

**TENNESSEE  
COMMUNITY DEVELOPMENT  
BLOCK GRANT  
HANDBOOK**

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[www.tn.gov/ecd/CDBG](http://www.tn.gov/ecd/CDBG)

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## INTRODUCTION

This manual is designed to provide information about how to implement a Tennessee Small Cities Community Development Block Grant (CDBG) project. Each section describes a task and the steps needed to accomplish the task. The supporting materials include samples of forms, documents, letters, and file checklists.

The CDBG program is funded through the U.S. Department of Housing and Urban Development (HUD). The Tennessee Department of Economic and Community Development (TNECD) administers the program for the cities and counties in the state that are not entitlement communities, meaning communities that are not eligible for funding directly from HUD. All HUD regulations as well as TNECD regulations apply to the grants. The Tennessee entitlement communities include Bristol, Chattanooga, Clarksville, Cleveland, Franklin, Hendersonville, Jackson, Johnson City, Kingsport, Knoxville, Memphis, Morristown, Murfreesboro, Nashville – Davidson County, Oak Ridge, Knox County and Shelby County.

Funds are available for a wide range of activities including economic development, housing rehabilitation, water and sewer projects and projects that improve the health and safety of the community. Questions about economic development projects should be directed to TNECD's Business Development division, and questions about the community development programs should be directed to TNECD's Office of Federal Programs. For more information about the TN CDBG program, see the website, <http://www.tn.gov/ecd/CDBG/>.

## NATIONAL OBJECTIVE

All CDBG projects must meet one of three national objectives:

1. Activities benefiting low and moderate income persons (LMI),
2. Activities which aid in the prevention or elimination of slums or blight, or
3. Activities designed to meet community development needs having a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community, and other financial resources are not available to meet such needs.  
(24 CFR § 570.483)

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

- be carried out in an LMI area or community and provide services for such persons,
- involve facilities designed for use predominately by such persons, or
- employ a majority of such persons.

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

- The area must meet the definition of slum/blighted area under state or local law

AND

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

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

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

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

If a grantee feels that a particular project qualifies as urgent need, contact TNECD for further guidance.

Refer to the TNECD website for the Imminent Threat application. <http://tn.gov/ecd/CDBG/>

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

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

- Housing rehabilitation

- Utility services provided by the program
- Relocation
- Program generated employment

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

- Water or sewer plant or system improvements
- Street paving
- Water storage tank

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

### **DIRECT BENEFICIARIES**

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

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

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

### **INDIRECT BENEFICIARIES**

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

## INDUSTRIAL EMPLOYMENT GENERATED BENEFICIARIES/JOBS

CDBG funds can also be used for the creation and/or retention of jobs under the national objective of benefitting LMI persons, provided that at least 51 percent of the all jobs created or retained are held for low to moderate income persons. For more information regarding the use of CDBG fund for Industrial Employment, refer to “Chapter I: Industrial Employment”.

## CONTRACTS

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

## SCOPE CHANGES

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

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

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

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

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

## **CHANGE ORDERS**

Change orders are alterations from previously approved documents that require a modification (an increase or decrease) in project cost, engineering charges, quantity or schedule. For example, if the number of linear feet installed on a water line is more than the estimate, then a change order is needed to adjust the quantities. If an unanticipated increase in cost occurs, this would result in a change order. These are only two examples of change orders and are not intended to provide for the only instances a change order should be used.

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

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

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

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

## **FORCE ACCOUNT**

Force account labor occurs when municipal or county employees complete construction work rather than the work being completed by a contractor. For force account labor to be approved, the

municipality must own the equipment and the municipality's forces must do the work. For information and details on using force account labor refer to "Chapter E: Labor".

## BUDGET

CDBG grants fund a particular activity and each grant is to be used solely for that purpose. If a budget overrun should occur, the grantee is responsible for the difference. Please refer to the "Chapter E: Labor" for developing procedures for high bids. If an underrun occurs, TNECD will reduce the grant proportionally.

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

## RECORDKEEPING/ADMINISTRATION

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

TNECD is moving toward electronic documentation and communication with grantees. Letters to communities with the original signature may be mailed, but engineers, administrators, TNECD staff, etc. that need a copy of the letter will receive a scanned version via email. Documents from grantees will also be accepted electronically. Documents can be stored electronically if they are regularly backed up and are readily available to TNECD staff or any other auditors for review.

Most documents can be submitted to TNECD electronically, but Environmental Review documents should be submitted with original signatures.

While documents are not required to be submitted electronically, this is the preference of TNECD and its staff and will result in quicker turnaround and response times. Files should be sent in pdf file format whenever possible. If files are unreadable, the project representative may request a hard copy. TNECD only needs one copy of each document. If a document is emailed, it should not also be mailed.

## PERFORMANCE MEASURES

Grantees are required to report performance measures on all projects. This will include the determination of an objective (this is different from the national objective) and selection of an outcome for each activity based on the type of activity and its purpose. The possible objectives include creating a sustainable living environment; providing decent, affordable housing, or creating economic opportunities. The possible outcomes are accessibility/availability, affordability, or sustainability.

Grantees must also track how many people are served by a project, how much leveraged funding is put into the project, the minority breakdown of the beneficiaries, and the income levels of the persons served.

## CLOSE-OUT

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

## ADDITIONAL RESOURCES

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

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