

Business Management Assistance Grant Program Clarification

May 14, 1990

MEMORANDUM FOR: Harry W. Staller, Deputy Regional Administrator-
Regional Housing Commissioner, 3S

ATTENTION: John Kane, Director
Community Planning and Development, 3C

FROM: Anna Kondratas, Assistant Secretary for
Community Planning and Development, C

SUBJECT: National Objective Determination for the Business Management Assistance Grant Program,
City of Chicago
Clarification of July 12, 1989 memorandum

This is in response to a December 19, 1989 memorandum from your office which raised a number of technical questions about a July 12, 1989 memorandum sent from Headquarters to the Chicago Regional Office and later included in the updated CDBG Policy Book (Notice CPD-89-45). Before addressing these questions, a point about the nature and purpose of the policy book must be made. The CDBG program keeps changing and adapting to the needs of our beneficiaries and the innovations of our grantees. Knowing how to interpret and apply the regulations and Notices on a case-by-case basis can be very confusing. The policy book contains a number of memoranda originally sent to only one HUD office. These memoranda are included in the policy book as case models for other offices that may be facing similar situations. This guidance is intended to be illustrative of Headquarters rulings and reasoning.

The July 12 memorandum in question addressed issues that the Chicago Office had raised about the City of Chicago's Business Management Assistance Grant (BMAG) program. BMAG is strictly a technical assistance program, so the memorandum limited discussion to showing national objective compliance for a special economic development technical assistance activity. However, on review of the memorandum in light of your office's questions, we could support use of the reasoning in paragraphs six and seven in a case involving financial assistance to a business serving a low- and moderate-income area. In such a case the rules in the June 2, 1987 memorandum and the regulations would take precedence, of course.

Your memorandum also questions the relationship between the regulatory requirements at 570.208(a)(1) and 570.506(b)(2) and the guidance in the July 12 memorandum. For provision of assistance to a for-profit business on the basis that the business serves a low- and moderate-income area, the recordkeeping requirements for low- and moderate-income area benefit in 506(b)(2) ask only that the recipient identify the service area and show that 51% of the persons residing therein are low- and moderate-income (or meet the exception threshold). There is no requirement that the recipient document

what the benefit is.

However, the substantive rule for area benefit at 208(a)(1) states that "an activity, the benefits of which are available to all the residents. . ." and clearly indicates that to qualify under this provision, the CDBG-assisted activity must provide benefits. Generally, the benefit is obvious. For example, formerly there was no supermarket in the area, now there is one; or the old supermarket was dingy and small, with a poor selection of items, now it is clean, bright, bigger, with a great selection of items. In the BMAG case, the benefit was not obvious. How does helping a business with its bookkeeping benefit residents of the area served by the business? It was not clear that the activity fit under 208(a)(1) because it was not clear that the benefits of the activity were available to all of the residents. The July 12 memorandum was written to clarify that the activity could qualify under 208(a)(1) and that it would not founder on the language in 208(a) regarding substantial evidence to the contrary. Your input on simpler or more effective methods of ensuring benefit from economic development technical assistance activities would be welcome.

The above discussion addresses your office's "two basic issues" with the BMAG memorandum. Your memorandum also included three other questions. First, "enhancement of the services provided" was deliberately not defined. The range of types of businesses that may be assisted is tremendous, as is the range of services provided to neighborhoods by such businesses. In this case, headquarters has indicated a framework for examining such cases, but left considerable flexibility.

Second, again note that the BMAG memorandum provides a model, not a requirement. The documentation described in that memorandum is suggested, not required. To demonstrate for the necessary or appropriate determination that service has been enhanced, a business could show that after assistance it would serve more clients from the area, or that it would improve the quality of the service offered by hiring or training more qualified staff, or that it would be more accessible to residents by remaining open more or more appropriate hours. As to threats to business survival, a survey by the recipient of failed or failing businesses in the area could establish general causes of local business failures. Local lending institutions could also be used as a source.

Third, if the BMAG method is used, the causes of business failures in a specific area should ideally be identified before any business in the area receives CDBG assistance.

Any further questions may be addressed to the Entitlement Communities Division at FTS 755-5977.

cc: Ed Gardner