



**STATE OF MICHIGAN**  
**COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) PROGRAM**

**Application Guide**

For eligible activities administered by the Michigan Economic Development Corporation (MEDC) on behalf of the Michigan Strategic Fund (MSF)

*This Application Guide may be accessed at [www.michiganbusiness.org/CDBG](http://www.michiganbusiness.org/CDBG). The electronic version on the website is the most recent version, and is the only official version, of the document. Revisions are made periodically. If the user is consulting a version date differing from the version date of the official version on the website, then changes have been made and you should only reference the official version.*

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## General Requirements

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The U.S. Department of Housing and Urban Development (“HUD”) allocates Community Development Block Grant (“CDBG”) funding to the State of Michigan, through the Michigan Strategic Fund (“MSF”) administered by the Michigan Economic Development Corporation (“MEDC”), for further distribution to eligible Units of General Local Government (“UGLGs”) to carry out MSF approved activities. The federal statutory authority for the CDBG program is the Housing and Community Development Act of 1974, as amended (“HCDA”). Throughout this document, all references to CDBG Funds or CDBG Program refer to the State allocation to the MSF.

### APPLICANTS AND APPLICATIONS

- I. **Eligible Applicants:** Small cities, townships, and villages of less than 50,000 in population, and non-urban counties generally are eligible to apply for grants under the CDBG Program. There are over 1,600 eligible general-purpose, local governments, and these governments are referred to as “non-entitlement jurisdictions” or “UGLGs”.
  
- II. **Ineligible Applicants:** The following counties and their respective units of UGLGs are not eligible to directly apply or directly receive CDBG Funds unless they can provide documentation that they have opted out of their direct HUD allocation and were accounted for in the State’s current formula allocation:

- Genesee County
- Macomb County
- Wayne County
- Kent County
- Oakland County
- Washtenaw County

The following Michigan cities are not eligible to directly apply or directly receive CDBG Funds:

- |                 |             |                    |              |
|-----------------|-------------|--------------------|--------------|
| ○ Battle Creek  | ○ Jackson   | ○ Muskegon         | ○ Portage    |
| ○ Bay City      | ○ Kalamazoo | ○ Muskegon Heights | ○ Port Huron |
| ○ Benton Harbor | ○ Lansing   | ○ Niles            | ○ Saginaw    |
| ○ East Lansing  | ○ Midland   | ○ Norton Shores    |              |
| ○ Holland       | ○ Monroe    |                    |              |

Indian tribes eligible for assistance under Section 107(a)(7) of the HCDA are not eligible to directly apply for or directly receive CDBG Funds, but an eligible county or township may apply for CDBG Funds for projects located on Indian reservations if the UGLG has the legal authority to fund such projects on Indian reservations and Indian preference is not provided.

**III. Joint Applications:** When two eligible UGLGs are facing a common problem, they may submit a joint application. In order to qualify, UGLGs must not only share a common problem, but must also be able to demonstrate that a joint effort is required to solve the problem. Joint applications are generally required when less than 51% of the beneficiaries are located within the jurisdiction of the lead UGLG. A resolution outlining the lead UGLG and responsibilities of both UGLGs is required for the MEDC to consider a Joint Application for a project.

**IV. Projects Occurring in Entitlement Areas (Ineligible Applicant):**

There are projects where it is more practical and feasible for a CDBG activity to occur within the boundaries of an ineligible applicant, but will significantly benefit a non-entitlement area. The MEDC will only consider a project with elements occurring in an entitlement area, if there is an eligible UGLG and the entitlement community makes a meaningful contribution to the project. Meaningful contribution is a direct cash match to the State CDBG funds of ten percent or more. This match requirement would be **in addition** to the required match for the project.

*For example, a company is planning to locate near the border of an ineligible city but within the township. Infrastructure improvements are needed within the ineligible community to allow for this expansion. The project has elements within the entitlement area, but the County is an eligible UGLG and will receive significant benefit.*

## APPLICATION PROCESS

**I. Grant Process:** The grant application and approval is a multiple step process. Applications are generally received on an ongoing basis, but may include competitive grant rounds for certain activities. In either case, the process remains the same. Once a project is identified and reviewed by MEDC leadership the UGLG works with MEDC staff to perform the following steps:

- ✓ Intake Form and Supporting Documents
- ✓ Offer Letter/Letter of Interest
- ✓ Application
- ✓ Term Sheet
- ✓ Environmental Review
- ✓ Financial Review, if applicable
- ✓ Recommendation by the MEDC to MSF on Project Funding
- ✓ Grant Agreement
- ✓ Grant Administration and Funding
- ✓ Grant Closeout

The Application is a form submitted by the UGLG providing basic information on the proposed project, project activities, and a summary of the project budget including grant funds being requested and other funds supporting the proposed project. Grants will be awarded as funding availability allows.

Applications for competitive allocations will be preceded with announcements to potential UGLGs, which will identify specific selection criteria that are outlined within this document. The

competition will be publicly announced. Approved projects will include only those activities identified within this Guide and will be awarded as funding availability allows, as determined in the sole discretion of the MEDC and MSF.

The MEDC reserves the right to prescribe revisions in project proposals if activities prove to be CDBG ineligible, do not address program initiatives, or are not necessary project components; if proposed project costs are determined to be unacceptable, e.g., costs exceed CDBG requirements; or if there is not enough funding available to fully fund the request. Additionally, projects should not be submitted for consideration if there is local controversy regarding the activities or proposed outcomes.

If it is determined that the proposed project has adequately met the screening guidelines, selection criteria, and there is available funding, the local government will be authorized to execute a grant or loan agreement. A conditional grant award or commitment may be issued in the event there is a delay in receiving the state's allocation from HUD. Please see page 15 for more information on incurring costs.

- II. Screening Guidelines and Selection Criteria:** In considering project funding, a system based on screening guidelines and selection criteria is used to evaluate and invite applications and approve funding. The screening guidelines are considered to be thresholds that must be met or exceeded for a particular project to receive funding. If these thresholds are met by a proposed project, a positive funding decision may be made depending on the availability of funds, capacity of UGLG to administer, quality of positions, project sustainability and compliance with all other program requirements. The selection criteria are used to weigh the viable aspects of projects when a competitive award is to be determined

*Administration and compliance of current and previous grant awards will be considered, during funding evaluation, to establish capacity of the UGLG.*

- A. CDBG Cost Per Job:** A job is defined as a full-time and full time equivalent (FTE) permanent position. The total "CDBG cost per job" is calculated by dividing:
- Total dollar amount of CDBG funds to be spent for the activity (including administrative), by
  - Total number of full time equivalent positions to be created or retained as a result of each facility/improvements by all of the businesses for which the project is principally being undertaken.
- B. Economic Development Underwriting (Financial Viability):** The CDBG regulations contain Guidelines and Objectives for Evaluating Project Costs and Financial Requirements. The MEDC shall consider the guidelines provided as an appendix to the CDBG regulations at 24 CFR Part 570 for basic financial underwriting of projects being considered for all businesses that will benefit from funding under economic development. The level to which the guidelines will be implemented is project and circumstance specific. Note that these guidelines only apply to projects that assist a private business entity. There are six criteria:

- 1. Project Costs are Reasonable:** A breakdown of ALL costs (CDBG and private funds) associated with the project will be evaluated to determine the reasonableness of each cost. UGLGs can assist in this review in the following ways:

  - Receive project quotes from independent, third parties
  - Receive multiple estimates for a project, typically three
  - Look at costs of comparable projects
  - Use guaranteed contracts, performance bonds or letters of credit

**Note:** Businesses that are selecting their own contractors will be required to show costs are reasonable by documenting project quotes from independent, third parties.
- 2. Sources Are Committed:** The business should verify that sufficient sources of funds have been identified to finance the project (including debt and equity). To fulfill this requirement, the MEDC requires a written verification affirming the various funding parties' intentions to make funds available, and, depending on the nature of the funding party, a showing of their capacity to actually provide such funds.
- 3. CDBG Funds Are Not Substituted for Non-Federal Funds:** In general, the recipient should clearly establish that there is a need for the investment of public resources. This is typically done by identifying that total funding for the project has a financing gap or a rate of return gap. The level of analysis will vary with the nature and complexity of the project.
- 4. Financial Feasibility:** The public benefit expected from the investment of CDBG funds is the creation and maintenance of LMI positions. That benefit will not materialize if the project is not financially feasible. The financial viability can be evaluated based on assumptions about the project's market share, sales levels, growth potential, revenue projections, project expenses, and debt service or other private committed financing sources, equity contribution in place and any other non-MSF financial source verified to determine if the project will at least break even.
- 5. Owner's Equity Return is Not Unreasonably High:** CDBG should not provide more than a reasonable return on investment to an owner, given industry rates of return, local conditions, and the risk of the project.
- 6. CDBG Funds Disbursed Pro Rata:** As a general rule, CDBG funds should be disbursed proportional to the percentage of the project they fund. CDBG money should not be the first money into a project, but rather should flow into a project in proportion to other project funding sources. For example, if CDBG funds are 20 percent of the project, CDBG funds should not exceed 20 percent of the aggregate proceeds disbursed. Exceptions may be made if funds are allocated for acquisition that must occur first or that funds must be disbursed pro rata for the required cash match of an infrastructure project, but not for the required private investment rate.

**C. Other Due Diligence Requirements:** In addition to the financial review, there are other items that will be considered during the due diligence process.

- 1. Background Checks:** The MEDC has established requirements to ensure that funds awarded are not provided to any person that has been convicted of a criminal offense or held liable in civil proceedings that negatively reflects on the business integrity of the person based on a finding of embezzlement, theft, forgery, bribery, falsification or destruction of records, receiving stolen property, or violation of state or federal antitrust statutes, or as otherwise required by law. Any businesses or individuals benefitting from CDBG funds will be subject to background check.
- 2. Excluded Parties List and HUD's Limited Denials of Participation List:** Before a project is recommended to the MEDC, it will be verified that any business benefitting from the project is not on these federal lists. Any contractors or consultants associated with the project, after the signing of the grant agreement, will also be verified as they are selected.
- 3. Development Agreements:** The MEDC will require Development Agreements between the UGLG and business and/or developer prior to approval, if the project is considered high risk that may result in repayment or project failure. Generally, position creation projects that exceed \$500,000 for an individual business will be considered high risk, if the job creation happens after CDBG funds are disbursed. UGLGs must consider obtaining security (in the form of liens, guarantees, mortgages, etc.) for the performance of obligations in any high risk project, and must maintain appropriate levels of security, if obtained. UGLGs must ensure that businesses/developers are aware that the development agreement obliges both the UGLG and the business/developer to grant terms and conditions, including but not limited to position creation or retention requirements. The MEDC is not a party to the development agreement between the UGLG and business/developer. The MEDC does not provide example Development Agreements, however can provide draft CDBG Grant Agreement between the MEDC and UGLG. It is strongly recommended that Development Agreements between the UGLG and contractor contain the requirements identified in the CDBG Grant Agreement.

**III. Maximum Project Period:** Projects must be completed within twenty-four (24) months from the date the funding is awarded. Funds not disbursed within the specified time limit may be recaptured by the MEDC for reallocation to eligible CDBG projects. All grant agreements will incorporate timelines to assure the project is on track to have successful completion within the grant term. The MEDC may make exceptions to grant/loan amount limits and project periods based on the project's impact on the community and the economy, the number of positions created, the needs of the community, the level of benefits to LMI people and other considerations permitted under federal law. Exceptions will be considered as part of the funding decision and will be considered by the MEDC on a case by case and circumstance by circumstance basis.

## ELIGIBLE ACTIVITIES

Activities cited in Section 105(a) of Title I of the HCDA are eligible for assistance. The MEDC has the following policies regarding the following specific eligible activities.

- I. **Contingency:** Funds providing for contingencies must be related to construction activities. A contingency must be identified in the specific budget line item for which it is intended and must be reasonable in amount (no more than 20%).
  
- II. **Administrative and Engineering:** CDBG funds may be available to assist UGLGs with the cost associated with management of their CDBG Grant when using a CDBG Certified Grant Administrator (CGA). UGLGs will work with an assigned CDBG Program Specialist to address CDBG compliance necessary for their project and procure a CGA with a request for proposal. CDBG funded CGA costs should not exceed five (5) percent of the CDBG funded activity costs, excluding engineering and administrative costs, or \$30,000, whichever is less. In the case of a complicated project with the use of a CGA, small project scope or other extenuating circumstances, the MEDC may consider allowing a higher percentage or amount for administration. A written request must be submitted with the application documents justifying the need for the additional administrative costs.

In the case of the CDBG Loan Program, as of July 1, 2015 only Local CDBG Revolving Loan Funds (RLF) or Regional Loan Program Administrators are eligible to utilize up to 18% of the program income they receive in order to reimburse eligible program administrative costs incurred.

CDBG funded administrative or engineering costs, which involve a third party, must be procured for cost reasonableness. The contract must outline the specific activities that will be performed and the justification for the costs. Estimates for third party administrators and engineers should be provided at time of application. Local or other funds must be used for additional administrative and engineering cost overruns.

All reimbursement requests for administrative or engineering costs must reflect services rendered and actual costs rather than a flat fee.

CDBG funds may not be used to administer other federal or state grant programs which may be conducted in conjunction with a CDBG project. Federal regulations do not allow CDBG funds to be used to supplant funds otherwise available to UGLGs. Typically, UGLGs that administer their own grants, provide the administration as in-kind leveraging (above the required local cash match).

Any costs and time funded by CDBG or CDBG Loan Program Income must be documented through the appropriate means (i.e., invoices from local newspapers for advertisements placed for hearings, postage, time sheets indicating work performed for the particular project, etc.). The documentation must be kept on file, and will be reviewed when requesting payment or during the monitoring visit. More information on administrative and engineering costs is available in the Grant Administrative Manual (GAM) in Chapter 4 (Procurement and Contracting), Chapter 8 (Financial Management), and Chapter 10 (Construction Management and Labor Standards).

- III. **Other Activities:** Please refer to Program Specific Requirements for eligible detail for other activities.



## PROJECT ELIGIBILITY REQUIREMENTS

**I. National Objective Requirements:** Under the CDBG Program, all projects must meet one of the following National Objectives and the attending statutorily mandated requirements to be considered for funding:

- The activities will benefit persons of low and moderate income (LMI), as defined by Section 104(b)(3) of the Housing and Community Development Act and 24 CFR 570.483;
- The activities will aid in the prevention or elimination of slums or blight, as defined by 24 CFR 570.483; or
- The activities are designed to meet other community development needs having a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community which are of recent origin or which recently became urgent, where the community is unable to finance the activity on its own and where other financial resources are not available to meet such needs, as defined by 24 CFR 570.483.

**A. LMI area benefit projects** must provide benefit to the entire UGLG identified as LMI Communities, where over 51 percent of the residents are low and moderate income persons. A copy of the Michigan CDBG Program Low-Moderate Income Community Customer List is located on the MEDC website. This list consists of communities with a “traditional downtown” or “traditional commercial center” defined as a grouping of 20 or more contiguous commercial parcels, containing buildings of historical or architectural significance. The area must have been zoned, planned, built or used for commercial purposes for more than 50 years. The area must consist of, primarily, zero-lot-line development and have pedestrian friendly infrastructure.

An income survey may be used in the event that data from the US Census Bureau does not indicate a community low and moderate income of 51%, but the local community has reason to believe that the service area is actually at or above 51% low and moderate income persons. With approval from the MEDC, a survey may be undertaken if the UGLG has reason to believe, and can demonstrate, that an event in the community, such as factory openings or closing, layoffs by a major employer in the service area, or the occurrence of major disasters (tornados, fire, etc.) has changed the percentage of low and moderate income residents originally given by HUD’s census data. Prior to conducting an income survey, a community must submit a survey application (Form 2-A), and receive approval from the MEDC.

**B. LMI job creation projects** must result in position creation or retention where at least 51 percent of the positions are made available to, or held by, LMI persons. Very low, low, and moderate-income limits are defined each year by HUD, and identify household income levels by household size. Typically the moderate-income level is 80 percent of the county median family income and is based on the income level of the household and not the individual filling the position. For job creation projects, the very low, low, and moderate-income requirement is applied at the time of hire. Job creation only refers to new jobs or positions to the company and the United States. Jobs are not counted unless they are hired after the effective date of the grant agreement.

For job retention, the eligibility requirement is applied at the time of application for CDBG

Funds. In unique instances of position retention, the eligibility requirement may apply to a portion of the positions that are anticipated to turnover, for which the position requirement would be applied at the time of the new person being hired. Turnover cannot account for more than 10% of the job retention requirement. To consider positions retained as a result of CDBG assistance there must be “clear and objective” evidence that positions will be lost:

- Evidence that the business has issued a notice to affected employees or made a public announcement to that effect, or
- Analysis of relevant financial records which clearly and convincingly show that the business is likely to have to cut back employment in the near future without the planned intervention.

For job retention activities, either or both of the following conditions apply with respect to at least 51 percent of the jobs:

- The job is known to be held by an LMI person, or
- It can be reasonably expected that the job will turn over within the following two years and be filled by an LMI person upon turnover.

For both job retention and creation, the business must also provide a hiring plan which details the number of positions to be created, the number of positions held or to be filled by LMI persons, the type of position, average wage, any special skills or training required, the timetable for hiring, and whether or not health care will be provided for the position. The plan must indicate who will be responsible for hiring, collecting required data, and for training to be provided. The job commitment should be realistic in determining the total number of jobs, the number of jobs to be filled by LMI persons, and the timeframe for hiring. Failure to comply with the requirement to benefit at least 51 percent LMI persons could result in the State requiring repayment of all of CDBG funds spent on the project. The business must continue to collect income verifications from all applicants and employees hired until hiring is complete and the jobs are monitored and verified by the MEDC.

Jobs are defined as full-time and full-time equivalent (FTE) permanent positions, which do not include construction positions, temporary positions, transferred, or layoff recalls. The Department of Labor allows jobs of 35 hours or more per week to be classified as full time positions. All such positions should be broken out from the part time positions and counted fully. Notwithstanding the fact that 35- hour positions can be counted as full-time employment, any part-time positions requiring less than 35 hours per week must be converted to FTE positions using a factor of 40 hours for each full-time job.

Seasonal positions may be considered to be permanent only if the season is long enough for the position to be considered as the employees' principal occupation. Only those positions, which are created, or retained, within the grant project period, will be considered in meeting the National Objective and screening guidelines. The MEDC will make a final determination of the actual number of positions created, or retained, and the actual number of positions available to, or held by very low, low, or moderate-income people at the time the project is officially closed out by the MEDC and will be based on documentation provided by the local government grant recipient.

**C. LMI Housing (Rental Rehabilitation) projects** are those moderate or substantial rehabilitation

activities of existing occupied or vacant rental housing or conversion of vacant space to rental units of which 51% of total units will be occupied by LMI households upon completion. Rental units must be occupied by LMI households at affordable rents. LMI household means a household having an income equal to or less than the Section 8 low-income limits established by HUD. This distinction is very important because there can be situations where the persons residing in an assisted housing unit are not all members of the same family. For rental rehabilitation projects, compliance with the LMI benefit national objective is based on the *initial* occupancy of the rental unit following the completion of the CDBG assisted work. Income eligibility must be determined prior to lease signing. New leases require a minimum duration of 1 year.

- D. Blight elimination projects** can be qualified on an area or spot basis. For spot blight, the UGLG must provide certification from a Licensed Building Inspector that the project site meets the definition of blight as defined in a local ordinance or the Brownfield Redevelopment Financing Act 381 of 1996, MCL 125.2652 (e) (i-iv) and (vii), the reasoning for that determination, and how the proposed project will eliminate the blight causing elements. For area blight, the area must be designated as a slum or blighted area by the UGLG through a resolution and must meet the definition of a slum, blighted, deteriorated, or deteriorating area under a State or local ordinance.
- E. Urgent need projects** are generally not supported by the MEDC, unless the projects have a larger regional or State wide impact which may be supported by a declaration of a State of Emergency.

All grantees will be required to comply with all current and newly adopted reporting requirements, including all items necessary to document compliance within the Integrated Disbursement and Information System (IDIS).

**II. “Anti-Pirating” of Jobs:** Section 588 of the Quality Housing and Work Responsibility Act of 1998 prohibits States and UGLGs from using CDBG funds for employment relocation activities or “job pirating”. Job pirating refers to the use of federal funds to lure or attract a business and its positions from one community to another community. CDBG Funds may not be used to assist for-profit businesses, including expansions, as well as infrastructure improvement projects or business incubators which are designed to facilitate business relocation IF:

- The funding will be used to assist directly in the relocation of a plant, facility or operation; and
- The relocation is likely to result in a significant loss of jobs in the labor market area from which the relocation occurs.

The following are definitions that will assist in determining applicability:

- Labor Market Area (LMA): An economically integrated geographic area within which individuals can live and find employment within a reasonable distance or can readily change employment without changing their place of residence.
- Operation: A business operation includes, but is not limited to, any equipment, employment opportunity, production capacity or product line of the business.
- Significant Loss of Jobs: A loss of jobs is significant if
  - The number of jobs to be lost in the LMA in which the affected business is currently located is equal to or greater than one-tenth of one percent of the total number of

- persons in the labor force of that LMA; OR in all cases
    - The loss of jobs is 500 or more.
- A job is considered to be lost due to the provision of CDBG assistance if the position is relocated within three years of the provision of assistance to the business. Notwithstanding the above definition, a loss of 25 positions or fewer does not constitute a significant loss of positions.

Before directly assisting a business with CDBG funds, in the form of a grant to the UGLG, the MEDC shall obtain a written certification from the assisted business. The certification shall include:

- A statement from the assisted business as to whether the assisted activity will result in the relocation of any industrial or commercial plant, facility, or operation from one LMA to another, and, if so, the number of jobs that will be relocated from each LMA.
- If the assistance will not result in a relocation covered by this section, a certification from the assisted business that neither it, nor any of its subsidiaries, has plans to relocate jobs at the time the grant agreement is signed with the UGLG that would result in a significant job loss as defined in this rule; and
- The grant agreement with the UGLG shall provide for reimbursement of any assistance provided to, or expanded on behalf of, the business in the event that assistance results in a relocation prohibited under this section.

## PROGRAM REQUIREMENTS

- I. **Grant Administrative Manual (GAM):** The GAM is available online and is intended as a guide for UGLGs that have received CDBG grants from MSF. It outlines the Federal rules that govern the use of CDBG awards as well as the MEDC's policies from initial award to grant close-out.

UGLGs, benefited businesses, developers and contractors should be aware at the outset of the existence of the federal statutes and regulations that have scheduling, cost, and substantial paperwork implications when CDBG funding is used for projects. Businesses must be prepared to accept delays and other requirements and should not harbor unrealistic expectations about the speed with which a project may develop. The following listing is by no means comprehensive, but UGLGs should be aware that the average due diligence time prior to MEDC consideration ranges from three to six months. This list simply highlights areas that are commonly applicable during the due diligence period.

- II. **Davis-Bacon Act (and related acts):** These federal statutes and regulations require that federally-assisted construction work in excess of \$2,000 must have prevailing wage rates (determined by the U.S. Department of Labor) paid to all employees working on such construction work. If CDBG funds assist even just a portion of the construction work, then Davis-Bacon becomes applicable to the entire construction work. Note however, that CDBG funds can finance activities other than construction work, without triggering Davis-Bacon requirements, even though CDBG funds are part of an overall project which may involve construction work (i.e. Job Training).

- III. Environmental Review:** These federal statutes and regulations require that CDBG-assisted projects must have an appropriate environmental review process completed prior to project costs being incurred. This process must be documented with an appropriate environmental review record. The environmental review process and its documentation are the responsibility of the UGLG. The entire project for Environmental Review is the entire "footprint" of the project—not just the portion of the project involving CDBG-funded activities—and must be aggregated when reviewing the project's environmental impact. The time required to complete the entire process of environmental review varies considerably depending on the facts and circumstances of each project and can take as little as a few days to several months. The time requirement for this process is often underestimated by businesses and UGLGs. Generally, in order for a project application to be viewed as complete for consideration to the MSF Board, the environmental review must be complete. Specific discussion of the environmental review requirements, including flowcharts and forms are available in Chapter 5 (Environmental Review) the GAM.
- IV. Fair Housing and Equal Opportunity:** Applicable state and federal laws were established to ensure that protected groups are not subjected to discrimination under any program supported, in whole or in part, with federal funds. Various laws apply to project beneficiaries, employment opportunities, contracting opportunities, and fair housing. UGLGs are required to develop Fair Housing and Section 3 plans and comply with the Section 3 and Fair Housing laws throughout the implementation of a CDBG project, as well as other equal opportunity compliance requirements.
- **Section 3:** Section 3 provides that to the greatest extent feasible, preference for economic opportunities such as job training, employment and contracts arising through HUD-assisted projects, shall be directed toward Section 3 residents and to business concerns who provide economic opportunities to these residents. Section 3 reporting and performance requirements apply to the UGLGs if the CDBG award amount is more than \$200,000, and to all contractors and subcontractors receiving more than \$100,000 if the \$200,000 threshold is met.
  - **Fair Housing:** Title 1 of the Housing and Community Development Act of 1974, as amended, requires that the UGLGs affirmatively further fair housing and adopt a fair housing ordinance.
- V. Uniform Relocation Act:** These federal statutes and regulations require that federally-assisted projects involving acquisition, relocation, and one-for-one housing replacement follow required guidelines once CDBG is the likely funding source, generally at the time an Offer Letter is executed.
- A. Acquisition:** The UGLG is required to ensure compliance for all types of real property acquisition, regardless of who purchases the property or who pays for the property. This includes, but may not be limited to, property purchased by the UGLG, other Public Agencies, and Private Entities. There are certain notices that must be sent even if the acquisition is not subject to the URA. If Federal financial assistance is used in any part of the project, the Uniform Act governs the acquisition of real property for the project and any resulting displacement.
- The UGLG should not begin the acquisition process until the environmental review has been completed. However, after an executed Offer Letter, an option agreement, with the below required contingencies, may be used to gain site control while allowing time to complete the

environmental review.

- The option agreement is subject to a determination by the recipient on the desirability of the property for the project as a result of the completion of the environmental review in accordance with 24 CFR Part 50 and 24 CFR Part 58;
- The cost of the option is a nominal portion of the purchase price (2-5%);
- Prior to signing the option agreement, the property owner is informed of the fair market value of the property and that the power of eminent domain will not be used; and
- The option agreement is subject to the availability of CDBG funds.

**B. Relocation:** Relocation involves any permanent and involuntary displacement of individuals, families, or businesses, (including non-profit organizations and farms) that is a direct result of the acquisition, demolition, or rehabilitation of property associated with a CDBG funded project. UGLGs should have a local Anti-Displacement and Relocation Plan in place, refer to the GAM, Chapter 7. At the time the Offer Letter is executed, a General Information Notice must be sent to tenants in the effected project area. Please notify the MEDC immediately if your project may involve displacement as a result of the CDBG funded project.

**C. One-for-one housing replacement requirement:** CDBG funds may not be used to reduce a jurisdiction's stock of affordable housing. The CDBG regulations [24 CFR 570.606(c)(1)(i)] state that: "All occupied and vacant, occupiable low- and moderate-income dwelling units that are demolished or converted to a use other than as low- and moderate-income dwelling units in connection with an activity assisted under this part must be replaced with low- and moderate-income dwellings units." Replacement of low- and moderate-income dwelling units is not a CDBG eligible activity. Since this expense must be paid with non-CDBG funds, the UGLG should carefully consider demolishing residential dwelling units. Please notify the MEDC immediately if your project involves the demolition of residential dwelling units.

**VI. Reporting Requirements (HUD Required Employee Reporting, Business Financial Reporting, and Other Record Keeping Requirements):** The benefited business and the UGLG have various, periodic, employment and financial reporting and record keeping requirements pursuant to CDBG regulations. Semi-annual employment reporting may be required, and all information on CDBG assisted activities must be retained until the MEDC notifies the UGLG.

**VII. Overview of Requirements Related to Incurring Costs:** Incurring costs; including CDBG, local, and private costs prior to authorization and/or completion of the environmental review could jeopardize the proposed CDBG funding. Incurring costs, after an executed Offer Letter, includes but is not limited to signing option/purchase/easement/lease agreements, signing purchase orders for equipment, and signing consultant and construction contracts. The following provides for timing of procurement for engineering & architecture, construction, and purchases. However, all potential grantees must also follow all other CDBG requirements and should contact the CDBG office prior to signing any contract or incurring any cost related to the project. There are three types of costs:

**A. Preliminary Costs:** These are costs incurred prior to the grant agreement such as preparing the application documents and providing preliminary cost estimates.

- These are not considered incurring project costs as long as any and all contracts are for these preliminary activities only. If a contract for these costs includes other costs associated with specific grant activities (i.e. design and construction engineering, architectural work, administration, etc.), then this may be considered incurring costs.
- These costs should be paid for by the community and/or private match, not triggering CDBG procurement.
- These costs may not be included in the project activities/budget and they may not be counted toward the local and/or private match.

**B. Exempt (soft) Project Costs:** These are costs for administration contracted by a third party, design, construction/oversight engineering, architectural work, and other soft costs necessary to carry out the project activities. The timing and procurement requirements for these activities depend on who is paying for these costs.

- If these costs are to be paid for with all non-CDBG funding:
  - This is considered incurring exempt costs so the community must submit a written request to the CDBG staff requesting to incur these costs that includes the dollar amounts of these costs. The MEDC must provide written authorization to incur these costs.
  - This can be done prior to the grant agreement being executed and prior to the completion of the environmental review.
  - One hundred percent (100%) of these costs must be paid for with non-CDBG funds. Therefore, the CDBG procurement requirements do not apply.
  - The contract must be signed after written authorization has been provided by the MEDC.
  - These costs must be included in the project activities/budget and can be counted toward the local match.
- If these costs are to be paid for in whole or in part with the CDBG grant funds:
  - This would also be considered incurring exempt costs so the community must submit a written request to the CDBG staff requesting to incur these costs that includes the dollar amounts of these costs. The MEDC must provide written authorization to incur the costs.
  - The community may need to follow the appropriate CDBG procurement requirements. These requirements depend on the activity and who is engaging the consultant, contractor, etc.
  - The contract should be signed after the grant agreement executed and written authorization has been provided by the MEDC.
  - These costs must be included in the project activities/budget.

**B. Non-Exempt (hard) Project Costs** - These costs include but are not limited to signing purchase/easement/lease agreements, ordering materials/machinery/equipment, and signing construction contracts after an executed Offer Letter. The timing and procurement requirements for these activities depend on who is paying for these costs.

- If these costs are to be paid in whole with private funds:
  - This is considered incurring non-exempt costs so the community must submit a written request to the CDBG staff requesting to incur specific private costs that includes the dollar amounts for those costs. The MEDC must provide written authorization to incur these costs.
  - This can be done prior to the grant agreement, but the environmental review and any other applicable CDBG requirements must be complete.
  - One hundred percent (100%) of these costs must be paid for with private funds. Therefore, the CDBG procurement requirements do not apply.
  
  - The purchase/easement/lease agreement, purchase order, construction contract, etc., must be signed after the environmental review has been completed and written authorization has been provided by the MEDC.
  
- If these costs are to be paid for in whole or in part with CDBG funds:
  - This would also be considered incurring non-exempt costs so the environmental review and all other applicable CDBG requirements must be completed. The MEDC must provide written authorization to incur these costs.
  - The grant agreement must be executed.
  - The community must follow the appropriate procurement requirements.
  - The purchase/easement/lease agreement, material/equipment purchase order, construction contract, etc. must be signed after the environmental review has been completed, the grant agreement is in place, and written authorization has been provided by the MEDC.



## Business Development Program Requirements

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### BUSINESS DEVELOPMENT PROGRAM EVALUATION-GENERAL

All Business Development Projects will be evaluated on the following:

- **National Objective:** Proposed projects are expected to result in the creation of full-time equivalent (FTE) positions of which at least 51% of the created positions will be held by LMI persons. Proposed projects are expected to create and/or retain the largest number of positions with the least amount of Community Development Block Grant (CDBG) investment.
- **Job Creation:** Priority will be given to projects creating ten or more permanent full-time positions that pay an average hourly rate of at least \$9.00 or 75% of the average hourly wage rate of the applicable county.
- **Leverage Ratio:** Proposed projects are expected to leverage private investment funds. Funding priority will be given to projects when the leverage ratio of all other private and public funds to CDBG funds is 1:1 or greater.
- **Local Participation:** Proposed projects are expected to demonstrate local government support.
- **Economic Impact:** Proposed projects are evaluated on their economic impact, including the diversification of the economic base of the local and State economies.
- **Financial Viability:** All projects must be financially viable. Please refer to the Economic Development Underwriting (Financial Viability) section for guidance on that evaluation process.

### ELIGIBLE ACTIVITIES AND SPECIFIC RELATED CRITERIA:

- I. **Business Development-Assistance to Benefit Businesses:** Eligible under this category activity would be activities eligible under HCDA that provide assistance to private, for-profit entities. The following identifies specific related criteria for some eligible activities under this category.
  - A. **Machinery and Equipment:** These projects are generally supported by the CDBG Revolving Loan Program or other incentive programs available at the MEDC.
  - B. **Job Training:** Funds can be used for On the Job Training (OJT) or Vendor Training. On the Job Training (OJT) will be reimbursed per person for actual costs. OJT expenses for individual trainees should be completed within six months of their hiring date. Employees trained with CDBG funds must be retained for 90 days after conclusion of training, unless waived by the Michigan Strategic Fund (MSF) MSF or the MSF Fund Manager (for projects under one million dollars). There is no reimbursement for company trainers. Grant proceeds should be used for Michigan residents. Along border communities, Michigan residents should be given first priority, unless waived by the MSF or the MSF Fund Manager (for projects over \$1 million)

**Land Acquisition:** CDBG funding can be utilized for property acquisition activities. Projects should be accompanied by a viable business plan, at least one appraisal completed within the past 12 months, along with the current SEV, documentation that all taxes

are current, as well as verification that non-mortgage liens have not been placed on the property. Specific requirements for appraisals are outlined in Chapter 6 (Acquisition) of the Grant Administration Manual (GAM) GAM.

- C. Working Capital:** Grant proceeds may be used for working capital needs. Working capital is the money needed to grow business, to cover short term obligations and to cover business expenses. Expenses to be considered include, but may not be limited to, rent or mortgage, salaries and wages, benefits, inventory, utilities, supplies, computer/printer/software, insurance, shipping and delivery costs, storage costs, equipment rental fees, marketing/advertising costs, accounting fees and vehicle expense.

- II. Business Development - Assistance to Benefit Communities:** Communities may request grants to provide public infrastructure improvements necessary for the location, expansion, and/or retention of a specific for-profit business firm(s) which is engaged in an economic base activity.

Eligible under this activity would be public improvements, as identified in Section 105(a)(2) of Title I of the HCDA. Examples of eligible public infrastructure projects include the following items: public water or sanitary sewer lines and related facilities, streets, roads, bridges, sidewalks, parking facilities, pedestrian malls, alleys, drainage systems, waterways, publicly-owned utilities and systems, and projects designed to reduce, eliminate or prevent the spread of identified soil or groundwater contamination.

In addition to the evaluation criteria, proposed public infrastructure projects are expected to have local government funding for public infrastructure activities. A minimum of ten (10%) percent local government cash match may be required.

- III. Business Development - Planning:** Planning grants may be available to help communities accomplish project specific planning which is likely to lead to an eligible economic development implementation project. Eligible under this activity would be planning and capacity building, as identified in Section 105(a)(12) of Title I of the of the HCDA. CDBG Planning funding cannot be utilized to create, update, or provide information solely for a community to meet legislatively mandated community planning requirements, including Local Development Financing Authority plans.

Projects will only be considered that can demonstrate that the planning grant will likely lead to an eligible implementation project. The planning study must be specific, with identified goals and outcomes. Funding priority will be given to communities with a higher percentage of matching funds (committed funds only), but a cash match equal to the awarded CDBG funds is required. The maximum individual grant award will not exceed \$100,000.

**IV. Business Development - Unique Grants:** Innovative and creative funding requests may be considered by the MEDC, based on special and/or unique needs, or situations requiring innovative program approaches not specifically provided for in identified programs. This may include, but is not limited to, brownfield site redevelopment, targeted industry development, building and building rehabilitation activities, CDBG Section 108 loan guarantees, activities and services listed in the above categories which do not meet identified screening or selection criteria and/or projects associated with other State or Federally funded initiatives. No additional criteria will be utilized to evaluate these projects beyond the general criteria expenses. Expenses to be considered include, but may not be limited to, rent or mortgage, salaries and wages, benefits, inventory, utilities, supplies, computer/printer/software, insurance, shipping and delivery costs, storage costs, equipment rental fees, marketing/advertising costs, accounting fees and vehicle expense.

## Community Development Program Requirements

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### COMMUNITY DEVELOPMENT PROGRAM EVALUATION-GENERAL

All Community Development Projects will be evaluated on the following:

- **National Objective:** Proposed projects are expected to meet a National Objective of blight elimination; benefiting a population of individuals of whom at least 51% reside in LMI households; or projects that will result in the creation of full-time equivalent (FTE) positions of which at least 51% of the created positions will be held by LMI persons. Preference will be given to projects with job creation commitments. For job creation or retention projects, funding priority will be given to projects creating permanent, full-time equivalent positions and where the amount of CDBG funds per position created is \$35,000 or less.
- **Economic Impact:** Proposed projects are evaluated on their economic impact on local and State economies. This includes the following items:
  - **Location** - Projects will be given priority if they are located within a “traditional downtown” defined as a grouping of 20 or more commercial parcels of property that include multi-story buildings of historical or architectural significance. The area must have been zoned, planned or used for commercial development for 50+ years. The area must consist of, primarily, zero-lot-line development; have pedestrian friendly infrastructure, and an appropriate mix of business and services. The area should have characteristics that create a sense of place.
  - **Project Type** - Priority will be given to projects that demonstrate a majority of the following screening guidelines:
    - located within a community designated as a Main Street or Redevelopment Ready;
    - where building rehabilitation is a factor, consist of:
      - multi-story,
      - mixed-use components,
      - eligible for Historic or Contributing Designation,
      - partially or completely vacant building being returned to active use, and
      - complete and holistic projects.
- **Leverage Ratio:** Leveraging refers to additional non-CDBG funds required beyond the match to complete the project. Proposed projects are expected to leverage private and other public funds. Funding priority will be given to projects when the leverage ratio of all other private and public funds to CDBG funds is 1:1 or greater.
- **Local Participation:** Proposed projects are expected to demonstrate local government support.
- **CDBG Request:** All grant requests, with the exception of planning grants, shall not be less than \$30,000.

- **Financial Viability:** All Community Development projects must be financially viable. Please refer to the Economic Development Underwriting (Financial Viability) section for guidance on that evaluation process.

#### ELIGIBLE ACTIVITIES AND SPECIFIC RELATED CRITERIA:

- I. **Community Development - Assistance to Benefit Small Business:** Direct Assistance to Businesses provides grants to create and retain jobs in Michigan and help create vibrant communities. These grants enable communities to formulate an economic development strategy to support locally owned and operated businesses. The purpose of these grants is to provide funding to jumpstart growth of existing and new businesses, create new jobs, or retain existing jobs, and to enhance the entrepreneurial environment in the community. Eligible under this category would be activities eligible under the HCDA. The following identifies specific related criteria for some eligible activities under this category.

- A. **Community Development - Façade Improvements:** Grants are available for communities that seek to target areas of traditional downtowns for facade improvements which will have a significant impact on the downtown/community. The Façade Improvement Program is structured to provide commercial/mixed-use building façade improvements to sustain and minimize deterioration of traditional downtowns. This program is based on the premise that the exterior improvements will stimulate additional private investment in the buildings, and the surrounding area, attract and increase additional customers, thereby resulting in additional downtown economic opportunities.

Communities that are qualified as LMI communities with a population over 15,000 must include at least five participating properties with façade improvements to meet the area wide benefit national objective for this initiative. LMI communities with a population of 15,000 or less must have at least two participating properties to meet the area wide benefit National Objective.

All projects which include historic resources must meet the Secretary of Interior's Standards for Rehabilitation. All projects should have a contribution of at least 25% of the total project costs. Only complete exterior historic rehabilitation projects will be considered for 25% contribution.

- B. **Community Development - Building Acquisition:** Building Acquisition grants are available for acquisition of vacant, partially vacant, or substantially underused buildings, located in traditional downtowns for rehabilitation into a commercial/mixed use building that will result in position creation. CDBG funding can only be utilized for property acquisition activities.

The CDBG funding allows the community and/or the developer to acquire property that would not typically be purchased and redeveloped due to the substantial amount of money required to rehabilitate. Projects should be accompanied by a viable business plan, at least one appraisal completed within the past 12 months, along with the current SEV, documentation that all taxes

are current, as well as verification that non-mortgage liens have not been placed on the property. Specific requirements for appraisals are outlined in Chapter 6 (Acquisition) of the Grant Administration Manual (GAM) GAM.

Exclusively residential structures and government owned buildings, other than Land Bank properties, are not eligible for Building Acquisition funds. Ineligible activities for this initiative include appraisals, structural analysis, or other soft costs associated with acquisition. Projects that will rehabilitate significant structures, with preference to historic buildings, should have a contribution of at least 25% of the total acquisition costs and leverage private/public funds to assist with the rehabilitation of the property at a 1:1 ratio of CDBG funds. Projects that do not involve extensive rehabilitation projects and are intended for growing small businesses, should have a contribution of at least 50% of the total acquisition costs.

- C. Community Development – Rehabilitation:** Grants are available for rehabilitation of properties. Funding priority will be given to the rehabilitation of vacant, deteriorated and abandoned buildings which are considered to be detrimental to public health and safety. Materials are expected to be long withstanding and quality. Funding priority will be given to projects with the highest percentage of private matching funds (committed funds only), but all projects should have a contribution of at least 50% of the total project cost.
- II. Community Development Assistance to Benefit Communities:** Assistance to Communities is designed to assist local units of government that have plans in place to promote and strengthen the infrastructure and environment in their downtowns. These grants are expected to create vibrant communities and enhance sense of place through blight elimination, job creation, and by benefiting areas of low-moderate income individuals. Public infrastructure includes items located on public property, such as: parking facilities, streetscape, farmers’ markets, public water or sanitary sewer lines, and related facilities, demolition as part of a larger project, streets, roads, bridges, private utilities and public utilities.
    - A. Community Development – Farm to Food:** Grants are available for communities seeking to construct, rehabilitate, acquire, expand, or improve a facility. Awarded funds must be used for the construction, expansion, acquisition, or improvements of existing farmers’ markets. It is expected the structure(s) will be utilized mainly as a farmers’ market. In addition, it is expected that when the structure(s) is not operating as a farmers’ market, that it will be used for additional community activities year round.

Projects will be evaluated on the overall impact of the project on the community, the history of market operations, the financial viability of the market, the visibility of location, project start and completion date; use of the building and site during the farmers’ market off season; offering of services to low-moderate income patrons such as Bridge Card use, Project Fresh, etc.; and innovative design elements that promote multiple uses of the project space. All projects must have a contribution of at least 25% of the total project cost.

**B. Community Development - Public Infrastructure related to Small Business:** Communities may request grants to provide public infrastructure improvements necessary for the location, expansion, and/or retention of a specific for-profit business. These projects will be considered on an ongoing basis. A minimum 25% local government cash match is required.

**C. Community Development-Demolition of Blight:** This program does not require the location to be within a traditional downtown and is allowable anywhere within the community that is designated a slum or blighted area. Eligible under this activity would be property acquisition and clearance/demolition. Ineligible activities for this initiative include any acquisition or demolition of privately owned structures, exclusively residential structures, historic structures and state owned buildings, except for Land Bank Properties.

Funding priority will be given to the demolition of vacant, deteriorated and abandoned buildings which are considered to be detrimental to public health and safety. The community must be able to demonstrate that their proposed project is clearly eliminating objectively determinable signs of blight and is strictly limited to eliminating specific instances of blight (spot blight). Priority projects will meet multiple definitions for blight and, if necessary, provide structural building analysis. No private match is required for this program. A minimum of 25% percent local government cash match is required.

**III. Community Development - Planning:** Planning grants may be available to help communities accomplish project specific planning which is likely to lead to an eligible economic development implementation project. Eligible under this activity would be planning and capacity building, as identified in Section 105(a)(12) of Title I of the of the HCDA. CDBG Planning funding cannot be utilized to create, update, or provide information solely for a community to meet legislatively mandated community planning requirements, including Downtown Development Authority plans.

Projects will only be considered that can demonstrate that the planning grant will likely lead to an eligible implementation project. The planning study must be specific, with identified goals and outcomes. Funding priority will be given to communities with a higher percentage of matching funds (committed funds only), but a cash match equal to the awarded CDBG funds is required. The maximum individual grant award will not exceed \$100,000.

**IV. Community Development - Funding Round Grants:** Grants may be available for public infrastructure, rental rehabilitation and façade projects that upgrade existing public infrastructure systems, substantially rehabilitate rental housing and improve exterior building façades. Announcement of these activities will be made to eligible communities as funding becomes available. Competitive ranking of projects will be based on the proposals received, and awards will be based on the availability of funds. Selection criteria will be announced at the time of the competition. A minimum of no more than twenty five (25%) percent local government cash match may be required. The maximum individual grant award may not exceed \$1,000,000.

- V. Community Development – CDBG Loan Fund/Revolving Loan Fund (RLF):** The intent of the RLF is to provide CDBG eligible loans to businesses and Units of Local Governments (UGLUGs) located within the nine geographic regions established by the MSF, or within the geographic boundaries of an existing Local RLF within the identified regional territory. The MEDC will work with the identified funds to consider projects with existing funding and new funds. However, the MEDC does not intend to further capitalize any funds that are remaining local due to the goal of streamlining funding and creating efficiencies throughout the state. Please note due to the unique nature of these projects and goal of supporting eligible projects brought forward by the funds, Community Development criteria may be waived by MEDC staff.

All Regionalized and Locally held RLF Managers and CDBG Regional RLF Managers were notified that they would have to meet the State of Michigan's definition of "Continuing Activity" as approved by the MSF. Continuing Activity is defined as the successful funding of an eligible CDBG loan activity or extension of commercial credit in the preceding 12 months (July 1<sup>st</sup> – June 30<sup>th</sup>) or, in the cases in which the RLF had insufficient funds to advance on a proper loan request, a request for assistance was made of the State CDBG program and a loan/grant was approved, with a loan/grant agreement having been signed.

If the definition of Continuing Activity is not met, the CDBG Regional RLF Manager will have removed the revolving fund distinction from the CDBG funds. The funds will be reclassified as general CDBG funds, and, per State policy, must be returned to the State as general program income.

- VI. Community Development - Unique Grants:** Innovative and creative funding requests may be considered by the MEDC based on special and/or unique needs, or situations requiring innovative program approaches not specifically provided in identified programs. This may include, but is not limited to, brownfield site redevelopment, small business development, CDBG Section 108 loan guarantees, activities and services listed in the above categories which do not meet identified screening or selection criteria, and/or projects associated with other State, or are Federally funded.