Starting an Emergency Small Business Grant Program

Using Community Development Block Grant Funds

Disclaimer:

This is meant to assist communities seeking to help businesses maintain operations and survive the COVID-19 crisis.

It is not an exhaustive tutorial on all activities that can be undertaken to assist small businesses generally.

First Steps- Funding

Do you have entitlement funds in a small business assistance program currently?

If no-

Prepare for the CARE Act supplemental entitlement (Hopefully this will be an amendment to the current year PY2019- but is not certain yet)

OR

Reprogram existing funds

Reprogramming Funds

To see if you need a substantial amendment- review your Citizen Participation plan, follow your plan.

When a substantial amendment is required per your CP plan, the process will depend on which year of funding you reprogram.

If you're reprogramming PY2019 funds, (or PY2020) -the CARE Act allows for a reduced 5 day public notice period and virtual public meeting; older funds still require the full 30 day public notice period and (virtual) public meeting. (this 30 day period for old money may change-stay tuned). You will have to also amend your Citizen Participation Plan to add the 5 day period and virtual public hearings, and can do this in tandem with your amended action plan. **Guidance on changes & process related to the CARE Act is still in progress-confirm before proceeding**

Follow your own internal policy regarding transferring funds from one activity to another in your municipalities accounting system.

Eligible Activities:

Small Business grant assistance can be provided under two Eligible Activity categories:

Microenterprise assistance; 24 CFR 570.201(o)(1)(i)

Or

Special Economic Development Activities 24 CFR 570.203(b)

You can assist businesses that are eligible under one, the other, or both. Allowing for both allows you to assist the most businesses.

Microenterprise Assistance:

Businesses eligible for this assistance must have:

- five or fewer employees including themselves and
- the business owner must have a household income at or below 80% of the Area Median Income.

Be sure your program is collecting income and employee information as of now, not as it was prior to the COVID 19 emergency,

For example, the business may have had six employees, but laid off 3 and now may qualify as a microenterprise as long as the owner's income is below 80% AMI now.

Microenterprise Assistance Continued

To document a business as a microenterprise, Its advisable to use/create a certification form for the owner to complete and sign. This should include:

- owner contact information
- number of persons in the owner's household
- owners annual income
- demographic information about the owner
- a list of employee positions, whether they are full or part time, and and benefits provided.

Microenterprise Assistance Continued

It is also strongly encouraged that the business owner's income be documented. This is not regulatory, but advisable and strongly encouraged.

Current circumstances can make it difficult to produce documentation. Collect asset and income documentation where you can.

Owners should produce income documentation, in the absence of that, they should at least complete and sign a form that collects annual household size, income with sources, and asset information. This can be reviewed using HUD's income calculator to ensure eligibility

Special Economic Development Activities

Small Businesses that don't not qualify as microenterprise may be assisted as a Special Economic Development Activity. To qualify as a Special Economic Development Activity, the business must meet a public benefit:

● This means jobs made available to low/moderate persons are created or retained.
● In accordance with 24 CFR 570.209(b) one Full Time Equivalent, permanent job must be created or retained for each $50,000 CDBG funds or $35,000 in the aggregate. This must be documented.
● If a business applicant has laid off some or all employees, but reports they intend to hire once this crisis ends- this can be job creation.
● There is an alternative public benefit standard related to providing goods and services to a neighborhood, see 24 CFR 570.209(b)(ii).

Special Economic Development Activities Cont.

If a business applicant has not laid off employees but reports they will have to; they need to document that BUT FOR this assistance, they will have to lay off employees. This can be done through a self certifying letter, form, explanation in application, etc.

Documenting that a FTE job is created or retained can be accomplished by using a self certifying form completed by the employee at the time of retention or hire. The form should collect the employees name, contact info, household size, household income, hours worked per week, demographic info and any employer provided benefits.

Special Economic Development Activities Cont.

It is likely that you will follow up with employers to collect job created forms when normal business resumes. It's a good idea to have language in your grant agreement that obligates the business to provide these forms within a period of time, perhaps 3-6 months after social distancing ends.

Although IDIS will collect information on jobs created/retained, It is strongly suggested that you maintain a separate log of businesses assisted, with grant/loan amounts and jobs created/retained. *This way, if a business does not meet the public benefit, you may have "extra jobs" from another business to meet the 1 FTE per $50,000 of CDBG funds, or $35,000 in the aggregate.*

Special Economic Development Activities Cont'

Special ED projects also require documentation of underwriting in accordance with 24 CFR 570.209(a). This can be created as a template, updated for each business accordingly. It should consider:

- That project costs are reasonable,
- That sources of project financing are committed,
- That to the extent practical, CDBG funds are not substituting non-federal support,
- That the project is financially feasible,
- that the owners return on investment will not be unreasonably high,
- that CDBG funds are disbursed on a prorata basis with any other financing.
- *More specifics on underwriting are published in Appendix A of part 570. It should be noted that these are guidelines, and different levels of review may be appropriate for the size and scope of the project.*

Designing your Program:

Business applicants must be eligible as either micro enterprise or Special ED, but beyond basic eligibility- decide what, if any, other eligibility requirements you might have.

- Do you want to limit the size of businesses?(SBA considers a small business to have less than 500 employees)
- Is it available to all businesses, a target area, to businesses that had to close by their nature because of social distancing, (bars, salons, barbers, etc)?
- Do you want to prohibit any types of businesses? Businesses over a certain size, businesses that are home based?
- If you know you can not assist all businesses, do you want to assist businesses as "first come first serve" or create a scoring tool to assist specific businesses first- perhaps based on need, size, expenses, distressed area?

Designing your Program Continued

- Ensure eligibility and ineligibility are in writing - in a policy and in your application. *Be mindful that eligibility/ineligibility do not discriminate against a protected class.*
- **Create an application**. Will you use an online survey linked to a webpage, a fillable PDF, a paper survey, (which may not be advisable now)? Do you need to provide this application in multiple languages or with contact info for translation assistance?
- Design your questions around your eligibility and required information you will need to collect, qualify and if applicable, score the applicant. Perhaps ask a business or two to complete the application to be sure your questions are clear- *we learned early on a few of our questions were not clear enough to collect the data we needed.*

Designing your Program Continued

- **Create a applicant checklist** to fairly review each application- this might include the a scoring tool if you chose to score applications.
- **Design your certification forms:**
- <u>Microenterprise</u>**:** microenterprise self certification- helpful but not required, annual income certification <u>Special ED</u>; Job creation certification, job retention certification, underwriting template.
- **Create a applicant tracking document**. You may be flooded with applications, as well as getting follow up calls and emails- track how they qualify, score,(if applicable), where they are in the process -signed agreements, invoices submitted, and checks issued, follow up documentation required/received and jobs expected and documented.

Designing your program Continued

- **Create a grant agreement**- consider including very clear eligible uses and prohibited uses of the funds. For instance- eligible uses might be, lease and utility payments, business monthly debt payments, payroll, payroll taxes, cost of goods. Ineligible uses should include acquisition of real property and construction. Both have other regulatory implications that complicate the process and follow up.
- As part of your grant agreement, **require businesses to provide documentation of how they spent the funds.** It should be fairly easy for businesses to provide you with canceled checks, receipts, or a bank statement highlighting the uses. *This helps to ensure they are not spending funds on ineligible uses. We include a copy of eligible uses and follow up expectations with our grant check.*

Environmental Review

Complete your program's Environmental Review.

If you are not allowing real property acquisition or construction and keep the eligible uses of funds to typical business costs, the program is Categorically Excluded, not subject to 58.5

Other Considerations

Agreements and collecting documents: Do you have the capacity to do this electronically? Do you have a physical "drop off box" if some business are not computer literate?

We purchased DocuSign. It allows for secure execution of documents, can turn certification forms into fillable forms, such as microenterprise self-certifications and collecting a W-9 for our auditors (they want this in order to issue the grant check).

Our docusign did not allow for uploading other documents. Since we are collecting the prior year business tax returns, we had to request applicants provide them to a drop box via a link -our remote access email does not allow for encryption.

Other Considerations

Using Urgent Need as a National Objective:

In order to use this National Objective, the following criteria must be met:

- The existing conditions must pose a serious and immediate threat to the health or welfare of the community
- The existing conditions are of recent origin or recently became urgent (within 18 months)
- The grantee is unable to finance the activity on its own: and
- Other sources of funding are not available.

Caution: Any funds used under this national objective will not count towards your requirement to use 70% of your funds for low/mod benefit over a three year period.

Although working capital expenses for small business assistance appear eligible, many activities are not, be sure to review eligibility first.

Set up in IDIS

Unlike microenterprise programs administered by sub recipients, you will not create one IDIS activity for the program. **You will create an IDIS activity for *each* business assisted** regardless of Microenterprise or Special ED status

Microenterprise businesses, the National Objective will be LMC- low-mod clientele. (the business owner).

Special Economic Development, the National Objective will be LMJ- low-mod jobs.

Set up in IDIS

Project Set Up & Completion Data: IDIS will collect information on

- the business & owner demographics,
- jobs, whether part-time or full time, and employee demographics
- employer provided benefits,
- the loan/grant terms, etc.

It's important to collect this info on your application and certification forms in order to avoid chasing the info later.

If you are unsure about the info you need, you can set up a trial activity to see the screens, then cancel it.

Set up in IDIS

Microenterprise vs. Special ED projects differ in IDIS in one an important way-

Microenterprise- once you have provided assistance to an microenterprise and you have your documentation and data needed, you can close out the project in IDIS

Special ED- you cannot close the activity until you've obtained your job retention/job creation forms. This means the activity may be open for sometime if the activity requires job creation.