



STATE OF TENNESSEE

RECOVERY FUNDS ADDENDUM TO HOUSING AND COMMUNITY DEVELOPMENT CONSOLIDATED PLAN

for

FISCAL YEAR 2008

STATE OF TENNESSEE
Fiscal Year 2008 Action Plan Addendum
Executive Summary

The Action Plan describes actions to be undertaken by the Tennessee Department of Economic and Community Development to administer the recovery funds.

The Tennessee Department of Economic and Community Development has responsibility for the Community Development Block Grant (CDBG) Small Cities program. This year the department expects to receive \$7,095,627 in CDBG Small Cities Recovery funds from HUD.

DESCRIPTION OF RESOURCES EXPECTED TO BE MADE AVAILABLE

I. HUD Resources Required Under Consolidated Planning

A. Community Development Block Grant (CDBG) Small Cities Program

The State of Tennessee, Department of Economic and Community Development, Office of Program Management, administers the Small Cities program for all those jurisdictions not designated by HUD as entitlement. In Tennessee thirteen cities and/or counties are designated as entitlement to receive direct CDBG funding. The State of Tennessee will receive \$7,095,627 in CDBG Small Cities Recovery funds from HUD. It is our intention to administer this funding with the same process that we administer the yearly allocation.

A public meeting was held on June 3, 2009. At this public meeting, it was discussed that we use the CDBG-R funding in the same manner as we use the yearly funding. ECD received only positive response at the public meeting and many follow-up letters of support for the proposal.

The Department of Economic and Community Development will fund projects that were submitted in the 2008 CDBG funding cycle. These projects have been submitted, reviewed and scored by ECD. It is our intention to continue the same process of going further down the line on each category.

Method of Distribution of Funds and Program Description
Community Development Block Grant (CDBG) Program
Recovery Funds

I. Introduction

The State of Tennessee has been allocated \$7,095,627 in CDBG Recovery funds. The purpose of this section is to describe the method of distribution of small cities Community Development Block Grant (CDBG) Recovery funds within Tennessee for meeting housing and community development policies and objectives. This section will describe all criteria

used to select applications for funding, including the relative importance of the criteria. This section will also describe how CDBG funds will be allocated among all funding categories, any threshold factors, and grant size limits.

II. National Objectives

The federal authorizing legislation for the CDBG program requires that the program activities be used to accomplish at least one of three national objectives, these being:

- A. Activities benefiting low and moderate income (LMI) persons;
- B. Activities which aid in the prevention or elimination of slums or blight;
- C. Activities designed to meet community development needs having a particular urgency. These have been defined as activities designed to alleviate existing conditions that pose a serious and immediate threat to the health or welfare of the community which are of recent origin or which recently became urgent, that the recipient is unable to finance the activity on its own, and that other sources of funding are not available. This condition is sometimes called an "imminent threat".

III. Community Development Objectives

The objectives of the Tennessee CDBG program are the following:

- A. Human Resources Development - to develop a human resource base that is healthy and capable of working at full capacity and that has the skills and education that enable them to do so.
- B. Physical Infrastructure Development - to create the base of infrastructure that will provide for a high quality of life for individuals and productive capacity for communities.
- C. Job Opportunity Development - to implement programs that will create a climate that is receptive to and encourages the growth of private sector jobs.
- D. Target on Economic Distress - to deliver community development programs in a manner that provides maximum assistance not only to economically disadvantaged individuals, but also to economically disadvantaged areas of the state.
- E. Maximize Grantees - to use the resources available to the state in a manner which will maximize the number of grantees and, therefore, beneficiaries of the programs.

IV. Eligible Recipients of Funds

Eligible applicants shall be city and county governments in Tennessee, except those cities of over 50,000 population and all principal cities of Metropolitan Statistical Areas (MSA).

Local governments excluded from the state-administered CDBG program include: the cities

of Bristol, Chattanooga, Clarksville, Cleveland, Jackson, Johnson City, Kingsport, Knoxville, Memphis, Morristown, Murfreesboro, Oak Ridge, the Metropolitan Government of Nashville-Davidson County, and the counties of Knox and Shelby.

V. Eligible Activities

Local governments may undertake a wide range of activities under the CDBG program. Eligible activities include:

- A. Acquisition of real property;
 - B. Acquisition, construction, reconstruction, or installation of public works facilities (except for buildings for the general conduct of government), and site or other improvements;
 - C. Code enforcement in deteriorated or deteriorating areas;
 - D. Clearance, demolition, removal, and rehabilitation (including rehabilitation which promotes energy efficiency) of buildings and improvements;
 - E. Disposition (through sale, lease, donation, or otherwise) of any real property acquired pursuant to Title I or its retention for public purposes;
 - F. Special projects directed to the removal of material and architectural barriers which restrict the mobility and accessibility of elderly and handicapped persons;
 - G. Payments to housing owners for losses of rental income incurred in holding for temporary periods housing units to be utilized for the relocation of individuals and families displaced by activities under Title I;
 - H. Provisions of public services;
 - I. Payment of the non-Federal share required in connection with a Federal grant-in-aid program undertaken as part of activities under Title I;
 - J. Payment of the cost of completing a project funded under Title I of the Housing Act of 1949;
 - K. Relocation payments and assistance for displaced individuals, families, businesses, organizations, and farm operations, when determined by the grantee to be appropriate;
 - L. Activities necessary to develop a comprehensive community development plan;
 - M. Payment of reasonable administrative costs and carrying charges related to the planning and execution of community development and housing activities;
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- N. Activities which are carried out by public or private non-profit entities;
- O. Assistance to neighborhood-based non-profit organizations, local development corporations, or entities organized under Section 301(d) of the Small Business Investment Act of 1958;
- P. Activities necessary to the development of a comprehensive community-wide energy use strategy;
- Q. Provision of assistance to private, for-profit entities, when the assistance is necessary or appropriate to carry out an economic development project;
- R. Rehabilitation or development of housing assistance under Section 17 of the United States Housing Act of 1937;
- S. Provision of assistance to facilitate substantial reconstruction of housing owned and occupied by LMI persons (1) where the need for the reconstruction was not determinable until after rehabilitation had already commenced, or (2) where the reconstruction is part of a neighborhood rehabilitation effort and the grantee (a) determines the housing is not suitable for rehabilitation, and (b) demonstrates that the cost of substantial reconstruction is significantly less than the cost of new construction and less than the fair market value of the property after substantial reconstruction;
- T. Assistance for the development, establishment, and operation for not to exceed two years after its establishment of a uniform emergency telephone number system if: (1) such system will contribute substantially to the safety of the residents of the area served by such system, (2) not less than 51 percent of the use of the system will be by persons of low and moderate income, and (3) other Federal funds received by the grantee are not available for the development, establishment, and operation of such system due to the insufficiency of the amount of such funds, the restrictions of the use of such funds, or the prior commitment of such funds for other purposes by the grantee;
- U. Homeownership assistance.

VI. Grant Categories

For Recovery funds, the state will just go further down the funding list of 2008 in the following categories: Community Livability, Water/Sewer, and Housing Rehabilitation.

Water/Sewer project funds will be targeted at improving and extending water and sewer line systems, expanding water and wastewater treatment plant capacities, and addressing conditions detrimental to health, safety, or public welfare.

Housing Rehabilitation funds are targeted in communities with areas of substandard or dilapidated housing and community facilities in LMI neighborhoods.

Community Livability projects are activities designed to provide other community development services, particularly to benefit persons of low and moderate income.

All funds awarded under the categories of Community Livability, Water/Sewer, and Housing Rehabilitation qualifying under the LMI objective must be spent in LMI target areas identified by the applicant unless the community is 100 percent eligible (51% or more LMI).

VII. Funding Levels

Shown below are the CDBG allocation and funding categories for the Recovery Funds.

Acquisition	\$5,200
Public Facilities	6,039,599
Clearance/Demolition	20,000
Relocation	210,000
Housing Rehabilitation	213,500
Economic Development For-Profits	
Project Administration - Local Governments	427,772
General Administration & Technical Assistance- State Government	179,756
TOTAL	\$ 7,095,627

If additional funds become available, they will be allocated using the same percentages outlined above, with the State reserving the right to apply this 50 percent flexibility to any of the categories.

VIII. Project Eligibility Criteria for Community Development Projects in the Annual Competition

A. Grant categories in the recovery competition are the following:

1. Water/Sewer;
 2. Housing Rehabilitation;
 3. Community Livability.
- B. Applications were already on file with the state and will be used to use the Recovery funds.
- C. Only one application may be submitted by each governmental unit except metro governments.
- D. The level of CDBG assistance for individual projects shall be limited by the following factors:
1. The grant ceiling for all applicants is \$500,000.
 2. Community livability projects have a maximum grant of \$300,000.
 3. The grantee's ability-to-pay (see Section X for a description of ability-to-pay).
- E. Funds are not available to cover cost overruns. Estimate project costs carefully.
- F. Local governments are required to hold two public meetings. These meetings must be advertised in the local newspaper at least one week prior to the date of the meeting. The advertisement must contain a statement of nondiscrimination and the name of a contact person for special accommodation required for persons with disabilities. All meeting places must be accessible to persons with disabilities.
- The first meeting is designed to solicit information about community needs and how CDBG funds can best address those needs. Communities are required to present information about how much money is available, what kinds of projects are being considered, and what activities are eligible. To ensure compliance with Title VI of the Civil Rights Act of 1964, applicants must make an additional effort to secure minority participation in this process.
- G. Appropriate Applicant
1. A county may apply for any project within the county.
 2. City applicants must provide the services or have a majority of the beneficiaries.

The objective is that the applicant should bear some logical relationship to the service area. If the project deviates from 1 or 2, contact Program Management for a determination of eligibility.

- H. The project must be ready to begin within 120 days after the funds are obligated.
- I. Projects must be completed by September 30, 2012.
- J. Projects must report to ECD on a weekly basis of the progress completed.
- K. Projects must report to ECD the number of jobs created with the use of the Recovery funds.
- L. Projects must use only made in America products.
- M. Grantees will be required to sign all certifications required by HUD.

IX. Project Selection Criteria for Community Development Projects in the Recovery Competition

- A. The allocation of funds for community development projects in the annual competition will be on a competitive basis because the demand for funds far exceeds the amounts available. ECD will utilize an annual grant cycle for Community Livability, Water/Sewer and Housing Rehabilitation grants. Units of local government will submit applications to ECD by the aforementioned deadline using the CDBG application package made available to them.

Selection Criteria for projects in the annual competition shall be objective and quantitative, and shall be based on project need, project feasibility, project impact, community need and project essentialness (for Community Livability only).

Points for projects in the annual competition in various categories will be rated by staff evaluation with maximum points as shown below:

	Community Need	Project Need	Project Feasibility	Project Impact	Project Essentialness
Water, Sewer, Solid Waste	100	100	Threshold	100	0
Community Livability	100	50	50	50	50
Housing Rehabilitation	100	50	50	50	0

The points for each criteria (community need, project need, etc.) will be totaled and the individual projects will be ranked from highest to lowest based on the total

number of points earned. Projects in one category will not compete against projects in another category (water/sewer projects will not compete in the housing category). Projects will be approved in each category based on the total number of points earned, subject to the amount of money allocated to that category.

The selection criteria for Set-Aside projects will not be quantitative. The Set-Aside category was established to allow the state the flexibility to address situations where the selection criteria failed to operate as envisioned, and meritorious projects did not score enough total points to be approved. Therefore, the approval of Set-Aside projects must necessarily be subjective. Nevertheless, there are certain factors that will be considered when approving projects under the Set-Aside category.

Principal among these is the following:

- The project need points earned;
- The ability of the applicant to finance the project locally;
- The potential loss of other funding that has been committed;
- The number and percentage of LMI residents.

Project application materials will be supplemented, as appropriate, by site visits and by informed opinions of state agencies knowledgeable about particular projects.

B. Imminent threat projects (those meeting the national objective of imminent threat) will be automatically approved if all selection criteria and thresholds are met. Applications are accepted any time.

C. Community Need Points

Community need is a measure of economic distress based on unemployment and income, and is calculated as follows:

- Latest annual county unemployment rate
- Target area per capita income
- 1997-2006 average county unemployment rate
- 1999 per capita income

D. Project Need Points

Project need points measure the degree to which there is a need for the project (no existing facilities or existing facilities are inadequate). Because of the different types of projects, project need points must be structured differently for different types of projects. Listed below are the methods of calculating project need points for water, wastewater, and community livability projects.

1. Water Line Extensions

Project need for water line extensions relates to deficiencies with private sources (wells, springs, etc.) and is based upon a) water quantity problems which are measured by days of water shortage or b) water quality problems

as measured by bacteria content or c) water quality problems as measured by mineral content. Water testing is required to document bacteria and mineral problems.

2. Water Treatment Plants

Project need for water treatment plants is based on the ability of the existing plant to provide the quantity and quality of water required to meet customer needs and standards of TDEC. Quantity problems are evaluated based on the percent of the existing capacity being utilized. Quality problems are evaluated by engineers in TDEC.

3. Water Distribution Facilities

Water distribution problems relate to deficiencies in existing distribution facilities and are based upon a) lack of water storage, b) pressure problems, c) water loss. The adequacy of storage is measured against TDEC's requirement for storage capacity equal to 24 hours average usage. Pressure problems are documented by pressure tests. Water loss is calculated based on the difference between water produced and water sold.

4. Water Source Development

Water source problems are documented by the ability of the current source to meet projected demands for quantity or quality of water.

5. Sewer System Projects

Sewer system projects are those eligible for Federal funding from the Environmental Protection Agency (EPA). The CDBG evaluation system is based upon the points assigned by the TDEC for the EPA priority list plus 100 points for new treatment plants, SAWS and innovative alternatives, 75 points for sewer plant rehabilitation, upgrade, and/or additional plant, 50 points for line rehabilitation, and 25 points for interceptors.

6. Sewer Line Extensions

Project need for sewer line extensions is based upon septic tank failure rates. Testing of all septic tanks in the target area is required. Gray water problems alone do not count as septic tank failures.

7. Community Livability

Project need points for community livability projects are subjective because of the wide variety of projects that may be submitted under the community livability category. Project need points reflect the degree to which there is a

need for the project. The adequacy of documentation to substantiate the nature and magnitude of the problem is very important.

8. Housing Rehabilitation

Project need points for housing applications will be based on two factors as follows:

- a. Percent of substandard houses to be rehabilitated with CDBG funds in the target area;
- b. Percentage of residents who are 62 years of age or above, and/or female head of household, and/or handicapped.

E. Project Feasibility

1. Water/Sewer

Project feasibility for water and sewer projects is a threshold. All projects will be reviewed for technical feasibility by the Department of Environment and Conservation engineers. If they do not meet this threshold, they will not be allowed to compete for funding.

2. Community Livability

Project feasibility points for community livability projects will be based upon the following considerations:

- a. Quality of design compared to accepted standards;
- b. Cost effectiveness, designed to create greatest benefit for least cost;
- c. Alternatives examined;
- d. Adequacy of operating budget;
- e. Quality of documentation that the project will solve the problem.

3. Housing Rehabilitation

Project feasibility points for housing applications will be based on the following considerations:

- a. A total of 25 points based on an assessment of whether the work proposed in the application can be accomplished with the funds available (including CDBG and other funds);
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- b. A total of 25 points based on the relative magnitude of the problems identified in each application based on observations made on site visits.

F. Project Impact

1. Water/Sewer

Project impact points for water and sewer projects will be calculated as follows:

a.	CDBG cost per person;	25 Points
b.	CDBG cost per LMI person;	25 Points
c.	LMI percent;	30 Points
d.	Rate factor;	20 Points
	<u>Monthly bill 5000 gals.</u>	
	TAS PCI	100 Points

2. Community Livability

Again, because of the variety of community livability projects that may be submitted, the calculation of project impact points must be able to be used for a variety of projects. Therefore, project impact points will be assigned as follows:

a.	CDBG cost per LMI person;	25 Points
b.	CDBG cost per LMI person;	<u>25 Points</u>
		50 Points



3. Housing Rehabilitation

Project impact points for housing applications will be based on the following considerations:

a.	LMI Percentage;	25 Points
b.	Cost per LMI person;	25 Points
		<u>50 Points</u>

G. Project Essentialness

Project essentialness points apply only to community livability projects, and are designed to assess the degree to which the project is essential for the maintenance of safe and tolerable living conditions. Project essentialness points are subjective and are assigned as follows:

1.	Extremely critical - restricted to life threatening situations;	50 Points
2.	Critical - related to solving health and safety problems;	30 Points
3.	Important – improves living conditions, quality of life;	20 Points
4.	Needed – removes inconvenience, improves quantity or quality of public services;	10 Points
5.	Not Needed – does not address current problem	0 Points

X. **Ability to Pay**

Each CDBG grant (not loan), except for housing, is based upon an ability-to-pay calculation that determines the level of local financial contribution that is required. This ability-to-pay determination includes per capita income, the value of taxable property, and the value of taxable sales.

User-financed projects are based on per capita income only. Tax financed projects are based on per capita income, property values, and sales.

Depending on the service area of the project, ability-to-pay is calculated for municipalities only, rural county only, and the county as a whole. The correct application of these different indices is as follows:

- A. For county applications where 75 percent of the beneficiaries are located in the county, use the county rural rate;
 - B. For county applications where 75 percent of the beneficiaries are located in an incorporated area, use the city rate;
 - C. For county applications that do not have 75 percent of the beneficiaries located in either the county or city, use the county aggregate rate;
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- D. For city applications, use the city rate;
 - E. For economic development applications, use the tax financed rate;
 - F. For county economic development applications, use the county aggregate rate.
Grant rates range from 60 to 100 percent for economic development projects and 70 to 100 percent for community development projects.
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XI. Three Star Bonus

The following will be used for the Three Star bonus points and incentives:

	Level I	Level II	Level III
CDBG Points (Regular Round):			
City	2	2	2
County	5	5	5
Local Match (CDBG):			
City (Ability-to-Pay)	-1%	-2%	-3%
County (Ability-to-Pay)	-3%	-4%	-5%
CDBG Loan Limits:			
City	\$550,000	\$575,000	\$600,000
County	\$600,000	\$625,000	\$650,000

Method of Distribution

CDBG-R	<u>Min Amt.</u>	<u>Max Amt.</u>
Competitive	6,915,871	6,915,871
Formula	0	0
Retained for State Project	0	0
State Administration of Program	<u>179,756</u>	<u>179,756</u>
Total	\$7,095,627	\$7,095,627

Affirmatively further fair housing and assure access to business opportunities in the state for women and minority owned business .

Action Steps

- ◆ Convene fair housing workshops in the state for local governments, grantees, housing providers, advocates, and citizens
 - ◆ Provide public service announcements to the media throughout the state informing citizens of their housing rights
 - ◆ Encourage reporting of fair housing violations by making citizens aware of their rights and providing information on access to fair housing advocates and organizations in the state
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GEOGRAPHIC DISTRIBUTION

CDBG

The State CDBG program is competitive for all city and county governments in Tennessee except for those CDBG entitlement cities which receive funding from HUD. Local governments excluded from the state-administered CDBG program include: the cities of Bristol, Chattanooga, Clarksville, Cleveland, Franklin, Jackson, Johnson City, Kingsport, Knoxville, Memphis, Morristown, Murfreesboro, Oak Ridge, the Metropolitan Government of Nashville-Davidson County, and the counties of Knox and Shelby.

Anti-Poverty Strategy

The anti-poverty strategy is designed to examine how both the CDBG and the HOME programs address the needs of individuals in the state with incomes below 30% of the median. While both the HOME program and the CDBG program serve persons up to 80% of the AMI, it is important to note that both programs recognize the special circumstances faced by extremely –low or very-low income individuals and families.

It is imperative that programs in the state pay special attention to the plight of these individuals in the use of funds designed to benefit disadvantaged populations in the state. The state addresses these areas in the following way:

CDBG: For several years the CDBG program did not separate low-and moderate- income beneficiary data to show participants below 30% of the AMI. That office is now collecting that data on program beneficiaries. Also, as a part of its scoring mechanism for housing rehabilitation, project need points are awarded based on the number of persons with higher poverty levels in the state, specifically persons 62 years of age or above, and/or female heads-of-household, and/or disabled individuals.

Summary

The State of Tennessee plans to fund 18 additional projects with the CDBG-R funding. It is anticipated that each of these community projects will provide employment of 5-7 individuals that will be contracted by the community to complete the project as submitted. This would equate to approximately 125 direct job opportunities. These funds will allow communities, their administrators and engineers to retain up to 50 jobs with the use of the CDBG-R funds. The State will use \$179,756 of the CDBG-R funding for administration and technical assistance. This will allow the State to retain approximately four individuals in the administration of the CDBG-R funding.

As was outlined in the State of Tennessee at the public hearing that was held on June 3, 2009 concerning the CDBG-R funding, all of the additional requirements provided by the CDBG-R funding will be required to be completed by the grantee/communities. These include weekly reporting of activities completed and jobs created/retained for each project.

The State of Tennessee will complete and submit to HUD the required State Certification. The Office of Program Management will have the 18 grantee/communities submit the required certification once the plan has been approved and the list of projects are approved by the Governor's Office for funding. The State of Tennessee will also provide the local contact information for the 18 grantee/communities once approved. The communities have been informed of the time limits on these funds and the requirements to buy American.

The Office of Program Management will require the communities to provide weekly reporting on activities, to provide job creation information in an effort to maximize the economic benefit of each project, support of energy efficiency and conservation efforts for each project, especially the housing rehabilitation projects. All 18 of the projects in total will exceed the 70% LMI requirement. All activities that have been outlined in the spreadsheets are all eligible CDBG activities.
