SECTION D
TEXAS CAPITAL FUND

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SECTION D

TEXAS CAPITAL FUND

D.0 Introduction

This section addresses the steps necessary to successfully implement economic development contracts awarded through the Texas Capital Fund (TCF) of the Texas Community Development Block Grant Program (TxCDBG). This section is not intended to replace the other sections of the TxCDBG Project Implementation Manual; rather, it is to serve as a guide in accomplishing the administrative requirements specific to economic development grant recipients.

Grant Recipients that have executed contracts for economic development activities must follow the administrative procedures outlined in Section A of the TxCDBG Project Implementation Manual. In addition to the procedures and requirements outlined in those chapters, this Section D includes specific requirements for economic development activities.

D.1 Infrastructure & Real Estate Programs

The TCF Infrastructure and Real Estate Programs provide funds to eligible Grant Recipients for infrastructure and/or real estate improvements that support a specific business (either a for-profit or a non-profit entity) that is expanding or beginning operations in the Grant Recipient's jurisdiction.

Eligible Use of Funds
CDBG funds may be used to undertake certain economic development activities. Depending on the specific program, these activities include:

- Acquiring, constructing, reconstructing, rehabilitating, or installing commercial or industrial buildings, structures, and other real property improvements;
- Railroad spurs or similar extensions by local Grant Recipients and sub-recipients;
- Private and Public Infrastructure;
- Assisting a private, for-profit business; and
- Providing economic development services in connection with otherwise eligible CDBG economic development activities. 24 CFR 570.203 (a)(b)(c)

D.1.1 LMI (Low/Mod) Jobs National Program Objective

Economic development activities designed to create or retain permanent, full-time jobs where at least 51% of the jobs involve the employment of low and moderate income (LMI) persons may qualify under the Job Creation or Retention criteria of the Low/Mod Benefit National Program Objective. 24 CFR 570.483 (b)(4)

If Grant Recipients fund activities that create jobs, there must be documentation indicating that at least 51% of the jobs will be held by low and moderate income persons. In the event more than the obligated number of permanent jobs are created, the Grant Recipient shall ensure that at least fifty-one (51%) of all permanent jobs created during the contract period are held by LMI persons. (If the

Grant Recipient is obligated to create 30 permanent jobs 16 are to be held by LMI persons. If the project actually creates 40 permanent jobs, then 21 of those jobs must be held by LMI persons.) For funded activities that retain jobs, there must be sufficient information documenting that the jobs would have been lost without the CDBG assistance and that at least 51% of the jobs are or will be held by a low or moderate income person.

Documenting Income of LMI Persons

The business and the Grant Recipient may elect to document income by certifications, referrals, or census tract data. Income limits can be obtained from TDA.

Certifications

A written certification by a person that establishes his or her total family income and family size is an acceptable method of verifying low and moderate income status. This certification must include the individual's name, employee identification number, current job title, the date hired by the business, the total family size, the total family income for the last twelve months as of the date the certification is signed by the newly hired or retained employee, whichever the case may be, and previous employment history. The form used for such certification must include a statement that the information is subject to verification. *TCF Survey Questionnaire* **(Form D7)**.(HUD Guidance 2)

Referrals

In the case of referrals, the Grant Recipient or employment agency must have already determined the individual to be a low or moderate income person based on HUD's income levels and considering both total family income and family size. Such entities making referrals must maintain the documentation they used for verification by both state and HUD monitors.

Documenting Jobs

Job creation requirements are computed on a Full Time Equivalent (FTE) basis as follows:

- Full time employee status requires a minimum work schedule of 35 hours per week.
- Part time employee status requires a minimum work schedule of 20 hours per week – two part time employees equal one FTE.
- Employment must be consistent. A job which requires variable hours based on the business's scheduling needs is usually not considered full-time. The ending payrolls must document the employees' hours (including documented leave) meet or exceed the required weekly work schedule for each of four consecutive weeks, OR the business may submit 12 weeks of payrolls showing the employee consistently met the required number of hours for 10 of the 12 weeks. Weekly hours will not be averaged over time to determine the full-time or part-time status of an employee.

For an employee to be considered towards job creation requirements, the person must:

- be employed at least 30 days prior to the submittal of closeout documents or contract expiration, whichever comes first; and
- be employed at the location identified in the TxCDBG contract Performance Statement.

Companies with multiple locations:

- The job commitment must be met through jobs created/retained at the project location described in the TxCDBG contract.
- TDA will allow up to 20% of the newly created jobs to be filled by persons previously employed by the business at another location. The company must document the LMI status of the transferring employee immediately prior to the transfer. The company must specifically request that these transferred employees be considered toward the "net gain" and must document the additional employment by providing:

    a. Name of transferring employee
    b. Job title, salary range, and location of position prior to transfer
    c. Job title, salary range, date of hire, name of employee replacing the transferee
    d. Payroll showing 30 days employment for replacement employee, no later than the final payroll period for the project
- The company must document overall job creation using either payrolls or self-certification methods:
  - Multi-location payrolls - The company must provide:
    a. Starting payroll records showing all locations within a 50 mile radius, accompanied by master spreadsheet (Excel format) with the name and employee ID for all employees appearing on the payroll,
    b. Final payroll AND Excel list of employees for the project location, as well as locations from which employees were transferred.
    c. TDA staff will compare the final payroll for the project location to the original master spreadsheet and transfer requests to ensure that job creation totals are accurate.
  - Self-certified employment and income records - the company must provide:
    a. TCF Survey Questionnaire Form D7 for each job created/retained, signed by both the employee and an authorized representative of the business (ex. Human Resources staff); and
    b. Starting and ending payrolls for the project location only.
    c. For companies located in census tracts allowing for "presumed LMI" status, the actual employee responses will be used to determine LMI status.

Jobs **not** eligible to meet the National Program Objective include:

- seasonal jobs,
- temporary jobs,
- contract labor jobs, and
- jobs held by principals of the Benefitting Business(es).

D.1.2 Quarterly Job Creation Reporting Requirements

The Grant Recipient must document job creation during the course of the TCF contract. Each quarter (due May 20, August 20, November 20, and February 20), the Grant Recipient must submit:

- *Quarterly Employee Certification Report (ECR)* **(Form D5);** and
- Texas Workforce Commission's (TWC) Texas Employer's Quarterly Report (first page).

In addition, the Grant Recipient must provide a current payroll report for the benefitting business(es) upon request from TDA. Job creation documentation must be **retained by both** the Grant Recipient and the business.

D.1.3 Contract Special Conditions Prior to Release of Funds

In addition to the items listed in **Chapter 2**, the following documentation must be submitted prior to the release of TxCDBG grant funds for any activity:

1) Starting Payrolls for the Benefitting Business(es) and/or other company facilities operating within a 50 mile-radius of the company location as identified in the contract, or as otherwise specified by TDA

2) Agreement between Grant Recipient and Benefitting Business(es), including checklist showing page numbers of required clauses (see **Form D1** TCF Contractor-Company Agreement Certification)
3) Repayment Agreement between Grant Recipient and TDA (if applicable)
4) Repayment Agreement between Grant Recipient and Benefitting Business(es) (if applicable)
5) For Real Estate Improvements: Lease Agreement between Grant Recipient and Benefitting Business(es)

In addition to the items listed in **Chapter 2**, the following documentation must be submitted prior to the release of TxCDBG grant funds for construction or real estate activities:

1) Loan Agreement between Benefitting Business(es) and a lender for private funding required to complete the project (if applicable)
2) Environmental Site Assessment (if applicable) (See **Chapter 3**)
3) For Infrastructure Improvements: Evidence of the Start of Building Construction (if applicable)
4) For Real Estate Improvements:
   a. Tri-Party Agreement between Grant Recipient, Benefitting Business(es), and a lender (if applicable)
   b. Appraisal for property to be purchased
   c. Evidence of Flood Insurance for property to be purchased
   d. Evidence of the owner's Title Insurance commitment for property to be purchased

Note: For TCF Real Estate Improvement projects that fund acquisition of property, the following documentation must be provided prior to the release of acquisition funds, but not later than 30 days following the closing:

- All acquisition documentation required by **Chapter 6**, including written approval from TDA for any proposed involuntary acquisition;
- Certification that all warranty deeds have been recorded; and
- Evidence of the owner's Title Insurance policy for property purchased.

D.1.4 Funds Committed by the Business

TCF Real Estate and Infrastructure programs often include private investment which funds a project separate from the infrastructure construction funded by the grant. Work completed on private property and entirely with private funds may be excluded from many federal and program requirements; however, note that some federal regulations still apply.

Following are examples of federal requirements that do apply:

- The Environmental review must still include the privately funded work in order to comply with federal aggregation requirements as described in **Chapter 3**. The scope of the Environmental Review for the TCF Project must include:

  1. all activities being funded through TxCDBG funds;

  2. all activities conducted at the location where jobs will be created/retained, including any acquisition, construction, or rehabilitation of buildings required to provide the jobs;

  3. all sites included in the TCF project, whether public or private; and

  4. all other activities conducted as part of the same overall project.

- **<u>"Cumulative Impact Analysis"</u>:**

  In addition to the site-specific analysis, the Responsible Entity (RE) (i.e. the unit of government responsible for meeting environmental review requirements, which includes the TxCDBG Grant Recipient) must consider the wider context of the project. The RE determines how to evaluate the cumulative impact on the environment of the grant-funded project along with other existing local conditions.

  The "cumulative impact" section of the Environmental Assessment (A302) should address any known activities (already begun and/or anticipated in the near future) that are related to the HUD-funded project. This section may include other facilities to be operated by the same business or industry, planned activities for suppliers and other firms that may be related to the business/industry, activities related to but not a direct result of the HUD-funded project, etc. **No environmental analysis of these cumulative impacts is required, and identifying these impacts would not trigger a 58.22 issue.**

  The purpose of this section is to describe **how such activities do/don't affect the area as part of the overall transparency for project-related impacts for stakeholders that choose to review the ERR.**

- If any TxCDBG funds are used for a construction contract, even if the contract is primarily funded through private investment, Davis-Bacon Labor Standards requirements apply to the entire construction contract as described in **Chapter 7**.

- If any TxCDBG funds are used for materials or service contracts, even if the contract is primarily funded through private investment, TxCDBG competitive procurement requirements apply as described in **Chapter 5**.

TCF Real Estate and Infrastructure grants are based on the "minimum necessary" infrastructure activities that are needed to adequately serve the benefitting business(es). If the Grant Recipient chooses to include additional or oversized work in the same construction contract, the bid and invoice documents must clearly indicate the minimum necessary and additional work. The Grant Recipient is responsible for payment of all oversizing or extra activities and/or cost overruns and may be required to provide evidence of expenditure(s) prior to drawing contract funds.

D.1.5 Evidence of Business Occupancy

The Grant Recipient must notify TDA of the date that the business occupies the project site benefitting from the TCF funded infrastructure or real estate improvements. Within 60 days of occupancy, the Grant Recipient must submit a copy of the Certificate of Occupancy issued by appropriate local authorities to the business and a current payroll report for the benefitting business.

If a Certificate of Occupancy is not required by local authorities, the Grant Recipient may submit a letter from a third party licensed professional approved by TDA who is knowledgeable about required safety standards (i.e., a project engineer, an architect, a city/county inspector, or fire inspector) stating that a formal Certificate of Occupancy is not required and certifying the date that the benefitting business was approved to use the facility and/or improvements funded through the TCF grant.

The date of occupancy will determine:

- the first date that jobs created by the project may be considered eligible; and
- the date on which the first payment is due to TDA under the Repayment Agreement (3 months after the date of occupancy).

Please note: the Certificate of Occupancy indicates that the facility is safe to be occupied by employees, and should occur prior to the Company beginning operations in that facility. Any request to train new employees at an alternate location (including existing facilities on the same Company property) prior to beginning work at the contract location must have prior written approval from TDA. The request must be made in writing with supporting documentation demonstrating the need to have training begin prior to the date of safe occupancy of the building, including training policies, proposed location for training, and number of persons required to be trained off-site. Generally, requests for training greater than sixty (60) days will not be approved, and in no case will TDA approve requests for trainees to be hired prior to the start date of the TCF contract.

D.1.6 Repayment Requirements

With the exception of administration funds, TCF monies awarded for real estate improvements and private infrastructure awards will require repayment. Infrastructure and real estate repayments are the responsibility of the Grant Recipient and paid to TDA; in general, it is expected that the Grant Recipient will require payments in the same amounts from the benefitting business(es), but this is not a requirement of the program. A contract Special Condition requires submission of a *Repayment Agreement* that details the terms of the repayment. This must be signed by the Grant Recipient as part of the contract process.

Real Estate Improvements

Real Estate improvements are intended to be owned by the Grant Recipient and leased to the business(es) and require full repayment. Grant funds used for real estate improvements are intended to be repaid by the business through a lease agreement with the following terms:

- minimum three year lease period or until the TCF contract between the Grant Recipient and the Department has been satisfactorily closed (whichever is longer);
- lease period not to exceed twenty (20) years, or ten (10) years for awards less than $300,000;
- no interest;
- minimum monthly payment not less than $500; and
- payments begin the first day of the third month following the construction completion date.
- Optional: purchase option, if the option is effective after the minimum five year ownership/dilution requirement, and if the purchase price equals (at a minimum) the remaining principal amount originally funded by the TCF which has not been recaptured.

A monthly lease payment will be required to be collected from the original business(es) and any subsequent business(es) which occupy the real estate funded by the TCF. If the original or subsequent business(es) vacates the grant-funded real estate, the Grant Recipient may request to suspend its Repayment Agreement for up to 6 months while a new business is identified to occupy the property.

Private Infrastructure Improvements

Infrastructure that will be located on the business site, or on adjacent and/or contiguous property to the site that is owned or leased by the business(es), principals, or related entities, requires full repayment. Grant funds used for this infrastructure are intended to be repaid by the business through a repayment agreement with the following terms:

- no interest;
- not to exceed twenty (20) years, or ten (10) years for awards less than $300,000;
- minimum monthly payment not less than $500; and
- payments begin the first day of the third month following the construction completion date.

D.1.7 Contract Special Conditions Prior to Close-out

The following items are required to be submitted no later than the date that the Project Completion Report is submitted.

1) Texas Department of Licensing and Regulation final approval letter for the project site identified in the TxCDBG contract Performance Statement;

2) Evidence of Hazard and Liability Insurance for the project site identified in the TxCDBG contract Performance Statement;

3) Final Payroll Report for the Benefitting Business(es)
    a. The report must include all employees that were working for the business prior to the execution date of the Grant Recipient's TCF contract AND all newly hired employees reported for job creation requirements.
    b. The period reported on the final payroll must be at least 30 days prior to the TCF contract end date, but no more than 30 days prior to the date that closeouts are submitted if the closeouts are submitted before the contract expires. Sufficient documentation must be provided with the ending payroll to show that employees have been on the job for no less than one (1) month.
    c. For **each employee** the report must contain at a minimum:

        i. Full name;
        ii. A unique Employee Identification Number, which must **not** include all or part of the employee's Social Security Number;
        iii. Full-time and Part-time employment status;
        iv. Date Hired;
        v. Wages; and
        vi. Hours Worked.

4) *TCF Survey Questionnaire* **(Form D7)** for each LMI employee.

The Grant Recipient's local files must include sufficient documentation to show that each job is held by a specific individual. In addition, documentation must provide evidence no individual holds more than one specific job, unless working part-time on two different jobs. Do NOT send this information to TDA unless specifically requested by TDA staff.

In addition, certain contracts for public infrastructure may be required to document the aggregate benefit of the project, as identified in the TxCDBG contract. If required by Exhibit D, Special Conditions, the *TCF Aggregate Benefit Report* (Form D8) must be submitted one year after the *Certificate of Construction Completion's (COCC)* (Form A709) final inspection date. The Grant Recipient must contact all businesses that are contiguous or have direct access to the new or improved infrastructure and report all new jobs created since the business(es) began accessing the new or improved infrastructure. These businesses are asked to use their best faith efforts to employ LMI individuals for the majority of new jobs created.

D.1.8 Closeout

The Grant Recipient must submit the *TCF Project Completion Report (PCR)* **(Form D1200) with attachments** no later than 60 days after the contract end date.

For grants greater than $750,000 that were required to match greater than 1:1 ratio, the Grant Recipient must provide cost documentation to support the minimum matching funds as required by the Application Guide. Documentation for additional leverage funds beyond the required match claimed in the TCF application must be provided upon request.

Jobs created or retained by the project are reported in two ways:

Job Creation and Contract Compliance
Jobs should be primarily reported and counted as described in Section D.1.1. The PCR calculates these jobs in the field "Total FTEs (per Contract)". This count will be used to determine contract compliance, including any required repayment for failure to create or retain the jobs committed.

The contractual cost per job is determined by the total number of jobs to be created or retained as identified in the TCF contract Performance Statement and the total grant funds awarded (total grant funds awarded / total jobs required). If some or all of those jobs are not created/retained, TDA will calculate the maximum grant funds available for the project (actual jobs created/retained * contractual cost per job). Any grant funds disbursed in excess of this recalculated maximum amount must be repaid to TDA within 30 days of notification.

Job creation requirements for contract compliance are identified in both the contract between the TDA and the Grant Recipient and in the contract between the Grant Recipient and the business. The ending payroll (see above) documenting jobs created by the project must support Part III of the PCR.

Any business that does not gather, complete and provide this data to both the Grant Recipient and TDA will not satisfy the National Program Objective requirement to benefit low and moderate income families.

Job Creation and HUD Reporting
Separately from the above calculation, jobs are also counted on the PCR using a HUD formula based on both positions and hours worked. This count in the field "HUD calculated FTE" is used only for HUD reporting purposes and does not indicate whether or not the contract requirement for jobs has been met. For contracts with part-time employees, this calculation will likely not be the same job number reported for contract compliance.

D.2 Downtown Revitalization & Main Street Programs

The TCF Main Street Improvements and Downtown Revitalization Programs provide funds to eligible cities for infrastructure improvements in the central business district. These programs address the National Program Objective (NPO) of aiding in the elimination of slum or blighted areas.

D.2.1 Slum/Blight National Program Objective

Economic development activities in the Main Street Improvements and Downtown Revitalization programs must qualify under the Slum/Blight National Program Objective Area Basis.

In order to qualify under this National Program Objective category, the economic development activity must take place in an area that has been designated by the Grant Recipient as meeting a definition of a slum, blighted, deteriorated or deteriorating area under state or local law, and has a substantial number of deteriorated or deteriorating buildings or the public improvements are in a general state of deterioration.

In addition, the assisted activity must address one or more of the conditions that contributed to the deterioration of the delineated area. Grant Recipients must maintain documentation on the boundaries of the area and the condition that qualified the area when it was designated under state or local law.

Under the Spot Basis criteria of the Slum/Blight National Program Objective, activities such as acquisition, clearance and rehabilitation may be undertaken. When rehabilitation is categorized under the Spot Basis criteria, it must meet the following requirements:

- The rehabilitation must eliminate specific conditions of blight or physical decay in an area meeting the Area Basis criteria; and
- Building rehabilitation is not an eligible activity or use of funds.

D.2.2 Closeout

The Grant Recipient must submit the *TCF Project Completion Report (PCR)* **(Form D1200) with attachments** no later than 60 days after the contract end date.

Recent applications for Main Street and Downtown Revitalization programs have not allowed applicants to have an existing Main Street or Downtown Revitalization contract prior to an application deadline date, regardless of extensions granted. If a TxCDBG application requires applicants to close an existing grant contract prior to submitting an application for new funding, the Grant Recipient **MUST** submit complete closeout documentation no later than 60 days before the application deadline in order to allow for a thorough review of the documents and completion of a monitoring review.