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**Economic  
Development**

## ***Economic Development***

Most economic development programs involve the loaning of VCDP grant funds by municipalities to for-profit businesses. The determination as to financial need is governed under federal guidelines established by HUD, state goals and objectives as outlined in the Vermont Community Development Act and policies and procedures developed for their implementation by VCDP. An economic development activity can also be supported indirectly. In this case, a municipality assists the business through public infrastructure improvements (such as sewer and water lines to a manufacturing plant) and/or public service activities (such as job training programs) offered by the municipality or contracted through a nonprofit.

The federal guidelines contained in the Cranston-Gonzalez National Affordable Housing Act of 1986, Section 105(a)(17), which amended the Housing and Community Development Act of 1974, state that municipalities may:

"Provide assistance to private for-profit entities (businesses) when such assistance is appropriate to carry out economic development projects that shall minimize, to the extent practicable, displacement of existing businesses and jobs in neighborhoods."

The State goal and objectives are contained in the Vermont Community Development Act of 1983:

"The goal is to improve and maintain the economic and physical environment in Vermont's municipalities so as to enhance the quality of life for all Vermonters, particularly those of lower income.

The objectives are to conserve, expand, and improve housing; to create and retain employment; and to improve public facilities in support of housing or economic development activities, or where there is a threat to the public health and safety."

If your economic development project involved direct assistance to a for-profit business, or to a nonprofit in support of jobs, then when you developed your grant application, you determined the "appropriateness" of the assistance by outlining the need for the assistance, the reasonableness of the amount requested, a sound repayment plan, and evidence that the assistance provided is commensurate with the community benefits resulting from the loan (e.g., number/quality of jobs, increase in the tax base, investment stimulation). This was the purpose of the "appropriate determination."

If your assistance was indirect, through infrastructure improvements or public services, the appropriate determination focused more on the ability to create or retain the jobs, rather than repay the money, but you must still comply with federal and state regulations pertaining to economic development activities,

**Direct Loans To  
Business Or  
Nonprofits**

**Indirect, When  
The Business  
Responsible For  
The Jobs Does  
Not Receive The  
Money**

including job creation and/or retention on the part of the firm or firms benefiting from the VCDP-funded activities.

### The Law

The Cranston-Gonzalez National Affordable Housing Act, Section 105(a)(17), further states that assistance is limited to for-profit entities to those activities which:

- Create or retain jobs for low and moderate-income persons;
- Prevent or eliminate slums and blight;
- Meet urgent needs;
- Create or retain businesses owned by community residents; and
- Assist businesses that provide goods or services needed by and affordable to, low and moderate income residents; or
- Provide technical assistance to promote any of the activities listed above.

**Cranston-Gonzalez Section 105(a)(17) Amended The Housing And Community Development Act of 1974**

### Job Creation and Retention

The principal economic development objective (and ongoing VCDP performance measure) is to fulfill the job creation and/or retention obligations as stipulated in the Grant Agreement. Furthermore, the municipality, business, and/or nonprofit must make sure that of the jobs created and/or retained that exceed the number agreed to in the Grant Agreement, at least 51% of these additional jobs will be filled by, or made available to, persons of low and moderate income. Jobs **filled by** persons of low and moderate income can be documented through materials provided by the company's personnel/human resources departments and completion of the family income form (found in Chapter 8, Documenting Benefit) which is completed by the employee. For jobs to be considered as having been **made available to** persons of low and moderate income, the following will be considered:

- The nature and extent of the skills, education and experience required to qualify for the jobs;
- Advertising and recruiting efforts directed toward persons of low and moderate income including the Employment Agreement Hiring Guide and Hiring Plan discussed in Chapter 8.

- The accessibility of the jobs to areas where substantial numbers of persons of low and moderate income reside; and
- Training opportunities, which would make such jobs available to persons of low and moderate income who would not otherwise qualify.

The following steps must be completed when managing an economic development project:

- 1) Employment agreement among the municipality, the for-profit or nonprofit, and the Department of Employment & Training (DET).
- 2) Legal documents such as:
  - a) mortgage and promissory note
  - b) loan and security agreement
  - c) UCC financing statements
  - d) benefit agreement
  - e) standby agreement
  - f) guarantee of principal
  - g) description of collateral assets
- 3) Other documents such as:
  - a) appraisal, where applicable
  - b) evidence of equity input and Other Resources, and the plan for the systematic expenditure of the Other Resources
- 4) Environmental review and release for each recipient of a direct loan.
- 5) Process for monitoring businesses' progress in meeting their job creation/retention obligations.

### **Economic Development Expenditure and Benefit Documentation**

Documenting economic development expenditures and benefits is critical and can be time consuming. You must be able to demonstrate, for each economic development loan, that VCDP funds were expended for the purpose(s) detailed in the grant agreement. You must also be able to document that the jobs which were promised to be created and/or retained in the grant application were in fact created or retained. You must also be able to document that a minimum of 51% of the jobs were *offered* to people of low and moderate income, or *filled* by

**Managing An  
Economic  
Development  
Project**

**Documenting  
Expenditures  
And Benefit  
Is Very Critical**

people of low and moderate income--**depending what your obligation is in your Grant Agreement.**

In addition, if there are other funding sources involved, you must also demonstrate that:

- 1) The other resources were expended according to the terms of the grant agreement and the loan agreement, and
- 2) That no expenditure was charged to more than one funding source.

During the course of the project, VCDP grant funds may only be released to the borrower after the costs have been incurred, i.e., after a legal commitment has been made, as evidenced by a signed contract or purchase order, to purchase services, supplies, materials, or goods.

### **Documenting Economic Development Expenditures**

The Agency requires the following as adequate documentation that the borrower spent the VCDP funds in accordance with the terms and conditions of the grant agreement and the loan agreement:

An accounting summary for each loan must be prepared. (See model accounting summary later in this chapter.) The summary must detail all the expenditures identifying the date, the check number (or cash), the payee, the use (item/service purchased), and the amount. If the borrower received funds for more than one purpose, the purpose must also be included in the summary. For example, funds loaned for the purchase of machinery and equipment must be distinguished from funds loaned for working capital purchases.

You or your grant administrator must have the following items for its records:

- 1) A copy of the accounting summary; and
- 2) A copy of the canceled check(s) and the invoices, receipts, time sheets, or other appropriate expenditure documentation for any expense of \$1,000 or more; and
- 3) Written certification (See model certification later in this chapter.) that you or your administrator has reviewed the borrower's records/ documentation for those expenditures less than \$1,000 and therefore, the accounting summary is accurate. The certification must include the date(s) of the review and be signed by the person who reviewed the records. (If all the individual expenditures related to the VCDP portion exceed \$1,000, the certification is not required.)

Readable photocopies of documentation are acceptable.

The loan agreement will include language allowing authorized representatives of the municipality, the Agency, HUD and other federal agencies to inspect the

**Model  
Certification  
Of Expenditures  
Of Less Than  
\$1,000**

borrower's records. While the administrator does not need a copy of the canceled checks or cash receipts and supporting documentation for those expenditures under \$1,000, THE BORROWER DOES!

### **Other Resources Expenditure Documentation**

The Agency will accept the following as adequate documentation that the borrower spent the other resources in accordance with the terms and conditions of the grant agreement and the loan agreement. Remember, other resources cannot be spent until after the environmental review process is completed, unless otherwise approved by the Agency.

- 1) Documentation, such as a bank loan agreement, that the other resources were obtained by the business.
- 2) An affidavit, signed by the borrower, detailing the expenditure of other resources for each loan. (A model affidavit appears later in this chapter.) The affidavit must address the details and conditions related to the expenditure of the other resources including the time period of the expenditures, the amount, the purpose/use, and the item/service purchased. In addition, the affidavit should include a statement allowing representatives of the municipality, the Agency, HUD, the Inspector General, or the U.S. General Accounting Office access to the borrower's records, as well as a statement that the expenses paid for with the other resources do not include any VCDP expenses.

Since the Agency will review the records of some borrowers during monitoring visits, the affidavit must be supportable with canceled checks or cash receipts along with the invoices, receipts, time sheets, or other appropriate expenditure documentation provided by the borrower. Readable photocopies are acceptable. All documentation may remain in the possession of the borrower unless requested for review. Keep in mind that all records must be kept for three years after the Agency issues the "Certificate of Program Completion."

### **Alternative Option**

If prior written approval is granted by the Agency, you may hire an independent auditor, acceptable to the VCDP, to issue an opinion that the loan-related terms and conditions of the grant agreement and loan agreement were met by the borrower. The opinion would cover all funds, VCDP and other resources, if applicable. Prior to conducting the work, the auditor must contact the grants management staff to discuss the scope of testing to be performed. The cost of such audit is an eligible VCDP expense, or the cost can be passed on to the borrower as a condition of receiving loan funds.

**Model  
Affidavit For  
Expenditure Of  
Other  
Resources**

**MODEL ACCOUNTING SUMMARY**

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Borrower Name XYZ Company Total Loan Amount \$15,000

Date of Loan \_\_\_\_\_ Loan Purpose: Purpose Amount  
 Machinery \$10,000  
 Working Capital \$ 5,000

Date	Check #	Payee	Item/Service	Amount		Documentation Reviewed
				M&E	WK Cap	
June 28	342	A & B Corp.	Compressor	5000		Doc. Received
June 28	344	CD Piping Co.	Valves and Pipe	980		Yes 8-15
July 02	389	E Packaging Co.	Vacuum Pack Mach.	4050		Doc. Received
July 02	390	E Packaging Co.	Labels		3020	Doc. Received
July 02	391	Contel	May Phone		880	Yes 8-15
July 06	407	F Office Equipment	Office Supplies		550	Yes 8-15
July 06	408	Green Mtn. Power	May Electricity		675	Yes 8-15
			TOTAL	10030	5125	

If paid with cash, such as from a petty cash fund, indicate cash instead of the check number.

NOTES: If the business has a one-write system or similar cash disbursement journal, it may be submitted for the above model provided it is readable and the expenditures being applied to the VCDP grant funds are clearly identified.

## Documenting Economic Development Benefit

The Agency requires the following as adequate documentation that the borrower has met its **job creation** benefit according to the terms and conditions of the grant agreement and the loan agreement.

- 1) Create a current baseline by listing each job title, where applicable. Indicate which jobs are held by low and moderate income persons (members of families whose total income is less than or equal to 80% of the median income) at the time the VCDP assistance is provided; which jobs are part-time, and of those part-time jobs, what the number of full time equivalents (FTEs) is--based on a 40-hour work week. New jobs will be counted from the established baseline.
- 2) List by job title the permanent jobs created, indicating which jobs were made available to or filled by low and moderate-income persons (based on family income), which jobs are part-time, and of those part-time jobs, what the number of FTEs is, and when the jobs were filled.
- 3) Describe the nature of the jobs to be created, including pay range and benefits, indicating which are skilled, semiskilled, and unskilled, and specifying any special education or experience required.
- 4) Provide information on family size and family income of the employee hired for each job that is classified as meeting low and moderate-income benefit.
- 5) Provide a description of how the jobs meet these criteria (such as training that will be provided) for any jobs that will be "made available to" low and moderate-income persons, as opposed to those that will be "filled by".

The Agency requires the following as adequate documentation that the borrower has met its **job retention** benefit according to the terms and conditions of the grant agreement:

- 1) Provide evidence of public disclosure that in the absence of VCDP assistance the jobs would be lost, such as public hearing minutes, documentation that another site to relocate is seriously considered, or financial statements that indicate that without VCDP assistance the business cannot or will not continue operating at the present site, etc.
- 2) List by job title the permanent jobs retained, indicating FTEs, and which ones are held by low and moderate-income persons at the time the assistance is provided.
- 3) Identify which jobs became available to low and moderate-income persons through job turnover during the grant period. Only turnover from jobs currently held by people who are not from low and moderate-income households can be included. List each job which has turned over to date, indicating which of those jobs were (a) held by non-low and moderate income

**Document  
Current Baseline  
Of Positions Held**

**Employment  
Plan Of Jobs  
To Be Created**

**Job Retention  
Must Be  
Adequately  
Supported**

employees; (b) held by low and moderate income employees; (c) taken over by or made available to low and moderate income employees.

- 4) For each retained job classified as meeting low and moderate income benefit, information on the family size and family income of each employee.
- 5) For any jobs that will be “made available to” low and moderate income employees, as opposed to those that will actually be “filled by” them, a description of how the jobs meet these criteria (such as training that will be provided).
- 6) If job creation is also involved, new jobs must be documented as outlined above.