



Capitalization Waiver

To: Area 7 Sub-grantees

From: John Trott, Executive Director

Date: 17 April 2009

RE: AG7-508: Capitalization of Small Businesses

Purpose

This administrative guideline will provide guidance for Area 7 sub-grantees using the Ohio Department of Job & Family Services (ODJFS) waiver from the US Department of Labor (USDOL) allowing Workforce Investment Act (WIA) funds to be spent on the capitalization of small businesses up to \$5,000.

It is expected this waiver will give sub-grantees more options when helping participants become self-sufficient and widen the opportunities for “in-demand” employment by creating jobs through self-employment.

Background

WIA Section 181(e) and 20 CFR 667.262 prohibit the use of WIA funds for capitalization of businesses and other activities not directly related to training for eligible individuals. On 5 November 2007, USDOL approved a waiver of §667.262 to remove the limitation on using WIA funds for capitalization of small businesses. ODJFS WIA Policy Letter No. 08-10.2, dated 13 April 2009, provides parameters for local workforce areas wishing to utilize the capitalization waiver from USDOL. 20 CFR 667.200 lists fiscal and administrative requirements for the use of capitalization funds.

Action

Activities Allowable Without a Waiver

Some entrepreneurial and small business services are already allowable with WIA Adult, Dislocated Worker, and Youth formula funds without a waiver. These include, but are not limited to:

- ◆ **Computers, equipment, and software:** these cannot be purchased for the sole use of the business's commercial operation, but if they are purchased by the business and used to provide training to eligible WIA participants, WIA funds can pay a portion of the cost as a "user fee" as follows (see OMB Cost Principle Circulars):
 - **Computers:** Computers are considered either "supplies" (if cost less than \$5,000 per unit and are personal property other than equipment) or "equipment", based on the purchase price and definition under allowable cost principles, so WIA may pay costs proportionate to the amount of time the computer is used for training.
 - **Equipment** (*acquisition cost of \$5,000 or more with a useful life of more than one year*): For capital assets such as equipment, WIA may pay a use allowance fee for the time the equipment was used in training. The fee is capped at 6 and 2/3 percent of the acquisition cost on a yearly basis and may only be charged proportionately to the time the asset is used in training. See 20 CFR 725 (OMB Circular A-87) Appendix B, Item 11.
 - **Software:** Software is not considered a fixed asset under the allowable cost principles, so WIA may pay a share of the annual licensing agreement fee or other software usage costs, proportionate to the amount of time the software is used for training.
- ◆ **Credentials:** pay the costs associated with obtaining a entrepreneurial credentials (i.e. barbering, title examiner, notary, etc.)
- ◆ **Entrepreneurial training:** training and workshops for eligible participants to be new entrepreneurs and small business owners, through Ohio's Eligible Training Provider List Online (ETPO)
- ◆ **Recruitment & hiring:** posting jobs, recruiting workers, conducting interviews, and screening applicants for businesses of any size
- ◆ **Skills training:** training for eligible participants who are potential employees, through on-the-job training (OJT), incumbent worker training (IWT), and customized training (requires employer match of 10%-50% – see ODJFS WIA Transmittal Letter No. 40)
- ◆ **Website development:** provide a small business or entrepreneur with assistance developing a website (either directly or through a contract), as long as it focuses on either training the small business on web development or developing the website for the small business

Activities Allowable Under Waiver

WIA funds may be used for eligible Adults, Dislocated Workers, and Youth for costs associated with the establishment of a new small business, up to \$5,000. Small businesses are those that have 25 or less employees. Examples of purchases allowable under this waiver include, but are not limited to:

- ◆ Equipment (for the purpose of training the small business owner of the employees; or for the purpose of creating new employment opportunities for workers)
- ◆ Fees and tuition payments for licensure or certification of employees when required by law or local ordinance
- ◆ Unfinished or raw materials for production of finished goods

Disallowed Activities

These funds shall not be used to capitalize pyramid sales jobs, chain referrals, or multi-level distributorships. Other disallowed activities include:

- ◆ Advertising/marketing materials
- ◆ Alcohol
- ◆ Business consultant fees
- ◆ Employee Stock Option Purchase (ESOP)
- ◆ Entertainment
- ◆ Fixtures (i.e. counters, showcases, shelves), supplies, and real estate/office space
- ◆ Foreign travel
- ◆ Insurance payments
- ◆ Lease or rental payments (facility or equipment)
- ◆ Legal fees
- ◆ Licenses and permits associated with starting a business (i.e. vendor license)
- ◆ Office supplies
- ◆ Product development and initial inventory
- ◆ Weapons

Eligibility

Funds may be used under this waiver only for eligible Adults, Dislocated Workers, or Youth with no findings for recovery listed with the Auditor of State. Prior to the award of funds, these individuals must:

- ◆ Demonstrate the need for training or technical advisory services in order to start or operate a small business.

- ◆ Successfully complete entrepreneurial or microenterprise training (or within 12 months prior to application). Since Ohio Department of Development’s Small Business Development Centers (SBDC) and Business Incubator Centers may provide this training at a low- or no-cost basis, sub-grantees must utilize these resources, when available, prior to applying WIA funds toward the cost of this training.
- ◆ Complete and updated business plan, which must be approved by the Area 7 sub-grantee awarding the capitalization funds **and** Ohio Department of Development’s Small Business Development Center (SBDC) or Minority Business Enterprise Development Center (MBEDC).
- ◆ Agree to participate in free SBDC or MBEDC technical advisory services.

Documentation & Monitoring

In addition to the documentation required of eligible WIA participants in ODJFS WIA Transmittal Letter No. 27, participants’ files must also contain the following documentation:

- ◆ Sub-grantee approval for the funding
- ◆ Suitability for entrepreneurial training
- ◆ Proof of successful completion of entrepreneurial/microenterprise training
- ◆ Copy of the complete business plan
- ◆ SBDC or MBEDC written approval of the business plan
- ◆ Description of and receipt for items for which capitalization funds were used (Note: if WIA funds are paid based on cost estimates/quotes, and the actual cost ends up being lower than the estimate, the difference **must** be recaptured.)
- ◆ SCOTI input, to include earnings of self-employed participants in the “supplemental source of data” section in the first quarter after exit

Sub-grantees utilizing this waiver must provide the following information to the Area 7 administrative office (area7@clarkstate.edu) on a quarterly basis:

- ◆ Number of participants enrolled in microenterprise training
- ◆ Number of participants who have applied for capitalization funds
- ◆ Number of participants approved for capitalization funds
- ◆ Follow-up status of businesses of all participants who have received capitalization funds

Performance

Capitalization participants will be included with the WIA general population for common performance measures. The following outcomes will also be monitored:

- ◆ Number of businesses started
- ◆ Number of new jobs created
- ◆ Number/percent of businesses still in operation during quarterly follow-up reports