## National Objective Compliance by Microenterprise Assistance Activities

Issue. A total of 15 commenters addressed the proposed new § 570.208(a)(2)(iii) to be added to the Entitlement regulations and the proposed new § 570.483(b)(2)(iv) to be added to the State regulations to specifically provide the limited clientele national objective option for activities qualifying under the new microenterprise assistance eligibility category. Many of these commenters specifically supported the provision, and a few specifically opposed it. Various commenters requested revisions to or clarification of certain aspects of the provision, most of which related to the manner in which jobs created by such activities would be considered (2 local government agencies, 3 state agencies, 4 national associations, 4 development organizations, 1 private citizen, and 1 HUD Field staff person).

Response. As discussed in the preamble to the proposed rule, activities carried out under the new microenterprise eligibility category are not statutorily subject to the same lowand moderate income national objective limitations as are generally applicable to special economic development activities carried out under § 570.203 [and Sections 105(a)(14) & (17) of the HCD Act]. Thus, the low- and moderateincome limited clientele method of meeting a national objective becomes an option for activities carried out under the new microenterprise eligibility category. While many commenters specifically supported the subject proposed provision, a few commenters specifically opposed it, particularly the fact that only 51 percent of the owners of microenterprises and persons developing them would be required to be low- and moderate-income persons. Thus, there would be the potential to permit sizable numbers of non-low- and moderate-income persons to receive financial assistance to develop a forprofit business. HUD has found these arguments to be compelling. Thus, the Department has revised the subject limited clientele provision in this final rule to restrict its use to qualify only those assisted owners of microenterprises and persons developing microenterprises who are low- and moderate-income persons. This change should not be a significant issue for many of the microenterprise activities assisted under the CDBG program. Many such programs are designed to provide a means to help disadvantaged persons become more economically self-sufficient and are thus often targeted to persons who meet

income qualification criteria at least as restrictive as the CDBG definition of low and moderate income. Also, to allow for some continuity of service to a low- or moderate-income person initially assisted under a microenterprise activity who later may no longer meet the income guidelines after the microenterprise actually becomes operational, the Department has retained the option that permits, for purposes of meeting this national objective requirement, any person determined to be of low or moderate income to be presumed to continue to qualify as such for up to a three-year period before that person would have to requalify. The language in this final rule also clarifies that under this new limited clientele provision, it is only owners of microenterprises and persons developing microenterprises that are considered for national objective purposes and not employees of such businesses who are not part-owners.

While the new limited clientele provision has been restricted to only low- and moderate-income persons, activities qualifying under the new microenterprise eligibility category that may serve non-low- and moderateincome entrepreneurs may still be assisted under the criteria for creation and/or retention of jobs principally for low- and moderate-income persons. Under that national objective claim, all employees of a microenterprise, including the owner(s), are considered, and a grantee can use the new presumptions added by Section 806(e) of the 1992 Act for determining a person's status as a low- or moderateincome person, as implemented in this final rule at § 570.208(a)(4) of the Entitlement regulations and § 570.483(b)(4) of the State regulations. These presumptions cannot be used under the new limited clientele provision because the 1992 Act added them as a new Section 105(c)(4) of the HCD Act which refers only to activities qualifying under the national objective of job creation or retention for low- and moderate-income persons.

One commenter asked that HUD specifically name examples of low- and moderate-income clientele. Certain such examples that apply to all activities benefiting low- and moderate-income persons are included in § 570.506(b) of the Entitlement regulations.

Two commenters requested clarification as to whether HUD's proposing the limited clientele provision for microenterprise assistance activities means that "cost per job" created will not be a primary consideration in the evaluation of a CDBG-funded microenterprise program.

"Cost per job" is not a primary HUD consideration for any microenterprise assistance activities carried out under the new separate microenterprise eligibility category. Such a calculation only comes into play in the public benefit standards (established elsewhere in this final rule), which are not statutorily applicable to activities carried out under the new microenterprise eligibility category. As with any CDBG activity, however, grantees have the flexibility to add additional local criteria for activity evaluation. Also, given the general requirement that all costs charged to the CDBG program must be necessary and reasonable for the proper and efficient administration of the program, HUD expects grantees to consider cost in relation to results for all activities and to take steps to curb unusually high costs.

## National Objective Compliance for Employment Support Activities

As delineated earlier in this preamble under the discussion of the new § 570.203(c) economic development services provision in the Entitlement regulations, HUD is aware of various proposals under which certain entities have indicated a willingness to train low- and moderate-income persons for jobs and/or provide such persons with other employment opportunities, but these entities cannot agree that 51 percent of all assisted persons will be low- or moderate-income. HUD believes that such proposals can often provide valuable opportunities for employment of low- and moderate-income persons and that a way should be found to permit CDBG funds to assist such efforts. Thus, HUD is amending the lowand moderate-income limited clientele national objective requirements in this final rule [with a new § 570.208(a)(2)(iv) in the Entitlement regulations and a new § 570.483(b)(2)(v) in the State regulations to authorize the use of CDBG funds for such activities that provide training and/or other employment support services in limited circumstances. In order to qualify under this provision, CDBG assistance for the project must be limited to the provision of such training and/or supportive services; the percentage of the total project cost borne by CDBG may not exceed the percentage of all persons assisted who are low or moderate income. HUD has included this provision under the limited clientele category rather than the job creation or retention national objective category because while such use of CDBG funds solely for job training and/or supportive services can often be considered to