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# Harvey Economic Development Program Guidelines

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Version 1.1  
August 31, 2020

**CITY OF HOUSTON  
HOUSING AND COMMUNITY DEVELOPMENT  
DEPARTMENT**

## Change Log

This section describes changes made to this document.

Change No.	Date	Description	Initials
1	2/27/2020	Introduction, Page 6. Link to SBA site where specific industry criteria can be accessed added.	
2	2/27/2020	A definition of microenterprise has been incorporated throughout the guidelines: a microenterprise or microbusiness shall be defined as businesses with five or fewer employees, one of whom owns the enterprise. capital and resources	
3	2/27/2020	Pg. 6/7: Goals and Priorities sections merged.	
4	2/27/2020	Pg. 8; Text changed to reflect that for the grant program, the City will select a partner vendor through competitive procurement	
5	2/27/2020	Pg. 7/8: Graphic and some more detail provided to program structure section.	
6	2/27/2020	Changed loan program name to Dream Fund Program (DFP)	
7	2/27/2020	Pg. 8. Funding caps for revolving fund incorporated.	
8	2/27/2020	Pg. 8. Information regarding revolving loan fund interest rates and collateral incorporated.	
9	2/27/2020	Pg. 9. Revolving fund program income and income reuse information added.	
10	2/27/2020	Pg. 10. National objective criteria changed to reflect that LMA classification shall not be utilized for the revolving loan fund program, only for the grant program.	
11	2/27/2020	Pg. 10. Market consultation element taken out of eligibility requirements for grant program; this factor will instead be part of the (forthcoming) Propensity to Succeed Index within the underwriting analysis.	
12	2/27/2020	Pg. 8. Provision added noting that businesses cannot apply for both programs.	
13	3/26/2020	Pg. 13. Clarification added to note that selected revolving fund contractors are <u>not</u> required to only work on City of Houston contracts as program participants	
14	3/26/2020	Pg. 33 Edited to include a period of 3 years after the grant closeout between the GLO and HUD for retention and reporting requirements.	
15	3/26/2020	Pg. 35 Conflict of Interest section added.	
16	3/26/2020	Pg. 36, Changes, Conflicts and Waivers section added.	
17	3/26/2020	Pg. 35. Anti-job pirating section added.	

18	5/7/2020	Pg. 8, clarification “ <b>only</b> ...either \$50,000 or \$100,000.”	
19.	5/7/2020	Pg. 9, added line of credit terms (2 years, w/1 year renewal)	
20.	5/7/2020	Pg. 10, added “Note: selected CDFI partner selected... businesses may be subject to additional reporting regarding any activities undertaken with Program Income funds.”	
21.	5/7/2020	Pg. 16, added “...business via the program in line with federal guidelines”.	
22.	5/7/2020	Pg. 16, PSI information and right to verify related docs and info added	
23.	5/7/2020	Pg. 17, clarification noting required adherence of financial and underwriting analysis to Appendix A of CFR 570	
24.	5/7/2020	Appendix A, highlighting PSI underwriting analysis, is added to the Guidelines.	
25.	5/7/2020	Pg. 39, “or contractors <b>procured</b> to provide supplies” added to vendor definition.	
26.	5/27/2020	Pg. 9 Microenterprise definition edited to be race and gender neutral per City of Houston Legal Team feedback.	
27.	8/31/2020	The Economic Development Program Guidelines version 1.1 approved by GLO	

## Table of Contents

Introduction .....	4
Economic Development Program (HEDP) Goals and Priorities.....	5
Economic Development Program (HEDP) and Hurricane Harvey .....	6
Economic Development Program (HEDP) Structure .....	6
Small Business Grant Program (SGP) Overview .....	7
Dream Fund Program (DFP) Structure Overview .....	7
CDBG-DR National Objectives .....	9
Eligibility Overview: Small Business Grant Program (SGP).....	9
Eligible Activities and Uses Overview: Small Business Grant Program (SGP) .....	10
Eligibility Overview: Dream Fund Revolving Loan Program (DFP) .....	11
Eligible Activities and Uses: Dream Fund Revolving Loan Program (DFP) .....	12
APPLICATION PROCESS .....	13
Fraud, Waste and Abuse .....	19
Economic Development Program (HEDP) Administration .....	20
Community Engagement and Outreach.....	23
Financial Management.....	24
Confidentiality/Privacy.....	25
Appeals .....	26
Complaints .....	27
<b>Cross Cutting Federal Regulations .....</b>	<b>28</b>
Changes, Waivers, and Conflict.....	35
Definitions .....	36

## Introduction

Globally, natural disasters are increasingly occurring, and are increasingly impacting society's most vulnerable members, hindering efforts to eradicate poverty and homelessness. Consequently, inequality is increasing.<sup>1</sup>

This dynamic is evident in Houston, Texas, after Hurricane Harvey made landfall on August 25, 2017. Data<sup>2</sup> on local spending patterns sheds light on the financial disruption<sup>3</sup> households faced. As a result of such disruptions, families' checking account inflows decreased by more than 20 percent, or about \$400.<sup>4</sup>

Such disruptions adversely, and disproportionately, impact vulnerable low-income households. For example, in economically-disadvantaged neighborhoods,<sup>5</sup> two-thirds of renters can afford \$875 for monthly rent in contrast to the fair market rent estimate of \$1,066 per month.<sup>6</sup> In this common situation, it becomes clear how a \$400 decrease following the storm strained already economically-burdened households, increasing inequality.<sup>7</sup> As a result, institutions are challenged with bolstering the economic viability of vulnerable individuals and families.

The City of Houston's Harvey Economic Development Program (HEDP) seeks to answer this challenge through small business development as an economic opportunity strategy. The HEDP focuses on assisting low and moderate-income individuals (LMI) in order to reach disproportionately affected households and address inequality. In this program, a small business is defined consistently with the U.S. Department of Housing and Urban Development (HUD)'s definition: a business that is independently owned and operated and which is not dominant in its

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<sup>1</sup> Economic Losses, Poverty and Disasters 1998-2017 . (2018). *United Nations Office for Disaster Risk Reduction (UNDRR)*. Retrieved from [https://www.unisdr.org/files/61119\\_credeconomiclosses.pdf](https://www.unisdr.org/files/61119_credeconomiclosses.pdf). For an analysis of the impact of disaster on inequality in a US context, see Junia Howell, James R Elliott, Damages Done: The Longitudinal Impacts of Natural Hazards on Wealth Inequality in the United States, *Social Problems*, Volume 66, Issue 3, August 2019, Pages 448–467, <https://doi.org/10.1093/socpro/spy016>

<sup>2</sup> Farrell, D., & Greig, F. (2018). Weathering the Storm: The Financial Impacts of Hurricanes Harvey and Irma on One Million Households. *JP MORGAN Chase Institute*. Retrieved from <https://www.jporganchase.com/corporate/institute/document/institute-weathering-the-storm.pdf>

<sup>3</sup> The types of disruption vary. For example, thousands of evacuees faced temporary housing costs from temporary housing, and then faced the cost of repairing their flood-damaged homes and replacing household goods, electronics, clothes, and vehicles. Hurricane Harvey also impacted the business sector, typically measured as indirect damage, due to the interruption of business activity caused by the storm. Such impact affects the economy through lost business income, reduced employee earnings, and lost jobs. <https://comptroller.texas.gov/economy/fiscal-notes/2018/special-edition/impact.php>

<sup>4</sup> Farrell and Greig, 2018, pg. 2

<sup>5</sup> Neighborhoods in study: Greenspoint, Gulfton, Northshore, and Westwood/Alief

<sup>6</sup> At the standard calculation of 30% of gross income. AFFORDABLE MULTI-FAMILY HOUSING: RISKS AND OPPORTUNITIES. (2019). *Greater Houston Flood Mitigation Consortium*. Retrieved from <https://www.houstonconsortium.com/graphics/images/MFReport.3.19-19-FINAL-Spreads.pdf>

<sup>7</sup> O'Connell, Heather and Howell, Junia. "Disparate City: Understanding Rising Levels of Concentrated Poverty and Affluence in Greater Houston." (2016) Rice University Kinder Institute for Urban Research: <https://doi.org/10.25611/s8s0-egss>.

field of operation and in conformity with [specific industry criteria](#) defined by the Small Business Administration (SBA).<sup>8</sup>

Additionally, the HEDP will prioritize supporting microenterprises. HUD defines a microenterprise as a commercial enterprise that has five or fewer employees, one or more of whom owns the enterprise.<sup>9</sup> Microenterprise development as a community and economic development strategy is consistent with best national and global practices and has been demonstrated to contribute to the long-term sustainability of communities' economic sectors and offer stability during economic downturns, fostering long-term resilience.<sup>10</sup>

## Economic Development Program (HEDP) Goals and Priorities

The HEDP aims to extend economic opportunity to sectors of Houston's population that were disproportionately impacted by Hurricane Harvey. The economic development strategy utilized for this purpose is small business development.<sup>11</sup> The program design is based on research-based indicators of challenges to small business development, including access to capital.<sup>12</sup> Through grants, loans, and technical assistance, the HEDP aims to promote small business stabilization and growth.

To reach these goals, the HEDP program prioritizes:

1. Serving microenterprises.
2. Serving small contractors working with the City of Houston on post-Harvey reconstruction efforts.
3. Serving previously informal business owners to support efforts to "cross-over" into the formal small business sector.<sup>13</sup>

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<sup>8</sup> [https://www.hud.gov/program\\_offices/sdb/about/sbtypes](https://www.hud.gov/program_offices/sdb/about/sbtypes)

<sup>9</sup> Section 102(a)(22) of the Housing and Community Development Act of 1974. See, "Basically CDBG" pg. 8-2. This is consistent with the literature'; see Elaine L. Edgcomb and Joyce A. Klein, "Opening Opportunities, Building Ownership: Fulfilling the Promise of Microenterprises in the United States," FIELD, February 2005, <http://www.fieldus.org/publications/FulfillingthePromise.pdf>

<sup>10</sup> See Fitzgerald, M. A., & Muske, G. (2016). Family businesses and community development: the role of small business owners and entrepreneurs. *Community Development*, 47(4), 412–430., and Roberts, P., & Wortham, D. (2018). The Macro Benefits of Microbusinesses (SSIR). Retrieved from [https://ssir.org/articles/entry/the\\_macro\\_benefits\\_of\\_microbusinesses](https://ssir.org/articles/entry/the_macro_benefits_of_microbusinesses).

<sup>11</sup> [83 FR 5844](#) §48. Prioritizing small businesses.

<sup>12</sup> Specifically, the extensive research on challenges to minority-owned business development are relied on. Minority-owned businesses serve as an appropriate research instrument for the HEDP's LMI focus given the higher likelihood of minorities classifying as LMI. For a brief literature review, please see: Kauffman Compilation: Research on Race and Entrepreneurship. (2016). *Kauffman Foundation*. Retrieved from [https://www.kauffman.org/-/media/kauffman\\_org/resources/2016/kauffman\\_compilation\\_race\\_entrepreneurship.pdf](https://www.kauffman.org/-/media/kauffman_org/resources/2016/kauffman_compilation_race_entrepreneurship.pdf)

<sup>13</sup> This "seed funding" microenterprise development model is considered ideal for LMI target populations to encourage specific business activity that might otherwise represent too much risk for the client. See Microenterprise Fact Sheet Series, Fall 2000, Aspen Institute.

## Economic Development Program (HEDP) and Hurricane Harvey

The HEDP program fulfills the aims of the City of Houston’s contract with the General Land Office (GLO), which seeks to “facilitate disaster recovery, restoration, and economic revitalization and to affirmatively further fair housing...in areas affected by the Texas Hurricane Harvey.”<sup>14</sup>

The HEDP addresses the impact of Hurricane Harvey and the City’s unmet housing needs both directly and indirectly. First, Hurricane Harvey’s impact strained the City’s construction industry, which already had a shortage of construction firms and labor. By assisting construction-sector small businesses to develop, the City is increasing Houston’s ability to rebuild after the storm and increasing the City’s resilience. This small construction business strategy is cited in the City of Houston Local Action Plan (pg. 50).

The HEDP also addresses the impact of Hurricane Harvey and the City’s unmet housing need through the extension of economic opportunity. Hurricane Harvey exacerbated already existing inequalities in Houston, and the HEDP promotes economic development for households through its small business development programming; small business development increases economic stability, job creation, and job retention, as noted in the City of Houston Local Action Plan (pg. 34). This indirect tie-back is consistent with the GLO CDBG-DR manual, which states that,

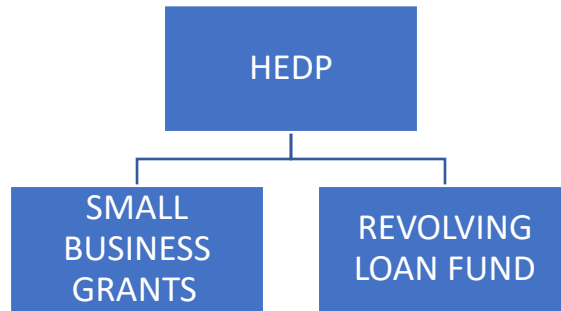
*“... Economic revitalization activities are vital not only for the long-term recovery and restoration of housing through job creation and retention but for the long-term viability of regions, communities, and neighborhoods.... Businesses that participate in economic revitalization programs will create or retain jobs, providing employee household members with additional or sustained financial resources to rent, finance, maintain, and/or improve their homes. The program will provide a boost to local economies, including the housing market, through increased payrolls, business activity, and tax revenue.”* (pg. 4, Section 18.6)

## Economic Development Program (HEDP) Structure

The HEDP consists of two subprograms: a small business grant program, and a revolving loan fund program:

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<sup>14</sup> GLO Contract No. Community Development Block Grant Disaster Recovery Program Projects Non-Research & Development Harvey Round 1 Funding, pg. 1.



Businesses cannot apply to both programs.

## Small Business Grant Program (SGP) Overview

### *Grant Amounts*

Recognizing that 83 percent of small businesses do not have access to private capital,<sup>15</sup> and that this deficiency was exacerbated by the financial impact of Hurricane Harvey, the SGP offers small businesses with access to working capital grants only in the amount of either \$50,000 or \$100,000. The grants can be used to cover business establishment, stabilization, and/or expansion costs.<sup>16</sup>

### *Grant applications*

Grant recipients will be selected through an application process. The application shall require applicants to provide information about their business, upload a business plan, and more.

### *Program Partner*

The City of Houston shall select through a NOFA process a partner firm to provide grant underwriting and technical assistance for this program. The City shall use a competitive NOFA process consistent with HCDD, City of Houston, State of Texas, and HUD laws and regulations to select this partner.

## Dream Fund Program (DFP) Structure Overview

This program shall create a revolving loan fund to provide business loans for qualified small contractors working on construction projects with the City of Houston.

The City of Houston recognizes that small business development cannot take place where markets exclude small businesses. Therefore, the City is working to provide more opportunity for

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<sup>15</sup> Marion, E. (2019). ACCESS TO CAPITAL for ENTREPRENEURS : REMOVING BARRIERS. Kauffman Foundation. Retrieved from [https://www.kauffman.org/-/media/kauffman\\_org/entrepreneurship-landing-page/capital-access/capitalreport\\_042519.pdf](https://www.kauffman.org/-/media/kauffman_org/entrepreneurship-landing-page/capital-access/capitalreport_042519.pdf), pg. 4.

<sup>16</sup> Pursuant to CFR 570.201 (o)



small businesses in City of Houston procurement. The Dream Fund supports this strategy by providing capital to small City of Houston contractors helping to rebuild Houston after Hurricane Harvey. Specifically, the Dream Fund will provide qualified small City of Houston contractors with access to credit and capital (loans) so that they can successfully perform their contracts with the City of Houston.

The fund's credit structure shall incorporate the use of two credit facilities extended to qualified contractors: a Line of Credit of \$150,000 maximum to support cash flow needs for City of Houston projects, and a Term Loan of \$250,000 maximum for working capital needed for hiring, equipment and other resources necessary for supporting the incremental work related to the City of Houston projects. The program line of credit terms shall be for two years, with a one-year renewal option. With this investment, the City is creating a sustainable resource for small business owners as well as contributing to the City's efforts to assist LMI households with post-Harvey recovery and rebuilding.

### *Program Partner*

The revolving fund shall be administered by a CDFI organization, which shall be selected via NOFA processes.

### *Loan interest rates*

The revolving loan fund interest rates shall not exceed 10.0 %<sup>17</sup> and shall be a function of the current market loan range, loan administration costs, and an interest buy-down investment into the loan fund. The competitiveness of loan interest rates shall be a highly-weighted decision factor in the selection process for a CDFI partner.

### *Collateral*

Collateral shall be required for all business loans and shall be determined on a case-by-case basis, paralleling the practice of the SBA and nonprofit lenders in the Houston area. Loans given to businesses by the CDFI will not be guaranteed by the City in case of loss.

### *Program Income*

The program income generated from the revolving fund loan shall be the interest generated, which will support the CDFI's administrative role in building and servicing the loan portfolio. In its administrative role, the selected CDFI partner must comply with the terms and conditions agreed upon with the City of Houston in relation to the administration of the revolving fund agreement only.

Regarding program income reuse, the revolving structure is designed to redeploy funds after they have been repaid; when the funds are redeployed, the selected CDFI partner must reissue

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<sup>17</sup> The SBA loan range projection for March 2020 is 6.5%-11.25%.

the funds consistent with the terms and conditions agreed upon with the City of Houston in relation to the administration of the revolving fund agreement only.

Note: selected CDFI partner selected businesses may be subject to additional reporting regarding any activities undertaken with Program Income funds.

## **CDBG-DR National Objectives**

As expressed in the Federal Housing and Community Development Act of 1974, the “primary objective” of the general Community Development Block Grant (CDBG) program is “the development of viable urban communities by providing decent housing and a suitable living environment and expanding economic opportunities, principally for persons of low-and moderate income (LMI).<sup>18</sup>” To fulfill this aim, the U.S. Department of Housing and Urban Development (HUD) Community Block Grant Program policy guidance<sup>19</sup> outlines three National Objectives:

1. Benefit Low- and Moderate-Income Persons (LMI), or
2. Preventing or Eliminating Slum or Blight, or
3. Meeting an Urgent Need (UN)

Unless the requirement is waived by HUD, all CDBG-DR funded activities must meet at least one of these three National Objectives.<sup>20</sup> Accordingly, the City of Houston has designed its disaster recovery programs to meet the Act’s intent, to meet a National Objective, and to help residents and communities recover from the direct and indirect impact of Hurricane Harvey.

The HEDP program shall meet the LMI objective by assisting small businesses that:

1. Provide goods or services to residents of an LMI residential area (LMA);\*\*\*<sup>21</sup>
2. Qualify as a microenterprise (no more than 5 employees, including the owner) AND are owned by an LMI individual (LMC); or
3. Create jobs that will be held by, or made available to, LMI persons (LMJ).

## **Eligibility Overview: Small Business Grant Program (SGP)**

Assistance under the SGP is available to sole proprietorships, corporations, partnerships, limited liability corporations, or other forms of business organizations that are recognized by the State

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<sup>18</sup> Section 101 of the Act, <https://files.hudexchange.info/resources/documents/Housing-and-Community-Development-Act-1974.pdf>

<sup>19</sup> [https://www.hud.gov/sites/documents/DOC\\_17134.PDF](https://www.hud.gov/sites/documents/DOC_17134.PDF)

<sup>20</sup> Public Law 115-56; FR 6066-N-01

<sup>21</sup> \*\*\*Only the grant program shall utilize the LMA classification for eligibility.

of Texas and listed with the Texas Secretary of State and the Texas Comptroller of Public Accounts.

***For an applicant to be considered qualified for a small business grant:***

-Applicant business owner must live within the City of Houston, and

-Applicant business is

1. a “small business” as defined by the Small Business Administration in 13 C.F.R. Part 121 (SBA size limitations for small businesses can vary in size from 0 to over 1,000 employees, depending on industry sector:

[https://www.sba.gov/sites/default/files/files/Size\\_Standards\\_Table.pdf](https://www.sba.gov/sites/default/files/files/Size_Standards_Table.pdf).)

OR,

2. a “microenterprise,” a small business with no more than 5 employees, including the owner, and

-Applicant business is not a “debarred entity” on the System for Award Management (SAM) electronic roster or as registered with the Texas State Comptroller’s Office, and

***Additionally, to meet the National Objective Requirements, the applicant business must meet one of the following requirements:***

-Business must provide a benefit to a low- and moderate-income area (LMA); or

-Business must be a microenterprise (no more than 5 employees, including the owner) owned by an individual whose income falls at or below 80% of the median income by family size as defined by income requirements established by HUD for the county (LMC); or

-Business must create at least one job to be held by, or made available to, LMI persons (LMJ).

## **Eligible Activities and Uses Overview: Small Business Grant Program (SGP)**

***SGP grant funds can be utilized for development and working capital expenditures including:<sup>22</sup>***

- purchasing equipment
- financing inventory
- working capital
- lease and mortgage payments
- marketing costs
- utility bills
- staff payroll
- insurance premiums (property, liability, workers compensation, etc.)
- accounts payable

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<sup>22</sup> 24 CFR 570 and 2 CFR 200 Subpart E and 24 CFR 570.203

***SGP funding may not be used for:***

- renovation, repair, or improvement to buildings;
- purchases of equipment that must be affixed to a building;
- acquisition of real property;
- purchase of alcoholic beverages;
- paying for staff entertainment;
- paying for lobbying activities;
- buying out any stockholder or equity holder in the applicant business;
- buying out or reimbursing any family member;
- replacement of lost income or revenue.

***Working capital calculation***

Working capital is defined as “Current Assets minus Current Liabilities” on the business’ balance sheet. In other words, working capital is the amount of cash needed to fund one year’s worth of liabilities (i.e., one year’s worth of mortgage payments and other debt, tax and utilities, yearly wages, and accounts payable) after subtracting other current assets such as inventory and accounts receivable. Working capital does not include any expense for any repairs or installation of equipment, or any form of construction or expansion of existing facilities, whether “hard” or “soft” costs. Therefore, an applicant business should not include expenses for equipment repairs or installation, or construction or expansion of existing facilities in any calculation involving working capital.

**Eligibility Overview: Dream Fund Revolving Loan Program (DFP)**

Warning: Any person who knowingly makes a false claim or statement to HUD may be subject to civil or criminal penalties under 18 U.S.C. 287, 1001 and 31 U.S.C. 3729.

Assistance under the Dream Fund Program is available to sole proprietorships, corporations, partnerships, limited liability corporations, or other forms of business organizations that are recognized by the State of Texas and listed with the Texas Secretary of State and the Texas Comptroller of Public Accounts.

***For an applicant business to be considered qualified for a Dream Fund loan:***

- Applicant business owner must live within the City of Houston, and
- Applicant business is
  1. a “small business” as defined by the Small Business Administration in 13 C.F.R. Part 121 (SBA size limitations for small businesses can vary in size from 0 to over 1,000 employees, depending on industry sector:  
[https://www.sba.gov/sites/default/files/files/Size\\_Standards\\_Table.pdf](https://www.sba.gov/sites/default/files/files/Size_Standards_Table.pdf));

OR

2. a “microenterprise,” a small business with no more than 5 employees, including the owner;

-Applicant business is a pre-qualified City of Houston small contractor. (Note: selected contractors are not required to only work on City of Houston contracts). Small contractor is defined as small contractors entering into agreements with the City of Houston valued at no more than \$150,000;<sup>23</sup>

-Applicant business is not a “debarred entity” on the System for Award Management (SAM) electronic roster or as registered with the Texas State Comptroller’s Office; and

***Additionally, to meet the National Objective Requirements, the applicant business must meet one of the following requirements:***

- Business must be a microenterprise owned by an individual whose income falls at or below 80% of the median income by family size as defined by income requirements established by HUD for the county; or

- Business must create at least one job to be held by, or made available to, LMI persons (LMJ).

## **Eligible Activities and Uses: Dream Fund Revolving Loan Program (DFP)**

***DFP funds can be utilized for development and working capital expenditures including:***<sup>24</sup>

- purchasing equipment
- financing inventory
- working capital
- lease and mortgage payments
- marketing costs
- utility bills
- staff payroll
- insurance premiums (property, liability, workers compensation, etc.)
- accounts payable

***DFP funding may not be used for:***

- renovation, repair, or improvement to buildings;
- purchases of equipment that must be affixed to a building;
- acquisition of real property;
- purchase of alcoholic beverages;

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<sup>23</sup> This does not include tri-party agreements stemming from a master agreement structure, typically associated with “prime” contractors.

<sup>24</sup> As enumerated in 24 C.F.R. 58.35(b)(4).

- paying for staff entertainment;
- paying for lobbying activities;
- buying out any stockholder or equity holder in the applicant business;
- buying out or reimbursing any family member;
- replacement of lost income or revenue.

### ***Working capital calculation***

Working capital is defined as “Current Assets minus Current Liabilities” on the business’ balance sheet. In other words, working capital is the amount of cash needed to fund one year’s worth of liabilities (i.e., one year’s worth of mortgage payments and other debt, tax and utilities, yearly wages, and accounts payable) after subtracting other current assets such as inventory and accounts receivable. Working capital does not include any expense for any repairs or installation of equipment, or any form of construction or expansion of existing facilities, whether “hard” or “soft” costs. Therefore, an applicant business should not include expenses for equipment repairs or installation, or construction or expansion of existing facilities in any calculation involving working capital.

## **APPLICATION PROCESS**

The HEDP application process shall include the following stages:

### ***Stage 1: Application Intake***

To be considered for HEDP assistance, the applicant must complete an application and submit it online, by mail, or in-person at identified locations.

#### Application forms and submission processes

Online applications may be completed and submitted online. Paper applications may be obtained upon request from HCDD or at the City of Houston Office of Business Opportunity (OBO).

Paper applications may be submitted by mail, in person at HCDD, or at scheduled application intake events. Paper applications will be dated and timestamped by HCDD upon receipt and entered into a system of record.

#### Application per business

One application must be submitted for each applicant. Each application must be signed by an authorized representative of the applicant business.

#### Required application information

An applicant business will be required to provide information in its application relating to its operations, including, but not limited to:

- Legal business name and address;
- Authorized representative name(s) and contact information;
- Federal Employer Identification Number (FEIN);
- Texas Identification Number (TIN), if any;
- North American Industry Classification System (NAICS) code;
- Current employees, including business owners;
- Services or products offered by applicant business;
- Intended uses for funding, if awarded;
- Evidence of registration on [www.sam.gov](http://www.sam.gov);
- Business plan.

#### NAICS information

Each applicant business must provide its NAICS code. NAICS Codes are used by federal statistical agencies to classify business establishments for analysis of statistical data to describe the U.S. economy. Applicant businesses may obtain more information regarding its NAICS classification at <https://www.naics.com/search/>.

#### Authorized representatives

Each application shall identify one or more persons, each of whom shall serve as an authorized representative for the applicant business. An authorized representative shall have the authority to alter or execute documents on behalf of, or make decisions for, the applicant business.

#### Point(s) of contact (POC)

Each application may identify one or more persons, distinct from persons named as authorized signatories, who shall have the authority to discuss program requirements and application status. These POCs will be recorded in a system of record. A POC may not alter or execute documents on behalf of, or make decisions for, the applicant business. An applicant business may revoke the rights of a POC at any time, in writing.

#### Applicant business identification numbers

An applicant business must provide a Data Universal Number System (DUNS) number associated with the business's tax identification number before any award can be finalized. A DUNS number is a unique nine-digit identification number for each physical location of your business. It is provided without cost to all businesses required to register with the U.S. federal government for contracts or grants.

An applicant business can obtain a DUNS number within one (1) business day by applying online at <http://fedgov.dnb.com/webform/pages/CCRSearch.jsp>.

The applicant business must be actively registered in the System for Award Management (SAM) and have an assigned CAGE Code in order to receive an award. Neither the applicant business nor any principal owner (20% or more) may be debarred on the SAM electronic roster of debarred entities (active exclusion).

Applicant businesses can register for SAM at <https://www.sam.gov/SAM/>.

During the SAM registration process, an applicant business will be assigned a new Commercial and Government Entity Code (CAGE Code) if one does not already exist for the business. If there is an existing CAGE code, the applicant business's information will be updated. For more information on this process, applicant businesses may visit <https://cage.dla.mil>. **ALERT: Due to increased volume and additional security requirements, a high number of entity registrations are pending CAGE review. Processing time currently exceeds the normal window of ten business days. Some users may experience processing delays of up to four weeks. Apply immediately if you are not yet registered.**

### *Stage 2: Application screening*

Submitted applications will be screened for initial eligibility criteria.

### *Stage 3: Application review*

Additional application documentation may be requested as necessary to confirm eligibility, conduct an underwriting and financial analysis and a duplication of benefits analysis, determine national program objective(s), and establish award amount.

#### Financial analysis

Applicant business tax returns or other financial documents, payroll records, quarterly wage reports, etc. may be requested to verify that employment and annual receipts for an applicant business are below the program limits by reviewing.

Additional business, financial and tax documents, as well as online surveys, may be required to verify information provided for underwriting purposes. Underwriting shall be undertaken with the use of the Propensity to Succeed Index (PSI). Additional information about the PSI is provided in Appendix A.

All underwriting review and financial analysis elements shall be conducted in accordance with the underwriting regulations in Appendix A of 24 C.F.R. Part 570.

#### National Objective(s) verification

Each application shall be reviewed to determine whether a National Objective can be achieved by the applicant business via the program in line with federal guidelines.

#### Duplication of Benefits analysis



In order for an applicant business to be eligible for assistance from the HEDP, all assistance previously received by the applicant business must be considered, and it is the responsibility of the applicant to disclose all such assistance. Duplication of benefits review could consider insurance proceeds, SBA loans, federal grants, FEMA assistance, loans, and any other federal, state, local or private assistance. Multiple sources may be requested to verify duplication of benefits, including verification with third parties and applicant self-certification (where no other source of information is readily available).

While HEDP funds cannot duplicate previous assistance, they can supplement. Funds received from another source for the same purpose as this grant program that can be demonstrated to have been used for a different eligible activity may be excluded when calculating the award. The applicant business's award will be reduced by the amount of the duplicative assistance.

#### Environmental Review

The HEDP will fund only those activities pursuant to 58.35(b) CENST, "including but not limited to, equipment purchases, inventory financing, interest subsidy, operating expenses, and similar costs not associated with construction or expansion of existing operations." A full environmental review under federal law will not be required.

#### Unresponsive applicants

If additional information from an applicant business is requested and is not received within thirty (30) business days, the applicant's program application will be canceled.

#### Fair Housing and Equal Opportunity data collection

HCDD is required to collect and publish information relating to the use of HEDP funds, including the racial, ethnic, and gender characteristic of program beneficiaries. An applicant business shall be asked by HCDD to provide demographic data relating to its employees. No personally identifiable information for any employee shall be requested or collected.

### *Stage 4: Approval*

The applicant business will be provided a letter of determination either awarding or denying funding. Approved applicants will be notified of the amount awarded and an explanation of how the award amount was calculated. Prior to distributing funds, recipient business shall be sent:

- a Grant Agreement
- a job creation/retention commitment agreement, if applicable; and
- a direct deposit consent form

## *Stage 5: Monitoring*

Recipients will be monitored to verify funds are expended on eligible HEDP activities and one or more National Objectives are met.

### Ownership

Ownership of the applicant business shall not change during the term of the Grant Agreement. Ownership shall be verified during the eligibility review and once during the grant term. Ownership shall be assessed via online records of ownership or submitted ownership documentation. Current ownership may be verified through one of the following sources of documentation:

- online business tax records demonstrating that the applicant owned the property at application; deeds;
- certificates of shares;
- death certificates, wills, or other supporting documentation;
- an affidavit attesting to ownership with sufficient supporting documentation; or other documentation that will be reviewed and approved on an individual basis.

### Recapture

Recapture of grant funds shall be pursued against grant recipients that violate the Grant Agreement requirements.

## *Stage 6: Closeout*

Following completion of all program requirements, recipients shall be released from further obligations under the HEDP. All records, documentation, and information related to the HEDP will be maintained by HCDD for a three-year period after the date of closeout of the CDBG-DR grant that funded the Program.

### Record Keeping, Retention and File Management

In accordance with HUD regulations, the GLO as the grantee, and HCDD as the sub- grantee and prime recipient of CDBG-DR funds, HCDD shall follow the records retention requirements cited in 2 CFR 200, which include financial records, supporting documents, statistical records and all other pertinent records. HCDD establishes recordkeeping and retention requirements in its sub-recipient agreements in accordance with the guidelines stated in 24 CFR 570.503(b)(2).

### *Reporting*

As a recipient of CDBG-DR funds, HCDD, working with the GLO, will establish reporting requirements in accordance with 24 CFR 570.503(b)(2). HCDD has established its own reporting requirements in accordance with the provisions as found in 2 CFR 200, as applicable:

- At execution of agreements;
- Monthly;

Quarterly; and-  
Annually.

#### *Record Retention*

Record retention is a requirement of the program. Records are maintained to document compliance with program requirements and federal, state, and local regulations and to facilitate a review or audit by HUD. The HCDD Records Management Program seeks to ensure that:

- HCDD complies with all requirements concerning records and records management practices under federal and state regulations;
- HCDD has the records it needs to support and enhance ongoing business and citizen service, meet accountability requirements, and community expectations;
- These records are managed efficiently and can be easily accessed and used for as long as they are required.

These records are stored as cost-effectively as possible and when no longer required they are disposed of in a timely and efficient manner based on HUD Handbook 2225.6, Records Disposition Schedules and HUD Handbook 2228.2.

24 CFR 570.49 Recordkeeping requirements:

(c) Access to records.

(1) Representatives of HUD, the Inspector General, and the General Accounting Office shall have access to all books, accounts, records, reports, files, and other papers, or property pertaining to the administration, receipt and use of CDBG funds and necessary to facilitate such reviews and audits.

(2) The State shall provide citizens with reasonable access to records regarding the past use of CDBG funds and ensure that units of general local government provide citizens with reasonable access to records regarding the past use of CDBG funds consistent with State or local requirements concerning the privacy of personal records.

#### *Access to Records*

24 CFR 570.49 Recordkeeping requirements:

(c) Access to records.

(3) Representatives of HUD, the Inspector General, and the General Accounting Office shall have access to all books, accounts, records,

reports, files, and other papers, or property pertaining to the administration, receipt and use of CDBG funds and necessary to facilitate such reviews and audits.

(4) The State shall provide citizens with reasonable access to records regarding the past use of CDBG funds and ensure that units of general local government provide citizens with reasonable access to records regarding the past use of CDBG funds consistent with State or local requirements concerning the privacy of personal records.

#### Audit Requirements

In accordance with Subpart F of 2 CFR 200, non-federal entities that expend \$750,000 or more during their fiscal year in federal awards must have a single or program-specific audit conducted for that year in accordance with the provisions therein. HCDD is responsible for conducting reviews of these single or program-specific audit reports and for coordinating the issuance of management decisions for audit findings relating to HCDD-provided federal funds.

## **Fraud, Waste and Abuse**

The City assesses all program systems, processes and Standard Operating Procedures from an anti-fraud, waste, and abuse perspective. HCDD's Fraud, Waste, and Abuse Policy<sup>25</sup> defines how allegations must be referred, and to which Office of Inspector General. Reports of Fraud, Waste, or Abuse should be referred to either of the below parties:

#### **City of Houston Office of Inspector General**

900 Bagby St  
4<sup>th</sup> Floor  
Houston, TX 77002; or

P.O. Box 368  
Houston, TX 77001-0368

Telephone: (832) 394-5100

#### **City of Houston Housing and Community Development – Grants Administration Section**

2100 Travis St  
9<sup>th</sup> Floor  
Houston, TX 77002  
c/o Grants Admin

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<sup>25</sup> HCDD Policy #21-010

Telephone: (832) 394-6200

## Economic Development Program (HEDP) Administration

The Department of Housing and Urban Development (HUD) appropriated \$5,024,251,000 in Community Development Block Grant-Disaster Recovery (CDBG-DR) funding to the Texas General Land Office (GLO). Of this allocation, the City of Houston (City) has received \$1,175,954,338 for development and implementation of programs that directly benefit the residents of the City of Houston, including the Economic Development Program (HEDP). Of this, \$30,000,000 has been allocated to the HEDP.

Under the HEDP, funding will be utilized for economic development activities eligible under the Housing and Community Development Act of 1974, as amended, and the accompanying implementation regulations.<sup>26</sup> The HEDP is not allowed to duplicate funds small businesses receive from other sources such as insurance policies, Federal Emergency Management Agency (FEMA), the Small Business Administration (SBA), or other federal or state agencies with disaster recovery program grants or similar assistance.<sup>27</sup> HEDP administration shall comply with applicable laws and guidelines, including those in Table 1 presented below.

Law	Title	Pub. Date	Link
Public Law 93-383	Housing and Community Development Act of 1974	8/22/1974	<a href="https://files.hudexchange.info/resources/documents/Housing-and-Community-Development-Act-1974.pdf">https://files.hudexchange.info/resources/documents/Housing-and-Community-Development-Act-1974.pdf</a>
Public Law 93-288	Disaster Relief Act of 1974, amended as the Stafford Act (1988)	4/1/1974	<a href="https://www.govinfo.gov/content/pkg/STATUTE-88/pdf/STATUTE-88-Pg143-2.pdf">https://www.govinfo.gov/content/pkg/STATUTE-88/pdf/STATUTE-88-Pg143-2.pdf</a>
Public Law 100-707	Stafford Act (1988)	11/23/1988	<a href="https://www.govinfo.gov/content/pkg/STATUTE-102/pdf/STATUTE-102-Pg4689.pdf">https://www.govinfo.gov/content/pkg/STATUTE-102/pdf/STATUTE-102-Pg4689.pdf</a>
Public Law 88-352, Public Law 90-284	24 C.F.R. Part 570 ( <i>Community Development Block Grants</i> )	4/1/2013	<a href="https://files.hudexchange.info/resources/documents/24-CFR-Part%20-570-CDBGs.pdf">https://files.hudexchange.info/resources/documents/24-CFR-Part%20-570-CDBGs.pdf</a>
	83 F.R. 5844	2/9/2018	<a href="https://www.govinfo.gov/content/pkg/FR-2018-02-09/pdf/2018-02693.pdf">https://www.govinfo.gov/content/pkg/FR-2018-02-09/pdf/2018-02693.pdf</a>
	83 F.R. 40314	8/14/2018	<a href="https://www.govinfo.gov/content/pkg/FR-2018-08-14/pdf/2018-17365.pdf">https://www.govinfo.gov/content/pkg/FR-2018-08-14/pdf/2018-17365.pdf</a>

<sup>26</sup> 24 C.F.R. §570.203

<sup>27</sup> FR-6066-N-01, pg. 5848.

Table 1

Additionally, the City of Houston will administer the Economic Development Program (HEDP) in accordance with these Guidelines, City of Houston Harvey Standard Operating Procedures, and HUD CDBG-DR regulatory requirements and guidance. The City of Houston reserves the right to adjust program priorities and re-allocate program funds and program components as needed to better meet program aims.

The City of Houston reserves the sole discretion of interpreting and applying these Guidelines, except for those items where GLO or HUD has indicated that their prior approval is required for implementation. The Housing and Community Development Department (HCDD) will utilize administrative procedures to implement the programs and modify them to meet any changes made to such rules and regulations of the oversight entities, which may occur over time. At all times, should any conflict in these procedures exist with the applicable funding resource, the requirements of the funding source shall take precedence except for “local preferences” that are allowable under federal regulations.

Daily administration of the Program will be under the direct supervision of the Director of HCDD, or their designee within the Economic Development Division. The HCDD Economic Development Division will be responsible for: program marketing, the application intake process, eligibility determination, duplication of benefits review, award determination, contract development, contractor assignment, program assessment, and program completion. The HCDD Finance Division will authorize payments to contractors after review and validation of submitted invoice packages by the Economic Development Division.

### *Subrecipient Selection and Administration*

In support of the HEDP program, a NOFA process shall be used to competitively select project proposals as needed. The application or NOFA will clearly establish the process and acceptance period, threshold criteria, selection criteria, and the award process. Additional information will be established in the NOFA.

#### Scoring Criteria

Applications and proposals under NOFAs will be reviewed and scored internally by a panel of HCDD personnel based on the information provided. HCDD may provide a cure period for missing and/or incomplete applications but failure to submit an application in a timely manner will be disallowed.

### Subrecipient Award

In some cases, HCDD shall directly allocate an award to a selected subrecipient during the administration of the grant period.<sup>28</sup>

### *Procurement*

HCDD shall provide adequate documentation to show that selection processes were carried out in an open, fair, uniform, and thorough manner to ensure that federal (2 CFR 200.318–200.326), state, and City requirements were met.

Record retention records must include, but are not limited to, the following information:

- Rationale for the method of procurement;
- Evaluation and selection criteria;
- Contractor selection or rejection; and
- The basis for the cost or price.

During the procurement process, HCDD shall clearly identify any items included in the bid/purchase that are not included in the CDBG-DR agreement with the City. HCDD may utilize HUD's CDBG-DR and Procurement Guidance.

HCDD shall procure goods and services using the federal procurement and contract requirements outlined in 2 CFR 200.318 – 200.326. These procurement requirements must be followed for reimbursement from grant allocations of CDBG-DR funds provided by HUD. HCDD is also required to follow state and local procurement law and policies, as well as the additional requirements stated in 2 CFR Part 200.

Additionally, the City's Strategic Procurement Division may review draft solicitations or responses prior to award for compliance with applicable city, state and federal rules and regulations. HCDD should clearly identify during the procurement process any items included in the bid/purchase that are not included in the CDBG-DR contract.

Regardless of the type of procurement used, HCDD must execute a contract to document the period of performance, the work to be completed, the agreed price, and contractor or provider's required compliance with all applicable federal, state, and local requirements that vendors and the City must follow. If there is a conflict between federal, state, and local laws and regulations regarding procurement, the more stringent law or regulation will apply.

Additionally, HCDD is required to achieve compliance with Section 3 (24 CFR Part 135). It is strongly suggested that HUD's best practices be utilized to help achieve compliance (HUD Model Section 3 Plan), including creating a Section 3 Plan. HCDD shall "take all necessary affirmative

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<sup>28</sup> Subject to 24 CFR 570.503

steps to assure that minority businesses, women’s business enterprises, and labor surplus area firms are used when possible.” (HUD CFR 200.321).

## **Community Engagement and Outreach**

The City of Houston, through HCDD, is committed to affirmative marketing policies. HCDD shall conduct general outreach to obtain as many potentially eligible applications as possible. Particular emphasis will be focused on successful outreach to LMI areas, as well as persons of color, veterans, persons with disabilities, and women. Outreach shall be performed via coordination with local business associations, governments and non-profits, and shall include online marketing, media marketing, and other formats. All outreach materials shall include the web address for the online application portal, the mailing address for applications, and a telephone number that applicants may call for more information.

### *Affirmatively Furthering Fair Housing*

HEDP activities must be conducted and administered in conformity with Title VI of the Civil Rights Act of 1964 (42 U.S.C. § 2000d) and the Fair Housing Act (42 U.S.C. §§ 3601– 3619). The HEDP affirmatively furthers fair housing through its commitment to creating jobs and economic opportunity for LMI persons and communities.

### *Reasonable Accommodation and Accessibility Policies*

HCDD will ensure accessibility to HEDP information. Bilingual (English and Spanish) outreach materials shall be available to potential applicants who have limited English proficiency to facilitate meaningful access to information about the HEDP. HCDD will provide reasonable accommodations and make reasonable modifications to its policies, practices, or procedures when necessary to avoid discrimination on the basis of disability.

### *Outreach Evaluation*

Evaluation of outreach activities and applications received will be necessary to determine if outreach is successful and applications that are being received accurately reflect the socioeconomic and demographic diversity of the City of Houston. Evaluation will be an ongoing process. HCDD has discretion in the modification and/or addition of requirements to the Affirmative Marketing & Outreach Plan.



## Financial Management

The City of Houston, as a CDBG-DR recipient, is required to follow the financial administration requirements outlined in 2 CFR 200. These standards help ensure that the financial systems put in place by the City:

- Provide adequate, current, and complete disclosure of the financial results (regular financial reporting) of all financially assisted activities, in accordance with the financial reporting requirements of the grant.
- Document that funds have been used only for authorized purposes. For CDBG-DR this includes not only eligible activities but that the funded projects meet a National Objective;
- Maintain accounting records that show the sources and uses of funds, displaying funds authorized, obligated and unobligated balances, assets, liabilities, outlays or expenditures and income;
- Establish effective internal controls over all cash, real and personal property, and other assets acquired with program funds;
- Track actual program cost against program budget in a manner that relates to program productivity and accomplishments;
- Use Uniform Administrative Requirements outlined in [2 CFR 200](#) principles to determine whether program costs are reasonable, allowable, and can be allocated, either directly or indirectly;
- Maintain source documentation for accounting records;
- Implement procedures for cash management that permit the timely disbursement to applicants and subrecipients and complete and accurate monitoring and reporting; and
- Comply with [2 CFR 200 Subpart F](#)

The roles and responsibilities described below are related to the financial management of the City of Houston's CDBG-DR allocation for Hurricane Harvey. These descriptions are not intended to be an exhaustive list of activities performed by each entity in relation to the CDBG-DR grant or in general.

### *Finance Department*

The Strategic Procurement Division (SPD) is housed within the City of Houston's Finance Department and is responsible for procuring goods and services for CDBG-DR funded activities.

### *The City Controller*

The Office of the City Controller certifies the availability of funds prior to City Council approval of City commitments, processes and monitors disbursements, invests the City's funds, conducts internal audits of the City's departments and federal grant programs, operates and maintains its financial management system, conducts the sale of public improvement and revenue bonds and produces a comprehensive annual report of City finances - Comprehensive Annual Financial Report (CAFR). The Controller will be responsible for providing a variety of approvals for release of CDBG-DR funds as payment to contractors and beneficiaries.

### *Housing and Community Development Department (HCDD)*

HCDD is the grant manager for Houston's Hurricane Harvey CDBG-DR allocation and responsible for administering all programs outlined in the City's Local Action Plan.

### *Economic Development Section*

This section is responsible for designing and implementing an economic development strategy and program for the City of Houston.

### *Disaster Recovery and Public Services Division*

This division is responsible for program development and oversight, as well as community outreach.

### *Finance Division*

This division is responsible for processing CDBG-DR grant funding through the Systems Applications and Products (SAP), performing draws in HUD's Integrated Disbursement Information System (IDIS) and Disaster Recovery Grant Reporting (DRGR) System, and reconciling budgets and expenditures. This division is also responsible for processing payment requests in SAP and federal reimbursement requests to the GLO to be realized in the City's budget.

### *Planning and Grants Management Division*

This division is responsible for the City's CDBG-DR Local Action Plan, Local Needs Assessment, program applications, other rated planning documents, substantial amendments, project/activity budget set-up and completion in IDIS and DRGR and related reporting to HUD and GLO.

### *Key Funding Objective*

At least 70% of the City of Houston's CDBG-DR funds must be spent on LMI impacted residents and will require close monitoring of the eligibility and award calculation stages.

## **Confidentiality/Privacy**

The Program is committed to protecting the privacy of all individual stakeholders, including the public and those individuals working on the program. The program's policies describe how information is to be handled and protected. The purpose of this privacy policy is to establish when and under what conditions certain information relating to individuals may be disclosed.

The data collected from applicants for the Program may contain personal information on individuals that is covered by the Federal Privacy Act of 1974, as well as applicable state laws. These laws provide for confidentiality and restrict the disclosure of confidential and personal information. Unauthorized disclosure of such personal information may result in personal liability with civil and criminal penalties.

The information collected may only be used for limited official purposes:

- Program staff may use personal information throughout the award process to ensure compliance with program requirements, reduce errors, and mitigate fraud and abuse.
- Independent auditors, when hired by the program to perform a financial or programmatic audit of the program, may use personal information in determining program compliance with all applicable HUD and federal regulations, including the Stafford Act, CDBG-DR requirements and State and local law.
- HCDD may disclose personal information on an applicant to those with official Power of Attorney for the applicant or for whom the applicant has provided written consent to do so.
- Organizations assisting HCDD in executing the CDBG-DR Program must comply with all federal and state law enforcement and auditing requests. This includes, but it not limited to, HUD, FEMA, FBI, Office of the Comptroller, and the Office of the Inspector General.

## Appeals

HCDD's appeal process will be provided in writing to any appellant upon request or receipt of an appeal, and the same process will be clearly posted on the City's websites, including disaster recovery websites. HCDD will keep a record of each appeal that it receives and include all communications and their resolutions therein.

Applicants have the right to appeal decisions made on their program file. Appeals must be made in writing, and may either be in letter form, through HCDD's website, or on HCDD's Appeal Request Form (available on HCDD's website or at the HCDD office). Written appeals will be accepted either by mail or in-person at the HCDD office. To be considered complete, an appeal must contain the following information:

- Name
- Property Address
- Mailing Address (if different from Property Address)
- Phone
- Application number (if applicable)
- Email Address
- Reason for Appeal

Appeals must be made within thirty (30) days of notice<sup>29</sup> of the determination on the applicant's file that generated the appeal. Upon receipt of an appeal, HCDD will respond in writing to the appellant of the program area's decision regarding the appeal and provide the basis thereof within thirty (30) days.

### *Appeals Review Committee*

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<sup>29</sup> The date of the letter sent is considered the date of notice.

Should the initial appeal process with the program area not achieve a resolution amenable to the appellant, the appellant has the right to escalate the appeal, in writing, to the Appeals Review Committee (ARC). The appellant may only escalate the appeal after the completion of the initial program area process.

The ARC will process the escalated appeal within thirty (30) days. The ARC will transmit their decision to the appellant in writing.

### *Texas General Land Office*

Should the appellant not be satisfied with the outcome determined by the ARC, they have the option to dispute the decision by sending an appeal in writing to the Texas General Land Office (GLO). The appellant has thirty (30) days to submit an appeal directly to GLO following receipt of the ARC's decision regarding their appeal.

If no word on a pending appeal is received by HCDD within the appropriate timeline from GLO, HCDD will designate the appeal decision made by the Appeals Review Committee as the final decision and consider the matter closed. Funding for applications under appeal will be reserved until a final determination is issued.

### **Contact Information**

Housing and Community Development Department  
2100 Travis St., 9<sup>th</sup> Floor  
Houston, TX 77002  
Attn: Planning & Grants Management

[HCDDComplaintsAppeals@houstontx.gov](mailto:HCDDComplaintsAppeals@houstontx.gov)

HCDD Business Hours  
Monday through Friday  
8:00 AM to 5:00 PM

## **Complaints**

The City of Houston Housing and Community Development Department (HCDD) welcomes feedback and complaints from any member of the public. Complaints are accepted in writing or over the telephone. Complaints will be responded to in writing within fifteen (15) business days, where possible. For further information, please refer to the HCDD recovery website, <https://recovery.houstontx.gov>

### **Contact Information**

Housing and Community Development Department  
2100 Travis St., 9<sup>th</sup> Floor  
Houston, TX 77002

Attn: Planning & Grants Management

[HCDDComplaintsAppeals@houstontx.gov](mailto:HCDDComplaintsAppeals@houstontx.gov)

(832) 394-6200

HCDD Business Hours  
Monday through Friday  
8:00 AM to 5:00 PM

## **Cross Cutting Federal Regulations**

This program will be designed and implemented in compliance with cross-cutting federal regulations when applicable, including:

### AMERICANS WITH DISABILITIES ACT (ADA)

The Americans with Disabilities Act of 1990 (ADA) prohibits discrimination and ensures equal opportunity for persons with disabilities in employment, state, and local government services, public accommodations, commercial facilities, and transportation. It also mandates the establishment of telecommunications device for the deaf (TDD)/telephone relay services. The City of Houston Housing and Community Development Department (HCDD) takes affirmative steps to ensure that people with disabilities have equal access to the programs offered by HCDD, and that any services are delivered in the most integrated manner possible. HCDD's mandate to conform to the requirements of ADA flows down to every stakeholder, including sub-recipients, vendors, and developers.

### DAVIS-BACON LABOR STANDARDS

The Davis-Bacon Act and Related Acts (DBRA) applies to contractors and subcontractors carrying out federally funded or assisted contracts in excess of \$2,000 for the fringe benefits for corresponding work on similar projects in the area. In some cases, City of Houston Prevailing Wage Law is in effect. In these cases, the higher prevailing wage rate between the Federal Government and the State must be adhered to and made applicable. For prime contracts of more than \$100,000, contractors and subcontractors must also, under the provisions of the Contract Work Hours and Safety Standards Act, as amended, pay laborers and mechanics, including guards and watchmen, at least one and one-half times their regular pay for all hours worked over 40 in a work week. Additionally, HCDD must follow the reporting requirements per HUD and the U.S. Department of Labor regulations. This requirement also extends to HCDD's sub-recipients and contractors.

### EQUAL EMPLOYMENT OPPORTUNITY

Executive Order 11246, Equal Employment Opportunity, as amended, prohibits federal contractors and federally-assisted construction contractors and subcontractors who do over \$10,000 in government business in one year from discriminating in employment decisions based on race, color, religion, sex, sexual orientation, gender identity, or national origin. The Executive Order also requires government contractors to take affirmative action to ensure that equal opportunity is provided in all aspects of their employment. This regulation is adhered to within HCDD programs.

#### FAIR HOUSING

The Fair Housing Act requires all grantees, sub-recipients, and/or developers funded in whole or in part with HUD financial assistance to certify that no person was excluded from participation in, denied the benefit of, or subjected to discrimination in any housing program or activity because of age, race, color, creed, religion, familial status, national origin, sexual orientation, military status, sex, disability, or marital status. HCDD enforces the Fair Housing Act by ensuring that all grantees, sub-recipients, and/or developers meet the applicable Fair Housing and Affirmative Marketing requirements, provide a marketing plan, and report on compliance in accordance with the Fair Housing Act and the associated forms on HCDD website, where applicable. The Affirmative Marketing Plan must comply with applicable Fair Housing Laws and demonstrate how the applicant will affirmatively further fair housing throughout applicable NCEM disaster recovery programs.

#### FAIR LABOR STANDARDS ACT OF 1938, AS AMENDED

The Fair Labor Standards Act of 1938, as amended (FLSA), establishes the basic minimum wage levels for all work and requires the payment of overtime at the rate of at least one and one-half times the basic hourly rate of pay for hours worked more than 40 per week. These labor standards are applicable to the entire construction contract, regardless if CDBG-DR funds finance only a portion of the project. Excluding the exceptions listed below, all workers employed by contractors or subcontractors in the performance of construction work financed in whole or in part with assistance received under HCDD CDBG-DR program must be paid wages at rates not less than those prevailing on similar construction in the locality as determined by the Secretary of Labor in accordance with the Davis-Bacon Act, as amended.

#### LIMITED ENGLISH PROFICIENCY

Federal Executive Order 131661 requires HCDD and all satellite offices, programs, sub-recipients, contractors, subcontractors, and/or developers funded whole or in part with CDBG-DR financial assistance to ensure fair and meaningful access to programs and services for families and individuals with Limited English Proficiency (LEP) and/or deaf/hard of hearing. HCDD ensures fair access through the implementation of a Language Assistance Plan (LAP), which includes non-English-based outreach, translation services of vital documents, free language assistance

services, and staff training. Refer to the “Language Assistance Plan” Provision of Language Assistance Services for additional guidance and protocols.

#### MINORITY- AND/OR WOMAN-OWNED BUSINESS ENTERPRISES

The Federal Executive Order 12432 guidelines require selected federal agencies to promote and increase the utilization of Minority-Owned Business Enterprises (MBEs). 2 CFR 200.321 requires the non-federal entity to take all necessary steps to ensure that all sub-recipients, contractors, sub- contractors, and/or developers funded in whole or in part with HUD CDBG-DR financial assistance ensure that contracts and other economic opportunities are directed to small and minority firms, women-owned business enterprises (WBEs), and labor surplus area firms when possible.

#### SECTION 3

Section 3 of the Housing and Urban Development Act of 1968 requires that grantees, sub-recipients, contractors, sub-contractors, and/or developers funded in whole or in part by CDBG-DR funding, to the greatest extent feasible, extend hiring opportunities and contracts to Section 3- eligible residents and businesses. Section 3-eligible residents are low- and very low- income persons, particularly those who live or reside in public or government assisted housing.

#### RESIDENTIAL ANTI-DISPLACEMENT

All sub-recipients must follow HCDD’s Residential Anti-Displacement Policy.

#### UNIFORM RELOCATION ACT AND REAL PROPERTY ACQUISITION

The Infrastructure Program staff will comply with URA and real property acquisition as CDBG-DR federal funds, administered by HCDD and disbursed to sub-recipients and direct contractors and/or beneficiaries, are subject to the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, as amended (URA) and/or Section 104(d) of the Housing and Community Development Act of 1974. The applicable federal regulations are located at 49 CFR 24 (URA), 24 CFR 42 (Section 104(d)), and in the Real Estate Acquisition and Relocation Policy and Guidance Handbook (HUD Handbook 1378). The March 5, 2013 Federal Register Notice (FR-5696-N-01) waived the one-for-one replacement requirements at Section 104(d)(2)(A)(i)-(ii) and (d)(3) and 24 CFR 42.375.

Sub-recipients or contractors must provide the following benefits to households or businesses that they displace:

- Relocation advisory services;
- A minimum of 90-day notice to vacate;
- Reimbursement for moving expenses; and
- Payments for added cost of renting or purchasing comparable replacement housing.

HCDD programs subject to the URA and Section 104(d) include the CDBG-DR programs. HCDD policies and procedures, Notice of Funding Availability (NOFA), applicant certifications and/or written agreements for funds subject to the URA and Section 104(d) shall refer to federal and state rules, as appropriate.

#### REAL PROPERTY

If CDBG-DR funds are used to acquire real property, HCDD Legal ensures that the property continues to be used for its intended (and approved) purpose; proper records are maintained to keep track of it; steps are taken to protect and maintain it; and that if the property is sold, HCDD is reimbursed for the CDBG-DR share of the property's value. HCDD, as the grantee, along with its sub-recipients and contractors, must tag and log all property valued greater than \$1,000 and update inventory records annually.

This approach to the ownership, use, management, and disposition of property is complicated by two facts. First, the rules about property management and disposition differ slightly depending on whether a grantee is a public-sector grantee (the rules are generally more explicit for governmental grantees). Second, the rules depend on the nature of the property. Real property (e.g., land, buildings) is treated differently than personal property (e.g., equipment, supplies, intangible property such as copyrights). (Property Management and Disposition Regulations 24 CFR 570.503; all sub-recipients (subs) 24 CFR 85.32; 85.34, govt. subs 24 CFR 84.32; 84.34, nonprofit subs) (as amended by 2 CFR 200 as needed).

The federal requirements relating to real property are organized according to title (ownership), use, and disposition. In general, the property management system must provide for accurate records, the performance of regular inventories, adequate maintenance and control, and proper sales procedures. Grantees must follow sales procedures that provide for competition, to the extent practicable, and that result in the highest possible return.

#### ACQUISITION OF REAL PROPERTY

Upon notification of permission from HCDD, the City proceeds with efforts to acquire any real property, including easements and right-of-way, required for the project. CDBG-DR federal funds, administered by HCDD and disbursed to subrecipients and direct contractors and/or beneficiaries, are subject to the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, as amended (Uniform Act or URA) and/or Section 104(d) of the Housing and Community Development Act of 1974. The applicable federal regulations are located at 49 CFR Part 24 (URA), 24 CFR Part 42 (Section 104(d)), and in the Real Estate Acquisition and Relocation Policy and Guidance Handbook (HUD Handbook 1378).

Sub-recipients or contractors must provide the following benefits to households that they displace:



1. Relocation advisory services;
2. A minimum of 90-day notice to vacate;
3. Reimbursement for moving expenses; and
4. Payments for added cost of renting or purchasing comparable replacement housing.

A purchase option agreement on a proposed site or property prior to the completion of the environmental review is allowed if the option agreement is subject to a determination by the sub-recipient on the desirability of the property for the project after the environmental review is completed and the cost of the option is a nominal portion of the purchase price. Prior to advertising for bids, the subrecipient must have obtained all lands, rights-of-way, and easements necessary for carrying out the project.

HCDD will provide property owners with the appropriate forms, including Involuntary Preliminary Acquisition Notice; Invitation to Accompany an Appraiser; Written Offer to Purchase; Statement of Basis of Just Compensation; Notice of Intent Not to Acquire; Donation and Appraisal Waiver; and Administrative Settlement.

#### INSURANCE AND PROPERTY MANAGEMENT

For all projects in the Program, all property owners must procure and maintain insurance for the duration of the agreement to protect all contract assets from loss due to any cause, such as theft, fraud, and physical damage. If CDBG-DR funds are used to acquire real property or personal property, the property owner is responsible for ensuring that:

1. The property continues to be used for its intended (and approved) purpose;
2. The subrecipient keeps track of, and takes care of, the property; and
3. If the subrecipient sells or disposes of the property during the contract period, the subrecipient reimburses HCDD for the share of the property's value according to the agreement.

#### RECORD KEEPING, RETENTION AND FILE MANAGEMENT

In accordance with HUD regulations, the GLO as the grantee, and HCDD as the sub-grantee and prime recipient of CDBG-DR funds follow the records retention requirements cited in 2 CFR 200, which includes financial records, supporting documents, statistical records and all other pertinent records. The compliance period for the retention requirements includes the duration of the GLO and City of Houston contract as well as a period of 3 years after the grant closeout between the GLO and HUD. HCDD establishes recordkeeping and retention requirements in its sub-recipient and contractor agreements in accordance with the guidelines stated in 24 CFR 570.503(b)(2).

#### REPORTING

As a recipient of CDBG-DR funds, HCDD, working with the GLO, will establish reporting requirements in accordance with 24 CFR 570.503(b)(2). HCDD has established its own reporting requirements in accordance with the provisions as found in 2 CFR 200, as applicable:

- At execution of agreements;
- Monthly;
- Quarterly;
- Annually; and
- As required.

#### RECORD RETENTION

Record retention is a requirement of the program. Records are maintained to document compliance with program requirements and federal, state, and local regulations and to facilitate a review or audit by HUD. The HCDD Records Management Program seeks to ensure that:

- HCDD complies with all requirements concerning records and records management practices under federal and state regulations;
- HCDD has the records it needs to support and enhance ongoing business and citizen service, meet accountability requirements, and community expectations;
- These records are managed efficiently and can be easily accessed and used for as long as they are required.

These records are stored as cost-effectively as possible and when no longer required they are disposed of in a timely and efficient manner based on HUD Handbook 2225.6, Records Disposition Schedules and HUD Handbook 2228.2.

#### ACCESS TO RECORDS (STATE – CITY)

24 CFR 570.49 Recordkeeping requirements:

- (c) Access to records.
  - (5) Representatives of HUD, the Inspector General, and the General Accounting Office shall have access to all books, accounts, records, reports, files, and other papers, or property pertaining to the administration, receipt and use of CDBG funds and necessary to facilitate such reviews and audits.
  - (6) The State shall provide citizens with reasonable access to records regarding the past use of CDBG funds and ensure that units of general local government provide citizens with reasonable access to records regarding the past use of CDBG funds consistent with State or local requirements concerning the privacy of personal records.

The availability of records is subject to the exemptions to public disclosure set forth in section 87(2) of the Public Officers Law. All Freedom of Information Law (FOIL) requests under the Public Officers Law must be made in writing to the Records Access Officer and will be processed in accordance with the procedures set forth therein.

#### AUDIT REQUIREMENTS

In accordance with Subpart F of 2 CFR 200, non-federal entities that expend \$750,000 or more during their fiscal year in federal awards must have a single or program-specific audit conducted for that year in accordance with the provisions therein. HCDD is responsible for conducting reviews of these single or program-specific audit reports and for coordinating the issuance of management decisions for audit findings relating to HCDD-provided federal funds.

#### CONFIDENTIALITY/PRIVACY

The Program is committed to protecting the privacy of all individual stakeholders, including the public and those individuals working on the program. The program's policies describe how information is to be handled and protected. The purpose of this privacy policy is to establish when and under what conditions certain information relating to individuals may be disclosed. The data collected from applicants for the Program may contain personal information on individuals that is covered by the Federal Privacy Act of 1974, as well as applicable state laws. These laws provide for confidentiality and restrict the disclosure of confidential and personal information. Unauthorized disclosure of such personal information may result in personal liability with civil and criminal penalties. The information collected may only be used for limited official purposes:

- Program staff may use personal information throughout the award process to ensure compliance with program requirements, reduce errors, and mitigate fraud and abuse.
- Independent auditors, when hired by the program to perform a financial or programmatic audit of the program, may use personal information in determining program compliance with all applicable HUD and federal regulations, including the Stafford Act, CDBG-DR requirements and State and local law.
- HCDD may disclose personal information on an applicant to those with official Power of Attorney for the applicant or for whom the applicant has provided written consent to do so.

Organizations assisting HCDD in executing the CDBG-DR Program must comply with all federal and state law enforcement and auditing requests. This includes, but is not limited to, HUD, FEMA, FBI, Office of the Comptroller, and the Office of the Inspector General.

#### CONFLICT OF INTEREST

All applicants will be subject to HCDD's Conflict of Interest Policy. No employee, agent, or officer, who exercises decision-making responsibility with respect to CDBG-DR funds and activities, is

allowed to obtain a financial interest in or benefit from CDBG-DR activities, or have a financial interest in any contract, subcontract, or agreement regarding those activities or in the proceeds of the activities. The Economic Development Program will establish safeguards to prohibit employees, officers, and agents from using their position for a purpose that is, or gives the appearance of being, motivated by a desire for private gain for themselves or others, particularly those with whom they have family, business, or other ties. HCDD may require disclosure of any potential conflict of interest to the governing body of the locality, to the recipient's legal counsel, and as otherwise may be appropriate.

#### ANTI-JOB PIRATING

Applicants will be subject to anti-job pirating as defined by 24 CFR § 570.210, which states that program funds "may not be used to directly assist a business, including a business expansion, in the relocation of a plant, facility, or operation from one LMA to another LMA if the relocation is likely to result in a significant loss of jobs in the LMA from which the relocation occurs."

## Changes, Waivers, and Conflict

Waivers to the requirements in these Guidelines can only be approved by HCDD and the GLO and must be provided in writing. If these Guidelines conflict with local, state, or federal law, the more stringent requirement will prevail, provided that the requirement does not violate local, state, or federal law.

HCDD will publish all Program Guidelines on the City's website [[www.recovery.houstontx.gov](http://www.recovery.houstontx.gov)]. All guidelines will initially be published for a 30-day public comment period. Any subsequent changes to the Guidelines after approval by the Texas General Land Office will be posted for a minimum of (7) seven days for public comment and the latest versions available on the City's website.

### *Waivers*

As the program matures, it is possible there will be requests for waivers and alternative requirements to these Guidelines. These requested changes and waivers must be consolidated, reviewed, and approved by the GLO. To request a waiver, HCDD must submit a written request on HCDD letterhead that includes the following:

1. The Guideline for which the waiver applies
2. The requirement to be waived or altered
3. Alternative requirement or language
4. Detailed statement of how the request is necessary to address unmet recovery needs

### General Program Waiver Request

A General Program Waiver request includes a requested change to the Guidelines for administrative, eligibility, national objective, expenditure deadline, or overall benefit requirements, for which approval from the GLO is needed within thirty (30) days. The request

must demonstrate that the funds will be used for an eligible CDBG-DR eligible activity and meet a national objective.

Waivers of this category must be published for seven (7) days and public comment received and addressed before implementation.

### Emergency Waiver Request

An Emergency Program Waiver Request is a requested change to the Guidelines for administrative, eligibility, national objective, expenditure deadline, or overall benefit requirements that must be implemented as soon as possible, for example, to resolve or prevent a compliance issue. An Emergency Waiver Request must be submitted to GLO immediately and a response should be received from GLO within five (5) business days.

In the case of requests that must be routed to HUD for approval, it is expected that GLO and the City of Houston will request an expedient response. If the request will not be approved prior to the anticipated or necessary implementation timeline, GLO must notify the City of Houston via official letter of the necessary escalation to HUD and anticipated timing.

Additional requirements may be requested as required for submission depending on waiver type and category.

## Definitions

*Adjusted Gross Income (AGI)*: AGI is an individual's total gross income minus specific deductions as shown on the federal tax return.

*Affirmatively Furthering Fair Housing (AFFH)*: AFFH is a legal requirement that federal agencies and federal grantees further the purposes of the Fair Housing Act. HUD's AFFH rule provides an effective planning approach to aid program participants in taking meaningful actions to overcome historic patterns of segregation, promote fair housing choice, and foster inclusive communities that are free from discrimination. The HUD AFFH assessment tool and final rule can be found here: [https://www.huduser.gov/portal/affht\\_pt.html](https://www.huduser.gov/portal/affht_pt.html).

*Area Median Family Income (AMFI)*: Calculated annual limits based on HUD-estimated median family income. May also be referred to Area Median Income (AMI) in other program documents.

*Beneficiary*: The recipient deriving advantage from CDBG-DR funding.

*Duplication of Benefits*: The Robert T. Stafford Disaster Assistance and Emergency Relief Act (Stafford Act) prohibits any person, business concern, or other entity from receiving financial assistance from CDBG-DR funding with respect to any part of a loss resulting from a major

disaster as to which he/she has already received financial assistance under any other program or from insurance or any other source.

*General Land Office (GLO):* The Texas General Land Office is the lead agency for managing the State's Community Development Block Grant – Disaster Recovery grants.

*Grant Agreement:* A funding agreement detailing eligible program costs and project-specific award agreements between HUD and the GLO, including regulatory provisions, certifications, and requirements.

*Household:* A household is defined as all persons occupying the same housing unit, regardless of their relationship to each other. The occupants could consist of a single family, two or more families living together, or any other group of related or unrelated persons who share living arrangements. For housing activities, the test of meeting the LMI National Objective is based on the LMI of the household.

*Housing and Community Development Act of 1974, as amended by the Supplemental Appropriations Act of 1984:* Established the program of Community Development Block Grants to finance the acquisition and rehabilitation of real property and which defined the recipients and uses of such grants, with the primary goal of benefitting LMI persons.

*Housing and Urban Development Act of 1968, Section 3:* Requires program administrators ensure that training, employment, and other economic opportunities generated by HUD financial assistance shall be directed to the greatest extent feasible and consistent with existing federal, state, and local laws and regulations, to low- and very low-income persons. Recipients of Section 3-covered funding ensure compliance and the compliance of their contractors/subcontractors with the Section 3 requirements, as outlined in 24 CFR 135.32.

*Low/Mod Income (LMI):* Activities which benefit persons of income that does not exceed 80 percent of the area median income:

- Extremely low: Household's annual income is up to 30 percent of AMI, as determined by HUD, adjusted for family size;
- Low: Household's annual income is between 31 percent and 50 percent of AMI, as determined by HUD, adjusted for family size;
- Moderate: Household's annual income is between 51 percent and 80 percent of AMI, as determined by HUD, adjusted for family size.

*Microenterprise, microbusiness:* A microenterprise or microbusiness shall be defined in this program as businesses with five or fewer employees, one or more of whom owns the enterprise.

*Microenterprise Development:* Microenterprise development refers to helping microenterprise owners most at risk (LMI and other disadvantaged individuals who do not typically have access to the full range of mainstream financial services) to create or expand their small businesses.

*Subrecipient:* Cities, counties, Indian tribes, local governmental agencies (including COGs), private non- profits (including faith-based organizations), or a for-profit entity authorized under 24 CFR 570.201(o). The definition of subrecipient does not include procured vendors, private grant administrators, or contractors providing supplies, equipment, construction, or services and may be further restricted by Program rules or other guidance including applications. See vendor definition for further clarification.

*Vendor:* Vendors and private grant administrators procured by the city or contractors procured to provide supplies, equipment, or services necessary to implement the Program and to serve program needs. Upon approval, the vendor may implement the Program or act on behalf of the City.

## Appendix A

### HEDP Grant Underwriting: Propensity to Succeed Index (PSI)

#### *Industry Underwriting Framework*

The HEDP is designed to provide the most urgent small business need: capital. Typically, available capital takes the form of loan products. Small business loan underwriting, in turn, typically incorporates the “5 C’s,” industry framework to analyze a small business’ fitness for lending.<sup>30</sup> The “5 C’s” approach challenges small business access to capital because it consists of factors associated with existing business success, such as capital raised, collateral, and business credit. In this sense, applying for capital is endogenous with previous access to capital, and potentially excludes business owners with no collateral or who have yet to establish business credit or struggle with maintaining exemplary business credit for various life conditions. This perpetuates lack of access to capital, particularly for disadvantaged business owners.

#### *HEDP Underwriting Framework*

The HEDP underwriting analysis uses the Propensity to Succeed Index (PSI) instead of the “5C’s” framework. The goal of the PSI is an underwriting analysis that increases the likelihood of providing capital to small businesses with a higher likelihood of stability and growth. To achieve this goal, the PSI promotes consideration of dimensions indicative of potential small business success. These factors have been drawn from the research and literature on microenterprise and small business success. The PSI yields a numerical score, quantifying the underwriting analysis for standardization and subsequent assessment of the index and HEDP.

### PSI Dimensions

The PSI incorporates six core dimensions. This section provides a brief overview of the dimensions and their relation to small business success.

#### *Business Plan Quality*

The Business Plan Quality dimension includes an assessment of three key indicators of small business success: market access, business mission, and business structure. A business plan communicates the business concept and structure, and it has been found to be particularly relevant for start-ups and young business likelihood of obtaining financing, who often have a reduced or non-existent track record in the market.<sup>31</sup>

Small business success depends on successful market access, which in turn has been demonstrated to be impacted by market research. Moreover, in relation to minority business ownership, research indicating business market truncation of business service area and clientele by Black business owners, which in turn limits business development, sheds light on the importance of conducting market research and pursuing market access for minority-owned small business development.<sup>32</sup> To this end, the PSI

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<sup>30</sup> <https://www.mbda.gov/news/blog/2010/08/5-cs-credit-analysis>

<sup>31</sup> Geraldo, J. V., & Gama, P. M. (2019). WHAT DO INVESTORS LOOK FOR IN A STARTUP BUSINESS PLAN? *Revista de Empreendedorismo e Gestao de Pequenas Empresas*, 8(3), 231+.

<sup>32</sup> See pg. 133, Fairlie, R. W., Robb, A. M. (2010). *Race and Entrepreneurial Success: Black-, Asian-, and White-Owned Businesses in the United States*. (n.p.): MIT Press.



operationalizes business plan quality through score categories favoring developed business structure, market positioning, and market strategy.

#### *Business Age*

From an economic development perspective, one measure of success in relation to small business is job creation. Data reveals that newly created businesses have a greater “employment effect” during the year of their establishment, lending support to the argument in the literature that for job creation, business creation is more impactful than business development.<sup>33</sup> The PSI operationalizes this finding with a score category in favor of newly created businesses that declare a job creation intent.

From a small business development perspective, success in relation to small business includes small business stability and development, given the high rate of small business closures/exits from the small business sector. For these indicators, maturity has been found to be an indicator of business stability.<sup>34</sup> The PSI operationalizes this finding with a score category in favor of business maturity.

#### *Business Owner Educational Background*

The PSI is designed to capture and weigh favorably small business owner educational efforts. Research has found positive associations between education and small business success.<sup>35</sup> Research also indicates education is associated with a lower likelihood of small business failure.<sup>36</sup> Formal university education, however, is not exclusively identified as a contributor to small business success; business knowledge and skills<sup>37</sup> that are helpful for business can also be obtained through educational coursework and small business development workshops and resources. For this reason, the PSI operationalizes different levels and types of formal and business education accomplishments and efforts.

#### *Business Growth*

The PSI captures and weighs favorably if applicant businesses are already successful in terms of business growth as an indicator of continued or future growth. Growth-to-date is operationalized as past annual gross sale growth, and past annual employee hires.

#### *Financial management*

The financial management dimension of the PSI incorporates aspects of the “5Cs” lending framework. In particular, the index negatively weighs past legal and financial setbacks and favorably weighs higher personal and business credit scores, based on the assumption of credit scores as a proxy for financial management skills.

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<sup>33</sup> pg.7, Headd, B. (2010). *An Analysis of Small Business and Jobs*. SBA Office of Advocacy; Lawless, M. (2014) Age or size? Contributions to job creation. *Small Bus Econ* **42**, 815–830.

<sup>34</sup> Thapa, A. (2015). Determinants of microenterprise performance in Nepal. *Small Bus Econ* **45**, 581–594.

<sup>35</sup> Thapa.A. (2007) Micro-enterprises and household Income. *The Journal of Nepalese Business Studies*, 4 (1) Vol. (5) pg 110-118.

<sup>36</sup> Boden, R. J. Jr.; Nucci, A.R (2000) On the Survival Prospects of Men’s ad Women’s New Business Ventures’. *Journal of Business Venturing*, 15(4): 347 – 372.

<sup>37</sup> Ensley M.D., Pearson A.W. and Sardeshmukh,S.R (2007) The negative consequences of pay dispersion in family and non-family top management teams: an exploratory analysis of new venture, high-growth firms, *Journal of Business Research* 60 , pp. 1039–1047

### *Entrepreneurial Orientation*

Research findings indicate that, beyond financial skills, there are personal characteristics of entrepreneurs that seem to contribute to small business success.<sup>38</sup> In general, a term associated with these characteristics is Entrepreneurial Orientation (EO), and this is operationalized in varying ways across the literature. Typical indicators associated with this measure include: need for achievement, motivation, risk-taking propensity, and self-efficacy. The PSI operationalizes such entrepreneurial personal characteristics obtained through survey and interview questions incorporating metrics from the literature.

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## **Propensity to Succeed Index (PSI)**

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<sup>38</sup> Hughes, M., & Morgan, R. E. (2007). Deconstructing the relationship between entrepreneurial orientation and business performance at the embryonic stage of firm growth. *Industrial Marketing Management*, 36(5), 651–661; Kerr, S. P., Kerr, W., & Xu, T. (2017). Personality Traits of Entrepreneurs: A Review of Recent Literature; Kasemsap, K. (2017). Encouraging Internationalization and Entrepreneurial Orientation in Small and Medium Enterprises. *Handbook of Research on Small and Medium Enterprises in Developing Countries Advances in Business Strategy and Competitive Advantage*, 233–259.

Dimension		Documentation Requirement	Score range	Score	Weight	Total
<b>Business Plan Quality</b>	market research	business plan upload	0 -5; 5 is advanced		x2	
	marketing strategy	business plan upload	0 -5; 5 is advanced		x2	
	management and organization	business plan upload	0 -2; 2 is advanced			
<b>Business Age</b>	new business (0-2 years)	DBA	1 if declared intent to create job		x2	
	established business	DBA	# of years in business			
<b>Educational background</b>	<u>education level</u>	<u>diploma, certificate, etc. upload</u>	<u>1- some college; 2-associates degree; 3- bachelors degree</u>	-	-	
	educational efforts	course or workshop completion or certification upload	1 per course/workshop			
<b>Business Growth</b>	annual gross sale increases	annual business income tax return(s)	percentage growth for each year calculated		x5	
	number of employees	payroll	# of employees		x2	
<b>Financial Management</b>	personal credit	credit report	0 -3; 3 is advanced			
	business credit	credit report	0 -3; 3 is advanced			
	financial setbacks (bankruptcies, legal, unpaid taxes, etc.)	financial inquiry narrative + interview	0-3; 3 indicating high setbacks		x -3	
<b>Entrepreneurial Orientation</b>	business pitch	interview	0 -3; 3 is advanced			
	risk-taking propensity	interview	0 -3; 3 is advanced			
	self-efficacy	interview	0 -3; 3 is advanced			
	growth mindset	interview	0 -3; 3 is advanced		x2	
<b>Total PSI Score</b>						