

New York State
COMMUNITY DEVELOPMENT
BLOCK GRANT PROGRAM

Microenterprise Assistance

PROGRAM GUIDELINES



**Homes and
Community Renewal**

OFFICE OF COMMUNITY RENEWAL

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I. INTRODUCTION

NYS Community Development Block Grant Program (NYS CDBG) is a federally-funded program that provides financial resources to assist in the development of viable communities by providing decent housing and a suitable living environment and by expanding economic opportunities, principally for persons of low- and moderate-income (LMI). The Office of Community Renewal (OCR) administers NYS CDBG funds for non-entitlement communities which are generally cities, towns and villages with populations under 50,000 and counties with populations under 200,000. There are approximately 1,300 eligible communities (units of local government) statewide.

New York State must ensure that not less than 70% of its CDBG funds are used for activities that benefit low- and moderate-income (LMI) persons (at or below 80% of median). This is achieved by granting maximum priority to activities that meet one of the following Federal National Objectives: benefit low- and moderate-income persons or families; or aid in the prevention or elimination of slums or blight; or meet an urgent community development need.

The NYS CDBG Microenterprise program achieves the National Objective by providing jobs and economic opportunities for persons from LMI families. The program provides funds to eligible local governments to assist qualifying businesses undertake activities that result in the creation of job opportunities for persons from LMI families. Funding decisions are based, in part, on the following: severity of need; public benefit; program feasibility; sustainability of activity outcomes; reasonableness of costs; extent to which the activity compliments other local, state, or federal programs; and public support for the locally-driven program.

II. PROGRAM DESCRIPTION

The NYS CDBG Microenterprise program provides resources to support and foster the development of microbusinesses by providing grants in conjunction with capacity building and entrepreneurial assistance. The program is designed to stimulate economic growth and create businesses and jobs that will improve and preserve NYS homes and communities. An objective of the NYS CDBG Microenterprise program is to create opportunities for the development of microbusinesses that promote employment opportunities for persons of low- to moderate-income families.

A microenterprise is defined as a commercial enterprise that has five (5) or fewer employees, one (1) or more of which is the principal and owns the enterprise at the time of application. This includes both part-time and full-time employees. A microenterprise is a private for-profit business entity; corporation, partnership, or sole proprietorship that is legal, licensed and operating. Nonprofit entities are not microenterprises.

A. General Requirements

- The maximum total allocation for which a community can apply is \$300,000.
- A minimum of 50% of a total allocation (less grant administration costs) must be awarded to start-up businesses. A start up business is one which has been in operation less than six (6) months from the time of application.
- Although it is not required that specific microenterprises are identified as part of the application for Microenterprise Program funding, an application that identifies microenterprises and entrepreneurs that have gone through a prescreening stage is recommended. The prescreening stage should verify eligibility, evaluate the proposed project and determine funding need.
- NYS CDBG Microenterprise funds must be allocated as a grant to each microenterprise.
- Grant assistance to an individual microenterprise must be between \$5,000 and \$35,000. The maximum award is not intended to serve as a target amount for requests for assistance. The amount of CDBG assistance should be based on need and CDBG funds should not be used to reduce the amount of non-federal financial support for the project.
- Grants may not exceed 90% of the total project cost to assist in the start-up or expansion of a microenterprise.
- A minimum amount of 10% owner equity contribution to the project is required.
- Each microenterprise owner must complete an approved entrepreneurial assistance or small business training program prior to receiving CDBG Microenterprise grant funds. The cost for the owner to attend the training may be an eligible CDBG expense.
- Applicants may request up to 15% of the CDBG award in program delivery, administration, and training combined. Of the 15%, administration must not exceed more than 5% of the total project cost.
- Retention is not permitted in the Microenterprise Program.

B. Meeting a National Objective

The primary objective of the CDBG program is the development of viable communities by providing decent housing and a suitable living environment and expanding economic opportunities, principally for persons of low- and moderate- income (LMI). For this to be achieved, each CDBG funded activity must meet a National Objective. A microenterprise may meet a National Objective one of two ways:

1. By creating a minimum of one (1) permanent full-time equivalent job for persons from LMI families. A full time equivalent (FTE) job is any combination of two or more part-time jobs that, when combined together, constitute the equivalent of a job of at least 40 hours per week. If more than one (1) FTE job is created as a result of NYS CDBG assistance, a minimum of fifty-one percent (51%) of the jobs must benefit persons from LMI families. A LMI job activity is one which creates a job that is either *held by* or considered to be *made available* to persons from LMI families. The distinction between “held by” and “made available to” is detailed below.
 - “taken (held) by” - A job is considered to be taken by a LMI person if, at the time their employment starts, that person is a member of a family whose income falls at or below the applicable Section 8 Income Limits. (Reference <https://www.huduser.gov/portal/datasets/il.html> or the most current income limits.)
 - “available to” - A job is considered to be made available to a LMI person if the position does not require special skills acquired from substantial training or work experience, and education beyond high school is not a prerequisite to employment. The assisted business must take actions to ensure that LMI persons receive “first consideration” for filling such jobs.

For a Microenterprise business creating jobs there are three principles involved in providing “first consideration”:

- a. The business must use a hiring practice that under usual circumstances would result in over 51% of LMI persons interviewed for applicable jobs being hired,
 - b. The business must seriously consider a sufficient number of LMI job applicants to give reasonable opportunity to fill the position with such a person, and
 - c. The distance from residence and availability of transportation to the job site must be reasonable before a particular LMI person may be considered a serious applicant for the job.
2. If the beneficiary / entrepreneur receiving the grant qualifies as LMI himself/herself. For microenterprises that are owned and operated by more than one individual, a majority of the owners must qualify as LMI in order to meet the Limited Clientele Microenterprise (LMCMC) National Objective. The business owner(s) cannot be counted towards job reporting.

III. APPLICATION PROCESS

The microenterprise application is now available through the consolidated Funding Application (CFA) on an Open Round, rolling basis, and not subject to the annual “competitive” CFA deadline.

The application involves a two-step process. First, an applicant must complete a Pre-Application within the CFA system. The Pre-application will be reviewed by the Office of Community Renewal. Once the applicant clicks ‘Submit’ within the Pre-Submission part of the application, the applicant will receive one of three notifications via email:

- **Accept-** The Pre-Submission has been approved and the applicant can proceed to the full application within the CFA Portal. An Invitation to Apply will be sent within the CFA system. An applicant must complete the full application in the CFA portal within 60 days of the invitation to apply.
- **Reject-** The Pre-Submission form has not been approved. The applicant will not be able to proceed to the full application within the CFA Portal. An Invitation to Apply will not be sent.
- **Needs More Information-** OCR has determined that additional information is required before the application can be approved and an Invitation to Apply sent.

For all of the above, OCR staff will be in contact with the applicant to discuss the next steps.

The following steps summarize the Open Round and Pre-Submission process for NYS CDBG Economic Development projects:

1. **Citizen Participation:** Applicants must hold at least one (1) public hearing prior to the submission of the CDBG application for the purpose of obtaining citizens’ views and responding to proposals and questions. The application must be made available to the public for inspection at the municipal office(s). Applicants must meet the citizen

participation requirements at 24 CFR 570.486 and NYS Homes and Community Renewal's Citizen Participation Plan as amended, which require Applicants to follow a citizen participation plan. Prior to submitting a CDBG application, Applicants must issue a public hearing notice and hold one public hearing (one in each jurisdiction of a joint application) allowing for citizen feedback on the community and economic development needs of the applicant community and any proposed project(s). When issuing the notice and holding the public hearing, please note the following:

- All hearings must also be conducted in accordance with the New York State Open Meetings Law
- The municipality must provide a minimum seven (7) day period between the publication of the hearing notice and the hearing itself. Note that the date of publication is day "zero."
- The hearing notice must be conspicuously posted in one or more public locations at least seventy-two (72) hours prior to the actual hearing. This may also be accomplished by posting to the municipal website
- The hearing must be conducted by a quorum of the legislative body of the municipality only, not by a sub recipient, department or arm of the applicant
- The notice for the hearing must specifically mention the municipality's intent to apply for NYS CDBG funds and the current program year
- The notice must identify all activities that the Applicant may be applying for during current program year, which may include Housing, Public Infrastructure/Facilities, Economic Development, or Community Planning
- Public hearings must be held in a location accessible to persons with disabilities and/or provide reasonable accommodations to allow all interested parties to participate
- The municipal resolution authorizing the public hearing, the hearing notice, affidavit of publication, list of attendees, hearing minutes, and evidence of conspicuous public posting must be included as an attachment to the application

A copy of the application must be available for public inspection at the municipal office(s). **Public hearings must be held in the same calendar year in which the application is submitted. Exceptions may be made for projects under board consideration in January. In those cases, OCR will accept hearings held in December of the previous year.**

After award a recipient of CDBG funds must hold a second public hearing to report project accomplishments, following the same guidelines provided above. For more information on citizen participation requirements, refer to Chapter 8 of the CDBG Grant Administration Manual at <https://hcr.ny.gov/community-development-block-grant-economic-development-program>

- 2. Submission of Applications:** Applications are project-based. Applicants will answer threshold questions to determine whether their project may be eligible for funding and from what funding source(s). Because some funding sources are only available to certain categories of project sponsors—such as municipalities, nonprofits, or businesses—two sponsors undertaking similar projects may qualify for different funding sources.
- 3. The Office of Community Renewal Review:** Applications will undergo due diligence and technical review by the Office of Community Renewal (OCR). OCR will undertake a comprehensive review of the application to determine compliance with federal, state, and program regulations, policies, and statutes.

OCR Scoring Criteria

Applications are reviewed based on the following factors:

- The documented need for microenterprise assistance in the project area.
- The extent to which the program will create permanent, full time equivalent job opportunities for persons of low- and moderate- income either through the support of LMI entrepreneurs or the creation of LMI jobs.
- The usefulness and practicality of the entrepreneurial training program.
- The degree to which the program supports a community-approved strategic or comprehensive plan.
- The program's impact on increasing the viability of the "Main Street" business sector and/or targeted industry sectors.
- Demonstration of expertise in technical assistance.
- The degree to which the program is financially and technically feasible.

- Reasonableness of program costs.
- The extent of documentation that supports the timely completion of the proposed activities within the term of the grant agreement. Issues which may hinder timely completion of the program must be addressed prior to award
- Demonstrated assurance of the success of the program
- Capacity to complete activities in a timely & effective manner
- Leveraging and availability of other resources
- CDBG and administrative performance history, if any
- Extent to which activity complements other federal, state, & local programs

HCR staff shall generally apply the criteria noted above when awarding funding for applications received through the Consolidated Funding Application Portal. In addition to the criteria noted above, HCR shall have the discretion to consider additional factors in determining the relative merits of projects.

The capacity of the Applicant to complete activities in a timely manner may impact the evaluation of the application. OCR will review an applicant's program history, beginning with Program Year 2000, to determine whether or not the Applicant has completed and/or made appropriate progress with any and all prior OCR grants including the number of extensions requested to complete a project beyond the specified deadline. **Applicants should only apply for the amount of funding that can be fully expended and the type of activities that can be completed within the specified program completion period of twenty-four (24) months.** Applicants should not proceed with a program that cannot be completed within the specified timeframe or with the assumption that an extension of the project deadline will be considered.

1. Post Award

If funding is approved by the HTFC, the recipient must undertake the following prior to the disbursement of funds.

- Participate in a Program Implementation Conference Call arranged by OCR Economic Development staff. All parties involved in the implementation of the program must participate.
- Execute the grant agreement and set up a non-interest bearing bank account specifically for the deposit and disbursement of NYS CDBG funds.
- Conduct an environmental review of the project and complete the environmental review record. Refer to the OCR Grant Administration Manual at <https://hcr.ny.gov/community-development-block-grant-economic-development-program> or additional information on the environmental requirements.
- Submit an Administration Plan prior to the first request for funds

IV. ELIGIBLE APPLICANTS

Eligible applicants are non-entitlement units of general local government (village, city, town or county), excluding metropolitan cities, urban counties and Indian Tribes that are designated entitlement communities. Non-entitlement areas are generally defined as cities, towns and villages with populations of less than 50,000, except those designated principal cities of Metropolitan Statistical Areas, and counties with populations of less than 200,000. The NYS CDBG program does not provide direct financial assistance to businesses.

A. Roles and Responsibilities

Recipients assume responsibility for ensuring successful completion of the program; evaluating and selecting activities to be supported; entering into grant agreements with microenterprises; monitoring each microenterprise throughout the term of the grant agreement; and assuring compliance with all local, state and federal laws and regulations. Each Microenterprise Program will be implemented and managed in accordance with the NYS CDBG Grant Agreement, the OCR Grant Administration Manual, and program guidance material located on the OCR website. The Recipient must ensure that all projects are completed and have met the National Objectives within the 24-month term of the grant agreement between the Recipient and the HTFC, represented by OCR.

Each microenterprise must comply with HUD Underwriting Standards, set forth in 24 CFR 570.482(e) and Appendix A to Part 570. It is the responsibility of the Recipient to underwrite each grant application. The purpose of the underwriting is to select microenterprise projects which are financially viable and make the most effective use of NYS CDBG Microenterprise funds. In addition to HUD's underwriting criteria, the grants provided must be underwritten using typical commercial financing underwriting criteria. See Grant

Underwriting Guidelines under section VII of these program guidelines for an overview of the criteria and how to comply.

V. MICROENTERPRISE PROGRAM DESIGN PLAN

The development of sound policies and procedures and the implementation of a well-designed program are critical to a successful microenterprise program. Applicants proposing microenterprise activities must submit a Program Design Plan that describes how the proposed activities will be implemented. The Program Design Plan should provide a clear and detailed description of the following program elements:

- a. **Eligibility** — Explain who is eligible to participate, the process that will be followed to verify participant eligibility, and what activities are eligible under the program.
- b. **Funding** — Describe the terms and conditions for providing assistance, and the means of securing compliance during the regulatory term.
- c. **Marketing and Supporting Activities** — Describe program marketing and outreach efforts. Summarize any unique program design features or additional administrative support for the program (such as business counseling, job training, etc.) that will increase the likelihood of successful completion.
- d. **Entrepreneurial Training Requirement** — Describe the entrepreneurial assistance or small business training program each microenterprise must complete prior to receiving NYS CDBG Microenterprise funds. See Entrepreneurial Training Requirement under Section VII of this program guide for additional guidance on the training requirement.
- e. **Program Objectives and Impact** — Provide a detailed description of all appropriate quantifiable information and any unique aspects. Examples of quantifiable information are the number of grants to be made, and the number of jobs to be created. Describe how the benefits of the program will be sustained, resulting in long-term benefits.
- f. **Program Oversight and Grant Approvals** — Provide a clear demonstration of the expertise to manage the grant fund program and identify other resources that will be made available to the participants. In addition, describe the grant approval process and a list of individuals who will be involved in the selection and approval process. The Recipient's Microenterprise Grant Committee should be diverse and include qualified individuals from related professions, such as bankers, business owners, attorneys, etc.

VI. EVALUATION OF ELIGIBLE ACTIVITIES AND ADDITIONAL FUNDING REQUIREMENTS

A microenterprise that lacks access to traditional financing and is struggling to start or grow their enterprise is typically a good candidate for a NYS CDBG Microenterprise Program. Although a business may meet the definition of a microenterprise based on the number of employees, for the purpose of this program the proposed activity or project the microenterprise is undertaking may not qualify as a microenterprise activity. In that event, the Recipient and the Grant Committee must review the proposed activity to determine if it is an effective use of NYS CDBG Microenterprise funds. In addition, Recipients should confer with OCR staff when making such a determination.

A. Examples of eligible and ineligible uses of NYS CDBG Microenterprise funds

Eligible Uses of Funds:

- Inventory
- Procurement of machinery, furniture, fixtures and equipment
 - *Computers, laptops, phones, and other electronic equipment must be accompanied by a written agreement from business owners verifying that they will ONLY be used for business purposes*
 - *Fixtures and equipment consist of moveable items that have no permanent connection to the structure of a building or utilities. Consult with OCR should you have a question regarding this.*
- Operating capital
- Reimbursement of the cost to attend the required entrepreneurial training program

Ineligible or Restricted Project Activities:

- The repayment of existing debt
- Construction, building or other improvements when Davis Bacon and Related Acts must be applied

(prevailing wage rate requirements)

- Assistance to a nonprofit
- Reimbursement of costs incurred prior to grant award
- Political or religious activities
- Lobbying any governmental entity
- Advancement of funds
- Purchase and/or lease of a motor vehicle without prior consent from OCR

B. Grant Underwriting Guidelines

Underwriting is a process by which the Recipient of the NYS CDBG funds assesses the eligibility of a potential microenterprise and decides whether the entrepreneur is grant worthy by measuring risk and determining need. The Recipient must, at a minimum, use the underwriting guidelines that meet the requirements set forth in 24 CFR 570.482(e) and Appendix A to Part 570 when evaluating potential microenterprises. The underwriting criteria is designed to support a program that assists microenterprises that could not proceed without CDBG assistance, and to determine whether a proposed CDBG grant is appropriate to assist the microenterprise. The objectives of the underwriting guidelines are to ensure:

- That project costs are reasonable;
- That all sources of project financing are committed;
- That to the extent practicable, CDBG funds are not substituted for non-Federal financial support;
- That the project is financially feasible;
- That to the extent practicable, the return on the owner's equity investment will not be unreasonably high;
- That to the extent practicable, CDBG funds are disbursed on a pro rata basis with other finances provided to the project.

These guidelines provide a framework for financially underwriting and selecting projects which are financially viable and will make the most effective use of CDBG grant funds. NYS CDBG funds cannot be used to substitute other committed funding and the microenterprise must show that without NYS CDBG funding the proposed project could not be completed. Evidence of underwriting must be retained in the project files. In addition, there must be clear evidence that job creation will occur and/or that the owner(s) of the microenterprise qualifies as LMI before a grant is awarded.

Recipients of past CDBG Microenterprise assistance must have committed at least 85% of any current awards prior to applying for additional funding.

C. Entrepreneurial Training Requirement

Each microenterprise owner that is awarded a grant must complete an entrepreneurial training class prior to incurring project costs and requesting CDBG grant funds. Owner(s) of the microenterprise must attend the entrepreneurial training. Attendance by the employees does not satisfy this requirement. If the microenterprise is owned and operated by more than one individual, at least one person must complete the training program.

The training requirement must be a classroom-style training that teaches the fundamentals of owning and operating a business. The training program should help entrepreneurs develop business skills. At minimum, the training program should consist of the following elements:

- Developing a business plan
- Legal issues
- Taxes, recordkeeping, accounting
- Financing
- Marketing, advertising
- Employee issues

NYS CDBG Microenterprise training funds cannot be used to subsidize the cost of conducting a training program. **NYS CDBG funds may be used to reimburse the microenterprise business owner(s) for participating in an entrepreneurial training course.** Reimbursement will not occur until the owner has

successfully completed the course and has been awarded a NYS CDBG Microenterprise grant.

OCR will consider waivers of this requirement when a microenterprise owner can document completion of a similar entrepreneurial course(s) within the past 24 months. Requests for Waivers of the entrepreneurial training requirement must be submitted to the OCR for a determination. Recipients should not proceed with an award until a waiver determination has been issued by the OCR.

A request for a waiver must include the following:

- A review of the business's application for the program,
- A letter from the Chief Elected Official requesting an exemption and stating why it is merited,
- The resume of the entrepreneur, and
- Proof of the training program(s) completed and certificates received.

D. Owner Equity Requirement

Investments of NYS CDBG microenterprise funds must be matched by a minimum of 10% owner equity. The equity contribution must be provided as cash; not to be associated with debt of any kind. Equity must be committed and available to the project at the time of the business application. Documentation of the equity commitment must be kept in the Recipient's files. Project funds cannot be incurred or expended, including equity, prior to the approval of grant award by the Recipient and the Recipient has received OCR's approval of the Request for Release of Funds.

VII. DISBURSEMENT OF FUNDS

The National Environmental Policy Act of 1969 ("NEPA") requires Recipients to conduct an environmental review of their projects and establish a written record of their findings, known as an Environmental Review Record. A Recipient cannot expend or encumber CDBG funds for any activity, except those listed as exempt under 24 CFR 58.34, or which fall under the categorical exclusions set forth in 24 CFR 58.35(b), until a Recipient has completed the environmental and historic requirements. Further, microenterprise project costs must not be incurred prior to the microenterprise successfully completing the required entrepreneurial training requirement and receiving approval of grant award by the Recipient.

NYS CDBG funds are disbursed electronically upon the approval of the request for funds submitted by the Recipient. Funds should be available for withdrawal from the Recipient's CDBG bank account within 1-2 weeks from receipt of the request. Factors such as incomplete or incorrect request for funds will delay the disbursement process. OCR will not disburse funds to a Recipient for a microenterprise until the microenterprise obtains a DUNS number.

In order to substantiate all expenditures, Recipients must obtain copies of invoices for inventory or materials purchased, and cancelled checks from the business owners. Quotes and in-cart documentation from an online vendor are **NOT** accepted. Recipients should refer to of the OCR Grant Administration Manual for guidance on Financial Management. The manual is located at <https://hcr.ny.gov/community-development-block-grant-economic-development-program>