

CITY OF KALAMAZOO CDBG PROGRAM FACT SHEET

The information contained in this document is not intended to replace the CDBG Program regulations, 24 CFR Part 570 which provides a more comprehensive description of the rules governing the CDBG Program.

A. Background

CDBG is an entitlement program of the U.S. Department of Housing and Urban Development (HUD). Authorized under Title I of the Housing and Community Development Act of 1974, CDBG funds are used to address a wide range of eligible housing and community development activities.

B. Program Objectives

The primary objective of the CDBG program is the development of viable urban communities. Viable communities are achieved by providing the following, principally for low- and moderate-income persons and families:

- Decent housing
- A suitable living environment
- Expanded economic opportunities

Any eligible activity must address one of the three National Objectives to be considered for CDBG funding, as follows:

- Benefit low- to moderate-income persons;
- Prevent or eliminate slums and blighted conditions; or
- Meet an urgent need.

The majority of the projects funded by the City of Kalamazoo are designed to benefit low- to moderate-income persons. HUD requires that at least 70 percent of the funded activities directly benefit low- to moderate-income persons.

Eliminating slums and blight, while an important component to the CDBG program, have some specific limitations which can equate to fewer projects being funded. Finally, meeting an urgent need is an activity that is designed to alleviate a new and recent condition which poses a serious and immediate threat to the health or welfare of the City. This national objective is rarely used.

C. Low- to Moderate-Income National Objectives

In general, CDBG-funded activities should benefit low- to moderate-income persons. Under this National Objective there are four categories of eligibility, as follows:

1. Low Mod Area Benefit (LMA)

The area benefit category is the most commonly used national objective for activities that benefit a residential neighborhood. An area benefit activity is one that benefits all residents in a particular area, where at least 51 percent of the residents are considered low- to moderate-income persons.

The City has eight (8) neighborhoods which contain Census tracts that are eligible for CDBG funding. These Census tracts were determined through the development of the 2014-2018 Consolidated Plan as those meeting the designation of low-income as defined by HUD. The geographic areas include the following neighborhoods and Census tracts:

- Eastside (Census Tract 1.00)
- Edison (CT 9.00, 10.00 and part of 11.00)
- Fairmont (part of CT 5.00)
- Northside (CT 2.02 & 3.00)
- Oakwood (CT 16.03)
- Southside (CT 11.00)
- Stuart (part of CT 5.00)
- Vine (CT 6.00)

Examples of area benefit activities may include the following:

- Acquisition of land to be used as a neighborhood park;
- Construction of a health clinic;
- Improvements to public infrastructure like the installation of gutters and sidewalks; and
- Development of a community center.

2. Low Mod Limited Clientele (LMC)

Under this category, 51 percent of the beneficiaries of an activity have to be low- to moderate-income persons. Activities in this category provide benefits to a specific group of persons rather than everyone in an area. It may benefit particular persons without regard to their residence, or it may be an activity that provides a benefit to only particular persons within a specific area.

Examples of activities that qualify under the limited clientele category include:

- Acquisition of a building to be converted into a shelter for the homeless;
- Rehabilitation of a center for training severely disabled persons to enable them to live independently;
- Clearance of a structure from the future site of an neighborhood center that will exclusively serve the elderly; and

- Public services activities like the provision of health services, child care, counseling services, etc.

With respect to determining the beneficiaries of activities as low- and moderate-income and qualifying under the limited clientele category, activities must meet one of the following tests:

- a. Benefit a clientele that is generally presumed to be principally low- to moderate-income. This presumption covers abused children, battered spouses, elderly persons, severely disabled adults, homeless persons, illiterate adults, persons living with AIDS and migrant farm workers; or
- b. Require documentation on family size and income in order to show that at least 51 percent of the clientele are low- to moderate-income; or
- c. Have income eligibility requirements limiting the activity to low- to moderate-income persons only; or
- d. Be of such a nature and in such a location that it can be concluded that clients are primarily low- and moderate-income. An example is a day care center that is designed to serve residents of a public housing complex.

3. Low Mod Housing Activities (LMH)

The housing category of low- to moderate-income benefit national objective qualifies activities that are undertaken for the purpose of providing or improving permanent residential structures which, upon completion, will be occupied by low- to moderate-income households.

Examples of eligible activities include, but are not limited to:

- Acquisition of an apartment house to provide dwelling units to low- to moderate-income households at affordable rents, where at least 51 percent of the units will be occupied by low- and moderate-income households;
- Site improvements on publicly-owned land to serve a new apartment structure to be rented to low- and moderate-income households at affordable rents;
- Housing rehabilitation for single family units;
- Conversion of an abandoned warehouse to be reconfigured into new apartments, where at least 51 percent of the units will be occupied by low- and moderate-income households at affordable rents.

In order to meet the housing low- to moderate-income national objective, structures with one unit must be occupied by a low- to moderate-income household. If the structure contains two units, at least one unit must be occupied by a low- to moderate-income household. Structures with three or more units must have at least 51 percent occupied by low- to moderate-income households.

Rental buildings under common ownership and management that are located on the same or contiguous properties may be considered as a single structure. For rental housing, occupancy by low- to moderate-income households must be at affordable rents, consistent with standards adopted and publicized by the grantee.

4. Low Mod Job Creation and Retention Activities (LMJ)

The job creation and retention low- to moderate-income benefit national objective addresses activities designed to create or retain permanent jobs, at least 51 percent of which (computed on a full-time equivalent basis) will be made available to or held by low- to moderate-income persons.

Some examples of activities that qualify when at least 51 percent of jobs created/retained will be for low- and moderate-income persons include:

- Clearance activities on a site slated for a new business;
- Rehabilitation activity that will correct code violations and enable a business to survive and retain jobs;
- Financial assistance to a manufacturer for the expansion of its facilities that is expected to create permanent jobs; and
- Assistance to expand a small house cleaning service with four employees that agrees to hire three additional low- to moderate-income employees.

The following requirements must be met for jobs to be considered created or retained:

- a. If the City funds activities that create jobs, there must be documentation indicating that at least 51 percent of the jobs will be held by, or made available to, low- and moderate-income persons.
- b. For funded activities that retain jobs, there must be sufficient information documenting that the jobs would have been lost without the CDBG assistance and that one or both of the following applies to at least 51 percent of the jobs:
 - The job is held by a low- to moderate-income person; or
 - The job can reasonably be expected to turn over within the following two years and steps will be taken to ensure that the job will be filled by, or made available to, a low- to moderate-income person.

D. Slum and Blight National Objective

Activities under this national objective are carried out to address one or more of the conditions which have contributed to the deterioration of an area designated as a slum or blighted. The focus of activities under this national objective is a change in the physical environment of a deteriorating area.

1. Slum and Blight Area Basis (SBA)

This category covers activities that aid in the prevention or elimination of slums or blight in a designated area. Examples of activities that qualify when they are located within the slum or blighted area include:

- Rehabilitation of substandard housing located in a designated blighted area and where the housing is expected to be brought to standard condition;
- Infrastructure improvements in a deteriorated area; and
- Economic development assistance in the form of a low-interest loan to a business as an inducement to locate a branch store in a redeveloping blighted area.

To qualify under this category, the area in which the activity occurs must be designated as slum or blighted. The following tests apply:

- a. The designated area in which the activity occurs must meet the definition of a slum, blighted, deteriorated or deteriorating area under state or local law;
- b. Additionally, the area must meet either one of the two conditions specified below:
 - Public improvements throughout the area are in a general state of deterioration; or
 - At least 25 percent of the properties throughout the area exhibit one or more of the following:
 - Physical deterioration of buildings/improvements;
 - Abandonment of properties;
 - Chronic high occupancy turnover rates or chronic high vacancy rates in commercial or industrial buildings;
 - Significant declines in property values or abnormally low property values relative to other areas in the community; or
 - Known or suspected environmental contamination.

Documentation must be maintained by the grantee on the boundaries of the area and the conditions that qualified the area at the time of its designation. The designation of an area as slum or blighted must be re-determined every 10 years for continued qualifications.

2. Slum Blight Spot Basis (SBS)

These are activities that eliminate specific conditions of blight or physical decay on a spot basis and are not located in a slum or blighted area. Examples include:

- Acquisition and demolition of a dilapidated property;
- Rehabilitation of a decayed community center that eliminates code violations that are detrimental to the health and safety of potential occupants like faulty wiring, falling plaster, or other similar conditions;
- Preservation of a deteriorated building of historic significance; and
- Financial assistance to a business to demolish a decayed structure and construct a new building on the site.

Activities under this category are limited to acquisition, clearance, relocation, historic preservation, remediation of environmentally contaminated properties, and building rehabilitation activities. Furthermore, rehabilitation is limited to the extent necessary to eliminate a specific condition detrimental to public health and safety.

E. Urgent Need National Objective

Use of the urgent need national objective category is rare. It is designed only for activities that alleviate emergency conditions. Examples include:

- Acquisition of property located in a flood plain that was severely damaged by a recent flood;
- Public facility improvements like the reconstruction of a publicly-owned hospital that was severely damaged by a tornado;
- Demolition structures that are severely damaged by a major earthquake;
- Public services like additional police protection to prevent looting in an area damaged by a recent hurricane;
- Interim assistance such as emergency treatment of health problems cause by a flood; and
- Special economic development assistance to a grocery store that was damaged by an earthquake.

Urgent need qualified activities must meet the following criteria:

- 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 (generally, within the past 18 months);
- The grantee is unable to finance the activity on its own; and
- Other sources of funding are not available.

F. Eligible Activities

CDBG funds may be used for activities which include, but are not limited to:

- **Housing Activities:** Examples include rehabilitation of owner-occupied and rental homes, removal of architectural barriers, reconstruction of a home on the same lot, weatherization, and direct home-owner assistance.
- **Property Improvements:** Examples include lead-based paint evaluation/reduction, historic preservation, and renovation of closed buildings.
- **Public Facilities:** Examples include acquisition, construction or rehabilitation of neighborhood facilities (recreational facilities, parks, playgrounds, etc.), facilities for persons with special needs (homeless, victims of domestic violence, nursing homes, group homes for the disabled, etc.), and handicap accessibility improvements.
- **Economic Development:** Provision of assistance to profit-motivated businesses to carry out economic development and job creation/retention activities. Examples include development of commercial buildings, loans to private for-profit businesses, eligible micro-enterprises, job training and placement.
- **Public Services:** Examples include employment services, crime prevention, child care, health services, substance abuse services, fair housing counseling, and recreational services (subject to 15 percent cap of the total amount of the City's grant award).
- **Real Property:** Examples include acquisition, relocation and demolition of real property in CDBG-eligible neighborhoods.

G. Other Federal Requirements

All subrecipients of CDBG funds must meet all other federal requirements stated in Subpart K, Other Program Requirements of the CDBG Program regulation including:

- Equal Opportunity and Fair Housing
- Displacement, Relocation, and Acquisition
- Affirmative Marketing
- Labor - Prevailing Wages
- Environmental Review/Compliance
- Conflict of Interest
- Lead Based Paint
- Property Management Standards
- Limits on Funding to Primarily Religious Organizations

H. **Community Based Development Organization (CBDO)**

CDBG funds may also be provided to Community Based Development Organizations (CBDOs) to carry out certain activities in connection with neighborhood revitalization, community economic development or energy conservation projects. In order to qualify as a CBDO, an organization must have the following characteristics:

- Is organized under state or local law to engage in community development activities in a specific geographic area within the community;
- Has as its primary purpose the improvement of the physical, social, economic environment of its service area by addressing one or more critical problems in the area, with particular attention to the needs of low- to moderate-income persons;
- If a for profit organization, the profits to shareholders or members are incidental to its operations;
- The governing body's membership consists of 51 percent low- to moderate-income residents of its service area or owners or officers of entities located in the service area or representatives of low- to moderate income organizations in the service area;
- Is not an agency or instrumentality of the grantee, and no more than one-third of the board is elected or appointed public officials or employees of the grantee; and
- The governing body is nominated by the general membership of the organization.

The City may provide CDBG funds as grants or loans to qualified CBDOs to carry out the following types of projects:

- **Neighborhood Revitalization:** Includes activities of sufficient size and scope to have an impact on the decline of a geographic location within the jurisdiction of a unit of local government (but not the entire jurisdiction) designated in comprehensive plans, ordinances, or other local documents as a neighborhood, village, or similar geographic designation; or the entire jurisdiction of a unit of general local government which is under 25,000 population.
- **Community Economic Development:** Includes activities that increase economic opportunity, primarily for persons of low- to moderate-income, or that stimulate or retain businesses or permanent jobs, including projects that include one or more such activities that are clearly needed to address the lack of affordable housing accessible to existing or planned jobs and those activities specified at 24 CFR 91.1(a)(1)(iii).
- **Energy Conservation:** Includes activities that address energy conservation, principally for the benefit of the residents of the grantee's jurisdiction.

CDBG DEFINITIONS

CDBG Recipient: Local governments are known as grantees or recipients. As noted above, they participate in either the Entitlement Program (for cities in metropolitan areas over 50,000 in population, designated principal cities of metropolitan statistical areas or urban counties with more than 200,000 people). Under the States and Small Cities Program, states receive funding directly from HUD and provide it to small cities (non-entitled communities), also referred to as units of general local government.

Community-Based Development Organization (CBDO): CBDOs are generally nonprofit organizations that undertake specific kinds of CDBG-funded activities. CBDOs can be for-profit or nonprofit organizations, but cannot be governmental entities. A CBDO may be designated as a subrecipient by the grantee.

Consolidated Plan: The Consolidated Plan is prepared by the grantee in accordance with 24 CFR Part 91, and describes needs, resources, priorities and proposed activities to be undertaken with respect to HUD's CPD formula programs, including CDBG. An approved Consolidated Plan is one which has been approved by HUD.

Contractors: A contractor is an entity paid with CDBG funds in return for a specific service (e.g., construction). Contractors must be selected through a competitive procurement process.

Draw Down: Refers to the process of requesting and receiving CDBG funds. Grantees draw down funds from a line of credit established by HUD, while subrecipients typically draw down funds from grantees.

Entitlement Program: The Entitlement Program is the portion of the CDBG Program that provides formula grants to metropolitan cities and urban counties. The Entitlement Program is the largest component of the CDBG Program receiving 70 percent of CDBG appropriations. Participating local governments automatically receive an annual allocation of CDBG funds. The grant amounts are determined by the higher of two formulas: Data based on overcrowded housing, population and poverty; or Data based on age of housing, population growth lag, and poverty.

Entitlement: A city in a metropolitan area with a population of 50,000 or more, a principal city of a metropolitan area, or an urban county with a population of at least 200,000 (excluding the population of metropolitan cities located therein) that receives an annual allocation of CDBG funds directly from HUD under the CDBG Entitlement Program.

Family: All persons living in a household who are related by birth, marriage or adoption.

Grantee: Each entitlement community, or grantee, administers its local CDBG program in accordance with program requirements. Many communities use subrecipients to carry-out portions of their CDBG programs (see below).

Household: All the persons who occupy a housing unit. The occupants may be a single family, one person living alone, two or more families living together, or any groups of related or unrelated persons who share living arrangements.

HUD: As discussed previously, CDBG funds are provided to entitlement communities through the U.S. Department of Housing and Urban Development (HUD). HUD established the regulations and requirements for the program and has oversight responsibilities for the use of CDBG funds.

Income: Grantees may select any of three definitions of income: (1) Annual income as defined under Section 8; (2) Annual income as reported under the Census long form; or (3) Adjusted gross income as defined by the IRS Form 1040.

Low and Moderate Income: Low and moderate income means family or household annual income less than the Section 8 Low Income Limit, generally 80 percent of the area median income, as established by HUD.

Microenterprise: A business that has five or fewer employees, one or more of who owns the enterprise.

Moderate-Income Household/Family: A household/family having an income equal to or less than the Section 8 Low Income limit (80% of area median income) established by HUD, but greater than the Section 8 Very Low Income limit (50% of area median income) established by HUD.

Subrecipient: An entity that assists the recipient to implement and administer its program. Subrecipients are generally nonprofit organizations that assist the recipient to undertake one or more activities on behalf of the grantee, such as administer a home rehabilitation loan pool or manage a job training program. More information on subrecipients is provided in Chapter 2 of this manual. Subrecipients are also referred to as subgrantees.