



Community Economic Development for Community Action Agencies

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As part of their mission to lift people with low incomes from poverty to self-sufficiency, Community Action Agencies (CAAs) often seek to spur growth and build wealth in their communities through job creation and business development. These efforts can generally be referred to as “community economic development”, but the term also refers to a specific funding source authorized under the Community Services Block Grant Act (CSBG Act) for which CAAs may apply. This FAQ aims to help CAAs understand the purposes and requirements of community economic development funding under the CSBG Act so they can think strategically about how to utilize this source of funding to benefit their communities.

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1. What is community economic development?

Community economic development can be defined broadly to encompass a wide range of activities. The National Community Action Partnership (NCAP) provides the following broad definition of community economic development:

The process of addressing community economic problems – such as unemployment, lack of affordable housing, or the lack of sufficient retail and other services – through projects that are planned and implemented by institutions that are governed by boards with community involvement. The projects are designed to help address these community needs and also to retain the earnings in the community and to catalyze additional, future projects.¹

Under this definition, many CAAs are engaged in community economic development, since their governing boards include members of the low-income community served, and CAAs run programs that create jobs and provide services designed to address community needs.

However, “community economic development” may also refer to a specific federal grant program established by Section 680 the CSBG Act ([42 U.S.C. § 9921\(a\)\(2\)](#)) and administered by the Office of Community Services (OCS).² The CSBG Act directs OCS to reserve CSBG funding for discretionary activities, which includes providing competitive discretionary grants to nonprofit community development corporations.³ These grants provide technical and financial assistance for economic development activities designed to address the economic needs of low-income individuals and families by creating employment and business development opportunities.⁴ The grants are referred to as Community Economic Development (CED) funding, and they are the focus of this FAQ.

2. Who is eligible for CED funding?

To be eligible to receive CED funding, a CAA must qualify as a community development corporation (CDC) under the CSBG Act. Outside of the CED context, “community development corporation” may refer generally to a non-profit that supports economic development in a particular geographic area or develops affordable housing.⁵ To qualify as a CDC for CED purposes, an organization must:

- (1) be a private, nonprofit organization with 501(c)(3) tax-exempt status;
- (2) be governed by a board consisting of community residents and business and civic leaders; and
- (3) have, as a principal purpose, the planning, developing, or managing of low-income housing or community development projects.⁶

A private, nonprofit CAA will be able to show that it meets the first two parts of this definition due to its tripartite board structure. However, to qualify under the third part, the CAA should examine, and may have to amend, its articles of incorporation or bylaws. OCS requests that applicants for CED funding provide articles of incorporation or bylaws demonstrating that the organization has, as one of its principal purposes, planning, developing, or managing low-income housing or community development.⁷

If a CAA has not previously applied for CED funding, the charitable purpose listed in its articles of incorporation or bylaws will likely mirror the language of its state nonprofit corporation statute or Section 501(c)(3) of the Internal Revenue Code. These laws require that a corporation be formed explicitly for a charitable purpose to be exempt from state or federal taxes, respectively. A CAA may need to amend the charitable purpose statement in its articles of incorporation to incorporate planning, developing, or managing low-income housing or community development. Alternatively, OCS permits CED applicants to include the required charitable purpose in its bylaws.

Generally speaking, it is easier for a nonprofit CAA to amend its bylaws rather than its articles of incorporation, as a bylaws amendment typically requires only its board to take action to approve the amendment. Amendments to articles of incorporation, on the other hand, typically require approval by the board and the filing of an amendment to the articles with the [Secretary of State's office](#), pursuant to state nonprofit corporate law. In either case, the Internal Revenue Service (IRS) does not require tax-exempt organizations to submit copies of the amended articles of incorporation or amended bylaws, instead requiring that organizations provide summaries of significant changes to their governing documents in Schedule O, in response to the questions in Part VI of the core Form 990. This summary should include a discussion of changes to the organization's exempt purposes or mission and how such changes are reflected in the amended articles of incorporation or bylaws.⁸

When making changes to its charitable purpose in its articles of incorporation or bylaws, a CAA should make sure that its revisions do not jeopardize its tax-exempt status. To qualify for tax-exempt status from the IRS, a nonprofit's articles of incorporation must limit its purposes to exempt purposes set forth in section 501(c)(3) of the Internal Revenue Code.⁹ When revising its charitable purpose statement to include planning, developing, or managing low-income housing or community development projects, a CAA should not remove general charitable purpose language. The IRS may revoke a nonprofit's tax-exempt status if it engages in substantial activity unrelated to its exempt purpose, so the CAA should ensure that its charitable purpose, as amended, is still related to its programs and activities.¹⁰ The CAA should also consult with a state nonprofit attorney to confirm that the change will not affect its tax-exempt status at the state level.

3. What kinds of activities can be supported with CED funding?

The objective of the CED program is to support businesses that develop new products, services, and commercial activities that result in the creation of new positions for individuals with low incomes. CED funds may be used to support a variety of projects, but most CED projects fall into one of three categories: real estate, business development, or financial services.¹¹ Real estate projects use land and buildings to create community assets such as affordable housing, or commercial, industrial, community service, or mixed-use development. Business development projects support small businesses and entrepreneurs through technical help, lending, or investing. Financial services projects provide loans and investments to various community projects or individuals. [NCAP's CED Profile Booklet](#) contains more information on the diverse array of CED projects implemented by CAAs across the country.

CED funding typically supports:

- Start-up capital for operating expenses, such as salaries, facilities, and equipment that will be replaced by projected earnings;
- Loans to identified, viable, participating businesses;
- Equity or stock investment in identified viable, participating businesses; and/or
- Funding for construction.

CED funding may also be responsive to the current administration's priorities. For example, for fiscal years 2022 to 2024, a portion of CED funding focuses on projects located in and serving "energy communities," which are communities that have experienced employment loss or economic dislocation events as a result of declines in the fossil fuel industry, or communities that are disproportionately reliant on fossil fuel energy production or distribution, including coal, oil, gas, and power plant communities. Projects may include the creation or expansion of businesses that reduce emissions of toxic substances and greenhouse gases from existing and abandoned infrastructure and that prevent environmental damage that harms communities and poses a risk to public health and safety. Projects may also employ individuals from energy communities but focus on a range of other industries.¹²

For CAAs, CED funding can be used to support activities that would normally be unallowable for CSBG block grant funds. For example, the CSBG Act prohibits CSBG funds from being used to purchase or improve real property, but CED funds are not subject to the same prohibition. Also, while the 90% CSBG funding provided to eligible entities must be used to provide services to income eligible individuals, CED grantees are explicitly permitted to use CED funding to support loans or equity investments in small businesses.

4. Do the same CED rules apply to all types of activities supported by the funding?

The CED funding rules differ with respect to construction and non-construction projects. Non-construction projects involve limited alteration or renovation and cost less than \$250,000 to support participating business creation and/or expansion and job creation. Non-construction projects typically involve loans or

equity investments in participating businesses. Recipients have 3 years to complete non-construction projects. Applicants proposing non-construction projects must propose to create at least a minimum number of jobs using the following formula:

$$\frac{[\text{Total Amount of Federal CED Funds Awarded}]}{[\$25,000]} = [\text{Minimum Number of Jobs to be Created}]^{13}$$

Construction projects, on the other hand, permit using CED funding to construct or renovate facilities. The projects can receive grants of up to \$800,000 and support participating business creation/expansion and job creation as a result of the completed construction. Recipients have 4 years to complete construction projects. Applicants proposing construction projects must propose to create at least a minimum number of jobs using the following formula:

$$\frac{[\text{Total Amount of Federal CED Funds Awarded}]}{[\$30,000]} = [\text{Minimum Number of Jobs to be Created}]^{14}$$

For both construction and non-construction projects, CED program rules require that 75% of the full-time positions created by each project be filled by low-income individuals who live in communities of high unemployment and poverty rates.¹⁵ CED considers an individual low-income if their household income level does not exceed 200% of the federal poverty guidelines.¹⁶ CED grantees report program outcomes, including the number of low-income jobs created, on semi-annual progress reports.¹⁷

5. Is CED funding subject to the Uniform Guidance?

Yes, as a discretionary grant, CED funding is subject to [45 CFR Part 75](#) – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for HHS Awards in its entirety.

6. Is property purchased with CED funds subject to additional requirements?

Yes, CED grantees must adhere to Administration for Children and Families (ACF)'s Property Guidance for purchases of real property, tangible personal property (i.e., equipment and supplies), and intangible property (i.e., copyright, patents, or securities). With respect to real property, CED funding may, with prior written approval, be used by grantees to acquire, construct, and/or make major renovations. For CED projects involving the direct use of federal funds in excess of \$150,000 per land parcel, grantees must file a Notice of Federal Interest and meet the requirements for reporting on and disposing of the real property when it is no longer used for its original purpose.¹⁸

7. How much CED funding is available and how can a CAA find more information to apply?

The CSBG Act directs OCS to reserve 9% of annual CSBG appropriations funding to support its reporting obligations and three types of discretionary activities: (1) CED funding, (2) rural community development activities, and (3) neighborhood innovation projects.¹⁹ The amount of CED funding available each year, and the size of individual CED awards, is set by OCS. Between FY2020 and FY2022, total CED funding averaged \$20.7 million.²⁰ Individual CED awards range from a minimum of \$100,000 and up to \$800,000 per project.²¹ CAAs interested in applying for CED funding can find more information, including any open Notices of Funding Opportunity, on [OCS' CED website](#).

8. Are there other sources of funding that support community economic development?

Yes. Community economic development projects can be complex, so they often leverage funding from federal, state and private sources. However, since the passage of the Economic Opportunity Act in 1964, federal assistance for community economic development has shifted from direct grant programs like the Special Impact Program and Model Cities to a market-based approach that incentivizes community development through tax credits like the Low-Income Housing Tax Credit Program and the New Markets Tax Credit.²² Under the tax credit programs, private investors obtain a credit against their federal taxes by investing in projects managed by corporate or nonprofit developers or financial intermediaries.²³ However, there are still grants directed to community economic development projects at the state and local level, including the following:

- Community Development Block Grant from the Department of Housing and Urban Development (HUD);
- Home Investment Partnerships Program from HUD;
- Choice Neighborhoods from HUD;
- Self-Help Homeownership Opportunity Program (SHOP) from HUD;
- Rural Community Development Initiative Grants from U.S. Department of Agriculture;
- Rural Community Development Program from OCS.

ENDNOTES

¹NCAP, The Purpose of Community Economic Development (CED), available at <https://communityactionpartnership.com/community-economic-development-ced/>.

²OCS, Community Economic Development, available at <https://www.acf.hhs.gov/ocs/programs/ced>. There is little formal program guidance (e.g., Dear Colleague Letters and Information Memoranda) specific to CED funding, so much of the information provided in this FAQ comes from the CED pages on OCS's website and the most recent Notice of Funding Opportunity, available at <https://www.acf.hhs.gov/sites/default/files/documents/ocs/HHS-2021-ACF-OCS-EE-1965-1.pdf>.

³42 USC § 9903(b)(3).

⁴Id., § 9921(a)(2).

⁵Some funding sources or states have their own definitions of community development corporation for purposes of a particular program. For example, Massachusetts state law establishes a certification program whereby a nonprofit may become certified as a community development corporation for purposes of participating in certain programs and partnerships with state agencies. MA Dept of Housing and Community Development, Community Development Corporation Certification, available at <https://www.mass.gov/service-details/community-development-corporation-certification-cdc>. To learn more about community development corporations in your state, it may be helpful to start with the membership list of a community development association, such as those that are members of the National Alliance of Community Economic Development Associations (NACEDA). NACEDA Members, available at <https://www.naceda.org/naceda-members>.

⁶42 USC § 9921(a)(2)(C).

⁷OCS, CED Notice of Funding Opportunity for FY2022, available at <https://www.acf.hhs.gov/sites/default/files/documents/ocs/HHS-2021-ACF-OCS-EE-1965-1.pdf>.

⁸IRS, Exempt Organization Annual Reporting Requirements – Governance and Related Issues: Changes to Governing Documents, available at <https://www.irs.gov/charities-non-profits/exempt-organization-annual-reporting-requirements-governance-and-related-issues-changes-to-governing-documents>.

⁹ This requirement may be met if the purposes stated in the organizing document are limited by reference to section 501(c)(3). IRS, Charity – Required Provisions for Organizing Documents, available at <https://www.irs.gov/charities-non-profits/charitable-organizations/charity-required-provisions-for-organizing-documents>.

¹⁰ IRS, How to lose your 501(c)(3) tax-exempt status (without really trying), available at <https://www.irs.gov/pub/irs-tege/How%20to%20Lose%20Your%20Tax%20Exempt%20Status.pdf>.

¹¹ NCAP, The Purpose of Community Economic Development (CED), available at <https://communityactionpartnership.com/community-economic-development-ced/>.

¹² OCS, CED Fact Sheet, available at <https://www.acf.hhs.gov/ocs/fact-sheet/ced-fact-sheet>.

¹³ NCAP, Developing a Successful Job Creation Project, available at https://www.acf.hhs.gov/sites/default/files/documents/ocs/ced_developing_a_successful_job_creation_project.pdf.

¹⁴ Id.

¹⁵ OCS, CED Fact Sheet, available at <https://www.acf.hhs.gov/ocs/fact-sheet/ced-fact-sheet>.

¹⁶ OCS, CED HHS Poverty Guidelines, available at <https://www.acf.hhs.gov/ocs/policy-guidance/ced-hhs-poverty-guidelines>.

¹⁷ OCS, CED Data Collection and Performance Progress Report (PPR), available at <https://www.acf.hhs.gov/ocs/training-technical-assistance/ced-data-collection-and-performance-progress-report-ppr>.

¹⁸ OCS, CED – ACF Real Property Guidance, available at <https://www.acf.hhs.gov/ocs/policy-guidance/ced-acf-real-property-guidance-what-does-it-mean-my-ced-grant>.

¹⁹ 42 USC § 9903(b)(3).

²⁰ OCS, CED Fact Sheet, available at <https://www.acf.hhs.gov/ocs/fact-sheet/ced-fact-sheet>.

²¹ OCS, CED Notice of Funding Opportunity for FY2022, available at <https://www.acf.hhs.gov/sites/default/files/documents/ocs/HHS-2021-ACF-OCS-EE-1965-1.pdf>.

²² See American Bar Association, Building Healthy Communities: A Guide to Community Economic Development for Advocates, Lawyers and Policymakers, edited by Susan R. Jones and Roger A. Clay Jr. at Chapter 1.

²³ For a glossary of housing and community development terms, see Alphabet Soup: Breaking Down All Those Housing and Community Development Terms, available at <https://shelterforce.org/2022/04/14/alphabet-soup-breaking-down-all-those-housing-and-community-development-terms/>.

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