

MEMORANDUM

TO: Patricia Byers, Mayor
City Councilmembers
Alex Meyerhoff, Interim City Manager

FROM: Sara Watkins, Senior Assistant City Attorney

DATE: May 14, 2020

SUBJ: Use of COVID-19 CDBG funding

Dear Mayor Byers and Councilmembers,

At your May 5, 2020, City Council meeting, you requested that City staff provide information on options for providing relief for small businesses due to the COVID-19 pandemic. This memorandum provides an option to use CDBG funding granted to the City by the federal government to directly address COVID-19 effects. At the end of the presentation, you may want to decide what option(s) should be adopted.

1. COVID-19 CDBG funding generally

The federal government granted the City of Yakima \$602,000.00 in additional CDBG (Community Development Block Grant) funds to specifically address effects arising from COVID-19. As with general CDBG funds, the use of the granted additional funds is limited to activities specifically set forth in statute. Twenty percent of that amount can be retained by the City for administrative costs associated with the program, review of entities receiving funds, ensuring that the correct documentation is provided to prove qualifications, and general review, administration and responsibility for the funds. As with all CDBG funding, the City is ultimately responsible for ensuring that the funds are properly allocated and HUD periodically audits the use of CDBG funding, which requires additional administrative time.

2. Assistance to businesses

COVID-19 CDBG funds can be used in limited circumstances. However, those circumstances include providing assistance to businesses in some situations. Those situations include assistance to avoid job loss caused by business closures due to COVID-19 social distancing requirements, and providing working capital assistance to enable retention of jobs held by low and moderate income persons. It also includes grants and financial assistance to expand and stabilize micro-enterprises that provide services that support home health and quarantine.

A micro-enterprise is defined as a business with five or fewer employees, at least one of which is the owner. Additionally, the owner must fall under the federally-determined low-income threshold—the owner's income must be less than 80% of the median income of the area adjusted for family size.

Yakima County Development Association (YCDA) is currently administering grants for micro-enterprises located within Yakima County (but not within the City limits due to funding restrictions). Those loan regulations require that the business qualify as a micro-enterprise, stated as follows:

HUD defines a microenterprise as a commercial enterprise having five or less employees, including the owner(s). To be eligible for COVID-19 response funding, the business must have a physical location and be able to document loss of revenue due to COVID-19 impacts. Or the funding can expand a microenterprise that provides COVID-19 response services such as medical, food delivery, cleaning and other services to support home health and quarantine.

Because of the size of micro-enterprises, these businesses are the most likely to qualify for CDBG funding. Not only must the business have five or fewer employees, the owner of the business must meet the low-income criteria. The larger the business, the less likely the owner will meet that criteria. These grants, therefore, would likely go to the smallest of the businesses with the most need. The grants would help these businesses weather the pandemic and be able to continue business, and hopefully thrive, once they are able to reopen to the public. There are no limits on the type of small business that can apply for the grant if they can prove that they have lost revenue due to COVID-19, or that they provide COVID-19 response services, under the regulations. It is anticipated that regulations may be similar for the CDBG funds granted to the City. Even if they are not, the standards set forth above make sense to help those businesses in need and provide clear parameters to the program to ensure that small low-income businesses get help through CDBG funds.

3. Working with YCDA

During a conversation with Jonathan Smith, YCDA's Director, about options for grants or loans to businesses in Yakima, he indicated that YCDA was administering CDBG funds for the County, and would be willing to administer a similar grant program for micro-enterprises located within the City limits as well, using some of the City's COVID-19 CDBG funding. YCDA will already have the application documents and review procedures in place from its work with the County. City staff in the Office of Neighborhood Development Services (ONDS), which is the City's department that administers CDBG funding, has provided input to YCDA for their program already. This partnership would be an efficient and effective use of the funds, and would not require the City to create and administer a program with this one-time COVID-19 CDBG funding.

YCDA ran some preliminary numbers regarding the number of micro-enterprise businesses that could be eligible for this grant program. In its review, it estimated that there are 437 total businesses eligible for the CDBG funds (micro-enterprise and meet the income requirements). They got that number based on the following data:

- *There are an estimated 1,746 businesses in the City of Yakima with five or fewer employees (one of which is the owner)*
- *Based on the median household income, and poverty data we collected we estimate that 25% of those business owners meet the low to moderate-income test*

- *This leaves us with approximately 437 eligible businesses that could apply*

YCDA would administer the grant program pursuant to the regulatory requirements, as well as any other parameters outlined by Council. An additional parameter could include a range of funding per business. For example, the Council could direct YCDA to provide grants in the range of \$5,000.00 to \$10,000.00 per business, allowing businesses with higher need to obtain a higher amount of grant money. Another parameter might include requiring that the business have been an established business in the City for at least one year prior to the pandemic. However, it should be noted that each parameter added that limits the types of business eligible, the fewer businesses could receive the grant funding.

Even with YCDA administering the grant program, there will still be administrative work that must be done for reporting and audit purposes associated with the micro-enterprise grant program if approved by the Council. The City will be responsible for ensuring that the correct data is collected to provide proof to the federal government that grant funds went to entities that meet the definition of micro-enterprise, and meet the income criteria.

Staff proposes that the City Council approve the following program with the COVID-19 CDBG funds:

- A. Allocate \$480,000 for grant assistance for small businesses meeting the micro-enterprise criteria, with the remaining funding staying with the City for oversight, technical assistance and administration as allowed by HUD.
- B. Determine if there are any requirements that the Council would like to add to the applications in addition to the regulatory requirements.
- C. Enter into a contract with YCDA to operate the grant assistance program. City staff will provide technical assistance to YCDA regarding application materials, data collection, etc. to ensure HUD compliance.
- D. The City helps promote the program, criteria and application process through press releases, social media, the website, and other means available.