

## INTRODUCTION

**Welcome to the Community Development Block Grant (CDBG) program**, a federal program funded through the U.S. Department of Housing and Urban Development (HUD). The Tennessee Department of Economic and Community Development (TNECD) administers the program for the cities and counties in the state that are not entitlement communities, meaning communities that are not eligible for funding directly from HUD. This manual is designed to fully assist you complete every phase of implementation for the Tennessee Small Cities Community Development Block Grant program.

The Community Development Block Grant (CDBG) program is a flexible program that provides communities with resources to address a wide range of unique community development needs. Beginning in 1974, the CDBG program is one of the longest continuously run programs at HUD. The CDBG program provides annual grants on a formula basis to 1209 general units of local government and States. Funds are available for a wide range of activities including economic development, housing rehabilitation, water and sewer projects and projects that improve the health and safety of the community.

All HUD regulations as well as TNECD regulations apply to the grants. The federal and state regulations represent a set of standards which every applicant must follow to qualify for funding. These codified set of standards help to avoid conflicts of interest, waste, fraud and abuse in connection with utilization of public funds. Simultaneously, they mitigate negative environmental impacts and guarantee workers are paid a fair wage, while also guaranteeing equal benefit regardless of race, income, national origin or disability.

TNECD staff recognizes that the number of federal requirements may seem excessive. Please remember that we have made a concerted effort to keep them to a minimum and continue to emphasize administrative simplification and reduction of paperwork, alongside the provision of technical assistance to grantees.

### **Grantee Responsibilities**

It is the responsibility of the grantee to maintain compliance with: financial management, preparation of an environmental review record, labor standards, civil rights laws, acquisition and relocation laws (if applicable), audits, monitoring, and the closeout process. State requirements include the establishment of local project control, reporting, monitoring requirements, time frames, and contract execution.

### **Manual and Training Format**

The material is organized based on the chronological flow for the grantee. Instructions and forms are included. The handbook discusses execution of the contract. Actual pages of the contract are included as a reference so that you will know where to start. The manual also includes instructions on how to complete the other various requirements. The material is designed so that you can reference the information continuously throughout the life of the project. These resources will help remind you what, when and how to administer this grant successfully.

### **TNECD's Role**

TNECD has the responsibility for program development, threshold eligibility and compliance monitoring. The State desires to help each grantee comply with the varied program requirements so that auditors, the State and HUD are all satisfied that each project follows the regulations and statutes. Our procedures are designed to serve several purposes:

1. Allow the State to meet its responsibility for ensuring grantee compliance with all federal and state laws governing the use of CDBG funds.
2. Provide a management system to assist the grantee and state staff in performing the following:
  - a. Determine project
  - b. Request and release grant funds
  - c. Formally close the completed project
3. Make grantees aware of the entire range of documentation needed to ensure compliance and avoid potential audit or monitoring problems.

<b>NATIONAL OBJECTIVE</b>
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All CDBG projects must meet one of three national objectives:

1. Activities benefiting low and moderate income persons (LMI),
2. Activities which aid in the prevention or elimination of slums or blight, or
3. Activities designed to meet community development needs having a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community, and other financial resources are not available to meet such needs.

(24 C.F.R. § 570.483)

To qualify as principally benefiting LMI persons, the project must:

1. Be carried out in an LMI area or community and provide services for such persons,
2. Involve facilities designed for use predominately by such persons, or
3. Employ a majority of such persons.

For projects to qualify as aiding in the elimination or prevention of slums or blight, they must meet the following requirements:

1. The area must meet the definition of slum/blighted area under state or local law  
AND
2. Must meet A or B below:
  - A. At least 25% of properties throughout the area experience one or more of the following conditions
    - Physical deterioration of buildings or improvements;
    - Abandonment of properties;
    - Chronic high occupancy turnover rates or chronic high vacancy rates in commercial/industrial buildings;
    - Significant declines in property values or abnormally low property values relative to other areas in the community; or
    - Known or suspected environmental contamination
  - B. At least two public improvements (streets, sidewalks, water, sewer, etc.) in the area are in a general state of deterioration.

Projects qualify as meeting community development needs having a particular urgency if:

1. The activity alleviates existing conditions which pose a serious and immediate threat to the health or welfare of the community,
2. The activity addresses a problem which has occurred within the last 18 months, and
3. The recipient is unable to finance the activity on its own and other sources of funding are not available

Additionally, projects should not be submitted as urgent need if the activity addresses a problem of deferred maintenance or addresses a future problem. These types of projects do not meet the qualifications.

Refer to the TNECD website for the Imminent Threat application, <http://tn.gov/ecd/CDBG/> and contact TNECD if an urgent need arises which may qualify as an imminent threat project.

## **BENEFICIARIES**

If a project qualifies for funding under the low and moderate income (LMI) benefit national objective of the Housing and Community Development Act, documentation must be maintained to verify that at least 51 percent of the beneficiaries are low- and moderate-income persons. This requirement pertains to all benefits associated with the program, whether they are direct or indirect. Persons of low- and moderate-income are families or individuals whose incomes do not exceed 80% of the median income of the area benefitting from the project.

A direct/limited clientele benefit project is an activity which requires the beneficiary to apply or complete a personal record as an integral part of receiving the benefit of that activity. Some examples of direct benefit projects are:

1. Housing rehabilitation
2. Utility services provided by the program
3. Relocation
4. Program generated employment

An indirect/area benefit project is an activity that will benefit the entire community or neighborhood. Some examples of indirect benefits are:

1. Water or sewer plant or system improvements
2. Street paving
3. Water storage tank

Grantees must keep a record of the number of people who are receiving either direct or indirect benefits from the CDBG project. Each project will be monitored during the project and checked at closeout for beneficiaries and files will be inspected for proper documentation.

### **DIRECT BENEFICIARIES**

Documentation of any direct beneficiary is essential and should be kept in the project files. The application lays out the expected beneficiaries and the information contained therein is incorporated into the contract. The beneficiary information will document both the low- and moderate-income benefit and the equal opportunity provided to the protected classes of persons as described on the form. Each project will be monitored for benefits to low- and moderate-income persons and for equal opportunity as well as compliance with the application and contract.

Water and sewer grantees with hook-ups are required to document that the project will serve at least 51 percent low- and moderate-income persons. As hook-ups begin, documentation shall be kept on the family size and household income by using the target area survey forms and sign-up documentation to verify who received service. Target area survey forms should be signed by the beneficiary for proof of residence.

Housing rehabilitation beneficiaries are all required to be low- and moderate-income households. The target area survey forms are used for these beneficiaries too, and should be signed by the beneficiary. Refer to Chapter J: Housing for further requirements and guidance on housing activities.

### **INDIRECT BENEFICIARIES**

A random sampling of beneficiaries for indirect beneficiary projects such as projects that benefit an entire water or sewer district or fire protection service area, is required to show documentation of the LMI national objective. Target area surveys must be kept on file at the community, or census data provided by HUD or TNECD must be on file.

## **CONTRACTS**

The contract start date is typically the date of the announcement by the Governor's office, or award letter. However, choice-limiting work cannot begin on a project until the Environmental Review is complete and approved by TNECD. The only activities that can begin before the Environmental Review is cleared are administration, the process of completing the Environmental Review, and some engineering design work. The scope of the contract outlines the project and must be adhered to. Contracts are for a 3-year period, and extensions will only be given in extreme and unpredictable circumstances.

## **SCOPE CHANGES**

Projects are approved based upon the information in the application. Changes in the scope of the project must be approved by TNECD before any work is done. A scope change is defined as anything that expands or alters the original design, intent, cost, or area of service of a project. (Examples of scopes changes are: altering the size of a water tank from 300,000 gallon to 500,000 gallon, changing sewer treatment plant rehabilitation to inflow/infiltration work, reducing the number of housing rehabilitations, etc.).

Additionally, if the combined change orders for the project total 25% or more of the cost of construction, the result will be a scope change, and the project or additional work may have to be rebid.

A formal, written request from the grantee must be submitted to TNECD for all scope changes. The request should include a map showing the change, a summary of the households to be served, including LMI households, a cost estimate with justification from the engineer explaining why the change is necessary, and information detailing how the changes will be funded. TNECD will review the request, and if it determines the changed project would have been funded under the application criteria, the change will likely be approved. Grantees must never proceed with the requested changes until written approval from TNECD is received.

Scope changes may require an additional environmental review or an addendum to the environmental review as well as the possibility of a contract amendment. When communities request a scope change, the contract should be referenced to see if an amendment is required. If required, work cannot begin until the amendment is approved.

Major reductions in the scope of the proposed work can result in adverse State action: grant reduction or termination or a finding of ineligibility for subsequent funding.

## CHANGE ORDERS

Change orders are alterations from previously approved documents that require a modification (an increase or decrease) in project cost, engineering charges, quantity, or schedule. For example, if the number of linear feet installed on a water line is greater or less than estimated, a change order is needed to adjust the quantities. If an unanticipated increase or decrease in cost occurs, this would result in a change order.

Change orders should be used sparingly and only when necessary. Additionally, changes cannot increase the original contract amount for the project. The project must remain within the contracted amount or additional non-CDBG funds should be allocated to the project.

Change orders with justification for the needed change by the engineer must be submitted to TNECD for approval. TNECD prefers that change orders be submitted by the grant administrator but will accept them from the grantee or engineer. If submitted by the grantee or engineer, ensure the administrator aware of the changes being requested and the documentation presented. Approval must be granted by TNECD prior to work being done. A budget revision must be submitted to the TNECD fiscal office after the change order is approved. If a change order results in a scope change, the required scope change documentation must be submitted with the change order documentation.

Final adjusting change orders are submitted near the completion of a project to reconcile final quantities installed. If the changes in quantities are not significant and there are no new items, this change order does not need to be approved by TNECD before the work is completed. If a grantee plans to request payment before completion of a project, a change order approving any increase in installed quantities must be approved or the request cannot be paid.

Change orders that require more than one funding agency's approval must be approved by all agencies before the work can begin. It is important to remember that if CDBG funds are any part of a project, then CDBG rules and regulations apply to the entire project. Therefore, change orders for any part of a project, even a part not funded by CDBG must be approved by TNECD.

## FORCE ACCOUNT

Force account labor occurs when municipal or county employee's complete construction work rather than the work being completed by a contractor. For force account labor to be approved, the municipality must own the equipment and the municipality's forces must do the work. For information and details on using force account labor refer to "Chapter I: Labor".

**NOTE:** *In order to perform force account work, the grant recipient must own the equipment, use city or county forces, and obtain State approval by submitting the following information.*

1. Names and engineering qualifications of personnel performing the work and their capabilities for design, supervision, planning, inspection, testing, etc. as applicable.
2. Details of experience with projects of like or similar nature.
3. Information on workload (as it may affect capacity to do the work within timeframe or work scheduled).
4. Justification for doing the work by force account rather than by contract.

5. A complete breakdown showing:
  - a. the number of work hours and cost per hour for each category of labor, and
  - b. a list of non-salary costs such as materials, supplies, equipment, etc.
6. Certification from the above-mentioned personnel's supervisor that they are full time city/county employees and have not been hired just for this project.
7. Certification that the equipment to be used is owned by the county/city and is not rental equipment.
8. Project Engineer certification of force account utilization. (signature on force account request).

## **BUDGET**

CDBG grants fund a specific activity, and each grant is to be used solely for that purpose. If a project exceeds the original contract budget, the grantee is responsible for the difference. Please refer to the "Chapter G: Bidding and Procurement" for developing procedures for high bids. If less is spent than originally anticipated in the project budget, TNECD will reduce the grant proportionally.

The budget is approved during the application process and included in the contract. Any changes to the budget must be approved by TNECD's fiscal office.

## **RECORDKEEPING/ADMINISTRATION**

The grantee is ultimately responsible for the project progress and contract compliance. Coordination is critical when using a consultant or development district to administer the project. The roles and responsibilities of each party should be determined early in the grant process to ensure all areas of the grant are properly addressed. The community must be able to fully document compliance with all applicable regulations of the CDBG program. CDBG records must be maintained for a period of not less than five years after the closeout of the grant, and should provide a historical account of the project for examination and review by the State, HUD, auditors, and local staff. Grantees must have one complete set of files **on site** at the city or county. A file checklist, included in this introduction chapter, will help ensure the grantee has all needed files in place.

TNECD exclusively communicates via electronic documentation with grantees. All documents including, but not limited to, award letters, approval letters, and contract documents will only be distributed electronically. Equally TNECD will only accept documentation related to CDBGs electronically, including plans and specifications, recommendation for bid awards, environmental review documents, etc. Documents and records may be stored electronically by the grantee if they are regularly backed up and are readily available to TNECD staff or any other auditors for review.

## **PERFORMANCE MEASURES**

Grantees are required to report performance measures on all projects. These performance measures will take the form of outputs or outcomes. Outputs are the quantitative measures of the project, i.e. linear feet of water line installed, number of ambulances purchased, etc. Outcomes are the qualitative measures of the project, i.e. number of people will clean drinking water, reduction in water loss, reduction in emergency response time, etc. Outcomes will often be connected to and the result of an output. For instance, a grantee may list an output of purchase 2 new ambulances and an outcome of 10% reduction in average emergency response time.

The performance measures for each grant are set forth in the application, and if awarded, the grantee will report on these set of measures with each annual report and at closeout.

## CLOSEOUT

The closeout report is submitted to TNECD at the end of the grant and provides a summary of the entire grant. This report will provide a description how the completed project compares to the project as proposed in the application. Other data, such as the amount and source of leveraged funding, wage compliance, and how any findings and concerns were addressed and resolved, etc. will be captured at this time. Refer to “Chapter L: Grant Closeout” for more detailed information and forms to complete the closeout package at the end of the project

## ADDITIONAL RESOURCES

Below are additional resources (regulations, laws, etc.) that apply to the Tennessee Small Cities CDBG program. Each grantee is responsible for familiarizing themselves with the rules and regulations guiding the CDBG program; many of these are listed in the Statement of Assurances document included as a part of the contract.

- U.S. Code Title 42 – The Public Health and Welfare, Ch. 69 (42 USC §§ 5301 – 5321)  
[http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/comm\\_planning/communitydevelopment/rulesandregs/laws](http://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/communitydevelopment/rulesandregs/laws)
- Code of Federal Regulations Title 24: Housing and Urban Development, Part 570: Community Development Block Grants (24 C.F.R. Part 570)
- <http://www.eC.F.R..gov/cgi-bin/text-idx?rgn=div5;node=24:3.1.1.3.4>
- HUD Exchange website <https://www.hudexchange.info/cdbg-state/>