



2011VEI Program Design

September 2010

Mission

The Virginia Enterprise Initiative provides an opportunity for underserved entrepreneurs to start and expand businesses through increased access to micro-business training and credit.

Background

The Virginia Enterprise Initiative started in 1995 with a mission to provide economic opportunity to individuals in Virginia who have a desire for entrepreneurship but have not typically had access to entrepreneurial resources such as credit, capital, training and technical support. These individuals often have limited income streams and are statistically more likely to be women and/or minorities. VEI supports non-profit organizations that specialize in providing this direct service to these Virginians.

Nationally, micro-enterprise assistance has taken an ever increasing role in economic and community development strategies. This growth is due to the realization that the skills and potential contributions of many disadvantaged businesspeople have been overlooked. Barriers to entry for these potential entrepreneurs have included lack of access to appropriate training, assistance, and credit.

As part of the Virginia Department of Housing and Community Development (DHCD), the Virginia Enterprise Initiative (VEI) assists the larger community and economic development strategies of supporting entrepreneurship and facilitating asset-based development.

Several of DHCD's programs are designed to help build a vibrant marketplace, in both a physical sense (downtown development) and a conceptual one (regional tourism and industrial planning). VEI is designed to complement this marketplace by encouraging and enabling nontraditional entrepreneurs to contribute their ideas, talents and products to this marketplace through a program of counseling, credit assistance and technical assistance.

VEI promotes "economic gardening" as a strategy for community economic development that focuses on fostering growth from within the community. This strategy to foster entrepreneurship is meant as a complement to larger industrial and business development, as it is not possible for all localities to attract industry. Even in those areas that are able to attract larger industry, many potential entrepreneurs possess talents that are better suited to micro-business and innovation, as is especially often seen in individuals who are recent arrivals from countries that may have smaller industrial bases but have strong entrepreneurial traditions.

The process of economic gardening assists local entrepreneurs while diversifying the local economy. This diversification builds a wider base of economic activity, leaving the overall community economic climate less vulnerable to sector based downturns.

As a method of community economic development, economic gardening requires a climate that is conducive to small scale, start-up businesses. Additionally, nurturing the growth of these businesses often involves significant hands on assistance. The grants and incentives that VEI manages are used to build Virginia's capacity to provide this assistance to the individual entrepreneurs.

Program Overview

The Virginia Enterprise Initiative provides direct grants and technical assistance to regional and local organizations that specialize in assisting first time entrepreneurs. This assistance includes pre-concept counseling, business plan development, credit repair and counseling, credit access and continuing technical assistance. To deliver these services the micro-enterprise development organizations (MDOs) also partner with banks, area businesses, educational institutions, each other and/or other private and public entities within the community. These organizations provide a service that often is not otherwise available and are designed to support the entrepreneur even after accessing capital. VEI seeks to engage MDO's that provide innovative processes to attract and assist micro-entrepreneurs.

The overall goal of VEI is to positively impact Virginia's economic development. VEI will use a pay-for-performance model to ensure that participating MDOs are prepared to demonstrate this impact. VEI holds state-wide micro-lending and micro-entrepreneur assistance coverage and market penetration as primary objectives.

VEI micro-entrepreneurs will generally need more basic training than is typically available, as well as intensive coaching on topics such as completing a business plan, credit repair, marketing, or financial management. Lending to the targeted client group has been considered high risk by traditional financial institutions. These potential micro-entrepreneurs tend to have credit or collateral issues and they may require technical assistance to successfully resolve these issues as part of the lending process. In addition, these businesses generally require very small amounts of capital.

With business starts and job creation as the primary objective, VEI requires each VEI site to provide four basic components to its clients: training (business skills training and business plan development training), one-on-one technical assistance, micro-loans, and follow-up assistance.

Each MDO client begins the process with a different degree of business readiness. The MDO must have a flexible process to evaluate each client's needs and provide a tailored program of assistance. This program must involve one or more of four components of traditional micro enterprise, **Training, One-on-One Technical Assistance, Micro-lending, and Follow-Up & Post Loan Assistance.**

Finally, all entrepreneurs receiving micro-loans must have access to follow-up assistance. There are many challenges that face micro-businesses, especially those just starting. Therefore, VEI sites must continue providing assistance to participants after they are in business. Follow-up assistance must be conducted on a regular basis and be responsive to the immediate needs of the entrepreneur.

During this process, it is imperative that the entrepreneurs are made aware of current economic trends and that it is clear where their business fits into larger community development plans. This should include any local revitalization effort, regional industrial projects and overall market developments.

Program Design

The VEI program is administered in a “Hub and Spoke” system that involves direct administrative grant funding and direct pay-per-performance funding of MDOs that serve as Regional Service Providers (RSP). These RSPs work with an indefinite number of Local Service Providers (LSP) that may receive small direct grants from VEI. While this arrangement provides the vast bulk of direct financial assistance to the RSPs, the goals that the RSPs are required to meet and the incentives for the RSPs to achieve these goals require the development of mutually beneficial partnerships with LSPs.

RSPs and LSPs have increased incentive to use innovative methods of delivering client services to underserved entrepreneurs to help them start or expand their own business.

RSPs will implement the VEI program so that it coordinates with other programs provided by the site and community partners that encourage micro-enterprise development. Those applicants who provide additional and related services (i.e. IDA [Individual Development Account] program, access to library materials, classes in Spanish, etc.) that are consistent with the VEI program’s mission will be given higher consideration. This shows strong recognition of the needs of the target market, service area, and an ability to leverage additional resources to expand services offered.

Approved VEI RSPs must offer, either directly or through an LSP, some combination of the following services:

- **Training**
VEI service providers have flexibility in assessing their clients’ overall training needs. VEI allows the site to fast-track existing business owners through training so they receive the training (business skills training or business plan development training) that best meets their needs. Training is customized for each individual, and the goal of business plan development training is a completed business plan. The cost of training should be reasonably accessible to disadvantaged populations or scholarships should be available.
- **One-on-One Technical Assistance** – One-on-one counseling should be provided to help clients evaluate their business concept and where it fits in the larger marketplace. This one-on-one technical assistance helps guide the entrepreneur through the business planning process.
- **Micro-loans** - VEI sites that offer micro-lending are expected to have a diverse loan portfolio made up of micro-loans of various amounts; some may be under \$5,000, some may be \$20,000, and others may be closer to, but not greater than the maximum VEI loan amount of \$50,000. The service of providing micro-loans may be brokered by the VEI site from any other funding sources so long as the total amount of an individual loan does not exceed \$50,000. Priority for micro-loans should be given to individuals that demonstrate that they have been or would be denied access to capital at a traditional financial institution. In addition, VEI sites will not be able to use a borrower’s primary residence as collateral for a VEI loan.

- **Follow-Up or Post Loan Assistance** - There are many challenges that face micro-businesses, especially those just starting. Therefore, a VEI site must continue providing assistance to its participants once they are in business. Follow-up or post loan assistance (measured by hours) must be conducted on a regular basis and be responsive to the immediate needs of the entrepreneur whether the loan was issued with VEI or non-VEI funds.

While it is important for VEI sites to provide efficient and effective services to the target market VEI believes that the Regional and Local Service Providers have the best insight into the needs of their customers. Therefore, VEI will provide the bulk of the financial assistance on a pay-per-performance, outcome-based schedule and allow the Service Providers to determine the best course of action to produce the best results.

The outcomes that VEI will reward are qualified business plans, jobs created or retained (FTE) and loans made.

Service Areas

Each RSP must identify a Primary Market Area (PMA). This identification of the PMA will occur in partnership with VEI during the application process. Each PMA must be regional in nature. PMAs may not overlap. Each RSP is required to produce either a job creation (FTE) or loan in *every* political jurisdiction in their PMA.

Each RSP must also identify Secondary Market Areas (SMAs). Secondary Market Areas may overlap with the SMAs of other RSPs. Bonuses will be paid for achieving qualified outcomes (job creation or loans) in *any* political subdivision within the SMA.

Grant Products

The following grants are designed to assist MDOs in providing training and credit to micro-entrepreneurs.

Regional Service Provider Grants

Three (3) Regional Service Providers (RSPs) chosen in a competitive application process in 2009 are eligible for the following grant products through the grant term July 1, 2010 to May 30, 2011.

Administrative Grant

The maximum amount of the Administrative grant is \$20,000. It is a reimbursable grant, drawn quarterly, and requires a \$1-to-\$1 cash match. No “in-kind” matches are allowed for match. The purpose of this grant is to provide some staffing and capacity security during the grant period of July 1, 2010 through May 31, 2011.

Service Area Grants

The Service Area grant is designed to offer an incentive to broaden the geographical reach of VEI’s services and is based on the Secondary Market Area (SMAs), areas comprised of bundled jurisdictions as identified in the contract. The grant is paid as a “bonus” as part of the quarterly reimbursement. An RSP that produces a qualified outcome (FTE or loan made) in any of the bundled jurisdictions that is part of their SMAs will receive \$4,000 for each SMA serviced, RSPs may not receive more than one \$4,000 grant for each SMA per year (July 1, 2010 through May 30, 2011).

Deliverable Incentive Grants

The Deliverable Incentives will be paid as part of the quarterly payment that includes the Administrative grant reimbursement and the Service Area grant bonuses. The Deliverable Incentives are pay-per-performance, based on outcomes that are completed in the reporting period (quarter). One-hundred and fifty dollars (\$150) will be paid for every qualified business plan, \$400 will be paid for every FTE created or retained, and \$600 will be paid for every loan made.

Outcome	Incentive
Business Plan	\$150
Loan Made	\$600
FTE	\$400

At the beginning of the fiscal year, each RSP will have a bank of \$88,000 from which they may draw deliverable incentives. However, at the end of the third quarter of each fiscal year, all funds not yet claimed will be placed in a common account from which all RSPs may draw on a first come, first served basis. To facilitate these payments in the fourth quarter, RSPs may submit the vouchers at their convenience.

Metropolitan Statistical Area Performance Grant (MSAPG)

The MSA Performance Grant (MSAPG) is a non-competitive, threshold based grant that seeks to encourage MDOs to increase their loan volume and job creation by paying a performance incentive for these outcomes. This grant is only available to MDOs that are located in metropolitan statistical areas (MSAs) of 500,000 people or more, have made at least 5 micro-loans in the previous fiscal year and are currently providing entrepreneur assistance within the framework of assisting clients that have traditionally not had access to credit. Payments will be paid on a “first come, first served” basis until funds are exhausted. While VEI anticipates funding to cover all payment requests under this grant program, there is no guarantee that funds will be available for any or all outcomes submitted.

Outcome	Incentive
Loan Made	\$450
FTE	\$300

Innovation Grants

Innovation Grants are designed to encourage organizations to attempt new and original ways to either reach potential entrepreneurs or deliver services to these entrepreneurs. These grants are for a maximum of \$5,250 each and are available to both RSPs and LSPs. This is a competitive, rolling grant with a grant period of July 1, 2010 through May 30, 2010 or until funds are exhausted. For RSPs, the application for Innovation grants is part of the RSP application. For LSPs, the application is separate.

A list of innovation examples can be found in the appendices.

Planning Grants

Funds are set aside annually for a limited number of planning grants of up to \$10,000 each. These grants are designed to add statewide coverage and deeper market penetration by assisting MDOs as they become either LSPs or RSPs by identifying strengths, weaknesses, market sectors and competitive structure. The application process will consist of a Letter of Interest (LOI) with a detailed goals statement. These LOI will be reviewed competitively, on a rolling basis, with successful applicant receiving funds on a reimbursement basis, to be paid after the achievement of negotiated benchmarks.

Grant Product	Application Date	Maximum Amount	Available To	Reimbursable	Match Required
Administrative Grant	Jul. 2010-May 2011	\$20,000	RSP Only	Yes	\$1-to-\$1, Cash
Service Area Grant	Jul. 2010-May 2011	\$4,000 per SMA	RSP Only	No	None
RSP Deliverable Incentive	Jul. 2010-May 2011	\$88,000	RSP Only	No	None
MSAPG Deliverable Incentive	Jul. 2010-May 2011	As available	MSA Only	No	None
Innovation Grants	Jul. 2010-May 2011	\$5,250	All	No	None
Planning Grants	Jul. 2010-May 2011	\$10,000	All	Yes	None

Match Requirements

The effectiveness of a VEI-funded program depends on its ability to leverage other public and private resources. The *Administrative Grant* is the only grant product that requires a match. Applicants must leverage resources by matching these VEI grants with other funding sources as described in the Grant Products section. Proposals must indicate the source of matching funds and provide documentation of commitment from funding sources.. Only cash matches are applicable.

Use of Funds

Micro-enterprise services may be delivered in a variety of ways to ensure maximum access by a target market. VEI understands that RSPs and LSPs may provide clients with an array of other assistance. Therefore, VEI funds may be used for any legal purpose that furthers the mission of providing training, assistance and credit to micro-entrepreneurs. However, it is necessary that the uses for the VEI funds be identified in applications and that the funds be used as described..

Funds may not be used for illegal activities or inappropriate purposes, such as lobbying.

A full list of both acceptable and unacceptable uses of VEI funds can be found in the appendices.

Regional Service Provider Designation Process

DHCD selects RSP sites based on competitive applications. Through the selection process, the participating organizations, whether new or existing, will demonstrate the need for micro-enterprise services within their Primary Market Area (PMA), organizational capacity to implement the VEI program, and a positive program impact.

Additionally, DHCD will work with the RSPs to identify LSPs. Although, it is the responsibility of the RSP to develop the partnership relationships with the LSPs, VEI may assist in these arrangements.

DHCD will support MDOs that wish to participate in VEI as either RSPs or LSPs by providing training, technical assistance, peer exchanges and public education efforts, in addition to any funding for which the organization qualifies.

Regional Service Provider Criteria for Participation

RSPs must complete a detailed application form modeled after a business plan. The application will contain detailed information about the micro-enterprise development program broken down by key areas, including: Executive Summary, Organization Description, Target Market Analysis, Products and Services, Marketing and Promotions, Program Impact, and Financials. Just like a business plan for an entrepreneur, the application outlines the organization's resources, analysis of the market, estimated impact and ability to meet the needs of the client. A thorough application demonstrates the MDO's commitment to micro-enterprise development and its ability to carry forward a program that has impact through leveraged resources.

In order to participate as a Regional Service Provider, applicants must demonstrate:

- **Eligibility to Apply** – VEI focuses primarily on community-based nonprofits for the delivery of micro-enterprise services. While eligibility is not restricted to community-based nonprofits, other respondents such as general nonprofits must demonstrate their ability to take a community-based approach to micro-enterprise development. Due to the program design and inter-jurisdictional nature of the service requirements, this program is not suitable for local governments, planning district commissions or economic development organizations. Community-based approaches involve participation from a broad base of citizens in a community to achieve a common goal.
- **Staffing** - Applicants must have adequate staff resources available to operate the micro-enterprise program or a plan to have the staff resources available by the time the contract for services begins. This includes at least one full-time (at least 35 hours per week) staff member serving as the main contact for the VEI program and whose job description is focused on micro-enterprise development. It is strongly encouraged that the organization also includes an administrative support staff member for the micro-enterprise development program. This enables the primary micro-enterprise staff member to focus on business skills training and business plan development training as well as one-on-one technical assistance provision.
- **Leveraging** - Applicants must describe how they will use VEI grants to leverage funds provided from other sources. Both internal and external sources of additional funding must be identified in the program proposal application. Commitment letters that detail the amount and conditions for participation should be given for sources.
- **Training** – Sites will be required to attend, during the contract year, a VEI training sponsored by DHCD and an additional outside training (approved by DHCD) that would benefit the RSP.
- **Performance Goals** – Applicants must develop appropriate goals which reflect the needs of the target market and service area. Established goals will be market driven with the RSP taking into consideration: competitor organizations, service area, target market, demographics, and identification of potential clients.

Evaluation Considerations

VEI applications will be evaluated to assess the RSP's capacity as an organization, the need for micro-enterprise development focused on the target market and service area, and the likelihood of positive impact as a result of selection as a VEI site. Some specific evaluation considerations follow:

Organizational Capacity

The RSP has the organizational structure, systems, supports and management expertise to effectively deliver micro-enterprise services to the population(s) identified as the target market within the geographic service area. The RSP has successfully developed the necessary relationships with other organizations and partners to strengthen micro-enterprise service delivery.

Need for Micro-enterprise Services

The RSP has assessed and documented that there is the strong potential for micro-business development in the service area and has identified all the specific services that must be provided to support entrepreneurship development. The RSP has assessed the challenges and opportunities for micro-enterprise, including other programs offering competing services, in the service area in order to make the case for the potential client demand for services.

Program Impact

The RSP demonstrates an ability to support VEI's mission of providing access to capital, technical assistance and training to low-income, female and minority entrepreneurs. The RSP has a history of successful performance in service to the target market that indicates the organization will create a positive return on investment of VEI resources. The RSP will also be able to set appropriate, yet challenging, goals for service delivery to identified clients.

Marketing and Promotion

The RSP uses consistent and relevant promotional messages and mechanisms to reach the target market with information about training, services, networking and special opportunities. The RSP utilizes marketing partners to expand the reach of their message.

Financials

The RSP demonstrates good financial stewardship practices and effectively utilizes both VEI funds and a variety of other financial support to meet the needs of low-income, female and minority entrepreneurs. The RSP's budget details how VEI funds will be used, the sources for matching VEI grant money, and the leverage produced from the matches. The required match is considered the minimum. Stronger RSP applications will be able to show greater leverage of VEI funds.

Marketplace Analysis

The RSP has assessed the market niches that are available for their PMA and strives to search out qualified micro-entrepreneurs to fill these market gaps. The RSP understands that the marketplace changes quickly and keeps up with the movements therein, using this expertise to best serve the VEI clients.

Local Service Provider Criteria for Participation

Primarily, LSPs will be identified by the RSPs. This identification will begin during the Planning Grant and should be a continuing activity. VEI will work to build and support LSPs on an ongoing basis through *Innovation* and *Planning Grants*, as well as one-on-one technical assistance and training opportunities. Any MDO or Micro-enterprise assistance organization may be considered an LSP.

Since the direct relationship for most LSPs will be with an RSP rather than VEI, it is the responsibility of the RSP to ensure the quality of the assistance provided by the LSPs.

Any organization may be considered as an LSP, if that organization offers any combination of quality Training, Technical Assistance, Micro-loans and Post-Loan Follow Up Assistance in the context of micro-enterprise. This could include Community Colleges, Workforce retraining centers, or even for-profit organizations, provided that they offer their services at accessible prices or offer significant scholarships to VEI clients. At this time, however, non-profit organizations with an expressed mission to provide these services may be the primary source of LSP participation.

VEI Programmatic Definitions

Brokering Services

Collaboration with other organizations (i.e., community development agencies, banks, Small Business Development Centers, and social service agencies) to provide services to clients. This may result in expansion of services and reduction of costs for the VEI micro-enterprise development program. VEI brokered services may include training focused on micro-enterprise as well as micro-loans.

Business

Any commercial, for-profit entity authorized to do business in the Commonwealth of Virginia.

Business Plan

A written document containing management, marketing, operational, market research, financial information that demonstrates the strengths and weaknesses of a business idea and the business' ability to succeed.

Business Plan Development Training

Multi-day courses that lead to the development of a business plan for an entrepreneur. Courses may provide more in-depth exposure to particular topics or components of a business plan, i.e. finance, marketing or personnel.

Business Skills Training

Single-session group trainings with micro-entrepreneurs that may cover specific topics such as, marketing assistance, website design, or personnel management.

Credit Enhancement

A tool for reducing risk to the lender and thereby making the borrower more attractive. An example of such a tool may be a guaranty or an improvement of loan terms based on a regularized savings scheme.

Contract Period

July 1, 2010 – May31, 2011.

Economic Gardening

An entrepreneurial alternative to the traditional economic development practice of recruiting industries, using a holistic approach to fostering entrepreneurship. Economic Gardening entails preparing the economic habitat for successful business start-ups and continued assistance in the early growth phase of new businesses.

Full Time Equivalent (FTE)

One paid employee working a minimum of 32 hours per week on a regular basis; two or more paid employees working a total of 32 or more hours per week on a regular basis.

Examples: Employee #1 works 36 hrs per week = 1 FTE;

Employee #2 works 12 hours per week = 0 FTE;

Employee # 3 works 26 hours per week = 0 FTE;

Employee #4 works 48 hours per week = 1 FTE.

Emp. #1 + #2 = 1 FTE

Emp. # 1 + #3 = 1 FTE

Emp. #1 + #4 = 2 FTE

Emp. #2 + #3 = 1 FTE

Emp. #2 + #4 = 1 FTE

Emp. #3 + #4 = 1 FTE (even the total hours/2 employees = more than 32 hrs per employee; overage from one employee can not be "banked" for another)

Emp. #1 + #2 + #3 + #4 = 3 FTE

Owner/operators may be counted as FTE if they work 32+ hours per week, regardless of their pay. However, family members must be paid to count as FTE.

Loan Pool

An accumulation of loan capital provided by DHCD or other sources which is loaned and available to loan.

Loan Loss Reserve

General reserve account established by the VEI site to absorb loan losses.

Local Service Provider

Any Micro-enterprise Development Organization that serves a local area, often supporting a Regional Service Provider (RSP) by extending its coverage or offering services not provided by the RSP.

Micro-enterprise

A micro-enterprise is a business with five or fewer employees that requires \$35,000 or less in capital.

Micro-entrepreneur

A non-traditional entrepreneur who is seeking capital and/or technical assistance in the start up or expansion of a micro-enterprise. Usually, someone with low income who has not had access to credit and/or traditional business training. Often, but not exclusively, women, minorities and recent immigrants.

Micro-enterprise Development Organization (MDO)

Local organization that delivers micro-enterprise services. Services offered may include business skills training, business plan development training, one-on-one technical assistance, micro-loans and post-loan assistance.

Metropolitan Statistical Area (MSA)

Metropolitan Statistical Areas (MSAs) are the jurisdictional groupings as identified by the U.S. Office of Management and Budget. MSAs with populations above 500,000 are eligible for the MSA Performance Grant.

Non-traditional entrepreneur

Usually, someone with low income who has not had access to credit and/or traditional business training. Often, but not exclusively, women, minorities and recent immigrants.

Non-VEI Micro-loan

Capital provided by a source other than DHCD's VEI program which is disbursed to existing or potential micro-entrepreneurs in the amount of \$50,000 or less.

Primary Market Area (PMA)

The primary area in which a Regional Service Provider (RSP) offers its services. The RSP is required to achieve a minimum of one qualified outcome in each jurisdiction (City or County) within the PMA.

Regional Service Provider (RSP)

The primary agency, usually a non-profit organization, responsible for delivering services to Micro-entrepreneurs. Regional Service Providers are also the primary recipients of VEI funding.

Revolving Loan Fund

A source of loan capital for micro-loans provided to entrepreneurs. Available capital may be from both VEI and non-VEI sources. Payments are returned directly to the fund and used to make new loans.

Secondary Market Area (SMA)

Any service area in which the RSP provides services or creates outcomes, whether through a partnership with an LSP or through their own staff, which is not part of their PMA. For qualification for the Service Area Grant, the Secondary Market Areas, defined groupings of political jurisdictions, will be described in the RSP contract.

Service Area

The geographic region, and the populations within it, where the VEI site offers business skills training, technical assistance and loan capital.

Target Market

The population within a service area that the VEI site serves which may include low-income, female or minority entrepreneurs.

Technical Assistance

One-on-one business related consulting services to existing or potential entrepreneurs via individual meetings, e-mail or telephone.

VEI Micro-loan

Loan capital provided by DHCD's VEI program which is disbursed to existing or potential micro-entrepreneurs in the amount of \$50,000 or less.

Appendix I

FINANCIAL MANAGEMENT REQUIREMENTS

It is DHCD's policy that programs be implemented in a cost effective manner. It is extremely important that appropriate financial controls are established to minimize waste and prevent fraud and mismanagement.

HELPFUL DEFINITIONS IN FINANCIAL MANAGEMENT

1. Accounting. The recording, summarizing, and reporting of all fiscal transactions by such formats as type of appropriations, programs, organizations, activities, and object classes of expenditures;
2. Budgeting. The annual presentation, classification, monitoring, and control of funds;
3. Internal Controls and Audits. The internal policies and procedures for monitoring, preserving, reviewing, and otherwise safeguarding the agency's funds, property, and other assets.

FINANCIAL MANAGEMENT REQUIREMENTS

Financial management systems for Virginia Enterprise Initiative Grants must provide for:

1. Accurate, current, and complete reporting of the use of all grant funds in accordance with state accounting and reporting requirements;
2. Records that identify the source and application of funds for all grant supported activities. These records contain information pertaining to awards and authorizations, obligations, and obligated balances, assets, liabilities, outlays, and income;
3. Effective control over and accountability for all funds, property, and other assets;
4. Comparison of actual outlays with the approved grant budget;
5. Procedures to minimize the time elapsing between the transfer of funds from the Commonwealth of Virginia and the disbursement by the Grantee;

6. Procedures for determining the reasonableness, allowability and allocability of costs in accordance with appropriate guidelines;
7. Accounting records supported by source documentation;
8. Examinations in the form of audits;
9. A systematic method to assure timely and appropriate resolution of audit findings and recommendations;
10. Accounting records and source documentation keeping VEI funds separate from other accounts;
11. All non-VEI funds used as leveraging must be clearly and separately accounted for with source documents and accounting records. At no time should the percentage of VEI funds spent exceed the percentage of VEI funds budgeted by cost element or budgeted activity. Failure to adhere to proportional spending requirements will lead to DHCD imposing an interest penalty on the amount which exceeds the proportional spending requirement;
12. All grant expenditures must be in adherence with a DHCD approved budget;
13. All source documents must be coded, signed, or initialed and dated; and
14. Copies of all source documents related to the grant must be maintained separately and be available for review by DHCD.

ALLOWABLE ADMINISTRATIVE COSTS

The following is a list of the allowable administrative costs that may be incurred from the effective date of the grant contract through the date of program closeout.

1. Accounting Systems. The cost of establishing and maintaining accounting and other information systems required for the management of the grant is allowable. However, the cost of maintaining central accounting records required for overall organizational purposes, such as appropriation and fund accounts by the Treasurer or similar official, is considered to be a general expense of doing business and is not allowable.
2. Advertising. Advertising media includes newspapers, magazines, radio and television programs, direct mail, trade papers, and the like. The advertising costs allowable are those which are solely for:
 - (a.) Recruitment of personnel required for the grant.
 - (b.) Procurement of goods and services required by the grant.
 - (c.) Marketing and advertisement of the program
 - (d.) Disposal of surplus materials acquired in the performance of the grant agreement.
 - (e.) Other purposes specifically provided for in the grant agreement.
3. Audit Services. The cost of audits are allowable provided that the audits were performed in accordance with the Single Audit Act as implemented by OMB Circular A-133.
4. Building Space and Related Facilities. The cost of space in publicly owned buildings used for the benefit of the grant program is allowable subject to the conditions stated below. The total cost of space may not exceed the rental cost of comparable space and facilities in a privately owned building in the same organization. The cost of space procured for grant program usage may not be charged to the program for periods of nonoccupancy, without authorization of the Virginia Department of Housing and Community Development.
 - (a.) Rental Cost. Costs for publicly owned buildings newly occupied on or after October 1, 1980 are allowable where "rental rate" systems, or equivalent systems that reflect actual costs, are employed. Such charges must be determined on the basis of actual cost (including depreciation based on the useful life of building,

interest paid or accrued, operation and maintenance, and other allowable costs). Where these costs are included in rental charges, they may not be charged elsewhere. No costs will be included for purchases or construction that were originally financed by the federal government.

(b.) Maintenance and Operation. The cost of utilities, insurance, security, janitorial services, elevator service, upkeep of grounds, normal repairs and alterations and the like, are allowable to the extent they are not otherwise included in rental or other charges for space.

5. Communication Costs. The costs incurred for telephone calls or services, telegraph, postage, and messenger service are allowable.

6. Compensation for Personal Services. Compensation for personal services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under the grant agreement, including but not necessarily limited to wages, salaries, and fringe benefits (see item g, Employee Fringe Benefits). The costs of such compensation are allowable to the extent that total compensation for individual employees:

(a.) is reasonable for the services rendered;

(b.) follows an appointment made in accordance with State or local government laws and rules and which meets merit system or other requirements, where applicable; and

(c.) is determined and supported as provided by approved time sheets.

Compensation for employees engaged in VEI activities will be considered reasonable to the extent that it is consistent with that paid for similar work in other activities of the organization. In cases where the kinds of employees required for the Grant are not found in the other activities of the organization, compensation will be considered reasonable to the extent that it is comparable to that paid for similar work in the labor market in which the employing organization competes for the kind of employees involved. Compensation surveys providing data representative of the labor market involved will be an acceptable basis for evaluating reasonableness.

Amounts charged to grant programs for personal services will be based on payrolls documented and approved in accordance with generally accepted practice of the local agency. Payrolls MUST be supported by time and attendance records for individual employees. Salaries and wages of

employees chargeable to more than one grant program or other cost objective will be supported by appropriate time distribution records. The method used should produce an equitable distribution of time and effort.

Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to the grant but may be used on an interim basis provided that adjustments are made at least quarterly to reflect the results of the activity actually performed.

7. Employee Fringe Benefits. Costs identified under this item are allowable to the extent that total compensation for employees is reasonable as defined in item f Compensation for Personal Services.
 - (a.) Employee benefits in the form of regular compensation paid to employees during periods of authorized absence from the job, such as for annual leave, sick leave, court leave, military leave, and the like, if they are:
 - (1) provided pursuant to an approved leave system, and
 - (2) the cost thereof is equitably allocated to all related activities, including the grant.
 - (b.) Employee benefits in the form of employers' contribution or expenses for social security, employees' life and health insurance plans, unemployment insurance coverage, workmen's compensation insurance, pension plans, severance pay, and the like, provided such benefits are granted under approved plans and are distributed equitably to grant programs and to other activities.
8. Disbursing Service. The cost of disbursing grant funds by the Treasurer or other designated officer is allowable. Disbursing services cover the processing of checks or warrants, from preparation to redemption, including the necessary records of accountability and reconciliation of such records with related cash accounts.
9. Legal Expenses. The cost of legal expenses required in the administration of grant programs is allowable. Legal services furnished by the chief legal officer of a local government or his staff solely for the purpose of discharging his general responsibilities as legal officer are unallowable. Legal expenses for the prosecution of claims against the Federal Government or State Government are unallowable.
10. Maintenance and Repair. Costs incurred for necessary maintenance, repair, or upkeep of property which neither add to the permanent value of

the property nor appreciably prolong its intended life, but keep it in an efficient operating condition, are allowable.

- (a) Materials and Supplies. The cost of materials and supplies necessary to carry out the grant is allowable. Purchases made specifically for the grant should be charged thereto at their actual prices after deducting all cash discounts, trade discounts, rebates, and allowances received by the grantee. Withdrawals from general stores or stockrooms should be charged at cost under any recognized method of pricing consistently applied. Incoming transportation charges are a proper part of material cost.

11. Memberships, Subscriptions and Professional Activities.

- (a.) Memberships. The cost of memberships in civic, business, technical and professional organizations is allowable provided:
 - (1) the benefit from the membership is related to the grant program;
 - (2) the expenditure is for agency membership; the cost of membership is reasonably related to the value of the services or benefits received; and
 - (3) the expenditure is not for membership in an organization which devotes a substantial part of its activities to influencing legislation.
- (b.) Reference Material. The cost of books, and subscriptions to civic, business, professional, and technical periodicals is allowable when related to the grant program.
- (c.) Meetings and Conferences. Costs are allowable when the primary purpose of the meeting is the dissemination of technical information relating to the grant program and they are consistent with regular practices followed for other activities of the grantee. Adequate records must be maintained to document that the primary purpose of the meeting was for dissemination of technical information.

12. Payroll Preparation. The costs of preparing payrolls and maintaining necessary related wage records are allowable.

13. Personnel Administration. Costs for the recruitment, examination, certification, classification, training, establishment of pay standards, and related activities for the grant, are allowable.

14. Printing and Reproduction. Cost for printing and reproduction services necessary for grant administration, including but not limited to forms, reports, manuals, and informational literature, are allowable.
15. Procurement Service. The cost of procurement service, including solicitation of bids, preparation and award of contracts, and all phases of contract administration in providing goods, facilities and services for grant programs, is allowable.
16. Professional Services. Cost of professional services rendered by individuals or organizations not a part of the grantee department is allowable.
17. Taxes. In general, taxes or payments in lieu of taxes which the grantee agency is legally required to pay are allowable.
18. Training and Education. The cost of in-service training, customarily provided for employee development which directly benefits the grant is allowable. Out-of-service training involving extended periods of time is allowable only when specifically authorized by the Virginia Department of Housing and Community Development.
19. Transportation. Costs incurred for freight, cartage, express, postage and other transportation costs relating either to goods purchased, delivered, or moved from one location to another are allowable.
20. Travel. Travel costs are allowable for expenses of transportation, lodging, subsistence, and related items incurred by employees who are in travel status on official business incident to a grant program. Such costs may be charged on an actual basis, on a per diem or mileage basis in lieu of actual costs incurred, or on a combination of the two, provided the method used is applied to an entire trip, and results in charges consistent with those normally allowed in like circumstances in non-State sponsored activities. The difference in cost between first-class air accommodations and less-than-first-class air accommodations is unallowable except when less-than-first-class air accommodations are not reasonably available. Notwithstanding the provisions of Unallowable Administrative Costs Item 4. Chief Executive's Expenses and Item 8. Legislative Expenses, travel costs of officials covered by those paragraphs, when specifically related to grant programs, are allowable. Prior approval from the Department of Housing and Community Development is not required.

ADMINISTRATIVE COST REQUIRING DHCD APPROVAL

The following is a list of administrative costs allowable with the prior approval of the DHCD.

1. Automatic Data Processing. The cost of data processing services for a Grant is allowable with approval.
2. Building Space and Related Facilities. The cost of space in privately owned buildings used for the benefit of the grant program is allowable with approval and subject to the conditions stated below. The total cost of space may not exceed the rental cost of comparable space and facilities in a privately owned building in the same organization. The cost of space procured for grant program usage may not be charged to the program for periods of nonoccupancy without authorization of the DHCD.
 - (a.) Rental Cost. The rental cost of space in a privately owned building is allowable.
 - (b.) Maintenance and Operation. The cost of utilities, insurance, security, janitorial services, elevator service, upkeep of grounds, normal repairs and alterations and the like, are allowable to the extent they are not otherwise included in rental or other charges for space.
 - (c.) Occupancy of Space Under Rental-Purchase or a Lease With Option-to-Purchase Agreement. The cost of space procured under such arrangements is allowable when specifically approved by DHCD.
3. Rearrangements and Alterations. Cost incurred for rearrangement and alteration of publicly owned building space and related facilities required specifically for the grant program or those that materially increase the value or useful life of the facilities (see Item 4. Capital Expenditures, below) are allowable when specifically approved by DHCD.
4. Capital Expenditures. The cost of facilities, equipment, other capital assets, and repairs which materially increase the value or useful life of capital assets is allowable when such procurement is specifically approved by DHCD. When assets acquired with VEI funds are (1) sold, (2) no longer available for use in the VEI sponsored program, or (3) used for purposes not authorized by DHCD, the VEI equity in the asset will be refunded to DHCD in the same proportion as VEI participation in its cost. (The amount shall equal the cost less depreciation based on current market value or sale price). In case any assets are traded on new items, only the net cost of the newly acquired asset is allowable.

5. Insurance and Indemnification.
- (a.) Costs of insurance required, or approved and maintained pursuant to the grant agreement, is allowable, when approved.
 - (b.) Costs of other insurance in connection with the general conduct of activities is allowable when approved and subject to the following limitations:
 - (1) Types and extent and cost of coverage will be in accordance with general state or local government policy and sound business practice.
 - (2) Costs of insurance or of contributions to any reserve covering the risk of loss of, or damage to, Federal Government or State Government property is unallowable except to the extent that DHCD has specifically required or approved such costs.
 - (c.) Contributions to a reserve for a self-insurance program approved by DHCD are allowable to the extent that the type of coverage, extent of coverage, and the rates and premiums would have been allowed had insurance been purchased to cover the risks.
 - (d.) Actual losses which could have been covered by permissible insurance (through an approved self-insurance program or otherwise) are unallowable unless expressly provided for in the grant agreement. However, costs incurred because of losses not covered under nominal deductible insurance coverage provided in keeping with sound management practice, and minor losses not covered by insurance, such as spoilage, breakage and disappearance of small hand tools which occur in the ordinary course of operations, are allowable.
 - (e.) Indemnification includes securing the grantee against liabilities to third persons and other losses not compensated by insurance or otherwise. The State is obligated to indemnify the grantee only to the extent expressly provided for in the grant agreement, except as provided in (d) above.
6. Management Studies. The cost of management studies to improve the effectiveness and efficiency of grant management for ongoing programs is allowable except that the cost of studies performed by agencies other than the grantee department, and by outside consultants, is allowable only when authorized by the DHCD.

UNALLOWABLE ADMINISTRATIVE COSTS

The same restrictions on allowability of costs apply to both direct and indirect charges; no expense which would be unallowable as a direct charge may be included as an indirect cost

THE FOLLOWING IS A LIST OF ADMINISTRATIVE COSTS WHICH ARE UNALLOWABLE.

1. Bad Debts. Any losses arising from uncollectible accounts and other claims, and related costs, are unallowable, except for loans which have gone through the appropriate default procedures.
2. Contingencies. Contributions to a contingency reserve with VEI funds or any similar provision for unforeseen events are unallowable.
3. Contributions and Donations. Unallowable.
4. Chief Executive's Expenses. The salaries and expenses of the chief executive of an organization with a broader mission than the operation of the VEI is considered a cost of general operation and is unallowable. The only exception is that the portion of salaries and expenses directly related to managing and operating the VEI program site by the chief executive and staff is allowable.
5. Entertainment. Costs of amusements, social activities, and incidental costs relating thereto, such as meals, beverages, lodgings, rentals, transportation, and gratuities, are unallowable.
6. Fines and Penalties. Costs resulting from violations of, or failure to comply with Federal, State and local laws and regulations are unallowable.
7. Interest and Other Financial Costs. Interest on borrowings (however represented), bond discounts, cost of financing and refinancing operations, and legal and professional fees paid in connection therewith, are unallowable except when authorized by Federal legislation, and except as provided for in ALLOWABLE ADMINISTRATIVE COSTS item 4 (a) Building Space and Related Facilities-Rental Costs.
8. Legislative Expenses. Salaries and other expenses of the State legislature or similar local governmental bodies such as county supervisors, city councils, school boards, planning district commission members, etc., whether incurred for purposes of legislation or executive direction, are unallowable.

9. Local Government Expenses. General expenses required to carry out the overall responsibilities of local government are unallowable.
10. Underrecovery of Costs Under Grant Agreements. Any excess of cost over the State contribution under one grant agreement is unallowable under other grant agreements.
11. Advisory Councils. Costs incurred by advisory councils or like organizations are ineligible, except in the case of citizen participation councils or committees.
12. Budgeting. Costs incurred for the development, preparation, presentation, and execution of budgets are ineligible. (Costs incurred relative to the specific grant budget are allowable).
13. Central Stores. The cost of maintaining and operating a central stores organization for supplies, equipment, and materials is ineligible.
14. Employee Morale, Health and Welfare Costs. The costs of health or first-aid clinics and/or infirmaries, recreational facilities, employees' counseling services, employee information publications, or any related expenses incurred in accordance with general State or local policy, are ineligible.
15. Exhibits. Ineligible.
16. Motor Pools. The costs of a service organization that provides automobiles to user agencies at a mileage or fixed rate and/or provides vehicle maintenance, inspection and repair services are ineligible.
17. Pre-Agreement Costs. Costs incurred relative to the Grant proposal prior to executing the Grant contract agreement are ineligible.
18. Proposal Costs. Costs of preparing proposals on potential Federal or State grants are ineligible.

CLASSIFICATION OF COSTS

General administrative costs can be classified in either of two ways, as direct costs or as indirect costs.

- a. Direct Costs are those costs required specifically for the implementation of the VEI program. According to OMB A-87, A:

"Direct costs are those that can be identified specifically with a particular cost objective. These costs may be charged directly to federally-supported or other programs against which costs are finally assigned...Typical direct costs chargeable to Federal financial assistance programs are:

- (1) compensation of employees for the time devoted and identified specifically to the performance of grant programs.
- (2) Cost of materials acquired, consumed, or expended specifically for the purpose of the grant.
- (3) Equipment and other approved capital expenditures.
- (4) Travel expenses incurred specifically to carry out the grant.
- (5) Minor items. Any direct costs of a minor amount may be treated as an indirect cost for reasons of practicality where such accounting treatment for that item of cost is consistently applied to all cost objectives."

The following Allowable Costs are typical examples of direct costs:

- Compensation for Personal Services
- Employee Fringe Benefits
- Legal Expenses
- Materials and Supplies
- Printing and Reproduction
- Professional Services, and
- Travel.

- b. Indirect costs are not allowable under the VEI. They include those normally designated as overhead.

PROGRAM INCOME

Program income is defined as gross income received by an organization from the use of VEI funds (i.e. income earned from the repayment of loans, training fees, etc).

Any payment of grant expenditures made to the organization **prior to the Administrative Closeout** must be used on the Program in accordance with the Virginia Enterprise Initiative Grant contract. Such payments must be used to offset drawdowns from the organization's grant account as they relate to the budget category for which the income is realized. For example, income earned from the repayment of loans shall be used to offset drawdowns in the loan budget category. In fact, the intention of the loan leveraging component is to set in place a longer term funding sustainability strategy for continuance of the program beyond VEI. However, program income does not include the repayment of funds leveraged in a private bank loan pool, since that loan pool is still a private resource. Grantees are encouraged to maximize the time periods for usage of these private resources to meet the goals of their program.

AUDIT

VEI Grantees are required to submit an annual Independent Audit in accordance with Generally Accepted Auditing Standards (GAAS) set forth by the American Institute of Certified Public Accountants (AICPA). In addition to an audit, VEI sites must also submit any responses provided by the organization to any findings of the annual audit.

Appendix II

Examples of Innovation

- Social enterprise feasibility study
- Funding to launch a social enterprise
- Marketing or testing of new product development
- Enhanced use of technology to increase reach/efficiency
 - Distance learning curricula development or purchase
 - Distance lending products
 - Technology plans
- Creating/analyzing potential new cost recovery mechanisms
- Special promotion linkage with VIDA/IDA programs
- Web malls for clients
- Technology labs for clients
- Development of new marketing materials to reach specific populations; other assistance in reaching new populations; funding for assistance with translation
- Alternative underwriting
- Participation in credit builders
- Creative economy entrepreneur products
- Access to market – farmers markets; commercial kitchens, stores etc.
- Sectoral specialization; cluster development
- Financial education