the neighborhood's competitiveness. Having an anchor tenant that operates customized job training programs (e.g., coding academies that offer intensive instruction in modern computer languages) can also increase the neighborhood's competitiveness by strengthening the skills of the local labor pool, an important benefit to residents and other employers.

While many community-based incubators focus on helping startups that offer business-to-business services, some also work to improve the competitiveness of aspiring retail entrepreneurs. For example, incubators with test kitchens for rent can help home-based caterers evolve into full-time businesses or manufacturers of specialty foods that will rent commercial space and hire employees. Business incubators can also teach best practices in managing restaurants before the entrepreneur makes the investment of opening one, increasing the likelihood of its success.

How an incubator can build a strong business-support ecosystem

Just as a healthy biological ecosystem includes everything needed by a wide diversity of living species, a strong business-support ecosystem includes the resources necessary for many types of entrepreneurs to build a thriving business. Depending on the assets already in place in the community, a business incubator may be ideally situated to supplement the community's existing business-support ecosystem with access to the following:

- Mentoring, instruction, and technical assistance provided by experts on how to finance, build, and manage a successful business.
- Connections to potential customers whose organizations or agencies need products or services that the entrepreneur can provide for sale.
- Peer advice from better-established entrepreneurs who are farther along in business-building and are willing to share hard-won knowledge with incubator co-tenants.
- Specialized facilities needed by certain kinds of business that would be too expensive for any individual firm but which can be shared via the incubator.

Sandy vector created by vectorjuice - www.freepik.com

LMA LMJ

Eligible Activities

- Acquisition of real property for use as an incubator by grantee or subrecipient
- Improvements of existing structures for use as business incubators
- Special economic development activities including:
    - Commercial or industrial improvements to the building housing the incubator
    - Economic development services operated by the incubator for its clients
    - Microenterprise assistance (see separate section)
    - Special activities of Community-Based Development Organizations (CBDOs) that may operate the incubator or serve as an anchor tenant offering services to tenant-clients

Considerations for an Equitable Economic Recovery

The U.S. Small Business Administration Office of Advocacy published an FAQ in October 2020 citing that between 1994 – 2018, 67.6 percent of new businesses survived at least two years. For the same time period, 48.8 percent survived the five-year mark. When the pandemic first hit, businesses with between 20 to 49 employees saw the largest employment decline of any group. Black-owned businesses saw nearly three times the decline. Given how fragile businesses are when they first start, incubators are well positioned to help develop the skillset of local business owners and the potential of these early-stage businesses. Both strategies can result in increased employment opportunities, either by providing sufficient professional development to an early entrepreneur to pursue an advanced career or for the business itself to grow and create jobs.

A vibrant business incubator that is helping new startups be more competitive is itself an advertisement for a community that may have suffered from disinvestment or under-investment over decades. Seeing entrepreneurs succeed encourages others considering the same path and attracts the attention of bankers and service providers who may have previously neglected the community.

Getting Started

Key Design Considerations:

- Partner with trade associations and industry groups to identify target business types for incubator programs.
- Identify underutilized buildings to convert to incubator spaces.
- Budget for management and technical assistance services as an integral part of any physical incubator.
- Recruit anchor tenants like Community Development Finance Institutions (CDFIs) and other entities that can provide microfinancing and/or technical assistance to tenants.

Program Examples

- Provide business coaching and expert coaching to participating businesses.
- Support microenterprises in growing industries such as solar panel installation to grow and expand operations.
- Establish a maker's space for crafts or light/specialized manufacturing entrepreneurs to grow and expand operations.
- Rehabilitate a vacant building in the downtown corridor to house small, growing businesses.
- Help participating businesses navigate city and state business registration processes as, Minority and/or Women Business Enterprise (M/WBE).
- Broker connections between incubator tenant firms and the purchasing needs (in both goods and services) of local government and large nonprofit institutions.

One strategy to amplify the reach of an incubator is to design programs that serve not just the companies physically residing in the incubator, but entrepreneurs throughout the neighborhood who may use these supportive services on a "drop-in" or "on-call" basis. This expands the scope of the incubator and helps local entrepreneurs – who may not have the same formal education and work experience as many high-tech start-up staff – develop core skills for successful business management. These types of initiatives will help community entrepreneurs reach customers faster with less risk and ensure their long-term sustainability.

For high-tech incubators, research has shown that diverse recruitment and selection mechanisms – combined with the intentional design of programs for M/WBEs – can improve inclusion of entrepreneurs from these populations.

Business incubators are catalysts, but they must be connected. Incubators that open in communities adjoining universities or hospitals ("**eds & meds**") link their clients with the enormous purchasing power of these large institutions. While these "eds & meds" may be focused on advanced science or biomedicine, they each still need local services – catering, janitorial, landscaping, bookkeeping, and mechanical contracting support – from the type of microenterprises (or small businesses) represented in many community-based business incubators. Building these connections will also help build a healthy business ecosystem in a community.

Funding Opportunities

Federal agencies such as the U.S. Economic Development Administration (EDA) and certain regional development authorities may fund the capital costs of opening business incubators. Each region that receives EDA funding has an EDA-recognized **Comprehensive Economic Development Strategy (CEDS)** that grantees should reference to see if their plans qualify for support based on these strategies. Many but not all regions of the country are covered by EDA-designated **Economic Development Districts (EDDs)**, which maintain their respective regional CEDS documents. The EDA website includes a **list of all recognized EDDs**.

Other potential sources of operational funding include but are not limited to:

- State or county economic development financing agencies.
- Banks or other service businesses that may contribute either through a charitable donation or as a marketing sponsorship.
- Philanthropic foundations that may either make grants or below-market-rate loans as a **Program Related Investment** in the entity constructing the incubator.
- While not a funding source, there are several categories of technical-assistance centers funded by other federal agencies whose regional satellite offices will make excellent anchor tenants for community-based incubators, because they can assist entrepreneurs to become more competitive:
    - Small Business Development Centers (SBDCs) funded by the Small Business Administration (SBA) and states represent the best-known and most-experienced network of technical assistance providers; it also funds a network of Women's Business Centers. The SBA publishes a **complete list** of regional and district offices and a **search tool** for other funded resources.
    - Procurement Technical Assistance Centers (funded by the U.S. Department of Defense) teach entrepreneurs how to meet government and institutional procurement requirements, including, where appropriate, seeking certification as M/WBE. A nonprofit association of these centers maintains a **complete list**.
    - Small Business Transportation Resource Centers (funded by the U.S. Department of Transportation (DOT)), which focus on procurement in the transportation-infrastructure sector. The U.S. DOT lists these **centers by region**.
    - The Minority Business Development Agency (MBDA) in the U.S. Department of Commerce likewise funds a network of technical-assistance centers focused squarely on the needs of businesses owned by members of minority and underrepresented groups. MBDA maintains a list of these **centers by state**.

- Manufacturing Extension Partnership (MEP) Centers (funded by the National Institute of Science and Technology and state governments) whose focus includes making small manufacturers more competitive. Localized information is available from MEP offices in each state

Regulatory Context

Depending on the structure of the business incubator program, certain regulatory requirements will or will not apply. If assistance is provided to businesses within the incubator, the requirements for microenterprises or small business assistance would apply. If assistance is provided to the incubator itself, the incubator would be subject to public benefit standards and underwriting requirements. See the microenterprise section of this Toolkit and the Microenterprise and Small Business Implementation Guide for further detail on regulatory requirements for microenterprises.

Case Study

TechTown

The TechTown incubator in Detroit, Michigan represents an excellent model for equitably assisting many types of entrepreneurs out of the same facility and often with overlapping programming. The 135,000 square-foot incubator was founded by Wayne State University, a research university that regularly spins out high-tech startups that reside in the incubator as the anchor tenant. However, TechTown also offers programming (and residency, where appropriate) to community-based entrepreneurs, including a retail bootcamp, a monthly pop-up marketplace, and assistance in applying for loans from CDFIs and banks. Overall, TechTown has served more than 4,500 companies across Detroit, Hamtramck, and Highland Park – many of them community-based small businesses or microenterprises.

- Detroit, MI
- Projects with similar components could be eligible under the following National Objectives: LMC, LMA, LMJ, U/N, SBA, SBS
  - Matrix Code: 18B, 18C,
- Projects with similar components could be eligible under the following Eligible Activities: Microenterprise Assistance; Special Economic Development Activity (24 CFR 570.203(a); 24 CFR 570.203(c); 24 CFR 570.201(o)).

Photo by fauxels from Pexels

Commercial Rehabilitation

Overview

Commercial rehabilitation can be implemented to rehabilitate publicly- or privately-owned commercial or industrial buildings and, when carried out under 24 CFR 570.202 of the entitlement Community Development Block Grant (CDBG) regulations, is limited to façade improvements and getting existing structures up to code (for more information on commercial redevelopment, refer to the accompanying **Implementation Guide**). The rehabilitation of a single building is an effective tool for a business to improve its own performance, but it can also catalyze neighborhood- or city-wide growth. When a business updates the appearance of its own building through a commercial rehabilitation program, it demonstrates to its patrons that it cares about the community. This often spurs similar interest in rehabilitation from neighboring businesses, resulting in a revitalized corridor, more competitive business environment, and job growth.

Further Reading

Grantees interested in more detail on specific steps to follow and ways to stay in compliance with HUD regulations should consult the linked **Commercial Rehabilitation Implementation Guide**.

Credit: Photo via HUD's Flickr account

With this outcome in mind, a commercial rehabilitation program can try to maximize its impact by focusing efforts on multiple buildings within a small target area or neighborhood. This broader approach also allows for the incorporation of common neighborhood themes or design guidelines to create an inviting environment that resonates with the local community. These strategies include having common architectural elements or an architectural theme, specific colors or color palette for the target area, common signage, or incorporating public art such as murals on exterior building walls. All of these strategies help to delineate the neighborhood and offer a soft branding that will attract patrons and new businesses.

Grantees should strategically invest funds to revitalize neighborhoods that suffer from high levels of unemployment by addressing conditions of deterioration or transforming a strategic economic core of the city, such as a downtown area. The financial assistance offered to improve the exterior of buildings – especially in concentrated and targeted areas – can increase business, resulting in new employment opportunities. Grantees may find it beneficial to couple commercial rehabilitation with other broader forms of business assistance in the identified target area.

LMA LMJ SBA SBS

Eligible Activities

Assistance for the rehabilitation of commercial or industrial buildings may be provided to nonprofit or for-profit entities. Projects targeted at buildings owned by a private for-profit business are limited to improvement to the exterior of the building, abatement of asbestos hazards, lead-based paint hazard evaluation and reduction, and the correction of code violations. Any other improvements must be carried out under the special economic development category. Improvements to properties owned by nonprofits have greater flexibility as authorized under 24 CFR 570.202.

Considerations for an Equitable Economic Recovery

Recent research by the U.S. Department of Commerce's Minority Business Development Agency found that minority-owned firms create jobs at similar rates to non-minority firms, but the job growth potential of minority-owned firms is hampered by a lack of access to financial capital that constrains the growth of minority small businesses. Minority-owned firms receive smaller loans and are more likely to be denied loans when compared to non-minority businesses, resulting in lower working capital for these businesses and limiting their ability to pay for and maintain commercial improvements.

This makes it difficult for these businesses to remain competitive with improvements such as upkeep, facade rehabilitation or necessary ADA accommodations. Such discrepancies in access to working capital limit a business's ability to complete necessary improvements to remain competitive, including upkeep and rehabilitation to the company's façade, completing necessary ADA improvements, or addressing older buildings that may still have asbestos insulation or lead-based water pipes – potentially impacting the health of employees and clientele.

Given this context, grantees can prioritize commercial rehabilitation programs in areas where there is a geographic concentration of Minority and/or Women Business Enterprise (M/WBE) and then engage in inclusive outreach to ensure active participation of all eligible business owners within the program.

Getting Started

Key Design Considerations:

- Target activities in a small geographic area to maximize the overall impact on businesses.
- Map community assets that can be leveraged.
- Identify historically disadvantaged commercial areas for program investment.
- Facilitate workshops with business owners to gain input on potential design concepts and promote the program.

Program Examples

- Target commercial corridors to provide façade improvements and updates to the businesses' exteriors.
- Incentivize businesses to make Americans with Disabilities Act (ADA) improvements to improve accessibility to individual businesses and commercial centers.
- Provide grants to businesses to encourage historic preservation of storefronts and exteriors of older commercial buildings.
- Conduct street fairs or other activities after façade improvements are completed in a commercial corridor to celebrate the local businesses.

Funding Opportunities

CDBG funding is the primary source of financing for these programs. Funding can take place in the form of a grant, loan, or a combination of the two. Generally, business owners participating in a commercial rehabilitation program do not have the capital to make regular payments on a loan, so loan programs can be designed to ensure that repayment is not burdensome for the recipient business.

- Section 108 Loan Guarantee Funds
- Other local resources such as Community Redevelopment funds or local "Main Street" programs
- Small Business Administration loan funds
- U.S. Department of Agriculture Rural Business Development Grants

Regulatory Context

The Public Benefit Standard and Underwriting Requirement is not applicable to rehabilitation activities if funded under Commercial Rehabilitation §570.202(a)(3)).

W/MBEs

U.S. minority business enterprises (MBEs) owned and operated by African Americans, Asian Americans, Hasidic Jews, Hispanic Americans, Native Americans, and Pacific Islanders.

https://www.mbda.gov/who-we-are/overview

Case Study

Southern Motion Expansion New Albany

In 2020, the Mississippi Development Authority provided $1.5 million in CDBG funds to support the rehabilitation of a publicly owned industrial building and truck loading yard in New Albany, Mississippi. With an expected project completion date of November 2022, the improvements will allow a regional upholstered furniture manufacturing company to expand its operations to New Albany, creating 125 net new jobs for low- to moderate-income residents. The City of New Albany and Union County are supporting the project with eligible property tax exemptions. The $3.7 million project combines the $1.5 million in CDBG funds with more than $2.0 million in private capital as well as $150,000 in other public funding.

- New Albany, MS
- Projects with similar components could be eligible under the following National Objectives: LMA, LMAFI, LMASA, LMC, LMJP, SBA, SBS, SBR, URG
    - Matrix Code: 14E
- Projects with similar components could be eligible under the following Eligible Activities: Rehabilitation: Publicly or Privately Owned Commercial/Industrial (24 CFR 570.202(a)(3)).

Photo by Pixabay from Pexels

Commercial Development

Overview

Commercial development often blends multiple funding streams to produce transformative impacts in a community by creating new job centers, economic zones, or retail and cultural hubs. Key investments can be catalysts for permanent job creation, lift wages, and transform neighborhoods. The most effective commercial developments will have positive economic impacts on surrounding businesses, creating further job growth. This can positively impact neighborhoods and communities through beautification, increased variety of local stores, and infrastructure improvements.

Image by F. Muhammad from Pixabay

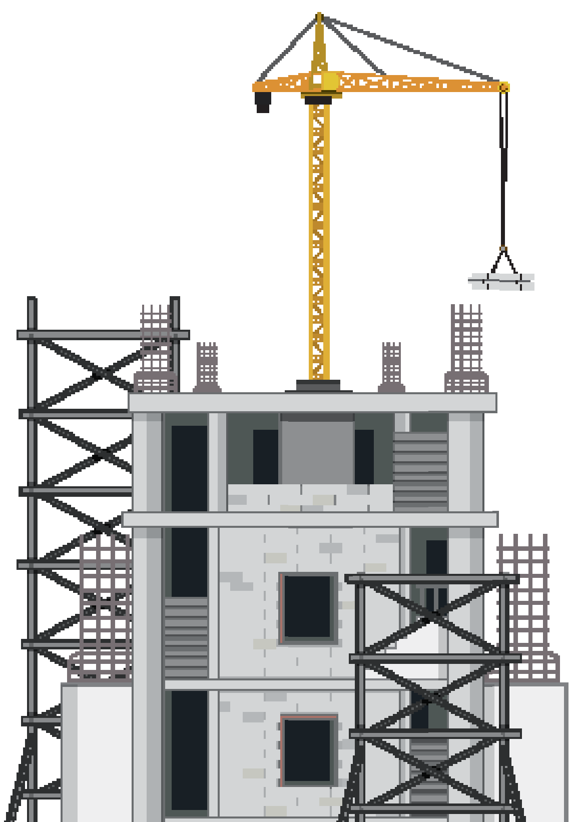
As businesses continue to adapt their operations for a post-COVID-19 world, grantees will be presented with opportunities for creative re-use of spaces in downtown and commercial corridors. Community Development Block Grant (CDBG) assistance can be a valuable tool to both rebuild these spaces into various uses (e.g., mixed-use developments or retail/cultural hubs) and ensure that the growth meets the surrounding community's needs.

Given the potential cost of commercial development and the opportunity for transformational changes in communities, careful planning and coordination is critical and should be ongoing throughout the project life. Communities should ensure that planning committees include the voices and opinions of a diverse range of stakeholders, as well as adapt to changes, so that all interested and affected parties are heard during the planning process, and solutions can be designed with their priorities in mind.

LMA LMC LMJ SBA SBS !

Eligible Activities

- Commercial development activities are most frequently funded as a special economic development activity or through a [Community Based Development Organization (CBDO)](#).
- Special economic development activities provide funding directly to the business through a loan, loan guarantee, grant, or any other form of support for which assistance is appropriate to carry out an economic development activity. Given this flexibility, businesses may use this funding for a range of activities including construction, renovations, new equipment, or other working capital needs.
- If a CBDO is engaged for the activity, it can provide additional flexibility in program requirements. The CBDO can partner with grantees to support neighborhood revitalization activities such as renovating a commercial center or supporting community economic development activities that will primarily employ low - and moderate-income (LMI) residents of an area.



Clip art vector created by brgfx - www.freepik.com

Getting Started

Key Design Considerations:

- Align businesses with local community colleges or job training programs to feed job creation activities.
- Develop a community asset map identifying all key assets such as, but not limited to: access to transportation, community history, anchoring institutions, and green space.
- Create an inventory of underutilized or vacant buildings and lots within jurisdiction limits.
- Require green building or sustainable design elements.
- Identify projects that create a sense of community.
- Target projects that will enable existing business owners to remain in the community and counteract the impacts of gentrification.
- Consider policies that would limit the displacement of existing residents and businesses in the neighborhood being developed.

Program Examples

- Development or rehabilitation of a shopping center in a growing area of the community
- Expansion of manufacturing or industrial plants to support job growth and increased competitiveness
- Adaptive re-use of a vacant or underutilized building to create mixed-use developments
- Promotion of pedestrian plazas or main streets as part of redevelopment activities

Considerations for an Equitable Economic Recovery

Commercial development almost always creates jobs and expands business opportunities. As grantees consider taking on these projects, they can prioritize anchoring them in LMI neighborhoods and/or historically disadvantaged neighborhoods. However, these projects are best when designed to meet and serve the needs of the existing neighborhoods and jurisdictions. Grantees should be aware of the potential adverse impacts of commercial development, redevelopment, and rehabilitation. Such an investment in the community has the potential to catalyze a transformation of the community that may cause an out-migration of the original population, or displacement, due to an increased desirability of the redeveloped neighborhood. To address these risks, grantees may need to consider the issue wholistically by combining economic development activities and investments with anti-displacement policies for residents and businesses.

Strategies to achieve a more equitable outcome include carefully structuring agreements to ensure that community interests are reflected through neighborhood group engagement, local hiring policies, and community support; recruiting businesses that serve the needs of the local community; and hiring contractors (landscapers, engineers, HVAC, construction, etc.) from within the surrounding community (see note on Section 3). As part of the planning and implementation processes, grantees should continue to gather community feedback to ensure that the needs of the community are accurately accounted for and addressed through the activity. Further, grantees can offer technical assistance to ensure that businesses located in LMI neighborhoods are able to access and complete the application for commercial development funding and gather the requisite materials to support underwriting documentation. Commercial development can also address environmental justice concerns by revitalizing former industrial or brownfield sites and encouraging green and sustainable development.

Policies & Tools to Help Displacement

Some examples of policies and tools that help prevent displacement of residents and businesses:

- Inclusionary zoning
- Linkage fees or impact fees
- Local hiring requirements
- Property tax relief
- Preservation – specifically buying unregulated, rent stabilized (i.e. naturally occurring) affordable housing
- Prevention – tenant protections: eviction prevention, rent controls and tenant first-right-of-refusal policies
- Rapid re-housing
- Community land trusts; land banks
- Housing trust funds
- Homebuyer (down payment) assistance
- Foreclosure mitigation

https://www.mapc.org/resource-library/managing-neighborhood-change-anti-displacement-strategies-toolkit/

Given the impact of commercial development on job creation and expansion of business opportunities, technical assistance should be provided to ensure that businesses located in LMI neighborhoods or owned by LMI or historically disadvantaged residents have full access to the commercial development initiative. When considering opportunities for investment, grantees need to find a balance that prioritizes community needs while encouraging community growth and development without displacement. Business will often realize positive gains resulting from commercial development programs, so grantees can structure agreements to ensure that community interests are carefully considered and reflected through local hiring policies and community support.

Funding Opportunities

Commercial development activities are often significant investments and require blended financing between public and private financing, including resources such as Section 108. CDBG funds may be most effective when used as a revolving loan fund or for gap financing. Larger CDBG investments may be warranted if the project will have significant positive externalities.

Case Study

Chautauqua Harbor Hotel

The Village of Celeron, New York, received $750,000 in New York State CDBG Economic Development funds to support the development of a new destination hotel on waterfront property. The new 130,000 square foot facility includes 132 guest rooms, 8,000 square feet of event space, and seasonal outdoor food and beverage facilities. The project involved a partnership between the Village of Celeron, the New York State Office of Community Renewal and New York State Empire State Development. The $26.5 million project created 84 full-time jobs with more than 80 percent benefiting low- to moderate-income individuals. The $750,000 in CDBG funding was used for the purchase of furniture, fixtures, and equipment, and was combined with $1.9 million in other public funding and $23.9 million in private capital.

- Celeron, NY
- Projects with similar components could be eligible under the following National Objectives: LMA, LMAFI, LMASA, LMC, LMJ, LMJP, SBA, SBS, SBR, URG
    - Matrix Code: 18A, 17B, 17C
- Projects with similar components could be eligible under the following Eligible Activities: Commercial/ Industrial: Infrastructure Development, Construction (24 CFR 570.203(a)).

Photo credit: Steam Pipe Trunk Distribution Venue “KC Skyline from Ben's balcony on Main Street” via Flickr, per Attribution 2.0 Generic (CC BY 2.0)

Infrastructure

Overview

Reliable infrastructure is critical to support businesses, expand operations, attract talent, and create new, permanent jobs. Without a well-maintained road, a business isn't as likely to see as many customers; without high-speed internet, payment transactions may become unreliable. Infrastructure barriers like these can severely limit a business's growth, reducing the likelihood that it will sustain or create jobs in the surrounding community. Improved infrastructure can encourage entrepreneurs, business expansion, and business relocation to the region.

Photo by Life Of Pix from Pexels

Leveraging Community Development Block Grant (CDBG) funds to create or maintain a reliable infrastructure network provides existing businesses with the stability to increase activities and attracts new businesses to a community. Given the breadth of potential infrastructure projects possible in a jurisdiction, it is critical to carefully plan to identify neighborhoods or areas that will benefit from such an intervention. Further, planning will identify the specific needs in a targeted area for investment.

CDBG funds can be used to finance onsite infrastructure for activities aimed at improving the economic recovery and resilience of the neighborhood. And while CDBG can be an effective tool to improve or expand infrastructure to support business growth, it is rarely the only funding source in large-scale infrastructure projects. Given the likelihood of multiple funding streams, jurisdictions must always consider the requirements and needs of each potential funding source.

LMA LMC LMJ SBA SBS !

Eligible Activities

- Infrastructure activities for businesses are generally considered public facilities or public improvements activities and include:
    - Sewer improvements
    - Water improvements
    - Flood/drainage
    - Parking facilities
    - Street improvements
    - Sidewalk improvements
    - Private utility improvements
- Infrastructure activities may also include activities associated with community facilities, such as senior centers, childcare facilities, or parks and recreational areas.

Considerations for an Equitable Economic Recovery

Targeted infrastructure investments can produce significant community benefits – including jobs, business opportunities, access to transit, improved community resources, and quality affordable housing. Investing in modern infrastructure can serve as a lifeline for existing businesses to expand or add e-commerce options. Research shows that low- and moderate-income (LMI) neighborhoods are less likely to have access to high-speed internet, limiting business owners' ability to expand operations. Such infrastructure investments can provide critical support to these businesses. Grantees may consider requiring first-source hiring (such as Section 3 or Minority and/or Women Business Enterprise (M/WBE) for construction activities funded with the infrastructure program to further support M/WBE businesses through the activity.

Further, historically disadvantaged residents are more likely to be in neighborhoods that are more vulnerable to climate impacts and other environmental concerns, including pollution and other environmental hazards. Targeted infrastructure investments can help address these concerns and produce significant community benefits, including enhanced climate resiliency that better protects businesses and residents from growing and more frequent environmental threats.

Regardless of the type of infrastructure program, grantees should engage a diverse range of community stakeholders in all stages of the planning process, including the selection of target neighborhoods and critical investments. As a best practice, consider who bears the project costs, who benefits from the investment, and who experiences the environmental or market impacts of the project.

Getting Started

Key Design Considerations:

- Integrate and align activities with local Capital Improvement Plans and climate mitigation and resiliency strategies. (See the Office of Energy Efficiency & Renewable Energy Building America Solutions Center for additional construction tools and the Environmental Protection Agency Strategies for Climate Change Adaptation for additional strategies.)
- Focus on sustainability (see HUD's Community Resilience Toolkit and other resources on the HUD Exchange).
- Update and maintain growth strategies and plans.
- Assess jurisdiction's IT infrastructure and broadband access.
- Consult with key industries and businesses to understand infrastructure gaps preventing business expansion and job creation.

Program Examples

Infrastructure activities may not appear to directly impact economic growth similar to small business development or job training programs, but quality and appropriate infrastructure can enhance the efficiency of businesses and industries and improve the competitiveness of existing businesses.

- Expand sidewalks to allow pedestrian access to commercial areas.
- Expand flood and storm drainage systems in commercial areas.
- Install broadband internet in commercial districts.
- Expand water and sewer lines to support an extension of the business corridor.
- Widen roads and highways around a manufacturing plant to facilitate better access for trucks and larger vehicles.

Funding Opportunities

Infrastructure activities often come with a hefty price tag. Grantees can carefully consider project costs and structure assistance to leverage private contributions and align with other state and federal programs. Examples of potential federal funding sources include:

- Section 108
- American Rescue Plan funding
- Economic Development Administration Public Works program
- U.S. Department of Transportation RAISE/BUILD/TIGER Grants
- U.S. Department of Transportation Federal Highway Administration Surface Transportation Block Grant – Transportation Alternatives
- U.S. Department of Agriculture Rural Development Water and Environmental Program
- U.S. Department of Agriculture Rural Development Water and Waste Disposal Program
- U.S. Department of the Treasury New Markets Tax Credit

Regulatory Context

National Objective

- CDBG regulations allow for aggregation of jobs for activities that impact multiple business. For guidance on job documentation requirements when using CDBG for these activities see Chapter 3-24 of the CDBG Guide to National Objectives and Eligible activities.

Public Benefit Standard requirements are triggered by infrastructure projects that use either the LMI Job Creation/Retention or Slums/Blight Area National Objectives, where more than $10,000 per FTE job is spent. Please refer to the Appendix for more information.

Photo courtesy of mdt.mt.gov

Case Study

Sofidel Inola Oklahoma

In 2020, Rogers County, Oklahoma received $1.3 million in CDBG funds to work alongside tissue paper maker, Sofidel, to build new public water lines for Sofidel's 1.8 million-square-foot facility within the county, as well as create 256 jobs (91 percent of which were filled by low-to-moderate income individuals) with wages above the county average. Such funds were utilized to provide the necessary public infrastructure to support Sofidel's private investment opportunity. The project consisted of partnerships between Oklahoma Department of Commerce, Oklahoma Department of Transportation, Greater Tulsa Chamber, Public Service Company of Oklahoma, Oklahoma Natural Gas and Cherokee Nation. Additional funding support of $360,000,000 was provided in private funds from Sofidel as well as $961,646 in public funds from the Economic Development Administration.

- Rogers County, OK
- Projects with similar components could be eligible under the following National Objectives: LMA, LMAFI, LMASA, LMC, LMH, LMHSP, LMJ, LMJP, SBA, SBS, SBR, URG
    - Matrix Code: 03J
- Projects with similar components could be eligible under the following Eligible Activities: Water Improvement (24 CFR 570.201(c)).

Place-Based Programs & Policies

Overview

Programs targeted at federally designated zones are used to leverage and target investment in areas based on factors such as the number of households below a certain percentage of area median income (AMI), historic disinvestment, and/or high unemployment rates. Federal programs linked to these zones are designed to attract private investors, enhance economic performance, and increase affordable housing and/or commercial development, all of which are critical components in a community's economic recovery. HUD grantees can leverage zone-based programs to increase or unlock investment for specific types of projects.

Photo (Downtown Coldwater) courtesy of michigan.gov

With this outcome in mind, a commercial rehabilitation program can try to maximize its impact by focusing efforts on multiple buildings within a small target area or neighborhood. This broader approach also allows for the incorporation of common neighborhood themes or design guidelines to create an inviting environment that resonates with the local community. These strategies include having common architectural elements or an architectural theme, specific colors or color palette for the target area, common signage, or incorporating public art such as murals on exterior building walls. All of these strategies help to delineate the neighborhood and offer a soft branding that will attract patrons and new businesses.

Grantees should strategically invest funds to revitalize neighborhoods that suffer from high levels of unemployment by addressing conditions of deterioration or transforming a strategic economic core of the city, such as a downtown area. The financial assistance offered to improve the exterior of buildings – especially in concentrated and targeted areas – can increase business, resulting in new employment opportunities. Grantees may take on a more holistic approach to place-based development by coupling activities with targeted economic development strategies.

Neighborhood Revitalization Strategy Areas (NRSAs)

NRSAs are designated by Community Development Block Grant (CDBG) entitlement communities as a way to target CDBG resources to a certain neighborhood's revitalization efforts. To apply for NRSA designation, grantees must describe existing conditions of the neighborhood and submit a housing and economic strategy designed with community stakeholders. The neighborhood, as defined by specific geographic boundaries, must contain a majority percentage of low - and moderate-income (LMI) households to receive NRSA status from HUD. The HUD Exchange website includes a guide to NRSA resources.

NRSA designation allows for enhanced flexibility in both how CDBG and Section 108 Loan Guarantee Program funding can be used and the requisite reporting requirements, decreasing the administrative burden on the grantee. Program advantages include:

- All job retention and creation activities within an NRSA qualify as meeting the Low Mod Area Benefit National Objective requirement.
- Grantees may aggregate all single-family housing units in an NRSA to achieve the 51 percent LMI requirement.
- All economic development activities carried out in an NRSA can be excluded from aggregate public benefit standards.
- Public services implemented by community-based development organizations (CBDOs) are exempt from the 15 percent annual cap on funding going to public service activities.

NRSA designation can also help facilitate critical infrastructure investments. Examples of targeted neighborhood infrastructure include:

- Renewed public spaces, especially in LMI neighborhoods where the natural focal point has suffered from disinvestment or decay over time.
- Facilities to house programs that build civic capital, such as libraries, community centers, health clinics, and job-training and continuing education programs.
- Information infrastructure that gets a neighborhood closer to the national goal of universal, affordable broadband access for all, including LMI residents.
- Renovation of legacy industrial properties for artisanal or small-scale manufacturing (including food and beverage) that offer employment opportunities.
- Facilities in which outreach and technical assistance functions run by colleges or universities can get closer to the neighborhood and targeted audiences.
- In limited circumstances which demonstrate necessary and effective use of funds, participation in incentive packages offered to job-creating inward investment projects.

State CRSA

Units of general local government may establish Community Revitalization Strategy Areas (CRSAs) with many of the same benefits of the NRSA program to achieve substantial revitalization and economic opportunities through the state CDBG program.


CHAPTER 10: REVITALIZATION AREAS

CHAPTER PURPOSE & CONTENTS

10.1 Background

10.2 Benefits

Learn more here.

U.S. Department of Treasury Qualified Census Tracts (QCTs)

A Treasury QCT must have a majority (51 percent) of its households at 80 percent AMI or a poverty rate higher than 20 percent. Treasury QCTs are the only Census tracts where New Market Tax Credits (NMTCs) may be used (see below). Treasury distinguishes between distressed and severely distressed QCTs, the latter of which have poverty rates exceeding 30 percent. Find current Treasury QCTs here.

New Markets Tax Credits (NMTCs)

NMTC is a federal tax incentive administered and awarded by the Community Development Financial Institution (CDFI) Fund in the Department of Treasury. It is designed to incentivize community and economic growth through private investment in mixed-use and small business real estate projects by reducing the income-tax liability of private investors. This program uses Community Development Entities (CDE) as funding intermediaries to aggregate projects in a Treasury QCT. Billions in tax credits are awarded to CDEs, which then transfer the credits to private investors to encourage their investment in real estate projects in a Treasury QCT.

The CDFI Fund prioritizes severely distressed Census tracts over distressed Census tracts, though both are considered NMTCs, making investment more attractive. It is good to note that Low-Income Housing Tax Credits (LIHTCs) and NMTCs cannot be paired in the same deal. Find a list of organizations with NMTC allocations **here**.

Opportunity Zones (OZs)

OZs were enacted through the 2017 Tax Cuts and Jobs Act. The law allowed governors to nominate as OZs up to 25 percent of the economically distressed Census tracts in their state, approved by the U.S. Treasury Department in June 2018. In December of 2019, the IRS put into effect the final regulations that govern the use of the incentives, allowing private investors to start deferring capital-gains tax on prior successful investments by rolling over those gains into a Qualified Opportunity Fund (QOF) focusing on investment activity in any approved OZ and documenting that rollover to the IRS.

Depending on how quickly investors act to invest and how long they held their investment in a QOF, they could be exempted from all taxation on any gains on the new OZ investment, and from some taxation on the originally deferred gains rolled into the QOF. To date, most funds aggregated in QOFs have been used for residential and commercial real estate development in a single OZ or a group of OZs in a defined geographic region, although QOFs are also permitted to make equity investments in companies operating in the targeted OZs.

Novogradac reported in December 2021 $24.4 billion has been raised by QOFs reporting equity. In the final six months of 2021, $6.88 billion of equity has been raised by QOFs tracked by Novogradac. This indicates the desire for investors to still take advantage of the benefits OZs have to offer. Grantees developing a project in an OZ should determine if there is an active QOF that aligns with their geography and goals. Most federal agencies – including HUD – have developed an understanding of how QOFs can be leveraged and can provide guidance to grantees.

Photo (Downtown Rogers City) courtesy of michigan.gov

Funding Opportunities

Overview

dentifying how to braid, coordinate, and leverage multiple federal, state, local, and private funding streams is critical to maximize the impact and effectiveness of an economic recovery strategy. Often – especially for larger scale infrastructure and commercial development activities – committing a range of public financing can be an essential tool for attracting necessary private investment to complete a funding stack.

Photo by Pixabay from Pexels

When pursuing varied funding sources, it is important to engage the governments, departments or intermediary organizations that oversee those potential funding streams early in the process and work together to come to a shared vision and approach for deploying revenue. It is key that all stakeholders and parties are aligned from the outset because program requirements may vary in important ways.

When considering blending multiple programs, keep in mind the following:

1. How do the requirements of the different funding sources align and differ?
2. What are the eligible uses for each funding stream?
3. What are the different timelines associated with each funding stream?
4. What are the roles and responsibilities of each department or organization involved?
5. Can multiple sources be aggregated into a unified capital stack for a single project, or are distinct projects funded through different agencies toward a holistic goal?
6. How will program success be measured?

The following sections provide an overview of different funding sources that can be combined with Community Development Block Grant (CDBG) to effectively promote economic recovery. As part of the planning process, grantees are encouraged to identify the status of these programs and sources within their communities and collaborate with stakeholders to identify similar and complementary state, local or private programs that could be further leveraged.

Section 108

The Section 108 Loan Guarantee Program (Section 108) is a HUD initiative that unlocks additional capital in the form of long-term, variable, and fixed-rate loans to support a wide range of housing, community, and economic development activities, including mixed-income and mixed-use development, public facilities, and infrastructure projects. Grantees may expend the loan funds directly on a project or re-loan them to a third party, secured in either case by future CDBG allocations. Since HUD ultimately guarantees repayment, Section 108 loans may encourage the participation of private lenders in a project by reducing the amount of risk.

Photo by Mikhail Nilov from Pexels

When properly implemented, Section 108 loans can help grantees aggregate a financing stack large enough to pursue projects capable of revitalizing an entire neighborhood. In fact, a study by HUD found that the average project secured $4.62 in additional funding for each dollar of Section 108 funds.

Section 108 loans provide a valuable level of capital that grantees can use to address a broad range of needs in the community and carry out expansive capital projects or improvements. Examples of Section 108 projects include:

- Acquiring property to improve public facilities such as health or social service centers, and to make land suitable for development
- Expanding existing structures or businesses to promote job growth and competitiveness
- Converting underutilized property into affordable housing
- Developing broadband infrastructure to spur economic development
- Re-imagining former industrial sites in low- and moderate-income (LMI) residential areas into parks, community centers, or commercial districts
- Supporting development of neighborhood retailers such as grocery stores in food deserts in LMI neighborhoods

Benefits of the Section 108 program include:

- Supporting large-scale projects (including riskier projects), even for grantees with small annual block grant allocations
- Flexible support of a broad range of activities
- Resolving initial hurdles in early financing stages and leveraging other federal, state, or local funding sources
- A unique repayment structure, low-interest rates, and low subordinated debt

Keys to Unlocking Section 108 Funding

- Eligible Applicants: State and city/county CDBG grantees are eligible to apply for Section 108. Non-entitlement communities that are assisted in the submission of applications by states that administer the CDBG Program or receive CDBG funds under the HUD-Administered Small Cities CDBG Program (Hawaii) are also eligible to apply.
- Application Timing and Process: Eligible applicants should notify the local HUD office and the Section 108 office of their intent to submit Section 108 loan applications and include or amend their HUD Consolidated Plan and Annual Action Plan to include applicable Section 108 activities. The loan must cover eligible activities and may require a technical expert in Section 108 to serve as the lead administrator.

Identify Eligible Activities

Section 108 can be used to finance the following:

- Acquisition of real property
- Rehabilitation of publicly owned real property
- Housing rehabilitation eligible under CDBG
- Construction, reconstruction, or installation of public facilities (including street, sidewalk, and other site improvements)
- Related relocation, clearance, and site improvements
- Payment of interest on the guaranteed loan and issuance costs of public offerings
- Debt service reserves
- Finance fees
- Public works and site improvements in colonias
- In limited circumstances, affordable housing construction
- Loan to for-profit businesses for economic development purposes

- Administrative and Oversight Structure: Section 108 requires that administrative and oversight structures and processes be in place to comply with guidelines. This can include but is not limited to marketing, screening, closing, and compliance oversight. Grantees can look to financial institutions and lean on existing CDBG expertise and dedicated HUD resources to build up these mechanisms.

- Benefits and Risks: Entitlement public entities and state-assisted public entities that are CDBG grantees can apply to receive loan guarantees up to 20 years and equal to five times their annual CDBG allocation, in addition to their regular allocation. However, CDBG grantees should note that, if their annual CDBG allocation is used to repay the loan and that CDBG allocation is reduced or re-prioritized, the grantee is responsible for finding other funding sources to repay the loan.

- Ongoing Development: Section 108 funds are best used when there is a steady pipeline of developments that meet the Section 108 eligible activities criteria and address the grantees local economic development and recovery gaps.

- Targeted Geographic and Populations: Projects and activities funded by Section 108 must either principally benefit low- and moderate-income persons, aid in the elimination or prevention of slums and blight or meet urgent needs of the community. At least 70 percent of Section 108 loans must be utilized to benefit LMI persons through:
    - Low/Mod Area Benefit (LMA) - Activity will benefit all residents in a particular area, where at least 51 percent of the residents are LMI persons
    - Low/Mod Job Creation/Retention (LMJ) - Activity will create or retain permanent jobs, at least 51 percent of which (computed on a full-time equivalent basis) will be made available to or held by LMI persons

- Stackable Funding: Section 108 provides grantees the flexibility to package this tool with other federal, state and local programs and private funding sources, including:
    - CDBG
    - HUD HOME Investment Partnership Program
    - Federal Historic Preservation Tax Incentives
    - Low-Income Housing Tax Credit
    - New Markets Tax Credit
    - The Empowerment Zone and Enterprise Community Program

Case Study

The City of Miami

The City of Miami, Florida was awarded a $4,000,000 Section 108 loan guarantee to finance the Wagner Square mixed-use redevelopment project in the Allapattah Neighborhood area. A toxic dump site will be remediated as part of the project and, upon remediation, the project developer will build 198 affordable housing units, a 108,000 square foot office/retail building complex and parking spaces for 490 vehicles. The Section 108 loan will finance construction of the office/retail building complex which will ultimately generate 194 jobs. Miami also received a Brownfields Economic Development Initiative (BEDI) award of $1,000,000 to be used in conjunction with the Section 108 financing for site remediation.

- Miami, FL

- Projects with similar components could be eligible under the following National Objectives: LMA, LMAFI, LMASA, LMC, LMCMC, LMCSV, LMH, LMHSP, LMJ, LMJP, SBA, SBS, SBR, URG
    - Matrix Code: 17C, 18B, 18C

- Projects with similar components could be eligible under the following Eligible Activities: Commercial/Industrial: Building Construction (24 CFR 570.203(a); 24 CFR 570.203(c); 24 CFR 570.201(o)), Economic Development: Technical Assistance, Microenterprise Assistance

Non-HUD Funding

While HUD offers a variety of funding for communities planning for economic recovery or community development, grantees are encouraged to seek additional investment in their projects. Support from other federal agencies and from the private and not-for-profit sectors can be applied in two ways:

- Layered into a single unified "capital stack" financing the project in question
  - This is a more difficult form of leverage to achieve, since a project must then meet not only HUD requirements but also those of the other non-HUD funding sources; or
- As complementary contributions that enable a comprehensive strategy
  - For example, grantees may use HUD funds to pay for a facility renovation but funds from some other source to provide small-business programming in that facility.

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Funding from Other Federal Agencies

Additional financial support from non-HUD federal agencies and their state counterparts is usually available through "categorical" grant programs in which local governments compete to access a limited pool of funding. Some of these programs operate on regular cycles each fiscal year, while others are sporadic or one-time opportunities based on legislation that may apply in a particular time period. Aligning them can be difficult, but often valuable.

The table on the next page is not exhaustive, but identifies some of the more popular resources across other federal agencies that can be leveraged for economic development or recovery projects. The programs listed are a mix of standing initiatives and one-off programs available in mid-2021 and provide a comprehensive look at the types of funding typically available. For the latest information on available funding, check for "current grant opportunities" either on an agency's website or grants.gov.

Agency	Example programs and possible alignment with tools in this Toolkit
Economic Development Administration (EDA) in the U.S. Department of Commerce	• Public Works – often supports business incubators and/or site preparation and infrastructure for large-scale development • Economic Adjustment – small business or microenterprise finance through revolving loan funds or other assistance • Build to Scale – usually supports industry-cluster development or seed-capital formation addressing "scalable" startup businesses but with increasing emphasis in recent years to diversity and equity • Build Back Better Regional Challenge Grant (under the ARPA Act of 2021) • Good Jobs Challenge (under the ARPA Act of 2021) – job training in high-wage sectors in the regional labor market
Employment and Training Administration (ETA) in the U.S. Department of Labor	• Opportunities vary by fiscal year, but categorical grants in job training programs are authorized under the Workforce Innovation and Opportunity Act (WIOA)
Federal Emergency Management Agency (FEMA) in the U.S. Department of Homeland Security	• Hazard Mitigation, Preparedness, or Resilience grants may support infrastructure necessary for commercial rehab or large-scale commercial development
U.S. Department of the Treasury	• The CDFI Fund in Treasury is the main source of public financing for Community Development Financial Institutions that in turn loan to microenterprises and small businesses; the CDFI fund also supports providers of technical assistance to existing CDFIs
U.S. Department of Transportation (USDOT)	• RAISE (Rebuilding American Infrastructure with Sustainability and Equity) grants are small discretionary grants for experiments in local transportation that could be very compatible with HUD-funded economic development projects
U.S. Small Business Administration (SBA)	• In addition to its technical assistance centers (SBDCs, Women's Business Centers) which may make excellent tenants of incubators, the SBA funds technical assistance providers, microloan intermediaries, and nonprofits that administer the Section 504 loan programs • Growth Accelerator program – similar to EDA's Build to Scale above, with increasing attention to diversity and equity
U.S. Environmental Protection Agency (EPA)	• Brownfield grants that may prove a critical part of the capital stack for a commercial rehab or large-scale development
USDA	• The Rural Development division offers a range of grants, loans and other supports for businesses, housing, and infrastructure all of which can be useful to HUD's state grantees in stimulating economic development in small cities across predominantly rural regions.

Each of these agencies will have its own planning and regulatory framework, so HUD grantees pursuing funding from other agencies will need to familiarize themselves with their respective planning requirements so proposals can be harmonized with all agencies involved. This may require HUD grantees to break through organizational silos within their own jurisdiction and partner with other state- and local-government units that usually work more closely with these other federal agencies, and which may even have their own "matching" funds available to support projects of mutual interest.

Foundation and Nonprofit Sources

The mission of most philanthropic foundations is to serve, support, and empower the same LMI communities also prioritized by HUD. Private or corporate foundation-funded projects span the full range of activities eligible under HUD grants and may also address additional ways to develop or rebuild human and civic capital in distressed neighborhoods.

Foundations generally grant to 501(c)(3) not-for-profit entities that are recognized as "public charities" by the IRS. These are likely some of the same intermediaries that may be the partners or subrecipients of grantees, and which may also receive support from non-HUD federal agencies to accomplish eligible activities. Among the recipients of foundation grants may be CDFIs and a wide range of other CBDOs and special-purpose nonprofits, such as those that operate business incubators or job-training programs.

Private foundations must pay out 5% of their assets each year in grants to qualifying charities. Part of this requirement can be met through Program Related Investments (PRI), through which foundations loan money to nonprofits to build their capacity for charitable activity, with the expectation of being repaid by a specified time, but usually at below-market interest rates. In some cases, these PRI loans are never called and may be converted to grants.

In recent years, some foundations have also gone further, targeting "impact investments" and using the remaining 95% of their investment assets that are not paid out each year to invest in companies that generate a financial return while also creating social good.

Regulatory Framework Examples

Examples of other planning or regulatory frameworks that grantees should be aware of:

- Economic Development Administration (EDA) – Grants from any of EDA's programs must be compatible with the Comprehensive Economic Development Strategy (CEDS) or a substitute it has agreed to accept for the region in question. These are usually prepared by an organization like a regional Council of Governments or other entity that operates an EDA-recognized Economic Development District. HUD and EDA encourage the CEDS and the HUD CDBG Consolidated plan to be co-written or at least coordinated where possible.
- Department of Labor Employment and Training Administration (ETA) – ETA's grant-making to not-for-profit intermediaries in job training may be constrained by the content of the Statewide Strategic Plan that the state workforce investment board has submitted under the Workforce Innovation and Opportunity Act.
- Department of Transportation (DOT) – DOT's grant-making to a locality for infrastructure development may be constrained by the content of the Regional Transportation Plan developed by a recognized Regional Transportation Planning Organization, which is often also known as a Regional Council of Governments or a Metropolitan Planning Organization.
- Department of the Treasury – Most of the CDFI Fund's resources are reserved for CDFIs that are "certified" under Treasury regulations.

Community Development Financial Institutions (CDFIs)

CDFIs are private financial intermediaries found in most communities across the U.S. CDFIs are mission-based investors that provide capital to different types of projects in many different focus areas.

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What is a CDFI?

Most CDFIs prioritize the promotion of social equity through broadened access to low-cost capital. CDFIs can often undertake activities that CDBG grantees wish to support by leveraging federal dollars with private capital. Depending on their geographic focus, they may qualify for easing of certain CDBG regulatory requirements.

CDFIs can be local, regional, or national investors and are designated by the CDFI Fund, which is managed by the U.S. Department of the Treasury. CDFIs play a dual role: they are eligible for a number of programs administered by the CDFI Fund, but also often administer programs from other federal agencies such as the SBA. For example, during the COVID-19 pandemic, CDFIs helped direct Payroll Protection Program (PPP) funds to small businesses that had been overlooked by traditional lenders. CDFIs have also begun to partner with granting agencies like national and community foundations, further expanding their reach.

The Structures and Sizes of CDFIs

Understanding the size and structure of local CDFIs provides valuable insight into how they can play a role in a grantee's economic recovery and community development planning. CDFIs can range from large multi-disciplinary agencies to small loan funds and fall into one of six basic structures (detailed below). All CDFIs are typically seasoned lenders in distressed communities and can provide valuable information about the process of allocating capital and the technical assistance needed to make the investment successful.

- Community Development Banks are for-profit corporations focused on rebuilding economically distressed communities. They must have community representation on their board. They are regulated by the FDIC and must adhere to the principles of safe and sound banking, which limits their risk tolerance.

- Community Development Credit Unions are cooperative nonprofit agencies which promote ownership of assets and savings and typically provide low-cost capital for mortgages, small businesses loans and other types of financing. They are regulated by the National Credit Union Administration and must adhere to safe and sound banking principles, which limits their risk tolerance.

- Community Development Loan Funds provide capital to businesses, organizations, and individuals in low-income communities. Loan funds typically fall into one of four focus areas: microenterprise, small business, housing, or community service organizations. These organizations are nonprofits and typically more risk tolerant.

- Community Development Venture Capital Funds provide equity and near-equity investments to startup businesses in communities. These funds may be more risk-tolerant than traditional venture capital funds but still expect "double bottom-line" returns in both community development and profit potential.

- Microenterprise Development Loan Fund invests and fosters the business development of microenterprise in low-income communities. These loan funds are typically more risk tolerant due to the nature of microenterprises.

- Community Development Corporations are nonprofit entities that normally invest in neighborhood revitalization efforts, including producing housing, creating jobs and providing social services.

What do CDFIs do?

CDFIs lend and provide technical assistance to a variety of projects in communities, but the CDFI Fund has established specific areas of focus, including:

- Housing & Commercial Development or Redevelopment – CDFIs offer affordable credit to organizations involved in housing & commercial development. Larger CDFIs may also have a development arm that actively manages community revitalization projects.

- Community Facilities Development – CDFIs also make loans to nonprofit healthcare and social-service providers to build new facilities or renovate older ones in a way that meets the need to deliver expanded services to communities.

- Small Business – Most CDFIs provide flexible, low-interest loans to small businesses and microenterprise in LMI communities. They are also likely to be highly involved in their local technical assistance ecosystem. Often, CDFIs are SBA lenders that administer SBA 7a, 504, and microloans. Many CDFIs also administered the PPP lending program during the COVID-19 pandemic.

- Food Systems – Several CDFIs provide technical assistance and capital for food systems organizations to combat food insecurity in LMI communities. The Healthy Food Financing Initiative (HFFI) is a program administered by the CDFI Fund that is focused specifically on healthy food retail and grocery store financing.

Photo by Rodolfo Quirós from Pexels

Engage Your Local CDFIs

CDFIs are often highly integrated into the local development and lending ecosystem and can be excellent partners in community investment and in new-job creation and enhancing competitiveness. Grantees should consider finding opportunities to partner with their local CDFI financially, but just as importantly, they should consider the CDFI a critical partner in the planning phase of economic recovery. Given CDFIs' focus on serving LMI communities and their commitment to social equity, they can offer invaluable insight to local leaders committed to equitable economic recoveries. Find a CDFI.

Case Studies

Pandemic Response Small Business Assistance Program

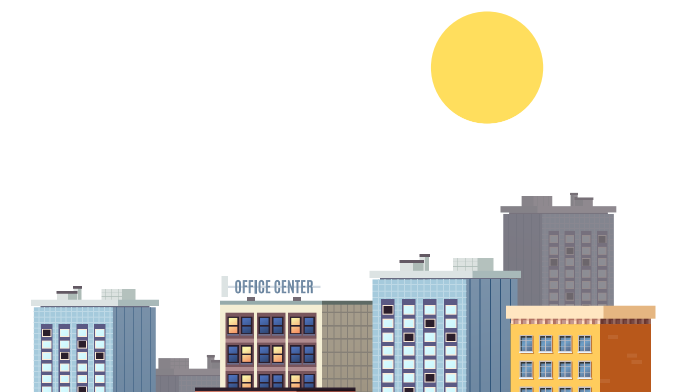
During the COVID-19 pandemic, the City of Glendale, Arizona partnered with a CDFI called Prestamos, a division of the organization Chicanos Por La Causa. The city had become concerned with their small business community like many other communities during the pandemic. By partnering with Prestamos, the city was able to leverage capacity, outreach, as well as enhanced funding and technical assistance to small businesses and in particular to microenterprises. The City of Glendale utilized a portion of the CDBG-CV to create a Pandemic Response Small Business Assistance Program, which provided capital for payroll, operations, lease payment, business loan payment, utilities, or inventory.

- Glendale, AZ
- Projects with similar components could be eligible under the following National Objectives: LMA, LMAFI, LMASA, LMC, LMCMC, LMCSV, LMH, LMHSP, LMJ, LMJFI, LMJP, SBA, SBS, SBR, URG
  - Matrix Code: 18B, 18C, 19C
- Projects with similar components could be eligible under the following Eligible Activities: Economic Development: Technical Assistance, Microenterprise Assistance, CDBG Non-Profit Organization Capacity Building (24 CFR 570.203(c); 24 CFR 570.201(o); 24 CFR 570.201(p)).

West End Village Station

West End is one the most vibrant and diverse neighborhoods in Roanoke, Virginia. The neighborhood, however, had suffered from poor health outcomes, financial insecurity, high crime rates, and poverty in more recent years. The City of Roanoke deemed a target neighborhood for revitalization for the city in 2011. A CDFI called the Freedom First Credit Union stepped in to help the city provide stabilization to the community. To increase targeted funding and catalyze revitalization efforts, the city paired Freedom First's investment with CDBG funding. One groundbreaking project was the West End Village Station project, a mixed-use development meant to increase affordable housing and commercial space to the community. Over $1.2 million in CDBG funding from the City of Roanoke and Freedom First Credit Union investment were combined to make this landmark project a reality for the West Village Community.

- Roanoke, VA
- Projects with similar components could be eligible under the following National Objectives: LMA, LMAFI, LMASA, LMC, LMJ, LMJP, SBA, SBS, SBR, URG
  - Matrix Code: 17C
- Projects with similar components could be eligible under the following Eligible Activities: Commercial/Industrial: Building Construction (24 CFR 570.203(a)).



Vector City Street created by macrovector - www.freepik.com

Taking Action

Every community – from a 5,000-person rural town to a 500,000-person urban center – thinks about and engages in economic development activities. While the priorities in cities vary broadly, the process for understanding needs within a community and identifying the right programs for a particular moment in time is typically similar in both the rural town and the urban center.

This Toolkit provides an overview of strategies that can be adapted and implemented to help drive economic recovery in a diverse set of communities around the country, with a particular focus on integrating an equity lens into all stages of economic recovery. Grantees ready to take action can reference the six Implementation Guides that accompany this Toolkit for practical steps to get started.

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Photo by Max Bender from Pexels

Appendix: Regulatory Context

All economic development projects must be carried out in compliance with the general requirements for Community Development Block Grant (CDBG) programs, including cross-cutting requirements such as labor compliance, environmental reviews, and the Uniform Relocation Act (URA).

Additionally, there are several specific regulatory requirements that apply to activities undertaken as a “Special Economic Development” activity, as authorized under 24 CFR part 570.203. These include Public Benefit Standards and the Underwriting requirements. For more specific guidance, please consult 24 CFR part 570 and the **Economic Development Toolkit**.

Public Benefit Standard:

All activities funded as a special economic development activity must comply with the public benefit standards set forth in 24 CFR part 570.209 (entitlements) and 24 CFR part 570.482(e,f,g) (states). There are two types of public benefit standards:

- Jobs created or retained
- Goods or services provided to **low- and moderate-income (LMI)** persons

All projects must meet the individual test and the entire grant portfolio must meet the aggregate test.

- Individual Benefit: Maximum of $50,000 of CDBG per job created or one LMI resident served per $1,000 of CDBG funds
- Aggregate Benefit: Minimum of one job per $35,000 of CDBG or one LMI resident served per $350 of CDBG funds

The public benefit standard is applied to entitlement grantees at the time of CDBG obligation and to states at the time of expenditure.

Underwriting:

Activities funded as a special economic development activity must be appropriately underwritten by the grantee or subrecipient carrying out the program. The intent of the underwriting is to evaluate the risk of the project to determine that the investment of CDBG funds is a prudent decision by the grantee. HUD provides a mandatory underwriting framework at Appendix A of 24 CFR part 570. However, grantees may design their own underwriting standards. The six general underwriting objectives set forth in Appendix A are:

- Project costs are reasonable
- All sources of project financing are committed
- To the extent practicable, CDBG funds are not substituted for non-federal financial support
- Project is financially feasible
- To the extent practicable, the return of the owner’s equity investment will not be unreasonably high, and
- To the extent practicable, CDBG funds are disbursed on a pro-rata basis with other finances provided to the project

Appendix: Additional Resources

1. Community Development Block Grant (CDBG) 24 CFR § 570 (https://www.ecfr.gov/current/title-24/subtitle-B/chapter-V/subchapter-C/part-570). The Community Development Block Grant (CDBG) Program supports community development activities to build stronger and more resilient communities. To support community development, activities are identified through an ongoing process. Activities may address needs such as infrastructure, economic development projects, public facilities installation, community centers, housing rehabilitation, public services, clearance/acquisition, microenterprise assistance, code enforcement, homeowner assistance, etc. https://www.hudexchange.info/programs/cdbg/
2. CDBG-CV: CBDG CARES Act: The Community Development Block Grant CARES (CDBG-CV) Act provides assistance to states, insular areas, and local governments to prevent, prepare for, and respond to the spread of COVID-19. https://www.hudexchange.info/programs/cdbg-cv/
    a. CDBG-CV Rural Economic Development Quick Guide https://www.hudexchange.info/resource/6442/cdbg-cv-rural-economic-development-quick-guide/
    b. CDBG-CV Broadband Quick Guide https://www.hudexchange.info/resource/6329/cdbg-cv-broadband-quick-guide/
    c. CDBG-CV Public Facilities Quick Guide https://www.hudexchange.info/resource/6324/cdbg-cv-public-facilities-quick-guide/
    d. CDBG-CV Economic Development Quick Guide https://www.hudexchange.info/resource/6303/cdbg-cv-economic-development-quick-guide/
3. CDBG-DR: CBDG Disaster Recovery: HUD provides flexible Community Development Block Grant Disaster Recovery (CDBG-DR) funds to help cities, counties, and states to recover from Presidentially declared disasters. https://www.hudexchange.info/programs/cdbg-dr/
4. CDBG Entitlement Program 24 CFR § 570.200 – 570.210 (https://www.ecfr.gov/current/title-24/subtitle-B/chapter-V/subchapter-C/part-570/subpart-C?toc=1): The Community Development Block Grant (CDBG) Entitlement Program provides assistance to entitled cities and counties to develop viable urban communities for low- and moderate-income (LMI) persons. https://www.hudexchange.info/programs/cdbg-entitlement/
    a. Chapter 8 Economic Development and Section 108, Entitlement Communities. The chapter provides information on and the economic development underwriting guidelines and the public benefit standards requirements applicable to certain economic development projects. The Section 108 loan guarantee program is also reviewed. https://files.hudexchange.info/resources/documents/Basically-CDBG-Chapter-8-Section-108.pdf
    b. Special Economic Development Activities 24 CFR 570.203 https://www.ecfr.gov/current/title-24/subtitle-B/chapter-V/subchapter-C/part-570/subpart-C/section-570.203
    c. Guides to National Objectives and Eligible Activities Entitlement Communities: These guides are intended for public officials and citizens seeking to understand what activities are eligible to be assisted under the Community Development Block Grant (CDBG) Program and to guide them in making wise choices among certain alternatives available within the program for carrying out particular activities. https://www.hudexchange.info/resource/89/community-development-block-grant-program-cdbg-guide-to-national-objectives-and-eligible-activities-for-entitlement-communities/
        i. Chapter 2. CDBG – Categories of Eligible Activities 24 CFR § 570.201. This chapter describes in some detail the many categories of activity types which may be assisted using CDBG funds. It also discusses a number of activities that may not be so assisted. The chapter also contains guidance on documenting compliance and making the best choice for selecting the category to carry out an activity when more than one may apply. https://www.hudexchange.info/sites/onecpd/assets/File/CDBG-National-Objectives-Eligible-Activities-Chapter-2.pdf
        ii. Chapter 3: Meeting a National Objective 24 CFR § 570.208 https://www.hudexchange.info/sites/onecpd/assets/File/CDBG-National-Objectives-Eligible-Activities-Chapter-3.pdf

5. CDBG State Program 24 CFR § 570.480 – 570.497 (https://www.ecfr.gov/current/title-24/subtitle-B/chapter-V/subchapter-C/part-570/subpart-I?toc=1): The Community Development Block Grant (CDBG) State Program award assistance to smaller units of local government that develop affordable housing, provide services, and create jobs. https://www.hudexchange.info/programs/cdbg-state/
    a. Chapter 8 Economic Development and Section 108, States. The chapter provides information on the economic development underwriting guidelines and the public benefit standards requirements applicable to certain economic development projects. The Section 108 loan guarantee program is also reviewed. https://www.hudexchange.info/sites/onecpd/assets/File/Basically-CDBG-State-Chapter-8-Section-108.pdf
    b. Guides to National Objectives and Eligible Activities: These guides are intended for public officials and citizens seeking to understand what activities are eligible to be assisted under the Community Development Block Grant (CDBG) Program and to guide them in making wise choices among certain alternatives available within the program for carrying out particular activities. https://www.hudexchange.info/resource/2179/guide-national-objectives-eligible-activities-state-cdbg-programs/
        i. Chapter 2. CDBG – Categories of Eligible Activities 24 CFR § 570.482 https://www.hudexchange.info/sites/onecpd/assets/File/CDBG-State-National-Objectives-Eligible-Activities-Chapter-2.pdf
        ii. Chapter 3: Meeting a National Objective 24 CFR § 570.483 https://www.hudexchange.info/sites/onecpd/assets/File/CDBG-State-National-Objectives-Eligible-Activities-Chapter-3.pdf
6. Section 108 Loan Guarantee 24 CFR 570.700 (https://www.ecfr.gov/current/title-24/subtitle-B/chapter-V/subchapter-C/part-570/subpart-M): The Section 108 Loan Guarantee Program (Section 108) provides CDBG recipients with the ability to leverage their annual grant allocation to access low-cost, flexible financing for economic development, housing, public facility, and infrastructure projects. This site [https://www.hudexchange.info/programs/section-108/] contains the following resources:
    a. Section 108 Loan Guarantee Program Application Tool
    b. Program Design and Application Process
    c. Section 108 Underwriting Guidelines
    d. Is HUD's Section 108 Loan Guarantee Program Right for My Needs?
7. Basically CDBG Economic Development Training and Section 108. This module covers some of the nuances around the use of CDBG funds for economic development by providing an overview of how CDBG can be used for economic development activities. This module will break down the different activities on how to use CDBG for economic development. In addition to understanding the key highlights on CDBG uses for economic development, viewers will receive an overview of Section 108. https://www.hudexchange.info/trainings/basically-cdbg-online/economic-development-and-section-108/
8. CDBG Economic Development Toolkit. This Toolkit provides guidance on the effective use of Community Development Block Grant (CDBG) funds for financing eligible economic development projects, including microenterprise and small business development, large-scale commercial and industrial development, and job creation, job retention, and job training activities. https://www.hudexchange.info/resource/2376/cdbg-economic-development-toolkit/
    a. CDBG Economic Development Activity Matrix. This matrix identifies Eligibility – National Objective – Public Benefit – Records to Maintain for Entitlement and State-non-entitlement Communities. https://files.hudexchange.info/resources/documents/CDBG-Economic-Development-Activities-Matrix.pdf
9. CDBG Economic Development Forum Webinar. This webinar, held March 30, 2011, provides scenarios, questions, and answers regarding Eligibility, National Objectives, and Public Benefit Standards (and applicable documentation); Microenterprises and Commercial Rehabilitation; and Section 108 loan Guarantee, Mixed-Use Development, Community Economic Development Project, and Neighborhood Revitalization Strategy Areas. https://www.hudexchange.info/trainings/courses/cdbg-economic-development-forum-webinar/

10. CDBG Broadband Infrastructure FAQs. This document contains Community Development Block Grant (CDBG) Entitlement Program and State CDBG Program Frequently Asked Questions (FAQs) regarding broadband infrastructure. https://www.hudexchange.info/resource/4891/cdbg-broadband-infrastructure-faqs/
11. CDBG Leveraging Webinar. In this webinar, a panel of four Community Development Block Grant (CDBG) grantees from across the country reviewed best practices for leveraging CDBG funds. https://www.hudexchange.info/trainings/courses/cdbg-best-practices-webinar-series-leveraging-cdbg-funds/3836/
12. CDBG Matrix Code Definitions: Matrix codes are used to indicate—but do not establish—activity eligibility. An activity must be eligible in accordance with the regulations at 24 CFR 570.201 – 570.207 for Entitlements, 570.703 – 570.705 for the Section 108 loan guarantee program, and with Section 105(a) of the HCDA [42 USC 5305] and 24 CFR 570.482 for States. Grantees need to refer to the regulations to determine an activity's eligibility; the codes defined are used in IDIS On-Line chiefly to categorize activities for reporting purposes. https://files.hudexchange.info/resources/documents/Matrix-Code-Definitions.pdf
13. Consolidated Planning Process 24 CFR Part 91 (https://www.govinfo.gov/content/pkg/CFR-2019-title24-vol1/xml/CFR-2019-title24-vol1-part91.xml): The Consolidated Plan is designed to help states and local jurisdictions to assess their affordable housing and community development needs and market conditions, and to make data-driven, place-based investment decisions. https://www.hudexchange.info/programs/consolidated-plan/consolidated-plan-process-grant-programs-and-related-hud-programs/
14. Community Revitalization Strategy Area (CRSA): The Community Revitalization Strategy Area (CRSA) approach is submitted as a part of, or as an amendment to, a state's Consolidated Plan. Under this approach, the state describes its CRSA process to HUD in the Con Plan and then upon HUD approval of this process, the State can approve local CSRA from Unit of General Local Government (UGLG). https://www.hudexchange.info/sites/onecpd/assets/File/Basically-CDBG-State-Chapter-10-Revitalization.pdf
15. HUD Policy Areas – Community and Economic Development. HUD administers several programs designed to further community and economic development goals. This site links to the following programs by HUD: https://www.hudexchange.info/programs/policy-areas/#community-and-economic-development
    a. Community Development Block Grant Programs
    b. Economic Development Initiative Programs
    c. Rural Programs
    d. Other Community and Economic Development Programs
    e. Place-Based Initiatives
16. Emergency Injury Disaster Loan (EIDL): Small businesses, small agricultural cooperatives, and most private nonprofit organizations located in a declared disaster area and which have suffered substantial economic injury may be eligible for an SBA Economic Injury Disaster Loan (EIDL). https://www.sba.gov/funding-programs/disaster-assistance/economic-injury-disaster-loans

17. Paycheck Protection Program (PPP): https://www.sba.gov/funding-programs/loans/covid-19-relief-options/paycheck-protection-program
18. U.S. Department of the Treasury Community Development Financial Institutions Fund – Searchable awards database. Use the database to find organizations that have received awards from CDFI Fund's various award programs. https://www.cdfifund.gov/awards/state-awards
19. U.S. Department of the Treasury Community Development Financial Institutions Fund – New Markets Tax Credit Allocatee Awards search. Use this database to find Community Development Entities (CDEs) that may have available NMTC allocation authority remaining. https://www.cdfifund.gov/awards/nmtc
20. U.S. Department of Commerce U.S. Economic Development Administration – Economic Development Integration (EDI). This is a helpful resource when grantees are looking to align plans and resources with the EDI and HUD Consolidated Plan. https://eda.gov/integration/resource-alignment/

Appendix: Glossary

Anchor Tenants – a larger tenant (often secured first) that attracts other tenants to a lease space in the facility, including incubators.

Business Incubator – shared-use facilities (newly constructed or adaptively reused) that provide mentorship and support to small businesses and microenterprises in order to help entrepreneurs survive the early startup phase and graduate into the regional economy. Assistance may be targeted to the incubator itself or to the businesses operating within it.

Commercial Development - construction or rehabilitation of retail centers, commercial facilities, industrial areas, and public commercial spaces to transform neighborhoods.

Commercial Rehabilitation – efforts to improve the quality of commercial and retail districts by assisting private businesses with exterior improvements or rectifying existing code violations.

Community – refers to groups of people living in a particular area or district, or to ethnic groups living inside a particular area such as the Black community or Hispanic community.

Community Based Development Organizations (CBDO) 24 CFR § 570.204(c) – generally nonprofit organizations that undertake specific kinds of CDBG-funded activities. CBDOs can be for-profit or nonprofit organizations, but cannot be governmental entities. A CBDO may be designated as a subrecipient by a HUD grantee.

Community Based Organizations (CBO) – an organization driven by community residents in all aspects of its existence, including that the majority of the governing body and staff consists of local residents, the main operating offices are in the community, priority issue areas are identified and defined by residents, solutions to address priority issues are developed with residents, and program design, implementation, and evaluation components have residents intimately involved in leadership positions.

Comprehensive Economic Development Strategy (CEDS) – A master-planning document that is a prerequisite for public works or other funding from the U.S. Economic Development Administration.

Covenants – a formal agreement or promise, usually included in a contract or deed, to do or not do a particular act. There are numerous types of covenants. The type of covenant described in this document is a covenant that runs with the land. A property covenant is the agreement between two or more parties regarding certain use of a piece of real property. In the context of this document, covenants that run with the land are restrictive. Covenants will exist regardless of the transfer of land ownership.

Development Without Displacement – an alternative approach to development that focuses on retaining local residents, preserving small businesses, and evenly distributing the new value created throughout the local community.

Disparate Impact – occurs when policies, practices, rules or other systems that appear to be neutral result in a disproportionate impact on a protected group.

Displacement – an involuntary occurrence in which residents and businesses are forced out through the gentrification process of neighborhoods.

Disproportionate Impact – the percentage of persons from a particular racial, ethnic, gender, age or disability group who are directed to a particular service or placement based on an assessment instrument, method, or procedure is significantly different from the representation of that group in the population of persons being assessed, and that discrepancy is not justified by empirical evidence demonstrating that the assessment instrument, method or procedure is a valid and reliable predictor of performance in the relevant educational setting.

Double Bottom Line – a type of measurement that is concerned with not only the amount of financial profit or loss that is sustained within a defined period of time, but also the level of positive social impact experienced within that same time frame.

Economic Development – programs, policies or activities that seek to improve the economic well-being and quality of life for a community.

Economic Ecosystem – a system of production, resource allocation, exchange and distribution of goods and services in a society or a given geographic area.

Economic Indicators – monthly publication prepared by the Council of Economic Advisers for the Joint Economic Committee. It provides economic information on gross domestic product, income, employment, production, business activity, prices, money, credit, security markets, federal finance, and international statistics.

Economic Recovery – occurs when an economy strengthens after a period of recession.

Economic Shocks – refers to any change to fundamental macroeconomic variables or relationships that has a substantial effect on macroeconomic outcomes and measures of economic performance, such as unemployment, consumption, and inflation. Shocks are often unpredictable and are usually the result of events thought to be beyond the scope of normal economic transactions.

Economic Stressors – the result of economic shocks, usually including unemployment, underemployment, and job security, which introduce uncertainty into families and broader communities as they struggle with the effect of sustained employment instability and economic strain.

"Eds & Meds" – colleges, universities, or medical institutions; these are powerful economic engines in cities and some of the largest private employers in the cities across the United States.

Entitlement Community – HUD designated city or county that receive grants on a formula basis to develop viable urban communities by providing decent housing and a suitable living environment, and by expanding economic opportunities, principally for low- and moderate-income (LMI) persons.

Entrepreneur – a businessperson (whether self-employed or an officer of a formally organized company) who invests their time and money in the risk of starting a new enterprise.

Equity – the state, quality or ideal of being just, impartial and fair.

Equity Lens – a cognitive framing construct centered on inquiry-based process that poses questions to help decision makers focus on equity in their process and outcomes.

Equality – the state of being equal, especially in status, rights and opportunities.

First-Source Hiring Programs – requires that developers, contractors, and employers utilize good faith efforts toward employing economically disadvantaged local residents for entry level positions on applicable projects.

Gentrification – a form of neighborhood change that occurs when higher-income groups move into low-income areas, potentially altering the cultural and financial landscape of the original neighborhood.

Green Jobs – jobs in businesses that produce goods or provide services that benefit the environment or conserve natural resources or jobs in which workers' duties involve making their establishment's production processes more environmentally friendly or use fewer natural resources.

Human Capital - The skills, knowledge, and qualifications of a person, group, or workforce considered as economic assets.

Historically Disadvantaged Residents/Neighborhoods/Businesses – include (a) certain qualifying census tracts (see here), (b) any Tribal land, or (c) any territory or possession of the United States.

Infrastructure – the basic physical and organizational structures and facilities needed to support economic development, including roads, transit, electricity, and sidewalks. In recent years, the understanding of critical infrastructure has expanded to include nontraditional forms of infrastructure like last-mile broadband capacity, resilient energy and environmental features, and supportive services.

Job Creation – the provision of new opportunities for paid employment, especially for those who are unemployed.

Job Retention – a job retained as the result of an activity funded with CDBG, CDBG-CV, CDBG-DR or Section 108.

Job Training – training, coaching, or mentorship for individuals looking to enter the workforce or develop and enhance skills to facilitate better access to permanent jobs that pay a living wage and meet local business needs.

Living Wage – income level that allows individuals or families to afford adequate shelter, food, and other necessities. The goal of a living wage is to allow employees to earn enough income for a satisfactory standard of living and prevent them from falling into poverty.

Low and Moderate Income (LMI) – defined as having income levels lower than 80% of the area median income (AMI). An LMI geography is a census tract in which the median family income of households or residents are less than 80% AMI of the surrounding metropolitan statistical area (MSA).

Management and Technical Assistance – counseling aimed at improving an entrepreneur's ability to manage their business, find investors, or access certain kinds of customers.

Microenterprise – a subclass of small businesses defined in the Housing and Community Development Act of 1974 as those with five or fewer employees. Often a self-employed founder is moving out of the informal economy and requires specific financial and technical assistance to add payroll jobs.

Micrograntsl - very small grants (typically a few hundred dollars or less) that may be issued by local governments or their CBDO partners to microenterprises in order to help them become more competitive and more useful to their communities.

Minority Business Development Centers – management and technical assistance centers funded by the U.S. Minority Business Development Agency.

MWBE – Minority Business Enterprises (MBE) and Women's Business Enterprises (WBE) are businesses owned by minorities and/or women. MWBE is a collective term that includes all businesses that are owned by minorities and/or women.

National Objectives – all CDBG assisted activities must be eligible and meet one of three national objectives: benefit to low- and moderate-income persons, elimination of slums/blight, and urgent need. If an activity is eligible but does not meet a national objective, that activity becomes ineligible.

Neighborhood - a surrounding area or region.

Neighborhood Revitalization Strategy Area (NRSA) – a CDBG grantee-designated area targeted for revitalization. An NRSA is different from other local targeted areas in that the designation is reviewed and approved by HUD. In return for the designation, grantees are afforded enhanced flexibility in undertaking economic development, housing and public service activities with their CDBG funds.

Program Related Investments – investments made by charitable foundations that qualify as required distributions because of their below-market interest rates or economic development intent.

Public Benefit Standards – all activities funded as a special economic development activity must comply with the public benefit standards set forth in 24 CFR part 570.209 (entitlements) and 24 CFR part 570.482(e,f,g) (states). There are two types of public benefit standards: 1) jobs created or retained; and 2) goods or services provided to LMI persons.

Resilience – a community's ability to minimize damage and recover quickly from extreme events and changing conditions.

Returning Citizens – an individual who is returning home after being in prison.

Small Business Development Centers (SBDCs) – regional management and technical assistance centers co-funded by the U.S. Small Business Administration and state governments.

Small Business – a business that is independently owned and operated and which is not dominant in its field of operation. Typically, small businesses have between five and 500 employees, though the federal definition depends on the sector. Small businesses exist in every industry, from tech to childcare, and their leaders can have a wide range of educational and professional experience.

Subrecipient – a non-Federal entity that receives a subaward from a pass-through entity to carry out part of a federal program; but does not include an individual that is a beneficiary of such program. A subrecipient may also be a recipient of other federal awards directly from a federal awarding agency.

Underwriting – financial evaluation of business to determine if CDBG investment in said business is a sound and appropriate action.

Women Business Development Centers – management and technical assistance centers funded by the U.S. Small Business Administration.

U.S. Department of Housing and Urban Development

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