

COMMUNITY DEVELOPMENT BLOCK GRANT ECONOMIC DEVELOPMENT 2014 APPLICATION GUIDELINES

INTRODUCTION

Montana's Community Development Block Grant (CDBG) Program is a federally funded statewide competitive grant program designed to help communities with populations of less than 50,000 with their greatest community development needs. The program was established with the Federal Housing and Community Development Act of 1974. All projects assisted with CDBG funds must principally benefit low and moderate-income (LMI) persons. The basic categories for local community development projects are:

- Economic Development
- Housing
- Public Facilities

The Montana Department of Commerce (MDOC) administers the program in coordination with the U.S. Department of Housing and Urban Development (HUD). The Community Development Block Grant - Economic Development (CDBG-ED) Program is administered by the MDOC, Business Resources Division. The housing and public facilities categories are administered by the MDOC, Community Development Division. Potential applicants are encouraged to contact the MDOC to discuss their proposed project with CDBG-ED staff. Alternative accessible formats of this document will be provided upon request. If you need this document in an alternative format, such as large print, Braille, audiotape, or computer diskette, please contact:

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I. 2014 CDBG ECONOMIC DEVELOPMENT PROGRAM

The Community Development Block Grant–Economic Development (CDBG-ED) Program receives up to 40% of the approximately \$5.5 million in federally allocated funds given annually to the State of Montana from the US Department of Housing and Urban Development. Eligible applicants are local governments that lend these funds to for-profit businesses agreeing to create jobs for low and moderate-income persons. Applications are accepted on a continuous basis as long as funding is available for each program year. **The maximum funding amount is \$400,000 per local government in a program year.** Communities can reapply for funding throughout the program year until they have reached the maximum. Businesses must prepare a business plan and meet required thresholds, including providing a 1:1 dollar match. Project applications are reviewed by MDOC staff and a Grant Review Committee that make recommendations to the Director, who delivers a final funding decision.

All local governments must show a coordinated effort with the Certified Regional Development Corporation (CRDC) in their area. A copy of a letter approved by a CRDC's Board of Directors showing support for the proposed project and application must be included in each application for CDBG-ED assistance. If a local government is not able to provide this, it must include an explanation why one is not included.

→ Potential applicants are encouraged to contact the MDOC to discuss their proposed project with CDBG-ED staff.

EDA/CDBG RLF - The State also administers a revolving loan fund (RLF) from the federal Economic Development Administration (EDA). Please contact CDBG-ED staff for availability of CDBG/EDA RLF funding and application requirements. MDOC staff will work with potential applicants for CDBG/EDA RLF funding and determine which sections of the CDBG-ED application guidelines are applicable to their proposals.

Funding Amounts

The following table summarizes the *estimated* amount of state funding and proposed distribution of CDBG funds for 2014.

Total FFY 2014 State CDBG Allocation	\$ 5,847,967
Less CDBG Funds for State Program Administration	\$ 275,439
<u>Amount Available For Award to Local Governments</u>	<u>\$ 5,572,528</u>
66% For Housing & Public Facilities Projects	\$ 3,677,868
34% For Economic Development Projects	\$ 1,894,660

Application Deadlines

Applications will be accepted on an open-cycle basis when the State receives its notice of funding award. Notification of funding is normally received by HUD in the late spring or early summer of each year. Applications will be accepted until all available funds set aside for the FY 2014 CDBG-ED category are committed to approved projects.

Purpose

The CDBG-ED Program is designed to stimulate economic development activity by assisting the private sector to create or retain jobs for low and moderate-income persons primarily through loans to businesses. CDBG-ED funding is also available to companies for employee training.

The program is designed to assist businesses by making fixed-rate financing available to them at reasonable interest rates, given the risk of the project, and to provide public improvements in support of economic development activities. An appropriate interest rate would include competitive market rates or a risk-based interest rate.

It is the intention that CDBG-ED funds be used when a funding gap exists, and alternative sources of public and private financing are not adequate. CDBG-ED provides flexibility in interest rates and loan terms to complement conventional business financing and other federal business financing programs. CDBG-ED funding can provide payment deferrals, lower payments in the first year, and interest-only payments. The program is also designed to complement the MDOC financing programs administered by the Business Resources Division and the Montana Board of Investments.

A. ELIGIBLE ACTIVITIES

NOTE: Communication with CDBG-ED staff during the onset of project planning helps ensure a complete application for an eligible activity that meets program

requirements. Please contact CDBG-ED staff for guidance and clarification on program requirements.

→ **When reviewing applications and determining funding awards, the Department will place high priority for proposals with job creation, expansions, and training programs.**

1. Loans to Businesses

Typical eligible activities for assistance to businesses include: land acquisition; public facilities and other improvements in support of economic development, such as water and sewer lines, and access roads; and also loans for acquisition, construction, rehabilitation, or installation of commercial and industrial buildings, facilities, equipment purchases, or working capital. CDBG-ED can be applied for to assist businesses with refinancing existing business-related debt. (Grants to for-profit businesses are not eligible with the exception of customized employee training – see A.4. below)

The Montana CDBG-ED program has limited financial resources. Therefore, the program places highest priority on projects that will have the greatest potential for creating permanent and year-round employment opportunities for low and moderate-income Montanans and that provide other long-term economic benefits to Montana's communities.

In addition, an important consideration for local governments contemplating a CDBG-ED application is to examine whether they would be helping a business that would directly or indirectly compete with other local businesses. The decision to submit an application in this situation is principally a local one. The Department will consider local comments from public hearings; particularly concerns expressed by local business interests.

The CDBG-ED funds cannot be used as a direct financial incentive to relocate a business from one Montana community to another. The purpose of the CDBG-ED program is to create jobs, but not if assistance will result in other jobs being lost in a community or region. Under federal anti-pirating statutes, CDBG-ED funding cannot be used to assist directly in the relocation of any industrial or commercial plant, facility, or operation, from one area to another, if the relocation is likely to result in a significant loss of employment in the labor market area from which the relocation occurs. “Significant” is defined in the federal “anti-pirating” [final ruling](#), effective June 23, 2006. The definition can be found in the [interim ruling](#), published December 23, 2005.

The Department will consider situations on a case-by-case basis where businesses have made prior commitments to move their facility or operations to a specific new site three months prior to submittal of the CDBG-ED application. All relevant factors, such as written agreements, will be reviewed to determine if any extenuating circumstances exist to support the need for new operations at a different location.

Repayments from CDBG-ED Loans

The Legislature instituted a Certified Regional Development Corporation (CRDC) Program in order to look at economic development from a regional perspective. Over the past several years, the Montana Department of Commerce has been strongly advising applicants to designate their respective CRDC as revolving loan fund manager. The CRDC should be responsible for management of repayments of CDBG-ED loans through the CRDC's revolving loan fund. This way relending activities would be available to the entire region covered by the CRDC, would be available to all eligible businesses in the region, and would more likely be used in priority economic development projects. The Department continues to strongly encourage this partnership to manage CDBG-ED and other economic development revolving loan funds.

There may be circumstances where it is appropriate to allow a local government to manage its revolving loan fund, or contract with another entity for management. The Department will evaluate this on a case-by-case basis, and may provide an exception to CRDC revolving loan fund management, providing there is adequate and compelling rationale to grant an exception.

For more information on CRDC's, please view the following website:

<http://businessresources.mt.gov/CRDC/default.mcp>

The Department reserves the right to collect CDBG-ED loan payments and deposit those payments into its state CDBG-ED account for future CDBG-ED projects. The decision to allow a CRDC, local development organization, or local government to retain loan payments will be reviewed on a case-by-case basis and will be determined based upon an organization's performance, what is in the best interest of the State, and what would provide the greatest benefit to Montana businesses.

2. Technical Assistance Grants

The Department has set-aside approximately **\$125,000** for economic development planning, capacity building, and technical assistance grants. The Department intends to use the set-aside for activities similar to those funded in recent years. Please see the 2014 application guidelines for CDBG-ED Planning Grant funds. The Department reserves the right to use technical assistance grant funds not utilized for this category for regular CDBG-ED projects.

3. Business Infrastructure Projects

CDBG-ED funds may be used to build or improve infrastructure such as structures, water, sewer, streets or sidewalks in support of businesses. Applications that propose public improvements as assistance to businesses will be accepted by the Department and reviewed with similar procedures as for loans to for-profit businesses. The application must include a business plan and financial package for each business assisted. A "financing gap" must be identified and documented in the financial package submitted with the application. The application must demonstrate that other funds, including private funds from the business, are insufficient to complete the project without CDBG-ED participation. Business infrastructure applications must meet the same threshold requirements,

demonstrate viability, include a hiring and training plan for each business assisted, and meet all other requirements contained in these guidelines.

GRANT ASSISTANCE AGREEMENTS - All CDBG-ED awards will require either a loan document, and/or a grant assistance agreement between the assisted business and local government. Infrastructure grants will require a grant assistance agreement with a security clause and payback provisions. These documents will be part of the start-up conditions. Please see **Appendix U1 or U2** for sample format.

- **Infrastructure projects** - applications for infrastructure must have completed a Preliminary Engineering Report (PER) to determine scope of project and estimate of construction costs. See **Appendix V** for a suggested PER outline to ensure engineering reports meet the minimum requirements. The applicant's internet bandwidth could impact the time in uploading this document to the on-line application portal. If the report is a large file size and/or your internet bandwidth is a concern, applicants can submit a paper copy of the report to the Department.

- **Building construction** - applications for construction involving buildings must have completed a Preliminary Architectural Report (PAR) to determine scope of project, suitability of location chosen, and estimate of construction costs. See **Appendix W** for a suggested PAR outline to ensure architectural reports meet the minimum requirements. The applicant's internet bandwidth could impact the time in uploading this document to the on-line application portal. If the report is a large file size and/or your internet bandwidth is a concern, applicants can submit a paper copy of the report to the Department.

→ **Contact the Department for information on applying for a CDBG-ED planning grant to help fund preliminary engineering or architectural reports and reporting requirements. Completion of a preliminary engineering or architectural report is an eligible activity under the CDBG-ED Planning Grant category.**

All jobs created or retained by all businesses that locate or expand as a result of the public improvement must be aggregated and tracked for one (1) year from the physical completion of the public facility and/or improvement. When the CDBG-ED cost per FTE job is \$10,000 or more, all jobs created or retained as a result of the project's impact on businesses in the service area must be aggregated to meet the national objective of benefiting low and moderate-income persons.

At least 51% of non-administrative funds received by a local government must demonstrate benefit to qualified low and moderate-income persons. All jobs created from all businesses assisted must be counted toward the 51% benefit to low and moderate-income threshold. Before submitting the application, the local government must assess current and prospective businesses that will benefit from the project.

4. Customized Training for Employees

Employee training is an eligible, stand-alone project activity allowing up to a maximum of

\$400,000 in grant funding per local government in a program year for new and expanding businesses that are creating or retaining jobs. The intent of this funding activity is to assist businesses in providing needed skills and better-paying jobs for their workers. The goal is to facilitate the growth of companies in Montana, increase wages for trained workers, increase employee productivity, and assist in the skill development of employees. Preference will be given to training that focuses on developing transferable skills in emerging industries such as information and advanced technology, health services, value-added agriculture and communications.

Funding may also be distributed to a qualified educational or nonprofit training entity that provides job training targeted to developing specific employee skills needed by an aggregate of companies.

Please note that businesses are not eligible to receive reimbursement from the MDOC for an employee's training costs from more than one public finance program for the same training. In addition, if a business trains an employee, collects eligible training costs from the MDOC for that employee, and then the trained employee resigns from his/her employ, the business may not require that employee to reimburse the business for the training costs already paid for by the MDOC.

Training Program Projects:

The Department will consider applications related to proposals for funding projects that involve job training projects focused principally for job training of LMI persons under the following circumstances:

- There are exceptional reasons that warrant an application to the CDBG-ED program that include but are not limited to the educational institution being located in an economically disadvantaged area, area of significant outmigration, or a high impact project in a rural area;
- There is a demonstrated need for CDBG-ED funds for the project and that the project will be self sustaining past the initial contract period;
- Related educational expenditures, predominantly benefitting low and moderate- income persons, will likely result in a full time, employed position in Montana immediately upon graduation during the initial project period, generally two years; and
- There are signed agreements from participating Montana businesses agreeing to hire a predetermined number of students that have completed training during the project period, of which the students are principally LMI.

Local governments are encouraged to apply for job training grants from the Primary Sector Worker Training Grant (WTG) Program for new employee training needs unless there are circumstances that would warrant only an application for CDBG-ED

funding. CDBG- ED funds can be applied for to address training expenses for existing (incumbent) and new employees. For more information on the WTG program, contact Nancy Faroni at 841-2744 or by email at nfaroni@mt.gov.

Training grants will require a grant assistance agreement with a security clause and payback provisions. Please see **Appendix U1 or U2** for sample format.

Conditions:

- Grant funding for employee training may be applied for in addition to a CDBG-ED loan for new and expanding businesses under one project, up to a maximum of **\$400,000** per business.
- The maximum grant amount to a for-profit business or non-profit organization for each employee trained is **\$5,000**.
- The maximum grant amount to a for-profit business or non-profit organization that hires and trains a disabled employee is **\$7,500**.
- **At the end of the training period, employees must be paid a compensation package in salary and benefits that meets at least the lower of either the county's average hourly wage, or the State's average hourly wage. Contact CDBG-ED staff for the most current wage table.**
- The maximum funding amount would still be **\$400,000** per local government applicant in a program year when combining a CDBG-ED loan with grant-funded employee training to one business.
- A **1:1 match** is still required even if the application is only for employee training.
- **Compensation for related training expenses will not be allowed until employees have completed their training and probationary periods and are being paid the minimum wage requirement.**

Grant proposals must state clearly how training funds will be used, for incumbent or new worker training, or for company-wide types of education. If training funds will be needed before probationary periods are completed, applications must provide an explanation why training funds will be requested prior to employees completing their individual probationary periods. Under extenuating circumstances, the Department may allow for reimbursement of training expenses if employees receiving training are being compensated at the required minimum wage with benefits. A breakdown of the use of training funds must be included in the application. Local governments must document matching funds as per the budget attached to the contract between the MDOC and local government.

The MDOC Grant Review Committee will evaluate each proposal on a case-by-case basis. The funding decision will be based on the level of benefit and impact to low and moderate-income individuals that includes: the type and quality of jobs created; the kind of training offered; opportunities for advancement; and job benefits. The applicant must submit to MDOC a detailed hiring and training plan following the requirements listed in Chapter III, Parts B. and C., Hiring and Training Plan and Hiring and Training Plans for Customized Training. Applicants must demonstrate a compelling case for funding to the Grant Review Committee by addressing the specific elements in their hiring and training plans.

5. Section 108 Loan Guarantee Program

HUD Section 108 Loan Guarantees are available under **exceptional** circumstances. These loans will be available subject to the analysis and discretion of the MDOC Grant Review Committee.

NOTE: The Department reserves the right to utilize uncommitted CDBG-ED funds for any eligible program activity as described in these guidelines.

B. INELIGIBLE ACTIVITIES

The following activities would not provide sufficient public benefit and would not be approved for assistance with CDBG-ED funds. Activities may not consist of or include any of the following:

1. Assisting a business to create or retain jobs that would cost more than \$25,000 in CDBG-ED funds per job. The total amount of non-administrative CDBG-ED funds requested must not exceed \$25,000 for each job created or retained by the business or economic development loan; or no more than \$35,000 for each job created for a project that qualifies as area-wide benefit (applicants must contact CDBG-ED staff to determine whether or not their proposal meets the definition of an area-wide benefit project). This is determined by dividing the total number of permanent full-time or full-time equivalent jobs to be directly created or retained by the assisted business into the total amount of the non-administrative CDBG-ED funds requested.

The maximum amount of non-administrative CDBG-ED funds per job for a customized employee training grant is \$5,000;

- 2. General promotion of the community as a whole;**
- 3. Assistance to professional sports teams;**
- 4. Assistance to privately owned recreational facilities that serve predominantly a higher-income clientele, where the recreational benefit to users or members clearly outweighs employment or other benefits to LMI persons;**

5. Acquisition of land for which the specific proposed use has not yet been identified;
6. Assistance to businesses such as hotels, motels and retail operations will generally be considered an ineligible activity, except under mitigating circumstances, because of the lower quality of jobs and the high likelihood of competition with existing local businesses. Projects may be eligible where certain mitigating circumstances exist and support by other competing local businesses can be documented; i.e., a grocery store in a small town in a sparsely populated area where there is no other competition.

→Contact the CDBG-ED program staff for questions regarding the eligibility of a proposed activity before submitting an application to the Department.

C. ELIGIBLE APPLICANTS

Eligible applicants are limited to general-purpose local governments: counties, incorporated cities and towns, and consolidated city-county governments. Among municipalities, Billings, Great Falls and Missoula (“entitlement communities”), are ineligible to apply to the State CDBG Program because they receive CDBG funds from a separate HUD allocation for communities with populations over 50,000.

- **Counties that contain an entitlement community may not apply for funding for a county project that would primarily benefit residents within their entitlement communities. If a County desires to submit an application for an area close to an entitlement community, it must clearly explain how the proposed project would primarily benefit County residents, and also explain how the County will document that benefit.**

Montana's Indian tribal governments also receive CDBG funds from a separate HUD CDBG program (Indian CDBG) and are not eligible to apply to the State program.

Businesses and special purpose agencies such as local development organizations are not eligible to apply directly to the Department however, they may be involved in implementing and administering a program by sub-recipient agreement, if the eligible applicant agrees to such an arrangement. (See **Appendix L1 or L2** for *Sample Sub-Recipient Agreements*, and also **Appendix K** for the MDOC’s procurement of professional services policy.)

→ **Local governments or sub-recipients that are currently administering one or more CDBG-ED projects will not be eligible to reapply unless:**

- **The MDOC determines that current or previously funded CDBG-ED projects are being administered in an acceptable manner, and there are no outstanding findings from audit reports; and**

- **Current or previously funded CDBG-ED projects are consistent with project implementation schedules contained in corresponding CDBG–ED contracts with the Department.**

Consolidated city-county governments will be considered as two separate jurisdictions, one, the city jurisdiction and two, the unincorporated jurisdiction of the county. For application purposes, the city and county boundaries as delineated on the date of consolidation will define the jurisdiction of each.

1. County Applications

For proposed projects that are located within the unincorporated jurisdiction of a county, the county governing body is the eligible applicant. A county may apply for a project that will include activities within the jurisdiction of an incorporated city or town if the proposed activity is intended to serve all county residents, including those in the unincorporated jurisdiction of the county. Federal requirements prevent the State CDBG Program from granting funds to Yellowstone, Cascade and Missoula Counties for projects located within Billings, Great Falls and Missoula city boundaries, or for projects in those counties that would primarily benefit residents of entitlement cities.

To improve cost-effectiveness for project administration, a county may apply for a grant for a project that would address the same economic development need in two or more separate unincorporated communities as long as the grant request is under the established ceiling. If considering such a project, the county applying would want to be sure that the involved communities have an equally high level of need and that the proposed response is equally appropriate and would achieve comparable impact on the needs of each community.

2. Municipal Applications

For proposed economic development projects that will serve residents within the jurisdiction of an incorporated city or town, the city or town governing body is the eligible applicant. A municipality may apply for a project that would include an activity to be located outside its city limits if the proposed activity will principally benefit residents within the city's jurisdiction.

A municipality may also apply for a project activity that is located outside the jurisdiction of the county in which that city or town is located if the proposed activity will benefit the residents of the city or town and further the applicant's community development objectives. Contact the CDBG-ED program staff for guidance before submitting an application.

3. Joint Applications

In situations where two or more eligible local governments face a common community development problem, a joint application may be submitted under the following conditions:

- a. The problem to be addressed lies in an area of contiguous jurisdictions;

b. The solution to the common problem clearly requires cooperative action and is the most efficient strategy; and

c. The local governments involved have contacted the MDOC and received prior approval of such an arrangement before submission of an application. Requests for approval must be submitted at least 30 days prior to the submittal date for the application.

The eligible local governments involved must each meet the requirements for all applicants. One local government must be designated as the lead applicant and accept full responsibility for application submission, grant administration and financial management, should the full application be awarded funds.

Required CDBG public hearings may be held separately or jointly. Other CDBG program requirements for grantees must be satisfied such as completion of separate environmental checklists.

In addition to the Resolution to Authorize Application signed by **each applicant**, multi-jurisdictional applications must contain a resolution (**Appendix H**) from each participating local government authorizing its participation. Once the application is approved, each participating local government must sign a final interlocal agreement (Appendix R), in accordance with the Montana Interlocal Cooperation Act (Sections 7-11-101 through 108, MCA), before a release of CDBG-ED funds can be granted. The agreement must identify the responsibilities and obligations of the cooperating local governments, including long-term operation and maintenance, if applicable. Contact CDBG-ED staff for assistance in preparing an inter-local agreement.

D. MAXIMUM GRANT AMOUNT

The ceiling for each business assistance economic development grant request is \$400,000 per local government per program year. Applicants should consult the Department when considering administration costs. The level of difficulty in managing CDBG-ED projects varies considerably depending on the type of project and requirements triggered for each. **Administrative costs are limited to 8% of the total CDBG-ED grant award.**

For example, a total grant award of \$400,000 could request up to a maximum of \$32,000 (8%) in grant funds for project administration, and \$368,000 (92%) for activities (such as a business loan).

Another example, a total grant award of \$250,000 could request up to a maximum of \$20,000 (8%) in grant funds for administration, and \$230,000 (92%) for activities.

►NOTE: Local governments may apply more than once in a program year for economic development funds, and may be eligible to receive up to a maximum of \$400,000 in a program year for economic development projects. A program year is the period of April 1 through March 31 the following year (for example, April 1, 2014–March 31, 2015).

In addition, all eligible applicants may also apply for public facility and housing projects for CDBG Public Facilities and Housing competitions, even if they have already received the \$400,000 limit for economic development projects. Please check with the CDBG Public Facilities and Housing program for its application requirements. <http://comdev.mt.gov/CDBG/default.mcp.x>.

II. GENERAL APPLICATION REQUIREMENTS

NOTE: Requirements for CDBG-ED applications are described in Chapters II (*General Application Requirements*), and III (*Business Application Requirements*). *This section is intended to be a checklist for all stages of application preparation, and may or may not include every item necessary to compile a complete funding application.*

For a CDBG-ED application, the local government must have a D-U-N-S registration number. This number will be entered on the *Application Form*, and other CDBG-ED reporting forms. Registration for a D-U-N-S number is free of charge. To register please refer to the following website: <http://fedgov.dnb.com/webform>.

The local government must also register and maintain System for Award Management (SAM) status. SAM is the federally run System for Award Management database that replaced the Central Contractor Registration (CCR). It collects, validates, and disseminates information about organizations that do business with the federal government via contracts and grants. Although recipients of direct federal contracts and grant awards have been required to be registered with the CCR since 2003, this requirement is now being extended to indirect recipients of federal funds due to the Federal Funding Accountability and Transparency Act (FFATA). More information about SAM can be obtained at the following website: <https://www.sam.gov/portal/SAM/#1>.

A. PRELIMINARY STEPS

Local Government registers for a DUNS number and with SAM.

1. Business approaches the local government, local development organization, or some other entity, with a proposal.
2. Local Government and/or local development organization and business consult with CDBG-ED staff to see if the proposal is a good fit for the CDBG-ED program.

Does the project meet CDBG-ED business thresholds? *See Chapter I for general requirements.*

3. Minimum 1:1 match. *See Chapter II, Matching Funds.*

4. Cost per job created or retained: *See Chapters I and II*

- a. No more than \$25,000 of activity funds per job created or retained for loans.

- b. No more than \$5,000 per employee trained under Customized Training for Employees.
 - c. No more than \$7,500 per disabled employee trained under Customized Training for Employees.
5. Business can show minimum 51% benefit to LMI. *See Chapter II, Benefit to Low and Moderate-Income Persons.*
 6. Business drafts a Hiring and Training Plan. *See Chapter III, Hiring and Training Plan.*
 7. Business owner makes preliminary review of financials. *See Chapter III, Business Plan*
 8. Business secures matching funds with commitments, or compiles documentation of incurred match (dated no more than 18 months prior to application). *See Chapter III, Matching Funds.*
 9. Business owner determines expected timeline for business owner's need for money.
 10. If business does not have a D-U-N-S number, it registers for one. *See Chapter III, D-U-N-S Numbers.*
 11. For infrastructure projects:
 - a. Preliminary architecture or engineering report has been completed and costs are estimated. *See Chapter I, Business Infrastructure Projects, Appendix V and Appendix W.*
 - b. If the local government desires to hire an architect or engineer, it has to demonstrate that services were procured in accordance with state law and MDOC procurement policy. *See Appendix K.*
 12. Local government and assisted business contact the area's Certified Regional Development Corporation (CRDC) and discuss intentions to apply for CDBG-ED funds. All applications must have either a letter from the CRDC's Board of Directors showing support for the CDBG-ED application, or 2) an explanation as to why the support letter is not submitted.

- **If the proposal is determined to be a good fit for the CDBG-ED program, then the Local Government initiates the CDBG-ED application process.**

B. FINAL APPLICATION PROCESS

1. Applications will be reviewed and analyzed by staff on a "first come, first served" basis, as determined by the date the full application is found to be complete by the Department. CDBG-ED staff will work closely with applicants during the review process to negotiate any

changes and resolve issues identified during the review. Staff may consult with the contact persons from the business and the applicant community during initial review.

The application is considered complete when all requirements have been met, the initial financial review indicates that the project has the potential to be financially feasible, and the project is properly structured.

2. Local Government conducts a needs assessment in accordance with CDBG-ED guidelines, or provides detailed information on a recently completed assessment that addresses housing, infrastructure, and economic development. Contact CDBG-ED staff for a copy of *“The Community Needs Assessment Process.”* See *Chapter II, Citizen Participation, and Appendix I.*

3. Local Government holds first public hearing – may occur before business comes forward: See *Chapter II, Citizen Participation and Appendix I.*

a. Held not more than 12 months before submitting application.

b. Provides general description of CDBG and other funding programs – purpose, uses, funds available, application deadlines, status of commitment, etc.

c. Elicits public comment on community’s needs assessment.

d. Solicits for businesses that may be interested in applying for a CDBG-ED loan.

4. Local Government holds second public hearing: See *Chapter II, Citizen Participation, and Appendix I.*

a. Held not more than 1 month before the date of the application.

b. Gives citizens and potential beneficiaries adequate opportunity to review and comment on the proposed application before it is submitted.

5. The assisted business finalizes matching funds and commitments.

6. The assisted business secures buy/sell agreement, if applicable. See *Chapter II, Acquisition.*

7. The assisted business conducts income surveys and racial category forms for retained positions. See *Chapter II, Benefit to Low and Moderate-Income Persons, and Appendix S.*

8. The online application portal will prompt the applicant for the following documentation. References to appendix forms are for informational purposes only so the applicant can view what information will be required. All forms will be completed using the online application portal.

a. **Appendix A** – Montana Department of Commerce Economic Development Project Application Form

- b. **Appendix B** – Local Government Local Development Organization and Business Application Certification form
- c. **Appendix C** – Acceptance of CDBG Program Requirements (*Certifications for Application*)
- d. **Appendix D** – Identify and provide a narrative description on how the proposal addresses at least one of the *State Objectives for the Montana Department of Commerce, Community Development Block Grant Program*
- e. **Appendix E** – Complete the Site Specific Environmental checklist. The Full Environmental Assessment must be completed for projects involving infrastructure and/or construction at the time of application. Applicant **must provide sources used** for information. The Full Environmental Assessment will have to be completed for all other types of projects as part of the start-up conditions, regardless of the type of project.
- f. **Appendix F** – Review the *Low and Moderate-Income Percentages for Cities, Towns, and Counties*. Provide a narrative description of how the project will benefit 51% LMI.
- g. **Appendix G** – Review the *CDBG Technical Assistance Publications*, and contact the MDOC for copies of any publications needed.
- h. **Appendix H** – Pass a *Resolution to Authorize Application*. One for each local government making the application.
- i. **Appendix I** – Provide summary of public hearing process. Provide documentation of both public meetings.
- j. **Appendix J** – Submit draft RLF plan if local government does not already have an approved plan in place. If there is already a plan in place, provide information on plan such as date of plan and balance of funds available for lending.
- k. **Appendix K** – Review the Department’s *Procurement Policy*.
- l. **Appendix N** – Complete *Sources/Uses Form* AND provide narrative on each funding source: status of commitment, availability, etc.
- m. **Appendix O1 or O2** – Submit a **Draft** *Hiring and Training Plan or Customized Training Plan* – (or equivalent).
- n. **Appendix P** – Complete *Project Implementation Schedule*.
- o. **Appendix Q** – Complete a *Confidentiality and Non-Disclosure Agreement and Affidavit*.
- p. **Appendix R** – Submit **Draft** *Inter-local Agreement*, (if a multi-jurisdictional project).
- q. **Appendix S** – Submit *Income Certification Forms and Racial/Ethnicity Categories Forms* for job retention projects.

r. **Appendix T** – Provide written narrative regarding business plan and submit copy of *Business Plan*. It is suggested that contents include the following: *See Chapter III, Business Plan*.

- i. Business Description
- ii. Management Information
- iii. Market Analysis
- iv. Financial Statements
- v. Projections
- vi. Debt Schedule
- vii. Working Capital Needs
- viii. Personal Financial Statements/Tax Returns
- ix. Personal Credit Check Release
- x. Private Sector Commitments

s. **Appendix V** – Submit preliminary engineering report (PER) for infrastructure projects.

t. **Appendix W** – Submit preliminary architectural report (PAR) for building construction or renovation projects.

u. Provide narrative and supporting documentation (such as a copy of the needs assessment process) describing the community's needs assessment process. *See Chapter II, Community Development Needs Assessment*.

9. Provide copy of a letter approved by a CRDC's Board of Directors showing support for the proposed project and application, or explanation why one is not included.

10. **Maps** - Local government provides copies of maps showing location of assisted business/project area, and copy of FEMA map designating area of floodplain. *See Chapter II, Maps*.

11. **Questions to ask before submittal of application:**

- a. Are project costs reasonable?
- b. Are all sources of project financing committed?
- c. Is the project financially feasible?

- d. To the extent practicable, the return on the owner's equity investment will not be unreasonably high?
- e. Are the matching funding sources committed, and are there letters of commitment from each source, and for incurred project costs is documentation included to verify business expenditures?
- f. Has the application demonstrated a need for CDBG-ED assistance?
- g. Have all other sources for funding been explored and rejected (documented)?
- h. For health care facilities, has the Montana Facility Finance Authority (Montana Board of Investments) been contacted?
- i. For loans, is there sufficient equity and collateral to meet the lending requirements of private lending institutions?
- j. Can the assisted business contribute sufficient equity to the project to meet the debt/net worth requirements of traditional lenders?
- k. Has the applicant considered the quality of the jobs and the wages they pay?
- l. Is the management experienced in the type of business activities it proposes, and has it demonstrated a capacity to successfully manage it?
- m. Are the projected earnings realistic and attainable? Are they supported by historical trends and industry norms? Do the projections indicate that cash flow will be sufficient to support the proposed increased debt?
- n. Are CDBG-ED funds adequately secured with all reasonably available assets and/or personal guarantees?
- o. If the proposal involves the purchase of a business, has an appraisal been completed, and is there a buy/sell agreement in place?
- p. Does the application support a sound, well-reasoned proposal with a strong indication that the business will enjoy success if CDBG-ED funds are received?
- q. Will the project be ready to proceed upon notification of tentative award of CDBG-ED funds and be ready to begin immediately?
- r. Does the application demonstrate that the project will support itself over time and not impose a burden on the local government or non-profit entity participating in the project?

C. DECISION AND FUNDING AWARD

Applications that are received and accepted as complete, and have received staff analyses and recommendations, will be submitted to the MDOC Grant Review Committee at the earliest available time after the analysis is finished. Applications will be reviewed by the MDOC Grant Review Committee in the order in which they are submitted as complete applications to the Department. However, when more than one application is submitted to the Department in the same loan review cycle, they will be considered submitted simultaneously and will be reviewed and/or funded in the order of the dates on which the applications were determined to be complete.

The Committee will make a recommendation to the Department's Director, who will make the final decision on project awards. If the application is approved, a letter of tentative award will be sent to the applicant stating the funding amount, interest rate and term, and any conditions that apply. If the application is not approved, a letter will be sent to the applicant stating the reasons for the decision. The date on the funding award letter is the date that will be entered on the CDBG-ED contract as the date of funding award. Projects must be completed within two (2) years from date of award in accordance with the project implementation schedule (Appendix P). If the Director revises the recommendation by the MDOC Grant Review Committee, the Director will prepare a written finding, consistent with the criteria established in these application guidelines, describing the rationale upon which the alternative decision was made.

➤ Applicants should also be aware that in most cases, it may take two (2) months or more before any funds will actually be disbursed to the business after the decision to award a grant has been made. This delay occurs because several activities must take place before funds can be released (start-up conditions). For example, the contract between the grantee and Department must be prepared, the grantee must conduct a review of environmental factors, and all the details for assuring proper management of the project and expenditure of federal funds must be finalized. Each award recipient will be given a list of start-up activities that need to be completed in order to receive a release of CDBG-ED funding.

➤ **It is absolutely essential that the applicant and the assisted business not incur costs or obligate funds, which are intended to be reimbursed with CDBG-ED funds prior to the date that all contract start-up conditions, including signing the loan agreement, are satisfied by the grantee and approved in writing by the MDOC. Administration costs may be incurred as of the date of the tentative funding award.**

It should be clear that new project expenses incurred by the grant recipient or the assisted business related to the proposal, to be reimbursed by the MDOC, are incurred at their own risk. Until a formal release of funds is awarded by the MDOC, no activity costs will be considered reimbursable until the MDOC has given the grant recipient this release, and costs are within the period of time designated by the MDOC for eligible activities.

→ All local governments must show a coordinated effort with the Certified Regional Development Corporation (CRDC) in their area. A copy of a letter approved by a CRDC's Board of Directors showing support for the proposed project and application must be included in each application for CDBG-ED assistance. If a local government is not able to provide this, it must include an explanation why one is not included.

For a list of CRDC's in Montana, please view the following website: <http://businessresources.mt.gov/CRDC/default.mcp.x>.

D. AREAS TO BE ADDRESSED WITH NARRATIVE IN EACH APPLICATION

1. Community Development Needs Assessment

The Housing and Community Development Act requires that each CDBG-ED recipient "identify its community development and housing needs, including the needs of low and moderate-income persons, and the activities to be undertaken to meet such needs."

Each applicant must include a brief description of its needs that, at a minimum, summarizes:

- a. The process used to identify community development needs and establish priorities and objectives, including efforts to encourage meaningful participation of local citizens, particularly those of low and moderate-income.
 - b. The applicant's short-term and long-term community development needs in:
 - economic development,
 - housing and neighborhood revitalization, and
 - public facilities,
- Applicants must include the needs of low and moderate-income persons and their priorities in responding to the needs.
- c. The planned activities to be undertaken to meet the identified needs.
 - d. The alternative projects considered for CDBG-ED funding and the rationale for selecting the proposed project(s).

The needs assessment process does not have to be conducted annually for applicants reapplying for CDBG-ED funds if a previously prepared needs assessment still accurately reflects existing conditions and community development objectives, and meets the requirements set out above. If an existing needs assessment will be used as the basis for reapplication, the applicant should solicit public comments on the previously identified community needs and priorities at one or more of the two public hearings required.

For further information on alternative methods of preparing needs assessments, applicants can request a copy of the Department's publication, *The Community Needs Assessment Process*.

2. Citizen Participation

The Housing and Community Development Act requires the MDOC to adopt “a detailed Citizen Participation Plan.” In order to receive CDBG-ED funds, both the Department and applicants for grants must certify that they are carrying out citizen participation in a manner that complies with this plan.

Applicants must provide citizens, especially LMI residents, adequate notice and opportunity for meaningful involvement in the planning and development of CDBG-ED applications.

At a minimum, the applicant must hold two public hearings prior to passage of a resolution by the governing body authorizing the submission of the full application.

The public hearings may be conducted either as part of a regularly scheduled meeting of the governing body or as a hearing convened especially for CDBG-ED purposes.

For each public hearing the applicant must submit a copy of the public hearing notice, affidavit of publication, minutes from the hearing, and attendance list. (See **Appendix I** for public hearing procedure example, and sample formats for announcements for public hearings.)

First Public Hearing

The purpose of the first public hearing is two fold:

- To inform citizens about the CDBG-ED program, the amount of funds available, how the funds may be used, the range of activities eligible for funding and other general program requirements, and
- To solicit public comment, particularly from low and moderate-income people, on the community needs assessment results, which include, community needs and priorities for economic development, housing and public facilities, including the needs of low and moderate-income persons. In considering the needs of LMI persons, the governing body is encouraged to consider the needs of households that may have special needs, such as those with lower incomes, female heads of households, minorities, elderly or persons with disabilities.

The first public hearing should not be held more than twelve months prior to the date of the submittal of the application.

For economic development projects, the local government should solicit publicly for prospective businesses that may be interested in applying for a CDBG-ED loan from the State through the local government. The local government should then select the most

reasonable and viable proposal(s) for consideration for an application to the Department.

Second Public Hearing

The purpose of the second public hearing is to:

- Give citizens and potential beneficiaries of the proposed project adequate opportunity to review and comment on the community's CDBG-ED application, before it is submitted. The issues that should be considered include the proposed project location, activities, budget (including the estimated amount and sources of funds proposed to be used for activities that will benefit low and moderate-income families), any costs to be imposed on residents as a result of the project (particularly those of low and moderate-income), and, if appropriate, the plans of the grantee for avoiding any displacement of persons as a result of activities assisted with CDBG-ED funds.

The second public hearing should not be held more than one month prior to the date of application.

A record of the required hearings must be submitted with the full application for CDBG-ED funds, along with copies of the public notices for the hearings or affidavits of publication for the notices. A verbatim record is not necessary; the names of persons who attended and a summary of comments by local officials and citizens are sufficient.

► Local governments may not hold both public hearings on the same day. The individual public hearings serve different purposes. Holding the hearings at the same time would not give the public adequate time to participate in discussions, or offer responses to topics proposed. If a local government submits an application demonstrating that both public hearings were held on the same day, or held less than two weeks (fourteen days) apart, the Department may require that they hold an additional public hearing.

Frequently, an important consideration for local governments considering a CDBG-ED application for economic development is whether they would be assisting a business that would directly or indirectly compete or be in competition with other local businesses. Projects demonstrating strong local opposition from other businesses should not be considered for CDBG-ED funding.

Formal public notice must be provided before public hearings are held. Notice of each public hearing should be published at least once in a newspaper of general circulation in the community at least seven days prior to the hearing. When possible, notice should also be directed to persons of low and moderate-income, those persons who will benefit from or be affected by CDBG-ED activities and/or representatives of low and moderate-income persons. Hearings must be held at times and locations convenient to potential and actual beneficiaries and with accommodation for individuals with disabilities. For public hearings where a significant number of non-English speaking residents can be reasonably expected to participate, arrangements must be made to have an interpreter present.

Notice of each public hearing should be published according to state law for local governments. In addition to the published notices, the applicant should make reasonable efforts to inform citizens of the hearings who may be affected by a CDBG-ED project but who might not be reached through formal newspaper notices. Examples of actions applicants may take to ensure citizen participation include meeting with community groups and leaders before public hearings, holding informational meetings, distributing notices of public meetings to residents, or posting of notices in ways customary to the community. These efforts should be especially concentrated in any neighborhood that a proposed CDBG-ED project may affect. The hearing should be scheduled at times and locations that will encourage broad citizen participation. (Communities without a newspaper may substitute alternatives for notifying the public such as radio announcements, mailed notices, and posters.)

3. Benefit to Low and Moderate-Income Persons

To be eligible for CDBG-ED assistance, the applicant must demonstrate that a minimum of 51% of the jobs to be directly created or retained by an economic development project are held by or will be filled by qualified low and moderate-income (LMI) persons or will be filled by LMI persons after special training planned as part of the project. To claim job retention, the applicant must provide documentation that, in the absence of CDBG-ED assistance, the jobs would be lost.

All CDBG-ED projects are required to meet the Congressional National Objective of benefiting LMI families. LMI families are defined as those families whose income does not exceed 80% of the county median income for the previous year or 80% of the median income of the entire non-metropolitan area of the State of Montana, whichever is higher. **Appendix F** contains the current LMI tables for cities, towns and counties; or you can check the program's website for the most current income limits at: <http://cdbged.mt.gov>

For economic development activities to meet this National Objective the applicant must demonstrate a benefit to LMI in one or more of the areas listed below. The activity must:

- Be carried out in a neighborhood or community where 51% or greater number of LMI persons reside and work (contact your CDBG-ED program liaison for activity eligibility);
- Employ people - a majority of who qualify as LMI persons;
- Make training available to LMI persons to help them qualify for higher skilled employment;
or
- Engage in advertising and recruitment efforts targeted to LMI persons.

To document the benefit to LMI persons, the grantee must determine the best method by which to substantiate LMI benefit, and how to provide appropriate documentation. Possible methods include:

- Identifying the specific neighborhood or community boundary and conducting an income survey of the project's proposed beneficiaries;
- Obtaining income certifications from individuals hired;
- Documenting the type of training to be provided;
- Documenting efforts to advertise for and recruit LMI persons.

Verification per LMI Job Created or Retained

For job retention projects: Use the income certification forms (**Appendix S**) to survey all existing employees and to verify the number of positions currently held by LMI persons for an existing business. Include the completed surveys in the CDBG-ED application. If a business is only proposing to retain existing employees and not create new positions, then at a minimum, 51% of existing employees must be qualified LMI.

For job creation projects: Project the full-time equivalent (FTE) LMI jobs to be created based on the company's hiring plan. For purposes of documentation, "full time equivalent" means 40 hours per week. Fifty-one percent (51%) of the positions to be created or retained must be filled by or made available to LMI persons. Income surveys will be given to each new hire during the course of the project.

Aside from using the HUD income tables, a person may be presumed to be LMI under certain conditions. Contact a CDBG-ED staff person for this information.

The income survey form has been modified to reflect new HUD requirements. Applicants are now required to specify the income level for retained or new employees. Income levels are defined as "extremely low", "low", "moderate-income", or "not low or moderate-income". The annual HUD income limits chart reflects this change. Be sure to contact CDBG-ED staff for the most current income limits chart before income surveys are given, or check the CDBG-ED website for current income limits.

Racial/Ethnicity Surveys: **Appendix S** also contains suggested format for a racial/ethnicity category form that must be used to collect racial/ethnicity information from all employees. The MDOC is required to report this information to HUD on all assisted projects.

Area-wide Benefit (City or County-wide Benefit)

Applicants must contact the Department for a determination whether a project qualifies as an area-wide benefit activity. The majority of the CDBG-ED projects would not qualify as area-wide benefit. Please contact program staff for HUD's specific criteria for area-wide benefit projects.

Limited Clientele

Benefits could be provided exclusively to a clearly specific clientele. If a population is targeted to be the beneficiary of a project, the project scope must demonstrate that the benefits to be provided to that population are **not** available to all residents, and that the targeted population meets one of the criteria listed below.

a. Benefit is specifically targeted to a group presumed to be 51% or more LMI, *unless there is evidence to the contrary*. The "limited clientele" definition can be applied only to those presumed LMI groups listed under HUD regulations, which includes:

- Abused Children
- Homeless Persons
- Battered Spouses
- Illiterate Adults
- Elderly Persons
- Migrant Farm Workers
- Adults meeting the Bureau of Census' definition of severely disabled adults
- Persons living with the disease AIDS

b. Information on family size and income shows that at least 51% of the clientele is LMI (e.g., programs where LMI income certification is routinely requested to allow participation in the program);

c. Benefits are limited to LMI (e.g., nursing homes whose occupancy is limited to LMI);

d. Nature of activity and location supports conclusion that clientele is 51% or more LMI (e.g., a day care operated in an inner city neighborhood);

e. Removal of architectural barriers to improve mobility of elderly and handicapped.

The proposed project must be designed specifically to benefit LMI persons included in the groups identified above.

Micro-business Enterprises

Projects that meet HUD's definition of a micro-business enterprise are automatically assumed to provide a 51% benefit to LMI persons. Micro-business enterprises do not have to meet the cost per LMI job requirement. A micro-business as defined by HUD is a commercial enterprise that has five or fewer employees, one or more of whom owns the enterprise. A micro-business enterprise under HUD's definition automatically meets the 51% LMI national objective if the income status of the assisted micro-business' owner is of low to moderate-income. That person is presumed to continue to qualify as LMI for up to a 3-year period after the CDBG-ED assistance is provided. This allows business owners to continue receiving CDBG-ED assistance even when they no longer qualify as an LMI household.

NOTE: The Department has a reference guide entitled “*Documenting Benefit to Low and Moderate-Income Persons*” that is available upon request. Contact a CDBG-ED staff person for the latest copy of this publication.

4. State Community Development Objectives

HUD regulations (24 CFR Part 91) require the State to identify its community development objectives, which must be developed in accordance with the statutory objectives. According to HUD, “the primary objective of the CDBG program is to develop viable urban communities by providing decent housing and a suitable living environment and expanding economic opportunities, principally for low-income and moderate-income persons.” The State’s objectives for Montana’s CDBG-ED program are described in **Appendix D**. The applicant must provide a written discussion of how one or more of the objectives will be met by the project.

5. Certifications for Application

Each local government applying for CDBG-ED funds and the business to be assisted with CDBG-ED funds, must agree to comply with the federal and state requirements set out in **Appendix C** (the *Certifications for Application, Acceptance of CDBG Program Requirements*) in implementing their proposed CDBG-ED project. Businesses should be made aware of the regulations that will apply to them at the beginning of negotiations. A copy of the *Certifications for Application*, signed by the chief elected official or executive officer of the applicant, must accompany the full application for CDBG-ED funds. Local governments and businesses should carefully review these requirements and consider their potential impact when designing their CDBG-ED project.

The federal requirements address issues such as financial management, labor practices, environmental impacts, civil rights, fair housing, and acquisition of real property and relocation of homeowners. Other State laws and regulations will also apply to the agreement between the local government, the Department, and any business or agency that will receive CDBG-ED assistance through a loan or grant.

The *Montana CDBG Grant Administration Manual* provides additional guidance on the applicability of federal regulations to applicants and to the business to be assisted with CDBG-ED funds. The Manual can be found on the CDBG program website at: <http://cdbged.mt.gov/adminmanual.mcp.x>. Laws can affect the costs and complexity of the project and the schedule for completion.

6. Environmental Impact

All CDBG-ED projects are subject to the National Environmental Policy Act (NEPA) and the Montana Environmental Policy Act (MEPA). Both laws seek to avoid adverse impacts on the environment by mandating careful consideration of the potential impacts on any development assisted with federal funds or approved by a state agency. In addition, CDBG-ED projects are subject to many other state and federal environmental laws. Applicants are encouraged to be sensitive to potential environmental impacts while their

CDBG-ED projects are first being considered and planned to avoid problems that could delay or even prevent a project from being implemented.

For projects involving infrastructure or construction, the Full Environmental Assessment, (Appendix E), must be submitted with the application. Applicants must complete the checklist **and provide sources of information** used for each section. Contact the Business Resources Division for guidance regarding the level of environmental review necessary, the procedures required, and the potential time constraints associated with the process. **For infrastructure and construction projects, the Full Environmental Assessment and site-specific environmental checklist(s) must be completed by a licensed professional engineer.**

For projects involving working capital, equipment purchase, and other non-construction projects such as the renovation of an existing building(s) or a multi-phased project, the site-specific environmental checklist is to be completed at the time of application. The site-specific checklist must be completed for each structure (i.e. houses, commercial, etc.) for renovation projects. The full Environmental Assessment must be completed as a start-up requirement before a Release of Funds can be done, regardless of the type of project. Contact CDBG-ED program staff with any questions on this requirement.

7. Matching Funds

In preparing its project budget, the local government is required to identify the sources and uses of funds and the amounts to be contributed by each financial source. To be eligible for consideration, an applicant must assure the participation of:

- At least one non-CDBG-ED dollar for each dollar of non-administrative CDBG-ED funds requested (a 1:1 leverage ratio).

The non-CDBG-ED funds may come from a variety of sources, such as new investments, bank loans, loans to be repaid to a state or federal loan program, or grants. Applicants should ensure that documentation committing any new non-CDBG-ED dollars states that the commitment is contingent on the receipt of CDBG-ED funds. Documented expenses related to the proposal that occurred no more than 18 months prior to the date of the application may also be considered as match to CDBG-ED funds.

Proposals that include new funds should demonstrate commitment at the time of application and approval. The Department reserves the right to reduce the match requirement in exceptional circumstances, such as high impact projects in areas demonstrating significant levels of need.

Projects that are primarily for job retention and meet the 51% benefit test may include refinancing as match at the discretion of the Department when the source of refinance for match is not used only for lowering the lender's risk.

➤ It is absolutely essential that the applicant and the business not incur costs or obligate funds, which are intended to be reimbursed with CDBG-ED funds, prior to the date that all contract start-up conditions, including signing the loan agreement, are satisfied by the grantee and approved in writing by the Montana Department of Commerce. Administration costs may be incurred as of the date of the funding decision.

It should be clear that expenses incurred by the grant recipient or the assisted business, are incurred at their own risk. Until a formal release of funds is awarded by the MDOC, no activity costs will be considered reimbursable until the MDOC has given the grant recipient this release, and costs are within the period of time designated by the MDOC for eligible activities.

The following will not be considered as match:

- a. Existing assets;
- b. In-kind services;
- c. Costs incurred prior to the application date to be reimbursed with CDBG-ED funds;
- d. The refinancing of existing debt;
- e. Projected operating cash flow;
- f. Existing equity;
- g. Existing bank line of credit amounts (Note: Increases in lines of credit contingent upon the receipt of CDBG-ED funds may be accepted.)

8. Need for CDBG-ED Assistance

The U.S. Department of Housing and Urban Development (HUD) requires the MDOC to consider whether CDBG-ED assistance to any nonprofit or for-profit business is the most effective use of CDBG-ED funds, including the extent of the need for assistance and the amount of assistance to be provided in relation to the public benefit that would result [24 CFR, 579.482(2)]. Applicants must show that all reasonable resources have been considered and are available or sufficient to complete the project financing. Applicants must provide a narrative explaining what funding sources have been applied for and the status of those funds.

a. Evaluate All Project Costs

The applicant must verify all project costs and document how they were determined and by whom (land appraisal, engineer or architect prepared estimates, equipment lists and cost schedules, etc.). The applicant must determine the reasonableness and completeness of the cost estimates (such as the inclusion of Davis-Bacon prevailing wage rates, if

applicable).

b. Verify and Maximize Private and Public Funding Sources

It is the responsibility of the applicant to verify that all other reasonably available sources of private financing have been maximized for the project proposed. Other private sources such as banks, venture capital companies, or additional private equity should be sought and verified before finalizing the project budget and applying for CDBG-ED funds.

Verification should consist of the following:

- The source of funds is committed;
- The terms and conditions of the committed funds are known;
- The source has the capacity to deliver; and
- All private sources are maximized for the given project. (No CDBG-ED funds should substitute for available private funds.)

c. Make a Determination of Need for CDBG-ED Assistance

The applicant must demonstrate that the business to be assisted needs CDBG-ED funding. There are several methods of determining the need for CDBG-ED assistance:

- i. Are the annual earnings of the proposed project sufficient without CDBG-ED assistance to meet the annual debt service requirement of a loan at market rate?
- ii. Is there sufficient equity and collateral to meet the lending requirements of private lending institutions? Can the assisted business contribute sufficient equity to the project to meet the debt/net worth requirements of traditional lenders? Does the business have sufficient collateral available to qualify for other financing?

The application should include letters from the private lending institutions contacted by the business for loans. The letters should document one or more of the following situations:

- The lender will not make any loan to the business;
- The lender can only lend a portion of the total project cost; or
- The lender will only participate if CDBG-ED funds are involved in the project and states that its participation is contingent on CDBG-ED funds.

The Montana Facility Finance Authority should be contacted for potential funding of health care facilities before pursuing CDBG-ED funding (406) 444-0259. For health care facility projects - the applicant should provide documentation that it has contacted the Montana Facility Finance Authority.

d. **Determining the CDBG-ED Funding Amount**

The applicant should determine the minimum amount of CDBG-ED financial assistance necessary to stimulate private investment.

9. **Documenting Jobs**

For projects proposing business loans, or infrastructure grants, all jobs must be converted into full-time equivalent positions. A full-time equivalent employee is an individual who is employed for 40 hours a week on the average or a combination of individuals with combined hours of employment equal to 40 hours per week. If the assisted business fails to meet the required job numbers at the end of the project, and their industry standard is less than 40 hours a week for an FTE, the Department may take this into consideration on a case-by-case basis.

Permanent year-round jobs are the priority of the program. Only permanent jobs may be counted. Only jobs that the assisted business directly creates within a 24-month contract period following grant award will be counted toward this requirement. The Department cannot consider jobs created indirectly by an assisted activity.

If part-time or seasonal employment is proposed, the application must include an estimate of the number of hours to be worked each year for each proposed position. Temporary construction jobs, other temporary jobs, and some seasonal jobs will not be counted unless seasonal jobs are the primary occupation and the principal source of income to the LMI persons for the year. This situation is very difficult to document and is not encouraged for CDBG-ED projects.

⇒ The base level of employment with a list of all current employees and job titles must be provided with the application in order to determine the actual number of new FTE's created. For existing firms, applicants must provide employment levels for the past year. The date for determining the base level of employees will be the date the Department determines that the local government's application is complete. For job retention projects, the assisted business must provide a list of current employees, along with job titles and income levels at the time of application. If the project is funded, the business will have to complete a job tracking spreadsheet as part of the start-up conditions. The spreadsheet will then need to be updated quarterly until the project is closed out.

Minimum job requirements should not exceed the equivalent of a high school education, in order to be counted as a job opening available to be filled by LMI persons. If job qualification requirements exceed the equivalent of a high school education training can be provided to enable otherwise unqualified persons to qualify for the position. The jobs that are to be created must be physically accessible to the LMI population within a reasonable geographic area. *(See Chapter III, Hiring and Training Plans for Customized Training of Employees)*

The family income is considered at the time the jobs are filled or retained, not after the LMI

person is hired. For new hires, income is determined for the year prior to the date the person is hired.

For projects involving the retention of jobs, the income levels should be documented using the prior year's income of the family. The verification forms should be completed no more than 30 days prior to submittal of the application. The application must provide clear and objective evidence that, without the CDBG-ED assistance, the jobs would be lost. The business must commit to filling as many new job openings from turnover and job creation as is reasonably possible with LMI persons. The full application must include a complete listing of all existing jobs. The application must indicate which positions LMI persons currently hold. (Forms and information are available on the CDBG-ED website.) The business should provide an estimate of its expected job turnover rate during the next two years, especially if job turnover will be counted toward the LMI benefit percentage. Businesses claiming retention of jobs must submit with the full application documentation verifying that the existing employees are eligible to be considered LMI by using the income verification form provided upon request by the Department. Income survey forms and racial category forms must be completed for each retained FTE.

Assistance for developing a hiring and training plan may be obtained from the local Job Service or the Human Resources Development Councils. HUD will accept persons eligible as LMI persons under other job training programs, except for those eligible under the Dislocated Workers Program.

Grantees must ensure that the assisting agency, the assisted business and the grantee maintain complete hiring records. Federal regulations and reporting requirements require that racial, ethnic and gender characteristics information be maintained for all job applicants and new hires (see **Appendix S**).

Applicants should take into consideration equal opportunity and nondiscrimination laws to ensure that women and minorities are not excluded from participation, denied the benefit of, or subjected to discrimination under any program or activity funded in whole or in part with CDBG-ED funds.

10. Management Plan

The MDOC strongly encourages CDBG-ED applicants to contract with experienced project managers.

As part of its start-up conditions, each applicant must submit a management plan, that at a minimum:

- a. Addresses the local government's plans for assuring proper management of the CDBG-ED project, including financial management of grant funds, compliance with State and federal requirements, effective and timely start-up and completion of project activities; and

- b. Identifies the person or persons who will be responsible for day-to-day grant management (or position descriptions developed for these persons) and any contracted services to be used in carrying out the project.
- c. References a sub-recipient agreement, if applicable, which will also be included as part of the start-up conditions.

The sub-recipient agreement and management plan will be part of the start-up conditions. **Appendix L1 or L2** contains sample sub-recipient agreements, and **Appendix M1, M2, or M3** contain sample management plans. Each applicant must modify the sub-recipient agreement and management plan to fit its unique situation. (Note: The MDOC will review the sub-recipient agreement, if applicable, and management plan for consistency with CDBG-ED program rules and guidance. The grantee may be required to amend or make modifications to the sub-recipient agreement and/or management plan.) Please also review **Appendix K** for the MDOC's procurement of professional services policy.

⇒ If the applicant is a previous or current grantee under the State CDBG-ED Program, the applicant's performance of project management responsibilities must be acceptable in order for the applicant to apply for additional CDBG-ED funding. Local governments that are currently administering CDBG projects will be eligible for reapplication if:

- **The MDOC determines that current or previously funded CDBG-ED projects are being administered in an acceptable manner, and there are no outstanding findings from audit reports;**
- **Current or previously funded CDBG-ED projects are consistent with implementation schedules contained in corresponding CDBG-ED contracts with the Department.**

To be awarded a grant under the CDBG-ED Program, a local government must have the management capacity to undertake and satisfactorily complete the project it is proposing. An applicant is assumed to have the capacity to undertake the proposed project unless available information raises a question concerning an applicant's capacity. If any question arises during the evaluation of the application, the MDOC may request additional information.

If an applicant does not believe that it currently has the capacity to manage a CDBG-ED grant, it may propose to hire administrative staff or arrange for project administration by another local government through an inter-local agreement or by contracting for administrative services with a consultant or nonprofit agency, after grant award. In all cases, the applying local government assumes direct responsibility for proper financial management of the CDBG-ED funds awarded to it.

11. Program Income/Revolving Loan Fund

"Program income" is any income earned from CDBG-ED supported activities such as repayments of principal and interest from loans for economic development projects paid back to a local government. Under the Federal Housing and Community Development Act, a state may require a local government to return program income to the State to fund additional CDBG-ED activities, except where the local government uses the program income to continue the activity from which such income was derived, under an MDOC approved Revolving Loan Fund Plan.

The Department reserves the right to collect CDBG-ED loan payments and deposit those payments into its state CDBG-ED account for future CDBG-ED projects. The decision to allow a CRDC, local development organization, or local government to retain loan payments will be reviewed on a case-by-case basis and will be determined based upon an organization's performance, what is in the best interest of the State, and what would provide the greatest benefit to Montana businesses.

The local government must be willing to commit the necessary resources, including financial support, to the proper management of the program income received from CDBG-ED financed loans and other CDBG-ED program income. The Department must approve a program income plan or revolving loan fund plan prior to submitting their first request for funding as a part of the start-up activities (see **Appendix J** for a revolving loan fund plan example). If the MDOC determines that the plan and proposed level of support and resources committed to it by the applicant community are inadequate, the Department will recover the program income. Please refer to the MDOC's most recent *CDBG Program Income and Revolving Loan Fund Manual* for guidance on management of program income.

For local governments managing program income, the following provisions apply:

a. After Project Closeout -- For the years of 1992 and prior:

- The MDOC encourages the use of program income for CDBG eligible activities that assist a minimum of 51% low and moderate-income persons.
- Program income should be expended on activities as specified in the local government's program income plan and/or closeout agreement.

b. After Project Closeout -- For the years of 1993 and Later:

MDOC has developed the following policy for expenditure of program income after close-out which will meet the federal national objective of benefiting low and moderate-income persons (LMI) and allow local governments some flexibility with their program income:

For revolving loan funds managed by local governments:

- For CDBG economic development activities: a maximum of 18% would be allocated to

an administration fund and a minimum of 82% allocated to an activity fund for each state fiscal year.

- After subtracting administrative costs, the remaining CDBG activity funds must be used on CDBG eligible activities that principally benefit low and moderate-income persons (at least 51%). In addition, all program income received by a grantee after closeout must continue to be used in accordance all the applicable federal requirements (Davis Bacon wage rates, environmental review, non discrimination, etc). As such, all regulations and requirements that applied during the term of the project will apply to the program income received after closeout. The first annual period for which it may be applied begins with fiscal year 1994, beginning July 1, 1993.

If a community has a CDBG-ED grant that is not closed out and receives a new CDBG-ED grant, the community may be required to expend un-obligated program income from the earlier CDBG-ED project on activities under the new CDBG-ED project before the community can request funds from its new grant. This would not apply if the funds have been set-aside in a separate revolving loan fund account and have been allocated for specific projects. However, local revolving loan funds must be substantially disbursed before additional funds are requested from the MDOC.

According to federal regulations, when repayments from a CDBG funded project are paid back to a local government revolving loan fund, the program income never loses its federal identity. When loans are repaid, all HUD Title I requirements as well as all other federal requirements must be met in subsequent relending activity. There is only one exception to this regulation:

- **When loan repayments are made to a qualified nonprofit community/economic development organization. That is, when repayments are managed by a non-profit (of which the organization's main function primarily focuses on community/economic development), those funds are not considered program income.** Prior to project closeout, the local government is the recipient of the CDBG-ED funds and all federal requirements apply to all activities. After project closeout, if program income is managed by a non-profit, the federal requirements (Davis Bacon wage rates, environmental, etc.) do not apply to the non-profit's activities. The Department encourages nonprofit community/economic development organizations to continue to relend repayments to businesses that intend to hire at least 51% low and moderate-income persons.

For CDBG economic development payments made to a qualified non-profit:

Payments made to a community/economic development organization that use the funds for continued economic development activities do not have to meet any federal requirements. However, the local government can still establish requirements for re-use of the funds, and require some CDBG-ED requirements to be followed, through the agreement between the local government and the community/economic development organization. A revolving loan fund plan must be executed that is agreeable to the local government and the MDOC. To contract the management of a revolving loan fund, the local government must execute a

sub-recipient agreement (**Appendix L1 or L2**) with the community/economic development organization for management of the revolving loan fund.

PLEASE NOTE: The Legislature instituted a Certified Regional Development Corporation (CRDC) Program in order to look at economic development from a regional perspective. Over the last several years, the Montana Department of Commerce has been strongly advising applicants to designate their respective CRDC as revolving loan fund manager. The CRDC should be responsible for management of repayments of CDBG-ED loans through the CRDC's revolving loan fund. This way relending activities would be available to the entire region covered by the CRDC, would be available to all eligible businesses in the region, and would more likely be used in priority economic development projects. The Department continues to strongly encourage this partnership to manage CDBG-ED and other economic development revolving loan funds.

There may be circumstances where it is appropriate to allow a local government to manage its revolving loan fund, or contract with another entity for management. The Department will evaluate this on a case-by-case basis, and may provide an exception to a CRDC revolving loan fund management, providing there is adequate and compelling rationale to grant an exception.

For more information on CRDC's, please view the following website:
<http://businessresources.mt.gov/CRDC/crdcmap.mcp>

The Department encourages community/economic development organizations to continue to use loan proceeds for CDBG eligible activities that benefit 51% low and moderate-income persons, and to follow activities specified in the revolving loan fund plan.

⇒ A detailed source of information regarding program income and property management and disposition requirements is provided by the Department in Chapter 4 of the *CDBG Grant Administration Manual*, and the most recent *CDBG Program Income and Revolving Loan Fund Manual*.

12. Property Management and Disposition

Federal property management requirements apply to real property within the grantee's control acquired or improved in whole or in part using more than \$25,000 of CDBG-ED funds. These requirements apply from the date CDBG-ED funds are first spent for the property until five years after closeout of the grant from which the assistance to the property was provided.

13. Acquisition

Federal requirements specify that local governments proposing the public acquisition of real estate or easements as part of a CDBG-funded project must formally notify the effected property owner(s), prepare an appraisal to determine fair market value, have the appraisal reviewed, and make a written offer to purchase based upon an amount

determined to be "just compensation." Local governments or businesses considering acquisition of real property as part of a CDBG-ED project should contact the Department for guidance.

14. Federal Labor Standards

Federal labor requirements should be given careful consideration when planning CDBG-ED funded economic development projects. The Federal Contract Work Hours and Safety Standards Act, Copeland "Anti-Kickback" Act, and the Davis-Bacon Act will probably apply to most economic development projects involving the use of CDBG-ED funds for contracted labor for construction, remodeling, site development, extensive equipment installation or other similar activity for contracts more than \$2,000. The Davis-Bacon Act requires the payment of prevailing wage rates (usually comparable to union scale) on construction work paid for in whole or in part with CDBG-ED funds.

Determining the applicability of Davis-Bacon wage rates to an economic development project can be complex. Contact the MDOC, Business Resources Division during the planning stages for a proposed project for guidance and copies of the applicable wage rates and requirements.

The higher labor costs associated with Davis-Bacon wage rates, if applicable to a project, must be considered when calculating project costs and when obtaining estimates from potential contractors.

15. Project Budget

Applicants should apply only for the level of funding necessary to carry out the project. Grant requests must be sufficient either by themselves or in combination with other proposed funding sources to complete the proposed activities within the contract period. Each applicant must propose a budget that is sufficient to assure effective administration and timely project completion.

The total budget of any proposed CDBG-ED project should be divided between "activity costs" (such as a loan to a for-profit business for equipment, working capital, etc.) and "administrative costs." The administrative budget covers the costs of carrying out a local project, including costs involved in preparing the required environmental review; the cost of the local government audit; and other contractual costs for professional services that may be associated with administration of the program.

A narrative justification for the specific proposed CDBG-ED project activities and related administrative costs must accompany the budget, including a breakdown of total project costs that identifies sources and amounts of all non-CDBG-ED funds to be used. The cost estimates for each item in the proposed budget must be explained in the narrative. For other sources of funds needed to complete the project, the status of these funds and how they will be used in conjunction with CDBG-ED funds should also be described and documented (land and equipment appraisals, architects' cost estimates, etc.).

Costs incurred by the grantee or the business prior to award of the grant and release of funds by the Department such as fees for preparing the application; a community survey or needs assessment; preparation of the environmental review record if conducted prior to award; or expenses incurred by the business to be assisted to be reimbursed by CDBG-ED are not eligible for reimbursement with CDBG-ED funds in the event of a grant award.

⇒ The Department recommends that applicants budget up to \$2,000 for project audits. Grantees, depending on the usual audit frequency of the local government, may be audited more than once during the term of the project. However, grantees need to be aware that the Single Audit Act of 1996 (the "Single Audit Act Amendments") does not allow the cost of audits to be charged to federal awards (i.e., CDBG) if the total federal expenditures of the local government are less than \$500,000 per fiscal year.

Applicants should be especially careful to ensure that all potential costs for carrying out the project are identified before submitting the application.

Note: *For local governments retaining and subsequently re-loaning program income, the program income is considered federal funding and must be counted as part of the total federal expenditures.*

16. Resolution to Authorize Application

Each application for CDBG-ED funds must have a copy of a resolution duly adopted or passed as an official act by the applicant's governing body within six months of the date of application which:

1. Authorizes the submission of the application (**Appendix H**);
2. States the applicant's willingness to abide by the federal requirements described in the *Acceptance of CDBG Program Requirements, Certifications for Application* (**Appendix C**);
3. Authorizes the applicant's chief elected official to act on its behalf regarding the application and to provide such additional information as may be required.

The MDOC will assume that the applicant has determined its legal authority under Montana law to apply for the grant and to conduct the activities proposed in the application. The Department may request additional information from the applicant if it is aware of any evidence to the contrary.

17. Letter of Support From A Certified Regional Development Corporation

All local governments must show a coordinated effort with the Certified Regional Development Corporation (CRDC) in their area. A copy of a letter approved by a CRDC's Board of Directors showing support for the proposed project and application must be included in each application for CDBG-ED assistance. If a local government is not able to provide this, it must include an explanation why one is not included.

For a list of CRDC's in Montana, please view the following website:
<http://businessresources.mt.gov/CRDC/crdcmcp.mcp>.

18. Maps

Each application must include two (2) clearly legible maps:

- a.** One that documents the proposed project area. Assisted business or project area must be indicated with a highlighter or clearly marked with a pen, and
- b.** Applicants must also submit a Federal Emergency Management Agency (FEMA) map designating whether or not the project area is within or outside a designated flood plain. **Assisted business or project area must be indicated with a highlighter or clearly marked with a pen.**

19. Implementation Schedule

Each application must include a draft implementation schedule (**Appendix P**) that outlines project milestones and targets for hiring and training goals.

E. FUNDING CRITERIA

The review of the application will be expedited and the application's likelihood of being funded will increase if the local government applying and the business that will be assisted have adequately demonstrated that:

- a.** All requirements are met or exceeded.
- b.** The level of CDBG-ED assistance is appropriate in relation to the public benefit expected to result from the project.
- c.** The proposed management is experienced in the type of business activities proposed and has demonstrated the capacity to successfully manage the entity to be assisted.
- d.** The application is complete as submitted and contains accurate information.
- e.** The earnings projections submitted with the application are realistic and attainable, are supported by historical trends and industry norms, and indicate that the projected cash flow is sufficient to support the proposed increased debt.
- f.** The CDBG-ED funds would be adequately secured with all reasonably available assets and/or personal guarantees.
- g.** The application documents a sound, well-reasoned proposal with a perceived strong chance for success if CDBG-ED funds are received.

- h.** The private or public sector lenders involved in the project have provided firm commitment of funds.
- i.** The project is ready to proceed upon the notification of the tentative CDBG-ED award and implementation will begin immediately.
- j.** The application conclusively demonstrates that the project will support itself over time and will not impose a burden on any local government or nonprofit entity participating in the project.
- k.** The applicant has considered the quality of the job and the wage it pays. The Grant Review Committee will place greater weight on job quality and wages paid when evaluating CDBG-ED projects for funding.
- l.** Applications where viability may be questionable, or where the overall business plan or need for CDBG-ED assistance is not adequately documented, may be restructured, renegotiated or not funded, depending on the severity and nature of the problems identified.
- m.** Proof of worker's compensation insurance coverage is provided in the application for the local government, assisted business, local development organization, and any other consultant to be performing work under a Montana Department of Commerce contract.

F. REALLOCATION OF UNCOMMITTED FUNDS

The Federal Housing and Community Development Act require states to distribute CDBG funds to local governments "in a timely manner." HUD encourages the State to have all of its annual allocation, excluding the State's administrative funds, to be obligated and announced to units of general local governments within 15 months of the State signing its grant agreement with HUD. Therefore, if after 12 months from the date of signing the grant agreement, the MDOC does not have at least 95% of its fiscal year allocation obligated and announced to local governments to achieve these goals the Department Director may award funds from any funding category to remaining, eligible, yet unfunded applications.

III. BUSINESS APPLICATION REQUIREMENTS

A. D-U-N-S NUMBERS

1. Dun and Bradstreet - DUNS Numbers

What is a DUNS Number?

The D&B DUNS Number is a unique nine-digit identification sequence, which provides unique identifiers of single business entities, while linking corporate family structures together. D&B links the D&B DUNS Numbers of parents, subsidiaries, headquarters and branches on more than 70 million corporate family members around the world. Used by the world's most influential standards-setting organizations, it is recognized, recommended and/or required by more than 50 global, industry and trade associations, including the United Nations, the U.S. Federal Government, the Australian Government and the European Commission. In today's global economy, the D&B DUNS Number has become the standard for keeping track of the world's businesses.

For a CDBG-ED application, businesses must have a D-U-N-S registration number.

This number will be entered on the *Application Form* and other CDBG-ED reporting forms. Registration for a D-U-N-S number is free of charge. For more information or to register please refer to the following website: <http://fedgov.dnb.com/webform>.

B. BUSINESS PLAN

The business plan components contained in this section are suggested for CDBG-ED applications involving loans, grants, or public improvements directly assisting for-profit or nonprofit entities. The level of detail and length of business plan should be relative to the type of businesses, market served, and number of employees. Business plans should provide a clear description of what the business does and what direction the business wants to take.

The online application portal will require each applicant to submit a written business plan for each business or entity to receive direct assistance, whether for-profit or nonprofit, in addition to a written narrative for each section of the business plan. Each business plan must contain sufficient information for the Department to obtain an adequate understanding of the business to be assisted, including products or services, estimated market potential, management experience of principals, current financial position, and details of the proposed venture. The Montana CDBG-ED Program has developed a brief Business Plan Outline, which may be helpful in developing a business plan for the application (**Appendix T**).

All business plan information and financial exhibits will be considered confidential, for evaluation purposes only, and will not, except as required by law, be provided to any third person, firm, corporation, or public entity without the express written consent of the

business. **The Department encourages businesses to execute a confidentiality agreement with the Department (Appendix Q) and submit a subsequent affidavit outlining parts of the CDBG-ED application it prefers to be held confidential. Assisted businesses are encouraged to work with the program when executing this agreement.**

The business plan must include the following elements and must provide sufficient detail for adequate analysis:

1. Business Description

Include a description of the company or enterprise and an explanation of the products or services offered.

2. Management Information

Provide the names, titles, and resumes of each principal to be responsible for the management of the business.

3. Market Analysis

Discuss the present or proposed market area and share, with future projections, and provide an explanation of how the information was developed (for example, market surveys). Document any identified potential markets (for example, contracts, letters, or other evidence of interest in the product(s) by potential buyers or distributors), especially if sales projections show annual increases exceeding 25%.

4. Sources and Uses of All Funding

This section of the application should discuss the source, use, and terms of all funds to be included in the project. Use the form to list the sources and uses of all funding for the project. A description of all aspects of the proposed assistance (i.e., loan terms, security, etc.), and the rationale for each must be included with the application. A narrative explanation/justification for the administrative portion of the budget must be attached.

5. Financial Exhibits

The business must be able to show that projected cash flow will be sufficient to cover projected debt service and that a positive net worth can be attained. The projections must include a narrative explanation of how the figures and assumptions were derived with special emphasis on any changes in major assumptions from existing conditions (i.e., changes in cost of goods sold and general administrative expenses as a percentage of sales, or if sales increases exceed 25% annually). Special care should be taken to include increased labor costs related to achieving the hiring goals contained in the hiring and training plan. **NOTE: Financial information is required for all projects, including projects that are only for employee training.**

The business plan must include the following financial exhibits:

a. Financial Statements

For an existing business, provide financial statements for the two most recent years of operation to include the following:

- Balance Sheets
- Profit and Loss Statements
- Cash Flow Statements

It is suggested that CPA-prepared year-end financial statements be submitted. Internally prepared interim financial statements will also be accepted. If internally prepared financial statements do not appear accurate or verifiable, the MDOC will require additional documentation before a funding decision is made.

The business owner or officer of the business must sign all financial information. Financial statements must also include a current Aging of Accounts Receivable and Payable. There should not be significant gaps (not more than 90 days) between the historical statements and the projected statements. The projections should use the same fiscal year periods as the historical financial statements. Applications that contain appropriate, updated, accurate financial information can be processed much more quickly than incomplete applications that require Department requests for additional information.

b. Projections

Provide the following projections for two years:

- Balance Sheets
- Profit and Loss Statements
- Cash Flow Statements

Earnings projections must include a projected monthly cash flow analysis for at least one year and until the break-even point is projected to be reached by the business. For a business that experiences regular or occasional cyclical variations in cash flow, provide a narrative explanation of the reason(s) for the occurrence of the cycles. Also, explain the effect, if any, on the business's ability to meet its debt obligations identified in the existing and projected debt schedules.

c. Debt Schedule

Provide descriptions of all existing and projected debts and lenders, annual debt service amounts, and any related loan requirements. Financial statements should include current maturities of long-term debt and adjusted principal balances. All debt sources must be

identified independently and not combined into one long-term debt number on the balance sheet. Principal and interest payments for at least two years should be included for all sources.

d. Working Capital Needs

Provide information on working capital needs and verify through cash flow projections, explaining changes in inventory and receivables.

e. Requirements for Business Owners with a 20% or Greater Ownership

Personal Financial Statements and tax returns are required for all owners with 20% or more ownership in the business to be assisted. The Department also requires personal or corporate income tax returns for all affiliated businesses. Personal guarantees will be required by owners with a 20% or more ownership at the discretion of the Grant Review Committee. Tax returns can either be mailed directly to the Department or can be uploaded in the online application portal. **If tax returns are uploaded to the electronic application, please ensure that all Social Security Numbers are redacted.**

f. Personal Credit Check Release

The principal owners of the business, as defined above, must provide a release allowing for a personal credit history check by the Department as part of the application review.

6. Private Sector Commitments

Applicants must provide firm commitment letters from any private sector lenders or investors involved in the project. Such commitments should be binding, contingent only upon receipt of CDBG-ED funds. All terms and conditions that apply to each funding source must be submitted as part of the application. Applications that include a loan guarantee from the Small Business Administration or USDA Rural Development must include the letter of authorization from the appropriate agency that contains the terms and conditions that apply to the loan. Terms and conditions for proposed debentures must be included. Letters of commitment from investors, owners and/or others providing assistance must be submitted with the application and must:

- Be on a letterhead of the firm and signed by an official of the firm authorized to commit the organization;
- Provide a clear statement of the firm's concept of the project (i.e., location, scope and cost);
- Specify the nature of the commitment (e.g., the amount of private commitment, amount of borrower's commitment, type and size of the project, number of jobs to be created, and commitment to hire low and moderate-income individuals);

- State a willingness of the firm to sign a legally binding commitment upon grant award and that the firm has reviewed the grant application and has approved its content. Letters of commitment from private financing institutions must specify the amount and type (for example, interim construction financing) of the loan being provided for the specific activity to be undertaken. The commitment should be binding, contingent only upon receipt of CDBG-ED funds.

7. Public Sector Commitments

If resources from the public sector or nonprofit entities are to be involved in the proposed economic development project, applicants must provide written evidence of firm commitment of public funds and/or other resources. Such commitments should be binding, contingent only upon receipt of CDBG-ED funds to the project. Evidence should include resolutions passed by the local governing body and/or a letter of commitment from other sources. Projects that include matching funds from the Economic Development Administration (EDA) for public facilities in support of economic development may be reviewed and approved contingent on EDA approval if necessary to meet EDA requirements.

Applications should be submitted only for those projects that are ready to proceed, pending receipt of CDBG-ED funds. **All project funding must be fully committed and available and the project must be ready to proceed within six months of award.**

C. ANTI-PIRATING CLUSE. The assisted business must agree to comply with the Prohibition on Use of Community Development Block Grant Assistance for Job-Pirating Activities under 24CFR, Part 570, Prohibition on Use of Assistance for Employment Relocation Activities. Notwithstanding any other provision of law, no amount from a grant under section 106 made in fiscal year 1999 or any succeeding fiscal year may be used to assist directly in the relocation of any industrial or commercial plant, facility, or operation, from one labor market area to another labor market area, if the relocation is likely to result in a significant loss of employment in the labor market area from which the relocation occurs. A significant loss of employment is defined as 500 or more jobs. The assisted business must sign a certification agreeing to comply with 24 CFR 570.482 (3)(i) through (iii).

D. HIRING AND TRAINING PLAN

The primary goal of any CDBG-ED funded economic development activity is to increase year-round and permanent job opportunities for local residents, particularly persons of low and moderate-income (LMI).

A "low and moderate-income person" is defined as a member of a low and moderate-income family or individual in a household. The total income and size of the family, not the individual's income, determine whether an individual is considered to be LMI. "Family" is

considered to be husband, wife and dependents, such as the IRS determination for income tax purposes.

Applicants must provide a Hiring and Training Plan (see **Appendix O1**) to ensure preferential recruitment, hiring, and training of local workers, particularly those of low and moderate-income. In the event of grant award, the applicant's commitment to the Hiring and Training Plan will be considered binding. A final hiring plan will be incorporated in the grant agreement and the contract between the local government and the MDOC.

At a minimum the Hiring and Training Plan must include the following:

1. A breakdown of jobs to be created or retained, including the number and type of jobs that are full-time, part-time, skilled, semiskilled, or unskilled positions.
2. A discussion of the actions to be taken to ensure that the positions created will be filled by LMI persons.
3. A breakdown of jobs to be created, including the job titles and descriptions and the rates of compensation. For applications proposing positions involving less than full-time employment, an estimate of the number of hours to be worked each week or the number of months to be worked each year for each position must be included.
4. A timetable for creating the jobs, the total number of persons, and number of LMI persons to be hired.
5. An assurance that the business will comply with the equal opportunity and nondiscrimination laws.
6. Procedures for outreach, recruitment, screening, selection, training and placement of workers that will ensure maximum access for local residents, particularly persons of low and moderate-income.
7. A description of the training curriculum and resources, if applicable.
8. Written commitments from any agencies or organizations participating in the implementation of the hiring plan (e.g., Job Service, HRDC, etc.).
9. A written commitment from the assisted business to comply with the hiring plan.

The assistance agreement and/or loan agreement between the grantee and the assisted business will contain conditions regarding the hiring of LMI persons. **The assisted business must show substantial compliance with the hiring and training plan and a "good faith" effort toward accomplishing the hiring goals set out in the assistance agreement before the project can be closed out. If the business does not meet its LMI hiring goals, it will be asked to document its hiring and training methods and provide rationale for not hiring the agreed upon number of LMI persons. Businesses**

that do not provide adequate rationale for not hiring the agreed upon number of LMI persons may face payback of all CDBG-ED awarded funds.

Hiring goals should be reasonable and justified by the financial statements and projections. Claims for the number of jobs to be created or retained should be realistic and not inflated or too optimistic.

E. HIRING AND TRAINING PLANS FOR CUSTOMIZED TRAINING OF EMPLOYEES

Applicants must provide a Customized Training Plan (see **Appendix O2**) to ensure recruitment, hiring, and training of local workers, particularly those of low and moderate-income. In the event of grant award, the applicant's commitment to the Hiring and Training Plan will be considered binding. A final hiring plan will be incorporated in the grant agreement and the contract between the local government and the MDOC.

Applicants must include the information under Part C., Hiring and Training Plan, (above) in addition to responding to the evaluation criteria listed below:

- 1.** Describe the kind of training that will be provided to the employees. Training should be provided to newly hired persons identified for an upgrade in skills. *(These persons do not have to be on the payroll at the time of application to the MDOC; but must be on the payroll prior to training.)* **Types of training and individuals to receive training must be clearly outlined in the customized training plan. Changes to the plan must be approved by the Department in the event overall training needs change.**
- 2.** Estimate the number of positions and the date the job openings will be available. Job openings must equal the number of persons to be trained. MDOC will not provide funds for training more people than there are jobs available. Only employees working full time, at least 40 hours per week, at the end of the training period are eligible for reimbursement of training costs.
- 3.** Explain how many employees are expected to receive training out of those listed on the hiring and training plan. The proportion of CDBG-ED funds used for the training project must be in proportion to the total number of individuals assisted who are from LMI households. At least 51% of those trained using MDOC funds must meet the HUD low to moderate-income (LMI) criteria. For guidance, refer to Chapter II, Section D.3, Benefit to Low and Moderate-Income Persons. Incomes for all persons hired by the company must be verified at the time of hire through the local Job Service or a local contractor.
- 4.** Describe the method of training or explain how the training will be accomplished and by whom. Will the training be provided on-site by the company or a contractor, provided out-of-state, or provided by an educational institution?
- 5.** For training funded with this grant, describe what will be the duration of the training period. When is the training period expected to begin and end? NOTE: The training period for which CDBG-ED funds are used cannot extend beyond the period of one year.

6. Explain what the company expects to accomplish at the end of the training period.

→ Explain and provide a budget, which includes the overall costs of the training, including the portion to be paid by CDBG-ED grant funding. **At the end of the training period, employees must be paid a compensation package in salary and benefits that meets at least the lower of either the county's average hourly wage, or the State's average hourly wage. Average wage rates are determined by the Montana Department of Labor. Current wage thresholds can be found on the CDBG-ED website.** The definition of what constitutes adequate benefits is subject to evaluation by MDOC. Local governments may set a higher minimum. The Department may consider projects that involve lower compensation packages only in situations where there is a significant positive impact overall on the local economy and strong community support is documented. The training period shall not exceed 12 months per individual.

Please note that businesses are not eligible to receive reimbursement from the MDOC for an employee's training costs from more than one public finance program for the same training. In addition, if a business trains an employee, collects eligible training costs from the MDOC for that employee, and then the trained employee resigns from his/her employ, the business may not require that employee to reimburse the business for the training costs already paid for by the MDOC.

a. List the starting wage and the wage to be paid after training for each position.

b. List the job benefits to be paid and explain when benefits will begin.

c. List any payments to instructors and/or contractors, if any.

d. List and justify travel and per diem costs, if any.

e. If CDBG-ED funds will be used for childcare or transportation costs, provide a description.

f. Describe the company's contribution and commitment to the training program. For example, is the company contributing cash, or in-kind facilities or equipment? If outside funds or resources are being provided as a contribution, please submit a written commitment from these sources.

→ **At the time of application, the company may be required to:**

g. Provide a signed certification that in the event the company ceases operation within the MDOC contract period, which is usually 24 months, the company will reimburse the local government the full amount of the MDOC labor training grant; and

h. Provide a signed assurance that if the employees to be trained with MDOC funds are not paid at least **a compensation package in salary and benefits that meets at**

least the lower of either, the county's average hourly wage, or the State's average hourly wage, MDOC training funds will be recaptured by the local government; and

- i. Provide quarterly reports to the local government and the MDOC that document the higher wages paid after training during the contract period.

PLEASE NOTE: Businesses may not be reimbursed for training expenses until a trainee has completed his/her required training and is making the minimum compensation package. Funds will not be advanced for training purposes except under exceptional circumstances.

The assurances must be signed by the person in the company who has been assigned the duties and responsibilities for training, and who will be responsible for the overall success of the program. See **Appendix U1** for a template of grant assistance agreements.

F. GENERAL POLICIES ON LOAN REQUESTS

All loans made to nonprofit organizations and for-profit businesses are subject to the following guidelines:

1. Loan Terms

The terms of the loan should be consistent with the projected use of funds and individual project needs. For example, terms for financing machinery and equipment should generally be between 5 and 10 years. For buildings and real estate, terms should generally range between 15 and 20 years. Working capital loans should be limited to 7 years. If the applicant requests a deferral of repayments and the Department accepts it, the term of the loan will include the deferred period. For example, a loan with a 10-year term with a 1-year deferral period has a total term of 10 years, not 11.

2. Deferral of Repayments

Repayments of principal, interest or both may be partially deferred up to 2 years. The projected cash flow of the business and the defined financial gap must support the need for a deferral. The Department will require that at least nominal payments be made in each year from the time the loan agreement is executed.

3. Loan Security

All loans must be secured with fixed assets (i.e., land, buildings, and capital equipment), personal guarantees, or any other reasonable source of available collateral. CDBG-ED funds may be placed in a subordinated security position to other lenders involved in the project. Applicants must include documentation for the value of collateral offered for security and a description of all security positions held by lenders and any liens that may apply to the collateral (tax liens, mechanics liens, or other liens). The Department will negotiate with the business for the most secure position that is reasonably available,

regardless of the proposed use of the CDBG-ED funds (for example, fixed assets may be used to secure working capital loans).

4. Interest Rate

Interest rates for CDBG-ED funded loans to for-profit businesses will not exceed **2.0%**. Lower interest rates may be negotiated based on proposed job creation and the Grant Review Committee's perception of risk and return.

G. WORKERS' COMPENSATION INSURANCE COVERAGE

Entities receiving assistance from the Montana Department of Commerce are required to comply with the provisions of the Montana Workers' Compensation Act while performing work for the State of Montana in accordance with sections 39-71-401, 39-71-406, and 39-71-417, MCA. Proof of compliance must be in the form of workers' compensation insurance, an independent contractor's exemption, or documentation of corporate officer status. Neither the contractor nor its employees can be employees of the State. This insurance/exemption must be valid for the entire term of the contract. A renewal document must be sent to the Community Development Block Grant – Economic Development Program, Montana Department of Commerce, P.O. Box 200505, Helena, Montana, 59620-0505 upon expiration.

Proof of coverage must be sent to the Department as part of the start-up conditions for CDBG-ED grant assistance. Contracts will not be awarded without proof of coverage.

Coverage may be provided through a private carrier or through the State Compensation Insurance Fund (406) 444-6500. An exemption can be requested through the Department of Labor and Industry, Employment Relations Division (406) 444-1446. Corporate officers must provide documentation of their exempt status.

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