

# Using CDBG Funds for Industrial Development

December 5, 1996

Honorable Nick Smith  
U.S. House of Representatives  
Washington, DC 20515-2207

Dear Representative Smith:

On behalf of Secretary Cisneros, thank you for your letter of October 21, 1996, concerning the use of State Community Development Block Grant (CDBG) Program funds for industrial development. In an incoming letter to you, Mr. Robert L. Trezise, Jr., Economic Development Coordinator, Delta Township, Michigan, expresses an interest in using State CDBG funds to reimburse communities for infrastructure assessment fees remaining on industrial properties.

Mr. Trezise states that communities, such as Delta Township, which have industrial sites suitable for economic development, are unable to compete with other communities for industries because they cannot obtain CDBG funds to pay for special assessments or main charges remaining on these industrial sites. Industries seeking sites for development will therefore locate in communities where such sites are undeveloped since these communities may apply for State CDBG funds to cover site and infrastructure costs. Therefore, the policy which prohibits reimbursement promotes urban sprawl and actually rewards communities which have not previously planned for economic development and expansion.

Title I of the Housing and Community Development Act of 1974, as amended, prohibits a community from using CDBG funds to reimburse itself for activities previously undertaken. The statute constantly refers to "proposed" use of CDBG funds. Title I requires a grantee to certify to the State that assisted activities will meet all Title I program and other requirements, including the requirement that costs will not be incurred until the environmental assessment and review requirements in CFR part 58 are satisfied. This would be impossible to do for an activity previously undertaken prior to a grant agreement.

However, Title I does not prohibit a business which receives State CDBG economic development assistance, through its unit of general local government, from using these CDBG funds to pay assessment or main charges connected to a parcel of land. These assessment or main charges could be considered as part of the costs related to acquisition of the site for the economic development activity.

The State is in the best position to weigh the competing public policy issues and determine how the State CDBG funds can best be used to further the policies selected. Your correspondence has well articulated and furthered an understanding of the underlying issues. I am referring a copy of your letter to Michigan's Office of Federal Grants Management, Department of Commerce.

Thank you for bringing this matter to the Department's attention. Please let me know if I can be of further assistance.

Sincerely,

Hal C. DeCell III  
Assistant Secretary