



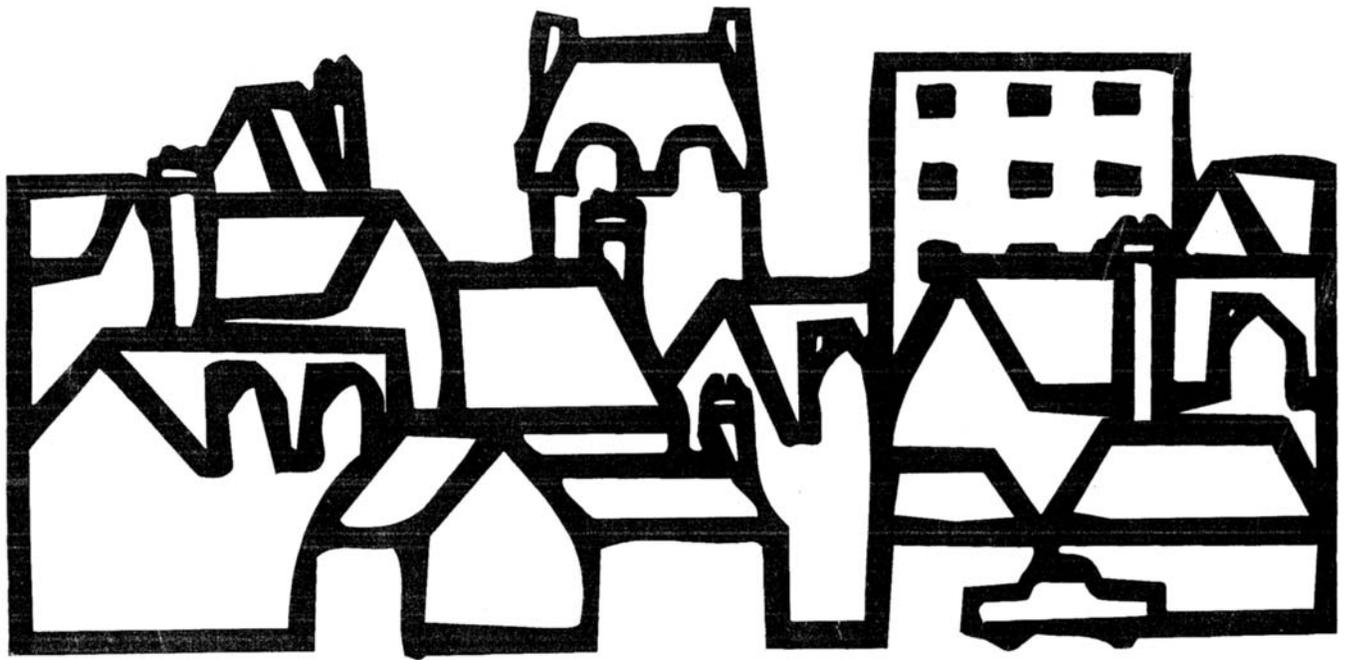
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# Managing CDBG

## A Guidebook for Grantees on Subrecipient Oversight

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*March 2005*



## STATEMENT OF ELIGIBLE AND INELIGIBLE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM ACTIVITIES

*This is a summary of certain activities that are eligible and ineligible for assistance under the Community Development Block Grant (CDBG) program pursuant to the governing regulations in the Code of Federal Regulations, Title 24, Part 570, Sections 570.200-570.207. For a more complete description, the regulations should be consulted. The Community Development Block Grant Program Entitlement Communities (Desk Guide) W at [www.hud.gov/offices/cpd/communitydevelopment/library/index.cfm](http://www.hud.gov/offices/cpd/communitydevelopment/library/index.cfm).*

### **General Policies - §570.200**

The primary objective of the CDBG Program is the development of viable urban communities, by providing decent housing and a suitable living environment, and expanding economic opportunities, principally for persons of low and moderate income. Funds must be used to carry out activities that will meet one of the three broad National Objectives: benefit low- and moderate-income persons; aid in the prevention or elimination of slums or blight; or meet other community development needs having a particular urgency. At least 70 percent of the total CDBG funds expended must be used for activities that benefit low- and moderate-income persons, over a one-, two-, or three-year period (selected by the grantee).

### **Basic Eligible Activities - §570.201**

- (a) Acquisition in whole or in part by purchase, long-term lease, donation, or otherwise, of real property for any public purpose, subject to the limitations of §570.207.
- (b) Disposition of real property acquired with CDBG funds through sale, lease or donation, or otherwise; or its retention for public purposes.
- (c) Acquisition, construction, reconstruction, rehabilitation or installation of public facilities and improvements, *except buildings for the general conduct of government*. Activities may include:
  - Design features and improvements that promote energy efficiency; and
  - Architectural design features and treatments intended to enhance the aesthetic quality of facilities and improvements.

Eligible facilities include those serving persons having special needs such as homeless shelters; convalescent homes; hospitals; nursing homes; battered spouse shelters; halfway houses for run-away children, drug offenders or parolees; group homes for the developmentally disabled; and temporary housing for disaster victims.

In certain cases, non-profit entities and subrecipients (including CBDOs qualifying under §570.204) may acquire title to public facilities; when owned by non-profit entities or other such subrecipients, such facilities must be operated so as to be open for use by the general public during all normal hours of operation.

- (d) Clearance, demolition, removal of buildings and improvements, and movement of structures to other sites. Demolition of HUD-assisted or HUD-owned housing units may be undertaken only with the prior approval of HUD. CDBG funds may also be used for physical removal of environmental contaminants or treatment of such contaminants to render them harmless.
- (e) Provision of public services (including labor, supplies and materials) such as those concerned with employment, crime prevention, child care, health care, education, homebuyer down payment assistance, public safety, fair housing counseling, recreation, senior citizens, homeless persons, drug abuse counseling and treatment, and energy conservation counseling and testing. The services must meet each of the following criteria:
  - The service must either be new or a quantifiable increase in the level of a service above that which has been provided with state or local funds in the previous twelve calendar months; and
  - The amount obligated for public services shall not exceed 15 percent of the annual grant, plus 15 percent of the program income received by the grantee and its subrecipients during the previous program year.
- (f) Interim assistance to correct objectively determinable signs of physical deterioration in areas where immediate action is necessary and where permanent improvements will be carried out as soon as practicable; or to alleviate emergency conditions threatening the public health and safety and requiring immediate resolution.
- (g) Payment of the non-Federal share required in connection with a Federal grant-in-aid program undertaken as part of CDBG activities.
- (h) Completion of urban renewal projects funded under Title I of the Housing Act of 1949, as amended.
- (i) Relocation payments and assistance to displaced individuals, families, businesses, non-profit organizations, and farm operations.
- (j) Payment to housing owners for losses of rental income incurred in holding units for persons displaced by relocation activities.
- (k) Payment of costs in support of activities eligible for funding under the HOME program.
- (l) Acquisition, construction, reconstruction, rehabilitation or installation of the distribution lines and facilities of privately owned utilities.
- (m) CDBG may be used for the construction of housing assisted under Section 17 of the U.S. Housing Act of 1937.
- (n) Direct assistance to facilitate and expand low- and moderate-income homeownership by subsidizing mortgage rates and principal amounts, financing the acquisition of housing occupied by low- and

moderate-income persons, acquiring guarantees of financing obtained from private lenders, providing up to 50 percent of down payment, or paying reasonable closing costs.

(o) Microenterprise Assistance

1. The provision of assistance to facilitate economic development by:
  - Providing credit and financial support, for the establishment, stabilization, and expansion of microenterprises;
  - Providing technical assistance, advice, and business support services to owners of microenterprises and persons developing microenterprises; and
  - Providing general support, including peer support programs, counseling, child care, transportation and other similar services to owners of microenterprises and persons developing microenterprises.
2. Services provided under this eligibility category are not subject to the restrictions on public services contained in 570.201(e).
3. “Persons developing microenterprises” are persons who have expressed interest and who are, or after an initial screening process, are expected to be, actively working toward developing businesses, each of which is expected to be a microenterprise at the time it is formed. A “microenterprise” is a business having five or fewer employees, at least one of whom is the owner.

(p) Provision of technical assistance to public or non-profit entities to increase their capacity to carry out eligible neighborhood revitalization or economic development activities, provided:

- The recipient determines, prior to the provision of the assistance, that the activity for which it is attempting to build capacity would be eligible for CDBG assistance; and
- The National Objective claimed by the grantee can reasonably be expected to be met once the entity has received the technical assistance and undertakes the activity.

Capacity building for private or public entities (including grantees) for other purposes may be eligible under §570.205.

**Eligible Rehabilitation and Preservation Activities - §570.202**

(a) Assistance to rehabilitate:

- Privately owned residential buildings and improvements;
- Low-income public housing and other publicly owned residential buildings and improvements;

- Publicly and privately owned commercial or industrial buildings, except that assistance is limited to improvements to the exterior of the building and the correction of code violations;
  - Non-profit owned, non-residential buildings and improvements not eligible under 570.201(c); and
  - Manufactured housing, when such housing is considered part of the community's permanent housing stock.
- (b) Financial assistance through grants, loans, loan guarantees, interest supplements, or other means may be provided for rehabilitation activities for the buildings described above, including:
- Assistance to private individuals and entities, including profit-making and non-profit organizations, to acquire for the purposes of rehabilitation, and to rehabilitate properties for use or resale for residential purposes;
  - Labor, materials, and other rehabilitation costs, including repair, replacement of principal fixtures and components, installation of security devices, and renovation of existing structures;
  - Loans for refinancing existing indebtedness secured by a property being rehabilitated, if the grantee determines that the financing is appropriate to achieve its community development objectives;
  - Improvements to increase the efficient use of energy;
  - Improvements to increase the efficient use of water;
  - Connection of residential structures to water distribution or local sewer collection lines;
  - Initial homeowner warranty premiums, hazard insurance premiums, flood insurance premiums and lead-based paint testing and abatement, for rehabilitation carried out with CDBG funds;
  - Acquisition of tools to be lent to carry out rehabilitation;
  - Rehabilitation services related to assisting participants in CDBG-funded rehabilitation activities (such as rehabilitation counseling, energy auditing, preparation of work specifications, loan processing, and inspection);
  - Rehabilitation of housing under Section 17 of the U.S. Housing Act of 1937; and
  - Lead-based paint hazard evaluation and reduction.
- (c) Code enforcement in deteriorating or deteriorated areas where such enforcement, together with public or private improvements, rehabilitation, and services to be provided, may be expected to arrest the decline of such areas.

- (d) Rehabilitation, preservation or restoration of publicly or privately owned historic properties, except for buildings used for the general conduct of government.
- (e) Renovation of closed schools or other buildings for use as an eligible public facility or housing.

**Special Economic Development Activities - §570.203**

Special economic development activities include:

- (a) The acquisition, construction, reconstruction, rehabilitation or installation of commercial or industrial buildings, structures, and other real property equipment and improvements, including railroad spurs or similar extensions. Such activities may be carried out by the recipient or public or private non-profit subrecipients.
- (b) The provision of assistance to a private for-profit business, for any activity where the assistance is appropriate to carry out an economic development project, excluding those described as ineligible in §570.207(a).
- (c) Economic development services in connection with activities eligible under this section, including, but not limited to, outreach efforts to market available forms of assistance; screening of applicants; reviewing and underwriting applications for assistance; preparation of all necessary agreements; management of assisted activities; and the screening, referral, and placement of applicants for employment opportunities generated by CDBG-eligible economic development activities, including the costs of providing necessary training for persons filling those positions.

Note: Guidelines for selecting activities to assist under this paragraph are provided at §570.209. The recipient must ensure that the appropriate level of public benefit will be derived pursuant to those guidelines before obligating funds under this authority. Special activities authorized under this section do not include assistance for the construction of new housing.

**Special Activities by Community-Based Development Organizations (CBDOs) - §570.204**

- (a) ***Eligible activities.*** The recipient may provide CDBG funds as grants or loans to any CBDO qualified under this section to carry out a neighborhood revitalization, community economic development, or energy conservation project. The funded project activities may include those listed as eligible under 24 CFR 570 Subpart C, and, except as described below in paragraph (b), activities not otherwise listed as eligible under that subpart. For purposes of qualifying as a project under paragraphs (a)(1), (a)(2), and (a)(3) of this section, the funded activity or activities may be considered either alone or in concert with other project activities either being carried out or for which funding has been committed. For purposes of this section:
  1. *A neighborhood revitalization project* 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 general local government (but not the entire jurisdiction) designated in comprehensive plans, ordinances, or other local documents as a neighborhood, village, or similar geographical designation; or the entire jurisdiction of a unit of general local government that is under 25,000 population;
  2. *A community economic development project* includes activities that increase economic opportunity, principally for persons of low and 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 a lack of affordable housing accessible to existing or planned jobs and those activities specified at 24 CFR 91.1(a)(1)(iii);

3. *An energy conservation project* includes activities that address energy conservation, principally for the benefit of the residents of the recipient's jurisdiction; and
  4. To *carry out a project* means that the CBDO undertakes the funded activities directly or through contract with an entity other than the grantee, or through the provision of financial assistance for activities in which it retains a direct and controlling involvement and responsibilities.
- (b) ***Ineligible activities.*** Notwithstanding that CBDOs may carry out activities that are not otherwise eligible, they are not authorized to:
1. Carry out an activity described as ineligible in §570.207(a);
  2. Carry out public services that do not meet the requirements of §570.201(e), except that:
    - i. services carried out under this section that are specifically designed to increase economic opportunities through job training and placement and other employment support services; and
    - ii. services of any type carried out under this section pursuant to a Neighborhood Revitalization Strategy approved by HUD, shall not be subject to the limitations in §570.201(e)(1) or (2), as applicable;
  3. Provide assistance to special economic development activities that would otherwise be eligible under §570.203 that do not meet the guideline requirements of §570.209; or
  4. Carry out an activity that would otherwise be eligible under §570.205 or §570.206, but that would result in the recipient's exceeding the planning and admin cap.