

Using CDBG Funds for a Youth Job Center

October 4, 1991

Honorable Sidney R. Yates
House of Representatives
Washington, DC 20515

Dear Mr. Yates:

Thank you for your letter dated August 21, 1991, to Secretary Kemp in support of the City of Evanston, Illinois' request that a new project of the Youth Job Center (YJC) be deemed eligible for assistance under the Community Development Block Grant(CDBG) Program preferably classified as a special economic development activity.

The project in question, "Let's Talk," has been developed to address a need identified by local businesses for assistance in supervising employees hired through YJC that are having difficulty adjusting to the work environment and who, as a result, may have to be terminated even though they demonstrate the potential to be good employees. This has been a particular problem for small, struggling businesses with limited funds because of the costs related to turnover and training of new employees. The format of this program has been designed to permit supervisors and their employees to work both separately and together to build skills and search out solutions to work-related problems through participation in four workshops. In addition, continuing counseling and support will be available to further the employee's adjustment in the work place after the workshops have been completed.

There is no question that this activity is eligible under the CDBG program. While the City believes that economic development is the proper classification for this activity because it provides assistance to for-profit businesses, HUD has generally taken the position that job training is a public service rather than an economic development activity. However, it is arguable that this program is eligible under 24 CFR 570.203(b) as a special economic development activity in the form of technical assistance to for-profit businesses due to the nature of the activity. Therefore, the City can use its own judgment in selecting the eligibility classification for this activity. In exercising this discretion, the City must understand the implications of its choice. Classification of an activity as being eligible under 24 CFR 570.201-204 is only one aspect of complying with the program rules.

Another major consideration is determining whether the CDBG-assisted activity meets a national objective of the CDBG program. Presumably, the City would want to qualify this activity under the objective of benefit to low- and moderate-income persons. Activities eligible under 24 CFR 570.203(b) generally meet that national objective through the creation or retention of jobs as defined at 24 CFR 570.208(a)(4). Inasmuch as participants in the "Let's Talk" program are already employed, job creation cannot be considered. To demonstrate job retention, the regulations require that the grantee be able to document that the jobs would be lost without the CDBG assistance. In the context of the "Let's Talk" project, this means that the grantee would have to show that the job itself would be lost, not just that the employee would lose the job, if the CDBG assisted training were not provided. (Presumably, if the person holding the job were not able to perform adequately and lost the job, it would be filled by someone else.)

If it could be shown that the job itself would be lost, it is difficult to see how that would not also affect other jobs (perhaps all other jobs) within the business. All jobs that would be lost as a result would need to be taken into account in showing that the national objective has been met. The national objective of benefit to low- and moderate-income persons could be met if 51 percent of all retained jobs are known to be held by low- and moderate-income persons at the time the CDBG assistance is provided, or can reasonably be expected to turn over and be made available to low- and moderate-income persons within two years. Documentation required to show that there is clear and objective evidence that jobs would be lost without the CDBG assistance may include a notice issued by the business to affected employees, a public announcement by the business, or relevant financial records.

Should the City conclude that it cannot meet the national objective if "Let's Talk" is classified as a special economic development activity, it is clearly eligible under the CDBG Program as a public service (24 CFR 570.201(e)). To meet the national objective as a public service, each business must demonstrate that a majority of the participants (51 percent) are low and moderate income.

The Department recognizes the restrictions that classifying the activity as a public service would place on the City since the amount of CDBG funds that may be obligated for public services is limited to 15 percent of the total grant awarded for the grant year. However, the amendment of Section 105(a)(8) of the Housing and Community Development Act of 1974 by the National Affordable Housing Act now permits grantees to include 15 percent of the previous year's program income in the calculation of the public services cap. This would provide some relief to the City since it increases the amount the grantee may obligate for public service activities during the grant year.

Thank you for your interest in the Community Development Block Grant Program.

Very sincerely yours,

(signed by J. Broughman)

Ivan A. Ransopher
Assistant Secretary (Acting)