CH 5

ECONOMIC DEVELOPMENT

Introduction

CDBG funds may be used in a variety of ways to encourage economic development and support new and existing businesses. Communities may provide assistance to support small and local businesses to improve economic competitiveness and create opportunities for economic productivity, particularly through projects that will create new jobs, retain existing employment, stimulate private investment and revitalize or facilitate the competitiveness of the local economy.

Depending on the funding year, recipients may undertake commercial revitalization projects which include façade improvement programs to rehabilitate commercial storefronts.

The purpose of this chapter is to explain the requirements and essential program elements needed to carry out business/economic development projects or other activities that help overcome barriers to economic development.

Section 1 – Small Business Development

Small businesses have become increasingly important to the growth of national, regional, and local economies. Small businesses often provide critical sources of new or improved job opportunities, new or expanded goods and services, increased personal income, and new tax revenue to a local economy. In addition, small business ownership can offer an important path to economic self- sufficiency for low- and moderate-income and other disadvantaged entrepreneurs. Providing the resources and services for small businesses contributes to the creation of sustainable communities through economic opportunity.

Eligibility

A small business can be defined in a variety of ways depending on its size in relation to other producers or providers of similar goods or services. The Small Business Act defines a small business as "one that is independently owned and operated and which is not dominant in its field of operation." Generally, a small business is considered to have fewer than 100 employees. The term "microenterprise" is different from a small business in that it is defined as a commercial enterprise that has five or fewer employees, one or more of whom owns the enterprise.

The difference in the two definitions is important when determining a CDBG project's eligible activities. Some of the possible activities may qualify as follows:

- Building: If CDBG funds the renovation of a public building to serve as a small business resource center, it could qualify as a public facility activity under 105(a) (2), depending on the services provided and if it is open to the public and serves the community as a whole; or under 105 (a) (14), economic development activities undertaken by a public/non-profit entity, which would trigger the public benefit standard described in the Business Development section. If qualifying under 105 (a) (2), the building must be generally open to the public during normal business hours. CDBG will not fund operating costs.

- Assistance to For-Profit Business: If a project assists new or existing small businesses directly through training, or counseling (for non- microenterprises), it will be considered eligible as an economic development activity under 105(a) (17). In this case, the economic development underwriting and public benefit standards will apply.

- Microenterprise Assistance: A project being undertaken as a microenterprise activity under 105(a) (22), such as counseling or training, can only assist a business that meets the definition of microenterprise. The public benefit standards do not apply to projects conducted in the microenterprise activity category.

- Entrepreneurship Training: Individuals that want to start a business could be assisted by training under 105 (a) (8) public services. The individual must qualify as low and moderate income. Public benefit standards would not apply.

Generally, there are three types of assistance: building, direct financial assistance, and non-financial. Non- financial assistance for small businesses can include training technical assistance, counseling, peer support, networking, business support services, business plan development assistance, feasibility analysis, marketing assistance, financial analysis, or management assistance.

Buildings / Facilities

Depending on the year of funding, CDBG funds may be used to rehabilitate private, commercial facilities to house programs and services for small businesses. Requirements for CDBG-funded facilities are as follows:

- The project must indicate the business services and/or retails activities that will be carried out in the facility. These services/activities must be identified in the CDBG application along with the providers of services. See also considerations listed under non-financial assistance below.
- Costs to operate and maintain commercial facilities, such as leases and personnel, are not eligible under CDBG, but the funds for these must be demonstrated as available. Proposed operating budgets and sources of funding for a one, three, and five-year period will be required with applications for funding.

Non-Financial Assistance

Depending on the year of funding, technical assistance to small businesses and microenterprises may be eligible for with CDBG funds, but 100 percent of the costs cannot be covered by CDBG. The small business or microenterprise is also expected to contribute (generally 10 percent of the total cost). Programs also may wish to include requirements for successful completion of any training programs by individuals. Collaboration with existing programs or services is essential for efficient delivery. Since there are programs already in place to provide counseling or training to small businesses, projects should incorporate these existing services whenever possible and not attempt to create new or duplicative programs. Training programs should be provided by approved or accredited providers. Counseling programs may involve collaboration with or expansion of Small Business Development Centers funded through the Small Business Administration. More information on the Small Business Administration's programs in South Carolina can be found at http://www.sba.gov/sc/.

When designing a non-financial assistance program, a feasibility plan for operations and service delivery is necessary. The feasibility plan must consider the experience and capacity for providers to deliver the proposed services. Programs for non-financial assistance must incorporate performance measures to ensure successful service delivery. For example, a program should track the number of people who begin small business counseling and then the number of people who complete the counseling courses. Measuring service delivery is important so that good programs can be duplicated, and non-performing programs can be improved. Service delivery can be improved by establishing incentives for completion of counseling. Incentives would increase the rate of completion and encourage more people to participate. Such considerations in project design will improve the success of the program or services for both the participants and the providers.

Programs for non-financial assistance must incorporate performance measures to ensure successful service delivery.

National Objective

During the project design stage it will be important for partners planning small business assistance to carefully determine how the project will work and to whom the assistance will be targeted. Generally, most projects will meet LMI Limited Clientele (microenterprise) or LMI Job Creation National Objective depending on how structured. Retail and façade improvements are typically carried out in Low- and Moderate-Income areas (LMA).

The LMI Limited Clientele category can be used to qualify a microenterprise assistance activity but only if it serves microenterprises that are owned by LMI persons. The microenterprise activity may qualify under LMI Job Creation if 51 percent of the jobs are held by LMI. Generally, the assistance should not exceed $10,000 per job. A program may target either microenterprises or non-microenterprises to make the documentation of National Objectives more simple and uniform.

Services that assist small business that do not meet the definition of microenterprise will typically have to qualify as an economic development activity, which triggers the underwriting and public benefit standards described later in this chapter and further have to meet the LMI Jobs National Objective. This means that 51 percent of jobs created must be held by persons from low and moderate-income families. A prior written commitment to hire or retain LMI persons must be obtained for each assisted business. Refer to Chapter 10 for detailed information on documenting compliance with the jobs national objective.

Conflict of Interest

In small towns and other communities receiving CDBG funds, it is possible that conflicts of interest may arise when undertaking programs that provide assistance to small businesses in the downtown or community. Local recipients should be aware of the applicable conflict of interest requirements when administering economic development programs.

These provisions are designed to ensure that persons that are directly affiliated with the local government, as well as their family members or business associates, will not inappropriately benefit from the administration and distribution of CDBG funds. See Chapter 11for more detailed information on the conflict of interest provisions. The recipient should identify any potential conflicts early in the planning process before a grant application is submitted in order to take appropriate steps to disclose and/or avoid the conflict in compliance with CDBG regulations and state law as described in Chapter 11.

Section 2 – Business Development Programs

Eligible Activities

This program creates a competitive environment for business by providing financial resources for local governments to pursue opportunities to create new jobs, retain existing employment, stimulate private investment and revitalize or facilitate the competitiveness of the local economy. There is an emphasis upon expanding employment opportunities for persons from low- and moderate-income families.

Projects Involving Essential Goods and Services

Depending on the year of CDBG funding, a local government or non-profit entity may use CDBG funds to assist local businesses that provide essential goods and services needed by and affordable to LMI residents. There must be a demonstrated market need. Activities may include acquisition and/or rehabilitation of vacant, in town buildings for lease to a committed tenant.

Projects Involving Job Creation

The types of activities that may be undertaken include the following:

- Direct Assistance: A local government may provide eligible business development assistance directly in the form of a grant and/or loan combination or a loan, or it may provide the assistance through public or private non-profit organizations. Such assistance may include site improvements, building, equipment, and working capital. Debt repayment is not eligible.

  A request for Direct Assistance should contain a business plan and financial information with the following key elements:

  - **General Information**
    - ◊ Business name, name of principals, and the business address.
    - ◊ Purpose of the project - exactly what the assistance will be used for and why.
    - ◊ Amount proposed - the exact amount needed to achieve the purpose.
  - **Business Description**
    - ◊ History and nature of the business- details of what kind of business it is, its age, number of employees and current business assets.
    - ◊ Ownership structure - details on company's legal structure.
  - **Management Profile**
    - ◊ A short statement on each principal in the business; provide background, education, experience, skills and accomplishments.

- **Market Information**
  - ◊ Clearly define company's products as well as markets.
  - ◊ Identify the competition and explain how this business competes in the marketplace.
  - ◊ Profile customers and explain how this business can satisfy their needs.
- **Financial Information**
  - ◊ Financial statements- balance sheets, profit and loss statement, and cash flow analysis for the past two years plus year-to-date information for the current year. If the business is starting out, provide a projected pro forma balance sheet and financial projections for three years, including any proposed expansions, asset and debt additions to balance sheet, and changes to income statement.
  - ◊ Personal financial statements of principal owners of the business.
  - ◊ Collateral to be pledged as security for the assistance.
  - ◊ Source, description, and status of all existing or proposed funding sources and uses of funds.

For any direct assistance or local business providing essential goods and services activities, it is required that the recipient conduct a financial analysis in accordance with HUD and State guidelines to determine the appropriateness of such direct assistance. Businesses will be required to submit the above listed financial and other information that documents the level of assistance needed. (See Section 4 of this Chapter for additional information.)

Grants Administration must determine the need for public assistance in offsetting private sector expenses. A lack of financial need does not preclude CDBG assistance being made available, if other factors warrant the assistance. However, the underwriting is necessary to determine the level of assistance that may be appropriate when all factors are considered. This underwriting must be conducted for any proposed activity that provides direct assistance to a business where the activity does not involve a public facility or improvement.

Additionally, the business will be required to enter into a performance agreement and loan agreement, as applicable, to include terms of the assistance and job creation requirements (performance).

Generally, projects to support job creation through the location or expansion of retail and/or services type projects (shopping centers, truck stops, etc.) may only be considered in areas which qualify under HUD's presumption criteria for low- and moderate-income benefit or in predominately low- and moderate-income communities. See Chapter 10, National Objectives, for information on how to qualify jobs using HUD's presumption criteria.

Projects which involve the relocation of a business from another state, in accordance

with HUD requirements, where there would be a significant job loss in the labor market area will not be funded. Additional projects involving the relocation of a business from one jurisdiction to another within the State will generally not be considered unless there are exceptional circumstances (e.g., where relocation is necessary to retain an existing business or to permit significant expansion of employment and such relocation will not have substantial negative impact on the local economy and employment.)

Job Requirements

HUD regulations require that at least 51 percent of any jobs to be created and/or retained as a direct result of CDBG assistance be for persons whose total family income is low to moderate (LMI Jobs). Any business that will create or retain jobs directly because of any project undertaken with CDBG assistance must provide a written commitment of the total number of jobs to be created or retained as a result of the grant funded activities.

- For new jobs, the employer must commit to hiring at least 51 percent of the employees from low- and moderate-income families.
- For jobs to be retained, the employer must establish that 51 percent of the jobs to be retained are, or within a reasonable time will be, held by persons from LMI families.

Where appropriate, Grants Administration will make a preliminary determination of the potential for LMI jobs to be created by reviewing the entry-level job skills, educational requirements, and job training opportunities to be provided and average wage. For retained jobs, there must also be clear and objective evidence that permanent jobs would be lost without the CDBG assistance. Jobs must be created within a reasonable time frame of the assistance, when the business becomes operational (generally 24 months from the time of assistance). Grants Administration requires a legally binding performance agreement which outlines the terms of the assistance including repayment of a portion or all of the CDBG funds awarded for a project if the jobs creation/retention commitment and LMI hiring requirement is not met.

Generally, projects to support job creation through the location or expansion of retail and/or services type projects (shopping centers, truck stops, etc.) may only be considered in areas which qualify under HUD's presumption criteria for low- and moderate-income benefit.

Section 3 -Economic Development Underwriting Criteria

Applicability and Overview

The CDBG regulations contain Guidelines and Objectives for Evaluating Project Costs and Financial Requirements. These guidelines are designed to assist recipients in underwriting economic development projects and in determining which projects are financially viable and will result in the most efficient use of CDBG funds. Local governments must use the guidelines provided as an appendix to the CDBG regulations at 24 CFR Part 570 for basic financial underwriting of projects being considered for funding under economic development. Note that these guidelines do not apply to public facilities or microenterprise activities.

There are six criteria:

- 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.
- To the extent practicable, CDBG funds are disbursed on a pro-rata basis with other finances provided to the project.

Each of these six criteria is discussed below.

Project Costs are Reasonable

A breakdown of all costs associated with the project (including working capital requirements) should be evaluated to determine the reasonableness of each cost. This will help to avoid providing too much or too little CDBG assistance for the proposed project.

If the budget is overstated there is probably no need for public resources. Conversely, if the budget is understated, the quality of the project may be adversely affected which could also reduce income available for debt service. In extreme cases, the project may go unfinished.

Recipients can control these risks in the following ways:

- Receive project quotes from independent third parties,
- Look at costs of comparable projects,
- Compare CDBG costs to capital investment,
- Use guaranteed contracts, performance bonds or letters of credit, and
- Use retainages for contractor's fee, developer's fee or leasing reserve.

Sources Are Committed

The grantee should verify that sufficient sources of funds have been identified to finance the project (including debt and equity).

- All other sources of funds do not have to be on hand prior to application. However, the authorization of the public assistance may be made contingent upon conventional financing being obtained.
- Avoid the risk of approving and disbursing funds for a portion of the project without sufficient funds from other sources to complete the development.

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. Incentive funds are far too scarce and valuable to waste. Typically, a project has one or two types of funding gaps:

- Financing gap, or
- Rate of return gap.

Financing Gap

Calculating the financing gap determines the least amount of public funds needed for the project. A financing gap is determined as follows:

- Step 1: Determine the budget.
- Step 2: Calculate the amount of debt the project can support.
- Step 3: Compute the amount of equity the project can generate, or the owner has available.
    - If the budget is greater than/equal to the sum of debt plus equity, then there is a financing gap. Public funds may be invested.
    - If the budget is less than the sum of debt plus equity, there is no financing gap and, therefore, no need for public investment.

The concept sounds complicated but can be made quite simple. As an example, assume a small business contracts to buy a commercial building for $100,000. The business owners go to a local bank who will loan $80,000 based on potential business revenues. The business owners have $12,000 in equity (cash) available for the purchase. Since their budget of $100,000 (ignoring closing costs for simplicity) is greater than the sum of debt and equity ($92,000) the transaction cannot occur since there is a financing gap. However, if they access an additional $8,000, they can complete the deal.

Rate of Return Gap

A rate of return gap is a variation of the financing gap. The rate of return gap is the ratio of income received by the owner to the equity invested by the owner and is determined as follows:

- Step 1: Determine the budget.
- Step 2: Calculate debt project can support.
- Step 3: Compute amount of equity necessary to complete the project.
- Step 4: Compare the benefits of the project to the equity invested. Is the return a market rate?
  - If the market rate is greater than/equal to the rate of the prospective project, a gap exists. Public funds should be invested.
  - If the market rate is less than the rate of the prospective project, there is no gap and thus no need for public investment.

Note that the rate of return method is more applicable to real estate transactions than business deals, particularly for smaller projects.

A simple example of how this would work: A rental house costs an investor $100,000 and will have a debt of $80,000. The equity required to complete the house is $20,000. The benefits are estimated at $1,000 per year in a return market that is averaging 10 percent. The return on this property is five percent ($1,000/$20,000). If the market is demanding a 10 percent return, why would a rational investor accept a prospective project with a five percent return? Thus, a rate of return gap exists and public funds can be injected to drive the investor's return to a market rate.

Financial Feasibility

Once a recipient has established the need for public funds, it must determine repayment terms. If the terms are too harsh, the survival of the venture is jeopardized. If the terms of repayment are too lenient, the public funds will overcompensate the project.

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 to determine if the project will break even. This should also take into consideration that:

- Some negative cash flow in the early years may be normal but project financing should take this into consideration,
- A financially viable project will also project sufficient revenues to provide a reasonable return on equity investment, and

- Experience and capacity of the business owners should be assessed.

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. However, it is difficult to compute return on equity for small business projects. The use of standardized publications to calculate rates of return for small businesses is not recommended. There are significant variations in the data and there are many anomalies associated with small business which skew results. This approach is more applicable to publicly–traded companies or real estate projects.

CDBG Funds Disbursed Pro Rata

As a general rule, CDBG funds should be disbursed proportional to the percentage of the project they fund. For example, if CDBG funds are 20 percent of the project, CDBG funds should not exceed 20 percent of the aggregate proceeds disbursed. One exception might be if funds are allocated to acquisition and the property must be purchased first.

Section 4 – Public Benefit Standards

Overview and Applicability

When CDBG funds are used for economic development projects or infrastructure improvements carried out for the purpose of creating/retaining jobs for LMI persons, or to assist local businesses that provide essential goods and services in predominately LMI communities, the CDBG rules require the application of Public Benefit Standards. These standards ensure that at least a minimum level of public benefit is obtained from the expenditure of CDBG funds. Use of these standards is mandatory.

The Public Benefit calculation must be done before the application for assistance is approved by Grants Administration and prior to any assistance being provided. This requirement is separate from the national objective requirement that 51 percent of the jobs ACTUALLY created or retained be taken by LMI persons. (The performance agreement will specify the hiring commitments and time frames and will hold the business responsible for repayment of any CDBG funds required due to a failure to fulfill CDBG hiring requirements.)

Projects Involving Essential Goods and Services

For projects involving assistance to local businesses that provide essential goods and services in predominantly LMI communities, the public benefit is calculated as the cost per person benefited.

Projects Involving Job Creation

In the case of job creation projects, the Public Benefit Standards are really a "cost per job" calculation used to determine if the CDBG financial assistance per job created/retained is appropriate. This requirement is separate from the national objective requirement that 51 percent of the jobs ACTUALLY created or retained be taken by LMI persons. (The performance agreement will specify the hiring commitments and time frames and will hold the business responsible for repayment of any CDBG funds required due to a failure to fulfill CDBG hiring requirements.)

Calculating Public Benefit

Projects Involving Essential Goods and Services

These projects must qualify as an area wide LMI benefit. This means the area served must consist of at least 51% LMI persons. The public benefit must be reasonable and the cost per LMI person is limited to HUD requirements. The cost per LMI person residing in the area served by the assisted business cannot exceed $350, except in a census tract with at least 20% poverty or in a 70% LMI service area. In a 20% poverty or 70% LMI service area, the cost per LMI resident cannot exceed $1,000.

Projects Involving Job Creation

The public benefit calculation begins by determining the total number of jobs to be created or retained as a result of the activity for each particular business for which the activity is principally being undertaken. (For example, 10 jobs to be created at Business A, 5 jobs to be created at Business B, etc.) When counting jobs within each applicable business for public benefit purposes, include all jobs to be directly created or retained as a result of each public facility/improvement.

The total "CDBG cost per job" is then calculated by **dividing**:

- The total dollar amount of CDBG funds to be spent for the activity (less administrative costs), **by**
- The total number of jobs 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.

Cost per Job is Less than $10,000

When the CDBG cost of the project is less than $10,000 per job, only those particular businesses for which the public facility/improvement is being undertaken must submit a commitment letter and hiring plan. Other businesses in the service area, or those that later locate in the area, do not need to be considered.

Where the public facility/improvement is undertaken for the principal benefit of one business, but where other businesses might also benefit, the requirement

may be met by demonstrating that 51 percent of the aggregate total of jobs created or retained as a result of the facility/improvements by the assisted businesses is for LMI persons. The principal business must meet the 51 percent requirement when hiring is completed, and the total number of jobs actually created should not raise the cost per job above $10,000 (unless there are documented circumstances beyond their control that prevented the hiring of the total number of employees committed).

Cost per Job is More than $10,000

While not likely, due to State policy, if the CDBG cost per job of the public facility/improvements is $10,000 or more, then all jobs created or retained by all businesses benefiting from the public facility/improvement must be tracked for the purpose of meeting the national objective (i.e., determining that at least 51 percent of the total jobs are for LMI persons). The tracking period begins the day funds are awarded to a recipient and ends one year after physical completion of the public improvement/facility (approximately 24 months from the time of the assistance).

If the CDBG cost is greater than $10,000 per job, information is needed from all businesses within the service area of the public facility/improvement at the time of the application. For each such business, a commitment letter and hiring plan must be submitted, covering any expected expansion. Businesses not anticipating expansions must submit a letter indicating that no expansion or increase in employment is anticipated within the next two years as a result of the public facility/improvement.

The letter should also state that if the business subsequently determines to increase its employment as a result of the public facility/improvement prior to the expiration of the covered period, that the business will submit a commitment letter and hiring plan covering the anticipated increase in employment. This commitment letter and hiring plan must indicate that at least 51 percent of new employees will be hired from LMI families.

The unit of local government must also submit an assurance that it will require any business newly locating in the service area during the covered period (12 months after completion) to submit a commitment letter and hiring plan for any anticipated increase in employment. At least 51 percent of the new employees must be hired from LMI families. The unit of local government must provide a description of activities to be undertaken to meet this assurance. The assurance must also state that if the local government is unable to document to the State's satisfaction that at least 51 percent of the jobs created or retained (in the aggregate) in the service area during the covered period were for LMI persons, it may be required to repay all CDBG funds awarded to that project.

Section 5 – Other Requirements

"Anti-Pirating" of Jobs

Section 588 of the Quality Housing and Work Responsibility Act of 1998 prohibits States and local governments 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 jobs 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 to assist in determining if a business location falls under these provisions:

- **Labor Market Area (LMA):** An LMA is 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
    - A loss of 500 or more jobs.
  - A job is considered to be lost due to the provision of CDBG assistance if the job is relocated within three years of the provision of assistance to the business.
  - Notwithstanding the above definition, a loss of 25 jobs or fewer does not constitute a significant loss of jobs.
- **Written Agreement:** Before directly assisting a business with CDBG funds, a written agreement from the assisted business is required. The written agreement includes:
  - 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 agreement is signed that would result in a significant job loss as defined in this rule; and
- The agreement shall provide for reimbursement of any assistance provided to, or expended on behalf of, the business in the event that assistance results in a relocation prohibited under this section.

Please contact Grants Administration for assistance if a CDBG project involves an existing business that is located outside of the locality or state.

Meeting a National Objective

Local Business Providing Essential Goods and Services

These types of projects will typically qualify either on the basis of LMI Area benefit or LMI Job Creation/Retention. To qualify under the LMI Area Benefit National Objective, the service area must be 51% LMI and primarily residential in nature. There must be documentation that the business is providing essential goods and services to that service area population. Goods and services might include grocery stores, dry cleaners, pharmacies, health care, etc. A high-end boutique or souvenir shop would not be considered as providing essential goods and services.

Job Creation/ Retention

A Job Creation/Retention activity is one that creates or retains permanent jobs, 51 percent of which are held by persons from low- and moderate-income families. Jobs indirectly created by an assisted activity (i.e., "trickle-down" jobs) may not be counted.

- For job creation activities, the local government and the assisted business(es) must document that permanent jobs have been created, and that at least 51 percent of the jobs, computed on a full time equivalent (FTE) basis, involve the employment of low- and moderate-income persons.
- For job retention activities, the local government must document that the jobs would actually be lost without the CDBG assistance, and that 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 a low- and moderate-income person; or
  - The job can reasonably be expected to turn over within the following two years and that it will be filled by an LMI person upon turnover.

A prior written commitment to hire or retain LMI persons must be obtained for each assisted business. The business must also provide a hiring plan which details the number of jobs to be created, the number of jobs held or to be filled by LMI persons, the type of job, 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 and collecting required data and for any training to be provided. Generally, it is expected that initial hiring by the business will be completed within twenty-four (24) months from the time of the assistance. Projections for future expansions or growth are generally not considered for purposes of determining the number of jobs to be created.

Performance Agreement

In order to formalize the relationship between the state, the local entity, and any assisted business proposing job creation, a Performance Agreement must be signed and executed by all parties. The Performance Agreement is the State's method of ensuring that not only are all program requirements strictly followed by local recipients and subrecipients, but that users of CDBG funds are making sound investments that result in the desired outcomes. The performance agreement and/or loan agreement will provide for the repayment of all or a pro rata share of the CDBG funds awarded for a project if the job creation/retention commitment, LMI hiring requirement, and other requirements of the assistance are not met. See the attachments to this chapter for a copy of the Performance Agreement.

Chapter 6: Economic Development Attachments

- Business Development Project Steps
- Business Development Applicant-Employee Information Forms 10-08
- Business Development Program Implementation Flowchart
- Sample Economic Development Public Facilities Performance Agreement

Forms and resources listed here can be downloaded from www.cdbgSC.com