

National Objective Determination for the Business Management Assistance Grant Program

July 12, 1989

MEMORANDUM FOR: Gertrude W. Jordan, Regional Administrator
Regional Housing Commissioner
Chicago Regional Office, 5S

ATTENTION: Richard H. Wilson, Regional Director
Community Planning and Development, 5C

FROM: Audrey E. Scott, General Deputy Assistant Secretary
for Community Planning and Development, CD

SUBJECT: National Objective Determination for the Business Management Assistance Grant Program, City of Chicago

In your May 10, 1989, memorandum, you requested guidance on the Community Development Block Grant (CDBG) national objective compliance of the Business Management Assistance Grant (BMAG) program of the City of Chicago. BMAG assesses business needs and ability to pay for technical assistance in accounting and in legal management areas, then purchases up to \$2000 of such assistance per business. The City's letter of April 26, 1989, outlines the process and documentation required by BMAG.

We have three concerns about the City's approach. First, assistance through BMAG appears to be limited to minority or women owned businesses, and the assistance is only purchased from minority or women contractors. Even the appearance of discrimination should be avoided in the provision of CDBG assistance. If BMAG is limited to providing assistance solely to minority or women owned businesses or to purchasing assistance solely from minority or women contractors, it is discriminating on the basis of race and gender which is proscribed under program rules.

Our second concern is that the BMAG program counts jobs as benefit to low and moderate income persons when the salary of the job fits a certain profile. This is not the correct method. A job may be counted as benefiting a low and moderate income person only when the person involved is a member of a low and moderate income family. The salary the person is expected to be paid in the new job does not matter for the purpose of the determination.

Our third concern is that BMAG may not be properly insuring benefit in some cases. When BMAG chooses to provide any assistance to a business based on jobs for low and moderate income persons, it must have a system for insuring that the national objective will be met. The written agreement set forth at 24 CFR 570.506(b)(5) must be signed before the assistance is provided, and business progress toward the national objective must be monitored until the goals are met.

You questioned the link between the national objective and the assistance provided. The answer has two main parts: 1) meeting the national objective under the low and moderate income area benefit criteria, and 2) meeting the low and moderate income jobs criteria.

The low and moderate income area benefit criteria can be met when assistance is provided to a commercial business serving a low and moderate income area and the assistance can be shown to result in enhancement of the service provided. Alternately, if a threat to the continued existence of the assisted business can be reasonably established, the assistance can qualify on the basis of retaining the current level of service the business provides to the area in question, so long as the assistance can reasonably be expected to extend the business's viability for a significant period.

For example, a grantee may establish factually that a general condition of business failures exists in a particular low and moderate income area, and may document causes of this general condition (such as lack of working capital, deficient accounting systems, or ignorance of licensing requirements). If the business being assisted is a commercial business serving a low and moderate income area, it is determined to experience one of the causes of business failure, and the assistance addresses that threat, then the CDBG assistance may reasonably be said to alleviate the threat to the existence of the business and can qualify as meeting the national objective of benefit to low and moderate income persons.

You requested a determination in the specific case of whether a funeral home can be said to serve an area in the same sense that a grocery store serves an area. If the funeral home is a commercial business, the service area of which is primarily comprised of low and moderate income residents, it could be eligible to receive CDBG assistance based on benefit to low and moderate income persons. Again, the assistance must result in enhanced service to the area, or result in retaining the current level of service. In the latter case, a reasonable threat to the viability of the business must be shown and the assistance must alleviate that threat.

Demonstrating compliance with the criteria for creation of jobs for low and moderate income persons, whether for financial or for technical assistance is more burdensome than for area benefit. Some of the additional requirements include executing a written agreement with the business, monitoring business progress toward meeting the national objective, documenting the family income level of persons hired or interviewed, and providing sufficient information for the Grantee Performance Report form and narrative. As with assistance justified under the area benefit criteria, a reasonable connection between the amount and type of assistance and the amount and type of benefit (service or jobs) must be described and be placed in the files on a business by business basis.

For example, the connection between providing technical assistance to develop and implement an accounting system and the hiring of a part-time bookkeeper to maintain that accounting system can be readily accepted. If the explanation of the linkage between the assistance and the benefit provided is clearly unreasonable, you should question it.

We appreciate the effort the Field Office and the City have put into this program to make it meet the national objectives and other requirements of the CDBG program while still meeting the assistance needs of small businesses. Please contact us if you have any further questions.