

Questions and Answers Regarding Economic Development Activities in the CDBG Entitlement Program

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U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410-7000

OFFICE OF THE ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT

MEMORANDUM FOR: All Regional Administrators
All Category A Field Office Managers

ATTENTION: Regional Directors for CPD
CPD Division Directors

FROM: Jack R. Stokvis, General Deputy Assistant Secretary for
Community Planning and Development, CD

SUBJECT: Questions and Answers on Economic Development Activities in the CDBG Entitlement Program

Over the past several years, CPD has given high priority to encouraging grantees to become more involved in economic development, and to stimulating creativity and innovations in this area. I am happy to report that we have achieved considerable success in this endeavor. By all reports, the number of grantees active in this field has grown dramatically. So too has the variety of undertakings and approaches they are using. The amount of CDBG funds being used for this purpose has also grown.

However, we have been receiving a large number of questions from both field staff and grantees regarding the use of CDBG funds for economic development activities. Due in large measure to the lack of up-to-date regulations covering the subject, there is widespread misunderstanding about what economic development activities qualify for CDBG assistance and what records must be maintained regarding those activities. For example, some grantees apparently believe that CDBG funds may be used to assist a for-profit business only if the business creates or retains jobs for low and moderate income persons. However, as described in the answer to question 5 in the attached paper, there are five basic ways that such assistance may qualify as meeting a national objective of the CDBG program.

The attached questions and answers cover major questions we have received and the answers we have been providing. Some of the questions and answers simply emphasize long-standing interpretations of existing regulations pertaining to economic development activities. The answers provided to them are relevant to monitoring any economic development activity, provided the question applies to the particular activity.

The other questions stem largely from statutory changes made subsequent to publication of the existing regulations. The answers represent HUD's position based on these changes and public comments received on proposed regulations. These questions are marked with asterisks (*). However, because the questions and answers in this second category have not been formally communicated to all Entitlement grantees previously, as a general rule they should be used as guidance in monitoring only those economic development activities begun 30 days or more after the date of this memorandum. In some cases, individual grantees have been previously provided written guidance from HUD covering one or more of the points made in these questions and answers. In such cases, the grantee shall be held accountable for adherence to the guidance previously provided.

A broad range of economic development activities may be undertaken consistent with these policy guidelines. Such activities can contribute substantially to the achievement of the goals of public/private partnerships, while at the same time meeting the national objectives of the CDBG program. Above all, it is important that each Entitlement grantee understands that economic development activities carried out in accordance with the policy guidelines reflected in these questions and answers will be accepted by HUD as having satisfied the eligibility and national objective standards for such activities.

Please provide copies of this memorandum immediately to all CPD staff in your office and to all Entitlement grantees in your jurisdiction.

Questions regarding this memorandum should be directed to the Entitlement Cities Division in Headquarters (FTS 755-5977).

Attachment

Questions and Answers on Economic Development Activities in the CDBG Entitlement Program

A. "Necessary or Appropriate" / Assisting For-Profits

1. **Q:** Under what circumstances must the grantee make a "necessary or appropriate" determination?

A: Section 105(a)(17) of the statute and section 570.203 of the regulations require that a "necessary or appropriate" determination be made whenever CDBG assistance of any form is provided directly to a for-profit entity for an economic development project.

2a. **Q:** What is the purpose served by the "necessary or appropriate" determination?

A: The purpose is to ensure that the amount of assistance to be provided to a for-profit business is not excessive, taking into account both the actual needs of the business and the extent of public benefit expected to be derived from the economic development project.

b. **Q:** Is "public benefit" as used in the answer to the previous question synonymous with meeting the CDBG national objectives?

A: No, the concept of public benefit for the purpose of making a "necessary or appropriate" determination differs from, and is broader than, the concept of meeting one of the three national objectives of the CDBG program. For example, increases to the tax base and the indirect creation of jobs are forms of public benefit, but are not considered sufficiently predictable and related to the activity for the purposes of meeting the CDBG national objective requirement.

3. Q: Where in the current CDBG regulations is the requirement that grantees document their "necessary or appropriate" determinations?

A: Section 570.200(e).

***4. Q:** What documentation is required to show that the necessary or appropriate" determination has been met when financial assistance has been provided?

A: The grantee's files are expected to contain documentation of the financial analysis of the business' need for assistance as well as the public benefit factors it considered in making its determination that assistance is necessary or appropriate. The documentation should show that the level of funding for the activity is reasonable, considering the needs of the business and the amount and nature of the public benefit to be achieved.

More information on how grantees should make and document "necessary or appropriate" determinations is contained in Attachment 1 to this memorandum.

B. Meeting National Objectives

5. Q: On what basis can CDBG assistance for economic development qualify as meeting a national objective of the program?

A: There are several ways:

- Under low/mod objective:
 - a. The assistance may directly create or retain jobs, a majority of which are for persons of low and moderate income. [§570.208(a)(4)]
 - b. The assistance may be to a commercial business which serves a residential area qualifying as a low and moderate income area (e.g., a neighborhood grocery or dry cleaner serving a low and moderate income area). [§570.208(a)(1)]
- Under slums/blight objective:
 - c. The assistance may be to a commercial or industrial business in an area which qualifies as a slum or blighted area, if the assistance addresses one or more of the conditions which qualified the area (e.g., redevelopment of cleared land). [§570.208(b)(1) or (3)]

d. The assistance may be to a commercial or industrial business located outside of a slum or blighted area, if the assistance is for demolition, rehabilitation, or historic preservation activities designed to eliminate specific conditions of blight or physical decay on a spot basis. Assistance may also be for acquisition of real property and/or relocation when an integral part of such demolition, rehabilitation or historic preservation activities. Rehabilitation is limited to the extent necessary to eliminate specific conditions detrimental to public health and safety. [§570.208(b)(2)]

- Under urgent needs objective:

e. CDBG assistance to a for-profit business could qualify under the urgent need criteria. For example, a major flood or tornado could destroy a privately-owned utility which serves the community, and local and other resources might be insufficient or unavailable to address this imminent threat to the community. [§570.208(c)]

6. **Q:** Where in the current CDBG regulations is the requirement that grantees must document how CDBG assistance for economic development qualifies as meeting a national objective of the program?

A: Section 570.200(a)(2).

C. Job Creation

*7. **Q:** Does the standard set forth in the current CDBG regulations at §570.208(a)(4) contain all the criteria for determining whether or not an activity has met the low and moderate income job benefit standard?

A: No. Subsequent to the publication of the current regulations, §105(c)(1)(C) was added to the statute. It states that in order for an assisted economic development activity to count as principally benefiting low and moderate income persons based on jobs, it must involve the employment of persons, the majority of whom are low and moderate income persons. In light of comments received on the proposed regulation, the preamble of which specifically asked for comments on how this new statutory language should be interpreted, HUD has determined that this new language requires a more stringent test to show that the low/mod benefit has been accomplished.

Accordingly, HUD now considers an activity to qualify under this provision where the activity creates jobs at least 51% of which are either (1) actually taken by low/mod income persons, or (2) can be considered to be available to low/mod income persons because:

- special skills that can only be acquired with substantial training or work experience or education beyond high school are not a prerequisite to fill such jobs, or the business nevertheless agrees to hire unqualified persons and provide them training; and
- the local government or the assisted business takes actions that would ensure that low and moderate income persons receive first consideration for filling such jobs.

*8. **Q:** What level of training, work experience or education is considered "substantial"?

A: HUD considers one year or more of training or related work experience, or education beyond high school as "substantial".

*9. **Q:** What is involved in providing "first consideration" to low and moderate income persons?

A: The first consideration approach has been developed by HUD with the expectation that, in most instances where it is applied, the outcome will be that over 51% of persons hired will be low and moderate income. Accordingly, grantees electing to use this approach will be expected to follow some basic principles. For example, merely considering 51 low and moderate income persons for 100 created jobs is normally not sufficient because most jobs are not offered to or taken by the first person interviewed. The hiring practices of the business should be analyzed. If it appears that normal practice is that only one of three persons interviewed is hired, then a comparable number of low and moderate income persons should be given first consideration for the job. The distance from residence and availability of transportation to the employment site should also be considered in determining whether a particular low and moderate income person can seriously be considered an applicant for the job. The business must be required to seriously consider a sufficient number of low and moderate income job applicants to meet the intent of this requirement. The grantee should also ensure that there is adequate documentation available to show what jobs were created, the process used for "first consideration", the low and moderate income persons considered for any such jobs, and which of those persons were hired.

*10. **Q:** For this purpose, how should the grantee performance be reviewed?

A: In reviewing grantee performance for this purpose, you should always begin by checking to see if at least 51% of the created jobs were taken by low and moderate income persons. If so, no further investigation need be made since the grantee would have qualified under the "taken by" standard. Where less than 51% of the jobs were taken by such persons, it is necessary to look further to determine whether the grantee used a first consideration approach that included the essential elements of (1) reviewing the nature of the jobs to ensure their availability to low and moderate income persons, and (2) requiring that low and moderate income persons be considered for the jobs. If these essential elements are missing, the grantee has failed to meet the standard. Even where the required elements are found, however, closer scrutiny should be given where the results show that significantly less than 51% of the jobs were taken by low and moderate income persons. The objective of such further review should be to determine whether, given the way the first consideration process was designed or implemented, the grantee should reasonably have predicted such an outcome. Where that can be determined, you should conclude that the grantee did not truly give first consideration to low and moderate income persons as required under this standard.

For example, it may be found that the agreement with the business called for giving the grantee only 24 hours to provide a low or moderate income applicant before allowing the business to consider others. (This would not be a reasonable amount of notice to enable identifying and referring suitable candidates.) Or, it may be found that the grantee did not monitor to ensure that the business met its obligations.

*11. **Q:** Must a business ask prospective employees for information about their families' incomes?

A: Not necessarily. In order for a business to demonstrate that it hired or gave first consideration to low/mod persons, the business must either agree to obtain and keep on file for verification the necessary information about the person to determine low and moderate income status, or agree to consider referrals. The referrals may be from the locality or a state, county or local employment agency or other entity that agrees to refer individuals who they determine to be low and moderate income persons based on HUD's income levels and considering both family income and size. Such entities making referrals must maintain the documentation they used to make such determinations and must agree to make them available for grantee or federal inspection.

Whether it is the grantee, the business, or a referral agency checking on income levels, it should be noted that HUD will accept a written certification of family income and size to establish low and moderate income status. The certification may simply consist of a statement that the person's family income is below that required to be low and moderate income under CDBG standards. The forms for such certification must include a statement signed by the applicant that the information is subject to verification by authorized government officials. HUD will also categorically accept as low and moderate income persons, those persons who qualify for assistance under another program having income qualification criteria at least as restrictive as those used in the CDBG definition of "low and moderate income person." This includes those persons referred from Joint Training Partnership Act (JTPA) programs because of the known income restrictions of that program.

*12. **Q:** What documentation is needed to show that first consideration" has been given to low and moderate income persons?

A: HUD expects the grantee to enter into a written agreement with the business before assistance is made available to it to ensure that there will be adequate documentation to show the following: the number and types of jobs created; what hiring process was used; which low and moderate income persons were interviewed for a particular job; and which low and moderate income interviewees were hired. (Acceptable documentation for showing the income status of the low/mod applicants and employees is described in item 11 above.)

*13. **Q:** Based only on the nature of the job, e.g. low-paying and low-skilled, can you assume that it meets the low/mod job benefit standard?

A: No. Although the nature, location and/or salary of a job may strongly indicate that it will be available to low/mod persons, this may not be the case. For example, a relatively low paying, low skill level job may be taken by a member of a family, whose family income substantially exceeds the low/mod standard. A job meets this standard only when it is actually held by or is made available to a low/mod income person.

*14. **Q:** Can't you simply look at how much a person was making at the time he or she took the newly created job for this purpose?

A: No. You must look at the family size and income. A low and moderate income person is defined as a member of a low and moderate income family (i.e., a family whose income is within the applicable income

limits used in the Section 8 rental assistance program). Therefore, both the size and income of the person's family must be considered so that Section 8 income limits by family size can be used.

*15. **Q:** Does someone who is unemployed automatically qualify as a low and moderate income person?

A: No. The same considerations discussed above for employed persons must be applied.

16. **Q:** May temporary jobs be counted?

A: No. Only permanent jobs may be considered in determining benefit to low and moderate income persons; temporary jobs such as construction jobs may not be counted.

17. **Q:** May permanent, part-time jobs be counted?

A: Yes, but they have to be converted to full-time equivalents for purpose of calculating the 51 percent test. For example, two half-time permanent jobs are the full-time equivalent of one full-time permanent job.

*18. **Q:** May, seasonal jobs be counted (for example, jobs in a vegetable packing plant)?

A: Such jobs may be considered to be permanent for this purpose only if the duration of the season is long enough for the job to be considered as the person's principal occupation.

19. **Q:** How do you count the number of low/mod jobs when CDBG funds represent only one portion of the total funding package?

A: When a financing package for an economic development activity involves multiple sources of funding, including CDBG assistance, all permanent jobs created or retained by the activity must be counted regardless of the size of the CDBG portion of the funding package. This is because the entire activity has benefited from the infusion of CDBG assistance. The same principle applies when the CDBG assistance is provided in the form of technical assistance.

20. **Q:** When CDBG funds represent only a portion of the total financing package, can the package be broken down into the CDBG-assisted and non CDBG-assisted components?

A: Generally no. Typically, all of the funds in such a case support one single, inseparable financing package and breaking it down would create an artificial distinction that would not accurately reflect all beneficiaries of CDBG assistance. However, it may be possible for multi-use projects to be divided into major segments (e.g., office, hotel, residential, commercial). If the CDBG assistance can be shown to

have been limited to one or more of those major segments, then the "activity", for the purpose of determining beneficiaries, may be considered to be those segments receiving the CDBG assistance.

21. Q: If a grantee assists several businesses with economic development, is the low/mod job benefit objective met if at least 51% of all jobs created by all of the assisted businesses in the aggregate are made available to low and moderate income persons?

A: No. Each business assisted with CDBG funds must meet one of the CDBG program's broad national objectives. Similarly, if several businesses are assisted through a single funding mechanism such as a revolving loan fund, each assisted business must meet one of the three broad national objectives. (See Questions 22 and 30 for exceptions to this general rule.)

***22.Q:** If a grantee provides assistance to a private developer for the construction of a facility, such as a shopping center, in which space will be leased to individual businesses, must each such business make at least 51% of its jobs available to low and moderate income persons in order for the activity to qualify under the low/mod jobs objective?

A: No. In this situation the minimum 51% standard may be applied to the aggregate of all of the jobs provided or to be provided within such a facility. However, to help ensure that the low/mod jobs materialize, the grantee must enter into a written agreement with the developer specifying this requirement and identifying financial penalties for failure to comply. (See Question 30 for a related exception.)

D. Job Retention

(The answers to the questions above on job creation also apply to job retention situations. The following five questions pertain only to job retention.)

***23. Q:** When may a job be considered to be retained for CDBG purposes?

A: Only when it can be clearly and objectively demonstrated that without CDBG assistance, the jobs would be lost. HUD will accept as examples of clear and objective evidence a notice issued by the business to affected employees, a public announcement by the business, or financial records provided by the business that clearly indicate the need for closing or moving all or portions of the business out of the area. This list is not all inclusive, but is intended to show the types of documentation required.

***24. Q:** What factors shall be considered in determining which of the retained jobs may be considered as "involving the employment of low and moderate income persons"?

A: Retained jobs may be considered as involving the employment of low/mod persons either if the jobs are known to be held by low/mod persons at the time the assistance is provided, or the jobs can

reasonably be expected to turnover to low/mod persons in a period of two years thereafter and will be made available to low/mod persons using the same standards as for newly created jobs.

***25. Q:** Why does HUD consider turnover for this purpose?

A: Clearly, retaining a job that is already held by a low/mod person would qualify that job as benefiting a low/mod person. (In determining whether the person already occupying a retained job is low or moderate income, it is the person's family income at the time the CDBG assistance is provided that is determinative.) But it is recognized that a business may currently be employing less than a majority of low/mod persons or may be unable to find out the family size and total family income of some or all of its employees. It is even possible that a business might be unwilling to try to acquire such information. That is why credit for jobs may be based either on jobs currently held by low/mod persons or jobs which will be made available to such persons over the next two years. Accordingly, if an assisted business is able to demonstrate that at least 51 percent of the jobs it is retaining are held at the time the CDBG assistance is provided by low/mod persons, the activity would qualify as meeting the first national objective. But where the business does not know or cannot determine the income status of some or all of its employees' families at the time CDBG assistance was provided, or if a majority of the jobs are known not to be currently held by low/mod persons, it can still qualify if it can show that at least 51 percent of the retained jobs will be made available to low/mod persons by considering expected job turnover during the two year period following receipt of the CDBG assistance.

***26 Q:** Must the grantee and the business choose one of these two approaches?

A: No. The two approaches can be used in combination. Therefore, the total of those jobs (1) known to be held by low and moderate income persons, and (2) those other jobs that can reasonably be expected to become available through turnover to low and moderate income persons in a period of two years after the assistance is provided may be counted.

***27. Q:** In the above answer, what do you mean by "those other jobs"?

A: It simply means that turnover may not be considered for a job that is already known to be held by a low or moderate income person. Otherwise, we would be counting the same job twice.

E. Other Economic Development Questions

28. Q: May CDBG funds be used for activities to promote economic development generally such as through campaigns to attract businesses or enhance tourism?

A: Usually not, since their link to specific jobs created is typically weak. However, such activities could be eligible if they are targeted directly to specific job creation activities and are coupled with written agreements from the businesses indicating the jobs that will be created and the number that will be taken by, or made available to, low/mod income persons.

29. **Q:** To what extent can an "Economic Development Specialist's" salary be charged to the CDBG program?

A: This activity could be eligible as assistance to a for-profit business to the extent that the position is used to assist businesses to carry out economic development activities that, individually, would meet a national objective. Where only some of the businesses assisted so qualify, the amount of the salary eligible for CDBG assistance should be prorated in accordance with cost allocation principles described in OMB Circular No. A-87. To the extent that this position is used for planning purposes, e.g. developing an economic development strategy, it could be eligible as a planning activity. In this case, the salary would be prorated according to how the employee's time is spent, and the planning portion would be subject to the 20 percent spending cap requirement for planning activities.

30. **Q:** Can the grantee take into account expected "spin off" and "trickle down" effects of assisted economic development activities when determining if the low/mod job benefit standard has been met?

A: No. There must be a direct and positive link between the CDBG assisted activity and the job creation. Therefore, indirect or multiplier effects of assisted economic development activities, such as "spin-off" and "trickle down" effects, cannot be considered for this purpose. However, this does not preclude counting jobs created by a business which is not itself receiving CDBG assistance if all of the following circumstances are present:

- a. The unassisted business together with the assisted business are among mutually supportive components comprising an economic development project; and
- b. The unassisted business would not go forward without CDBG assistance to one or more of the components; and
- c. The unassisted business has entered into a written commitment with respect to the jobs to be created so that the details of the commitment are known at the time of CDBG assistance to the projects; and
- d. The aggregate of jobs to be created by unassisted businesses entering into such commitments and those created by the assisted business meet the low/mod job benefit standard.

Under these circumstances there is a direct and positive link between the CDBG assisted activity and the job creation.

31. **Q:** If CDBG assistance provided to a subrecipient is used to provide technical or financial assistance to a for-profit entity, under which regulatory provision is this eligible?

A: Because the CDBG assistance is ultimately provided to a for-profit entity, this activity is eligible under §570.203(b); it is irrelevant if the funding is going through a non-profit. Accordingly, a "necessary or appropriate" determination is required.

32. **Q:** Which of the documentation requirements must be followed when a subrecipient carries out an economic development activity?

A: Subrecipients must comply with the same documentation requirements that the grantee must follow.

33. **Q:** When a CDBG activity is claimed to benefit low and moderate income persons on the basis of creating or retaining jobs, have upper limits been established on the amount of CDBG assistance per job that can be provided?

A: No. However, while no absolute limits have been established, an unusually high amount of CDBG assistance per job created or retained could constitute "substantial evidence to the contrary" as that phrase is used at the beginning of §570.208(a). Such evidence would permit HUD to examine whether it is reasonable to characterize the activity as principally benefiting low and moderate income persons.

ATTACHMENT 1

"Necessary or Appropriate" Determination

A "necessary or appropriate" determination must be made by the grantee when CDBG assistance is provided to a private, for-profit entity for economic development activities. This attachment provides guidance on making and documenting that determination when financial assistance is provided directly to private, for-profits. This guidance does not apply to technical assistance provided to such entities.

The grantee's files are expected to contain documentation of the financial analysis of the business' need for assistance, as well as public benefit factors that were considered in making the determination that the assistance is necessary or appropriate. As circumstances warrant, it may be appropriate for the grantee's files to include additional documentation, such as a market and/or feasibility study or a management assessment background. HUD will review this documentation to assure that the grantee has conducted the analysis, that the decision to fund the activity is defensible, and that the amount of assistance is reasonable in relation to the public benefit to be achieved. HUD will accept the grantee's determination unless the amount of assistance provided is clearly unreasonable taking into account both the actual needs of the business in making the project financially feasible and the extent of public benefit the grantee expected to be derived.

Public Benefit Determination

For the public benefit portion, the type of factors considered might include: the number and types of jobs to be created or retained; the other development which is likely to be stimulated in the area by the activity; increases to the tax base including property, sales and income taxes in the area; or increases in needed services which result from the activity. This list is not exclusive, but in any case the grantee is expected to provide clear documentation on the nature and amount of the public benefit to be achieved.

Financial Analysis

Documentation should consist of a financial analysis of the business entities' needs using the following steps. Also included as an attachment is a list of publications which provide "industry standards" which may be useful in conducting this analysis.

- a. Determine Project Type. There are two basic types of projects: "real estate" projects and "user" projects. Determining the project type is important since each is evaluated differently.
 - i. In a real estate project, the private developer buys/builds/renovates a piece of real property with the goal of leasing that property to another party for a rent in excess of expenses and debt service. Typical projects of this type are hotels, office buildings and shopping centers.
 - ii. In a user project, the entity seeking the assistance is also the owner/lessee and the occupant/user of the property. Typically user projects involve the construction of or an addition to an industrial or commercial facility, the procurement of equipment or the use of working capital.
 - iii. There may also be hybrid projects. An example is the manufacturing company which creates a subsidiary or independent entity to build and own a facility which the manufacturing company leases. In such situations the analysis must discover which entity/transaction is in need of CDBG assistance, for, as detailed below, user and real estate projects should be evaluated by different criteria.

Submission by the applicant of cash flow proformas, projected balance sheets and profit and loss statements are necessary for evaluating both real estate and user types of projects.

- b. Evaluate Proposed Project Costs (the uses of funds to complete the project). Cross-check costs with appropriate industry standards. The goal is to conclude that all costs are reasonable. Cross-checking should include hard and soft costs, particularly developer's fees.
- c. Verify and Maximize Private Sources of Funding (the sources of funds necessary to complete the project). Both private debt and equity must be verified. Verification means ascertaining that: the source of funds is committed; that the terms and conditions of the committed funds are known; and the source has the capacity to deliver. All private sources should be maximized for the given project. No CDBG funds should substitute for available private funds.
- d. Determine Reason for the Need for CDBG Assistance to Complete the Project. There are three general, justifiable reasons for CDBG assistance to both real estate and user projects.
 - i. Financing Gap. The private sector can maximally raise only a portion of the debt and equity funds necessary to complete the project. A gap between sources and uses exists and CDBG fills the gap.
 - ii. Rate of Return. The private sector can raise sufficient debt and equity to complete the project, but the returns to the developer/user are inadequate to motivate an "economic person" to proceed with the project. That is, project risks outweigh rewards. Evaluation of the rate of return argument is made differently for real estate and user projects.

For real estate projects, the rate of return is usually measured by one or more of the following:

- Equity Return Rate = annual cash flow (income after debt expenses and service) divided by cash equity. Also referred to as: cash-on-cash return, or return on equity/investment (ROI).
- Going-In Capitalization Rate = annual net operating Income divided by present value of project income or purchase price of the project.
- For user projects, the measurement of the rate of return is more varied due to the tremendous difference among industries with respect to accounting and historical returns. Typically, user project profits can be measured by operating ratios such as:
 - profit before taxes/tangible net worth (expressed as a percent)
 - profit before taxes/total assets (expressed as a percent)
 - sales/net fixed assets
 - sales/total assets

Other important underwriting issues to consider in user projects include officers' compensation and ratios of liquidity to coverage which help to measure an industrial company's health. Liquidity is a measure of the quality and adequacy of current assets to meet current obligations as they come due. Coverage ratios measure a firm's ability to service debt.

- iii. Locational. For either a real estate or user project in its most simplified version, the private sector entity is deciding between Site A and Site B for it's project. The CDBG grantor wants the project at Site A; but the private entity argues that the project will costs less at Site B and will require subsidy to equalize the costs in order to locate at Site A. The reasons for the cost differential are varied and must be evaluated on case by case basis. Most common reasons are: onsite costs (e.g. soil conditions), prices of land (downtown vs. suburban), distance to markets, and special off-site costs (e.g., road, sewers, etc.). The objective here is to quantify the cost differential to the extent possible between site A and B so that the financial needs of the business may be judged in relationship to the public benefit and avoid an undue enrichment of the business.
- e. Size the CDBG Assistance. Based on the type and extent of the need as detailed in Step d, determine the minimum. amount of CDBG funds necessary to stimulate the private investment. This analysis will generally require a 5 to 10 year proforma for the proposed project. Ideally, the private sector applicant for CDBG funds will submit one proforma with 100 percent private financing and a second proforma with CDBG funding.
- f. Price the CDBG Loan. If the CDBG subsidy is to be a loan to a private entity, the debt service payments should balance the maximum return to the public lender with the economic health of the project. Returns to the developer in excess of industry averages should be avoided, but too high an interest rate for the CDBG assistance may weaken the project. The most direct pricing procedure is to

work backwards from the proforma's cash flow dollars available to service the CDBG loan (after project expenses, private loan debt service, and an appropriate return to the private entity) to an interest rate and term that equates to the available cash flow.

ATTACHMENT II

Industry Standards Resource Materials

1. RVA Annual Statement Studies Comparative historical data and other sources of composite financial data. Published annually for FY ending March 31 Order from: Robert Morris Associates P. O. Box 8500, S-1140 Philadelphia, PA 19178 Unit Cost(Annual)\$ 29.50
2. National Retail Merchants Association, Controllers' Congress Department Store and Specialty Store Merchandising and Operating Results - New York (212) 244-8780 Published annually. Last publication dated September 1985 Order from: NRMA 100 West 31st Street New York,, NY 10001 \$ 69.50
3. National Retail Merchants Association, Controllers' Congress Financial and Operating Results of Department and Specialty Stores - New York (212) 244-8780 Order from: NRMA 100 West 31st Street New York,, NY 10001 \$ 69.50
4. Institute of Real Estate Management Income/Expense Analysis: Apartments, Condominiums and Cooperatives - Chicago (312) 661-1930a) Published annually every October Apartments (#85505) Condominium and Cooperatives (#85805) b) Journal Reprint No. 903 c) Journal Reprint No. 891 Order from: Institute of Real Estate Management 430 N. Michigan Avenue Chicago, IL 60611 \$ 75.00\$ 59.008.758.75
5. a. Crittenden Syndication News 51 issues/year (includes special bonus) b) Crittenden Income Property Deals (51 issues/yr) Order from: Crittenden Publishing, Inc., P. O. Box 1150 Novato, CA 94948 (415) 883-8871 \$ 337.00\$ 337.00
6. "Dollars and Cents for Shopping Centers" Published every 3 years. 1987 due in September Order from: Urban Land Institute 1090 Vermont Avenue, N. W. Washington, D. C. 20005(202) 289-8500 \$124.00\$ 5.00 postage and handling
7. BOMA Experience Exchange Report 1985: Income/Expense Analysis for Office Buildings Published annually by: BOMA 1250 Eye Street, N. W. Washington, D. C. 20005(202) 289-7000 \$ 195.00
8. "Lodging Industry" Published annually. 1986 due in August Order from: Laventhol and Horwath 1845 Walnut Street Philadelphia, PA 19103 ATTN: Publications Department \$ 65.00
9. a. "Table Service Restaurant Operations"

- b. "Restaurant Industry Operations report" Published annually. Due by August-October Order from: National Restaurant Association 311 First Street, N. W. Washington, D. C. 20001 ATTN: Betty Hoyt (202) 638-6100 \$38.00
- 10. a. "Marshall Valuation Service" Published annually, with monthly updates
- b. "Residential Cost Handbook Published annually, with quarterly updates Order from: Marshall and Swift Publication Co. 1617 Beverly Boulevard Los Angeles, CA 90026 (1)(800) 421-8042 \$ 96.00\$ 39.00