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HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1977

DOCUMENTS

MAY 20 1977

FARRELL L. HARRIS
KANSAS STATE UNIVERSITY

HEARINGS

BEFORE THE

SUBCOMMITTEE ON

HOUSING AND COMMUNITY DEVELOPMENT

OF THE

COMMITTEE ON

BANKING, FINANCE AND URBAN AFFAIRS

HOUSE OF REPRESENTATIVES

NINETY-FIFTH CONGRESS

FIRST SESSION

PART 2

MARCH 2, 3, AND 4, 1977

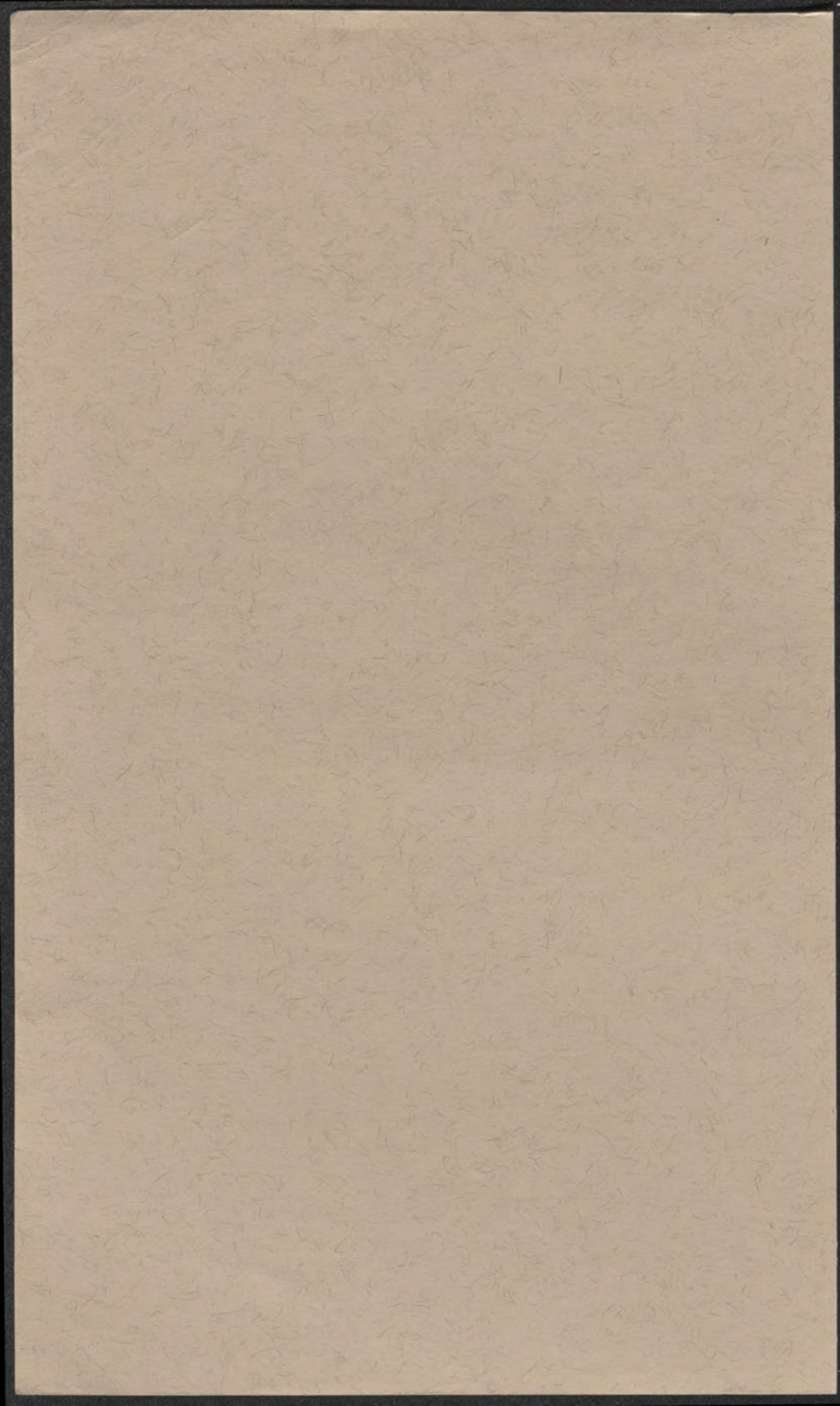
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HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1977

WEDNESDAY, MARCH 2, 1977

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING AND COMMUNITY
DEVELOPMENT OF THE COMMITTEE ON BANKING,
FINANCE AND URBAN AFFAIRS,
Washington, D.C.

The subcommittee met at 10:15 a.m. in room 2128 of the Rayburn House Office Building; Hon. Thomas L. Ashley [chairman of the subcommittee], presiding.

Present: Representatives Ashley, Moorhead, St Germain, Fauntroy, Blanchard, Lundine, Brown, Wylie, Kelly, Grassley, and Evans.

Also present: Representative Mary Rose Oakar of Ohio.

Mr. ST GERMAIN [presiding]. The subcommittee will come to order.

Our witnesses this morning—and we apologize for the tardy beginning—are representing the National Governors Conference, Governor Milliken of Michigan; and the Council of State Legislatures, Representative Sweeney of Ohio; and the National Urban Coalition, Sarah Austin, vice president, introducing Floyd Hyde, a board member.

At this point I would call on the gentlelady from the great city of Cleveland, which is a suburb of Oberlin, to introduce Representative Sweeney. However, we shall naturally have Governor Milliken testify first, but in deference to her heavy schedule, I would at this point ask the gentlelady to make the introduction of our second witness.

Ms. OAKAR. Thank you, Mr. Chairman and members of the committee.

I feel it a special privilege to introduce a longtime friend and also a native Clevelander who has had much experience in the field of housing and community development. He is Representative Patrick Sweeney of the Ohio State House of Representatives, sixth district. And he has had much experience. He is in his sixth term, although he looks a lot younger, and I think you will find his experience and his knowledge of this important issue, the block grant, to be of value to this committee.

So I thank you for letting me introduce my good friend and fellow Clevelander.

Thank you, Mr. Chairman.

Mr. ST GERMAIN. Thank you, Ms. Oakar.

Now I would ask Governor Milliken to come to the table.

Governor, we will put your entire statement in the record, as presented, without objection. And if you in any way would like to comment or depart from that or supplement it or whatever, feel free to do so. The entire statement, as submitted, at this point is part of the record.

Governor MILLIKEN. Thank you very much, Mr. Chairman.

Mr. BROWN. Governor, before you begin, let me just say it is a great pleasure for me to be able to welcome you to the subcommittee this morning. Whether you be Democrat or Republican, I am sure that throughout this Nation you are recognized as one of the outstanding, if not the outstanding, Governor of all of the States. So it is a real privilege and pleasure for me to be able to welcome you here this morning.

Governor MILLIKEN. Thank you very much, Congressman Brown. I appreciate those warm remarks.

Mr. ST GERMAIN. Governor, I think you have more laudatory remarks coming, and I will call on the gentleman from Detroit, Mr. Blanchard.

Mr. BLANCHARD. Thank you, Mr. Chairman.

I simply want to welcome our distinguished Governor from Michigan here, and merely add a footnote to the history.

The Governor is a Republican. I have a feeling that had he succeeded Richard Nixon and become President of the United States by appointment, he would have been reelected, unlike the other distinguished gentleman from Michigan. And the reason is the bipartisan nature with which he has conducted the affairs of his office, which I think has allowed him to enjoy very warm relations with our entire Michigan delegation. And I appreciate the way you have handled your Governor's office and the way your staff has dealt with the Michigan congressional delegation. I wanted my colleagues to hear that.

Governor MILLIKEN. Congressman Blanchard, thank you very much for those warm comments.

Mr. ST GERMAIN. Governor, you are off and running.

STATEMENT OF HON. WILLIAM G. MILLIKEN, GOVERNOR, STATE OF MICHIGAN, ON BEHALF OF THE NATIONAL GOVERNORS CONFERENCE, ACCOMPANIED BY ROBERT HORN, STATE OF MICHIGAN OFFICE IN WASHINGTON, D.C.; JOANNE DODDY FORT, NATIONAL GOVERNORS CONFERENCE; AND JOSEPH ANASTASI, SECRETARY, MARYLAND DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT, AND PRESIDENT, COUNCIL OF STATE COMMUNITY AFFAIRS AGENCIES

Governor MILLIKEN. Thank you.

Let me say first of all that I am very pleased and very proud to be here, and I am particularly proud of the two Michigan Congressmen who serve, Mr. Chairman, on your subcommittee, I know with great distinction.

I am here this morning representing, first of all, the National Governors Conference, and I am here also as Governor of the State of Michigan.

With me this morning from the State of Michigan office here in the city of Washington is Robert Horn; Joanne Doddy Fort with the staff of the National Governors Conference, who is likewise with me; and Mr. Joseph Anastasi, the Secretary of the Maryland Department of Economic and Community Development, and President of the Council of State Community Affairs Agencies. I am very pleased to have them with me at the table this morning.

Since 1971, as I think, Mr. Chairman and members of the subcommittee, you know, the National Governors Conference has supported the use of block grants for State and local community development programs. Consequently, the Governors welcomed the advent of the community development block grant program in 1974.

We had high hopes that the program would indeed return decision-making power to the people in State and local government while simultaneously providing assistance to jurisdictions to improve the conditions of their communities.

From the States' perspectives, these hopes have not yet been entirely fulfilled.

The States were given a limited role in the total program and were eliminated from the block grant portions of the program. No special recognition was given to State projects, either in the form of a set-aside of funds for State community development projects or an entitlement for a funding. To date, only 10 States have received 13 grants for a total of about \$12 million of the \$7 billion which has been disbursed in the form of direct grants.

States can only apply for community development block grant discretionary funds from two funds. In order to acquire funds from the general purpose discretionary funds, States are forced to compete with their own localities for limited funds. Most States, I might add, have declined to put themselves in this untenable position. To date, only four States have received general purpose discretionary funds.

The second source of funds for States is the Secretary's discretionary fund. To date, only six States have received grants under this funding source. Their funds are awarded for specific classes of projects at the discretion of the Secretary on a project-by-project basis. In this sense, the awards more closely resemble categorical grants than block grants.

We in the State capitals realize—and I want you to know that we realize full well the reasons why States have historically been excluded from many of HUD's programs for community developments. A decade ago, relatively few States had active community development programs or departments of community affairs, but neither did most urban counties or many entitlement cities prior to the passage of the community development block grant program.

But today, I want to emphasize that the State picture is changing. State governments can no longer ignore the troubles of their cities. There has been an increased interest in involvement in States in community development, and I have attached, Mr. Chairman, to this testimony some examples of the various State programs in the community development and neighborhood preservation areas.

These examples which I have attached illustrate that the States provide a variety of special grant funds, demonstration and innova-

tion programs, significant financing for the construction and rehabilitation of housing, and extensive technical and advisory assistance to local officials.

[The examples referred to follow Governor Milliken's prepared statement.]

We understand the administration's desire to focus limited HUD resources toward those areas with the greatest housing and urban development needs. We endorse the administration's proposal for a higher funding level and a dual formula for this program. The dual formula approach accommodates the diversity in the Nation's communities. The new formula aids in remedying the steady decline of our older urban areas. As you are aware, these communities face enormous problems, including decaying housing stocks, increased abandonment, diminishing population, and erosion of their tax base.

Although the size of the city is often an indication of how extensive the blight becomes, smaller cities often represent microcosms of the decay affecting their larger counterparts. The new funding formula takes these factors into consideration without penalizing cities for their diminished economic standing. It is a move toward greater equity in the Federal formula. We support this resolution of the very difficult issue posed by the use of a funding formula.

But the National Governors Conference remains concerned that States are omitted from the administration's program. We strongly feel that the inclusion of the States in the program as recipients of block grant funds and as participants in the decisionmaking process for the distribution of discretionary funds can further the administration's goals.

As recipients of block grant funds, States could implement statewide or multicomunity programs which would more efficiently utilize the limited resources for smaller cities in metropolitan and nonmetropolitan areas. Federal funds would allow States to augment their own State funds to continue and expand successful State programs.

The participation of the States in the Federal program will also provide an incentive for States to develop new programs in cooperation

Again, the examples cited earlier illustrate the range of State activities that Federal funds could support.

Consistent with the administration's proposal for a small city initiative, the State could assist in packaging Federal and State grants and providing comprehensive community development needs for smaller jurisdictions. State participation with small cities is especially important. We are concerned about some of our nonentitlement, hold-harmless jurisdictions which are involved in community development efforts and which will lose funding under the proposed program.

If States have entitlement funds and if States are involved in the decisionmaking process for the allocation of funds to these communities, we would have the flexibility to accommodate these situations. But we need specific congressional recognition of this role for the States.

State participation could also increase the effectiveness of the urban economic development thrust of the administration's new proposal. Most States have strengthened the coordination between community and economic development. In 18 States these functions are in a single-State agency. Wherever possible State-local cooperation should be

encouraged. A good way to do this is to give priority to urban action grant projects which include State participation.

The National Governors Conference has just adopted the position that—to allow State set-aside of funds for tribal governments. The Indian tribes residing in our several States have critical community development needs which can be addressed through the discretionary fund. We should not, therefore, have to compete between the tribes and general-purpose local governments for the same funds. This competition adds a great measure of strain to the problems which now exist between tribal governments and their nearby municipalities.

In summary, Mr. Chairman, we view this new community development block grant program as a marked improvement over the previous program in many respects. It provides increased funding for those cities which are most in need while at the same time continuing its commitment to other needy cities. It provides for a comprehensive approach to community development and recognizes the importance of an economic development component in this process; and it provides for more comprehensive coverage of small cities.

But the proposal still fails to provide a satisfactory role for the States. It fails to recognize and constructively tap the experience, resources, and the talents of State government, which are moving to assist their localities with comprehensive community development programs.

With this failure, Mr. Chairman, we feel that the community development block grant program is still missing an important link to its most efficient and effective operation. It is our hope that your subcommittee will reexamine this omission from the administration's overall proposal. The National Governors Conference stands ready to provide your subcommittee with any additional information it might require about what States have been doing or could be doing in the community development area.

Before closing, Mr. Chairman, I would just like to briefly note our specific approval of a few of the administration's recommendations in other housing and community development programs. We are pleased to see a \$10-million expansion of the urban homesteading program. This program offers many new possibilities for the revitalization of our dying cities. Similarly, the retention of the section 312 rehabilitation loan program will help to promote this objective. The increased funding level for comprehensive planning management grants under the section 701 program from \$25 million to \$62 million is also a critical move in the right direction, although changes are still needed in the administrative regulations. It restores much-needed funding to States, counties, and cities. The experience in many jurisdictions has been that the need for section 701 money has increased and not decreased with the advent of the community development block grant program.

Finally, we are pleased that HUD has included a set-aside of \$20,000 units of section 8 housing for State housing agencies. This is a good start. However, we do feel that the resources of the States are being underutilized by this low number of reservations for State housing agencies. We hope this number could be reviewed and revised upward. States should be allocated at least 33,000 units for fiscal year 1978 just to keep the same level as the previous year.

I thank you, Mr. Chairman and members of the subcommittee, for letting me give you our views on HUD's proposed programs. We think you will see a substantial increase in interest and involvement on the part of the Governors on housing and community development matters in the coming year and beyond.

[The prepared statement of Governor Milliken, on behalf of the National Governors Conference, along with a report entitled "State Housing and Community Development Activities," prepared by the Council of State Community Affairs Agencies, follows:]

TESTIMONY OF
THE HONORABLE WILLIAM G. MILLIKEN
GOVERNOR OF MICHIGAN
BEFORE THE
SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT
HOUSE COMMITTEE ON BANKING, CURRENCY AND HOUSING

MARCH 2, 1977

TESTIMONY OF
THE HONORABLE WILLIAM G. MILLIKEN
GOVERNOR OF MICHIGAN
BEFORE THE
SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT
HOUSE COMMITTEE ON BANKING, CURRENCY AND HOUSING

Mr. Chairman and members of the Subcommittee. Thank you for the opportunity to present the views of the National Governors' Conference on the reauthorization of the Community Development Block Grant Program. I speak as Chairman of the NGC Committee on Community and Economic Development and Governor of Michigan. Accompanying me are: Robert Horn from the State of Michigan office here in Washington, Joanne Dobby Fort with the staff of the National Governors' Conference, and Joseph Anastasi, Secretary of the Maryland Department of Economic and Community Development and President of the Council of State Community Affairs Agencies.

Since 1971, NGC has supported the use of block grants for state and local community development programs. Consequently, the Governors welcomed the advent of the Community Development Block Grant Program in 1974. We had high hopes that the program would indeed return decision-making power to the people in state (and local) government while simultaneously providing assistance to jurisdictions to improve the conditions of their communities.

From the state perspective those hopes have yet to be fulfilled. The States were given a limited role in the total program, and were eliminated from the block grant portions of the program. No special recognition was given to state projects -- either in the form of a set-aside of funds for state community development projects or an entitlement for funding. To date, ten States have received 13 grants for a total of \$11.9 million.

States can only apply for CDBG discretionary funds from two sources. In order to acquire funds from one source, the highly competitive General Purpose Discretionary Fund, States are forced to compete with their own localities for limited funding.

Most States have declined to put themselves in this untenable position. Even when States have expressed interest in this type of funding, some HUD area offices have questioned their eligibility for these funds. To date, only four States have received General Purpose Discretionary funds.

The second source of funds for States is the Secretary's Discretionary Fund. To date, only six States have received grants under this funding source. Their funds are awarded for specific classes of projects at the discretion of the Secretary, on a project-by-project basis. In this sense, the awards more closely resemble categorical grants than block grants. The Secretary determines the types of projects which will receive preference under this Fund; and States must comply in order to receive funding.

The bottom line of the state experience with the CDBG Program consequently reads: No block grants for States.

We in the state capitols realize the reasons why States have historically been excluded from many of HUD's programs for community development. A decade ago, ——— relatively few States had active community development programs or departments of community affairs. But neither did most urban counties or many entitlement cities prior to the passage of the Community Development Block Grant Program.

Today, the state picture is changing. State governments can no longer ignore the troubles of their cities. There has been increased interest and involvement of States in community development. Thirty States now have departments of community affairs while fifteen others have major divisions of state government which handle these issues. In addition, 24 States have established state housing finance agencies. I have attached to this testimony some examples of the various state programs in the community development and neighborhood preservation areas.

These examples illustrate that the States provide a variety of special grant funds, demonstration and innovation programs, significant financing for the construction and rehabilitation of housing, and extensive technical and advisory assistance to local officials.

We understand that federal resources are limited and that the administration has indicated its desire to focus HUD resources towards those areas with the greatest housing and urban development needs. We endorse the Administration's proposal for a higher funding level and a dual formula for this program.

The dual formula approach accommodates the diversity in the nation's communities.

The new formula aids in remedying the steady decline of our older urban areas. As you are aware, these communities face a plethora of problems including: decaying housing stocks, increased abandonment, diminishing populations and erosion of their tax base. Although the size of the city is often an indication of how extensive the blight becomes, smaller cities often represent microcosms of the decay affecting their larger counterparts. The new funding formula takes these factors into consideration. It identifies new variables such as the age of housing, poverty and a third element called growth lag. These measures appear to take cognizance of current conditions without penalizing cities for their diminished economic standing. It is a move towards greater equity in federal formulae. We support this resolution of the very difficult issue posed by the use of a funding formula.

But the National Governors' Conference remains concerned that States are omitted from the Administration's program. We strongly feel that the inclusion of States in the program as recipients of CDBG funds and as participants in the decision-making process for the distribution of discretionary funds can further the Administration's goals.

As recipients of CDBG funds, States could implement statewide or multi-community programs which would more efficiently utilize the limited resources for smaller cities in metropolitan and non-metropolitan areas. Federal funds would allow

States to augment their own state funds to continue and expand successful state programs. The participation of the States in the federal program will also provide an incentive for States to develop new programs in cooperation with local governments. Again, the examples cited earlier illustrate the range of state activities that federal funds could support.

Consistent with the Administration's proposal for a small city initiative, the State could assist in packaging federal and state grants and providing comprehensive community development needs for smaller jurisdictions.

State participation with small cities is especially important. We are concerned about some of our non-entitlement hold-harmless jurisdictions which are involved in community development efforts and which will lose funding under the proposed program. If States have entitlement funds and if States are involved in the decision-making process for the allocation of funds to these communities, we would have the flexibility to accommodate these situations. But we need specific Congressional recognition of this role for the States.

State participation could also increase the effectiveness of the urban economic development thrust of the Administration's new proposal. Most States have strengthened the coordination between community and economic development. In 18 States, these functions are in a single state agency.

The Michigan experience with its Renaissance Center Project has demonstrated that there is a definite role which the State can play both in community development and economic development in a major urban area. This type of State-local cooperation should be encouraged. A good way to do this is to give priority to Urban Action Grant projects which include State participation.

The National Governors' Conference has just adopted the position that the funding pattern for community development funds should allow a set-aside of funds for tribal governments. The Indian tribes residing in our several States have critical community development needs which can be addressed through the discretionary fund. However, in the interest of consistency and the special relationship of the federal government to the tribes, we should not have competition between the tribes and general purpose local government for the same funds. This competition adds a great measure of strain to the problems which now exist between tribal governments and their nearby municipalities. A means for tribes to compete against tribes, and general purpose local governments against each other, would be the most equitable method of competition.

In summary, Mr. Chairman, we view this new CDBG Program as an improvement over the previous program in many respects. It provides increased funding for those cities which are most in need while at the same time continuing its commitment to other needy cities. It provides for a comprehensive approach to community development and recognizes the importance of an economic development component in this process. And it provides for more comprehensive coverage of smaller cities.

But the proposal still fails to provide a satisfactory role for the States. It fails to recognize and constructively tap the experience, resource and talents of state governments which are moving to assist their localities with comprehensive community development programs. With this failure, Mr. Chairman, we feel that the CDBG Program is still missing an important link to its most efficient and effective operation.

It is our hope that your Committee will reexamine this omission from the Administration's overall proposal. The National Governors' Conference stands ready to provide your Committee with any additional information it might require about what States have been doing or could be doing in the community development area.

Before closing, Mr. Chairman, I would just like to briefly note our specific approval of a few of the Administration's recommendations in other housing and community development programs.

We are pleased to see a \$10 million expansion of the Urban Homesteading Program. This program offers many new possibilities for the revitalization of our dying cities. Similarly, the retention of the Section 312 Rehabilitation Loan Program will help to promote this objective.

The increased funding level for Comprehensive Planning Management grants under the 701 Program from \$25 million to \$62 million is also a critical move in the right direction. It restores much needed funding to States, counties and cities. The experience in many jurisdictions has been that the need for 701 money has increased -- not decreased -- with the advent of the CDBG Program.

Finally, we are pleased that HUD has included a set-aside of 20,000 units of Section 8 housing for state housing agencies. This is a good start. However, we do feel that the resources of the States are being under-utilized by this low number of reservations for state housing agencies. We hope this number could be reviewed and revised upward. States should be allocated at least 33,000 units for FY 78 just to keep the same level as FY 77.

Thank you, Mr. Chairman, for letting me give you our views on HUD's proposed programs. We think that you will see a substantial increase in interest and involvement on the part of the Governors on housing and community development matters in the coming year. I would be happy to answer any questions which the Committee might have, or to call on, with your permission, those staff people who are accompanying me.

STATE HOUSING AND COMMUNITY DEVELOPMENT ACTIVITIES

The following are brief descriptions of some state programs in housing and community development that contribute to the goals of the federal programs; the list is far from complete.

This compilation was prepared by the Council of State Community Affairs Agencies (February, 1977).

PENNSYLVANIA

The State of Pennsylvania has established a Neighborhood Preservation Support System for the purpose of mobilizing federal, state, local, and private resources to arrest the decline of inner-city neighborhoods. A portion of NPSS support comes from an "Innovative Project" grant awarded by the United States Department of Housing and Urban Development to the Pennsylvania Department of Community Affairs. The objective is to prevent the physical, economic, and human services deterioration of neighborhoods, whether they are segments of larger municipalities, small communities, or specified rural geographic areas.

Another Pennsylvania effort is the precedent-setting Neighborhood Preservation Program which credits state corporate taxes to businesses which contribute money or other resources to neighborhood needs.

The Pennsylvania Housing Finance Agency has also contributed to the State housing needs through a commitment to make more than \$137,000,000 in loans; these will finance the construction of more than 6,500 units of housing for low, moderate - and middle-income families and the elderly.

The state also provides several other forms of assistance, including extensive technical assistance, urban renewal funding, and weatherization funding.

CONNECTICUT

The State of Connecticut has a number of housing and community development programs. These programs include: an extensive rehabilitation program; an elderly housing program; urban homesteading support; and various financial programs through the Housing Finance Agency. Connecticut, as typical of Northeastern states, places heavy emphasis upon the rehabilitation and preservation of urban and metropolitan areas. The age of the housing stock is a major concern of Northeastern states and thus, measures are being taken in Connecticut to provide financing and technical assistance to the cities.

CALIFORNIA

In California, one of their activities is the Urban Community Development Program which provides technical and program assistance to local governments in order to promote the planning and implementation of urban housing and community programs. This includes efforts in rehabilitation and neighborhood preservation in which the poor can restore their homes and neighborhoods to meet local, state, and federal safety and sanitary standards. The California Housing Assistance Program is another effort which provides "Aftercare Housing" for the elderly, disabled and mentally retarded. 1,500 housing units have been constructed under this program. The state is also involved in a number of rural housing and development activities using state funds as well as federal and private funding.

The state has recently become active in financing programs through the new California Housing Finance Agency which has two programs: (1) Multi-unit direct lending and (2) Neighborhood Preservation. These two programs can work separately or together in order to upgrade the housing stock. The Neighborhood Preservation efforts are used to upgrade areas where the mortgage financing has been unavailable for some time, general housing stock is declining, and code enforcement is necessary. The Direct Lending program is used where market conditions can presently support conventional investment and is used to provide new housing opportunities to low and moderate income persons with an emphasis on the elderly, handicapped, and large families.

WYOMING

In Wyoming, the nation's energy demands have intensified the development of the state's natural resources of coal, gas, and oil. This development has affected all aspects of Community Development needs including: schools, police, fire, sanitation services, hospitals, and other public services.

Wyoming has responded to the socioeconomic pressures created by the energy demands by initiating a Pilot Program to provide a coordinated response with the local, state, and federal governments to the comprehensive problems of developmental impact. The objectives of the program are two-fold: To solve the immediate crisis; and to establish an on-going process and capacity for solving the problems of impactation. While the state has taken the initiative, the federal government must provide its resources and technical expertise in coordination with the state to help remedy impactation problems.

MONTANA

Montana is quite concerned about the "impaction" problem that communities face in the process of producing coal to help meet our nation's energy needs. One state effort has been to use \$650,000 of Old West Regional Commission funding to help alleviate the impaction that coal development will have on the Yellowstone River area. In addition, the Montana Future Process is an effort to analyze in a systematic way the future growth and development of the state's economy. Another Montana program assists local governments which have had to expand their services as a consequence of large-scale development of coal mines. The bill funds schools, construction, reconstruction and county land planning by inverting a portion of the tax revenue from the coal revenue.

THE COMMONWEALTH OF MASSACHUSETTS

In Massachusetts, one program that has gained a great deal of momentum is the Neighborhood Improvement Program (NIP). This program's goals and objectives are to: (1) Strengthen neighborhood organizations; (2) Rehabilitate housing; (3) Encourage increased homeownership by residents of the neighborhoods; (4) Improve and expand neighborhood facilities; (5) Enlist the support of local government, business, and financial institutions. To achieve the above results, the following five state, federal and local programs have been coordinated: (1) The state funded Scattered-Site Housing program; (2) The state's Leased Housing program; (3) Federal Community Development Block Grants; (4) Contributions by Private Lending Institutions; (5) Federal Section 8 New Construction and Substantial Rehabilitation.

Along with the NIP Program, the Massachusetts Legislature has passed a bill providing funds for the modernization and rehabilitation of public housing. The goal of the bill is to upgrade public housing. The

new law authorizes a \$50 million bond issue. Yearly spending limits have been set at \$12 million. The law is expected to create about 500 jobs per year in the construction trades. This piece of legislation will provide tenants with safe, decent and sanitary housing. The bill is designed to protect the state's considerable investment in public housing.

Massachusetts is interested not only in preserving its housing stock, but also planning for the future of communities. Consequently, the Massachusetts Growth Policy Development Act was passed in 1975. This act requires municipalities to form local growth committees in order to develop a "Statement of Growth Management Programs and Priorities."

Massachusetts has also initiated an effort to revitalize central business districts in small towns through a number of assistance means.

WISCONSIN

In Wisconsin, the state provides a variety of assistance in the areas of demonstration grants, housing finance and technical assistance in both urban and rural areas. A recent initiative is the new Rural Area and Community Development Council. The Council is to coordinate rural and community development programs and evaluate their effectiveness. A related action has been the establishment of a "Pilot Community Development Program" in which State agencies will cooperate to concentrate resources from state, regional planning commissions, and localities to meet priorities determined by the officials and residents in pilot communities. The Pilot Program was begun as a result of a recent Governors' Conference on non-metropolitan community development.

The state, in assessing its support for "Community Development," recently compiled an extensive list of over 30 programs that the state is involved in. The total expenditures in these programs is about \$90 million, with \$43.6 million of this comprised of state funds. This list can be provided for the record.

TEXAS

Texas has supported Neighborhood Housing Services (NHS) programs which are a joint venture with the Federal Home Loan Bank Board for the cities of: Fort Worth, Dallas, and San Antonio. In addition, a bill is currently before the legislature to provide state financing and technical assistance in housing rehabilitation.

Another measure that Texas is using to combat blight is the Neighborhood Preservation Loan Fund, a revolving loan fund supported by state appropriations. The program requires a local Neighborhood Preservation

Plan and incorporates the comprehensive needs of communities.

Texas also has a number of other programs which provide both financial and technical assistance to both urban and rural communities.

COLORADO

In Colorado a total of \$5 million has been appropriated since 1972 by the Colorado General Assembly for housing of low-income persons in towns and cities throughout the State; this Urban and Rural Grant Program is administered by the Division of Housing in the Department of Local Affairs. The Program has been used to establish ninety local projects in which about 2,370 housing units have been rehabilitated or constructed. To date, the State grant investment of \$4.7 million has resulted in private and federal cash investments of about \$13 million.

NEW JERSEY

New Jersey has been heavily involved in various housing and community development services for the past ten years. In addition, to substantial contributions of state funds to meet local needs, the state has helped to coordinate the delivery of disparate federal resources to local governments. For example, the state appropriated \$4 million for a demonstration Neighborhood Preservation Program in twelve New Jersey cities in cooperation with the Federally funded Urban Reinvestment Task Force. The state also uses a Revolving Housing Development and Demonstration Grant Fund to develop innovative methods of housing production, management, maintenance and rehabilitation to eliminate slums and blight. The many New Jersey programs include a very active Housing Finance Agency that has had a critical role in making the federal Section 8 program work. Another example of New Jersey's commitment is the temporary assignment of state staff to help process the backlog of Farmers Home Administration applications for mortgage assistance; the application proceeds represented \$8.8 million worth of low and moderate income loans for rural families.

ILLINOIS

In Illinois, a variety of state services and funding is provided to support local community development and housing. A major effort is the provision of technical assistance to coordinate the various federal funds available from HUD, the Economic Development Administration, and

the Farmers Home Administration. For example, the state has a Downtown-Business District program for improving central business districts.

Through the Illinois State Housing Board, created in 1933, the state has helped to establish one hundred and twenty-six local housing authorities; these authorities have over 70,000 dwelling units under management. Of these units, 3,000 were constructed with state grant assistance.

Added emphasis to the housing program began in 1969 with the establishment of the Illinois Housing Development Authority (IHDA). Its purpose is to provide lower interest mortgages through the sale of revenue bonds, with an initial authorization of \$500 million. As of fiscal 1976, 14,000 dwelling units have been developed with IHDA financing and 5,000 more are anticipated in 1977. The latter are being developed with assistance from HUD Section 8 housing funds.

UTAH

In Utah, a wide range of services is provided to meet overall community development needs, including: human resources, anti-poverty measures, management planning, technical assistance, intergovernmental personnel management, housing financing and rehabilitation, winterization, and local planning assistance.

The state's programs assist local communities in developing water and sewer facilities, rehabilitating housing, acquiring land for low-income housing projects, constructing community centers, and home winterization.

MARYLAND

The Department of Economic and Community Development is currently administering seven major state housing related programs: 1) the Maryland Housing Fund which insures loans for reasonably priced single-family housing, the construction and permanent financing of multi-family dwellings and the rehabilitation of housing and related facilities; 2) the Maryland Home Financing Program which provides direct mortgage loans at a preferred rate of interest to citizens of the State who have historically been unable to obtain private financing for the purchase of homes; 3) Housing Development Program which makes low interest loans to local governments, non-profit organizations and limited dividend developers for the construction and/or permanent financing of multi-family for-sale and rental housing for moderate and limited income families; 4) Maryland Housing Rehabilitation Program which has an initial reserve of \$10 million from the sale of State General Obligations Bonds for redevelopment efforts, 5) Section 8 Housing Assistance Payments Program from which the department has received a "set-aside" of Section 8 units from HUD to administer on its own, 6) Codes Administration Program which includes Industrialized Buildings and Mobile Homes, Model Performance Code for Building Construction and a Handicapped Code, and 7) Maryland Home Financing Authority which is empowered to issue bonds up to a maximum of \$100,000,000 to provide funds for the purchase of existing mortgages held by private lending institutions during periods when private capital for mortgage financing becomes scarce or unavailable.

The Department also is responsible for local and regional technical assistance, liaison and communications, federal program coordination and community development block grant activities.

OHIO

In Ohio the SPUR project -- State Programs Urging Redevelopment -- constitutes a major effort on the part of the Department of Economic and Community Development. Through a reexamination of state legislation, an effort is being made to identify and interpret laws which would promote both housing and commercial/industrial redevelopment activities.

The division is currently distributing the findings of its reexamination effort in an attempt to make local governments aware of the options available to support their redevelopment activities. A digest of local government activities undertaken as part of the SPUR program is also being prepared.

Additionally, the division has undertaken a survey of state agencies to determine the total number of housing functions administered at the state level. To date, they have identified 33 functions residing in 12 different agencies. From this, housing policy will be examined and analyzed from a total state perspective. The state resources include those of the Ohio Housing Development Board, which is in the process of becoming a fully authorized housing finance agency, in insuring some programs, providing technical assistance and authorizing seed money loans.

WEST VIRGINIA

In West Virginia, the state has launched a major effort to provide adequate housing which will include administering \$30 million dollars in housing and community development grants and loans. Their approach to housing and community development will be to determine the needs, develop priorities, interpret priorities into fundable projects, provide loans and grants, and evaluate performance in reference to future projects and funding commitments.

The HUD - 701 and EDA - 302 planning programs will be coupled with the ARC areawide action planning process. This will produce a comprehensive state development plan which will address both economic and community development. Through these actions, West Virginia will assume a leading role in joining housing, community development, and economic development into a comprehensive strategy for areawide development.

Mr. ST GERMAIN. Thank you, Governor.

Mr. BROWN?

Mr. BROWN. Mr. Chairman, I, in welcoming the Governor, was grossly remiss in not welcoming also and introducing his charming wife.

Mrs. Milliken, would you stand, please.

Mrs. MILLIKEN. Thank you, Mr. Brown.

Mr. ST GERMAIN. We appreciate Mr. Brown's bringing to our attention the presence of the Governor's wife. Certainly, those of us who are in the Congress appreciate the fact that anyone who is in public life has to have a very patient and understanding wife.

Governor, I realize that you weren't responsible for preparing the list which I noted with this example of the community development-type organizations of the various States. But to whomever prepared the list, I want to express my chagrin at the fact that they did not note the very able, efficient, superior record of the Rhode Island Department of Community Development. It has been outstanding. And the plea that you make today certainly has been brought to this member's attention by the Governor of Rhode Island as well as the people in the department of community affairs in Rhode Island. So I can well understand their desire for more participation.

I also congratulate the National Governors Conference for the fact that despite your feeling of having been "left out," you nonetheless do support the efforts and the thrust of the legislation before us.

As you know, we all realize that the States, no doubt, would like to have increased participation. Year after year I am called upon by my particular department of community affairs because of their concern with the amount of funding they get from section 701. They have demonstrated to me an ability to do an even better job were they given additional funding, and they have in fact very seriously performed an outstanding service to the smaller communities of the State which without the assistance of the State department just could not in most instances have hoped to participate in the programs of HUD.

Mr. Brown?

Mr. BROWN. Thank you, Mr. Chairman.

And thank you very much, Governor, for a very fine statement.

I think that the role you are anticipating for States has been somewhat recognized already. As you know, in the Ford proposed budget, it was suggested that the nonmetro discretionary funds, in effect, be handled by the States. Secretary Harris in her testimony before us at the opening of these hearings indicated that she favored pooling the discretionary balances of the SMSA's in each State rather than allocating it through each SMSA.

Well, if you put those two things together, it seems to me you then come up with the idea that all discretionary balances, whether in non-metro or in metro areas, that they could be accumulated in a fund and handled by the States.

In addition, as you point out in your statement, many States are combining their housing and community development activities. We know, for instance, in Michigan and other States that we have a fine State housing authority that has been doing a great job in providing section 8 housing. In fact there has been a great reliance placed upon

State agencies to actually provide section 8 housing. They were out front before the conventional developers were in the field. If you recognize the emphasis, by Secretary Harris' testimony and the 1974 act, on combining housing with community development, it seems that you make an even stronger case for the State to have a more significant role.

I have noticed, in communities in my district, an inability of smaller communities to be able to really utilize the program effectively. They don't understand it. They don't have the technical assistance, and so forth. I think, that to the extent we bring the help and the source of funding closer to those communities, so that they have greater access to the decisionmakers, that all of this would be very helpful.

So I assure you that at least this member of the subcommittee is going to review very carefully and, hopefully, favorably the recommendations of the National Governors Conference and your recommendations that you made here today.

Governor MILLIKEN. Thank you very much.

Mr. ST GERMAIN. I want to make sure I get this clear.

Are you also essentially agreeing with the Governor's intention that the allocation or the set-aside for the State agencies should be a little higher than has been indicated by the administration to the subcommittee?

Mr. BROWN. Well, the chairman knows that philosophically and conceptually I don't believe in set-asides. I don't like them. However, in Secretary Harris's testimony I think she said she contemplated the States having a more significant role in this area. I just hope we can depend upon what she has said and how she intends to administer the program so that we have an adequate allocation of units to State agencies without calling it "a set-aside."

Mr. ST GERMAIN. Well, as the gentleman will recall—and I think the Governor has testified on that basis—in fiscal year 1977 there were 33,000 units, and now we are talking about—the administration is talking about 20,000 units. Would the gentleman, therefore, join this member in moral persuasion, if not of a set-aside, then to encourage the administration to perhaps increase that number rather than go down by 13,000 units: probably go up to 40,000 units?

Mr. BROWN. The chairman, without getting into a numbers game, knows that I favor a greater role for the State housing agencies, and I would be glad to support any effort whereby the Department assures that this is done. But I don't like statutory set-asides.

Mr. ST GERMAIN. I appreciate the gentleman's position as far as the statutory is concerned, but I am glad to know that he also feels that we should encourage the State agencies who have performed in this area so credibly.

Thank you.

Mr. Blanchard?

Mr. BLANCHARD. I guess the only question I have relates to how we channel Federal money, which after all is the money of the taxpayers in Michigan and everywhere else. The taxpayers have contributed substantially greater sums of money to our Federal Treasury than they have received back, as our Governor knows.

But one of the criticisms that people like myself get is that we create a program and then we carve out a role for—in welfare it might

be for different categories of people—and, then a role for various units of government, and then the limited sum of \$4 billion a year—it is a limited sum for problems of housing and community development—it gets spread out among so many cities and so many units of Government that it ends up not having the impact we would like.

And I am wondering—counties want a role, cities of different sizes want a role, the States want a role—really your message is, States count, too, and I have to agree with you, but doesn't this add to the cost of programs if we are funneling moneys through different agencies?

And how, for example in Michigan, how much additional cost would there be to have the State involved, to play a role in the community development program?

Would you be able to help with the allocation of discretionary money without any real additional cost?

Do you have ongoing programs that would absorb that anyway in terms of staffs so that you wouldn't have to slice off 10 or 20 percent for administration?

Governor MILLIKIN. Congressman Blanchard, in my comments I acknowledged that some 10 years ago and even more recently relatively few States were involved in community operations.

They did not see a role in their cities, large or small. But that has all changed, and most States today are operating a very sophisticated way and have basic commitments to the resolution of urban problems.

And I, of course, can cite Michigan which is quite typical of a number of other states. In recent years we have moved very aggressively. As you know, in the Michigan State Housing Development Authority, where we have a billion dollar bonding capacity, we have adopted revenue-sharing programs that funnels money from the State directly back to the localities.

I have recommended this year to the legislature an urban grant fund that goes back to those areas. I am recommending to the legislature specifically a youth employment program to try to get to some of the problems, economic and social job-related problems that afflict our cities.

What I am really saying is that the States now, Michigan being only one example among many, are deeply involved in trying to help solve many of these problems which plague us. And therefore it doesn't make sense to me if we have a Federal block grant program which has established a direct relationship from the Federal Government going into entitlement cities, for example, without relation to the priorities that have been established at the State level, without relationship to the State involvement in trying in a number of different directions to cope with those problems.

And I am essentially saying—and the Nation's Governors are saying and they are requesting me this morning to say—that we believe in the interest of effective policy development implementation that it is extremely important that the State as the single coordinating agency at the State level would be involved with the Federal Government in the allocation of these dollars and the technical planning and coordination and assistance that can only be done at the State level.

And if you function in that manner, utilizing the resources available at the State now, then I think, going back to your basic question, the dollars are going to be most efficiently and effectively utilized with a minimum of administrative and other costs and overhead.

I, in the strongest possible way, urge this subcommittee to consider that essential and fundamental role that the States ought to play, both in the ability to be recipients of grants out of the discretionary balances, and of course in the planning and the coordination role.

Mr. BLANCHARD. Let me just pursue that a moment. I happen to agree with you. I am just trying to figure out how I explain to a city like my hometown, Ferndale, Mich., a program in which money goes from HUD to some of the entitlement cities, some of it goes to Oakland County, some of it under your plan goes to the discretion of a more coordinated program to the State.

And then you have the Council of Governments, which has another role, and I have everything but the school districts coming and wanting a share—which may happen for all I know—of the action. And we have so many levels.

I am wondering, if we were to carve out a role for the State, do you think it is necessary to have the Council of Governments or other areawide planning agencies involved with a role? Because we add so many layers of input, not to mention citizen participation, environmental impact statements, and I am afraid that the money is going to move far too slowly to satisfy anyone. I am just looking for some guidance from your experience.

I am not sure there is an answer to what I have raised, but I just see this maze of involvement which sounds good, but in sum slowing down the process of offering the kinds of desperate assistance that you and I know our State needs.

Governor MILLIKEN. Well, I might say that of course State agencies are now deeply and continually involved with various units of local government and regional associations. And it makes sense, it seems to me, to involve them further in the manner that I have described.

I think, in addition, as Congressman Brown has noted, there are a number of particularly smaller communities outside of the metropolitan areas that do not have now—and probably never will be able to have—the technical competence and planning abilities which are already available at the State level. And the result is they are unable to effectively use some of the funds that they may be entitled to.

Mr. BLANCHARD. Thank you.

Mr. ST GERMAIN. Mr. Lundine?

Mr. LUNDINE. Welcome, Governor. I really appreciate having you here as a spokesman for the Nation's Governors during this time of evaluation of our housing and community development programs.

I see that in your summary of State programs you have discretely not included the State of New York. I would, however, suggest that we do learn from failures as much as we do from success, and New York State has had the most spectacular failure in housing and community development, perhaps, of any State.

I wonder what lessons you as a Governor draw from the virtual collapse of the Urban Development Corporation in New York, which was

probably the premier or pilot State endeavor in both community development and housing?

Do you feel that other States have learned how to avoid those pitfalls?

Governor MILLIKEN. Mr. Lundine, certainly the lesson of New York has not been lost on other States in the country. It has not been lost on Michigan, and I can better, I think, cite the example of Michigan which is also typical of a number of other States where we have been able to develop a housing authority program which is totally solvent, which has done really a magnificent job in getting low-income, moderate-income housing where it is needed throughout the State, and particularly in our urban areas.

And I think it is unlikely—I don't see the prospects in any other State of which I have any knowledge where we have the potential possibility of duplication of the very difficult problems that New York got itself into.

Mr. LUNDINE. You said you had a billion dollars of authority in your housing finance agency in Michigan. You are not having any trouble marketing those securities?

Governor MILLIKEN. None whatever. And not only not any trouble marketing, but at very favorable rates.

I might observe, as you already know, that in 1976, for example, the State housing finance agencies across the country accounted for more than 75 percent of the total construction, new construction, in the low-income areas under section 8. And I think that is a good example of how the States have been able to modernize their procedures and to mute their basic problems.

Mr. LUNDINE. I agree. And in fact the State-sponsored projects are working a whole lot better, or are getting financed a whole lot more easily, certainly than the private market, for a number of reasons that we could debate.

But what I am interested in is that you indicated that the 20,000 unit set-aside for section 8 for State housing agencies is not adequate. Would you like to suggest an amount that you think would be adequate?

Governor MILLIKEN. I have indicated that 33,000 units, in our judgment, as we look at it through the eyes of the National Governors Conference, would be a desirable level to establish.

Mr. LUNDINE. You think that is the most that States could probably utilize?

Governor MILLIKEN. I would say it is probably the minimum, and we could very well absorb even more responsibility. But I would hope that at the very minimum it would go from 20,000 to 33,000 units.

Mr. LUNDINE. One final question, returning to community development for just a minute. I still don't understand the role that you envision for the States in allocation of the metro community development program.

Putting aside, for a moment, the nonmetro discretionary balances, are you saying, by using the word coordination, that the city of Detroit should not get a block grant until the State of Michigan signs off?

Governor MILLIKEN. I am not saying that at all. I am saying that the State of Michigan increasingly is involved in cooperation with the

city of Detroit in many activities. Millions of dollars are flowing from the State of Michigan into Detroit in various programs that have recently over the last 2 years been adopted. I am saying there has to be greater cooperation among all levels of government.

Mr. LUNDINE. I would be interested in anything that you have from your perspective in Michigan, or that the National Governors Conference has, perhaps in writing, on what we can do to make that role effective.

Governor MILLIKEN. We will be very happy, Congressman, to follow through on that request and see that—not only do we have the Michigan recommendations but that they reflect the whole conference.

Mr. ST GERMAIN. Mr. Wylie?

Mr. WYLIE. Thank you, Mr. Chairman.

Welcome to the subcommittee, Governor Milliken. We are glad to have you here. I'm not sure that I understand the thrust of your proposal, now, after Mr. Lundine's question.

You are not suggesting that the State of Michigan or the State of Ohio have any particular role as far as the program for the city of Columbus is concerned, are you?

Governor MILLIKEN. I am suggesting that the States have a very major role in the discretionary balances outside of the entitlement cities.

Mr. WYLIE. So that wouldn't have any particular effect on the city of Detroit in Michigan?

Governor MILLIKEN. Except to the extent that the States' overall priorities can be a factor in the actual expenditure of the funds in Detroit and elsewhere. It is our hope that cities like Detroit consider State priorities in determining how Federal funds will be spent.

Mr. WYLIE. Well, you could do that through your State legislative appropriations process, I would assume. You could look at the needs of the city of Detroit and say most of those needs are provided for in the area of housing, at least, by the Federal Government and therefore they don't need as much as some of these nonmetro area communities might need, and allocate in that manner.

Governor MILLIKEN. That is one way.

Mr. WYLIE. Without taking the Federal Government role into account necessarily.

Governor MILLIKEN. I guess it is impossible not to take the Federal Government role into account. And I would hope that the Federal Government can take the States' priorities and its role into account as it functions. It is a two-way approach.

Mr. WYLIE. I understand generally what you are saying. It has to be an overall plan for each State, which would be drafted and approved in partnership with the Federal Government, the State and the local communities as far as that is concerned.

But you are primarily interested in the nonmetropolitan areas right now, aren't you?

Governor MILLIKEN. That is our primary interest. Yes.

Mr. WYLIE. I think Garry Brown asked this question: Do you favor the Ford proposal which generally went to the nonmetropolitan areas as far as housing needs are concerned, or do you favor the Harris proposal which is a modification of that and would take into account smaller communities in metropolitan areas?

Governor MILLIKEN. I would hope the Ford proposal, on that particular point, could be adopted by this subcommittee and by the Congress.

Mr. BROWN. Will the gentleman yield?

Mr. WYLIE. Of course I will yield.

Mr. BROWN. I thank the gentleman for yielding.

I think it is the Governor's position, and I know it is my position, that there is such a commonality, if I could call it that, of the needs of smaller communities in the nonmetropolitan areas, and smaller communities within the metropolitan areas. All of them are subject to discretionary funding. They could be combined, and the State could play a particularly significant role in either one of two ways: Either the State just assumes the function that HUD is presently performing in that area of approving discretionary grants, or through the giving of funds, in effect, to the States, and then let the funding in the smaller communities be an eligible activity of States. So there are a couple of different ways.

But, in any case, we are not talking about hold harmless or entitlement. We are not talking about central cities or entitlement cities over 50,000. We are talking about all of those others that today are really out in left field insofar as the whole program is concerned.

Mr. WYLIE. Well, I thank you for adding that. And that is the way I had understood it a little earlier until Mr. Lundine propounded his question.

But the city of Columbus, which I represent, for example, would be very unhappy with the proposition which would say that the State of Ohio would have anything to do with their block grant program. They think they do a pretty good job, and I think they do, too, as a matter of fact. I think the administration there at the local level knows more their needs, and if they had to go through the State for any kind of approval, they would be, as I say, most unhappy about it.

Mr. BROWN. If the gentleman would yield further, I would say it is a political impossibility.

Mr. WYLIE. Well, I would think it would create all kinds of problems. That is the point I was going to make. If you had the city of Columbus competing with the city of Cleveland and the city of Youngstown, I don't think you would ever get very much done. Every city would feel it would not get its fair share.

So, I think it would be a real difficult proposition, a Pandora's box, for someone to administer the State program. Do you agree with that?

Governor MILLIKEN. Yes, I do.

Mr. WYLIE. Have the States carried out their Statewide housing rehabilitation loan programs satisfactorily in your judgment, Governor?

Governor MILLIKEN. I can only speak again in Michigan in that respect, and I think we have. We have a very good program going.

Mr. WYLIE. If the Federal section 312 loan program provided for the State administration over smaller city areas—

Governor MILLIKEN. How did you start the question again?

Mr. WYLIE. If the Federal section 312 loan program provided for the State administration in rural and smaller city areas, do you think the States would be able to perform that responsibility satisfactorily? Do you favor such a proposal?

Governor MILLIKEN. Very much so.

Mr. WYLIE. Thank you very much, Governor. Thank you, Mr. Chairman.

Mr. ST GERMAIN. Governor, I would like to make an observation—thanking you for your testimony today—I remember when we were having hearings on LEAA, when you were Lieutenant Governor, and you testified pro-LEAA. And in separate views that I wrote on that particular report, I paid tribute to your efficacy as a witness by quoting from you and your appearance at the hearings at that time.

I don't know if that was ever brought to your attention, but it was one of the highlights of your career. [Laughter.]

Governor MILLIKEN. Thank you, Mr. Chairman.

Mr. ST GERMAIN. Governor, we do thank you and the National Governors Conference for your contribution. There may well be questions from Members who could not attend. Some of them may have questions as well as the chairman of the Housing and Community Development Subcommittee, who is unfortunately in a dentist's chair right now. But he usually has quite a few questions, and they may well be sent to you for a reply.

Governor MILLIKEN. Thank you very much.

Mr. ST GERMAIN. At this point I would ask Representative Patrick A. Sweeney to come to the witness table. Also, I would ask our old friend, Mr. Floyd Hyde, would you also come as an old hand at this? Mr. Hyde can proceed, I'm sure.

Representative Sweeney, you have been very elaborately introduced for the record, and we want to welcome you. You are testifying on behalf of the National Council of State Legislatures, and we will put your entire statement in the record, and you may proceed.

**STATEMENT OF HON. PATRICK A. SWEENEY, MAJORITY LEADER
OF THE OHIO HOUSE OF REPRESENTATIVES, ON BEHALF OF
THE NATIONAL CONFERENCE OF STATE LEGISLATURES**

Mr. SWEENEY. Thank you, Mr. Chairman and gentlemen of the committee.

I come here as a representative of the National Conference of State Legislatures, a public interest group comprised of some 7,600 State legislators and their staffs, and also the Ohio House of Representatives, where I serve on the Housing Subcommittee of the Economic Affairs and Federal Relations Committee.

The National Conference of State Legislatures is very much in support of the community development block grant program. We endorse the proposal to enhance the funding. We also support the targeting of those funds to economically depressed areas.

I want to make it unequivocal that the National Conference of State Legislatures does not want States to involve themselves in any pass-through, governance over, or veto power over the entitlement funding of block grant programs to local governments. We do, however, express disappointment today with the noticeable absence of involvement with the States, and I would like to depart from the prepared text and respond to a section of Secretary Harris' testimony that did not support the State administration of the nonmetro area funding as recom-

mended by President Ford. She is going to hold that in abeyance pending further policy review.

I would suggest, though, Mr. Chairman, that this subcommittee has the ability to make that kind of judgment. And I think we, in the State governments, would like to know if in fact we are going to participate. The link that is missing between the State, local, and Federal relations is the point that disturbs both the National Conference of State Legislatures and, as expressed by Governor Milliken, the National Governors Conference.

The States are only allowed today to have discretionary grants. Yet no State has received a grant for technical assistance activities. Few States had their applications funded, and they were specifically for projects sponsored by a State for a community. States are eligible to participate in the program. However, HUD has just not funded many State-sponsored programs.

Many States have undertaken their own community development programs and are becoming active in these issues. Many State legislatures have recently established committees dealing with housing and urban affairs.

Most States now have departments of community affairs. For example, the Ohio Department of Economic and Community Development provides a number of services, including interlocal cooperation and coordination of State activities, local planning assistance and regional planning coordination, and housing.

Thirty-nine States, including Ohio, have a State housing finance agency. States are providing direct assistance for new housing construction and for rehabilitation of existing housing. In addition to that, many States have been able to give tax incentive capabilities to local government to encourage their own capability to expand housing. States are providing funds for public services and for capital improvements to arrest declining neighborhoods and provide a base for viable economic activity.

Other State legislatures are considering alternative neighborhood preservation efforts, such as incentives for reinvestment, tax credits for rehabilitated housing, and tax credits for industries generating employment opportunities in depressed areas.

Both the executive and the legislative branches of State government are becoming more active in growth management activities in their States. Several States have a well-articulated strategy for economic development. Massachusetts, for example, has indicated its goal of utilizing existing infrastructure and revitalizing its central cities in any State growth management strategy. Other States are targeting their public investment programs to economically declining urban areas in order to reverse their conditions.

The fact that States have undertaken these activities on their own initiative compounds our disappointment with the States exclusion from the community development program. It further hampers States from realizing their role in coordinating community development programs with a State growth strategy or in coordinating Federal with State efforts.

It is important, then, that the Federal and State community development activities be dovetailed to improve the cities' capacity to help

themselves. The National Conference of State Legislatures recommends the following changes in the block grant program to accomplish this goal:

We recommend the establishment of a State role in community development programs. Such a role would center around two responsibilities for the States: Coordination of community development block grants with other State and Federal programs related to it, and provision of technical assistance to local governments and rural areas for developing and implementing their own community development strategies.

Funds for these activities could either be set aside from the discretionary funds section or could be provided through section 811 of the Housing and Community Development Act of 1974. These funds could be available for those States demonstrating a capacity and interest in providing community development services and programs for their State. Criteria for these awards, such as the State's current development efforts, assistance to local governments, and State financial commitment to these activities, could be established.

We also recommend that the possibility of the States administering the nonmetropolitan discretionary funds be investigated by this subcommittee and supported.

We, in Ohio, who have regions of nonmetropolitan areas that were severely hit by the energy crisis, floods, and skyrocketing unemployment—we feel that the States could initiate more action and serve as a catalyst for community development activities.

Already in Ohio we have set aside in our budget a \$10-million appropriation for industrial development. We have set aside moneys for housing. We are rather proud of the fact that, in both political parties, the commitment to urban areas and to their economic development has been enunciated. Our Governor has stated that core cities and urban areas are his No. 1 priority. The Democratic legislature has announced that it, too, is concerned and committed to this issue.

In its study of the implementation of the block grant program, the Advisory Commission on Intergovernmental Relations recommends that Congress act to amend the act to establish a new funding category to be used to stimulate and support the direct performance of community development activities by any State which has a demonstrated interest and capacity in this area, having community affairs agencies, engaging in planning for community development, providing technical assistance to local applicants, and providing substantial amounts of its own funds for community development and related purposes.

We ask, too, that a stronger link be established between HUD's community development and housing components. The housing assistance plan has the potential of serving as an important link between housing and community development, if used to its full potential.

It is particularly important that Federal funds needed to implement the housing assistance plan be made available and in sufficient amounts so that the housing assistance plan will allow housing and community development activities to reinforce one another.

In this light, it is particularly important that Federal housing programs such as section 8 and leased housing be funded to a level suffi-

cient to meet the community housing needs. This is also the case with other Federal housing programs, such as section 202 and section 235, insured single-family mortgages, and public housing assistance.

In a related matter, the National Governors Conference endorses the administration's authorization of \$63.5 million for section 701 planning funds and its proposal that section 701 funds be available for State, metropolitan and nonmetropolitan area-wide planning organizations and that cities and urban counties receive community development funds—not section 701 funds—for their planning activities.

However, we do urge that section 701 funds be increased to meet the needs of eligible recipients.

We also ask for an increase in the funding available under the current program, together with an extension of the program for at least 3 years. These increases are necessary to meet the needs of all levels of Government eligible for the funds.

Further, we ask for the use of the dual formula for entitlement jurisdictions. I know that one of the factors being considered here is the age of housing. In my city, in the city of Cleveland, 73 percent of the housing today is prewar housing, and much of that is wood frame housing. And, incidentally, that deteriorates rapidly.

We have some interesting statistics about the number of housing starts since 1970 in my city. Since January 1970, 5,500 new housing units were built in Cleveland; 15,500 were demolished. Of the 5,500 housing units that were constructed, many are public housing for the elderly and many are for the low-income—one such project was a 1,000-unit apartment that HUD has foreclosed on twice since it has been built.

But in the first 6 months of 1976 we started 35 housing units and we tore down 1,300. We have a problem, gentlemen, within the cities across Ohio. We ask for a formula that would include the age of housing and also the loss of population. The loss of population is, in fact, an indicator of what is happening in an eroding tax base and the incapability to cause action itself. The States stand ready and willing to cause action in that direction.

A final item of suggestion is that of coordination between the community development program and other community development-related programs administered by Federal agencies. Such coordination is needed between HUD and agencies such as the Economic Development Administration, with its public works and other assistance programs, and the Department of Agriculture, with its rural housing, water, and waste, industrial and community facilities grants and local programs. Further, some effort must be made to decrease the number of categorical urban-related grants in Federal agencies such as the Department of Transportation. Currently, the Department of Transportation has almost every governmental official in my city and in my State standing on their fingertips trying to qualify for a \$41 million grant that is going to give them a people-mover.

So the city, just to qualify for the \$41 million, has to reach out and raise \$15 million. And if it is anything like the actions that we have had in the past, that \$41 million or \$50 million will soon be \$80 million and much of it local government money.

We believe that the changes we have suggested for the block grant program will enhance the neighborhood preservation efforts under-

taken by State and local governments. It is essential that the entire State role be included in this extremely valuable community development program.

I would like to stop there as a spokesman for the National Governors Conference and make some comments relative to the program as they relate to my city and my State, Mr. Chairman. I saw in Secretary Harris' presentation that the new accent, so to speak, is going to be to enhance low- and moderate-income housing. I know that the subcommittee, in its staff report, showed some disappointment in the fact that community development money was used to build a tennis court or a swimming pool.

In my city, a grant of \$16 million a year was immediately divided by a factor of 33. That was because we had 33 wards, and we had 33 political egos to deal with, and so they made that division. Consequently the \$16 million, divided by 33, made little if any impact.

Now that kind of accountability must be answered at some level. Maybe it is a role for the State. Maybe it is a role for HUD. But at the same time the latitude for my city to make a determination on where they wanted to put their funding should be protected by this Congress.

I don't want to have the responsibility to interfere if the city wants a people-mover; I feel obligated to support it. If my city wants to buy an old, abandoned arena, as they tried to do but could not do politically, they did it on a commitment that it would preserve an area that soon, if that arena goes, would be a depressed, blighted, slum area.

With the pattern I painted and the destruction of housing versus the new kinds of housing, if you continue to build low-income housing, you are going to continue to make my core city of Cleveland a cesspool of the dispossessed, criminally-oriented, the unemployable, the elderly—people who are locked in.

The people talk—and Secretary Harris talks—about enhancing the movement of minorities. We have fair housing programs at the Federal, State, and local levels. However, we still find today that the urban dynamics of the black is identical to the urban dynamics of the white. That once he is able to move out of that public housing ghetto created by Government, that is crime-ridden, that causes an area to be depressed, that is so impacted we cannot get investors into it—as soon as he is financially able to move, he is going to suburbia and exurbia.

And we are spending 60 mills a year of our property tax to educate children. When they graduate from high school, they pick up a job, a bride, and move out of our town. The kind of housing we need is the kind of housing that is going to draw him back in, that's going to bring revitalization—genuine revitalization—to a neighborhood.

The State of Ohio has been the greatest developer of the city of Cleveland. We built in a core city that was burned by riots, torn by demolition.

The State of Ohio built a community college that has 20,000 students in downtown Cleveland. We built a 4-year Cleveland State institution less than 1 mile away from that, and we have 17,000 full-time students on that campus. This construction has been the catalyst for action.

The development of a State office building in Cleveland—we can't justify the presence of a State office building in downtown Cleveland. The only motivation is to promote development. We are saying that the State is, in fact, committed to help you, so we are putting a State office building of \$28 million in the city.

We have been asked to have the Cleveland State University acquire, as a performing arts center, an old but beautiful theater, long gone out of business, that will soon become a parking lot if the Cleveland State University does not buy it. The State has committed itself to that.

One other area I just wanted to point to is that my city has recently asked for and insisted that the State of Ohio acquire its lakefront for a State park.

I am trying to paint a picture, Mr. Chairman and gentlemen of the subcommittee, that the State is in fact involved and committed to its cities. And we would like to have some greater latitude and assistance in the community development program.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Sweeney, on behalf of the National Conference of State Legislators, along with a letter dated March 14, 1977, from Pennsylvania State Senator Eugene F. Scanlon, chairman of the conference's urban development committee, to Chairman Reuss, regarding a conference meeting held to develop policy on Federal housing problems, together with attached policies endorsed by the conference, follows:]

TESTIMONY OF
PATRICK A. SWEENEY
MAJORITY LEADER
OHIO HOUSE OF REPRESENTATIVES

BEFORE THE
SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
HONORABLE THOMAS L. ASHLEY, CHAIRMAN

ON THE COMMUNITY DEVELOPMENT BLOCK GRANT

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

THANK YOU FOR THIS OPPORTUNITY TO PRESENT STATE LEGISLATORS' VIEWS ON THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM. I AM TESTIFYING HERE TODAY ON BEHALF OF THE NATIONAL CONFERENCE OF STATE LEGISLATURES, THE PUBLIC INTEREST GROUP COMPRISED OF THE NATION'S 7600 STATE LEGISLATORS AND THEIR STAFFS, AND FOR THE OHIO HOUSE OF REPRESENTATIVES.

NCSL IS VERY MUCH IN SUPPORT OF THE GOALS OF THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM -- TO PROVIDE FEDERAL FINANCIAL ASSISTANCE FOR THE NATION'S CITIES IN THE FORM OF A BLOCK GRANT -- AND WE ENDORSE THE ADMINISTRATION'S PROPOSAL TO INCREASE THE PROGRAM'S AUTHORIZATION TO \$4 BILLION FOR FISCAL YEAR 1978. WE ALSO SUPPORT TARGETING THOSE FUNDS TO ECONOMICALLY-DEPRESSED URBAN AREAS -- AN ESSENTIAL ACTION WITHIN A COMPREHENSIVE NATIONAL URBAN DEVELOPMENT STRATEGY.

HOWEVER, AN IMPORTANT LINK IS MISSING FROM THIS PORTION OF THE NATIONAL URBAN STRATEGY -- THE ROLE OF THE STATES. UNDER THE CURRENT PROGRAM, STATES ARE ONLY ELIGIBLE FOR DISCRETIONARY GRANTS AND HAVE NOT FARED WELL DURING THE FIRST YEARS OF THE PROGRAM. NO STATE HAS RECEIVED A GRANT FOR TECHNICAL ASSISTANCE ACTIVITIES; THE FEW FUNDED STATE APPLICATIONS WERE FOR PROJECTS SPONSORED BY A STATE BUT TARGETED FOR A SPECIFIC COMMUNITY OR AREA. STATES ARE ELIGIBLE TO PARTICIPATE IN THE PROGRAM; HOWEVER, HUD HAS JUST NOT FUNDED MANY STATE-SPONSORED PROJECTS.

MEANWHILE, MANY STATES ARE UNDERTAKING THEIR OWN COMMUNITY DEVELOPMENT PROGRAMS THROUGH THEIR STATE COMMUNITY AFFAIRS, PLANNING, AND HOUSING FINANCE AGENCIES. STATE LEGISLATURES ARE ALSO BECOMING ACTIVE ON THESE ISSUES, AND MANY HAVE RECENTLY ESTABLISHED COMMITTEES DEALING WITH HOUSING AND URBAN DEVELOPMENT TO MORE EFFECTIVELY INITIATE AND HANDLE THEIR OWN STATE'S PROGRAMS. EXAMPLES OF THIS ACTIVITY ABOUND. MOST STATES NOW HAVE A DEPARTMENT OF COMMUNITY AFFAIRS. OHIO'S DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT PROVIDES A NUMBER OF SERVICES, INCLUDING INTERLOCAL COOPERATION AND COORDINATION OF STATE ACTIVITIES, LOCAL PLANNING ASSISTANCE AND REGIONAL PLANNING COORDINATION, AND HOUSING. THIRTY NINE STATES, INCLUDING OHIO, HAVE A STATE HOUSING FINANCE AGENCY. STATES ARE PROVIDING DIRECT ASSISTANCE FOR

NEW HOUSING CONSTRUCTION AND FOR REHABILITATION OF EXISTING HOUSING. MORE STATES HAVE UNDERTAKEN MORTGAGE ASSISTANCE PROGRAMS FOR THEIR CITIZENS.

STATES ARE ALSO BECOMING ACTIVE IN NEIGHBORHOOD PRESERVATION PROGRAMS. SEVERAL STATES, INCLUDING CALIFORNIA, NEW JERSEY, ILLINOIS, NEW YORK, AND MASSACHUSETTS, HAVE ENACTED LAWS PROHIBITING REDLINING AND REQUIRING HOME MORTGAGE DISCLOSURE INFORMATION OF ITS LENDING INSTITUTIONS -- A MAJOR FIRST STEP IN ANY NEIGHBORHOOD PRESERVATION PROGRAM. STATE LEGISLATURES IN UTAH, MISSOURI, AND MARYLAND ARE CURRENTLY CONSIDERING SUCH LEGISLATION. STILL OTHER STATES ARE PROVIDING FUNDS FOR PUBLIC SERVICES AND FOR OTHER CAPITAL IMPROVEMENTS TO ARREST DECLINING NEIGHBORHOODS AND PROVIDE AN ECONOMIC BASE FOR THEIR RETURN TO VIABILITY. OTHER STATE LEGISLATURES ARE CONSIDERING ALTERNATIVE NEIGHBORHOOD PRESERVATION EFFORTS, SUCH AS INCENTIVES FOR REINVESTMENT IN CENTRAL CITIES, TAX CREDITS FOR REHABILITATED HOUSING, AND TAX CREDITS FOR INDUSTRIES GENERATING EMPLOYMENT OPPORTUNITIES IN ECONOMICALLY-DEPRESSED AREAS.

BOTH THE EXECUTIVE AND LEGISLATIVE BRANCHES OF STATE GOVERNMENT ARE BECOMING MORE ACTIVE IN GROWTH MANAGEMENT ACTIVITIES IN THEIR STATES. SEVERAL STATES HAVE A WELL-ARTICULATED STRATEGY FOR ECONOMIC DEVELOPMENT. MASSACHUSETTS, FOR EXAMPLE, HAS INDICATED ITS GOAL OF UTILIZING EXISTING INFRASTRUCTURE AND REVITALIZING ITS CENTRAL CITIES IN ANY STATE GROWTH MANAGEMENT STRATEGY. OTHER STATES ARE TARGETING THEIR PUBLIC INVESTMENT PROGRAMS TO ECONOMICALLY-DECLINING URBAN AREAS IN ORDER TO REVERSE THEIR CONDITIONS. OTHER STATES, SUCH AS WYOMING, HAVE COMMUNITY DEVELOPMENT AUTHORITIES TO ISSUE STATE-ENDORSED BONDS TO FUND CONSTRUCTION OF PUBLIC FACILITIES AND TO PROVIDE LOANS TO ITS LOCAL GOVERNMENTS FOR THEIR COMMUNITY DEVELOPMENT ACTIVITIES. STATES ARE IN A UNIQUE POSITION TO CATALYZE THE COMMUNITY DEVELOPMENT ACTIVITIES OF LOCAL GOVERNMENTS AND ARE ASSERTING THEIR CAPABILITY TO DO SO.

THE FACT THAT STATES HAVE UNDERTAKEN THESE ACTIVITIES UNDER THEIR OWN INITIATIVE COMPOUNDS THE EFFECT OF THEIR EXCLUSION FROM THE (D) PROGRAM AND FURTHER HAMPERS STATES FROM REALIZING THEIR ROLE IN COORDINATING COMMUNITY DEVELOPMENT AND GROWTH STRATEGIES, OR IN COORDINATING FEDERAL WITH STATE PROGRAMS.

IT IS IMPORTANT, THEN, THAT FEDERAL AND STATE COMMUNITY DEVELOPMENT ACTIVITIES BE DOVETAILED TO IMPROVE THE CITIES' CAPACITY TO HELP THEMSELVES. THE NATIONAL CONFERENCE OF STATE LEGISLATURES RECOMMENDS THE FOLLOWING CHANGES IN THE CD BLOCK GRANT PROGRAM TO ACCOMPLISH THIS GOAL:

(1) THE ESTABLISHMENT OF A STATE ROLE IN THE CD PROGRAM. SUCH A ROLE WOULD CENTER AROUND TWO RESPONSIBILITIES FOR THE STATES: (A) COORDINATION OF COMMUNITY DEVELOPMENT BLOCK GRANTS WITH OTHER STATE AND FEDERAL PROGRAMS RELATED TO IT AND (B) PROVISION OF TECHNICAL ASSISTANCE TO LOCAL GOVERNMENTS AND RURAL AREAS FOR DEVELOPING AND IMPLEMENTING THEIR OWN COMMUNITY DEVELOPMENT STRATEGIES.

FUNDS FOR THESE STATE ACTIVITIES COULD EITHER BE SET ASIDE FROM THE DISCRETIONARY FUNDS SECTION OF THE PROGRAM OR BE PROVIDED THROUGH SECTION 811 OF THE HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1974. THESE FUNDS WOULD BE AVAILABLE FOR THOSE STATES DEMONSTRATING A CAPABILITY AND INTEREST IN PROVIDING COMMUNITY DEVELOPMENT SERVICES AND PROGRAMS FOR THEIR STATE. CRITERIA FOR THESE AWARDS, SUCH AS THE STATE'S CURRENT COMMUNITY DEVELOPMENT EFFORTS, ASSISTANCE TO LOCAL GOVERNMENTS, AND STATE FINANCIAL COMMITMENT TO THESE ACTIVITIES, COULD BE ESTABLISHED. WE ALSO RECOMMEND THAT THE POSSIBILITY OF THE STATES ADMINISTERING NON-METROPOLITAN DISCRETIONARY FUNDS BE INVESTIGATED BY BOTH CONGRESS AND HUD.

IN ITS STUDY OF THE IMPLEMENTATION OF THE CD BLOCK GRANT PROGRAM, THE ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS (ACIR) HAS ALSO RECOMMENDED INCLUSION OF A STATE ROLE. SPECIFICALLY, THE ACIR "RECOMMENDS THAT CONGRESS ACT TO AMEND THE ACT TO ESTABLISH A NEW FUNDING CATEGORY TO BE USED TO STIMULATE AND SUPPORT THE DIRECT PERFORMANCE OF COMMUNITY DEVELOPMENT ACTIVITIES BY ANY STATE WHICH HAS A DEMONSTRATED INTEREST AND CAPACITY IN THIS AREA, AS EVIDENCED BY THE STATE'S (A) HAVING A COMMUNITY AFFAIRS AGENCY, (B) ENGAGING IN PLANNING FOR COMMUNITY DEVELOPMENT, (C) PROVIDING TECHNICAL ASSISTANCE TO LOCAL APPLICANTS IN COMMUNITY DEVELOPMENT PROGRAMS, AND (D) PROVIDING SUBSTANTIAL AMOUNTS OF ITS OWN FUNDS FOR COMMUNITY DEVELOPMENT RELATED PURPOSES."

(2) A STRONGER LINK BETWEEN HUD'S COMMUNITY DEVELOPMENT AND HOUSING COMPONENTS.

THE HOUSING ASSISTANCE PLAN (HAP) HAS THE POTENTIAL FOR SERVING AS AN IMPORTANT LINK BETWEEN HOUSING AND COMMUNITY DEVELOPMENT IF USED TO ITS FULL POTENTIAL. IT IS PARTICULARLY IMPORTANT THAT FEDERAL HOUSING FUNDS NEEDED TO IMPLEMENT THE HOUSING ASSISTANCE PLAN BE MADE AVAILABLE, AND IN SUFFICIENT AMOUNT, SO THAT THE HAP WILL ALLOW HOUSING AND COMMUNITY DEVELOPMENT ACTIVITIES TO REINFORCE ONE ANOTHER. IN THIS LIGHT, IT IS PARTICULARLY IMPORTANT THAT FEDERAL HOUSING PROGRAMS SUCH AS SECTION 8 LEASED HOUSING BE FUNDED AT A LEVEL SUFFICIENT TO MEET A COMMUNITY'S HOUSING NEEDS. SUCH IS ALSO THE CASE WITH OTHER FEDERAL HOUSING PROGRAMS, SUCH AS SECTION 202 HOUSING FOR THE ELDERLY, SECTION 235 INSURED SINGLE-FAMILY MORTGAGES, AND PUBLIC HOUSING ASSISTANCE.

IN A RELATED MATTER, NCSL ENDORSES THE ADMINISTRATION'S AUTHORIZATION OF \$62.5 MILLION FOR SECTION 701 COMPREHENSIVE PLANNING FUNDS AND ITS PROPOSAL THAT 701 FUNDS BE AVAILABLE FOR STATE AND METROPOLITAN AND NON-METROPOLITAN AREA-WIDE PLANNING ORGANIZATIONS -- AND THAT CITIES AND URBAN COUNTIES RECEIVE CD FUNDS, NOT 701 FUNDS, FOR THEIR PLANNING ACTIVITIES. HOWEVER, WE DO URGE THAT 701 FUNDING BE INCREASED TO MEET THE NEEDS OF THE ELIGIBLE RECIPIENTS.

(3) AN INCREASE IN THE FUNDING AVAILABLE UNDER THE CURRENT PROGRAM, TOGETHER WITH AN EXTENSION OF THE PROGRAM FOR AT LEAST THREE YEARS. THESE INCREASES ARE NECESSARY TO MEET THE NEEDS OF ALL LEVELS OF GOVERNMENT AND TO ASSURE RECIPIENTS OF THE FEDERAL GOVERNMENT'S CONTINUING COMMITMENT TO MEET THEIR COMMUNITY DEVELOPMENT NEEDS. FURTHER, SUCH FUNDING WILL ENCOURAGE RECIPIENTS TO UNDERTAKE LONG-TERM ACTIVITIES AND PLANNING.

(4) THE USE OF TWO FORMULAS (A DUAL FORMULA) FOR ENTITLEMENT JURISDICTIONS. TWO FORMULAS, WITH AN APPLICANT JURISDICTION RECEIVING THE GREATER ALLOCATION, ARE NECESSARY SO THAT CITIES CURRENTLY RECEIVING FUNDS THROUGH THE EXPIRING HOLD HARMLESS SECTION WILL NOT LOSE SUBSTANTIAL AMOUNTS OF FUNDING. BASED UPON THE SITUATION IN CITIES SUCH AS CLEVELAND, FACTORS THAT SHOULD BE INCLUDED IN THE FORMULA ARE POPULATION DECREASES AND NUMBER OF UNITS OF PRE-1939 CONSTRUCTED HOUSING, AS IS PROPOSED BY THE ADMINISTRATION.

(5) COORDINATION BETWEEN THE CD PROGRAM AND OTHER COMMUNITY DEVELOPMENT-RELATED PROGRAMS ADMINISTERED BY FEDERAL AGENCIES. SUCH COORDINATION IS NEEDED BETWEEN HUD AND AGENCIES SUCH AS THE ECONOMIC DEVELOPMENT ADMINISTRATION (WITH ITS PUBLIC WORKS AND OTHER ECONOMIC ASSISTANCE PROGRAMS), AND THE DEPARTMENT OF AGRICULTURE (WITH ITS RURAL HOUSING, WATER AND WASTE WATER, INDUSTRIAL, AND COMMUNITY FACILITIES GRANT AND LOCAL PROGRAMS). FURTHER, SOME EFFORT MUST BE MADE TO DECREASE THE NUMBER OF CATEGORIAL URBAN-RELATED GRANTS IN FEDERAL AGENCIES SUCH AS THE DEPARTMENT OF TRANSPORTATION.

WE BELIEVE THAT THESE CHANGES IN THE CD BLOCK GRANT PROGRAM WILL ENHANCE THE NEIGHBORHOOD PRESERVATION EFFORTS UNDERTAKEN BY STATE AND LOCAL GOVERNMENTS. IT IS ESSENTIAL THAT THE STATE ROLE BE INCLUDED IN THIS EXTREMELY VALUABLE COMMUNITY DEVELOPMENT PROGRAM.

THANK YOU, MR. CHAIRMAN, FOR THIS OPPORTUNITY TO TESTIFY ON THIS ISSUE OF MAJOR IMPORTANCE TO STATE AND LOCAL GOVERNMENTS.



**National
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of State
Legislatures**

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President
Martin O. Sabo
Speaker of the House
Minnesota
Executive Director
Earl S. Mackey

March 14, 1977

The Honorable Henry S. Reuss
Chairman
Committee on Banking, Housing, and Urban Affairs
2129 Rayburn House Office Building
Washington, D.C. 20515

Dear Representative Reuss:

The National Conference of State Legislatures' Urban Development Committee met last week to develop policy on issues such as the community development block grant program, Section 701 comprehensive planning grants, and other federal programs. Copies of the policies endorsed by NCSL are enclosed, but in summary, they are:

- (1) A state role in the community development block grant program. Such a role could include (a) coordination of CD block grants with other state and federal programs related to it and (b) provision of technical assistance to local governments. State administration of the non-metropolitan discretionary funds should also be seriously considered.
- (2) An increase in Section 701 planning grant funds, with more state legislatures receiving grants (so far, California is the only legislature to receive funds).
- (3) An increase in the proposed 20,000 units of assisted housing through state HFAs in the Section 8 program, as well as development of a mechanism for states without the HFA to administer Section 8 units.

NCSL is particularly concerned about the CD block grant program and testified at the hearings held in early March by the Subcommittee on Housing and Community Development. While this state role would not have to be mandatory, we feel that states should at least have the option to participate in the CD program.

Also at the meeting last week, Neil Cotler, assistant staff director of your Subcommittee on the City, met with us and described your efforts to develop a national urban policy. In this regard, we would like to work with you further in developing such a policy which would include an appropriate state role. For example, when you schedule hearings later in the year on issues such as the city as a land and energy conservation tool, we would like the opportunity to testify on state efforts in this area. NCSL has documented state activities related to energy policy, state oversight of local government finances, and the legislature's role in state comprehensive planning, which we would be happy to share with you. NCSL believes that cities should view the states as a source of assistance--and not a stumbling block.

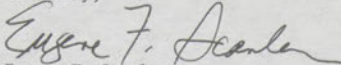
Representative Reuss

March 14, 1977

Please contact Nancy Grden, Staff Director for our Committee, at 624-5418 if you would like further information on NCSL's work and interest in urban policy.

Thank you for considering our views on a national urban policy and on federal programs such as the CD block grants.

Sincerely,



Eugene F. Scanlon
Pennsylvania State Senator
Chairman, NCSL's Urban Development Committee

enclosures

NATIONAL CONFERENCE OF STATE LEGISLATURES
FEDERAL AND STATE HOUSING AND COMMUNITY DEVELOPMENT PROGRAMS

Introduction

Both states and federal governments are committed to the provision of adequate yet affordable housing for their citizens. However, the goal of "a decent home and suitable living environment for every American family", as expressed in the Housing Act of 1949, has yet to be met. Statistics show that 3.6 million households live in overcrowded housing and that an unprecedented number of renters and homeowners face serious physical deficiencies in their housing. The costs of housing are also burdensome to American households. Five million homeowners (24% of all homeowners) have housing costs requiring more than 25% of their income, and 10.5 million renters (49% of all renters have rent/income ratios over 25%. Statistics also show that almost 60% of American families cannot afford to purchase a median-priced new house.

Related to housing problems is the quality of one's neighborhood and the type and amount of services provided there. Affordable housing in an economically deteriorating neighborhood is not a solution unless efforts are made to return that neighborhood to economic health. Few programs address the integration of housing, community development, and economic development concerns.

The National Conference of State Legislatures recommends a coordinated effort by federal, state and local governments, together with private developers and financial institutions, to achieve the goal of decent housing and neighborhood viability. This plurality of approaches should best provide a variety of housing options for both rural and urban areas. These participants should concentrate on rehabilitation and construction of affordable housing for low and moderate income people, together with availability of financing for developers and potential homeowners, to solve the problems of high housing costs and physically inadequate units. Two additional possibilities should be explored: the establishment of a housing block grant for state and local governments and the use of a housing allowance program for low-income people. It is also essential that the nation's goal of providing greater access to housing through vigorous enforcement of equal housing opportunity laws be maintained.

At the federal level, more coordination is needed among federal agencies administering community related programs. This coordination is particularly needed between the Department of Housing and Urban Development (HUD) and agencies like the Economic Development Administration (with its public works and other economic assistance programs) and the Department of Agriculture (with its rural housing, water and waste water, industrial, community facilities and Rural Development Act loan and grant programs).

States are becoming more active in the areas of housing and community development. Most states now have community affairs, planning, and housing finance agencies, and more state legislatures are establishing committees dealing with housing and community affairs to effectively initiate and handle their own state's programs. States can serve as an effective link between federal and local governments, coordinate state and federal efforts for their local governments, and leverage private investment in state and local projects.

March 15, 1977

National Conference of State Legislatures

Community Development Block Grants

Title I of the Housing and Community Development Act of 1974 established the community development block grant program, a consolidation of eight categorical programs, including Model Cities, urban renewal, and neighborhood preservation grants. The 1974 law authorized funding for six years, but provided money for only three years. That \$8.4 billion is now exhausted.

Three types of funding are available under the program. Entitlement funds are provided for metropolitan areas exceeding 50,000, central cities and urban counties. Hold Harmless funds are available for cities which would have received more money under the old categorical programs. Discretionary funds are reserved for states and other governmental units excluded from the entitlement category. Funds are split 80% to metropolitan areas and 20% to non-metropolitan areas.

Under the current program, states are only eligible for discretionary grants and have not fared well during the first years of the program. This omission is particularly glaring when one considers that many states are undertaking their own community development programs through their community affairs, planning, and housing finance agencies. State legislatures are also becoming active in these issues, and many have recently established committees dealing with housing and urban development to more effectively initiate and handle their own state's programs.

It is important, then, that federal and state community development activities be dovetailed to improve the cities' capacity to help themselves. The National Conference of State Legislatures recommends the following changes in the community development block grant program to accomplish those goals:

- (1) The establishment of a state role in the CD program. Such a role would center around two responsibilities for the states: (a) Coordination of community development block grants with other state and federal programs related to it and (b) Provision of technical assistance to local governments and rural areas for developing and implementing their own community development strategies.

Funds for these state activities could either be set aside from the discretionary funds section of the program or be provided through Section 811 of the Housing and Community Development Act of 1974. These funds would be available for those states demonstrating a capability and interest in providing community development services and programs for their state. Criteria for these awards, such as the state's current community development efforts, assistance to local governments, and state financial commitment to these activities, could be established. Also recommended is the possibility of the states administering non-metropolitan discretionary funds.

- (2) A stronger link between HUD's community development and housing components. The Housing Assistance Plan (HAP) has the potential for serving as an important link between housing and community development if used to its full potential. It is particularly important that federal housing funds needed to implement the Housing Assistance Plan be made available, and in sufficient amount, so that the HAP will allow housing and community development activities to reinforce one another.

NCSL - Community Development Block Grants

(3) An increase in the funding available under the current program, together with an extension of the program for at least three years. These increases are necessary to meet the needs of all levels of government and to assure recipients of the federal government's continuing commitment to meet their community development needs. Further, such funding will encourage recipients to undertake long-term activities and planning.

(4) The use of two formulas (a dual formula) for entitlement jurisdictions. Two formulas, with an applicant jurisdiction receiving the greater allocation, are necessary so that cities currently receiving funds through the expiring hold harmless section will not lose substantial amounts of funding.

(5) Coordination between the CD program and other community development-related programs administered by federal agencies. Such coordination is needed between HUD and agencies such as the Economic Development Administration (with its public works and other economic assistance programs), and the Department of Agriculture (with its rural housing, water and waste water, industrial, and community facilities grant and local programs).

NATIONAL CONFERENCE OF STATE LEGISLATURES
Section 701 Comprehensive Planning Grants

Section 701 of the Housing Act of 1954, together with subsequent Congressional amendments, provides federal grants for planning activities undertaken by states, local governments, Indian tribal organizations, metropolitan, and non-metropolitan planning agencies. The Department of Housing and Urban Development has proposed that Section 701 be funded at \$62.5 million for FY 1978 and that states, small communities, and metropolitan and non-metropolitan areawide planning organizations be eligible. Under this proposal, large cities and urban counties would receive planning funds from the community development block grant program, not Section 701.

The NCSL endorses the continuation of Section 701, but urges Congress to appropriate additional funds to meet the needs of the eligible jurisdictions. NCSL also supports the limitation on eligible jurisdictions to states and the others mentioned above.

NCSL urges HUD to award comprehensive planning grants to state legislatures for the expansion of their own capacity to undertake comprehensive planning and growth management activities. Such planning shall itself be part of a coordinated planning effort within the state. To date, only one state legislature, California, has received 701 funds. NCSL encouraged other state legislatures to investigate this possibility for possible use in their own states.

It is also essential that Section 701 be maintained as a separate program from other HUD housing and community development programs to better serve eligible jurisdictions' capacity to conduct comprehensive planning activities. HUD is urged to strengthen the 701 program through agreements with other federal agencies so that their functional planning requirements are integrated with the 701 comprehensive planning structure. Funds for 701 must also be available on a long-term basis so that eligible jurisdictions will not be concerned yearly about the program's future existence.

NATIONAL CONFERENCE OF STATE LEGISLATURES
Section 8 Leased Housing

The Section 8 leased housing program, authorized by the Housing and Community Development Act of 1974, provides rent subsidies on behalf of eligible families to owners (including public housing agencies, non-profit corporations, private developers, others). Families can occupy either newly-constructed, substantially rehabilitated, or existing housing. Actual construction or rehabilitation of these units may be financed with public or private assistance. To qualify for a rent subsidy, a family must have an income up to 80% of the median family income for that area. Section 8 programs can be implemented through state housing finance agencies (HFA's), and financing for construction and rehabilitation of units is often secured through the HFA's.

HUD has proposed 400,000 units of low-income housing for FY 1978; 344,000 under the Section 8 program and 56,000 under the public housing program. Of the 344,000 Section 8 units, 20,000 are proposed to be handled through state FHA's -- down from the projected 33,000 handled in FY 1977.

The NCSL urges that state FHA's be permitted to handle more than the 20,000 units of housing under the Section 8 program. Also needed is the development of a mechanism with the federal program for state participation in the Section 8 program in states which do not have an HFA (39 states have HFA's to date).

Two other factors must be further investigated and if determined to be deficient, must be improved: the availability of private and public mortgage financing for these new and rehabilitated units and whether HUD-enforced rent levels are high enough to encourage owners to participate in the Section 8 program. For example, 38% of all new construction under the Section 8 program was financed by state FHA's in 1976. Initial evidence shows that many private lenders do not consider these projects to be good investments, enhancing the need for increased state and federal mortgage assistance. In addition, application procedures for both owners and eligible families must be streamlined to encourage their participation in this program.

Mr. ST GERMAIN. Thank you, Mr. Representative.

I would like to ask you one quick question before we ask Mr. Hyde for his presentation.

You stated that since 1970 you have built 5,500 new housing units in the city of Cleveland?

Mr. SWEENEY. Yes, sir.

Mr. ST GERMAIN. Of course you stated some were for the elderly, some were for low income and public housing. Of that 5,500, do you know how many units were low-income units?

Mr. SWEENEY. Mr. Chairman, I can't answer that specifically. Of those units, 1,000 are in a new \$34 million HUD project in downtown Cleveland called Park Center that was twice foreclosed on. You take those 1,000 away from the total and I would say the rest are heavily public—there is very little new housing in Cleveland; there are absolutely no projects being undertaken.

Mr. ST GERMAIN. But that question I would like answered for the record, if you don't have the answer now, is, if you would give to the subcommittee, of that 5,500 units, how many are for the elderly and how many are for low and moderate income?

[The information requested by Congressman St Germain was sent directly to his office by Mr. Sweeney:]

Mr. ST GERMAIN. We will now go to our next witness, and then we will have questioning of both witnesses by members of the subcommittee.

Our next witness is Mr. Floyd H. Hyde, as I stated earlier, an old friend, and certainly a man with a great deal of experience in the problems of the cities.

He will be introduced by Sarah Austin, vice president of the National Urban Coalition.

Ms. AUSTIN. It appears that Mr. Hyde doesn't need an introduction, but we are very pleased he could represent the National Urban Coalition here today.

I am Sarah Austin, vice president of the National Urban Coalition. And you know that this is an organization of business, minority, labor, community, and local representatives concerned with improving the quality of life in our urban areas.

The coalition works in about 30 cities around the country. The composition of our board reflects a broad spectrum of those who work and live in urban America. Mr. Hyde is the former Under Secretary of HUD, a former Assistant Secretary for Community Development, and prior to that, for model cities. Since he was so actively involved in drafting the original bill, it is most appropriate that he be present today during this reassessment of the community development legislation.

And I am very pleased to introduce Floyd Hyde.

Mr. ST GERMAIN. Thanks, certainly, Ms. Austin. We are grateful and happy that you were able to have Mr. Hyde come to testify on behalf of the National Urban Coalition.

Mr. Hyde, we will put your entire statement in the record.

STATEMENT OF FLOYD H. HYDE, BOARD MEMBER, NATIONAL
URBAN COALITION, ACCOMPANIED BY SARAH AUSTIN, VICE
PRESIDENT

Mr. HYDE. Thank you, Mr. Chairman.

I think Ms. Austin left out my only real claim to fame, and that was as the former mayor of Fresno, Calif., and I am sorry I don't have a representative from California to do all those nice things that you do so well. But I will try to make up for it.

Mr. Chairman, I think that with your statement permitting us to introduce into the record the full statement which, I might add, includes the resolution in full that was adopted by the National Urban Coalition Executive Committee, I would like to touch upon a couple of quick points that are covered there. But if, prior to that, I might just take a few minutes of your time to put into perspective what I, at least from this morning's hearings, think may be helpful to the committee in wrestling with this problem. And I think Mr. Blanchard raised, and others of you raised, that we now have a program where the States, the cities, the big ones, the little ones, the counties, and maybe next the school board wants to come in. Perhaps this little bit of background would be helpful to you.

We should keep in mind that this, by definition, is a bill for urban development. And I note, having had some participation in your committee deliberations in the conference committee, that in the purpose clauses of the act nine times it is mentioned that the purpose of the act is to develop viable urban communities. Nowhere in the act is there reference to the development of rural communities.

I don't say that with any degree of lack of empathy for rural communities that certainly are in desperate need, but I think we ought to keep that fact in mind, and the fact that at the same time that that initial block grant proposal is made, a like block grant proposal for rural communities was made to the Congress at the same time. However, it was not as fully accepted as this subcommittee so well accepted the concepts of the urban community development block grant, and that has not blossomed as well.

But I think that has to be kept in perspective; because what I see happening now is both rural and urban America are really turning to this as their salvation. Frankly, as generous as this subcommittee has been in authorizing the bill as it now is and probably will come before you, or has come before you—it has been generous—your generosity certainly cannot meet the needs of all of rural and urban America.

And to highlight that, let me just take a little bit out of my prepared testimony.

We talk too much about cities, I think, in the generic sense and not enough about problems that I think this kind of legislation was intended to address. They are not just city problems in general or community problems in general.

Just to illustrate the point I am getting at, we point out in our resolution that in just 50 of our Nation's cities there are over one-half of the 5-million substandard housing units in all of urban America. In these 50 cities the urban death rate is three times the national death

rate. The maternal death rate in these 50 cities is four times the national rate. These 50 cities contain two-thirds of all the urban poor. They distribute over one-half of the urban food stamps, and they contain over 80 percent of the black who live in cities in this Nation.

Now, I don't have to tell this subcommittee that in those central cities, the minority population generally ranges in the unemployment lines from estimates of 20 percent to as high as a 40-percent rate of unemployment.

I just think this point has to be kept in mind as we look at the many demands made upon you, all legitimate, all worthy of consideration. But we think the focus of what needs to be done has to be again stressed, and we urge your consideration of that.

In that connection, Mr. Chairman, we were pleased at the coalition to see that the thrust of Secretary Harris's testimony, indicating a greater attention to need and indicating, from the revised formula, that as a first step that would begin to address the needs, certainly of those larger cities that I have just referred to, most of which would have a severe drop-off if the hold-harmless phaseout provision were to remain in effect, or remains in effect without some other form of relief.

So we urge the passage of that formula approach. That certainly gets at those needs.

And we understand, too, that the problems that the States have are very real, in asking the questions that Governor Milliken asked and raised, and Representative Sweeney from Ohio. Let me make a couple of comments about that.

Certainly, if the total concept of community development—and I make some reference to at least what I think the concept means—is to be fully implemented, the need for some State involvement is certainly a question that needs to be addressed. I think it is no secret to members of this subcommittee and certainly a good many of the members of your staff that a wide array of supportive social services, health services, all kinds of services that can only be helpful to sustain low-income persons in new housing situations or improvement of their neighborhoods, come through States, sometimes from States, those States that are a little more generous than others, and some method of coordinating these resources certainly must be found.

So in principle, I don't think one could quarrel with the concept that our intergovernmental system ought to work better or that there ought to be some function and some role for States.

However, as a caveat to that observation, and maybe parenthetically I would say that when I was a mayor—I look back now and I pray, I wish I had had a Governor like Governor Milliken when I was mayor of Fresno—if all of the States were in the posture that I think the State of Michigan—that I know the state of Michigan is in, and perhaps the State of Rhode Island, and perhaps the State of Ohio—and I think most of you do fit that category—but a great many States, Mr. Chairman and members of the subcommittee, are just not yet ready to assume blanket responsibilities in the operation of this kind of a responsibility.

So let me simply offer as a suggestion, as you wrestle with this dilemma—and it is truly a dilemma—the Governor makes an excel-

lent case, as does Representative Sweeney. Some of the things they can do and are doing to maximize what can be done with the community development housing bill—but what do you do with the late starters? It seems to me that one thing for consideration must be some established criteria of performance and role responsibility that States should assume and be willing to assume and be geared up to assume, and not simply become, as I think Mr. Blanchard mentioned, another layer or another crust of bureaucracy, but in fact a participant that makes a contribution. And I think you have combined experience of members of this subcommittee and very competent staff, I think, to develop such kinds of criteria that would bring into this partnership a real contribution.

While I am on that subject, Mr. Chairman—and this is a little out of order of the sequence of my prepared testimony—the importance of bringing together the total range of resources, not only of the various Federal agencies, but State pass-through and State-initiated resources and from the private sector, much of which is touched upon by Secretary Harris' testimony, and we applaud it.

We recognize that that has to start right here at home. And section 114 of the existing act which permits consultation by the Secretary of HUD with other relevant agencies and departments in carrying out the purposes of the act has really not been implemented. And we would urge strongly, and we do in our resolution, that that objective be strengthened by appropriate language of this subcommittee to see to it that that kind of interagency discussion and dialog and cooperation take place so that in fact resources can be delivered in some kind of a coordinated fashion; that Federal policies can become somewhat consistent among and between agencies as, we all know, at the State and local level is not too often the case.

So we urge you to take a good look at that consultation provision. It is tough to have equals deal with equals, and somebody has to be more equal than somebody else, I suppose, somewhere along the line. But that dilemma has to be resolved, we believe.

We feel, very much as Representative Sweeney has indicated, that the beginnings that Congressman Brown mentioned in linking housing and community development are certainly worthy of commendation, but also worthy of some closer attention.

Our experience has been, out in the field working with a variety of cities, that the actual delivery of housing resources and response to the housing assistance plan and the community development block grant program has not yet been very responsive. Now, that could be start-up time, it could be old traditions. There could be a lot of reasons. But I think this subcommittee has to make it clear that what you originally intended, you really meant; and that these pieces have to come together in the redraft or the modification and renewal of this legislation.

In that same connection—I suppose this is a matter of purely administrative note, but the subcommittee should be aware of it, I think, if they are not. I noted with some interest that Secretary Harris expressed pleasure at the number of urban renewal closeouts that occurred, and I think there is some commendation owed the Department for that. However, there also is an extreme danger in moving too

rapidly in the closing out of the existing old urban renewal projects. Our best estimates indicate, Mr. Chairman, that there are now vacant and cleared, or cleared and vacant, as a result of the old urban renewal project in our cities around the country, somewhere between 25,000 to 50,000 acres of land.

Now, simply closing those out, from a financial standpoint—that is, balancing the books and shutting down the projects—can thwart the very intent of the project in the first place if attention is not given in that closing of that project to what I would prefer to call the “completion” of the project, to carry out the original intent of the Congress, and the provision of low- and moderate-income housing and the balanced kind of communities, whatever the plan as HUD approved it called for.

So I urge the subcommittee—certainly in its report I would hope they would make note of that to the new Secretary, that closing out and completing to carry out the objectives of the Congress may not be the same thing. And we urge your consideration of that request.

As things are now occurring in many cities, renewal projects are closed out. The vacant land is left there. And there is no commitment on the part of HUD to carry through with any housing assistance that was provided in the original plan. And we think that is a very serious problem.

We endorse, also, the emphasis placed on neighborhood revitalization. That is one of the key policy positions of the National Urban Coalition.

However, again, we urge that efforts in this regard not lose sight of the fact that no neighborhood, no matter how well revitalized, is going to survive in a dying city, and I am quite concerned, Mr. Chairman, as I see the 12 or 14 years that I have been in this urban malaise how we get to fads, and I just want to make sure that, to whatever degree we can raise the issue, that we don't get carried away by a fad that just cleaning up and revitalizing neighborhoods is going to restore the health and vitality of our cities. We have to keep those things in perspective. It is a place to begin. It is a place to focus and concentrate. But the total strength and vitality of that city is absolutely essential if the neighborhood is going to survive.

We are concerned, finally—and I will try to bring my remarks to a close, Mr. Chairman—you have all been very patient. We are concerned with the basic intent of the act and whether that is being met. I know you have had some testimony previously from Mr. Bach and others who have done studies where there is serious question. And I think the illustration that Representative Sweeney gave of Cincinnati, dividing the pie 33 ways—or I think it was 33—certainly is not meeting the intent of concentrating or maximizing the benefit of this program for low- and moderate-income families.

So attention to that serious discrepancy, we think, is necessary.

And finally, we urge that the question of citizen participation, which is always a tough one, be addressed a little more forthrightly, in such a way that the language of the new legislation is clear that the citizens most affected by these activities have indeed a more effective voice in the carrying out and implementation of the program. We think the former point I made of how the funds are disbursed in so many

instances and this point have an interrelationship. And I think, to deal with one you must deal with both. We feel there are ways to do that, and ways to do that with a balance that does not take away the final authority and decisionmaking of the local elected officials. We recognize the need for that. We equally urge the Congress to make it clear that an effective and meaningful role for the citizens involved and to be benefited by this program be real and not illusory.

That concludes my remarks, Mr. Chairman.

I would be pleased to respond to any questions that you may have.

[The prepared statement of Mr. Hyde, on behalf of the National Urban Coalition, together with a proposed resolution of the coalition at their executive committee meeting, February 23, 1977, regarding the community development block grant program, follows:]

TESTIMONY

BY

FLOYD H. HYDE

ON BEHALF OF

THE NATIONAL URBAN COALITION

ON

COMMUNITY DEVELOPMENT BLOCK GRANT LEGISLATION RE-AUTHORIZATION

BEFORE THE HOUSE

SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT

MARCH 2, 1977

Mr. Chairman, members of the Sub-Committee, I wish to thank you for this opportunity to appear before you. I am Floyd Hyde, private citizen, and a member of the Steering Committee of the National Urban Coalition, a bi-partisan organization of business, labor, minority and local government representatives concerned with improving the quality of life in our urban areas. The Coalition has local affiliates in over thirty cities across the country. Together, we seek to call attention to, and try to find solutions for the more pressing social, economic and fiscal problems of all cities, and to help ease the racial tensions and ethnic concerns in our urban areas. To this end, our national Executive Committee unanimously adopted a resolution urging the re-enactment of the Community Development Block Grant Legislation. My purpose here today is to present the highlights and major suggestions contained in the resolution. The resolution, in entirety, is attached to my written remarks. I urge consideration by this Sub-Committee of all the points raised therein; as we believe the recommended changes are essential if the future success of the program is to be assured.

Unfortunately, as you have been considering re-enactment of the Community Development Bill which is so vital to our cities, the Nation's attention is again diverted to a crisis of another kind--the most severe winter in decades in the Northeast, and a serious drought in the West and Mid-west.

As critical as these problems are, there is a more acute danger to the national weal in our refusal to come to grips with other problems--the

immense, constant problems that cast a forbidding shadow, mostly on the poor, but to some extent, on all of the three-quarters of Americans who live in urban areas.

They are the familiar ills of sub-standard housing and slum conditions generally; of inadequate health care, education and other social services; of high unemployment; of unreasonable restraints on human rights, dignity, social mobility and personal aspirations.

Unfortunately, these problems hold the threat of much greater longevity than severe weather conditions or even the energy crisis. They seem particularly endless and intimidating to their victims; because, as Ogden Nash put it so well, "Life is so daily."

And yet, we have accomplished no more than a series of beginnings toward solutions. We consistently reject the true magnitude of the task, be it social, economic or physical; or, more importantly, human. We invariably refuse to opt for workable plans or to pledge the necessary sacrifice for adequate resources, be they manpower or money, or for commitment.

Even with the massive problem-solving efforts of the Sixties, the results are in doubt and commitment is compromised. Our cities are pock-marked; but, they are no longer in flames. And so we turn, not to thorough and coordinated follow-up action, but to a huge national sigh of relief that courts dangerous illusion.

Millions of Americans still step aside to let great national enthusiasms pass, and they are no better off when the parade disappears down the avenue. The most recent of these parades has been our national

concern over ecology. While protection of our natural environment and endangered species is commendable, what has happened to our concern about our less fortunate fellow man - the poor, the aged, the disabled, the minorities?

For them, environment is not what they see and breathe. It is the way they must live.

A child in an unheated shack without adequate food, without the simplest possession to brighten his existence; a child raised by parents with little education and limited job opportunities - this child knows only that he is cold, hungry and miserable. That is his environment.

We know of no one who denies the great importance of ridding the Nation of pollution from the air and water, and of preserving our land.

But if, in our quest for control of the air and water and land, we continue to relegate the quest for adequate housing, personal safety, education, health care and jobs to a lower priority of national concern, then we most certainly will fail in our greater responsibility. We will not have met the challenge of dealing with man's total and most immediate environment. The central, often older cities of our nation are at the heart of the urban crisis in America - the hubs of every metropolitan area - the centers of most of the cultural, educational and service activity of each region, and the focal points of the greater share of our major domestic problems. Unfortunately, largely due to ill-advised policies (or non-policies) of the Federal government, these cities have been drained of much economic, social and intellectual vitality, and have become the repositories of the major portion of the nation's domestic problems.

Therefore, The National Urban Coalition calls upon President Carter and the Congress to extend the Community Development Block Grant program for a period of five (5) years; to make such legislative and administrative

changes necessary to carry out the originally expressed national goals and intent of the legislation, consistent with maximum local decision making; and to achieve the purposes listed in the Act. In so doing, the National Urban Coalition pledges itself to work with its affiliated local Coalitions and Associate organizations to achieve these purposes.

We commend Secretary Harris' testimony to "focus HUD resources on needs and to direct programs and funds toward cities that have the greatest need in the areas of housing and urban development." We urge the Congress to authorize the additional funds requested; for clearly, there is great need.

We urge that the allocation formula be revised to more adequately address need so that cities with older housing and infra-structures, and with more critical concentrations of physical and social problems will receive additional aid commensurate with their needs.

As is dramatically illustrated by Boston, Baltimore, and others, many cities in dire need of continued Federal assistance and with enormous continuing problems will soon take a drastic cut in their funding levels. This "phase-out" process illustrates the gross inequities built into the present formula approach. We urge this Committee to consider recommendations heard during these hearings as to how the present formula could be redesigned to more effectively service the different regional needs of our cities. Additionally, recognizing that no one formula can service all needs, we recommend sufficient discretionary monies to allow for sound judgemental decisions, where appropriate.

We concur with the Secretary's recognition of need in small cities, and, equally, deplore the large number of small grants made by HUD with little consideration to the comprehensive community development needs of

these cities. Continued dilution of HUD effort and dissipation of resources as has taken place previously in the administration of the program can only be a disaster.

Consider HUD's performance in this regard. In 1971-1973, HUD was serving approximately 1,100 communities with grants from the predecessor programs at a total funding level of approximately \$2 billion \$30 million dollars. At the expressed concern of several committee members, it was estimated that the formula approach being discussed, that is, entitlements for all cities over 50,000, hold-harmless communities and urban counties, would raise the total number of recipients from 1,100 to about 1,450. Since the suggested funding level was to be increased somewhat - 2.5 billion initially - the concerned members seemed satisfied.

However, HUD recently stated that it approved funding applications for over 3,500 communities the first year, plans to approve 4,500 the second year, and 7,500 the third! With the review and ranking of this many applications (many of them small rural communities), it is little wonder that HUD's reduced staff cannot adequately monitor the national objectives in civil rights, equal opportunity, and the maximizing of benefits for low and moderate income persons. To fund such communities, is, we believe, contrary to the clear intent of the Statute. Section 101(c) states that "the primary objective of this title is the development of viable urban communities etc..."

In the Findings and Purpose section of the Act, reference is made nine times to "urban" communities. No mention is made anywhere in the Act of rural communities. When the community development block grant was proposed, a companion rural development bill was simultaneously proposed but, unfortunately, was never fully implemented.

No one knows better than we of the needs of small rural communities in America. But it is a tragic deception to attempt to meet all urban and rural community development needs with this bill. Clearly, this was not intended so by Congress, nor was the program adequately funded for the job. We urge the Committee to remind your counterparts in rural affairs of the need for concerted action.

It has been determined that the Nation's critical human problems are highly concentrated in only 50 of our cities:

- They contain 1/2 of the 5 million urban sub-standard housing units;
- They have 3 times the urban death rate;
- They have 4 times the national maternal death rate;
- They contain 2/3rds of the urban poor;
- They distribute over 1/2 of the urban food stamps;
- They contain 80% of the blacks who live in cities, a high percentage of which are unemployed.

Continuation of the past policy of "spreading" of limited resources can mean only further tragedy for the many millions of Americans trapped in our declining, older central cities where these problems are so highly concentrated.

With regard to the financial settlement of long outstanding categorical projects, (specifically urban renewal), we cannot agree that HUD has, as Secretary Harris affirms, "an excellent record" of "closing" out 457 Urban Renewal projects. In drafting the original legislation, we recognized that termination of this program would result in inevitable financial hardship and inequities for many cities, especially in hold-harmless or phase-down cities. Thus, our discussions with the Committees of Congress resulted in Section 103(b) which provided additional set-aside funds for "orderly transition" to the new program. (The section refers to urgent community development needs which cannot be met through the operation of

Section 106 which provides the allocation and distribution formula and the phase - out of hold - harmless.) The orderly transition we had in mind was the completion of unfinished, HUD approved projects in the face of funding cuts. "Inequities" and subsequent dispersion elsewhere of promised discretionary monies to cities suffering such inequity have nullified this effort entirely.

As a result of the "close-out" rather than "completion" policy, many cities have been left with the responsibility of assuming millions of dollars of unexpected debt. In addition, there are now an estimated 25,000 to 50,000 acres of cleared urban renewal land for which there are no longer any funds to provide the complete package of housing originally planned and approved by HUD.

Additionally, many cities have found themselves unable to provide the complete package of soci-economic support services essential to the success of any housing effort. Any new bill, or at least the Committee Report, should make clear that Congress did not intend that HUD close-out existing urban renewal projects at the expense of the original program objectives. It must be made clear that the delivery of promised housing assistance be a part of any urban renewal project completions. In Secretary Harris has stated the intention "to make HUD programs responsive to the need for comprehensive, coordinated commercial, industrial and neighborhood development and revitalization that is supportive of, and complementary to, the community's requirements for housing and urban development." The National Urban Coalition has adopted an increase in neighborhood revitalization and preservation as one of its major policy objectives. We support and recommend that the Congress authorize the inauguration of such a program, with appropriate financial

incentives for both local government and private sector participation.

We commend the Secretary's concern with regard to the lack of integration of public and private commitment in our cities. The exodus of businesses and population from our major central cities and their continued decline has been encouraged by disjointed, stop-and-go policies and programs of the Federal government. The present administration of the CD block grant program is no exception.

If we, as a nation, are to reach those goals which Secretary Harris has set for the Department - to encourage local governments to integrate Community Development with economic development, and to stimulate new and increased private investment in our cities, we must recognize that incentives to the business community alone will not be sufficient. We urge the Congress to authorize sustained multi-year commitment, both short-term and long-term, of major flexible Federal financial assistance, in order to strengthen and re-make our cities and metropolitan areas, thus reversing the decline which now threatens the people of even the best managed central cities.

The desired public and private integration can only be achieved if our cities are assured of predictable assistance, thereby enabling them to carry out sensible and efficient longer term planning and program implementation, and to attract sound private investment in declining areas. The success of any national urban policy can be no stronger than its weakest link - our central cities are not only weak: they are near the breaking point. We urge the Congress to consider this fact in drafting new legislation.

Additionally, we urge the Secretary and the Congress to look closely at the past failure of the Department to implement Section 114, "Consultation": "In carrying out the provisions of this title including the issuance of

regulations, the Secretary shall consult with other Federal departments and agencies administering Federal grant-in-aid programs." We urge this passage be strengthened in order to provide for better coordination with other federal agencies and departments in the delivery of appropriate supportive socio-economic assistance necessary for effective housing, and neighborhood revitalization and services. Too often, as experience has shown us, individual programs have targeted federal monies into cities, hoping to solve specific problems and have succeeded only in making those cities magnets for more concentrations of poor with the same problems.

We commend the Secretary's desire to "reorient the Department's management procedures so that all...efforts will be directed toward the achievement of basic identified statutory objectives, particularly those objectives that speak to the interests of low and moderate income people."

In its Resolution on Community Development, the Executive Committee of the National Urban Coalition urges that the Congress assure that the great majority of the funds be required to be used for projects and purposes that will directly and primarily benefit low and moderate income families and persons and the particular neighborhoods and communities in which they live.

In our opinion, the previous experience of the Community Development Block Grants in our cities shows that, where it has failed, that failure resulted less from items contained in the legislation than in how policies were established administratively from Washington.

Previous HUD failure to enforce the "maximum feasible priority" provision for low and moderate income persons, and others, are, in my opinion, not the result of incompetence on the part of HUD people in the

field, but rather, the result of a philosophical direction set in Washington. This must be dealt with head on - additional legislative language which can say no more than "we meant what we said in the Act" will probably not alone affect substantial change in direction of the program. Sound administration of the intent of the Act is essential. Additionally, Congress must exercise its right of oversight to see that this takes place.

We commend the Secretary for her testimony that block grant applications will be reviewed and monitored in the light of a community's performance toward National Objectives, especially at the priority of directing housing and development programs for low and moderate income citizens.

As a caveat, we note the Secretary's testimony makes note of the provision in the Act of the importance of citizen participation in defining goals and plans for CP implementation within a given community. There has been much evidence in the past that this has not happened. We urge the Congress to strengthen the legislation, so that those primarily intended to be benefitted by the Act, namely low and moderate income persons, be assured of a more effective voice in the development and carrying out of the block grant and housing programs at the local level. Additionally, we urge the Congress to monitor HUD to insure that the abuses of our civil rights laws not be repeated; that the block grant and housing assistance programs be administered in such a way as to further equality of opportunity for minorities, the elderly, and women through the vigorous monitoring and enforcement of federal non-discrimination laws and regulations.

We consider these two points, adopted in our Resolution, to be of maximum importance. For, the process of "citizen participation" (so often and so unfortunately viewed as "just another federal requirement") has a

wider value than to simply assist in the targeting of funds. It's real value is to enable individuals, previously without voices, tools or mechanisms, to participate in the political process, to begin to get into the entire system of resource allocation and priority setting, to begin to control the destiny of their own lives, so previously controlled by planners and policy makers.

To date, Urban America has no advocate at the federal level. The Department of Housing and Urban Development, composed of competing and often conflicting program objectives, has yet to articulate its true mission or role as spokesman for the nation's cities. We commend Secretary Harris' desire to remedy this situation, to have HUD "become the national advocate of cities." For too long, HUD has viewed state and local government as adversaries, rather than as partners with common goals in a single intergovernmental system.

A brief comment on the complex housing issue: In spite of the Congressional breakthrough in the 1974 Act linking housing with Community Development, the actual delivery of housing resources is not happening in that fashion. Just as HUD refused to make low-income housing commitments to HUD approved urban renewal plans which required low and moderate income housing, so, too, the present system does not guarantee delivery of any specific housing resources in response to an approved Housing Assistance Plan.

We urge the Congress to insure legislation authorizing that federal commitments for the delivery of housing assistance be required in response to the cities' approved block grant applications and housing assistance

plans, so that better coordination between housing and community development occur at both the Federal and local levels of government.

The most important missing element, however, to any effective efforts at maximizing housing choices as called for in the Act, and the minimizing of concentration, is, again, the missing element referred to earlier, the "consultation" by the Secretary, with other relevant Departments and agencies, in order to assure consistency of Federal policies and programs.

Furthermore, since the actual delivery of most supportive services are carried out by State and/or county agencies, their active involvement in the program is necessary. We urge this Committee to take this into account in drafting appropriate roles and responsibilities in the new legislation.

In conclusion, permit me a few personal observations on the subject of community development in general. Unfortunately, there is no clear definition of the term, either in the present act nor in any other similar federal legislation. The recent Brookings study, however, identified four basic concerns of federal policy-making for community development:

- 1) Physical improvement of the urban environment;
- 2) Improvement of the social aspects of urban conditions;
- 3) Improvement in the performance of local government; and
- 4) Increased participation by local residents in making decisions that effect their own communities.

We agree that these are important and basic elements of community development, but respectfully suggest that it is also something more:

For me, community development connotes a rational process for dealing with the whole organism of the delicately inter-woven parts that we call

a "city". It is, most of all, a PROCESS for identifying and dealing in a coordinated way with the full range of problems which confront a city. Efforts to deal with a city's problems without reference to their inter-relationships are, by definition, doomed to failure. Thus, community development is a process that is broader than any one city department, or, for that matter, any one Federal Department. It is not linked to a single funding source. It shapes the use of all available funds -- Federal, State, local, private -- into a concerted effort to make our urban areas better places in which to live and work.

It is a process designed to stimulate the involvement of citizens, particularly those to be impacted by the program -- (low and moderate income persons) --- in the development of a community-designed strategy, as against a Federally-designed strategy for identification of community needs and problems and for articulating a process by which priorities would be set and resources allocated in order to deal with those identified problems and perceived needs. Most importantly, this process should serve as a catalyst for the establishment of priorities and the allocation of all resources from all levels of government and the private sector.

But, community development is also more than a process. It is, finally, a concept -- a concept that gives the process its strength and meaning. It is the concept of linking all factors -- physical, economic, social and human -- into a workable plan. Such a plan must recognize that our greatest resources are our human resources and that without involving them as an integral part of our activities, our plans for community development will not succeed. Only if we fully understand this concept and make it fundamental to our actions will we be able to effect total solutions to community needs. Above all, we must not overlook the one thing that is

the community: its people.

Thus, in determining the future course and shape of the community development block grant program, we should determine if the evidence before us suggests that cities have in fact responded to the objectives of the act in such a way that they have begun to develop such a process, or have they merely perceived it as just another "federal program".

The same question should be asked of HUD's performance in this regard, and of State and County government involvement.

While no single federal program can be expected to legislate all of the necessary elements of such a community development process, we believe that a more clearly stated definition and national objective for community development is needed.

Only through the establishment of such a common goal can we maximize the impact of the combined efforts needed from the federal, state, and local governments and the private sector, if we are to effectively deal with this nation's worsening urban problems.

If we are to set new directions for the future, we must determine where we have been.

I have talked about some of the mechanics and the tools for carrying out community development activities. These are, certainly, important.

But much more important is an understanding of what the task really is: Under the previous urban renewal program, many saw the task as one:

To assemble land;

To carry out demolition and rehabilitation of buildings;

To write down the cost of the land; and then

To redevelop the area to its highest and best possible use.

I say that our task in community development is:

To assemble and bring together the people of our communities in a

common cause;

To demolish and tear down the walls of discrimination and injustice;

To write up the value of human life;

To develop communities and a nation where "the highest and best use" is measured, not in abstract or monetary terms, but in terms of full and equal opportunity for all our citizens; and

To insure that all our citizens can enjoy and fully share in the true American Dream.

The Community Development Block Grant program, if properly redesigned, can be an effective tool through which, if used judiciously, we can accomplish these goals.

Thank you, and I shall be pleased to respond to any questions.

**** NATIONAL URBAN COALITION ****

Executive Committee Meeting
February 23, 1977

*** Proposed Resolution ***Community Development Block Grant Program

WHEREAS, the Community Development Block Grant Program authorized by the Housing and Community Development Act of 1974 will expire in September, 1977, and

WHEREAS, the nation's cities are faced with urgent tasks of preserving and developing their neighborhoods and housing stock, of improving the quality of urban life, and of restoring their economic and fiscal strength, and

WHEREAS, the strength and well being of our entire nation depends upon having vital healthy cities, and

WHEREAS, the Community Development Block Grant Program, although basically sound in concept, is proving to be grossly inadequate for meeting the housing and community development needs of the nation's older cities, said funds being more widely dispersed to many more cities without apparent regard for relative need, and

WHEREAS, the cities need immediate and continuing aid for economic development and job opportunities, housing development and redevelopment, environmental improvement, and the revitalization of downtown areas and central city neighborhoods, and

WHEREAS, the nation's critical human problems are highly concentrated in only 48 of the 1,850 cities over 10,000 in population, to wit:

They contain 1/2 of the 5 million urban substandard housing units;

They have 3 times the urban death rate;

They have 4 times the national maternal death rate;

They contain 2/3 of the urban poor;

They distribute over 1/2 of the urban food stamps;

They contain over 80 percent of the blacks who live in cities, and

WHEREAS, President Jimmy Carter has expressed his deep concern about improving the living conditions of the urban poor and restoring the social, physical, and economic viability of the nation's cities, and has committed his Administration to those goals,

NOW, THEREFORE, BE IT RESOLVED THAT, the National Urban Coalition calls upon President Carter and the Congress to extend the Community Development Block Grant program for a period of five (5) years, and to make such legislative and administrative changes necessary to carry out the originally expressed national goals and intent of the legislation consistent with maximum local decision making, and to achieve the purposes listed below; and, in so doing, the National Urban Coalition pledges itself to work with its affiliated local Coalitions and Associate organizations to achieve these purposes:

1. That the allocation formula be revised to more adequately address need so that cities with older housing and infrastructure, and with more critical concentrations of physical and social problems will receive additional aid commensurate with their needs, and
2. That the great majority of the funds be required to be used for projects and purposes that will directly and primarily benefit low and moderate income families and persons and the particular neighborhoods and communities in which they live, and
3. That those primarily intended to be benefitted by the Act, namely low and moderate income persons, be assured of a more effective voice in the development and carrying out of the block grant and housing programs at the local level, and

4. That the nation's cities be assured of a continuing flow of major, flexible federal financial assistance for housing and community development purposes, and
5. That multi-year commitments of funds be made to cities so that cities will be assured of consistent and predictable assistance, thereby enabling them to carry out sensible and efficient longer term planning and program implementation, and
6. That incentives be provided to encourage cities to secure major meaningful participation from the private sector--business and labor--in their housing and community development plans, and
7. That federal commitments for the delivery of housing assistance be required in response to the cities' approved block grant applications and housing assistance plans, and
8. That Section 114 of the present Act be strengthened to require the Secretary of HUD to consult with and coordinate policies and programs with other federal departments and agencies in order to deliver the supportive socio-economic assistance necessary for effective housing and neighborhood revitalization, and
9. That the block grant and housing assistance programs be administered in such a way as to further equality of opportunity for minorities, the elderly, and women through the vigorous monitoring and enforcement of federal non-discrimination laws and regulations.

Mr. ST GERMAIN. Thank you, Mr. Hyde.

As a matter of political reality, I would like to reiterate what Representative Sweeney pointed out about a division into 33 slices of the pie, you know, when you cut a pie up into that many pieces, no one, really gets to find out what it tastes like, because the piece is too small. And as a result thereof, how can you accomplish anything?

I think another political reality is the fact that we have talked in glowing terms in the 1974 act about the fact that HUD would look to determine whether or not housing would be provided for low-income people and in the areas adjacent to or close enough to their jobs, and that there would be other services, municipal services, available to them, et cetera, et cetera. But I think that if one were to look at what has actually happened, that low- and moderate-income housing has been talked about but it has not come to fruition.

I think you would agree with that.

Mr. HYDE. We certainly concur with that, Mr. Chairman. That is one of our deep concerns.

Mr. ST GERMAIN. And this is why, I think, at page 38 of Secretary Harris' testimony, as well as page 35, she emphasizes that. And I am hopeful there will be a real emphasis, as she contends there will be, and an insistence on the fact. And it is the old carrot-and-stick approach—if you want this, you must do that—otherwise, no way. And that is the only way we are going to get it. Because I, from personal experience, can think of communities in my district where they have had the moneys available for low-income housing, and every time they found what they thought was a site, lo and behold, a hearing before the council, and the next thing you know, a pullback. And as a result thereof, years go by and nothing happens.

And I feel that, with all due deference to the concept of giving the local government a bigger say—we can give them a bigger say, yes—a larger voice—by the same token, that voice can only speak if that voice has acted in accordance with requirements of the act. That's the only way we are going to have it done.

Sure, I know, housing for senior citizens is one need that exists. There are waiting lists all over the country. And we want to do everything we can. But we have got to also realize that if we are going to stem the deterioration of our cities, we are going to have to provide low-income housing, not the Pruitt-Ighoe type, not the 1,000 or 2,000 units all crowded in, but the scattered concept where these people can be intermingled within the social life of the community; and not only they themselves, but their children learn from their neighbor's children the work ethic and have instilled in them a desire to move ahead and to better their lot.

Mr. HYDE. We are in full agreement with that, Mr. Chairman.

I might say, if I am not interrupting, Mr. Chairman, the statement you referred to concerned me a little bit. It seemed to infer that the delivery of those housing resources, maybe my own statement did, in response to housing assistance plans, would be the federally assisted low- and moderate-income housing. I think we have to do better than that for the very reasons you have just stated.

I am thinking of city X that I have just been in where there is a large amount right downtown of cleared, old urban renewal land, and

if HUD were to deliver nothing but low- and moderate-income housing there it would be a disaster.

But HUD has other resources under their conventional programs, the mortgage insurance programs of FHA, and to balance those off again to the developer, if you want to play in the game and use the FHA insurance out here in the suburbs, you are going to have to put some in here.

Those things need to be done, need to be addressed, need to be laid out on the table, and I think we can make great progress if we face them headon.

Mr. ST GERMAIN. Mr. BROWN.

Mr. BROWN. Thank you, Mr Chairman.

At the outset I would just like to say that these hearings are important. The revisions that are being discussed, I think, are things that should be discussed, and obviously some have merit and should be adopted.

But in looking at them, I would certainly hope that we do not lose sight of the fact that no other legislative effort I can recall on behalf of the Congress, in the years since I have been in Congress, has made such significant changes in what we were doing as did the Housing and Community Development Act of 1974. And, 3 years later we can sit here and only find little things wrong with it that need to be changed. I think, by and large, it was a tremendous move, and in the vacuum of these hearings, if I may say so, let's not lose sight of the significance of the act itself as we review it 3 years after its birth.

Mr. HYDE. Mr. Brown, I certainly agree with that. I did not intend by my remarks to negate any of that progress made. I take great pride in the fact that I participated from the very beginning in the conceptual phase of getting to where we are today, and I make no apologies for that.

I think we are talking about fine tuning, which is a very important difference from other kinds of deliberations we have had before.

Mr. BROWN. Well, the very fact that in the formula change, we are not talking about a formula change; we are talking about adding an optional formula and continuing the existing formula. So ever there, I think, we can't be too critical of what we did 3 years ago when we were starting off from scratch.

As I say, I think embarking upon a whole new venture that had not been tried in the way of the new federalism, we want to make sure that the good marks are compared with those that maybe can be improved.

You say in your statement, Mr. Hyde—on page 9,

In its resolution on community development, the Executive Committee of the National Urban Coalition urges that the Congress assure that the great majority of the funds be required to be used for projects and purposes that will directly and primarily benefit low- and moderate-income families and persons and the particular neighborhoods and communities in which they live.

I think we can all agree that as a general goal and objective, that is fine. But could you have done all of the things you did in the city of Fresno, as mayor, if you had been put under the stringent constraints than are suggested here?

Mr. HYDE. If we are talking about the same thing, no.

We purposely and quite specifically do not say that all the funds should be required, but the great majority. And I think that has got

to be emphasized, that it would directly and primarily benefit low-income families.

Now, that does not mean—this cuts in many ways. I think we have had some of these discussions before in earlier times about this. We went through some of the same discussions in the model cities program where the neighborhood was designated, and the debates ensued there that if you did something outside that neighborhood that gave those in the neighborhood an opportunity to move upward and out, wasn't that a benefit primarily to those persons. The answer is "Yes," if you do in fact link those activities. And that is what we are trying to get at.

Mr. BROWN. Well, the only reason I raise this is because the witnesses yesterday were criticizing the use of community development funds, for instance, for playgrounds, for little league baseball fields, or for maybe a basketball court, et cetera. Where are the low- and moderate-income kids going to play basketball? On the street? And it does benefit others, of course. I think you can't generalize in these areas. You have to see whether or not, and I agree with your statement, that it will benefit primarily or substantially the low- and moderate-income people in these particular neighborhoods.

One other thing that I would like to mention is, on pages 3 and 4 of your statement, you say:

Therefore, the National Urban Coalition calls upon President Carter and the Congress to extend the community development block grant program for a period of 5 years; to make such legislative and administrative changes necessary to carry out the originally expressed national goals and intent of the legislation, consistent with maximum local decisionmaking; and to achieve the purposes listed in the act.

I'll tell you, if we can do that—

Mr. HYDE. That is the challenge we are giving that subcommittee, Mr. Chairman.

But, seriously, I think—excuse me.

Mr. BROWN. I was just going to say, I think, once again, the problem is "consistent with maximum local decisionmaking." I think cities never had the right to make these decisions—they always filed an application and got a categorical program approved—they did not have the flexibility. They had not learned. Citizens participation was almost unheard of in the categorical programs. I think that people are, in these communities, seeing that—especially lower income people—they are to be involved in the decisionmaking process, and more of them are becoming involved. I think that is what we ought to emphasize. They should do it, and they can do it, rather than having us write it in the law. Because, I think that kind of improvement is permanent improvement. I hate to think that we must constantly write something down, because it seems to me, to the extent we write something down and say "you have to do this," what happens, is, that compliance almost is to the exclusion of other things that might be more beneficial.

Mr. HYDE. If I may, Mr. Brown: this is the dilemma that I think is the crux of the matter. Having worked it from both ends, being the mayor and the victim of the Federal largess, and then at the other end, being the victimizer when I was administering these programs, I think I may be able to succinctly put the dilemma to you.

I think we make the mistake of—in most of what we have done in the past—in feeling that if a specific national objective is to be achieved, as was stated in the act, that the specifics of exactly how they are to be achieved must be written into the law. That is not what we are suggesting.

What we are suggesting is with maximum feasibility permissible, the criteria sought to be achieved as a national objective be clearly stated. And I think that has to be more clearly stated. It is almost like saying, after the first 3 pages of the purposes of the act, to say, "and we really mean it." I mean, that is kind of what we are suggesting, because there has been a little slippage. I think the record is not all bad, as you pointed out earlier, and some cities are doing a tremendous job with this. And some aren't doing too well. Some are slicing the pie and even withdrawing their own efforts from areas of greatest need, because there is a little pie to throw over there.

So, I think, just a reinforcement of that concept without the ties of the old categoricals, which say, "now, after having said that, here is exactly how you must achieve that national objective." That is where I am trying to make the distinction.

Mr. BROWN. I appreciate very much your supplementation of the statement you made in your prepared text, because I quite concur in your most recent remarks.

Than you very much, Mr. Chairman.

Mr. ST GERMAIN. Mr. Blanchard.

Mr. BLANCHARD. Yes.

Representative Sweeney and Mr. Hyde and Ms. Austin, thank you for coming.

I am going on my third year in Congress, and I read the Housing and Community Development Act several times, and there is so much in it I can't always remember. This week I carried a copy around, and today I decided to forget it and just recollect by memory all of the various purposes in the act.

But every single witness seems to imply that they know clearly what this act intended. But when they elaborate, it is always something different than the previous witness. My guess is that if Mr. Sweeney and his constituents could sit down and agree on what it meant and how to achieve it, and it made sense to us, that would be an improvement.

For example, I have been thinking all week—and I notice throughout your testimony, Mr. Hyde, that I believe there is a real dilemma is designed to help people or units of government.

For example, If a moderate-income black family in Detroit would be permitted to do what they might like to do, it may well be to move to the suburbs and leave in Detroit the unemployed blacks, because I have to assume their aspirations are the same as mine, to live in a nice area. I, frankly, haven't heard anyone in Detroit lately say they like living there or want to stay there, nor have I heard anyone in the suburbs, white or black—and most of them are white—say they would like to move back into the city.

If we were to make a massive effort, for example, to spatially de-concentrate low-income or minorities—I am not suggesting we should, but if we were to do that, it strikes me that Detroit proper would be

worse off than it is right now, and right now it is essentially dead. No one wants to admit it, but as cities are today, it is dead—cities don't die anyone—but it is not Band-Aids or surgery that it needs; it needs a whole new life—\$4 billion wouldn't even do it. It would help.

I don't really intend to give a speech, but I have just been agonizing over how we give this act more definition so that it is clear to communities what we mean, and so that we don't create, under the guise of helping poor or minorities, further ghettos, whether they be in the suburbs or the remains left in the city, and we do it in a way in which people can feel comfortable with it, and I can feel comfortable with having voted them money.

I think Representative Sweeney really stated the bottom line for much of my district. So why not just give a housing voucher to individuals and forget all the gobbledegook about the layer and that layer, and we know what we need. As far as I can see—I could be wrong, but I have not seen in the act any reference to racial integration. It talks about income opportunities for low and moderate, and then we can argue about what low- and moderate-income means, and it goes on and on.

And I guess, since you worked in the initial legislation, Mr. Hyde—Mr. Sweeney. I think your constituents, quite independent of those who designed the act, are living with it—I would like to hear your reaction to what I am saying. How do we reconcile a strategy for an inner city versus a strategy for a suburb, a strategy for an individual versus saving a unit of government that that persons might reside in which the individual is permitted to leave and then there is nothing left.

What is the purpose of this act? What is it you want me to say you meant, or you think my colleagues meant?

Mr. HYDE. Let me take a try at that, recognizing that you have asked probably the most difficult question America is faced with today.

Mr. BLANCHARD. I appreciate that.

Mr. HYDE. And it is not a brand new dilemma. Some of the same questions were asked as the model cities program began, which was a concentration in a designated neighborhood, and the questions were similarly asked: are you, in effect, gilding the ghetto, making it better, where people would perhaps be better off to get out of? And I suppose there is no real easy answer to that.

My answer has traditionally been: you have to do both. You have to try to make the existing environs more livable and at the same time create more opportunities for mobility and "up and out," so to speak. That makes a whole lot of things, way beyond what this bill, this subcommittee has any control over, or Mr. Sweeney or the National Urban Coalition or anyone else.

But having said that very quickly, which is really not an answer to your question but only compounds it, perhaps, let me give you what at least I conceived our efforts were directed to in the community development bill.

Unfortunately, we did not define, nor has the Congress defined, what community development means. To some it means physical rehabilitation; to others it means much broader things.

I have given, for your consideration, toward the end of my written testimony, a rather somewhat lengthy and perhaps too wordy description of both the process and a concept of community development, and I would like to try to really restate it because I think it is important to get a handle on what you have said. It actually brings Mr. Sweeney and Governor Milliken and everyone else into the picture.

Recognizing that whether it be \$2 billion or \$4 billion, as I think Congressman Brown mentioned, isn't going to turn around the deterioration of our existing cities. We viewed it as more perhaps being that catalytic agent to develop a process which would in fact be the influencing factor to get the participation of those long left out of the system to begin to not just divide up the pie of community development but to get into a process that looked at the whole system of allocation of resources and setting of priorities at that community level. Recognizing that perhaps, on the average, 5 percent of the city's budget is the community development block grant. The other 95 percent of the resources the city has, the other resources the State government puts into that area—and I am saying "area" as distinct from just the city—and the other resources of the Federal Government and the private sector contributed into that area, all have vital roles to play in how it impacts those we are really talking about—and I think it is people we are talking about in community development that we are seeking ultimately to help—but through the process of a city spearhead, if you will, to bring all of these pieces together and involve them in the process.

Now, clearly, if you broaden the concept of what we are talking about, you recognize, as I said earlier, the need for a coordination of other Federal resources, the need for incentives for the private sector, and at the same time some hard decisions in that planning process that the State, the locality, the city itself, the region and its people must make as to what the economic realistic future of that community is, and make some hard choices.

But it is in this context that I think we ought to think about, where do the pieces of this bill fit. And frankly, some communities—and I think perhaps some people in the Federal Government—view community development as another little pot of money, and I think when you do that, you are wasting your money.

And it is in this broader context, Mr. Blanchard, that I had hoped we could be discussing really what our objectives are.

Mr. SWEENEY. I, too, would like to respond to your observations and your questions. I feel that the motivation for the community development program was maybe, as Congressman Brown indicated, genuinely the best that you had in an awful long time, because you consolidated the grants.

But the major feature is the fact that you have given the city the governance of that money. They budget it and they know where it is going to go.

Enter the factor of what you are doing in low- and moderate-housing—and although the act does not mandate any desegregation efforts, you bring into effect what the chairman indicated—economic integration.

And I will tell you, in my city, in that corridor which is ravaged with abandonment and demolitions, between the community college

on the South End and the university on the North End, is a prime area for this kind of development. It is all poverty. There is not even any crime there because everything is gone.

If we could take, for instance, the community development block grant money to use with State land-banking efforts for the city, and then assemble large blocks of land and tell developers we want \$100,000 homes, \$60,000 homes, \$40,000 homes, and \$20,000 homes then we are going to have some influence. The value of the \$20,000 home is immediately going to be enhanced by the presence of the other quality housing. We are now in a war or competition in the housing market with the suburban communities.

But the community development money must be capable for assemblage of land. Now, if the city wants to grant the land to a developer with guidelines for housing, we could do this. The city can make that judgment or at least have the capability of doing it.

The thing that is upsetting the housing market in my town and towns like mine across the country, is that the housing starts have stopped, and the average home today built in a suburban community costs \$60,000 and \$70,000.

Well, a college graduate with a degree in engineering, with a job, can't today reach that \$60,000 market. He is looking to buy homes, those prewar homes in my neighborhood, and he is using his own initiative to cause some redevelopment in the city. He is in fact changing the face of my neighborhood back into what it used to be by his very presence—and I am talking about young marrieds, young blacks, young whites, who have the capability of doing those things.

And I think it's important that we enhance it. Government hasn't done anything to cause those people to come back into the city; it's just that developers have priced themselves out of the market.

Mr. BLANCHARD. Let me pursue this. No city is identical to another. I have a feeling that all of you are familiar with Detroit and its area and have been around and seen the various stages of urban decay and suburbanization and economic decline.

As I was sitting here, I thought, why not insert in the act an expected-to-stay clause for Detroit and survey those who work there who don't live there who might have a natural affinity to stay because it is shorter to get to work.

Detroit has an excellent housing stock, really, much more quality housing than any immediate suburbs, and expected-to-stay quotient, and work on that basis as well as what the act has, which is expected-to-reside, which quite honestly strikes me as just another way to predict the imminent doom of Detroit. It is an assumption that everybody would like to get out causing the reverse of what many of us, I think, including Mayor Coleman Young of Detroit—and I wish he were here at this moment because he would probably agree—that we could get whites, for example, to stay in Detroit and black middle-class to think that there is some hope for their children if they stay.

But we would be starting to get a handle on Detroit. Detroit may be much further gone. I would submit it is, from other cities, but I have a feeling Cleveland is pretty well on its knees, too.

Do you see some problem with my thinking here? I am really trying to get a handle on accommodating our objectives in some new way.

Mr. HYDE. May I respond to that, Mr. Blanchard? I think you have hit a very sensitive nerve and a very important one. In my opinion, in the limited experience I have had, I believe the answer to getting at what you suggest would be the expected-to-stay element—can be best achieved not through a program—this could help—but through some consistently planned Federal policies that make it worthwhile staying and make it less worthwhile to flee.

And if we had the time, I could list across this table all of the Federal policies that do just the opposite. And I think, until we can talk in terms of not just programs but what are the policymakers in Treasury, in Internal Revenue, in DOT, in wherever, what are they doing in policies everyday that fly in the face of every objective of this act. And we can get a long list of those.

So I laud your direction, your efforts, and perhaps something of that kind in such an act could be made an incentive, but I think we also must recognize and go back through the consultation provision of the act, the need for somewhere that Federal policy be consistent to carry out these objectives.

Mr. BLANCHARD. I really couldn't agree with you more. This act is an expression of policy and why not start right here?

Mr. ST GERMAIN. The gentleman's time has expired.

Mr. BLANCHARD. Thank you, Mr. Chairman.

Mr. ST GERMAIN. Mr. Wylie?

Mr. WYLIE. Thank you, Mr. Chairman.

I appreciate the opportunity to welcome my fellow Buckeye, Mr. Sweeney, before the subcommittee and give him proper recognition as a most effective and prominent Democrat in the Ohio Legislature, a member of the other party, I should say.

I do welcome you, Mr. Sweeney, and say that I commend you for a very impressive and excellent statement today, and I think that you have indeed put your finger on the pulse of some of our very difficult housing and city problems.

And the same for you, Mr. Hyde.

Mr. Sweeney and I do have something in common, Mr. Chairman, in our disdain for the athletic teams from the State up north.

But I noted that he did agree with Governor Milliken, a member of the other party, and also the Governor from the State up north, in what he had to say about the community development block grant program.

Is that a fair statement, Mr. Sweeney, that you were pretty much in sympathy with what Governor Milliken had to say?

Mr. SWEENEY. Yes.

Mr. WYLIE. You mentioned Cincinnati three or four times.

Mr. SWEENEY. No, I mentioned Cleveland.

Mr. WYLIE. You mentioned Cincinnati, too, in the fact that they had a pie which was chopped up.

Mr. SWEENEY. No. If I said Cincinnati, I was mistaken. That was Cleveland. They have 33 wards.

Mr. WYLIE. Well, you may have mentioned Cincinnati at one time during your testimony, and I thought you were pointing them out, too, because Cincinnati, I think, got the largest block grant moneys of any of the cities. And they ran into a situation where they could not really

use it effectively, in my judgment, because of the unusual situation in Cincinnati where they had little pockets of older city areas. And for that reason I was persuaded that the section 8 programs were—maybe that is one of the reasons why I think the section 8 program is a better way to go.

In the city of Columbus, for example, I think we got at the time the largest section 8 grant among all the cities, and it provided for about half of the so-called model cities area for urban renewal.

And in that connection, it provided for a total community concept. In the middle of this total community was to be a commercial development, as you know, and houses and stores and then on the edge of that was to be an apartment complex and on out into a single-family residential complex, and by that process it was phased into the total Columbus community.

Now, if you go—and Mr. Blanchard, I think, touched on this a little while ago—if you go to the concept of low-income housing for the cities as a total concept, what happens to the tax base in an area like the Mount Vernon Avenue area project in Columbus, and don't you get right back into what Cincinnati experienced? They couldn't even use the money they had because they could not find low-income pockets to improve.

Mr. SWEENEY. What I suggest, Mr. Chairman and Congressman Wylie, is not to emphasize or give such direction where you isolate that community's ability in their movement. If you say, only low and moderate then the only debatable point becomes, who do we determine moderate? And if you want to give a city the capability of doing it over in Mount Vernon, they have already, because of the actions of the city and what they have done through their section 8 money—they have already caused redevelopment of rundown properties. People are doing it on their own. Some are getting the guaranteed loan provisions under section 312. Government can be an agent to cause action. Victoria Village is an illustration. The old ghetto of Flytown was torn down. They used the development—there's all kinds of private development moving. And I think that is the way we were able to revitalize the city and not just build a project and walk away from it.

Mr. WYLIE. Well, I think so, too. And what happens, Mr. Hyde, in your concept where you build several \$20,000 homes up next to a \$100,000 home. What happens to the \$100,000 home then?

Or maybe you mentioned that, Mr. Sweeney?

Mr. SWEENEY. I will tell you. Immediately, if you put a mix of \$20,000 and \$100,000 homes, and everything in between, I don't think you can just put the two. But if you had, for instance, 100 units of single-family homes and 25 of them were high and 25 of them are low, and the other 50 were in the middle ranges, believe me, you are not going to affect the market.

The only thing that you would affect dramatically is the value of the \$20,000 homes—suddenly becomes \$35,000—and those people who live in that quality neighborhood—I have seen it done before, and I think it can be done again.

Mr. HYDE. May I add to that a response, Mr. Wylie? Because I think we are at a very important point here. In looking back at some rather unpleasant HUD experience during my tenure there under a very fine

and outstanding Secretary, George Romney, whom I respect and admire greatly, we found that in the sincere desire to create and build vast amounts of low-income housing—I think we hit a peak of 440,000-some-odd units in about 1971—that it isn't so much a question of whether the home, let us say the \$20,000, \$25,000 home, is going to do something to deteriorate the value of the \$60,000 or \$80,000 home.

What happens in deterioration is generally in human terms. We have continually neglected to look at that total picture and match that housing with the other kinds of supportive needs of that family for job training, job opportunities, and other kinds of needs that vary from family to family. And I think we must—and my answer from my experience to it is not what the value of the house is or what the condition of that house is, but what are the socioeconomic conditions that you can impact and provide?

Mr. WYLIE. Well, I agree, and that was the point I was making. I maybe misunderstood your statement a little earlier. I thought you suggested that we concentrate only on low-income housing in our housing program.

Mr. HYDE. No. Just the opposite.

Mr. WYLIE. If we do that, the logical extreme is, we don't develop a tax base in that low-income housing area and it makes it very difficult to sustain.

So, this is why I think the so-called section 8 program is a far better way to go, really, than the so-called block grant program.

Mr. HYDE. As a matter of fact, I suggested earlier—and perhaps you had to leave the room, Congressman Wylie—I suggested that in the delivery of assisted housing, whether it be section 8 or by whatever number, that HUD think through its capacity to provide the conventional mortgage FHA housing.

Along with this you do get something other than just concentration of low-income persons, which does tend to make more of a magnet for that central city for more disadvantaged, a magnet in effect.

Mr. WYLIE. Yes. I don't mean to be facetious when I say this, Mr. Sweeney, but back during the gasoline shortage, there was a dearth of building in suburban areas. We heard people testify to that effect here before the subcommittee, as a matter of fact. Suburban home building just rapidly declined almost overnight because of the gasoline shortage.

What do you think?

I think of President Carter's proposal for a 25-cent tax on a gallon of gasoline. What do you think about the effect on that?

Mr. SWEENEY. He better give a dime to the States.

Mr. WYLIE. You think the tax will be all right if he gave a dime to the States?

Mr. SWEENEY. I think that would be the only incentive that would encourage me to support something like that.

Mr. HYDE. And 15 cents to the cities?

Mr. SWEENEY. No. Quite frankly, Congressman and Mr. Chairman and members, as I understand it, that statement either has been withdrawn or denied—one or the other.

We tried on a ballot issue, if you will recall, last year or in 1975 to put nine-tenths of a penny on the ballot for a tax on gas and we got murdered.

Mr. WYLIE. I think that indicates something of the feeling of the people of the State of Ohio.

Mr. SWEENEY. Much of that money, I might point out, was directed toward urban areas and urban mass transit and the like.

Mr. WYLIE. I have just one more question, Mr. Chairman.

And it's of you, Mr. Hyde. I would like for you to look at Representative Sweeney's statement on page 3.

Do you have a copy there he might look at?

In the last paragraph it says, in its study of the implication of the community development block grant program, the Advisory Commission on Intergovernmental Relations has also recommended inclusion of the State role. Specifically, ACIR recommends that Congress act to amend the act to establish a new funding program.

And then, on down to the end of the paragraph at the end of the quote there.

Would you comment on his statement? What do you think of it?

Mr. HYDE. Yes. Let me preface my comments, Mr. Wylie, by saying I will give you a personal comment, unrelated to whatever position the National Urban Coalition may take on this issue, because I am not familiar with their stance, so if it is received with that understanding, I will give you my personal comment without reference to where the coalition may stand.

I think that statement quite succinctly gets at what I was saying earlier, that simply including States, "period," is going to cause a rash of problems. But if we recognize a State role as meaning one that could be helpful to help coordinate some of the activities we have discussed around the block here, then I think setting criteria, A, B, C, D, as listed here in that paragraph, criteria of some kind of performance standards that States must meet to become a part of it, that is exactly the kind of thing I had reference to.

And my personal view is, that would be a healthy thing to strengthen the whole intergovernmental system and do one thing that we have not talked about here—the State, and the State alone, has the authority to deal with the multijurisdictional problems in a metropolitan area. The Federal Government has no such power to do that.

We create planning districts, give them planning money, and they plan to the ends of the earth. But, as far as making something happen, the States are the only jurisdiction with power to transcend those political boundaries and say this is the way the State plan is going to be. And housing, when it is put into Detroit—there is going to be some housing over here at Lavonia, at the risk of shaking up some people, but whatever—and so, I think if you get these kinds of criteria and performance for States, I think we would all be better off.

Mr. WYLIE. So, it is fair to say you are in basic agreement with his statement, personally?

Mr. HYDE. That is right.

Mr. WYLIE. Thank you very much, Mr. Chairman.

Mr. ST GERMAIN. Mr. Grassley?

Mr. GRASSLEY. Mr. Hyde, on page 9, you spoke about the need for strengthening the act to provide for better coordination. My question to you is, how did you hope to accomplish this? And I just wondered, in answering it if you are familiar with the 1972 Rural Development

Act in which there was specifically set up an assistant secretary of agriculture for the purposes of doing exactly what I think you are trying to get at here.

This assistant secretary sits in on many other councils of government, with an actual congressional mandate to see that programs do work in combination for the benefit, the maximum benefit, of rural areas.

Mr. HYDE. The only problem I see with that is, it doesn't have any money.

Mr. GRASSLEY. OK. It doesn't have any money.

Mr. HYDE. And I found in my experience, if you were going to coordinate something, you had better have some money to coordinate with, or the coordinatee does not want to play. And I am serious.

Mr. GRASSLEY. In other words, the congressional mandate that that person be consulted and be invited in to other meetings and in a sense force his way into the sort of decisionmaking councils is not enough, then?

Mr. HYDE. That is my opinion. Yes, sir.

Mr. GRASSLEY. Well, you may give me an idea about how we can make that act work better. But then what do you have in mind?

Mr. HYDE. My suggestion, sir, is that if we are to concentrate urban development funds as this bill indicates its purpose is, to concentrate them where the more serious urban problems of our Nation exist, then I think we must recognize that that amount of money—\$3 billion or \$4 billion—is not sufficient to also deal with rather serious rural problems in the development of housing and whatever, and that unless there is an equivalent commitment of block grant-type money for rural development, then I think it is difficult to resolve this dilemma.

Mr. GRASSLEY. Well, OK. But just in the urban areas, let us say for instance you spoke about the problems of the 50 largest cities, you are talking about better coordination there of various governmental programs. OK. And if you answered my questions, then I missed the point.

How are you suggesting that HUD, for instance, coordinate efforts of many other departments of Government?

Mr. HYDE. Section 114 of the existing act is a very mild permissive statement that the Secretary of HUD should consult with other Federal agencies in implementing the act. I think that language should be strengthened. I don't have exact language. I would be glad to work up some for you to where there is a clear—if it be the desire of the Congress and I would assume it would be, from your question—that the various Federal agencies in fact coordinate and you have mechanisms to do it. There are Federal regional councils and if they sat as a body they sometimes do and were given authority to deliver resources as the HUD Regional Administrator is and make funding commitments, then given—and I have suggested 50 cities with the major domestic and urban problems of this country in the 10 Federal regions—if the regional council had to deal with only 5 or 10 cities on a consolidated, coordinated basis, it would not be a very difficult task.

Mr. GRASSLEY. And heretofore, none of that has gone on?

Mr. HYDE. Well, we have little bits and pieces of it, and I will go back to my personal history, where we attempted to do that as a fore-runner of developing the new federalism in which I participated in

setting up some interagency Federal regional council annual arrangements with specific cities. That is a lot of terminology there. I apologize for it.

Mr. GRASSLEY. Well, I think it would appreciate, if you want to send it to the subcommittee, all right. If they aren't interested, send it to my office. And if you feel like you have time to give me some suggestions on how we can make the Assistant Secretary of Agriculture for rural development a little more effective, I would appreciate it.

Mr. HYDE. I would be very pleased to.

Mr. GRASSLEY. And if you would write me on that, I would appreciate it, and mark the letter "personal," please.

You spoke on page 8 about the weakest link, and I just wondered, it is not clear to me if we are talking about the central cities being the weakest link in our urban problems or whether, prior to that you talked about the necessary coordination of the Federal programs, the State and local programs, and the private sector. Which is the weakest link you are referring to here, the central city?

Mr. HYDE. What I am trying to say is that the weakest fiscal link that is about to break, not survive, internally weak, that was the context.

Mr. GRASSLEY. OK. The fiscal link. And are you saying then, in a sense the financial capabilities of the central city?

Mr. HYDE. That is in essence what I am saying.

Mr. GRASSLEY. Thank you, Mr. Chairman.

Mr. ST GERMAIN. Thank you, Mr. Grassley.

Representative Sweeney, Mr. Hyde, we want to express our deep appreciation to you as we anticipated your testimony, but I think even more important your colloquies with the members have been very fruitful and we certainly will take everything into consideration.

We may well be sending you additional questions.

Mr. ST GERMAIN. We thank you for your participation and your patience.

The subcommittee will be in recess until 2 p.m. at which time we will hear from the Northeast-Midwest Economic Advancement Coalition, the Advisory Commission on Intergovernmental Relations, and the New Jersey Department of Community Affairs.

The subcommittee will be in recess until 2 p.m.

[Whereupon, at 12:35 p.m., the hearing was recessed, to reconvene at 2 p.m., this same day.]

AFTERNOON SESSION

Mr. ASHLEY. [presiding]. The subcommittee will come to order.

The Subcommittee on Housing and Community Development is continuing its hearings on the fiscal 1978 administration proposals advanced by Secretary Harris.

Our witnesses this afternoon are two good friends and distinguished colleagues, Michael Harrington, from Massachusetts, and Frank Horton, from New York.

You gentlemen are representing the Northeast-Midwest Economic Advancement Coalition, and it is a particular pleasure, as part of that body, for me to welcome you and to say that we have been looking forward to your testimony.

How do you choose to proceed?

Mr. HORTON. Mr. Chairman, I think our procedure will be that I will proceed first and then Mike Harrington, the chairman of the Northeast-Midwest Economic Advancement Coalition, will proceed next.

Mr. ASHLEY. We would be happy to hear from you.

I might say that we expect a vote on the rule.

Mr. HORTON. They figure about 25 minutes, Mr. Chairman, so we will move as quickly through it as we can.

STATEMENT OF HON. FRANK HORTON, REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK, COCHAIRMAN, NORTHWEST-MIDWEST ECONOMIC ADVANCEMENT COALITION

Mr. HORTON. We appreciate this opportunity, Mr. Chairman, to appear before this subcommittee to address the subject that lies at the very jugular of the Northeast-Midwest regions' interest in Federal domestic policies.

As you know, developments concerning the future of the community development block grant program have been quite fast breaking over the past several weeks. The publication of the Brookings study, the submission to Congress of what we consider to be an enlightened proposal for program revision by the Carter administration, and an outpouring of computer-produced data on the impact of the new formula proposals has brought this issue front and center for all Americans concerned about the future health of urban areas, large and small.

Like this subcommittee, the Northeast-Midwest Coalition of Congressmen is still in the process of digesting and considering the many alternative proposals and suggestions which have been made in an effort to avoid the national disaster which would be caused if the present formula were to go unchanged. We intend to study carefully all of the testimony presented to your subcommittee and to arrive at definitive recommendations in the near future, which we hope will be helpful in your deliberations as you weigh the impact of this program on the 16 Northeastern and Midwestern States.

Today, Mr. Chairman, we would like to take only a few minutes of the subcommittee's time to comment generally on some of the both promising and troubling aspects of the proposals that are before you. We seek your permission to submit at a later date a more definitive statement of the coalition's position on the future of this program.

[The letter referred to follows Congressmen Horton and Harrington's joint prepared statement.]

On the plus side, we feel that the Carter administration proposal, submitted by Secretary Harris, has many enlightened and promising elements. We applaud the revision of the formula to include age of housing, poverty, and population lag as a means of enabling the funds to flow to older and decaying cities whose need for Federal help is clearly the greatest.

While no formula can perfectly meet the perceived needs of each and every region and locality, the Harris proposal goes a long way toward reversing the negative features of the present formula.

We do, however, have concerns regarding the indefinite status of small cities in the administration's proposal. Leaving them to compete for a larger pot of discretionary money may or may not be the fairest or most responsible way to assist small but needy communities. It is possible that the application of an entitlement formula or some type of hold-harmless mechanism for small cities may be needed to properly assure that they will receive help. We would like to address this question more specifically in our upcoming position paper.

We are also concerned about the most difficult and most basic issue which underlies the whole community development block grant program. In city after city, particularly many cities now protected by hold harmless, the amounts of assistance being received to date and the amounts they are projected to receive under the Harris formula between now and 1980 are lower even in absolute dollars than what these communities received under categorical grant programs of the late 1960's and early 1970's. It is a fact that the real Federal dollar contribution to many cities is drastically lower today than it was at the height of the Vietnam war. Even with the additional funding proposed by Secretary Harris, and even with the incorporation of the formula changes suggested by the administration, there is no prospect that the real dollar contribution to these cities will be increased in the coming 3 years.

Perhaps there is no way that this concern can be addressed within resource limits faced by the Federal Government, but we do not feel that we should become so preoccupied with the examination of formula variations and projections that we fail to see the forest for the trees. We must examine the needy cities fund proposal of the Brookings Institution and other means for addressing and solving the problem.

No Federal program issue, with the possible exception of welfare reform, has a more direct bearing on the health of our metropolitan areas in the Northeast and Midwest than the community development program. As evidence of this fact, we have brought with us a report containing the analysis of this program and its impact on the Northeast which was prepared by the Council for Northeast Economic Action, on which we both serve. Without summarizing the thrust of this report now, we ask, Mr. Chairman, that you place the text of this analysis into the hearing record so that it can be available to your subcommittee and the Congress as the future of this program is being considered.

Mr. ASHLEY. That will be placed in the record at this point.

[The report referred to is attached to Congressmen Horton and Harrington's joint prepared statement.]

Mr. HORTON. We are simply asking the subcommittee to take a look at whether the legitimate needs of the smaller communities will be served by the administration's proposal. There is little doubt in our mind that the larger cities in the Northeast and Midwest will be served by the administration's proposal. We are, however, deeply concerned over the discretionary arrangement for municipalities under 50,000. It seems to us that it is on this particular point that the subcommittee must focus its analytical talents.

If we are truly going to press this important program into a more comprehensive posture, we must insure that urban needs will be satisfied wherever they exist, large city or small.

With this concern in mind, we would hope that the subcommittee will explore every possible programmatic alternative to protect small cities with legitimate need, including the possibility of additional initial funding of the discretionary balances.

We thank you for this opportunity to testify.

And I might add, parenthetically, that, as you know, I serve as cochairman of the coalition. Mike Harrington serves as chairman of the coalition, and Jim Oberstar serves as secretary-treasurer, one from each of the three regions.

Our coalition is made up of 16 States represented by approximately 216 Members of Congress. We have an executive committee of about 33. During this past fall we had hearings in New York, Boston, and Chicago, in each of the regions, and in each of those regions the principle concern is this matter which is now before you. So it is a very important matter and one on which, we feel, the coalition will want to make an additional statement. We know it is a very important matter as far as the chairman of this subcommittee, and Mr. Moorhead and other members of this subcommittee are very much concerned about it, I know, and we will be willing to do everything we can to be of help to you.

And with that, I would like to introduce our chairman, Mike Harrington.

**STATEMENT OF HON. MICHAEL HARRINGTON, REPRESENTATIVE
IN CONGRESS FROM THE STATE OF MASSACHUSETTS AND
CHAIRMAN, NORTHEAST-MIDWEST ECONOMIC ADVANCEMENT
COALITION**

Mr. HARRINGTON. Mr. Ashley, I think Mr. Horton has covered the concerns which link us, and I don't know that there is any need at this particular somewhat premature juncture to be able to offer specific changes in the proposal made just a week ago by Secretary Harris.

I just would like to add one other dimension which was touched on by Mr. Horton in passing. The preoccupation with the formula and the preservation of equities shouldn't be a substitute for creativity on the part of the Congress and, particularly, the committee that is charged with the responsibility of dealing with these initiatives.

I frankly remain puzzled by the willingness to suggest that approximately \$4 billion plus for this program is desirable on the one hand, and to suggest, without there being any particular apparent reaction to it from the Congress that is measurable, that a \$7 billion increase in defense spending is the answer to deal with the perceived problem in that area.

I am not saying that as well as I would like, but I would just suggest that rather than leave us squirming as we often do to divide up relatively small pieces among the collection of beggars, it seems to me that one of the things that might be done by the subcommittee is to try to assay in the broadest possible sense what that need is and generate some interest in committing this Congress and the executive branch to enlarging the scope of the concept of the program with the same sense of urgency that has characterized debate in recent years on defense spending.

I think this has been fairly effectively documented. We are being done in reasonably well as an urban civilization by the failure to really give enough priority attention to what the New York problem began to demonstrate rather dramatically a couple of seasons ago. I think, whether it is that broad philosophic concern, that we have been too timid, to a degree, too unimaginative, too unwilling to commit the same sense of urgency to the solution to what are domestic and, to a degree, security crisis, in the sense of the well-being of our people, has been illustrated. I think, by a number of different studies, some of which we have been responsible for showing that really the share of recovery in the entire Northeast from a recent period of recession and depression or whatever it is euphemistically called has been not at the national norm and has been recently exacerbated by weather which has been more severe than most.

In short, whatever the formula, whatever the effort made at dealing with the problems, I really question whether or not we still see in both branches of Government enough urgency, enough scope, enough willingness to recognize that possibility doesn't depend on creating jobs just in the arms industry, and it can be created as easily and as readily with some imagination in renewing and revitalizing some of the cities.

I wish that I could rid myself of some of the clichés in describing this, and maybe with adequate preparation I can in the future for you, but I hate to see this devolve only into the question of how we apportion an apparently fixed amount, or allow the budget-setting syndrome, which has characterized the Congress in recent years, to determine early on what those prior restraints are going to be that we somehow can't step back from. I think we can have an adequate degree of recovery, if we begin to broaden the scope of what we think we can do for our own people and make it as important as what we are doing for them from the point of view of dealing with perceived external threats.

Mr. Horton summed up what my concerns are. I represent a number of smaller cities in the Northeast, in New England. I think it is one of those problems that has not yet been adequately addressed, nor looked at, from the point of view of realities. But I hope the subcommittee does not feel any prior constraint, any type of prior restriction or construction to leave the figures where they are or to tinker with them only to a limited degree.

I think the problems are demonstrably more severe than that, and in the long run, I think that the more we can get us in the country as a whole facing the problem of the cities, the better off we will be.

With that redundancy, Mr. Chairman, I will stop.

[The joint prepared statement of Congressmen Harrington and Horton on behalf of the Northeast-Midwest Economic Advancement Coalition along with a letter to Stuart Eizenstat, Assistant to the President for Domestic Affairs and Policy re assistance to the Coalition by the Carter administration to targeting the community development block grant program; an additional statement of the task force on community development, dated March 22, 1977; and a report referred to by Mr. Horton entitled "Renewal of the Community Development Block Grant Program—A Priority Issue for the Northeast" follows:]

Joint Testimony of the Honorable Michael J. Harrington, Chairman, and
The Honorable Frank Horton, Co-Chairman, Northeast-Midwest
Economic Advancement Coalition

Statement Before the House Subcommittee on Housing and Community
Development of the Committee on Banking, Finance and Urban Affairs
- March 2, 1977

Mr. Chairman, we appreciate this opportunity to appear before
this distinguished Subcommittee to address a subject that lies at the
very jugular of the Northeast-Midwest region's interest in federal
domestic policies.

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We do however, have concerns regarding the indefinite states of small cities in the Administration proposal. Leaving them to compete for a larger pot of discretionary money may or may not be the fairest or most responsive way to assist small but needy communities. It is possible that the application of an entitlement formula, or of some type of hold-harmless mechanism for small cities may be needed to properly assure that they will received help. We would like to address this question more specifically in our upcoming position paper.

Finally, we are concerned about a most difficult and most basic issue which underlies the whole Community Development Grant program. In city after city, Mr. Chairman, particularly in many cities now protected by Hold Harmless, the amounts of assistance being received today, and the amounts they are projected to receive under the Harris formula between now and 1980 are lower, even in absolute dollars, than what these communities received under categorical programs in the late 1960's and early 70's. It is a fact that the real dollar federal contribution to many cities is drastically lower today than what it was during the height of the Vietnam war. Even with the additional funding proposed by Secretary Harris and even with incorporation of the formula changes suggested by the Administration, there is no prospect that the real dollar contribution to these cities will be increased in the coming three years.

Perhaps there is no way that this concern can be addressed within resource limits faced by the federal government. But we do not feel that we should become so preoccupied with the examination of formula variations and projections that we fail to see the forest from the trees. We must examine the Needy Cities Fund proposal of the Brookings Institution and other means for addressing and solving the problem.

No federal program issue -- with the possible exception of welfare reform -- has a more direct bearing on the health of our metropolitan areas in the Northeast and Midwest than the CDBG program. As evidence of this fact, we have brought with us the analysis of this program and its impact on the Northeast prepared by the Council for Northeast Economic Action, on which we serve. Without summarizing the thrust of this report this morning we ask, Mr. Chairman, that you place the text of this analysis into the hearing record, so that it can be available to your Committee and to the Congress as the future of this program is considered.

In summation, and in advance of the Coalition's statement paper, we would simply ask that the Committee take a hard look at whether or not the legitimate needs of smaller communities will be served by the Administration's proposal.

There is little doubt in our mind that the interests of larger cities in the Northeast and Midwest will be served by the Administration's proposal. We are, however, deeply concerned over the discretionary arrangement for municipalities under 50,000. It seems to us, that it is on this particular point that the committee must focus in creative and analytical talents.

If we are truly going to press this important program into a more comprehensive posture, we must ensure that urban needs will be satisfied where ever they exist -- large city or small.

With this concern in mind, we would hope that the Committee will explore every possible programmatic alternative to protect small cities with legitimate need, including the possibility of additional initial funding of the discretionary balances.

Thank you for the opportunity to testify here this afternoon. We would now be happy to answer any questions the Committee may have.

March 4, 1977

Mr. Stuart Eizenstat
Assistant to the President for
Domestic Affairs and Policy
White House
Washington, D. C. 20500

Dear Stuart:

First, I would like to thank both you and Burt Carp for the enlightening and productive meeting we had on February 22.

In our view, the meeting served as an important first step in building a mutually beneficial linkage between our Coalition membership and the White House. Your frank and forthright remarks regarding our specific questions and general policy concerns gave us every reason to believe that the President and his staff share our interest in working closely to develop sound national economic policy designed to target funds to areas of greatest need.

I am also writing to follow up on your offer to assist the Coalition in its effort to develop a greater understanding of the Administration's approach to targeting -- particularly with regard to the Community Development Block Grant program.

As you may be aware, on March 2nd, the Coalition appeared before the House Subcommittee on Community Development and Housing to outline our position on the Administration's proposed revisions to the CDBG program.

In summary, we stated our belief that the new proposal includes many promising elements. We applaud the revision of the formula to include age of housing stock pre-1939, poverty, and population lag as means of enabling the funds to flow to older, deteriorating cities whose need for federal help is clearly evident.

However, we are deeply concerned about the indefinite status of small cities in the Harris proposal. Leaving them to compete for a larger pot of discretionary money may or may not be the fairest or most responsive way to assist small but needy communities. In our view, the application of an entitlement formula may be needed to properly assure that the smaller cities receive the help they need to do comprehensive, long-term community development.

As the attached statement indicates, we arranged to submit to the Committee at a later date, a more detailed presentation of our position. Toward that end, we request your assistance.

It is our understanding that HUD has not fully explored the possibility of funding small cities by any method other than discretionary.

Based on our analysis, we believe it is possible to include in the CDBG program, an entitlement formula for municipalities under 50,000 which targets cities in greatest need.

In our view, there are two alternate ways of accomplishing this task. The first would be to incorporate a needs formula based on the methodology employed by the Brookings institution in its Needy Cities Supplemental Grant proposal. Under this method, eligibility is determined by a formula which includes age of housing stock, poverty, and population change between 1960 and 1973.

Once this eligibility index has been computed, an eligibility threshold might then be set. Such a threshold would be set at the mean level or slightly lower, with funding limited to only those communities which come in above it.

The individual allocation amounts for the eligible cities would then be determined by again using a formula which is based on the age of housing stock pre-1939, poverty, and population lag. Each of these factors would be given equal weight.

The second mechanism which might be employed to target small cities of need is to adapt Secretary Harris' formula which determines need on the basis of 50% age of housing stock pre-1939, 30% poverty, and 20% population lag between 1960 and 1973. Eligibility would be determined by first rating the need indices computed by the Harris formula, and setting the threshold at the mean. The individual allocation amounts for each eligible city would then be calculated the same way they are presently done under the formula entitlement for the larger cities.

Unfortunately, we do not have the computer capability nor the necessary data to run these formula models. However, we feel strongly that such an analysis should be undertaken prior to a final Committee determination on the Administration's proposal.

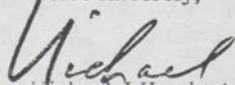
We are obviously not convinced that the best interests of needy small cities are served by the current proposal, and find little merit in supporting program revisions prior to a thorough analysis of formula alternatives.

In the interest of putting to rest the many questions we have regarding the treatment of small cities we respectfully request that the Administration undertake computer analysis of the formulas outlined above.

If you have any specific questions regarding this request please feel free to contact either me or John Moriarty of my staff.

Thank you in advance for your assistance.

Yours sincerely,


Michael J. Harrington

MJH: hjm

cc: The Honorable Patricia Harris,
Secretary of Housing and Urban Development

Carl Riedy,
Office of Legislative Affairs, Department of
Housing and Urban Development

The Honorable Thomas L. Ashley,
Chairman, Subcommittee on Housing and
Community Development

March 22, 1977

Testimony by the Northeast-Midwest Economic Advancement Coalition Task Force on Community Development:

Honorable Paul Tsongas, Co-Chairman, Task Force
Honorable Stanley Lundine, Co-Chairman, Task Force
Honorable Stewart McKinney
Honorable Christopher Dodd
Honorable J. William Stanton

Honorable Michael J. Harrington—Coalition Chairman
Honorable Frank Horton—Coalition Co-Chairman
Honorable James Oberstar—Coalition Secretary-Treasurer

Before the House Subcommittee on Housing and Community Development of the Committee on Banking, Finance and Urban Affairs.

Mr Chairman:

On March 2nd, Members of the Northeast-Midwest Economic Advancement Coalition appeared before the Community Development and Housing Subcommittee to present the Coalition's position on the proposed changes in the Community Development Block Grant program. At that time, we requested and were granted permission to submit this more definitive statement of our position for inclusion in the Committee Record.

We would like to begin our remarks by briefly outlining the origins of the Northeast-Midwest Economic Advancement Coalition, and our motivations in forming a Task Force on Community Development.

The Coalition was formed in September of 1976 to reverse the trend of economic erosion and deterioration plaguing the industrial states of the Northeast and Midwest regions. There are over 200 Members of the House of Representatives in our Coalition, representing 16 states. Collectively, our membership represents close to 90 million people.

Simply stated, the purposes of the Coalition are three fold: -- to educate the Congress, the Executive Branch, and the public to the need for greater regional sensitivity in federal programs; -- to examine, review, and publicize the regional impact of federal legislation; and -- to develop positive and aggressive legislative initiatives aimed at reviving the economies of the states we represent.

As Members of the Committee well know, many of our cities are in a state of decay -- plagued by rising unemployment rates which are already higher than the national average, continuing out-migration of people and businesses, and declining tax bases -- which they cannot reverse with their own resources alone. They are experiencing fiscal pressures which prevent them from being able to conserve their neighborhoods or improve their economies without strong federal

assistance. The Community Development Block Grant program has provided considerable assistance to these hard-pressed communities in the past.

The enactment of the CDBG program in 1974 marked a turning point in the delivery of federal community development grant assistance to local governments. Prior to 1974, the federal government distributed community development funds to local governments through an array of categorical arrangements. The 1974 Act combined these categorical programs into one block grant program, giving local officials unprecedented decision-making flexibility and funding predictability in the area of community development.

The 1974 legislation afforded urban centers the flexibility to define their own needs and set their own goals. Equally important, the program offered a certain degree of predictability in the year to year funding of approved projects. In this way, the 1974 Act allowed communities to undertake comprehensive community development programs over an extended period of time.

Nonetheless, from a regional perspective, there is a major shortcoming in the 1974 Act. The allocation formula uses measures of need which do not reflect the actual problems facing the Northeast and Midwest. This already difficult situation is further aggravated by the phase-out of the "hold-harmless" provision. In 1980 when the hold-harmless funds are phased-out, the following will occur:

- On the regional level, funds going to the Northeast region will decrease by 24%. Although allocations going to the Midwest will increase by 4%, they will not do so at the same rate as funds going to other regions of the country;
- On an intraregional level, funds going to the central cities in the Northeast and Midwest will drop by 35% and 22% in 1980 respectively, while allocations going to the central cities in other regions will decline only by

about 18 %;

— Funds going to the fourteen "neediest" cities on the Brookings Institute's hardship index will decrease by about 25% — ten of these cities are located in the Northeast and Midwest.

On February 24th, Secretary Harris in her testimony before the Subcommittee responded decisively to the problems in the 1974 formula. The Secretary said the existing formula "is not responsive to the physical community development needs of our distressed cities." The Secretary further stated that "cities with population decline exhibit higher levels of community development need than fast growing cities." We believe that Secretary Harris' proposal for a dual formula is a positive step toward reversing the negative features of the 1974 formula.

The incorporation of age-of-housing stock and population lag factors are particularly relevant to the needs of our most distressed cities. The 14 worst-off central cities on the Brookings Institute's hardship index have an average of 61% of their housing stock built prior to 1939. And, of the 109 cities with a population loss greater than 5%, 78, or 72%, of them are located in the Northeast and Midwest.

Under the dual formula, funds going to the large cities of the Northeast and Midwest will increase by 11% and 47% in 1980 respectively; and allocations going to the central cities of the Northeast and Midwest will increase by 9% and 50% respectively.

Funds going to the "neediest" cities across the nation will increase by 69%.

The regional importance of this dual formula approach can best be seen when it is pointed out that 86 cities in the Northeast and 103 in the Midwest will receive more funds under the proposed second formula than they would have

received under the 1974 allocation formula.

Secretary Harris' proposal reflects an understanding of a commitment to the national mandate for "the development of viable urban communities" established in the 1974 Community Development Act. This commitment is manifest in the proposal's emphasis on spurring comprehensive, coordinated commercial, industrial, and neighborhood development and revitalization as a means of reversing the decline of our nation's urban centers.

As Members of an organization dedicated to the revitalization of the economies of the Northeast and Midwest, we strongly endorse the Administration's Action Grant initiative and its inclusion of economic development as an eligible activity for community development funds. Only a balanced approach, which integrates economic development with community development, can alleviate the deterioration of our most distressed cities and reverse the current wave of jobs — and taxpayers — out of our central cities.

However, there is one aspect of the Harris proposal with which we do take issue: the way it deals with those cities which do not receive an automatic annual entitlement because they have populations under 50,000 and are not central cities. We are particularly concerned with the indefinite status of these small cities because in 1980, in the 16 Coalition states alone, an additional 357 small cities will compete for their sole community development funds from the discretionary pot.

The Coalition's 357 small hold harmless cities represent 48% of the nation's total small hold harmless cities. In comparison, the South contains 264, or 35.6% of the nation's small hold harmless cities. The West has 119, or 16% of the national total. (See Chart A)

Within individual Coalition states, a sizeable percentage of all the cities in a state receiving hold harmless and/or entitlements are small, hold harmless cities. For example, in Connecticut, 56% of the cities currently receiving entitlements and/or hold harmless monies are small cities which will be left to compete for discretionary funds in 1980 as their sole source of community development money. In Pennsylvania this figure is 84.5%; in New York, 79%; in Ohio, 52%; and in Massachusetts, 39%. (See Chart B)

In our view, leaving these small cities to compete for a larger pot of discretionary money is not the fairest or most responsive way to assist them in redressing their community development needs. In fact, we find four basic shortcomings in returning to discretionary funding for small municipalities.

First, discretionary funding does not give its small city recipients any guarantee of a multi-year availability, or commitment, of funds upon which they can rely in planning and implementing community development projects.

This means small cities face a totally unpredictable funding process. This unpredictability reduces a locality's ability to commit itself to long-term projects; to leverage community development funds; or to want to risk investing its time or personnel in planning and undertaking comprehensive community development. Paperwork and red tape involved in the grants process is another deterrent associated with annual application for discretionary funds.

The second problem with discretionary funding is that this funding is — discretionary. Secretary Harris has said she will allocate funds on a basis of need and on a community's capacity for comprehensive planning. Unfortunately, the discretionary grant proposal does not give small cities any specific criteria by which they can determine whether they'll receive community development money;

how much money they'll receive; or for how long they'll receive community development funds.

The third basic short-coming of discretionary funding is the inadequate levels of funding authorized to meet the demands of a pool of applicants that will grow during the 1978-1980 period. Nationwide, an additional 309 metropolitan small cities will enter the competition for a national metropolitan discretionary pot of \$315 million. At the same time, 431 small, formerly hold harmless, non-metropolitan cities will be added to the applicants for a non-metropolitan discretionary fund of \$696 million. (See Chart C)

The fourth short-coming of discretionary funding is that the administration intends to calculate the distribution of metropolitan discretionary funds on the basis of the 1974 entitlement formula. This situation is particularly important for Coalition states since 57.5% of the Coalition's small hold harmless cities are metropolitan small hold harmless cities, compared to 42% of all small hold harmless cities nationwide that are metropolitan cities; in the South, 25% of all its smaller hold harmless cities are metropolitan cities, and in the West 30% of its small hold harmless cities are metropolitan cities. (See Chart D)

It is our view that forcing small cities to compete each year for a "one-shot" grant cannot result in the orderly, planned and effective community development effort which our distressed small cities clearly need. Instead, it is our belief that small communities with demonstrated needs and community development programs should have access to funds on an entitlement basis and should have the ability to submit plans for at least a three year program.

On March 15th, we submitted a five-point "Small Cities Entitlement Program" to Secretary Harris urging her to analyze our proposal for possible incorporation into HUD's proposed Community Development Block Grant revisions.

We offered this formula alternative based on our understanding that HUD has not fully explored any method other than discretionary funding. We are now presenting the same proposal to the Subcommittee for its consideration.

Unfortunately, the Coalition does not yet have the computer capability or data necessary to run our proposed formula model. However, we feel strongly that such an analysis should be undertaken prior to a final Committee determination on the Administration's proposal. The five-point program we are recommending includes the following:

1. An allocation formula using the following factors would be used to determine the amounts of CDBG grants to small cities (under 50,000 population) entitled under point 4 below:

- A. Age of Housing stock — 50 % (based on the amount of pre-1939 housing within a city);
- B. Poverty level — 30%; and
- C. Population — 20%.

(Note: Because population lag is not a reliable criterion of need for small cities, we have not included it in this formula. Other formula criteria which might be considered for inclusion are degree of housing deterioration and decline in real estate receipts.)

2. No less than two-thirds of the "discretionary balance" for both metropolitan and non-metropolitan areas would be set aside for this "Small Cities Entitlement Program", to be allocated to small cities with populations under 50,000.

3. Monies in this "set aside" would be allocated to small cities on a nationwide basis, rather than first allocating to the states and then having the states reallocate, with the remainder of the discretionary balances then allocated to

the states based on a formula which is derived by determining the average of the "dual formula" criteria proposed by HUD.

4. The Secretary would allocate grants on the basis of the formula entitlement described above to small cities which the Secretary determines to have comprehensive plans that include a provision for low income housing and which are engaged in economic redevelopment activity. In allocating grants on the basis of the proposed formula, the Secretary should also take into consideration the resources and size of the applicant community as well as its past performance in community development activities. Consideration should also be given to the applicant's function as a regional center of economic growth and activity and its potential for increased employment as a result of community development activity.

5. Grants to which small cities would be entitled under this program would be renewed each year provided that a 3-5 year plan for comprehensive community development programs is approved by HUD, and provided that a performance report evaluating the existing project executive is accepted by HUD.

While we cannot fully assess the impact of this proposal in the absence of a computer analysis, we believe that the principles on which our formula is based are sound, and that our proposal is responsible. It represents, in a sense, a middle ground between the straight formula funding approach to small cities and the discretionary arrangement proposed by HUD.

It is our hope that the Subcommittee will view it as a compromise measure and urge HUD to undertake the computer analysis necessary for Congress to determine beyond a shadow of doubt whether our proposal formula accomplishes our desired objectives — equal treatment to small cities in need.

This proposal will be offered for the consideration of your Subcommittee by its chief author, Congressman Stanley Lundine.

If your Subcommittee or HUD should find that a computer analysis of this proposal, or any other formulae which might have merit, cannot be prepared in time for Members to study as possible legislative alternatives to the Harris package, we suggest four alternatives for your consideration.

First, we suggest that small cities be kept at their full hold-harmless funding level for one year. This proposal is fiscally possible under the Administration's proposed funding level: the extra money needed could be taken from the discretionary funds which already exist. For metropolitan small cities, \$57 million nationally is needed and approximately \$170 million is in the metropolitan discretionary pot. For non-metropolitan small cities, \$84 million nationally is needed and approximately \$300 million is in the non-metropolitan discretionary pot.

Second, we suggest statutory provisions for multi-year funding and criteria for targeting discretionary funds to need, while streamlining the application and allocation process.

Third, we suggest that the discretionary balances be allocated according to the dual formula approach, rather than just according to the first 1974 formula. If this approach is not possible, we suggest that the proposed second alternative be used with population substituted for population lag.

Fourth, we suggest entitling two or more contiguous small jurisdictions with a combined population of 50,000 or more by use of a joint cooperative agreement to a formula grant. This type of consortium would encourage increased area wide community development planning.

In conclusion, we appreciate this opportunity to present the Coalition's position on the Administration's proposed revisions in the Community Development

Block Grant program:

We applaud the revision of the formula to include age of housing stock, poverty, and population lag as means of enabling the funds to flow to older, decaying cities whose need for federal help is clearly greatest.

We see the Action Grant initiative as an important first step toward coordinated economic and community development.

However, we do not feel that the Administration's discretionary approach for allocating funds to our smaller cities is sound. We urge the Committee instead to adopt a small cities entitlement program which will remedy the present inequities and assure small cities of the same access to comprehensive redevelopment funds that our large cities would enjoy under HUD's proposed formula revisions.

CHART A

GEOGRAPHIC DISTRIBUTION OF SMALL CITIES
FACING TOTAL PHASE-DOWN OF CD FUNDS IN 1980

Abbreviation Key:

SHH: Small hold harmless cities (Population under 50,000)

SHH—National: All small hold harmless cities (Population under 50,000) Nationally

		SHH	SHH— National	<u>SHH</u> <u>SHH—National</u>
A.	National	740	740	100%
B.	Coalition	357	740	48%
	New England	55	740	7%
	Mid-Atlantic	187	740	25%
	Midwest	115	740	15.5%
C.	South	264	740	35.6%
D.	West	119	740	16%

(Source: Directory of Recipients: Housing and Community Development Act of 1974, September 1974)

CHART B
 PERCENT OF SMALL CITIES
 FACING TOTAL PHASE-DOWN OF CD FUNDS IN 1980

Abbreviation Key:

SHH: Small hold harmless cities (Population under 50,000)

HH + ENT* = Total hold harmless plus entitlement cities

	SHH	HH + ENT	$\frac{\text{SHH}}{\text{HH + ENT}}$
A. National	740	1228	60%
B. Coalition	357	573	62%
New England	55	100	55%
Maine	7	10	70%
Mass.	14	36	39%
Vt.	4	4	100%
Conn.	18	32	56%
R.I.	5	9	55.5%
N.H.	7	9	78%
Mid-Atlantic	187	244	76.6%
N.Y.	64	81	79%
Pa.	93	110	84.5%
N.J.	30	53	52%
Midwest	115	229	50%
Wisc.	7	18	39%
Ill.	10	35	29%
Ind.	10	22	45%
Ohio	25	48	52%
Mich.	39	67	58%
Minn.	14	21	67%
Iowa	10	18	56%
C. South	264	411	64%
D. West	119	244	48.7%

*Note: Discretionary recipients not included in calculations

(Source: Directory of Recipients: Housing and Community Development Act of 1974, September 1974)

CHART C

GEOGRAPHIC DISTRIBUTION OF SMALL METROPOLITAN
AND SMALL NON-METROPOLITAN CITIES
FACING TOTAL PHASE-DOWN OF CD FUNDS IN 1980

Abbreviation Key:

Metro SHH: Metropolitan small hold harmless cities (Population under 50,000)

Metro SHH—National: All metropolitan small hold harmless cities (Population under 50,000) Nationwide

Non-Metro SHH: Non metropolitan small hold harmless cities (Population under 50,000)

Non-Metro SHH— National: All non-metropolitan small hold harmless cities (under 50,000) Nationwide

	Metropolitan			Non-Metropolitan		
	Metro SHH	Metro SHH—National	Metro SHH Metro-SHH—Nat'l	Non-Metro SHH	Non-Metro SHH—Nat'l	Non-Metro SHH Non-Metro SHH—Nat'l
A. National	309	309	100%	431	432	100%
B. Coalition	206	309	66%	152	432	35%
New England	26	309	8%	29	432	6.7%
Mid-Atlantic	124	309	40%	64	432	14.8%
Midwest	56	309	18%	59	432	13.6%
C. South	67	309	21.6%	197	432	45.6%
D. West	36	309	11.6%	83	432	19%

(Source: Directory of Recipients: Housing and Community Development Act of 1974, September 1974)

CHART D
 PERCENT OF SMALL CITIES
 FACING TOTAL PHASE-DOWN OF CD FUNDS IN 1980
 THAT ARE SMALL METROPOLITAN CITIES
 AND PERCENT THAT ARE SMALL NON-METROPOLITAN CITIES

Abbreviation Key:

Metro SHH: Metropolitan small hold harmless cities (Population under 50,000)

Non-Metro SHH: Non-Metropolitan small hold harmless cities (Population under 50,000)

SHH: Small hold harmless cities (Population under 50,000) (includes metropolitan and non-metropolitan small hold harmless)

	Metropolitan			Non-Metropolitan		
	Metro SHH	SHH	Metro SHH %SHH	Non-Metro SHH	SHH	Non-metro SHH
A. National	309	740	41.7%	431	740	58%
B. Coalition	206	358	57.5%	152	358	42%
New England	26	55	47%	29	55	53%
Maine	1	7	14%	6	7	86%
Mass.	7	14	50%	7	14	50%
Vt.	0	4	0%	4	4	100%
Conn.	14	18	77%	4	18	22%
R.I.	4	5	80%	1	5	20%
N.H.	0	7	0%	7	7	100%
Mid-Atlantic	124	187	66%	64	187	34%
N.Y.	38	64	59%	26	64	40.6%
Pa.	60	93	64.5%	33	93	35%
N.J.	26	30	86.6%	5	30	16%
Midwest	56	115	48.6%	59	115	51%
Wisc.	0	7	0%	7	7	100%
Ill.	3	10	30%	7	10	70%
Ind.	4	10	40%	6	10	60%
Ohio	15	25	60%	10	25	40%
Mich.	28	39	72%	11	39	28%
Minn.	5	14	35.7%	9	14	64%
Iowa	1	10	10%	9	10	90%
C. South	67	264	25%	197	264	74.6%
D. West	36	119	30%	83	119	69.7%

(Source: Directory of Recipients: Housing and Community Development Act of 1974, September 1974)



THE FIRST NATIONAL BANK OF BOSTON

RENEWAL OF THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM -- A PRIORITY ISSUE FOR THE NORTHEASTA FIVE POINT NORTHEAST POLICY POSITION ON THE COMMUNITY DEVELOPMENT
BLOCK GRANT PROGRAM: SUMMARY OF RECOMMENDATIONS

1. Northeast policymakers should treat the restructuring of the Community Development Block Grant Program as an immediate, first order legislative priority, and should develop a unified approach which recognizes the Program's urban focus.

To a great extent the future of the Northeast lies with its older urban areas. National policy ought to be directed toward revitalizing these areas, and similar areas in other parts of the nation. The Community Development Block Grant Program should be restructured to more clearly reflect such a policy. Key legislative decisions will be made early in the 95th Congress when the program is up for reauthorization.

2. Northeast policymakers must set as their immediate goal the prevention of the negative effects of phasing-out of the "hold-harmless" mechanism, preferably through an equitable alternative formula.

Thirty-eight of the central cities in the region's fifty largest urban areas will receive \$176 million less in 1980 than they received in 1975, even at a 20 percent higher appropriation level. The serious consequences of this loss are deemed economically significant to the entire urban community and must be averted.

3. Advocacy of the hold-harmless levels should not be limited to a defensive posture. Northeast policymakers should argue for recognition of prior program participation levels as a legitimate measure of a community's needs.

An allocation system which relies on grantee initiative and administrative discretion can be just as effective a mechanism for "targeting" grant funds to needy areas as a formula.

4. Northeast policymakers should press for alterations in the current formula which favor cities in general and which recognize the needs of this region. The concept of the dual formula is a promising approach.

Past experience and ongoing research can lead to the development of new grant-in-aid formulas which will yield a much more precise matching of resources to needs.

5. Northeast policymakers should seize on the debate over Community Development Block Grant funds as the catalyst for an extensive, open discussion of the problem of targeting funds under all nationwide programs to those regions and jurisdictions with the greatest need for funds.

In general, Congress deals with problems which are nationwide in scope, but whose intensity varies among regions and places. Much of the discussion over redressing regional growth disparities ends up as a debate over "targeting." What we learn from working with one program will be transferrable to the development of others.

I. Introduction

A major issue confronting the Ninety-Fifth Congress and the Carter Administration will be the renewal - and possible restructuring - of the Community Development Block Grant Program (Title I of the Housing and Community Development Act of 1974). This program - with annual appropriations currently at a level of \$2.75 billion, and likely to rise substantially higher - represents one of the largest Federal grant-in-aid programs, and constitutes an important source of funds for the rebuilding of America's cities. The Community Development Block Grant Program replaced such key Federal initiatives as Urban Renewal and Model Cities.

The distribution of funds under Title I is about to undergo a significant alteration -- diverting millions of dollars from the central cities of the Northeast* and reallocating these sums both to these cities' own suburbs and the growing urban areas of the South and West. Under the present formula, even with a 20 percent increase in appropriations, the 50 largest cities in this region will receive approximately 27 percent less funds in 1980 than they received in 1975, according to HUD projections. Of the 50 cities, only 12 will realize a gain during this period. For the 38 losing cities, the difference between 1975 and 1980 - even with the 20 percent increase in appropriations - amounts to a staggering \$176 million.

The primary objective of the Housing and Community Development Act is "the development of viable urban communities, by providing decent housing and a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income."

*For the purpose of this paper "Northeast" is defined as the six New England states plus New Jersey, New York, and Pennsylvania.

Yet Congress must consider the very real possibility that the current funding structure will, in the Northeast, have the opposite effect. Central cities constitute a vital resource which must not be abandoned. A national policy which hastens their decline would be economically unsound and socially unjust. Clearly, the task of restructuring the Community Development Block Grant Program must be one of the highest priority items on the emerging Northeast agenda.

The Bank's goals in preparing and circulating this Working Paper are threefold:

First, we wish to focus attention on the issue of renewing this program in the belief that our analysis and the identification of possible changes will be useful to those directly concerned with this pressing legislative issue. Further, it is our strong conviction that a viable urban area can only result where there is balanced economic growth in the central city as well as the suburbs.

Second, we feel that the issues raised by the Community Development Block Grant Program are only one example of the recurrent problem of "targeting" Federal funds. When devising grant-in-aid programs, Congress, as a rule, addresses problems which are national in scope, and attempts to formulate national solutions to those problems. Nonetheless, Congress frequently attempts to direct the greatest amount of funds to those areas or jurisdictions with the greatest need for the program in question. The recent controversy over the distribution of \$2 billion in Counter-Cyclical Public Works funds shows just how difficult the challenge of "targeting" can be. The analysis presented here of the allocation of Community Development funds may be useful in developing the most equitable method of apportioning funds under other grant-in-aid programs as well.

Finally, it is our view that the debate over re-authorizing this program will be a good test of the ability of Northeast policymakers to work together. The specific proposals made in this paper will cause some Northeast communities (generally speaking, large and medium-size central cities) to gain, at the expense of other communities in our region (primarily

rural and suburban areas). The debate is, thus, not simply a matter of targeting among regions ("More for the Northeast") but of setting priorities within regions. We view the Community Development Block Grant Program as a source of Federal funds which are - or ought to be - appropriated for the redevelopment of cities, especially the financially hard-pressed central cities. Moreover, we recognize that the problems of cities are not limited to urban communities in this region alone. Any Federal urban program will -- and should -- be national in scope. Thus, Northeast policymakers must seek common ground with their counterparts in other regions who seek similar goals, in addition to achieving unity within their own ranks.

A major obstacle to the design of any "National Urban Policy" is that such a policy must respond not only to the needs of cities, but also to the problem of their surrounding (metropolitan) areas. Moreover, it is simplistic to view "the suburbs" as a monolithic entity, virtually free from the ills which afflict the central cities. Many core cities are bordered by what might be called "core suburbs" -- older, industrialized communities with high levels of service dependent populations and related central city problems. In our view the notion of a National Urban Policy ought to be refined into a call for "A National Policy for highly urbanized areas with decaying central cities." Such a policy must treat these areas as a totality, yet must recognize gradations of need within them.

At the moment, America does not have such a policy. Yet the task of renewing the Community Development Block Grant Program is before the current Congress. The positions taken here are based on the premise that \$3 billion is not a lot of money, if the funds must be spread more or less evenly among thousands of competing jurisdictions. Priorities must be set and trade-offs are necessary. As a short term approach, we have opted for the central cities -- in the belief that their needs for redevelopment assistance are the most acute. A longer term restructuring of the program must focus on the needs of core suburbs as part of the development of a National Policy for Metropolitan America.

It should be noted that this paper deals only with the formula issues which have arisen in connection with Title I. We recognize the importance of the debate over other elements of the program -- especially the issues of citizen participation, local uses of the funds, and the extent of Federal supervision. Nonetheless, because of our concern with the regional dimensions of national policy formulation, we have limited our analysis to the question with the clearest regional implications: who gets the money.

II. The Formula and Its Consequences:
How are funds allocated under Title I?

The mechanism for distributing Community Development Block Grant funds must be analyzed in the context of the Program's legislative history. As early as 1971 President Nixon proposed a series of Special Revenue Sharing programs, which he viewed as complementary to his proposal for General Revenue Sharing. In each case the goals were to increase the predictability of receipt of Federal funds through use of a formula, and to increase the recipients' flexibility in the use of those funds. The latter goal was to be achieved through the virtual elimination of the strong supervision and control over grantees which Federal agencies exercised under the categorical programs then dominant in the Federal grant-in-aid system. Nixon proposed to fund his special Revenue Sharing programs by consolidating pre-existing categorical grants, thereby, in effect, eliminating the categorical approach. The net effect of his proposals would have been a significant shift of the balance of power within the Federal system.

In the area of Community Development, Nixon won a partial victory. In 1974 Congress accepted the principle of de-categorization, and incorporated into a single program the following categorical grants: Urban Renewal and Neighborhood Development; Model Cities; Water and Sewer and Neighborhood Facilities grants; Open Space Grants; Rehabilitation and Public Facilities Loans. Congress, however, was not willing to abandon all Federal control over this large "pot" of money (an authorization of \$8.4 billion for the first three fiscal years). Even though many communities were "entitled" to funds, all had to apply. HUD was

given the power to review all local applications, although its authority to reject an application was somewhat restricted. A range of permissible uses of funds is spelled out in the legislation. These include certain physical development and related activities, building code enforcement, planning and administration, and public services in areas receiving concentrated assistance under the program. Localities must give "maximum feasible priority to activities which will benefit low - or moderate - income families or aid in the prevention or elimination of slums or blight."

The design of a formula - essential to the Administration's goal of predictability - was complicated by the fact that some communities were already receiving large amounts of funds under the pre-existing programs, while others who would now be "entitled" were receiving little or nothing. The final formula represented a compromise between the competing criteria of measurement of need, through a supposedly "objective" formula, and recognition of the extent of prior program participation.

The first step in the allocation process is an 80/20 percent split of all funds between metropolitan areas (SMSA's) and non-metropolitan areas.* The 80 percent metropolitan share is then allocated under a multi-step process. The first, and key, step is to compute the aggregate share for all "metropolitan cities," defined as central cities of SMSA's and all cities over 50,000. This computation is made on the basis of three formula factors: total population, persons living below the poverty line, and overcrowded housing. The poverty factor is given double weight. The metropolitan cities' share of these factors is matched against that of the remainder of all metropolitan areas. Once the total city share is determined, all metropolitan cities compete against each other for their portion of this share, based on the same three factors: population, poverty, and, overcrowded housing. This latter competition yields the basic "entitlements" under the program.

*Two percent of the total allocation is reserved for the discretionary use of the HUD Secretary.

For any given community, however, the resultant allocations may represent more or less than it was receiving under the superseded categorical programs. If a community's entitlement is greater than its prior program level, that community is "phased-in" over a three-year period, in the third of which it will receive its full formula amount. If, on the other hand, a community was receiving more than the formula "entitles" it to, that community will be "held harmless" for three years, by keeping its funds at the prior program level. After the three years are over (beginning in Fiscal Year 1978) "hold-harmless" communities are "phased down" over a three-year period, so that by 1980 they will receive only their "entitlement."

Once the "metropolitan cities" have received their share, the remaining funds within a metropolitan area* are then allocated among three classes of recipients: "urban counties," which are entitled to funds under the same formula; non-entitled communities which were participating in the prior programs and will, therefore, be held harmless for three years and then "phased out;" and the "metropolitan balances." The latter category includes all other communities within an SMSA. Although the total share for these latter communities can be computed, no individual community can be certain of the receipt of any funds. Approval of "metropolitan balances" applications is discretionary with HUD. In effect, Title I creates two major metropolitan grant programs: block grants for metropolitan cities (and "urban counties"), and a discretionary grant program for the remainder of the metropolitan area.

Table I, attached, is based upon HUD's 1974 "Directory of Recipients." The figures are approximations, and may not be precisely correct for any particular community. Nonetheless, the overall pattern of shifts appears to be accurate, and has been accepted as a point of departure in most analyses of the Program. Moreover, these projections reflect the figures which were used in the 1974 Congressional debates over enactment of the Program.

*For non-metropolitan area funds go first to "hold harmless" communities that participated in the categorical programs and second to any communities whose applications are approved by the Secretary.

Table I

Community Development Block Grants
25 Largest Cities in New England,
New York, New Jersey and Pennsylvania

<u>Rank</u>	<u>City</u>	<u>Population</u> <u>1973</u>	<u>FY 1975*</u>	<u>FY 1980*</u>	<u>Percent Change</u>
1	New York City, NY	7,647,000	\$101,083	\$156,537	+54.86%
2	Philadelphia, PA	1,862,000	54,522	34,076	-37.50
3	Boston, MA	618,000	30,307	11,840	-60.93
4	Pittsburgh, PA	479,000	16,429	9,150	-44.31
5	Buffalo, NY	420,000	11,716	7,445	-36.45
6	Newark, NJ	368,000	20,565	10,009	-51.33
7	Rochester, NY	277,000	14,366	4,505	-68.64
8	Jersey City, NJ	255,000	6,481	4,941	-23.76
9	Yonkers, NY	196,000	5,245	2,623	-49.99
10	Syracuse, NY	185,000	11,652	3,070	-73.65
11	Worcester, MA	171,000	6,038	2,429	-59.77
12	Providence, RI	170,000	9,074	3,407	-62.45
13	Springfield, MA	160,000	9,109	2,571	-71.78
14	Hartford, CT	149,000	10,275	3,283	-68.05
15	Bridgeport, CT	148,000	4,107	2,613	-36.38
16	Paterson, NJ	143,000	4,266	3,058	-28.32
17	New Haven, CT	131,000	17,078	2,646	-84.51
18	Erie, PA	130,000	4,504	1,875	-58.37
19	Albany, NY	111,000	2,090	1,791	-14.31
20	Waterbury, CT	111,000	5,679	1,407	-75.22
21	Elizabeth, NJ	110,000	525	1,932	+268.00
22	Allentown, PA	109,000	2,426	1,338	-44.85
23	Stamford, CT	105,000	2,034	1,376	-32.35
24	Trenton, NJ	104,000	5,075	1,985	-60.89
25	Camden, NJ	100,000	5,502	2,283	-58.51
	<u>Total</u>		\$360,148	\$278,190	-22.76%

*All dollar figures in thousands.

Table I shows the estimated level of funding for the 25 largest cities in the Northeast, and the changes between FY 1975 and FY 1980 (the first year of formula operation without "hold harmless"). The projections assume an appropriation of \$2.5 billion in FY 1975 and \$3.0 billion in FY 1980.

As the table indicates, 23 of these cities will receive less under the increased 1980 appropriation than they received in 1975. The total amount of funds lost amounts to \$138.8 million annually for these 23 cities. This loss is partially offset by New York City's gain of \$55.5 million. In dollar terms the biggest loser is Philadelphia (a decline from \$54.5 million to \$34.1 million). In percentage terms, New Haven suffers the greatest loss (a decline of 84.51 percent).

From a Northeast perspective these losses represent a major setback. Most regional policymakers are committed to the revitalization of the central cities. Both the Community Development Block Grant Program and the set of categorical programs which it replaced represent an important source of the funds to undertake this task. As will be developed subsequently, the principal reason for these losses is the phasing out of the "hold harmless" provision under which the relatively high extent of these cities' participation in the predecessor programs was continued.

It might be argued that the results shown in Table I are fair, since a few large cities were receiving "too much" of the funds under the old categoricals, and it is time to recognize the needs of other urban centers in the region. To test the validity of this hypothesis we examined the projected changes in funding levels for the next 25 largest cities in the Northeast. Table II shows the result of this analysis.

Although the cities in Table II represent a smaller size (their median population is 84,097 compared to 160,000 for those in Table I), losers substantially outnumber gainers. Fifteen of the 25 cities lose funds, and the total loss amounts to \$37.2 million. When Tables I and II are read together, the adverse impact on the region's cities is clear. Combined, these 50 cities constitute the major urban resources of the Northeast. They also constitute the major focus of urban problems -- especially decaying infrastructure and population with high service needs. A national urban policy ought to help these cities, not take funds away from them.

Table II

Community Development Block Grants
Second 25 Largest Cities in New England,
New York, New Jersey and Pennsylvania

Rank	City	Population		FY 1975*	FY 1980*	Percent Change
		1973				
1	Scranton, PA	99,000		\$ 7,982	\$1,481	- 81.45%
2	New Bedford, MA	99,000		10,125	1,766	- 82.56
3	Cambridge, MA	96,000		4,047	1,601	- 60.44
4	Fall River, MA	93,886		5,470	1,654	- 69.76
5	Lowell, MA	93,696		3,461	1,445	- 58.25
6	Brockton, MA	93,280		1,031	1,196	+ 16.00
7	Newton, MA	90,589		655	806	+ 23.05
8	Quincy, MA	88,024		1,014	1,038	+ 2.37
9	Lynn, MA	86,679		3,234	1,317	- 59.28
10	Utica, NY	86,240		1,551	1,408	- 9.22
11	Warwick, RI	85,972		384	924	+140.63
12	Manchester, NH	84,300		2,494	1,275	- 48.88
13	Reading, PA	84,097		4,186	1,237	- 70.45
14	Somerville, MA	83,679		346	1,272	+267.63
15	Niagara Falls, NY	82,490		1,579	1,267	- 19.76
16	Norwalk, CT	77,888		812	979	+ 20.57
17	Schenectady, NY	77,076		1,477	996	- 32.57
18	Cranston, RI	75,616		461	752	+ 63.12
19	Pawtucket, RI	74,795		5,901	1,167	- 80.22
20	Bethlehem, PA	73,469		1,175	869	- 26.04
21	Bayonne, NJ	73,328		500	1,024	+104.80
22	New Rochelle, NY	72,554		440	964	+119.09
23	Mt. Vernon, NY	70,392		2,596	1,127	- 56.59
24	Lawrence, MA	65,759		1,637	1,021	- 37.63
25	Chicopee, MA	64,143		389	869	+123.39
				\$62,947	\$29,455	- 53.21

*All dollar figures in thousands.

This is a particularly persuasive argument at this time because of the current financial distress that most, if not all, of these cities now face. Several key statistics will clearly dramatize the financial plight of these central cities. One excellent proxy variable that reflects third party economic and statistical assessment as well as debt market perceptions of a municipality is the Moody Bond Rating. Shown in the tabulation below are the changes in Moody bond ratings covering the period 1970-76 for the 38 central cities that are losers under the phase-out of the "hold-harmless" provision of the Community Development Block Grant program.

<u>Change in Moody Rating and Population Ratios</u>			
<u>Direction of Change Municipal Bond Rating</u>	<u>Number of Central Cities</u>	<u>Percentage Distribution</u>	<u>Percentage of Nine State Population</u>
Upgraded	8	21.5%	2.3%
Unchanged	17	44.7	5.9
Downgraded	13	34.2	7.5

Interpretation of these data is straightforward; namely, roughly one in three of the 38 central cities adversely affected by the phase out of the "hold harmless" provision recently experienced a downgrading in its municipal bond ratings. This means that the financial stability of these cities has eroded, reflecting the problems of the long-run viability of their local economic base. The withdrawal of a portion of the Community Development Block Grant funds at this time will, therefore, worsen what has become an already difficult financial situation for these 13 cities.

The true regional magnitude of this additional hardship is clearly dramatized when it is pointed out that total central city population for these 13 cities accounts for about one half (48 percent) of the population in all the 38 affected cities.

Another significant measure of a city's economic decline is the extent to which it is losing population. In this respect, population statistics for the communities which stand to lose funds support the analysis presented in this paper. Thirty-two of the 38 central cities lost substantial amounts of population during the preceding decade. Collectively, the loss amounted to 536,270 for these 32 cities. As presently structured, the Community Development Block Grant formula operates to the detriment of those jurisdictions which are losing population; yet they are likely to be the communities with the greatest redevelopment needs.

Who is benefitting from the Northeast cities' loss? If 38 of these 50 cities are losing funds, many other jurisdictions must be gaining, especially since the projections are based upon a 20 percent increase in funding levels. In essence, Northeast cities are victims of two distinct shifts in funding patterns under the Community Development Block Grants when contrasted with the categorical programs which they replaced.

The first is an interregional shift of funds - primarily away from the older industrial states of the Northeast in favor of the South and West. Table III, based on the 1974 HUD projections, contrast the FY 75 and FY 80 allocations for the nine Northeastern and sixteen Southern and Southwestern states. Although the nine Northeastern states were receiving more at the program's outset, they are projected to lose a total of \$89.7 million, or 12.6 percent. Seven out of the nine lose, even at a higher appropriation level. On the other hand, fourteen out of the sixteen Southern and Western states gain, and the total gain for this group is \$313.4 million or 44.3 percent. Although increased appropriation levels would ultimately cancel out the Northeast's loss, the percentage differential would still be the same.

TABLE III*

(Population and CDBG figures in thousands)

State	Population	CDBG 1975	Per Capita	Population	CDBG 1980	Per Capita
	1975		1975	1980		1980
Connecticut	3,095	\$ 67,286	\$21.74	3,357	\$ 33,558	\$10.00
Maine	1,059	14,650	13.83	972	9,690	9.97
Massachusetts	5,828	101,158	17.36	6,266	66,445	10.60
New Hampshire	818	6,970	8.52	842	6,504	7.72
New Jersey	7,316	78,576	10.74	8,080	85,264	10.55
New York	18,120	242,553	13.39	19,351	262,185	13.55
Pennsylvania	11,827	176,887	14.96	12,649	143,228	11.32
Rhode Island	927	21,004	22.66	1,031	12,844	12.46
Vermont	471	3,542	7.52	482	3,216	6.67
Northeast Total	49,461	\$712,626	\$14.41	53,030	\$622,934	\$11.75
Alabama	3,614	\$ 44,166	\$12.22	3,746	\$ 68,110	\$18.18
Arkansas	2,116	31,458	14.87	2,086	33,385	16.00
Arizona	2,224	15,252	6.86	2,225	29,165	13.11
Florida	8,357	63,087	7.55	8,926	119,544	13.39
Georgia	4,926	60,097	12.20	5,147	73,640	14.31
Kentucky	3,396	35,796	10.54	3,608	49,161	13.63
Louisiana	3,791	33,450	8.82	3,744	76,148	20.34
Mississippi	2,346	30,812	13.13	2,327	39,928	17.16
New Mexico	1,147	21,419	18.67	1,054	16,184	15.35
North Carolina	5,451	63,541	11.66	5,736	73,303	12.78
Oklahoma	2,712	39,972	14.74	2,762	38,023	13.77
South Carolina	2,818	24,841	8.82	2,818	43,840	15.56
Tennessee	4,188	53,439	12.76	4,556	67,711	14.86
Texas	12,237	119,599	9.77	12,166	205,330	16.88
Virginia	4,967	57,168	11.51	5,295	62,641	11.83
West Virginia	1,803	13,621	7.55	1,832	24,980	13.64
South & West Total	66,093	\$707,718	\$10.71	68,028	\$1,021,093	\$15.01

*Urban counties not included.

Sources: 1975 Population - Statistical Abstract of the United States (1976), U.S. Commerce Department1980 Population - Area Economic Projections 1990, U.S. Department of Commerce

The loss to Northeastern cities is not, however, simply a matter of one region versus another. There are intra-regional shifts as well, away from the cities and in favor of the suburbs. This phenomenon accounts for the fact that the total loss to the Northeast shown in Table III is less than the loss to the region's 50 largest cities shown in Tables I and II. In New England, for example, the 53 "formula entitlement communities" will suffer a loss of approximately \$112 million, as a result of the phasing out of "hold harmless." From an aggregate regional perspective this loss is partially compensated by an increase of approximately \$58 million in discretionary grants.* However, none of the "formula entitlement Communities" are eligible to receive these funds unless the demands of all "metropolitan balance" communities have first been met.

This shift away from larger cities to the balance of SMSA's is part of a national pattern. In FY 75, 82.7 percent of the funds nationwide were projected to go to "metropolitan cities." By 1980 this share will drop to approximately 60 percent. As the City of Boston's research paper "Community Development Funding Shifts under CDBG" states, "once the larger suburbs' share is taken out, it is possible that the central cities will be receiving less than half of the Federal funds allocated to community development activities in metropolitan areas." Table IV shows the projected 1980 changes for the nation's thirty largest cities. Twenty of these cities are scheduled to lose, and sixteen of them are outside the Northeast.

*Source: Computations by HUD Region I Office.

TABLE IV

Changes in CDBG Allocations to 30 Largest Cities (\$000)

<u>City</u>	<u>FY 1975</u>	<u>FY 1980</u>	<u>% Change 75-80</u>
New York	102,244	156,537	+53.1
Chicago	43,201	64,074	+48.3
Los Angeles	38,595	50,527	+30.9
Philadelphia	60,829	34,076	-44.0
Detroit	34,187	26,982	-21.1
Houston	13,257	22,925	+72.9
Baltimore	32,749	18,555	-43.7
Dallas	3,998	15,025	+275.8
Washington	42,748	16,427	-61.6
Cleveland	16,092	14,506	- 9.9
Indianapolis	13,929	10,967	-21.3
Milwaukee	13,383	11,130	-16.8
San Francisco	28,798	12,784	-55.6
San Diego	9,148	10,461	+14.4
San Antonio	17,904	16,915	- 5.5
Boston	32,108	11,860	-63.1
Memphis	6,043	14,658	+142.6
St. Louis	15,194	15,115	- .5
New Orleans	14,808	17,076	+15.3
Pheonix	2,570	9,683	+276.8
Columbus	9,194	8,741	- 4.9
Seattle	11,641	6,927	-40.5
Jacksonville	5,193	10,274	+97.8
Pittsburgh	16,429	9,150	-44.3
Denver	15,805	8,380	-47.0
Kansas City, Mo.	17,859	8,170	-54.2
Atlanta	18,780	11,393	-39.3
Buffalo	11,685	7,665	-34.4
Cincinnati	18,828	9,432	-49.9
Nashville-Davidson	9,609	7,370	-23.3

Source, Computations by City of Boston, Office of Community Development.
1975 figures are based on HUD "Directory of Allocations," and may vary
from 1974 projections.

How can these shifts in funds be accounted for? In order to understand the distribution patterns outlined above, two phenomena are key: the operation of the formula by itself, and the effects of the "hold-harmless" provision. From a Northeastern perspective it makes sense to begin with the latter.

The nation's cities, particularly in the Northeast, fared well under the categorical programs which Title I replaced. The Fiscal Year 1975 amounts shown in Tables I and II demonstrate this fact, since they reflect funding levels under prior programs, (essentially a community's average funding from the categoricals over a five-year period).

Several explanations for this funding pattern have been advanced. Those who view it as equitable have argued that the communities which did well under the prior programs were those whose political processes had identified a need for redevelopment and related activities, and whose needs were in fact so clear that Federal officials responded by funding their applications. Critics, on the other hand, have charged that the "Great Society winners" (to use the words of Senator Roman Hruska) were the beneficiaries of their own grantsmanship and the biases of Federal officials.

The effect of the "hold harmless" clause is to preserve, temporarily, this funding pattern alongside that established by the formula. As is the case with states under the General Revenue Sharing Program, cities can "choose" between their formula entitlement and their prior funding levels (technically, entitlement plus the "hold harmless" difference). Unlike General Revenue Sharing there is no across the board reduction to meet the limitations of a fixed sum of money. Instead, the cities' "pot" is increased, at the expense of the metropolitan balances. As will be developed below, the concept of the dual formula may provide the key to future changes in the Community Development Block Grant allocation mechanism.

At present, of the 25 cities shown in Table I, only New York and Elizabeth, New Jersey "choose" the formula. The other 23 have made the opposite choice. In 1980, this choice will no longer be available. It is the phasing out of "hold harmless" which is the principal cause of the diminished 1980 totals shown in Tables I and II. At that point these 23 cities will find themselves in a straight competition under the formula against all other metropolitan cities.

It is thus necessary to consider the formula itself, and to ask the question: why do Northeastern cities appear to fare badly under it? Again, one must separate out the intra-regional from the inter-regional aspects of the problem.

To some extent, all cities over 50,000 are placed at a disadvantage since they must first compete with all metropolitan suburbs to establish the split between metropolitan cities and metropolitan balances. As the Pennsylvania Department of Community Affairs puts it, "The formula has gerrymandered the suburbs into a collective which greatly enhances their competitive position in the CDBG allocation system. En masse, the suburbs are able to muster large numbers of people, poor families and overcrowded housing units to balance those of the metropolitan cities." Furthermore, there are serious questions about the reliability of total population figures where cities are concerned. Substantial evidence indicates that Census practices lead to an undercount of the population of large central cities.

Northeastern cities, however, may also be placed by the formula factors in an unfair competitive position vis a vis cities in other regions. First of all, as Berkeley's Institute of Governmental Studies has demonstrated, "a city's allocation ... is almost completely determined by a single factor: total population. The present formula in effect distributes resources on a per capita basis." Thus the growing cities of the Sunbelt, whose booming economies are attracting new residents are favored over the declining cities of the Northeast, which need redevelopment to reverse their decline.

Second, the formula factor of overcrowded housing may not reflect the physical redevelopment needs of older cities. A strong case can be made that the age of a community's housing stock is a better measure of infrastructure needs than the extent of overcrowded housing. Moreover, the age of housing stock varies sharply among the different regions of the country. Any variable which reflected it would tend to favor the older cities.

The present formula is not cast in concrete, and Northeast policymakers should not hesitate to challenge it. Indeed, Congress itself recognized that changes might be necessary, and directed the Secretary of HUD to report by March 31, 1977 "setting forth such recommendations as he deems advisable ... for modifying or expanding the provisions ... relating to the method of funding and the allocation of funds and the determination of the basic grant entitlement ..." If the Northeast has a case for change, now is the time to make it. Therefore, we recommend the following 5-point Northeast Policy Position on the Community Development Block Grant Program.

III. A Five-Point Northeast Policy Position on the Community Development Block Grant Program.

1. NORTHEAST POLICYMAKERS SHOULD TREAT THE RESTRUCTURING OF THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM AS AN IMMEDIATE, FIRST ORDER LEGISLATIVE PRIORITY, AND DEVELOP A UNIFIED APPROACH WHICH RECOGNIZES THE PROGRAM'S URBAN FOCUS.

A wide range of organizations have put forth numerous proposals for Federal legislation to help this region. Some are long-term, some are unlikely ever to occur. But the debate over the Community Development Block Grant Program is taking place right now, and decisions will be made within the next few months. Northeast policymakers -- both in Washington and within the region -- must work together to influence those decisions.

Formulating and maintaining a united position may not be as easy as it sounds for two reasons. First, any solution which preserves the current funding levels for this region's cities is likely to do so at the expense of suburban jurisdictions, including those in the Northeast. The emergent regional political process must reach a consensus that this program is - or ought to be - aimed at the cities, at least until the development of a comprehensive national policy which treats as a totality "highly urbanized areas" with decaying central cities. ("The primary objective of this title is the development of viable urban communities...") General Revenue Sharing, on the other hand, does spread funds among all communities. Last year, Northeastern policymakers were able to achieve some unity in opposing a change in that program's formula which would have harmed this region's medium and smaller jurisdictions - even though the large Northeastern cities stood to gain back a portion of the region's loss. This year those policymakers find themselves in the converse position.

Second, the General Accounting Office has recommended eliminating the automatic 80/20 metropolitan - non-metropolitan split in favor of a generalized distribution under the formula (perhaps with revisions). GAO estimates that this mechanism would increase by 70 percent the funding for non-SMSAs. Such a change may have appeal for Congressmen representing primarily rural areas. However, it fails to take into account the intensity of urban needs, and is clearly inconsistent with the basic thrust of the CDBG program.

2. NORTHEAST POLICYMAKERS MUST SET AS THEIR IMMEDIATE GOAL THE PREVENTION OF THE NEGATIVE EFFECTS OF THE PHASING-OUT OF THE "HOLD HARMLESS" MECHANISM, PREFERABLY THROUGH AN EQUITABLE ALTERNATIVE FORMULA.

As the "hold harmless" provision is phased-out, much of the "harm" will be felt in the large- and medium-size cities of the Northeast. Yet most of these communities are already experiencing severe fiscal pressures. They are faced with declining economies and shrinking tax bases. Therefore, financial aid from other levels of government takes on increasing importance. Furthermore, the effects of inflation are such that even a constant level of funding will yield fewer benefits over time.

If national policy is to encourage the revitalization of these urban communities, the Federal government should not reduce a major source of funds for this effort - especially at a time when local treasuries may not be able to make up the difference.

The most desirable way to prevent this reduction would be through the development and implementation of a formula which kept the losing cities at, or reasonably near, their prior levels of funding. (The merits of these levels are discussed under recommendation three.) A formula-based distribution system has the political advantage of being ostensibly neutral: it responds to needs wherever they manifest themselves. At the same time, the designers of a formula choose the needs to which they wish to respond. As this paper's fourth recommendation will indicate, new formula factors for the Community Development Block Grant Program can be developed, which recognize the particular needs of older cities. Northeast cities would fare well under a formula based on such factors. Moreover, adoption of a dual formula structure could prevent any adverse consequences for cities which stand to benefit from the present formula.

The forthcoming HUD Report will be a clear indication of the extent to which an acceptable new formula can be implemented this year. If such a formula is ready to go, Northeast policymakers should support it. If not, however, they should push for a one-year retention of the hold-harmless mechanism, pending development of a formula which recognizes the special needs of older cities. (Deferral would also postpone the serious effects to be felt by non-entitlement communities which are eligible for no automatic funds after the phase-out. There are 90 such communities in Pennsylvania alone. Pending a longer-term restructuring of the program, it might be desirable to give applications from these communities a special priority in awarding "metropolitan balance" funds.)

For Northeast policymakers, preventing the effects of the phase-out of "hold harmless" represents an achievable and tangible goal. There is increasing Congressional awareness of the impact of phasing out this provision. Still, Northeast policymakers must recognize that it is always more difficult to alter an existing statutory structure than to preserve the status quo. Moreover, opposition to this effort can clearly be

anticipated. Congressmen from suburban districts are likely to regard it as taking away from their communities funds to which they are now, in effect, entitled, even though these communities do not know in advance that their applications will be funded. The "metropolitan balances" represent a potentially strong constituency for the program as it is presently structured. Former HUD Assistant Secretary Floyd Hyde recently testified that HUD approved 3500 applications in the first year of the program, and plans to approve 4500 this year and 7500 next year. Moreover, the legislative history of the 1974 Act indicates that many Congressmen wanted the resources spread out among a larger number of communities. The House Committee Report emphasizes that "funds would be allocated to communities of all sizes on a uniform and equitable basis..."

An additional factor which Northeast policymakers must take into account is the potentially sectional overtones of a debate over the "hold-harmless" clause. Senators and Congressmen from regions which stand to gain under the current structure may resist attempts to change it. Northeast policymakers must present the issue in a national perspective: which jurisdictions should be favored in their receipt of funds under the major Federal program aimed at urban development problems?

Finally, Northeast policymakers must recognize that they are unlikely to get everything they want, and certainly not all at once. Lengthy shopping lists such as that which emerged from the Coalition of Northeast Governors' Saratoga meeting may or may not be politically wise, but they certainly bring into play the potential need to make trade-offs. In our view, preventing the negative effects of the phase out of the "hold-harmless" mechanism would be an achievement of major benefit to this region, even if pursuing it entails the consequence of foregoing opportunities to increase funds under other programs.

3. ADVOCACY OF THE HOLD-HARMLESS LEVELS SHOULD NOT BE LIMITED TO A DEFENSIVE POSTURE. NORTHEAST POLICYMAKERS SHOULD ARGUE FOR RECOGNITION OF PRIOR PROGRAM PARTICIPATION LEVELS AS A LEGITIMATE INDICATION OF A COMMUNITY'S NEEDS.

The extent to which a locality's funding under the prior categorical programs should be

considered in allocating Community Development Block Grant funds was the subject of considerable debate during the development of the new Program. On the one hand, the Senate-based initial allocation levels primarily on the extent of prior program levels, and gave the secretary of HUD discretion to alter the allocations. In other words, what is now the temporary "hold-harmless" mechanism was the basic allocation provision of the Senate bill. The House, on the other hand, insisted on a formula "which takes into account both objective needs and established program levels." The House Committee Report explained the "hold harmless" provision as "the primary method of achieving a smooth transition between the old categorical programs and the new block grant approach." (Emphasis added.)

This divergence of views reflected the controversy over whether distribution patterns under the old programs were fair, and whether an allocation system which relies on grantee initiative and administrative discretion is a better way of matching funds with needs than a formula-based system.

From a Northeast urban perspective the categorical programs seem to have done a reasonably good job of "putting the money where the needs are." Nationally, there may be no clear pattern of correlation. The Brookings Institution is currently preparing a Report on relationships between various formulas and indices of need. The Berkeley study reported that "existing evidence points to the conclusion that neither system achieved a very good bit of resources to needs." However, it is important to note that the same study concluded that "in comparative terms the CDBG system does a poorer job of matching resources to needs than did the categorical system. Coefficients of correlation for categorical expenditures are consistently stronger than those obtained for CDBG entitlements in the seven areas of need having statistically significant relationships with Federal assistance."

To the extent that the previous system achieved equitable funding levels in this region, Northeast policymakers should not abandon its defense in the face of changes of arbitrariness. After all, the hold-harmless approach represented the Senate's basic allocation mechanism in 1974. Moreover, a defense of hold-harmless levels provides Northeast policymakers with a bargaining position in the forthcoming debate over development of a new formula.

4. NORTHEAST POLICYMAKERS SHOULD PRESS FOR ALTERATIONS IN THE CURRENT FORMULA WHICH FAVOR CITIES IN GENERAL AND WHICH RECOGNIZE THE NEEDS OF THIS REGION. THE CONCEPT OF THE DUAL FORMULA IS A PROMISING APPROACH.

During the 95th Congress there is a strong prospect for some revision of the factors used in the Community Development Block Grant Formula. Clearly, the forthcoming HUD Report will play a pivotal role in the legislative deliberations. As key participants in this process, Northeast policymakers need to keep two general considerations in mind: first, any debate over the formulas is likely to have intra-regional (city versus metropolitan balance) and inter-regional dimensions; second, any changes will almost certainly retain the multi-fact nature of the current formula, with population remaining one of the variables. Of the many approaches likely to be discussed, the following seem particularly worthy of consideration.

a) The concept of the dual formula. The adoption of a dual formula in the General Revenue Sharing statute represented primarily a political compromise between the House and Senate. Yet such an approach may also be theoretically justifiable given the fact that no one formula is likely to be capable of achieving an exact fit of resources to needs, however defined. Design of a new allocation mechanism for the Community Development Block Grant Program presents political and theoretical challenges.

The political reality is that growing cities which do well under the present formula will not wish to abandon it, while declining cities can make a strong case for change. It would be difficult, if not impossible, to design a single formula to satisfy both constituencies. The large number of variables which such a formula would have to contain would probably cancel each other out, leaving nobody happy.

The answer may well be designing an alternative formula, based on factors favorable to the older communities, and letting each entitlement competitor "choose" the formula which yields it the most. A further problem would then arise, however. If all entitlement communities are competing for a fixed "pot," the sum of their choices, under two formulas, will add up to more than the total amount of funds in the pot.

The General Revenue Sharing mechanism solves the problem by scaling down the total amount of entitlements until it reaches 100 percent of the appropriation. This option is also available for the allocation of "metropolitan city" funds under the Community Development Block Grant Program. However, it would also be possible to take the amount by which total city choices exceeds total city entitlements away from another pot: the metropolitan balances share. We believe that such an approach is more consistent with the Program's focus on cities.

Three factors are likely to play a significant role in any alternative formula: age of housing stock, regional cost indexing, and population change.

b) Age of Housing Stock. As indicated above, this variable may be a better proxy for a community's physical redevelopment needs than the extent to which its housing stock is overcrowded. Preliminary research by HUD's Region I Office suggests that substitution of age for overcrowding would have substantial inter-regional implications. They compared the incidence of both variables for two selected groups of ten cities. The results, shown in Table V indicate a substantially higher percentage of pre-1939 housing in the older central cities - an intuitive conclusion. (The figures suggest that use of the current overcrowding variable may, in fact, produce a slight regional bias in favor of the rapidly growing areas of the South and West.) Substitution of the age variable, HUD calculated, would increase Boston's 1980 share by almost one third. Research by the Pennsylvania Department of Community Affairs suggests similar conclusions. Substitution of the age variable for the overcrowding variable yielded an increase of 35.1 percent in that state's 1980 Metropolitan City allocation and 28.7 percent in its Metropolitan Balance allocation.

Apart from inter-regional consequences, use of such a variable would probably tend to favor central cities over suburban jurisdictions in all areas of the country.

TABLE V
Age of Housing and Overcrowded Housing in 1970

Selected U.S. Cities

<u>CITY</u>	<u>Population</u> <u>1970</u>	<u>Year-Round</u> <u>Housing Units</u> <u>Built 1939 or Earlier</u>	<u>1.01 or More</u> <u>Persons Per Room in</u> <u>Occupied Units</u>
Atlanta, Georgia	497,024	30.3%	11.0%
Boston, Massachusetts	641,053	77.2	7.6
Cleveland, Ohio	751,046	73.4	7.4
Denver, Colorado	514,678	41.0	5.5
Indianapolis, Indiana	744,570	39.7	8.2
Milwaukee, Wisconsin	717,124	55.0	7.2
Phoenix, Arizona	581,600	11.2	9.2
Pittsburgh, Pennsylvania	520,167	74.4	6.4
San Antonio, Texas	654,289	25.8	16.3
Washington, D.C.	756,510	47.0	12.2
Baton Rouge, Louisiana	165,970	20.7	9.9
Des Moines, Iowa	200,772	54.4	5.8
Greensboro, North Carolina	144,245	20.7	7.3
Jackson, Mississippi	153,968	22.5	12.2
New Haven, Connecticut	137,715	69.2	7.6
Paterson, New Jersey	144,830	70.5	11.5
Providence, Rhode Island	179,223	80.7	7.0
Rockford, Illinois	147,205	44.3	6.1
Syracuse, New York	197,270	70.8	4.5
Worcester, Massachusetts	176,603	74.4	5.6
Average of Above		50.2	8.4
U.S. Average - All Central Cities		48.1	8.5

Sources: 1970 Population: County and City Data Books (1972), Table 6
Original Source: 1970 Census of Population

Housing Age: 1970 Census of Housing, HC(1)-B1 Detailed Housing Characteristics,
United States Summary, Table 39. Percent Calculation by Regional
Office Staff (except U.S. Average)

c) Adjustment of the poverty variable to account for variations in the cost of living.

Section 102(a)(8) of the Act authorizes the Secretary of HUD to make adjustments "for regional or area variations in income and cost of living" in computing the "extent of poverty" variable. However, HUD has not used this authority.

The use of any poverty variable in a grant program poses a number of problems. Many analysts have argued that since public assistance receipts (including unemployment receipts) are counted in a person's income, it would follow that states which make high payments in their public assistance programs reduce the poverty count in substantial numbers in contrast to states which do not. This issue will be addressed in ongoing efforts to redefine poverty measures. Section 102 (a)(8) brings up a different set of questions: regional variations in the level of poverty.

Many Northeast policymakers have urged that regional variations in costs be taken into account in the allocation of Federal grant-in-aid funds. Most of this interest has centered on programs which base outlays on a given jurisdiction's per capita income level. The use of an income factor is an attempt to measure the extent of resources available for taxation by the grantee in order to channel resources to those jurisdictions least able to provide services on their own. However, failure to account for regional variation in cost may distort the attempt to sort the rich jurisdictions from the poor. In the case of the Medicaid formula, for example, recent research by the Illinois Bureau of the Budget indicates that inclusion of cost of living differentials would significantly benefit most of the Northeastern states.

The same considerations would seem to apply to any program which uses extent of poverty as a formula factor. Use of this variable attempts to base a jurisdiction's receipt of Federal funds on the presence of a "target population" within that jurisdiction. However, use of a flat nationwide standard of poverty may exclude large numbers of persons close to the line who live in high cost areas.

The General Accounting Office has made an initial attempt to incorporate regional cost variations into the Community Development Block Grant Program's formula. GAO used HUD data on "fair-market" rents for cities in different areas to adjust the poverty factor in the current formula. The methodology of GAO's approach has been strongly criticized, both because the HUD data may not be accurate, and because rentals may not be an adequate proxy for cost of living. With these caveats in mind, the GAO Report seems to suggest that cities in high cost areas such as the Northeast would receive a greater proportion of the funds. This conclusion is intuitive, and corresponds to earlier research on adjusting income factors.

However, the published GAO Report only gives computations for five cities. New York, Chicago and San Francisco are shown as gaining under the recommended approach, while New Orleans and Amarillo lose. Examination of the unpublished GAO print-outs shows that results would not be uniform across the Northeast. While 34 of this region's 50 largest cities would gain under the adjustment, 16 would lose. The potential losers are located primarily in New Jersey, New York and Pennsylvania.

This pattern may reflect intra-regional variations in rental levels, or the inadequacy of the HUD data. GAO itself appears to recognize the limitations of its methodology, and concludes that "HUD, in conjunction with the Bureau of Labor Statistics and Census, should work to develop an index to adjust for cost-of-living differences in the allocation of CDBG funds." (Emphasis added.)

Northeast policymakers should support development of such an index, if possible for incorporation into current formula changes. Northeast policymakers should not, however,

support premature and inadequately based attempts to enact a change with such sweeping ramifications for the entire Federal grant-in-aid system. Cost-indexing based on the "fair market" rents alone would seem to fall into the latter category.

d) Population Change.

Both the present and previous HUD administrations have shown considerable interest in developing a formula factor which favors jurisdictions which are losing population, as well as, possibly, those with very slight gains. There is strong theoretical justification for such an approach. Cities which are losing population, or remaining at the same level, may suffer from declining economies which need the infusion of Federal funds for redevelopment and related activities. From a Northeast perspective such an approach is highly promising.

There are, however, some problems in developing and applying a formula factor on population change. If, for example, one factor in a formula reflects each grantee's share of the total central city population loss during a given period, any cities which gained (or remained constant) would derive no benefit at all from application of this factor. This objection may lose its force if the formula incorporating a population loss (or change) variable is one of two alternative formulas, especially when the other formula is constructed like the current Community Development Block Grant formula.

Northeast policymakers should support efforts by HUD to develop and apply a population loss or change factor.

e) Other formula factors. These approaches to formula changes have been discussed here because of their particular relevance to the Community Development Block Grant Program. There are additional formula factors - such as tax effort and tax capacity - which Northeast policymakers may wish to analyze, both in the context of Title I and in connection with other grant programs. We are on the verge of developing a "second generation" of grant formula factors - new methods of measuring relative levels of need, and of channeling funds to the areas of greatest need. The research carried out in the preparation

of Berkeley's Institute of Governmental Studies Report led the authors to conclude that "formulae may be readily devised that improve allocation of Federal resources to meet local community development needs."

5. NORTHEAST POLICYMAKERS SHOULD SEIZE ON THE DEBATE OVER COMMUNITY DEVELOPMENT BLOCK GRANT FUNDS AS THE CATALYST FOR AN EXTENSIVE, OPEN DISCUSSION OF THE PROBLEM OF TARGETING FUNDS UNDER ALL NATIONWIDE PROGRAMS TO THOSE REGIONS AND JURISDICTIONS WITH THE GREATEST NEED FOR FUNDS.

The distribution of grant-in-aid funds represents a major activity of the national government. In FY 1976 Federal grants totaled approximately \$60 billion, roughly one fifth of Federal domestic outlays. The process of deciding how to allocate those funds ought to avoid both of two undesirable extremes: on the one hand the relative obscurity which has characterized many of these decisions in the past (For example, all decisions concerning the Community Development Block Grant formula were made in Committee, with the substantial differences reconciled in Conference); on the other hand, the divisive sectionalism which characterized the recent debate over the Talmadge-Nunn amendment affecting Sewage Treatment Construction funds.

Northeast policymakers must avoid fomenting sectionalism. Nonetheless, regional policy analysis of the sort produced by the Federal Domestic Outlays Working Group can make a significant contribution to guiding the allocation of Federal resources among regions. The Federal Domestic Outlays Working Group is currently bringing together experts from government and academia to examine the development of new formula variables within the framework of national grant-in-aid policies. The First National Bank of Boston Economics Department has participated actively in this research and will continue to do so.

IV. Conclusion

The Constitution rests in the Federal government the power to "spend for the general welfare." In the exercise of this power the national government normally grants funds to lower levels of government in order to address problems which are nationwide in

scope - law enforcement, housing, transportation, etc. However, the severity of these problems is rarely if ever, uniform across the nation. Congress has developed a number of techniques for "targeting" grant-in-aid resources to the recipients with the greatest needs for Federal help. Some programs use formulas which favor jurisdictions with a particular population characteristic (e.g., Title I of the Elementary and Secondary Education Act, which counts children from poor families). Others utilize formulas to channel proportionately more funds to jurisdictions with future resources of their own (e.g., the use of income measures in programs such as Medicaid). Some programs limit eligibility to jurisdictions with particular geographical characteristics (e.g., Coastal Zone Management), or of a particular classification (The Urban Mass Transportation Program, the Rural Redevelopment Program). Each targeting mechanism reflects a set of assumptions - some of which are constant, and some of which vary from program to program - about where the needs are.

The figures in Tables I through III suggest that these assumptions may be wrong in the case of the Community Development Block Grant Program. Research on other programs leads to similar conclusions, especially from a Northeast perspective. Therefore, Northeast policymakers should advocate an across-the-board re-examination of the mechanism for allocating Federal grant funds. If the Northeast has a case for change in those mechanisms, and if it is successful in making that case, the end result could well be a series of incremental increases in this region's favor, the sum of which would make a significant difference to the Northeast's economic revitalization. Such incremental changes may be less spectacular than headline-grabbing multi-billion dollar proposals. In the long run, however, it may be better to seek the attainable than advocate the impossible.

Mr. ASHLEY. Well, I appreciate the testimony of both of you. I can assure you that there are no preconceptions on the part of the subcommittee with respect to the level of funding for the community development block grant program. This has got to be addressed anew, particularly in light of the likelihood of adoption of a change in formula. We are not concerned only with the level of funding; we are concerned with the equity in terms of distribution. We are also concerned with the \$400 million action grant program and the implications with respect to that initiative as it affects cities of the Midwest and Northeast and others, but I suppose those in particular.

How does the dual formula strike you? Do you think that by permitting cities to opt between the current formula and one that takes into account poverty, population shift, and age of housing—do you think that is a realistic approach? Do you think that begins to get at some of the plights and dilemmas that our coalition is particularly concerned with?

Mr. HARRINGTON. I have no quarrel at all with the general direction, which is a refinement, I think, on some suggestions that all of these things need to be addressed with an apparent disregard for disparities or capacities, and that that existed locally, and if anything at all, I hope it can be refined on further to try to direct attention to where the need is perceived as greatest.

Mr. ASHLEY. It is a question of how you measure need.

One way, in the 1974 act, we said we would count poverty twice. We said we would take into account the actual population of a community, and that we would look at the extent of housing overcrowdedness. We said that, based on those components, was a not-bad reflection of need.

Well, we knew it wasn't perfect. As a matter of fact, it was provided in the law that we review it within a limited period of time, and we are now undertaking that review.

Mr. HARRINGTON. If I can, Mr. Chairman, all I am surprised at is the apparently primitive nature of our tools of assessment. When it comes to something as basic, for instance, in Massachusetts, as having an unemployment computation, which has been markedly at variance with what the Federal level computation in the Bureau of Labor Statistics has made available to us recently, and recognizing ironically that for the December distribution of economic development and public works funds we probably were doing ourselves in by the inability to really define either one of those basic indicia of how one measures comparative levels of need or prosperity.

That is the point I would try to make in the opening, that if we can conduct war by laser beam, we ought to be able to do something more, frankly, than refine some of the techniques of dealing with our urban, nonviolent, domestic civilization with a great deal more sense of urgency than I think is characterized to date and with a willingness to commit resources, \$60 million or \$70 million, to get a standardized approach to the computation of unemployment, something that appears to be not a willing subject of interest for a good part of the Congress and the executive right now.

Mr. ASHLEY. One thing that has been encouraging to me is the number of studies that have been done with respect to the appropriate-

ness of the community development formula and the operation of the community development block grant program since its inception in 1974. There really has been a tremendous amount of work that has been done by universities, by business schools, by public service organizations. And I think that this is most encouraging from the standpoint of what you touch on, Mr. Harrington; namely, the incipient recognition, at least, that we are dealing here with the very life blood of our Nation's communities.

I think one of you mentioned—perhaps it was you, Mr. Horton—that there may be further testimony for the record in terms of what the coalition may recommend.

Mr. HORTON. Mr. Ashley, what we are doing is actually working on this now. We have staff working on this very subject. And it comes at a time prior to the time when we have actually completed our work on it. So we just wanted you to know that we will have some additional data that we feel you might want to have as input into your considerations as you move down the trail on this.

Mr. ASHLEY. Before I call on Mr. Moorhead, let me say that we will be taking testimony for the next couple of weeks, I expect, so that if additional testimony can be offered within that timeframe, that it will be very helpful to us. It doesn't do us a whole lot of good, as you know, if it comes in after we mark up.

Mr. HORTON. Some of the supplementary data I submitted is from the Northeast Council which will be somewhat helpful.

But I think the important thing is to find a formula that is going to actually help the older, decaying cities—and that is the name of the game. Universities can study it, we can all study it, make all sorts of tests on it, and run all sorts of tests, and I have had some experience with that, as Mr. Moorhead and Mr. Harrington know, because they have had some of that with revenue sharing. We have run all of these different formulas through the computer and that sort of thing, but the computers can't tell what the problems are. We know what the problems are, and so we have got to take a look at whatever formula is going to be of help to these older cities, these decaying cities, so we are not going to lose them. That is the name of the game.

Mr. ASHLEY. I quite agree with you.

Mr. Moorhead?

Mr. MOORHEAD. Thank you, Mr. Chairman.

Just following along on your computer thing, when the distribution of the public works funds came out, there were some startling inequities, and the excuse was given, well, the computer just put it out.

Well, the computer is a stupid beast. If you put garbage in, you get garbage out. If you put good stuff in, you get good stuff out. The computers don't make mistakes; computer programmers make mistakes.

Mr. HORTON. Well, you see, here's another case, Mr. Moorhead, where that formula—and it was well intentioned—the public works formula was a 70-percent/30-percent allocation of funds, and it was related to unemployment, and the 70 percent pot went to unemployment, over 7½ percent. Well, in New York State we had over 1,800 applications, well-intended applications, where unemployment was very high. In one area of my district where unemployment was not so high, they qualified under the 30-percent allocation. So they got a library.

I am not knocking libraries. They are very important. But there are some of these areas where, for instance, they might need a water system or a sewer system. It was very hard to explain why that need is met when somebody else is going to be able to build a sidewalk or a library.

So the point I am making is that the formulas can all sound pretty good, but if you don't run them out and test them before you start using them, you will find all sorts of inequities.

The problem here is to find a formula that's going to help large cities, like Rochester and Pittsburgh, and some of the smaller cities to get themselves back into a situation in which they can attract industry and keep industry and keep people living in them.

Mr. MOORHEAD. Well, that is, of course, the objective of this subcommittee. But we have to recognize that there are some others who have been led to believe they can get something on the basis of the previous formula, and that is why, I think, the dual formula is—for reasons which should be obvious to Members of Congress—necessarily part of this legislation.

I am pleased to hear about your position paper, and I hope that we can keep the record open long enough, Mr. Chairman, to have that position paper, or the part thereof that is applicable to this subcommittee's work, made a part of the record.

I would also urge upon you, while we have been talking about community development and the economic welfare of the communities in the Northeast and Midwest, I, as you know, have been a member of the coalition since its inception—I think I am still on the executive committee, so I support you 100 percent in this—but I think we also have to consider the housing needs of this community and communities throughout the United States, and I hope that your position paper will direct itself toward that, because I think we are further away from the proper treatment of the housing needs—we are floundering more there than we are in minor adjustments to a formula for community development that would also recognize the economic needs of communities.

So I hope that you will direct your—or our attention in that area. And I would welcome your thoughts on that.

Quite frankly, I thought as I read or listened to the testimony about the new community development formula, it seemed to me that smaller cities were included in the formula in a better and fairer way than they were under the 1974 formula. But if I am incorrect in that, I want to be educated in any thoughts that you have.

I would have to grant you, that particularly the smaller cities in the larger standard metropolitan statistical areas did not fare as well in the 1974 formula as we had hoped. I had the impression that this new formula would correct that situation. But if I am wrong, please let me know.

Mr. HORTON. We have some concern about the discretionary aspect of it and the idea that they would compete for that. It may prevent needy communities from participating, and we just feel that the subcommittee ought to focus its attention on that, and we will have some more to say about that.

Mr. MOORHEAD. When you are talking about smaller cities then, you are talking about communities under 50,000?

Mr. HORTON. Right.

Mr. MOORHEAD. That is the problem you are asking us to focus on?

Mr. HORTON. Under 50,000. And there are a lot of those.

Mr. MOORHEAD. Oh, yes.

Mr. HORTON. In this part of the country we are talking about—I mean, you probably have a great number more in Massachusetts than we have.

Mr. HARRINGTON. We have a list, and we can certainly make it available to the subcommittee, of cities that would get zero funds under this bill. There are a number of them.

Mr. ASHLEY. Well, that is all of them except the hold-harmless communities under 50,000. They all rely on discretionary funds.

Mr. HARRINGTON. Well, there are some that are outside because of their locale as being outside the metropolitan areas and being the focal point of a county or geographic region, I am told. But it is certainly not a list that I would say is a list of relatively affluent suburban cities of recent vintage. When you look at them, Massachusetts, Connecticut, and Rhode Island, they are the old mill towns, in many instances, ravaged, and they have been ravaged for some time.

If I could add one more item which I am bothered by, which I don't think the legislation deals with. I get concerned that there is not the capacity to recognize that the disadvantage of inadequate leadership often spells ominous end results to the inhabitants of a given area. We take examples in our own State in last generation.

Mr. ASHLEY. You are talking about local or national?

Mr. HARRINGTON. I am talking about the local problem which HUD has so far failed to address—or we have, through HUD—adequately.

We have a city like Malden, which had more per capita funding than most in the State, alongside of Chelsea, which had almost nothing. And it ends up, because of the inability to have the kind of leadership or foresight—just as much need, but not getting the kind of attention. And I realize we are dealing with an obvious problem of federalism, but I suggest there has to be some attention paid to the fact that in many instances, whatever the formula, the basket cases are going to stay basket cases and the good are going to get better, and nobody really is developing an approach to deal with the fact that there is a need there, whether they are dealing with it or not at the local level. And there does seem to me something that in some fashion, whether it be through oversight or through regulations or legislation, ought to be addressed as a reality, that you don't have that amount of adequate leadership to go around.

Mr. ASHLEY. I don't know how you push a string in this regard, though, Mike.

Mr. HARRINGTON. Well, there are an awful lot of strings to push, and the end result is, we end up paying a lot more for not trying to find a way to push a string.

Mr. ASHLEY. Well, your suggestion will be taken with considerable interest in this regard, I can assure you.

When you say that the Federal structure of our governmental system is an impediment, you are entirely right, and I would be very interested to see how far we can move without being challenged in that regard.

Mr. HARRINGTON. I would think, again, there ought to be some incentive in the precincts that I represent, and I have suggested rather pointedly that they get out of the 17th century and into the 20th century when it comes to the duplication of services and recognize that you can't go with 351 subdivisions in Massachusetts forever.

Mr. ASHLEY. Well, of course, that is true. We have representatives from the Advisory Commission on Intergovernmental Relations that will be testifying, and these are people that know that ball park pretty intimately. I suspect you can't resist the temptation to articulate your feelings in this regard. I'm not sure that you might not seize the opportunity some time to discuss it with your young Governor.

State responsibility is a rather pronounced one under the Constitution.

Mr. HARRINGTON. We have the carrots, and the States we represent in the immediate future are not going to have many carrots to give up. I think we ought to use that carrot with—a lot better than we have, and tell them that in return, they had better get their acts together more than they have.

Mr. ASHLEY. Do you agree with that, Mr. Horton?

Mr. HORTON. Well, I think you have some problems on this type of thing.

For example, in revenue sharing—I mean, the point there is that we give money to areas where in some cases they don't need it; other areas do need it. And it is a question of what the local leadership is. And that is a problem, as to how you federally make available funds in a program to areas and then get the local leadership to follow through on it.

For example, in Rochester—Rochester in my district was very aggressive in the urban renewal funds, and they ranked about 13th in the country in total amount of dollars for urban renewal. Under this program they would revert to about 47th. And so they will have to go from \$14 million back to about \$4 million. Now, they were very aggressive. Others were not so good at that grantsmanship program. And some people in my area, also in Wayne County, they didn't want to have anything to do with the Federal Government, and they probably were right, because the ones that did are really having trouble right now because of the urban renewal programs that they have on the books, and they have a lot of buildings torn down and everybody's all mad about it.

So I don't know just what the answer to Mr. Harrington's problem is except we have to try to recognize that there is a real problem of these older cities, large and small, and we have to come up with a formula that is going to be of assistance to them and to provide them some Federal funds that will help them renew without tearing down their whole structure.

Mr. ASHLEY. Well, we appreciate very much your testimony. We do have a vote on.

Mr. MOORHEAD. Mr. Chairman, just before the record closes, I think I—and I am sure you would want to join me in this, Mr. Chairman—want to express a word of thanks to the chairman and the cochairman of the coalition who are doing such a fine job, volunteering for extra work to help not only the area we represent but the entire Nation,

because if the Northeast and Midwest are sick economically, the West, the Southwest, and the South will get sick, too. So we have got to band together. And you two gentlemen and your leadership have rendered a tremendous service.

Mr. HORTON. Thank you very much.

Mr. ASHLEY. The subcommittee will stand in recess for about 10 minutes.

[Brief recess.]

Mr. FAUNTROY [presiding]. The hearings on housing and community development authorizations will resume, and at this point we call Mr. David B. Walker, acting executive director of the Advisory Commission on Intergovernmental Relations, and Mr. Carl Stenberg, senior analyst.

Gentlemen, you may proceed with your testimony as you choose. We have the text, and you may either summarize or read it verbatim if you choose.

STATEMENT OF DAVID B. WALKER, ASSISTANT DIRECTOR, ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS

Mr. WALKER. Thank you, Mr. Chairman.

I might preface our remarks—and Carl and I will share the testimony together—with a few comments about the Commission.

The Commission, as you probably know, was established by Congress in 1959, and has Congressional members, Cabinet members, governors, mayors, State legislators, county officials and three private citizens. It's a multilevel Commission with a broad base of representation on it, and it is from that vantage point that the recommendations we will discuss were adopted and worked through.

We got into community development largely because for 2½ years we have been trying to get a handle on what I would call the new intergovernmental grant system that has emerged over the past decade and a half.

We have looked at four block grants—community development, CETA, Partnership for Health, and Safe Streets; so we think we know something about block grants. We also think we know something about categorical grants, the old way of doing business in community development. So it is from this vantage point that we got into CDBG.

At this point, I would turn to my colleague, who will highlight the findings that we discovered in our review of this particular block grant. Mr. Stenberg.

STATEMENT OF CARL W. STENBERG, ACTING DIRECTOR OF POLICY IMPLEMENTATION, ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS

Mr. STENBERG. Thank you, Mr. Chairman.

Before getting into the specific findings, I think it is important to point out three major aspects of the community development block grant program that we hope will be kept in mind in assessing the performance record. They have contributed to the great curiosity and the great controversy that surrounds this program and the instrument that is used to dispense Federal funds.

First of all, community development itself is a very loosely defined term. Since it emerged in the Federal housing legislation in 1949, it has been associated with a variety of activities, including urban development, rehabilitation, social services, environmental protection, and the like. This definitional ambiguity was not clarified in the 1974 legislation. Second, the program is a Federal-local one, and as such, is much more complicated and potentially confusing than Federal-State programs. These complexities are in part due to the fact that several thousand communities, rather than the 50 States, are recipients of aid. These communities have a variety of different, often competing and conflicting needs and problems to which the legislation is addressed.

Third, the community development block grant gives recipients a considerable amount of discretion in tailoring funds to meet their needs, as is consistent with the block grant approach. This Federal promotion of local priority-setting for the Nations communities is the program's most distinctive and important feature. However, these factors in turn render the development of an equitable, workable, and politically viable allocation formula a very complex task. The block grant approach glosses over many of the differences among communities on the assumption that participating jurisdictions having the requisite flexibility will accommodate funds to their individual needs. This is all well and good if sufficient funds are available. However, that has not been the case.

With this by way of background, I would like to spend a few moments indicating some of the specific findings and conclusions that have emerged from our research effort.

First of all, on the positive side, the Commission found that the community development block grant program has been successful in combining several fairly narrow-based categorical programs into a broad community development block grant.

It provides funds for a variety of purposes to a variety of jurisdictions. It helps to relate comprehensive areawide planning with local community planning and to establish a firmer link between housing and community development.

Second, in the field of grant administration, we found that HUD has been able to distribute funds to more cities more quickly with less administrative redtape under the block grant approach than under the former categorical programs.

Third, block grants have gone to many jurisdictions which had little or no previous HUD program experience. Their participation in the program has fostered intergovernmental coordination and cooperation on the city-county and intracounty levels.

Fourth, the recipients of funds have used them generally to fulfill the broad objectives of the act, to eliminate existing slums and blighted conditions, to rebuild decaying areas, and to prevent future community development problems that accompany urban growth.

And finally, the objective of strengthening the role of general purpose local governmental units and their elected officials is being achieved under the act in at least two ways: State statutory actions have enhanced the legal authority of localities to deliver services, which has allowed them to undertake a broader range of community

development responsibilities; and second, there has been greater participation in decisionmaking by elected chief executives and legislators.

On the negative side, Mr. Chairman, the Commission's report shows that the community development program has produced at best a hybrid block grant, characterized by a mix of funding mechanisms, program objectives, and administrative regulations. Although a number of basic block grant characteristics are reflected in the legislation, many of these have been preempted by additional statutory requirements to help insure recipient accountability.

Second, the statutory language that pertains to eligible activities and subsequent administrative regulations issued by HUD have, in effect, restricted recipient flexibility in using funds in accordance with their needs. In particular, the laundry list approach for fundable projects has been a contributing factor here.

Third, the mix of formula entitlement, hold harmless, and discretionary funding has produced a complicated allocation scheme, far more complex than is normally associated with the block grant instrument. This formula has operated in some cases to decrease rather than increase certainty of funding on the part of recipients, and it has raised basic questions about equity and effectiveness in the distribution process.

Fourth, the eligibility requirements for formula entitlements have been drawn so broadly as to encompass the intended units of local government, both large and medium size, as well as an unexpected number of urban counties. However, small cities and States have minor roles in the program, by virtue of their designation as being eligible only for discretionary grants. With respect to the flow of funds, the entitlement formula does not target sufficient funds to those cities that have critical urban slum and blighted conditions. When their percentage of poverty, age, and abandonment of housing are considered, there has been a dilution effect in the distribution formula. Fifth, the multiple discretionary grant categories have been plagued by unexpected shortfalls of funds. This has been a problem that has resulted from the unanticipated entitlement of qualifying urban counties.

And finally, the administrative strings which are required to safeguard certain national goals have not operated as effectively as had been hoped by the Congress and others who supported the initial block grant legislation. Yet there is a risk of recategorization of the program by HUD, if it develops a series of intrusive procedural requirements which infringe too greatly on local discretion.

At this point, Mr. Chairman, Mr. Walker will summarize the Commission's recommendations that are aimed at improving the community development block grant program.

STATEMENT OF DAVID B. WALKER—Resumed

Mr. WALKER. In its deliberations last May, Mr. Chairman, the Commission arrived at the basic conclusion that the community development block grant should be continued, but with some amendments in four to five basic areas, and I would like to look at those briefly.

There is a chapter attached to our statement, that explains these and we hope it would appear in the record.

The question of the breadth of the grant is always a big one when you look at the block grant. How much terrain, functionally speaking, does it cover? And in looking at it, of course, you find seven separate categoricals merged into the CDBG.

But there are other HUD programs, as you know, that were not included, not to mention a number of community development-related programs in agriculture and commerce.

So, in theory, if one were to include everything in community development, one could arrive at a very massive merger, involving a number of programs from three departments of the Federal Government at least.

The Commission did not feel that this made much sense, for political and administrative reasons, although it did arrive at a judgment that administrative and interagency coordinative efforts should be mounted in this program area, with linkages among EDA, HUD, and certain units within the Department of Agriculture.

Turning to two programs within HUD itself, the Commission rejected the idea, which was prominent for a while but has disappeared now—that section 701 should be funded out of community development.

There is some overlap there with CDBG funds, but of course section 701 funds States, councils of governments, and other local units, not just counties and cities that are eligible for community development funds. The Commission for that reason rejected the merger. But it did call for, as was initially intended by the act, the merger of the section 312 rehabilitative program with the community development program, thus slightly broadening the orbit of the grant as it now stands.

The theory here is that this was the intent of Congress at the outset, though we recognize the popularity and efficiency of this program.

We reject the idea, however, that there are legal barriers here. At one point, somebody in HUD actually scanned the legal record and found in 26 States where allegedly there were some barriers for cities and counties to assume a rehabilitative loan role, that in all but five of these States attorneys general found no legal barrier in place and in the five remaining the moneys were going to cities anyway. This means that in a de facto sense there is no legal problem here at all, as some have alleged.

So, the Commission broadened CDBG a bit, just a little bit, by recommending that the Congress merge section 312 with it.

Turning to the second fundamental trait of any block grant—recipient discretion. We looked at the CDBG's efforts to broaden the orbit, expand the elbow room, and extend the decisionmaking authority of local or State officials. In that area, we came up with two or three reforms that merit consideration by the Congress.

Regarding the difficulties that have emerged about how much of the money may be used for public services, the act has a five-factor formula in it.

That is kind of complicated, though, the HUD regulations are simpler. But it is our opinion that Congress should make it clear that funds for public services relating to community development projects

may amount to 20 percent of a grant, as was proposed in the original Senate version of this measure.

This would help to clarify the regulations and eliminate the ambiguity that extends from the law itself.

With regard to the issue of targeting CDBG funds to neighborhoods' facilities, it is our opinion that the act should be broadened to permit the communities themselves to decide whether the projects should have a neighborhood or communitywide focus. This, we feel, is a vital aspect of maximizing the discretion of recipient officials at the county and city level.

And, finally, with regard to the housing assistance plan requirement, we feel that for the smaller cities, there is some need for simplification, and perhaps consideration should be given by the committee to permitting regional councils or other A-95 units, to submit a regional HAP proposal in lieu of a cluster of these smaller local jurisdictional housing assistance plans.

We feel that changes in these three areas—the HAP requirement, the neighborhood project focus, and the 20 percent of a grant for public services—would maximize and broaden recipient discretion.

We examined the Federal role in CDBG and found it was not bad, frankly. I was amazed, personally, to come up with the conclusion that HUD has done not too bad a job—a little permissive at the outset, perhaps, with more strings added as the program progressed, but some of that was at the behest of the subcommittee, to be frank about it.

The Federal role in administering block grants is vastly different from that with categorical grants. It is a balancing act. The Department must get enough information and be in an authoritative position to appear before a subcommittee like this so they can explain what the program has done. Yet if they get so onerous in rules and regulations stemming from the effort to maintain and mount a good case before the Congress, then you end up quite clearly with a violation of the entire idea of a block grant, namely, the strings are not supposed to be so heavy and cumbersome so that the discretion of recipient jurisdictions is totally constrained.

So, we would simply urge HUD to maintain its present delicate posture in this respect, and perhaps probe a bit the problems that have emerged as a consequence of the expanding number of Government-wide requirements relating to other things—the environment, equal access to employment, equal access to services, things of this sort that stem from broad national policies but which now attach themselves to all grant-in-aid programs, block and categorical. We have learned from the field that some of these are causing extraordinary difficulties, not because of HUD, but because these various requirements are not administered uniformly across the Federal terrain.

HUD has a problem here, but so do the rest of the departments of the Federal Government.

On the funding question, we did not have the benefit of the Brookings study, when we looked at it in May of 1976. We did not have the benefit of those runs that HUD conducted in the fall of last year. But the Commission reached the condition that Congress should amend the act to insure that the funding allocations treat the older, deteriorating cities of the country as well as the smaller communities more equitably.

These two classes of jurisdictions seem to be the ones that are or will be getting something less than equity under the existing formula.

This could be accomplished in a number of ways: By extending the hold-harmless provision—a position I personally don't think is all that good, but it could be done by earmarking discretionary funds as has been proposed in part for the smaller cities—by expanding the entitlement category; by lowering the population floor—as was urged in the previous testimony—by permitting combined applications from consortia of small cities; or by changing the definition of an entitlement jurisdiction. It also could be achieved—and this is the approach that seems to be emerging before the subcommittee—by modifying the allocational formula to include factors that better reflect needs such as giving a heavier weighting to poverty or using housing abandonment rates rather than overcrowding, or adding the age of housing as a factor.

These are the kinds of things that you have been deliberating on and will have to worry through.

It's my personal belief that this focusing on the formula is the most satisfactory way of resolving the allocational issue. And the debate between Secretary Harris' and Secretary Hills' proposals, I think, gives rise to this kind of focus.

A final point—and it is a slightly controversial one—is that the States were not given much of a role in this program, as my colleague pointed out. And yet you have three-fifths of them with some form of housing programs in existence, and in some areas the role of the State vis-à-vis smaller communities is extraordinarily important and could be helpful in this area.

The Commission recommended that a separate entitlement—in fact an earmark of the total funds—be established for the States, but with a caveat, that it would only go to those States which have had an administrative involvement in setting up a housing and community development agency, which have had a demonstrable, fiscal role in providing State revenues for housing and community development programs, and which have the capacity to mount a technical assistance effort.

We emphasize this mix of administrative, fiscal, and technical assistance capability, then and at the moment only a minority would meet those tests. Yet through time, more will. We believe the subcommittee should look at the State role and strengthen it. For the past decade and a half, under nearly every administration, there has been the pronouncement that the States have a role in metropolitan America. This act then, which impacts heavily upon metropolitan America, ought not to leave the States of this Nation in a jurisdictional category that is merely eligible for discretionary funding along with hundreds of other units.

So, we urge the subcommittee to consider possible establishment of an earmarked fund which will be restricted only to those States which meet the tests that I highlighted, to provide a measure of encouragement and to get the States involved in an area that is very critical to their own future, not to mention that of the Nation.

We stand prepared to answer any questions, Mr. Chairman.

[The joint prepared statement of Mr. Walker and Mr. Stenberg, on behalf of the Advisory Commission on Intergovernmental Relations, along with an attached chapter of the Commission's report (Spring 1977) entitled "Community Development: The Workings of a Federal-Local Block Grant" follows:]

JOINT STATEMENT OF

David B. Walker, Assistant Director

and

Carl W. Stenberg, Acting Director of Policy Implementation

on behalf of the

ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS

on the

Housing and Community Development Act of 1974

before the

Subcommittee on Housing and Community Development
Committee on Banking, Finance and Urban Affairs
U.S. House of Representatives

March 2, 1977

Mr. Chairman and Members of the Subcommittee:

I am David Walker, Assistant Director of the Advisory Commission on Intergovernmental Relations. With me is Carl Stenberg, Acting Director of Policy Implementation. We very much appreciate the opportunity to testify today on the extension of the Housing and Community Development Act of 1974.

The Advisory Commission on Intergovernmental Relations is a bipartisan body created by Congress in 1959 to monitor our federal system of government and to offer recommendations for its improvement. The Commission is composed of twenty-six (26) members representing the executive and legislative branches of all three levels of government, and private citizens.

Since its inception, the Commission has singled out particular problems impeding the effectiveness of the federal system for study and recommendation. The existing intergovernmental grant system with its many new dimensions was identified as such a problem by the Commission in the Spring of 1974. Staff was directed to probe four features of this grant system: the changing state servicing and aid roles, block grants, the administrative steps to improve Federal grant management, and categorical aids. Our study of Title I of the Housing and Community Development Act of 1974 is one of five reports prepared under the block grant phase of the overall study. The report was reviewed and recommendations adopted at a meeting of the Commission in May of 1976.

The Commission examined the Federal Government's earliest involvement in the community development field, analyzed the legislative battle which resulted in the enactment of the Community Development Block Grant (CDBG),

and assessed the first year of the program's operation. Our prime focus has been the use of the block grant mechanism in a Federal-local partnership to deliver community development assistance in a manner consistent with the Congressionally-expressed objectives of the Act.

MAJOR FINDINGS AND CONCLUSIONS

Mr. Chairman, from its inception, three major aspects of the Community Development Block Grant program indicated that it would generate both curiosity and controversy. First, the program operates in a broad area which always has been loosely defined - community development. Since the term's emergence in Federal legislation in the Housing Act of 1949, it has been used to describe a plethora of programs and policies seeking to rebuild and preserve the Nation's urban areas, and improve the lives of their residents. Community development has, from time to time, included programs related to physical development, human services, environmental protection, and political organization. It means urban development, to some, and rehabilitation, to others. More than many other Federal grants-in-aid, its meaning has varied depending upon the particular program, its objectives, and the participants involved.

Second, the program is Federal-local in nature and as such is more complicated and potentially confusing than its predecessor, the Federal-state block grant. Its complexities, in part, derive from the increase in the number of recipients -- from 50 to over a couple of thousand -- as well as from the wider variety of different, often conflicting and competing needs which these participants possess.

Third, CDBG gives localities considerable discretion in tailoring funds to meet their needs, provided that these uses fall within the program

parameters specified in the Act. This Federal promotion of local priority setting for the diverse localities of the Nation is the program's most distinctive feature. However, these factors, in turn, render the development of an equitable, workable, and politically viable allocation formula an inordinately difficult task. The block grant approach tends to gloss over these differences under the assumption that the program will allow participating jurisdictions the requisite flexibility to accommodate their individual needs. If sufficient program funds are available, then this might be true. However, thus far, insufficient funding has plagued CDBG.

The controversy begins, then, when these primary features are combined. The act never defines "community development." Instead, it offers a series of objectives and a list of activities which qualify for funding under the auspices of the program. When taken as a whole, these encompass a very wide range of undertakings in the area which has come to be known as community development. Developmental as well as rehabilitative undertakings are included. But when a participant -- faced with scarce funds and other constraints -- exercises his discretion and selects only a few activities in pursuit of a few of the objectives, the individual local programs often become a mere fragment of the comprehensive program envisioned. And, this is what has occurred in the CDBG program.

Although the Community Development Block Grant program does not have a lengthy performance record, the Commission feels there is sufficient data regarding some of the fundamental issues and problems raised by this new style block grant to warrant consideration and remedial action in the Subcommittee's reauthorization deliberations.

On the Positive Side:

- The CDBG program combines a variety of past approaches to community development. It provides funds for metropolitan

as well as non-metropolitan communities, for the purpose of physical development as well as related social services, and for urban renewal as well as urban growth. It relates comprehensive areawide planning with local community planning, and attempts to establish a firmer link between housing and community development.

●In the area of grant administration, HUD has been able to distribute funds to more cities, more quickly, with less administrative red tape under the CDBG program than under the former categoricals.

●Block grants have gone to many jurisdictions which had little or no previous HUD program experience. These new recipients include urban counties with their incorporated and unincorporated units, suburban communities, and smaller cities. Their participation in the program has fostered intergovernmental cooperation on the city-county and intra-county level.

●The recipients of funds have used them to fulfill the broad objectives of the act. The past participants (frequently older cities) continue to use their funding generally for projects designed to eliminate existing slums and blighted conditions as well as to rebuild their decaying areas. Many of the new recipients are using their funds more for growth-related community development problems pursuant to the objective of preventing future slum or blight conditions.

●The objective of strengthening the role of general purpose local governmental units and their elected officials is being achieved in two ways: state statutory actions have enhanced the legal authority of localities, allowing them to exercise a broader range of community development powers; and the act has resulted in greater participation in decision making by elected chief executives and legislators. In areas where previously only special districts or public authorities could act, generalists now have options to assume or delegate this power.

On the Negative Side:

- The community development program emerged as a hybrid block grant. It contained a mix of funding mechanisms, program objectives, and administrative regulations. Although all the basic elements of a block grant were present, many were preempted by additional statutory requirements to ensure recipient accountability.

- The broadly stated objectives of community development programs folded into the block grant were geared to eliminating and preventing slums and blight, and these suggest broad program discretion. However, the statutory language pertaining to eligible activities and the subsequent administrative regulations, in effect, restricted the extent of recipient flexibility by using a "laundry list" approach (13 eligible activities) for fundable projects.

- The mix of formula entitlement, hold harmless, and discretionary funding has produced a more complicated allocation scheme than is ordinarily found in a block grant. The formula has operated, in some cases, to decrease rather than increase certainty of funding, and has raised questions of equity and effectiveness.

- The eligibility requirements for formula entitlements were drawn broadly enough to encompass the intended units of large and medium size general local government as well as an unexpected number of urban counties. Small cities and states were given minor roles by their designation of eligibility only for discretionary grants.

- The entitlement formula has been the subject of much criticism. While the formula may measure broad community development needs in light of the Act's dual objectives to eliminate and prevent slums and blight, it does not target sufficient funds to those cities with the most critical urban slum and blighted conditions, especially in light of the percentage of poverty, age, and abandonment of housing there. Many of these cities are currently being held harmless by funds which are scheduled to be phased out by FY 1980.

- The multiple discretionary grant categories have operated to allow a large amount of flexibility in fulfilling the community development needs of non-entitlement recipients. However, during the first year, they have been plagued by unexpected shortfalls of funds -- due to the unanticipated high expenditure of entitlement funds for qualifying urban counties.

- The small cities, as a result of the shortfall of discretionary grant funds, have pressed for guarantees of more certain funding, either through earmarked funds for their jurisdictions or through arrangements to obtain entitlement status.
- The administrative "strings" which are required to safeguard certain national goals have not operated as effectively as had been hoped. HUD, in its initial phase, had only loose requirements which gave rise to questions of the degree of allowable program permissiveness. The result was a wide diversity in local government responses to various requirements. Its current position of establishing substantive guidelines for fulfilling national goals strengthens the block grant. Nevertheless, HUD runs the risk of recategorization if, by so doing, it develops a series of intrusive procedural requirements which infringe too greatly upon local discretion.

RECOMMENDATIONS

After reviewing the initial implementation of the Community Development Block Grant program, the Commission concluded that a combined block and discretionary grant program provides the most effective and efficient strategy for meeting the community development needs of local governments. At the same time, improvements are necessary in four major areas: the functional scope of the program; recipient discretion; Federal stewardship; and funding. In the interest of time, we will briefly highlight the nature of these recommendations. A full discussion of their rationale is contained in the chapter of the Commission's report that is appended to our statement.

Functional Scope

In its recommendations relating to the program's breadth, the Commission seeks modest changes with a view toward balancing the block grant goal of economy and efficiency against the realities of providing community development and other Federal assistance to large numbers of local jurisdictions whose needs vary. The Commission believes that two types of community development programs should be recognized--those outside of HUD and those within the Department--and that they should be treated differently.

With respect to community development assistance administered by Federal agencies other than HUD, consolidating them with CDBG could promote greater recipient discretion and eliminate duplication. However, the Commission does not favor such mergers given the management and oversight problems associated with a community development program serving both urban and rural communities, the difficulties in arriving at an equitable distribution formula, and the disruptive effects of major reorganizations on Congressional committees, Federal agencies, and recipients. However, the Commission both encourages and endorses interagency efforts to coordinate and, where feasible, to merge administratively activities related to community development.

The Commission suggests a different approach to dealing with HUD's programs, which recognizes both the potential of the CDBG program as the most effective and efficient strategy for addressing the broad community development concerns of local governments, and the need to eliminate unnecessary program overlap at the national level. Hence, the Commission urges the Congress to terminate the Section 312 rehabilitation loan program and to merge it with Title I of the act. This consolidation would give local governments the opportunity to coordinate rehabilitation efforts occurring within their jurisdiction while relieving HUD of the administrative burden posed by this essentially duplicative program.

The case for merging the Section 312 program, however, does not apply to 701 comprehensive planning assistance. Here the Commission did not find the overlap between the two to be sufficient enough to warrant such action. Moreover, since states and regional planning bodies are also eligible for aid, the 701 program has a different clientele and scope than CDBG, and this would place serious obstacles in the path of consolidation. In addition to retaining its separate status, the Commission urges the Congress to adequately fund the 701 program, until such time as a broad planning and management assistance grant is enacted.

Recipient Discretion

In the area of recipient discretion, the Commission has attempted to harmonize the high degree of flexibility which the block grant affords local governments in tailoring Federal aid to meet their needs with the safeguards necessary to guarantee accomplishment of the act's stated objectives. Accordingly, certain program constraints which unduly restrict the discretion of recipients should be removed. Specifically, the Congress should:

(1) allow for the funding of public services which are necessary or appropriate to support community development activities, up to a maximum of 20 percent of the amount of recipient's grant. This ceiling would reinforce the Congress' preference that the CDBG program remain predominantly geared to physical development, while providing greater fiscal certainty to jurisdictions with social service needs that cannot be met by other Federal aids.

(2) allow for the funding of all facilities, whether neighborhood or community-wide, which are consistent with and in support of the community development objectives of the act. This change would give recipients greater flexibility, consistent with the spirit of the block grant approach, in developing an appropriate mix of services responsive to the needs of their residents. It also would make it possible for them to take advantage of economies of scale in facility construction and avoid duplication of effort.

(3) simplify the requirements for the Housing Assistance Plan (HAP) to recognize differences between the types of applicant and the types of assistance which are being requested. For instance, a simplified HAP might be appropriate where the applicant is a small non-metropolitan or a small non-urbanized metropolitan discretionary jurisdiction, or where a very small community applies for one-time, non-housing related developmental needs. A related approach that merits consideration is amending the law to authorize councils of governments and other general purpose regional planning bodies to prepare a regional Housing Assistance Plan in lieu of local HAPs. Upon acceptance by the local members of the policy board of the areawide body, the regional HAP would be submitted to HUD in fulfillment of the statutory application requirements.

Federal Stewardship

Turning to Federal stewardship, in administering a block grant, the responsible Federal agency must strike a difficult balance between ensuring the exercise of recipient discretion and the accomplishment

of national objectives. In this connection, the CDBG program has raised several major administrative issues and problems in its brief history. Several of these warrant attention by HUD and the Congress.

The Commission believes that HUD should continue its efforts to simplify administrative requirements for the CDBG program--such as HAPs--and refrain from establishing additional procedures which unnecessarily burden the application, administration, and performance reporting processes in the program. The Commission particularly urges caution with respect to both the numerous government-wide requirements that must be complied with (civil rights, citizen participation, environmental impact, etc.) and the discretionary grant funding processes. These actions should be accompanied by greater HUD "capacity building" efforts on behalf of recipients.

Funding

The fourth cluster of Commission recommendations addresses funding issues. The existence of a dual funding mechanism providing entitlement as well as discretionary funds coupled with the relatively low appropriations level of the program calls into question one of the basic features of the block grant--fiscal certainty for recipients. Moreover, the operation of this dual funding mechanism along with the allocation factors used in the entitlement portion have raised basic equity concerns, particularly for the larger, older central cities and the small cities and counties of metropolitan areas.

In response to these problems, the Commission recommends that the Congress amend the Act to ensure that the funding allocation treats the older, deteriorating cities and small communities in metropolitan areas more equitably. This could be accomplished in several ways, such as by extending the hold harmless provision, earmarking special funds, expanding the entitlement category by lowering the population floor or permitting combined applications by consortia of small cities, changing the definition of an entitlement jurisdiction, and/or modifying the allocation formula to include factors that better reflect need (such as giving a heavier weighting to poverty, using housing abandonment rates rather than overcrowding, and adding the age of housing to the formula). The Commission was reluctant in the Spring of 1976 to offer more detailed suggestions for funding changes for two basic reasons. First, at the time the report was considered the results of studies by the Brookings Institution, HUD and others on the effects of alternative distribution formulas were not available. While it was recognized that the present formula operated to the detriment of older cities, it was less clear what factors ought to be changed to bring about a more equitable result. Second, several conditions which impacted on the funding allocation during the first year of experience appear to be atypical of a program as a whole and may change as CDBG matures. These include the large number of counties qualifying for entitlement funds, the backlogged requests for formerly

impounded HUD funds, and the one-time (generally water and sewer) projects of many smaller jurisdictions.

A second funding recommendation deals with the basic problem of certainty. A continual complaint about the COBG program is that its limited funds are authorized for too short a period of time to encourage the undertaking of major urban renewal and development projects. The Commission believes that the Congress should appropriate funds for a six-year period of advance funding beyond the current funding entitlement, with provisions for periodic Congressional review of the program's goals, operation, and effectiveness.

Finally, although CDBG is a Federal-local block grant, the Commission believes that under certain conditions the states should be involved. Particularly for those states that have made a significant effort on the community development front, bypassing impedes interprogram coordination. To avoid unduly penalizing states that have a capacity and commitment in this field, the Commission recommends that a new funding category be established to assist state administered community development programs. This category should be funded by an additional appropriation. It should be emphasized that in calling for this amendment the Commission rejected the view that states should included in the entitlement formula. Nor does the Commission believe that states which qualify for these funds necessarily should be allowed to distribute discretionary grants allocated for jurisdictions within their borders. Given

the states' uneven performance record, certain criteria should be applied to determine eligibility for the earmarked funds: whether a community affairs agency has been established; whether the state engages in planning for community development; whether technical assistance is provided to local applicants; and whether the state provides substantial amounts of its own funds for community development related purposes. This differentiated strategy, then, employs indicators of capacity and interest that are realistic and reflect recent state experience.

* * * * *

In conclusion, Mr. Chairman, the ACIR endorses the basic CDBG program, and urges the Congress to consider the changes discussed today. We stand ready to answer any questions that you or the Members may have. Thank you

**** RECOMMENDATIONS**

Functional Scope of the Program. After reviewing the initial workings of the Community Development Block Grant, the Commission concludes that a combined block and discretionary grant program provides the most effective and efficient strategy for meeting the community development needs of units of general purpose local government, given the program's funding constraints. In adopting its recommendations relating to the program's breadth, the Commission seeks modest changes with a view toward balancing the broader block grant goal against the realities of providing community development and other assistance to large numbers of local jurisdictions whose needs vary (sometimes dramatically) one from another.

Recommendation 1: Further Coordination and Consolidation

(a) *The Commission concludes that the block and discretionary grant programs established by Title I of the Housing and Community Development Act of 1974 provide the most effective and efficient strategy for meeting the community development needs of general purpose units of local government in metropolitan and non-metropolitan areas. Therefore, the Commission recommends that efforts be made to coordinate and, where feasible, merge administratively the Title I program with those related community development grant programs now administered by other Federal departments and agencies.¹*

(b) *The Commission further recommends that the Section 312 rehabilitation loans program be consolidated with Title I of the Housing and Community Development Act of 1974.*

(c) *The Commission concludes that the Community Development Block Grant, general revenue sharing, and other block grant programs have not diminished the necessity of Federal support for local, regional, and state planning, management, and technical assistance or "capacity building" activities. Therefore, the Commission recommends that Congress provide adequate funding for the Department of Housing and Urban Development's 701 comprehensive planning and management assistance program, until such time as a broader, consolidated, planning and management assistance program may be enacted.*

****Taken from ACIR report titled:**

Community Development: The Workings of a Federal-Local Block Grant

Release date: Spring - 1977

In this recommendation the Commission addresses the functional scope of the program. It examines the program terrain with the objective of promoting greater recipient discretion and economies of scale by eliminating duplication and overlap among functionally related programs. At the same time, it seeks to identify those related programs which ought to remain separate from the broad block grant. The Commission here recognizes two categories of community development programs — those within HUD and those outside — and treats them differently.

The Commission specifically rejected a proposal to consolidate with the CDBG program those related community development grant programs now administered by other Federal departments and agencies, which would have turned the program into a classic urban and rural CDBG. Several factors led to this rejection including: the political difficulties of consolidating programs from different agencies; the complications which would result from the multiplicity of Congressional oversight committees that would acquire jurisdiction over the program; the related factor of the amount of administrative time this increased oversight would consume; the added management burden imposed upon the urban-oriented HUD if it were to take on non-urban-oriented programs; and the differences in recipients and target areas from one program to another.

At the same time, the Commission both encourages and endorses efforts to coordinate and, where feasible, to merge administratively those related community development programs. In the Commission's judgement, this approach best maximizes recipient flexibility and administrative feasibility in the broader program area.

Attempts to merge the administration of related community development programs of other agencies have already been initiated. HUD has authorized its field offices to accept applications for projects to be funded by the Appalachian Regional Commission and by the Regional Action Planning Commissions² along with applications for CDBG funds. Under this arrangement, projects which propose to use supplemental funds from these multistate commissions are treated as discretionary block grant activities and are subject to the same regulations as other community development discretionary grants. This Commission applauds these efforts and urges their expansion.

The Commission adopts a different approach when dealing with community development programs administered by HUD. Here, it recognizes the CDBG program as the most effective and efficient strategy for meeting the broad community development needs of local governments. Hence, the Commission recommends that the Section 312 rehabilitation loan program be terminated and merged with Title I of the act.

The Section 312 program was originally scheduled for termination and consolidation in August 1975. The amount of the average grants previously received was figured into the hold harmless calculations of past program participants in expectation of the program's demise. But, enthusiastic supporters of this simple but highly effective program mounted a campaign in Congress to maintain it and, thus far, have been successful.

The one major difference between the 312 and CDBG programs is the identity of the recipient. Under the Section 312 program, loans can and are made directly to individuals and families, property owners and tenants. The CDBG program would transfer the funds directly to local governments which then would be free to design their own programs for distributing rehabilitation funds.

Some opponents to the Section 312 consolidation have pointed to legal impediments raised by provisions in state laws which prohibit communities from making loans or lending credit to borrowers and cited this as another for a separate program. These impediments, however, have been circumvented under the Section 312 program by use of direct loans from HUD to the borrower. At the same time, a HUD survey has shown that of the 26 states which have possible legal impediments to rehabilitation loans made by state or local agents, the attorneys general in all but five of these states have approved the loans. In the remaining five, funds for rehabilitation appear to be flowing from localities regardless of the adverse legal opinions.

The Commission takes the position that, on balance, the recognized effectiveness of the Section 312 program does not outweigh the charge that the program is duplicative. CDBG recipients are, in fact, placing considerable stress upon the rehabilitation of housing, according to HUD's first annual report, and they have perfected the means of doing so. Consolidation would allow local governments the opportunity to coordinate rehabilitation efforts occurring within their jurisdiction while relieving HUD of this overlapping and administratively burdensome program.

In the final section of this recommendation, the Commission distinguishes the situation of the 701 program from that of the Section 312 program. It does not find sufficient overlap between the 701 and the CDBG programs to warrant consolidation. To the contrary, the Commission concludes that the CDBG program has not diminished the necessity of Federal support for local, regional, and state planning, management and technical assistance or "capacity building" activities.

Although formal consolidation has not been proposed, the necessity of continuing past funding levels for HUD's 701 comprehensive planning program has been questioned. In its proposed FY 1977 budget, the Administration requested a 66 percent cutback of program funds, premised on the view that many local planning activities can and should be funded through the block grant.

The Commission rejects this view and recommends that the Congress provide adequate funding for the 701 comprehensive planning and management assistance program until such time as a broader, consolidated planning and management assistance program may be enacted.

The Commission's position here covers two separate but related topics: the need to adequately fund 701 as a categorical program separate from the CDBG, and the need for a consolidated planning and management assistance grant program. Underlying the Commission's stand against any further reduction of 701 funds is the fact that the Administration's proposal would actually make less money available for planning at a time when more is needed.

It must be recognized that the 701 program with its inclusion of citywide planning for transportation and health is broader than the CDBG program. A cutback in funding for those jurisdictions receiving CDBG funds could actually result in the receipt of less planning funds. This problem is exacerbated by the fact that prior 701 grants are not even averaged into the hold harmless amounts for former recipients. Furthermore, the proposed cutback of 66 percent is larger than the percentage of funds which went to entitlement jurisdictions, and localities under 50,000 under the 1975 701 allocation.³ It would appear to cut back the funds available for arcawide agencies which are not eligible for CDBG funds and states which must compete with their own localities for funding.

Of even greater concern is the fact that the cutback is coming at a time when the need for comprehensive planning, analysis, and central management at the state and local level has been heightened by the increased need for greater state and local initiative and responsibility mandated under the block grant approach. By suggesting consolidation of the funds for 701 (if not the 701 program, itself), HUD may be forcing a financially hard-pressed community to choose between physical development and planning-management. The Commission feels that this situation mixes apples with oranges.

The Commission has supported the enactment of a consolidated grant program of general planning, programming, and coordinative management assistance for umbrella multijurisdictional organizations and the repeal of existing programs since 1973.⁴ In the Commission's judgment, the consolidation of 701 with the more than 35 programs which provide comprehensive or functional planning assistance would be more in keeping with the block grant approach of combining programs within the same functional area.

Recipient Program Discretion. In the area of recipient program discretion within the CDBG program, the Commission has attempted to harmonize the high degree of flexibility which the block grant affords its recipients in their local decisionmaking with safeguards necessary to guarantee the stated objectives of the act. With this approach, the Commission seeks to obtain a pragmatic solution which is still consistent with the theory of the block grant.

Recommendation 2: Greater Recipient Discretion

The Commission concludes that the CDBG program contains some program constraints which unnecessarily restrict the program discretion of its recipients. Therefore, the Commission recommends that Congress amend the act to allow greater discretion in identifying and designing the programs to be funded. Specifically, the Commission recommends that the act be amended to:

(a) allow for the funding of public services which are necessary or appropriate to support community development activities, pursuant to the objectives of the act provided that no more than 20 percent of the recipient's grant be used for this purpose where other federal program funds cannot be provided for social services;

(b) allow for the funding of all facilities, whether neighborhood or communitywide, which are consistent with and in support of the community development objectives of the act; and

(c) simplify the requirements for the Housing Assistance Plan to the maximum degree possible consistent with the objectives of the act.

This recommendation in part addresses the statutory language which restricts the projects eligible for funding to an inclusive list of 13 activities and focuses directly upon two situations where Congress has limited the types of fundable projects: public services and neighborhood facilities. The statutory language and the supporting legislative history have the effect of limiting the program discretion of the CDBG recipients in these particular areas.

The Commission recommends amending the act to include more liberal provisions for the funding of public services and facilities. In making these recommendations, the Commission has considered the counter arguments posed by the supporters of the current, often more restrictive, provisions and has attempted to incorporate the substance of their objections into the recommended language.

Thus, by recommending adoption of a 20 percent ceiling on service-related activities which can be supported with CDBG funds (as was proposed originally in an early Senate bill), the Commission reinforces the Congressional preference that the CDBG program remain predominantly a physical development program, while at the same time providing greater fiscal certainty to applicants with a social service component in their application. By retaining the requirement that CDBG funds finance only social service projects which have not received funding from other sources, the Commission discourages the overuse of the easier-to-obtain CDBG funds for such activities.

Finally, by permitting the funding of public services which are necessary or appropriate to support other community development activities and public facilities, whether neighborhood or communitywide which are consistent with, and in support of, the community development objectives of the act, the Commission supports greater flexibility for the recipient jurisdiction in its choice of services and facilities, but with the caveat that they are geared to building viable urban communities and to serving the needs of poor and moderate income persons.

The Commission understands the concern of the program's administrators and some observers with the proposal to liberalize the neighborhood locational requirement. The Commission shares their concern that some CDBG funds may be diverted into the general coffers or may not be used to promote the act's objectives. Thus its recommendation should not be construed to support those communitywide facilities (such as tourist centers or convention centers) which do not have as their principal use the service of the act's intended beneficiaries. At the same time, this recommendation does recognize the economies of scale which can be achieved by building one large facility for those cities where there is a heavy communitywide concentration of low and moderate income persons or where the residences of these intended beneficiaries are dispersed throughout a city. For these reasons, the Commission sanctions greater recipient discretion in this area.

The final portion of this recommendation urges simplification of the mandatory HAP process. It is intended to underscore the Commission's belief that grantor intrusiveness and accompanying program requirements should be held to a minimum.

In particular, the Commission is concerned with the fact that the HAP has proven to be a time-consuming and often expensive process, especially for applicants with no prior experience in comprehensive planning. Under the existing law, no distinction is made between the types of applicant and the types of assistance which are being requested. The HAP is required across the board.

While the Commission supports HUD's use of the HAP and recognizes its important role as a linkage between housing and community development, it also believes that additional steps should be taken to simplify the requirement in some instances. For example, a simplified version of the HAP might be appropriate where the applicant is a small non-metropolitan or a small non-urbanized metropolitan discretionary community. Similarly, a simplified HAP might be required of very small communities with one-shot, non-housing-related developmental needs.

It is important that the Commission's recommendations for more liberal program constraints not be construed as a means of backing away from the act's objectives. On the contrary, these recommendations are intended to give recipient jurisdictions greater flexibility only when used in pursuit of the CDBG program's stated goals. The Commission understands that more liberal provisions can be subject to abuse. Therefore, it is imperative that these recommendations be considered in conjunction with the Commission's support of an active Federal role in performance evaluation and strict enforcement of the act's objectives.

Balanced Federal Administration. Block grants provide a mechanism for balancing greater administrative simplification and applicant discretion in the use of grant funds, on one hand, against the need to achieve national objectives, on the other. The CDBG program raises several major administrative issues as it attempts to strike this balance. The Commission believes that these issues must be considered in relation to one another, and presents the following set of three interrelated recommendations on the subjects of simplification, performance evaluation, and capacity building, in an effort to achieve better balance.

Recommendation 3: Continuing the Simplification of Administrative Requirements

The Commission concludes that HUD has made substantial strides in establishing simple administrative requirements for the community development block grant program in accordance with Title I of the *Housing and Community Development Act of 1974*. However, Commission studies show that there are still several areas of confusion regarding this program, and that other block grants with longer experience frequently have tended to become more complex in their administration over time. Detailed administrative and program problems arise and are resolved and Congressionally dictated requirements often intrude, thus building up an overburden of precedents and rigidity. Hence . . .

The Commission recommends that HUD remain sensitive to further opportunities for simplifying the administrative requirements of the CDBG program, and refrain from establishing additional procedural requirements which unnecessarily burden the application, administration, and performance reporting processes in the program.

HUD's handling of the various administrative and other requirements pertaining to CDBG thus far, has reflected a conscious effort to strike a sensible balance between maximum recipient administrative flexibility and national goals and statutory caveats. Yet recent events have made forecasts regarding these requirements risky.

The requirement for housing assistance plans encompasses one of the clearest national goals for which HUD is responsible, but remains confusing and difficult for applicants. Thus, it possesses the potential for introducing new complexities and rigidities into the program. The program's shakedown period with respect to this issue is still of concern to the courts, and the need for coordination between local and areawide housing assistance plans and Section 701 planning assistance programs has been recognized but not thoroughly explored. Obviously, these issues need to be addressed but the "easy" administrative solutions which could be applied rapidly through new, more detailed and more rigid requirements should be resisted. If solutions can wait until there is a more thorough understanding about how to deal with these difficulties based upon actual and varying experience as well as research, it may be possible to substitute alternative approaches and technical assistance in place of rigid and uniform new requirements and this would produce superior results. The Commission believes this option should be explored, at the very least, before existing regulations are made more detailed and intrusive.

With respect to the numerous "requirements" in the act -- concerning citizen participation, civil rights, and environmental protection -- HUD is allowed to accept certifications from applicants that such requirements are being met, rather than detailed proofs entailing detailed HUD reviews. HUD-sponsored research on the acceptability of results under these certification acceptance procedures is proceeding. Since procedures of this type offer prime potential for keeping grant management simple, this research should be carefully pursued and precipitous judgments should be avoided while applicants are still unfamiliar with their new responsibilities and are still experiencing start-up difficulties. The capacity building assistance recommended in *Recommendation 5* should be applied to these certification situations before conclusions are drawn about the necessity for additional and more arduous application and review procedures.

The discretionary grants authorized under this program also could generate more complex procedures. The need to compare applications against each other in order to judge which are the most meritorious obviously can lead to an administrative desire for more information. This natural tendency needs to be held in check as much as possible.

Both the governmentwide circulars for simplification of grant-in-aid programs on an interagency basis and the integrated grant administration program under the *Joint Funding Simplification Act of 1974* represent challenges to the CDBG program. A program as broad as this one already is may be more difficult than a narrower one when it comes to integrating it into governmentwide procedures and interagency operations. Yet, the tendency to want to keep it apart from broader simplification and coordinative program efforts could undermine these other highly desirable undertakings and make it more difficult for applicants to deal with HUD on the basis of standard Federal aid procedures.

The Commission recognizes the primacy of the national goals established in the act for this specific block grant program and the federal responsibility to assure the achievement of these goals. Yet, simplification and less intrusion by the Federal government into the planning and decisionmaking of applicants also are meritorious and, at this point, they too are prime national goals. This recommendation, then, urges HUD to make the extra effort required to reconcile these sometimes conflicting objectives.

Recommendation 4: The Federal Role in Performance Evaluation

The Commission concludes that HUD has developed commendable guidelines for performance reporting by recipients and for evaluating recipient progress toward their planned objectives, consistent with the national goals of reducing blight, improving housing conditions, providing orderly development, enhancing civil rights, assisting low and moderate income residents, and protecting the environment. Under the law, HUD is authorized to perform needed reviews and audits to assure compliance with these national objectives, and may withhold grants or reduce the amount of funds under such grants when compliance is not achieved. This places HUD in the position of having to audit the program of each block grant recipient every year in a fairly detailed manner. While this auditing does not delay the initial grant award, it does constitute a vital means of meeting Congressional and other informational needs regarding the program. Hence, . . .

The Commission supports the legislatively established Federal role in using performance reporting in the CDBG program to monitor progress toward the program's national objectives and to assure that Federal funds are spent in accordance with them.

Performance evaluation is more than a mere procedural issue. It is an integral component of the balanced management ethic of a block grant and it also relates to the long-term stability or instability of this grant form. The balancing question prompts some to insist that the HUD must have the responsibility for determining whether recipients have been in compliance with the act and are progressing toward their planned community development goals. Others contend that this assessment should be shifted to the citizens of the jurisdiction in which the block grant funds are being expended. This citizens' approach would, they maintain, leave HUD in a position of not having to be involved directly in reviewing and evaluating the program of each recipient in detail every year, but of concentrating instead on the programs of only those recipients which have been challenged - a management-by-exception approach. This could be achieved by accepting certifications from the applicant that Federal requirements are being met.

The Commission believes, however, that shifting the burden for performance evaluation from the Federal government to the citizens of a jurisdiction is unwise and burdensome. The "certification acceptance" procedure after all is still relatively new and untried. HUD now is studying how this approach is working in three areas where it already has been applied - namely civil rights, citizen participation, and environmental protection. Expanding the use of this technique to performance evaluation at this time, in our opinion, would be premature, at the very least.

This is not to say that citizens should ignore the CDBG performance of their respective local governments. They should not and individually and collectively they ought to make their judgments known through all the many channels of access that lead to city hall and the county court house.

The Commission's position here is based on the deep seated conviction that evaluating program performance is a vital element in a block grant's management and that the delicate administrative balance required dictates a prime HUD role in this activity. The history of other block grants suggests that where the federal administering agency lacks or ignores this responsibility, the program loses credibility in the eyes of Congress. For all these reasons, then, the Commission supports the assignment of performance, monitoring, and reporting roles to HUD as presently stipulated under the act.

Recommendation 5: Building Greater Capacity of Block Grant Recipients

The Commission concludes that, despite attempts to simplify the administration of the CDBG program, it does place substantial new responsibilities on recipients and demands of them greater capacities than many currently possess for policymaking, planning, management, and application preparation. Hence, . . .

The Commission recommends that:

(a) HUD step up its sponsorship of research and demonstration projects designed to enhance the capacity of local governments to use the CDBG within the broadest context of community governance;

(b) HUD make more effective use of its publications, public information program, field offices, and other mechanisms to provide technical assistance to CDBG recipients and potential recipients; and that Congress authorize the necessary resources for this purpose;

(c) Congress fund and HUD use Section 811 of the Housing and Community Development Act to support capacity building objectives in CDBG recipient and potential recipient governments, using appropriate state and areawide agencies as vehicles for training and technical assistance, where advantageous; and

(d) HUD make a special effort, in cooperation with the EPA, the Council on Environmental Quality, and other appropriate Federal agencies, to provide much more substantial technical assistance to CDBG recipients than is presently available for compliance with required environmental reviews.

Under the CDBG program, recipients are expected to plan the development of their community in a comprehensive fashion, relate the use of their block grant funds to the total development of their community, use these funds for the highest priority activities related to specific national goals as needed in their own community, relate their community development activities to areawide community development policies and programs, certify that they are meeting a variety of complex Federal requirements through their own procedures, and comply with a sophisticated set of Federally imposed administrative requirements.

These are not easy tasks, whether looked at administratively or in the broader context of the community's political and policymaking processes. Moreover, the building of greater capacity in recipient governments to respond to these significant administrative and policy tasks is not a simple matter. A few isolated training programs and the availability of some technical information manuals will neither suddenly nor miraculously transform an unprepared recipient government into a model of administrative and political perfection. Capacity building is both a long-term task and a task which needs to be approached consistently from a number of different angles at the same time. Moreover, to be successful it must relate directly to the basic program and political needs of the jurisdiction involved.

Outside assistance and prompting can be helpful but not necessarily decisive. Many CDBG recipients, for example, have received predecessor HUD programs and some have been strengthening their management capacities over a period of years under HUD's long standing "workable program" requirements. But the block grant recipients include many governments which have not had that experience. Many of these new grant recipients, as well as some previously involved, need a greater management capacity if they are to gear-up to use effectively the CDBG program.

The capacity building program recommended here encompasses a rather full range of research, information, technical assistance, and training activities, all working toward the same end. Special subject areas may need to be picked out from time to time for high priority capacity building emphasis. One such area, specifically set forth in this recommendation because of the obvious need, is the evaluation of environmental impacts for which recipients have been made completely responsible. Often, the recipients have had little direct experience with this environmental responsibility, and some are beginning from scratch. It may be necessary in some cases, for example, to actually transfer Federal personnel to a recipient government for a period of time to work with recipient personnel charged with these new responsibilities. Such transfers would be possible under the *Intergovernmental Personnel Act of 1970* and other Federal legislation.

Of course, it is one thing to authorize a Federal agency to provide technical assistance, and quite another to enable it to do a good job of carrying out this responsibility. HUD and other Federal agencies frequently have been handicapped in performing such roles under existing legislative authorizations because of insufficient Federal resources. For example, HUD's former Title VIII training program (which is now Section 811) has not been funded for several years. At one time, it was a primary means of upgrading state and local staffs working in the community development field. The need for this type of training certainly has not diminished as the block grant program has come into operation, yet this training program has been allowed to lapse. This is inconsistent with the Federal policy of delegating more responsibilities to state and local governments where previously they had been exercised at the Federal level. The Commission believes that the Federal government has a responsibility for helping to build greater capacity at state and local levels when it requires more from these levels under programs for meeting national objectives.

As in the past, HUD would not have to rely upon its own capabilities alone for capacity building at lower levels of government. Its present practice of using national public interest groups, consultants, private research organizations, state agencies, and areawide planning organizations to perform appropriate capacity building tasks could be stepped up along with the acceleration of HUD's overall capacity building program.

In the final analysis, however, the change here is a delicate one, for few recipient jurisdictions are likely to respond to such a HUD effort if it is merely perceived as a means of fulfilling what they deem to be unnecessary Federal requirements. Where recipient cities and counties view the management of CDBG as part of the broader challenge of updating their central administrative systems, then a full fledged technical assistance effort is likely to be productive. The HUD effort, then, must be cognizant of this stubborn rule of intergovernmental administration and strive to emphasize the broader community-oriented benefits that can be gained from the capacity building endeavor.

Recommendation 6: The Role of Regional Bodies

The Commission recommends that HUD revise its guidelines to encourage councils of governments and other general purpose regional planning bodies to provide more technical assistance to applicant communities in preparing their HAPs.

The Commission further recommends that Congress amend the act to authorize councils of governments and other general purpose regional planning bodies to prepare a regional housing assistance plan in lieu of local HAPs. Upon acceptance by the affected local units in accordance with the approval procedures of the areawide body within the region, the regional HAP would be submitted to HUD in fulfillment of the statutory application requirements.⁵

The role of regional councils of government and other multifunctional regional planning bodies in the CDBG program has been minimal to date. Many of these organizations, of course, review and comment on applications submitted by eligible local jurisdictions as part of their A-95 clearinghouse responsibilities. Yet, the potential of regional councils to furnish services to applicants prior to the areawide review phase has been largely untapped. This is a marked departure from the regional thrust of many Federal programs that have been enacted since the mid-1960s. HUD, for example, administers financial assistance for comprehensive planning by regional councils authorized by Section 701 of the *Housing Act of 1954*, as amended. At the present time, 19 other Federal programs have mandatory regional components or offer fiscal incentives for areawide planning activities. In addition, two of the seven HUD programs merged into the CDBG (Open Space and Water/Sewer Facilities) required nationally certified areawide plans and funded only those projects which would make a positive contribution toward the implementation of those plans.

The emphasis which the act places on general purpose local governments as eligible recipients of Federal community development funds has been a disincentive to regional involvement. While considerably different from a special district or a public authority, a regional council is an organization of local governments, but not a local government, *per se*. As such under the present statute and implementing guidelines, they cannot be remunerated directly for services performed on behalf of applicant communities.

The Commission is fully in accord with the general purpose government orientation of the act. At the same time, steps should be taken to help encourage regional councils to provide more technical assistance to applicants. Regional councils offer two distinct advantages in this area compared with the states or HUD: they are geographically closer to localities and presumably more familiar with their needs and how these relate to areawide problems and priorities; and they possess professional planning staffs who over the years have developed a reasonably good rapport with local officials.

The HAP is a policy document to which regional councils could make a significant contribution. The costs associated with preparing this document often have been burdensome for local governments, particularly smaller units. The quality of the HAPs submitted to HUD has been uneven. Technical assistance in identifying the condition of the existing housing stock and in assessing the future needs of low income residents for housing could be invaluable to many of these jurisdictions. Local administrative costs could be lowered. The time involved in application preparation could be reduced. And more than likely, the quality of the HAP could be improved. Greater participation of the regional council in HAP preparation could also help expedite the A-95 review process and facilitate interlocal coordination of housing programs.

A related task that some regional councils would be equipped to perform is the preparation of a regional HAP that would be submitted to HUD in lieu of individual local HAPs. Recent court decisions suggest that increased emphasis will be placed upon the interrelationships between the housing needs of a local jurisdiction and those of its region. A regional HAP would be a convenient tool for satisfying this judicial concern. But the desirability and feasibility of a regional HAP must be considered in light of the strength and credibility of regional councils.

Since low income housing is a sensitive issue in many jurisdictions, the regional council would need to possess certain of the characteristics of the umbrella multi-jurisdictional organizations (UMJOs) called for by the Commission in its 1973 substate regionalism report. These include state-designated local membership; provision for population-weighted voting under specified conditions; and authority and capacity to prepare a comprehensive regional development plan, to review proposed local activities supported with Federal or state aid for consistency with the plan, and to resolve any conflicts prior to implementation. Currently, most regional councils would be unable to meet these conditions. However, those organizations that do possess these powers, or are beginning to acquire them, should not be denied the opportunity to perform a function that is closely related to their powers and duties under other Federal and state programs as well as to their overall mission — especially when this role could be of considerable help to their constituent localities.

To achieve greater regional council involvement in the CDBG program, changes in both the act and HUD's guidelines would be necessary. Provision needs to be made authorizing the reimbursement of these bodies for technical assistance rendered to localities. This could take the form of an authorization for regional councils to apply to HUD for reimbursement of eligible technical assistance costs under either the Secretary's discretionary fund or the general purpose discretionary fund. As an alternative, regional councils could be allowed to draw down on the administrative costs constituent entitlement localities would otherwise incur. A third approach would be to authorize a fixed percentage of entitlement funds to be used by the regional councils, if desired by the affected local governments, to cover the costs

involved in preparation of a regional HAP or the provision of other technical assistance.

These changes would provide significant benefits to both HUD and local applicants. The quality of the HAPs would be improved, and the number of documents submitted for HUD action could be reduced. Better coordination of local programs would take place and the prospects of implementing HAPs and programs would be enhanced. Court cases might even be avoided. Moreover, these results could be accomplished without categorizing the block grant or incurring additional expenditures.

Recommendation 7: Strengthening the State Role

The Commission recommends that Congress amend the act to establish a new Federal category to be used to stimulate and support the direct performance of community development programs by any state which has a demonstrated interest and capacity in this area, as evidenced by the state's: (a) having a community affairs agency, (b) engaging in planning for community development, (c) providing technical assistance to local applicants in community development programs, and (d) providing substantial amounts of its own funds for community development-related purposes.⁶

The Housing and Community Development Act of 1974 and the Comprehensive Employment and Training Act of 1973 were sharp departures from earlier block grant programs. Both acts essentially established Federal-local rather than Federal-state partnerships. Particularly in the case of community development, states were accorded only a nominal role — primarily as eligible recipients of discretionary grants, as A-95 reviewers, and as conduits for funds. Unlike the partnership for health and safe streets programs, Congress did not believe that the states were willing or able to assume a pivotal position in CDBG planning, coordination, fund allocation, or overall administration. State spokesmen did little to change this view during the Congressional debate in the 1970s over the proposed legislation.

This direct Federal-local approach was basically consistent with that used in practically all of the categorical programs that were consolidated into this block grant. Yet, whether the states should be more involved in CDBG and in what ways have become controversial issues. Some contend that the substantial number of federal "hardware" and "software" programs related to community development that are channeled through state agencies and the sizeable direct outlays made by some states for such purposes provide ample basis for ending the bypassing of these jurisdictions in CDBG. Bypassing, they argue, can impede interprogram coordination and penalizes states that have made a significant effort in this area. Others emphasize that given the decentralization and discretionary objectives of the block grant as well as the weak state role generally in urban programs, greater state involvement would merely add more red tape, delay, and administrative costs to the program and in many cases reward the undeserving.

This recommendation confronts these basic concerns, and provides a viable means for certain states to play a more significant role in CDBG that is consistent with the spirit of this block grant. It would do so by establishing a separate new funding category to be used to assist state-administered community development programs. In calling for this amendment, the Commission rejects the view that states should be included in the entitlement formula, thereby converting this block grant into a

Federal-state-local partnership and placing states in a competitive position *vis-à-vis* their local governments for funding. The states' uneven past commitment to community development, the pressing needs of most large central cities and some urban counties, and limited Congressional appropriations make such action unfeasible. At the same time, states that possess the capacity and the desire to participate in the program should not be deterred or precluded from doing so.

The Commission believes that funds for the states should not be awarded at the expense of the already financially hard pressed cities and rejects the use of funds in the existing funding categories of the act. Instead, the Commission supports the establishment of a new and separate funding category, to be funded by an additional appropriation for the purpose of supporting state involvement in CDBG.

The Commission is fully aware of the concerns expressed throughout the legislative history of the program that the states' commitment to community development has been minimal. The fact that the states overall spend only about 3 percent of their own revenues for aid programs of an urban-municipal character lends support to this position. In addition, even though each state has established a community affairs agency (CAA), their functions, finances, staffing, and power vary widely. On the whole, however, CAAs are fledgling organizations and are weak in comparison with other state line agencies. Yet, to generalize here is to ignore fundamental interstate differences in commitment and capacity.

In the Commission's judgment, adoption of a differentiated approach to state eligibility for designated funds would help avoid penalizing those states that have a demonstrated interest in community development and now reward those whose desire was kindled only by the availability of federal aid. Hence, this recommendation specifies four criteria that would be applied in determining state eligibility for the earmarked funds. The first indicator is the presence of a CAA which, at a minimum, should have well established lines of communication with local governments and provide significant services to these units. CAAs in states such as Pennsylvania, Connecticut, New Jersey, Utah, and Wisconsin provide good examples of the types of activities in which these agencies could and should engage.

In addition to an administrative structure, a state should have a planning process for community development as a means for identifying needs and problems; establishing goals, priorities, and standards; integrating and coordinating remedial actions; and assessing future conditions. This process should have a broad jurisdictional and programmatic scope. At the present time, several states receive 701 financial assistance to conduct comprehensive planning of this type.

Thirdly, a state should provide technical assistance to local CDBG applicants. This is a typical CAA function which can be especially helpful to smaller and non-metropolitan localities that do not possess sufficient professional staff or requisite sophistication in grantsmanship.

Finally, a state should provide a substantial amount of financial support for community development from its own sources. In 1972, for example, 12 states had a total of 18 public housing and urban renewal programs amounting to \$100.9 million in state aid; only five years earlier, seven states provided approximately \$67 million for these purposes. Some growth also is evident in the water and sewer area, where state support increased from ten programs and \$26.3 million in 1967 to 33 programs and \$37.4 million in 1972. A "buy-in" approach was first recommended by the Commission in 1964 as a key indicator of a state's commitment to urban development which would justify channeling in Federal-local programs.

This differentiated strategy, then, employs indicators of capacity and interest that are realistic and which reflect recent state experience. Their use in determining eligibility for CDBG funds is an important *quid pro quo* for participation in the program. The coordinative and facilitative role of certain states can be enhanced. At the same time, the red tape and delay associated with state assumption of merely a middleman position in the paperwork process can be avoided. And, in no way would the block grant principle be compromised; in fact, opportunities for overall program effectiveness would be enhanced.

The Commission considered and specifically rejected a recommendation that states which qualify for the proposed CDBG funds also be allowed to distribute the discretionary funds allocated for jurisdictions within their borders. If the states were to perform this task alone, legal problems regarding HUD's ultimate responsibility for program funds could be raised. On the other hand, if the states worked with HUD on the decision-making process for discretionary grants, an extra — and arguably unnecessary — layer of bureaucracy would be established without significantly improving the overall program operation.

General Call for Allocation Revision and Long-Term Funding. The final two recommendations in this report address the issues of the equity of the allocation provisions and the program's funding. The existence of a dual funding mechanism providing entitlement as well as discretionary funds coupled with the relatively low funding level of the program when measured in terms of the needs of the nation's local jurisdictions call into question one of the basic tenets of a block grant — that it provides some sense of fiscal certainty for grantees. Moreover, the operation of this dual funding mechanism along with the allocation factors used in the entitlement portion have raised basic equity questions.

Recommendation 8: A General Call for Allocation Revision

The Commission recommends that Congress amend the act so that the funding allocation treats the older, deteriorating cities and small communities in metropolitan areas more equitably. The Commission further recommends that in making her review of the operation of the funding allocation in preparation for recommending improvements to the Congress on or before December 31, 1976, as provided in the act, the Secretary of HUD give special attention to the fiscal treatment accorded these two groups of recipients.

The provisions for allocating CDBG funds among the various recipient groups reflect a complex of considerations that developed over the long history of the previous community development categorical programs and the pulling and tugging in the legislative process leading up to passage of the 1974 act.

The Existing System. In oversimplified terms, the existing system works as follows: 2 percent of the total appropriation (less a special needs authorization in the first three years) is set aside for the Secretary's special discretionary fund, to be used for disaster needs, areawide projects, innovations, new communities, and to correct certain inequities. Of the remainder, 80 percent is allocated to metropolitan areas and 20 percent to non-metropolitan areas.

First claim on the metropolitan portion goes to metropolitan cities (central cities and all other cities over 50,000 population in SMSAs) and urban counties (SMSA counties over 200,000 having certain community development powers). This allocation is on the basis of a three-factor "entitlement" formula: population, poverty, and overcrowded housing, with poverty receiving double weight. The next claim — for hold harmless — is also an automatic distribution. Through a formula averaging past program experience for the FY 1968-72 period, formula entitlement cities receive extra funds that amount to the difference between their formula entitlement share and the sum of their earlier average total grant. These hold harmless provisions are slated to phase out completely by FY 1983. After these first two cuts from the metropolitan allocation, the remaining "discretionary balance" is available for distribution on a project application basis to cities under 50,000, counties other than urban counties, and states.

For the 20 percent non-metropolitan portion, the first allocation is distributed to hold harmless localities, and the remainder, the non-metropolitan discretionary balance, is distributed by the same process as the metropolitan discretionary balance.

In addition to these various allocations, there is an authorization for special needs — \$50 million for FY 1975 and 1976 and \$100 million for FY 1977 — to facilitate the orderly transition of units of general local government having urgent community development needs which cannot be met through the basic allocation provisions.

It is no simple task to judge whether the operation of this complex allocation system adequately accomplishes the objectives Congress set forth in the act, but the system does highlight the great difficulty of devising a substate allocation scheme that is both equitable and politically feasible. The several separate groups of claimants of the overall "pot" and the different provisions for assuring each its fair share tend to guarantee conflict and disagreement over whether the system is or is not working equitably. Congress itself recognized the complexity of the allocation task and the uncertainty of its effort to achieve equity by requiring the Secretary to recommend to it by March 31, 1977, desirable modifications in the method of funding and allocation of funds. At issue are two basic questions: are the allocation provisions in the CDBG program equitable and, if the response here is negative, can a better allocation system be developed without menacing the problem politically and without additional funding?

Allocation Impact and Equity. The preliminary findings of the Commission's study clearly suggests that two groups of recipients are already being treated unfairly or are in imminent danger thereof. By any reasonable construction of the legislation's objectives and by even a cursory reading of the implementation record to date, the larger, older central cities, and the small cities and counties of metropolitan areas have or will have a legitimate basis for claiming unfair treatment. The former have the most critical urban slum and blighted conditions, especially as measured by poverty and housing conditions, and must be a central focus of concern in carrying out the act's primary objective of "providing decent housing and a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income." Their fears of substantial reduction in assistance levels under the new CDBG program were not borne out in the first year, but this, in considerable part, was due to the effect of hold harmless provisions which are scheduled to be phased out completely by FY 1978. The second group — cities under 50,000 and non-urban counties in SMSAs — looked to the CDBG program for equity after many years of underfunding when they were ill-equipped or indisposed to play the "grantsman" game with the larger jurisdictions in the competition for limited categorical program funds. In the first year under the CDBG, they still found themselves vulnerable in the contest for funds. As the lowest units on the totem pole in the distribution of the metropolitan pot, they bore the brunt of the fund reductions when increases were required for recipients with prior claims.

The Commission is convinced that the CDBG program will not be viable if the problems which have emerged with the funding system are not recognized and reconciled. Hence, the Commission makes a general call for an allocation revision to meet the funding inadequacies which its study has identified. At the same time, the Commission recognizes several key factors which argue against the immediate promulgation of detailed recommendations for funding changes.

First, while it is recognized by many that the present entitlement formula operates to the detriment of the older central cities, it is less clear what factors ought to be changed to bring about a more equitable result. In depth and highly quantitative research, designed to gauge the totality of the formula's impact, is currently underway at HUD and the Brookings Institution. The Brookings Institution, in particular, is looking at the impact of each of the formula elements and will attempt to devise more equitable formulas to be used as possible alternatives. The results of these analyses should provide concrete data on which a responsible recommendation for formula amendment can be made.

Second, several factors which impacted on the funding allocation during the first year experience appear to be atypical of the program as a whole and may change as the program progresses into its second and third year. These factors include the larger than expected number of counties qualifying for entitlement funds; the backlog of requests of many jurisdictions for formerly impounded HUD funds; and the one-shot, generally water and sewer, projects of many small jurisdictions.

In light of these factors, the Commission supports the timetable which the act sets forth for review of the method and allocation of funds at the end of FY 1977. A better assessment and judgment of the funding allocation can be made at that time.

Reform Options. The Commission's research, however, suggests that the inequities in the act's funding mechanism can be corrected in a variety of ways: by extending the hold harmless provision; by a change in the definition of an entitlement jurisdiction; and/or by a change in the allocation formula. These various approaches assume a continuation of the present level of program funding — a level which the Commission recognizes as being below the actual level of need but which arguably is necessitated by current national economic conditions. However, since the CDBG program is the dominant program for community development for all jurisdictions and particularly for the cities, the Commission firmly believes that larger authorizations are needed if and when the fiscal conditions become more favorable. The present CDBG budget is really only 5 percent of all Federal aid in FY 1975, and about 31 percent of direct Federal aid to municipalities, counties, and townships.

In order to select the "best" approach and because of the interrelated nature of the funding provisions, it is imperative that the overall objectives of the CDBG program be clearly defined. In addition, *Recommendation 9* points out, the program's physical development activities can only be effectively implemented with assured substantial and long-term fiscal commitments. Thus, the Commission believes that any proposed changes must be considered in light of a better articulation of the act's primary goal, their effect upon the amounts of money being distributed to each jurisdiction, and the length of time for which those funds are guaranteed.

A variety of options would obtain if the Congress decided to make the program more equitable for the older, deteriorating cities which, for the most part, are scheduled to lose money with the phase-out of hold harmless. Most commonly mentioned is making permanent or further extending the hold harmless provisions of the act. This type of relief, some argue, would be simple and less upsetting to the whole allocation procedure than tampering with the entitlement formula.

While this option may be preferable to the current phase-out provisions when measured by its effect upon the older cities, two counterpoints ought to be considered. First, unless appropriations are increased, this approach could have adverse consequences on those smaller jurisdictions and state governments which depend upon discretionary balance funds. Since the funds available for the discretionary balances are what remain after the entitlement (taking into account hold harmless) allocations are made, any increase in the latter would mean a decrease in the discretionary balances. This would reduce the funds available for these other recipients. Such a decrease occurred when the number of cities and urban counties qualifying for entitlements grants exceeded the initially anticipated figure. Second, some feel this "hang-on to hold harmless" approach uses a shotgun where a surgical knife is needed. It would benefit all prior participants, regardless of differing fiscal and community development needs. Moreover, it would compensate those needs at a 1968-1972 level of expenditure.

Another approach would be to change the entitlement formula to make it more reflective of the needs of older, deteriorating cities. While this type of amendment is most consistent with the block grant theory, it is also the most difficult and disruptive to implement.

The current three-factor formula, in effect, weights population one-fourth, housing overcrowding one-fourth, and poverty one-half, since poverty is counted twice as much as the other two factors. Critics of the formula hold that, even with this double-weighting of poverty and the inclusion of a housing overcrowding factor, the formula fails to gauge accurately community development needs.

Total population, they contend, is not correlated with poverty population, with the amount of housing and community deterioration, or with the amount of service moneys needed to alleviate the underlying problems. Some analysts indicate that for certain expenditures in certain states, larger cities experience diseconomies of scale, supporting the case for giving larger cities more money than is indicated by a one-to-one relationship to population. In support of their contention, they claim that the greater number of cities and counties covered by CDBG than its predecessor community development programs is a reflection of the fact that the population factor diffuses funds much more broadly than earlier, more narrowly targeted, categorical efforts.

These observers acknowledge the significance of giving double weight to the poverty factor, but note that the poverty index used is basically a measure of nutritional rather than housing and community development needs. Finally, these critics believe that the extent of housing overcrowding is an unreliable measure of housing needs. They point out that the U.S. National Commission on Urban Problems in its 1968 report concluded that the most deteriorated urban areas do not necessarily have the highest incidences of overcrowding, and that a high housing abandonment rate often is found in areas with the worst housing stock.

Taking account of all these flaws, these critics urge that poverty be given heavier weight. They suggest further that, to reflect the possibility that housing abandonments are a better indicator than overcrowding of underlying development and redevelopment needs, entitlement jurisdictions be allowed to substitute their housing abandonment rate for the overcrowding factor when it is to their advantage to do so. In addition, they propose that the age of housing be introduced as a fourth factor, since it is a highly relevant indicator of the need for community development. Acknowledging that there is a serious question that any single formula can be devised which is sensitive to the community development needs of all the various kinds and sizes of recipient governments, these critics contend that the existing formula clearly has not responded to the act's major objectives. Defects have already been revealed, they stress, and Congress should not postpone correcting them. The needed formula changes, they contend, have been identified: more emphasis on poverty, the optional substitution of the housing abandonment rate for the overcrowding rate, and the addition of the age of housing factor.

A third option would be to earmark special funds for these older cities. Those who support this approach agree that the entitlement formula is defective in not responding adequately to the demonstrated needs of these cities. Yet, they believe that it would be futile, if not a mistake, to try to adjust the formula. First, they cite the great difficulty in designing a formula which, by objective measures, would accurately gauge the needs that the act is supposed to meet. Even granting that a formula might be capable of eventual refinement, they feel that the interests that have become attached to the present formula would prove too much to overcome in the legislative battle over formula amendment, especially one that would decrease the sums available for the non-metropolitan as well as metropolitan discretionary jurisdictions.

The earmarked funds, they point out, could be targeted to the older cities in two ways. First, a separate categorical program could be established with its eligibility limited to a designated list of target cities. Alternatively, funds could be earmarked within the Secretary's discretionary fund of the CDBG program for special assistance to these cities. Since the current Secretary's fund only contains 2 percent of the total appropriation and already has six designated uses, they urge expansion of the fund, either by an add-on or by designating a larger percentage of the overall appropriation for this purpose. In either case, they emphasize that the targeted and regular CDBG program for these cities should be merged administratively.

Turning to the small cities, the legislation and its history makes it clear that these units (i.e., cities under 50,000) were not intended to be prime beneficiaries of the act. Nevertheless, these cities are now raising questions of equity concerning their distinctly unfavorable position in obtaining CDBG funding. Their arguments focus directly upon their community development needs as growing urban governments and the necessity of having Federal funds available to help meet these new demands.

Historically, the needs of small communities have often been separated from those of larger cities. Small non-metropolitan cities were primarily serviced by the Department of Agriculture's Farm Home Administration or Rural Development Service. Small metropolitan cities were left to compete with the large urban units (often to their detriment) for HUD categorical funds.

HUD takes the position that small cities have fared better than ever under the act. HUD increased its funding of cities under 50,000 by more than 50 percent. While admitting that competition for funding was vigorous, HUD notes that many of the applications were for "one-shot" type projects or for projects which had been postponed during the Federal funding moratorium. Thus, it feels that the demand will subside two or three or four years into the program. In addition, HUD and others note that the original funding estimates needed to be adjusted during the first year as a result of a variety of "first-time" or start-up problems which are unlikely to be repeated. The resulting shortfall of funds for small metropolitan communities, some feel, touched off unnecessary concern over future program years.

In light of the HUD assertion that the problem of small metropolitan city funding is a predominantly temporal one, the Commission approaches recommendations in this area with a degree of caution. The recently passed *Housing Authorization Act of 1976* allocated an additional \$200,000,000 in CDBG contract authority to be used specifically in metropolitan areas in FY 1976. This amendment also makes available the \$119.1 million projected in the HUD budget for metropolitan discretionary funds, thereby eliminating the type of funding shortfall experienced during the first program year. It is, therefore, possible that the combined effect of this additional funding and the fulfillment of the backlogged one-shot development projects may alleviate the need for changing the act.

However, many small city advocates pose a more difficult question: should the CDBG program itself be changed to provide additional funds to meet the growing needs of the nation's numerous small cities? Put differently, should the focus of the CDBG program shift from the renewal and development of large urban areas to the renewal and especially the development of all the nation's cities?

The Commission's position is that HUD in its funding allocation report and Congress in its assessment of this report give special attention to the needs of the small cities. In making this recommendation, the Commission suggests that various options be weighed in light of their potential effect on the program, particularly in light of its limited funding resources.

One method of guaranteeing funds for more small cities would be to expand the entitlement category — either by lowering the required population of an entitlement jurisdiction or by permitting combined applications for consortia of small cities. In either case, the effect would be to further expand the entitlement category, while decreasing the funds available for discretionary balances.

Lowering the entitlement population requirement could significantly increase small city participation. If, for instance, the population requirement was set at 25,000 rather than 50,000, 337 SMSA cities would qualify for entitlement. If entitlement status was further amended to include all cities over 25,000 rather than just SMSA communities, an additional 183 non-SMSA cities would be added. A drop to 20,000 would increase the number by another 242 cities. Thus the number of cities between 20,000 and 50,000 (76.2) would result in a 128 percent increase in the number of jurisdictions (594) currently entitled by formula.

Critics of this change note that while some small cities would probably fare well under it, other smaller ones would not. Moreover, a decrease in entitlement population size might result in further confusion, they warn, while possibly diluting even more the urban nature of the program. The lack of agreement on just what is rural or urban is evidenced by the various population size eligibility criteria used for many legislatively established rural programs. Under the *Rural Development Act of 1972*, towns of under 10,000 population in metro and non-metro areas are eligible for community facilities loans and water and sewer grants and towns under 50,000 qualify for business and industrial loans and business enterprise grants. The *Housing and Community Development Act of 1974* makes non-metro towns of under 20,000 and metro towns under 10,000 eligible for rural housing loans. If lowering the population would necessitate a determination of whether a town is "urban," the change may further complicate the administrative role of HUD.

Entitling two or more small jurisdictions with a combined population of 50,000 or more through the use of joint cooperative agreements but only in cases where the overlying county is unable or unwilling to qualify as an urban county presents another alternative. In one sense, this proposal could be viewed as expanding the current practice of allowing entitlement funds to be distributed to small metropolitan jurisdictions which sign cooperation agreements with their overlying urban county. It would afford those small cities with no qualifying county a chance to qualify for entitlement funds like their counterparts in urban counties. It also would encourage increased interlocal relations in a vital service area.

Although the equities are appealing, the practical aspects of this proposal are less persuasive. First, it could swell the ranks of entitlement jurisdictions while further diminishing discretionary balances for those small cities which cannot aggregate for lack of neighboring cities, legal powers, or satisfactory agreement with adjacent cities on community development goals. Second, it would only accentuate the shift of assistance away from large urban areas. Finally, the proposal might prove to be an administrative nightmare. Unless small cities indicated their decision to aggregate well in advance and agree to maintain the cooperative mechanism for the extent of the program authorization, HUD would be placed in the position of continually altering its funding figures for participating jurisdictions — thereby decreasing fiscal certainty in contravention to one of the block grant's purpose. For administrative ease and to encourage greater county-municipal cooperation, small cities in qualifying urban counties usually are excluded from this option.

If a decision is made to pursue this approach to revision, the Commission would suggest that Congress and HUD give due consideration to the type of cooperation agreement which would be used to establish the consortia. The Commission favors the use of cooperation agreements and recognizes their potential for improving intergovernmental relations, but it also realizes abuses can arise. Specifically, assurances should be required that the entitlement funds received are distributed among the cooperating jurisdictions in accordance to need as indicated by the act's formula and that all cooperating jurisdictions are active participants in carrying out the planned community development activities. Moreover, the duration of the agreement and its capacity to bind its members should not be overlooked.

The cooperation agreement experience of the urban counties should provide some guidance of what ought to be avoided. Hence, the lack of specific cooperation agreement guidelines have resulted in some situations where the urban county merely acts as a coordinator or as an included small jurisdiction that merely lends its authority or population to the cooperative arrangements. For some, this type of ad hoc arrangement merely has been a means of obtaining more money without full commitment to the spirit and intent of the act.

A second basic method of guaranteeing funds for small metropolitan city use is to earmark a set percentage of the SMSA fund for the discretionary balance. Such action would have the concomitant effect of placing a ceiling on the entitlement funds. This approach would only be appropriate if it was decided that the thrust of the CDBG program is toward community development assistance in all jurisdictions and not merely to the large, more urban areas whose funds would be limited by such a ceiling. But such a move, some argue, would be tantamount to abandoning those areas which most need large sums of Federal funds and would serve to accelerate the deterioration of the nation's older central cities. These critics feel that it would be a difficult amendment to support given the act's stated objectives.

General Summary. The Commission's list of options to assist small cities and large deteriorating metropolises is admittedly not exhaustive. The complex funding scheme of the act suggests a multitude of possible changes which could affect these two groups. By highlighting some of the possible changes, this analysis has tried to emphasize the effect on the whole program which even a relatively small revision might generate and to encourage careful consideration before amendments are adopted.

The Commission would suggest that before a recommendation for a funding allocation revision is made, some additional thought ought to be given to the future direction of the program. The political infighting and compromise that marked the act's initial passage were basic conditioners of the present hybrid program. Post enactment developments relating to entitlement eligibility also have contributed. Taken together, these factors prompt the question: is the CDBG a rehabilitative or a developmental program?

At the present, the program is at a crossroads. All affected interest groups are presenting cases for the program to swing more in their respective directions. And each of these cases has merit. Older cities are falling into increased disrepair and critical financial straits. They need help. Non-metropolitan areas, claiming 40 percent of the nation's population, are experiencing the problems of urbanized growth. They need help. Suburban areas are accepting the population of their neighboring central cities and some of the problems of urban blight as well. They need help, too. At the same time, the Federal government has become increasingly aware of the necessity of counting its pennies and conserving its dollars. More than ever, there is a need to set priorities and to use money efficiently.

Recommendation 9: Advance Funding

The Commission concludes that the physical development activities which the CDBG program supports can most effectively be implemented by the assurance of substantial and long-term fiscal commitments. Therefore, the Commission recommends that Congress appropriate funds for the CDBG program for a six-year period of advance funding beyond the current funding entitlement with provisions for periodic Congressional review of the program's goals, operation, and effectiveness.

A continual complaint about the CDBG program has been that its limited funds are authorized for too short a period of time to encourage major urban renewal and development projects. The delivery period for major capital improvements, urban renewal, and development projects, after all, commonly runs from four to eight years, and sometimes longer. This complaint prompted the Commission to adopt this final recommendation which it feels should be considered along with any funding allocation revision.

The first year experience indicated that most CDBG funds were being directed to basically low-cost, short-term projects. The reason most frequently given was that financially pressed local governments and private investors were hesitant to commit substantial sums of their own funds to long-term major development projects when the Federal financial contribution was only guaranteed for a short three years. Added to this concern is the general confusion surrounding the Federal government's commitment to revitalizing the nation's dying cities, and the program direction which a different administration might adopt.

As the legislation presently stands, Congress has given the Secretary of HUD definite authorization for \$8.4 billion to be used over the first three-year period of this six-year program, but with the appropriations made on an annual basis. In addition, the legislation requires the Secretary to submit timely requests to Congress for additional authorizations for the fiscal years 1978-80 at a level to be determined.

This recommendation advanced here recognizes that the real thrust of the Federal CDBG program is towards major community developmental efforts which generally carry a price tag so high as to be discouraging or prohibitive to most local governments acting independently. It realizes the importance of using limited Federal funds to attract and to leverage substantial private investment, and it acknowledges that this cannot be done unless these potential investors are assured of the Federal government's long-term commitment to this purpose.

In light of the special long-term developmental character of this program, the Commission recommends that when the funding allocation revisions are considered after the submission of the December 31, 1976, HUD report, Congress also consider that the legislation be amended to give the CDBG program a firm six-year authorization with annual authorized funding levels. In addition, the Commission urges Congress to enact either a single lump sum appropriation that covers the full authorization period or annual appropriations enacted in advance for the entire authorization period. Despite the current fiscal constraints and Congress' budget procedures, the Commission is convinced that the thrust of the program, the special long-term nature, various urban development projects, and the distributive role this program plays in the critical life of our cities all warrant a full six-year appropriation and authorization.

An advance funding procedure has already been used in a number of Federal aid programs in the field of education. As early as the 90th Congress, appropriations for several such programs were authorized to be included in the appropriation act for the fiscal year preceding that for which they became available for obligation, notwithstanding the fact that initially this would result in the enactment of two separate acts in the same year. This approach, of course, was devised and adopted to end the uncertainty and semiclaus that resulted from the mismatch of the school year's funding cycle and the timing of Congressional funding actions.

Moreover, general revenue sharing has benefited from a long-term authorization. In the case of the CDBG, the specific program problems are somewhat different, and the general question of certainty is even more sharply drawn. Hence, Congress should enact an appropriate multi-year authorization for this program. The existence of a sum certain in the form of a definite long-term (preferably six years) appropriation that would facilitate recipient community development planning. It would after all maximize program options, in that large-scale projects would be more feasible.

Furthermore, it would help provide private investors sufficient assurance of the Federal government's long-term commitment to community development, thus helping to assure their involvement. These funds, of course, could still be revoked if a recipient was found to be operating its program in contravention to the established national objectives. In fact, the adoption of longer term funding would operate to increase the importance of a strict and effective performance monitoring and evaluation role by HUD.

While this recommendation is important to all participating entitlement jurisdictions, it is particularly crucial to the older and more deteriorated cities. The first year record shows that what little private investment that did occur was generated more often in the suburban areas where the problems are less severe. A continuation of this trend would only increase the disparity in the urban-suburban situation and prove counterproductive to the program's goals. For all these reasons, the Commission strongly sanctions advance funding.

¹ Among the specific programs which might be considered for consolidation are: Department of Agriculture, Farm Labor Housing Loans and Grants (10.405); Water and Waste Water Disposal Systems for Rural Communities (10.418); Rural Self-Help Housing Technical Assistance (10.420); Community Facilities Loans (10.423); Industrial Development Grants (10.424); Department of Commerce, Economic Development Grants and Loans for Public Works and Development Facilities (11.300); Economic Development Public Works Impact Projects (11.305); Economic Development Special Economic Development and Adjustment Assistance Program (11.307). Numbers refer to Catalog of Federal Domestic Assistance listing.

² Established under Title V of the Public Works and Economic Development Act.

³ The \$100 million appropriations for 701 in 1975 were distributed as follows: (in millions)

States	\$22,394
Areawides	
metro (including urban counties,	28,580
non-metro	9,837
Cities over 50,000	20,970
Localities (all cities under 50,000	
and non-urban counties)	14,941
Other (Indians, etc.)	2,292
TOTAL	\$99,014

(total appropriations was \$100 million)

⁴ ACIR, *Regional Decision Making: New Strategies for Substate Districts* (Washington, D.C.: U.S. Government Printing Office, October 1973), p. 348.

⁵ Commissioner Dunn and Mr. White dissenting.

⁶ Commissioner Dunn dissenting.

⁷ In the case of some Model Cities, the phase out will be extended to 1983.

Mr. FAUNTROY. Thank you, gentlemen.

Mr. Stenberg, you noted in your preliminary remarks that we don't have a clear picture or clear definition of community development needs. Are you recommending a clarification of the statement of purpose in title I, and if so, how would you clarify it?

Mr. STENBERG. A basic problem emerges when the vagueness of the term "community development" is combined with the newness of the block grant instrument, particularly the Federal/local block grant. It is this combination of factors that gives rise to much of the controversy and confusion in the program.

The act, instead of defining community development specifically, states a number of objectives that are sought by Congress and lists 13 activities which would qualify for funding under various aspects of the program. When you take the statements of objectives and the list of activities, they encompass a very wide range of undertakings in the area that has come to be known as community development.

So, in a sense, there is a definition. The problem, though, comes about when the mix of activities that local governments will pursue is determined. For example, some jurisdictions are faced with scarce funds under the entitlement formula, as well as other constraints upon the community development programs that it might wish to undertake. Yet they have to make a choice between which of the 13 activities they are going to carry out—in other words, how they will define community development. This presents a very real problem of fragmentation of effort from community to community, rather than the comprehensive community development strategy that was envisioned in the act at the outset.

On the other hand, this individualized approach to defining community development is certainly consistent with the block grant, and, perhaps, a broad definition of the term in the way I have mentioned in the act is appropriate for this instrument. The essential point, though, is one of choice and the degree to which the Congress is going to permit local governments to, in a sense, define community development as they see it and determine the mix of authorized activities, or whether a more nationally oriented approach is more appropriate.

Our feeling is that the block grant calls for a broad definition of purpose and activities and for giving recipients considerable leeway to make these choices as to which of the activities would be pursued.

ACIR's research of this block grant program and others has suggested that sometimes Congress and the Federal administering agency become impatient. They feel that local governments are making the wrong choices, and they move in through categorizing or earmarking funds to redefine the purpose.

So, I mention this in terms of a general caution that we feel the subcommittee should be aware of in looking at the record. The block grant is a unique instrument, and it constrains in some respects the Federal administering agency as well as the appropriate committees of Congress because of the discretion it gives to recipients in defining this mix of activities.

Mr. FAUNTROY. It troubles me that your answer suggests that the revenue-sharing decisionmaking process ought to pertain with respect to the administration of the block grant program. Is that what you are saying, and if so, should there be any distinction?

Mr. STENBERG. Well, it's our feeling that a very difficult balance has to be struck. The community development block grant is not revenue sharing. There is an appropriate oversight role on the part of the Department of Housing and Urban Development and the committees of the Congress.

How this role is exercised, though, is very difficult, because the instrument itself is nebulous. How far should we go in enforcing various requirements that have to do with the use of funds as opposed to the Government-wide mandates concerning citizen participation, civil rights, environmental impact, and the others? It is recipient decisionmaking regarding the use of funds that proves to be a point of controversy in the block grant, unlike revenue sharing, where it is pretty clear that the money is put out there and it is really up to the recipient to make the choice on how to use it, and on the other hand, categorical grants, were there is a significant national involvement in overseeing the uses of funds.

Because the block grant is in the middle area, it is very difficult to precisely pinpoint what is the appropriate Federal role.

Mr. FAUNTROY. Governor Milliken was here this morning and testified that it is difficult for the States to obtain community development block grant funds.

Do you agree with that assessment, and do you think that the States, per se, should have a greater decisionmaking role in this regard?

Mr. WALKER. We tend to feel the States have not had the role they should have in this program. But to be candid, they weren't all that good at hustling the committee when it acted on this legislation initially. They have changed their view and their behavior since then.

That is being a little too candid, perhaps, but it has been our position from the beginning that the States should have a role. Yet, one of the most difficult things to do when you develop a block grant by merging categorical ones which heretofore were primarily Federal/local ones is to chart effectively the State role. But it seems to us that the better part of wisdom at this point in time, is to assign a role to the States in this crucial program area.

I think the subcommittee should consider how best to achieve that. I think if the tests that we apply were to be incorporated in the legislation, then you would have a good, sensible way of gaging and assisting those States that have already indicated a commitment and others would be encouraged to follow suit.

So we would urge a stronger State role and think it is a way of adding more money to the pot. At this point from what I hear from the other witnesses and read in the papers, what is needed is more money in this area and tapping State money should not be overlooked. I conceivably would involve minimal amounts of Federal funds.

Mr. FAUNTROY. In your functional scope recommendations—aren't you really asking the kind of greater cooperation that Secretary Harris has indicated she is prepared to give?

Mr. WALKER. I think so. I think we are very much on the same wavelengths as the new Secretary on this point. Yes.

Mr. FAUNTROY. You mentioned the termination of section 312 rehabilitation loans. If we do that, aren't we really taking a chance we might lose some very valuable experience and very valuable programs

that have proven to be effective? Should we merely give this money over to more community development type? Is that what you are saying?

Mr. WALKER. Well, certainly, there is a good body of opinion that would agree with what you have said, namely, that they would prefer this program to stay separate, since it seems to have a pretty good track record. Yet, over time, one of the big gripes about the present program is, of course, the absence of much linkage between housing and the rehabilitative approach to housing and CDBG. There is enough in the record, I think, to indicate that the municipalities can handle it. The legal question, as I indicated, is not a real one at all. And the Congress itself through your predecessor committee back there in 1974, endorsed the section 312 merger. But it has been delayed largely because of certain interests that feel it is best to keep the program separate. But we feel it provides an element of duplication in some instances. And we think the Congress, in effect, should go back to what its original intent was in 1974 and merge the program. That is the position of the Commission.

Mr. FAUNTROY. You mentioned, I agree, the present formula for the distribution of the grants needs to be redone. Does Secretary Harris' dual formula meet your perceived need here?

Mr. WALKER. I'm now speaking personally. The Commission has not assessed either the merits of Secretary Harris' or Secretary Hills' proposals or the one that has been proposed by Brookings. But I personally think the efforts of both HUD Secretaries are to be commended. I think they are getting into a better assessment of need. I have not seen the printout figures—but believe the proposed formula addressing itself especially to the needs of the older deteriorating municipalities by cranking in the age of housing factor, and weighing the relative loss of population. These factors, I think, are going in the right direction.

The one thing that I have yet to get some clear figures on is the small city question. I have read the committee print, which was an excellent one, I think. But I still am not clear with the phasing out of hold harmless and the possible substitution of this new formula while adhering to the 50,000 and over for entitlement for cities, where those below 50,000 will be left. Will there be 25 or 30 percent still left in the discretionary metropolitan fund for them, or will it be much less? This is something that should be looked at. The subcommittee and its staff ought to bear down on what proportion of the funds, if this formula changes, will still be left in the metropolitan discretionary pot for the smaller cities.

This is, indeed, a vital problem.

The area that Congressman Harrington comes from is my own, originally, and the bulk of its cities are below 50,000. Yet, they have severe problems, since many are mini central-cities in a real sense.

So I am a little concerned, from the point of view of equity, as to how the new formula would work vis-a-vis the discretionary funds.

Mr. FAUNTROY. I happen to agree with you that the section 701 planning grants need to be separated; but, how does this differ from what you propose as a broad planning and management assistance grant?

Mr. WALKER. Well, there has been talk for some time about this kind of measure. We had a proposal introduced by the Nixon administration—the Better Governments Act—that didn't go anywhere. There have been proposals to try to merge a clustering of what might be called management capacity building grants into one. The new administration might propose one.

So our judgment here was that since section 701 is the biggest single, some would say the only real program outside the Intergovernmental Personnel Act that falls into the category of support for building the capacity of State and local governments and pending the development of any further proposals along these lines—the section 701 program ought to be adhered to and funded as it proposed in the Carter revisions in the budget.

Mr. FAUNTROY. From your remarks, do I understand that the Commission would favor Secretary Harris' urban development action grants funded at almost \$500 million and targeted for economic development?

Mr. WALKER. The Commission has taken no position on that.

Again, I speak personally. In looking at the peculiar and special problems of what I would call the 21- to 25-odd "basket cases," I don't know what you could do to that formula under CDBG that would really, in a political and fiscal sense, meet the needs of those jurisdictions.

So personally, I think she is getting at a very critical problem which requires very precise rifling in on, the very extraordinary problems of about 25 cities in this country.

Personally then I agree with her proposal. It is a good one.

Mr. FAUNTROY. Let me return just 1 minute to the section 312 loan question.

Is there any hope, in your judgment, of being able to permit the localities to administer those loans directly?

Mr. WALKER. It might have to be phased in. Some would not have the total capacity. But this is, after all, a part of a community development planning effort, and the range of programs that one could conceivably get into in an individual community, as my colleague pointed out, are numerous. But among them there seems to be the thrust, in terms of looking at some of the figures in the staff print, that much effort has been in the rehabilitative area. And yet here we have a specialized categorical outside of that fundamental focus of CDBG as it works out in the typical community, rehabilitation.

So it strikes us that the logic and current CDBG concerns would dictate the merger of the section 312 program.

Mr. FAUNTROY. Thank you, Mr. Walker. I am going to yield now to Mr. Brown, and in so doing, I have been pleased, as I have indicated to you, to note that many witnesses have supported the section 312 loan program as perhaps one of the most effective, and it certainly has been effective, in my own experience, in efforts to rehabilitate the inner city here in Washington.

Mr. Brown?

Mr. BROWN. Thank you, Mr. Chairman.

Following up, let me also say that I am sorry I was detained and not able to be here during the initial part of your testimony. As I have

scanned your statement, however, it appears to me you are not supporting the dual approach for the section 312 program; that you advocate, as many of us did, that it be folded into title I. As you know, that was our intent.

Mr. WALKER. We have been trying to remind the Congress of that.

Mr. BROWN. And politically we were unable to be as righteous in our approach to that program as we might have been.

Mr. WALKER. I sense this part of our recommendations does not possess great political viability.

Mr. BROWN. In view of the fact that Governor Milliken testified this morning and since I have been working on some options and alternates to involve the States, I was very interested in your comments regarding State participation. I think there is a need for it. I find your statement rather equivocating, though, where you say that:

Nor does the Commission believe that states which qualify for these funds necessarily should be allowed to distribute discretionary grants allocated for jurisdictions within their borders.

That is damning with faint praise, I would say. I would much rather see you put it the other way around and have it be praise with faint damning.

[Laughter.]

Mr. WALKER. I am wearing two hats, in a sense, Congressman Brown. One of them is the institutional hat, and I am bearing full faith and witness to that viewpoint. And I must remind you that we have three county commissioners and four mayors on the Commission. And their turnout for meetings is always excellent. So in a sense, the debate on this issue was a very hot one. And the fact that they came out with this position that the States should have some role underscores the significance of the proposal. So I personally would say that in any situation where the State had indicated a significant administrative and fiscal involvement in this area, then a State role to me is perfectly legitimate.

Mr. BROWN. It just seems to me all you are doing is comparing whether or not you are going to have community X, which doesn't have great community development capabilities, going 100 miles to Lansing and get some help or 600 miles to Washington. And it seems to me, there is a more balanced view and a better recognition of the problems of smaller communities within a State, in the State capital, than in the Nation's Capital.

I was interested in your saying that you think that if States are to be involved, that it ought to be kind of a separate funding mechanism. How would you allocate the fund among the States?

Mr. WALKER. In a sense, these would be project grants to those States that met the three tests that we have stipulated.

Mr. BROWN. But, they would have to have this capability before they would receive any funding. I understand that. But you are saying you have a pile of money, a number of dollars: how do you allocate how much is going to go to Michigan, New York, Pennsylvania, and so forth? Do you do it by formula, much like the community development grant block formula?

It seems to me that would be the only consistent way to do it.

Mr. WALKER. You would have to develop some factors to separate the smaller States from the big ones, clearly.

But the essential thing would have to be discretionary with some congressional guidelines as to weighting of certain factors.

Mr. BROWN. I just don't see why we could not build upon, a dual formula or whatever we do, and just allocate a portion of the funding you recommend to the States using the same formula all the way around. Secretary Harris has advocated that all SMSA discretionary balances in a State lumped into a fund for use in any SMSA in the State, rather than allocating the funds specifically to each SMSA.

Well, I am glad to see that you recognize the desirability of looking at a stronger and more significant State role. In those States that have good State housing finance agencies, such as Michigan, it seems to me that the tie-in that the 1974 act contemplated, the closer tie-in that Secretary Harris has advocated between housing and community development, that this is ready-made for a State role.

Mr. WALKER. We agree. We agree thoroughly.

Mr. BROWN. Those are the points I really wanted to make. I appreciate your statement. I am curious, just in passing, you mentioned the membership on the Commission. Is it the concern of the county representatives and the city representatives that, in giving the State a more significant role, if we are only talking about metro and non-metro discretionary balances, that in some way their autonomy is going to be infringed upon?

Mr. WALKER. They were less worried about autonomy than they were worried about money.

Mr. BROWN. But the formula gives many of them money on an entitlement basis. Then, you give the discretionary balances to the State and say the State is going to perform the function of the Secretary with respect to the individual applications of the smaller communities. That doesn't affect what the entitlement entities were going to get.

Mr. WALKER. Right. But the negative attitude that some have advanced toward any proposal along this line is undercut by an earmark for the States. That was a big issue.

Mr. BROWN. That would be true if you did not use just the pot that accumulates on the basis of the discretionary balances. And even the States are entitled to some of the discretionary balances.

Mr. WALKER. Right.

Mr. BROWN. Well—

Mr. STENBERG. If I could add another concern, Congressman, that was reflected in the deliberations over CDBG. It had to do with the project grant programs that were consolidated to form the block grant, which were essentially direct Federal/local ones. In the debates over the structure of the program, there was a reflection of the long-standing skepticism that many local officials had with respect to State involvement in urban or community development-related activities, and a recognition that only a few States had over the years had demonstrated the interest and capacity to not only administer but also to help finance programs of this type.

I think we are finding out that in the last few years several States have moved in this direction, which perhaps makes some of the older concerns and arguments against State involvement less compelling.

Mr. BROWN. Well, I would certainly guess that irrespective of how

little a State has done in this area that, by and large, it still exceeds what many small communities have done. The choice now is with the small community trying to put something together that HUD can understand. My experience has been that that is an almost impossible task and that it is just not cost effective for each community to have someone to call upon for technical assistance. An interesting case in point, is the impact of the 1974 act on Puerto Rico, where all of the community development and housing was done by the Commonwealth. With the 1974 act bypassing the Commonwealth and going directly to the cities, the State feels that it has been quite cost ineffective because the cities are spending a lot of money to set up their own planning departments and community development departments and not utilizing the Commonwealth which has a wealth of expertise in the area.

So, it shows that in that instance, certainly, the act has been counterproductive from a cost-effectiveness standpoint in providing community development.

Thank you very much.

Mr. FAUNTROY. Gentlemen, again, thank you for your testimony. There are a number of questions that other members may wish to pose to you, and I wonder if you would be prepared to respond to those?

Mr. WALKER. We stand ready to respond to any questions, you might have submitted to us, and we appreciate the opportunity to be here.

Mr. FAUNTROY. Just one final question. If we folded in the section 312 loan program, would you still have the 3-percent interest?

Mr. WALKER. Yes, if Congress desires it.

Mr. FAUNTROY. Thank you very much.

Our final witness is Commissioner Patricia Q. Sheehan, of the New Jersey Department of Community Affairs.

Thank you, Commissioner Sheehan, for your patience and for waiting so long. We eagerly await your testimony.

STATEMENT OF PATRICIA Q. SHEEHAN, COMMISSIONER, NEW JERSEY DEPARTMENT OF COMMUNITY AFFAIRS

Ms. SHEEHAN. Thank you very much, Mr. Chairman. I appreciate really your hospitality and have been quite interested in some of the comments that have been made.

I have with me from my department Mr. Bruce Sachs, who was chairman of the task force within the department.

I am a State cabinet officer in New Jersey, and my particular department is the Department of Community Affairs. I would like to believe at least that the States that both Congressman Brown and the preceding speaker were referring to in terms of making some real input in helping the Federal programs to work, frankly, can in fact be represented by our department.

And I do want to thank you for this opportunity. I have submitted for the record a summary of the points that we would like to put before you as you are in these very critical deliberations.

I would briefly just run through the points that I wish to make, with the recognition that in the record then would be backup on each and every one of them.

Mr. FAUNTROY. Without objection, the entire report will be included in the record.

Ms. SHEEHAN. Thank you, Mr. Chairman.

The first point I would make is really a supplement to the earlier discussion, and ask that the initiation and the leadership that has been demonstrated by many of our States in support of the community development block grant program be in fact recognized by the legislation.

It is very difficult for us at the State level to be out there with, we think, an effective delivery system and State dollars and technical support and assistance and yet be not recognized as part of that inter-governmental relationship and delivery system.

We think the intergovernmental system would be strengthened by recognition of and including the States in two ways. One, the activities undertaken which would assist local units of government to improve the effectiveness of their program.

As the point was made quite strongly a little bit earlier, in addition to our big cities, there are many smaller communities and smaller cities that don't have the technical capability and in fact frankly should not be asked to reinvent the wheel 500 times across the State of New Jersey or 400 times across Pennsylvania, or what have you, if that can be consolidated, so that their dollars and their program can in fact go to programs as opposed to duplicating an effort which can be supplied to them at the State level.

And, in addition to that, it provides the opportunities for community development activities that can be multijurisdictional in scope or respond to a particular need that is felt across the State, not just in one particular city.

And we think quite clearly that in the 3 years of working with this program, we have been able to show that States can in fact parlay, if you will, the Federal commitment with State and private resources to meet these specific community development goals and maximize the kind of dollars and technical support and attention that is given to them within a particular State.

We know that there is a variety of eligible activities within the community development block grant program, and we truly believe that a partnership of State and local governments can in fact make those eligible activities more responsive to the various local needs as they are determined locally.

And I think we can demonstrate—and have demonstrated—that the States themselves have committed their resources in aiding and assisting communities, both our large cities and our smaller ones, more particularly, in making the community development block grant program work.

I am thinking of things such as we have done in our own department, and I know other States as well: information booklets; facts sessions on the responsibilities and the opportunities under the act as it was first being put into place several years ago; ongoing technical support with local communities in preparing their applications and developing their projects; effecting new State legislative or statutory mechanisms that were needed in place to allow the program to be more effective and to give the individual communities more flexibility in implementing the program that they designed.

And, in terms of our financial assistance, I think this very critical, there are many of our States—and I think New Jersey is the leader

among them in having made that kind of commitment. One of the other hats I wear is chairman of the State housing finance agency and we have for some years now used a State appropriation to provide seed money for many of the nonprofit sponsors across the State in any and all of our communities in developing real—what turns into brick and mortar—actual housing construction.

Again, we have a neighborhood preservation program, with State dollars, that has served as a catalyst for aiding and assisting many of our communities; we have a pilot program now in 12 neighborhoods in our urban areas where—a small part of State money—and it is a small part, but it nonetheless is hard dollars—in combination with the private lending institutions and their support, as well as a community's share of its community development block grant, have put on track neighborhood rehabilitation programs and home improvement programs in the very areas where not only was State and Federal money perhaps limited for some time, certainly private investment was, and this kind of partnership is beginning to demonstrate very meaningful results.

And so in sum, on this point No. 1, I think that the States have fulfilled a role in making community development block grant program more effective through training sessions in assisting localities in their applications.

There could be a role in terms of innovative projects and certainly in terms of information and clearinghouse exchange, not only for the grantees but also for you at the Federal level in terms of what is happening with the program and how can the data base be improved so that the judgments you make are more effective.

And I think that the technical assistance role and support role that the State can provide is more critical than anything else. I know several times this morning the question of how would the funding take place—and in my case, for example, are we suggesting, as it seemed, that some of your associates might have had the feeling that it was a choice between Mayor Gibson in Newark and Pat Sheehan in Trenton, and I want to again make the record very clear that this is not a competition of the State versus our cities, but rather it is a plea, if you will, that the States are there already and can and should be doing more, but should be recognized for the role and have an opportunity for some financial support.

And certainly, through the existing statute, the Secretary's discretionary fund within title I or even the section 811 in title VIII are areas where the moneys could be earmarked or set aside to States to help them fulfill the role and recognize the role that they have already provided in the technical assistance training and program coordination.

I have probably spent too long on that point, but I thought it was particularly critical, because I looked back over, even this past year with some of the financing problems that cities such as Newark and Jersey City have had in terms of selling bonds, and looking at rates of 10 and 12 percent or no buyers at all just so many months ago, and since then seeing the State come in with what we call a qualified bond program where reserves of State resources that would be coming into those communities are set aside in a reserve to guarantee those bonds that the cities would float; and then to see both Newark and Jersey

City be successful in the bond market as a result of this tool indicates to me a clear example that the State is there.

The housing finance agency programs we have talked about at great length.

We are launching in New Jersey—and I know it is in some other States, as well—through a mechanism known as a mortgage finance agency program, again, the State bonding capacity to provide funds for homeownership and for home improvement in our central cities.

And so it is a very critical point and one that I hope you, and I know, will give great thought to in your deliberations.

We would also agree, really in support of some of the results of the Brookings studies and others, that certainly the formula as had originally been intended with the drastic decline for the oldest and largest cities in New Jersey, as well as the old and large and needy cities across the country has to be given some attention so that this drastic cutback in funding would in fact not happen.

Certainly we support the dual formula approach that has been proposed by President Carter and Secretary Harris, and we think, further, that we would suggest asking for the opportunity to share with you some of the work that we have been doing, first with New Jersey and now attempting to establish a data base in States across the country to consider a refinement of that alternative formula on what we call impactation—by taking one or two of these needs indicators and comparing them to an individual indicator within a given city as to how great is the intensity of the problem. It is one thing to say old housing is a clear indication of need. We think we are beginning to work out a way, and certainly would share the numbers and the research with you, where not only would the flat absolute number be taken into account but if, for example, the national average of pre-1940 housing stock is 37 percent, well, certainly a town where 60 or 70 percent of its housing is in that category is at greater need than a town that has only 5 or 10 percent of its housing in that category. And we are suggesting that impactation analysis at least appears to have the potential, based on the facts we have so far, for clarifying one city's needs in comparison to another and measuring the intensity of that need.

We would like to be able to continue that and, obviously, share it with you.

Further, we would support the inclusion of the urban county. We found it to be successful in New Jersey, and I think that and hope that it will be continued as part of the overall program.

We have had some very interesting breakthroughs in our State with regard to intergovernmental relations. Through the impetus of the Community Development Act and the counties urban county designation we found the State working with them to develop applications, and we found—in our instance the county government is known as the Board of Chosen Freeholders—they meeting with representatives of all 70 towns at one time in one place in a single county to develop some common goals and priorities. Working together has been a gratifying experience and a very, very effective one.

Through this process many towns are identifying community development needs for the first time and, more to the point, beginning

to address them, as well as housing rehabilitation, on a countywide basis that perhaps would not have been able to occur without this mechanism.

We would ask, specifically, in your review of legislative authority that you look to affixing on HUD the responsibility for relocation. We are finding as we begin to expand with rehabilitation efforts that they come to a stop, whether it is in terms of more effective code enforcement, or whether it is in terms of significant rehabilitation, where the rights and the needs of the tenants here in place, come up against a relocation and the cost of relocation, suddenly there is a tendency for everyone to draw back. There are no funds. And the programs, instead of proceeding apace to solve a very real need, come to a stone wall or a standstill.

And we suggest that perhaps through the section 8 existing authority that some of this relocation assistance could be provided, because neither rehabilitation nor effective code enforcement is possible on any large-scale means without this support. And as the law currently stands, only projects that are publicly owned are governed by the Uniform Relocation Act—but there have been some broad interpretations of that—but thus far, at least, that which is done privately—and I can't reiterate enough how important it is to bring private mechanisms, whether they are financial institutions or developers, back into our cities—that relocation payments must be provided and are a necessary component, and I would hope the subcommittee would work toward that end.

Again, on another subject, the section 8 existing program we would suggest, also, should be continued and expanded. And I would report to you, as well, that the section 8 existing program is one where our State has taken a very strong role in making it happen to provide assistance to tenants in our State.

We started by a very small program at the State level with regard to disabled citizens, 400 handicapped citizens, because no one had directed their attention to that particular group, and yet the need was there. We have now expanded that and what I am suggesting to you is that the States are in this instance filling in the gaps where local authorities are either unwilling or unable to participate in the existing housing program. And a State agency can fulfill that need, again, not in competition, but to support and fill in the places where the locals are not able to see it done.

And we have some facts and figures on that, and I would hope that you have an opportunity to look at them.

My next point, I have to start out again as chairman of HFA, in particular, thanking you for the votes of yesterday in terms of increasing the authorization for section 8 in new construction. I can't tell you how effective, under extreme difficulties, the State housing finance agencies have been in implementing the section 8 housing program for you across the States. In terms of getting to the actual brick and mortar stage, really, we have been responsible for about 75 percent of that nationally, and we estimate, frankly, in New Jersey that given the resources of section 8, we could have under construction some 5,000 units by this fall.

For both the existing and the new construction, I would also ask you to consider, in your deliberations on section 8, the fair market rent levels and how they are established.

This has been an ongoing problem, particularly in terms of urban family housing. If the fair market rent levels are not established in reasonable relationship to actual cost in the area and in a timely manner, in effect, we can't make the program work. To have more input and more decisionmaking at the area offices might be one way of seeing that happen more quickly and more rationally rather than engage in some of the mathematical discounts that bear no relationship to comparable existing housing that has taken place in the past. And, again, the States could help in this area.

And the final point that I would just include for your review is support, again, for the section 701 program.

We feel that this is really the only area for comprehensive planning, and we ask and suggest that its continuation both for the States and units of local government are vital. We would also suggest that the large cities should not be excluded from that program in the future but that it be continued as a mechanism for comprehensive planning for both States and communities, to put the whole picture together in order to best utilize the resources that are available.

And in conclusion, again, I would thank you for your time and attention. I would obviously volunteer any supporting information either today or in the future that we could make available to you.

And thank you, again, for your consideration.

[A report entitled "Recommendations on Reauthorizing the Housing and Community Development Act," submitted by Ms. Sheehan for inclusion in the record, follows:]

RECOMMENDATIONS ON REAUTHORIZING THE
HOUSING AND COMMUNITY DEVELOPMENT ACT

Presented to:

House Housing Subcommittee on Housing and Community Development

Presented by:

Patricia Q. Sheehan, Commissioner

State of New Jersey

Department of Community Affairs

Submitted: March 2, 1977

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RECOMMENDATIONS OF THE DEPARTMENT OF COMMUNITY AFFAIRS
ON THE HOUSING AND COMMUNITY DEVELOPMENT ACT

1. The initiative and leadership demonstrated by states in supporting the CDBG program should be recognized; new legislation should provide states with the necessary resources to expand their role in the community development process. Building states into the CDBG program will strengthen the intergovernmental delivery system in two ways: first, activities will be undertaken which assist units of general local government in improving the effectiveness of their community development programs; and second, community development programs will be carried out which are either multi-jurisdictional in scope or respond to a particular need in the state for which no other funding is available. The inclusion of states in the CDBG process will allow greater resources to be applied toward meeting the specific community development problems shared in common by all units of local government within a state.
2. The existing CDBG allocation formula must be changed so that New Jersey's oldest and largest cities receive an entitlement which is close to or above their "hold-harmless" level of funding. As an alternative means of allocating community development funds, we support the dual formula approach as proposed by President Carter. Furthermore, we suggest the investigation be continued into the concept of impactation as a factor to be included in the alternative formula.
3. Urban counties form part of a metropolitan area whose needs transcend the simple sum of their parts. Urban counties should continue to receive an entitlement for they have contributed significantly both to solving complex urban problems on a regional basis and to fostering intergovernmental cooperation and coordination. Entitlement for urban counties deserves adequate funding and continued federal support.
4. Legislative authority must affix on HUD the responsibility for the relocation of occupants forced to move from projects undergoing substantial rehabilitation. HUD must develop a regulatory mechanism to notify occupants of their rights and provide them with the benefits of the Federal Uniform Relocation Act. Additional Section 8 Existing authority might be used to provide this relocation assistance. Effective code enforcement and/or rehabilitation is impossible on any large scale without this support.
5. The Section 8 Existing Housing Program should be continued and expanded to provide the benefits of rental assistance to as many eligible families as possible. An assured role for the state should be continued to administer rental assistance in more remote areas or where the allocation is too small to be efficiently or economically administered on the local level.

6. The Department supports a supplemental FY 1977 appropriation of \$140 million for State Housing Finance Agencies, the minimum amount urgently needed to continue the construction of housing units under the Section 8 Housing Assistance Program. Since the program's inception, State Housing Finance Agencies have provided mortgage financing for 75 percent of the actual construction starts for new rental housing. The supplemental appropriation would make it possible for housing projects now in the pipeline to be placed under construction and would provide an immediate stimulus to the nation's ailing construction industry. The New Jersey Housing Finance Agency alone estimates that it could place 5,000 units under construction this year with such an appropriation, and nationally, State Housing Finance Agencies could finance an additional 25,000 units upon which construction could start prior to October 1, 1977.
7. For both the Section 8 existing program as well as new construction, fair market rent levels must be established at reasonable levels recognizing regional differences. The program can be effective only if the rents conform to actual comparable rents in the individual market areas. They should be set by the area offices, and states could assist in providing supporting data.
8. The HUD 701 program represents the only national commitment to comprehensive planning, and its continuation is vital to states and units of local government throughout our country. The Community Development Block Grant Program cannot be substituted for 701 Comprehensive Planning, for only eligible activities under the block grant program can have a planning component. Communities must have the ability to integrate all phases of proposed and actual development through the mechanism of comprehensive planning; only the 701 program, and not the block grant, allows for this type of planning. At a time when states and units of local government face extreme pressure in determining the allocation of limited financial resources and providing for the most cost-efficient operation of government, there is an increasing need to continue the authorization of the 701 program at the highest possible level.

THE NEED FOR A STATE ROLE IN THE
COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

The Housing and Community Development (HCD) Act of 1974 has been the major federal effort over the last few years designed to assist units of general local government to meet their diverse community development needs. Title I of the HCD Act established the Community Development Block Grant (CDBG) Program in which grants are awarded on a formula basis to certain urban communities. States are not given any formula entitlement or set-aside of funds under the Title I provisions.

The last twenty years have shown that states have a vital interest in assisting and providing aid to units of general local government. In 1954, states provided \$5.7 billion in local aid; by 1975, the amount had risen to \$50.5 billion. In the program areas of health, education, welfare, highway construction, pollution control, and housing and community development-- to name a few-- a growing interdependence has developed between states and local governments. However, Title I of the HCD Act and all other sections of the law pertaining to community development give no recognition to the important role of states as key elements in the intergovernmental delivery system necessary to undertake comprehensive community development activities.

The great complexity of the eligible activities authorized by the CDBG Program, i.e., land acquisition, relocation, rehabilitation loan programs and physical redevelopment-- among others-- can be most effectively carried out where there is a full partnership established between state and local governments. Since the passage of the HCD Act, states have committed significant resources to local governments to aid them in furthering the objectives of the CDBG Program: informational booklets have been prepared explaining the new responsibilities and opportunities; technical assistance has been provided in developing community development applications and projects; new legislative authorizations have been instituted by states to give localities added flexibility in designing community development programs; and state financial assistance has been a vital ingredient in fostering community development programs.

States have assumed a large burden for making the CDBG Program operational, even though they were given no funding entitlement under Title I. Left to their own resources, states have helped fill in the vacuum in the intergovernmental delivery system created by the original CDBG statute. However, much remains undone. The initiatives and leadership demonstrated by states in supporting the CDBG Program should be recognized. When new federal community development

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National Journal Reports, September 18, 1976, p. 1322.

legislation is written this year, states must be given the resources which will enable them to expand their role in the community development process. With their broad jurisdictional base, state governments have the capacity to analyze, understand, and respond to the differing development and technical problems which face communities within their states. Moreover, states can bring together related federal, state and local resources and help assure that they are utilized in a coordinated fashion.

The purposes for building states into the CDBG Program will be twofold: first, activities will be developed and implemented which assist units of general local government in improving the effectiveness of their community development programs; and second, community development programs will be carried out which are either multijurisdictional in scope or respond to a particular need in the state for which no other funding is available. The inclusion of states in the CDBG process will allow greater resources to be applied toward meeting the specific community development problems shared in common by all units of local government within a state.

Listed below are several of the roles which states are presently fulfilling or could fulfill, if they were given separate funding under the CDBG Program. The list is not meant to be exhaustive, nor does it represent any ordering of activities by priority. Based upon two years of experience, the following activities illustrate how states do or could strengthen the block grant program:

- (1) Throughout the country, many units of general local government are receiving levels of funding through the CDBG Program far in excess of any previous funding. Particularly for these localities, as well as for many of the other entitled communities, there is the need for training of the local officials responsible for administering and implementing the CDBG Program. State agencies have held and would continue to hold a variety of training sessions on a regional basis to help assure that a high level of competence is being achieved in utilizing CDBG funds. Specific training areas can include: management capacity building; budgeting for and the preparing of the community development plan and application; the integration of local, regional and state plans; and, the development of systematic approaches-- taking into account federal and state statutes-- for preparing and understanding environmental impact statements. States should use specialists in each of these areas who would be available to work on a statewide basis with localities needing assistance.

- (2) States could use part of their CDBG funding for innovative projects within the state. New approaches could be tested in both rural and urban areas and the results disseminated throughout the state. A state might fund a variety of neighborhood preservation programs both in communities which were and were not receiving block grant funds. As part of this state grant-making function, multi-community programs could be supported to promote regional development and cooperation.
- (3) States could function as information clearing-houses and research agencies. Presently, there is no systematic gathering of information about CDBG programs in states, nor is there adequate information exchange among the recipients within a state.

State agencies could help monitor programs, compile listings of successful CDBG efforts, and hold regional and state conferences among recipients to share this information. Through ongoing research capacity, states could publicize new technology and concepts. Congress and HUD need an expanded data base by which to measure the impact of the CDBG Program, and states are in the best position to collect such information.

- (4) Through an expanded technical assistance role, states could develop a series of suggested guidelines which localities could use in developing their community development programs. The materials would be updated regularly to include any state statutes or amendments which could have a bearing on the community development process. The technical materials would save each municipality receiving CDBG funds countless person-hours and dollars. Each recipient municipality would not have to originate the process of developing individual sets of procedural guidelines for the CDBG Program. Materials developed by states would accomplish this purpose. Technical assistance units, staffed by experts, would be available to assist communities throughout the state in all phases of the CDBG Program. In our own state, a recent questionnaire demonstrated that small municipalities often do not have the staff capabilities to gather and analyze all of the data necessary for sound program development. State-provided technical assistance would greatly improve the quality of the community development programming within the state.

Under the current HCD Act provisions, states wishing to apply for CDBG funds must either compete directly with their municipalities for limited discretionary balance funds, or apply for innovative grants. The former option puts states in a politically untenable position and thus has not been utilized. Moreover, innovative grants, which have had a meager level of funding for the first two years of the CDBG Program, are not designed to provide an ongoing source of funds for program support. Hence, the existing CDBG Program effectively excludes virtually all states from getting funds to provide the variety of services enumerated here.

Recognizing the need for a state role in the CDBG Program, where can monies be found to fund state activities? The existing HCD Act statute offers two identifiable alternatives: the Secretary's discretionary fund which is part of Title I; and Section 811(C) which is part of Title VIII. For both cases, language could be written establishing a definite set-aside of funds for state activities up to a certain maximum percentage of the total appropriation. Since both sections are already authorized in the current law, the Congress would be able to adjust either of them quite easily in order to accommodate an expanded role for states.

Whatever the funding mechanism agreed upon, clear criteria must be established for participation by states in the CDBG Program. Only states which have the legal authority and technical capacity to undertake the range of activities suggested here, and which agree not to reduce efforts previously supported with state funds, should be eligible.

The appropriation for the CDBG Program in FY 1977 is \$3.25 billion and will probably increase significantly in FY 1978. With this magnitude of funding, it seems quite reasonable to reserve a small portion for state activities in training, program coordination, technical assistance, and the establishment of innovative programs. With a modest increase in available resources, states can become active partners with units of local governments in designing and implementing the most effective community development programs.

IMPACTION ANALYSIS

We suggest that the concept of impaction as a means of allocating CDBG funds could be considered as a factor in the alternative formula developed by HUD. Impaction takes one or more needs indicators and compares the percentage of the individual indicator within a given city to the average percentage existing in all metropolitan areas for the same indicator. The result is a clear definition of the concentration of the need for the individual city and the relative needs of all cities.

Impaction analysis is aimed at accomplishing the same purpose as the dual formula approach proposed by HUD Secretary Harris, namely, to maximize the resources going to the cities having the greatest needs. However, impaction refines the HUD approach by developing a more locally-sensitive means of measuring need. It is not enough to know that a city has a given number of poor persons, or a given number of pre-1939 housing units, and on the basis of these numbers is entitled to a certain dollar allocation. What is at least equally significant is the relationship the individual need has to the total resources in the city. For example, if a city has 50% of its housing stock built before 1940, whereas the national average for all metropolitan areas of pre-1939 housing stock is 37%, the city has a greater need than the average city and should be given additional resources to meet this need.

The dual formula approach proposed by Secretary Harris significantly improves the mechanism for allocating CDBG funds. However, we think impaction analysis offers the potential for both clarifying one city's needs in comparison with another and measuring the intensity of need in an individual city. Our initial research has shown the utility of impaction analysis and we expect to continue this investigation of the concept to test its validity. My staff would be eager to work with both the Housing Subcommittee and HUD in this endeavor.

URBAN COUNTY ENTITLEMENT: FRILL OR FACTWhat is an "urban county"?

Section 102 of the Housing and Community Development Act of 1974 sets forth the definition of an "urban county" for purposes of the CDBG program. To qualify as an urban county, a county must be within a Standard Metropolitan Statistical Area (SMSA as established by the Office of Management and Budget) and be authorized under state law to undertake essential Community Development and housing assistance activities in its unincorporated areas or in jurisdictions with which it has entered into cooperation agreements. Additionally, an urban county must have at least 200,000 population (exclusive of the population of any metropolitan cities) either in its unincorporated areas or in combination with jurisdictions with which it has entered into cooperation agreements. Potentially, 84 counties in the U.S. (10 in New Jersey) could qualify under the Act's definition of an urban county. In December 1976, eight urban counties (with 225 cooperating municipalities) were participating in the CDBG program in New Jersey.

What is the CDBG program?

The CDBG program incorporates under one umbrella seven categorical programs: urban renewal and the neighborhood development program; Model Cities; water and sewer facilities; loans for neighborhood facilities; loans for public facilities; open space grants; and housing rehabilitation loans.

The Congress provided over a three-year period \$8.4 billion to meet a primary objective through seven broad national objectives and a secondary objective. The primary objective is the development of viable urban communities, by providing decent housing and a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income. The seven specific means to accomplish this primary objective include the elimination and prevention of slums and blight, followed by the elimination of those conditions detrimental to health, safety and welfare; conservation and expansion of the nation's housing stock; expansion and improvement of community services; more rational utilization of land; reduction of isolation of lower income people by dispersing housing opportunities; and restoration and preservation of historically or architecturally significant buildings. It is also the purpose (secondary objective) of the CDBG program to further the development of a national urban growth policy by consolidation of overlapping programs of financial assistance to communities into a consistent system of Federal aid which provides annual assistance with maximum certainty upon which communities can rely in their planning; encourages community development activities which are consistent with comprehensive and areawide planning; furthers achievement of the national housing goal; and fosters the undertaking of housing and community development activities in a coordinated and mutually supportive manner.

Who is entitled?

Of the funds appropriated for the CDBG program each year, 2% is reserved for HUD Secretary's Discretionary Fund. Eighty percent of the amount remaining is earmarked for metropolitan areas (SMSA's) and 20% for nonmetropolitan areas (non-SMSA's). Funds are distributed on the basis of a formula which includes population, poverty, and overcrowded housing.

Funds for metropolitan areas are distributed by formula to metropolitan cities (central cities in SMSA's and cities 50,000 and over in population) and urban counties. Grants are made for 100% of project costs. No local match is required. All applicants are required to submit an annual application for approval by HUD.

Certain other cities and counties are eligible for an entitlement through a "hold harmless" provision in the Act. Under this provision, cities or counties that participated in the categorical programs now incorporated in the CDBG program in the fiscal years 1968 to 1972 will receive an entitlement grant based upon an average of funds previously received. Such hold harmless grants taper off during a five year period until the sixth year of the CDBG program when no funds are provided through the hold harmless provision.

Urban County Entitlement: An Examination

a. Is the "Urban County" urban?

By definition, all urban counties must be within a metropolitan area (a SMSA). They also must include a population of at least 200,000. Admittedly, this does not ensure such counties are urbanized. For example, using density (population per square mile) as an indication of an urban environment, one finds that the urban counties in the United States range from a density of 34 per square mile in San Bernardino County in California to a high of 12,933 per square mile in Hudson County, New Jersey. (Data is for county before exclusion of entitlement cities) In New Jersey, the least dense of the urban counties is Burlington County with 395 per square mile. The definition of an urban area/county may deserve improvement from this point of view. However, being located in a SMSA area does ensure that they are subject to the influence of a major city.

b. Does an urban county have urban needs?

What are urban needs? There may be no universally acceptable answer but in the area of community development a set of needs has been defined in the purposes and specific objectives of Title I of the Housing and Community Development Act of 1974. They have been described above in the section on the CDBG program. Since 76 of the 84 eligible urban counties in the U.S. have identified and successfully applied for the funds to meet such needs, there can be little doubt that urban counties have such needs.

Is the degree of need on an equal standing with that of metropolitan cities? On the average, probably not, since metropolitan cities generally suffer from a degree of impaction or density of urban needs that is rare in urban counties. Yet, it can be stated that urban counties must provide opportunities to relieve such impaction and, therefore, take steps to serve the population of metropolitan cities nearby as well as their own. There need be no conflict of entitlement rights; both metro cities and urban counties deserve entitlement. Differences in the degree of need can be met by the funding distribution formula. To some extent, the present formula attempts to do this by counting poverty population twice and housing overcrowding to the funding benefit of metropolitan cities.

It may be claimed that such a formula has not adequately met the degree of need in metro cities. This may be true. The answer lies in improving the funds distribution formula, not in denying entitlement status to urban counties. To do otherwise would confine metropolitan cities to their own borders and resources to resolve all their own community development problems.

c. Does population make a county urban?

As we have seen above in (a) there is a wide divergence in the population density of urban counties. The total population* of urban counties is likewise subject to a broad range: from 206,758 (Marin County in California) to 7,041,980 in Los Angeles County. In New Jersey, the range is from 323,132 in Burlington County to Bergen County's 897,148.

It is conceivable that a given county without the requisite 200,000 population in a SMSA may have greater community development and urban needs than one that has 200,000 population settled over a vast land area. Perhaps this points to a weakness in both the population threshold (200,000) and definition of an urban county. Such weaknesses, however, do not necessarily lead to the conclusion that all urban counties do not deserve entitlement status in the CDBG program.

d. Where are those of "low and moderate income" who primarily are to be served by the CDBG program?

They are everywhere, but they are especially in metro cities and urban counties. Low income families alone range from a high of 14.6% of families in Jefferson County, Alabama to a low of 2.3% of families in DuPage County in Illinois. In New Jersey's urban counties, low income families range from a low of 2.8% in Morris County to a high of 10% in Essex County. Entitling such areas helps ensure that such members of the population and their communities will have their needs considered, planned, and provided for. Exclude such counties from entitlement and it's everyman for himself.

*Data is for county before exclusion of entitlement cities. Here and in following county data citations the Source is 1972 County and City Data Book, U.S. Bureau of Census.

- e. The city and the county: who needs whom?

The city has long been the center of commercial and cultural activity in a metropolitan area. This is still true but to a lesser degree today. The suburbs of the city (the urban county) have long been the city's "bedroom" where its employees go home. This also is less true today. Nonetheless the link between city and suburb (and consequently, city and urban county) is real and continuing. The suburbs provide a necessary complement to the city and vice versa. The problems of one belong to both. In this context, the urban county can serve as a pressure valve for the problems of the inner city by serving to provide solutions or alternatives to the needs of a given region. Moreover, to the degree that the urban county faces and deals with its own long standing but less obvious problems of blight and poverty, to that degree it becomes sensitized to such problems and their sources, and can thereby better meet the needs of the continuing urban migration from the metro city to the benefit of all. Cutting off urban counties from entitlement status will surely give officials the justification of not having the resources that cities have to deal with such problems. Entitlement status ensures long range planning and a continuing search for solutions by both cities and counties, the subjects of urban needs and problems. Once long range needs are realistically seen, regional planning and thinking is unavoidable to promote solutions to common problems.

Lastly, the current federal administrative bar to cooperation between urban counties and metro cities on CDBG projects must be lifted at the earliest possible date.

- f. Should most hold harmless cities be phased into urban counties as now provided by law?

Many hold harmless (HH) cities have high priority needs with a record of capability in meeting such needs. Some do not. Several solutions suggest themselves. A change in the definition of a metropolitan or entitlement city might meet the need to fund HH cities. A special program to conclude ongoing projects in HH cities might meet most needs. Or a change in the distribution formula alone might better assure that HH needs are met when HH cities are denied HH funds and take their place with other cities in the urban county. The complexity of this issue prevents an easy conclusion. At this point, it appears that the phase down of HH funds should be halted for at least one year until the alternatives on this issue can be better verified and explained.

- g. Should urban county entitlement be denied, wouldn't the alternatives be better?

What are the alternatives? There are two. (1) Every municipality participating would have to compete for discretionary CDBG funds. There are 225 such municipalities in New Jersey alone. It is difficult to imagine more than 50 of them receiving a grant in any given year. Under the prior categorical programs replaced by the CDBG program, only 31 of these 225 municipalities received funding in the last five years of those programs. If we suppose that for some solid reason the number of grants to New Jersey municipalities would greatly increase beyond that 31, consider the inefficiency, duplication, and waste inherent in the assignment of 225 grants as compared to eight through the urban counties. Moreover, consider the fragmentation and lack of coordination inherent in 225 Community Development plans. Also discretionary funding effectively aborts long range planning since it relies on a year by year decision by HUD to fund a given city in competition with all other projects for a given area. Lastly, many smaller jurisdictions, inadequately staffed, would never pursue such a program through sheer inability to deal with the application and implementation process.

(2) The second alternative is to enlarge the number of entitlement cities through a change in the definition of a metro city and leave the balance compete for discretionary funding. Consider the fact that New Jersey now has only 29 entitlement cities. Would any definition change be likely to add more than 32 more (with similar effects nationwide). There are 41 cities in New Jersey with a population between 25,000 and 50,000. Nine of these are already entitled metro cities because they are "central cities" of their SMSA leaving a net increase of 32 entitlement cities with such a definition change. Although this benefit would be appreciated by the newly entitled cities, the remaining 193 municipalities would have to compete for discretionary funds. I've said enough about the liabilities of discretionary grants. It is important to realize that this newly entitled group of cities (however defined) would have to solve its CD problems without any regional cooperation or complement. Moreover, the chances for duplication and increased administrative overhead through the addition of 32 more grants are increased. Less funds would go to actual projects in these 32 municipalities because of such inefficiency. It is also possible that due to a lack of coordination of projects among the 32 affected municipalities, the projects that are implemented will be less effective and more narrow in scope than the problem requires. It is clear that neither alternative to urban county entitlement is desirable.

Conclusion: The Fact of Urban County Entitlement

Urban counties are real entities with real needs. Moreover, they form part of a metropolitan area whose needs transcend the simple sum of their parts. Urban counties have been the most significant contribution to regional planning and solutions for urban needs in recent memory.

There are weaknesses in the definition of an urban county. Such weaknesses are no argument against entitlement funding of all urban counties. Changes in such a definition must be careful to avoid exposing urban areas to more pitfalls than the present one does.

Urban county community development entitlement programs represent a significant step forward to adequate solutions to complex and costly urban problems. With adequate funding and continued federal support, urban county entitlement may prove to be the turning point in our nation's halting steps to solving the urban crisis. At the least, it will ensure the identification of and impetus to resolve the urban needs of areas that for too long have either ignored or have been unable to deal with such needs.

THE DEPARTMENT OF COMMUNITY AFFAIRS' ROLE IN THE IMPLEMENTATION
OF THE SECTION 8 EXISTING HOUSING PROGRAM:
RECOMMENDATION FOR EXPANSION AND IMPROVEMENT

Little analysis has been made on the Existing Section 8 Program. However, it is a program of immediate and substantial assistance to eligible tenants which does not require bank financing. It further eliminates the long lead time for construction, the problems of site selection, and the long process of rent-up. In areas where the housing supply is adequate, it is the vehicle that allows tenants access to such housing. In areas of low vacancy rate it can, in tandem with a new construction program, add to the overall supply. Although many local housing authorities have not utilized the Section 8 Existing Program, there were unusual successes for those public housing agencies who did. Many new aggressive state housing agencies or housing agencies linked with social service or welfare administration entered into the housing field for the first time with the Existing Section 8 Program.

The Rental Assistance Program in the New Jersey Department of Community Affairs' (DCA), Division of Housing and Urban Renewal, is a prime example of the opportunity Section 8 Existing gave a relatively new group of housing professionals. Initially DCA applied for an allocation exclusively to meet the needs of the handicapped. This was done because other state and local housing programs, although available to the handicapped, had not made a special outreach to this group.

After demonstrating through the handicapped program that the Section 8 Existing Program could work, DCA applied for allocation of units throughout the State where local public agencies were unwilling or unable to participate. As a result, the Rental Assistance Program within the Department will assume the contractual obligation to provide rental assistance to 1,251 eligible families. The total administrative program will provide more than \$15 million dollars over five years and will benefit 1,661 families.

The most significant success of the Rental Assistance Program is having provided housing for more than 200 handicapped individuals and families in ten months of operation. More than 37% of this number were moved from previously substandard dwellings or from institutions or hospitals into standard rental housing of their own choice in the community. Operated on a countywide basis in an initial four county area, eligible tenants are found by advertising and an outreach process to a wide range of community groups. The virtue of requiring eligible applicants to obtain or have the sponsorship of a community social service or neighborhood group has been the development of an invaluable support mechanism for assuring assisted tenants of services wider than mere housing assistance. The social service groups have assisted in the finding of qualified applicants, referred the applicants to other services, helped to prepare the application forms, and even on occasion helped in finding a suitable rental unit.

Involvement of community and social service groups has been the hallmark of this state existing housing program. Initially conceived as a necessary outreach method to locate the eligible handicapped, the use of community groups as sponsors is now being required even in the expanded program no longer limited to the handicapped.

The administration of the existing housing program by a statewide public housing agency provides a delivery system for communities either small, inexperienced, or unable to feasibly operate a housing assistance program on their own. Economics of program operation make it an efficient mechanism for reaching qualified applicants in remote, rural, or dispersed population areas. Perhaps more important, state administration provides the widest possible area for choice of program participants. Eligible participants can move from one county or municipality to another to obtain a better housing opportunity. Eligible participants with Section 8 certification can buy housing anywhere of their choosing assisted by the financial resources of the program.

The Section 8 Existing Program can therefore not only provide freedom of choice in housing, and wider access to available units, the immediacy of the program allows for large numbers of people to be assisted each year.

Recommendations:

It is recommended that the existing housing program be significantly expanded in fiscal 1978 and 1979. However, experience throughout the country with Fair Market Rents (FMR) have demonstrated the need for a more flexible and locally based system of assessing comparable housing costs. At present, these rent maximums are established in Washington by computing adjustments to six year old census data. Use of locally established cost comparables is the norm in many other HUD programs such as FHA and VA mortgage insurance programs and in Section 236, Section 8, new and subsidized rehabilitation, and Section 202. Area offices should be given far more authority by statute or in regulations to set realistic and effective FMR's in existing housing. Especially in the congested Northeast faced with both a housing shortage and unusually high utility costs, FMR's have not been based on actual rents particularly for three and four bedroom units. In fact, three and four bedroom units are often only found in single family homes. Supporting data from rent surveys and from program experience have been submitted to Area Offices, and have been repeatedly sent from Area to Central offices. These requests have not been acted on due to statutory limitations and unresponsiveness from the HUD Central Office.

THE NEED FOR A FEDERAL RESPONSIBILITY FOR
RELOCATION IN SECTION 8 SUBSTANTIAL REHABILITATION

The Section 8 Substantial Rehabilitation Program forms a crucial link in efforts to revitalize neighborhoods. In older cities and suburbs, an aging housing stock is in danger of being squeezed out of existence by high operating costs, deferred maintenance, rent control, and effective code enforcement. Section 8 substantial rehabilitation rental assistance payments provide the necessary source of rental income to cover the costs of financing, rehabilitating and operating the renovated structure. This program is in jeopardy because of the failure of the HCD Act to provide for relocation in such rehabilitation efforts.

Ever since the recognition in the 1960's that urban renewal must not be a process of people removal, federal programs have been provided with the benefits of the federal uniform relocation law to protect individuals dislocated by governmental action. The HCD Act of 1974 makes a specific dispensation for actions taken under Title II of its act. Perhaps because most Section 8 new and rehab projects were expected to be accomplished by private developers financed by private sources, it was felt that governmental action was not necessary. However, HUD cannot institute a wide ranging rehabilitation program which avoids responsibility for the dislocation of people removed from such projects.

Not only is there a moral responsibility but many courts have upheld a legal HUD responsibility to provide relocation. We recommend the legislation be amended to clearly fix on HUD the relocation responsibility for individuals forced to relocate in order to allow a building to be rehabilitated under Section 8. In addition there is a need to require developers to inform occupants of their rights to relocation assistance. It may be possible for HUD to allocate sufficient Section 8 Existing Housing authority to provide relocation for the occupied units in rehabilitation projects. But the obligation of relocation and the effective administration of the program must be the responsibility of HUD itself.

This is a particularly crucial problem in New Jersey where strong tenant protection legislation makes eviction difficult and where the Federal uniform standards have been adopted to protect tenants dislocated by state or local governmental action. Neither the federal government, nor the private developer nor the negligent landlord can continue to try to avoid the responsibility for their actions. More than 1,522 units are designated for substantial rehabilitation in New Jersey at this time. Tenants presently living in these structures must be provided with Federal relocation assistance.

SUPPLEMENTAL FY 1977 SECTION 8 APPROPRIATION FOR
STATE HOUSING FINANCE AGENCIES

Of utmost importance to the production of housing for low- and moderate-income persons is a well-developed, adequately-funded housing assistance program. Since the inception of the Section 8 Housing Assistance Program, State Housing Finance Agencies have provided mortgage financing for 75 percent of the actual construction starts for new rental housing. These construction starts in turn represent a very high proportion of all rental housing starts in the country in recent months.

Under the HUD appropriations bill for FY 1977, there is a serious shortfall in the funding available to continue producing new units under the Section 8 program. What is urgently needed is a minimum of \$140 million in a supplemental appropriation so that housing projects now suspended in limbo can be placed under construction. Perhaps the strongest reason for providing additional budget authority for the Section 8 new construction program is the immediate stimulus that these funds would provide to the economy. State Housing Finance Agencies have a backlog of projects in their pipeline; these projects could begin soon and have a significant impact on reducing the high level of unemployment in the nation's construction industry. The New Jersey Housing Finance Agency estimates that it could place 5,000 units under construction this year with the \$140 million supplemental appropriation. Nationally, State Housing Finance Agencies could finance an additional 25,000 units upon which construction could start prior to October 1, 1977, if Section 8 contract authority is made available. The total development cost of these 25,000 units would be approximately \$600 million, a very significant economic stimulus to the construction sector in terms of jobs created and materials utilized.

A supplemental appropriation of \$140 million will support approximately 35,000 units-- 25,000 of which will be placed under construction this fiscal year, with the remaining 10,000 units ready for construction during the first quarter of FY 1978. The authority for the additional 10,000 units will enable State Housing Finance Agencies to undertake long-range plans and keep their financing flowing at a steady rate for the construction of low- and moderate-income housing.

The New Jersey Housing Finance Agency has financed approximately 4,000 units in the first two years of the Section 8 new construction program. This represents well over 80 percent of the Section 8 new construction starts in New Jersey. However, without a supplemental appropriation, there will be only a negligible amount of Section 8 funding for the New Jersey Housing Finance Agency. This translates into virtually no new multifamily construction for low- and moderate-income persons in a state with unemployment in the construction industry as high as 40 percent.

It has taken more than two years for the Section 8 new construction program to begin working. The numerous administrative roadblocks compounded by the serious recession and uncertainty in the financial community have made it difficult, at best, to produce Section 8 housing. In spite of these obstacles, State Housing Finance Agencies have been the single most active producer of new housing under the Section 8 program.

Last month, the New Jersey Housing Finance Agency sold \$71.6 million of revenue bonds at an interest rate of 6.3 percent. The proceeds of the sale will finance the development of nine low- and moderate-income housing projects totalling 1,776 units. In September of 1976, the New Jersey Housing Finance Agency sold \$65.9 million of revenue bonds at an interest rate of 7.6 percent. The proceeds of this sale financed the development of seven low- and moderate-income housing projects totalling 1,784 units. This bond issue was the first in the country for the Section 8 program, and the second issue was also the first of its kind for this program.

With a proven capacity to finance Section 8 new construction projects, and with the favorable conditions which presently exist for borrowing in the tax-exempt bond market, State Housing Finance Agencies have the ability to continue producing at an increased rate in FY 1977, if they are provided with the necessary Section 8 contract and budget authority through a supplemental appropriation.

THE IMPORTANCE OF THE HUD 701 COMPREHENSIVE
PLANNING AND MANAGEMENT ASSISTANCE PROGRAM

The HUD 701 program represents the only national commitment to comprehensive planning, and its continuation is vital to states and units of local government throughout our country. The 701 program has made substantial contributions to public planning and management development throughout the United States. Since its birth in 1954, the 701 program has been responsible for launching redevelopment planning in most communities; it has initiated the concept of intergovernmental cooperation through planning linkages; it has been the primary financial resource for expanding the concept of planning on an areawide basis; it has inaugurated transit planning; and it has helped introduce environmental considerations into development planning. The most important new application of 701 has been its use in helping states, areawide agencies, and localities work out short term and longer term strategies to cope with the recent energy crises.

One of the more current arguments centering on the 701 program involves whether or not its functions can be fulfilled by the Community Development Block Grant Program. This issue requires some discussion. The most recent HUD regulations of January 17, 1977, which purport to allow block grant recipients to spend funds for comprehensive planning activities, do in fact, restrict the use of such funds for developing only a "comprehensive community development plan." Quoting from these regulations, "The activities to develop a comprehensive community development plan may include: Data gathering and studies necessary for the development of the plan (community development) or its components, excluding the gathering of detailed data and preparing of analyses necessary for the engineering and design of facilities or activities ineligible for assistance under this part..." Thus, only eligible activities under the block grant program can have a planning component.

If a community wanted to measure the impact or do a feasibility study of proposed development for a public works facility, a school, a library, or many other types of communitywide facilities, the community would be prohibited from using the planning funds provided by the block grant. However, the 701 program, as separately funded, could be used for these activities. Communities must have the ability to integrate all phases of proposed and actual development through the mechanism of comprehensive planning; only the 701 program, and not the block grant, allows for this type of planning. 701 funds can be expended for the purposes of reorganizing city or county governments, improvement of citywide services, such as a water system, and allowing for intergovernmental coordination among city, county and state governments. The Community Development Block

Grant Program does not allow for these activities. In discussing the merits of the 701 program, we cannot overlook the thousands of units of local government all across the country which are not receiving a block grant but still need the financial resources to undertake essential planning activities. Without a separate, viable funding level for the 701 program, all of those communities of under 50,000 in population in both SMSA and non-SMSA areas are left outside the scope of any federal comprehensive planning program.

State governments, too, depend heavily on an adequate level of funding for the 701 program. States receive no direct entitlement under the block grant program; however, in numerous instances, state governments have provided the technical assistance which has enabled units of local government to obtain funding under the block grant program. This assistance has been greatly aided by 701 funding. Many states, including New Jersey, have testified to the essential nature of the 701 program in providing for a statewide planning capability. No other federal program gives Governors the opportunity to address the specific planning needs of their individual states.

With approximately \$60 billion in federal grant money available to units of state and local government on an annual basis, there must be a concomitant coordinating mechanism to assure that these limited resources are used effectively. Historically, 701 has afforded the means to look at the "whole" picture and not simply at individual elements. Information collected through 701-funded activities has improved the decision-making capacity of officials at all government levels. This improved decision-making, resulting in part from the federal investment in the 701 program, yields a dollar savings which far surpasses the total amount of the national appropriation.

The level of commitment made to the 701 Comprehensive Planning and Management Assistance Program is a clear expression of the value we place on managing our country's future growth and development. The authorization level for 701 has not been above \$150 million for the last five years; during this same period 701 has never been funded at more than \$100 million. At a time when states and units of local government face extreme pressure in determining the allocation of limited financial resources and providing for the most cost-efficient operation of government, there is an increasing need to continue the authorization of the 701 program at the highest possible level.

APPENDIXES

OVERVIEW OF ATTACHED URBAN COUNTY SURVEY

These are results of a phone survey:

- conducted in December 1976
- including 9 persons from eight urban counties in New Jersey
- one of the nine persons was from an urban county not participating in the entitlement program
- two of the nine persons were from an urban county beginning its first year in the program
- one urban county participating in the entitlement program did not participate in the survey

1. Should urban counties be continued as an entitlement category? Why?

Yes 6; No 3. Without the urban county mechanism, most member municipalities would not address their community development needs or the needs of low and moderate income residents. The impetus given to interlocal cooperation and regional thinking among member municipalities is truly remarkable and most healthy from the standpoint of both community development and governmental process.

2. Should the hold harmless cities in your county be phased out of the CDBG program or have their grants reduced to formula amounts as the law now provides? Why?

Yes 4; No 3; No comment 2. Those saying yes still wanted HUD to continue funding incomplete projects in hold harmless (HH) cities until completed. Those opposed thought it wrong to reduce funding where needs and the capability to meet those needs had been established. All would agree to continue HH levels of funding at 3rd year levels for another year.

3. How would you react (favorably or not) to increased stringency by HUD in ensuring CDBG funds go to those of low and moderate incomes?

Favorably 6; Unfavorably 1; No comment 2. Those favorable said there was too much leeway now in spreading funds around and they would appreciate support from HUD on this issue. One unfavorable said such a move would cause the program to be more ineffective than it is now.

4. What legislative requirements would you like to see changed so as to improve the CDBG program for urban counties? Why?

A variety of suggestions were made. See survey for replies.

5. Briefly describe an outstanding example of success in your CDBG program.

Three cited their housing rehabilitation programs. Three cited the fact of municipalities joining in cooperative agreements and promoting regional planning. Other examples appear in the survey.

6. What program weakness stands out in your CDBG program?

Four cited the time lag in implementation at the municipal level. Others appear in the survey.

7. How many municipalities participate in your urban county application?

From 9 to 63 for a total of 199 municipalities. One other county not included in this survey has 26 municipalities participating for a total of 225 in New Jersey.

URBAN COUNTY SURVEY RESULTS

The following is a summary of results from an informal survey conducted by a Department of Community Affairs representative in December, 1976 among eight urban counties eligible for the Community Development Block Grant (CDBG) program in New Jersey. One county attempted and failed to meet application requirements for an urban county. In all, nine persons were questioned. One urban county participating in the CDBG program was not included in the survey due to the unavailability of a qualified spokesperson when the survey was conducted. Most interviewed were those directly responsible for planning and implementation of the CDBG program. In several instances, in responding to questions, such program personnel pointed out that their views might not be supported by the county's elected officials.

1. Should urban counties be continued as an entitlement category? Why?

--Yes-6; No-3. Nearly all who said yes stated that without the urban county mechanism, most member municipalities would not address their community development needs or the needs of low and moderate income residents. Typical comments: "Through the urban county process, many towns are identifying their CD needs for the first time...and they are beginning to address them." "Where else could many small towns go to meet their CD needs?" "If small towns could only apply for discretionary grant projects, the funds they succeeded in getting would be used up for parks and community centers."

All who said yes felt that the impetus given to inter-local cooperation and regional thinking among member municipalities was truly remarkable and most healthy from the standpoint of both Community Development and governmental process. Typical comments: "We've had great success in getting interlocal cooperation in housing and CD objectives. We have unanimous municipal involvement in our county." "Through this program many more of our towns are working on regional problems." "Urban counties complement city priorities. Without our program how can a region allow for the mobility needed to comply with anti-discrimination and open housing laws?"

Many who said yes stated that urban county entitlement status allowed them the flexibility needed to leverage other federal funds in support of their program over the long term. One county was able to triple its CD grant through this means. Entitlement status assured continuity in program goals and more valid planning and project staging.

Another nearly unanimous reason given by those favoring continuing the urban county was its relative efficiency in eliminating administrative staff duplication and conflicting or uncoordinated efforts by other municipalities. This frees up more funds for CD projects.

Some said that without the urban county, certain CD programs either could not or would not be implemented at the local level.

Of the three against continuing urban county entitlements, all three felt the fear of a county role in affairs viewed as local ensured the failure of urban counties. One also cited fear of the housing requirements "that would be imposed by HUD" on the County. One acknowledged that inadequate county support of the program colored his views.

2. Should the so called hold harmless cities in your county be phased out of the CDBG program or have their grants reduced to formula amounts as the law now provides? Why?

--Yes-4; No-3; No comment-2. Those in favor of the present law still felt that HUD should continue funding uncompleted projects in hold harmless cities at adequate levels until they are finished. One felt that HUD should treat hold harmless cities one by one, and fund needed programs where local capability has been demonstrated. One said that the long term goal should be to funnel all hold harmless money through the urban county.

All those who opposed the present law's provisions for hold harmless cities felt that it was a mistake to reduce levels of funding where needs and the capability to meet them had been established. Two felt the needs of hold harmless cities were beyond the scope of present urban county capability. One mentioned that since their county's hold harmless cities already joined in the urban county application, once HH funds dried up, there would be that much less for the other cities in the county after the urban county met the needs of HH cities.

Of the two who would not comment, one said that he was not familiar with the programs of hold harmless cities.

Lastly, all nine agreed with the U.S. Conference of Mayors' proposal to extend HH levels of funding at 3rd year levels for another year to give the new Administration and Congress time to evaluate the CDBG program.

3. How would you react (favorably or not) to increased stringency by HUD in ensuring CDBG funds go to those of low and moderate incomes?

--Favorably-6; Unfavorably-1; No comment-2. Those favorable felt there was too much leeway now in spreading funds around and they would appreciate support from HUD on this issue. One said he was favorable depending on the degree to which the issue went. One said while he was favorable, he was also encouraged that in the three year life of their county's program, increasingly more of their CDBG funds are benefitting low and moderate income neighborhoods; in year 2 of their program, 60% of funds were so allocated; in year 3 of their program, nearly all of their funds are so allocated. One was favorable only on condition that the County had complete control of funds without prior requirement of interlocal agreements. It should be noted that many who were favorable thought that their freeholders would regret any restraint on their ability to spread CD funds around "for political purposes."

The one unfavorable said such a move would cause the program to be more ineffective than it is now. This person felt the true objectives of community development are not served by imposing such a requirement.

4. What legislative requirements would you like to see changed so as to improve the CDBG program for urban counties? Why?

--One said that the present legislative requirements were essential and should be retained as is.

All of the others presented from one to three suggestions.

Two felt that there should be more emphasis given to using funds for those of low and moderate incomes.

Two said that housing rehabilitation should be supported by complementary CD activities in the immediate area, not just census tract as it is now.

Two said that urban county entitlement should be eliminated.

Three stated that urban county eligibility requirements need review. Two felt strongly that the requirement for prior cooperative agreements to qualify as an urban county should be eliminated.

Two wanted more TA from HUD.

Other suggestions included:

- Revision of EIS requirements.
- Revise HAP requirement to make it effective and realistic.
- Give more funds to Title II of the Act.
- Don't require Davis-Bacon Act compliance regarding labor.
- No more than 30% of rehab areas in CDBG should be "scattered site."
- CD funds should go primarily to improve housing stock and otherwise support property values.

5. Briefly describe an outstanding example of success in your CDBG program.

--Three cited their housing rehabilitation programs as something that simply wouldn't be if it weren't for the urban county CDBG program. Their funding levels were \$300,000, and \$350,000 respectively. The last one expects a \$1 million bank loan commitment leveraged by their funds.

Three cited the fact that municipalities joined in cooperative agreements and promoted regional planning as their outstanding success.

One cited the rehabilitation of a rural slum in Marlboro that suffered from poor septic tanks and drainage and was improved with a new septic system, drainage, and road. Affected 15 families for \$53,000.

One cited the identifying of needs and problems never before faced by constituent towns and their initiating a large scale urban redevelopment project.

One cited the more efficient use of funds through "functional transfer" to many municipalities.

6. What program weakness stands out in your CDBG program?

--One had no comment.

Four cited the lag in implementation at the municipal level due to both the lack of adequate controls or incentives for local cooperation and uninformed officials responsible for projects at local levels.

Two cited inadequate up front input and TA from HUD to county or local officials.

Two cited not enough concentration of program dollars, although one added that this is much less true as the CDBG program continues.

Others given included the absence of new housing units being produced due to lack of HUD funds for this, ineffective county management, unwillingness of towns to get involved in solving housing questions whether rehab or new units.

7. How many municipalities participate in your urban county application?

--0 in one county that failed to meet application requirements.

The rest ranged from as few as 9 to as many as 63 for a total of 199 municipalities. This total excluded one urban county participating in the CDBG program that was not included in the survey. That county has 26 municipalities participating in its program. This brings the urban county total to 225 participating municipalities in New Jersey.

HOUSING ASSISTANCE ACTIVITIES AND THE
COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM:
A SUMMARY OF THE TWELVE NEW JERSEY NEIGHBORHOOD PRESERVATION CITIES

The Division of Housing and Urban Renewal of the New Jersey Department of Community Affairs has completed a recent survey of the two years experience with the Community Development Block Grant (CDBG) Program in the State's twelve neighborhood preservation (NP) cities. These cities--Atlantic City, Burlington, Camden, East Orange, Hackensack, Hoboken, Irvington, Jersey City, Newark, New Brunswick, Phillipsburg, and Trenton--are the recipients of state grants and loans which are directed to neighborhood preservation and revitalization activities in addition to their CDBG funding.

To date, \$2.1 million has been obligated to this program by the New Jersey State Legislature under the authority of the New Jersey Department of Community Affairs Demonstration Grant Law, P.L. 1967, N.J.S.A. 52:27D-59 et seq. to serve as a catalyst and a coordinating mechanism in the overall effort for neighborhood preservation.

A questionnaire was developed by the Division of Housing and Urban Renewal and circulated by four volunteer students from Ramapo College. This questionnaire was designed to elicit the NP cities' actual experiences with the housing assistance section of the CDBG Program. All municipal officials were cooperative in their response to the survey and their suggestions, if implemented, would aid in better delivery of housing services to city residents and more effective cooperation between the grant recipients and State reviewing agencies.

Two years of experience with the CDBG Program demonstrates the difficulties of translating desired goals into realities. Following are highlights of the responses received:

1. Of the \$107.2 million allocated to the twelve NP cities in FY 1975-77, \$17.6 million (16%) went to direct housing-related activities. These activities are broken down as follows:

- a) \$1.2 million went to code enforcement;
- b) \$6.6 million went for site clearing and building demolition; and
- c) \$9.9 million went to rehabilitation loans and grants.

2. While reports on the implementation of the program are sketchy, to date there are:

- a) 719 structures rehabilitated (containing 3,365 units);
- b) 446 loans and 54 grants made for rehabilitation;
- c) 858 homes were subject to code enforcement; and
- d) approximately 2,500 families received housing counseling.

3. While the above accomplishments fall short of the cities' Housing Assistance Plan goals, indications are that housing assistance performance will improve in the third year of the program. However, if the present formula remains in effect, these twelve NP cities will be faced with the unfortunate choice of aborting their programs. NP cities stand to lose \$64.7 million by FY 1980 under the existing formula:

- a) the majority of the cities reported that programs funded under the CDBG Program are supportive of community development and neighborhood preservation;
- b) several cities stressed increased emphasis on rehabilitation loans and grants, which bears out a national trend indicating that 21% of CDBG budgets are being devoted to rehabilitation; and
- c) all twelve NP cities stated that in the event that the funding formula is not revised, social services and economic development programs would be eliminated immediately, followed by urban renewal and model cities programs.

4. While all NP cities agreed that their housing assistance goals were not being met, there is a reason for one bright spot in the housing picture-- the increase in rehabilitation loans and grants:

- a) the average NP city devotes 14.3% of its CDBG budget to code enforcement, site clearing and building demolition, and rehabilitation loans and grants; but
- b) three NP cities apply greater resources to these programs: New Brunswick- 42.6% of its budget; Trenton- 34.4%; and Plainfield- 28.7%; and
- c) some cities felt that they would like to see housing subsidies more directly applied. Plainfield and Camden reported that funding for housing programs cannot keep up with the physical deterioration of the cities' structures.

5. With regard to how the NP cities developed their criteria for their housing assistance goals:

- a) some cities reported that they used HUD-supplied data;
- b) other cities reported that they utilized 701 planning surveys; and
- c) the remaining cities stated that they reported the goals of their old categorical grant and loan programs. On this last response, nine out of the twelve cities stated that they would rather continue the CDBG Program than return to the old categorical programs.

6. In surveying the cities' technical assistance needs, all twelve requested more complete and more recent data, noting that while they used 1970 census material for the past two years, updated information is becoming more critical for the preparation of meaningful Housing Assistance Plans. Nearly all of the cities expressed the need for assistance in completing the environmental review process, and many felt that workshops, forums and technical assistance furnished by the State would be of great help.

7. One salient fact emerges from this survey. There is a real need for an on-going statewide evaluation of the CDBG Program, beyond the requirements of the HUD reports. Such an evaluation would assist municipalities by being a "mirror" by which they could measure their own performance and aid them in setting and implementing realistic goals. The State's role in this regard would be to monitor community performance and be prepared to render assistance when called upon.

Mr. FAUNTROY. Thank you for your testimony. It is particularly valuable to us, not only in the background of your present work, but as a former mayor of a community, you can rest assured we have great respect for what you had to say.

Ms. SHEEHAN. Thank you very much. And I can just assure you again, particularly as a former mayor, that I don't see this as a competition, where the State is trying to beat out its cities.

I think there is a time—or it was a time in our history where that did in fact occur perhaps, but I think we have long since passed that. And the States through the departments of community affairs and other vehicles are working with their city halls and want to continue to do so.

Mr. FAUNTROY. Thank you.

Mr. BROWN?

Mr. BROWN. Thank you, Mr. Chairman.

Ms. Sheehan I know that you were here this morning, and I don't want to go back and repeat all the things we discussed. I think you know I substantially concur in your view and that of others who have voiced similar concern. What about the suggestion that was made by Mr. Walker, and I think was made before, that there are States that really don't begin to have the capacity to be able to act as the grant approving authority with respect to the funding of smaller communities in the discretionary balances? Do you think that is a valid point?

Ms. SHEEHAN. Well, what I would say to that is that while all 50 States are hardly uniform in terms of their capability, whether it is fiscal or technical or whatever, certainly the framework is there for them to be more involved and more technically competent, if you will, to deliver the kinds of services you are suggesting. And that in comparison to 5,000 or 50,000 local communities across the State or across the country, rather, in and among various States, the framework should be encouraged at the State level, and in fact, I don't want to leave the idea that we are suggesting that we should do it instead of our communities, but what I am saying is that we can do it with our communities. And 50 infrastructures Congress can keep a better eye on than they can on 5,000 or 55,000, and it might be a better lever for you as well.

Mr. BROWN. But don't you agree that to the extent there is greater sophistication in your communities, you have greater sophistication at the State level also?

Ms. SHEEHAN. Yes. But even in the most sophisticated of those States, you are talking about a handful of cities. The balance of the State is generally part-time government and the mayors are generally overwhelmed. And I used to say it was the only 80-hour-week, part-time job that I had. And I think the State is in a position to provide help and assistance on the EIS, on interpreting the guideline in the new regulations that came out yesterday or tomorrow, or have changed from the week that they finally got used to using them.

And it is much easier for one group of people to do that and then fan out across the State than ask 50 or 60 or 100 or 1,000 separate people to do that, and hope they have figured out the right interpretation and learn by misadventure.

Mr. BROWN. What I was saying, is that those States where you have communities that have more complicated, more complex, and more

difficult community development problems, it seems to me, are the States that also tend to have a better problem solving mechanism at the State level.

Ms. SHEEHAN. I would agree with that.

Mr. BROWN. So, when we say that a State does not have the capability, the expertise, I am thinking about States that don't have the kind of complicated, complex, difficult problems that we have in the States with the larger cities, and so forth.

Ms. SHEEHAN. To carry that one point further, Congressman, our department of community affairs is the second oldest in the country. Pennsylvania beat us out by a little bit, but not by much. We are only going to be 10 years old next week. Certainly as a mayor, and I lobbied strongly down here in terms of general revenue sharing and special revenue sharing and the various mayor's activities and I think that in many instances the mayors were forced here, not because State government necessarily was not so responsive, but State legislatures were on, for many years, a different track vis-a-vis the urban needs within their States.

But we are at the point now where there are 34 States that perhaps don't have a full-fledged department of community affairs, but are going in that direction and building that kind of technical expertise.

And we are asking, as you have made the point so clearly, recognition of that kind of effort. We are there anyway, and don't do an end run around us.

Mr. BROWN. Really, under the former categorical programs, there wasn't any role for the State. If you were applying for neighborhood rehabilitation or urban renewal, they all were direct entity to Federal Government applications. So there hasn't been much of an opportunity for States to participate. It seems to me, now, that we are getting a little experience in this, that States can play a significant role.

And I think that a number of communities with serious problems realized that there wasn't much funding in the discretionary balances, but it seemed like it was too difficult, too remote to even apply for those funds. I am sure that had that function been done on the State level, that they would have been more encouraged. I think they would have proceeded a little more vigorously, and I think they would have received a better response.

Ms. SHEEHAN. Certainly we were able to fulfill that role in our State with regard to the urban counties, to bring them to a point of being able to apply.

Mr. BROWN. Let us assume that there is a State role. The two avenues you can take that have been discussed earlier were, of course, that you fold in all the discretionary balances, and maybe have something extra for the State, and then let the State basically perform the functions of the Secretary concerning the smaller communities. That is one way.

The other way would be to give a percentage of the funds under the same formula, and so forth, to the States and then let the States fund the smaller communities as an eligible activity of the State's funding.

I suppose the latter is what you prefer.

Ms. SHEEHAN. I would really be comfortable with either one. I think for a final decision, I would want to look at the numbers a little bit. But

I think that the State/local relationship is such that the concern I would have would be that locals would not feel that we were in competition, that they had in fact won the game in Washington and now they were shut off and had to come back to their State capital. Rather, I would want them to see, and I think there is enough body of fact being built up in various States to demonstrate that this is the case, that in tandem to fulfill the goals of the program of the Federal level, States and communities can work together.

And if that means we would be doing the Secretary's role with the nonentitlements, that could be worked out and I think be very effective. In other States, perhaps it would be a better role for them to just have a percentage off the top.

Mr. Brown. I think politically speaking that the former would be much more palatable. That is, you are not taking away from somebody. All you are doing is folding in all the discretionary funds and instead of the Secretary allocating the funds, we are going to let the States do it. The funds you are going to receive are going to be approximately the same.

If you are going to let the State take a greater role, though, insofar as coordination among communities and all that, you might have to add some additional funding to it.

Well, I think this has been a most worthwhile session. I think that the preponderance of the evidence is in favor of having a more significant State role. If we did nothing else we should allocate discretionary balances as Secretary Harris has suggested by accumulating them for a State, and then go one step further and let the State do the actual approval function that the Secretary is presently performing. That would certainly be a first step. And it seems to me no one could really argue with that.

Thank you very much.

Mr. FAUNTROY. Thank you, Mr. Brown.

Mr. Kelly?

Mr. KELLY. Thank you

Ms. Sheean. I am extremely pleased that you are here today, because of your background, because there is an aspect of this overall problem that disturbs me a great deal. And it would seem to me because of your general responsibility, you could be helpful about it.

The thing that concerns me most about this whole area of Federal Government concern is that we seem to be deciding how and how much, and to have long since abandoned the question of "if." It seems that the urban areas, and we have some language in the bill that indicates that we are talking about neighborhoods, but when it gets right down to it, what we are talking about is the hard core urban area, that is where the action is, and that we in effect are trying to solve the problems of those areas with money. And that we are going to cause this money to build buildings.

And I don't know whether that is going to help the poor or not, but I know it is going to help the rich. Because when they build those buildings, some guy out there is going to get richer. And that is a history about which there is no doubt or discussion.

Now, we have this happy game about helping everybody and the rich getting richer. But what I am wondering about, does the State or does

anybody ever stop and wonder, I wonder what is causing all of this bad stuff, like the tax base is going down, and employment is going down, the neighborhoods are deteriorating, the crime rate is up.

Do the State organizations you belong to ever stop and suggest, well, we really ought to do something about what is causing these problems rather than just sending money in. For instance, I think, New York has deserved to be a fine example where they have the highest taxes in the United States of America—well, this probably has something to do with the tax base fleeing the town. And I wonder do the States feel any obligation to do something about the rate of tax that is imposed, which has to do with the rate of expenditure, because if New York City quits spending so much on its operation, then the taxes would not be so high and the tax base would not flee, and there would be more employment, and the neighborhoods would be more prosperous. And they would not need programs of this kind as dramatically as they do.

Now, what I would like you to do is to comment on, are you worried about that aspect of the problem? And what are you specifically doing; or are you just simply saying, let us play the game, just send them money and never mind the romance?

Ms. SHEEHAN. I very much want to comment on that. And I would start by saying that I agree that money all by itself is not the answer to the urban crisis or to anything else. But as someone who spent 8 years in the mayor's chair in the 1960's, urban crisis is something that certainly I know a great deal about.

And I am not sure I can suggest to you that I know a great deal about the solution, but I do know something. And I think one of the first things is that it has to be put in perspective, that State officials and local officials, as I am sure, Federal officials, are worried over these very same questions.

But you have to take into account how long and what caused us getting there in the first place, and when you say send money, send money in what kind of perspective as well. I am talking about in my case a 5½ square mile city, where starting 20 years ago, you could get neither an FHA-insured loan or a GI bill loan to buy a home within the city of New Brunswick. The housing stock was too old.

And around the city of New Brunswick in these selfsame 20 years, there has been development after development after development, with a lot of instant millionaires, whether they were the farmers who were there before, or the developers of the past that with the GI bill and other Federal subsidies, those suburbs were built and financed. And the tax advantages, when you deducted for home mortgage, were going to the citizens that were out there and those same kind of opportunities weren't there in the cities, and they got older and older. With a declining tax base, the rise of the automobile, and changing life styles, things got more and more difficult in the cities.

And I guess what I am really saying to you is, no money by itself isn't the answer. But the magnitude of the money that we are talking about for our cities today in the 1970's, compared with other magnitudes of money, isn't really so great, either.

And I think you will see—I know I have seen—that in our cities and with our States, we are beginning to address urban problems al-

most on a block-by-block basis, in terms of neighborhood improvement, in terms of private financial investment, in terms of homeownership, clean streets and what have you.

But you are starting at a point after 20 years of no attention with operating costs and collective bargaining agreements, and pension costs, and civil service, and tenure and all the rest of it that have built-in successes, sure, but also some problems, in terms of the operation of the city school system or the city public works system. So I guess, to sum it up in my wordy, rambling answer, what you say is very pointed and that we should just not throw money, or think that throwing money is going to solve the problem. But yes, we need money to solve the problem and we have to address the social needs as well as the brick-and-mortar needs.

Mr. KELLY. Let me ask you this. I think it certainly is a very valid suggestion that many of the problems of the urban areas have been caused by this attractive development on the periphery, but isn't this problem of cities just simply falling victim to the ever-increasing demand of the public service organizations for more and more salaries and fringe benefits?

One of the real heavy responsibilities of the cities that is causing the root problem of the employer and industry and investor to flee an area, because the maintenance of the town just becomes questionable. At least that seems to be truer in the more urban areas.

Ms. SHEEHAN. I think that is one factor. I would not want to suggest that was necessarily even the major factor. I think that one of the very real problems of course is that there has been some change in life style certainly, suburban housing and you know, an automobile.

Mr. KELLY. Do you know where Zephyr Hills, Fla., is?

Ms. SHEEHAN. No; I am sorry, I don't.

Mr. KELLY. I am not real closely acquainted with New Brunswick. And I am just wondering—

Ms. SHEEHAN. I will have to invite you up, Congressman.

Mr. KELLY. Fine. I will have to invite you down.

But isn't there any kind of relationship between the fiscal operation of New Brunswick and New York? I am not talking about in total amounts, but I am talking about in cost per units. I mean, do you pay your police and your fire departments on a per unit basis about the same?

Ms. SHEEHAN. No. We would pay less, certainly, than the levels of New York City, but not a great deal less. And certainly more than the areas around us. The suburban areas around us are all with volunteer firemen, so they have no overhead in terms of the fire salaries. And their police departments are generally smaller.

Mr. KELLY. But would you think, for instance, in New Brunswick, that the average fireman, all fringes included, would be getting like \$35,000 a year?

Ms. SHEEHAN. Oh, no sir. We are not quite in that league at all. But the costs, I would say probably, and I have forgotten the exact numbers—when we were in negotiations, there was a time I could tell you those exactly off the top of my head. But they are certainly in the area of, I guess, around \$13,000 for a fireman or a patrolman at the earlier levels of employment.

Mr. KELLY. Does that include the fringes and everything?

Ms. SHEEHAN. No. That would just be the salary level. Pension costs and everything are significantly beyond that. But what we are finding in the cities are that those kinds of costs obviously don't go away and must be addressed. But the means to support those costs is in fact going away, as we saw through the 1960's, particularly as so many of our cities became really traps—people were living in the cities—I mean, there were a few of us like myself, but the trend was that only people who could not get out of the city, the poor, the disadvantaged, the minorities that had no opportunity for flight—they were the parts of our population most in need of services and support, clean streets, public safety, social services, and least able to provide those costs, while the suburban areas, the mix of their population was quite different.

Mr. KELLY. Thank you, Mr. Chairman.

Mr. FAUNTROY. Thank you, Mr. Kelly.

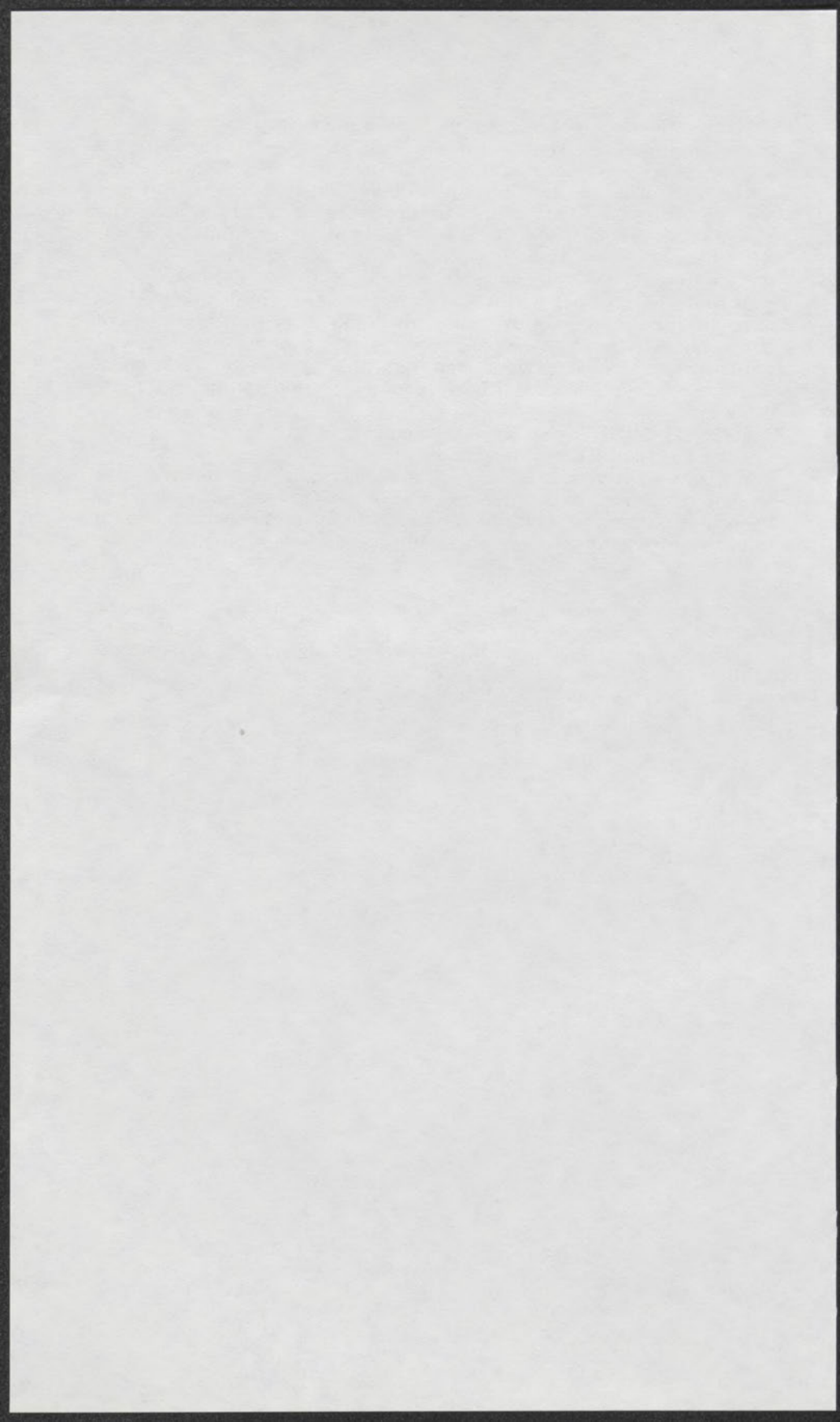
I wish also to thank you again, Ms. Sheehan, for your very fine testimony. And as we have requested of other witnesses, we would like to request of you the privilege of submitting more questions pursuant to our closer examination of the material you have presented us.

Ms. SHEEHAN. Certainly. We would be very happy to.

Thank you.

Mr. FAUNTROY. With that, we will recess our hearings until 10 a.m. tomorrow morning.

[Whereupon, at 4:30 p.m., the hearing was adjourned, to reconvene at 10 a.m., Thursday, March 3, 1977.]



HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1977

THURSDAY, MARCH 3, 1977

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING AND COMMUNITY
DEVELOPMENT OF THE COMMITTEE ON BANKING,
FINANCE AND URBAN AFFAIRS,
Washington, D.C.

The subcommittee met at 10:15 a.m. in room 2128 of the Rayburn House Office Building; Hon. Thomas L. Ashley [chairman of the subcommittee], presiding.

Presiding: Representatives Ashley, Patterson, Tsongas, Lundine, Wylie, and McKinney.

Mr. PATTERSON [presiding]. The Subcommittee on Housing and Community Development will please come to order.

We heard considerable testimony from groups and individuals during the past 2 weeks in which the subcommittee has been holding hearings on the community development block grant program. Most of this testimony has been directed at the national policies issues involved, as is proper and necessary. This morning, however, the subcommittee will focus on some of the mechanics of one of the more crucial aspects of the community development neighborhood rehabilitation. The subcommittee fully recognizes that the success of our housing and community development efforts depends not only on the broad community development block grant policy issues but also how they are implemented at the local levels of government.

For this reason we are going to hear from local community development program officials who have extensive neighborhood rehabilitation experience.

The panel will discuss the advantages and disadvantages of the present block grant program in making effective the several approaches that they have used in neighborhood rehabilitation. In this way the subcommittee hopes to assure that community development block grant assistance is providing local governments with workable tools for effectively improving and conserving housing and neighborhoods.

At this time I would like to recognize my colleague from Massachusetts, Congressman Tsongas.

Mr. TSONGAS. Mr. Chairman, when you get used to being chairman, you refer to your colleagues as distinguished.

Mr. PATTERSON. Distinguished colleague. Junior colleague. [Laughter.]

Mr. TSONGAS. Mr. Chairman, like a number of other people I have a conflict of hearings today with the Alaskan lands being heard in the Interior Committee. But I would like to introduce in absentia Hon. Thomas P. O'Neill III, the Lieutenant Governor of Massachusetts.

As you know, the Northeast has undergone some severe dislocations over the past few years, and we have finally got ourselves together, not only on the congressional level with the Northeast-Midwest Economic Advancement Coalition, but also in terms of the cooperation among the Governors to address the problems of the older industrial cities and States. And Tom O'Neill and the Governor of Massachusetts, Michael Dukakis, have been very active in pursuing that. And there has also been the establishment of a Washington office of our State, and Tom O'Neill has headed up that particular operation and has been very effective on issues like formula, things of that nature.

So, Lieutenant Governor O'Neill, we are delighted to have you here when you get here. I would just like to extend the appreciation of the State of Massachusetts for the invitation to have him speak here today, and I am sorry about the conflict that I have.

Mr. PATTERSON. I thank the gentleman.

Mr. TSONGAS. I defer to my distinguished chairman.

Mr. PATTERSON. Thank you.

We have at the council table nameplates and provisions for those who will be testifying this morning. I would like to ask them to come forward as I introduce them.

The panel on neighborhood rehabilitation and conservation consists of the Norfolk Redevelopment and Housing Authority, represented by Jack H. Shiver, executive director; and the Boise City Building Department, represented by Cecil Apperson, the rehabilitation supervisor; the Madison, Wis., Department of Housing and Community Development, Sol Levin, executive director; the Redevelopment Agency of the city of Fresno, Calif., James Hendricks, secretary; and the Division of Community Improvement, Metropolitan Development Agency, A. William Benitez, director.

Gentlemen, good morning. Welcome to the Subcommittee on Housing and Community Development. We thank you for your patience in waiting for the committee to get underway here. I apologize for any delay and would like to indicate to you the order that we would proceed is as I have introduced you, and you may choose, if you wish, to read your prepared statement or, if you would prefer, you may summarize it.

We will insert the prepared statements in the record in each case. We will proceed with Mr. Shiver and go through the remainder of the panel before the questioning and answer period.

**STATEMENT OF JACK H. SHIVER, EXECUTIVE DIRECTOR,
NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY**

Mr. SHIVER. Thank you, Mr. Chairman.

I am Jack H. Shiver, executive director of the Norfolk Redevelopment and Housing Authority, and I appreciate and thank you for this opportunity to address you on matters of neighborhood rehabili-

tation, preservation, and conservation as they relate to the development block grant program.

I do have a prepared statement which I will file, and I will try to summarize it in 4 or 5 minutes, if that is satisfactory, Mr. Chairman.

Mr. PATTERSON. That is fine.

Mr. SHIVER. I must begin by saying that in Norfolk we have a very extensive rehabilitation and conservation program. We have in our programs about 6,800 units that we have some influence over, or about 15 percent of our city's housing stock in conservation and rehabilitation. The program consists of five projects in which we have loaned about \$6 million using both section 312 and local loans to over 500 individual property owners.

We found no magic formula in making rehabilitation and conservation work. I, unfortunately, cannot bring you any words of wisdom on how to make it work in all cases because we have found that in each of our neighborhoods there are different characteristics and different reasons why things work. We have found that we need a number of tools rather than just one to make these projects turn neighborhoods around or stabilize them.

One of the interesting things that we have done as somewhat of a new concept is establishment of the local loan program that we have utilized very effectively. We have been able to loan about \$3.6 million from a consortium of local banks.

Interestingly enough, this local program has also added another very big benefit to our community. Statistics would show that the banks and the savings and loan institutions had pulled out as financing vehicles and were not giving many loans in these neighborhoods. However, as progress was made as the banks loaned to the Authority through the local loan rehabilitation program, they then began to make loans themselves in the neighborhoods where they had once feared to tread.

We can account now for over \$3 million in private independent financing from the local lending institutions that the Authority or the public sector has little to do with.

We have used a number of concepts. The base of it all and the thing that is absolutely necessary, of course, is the section 312 loan program. Section 312 is absolutely necessary in our area, and without it progress would not have been possible.

We are happy to say that the administration of the section 312 program works very well in Norfolk because HUD has allowed us to do all of our own administration, so we do not have the bureaucratic problems that some cities have in administering that section 312 program.

We have used the leveraging approach of community development block grants by the use of an insurance fund guaranteeing the money in some project areas. We have also used a loan program where we have no insurance whatsoever and no commitment to local banks other than basic trust in the Authority, the neighborhood, and borrower.

So we have a variety of programs—really four different ones, in effect.

We have used CDBG, basically, as supporting moneys for capital improvements in conservation neighborhoods—that is, streetlighting, landscaping, parks, and other things that those communities did not

have. About 20 percent of our grant each year has gone into those types of facilities in our rehabilitation and conservation efforts.

One of the new ventures that we are flirting with—and we have not had a lot of success yet, but we have great hope for it—is commercial rehabilitation. Not only do we have five residential neighborhoods under rehabilitation, but we also have two commercial programs, one involving the central business district where we have been working with the SBA 502 loan program and with local bank loans.

This program is just beginning to get off the ground. We have had trouble with SBA in Virginia, basically, because they went through a little problem in Virginia not too long ago. But they have a good attitude, and we think that utilizing this program, along with the local banks, will bring some success to our commercial loan program.

I guess we have learned a number of lessons. We have had failures, but we have also had considerable success.

One of our projects, called Ghent, has, for example, resulted in increased sales values of over 100 percent in 6 years, on the average. Obviously, not all of our neighborhoods have been that successful in rehabilitation, but generally speaking, all of them have been positive, at the least.

The lessons we have learned in Norfolk can be summarized with three points:

One, we believe that you have got to draw a boundary to identify projects.

You have to be open and let everybody in that neighborhood know what is going on. You have got to have good citizen participation. You have got to have good organization of those citizens, and you have got to get the supporting attitude. That usually just means knowledge: What are you trying to do? What are your goals? What are your objectives? Publish them, let everybody know about them, let everyone react.

The second lesson, I think we have learned, is that you must mesh a lot of programs together. We don't think that one individual program—a loan program or anything else, as far as that's concerned, really works by itself. Each neighborhood has different characteristics and different problems, and therefore, you need a different type of tool. We do know that in almost all of these neighborhoods the public needs to lead the way, needs to show that it has an attitude of investment, that it is willing to do the things that the public ought to do to make that neighborhood a viable one.

We also believe, by the way, that conservation and rehabilitation is not a house-by-house approach; it is a neighborhood approach. It cannot be done, in our judgment, on a shotgun basis.

The other thing we learned is that the leveraging concept of local loans that we have started, has major advantages. Again, I think it is more of an attitude problem than anything else, because the local loan associations and institutions begin to come back into that area and make their own loans once they are involved in support of rehabilitation.

As I have mentioned before, we have a number of types of neighborhoods. We have one, for example, where we are just trying to hold the housing in the condition it is in—decent, safe, and sanitary—

without making a major turnaround, because we don't think that's possible in that neighborhood. Yet that housing is good for another 10 or 15 years and, therefore, we are concentrating our efforts in that neighborhood in that way. We tell the people that, we tell the investors that, and it is working.

We have other neighborhoods, however, that were almost to the point of no return that have completely turned around, and I gave you the example of the 100-percent increase in the sales prices in one particular neighborhood.

In making recommendations to you, I guess there is, again, no magic. We have no formula which we can tell you will work everywhere, but we do have a couple or three recommendations that we would like for you to consider, Mr. Chairman.

First, again, the drawing of boundaries. We believe very strongly that the explicit identification of targets is absolutely necessary in order to make rehabilitation of neighborhoods work.

Second, one of the major problems with CDBG as it relates to rehabilitation is that it is not long term—and I don't know how to make it long term. In rehabilitation you usually don't make much progress the first year or two except to organize the citizens, tell them the truth, hold a lot of meetings—a lot of that kind of effort. And then you get them believing in their neighborhood and what you are going to do, and all at once you are ready to go. You get the first loan ready to go, and you find out there is no money available.

On-again, off-again funding is impossible in rehabilitation. It will not work, and it will kill the program faster than anything.

As a matter of fact, the reason for our local loan program is termination of the section 312 program. We had a neighborhood that had made the turnaround, and then we were about to lose it all again. Therefore, we invited the banks, and they helped us locally to initiate a sustaining effort.

Third, I think one of the things that is lacking in rehabilitation and conservation in many other localities that we are able to talk with is technical assistance. We are literally besieged by hundreds of communities that call us, write us letters and come in to see us—we have a regular bus tour of our conservation and rehabilitation projects. Communities are looking for help in the form of technical assistance, how to set it up, how to go about doing it. And we think that is an area that should be looked at by this committee.

We believe, further, that there is a new problem that has been etched in all of our minds, especially this winter, and that is energy.

It seems to us that energy saving and rehabilitation are very compatible long-term objectives, and that there is now an opportunity to set some energy standards for savings and establish some incentives, tax incentives or whatever, that would build into the rehabilitation process energy-saving concepts as we go through the rebuilding of these neighborhoods.

And last, the meshing of programs, CDBG in and of itself we do not believe will do the job. It is not long term. We need section 312. We need a variety of programs. We need to be able to leverage investment for different reasons, but we need to mesh programs together. In summary, we need an overall plan; a plan that says that we have long-

term commitments to our community; that we are concerned about rehabilitation and conservation; and that we are going to see it through to its end, and from that we believe we can build successes.

Mr. Chairman, I would like to say one further thing. I have two pictures I would like to show you. The reason I am doing this is because they happen to be "before-and-afters." It is not the best ones we have, but this one has an interesting sign on it, and that sign I would like for you to read. We found a way to beat vandalism in Norfolk, and I think this will point it out.

Mr. Chairman, I would be delighted to answer any questions that you have.

Thank you.

Mr. PATTERSON. Good. If you would like to, we will without objection introduce your prepared statement and the two pictures in the record.

[Mr. Shiver's prepared statement with attached photographs of the rehabilitation project referred to above and on behalf of the Norfolk Redevelopment and Housing Authority follows:]

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PREPARED REMARKS

OF

JACK H. SHIVER

EXECUTIVE DIRECTOR

NORFOLK REDEVELOPMENT AND HOUSING AUTHORITY

HEARINGS ON COMMUNITY DEVELOPMENT
U. S. HOUSE OF REPRESENTATIVES SUB-COMMITTEE
ON HOUSING AND COMMUNITY DEVELOPMENT

OF THE

COMMITTEE ON BANKING, FINANCE, AND
URBAN AFFAIRS

10:00 A. M.

March 3, 1977

RAYBURN HOUSE OFFICE BUILDING

Mr. Chairman and Members of the Subcommittee, I am Jack H. Shiver, Executive Director of the Norfolk, Virginia Redevelopment and Housing Authority. Thank you for the opportunity to address you on the matters of neighborhood rehabilitation, preservation and conservation as they relate to the Community Development Block Grant Program (CDBG).

I have organized my comments into two parts, the first being the approaches we have found successful through our local experience, and the second being the concerns which we have with respect to our future in this program area.

Approaches

In Norfolk, we have successfully employed both local and federally-assisted loan programs in five conservation areas. We have loaned almost \$6 million to date for almost 500 residential structures. Since the formation of our conservation projects, it is conservatively estimated that over \$3 million in purely private investment has taken place. This is an additional 60 cents for each dollar we have loaned through our publicly administered programs. In our first complete year of the CDBG we utilized \$3.5 million (about 20% of our grant) to support our conservation projects and programs. These funds were used primarily for site improvements, survey and planning and supporting administrative costs.

Prior to 1972, our loan programs relied on the Section 312 loan program and Section 115 grants. Of the \$6 million loaned, about 25% has been Section 312 money, a large part of which was used prior to 1972. Because of the on again, off again availability of 312 loan funds beginning in 1972, serious troubles to our conservation efforts developed. This was especially true in a project known as "Ghent", which had begun to show major progress and had demonstrated that rehabilitation could be successful in turning around a

problem neighborhood.

This problem with 312 funds was solved by the formulation of a local loan program utilizing a consortium of local banks. The Norfolk Authority administers the local loan program, processes applications, takes action against delinquencies and co-signs borrower's bank notes. About a quarter of a million dollars is drawn from the banks every six months. This local program, with the basic exceptions noted, is tailored to the 312 program requirements.

The local bank program has generated loans totaling \$3.6 million. Success in the combined local and Section 312 loan programs has been exceptional. In our Ghent Neighborhood Conservation Area, which has received some national exposure, recorded resales of homes since 1969 have averaged increases in value of over 100% after discounting the actual rehabilitation expenditure. This neighborhood was a "no loan" area in the mid sixties avoided by almost all local lending institutions. This project demonstrated a couple of things. First, it proved to us the value of tying a community rehabilitation program to a plan for complementary public capital improvements. In this one project, millions in conservation loans have been bolstered by \$2.9 million expenditure for public improvements in the form of street improvements, utilities, lighting, parks and landscaping. In all of our designated conservation areas, it is our belief that a public commitment to a neighborhood in the form of a capital improvements program is a necessary stimulus to resident borrowing and investment. This has been a success formula for us.

We also learned that local bank involvement in the rehabilitation loan program has a favorable influence on private lending institutions in the designated conservation areas. In the case of a neighborhood where

mortgage lending has been avoided, this effect of loosening mortgage loans can work together with rehabilitation loans in a very positive way. As mentioned earlier, local institutions have made over \$3 million in private loans where once they feared to tread.

Of course, our loan programs have been successful in ways over and above great increases in property value in certain neighborhoods. With 6,800 units in five conservation areas, we are particularly proud that we are exerting a strong stabilizing influence on over 15% of the city's housing stock. The value of this has been not so much in creating Ghents, Beacon Hills and the like, but in keeping downward transition from taking thousands of decent units away from Norfolk's housing stock.

Our five conservation areas cover a spectrum of rehabilitation needs, objectives and treatments. Our "diagnoses" of problems in these communities are basically different in each case -- as are the "treatments" prescribed. Take two examples:

Park Place Conservation Area -- a massive, downward transitional community housing 3,000 low and moderate income families. Here we have served objectives in different areas of the same project. A concentrated effort exists in the better sections which show potential for an "upgrading". We have identified, at the same time, an objective in other large portions of the community of exerting strictly a "holding action", i. e. keep housing resources decent and in the service of families who live there (and could not afford alternative housing) until broader renewal action can be taken. In this community, treatment consists of 312 loans, local loans (partly secured by an insurance fund through CDBG funds), a code enforcement program, and a community "clean-up" effort.

Colonial Place - Riverview and Ghent Conservation Areas --

communities that were the fashionable Norfolk suburbs of the early 1900's. They declined and approached the point of no return, but largely because of their innate quality they represented prime candidates for a complete comeback. Ghent is now the fashionable community it was 60 years ago, with rehabilitation about 90% complete. Colonial Place - Riverview is not far behind. In these conservation areas an "occupancy permit" program has also been used as an effective "ratchet" preventing slippage of units into less than standard condition. We are recommending this tool be continued after the projects are "closed out." As noted, capital improvements in these communities provided a supporting commitment to rehabilitation.

In one of these project examples, we are engaged largely in a holding action while awaiting renewal. In another, we have carried loan and capital improvement programs to the point of restabilizing neighborhoods at a level almost surpassing that which they previously knew. I hope this supports our contention that rehabilitation needs and treatments will vary. Rehabilitation is not the act of physically dealing with houses. To us it is a matter of specific treatment of specific neighborhood needs.

Our newest venture is in commercial rehabilitation. We are engaged in a downtown mall development program in an attempt to save a major downtown shopping area. Public improvements costing \$3 million have shaped the mall, and we are embarking on a rehabilitation program working with the local banks and the Small Business Administration's 502 program. Because of SBA's and the Authority's inexperience in major commercial rehabilitation, uncertainty exists. We have experienced this "threshold of uncertainty" before and expect to overcome it.

A commitment by mall property owners to repay \$1 million or one-third of the cost of the mall is a positive step in private commitment.

We are very concerned about the need to strengthen opportunities for commercial rehabilitation. Frankly, we do not feel that there is much potential in the CDBG in and of itself. Steps could be taken, we feel, to strengthen the use of the CDBG in connection with programs like the SBA 502. Chairman Ashley's work with the Commission on Neighborhoods is a positive step which we feel should include developing commercial as well as residential rehabilitation strategies tied to the CDBG. Above and beyond the innovative use of existing programs, new tools are also needed to make commercial rehabilitation work. More detailed examination of these possibilities is urgently needed.

Our most significant achievement in downtown commercial rehabilitation is just ahead of us as we begin a \$100 million joint venture on our waterfront with a Chessie Railroad System subsidiary. We will be using \$25 million in public funds (about $\frac{1}{2}$ CDBG funding) over a 10 year period to bring about a \$75 million private investment which will involve substantial rehabilitation of waterfront buildings for commercial and residential use. An article appearing in the December issue of "The Journal of Housing" describes this project in detail. All land in the 25 acre development will be publicly owned and leased-back for the privately developed uses. Returns on the private uses of the land will be divided between public and private participants. The concept of this venture is the best example we have of "making things happen" through the leveraging of public investment.

Problems and Concerns

I can summarize my concerns for rehabilitation in relation to the Community Development Block Grants (CDBG) with several points.

1. The suspension of the Section 312 program was damaging to our programs as was the inconsistency of the reactivated program. Loans

must be available after a family or investor has plans and specifications for rehabilitation -- they can't wait for six months hoping a loan will be released from the HUD Area Office. What is needed is a new and separate source of funds for rehabilitation loans that can be consistently available on a long term basis.

2. Our experience indicates that conservation areas must have clear boundaries and objectives related to the specific problems of that neighborhood. Within these boundaries, there should be as few restrictions as possible in making available rehabilitation methods to residents. And again, there must be some long-run consistency in the availability of programs and funding. The CDBG should be structured to recognize the long-range commitment for rehabilitation of neighborhoods as well as a long run commitment for 312 and other loans.

3. The CDBG has potential for use in leveraging rehabilitation investment, but this is under a cloud as I understand it. It is difficult to see what positive rehabilitation alternatives are available with CDBG if use of the funds for creating an effectively utilized loan pool is not permitted. This is contrary to the concept of many of the successful local loan programs in existence.

4. Our successes have required a commitment to designated neighborhoods in the form of public and private capital improvements working in conjunction with rehabilitation financing.

It is imperative that these be linked and visible to the residents and investors. I hope that the CDBG can be structured to provide the long range support to rehabilitation that we feel is necessary. In Norfolk, the concept of saving neighborhoods involves a variety of treatments which are mutually dependent. The reduction of funding amounts and the uncertainty of

CDBG decision-making processes put our long-run conservation efforts in jeopardy.

5. We feel that the use of an "occupancy permit" or related device should become a standard part of neighborhood conservation. Basically, this program requires properties to be certified as adhering to conservation standards prior to any transfer of ownership or rental.

6. The CDBG is cumbersome as a leveraging concept for private capital formation. We are often unable to provide required incentives and neutralize risk to the extent necessary to bring about significant rehabilitation without certainty of CDBG funding.

7. Energy conservation and rehabilitation are highly compatible goals. A unique opportunity exists to attack a serious problem which the harsh winter has etched on all our minds. Rehabilitation could be linked to energy conservation requirements, and when further combined with a tax incentive for such an investment, a powerful tool could begin working on two first-order objectives: saving our neighborhoods and saving our energy.

8. Technical assistance in the development of new rehabilitation tools and strategies as well as in the effective use of existing programs is desperately lacking. Our Authority is literally besieged each year with calls, letters and visits from those needing such assistance who are unable to find it from other sources.

In Norfolk, our rehabilitation success has involved no magic. It has required commitments not just in terms of rehabilitation financing, but also in public capital investments. Moreover, it has required us to

get into control of neighborhoods by establishing project boundaries, organizing citizens, setting standards, providing architectural assistance, and using occupancy permits. Our programs reflect the belief that "shotgun" rehabilitation will not be as effective as a concentration of effort with definite goals and within definite boundaries. It takes a blend of tools and programs to turn around or to stabilize neighborhoods. To say that the CDBG in and of itself can be the vehicle for doing this is unrealistic. It will take a more direct approach which can apply loan and capital improvement treatments on a long term basis, utilizing new and innovative machinery which can employ tax incentives; existing SBA programs such as the 502 programs; federal guarantees; and active residential and commercial 312 concepts -- all meshed with the CDBG.



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Mr. PATTERSON. And now we will hear from Mr. Apperson.

**STATEMENT OF CECIL APPERSON, REHABILITATION SUPERVISOR,
BOISE CITY BUILDING DEPARTMENT**

Mr. APPERSON. My name is Cecil Apperson. I'm with the building department of Boise, and because of the fact I'm a last-minute substitute for Mr. Hogland—he will submit a written report—and I will make a very few brief observations that will be contained in that report.

And like my predecessor, I don't have any magic formulas. We have enormous problems and very few solutions. The city of Boise has been in the rehabilitation business for about 5 years, beginning with Model Cities and a very small demonstration situation.

Since the advent of the block grant concept, the city has designated \$1.5 million directly out of the CDBG funds to be loaned directly to homeowners for rehabilitation.

We are halfway into the second year, and we are right on schedule. And we directly made loans to over 300 residents for improvement.

Our program consists primarily of two things: The direct loan providing the funds for the rehabilitation, and the technical assistance where we send people into these homes and offer direct technical assistance in terms of advising them what their homes need.

Alongside our block grant program, we also have a section 312 program, which we only recently were funded with. It is our intention to couple section 312 with section 8 in an effort to expand our senior citizen, particularly multiple-family units, senior citizen and also to guarantee that the section 312 money goes ultimately to the consumers that are within the scope of the program.

Our largest single problem has been in the local ability to define the problems. Boise is an unusual city in terms of its housing. It has 37,000 residences, and more than 50 percent of them were built prior to 1940. Our problems are scattered in the city, as opposed to being concentrated in one area. This is something of a departure from what you normally find in cities, and it is difficult to convince other people that that is the way the problems are.

Our senior citizen population, who are large participants in our program, are also dispersed in a like manner. We have done some leveraging with our program in terms of acquisition. Our banks have been very cooperative in making ordinary loans for acquisition within the areas that we work in with the agreement from us that we will make a rehabilitation loan. Their goal—that provides them with a method for upgrading the property to meet their standards for normal lending procedures.

We have one area that is a success story. I said we don't have many, but I do have one, and some of the side effects are interesting. One of the enormous benefits of concentrating in one area is the fact that we have estimated that for each home that we make a loan to upgrade, that four or five of the neighbors have upgraded their homes voluntarily as a consequence. And because of this we have had an overall enormous upgrading of one neighborhood. We have changed the whole character of the neighborhood, and we have also changed some of the

attitudes of the neighborhood. It is organized—in fact its organization has become a problem to the city it is so well-organized.

I don't have an enormous number of recommendations. We, too, as everybody else is, are very inexperienced in this business and we have a lot to learn.

We would recommend very strongly that the 312 program be continued. It has the potential for enormous long-term benefits. And in a like manner the block grant, at least the concept. We endorse the long-term concept of a block grant program.

We would also strongly encourage the direction of regulations toward local control. We feel very much that if we describe our problems and if we offer constructive solutions within the limits of what is allowable in the programs that we are much more successful.

Thank you very much for the opportunity to speak.

Mr. PATTERSON. Thank you very much, Mr. Apperson, particularly for your pinch-hitting for Mr. Hogland on rather short notice.

We will insert in the record his statement when we receive it. Without objection, so ordered.

[At the time the hearing went to press, no statement had been received.]

Mr. PATTERSON. Proceeding right along to our next panelist, Sol Levin.

STATEMENT OF SOL LEVIN, DIRECTOR, MADISON (WIS.) HOUSING AND REDEVELOPMENT AUTHORITIES, AND DIRECTOR, MADISON DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Mr. LEVIN. Thank you very much, Mr. Chairman.

My name is Sol Levin. I am executive director of the housing and redevelopment authorities of the city of Madison, Wis., and also director of the city's department of housing and community development.

We, too, have recognized the need for a continuing effort to preserve and upgrade our older housing areas, of which we have a goodly number in Madison.

We have also recognized that programs aimed at conserving and upgrading our existing housing stock can be meaningful only if the financial and technical assistance of which Mr. Shiver spoke are made available to those who are otherwise unable to obtain such help.

Another basic point is that we have also recognized that, given the diversity of the population in Madison, effective neighborhood preservation program must be responsive to the needs of different segments of that population, including owner-occupants of single-family homes; investor-owners; members of housing cooperatives, of which we have a large number in the areas where student housing is concentrated; young families that seek to become homeowners; tenants who cannot afford the rental increases that typically accompany extensive rehabilitation of older apartment buildings; and so forth.

Out of this recognition we have developed, and are now actually using several different kinds of rehabilitation assistance programs, including the section 312 program.

I, too, could report a number of success stories, as well as some failures. But what I would like to focus on are the different kinds of initiatives we have taken, and then talk about some of the things

that it might take to help us turn what are at the present time only initiatives into success stories. For example, we have drafted a program that would combine local rehabilitation financing with the section 8 housing assistance payments program. The purpose of this program would be to provide rehabilitation financing assistance to the small nonprofessional landlord. In Madison we have many such small property-owners each of whom owns a one- or two- or three-unit building, and that's all. Such owners are not equipped to deal with the complexities of the section 8 program.

We think that we have developed an approach that could be extremely useful to them and, in turn, to their tenants, many of whom are lower income, elderly couples or individuals.

Based on our experiences with the programs of which I speak, I, too, have three recommendations to offer for your consideration; not surprisingly, one is to continue and expand the section 312 program as a basic component of publicly sponsored neighborhood preservation efforts; at the same time continue adequate funding of the community development block grant program, so that communities can supplement the basic section 312 program with other flexible rehabilitation financing packages for those who need such assistance, but, for one reason or another, are not eligible for section 312 loans.

Finally, I recommend the following changes; one in the administration of block grant funds, to make it easier for young families to purchase and rehabilitate existing older homes in neighborhood preservation areas; and one in the section 8 housing assistance payments program that would provide both HUD and local communities with a more comprehensive approach in dealing with the rehabilitation problems of the small, nonprofessional landlord who wants to improve the condition of his rental units without passing the costs on to lower income tenants.

The section 312 program has been a key element of our neighborhood preservation activities in Madison for approximately 10 years, with all of the off-and-on features of which Mr. Shiver spoke; however, in the last 2 years alone more than 100 lower income families have financed the costs of needed improvements to their homes with section 312 loans. We have been able to use the section 312 program to save at least one entire neighborhood where we were able to combine the availability of section 312 funding with the types of public improvements that were possible under the urban renewal program, including streets, sidewalks, curb and gutter, street trees, street lights, a tot lot, neighborhood park facilities, and so forth.

At the present time we are actively processing section 312 loans in three target areas of the city; we are also seeking to use block grant funds for needed improvements in these areas.

More than two-thirds of our section 312 loans have been processed in the last 2 years, despite sporadic funding and virtually zero advance planning time. I refer specifically to the time when we were involved in what was known as the early commitment procedure. We literally had 1 week's notice to try to develop a program that would involve between \$125,000 and \$150,000 of section 312 loan funds; in that short time, it is very difficult to fashion a program that one can point to and say this was the result of very sophisticated planning.

Nevertheless, the program was successful in that we were able, under the early commitment procedure, to convert all of those early commitments into loans. Parenthetically, we recently called our HUD area office to find out what their experience had been with defaults in Madison through the 10 years of your involvement with the section 312 program. No defaults have resulted from any section 312 loans made to date in Madison.

The major import of my recommendation to keep the section 312 program would not only be that it be kept, but also that it be adequately and regularly funded.

If this were done, then I believe that the program would be even more valuable for us in planning and carrying out neighborhood preservation programs on an ongoing basis and on a scale that is more nearly commensurate with the need in Madison.

The section 312 program meets some, but not all, local rehabilitation needs. As a result, complementary approaches are essential if we are to have the flexibility that we need to meet the needs of a broader population. As have other communities, Madison has used block grant funds for rehabilitation efforts that supplement the section 312 program.

We have found, for example, that many lower income families cannot afford the full cost of a section 312 loan in the amount needed for adequate rehabilitation, despite the low interest rate. And so, we have designed a program that would allow us to combine with a section 312 loan, a non-interest-bearing deferred payment loan from the city that would be repaid only when the family sells the property. During the time that the property is owned and occupied by the family, the family's monthly amortization payments are substantially less than they would be if all of the work were to be financed with the section 312 loan. In this fashion we are able to make sure that an adequate job is done, including the insulation and energy-conservation problems of which Mr. Shiver spoke.

We have also learned that some very low income families, particularly elderly families, cannot afford to make any monthly payment at all for rehabilitation work, and yet have a great need for this type of work. In such cases, rehabilitation work can be totally financed with a totally deferred payment loan at zero interest, with the loan to be fully repaid when the property is sold.

For the moderate-income family that is over income for purposes of eligibility for the section 312 program, but still cannot afford conventional home improvement loans, we have a city-funded-program that is very much like the section 312 program. It provides 6-percent loans.

The city of Madison has recently approved a home buyers assistance program, and this program is one that, I think, has great potential. It involves leveraging through combinations of private loans with publicly funded loans.

The essence of this program is that we have a number of areas of declining school enrollment, areas that are still basically sound. Very simply, the idea is to encourage young families to move into such areas, by making it possible for them to be able to afford to purchase and rehabilitate the existing homes in those areas.

What we are doing in this program is to use a combination of non-interest-bearing deferred payment loan and low-interest installment loan behind the family's 5 percent downpayment and a conventional mortgage loan that would be based on the total cost of acquisition and rehabilitation, rather than just the purchase price of the property; in this way we can take into account both the cost of acquisition and rehabilitation in one financing package. We would hope, in this fashion, to encourage the interested families to become buyers in the housing market represented by the areas of declining school enrollment.

Clearly block grant funds have made it possible for us to design these programs; we have learned that these programs are most effective if they are used together and in combination with the section 312 program. The flexibility of block grant funding complements the section 312 program; both programs should be continued.

Based on our experience, I would like to suggest two changes in the block grant program and the section 8 program.

First, it should be made clear that community development block grant funds can legitimately be used to assist families in both purchase and rehabilitation of homes, not just in rehabilitation. As I indicated, under our home buyers assistance program we can make available low-interest, second mortgage loans to assist a family in the purchase of a property in cases where the family would otherwise be unable to afford both purchase and rehabilitation costs.

Although our HUD area office is not yet convinced that home purchase costs made in connection with housing rehabilitation are eligible for block grant funding, we feel that these should be eligible costs of the block grant program since they are similar to the refinancing of existing mortgage debt, which has always been an eligible cost under the section 312 program.

Last, the section 8 program should be modified to make it easier for small landlords to make minor property improvements. We are attempting to provide low-interest financing for such improvements; however, even with lower interest financing, lower income tenants of those units may not be able to afford the rents that would be required for the rehabilitated units.

We believe that this is why HUD is seeking to allocate section 8 substantial rehabilitation funds for landlords in designated neighborhood preservation areas. However, the procedures that have been developed to date are still far too complex for the small landlord to cope with, and we would look for a much more streamlined program for minor property improvements by small landlords in neighborhood preservation areas. The objective here would be to minimize the amount of paperwork that small landlords would have to do, in much the same way as HUD has done under the section 8 existing program.

I will be furnishing your staff with a more detailed description of the changes that I have discussed. I, too, would like to express my appreciation for the opportunity to share the results of our experience with you today.

Mr. PATTERSON. Thank you, Mr. Levin.

You have attached here four pages of the suggested program changes. Is that what you indicated you would submit to the staff?

Mr. LEVIN. Yes; and I will also submit copies of the specific programs that I referred to in my remarks.

Mr. PATTERSON. We thank you, and without objection, that will be entered into the record.

[Mr. Levin's prepared statement with attached suggested program changes, documents submitted entitled "Housing Rehabilitation Services Program of the City of Madison Investor-Owner Program"; "Housing Rehabilitation Services Program of the City of Madison"; and "Homebuyers Assistance Program of the City of Madison," follow:]

STATEMENT OF SOL LEVIN, DIRECTOR OF
THE HOUSING AND REDEVELOPMENT AUTHORITIES
OF THE CITY OF MADISON, WISCONSIN,

AND

DIRECTOR OF THE CITY'S DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

MARCH 3, 1977

MY NAME IS SOL LEVIN. I AM EXECUTIVE DIRECTOR OF THE HOUSING AND REDEVELOPMENT AUTHORITIES OF THE CITY OF MADISON, WISCONSIN, AND DIRECTOR OF THE CITY'S DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT. THE CITY OF MADISON IS STRONGLY COMMITTED TO THE CONSERVATION OF ITS MANY OLDER, BASICALLY SOUND RESIDENTIAL AREAS, AND TO THE REHABILITATION OF EXISTING HOUSING FOR PEOPLE OF LOW AND MODERATE INCOME. WE HAVE RECOGNIZED THAT PROGRAMS TO CONSERVE AND UPGRADE OUR EXISTING HOUSING STOCK ON ANY MEANINGFUL SCALE CAN ONLY BE SUCCESSFUL IF FINANCIAL AND TECHNICAL ASSISTANCE ARE MADE READILY AVAILABLE BY THE CITY TO THOSE OTHERWISE UNABLE TO OBTAIN NEEDED HELP. WE HAVE ALSO RECOGNIZED THAT AN EFFECTIVE NEIGHBORHOOD PRESERVATION PROGRAM MUST BE RESPONSIVE TO THE NEEDS OF DIFFERENT SEGMENTS OF OUR POPULATION -- OWNER-OCCUPANTS OF SINGLE FAMILY HOMES, INVESTOR-OWNERS, MEMBERS OF HOUSING COOPERATIVES, YOUNG FAMILIES THAT SEEK TO BECOME HOMEOWNERS, TENANTS WHO CANNOT AFFORD THE RENTAL INCREASES THAT TYPICALLY ACCOMPANY EXTENSIVE REHABILITATION OF OLDER APARTMENT BUILDINGS, ETC. WE HAVE ACTIVELY USED SEVERAL DIFFERENT KINDS OF REHABILITATION ASSISTANCE PROGRAMS, INCLUDING THE SECTION 312 PROGRAM, AND TWO LOCALLY-DESIGNED PROGRAMS FUNDED BY A COMBINATION OF LOCAL FUNDS AND COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) FUNDS. WE HAVE DRAFTED A PROGRAM THAT WOULD COMBINE LOCAL REHABILITATION FINANCING WITH THE SECTION 8 HOUSING ASSISTANCE PAYMENTS PROGRAM. BASED ON OUR EXPERIENCES WITH THESE PROGRAMS, I RESPECTFULLY OFFER THE FOLLOWING RECOMMENDATIONS FOR YOUR CONSIDERATION:

1. CONTINUE AND EXPAND THE SECTION 312 REHABILITATION LOAN PROGRAM AS A BASIC COMPONENT OF PUBLICLY-SPONSORED NEIGHBORHOOD PRESERVATION PROGRAMS.

2. AT THE SAME TIME, CONTINUE ADEQUATE FUNDING OF THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM, SO THAT COMMUNITIES CAN SUPPLEMENT THE BASIC 312 PROGRAM WITH OTHER FLEXIBLE REHABILITATION FINANCING PACKAGES FOR THOSE WHO NEED SUCH ASSISTANCE, BUT, FOR ONE REASON OR ANOTHER, ARE NOT ELIGIBLE FOR 312 LOANS.
3. MAKE TWO CHANGES -- ONE IN THE ADMINISTRATION OF BLOCK GRANT FUNDS, TO MAKE IT EASIER FOR YOUNG FAMILIES TO PURCHASE AND REHABILITATE EXISTING OLDER HOMES IN NEIGHBORHOOD PRESERVATION AREAS -- AND ONE IN THE SECTION 8 HOUSING ASSISTANCE PAYMENTS PROGRAM, THAT WILL PROVIDE HUD AND LOCAL COMMUNITIES WITH A MORE COMPREHENSIVE APPROACH FOR DEALING WITH THE REHABILITATION PROBLEMS OF THE SMALL, NON-PROFESSIONAL LANDLORD WHO WANTS TO IMPROVE THE CONDITION OF HIS RENTAL UNITS WITHOUT PASSING THE COSTS ON TO LOWER-INCOME TENANTS.

CONTINUING THE SECTION 312 PROGRAM

THE SECTION 312 PROGRAM IS A KEY ELEMENT OF NEIGHBORHOOD PRESERVATION IN MADISON. WE HAVE USED THE PROGRAM FOR MORE THAN 10 YEARS; IN THE LAST TWO YEARS ALONE, MORE THAN 100 LOWER-INCOME FAMILIES HAVE FINANCED THE COSTS OF NEEDED IMPROVEMENTS TO THEIR HOMES WITH 312 LOANS. THESE LOW-INTEREST LOANS HAVE DONE MORE THAN HELP INDIVIDUAL FAMILIES; THEY HAVE HELPED TO SAVE ENTIRE NEIGHBORHOODS. IN SOUTH MADISON, THE AVAILABILITY OF 312 LOANS PLUS THE INSTALLATION OF PUBLIC IMPROVEMENTS FINANCED THROUGH THE URBAN RENEWAL PROGRAM, INCLUDING STREETS, SIDEWALKS, CURB AND GUTTER, STREET TREES, STREET LIGHTS, A TOT-LOT, AND NEIGHBORHOOD PARK FACILITIES, MADE THE TURN-AROUND OF A DETERIORATING NEIGHBORHOOD A REALITY. AT THE PRESENT TIME WE ARE ACTIVELY PROCESSING 312 LOANS IN THREE TARGET AREAS; WE ARE ALSO SEEKING TO USE BLOCK GRANT FUNDS FOR NEEDED PUBLIC IMPROVEMENTS IN THESE AREAS.

OUR PAST AND CURRENT EXPERIENCE WITH NEIGHBORHOOD PRESERVATION ACTIVITIES SUGGEST THE FOLLOWING REASONS FOR CONTINUATION OF THE SECTION 312 PROGRAM:

1. IT IS A TESTED APPROACH TO REHABILITATION FINANCING THAT HAS PROVED TO BE WORKABLE.
2. LOCAL OFFICIALS, CONTRACTORS, LOCAL AGENCY STAFFS, AND MOST IMPORTANTLY, LOCAL CITIZENS, ARE KNOWLEDGEABLE ABOUT THE PROGRAM AND HAVE LEARNED TO USE IT EFFECTIVELY IN IMPROVING THE CONDITION OF THE EXISTING HOUSING STOCK.
3. CONTINUATION OF THE PROGRAM WILL PROVIDE A MEANINGFUL EXPRESSION OF CONGRESSIONAL INTENT TO COMMIT RESOURCES FOR HOUSING REHABILITATION AS AN INCREASINGLY IMPORTANT PART OF HOUSING AND NEIGHBORHOOD PRESERVATION STRATEGIES AT BOTH THE LOCAL AND NATIONAL LEVELS.

MORE THAN TWO-THIRDS OF OUR SECTION 312 LOANS HAVE BEEN PROCESSED IN THE LAST TWO YEARS, SPORADIC FUNDING AND VIRTUALLY ZERO ADVANCE PLANNING TIME NOTWITHSTANDING. DESPITE THESE PROBLEMS, THE SECTION 312 PROGRAM HAS CLEARLY AND CONVINCINGLY DEMONSTRATED ITS VALUE IN MADISON. IF THESE PROBLEMS CAN BE OVERCOME THROUGH ADEQUATE AND REGULAR FUNDING, THE 312 PROGRAM WOULD BE EVEN MORE VALUABLE TO US IN PLANNING AND CARRYING OUT NEIGHBORHOOD PRESERVATION PROGRAMS ON AN ON-GOING BASIS, AND ON A SCALE MORE NEARLY COMMENSURATE WITH EXISTING NEED.

CONTINUING COMMUNITY DEVELOPMENT BLOCK GRANT FUNDING

THE SECTION 312 PROGRAM MEETS SOME BUT NOT ALL LOCAL REHABILITATION NEEDS. COMPLEMENTARY APPROACHES ARE ESSENTIAL IF COMMUNITIES ARE TO HAVE THE FLEXIBILITY NEEDED TO ADEQUATELY MEET THE NEEDS OF A BROADER POPULATION. AS HAVE OTHER COMMUNITIES, MADISON HAS USED BLOCK GRANT FUNDS FOR REHABILITATION EFFORTS THAT SUPPLEMENT THE BASIC 312 PROGRAM.

SOME LOWER-INCOME FAMILIES CANNOT AFFORD THE FULL COST OF A 312 LOAN IN THE AMOUNT NEEDED FOR ADEQUATE REHABILITATION. IN COMBINATION WITH A 312 LOAN, A LOWER-INCOME FAMILY MAY OBTAIN A NON-INTEREST-BEARING DEFERRED PAYMENT LOAN FROM THE CITY, TO BE REPAID ONLY WHEN THE FAMILY SELLS THE PROPERTY. DURING THE TIME THAT THE FAMILY OWNS AND OCCUPIES THE PROPERTY, MONTHLY LOAN PAYMENTS ARE SUBSTANTIALLY LESS THAN THEY WOULD BE IF ALL OF THE REHABILITATION WORK WERE FINANCED WITH A 312 LOAN.

SOME VERY LOW INCOME FAMILIES, ESPECIALLY ELDERLY FAMILIES, CANNOT AFFORD TO MAKE ANY MONTHLY PAYMENT AT ALL FOR REHABILITATION WORK. IN SUCH CASES, REHABILITATION WORK CAN BE TOTALLY FINANCED WITH A DEFERRED PAYMENT LOAN.

MANY MODERATE INCOME FAMILIES ARE OVER INCOME FOR PURPOSES OF ELIGIBILITY FOR SECTION 312, BUT STILL CANNOT AFFORD CONVENTIONAL HOME IMPROVEMENT LOANS. FOR SUCH FAMILIES, THE CITY PROVIDES 6% LOANS.

THE CITY OF MADISON HAS APPROVED A HOMEBUYER'S ASSISTANCE PROGRAM, THROUGH WHICH YOUNG FAMILIES WITH CHILDREN MAY BE ASSISTED IN THE PURCHASE AND REHABILITATION OF SINGLE-FAMILY HOMES IN TARGET NEIGHBORHOODS. A COMBINATION OF A NON-INTEREST-BEARING DEFERRED PAYMENT LOAN AND LOW INTEREST INSTALLMENT LOAN IS ADDED TO THE FAMILY'S DOWNPAYMENT AND A CONVENTIONAL MORTGAGE LOAN IN ORDER TO REDUCE MONTHLY PAYMENTS.

TO ASSIST LOWER-INCOME RENTERS, MADISON IS ATTEMPTING TO COMBINE LOCALLY-FUNDED REHABILITATION FINANCING WITH THE SECTION 8 HOUSING ASSISTANCE PAYMENTS PROGRAM. UNDER THIS PROGRAM, LOW-INTEREST LOANS WOULD BE MADE TO LANDLORDS WHO WOULD AGREE TO LEASE REHABILITATED UNITS TO LOWER-INCOME FAMILIES PARTICIPATING IN THE SECTION 8 PROGRAM.

CLEARLY, BLOCK GRANT FUNDS HAVE MADE IT POSSIBLE FOR US TO DESIGN PROGRAMS THAT MEET A WIDE VARIETY OF REHABILITATION NEEDS IN THE CITY. EFFECTIVE USE OF THESE PROGRAMS IS MAXIMIZED IF THEY ARE USED TOGETHER AND IN COMBINATION WITH THE SECTION 312 PROGRAM. THE FLEXIBILITY OF BLOCK GRANT FUNDING COMPLEMENTS THE BASIC 312 PROGRAM; BOTH SHOULD BE CONTINUED.

PROGRAM CHANGES

BASED ON MADISON'S REHABILITATION EXPERIENCE AND NEEDS, I WOULD LIKE TO SUGGEST TWO CHANGES IN THE BLOCK GRANT AND SECTION 8 PROGRAMS. FIRST, IT SHOULD BE MADE CLEAR THAT COMMUNITY DEVELOPMENT BLOCK GRANT FUNDS CAN LEGITIMATELY BE USED TO ASSIST

FAMILIES IN BOTH THE PURCHASE AND REHABILITATION OF HOMES, NOT JUST IN REHABILITATION. UNDER OUR HOMEBUYER'S ASSISTANCE PROGRAM, WE CAN MAKE AVAILABLE LOW-INTEREST, SECOND MORTGAGE LOANS TO ASSIST A FAMILY IN THE PURCHASE OF A PROPERTY, IN CASES WHERE THE FAMILY WOULD OTHERWISE BE UNABLE TO AFFORD BOTH PURCHASE AND REHABILITATION COSTS. WE BELIEVE THAT THIS APPROACH, WHICH ALLOWS YOUNGER FAMILIES TO MOVE INTO, OR TO REMAIN IN PRESERVATION NEIGHBORHOODS, MUST BE A PART OF ANY EFFECTIVE NEIGHBORHOOD PRESERVATION PROGRAM. ALTHOUGH OUR HUD AREA OFFICE IS NOT YET CONVINCED THAT HOME PURCHASE COSTS MADE IN CONNECTION WITH HOUSING REHABILITATION ARE ELIGIBLE FOR BLOCK GRANT FUNDING, WE FEEL THAT THESE SHOULD BE ELIGIBLE COSTS OF THE BLOCK GRANT PROGRAM SINCE THEY ARE SIMILAR TO THE REFINANCING OF EXISTING MORTGAGE DEBT, WHICH HAS ALWAYS BEEN AN ELIGIBLE COST UNDER THE SECTION 312 PROGRAM.

LASTLY, THE SECTION 8 PROGRAM SHOULD BE MODIFIED TO MAKE IT EASIER FOR SMALL LANDLORDS TO MAKE MINOR PROPERTY IMPROVEMENTS. MADISON, LIKE OTHER COMMUNITIES, IS ATTEMPTING TO PROVIDE LOW-INTEREST FINANCING FOR SUCH IMPROVEMENTS; EVEN WITH SUCH FINANCING, LOWER-INCOME TENANTS MAY NOT BE ABLE TO AFFORD THE RENTS REQUIRED FOR THE REHABILITATED UNITS. THIS IS WHY HUD IS SEEKING TO ALLOCATE SECTION 8 SUBSTANTIAL REHABILITATION FUNDS FOR LANDLORDS IN DESIGNATED NEIGHBORHOOD PRESERVATION AREAS. HOWEVER, THE PROCEDURES DEVELOPED TO DATE, ARE STILL FAR TOO COMPLEX FOR MOST SMALL LANDLORDS TO COPE WITH. HUD SHOULD THEREFORE DEVELOP A MUCH MORE STREAMLINED SECTION 8 PROGRAM FOR MINOR PROPERTY IMPROVEMENTS BY SMALL LANDLORDS IN NEIGHBORHOOD PRESERVATION AREAS. THE OBJECTIVE SHOULD BE TO MINIMIZE LANDLORDS' PROBLEMS IN MUCH THE SAME WAY AS HUD HAS ALREADY DONE UNDER THE SECTION 8 EXISTING HOUSING PROGRAM.

I AM FURNISHING YOUR STAFF WITH A MORE DETAILED DESCRIPTION OF THE CHANGES WHICH I HAVE DISCUSSED. I WOULD LIKE TO EXPRESS MY APPRECIATION FOR THE OPPORTUNITY TO SHARE THE RESULTS OF OUR REHABILITATION EXPERIENCE WITH YOU TODAY.

SUGGESTED PROGRAM CHANGES

CDBG Funds for Homebuyer's Assistance Program

One of the problems we have encountered in the attempt to implement our Homebuyer's Assistance Program is the narrow view that HUD has taken with respect to the eligible uses of CDBG funds. Essentially, our program is designed to assist families with young children to purchase, rehabilitate and move into older houses in target areas of declining school enrollment.

In order to enable these younger families to accomplish the purchase and rehabilitation of these properties, we will provide low-interest second mortgage loans to the families, who will finance most of the cost of purchase and rehabilitation with a conventional first mortgage loan from a local lending institution.

One of the basic concepts that underlies the program is the recognition that if we made low-interest financing available only to cover the cost of the rehabilitation work, many of the families would not be able to finance the purchase of the property. As a result, we not only provide low-interest second mortgage financing for rehabilitation, but also, in those cases where needed, we are authorized to provide such financing to assist the buyer in purchasing the property. Without such additional assistance, the potential buyer would not be able to either purchase or rehabilitate the property. This is the same concept that has been recognized by HUD in allowing the use of a part of a Section 312 loan for the refinancing of existing debt on a property to be rehabilitated under that Program. Providing low-interest rehabilitation loans does not always mean that a property owner, or a potential property owner, can afford the cost of rehabilitation. Reducing the owner's current housing costs (by refinancing) or reducing the purchaser's potential housing costs (by financing part of the cost of purchase) is often needed to make rehabilitation feasible.

Unfortunately, the HUD Office in our area has informed us that CDBG funds may only be used for the costs of, and directly related to, the rehabilitation work. In their view, assisting a potential rehabilitator to purchase the property to be rehabilitated, by making a small second mortgage purchase loan in connection with the rehabilitation loan, is not an eligible use of Block Grant funds under the Housing and Community Development Act of 1974. We can see no such limitation

in our reading of the Act, but if there is, in fact, such a limitation it should be eliminated immediately.

Section 8 for Neighborhood Preservation

In Madison, as in many other communities, we have found that a large portion of the housing in our preservation neighborhoods is renter-occupied. Many of these properties are owned by non-professional landlords, many of whom may live in one of the dwelling units in the building. Often the properties are small, (2-4 units) and in many cases the investor-owner does not own any other property. While these investor-owned properties may be a large portion of the neighborhood's housing, they may be a larger portion of the properties in need of rehabilitation. Yet, very few local rehabilitation programs have addressed the problems that inhibit such investor-owners from undertaking the improvement of their properties. Even with a low-interest property improvement loan, rehabilitation may result in cost increases which cannot be passed on to the tenants. If the investor-owner is not able to recover his extra costs through increased rents, he is unwilling to undertake property improvements. Tenants may want the owner to improve the property, but not be able to pay any more rent.

We believe that neighborhood preservation can only be successful if we can effect the improvement of both owner- and renter-occupied properties. In order to accomplish this, we consider it essential to link the availability of low cost financing for the investor-owner with the availability of housing assistance payment for tenants under the Section 8 Program. Under such a system, the extra costs of the owner could result in rent increases, but such rent increases would only affect tenants to the extent that they could afford them. The remainder of such increases would be covered through the Section 8 Housing Assistance Payments Program. HUD has already recognized the need to make Section 8 funds available to assist tenants of properties being improved within locally-designated neighborhood preservation areas, and has proposed regulations that would create special processing procedures under the Section 8 Substantial Rehabilitation Program. Under the proposed regulations, a special allocation of Section 8 Substantial Rehabilitation funds would be made available for use in neighborhood preservation areas in which local governments have demonstrated the use of other tools in a comprehensive neighborhood preservation strategy. Local governments would then encourage and assist owners in the submission of proposals to HUD.

Although we believe that the proposed regulations are a step in the right direction, and should be finalized and implemented as soon as possible, we do not feel that they go far enough to really deal with the problems of the typical investor-owner in our preservation areas. Very simply, these smaller, non-professional owners cannot cope with the complexity of the Section 8 Substantial Rehabilitation Program. They are not capable of "developing" such projects, nor are they capable of effectively doing the specialized management required by HUD under the Program. Nor is the typical HUD Area Office equipped to process Section 8 applications from a myriad of small, inexperienced investor-owners, even in the city in which the Area Office is located, much less from the communities in the far corners of the Area Office's jurisdiction. The Section 8 Substantial Rehabilitation Program was designed to assist professional developers to undertake major reconstruction of large multi-family properties. That is not the problem that we face in Madison in attempting to preserve our neighborhoods.

The Section 8 Existing Housing Program has been designed to minimize the extent to which landlords are required to do "something special" as a result of renting to an assisted tenant. With several changes, the Section 8 Existing Housing Program could be used as the basis for developing an effective program for assisting in the improvement of small investor-owned properties. The following are essential to the design of any effective program for dealing with small investor-owners:

- (a) PHAs should be authorized to negotiate an Agreement to Enter Into a Housing Assistance Payments Contract directly with the property-owner, based on the owner's commitment to make required improvements to his property. When the improvements are completed, the PHA should be authorized to enter into a Housing Assistance Payments Contract directly with the owner. The PHA would then be responsible for finding eligible tenants, including determination of eligibility of all of the current tenants of the property. The landlord would have the same management and maintenance responsibilities that he has under the Section 8 Existing Housing Program.

Such authorization to the PHA would be made only after HUD has determined that the designated neighborhood is in fact the target of a comprehensive local preservation strategy, and such authorization could only be used in such neighborhoods.

- (b) To assure the property owner and the lender (presumably the local CDBG recipient operating the rehabilitation loan program) of the continued availability of housing assistance payments over the term of the rehabilitation loan, the term of the Housing Assistance Payments Contract would be coterminous with the term of the rehabilitation loan.

- (c) In recognition of the level of investment required and the quality of the improved units, Special Fair Market Rents would be established, at a level approximating those now in effect for recently completed housing.

If these changes are made, local agencies would be better able to meet the needs of the smaller investor-owners who own properties located in neighborhood preservation districts. For this reason, we strongly recommend that such changes be made.

HOUSING REHABILITATION SERVICES PROGRAM OF THE CITY OF MADISON
INVESTOR-OWNER PROGRAM

DRAFT PROGRAM GUIDELINES

APRIL 1, 1976

Prepared by:

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Definitions.

- 1.1 Agreement to Enter Into Housing Assistance Payments Contract, ("Agreement"). In the case of a Substantial Rehabilitation Project, a written agreement between the owner and HUD that, upon satisfactory completion of the rehabilitation in accordance with the HUD approved Final Proposal, HUD will enter into a Housing Assistance Payments Contract with the owner.

Agreement to Make Units Available ("Agreement"). In the case of an Existing Housing Project, a written agreement between the owner and the MHA that, upon satisfactory completion of the rehabilitation in accordance with the MHA approved Final Proposal, and the signing of a lease with a holder of a Certificate of Family Participation, the MHA will enter into a Housing Assistance Payments Contract with the owner.

Application for HRSP Rehabilitation Financing ("Application"). An application from the owner to the HRSP for rehabilitation financing of an eligible property under the terms and conditions of the HRSP Investor-owner Program. The Application shall consist of the Preliminary Application, made for a Determination of Feasibility, and the Final Application, made for a loan Commitment.

Certificate of Family Participation ("Certificate"). A certificate issued by the Madison Housing Authority declaring a Family to be eligible for participation in the Existing Housing Program, and authorizing the Family to locate an acceptable housing unit.

Closing. A session involving the owner, representatives of the HRSP, HUD, and/or the MHA to execute legal documents at significant junctures in the rehabilitation process. The Initial Closing occurs prior to the start of rehabilitation for purposes of executing the loan documents, rehabilitation contract, and the Agreement. The Final Closing occurs at the completion of rehabilitation for purposes of executing the permanent loan documents, make final settlement on the rehabilitation contract, obtain acceptance of the project by the MHA or HUD, and execute the Housing Assistance Payments Contract.

Commitment. A written commitment by the HRSP to provide rehabilitation financing to the owner with terms and conditions as specified upon the execution of an Agreement.

definitions, cont.

1.1c

Consumer Transaction. Any loan transaction subject to the disclosure or rescission requirements of the U. S. Truth in Lending Act or the Wisconsin Consumer Act.

Contract Rent. The rent payable to the owner under his Contract including the rent payable by the Family. The Contract Rent is also equal to the Gross Rent, less any allowance for utilities paid for directly by the Family.

Department of Housing and Community Development ("HCD"). The City department having primary responsibility for the HRSP Investor-owner Program. All references to "HRSP staff" in the Handbook mean the staff of the Department of Housing and Community Development.

Department of Housing and Urban Development ("HUD"). The Federal department responsible for administration of the section 8 program.

Eligible Family ("Family"). A Family eligible for participation in the section 8 programs by virtue of meeting the eligibility requirements established by HUD.

Existing Housing Program and Existing Housing Project. The Federal program to provide housing assistance payments to Families leasing existing housing units, and a project rehabilitated with HRSP financing and leased, in part, to tenants assisted under that program.

Feasibility. A preliminary determination by the Housing Finance Committee that the project is feasible for HRSP financing and that the project would receive favorable action on a fully developed Final Application for Commitment.

Financing Fee. A fee payable to the HRSP by the owner out of mortgage proceeds at Initial Closing, to compensate the HRSP for costs of processing and servicing the loan.

Gross Family Contribution. The portion of the Gross Rent payable by an Eligible Family, i.e., the difference between the amount of the housing assistance payment on behalf of the Family and the Gross Rent.

definitions, cont.

1.1c

Housing Assistance Payments Contract ("Contract"). A written contract between the owner and HUD, in the case of a Substantial Rehabilitation Project, or the owner and the MHA, in the case of an Existing Housing Project, for the purpose of providing housing assistance payments to owners on behalf of Eligible Families.

Housing Finance Committee. The committee having final responsibility for Determination of Feasibility and issuance of Commitment for HRSP rehabilitation financing.

Housing Rehabilitation Services Program - Investor-owner Program ("HRSP"). The program described in this Handbook for the provision of rehabilitation financing and technical services. Any reference to HRSP staff shall mean the staff of the Department of Housing and Community Development.

Includable Rehabilitation Cost ("Includable cost"). An item that may be included in the scope of rehabilitation work for a project financed by the HRSP.

Interim Financing. A short term HRSP loan made to the owner to finance the cost of rehabilitation work during the course of the work. Advances under the interim financing will be made on a monthly basis, and the interim financing will be repaid by the permanent financing.

Madison Housing Authority ("MHA"). The local housing authority responsible for administration of the section 8 - Existing Housing Program.

Market Rent. The full market rent to be paid by tenants of unassisted units.

Mortgageable Item. An item that may be included in an HRSP rehabilitation loan.

Permanent Financing. A long term HRSP rehabilitation loan to be repaid in equal monthly payments over the term of the loan.

definitions, cont.

1.1c Proposal for Housing Assistance Payments ("Proposal"). A proposal by the owner to HUD, under the Substantial Rehabilitation Program, or to the MHA, under the Existing Housing Program, to provide units to Eligible Families receiving Housing Assistance Payments. The Proposal process is constituted by a Preliminary Proposal, for HUD or MHA selection, and a Final Proposal, specifying all terms of the Agreement and Contract, for HUD or MHA approval.

Regulatory Agreement. An agreement between the owner and the HRSP, made as a condition of HRSP financing, and specifying certain HRSP policies to be followed by the owner in the management and operation of the project.

Rehabilitation Contract. A contract between the owner and the contractor, covering the rehabilitation work to be financed in part by an HRSP rehabilitation loan. The contract is approved by the HRSP, and carries certain specified general conditions.

Substantial Rehabilitation Program and Substantial Rehabilitation Project. The Federal Program to provide housing assistance payments to families leasing substantially rehabilitated housing units, and a project rehabilitated with HRSP financing and leased, in part, to tenants assisted under that program.

Technical Services and Technical Service Fees. Technical services provided by the HRSP to the owner under a technical service contract, and the fees for such services payable by the owner. The technical services include certain design services and section 8 processing services. The owner may contract with a qualified professional for such services, or perform services on his own behalf. Other technical assistance is provided by the HRSP to the owner without charge.

General description of the HRSP Investor-owner Program.

1.2

The HRSP Investor-owner Program is designed to provide low cost rehabilitation financing to non-professional owners of residential properties in need of rehabilitation, upon the condition that some or all of the rehabilitated units are made available to Eligible Families under the section 8 Housing Assistance Payments Program. Under the section 8 programs, the amount of rent payable by the assisted family is limited to 25% of the family's monthly income. The remainder of the Contract Rent due the owner under the Housing Assistance Payments Contract is paid directly by HUD, or by HUD through the MHA. In addition to providing the rehabilitation loan, the HRSP will offer certain technical services to the owner on a contract basis, at low cost and with terms that reduce the risk to the owner.

Those projects in need of substantial rehabilitation will be processed under the section 8 - Substantial Rehabilitation Program. This component of the section 8 program is designed to assist in the financing of rehabilitated housing by providing the housing assistance payments to the project "through the unit". Prior to the start of rehabilitation, the owner and HUD will make an Agreement to Enter into a Housing Assistance Payments Contract, which commits HUD to providing housing assistance payments to Eligible Families that occupy assisted units in the project. At the completion of the rehabilitation work, the Contract is executed, and the owner may receive some housing assistance payments even before units are occupied. HUD will continue to make housing assistance payments on behalf of any Eligible Family that applies for, and occupies, an assisted unit.

Those projects that are not in need of substantial rehabilitation, but do not meet the requirements of the Minimum Housing and Property Maintenance Code, will be processed under the section 8 - Existing Housing Program. This component of the section 8 program is not designed to assist the owner in financing rehabilitation, but may be used in that way with the cooperation of the Madison Housing Authority. Under the Existing Housing Program, the housing assistance payments come to the project "through the tenant". Prior to the start of rehabilitation, the owner and the MHA will make an Agreement to Make Units Available, under which the owner commits to hold rehabilitated units open for occupancy by Eligible Families certified by the MHA. The Housing Assistance Payments Contract between the owner and the MHA will

general description of the HRSP Investor-owner program, cont.

- 1.2c be executed only after the unit has been leased by an Eligible Family, holding a Certificate of Family Participation issued by the MHA. If the unit is not leased by a Certificate holder within a reasonable period of time, the owner will be free to rent to another tenant. It is expected, however, that in most cases the Certificate holder will view the unit prior to rehabilitation, and indicate interest in occupying the unit after rehabilitation.

The HRSP will provide both interim and permanent rehabilitation financing, except that in the case of Consumer Transactions the HRSP may only provide permanent rehabilitation loan prior to the start of the work. The rate of interest on all HRSP loans will be slightly above the cost of borrowed funds to the City of Madison. That rate will be far below the rate on a conventional rehabilitation loan. The HRSP will also charge a Financing Fee, to cover the costs of administering the rehabilitation loan.

The HRSP will provide some technical assistance to all owners during the course of project development and operation. The HRSP will also offer design services, section 8 processing services, marketing services, and management services to some owners on a contract basis. All owner will have the option to engage outside qualified professionals to perform these services, and some owners may be required to use outside professionals, or perform services on their own behalf. The HRSP does not intend to provide some technical services to owners or projects that can support the hiring of outside professionals. A basic feature of the HRSP technical service program is that no service fee will be payable before the initial closing of the loan, and that such fees will not be due if the project is rejected by HUD, MHA, or the Housing Finance Committee during the project development stage. This is intended to limit the risk and exposure of the owner in the HRSP rehabilitation process.

BASIC ELIGIBILITY REQUIREMENTS FOR HRSP ASSISTANCE

2.0

This chapter sets forth the requirements on project owners and properties for participation in the HRSP Investor-owner Program. The objective of the HRSP Investor-owner Program is to provide required financial and technical assistance to allow non-professional real estate owners to rehabilitate properties to be occupied by low and moderate income families. Assistance is to be made available when there is no feasible alternative way to accomplish rehabilitation. Eligibility requirements are to be interpreted in light of the program objectives. All projects must meet conditions of the sections of this chapter.

This chapter also indicates the basis for determining which component of the section 8 program is applicable, the Substantial Rehabilitation Program, or the Existing Housing Program. More detailed presentation of the regulations governing the section 8 programs appear in the Code of Federal Regulations, Parts 880 through 884.

General Requirements.

- 2.11 Residential properties located in the City of Madison. All properties must be located in the City of Madison, and must be devoted primarily to residential use prior to rehabilitation. Although properties from all locations within the City of Madison are eligible for participation, priority processing will be given in accordance with Chapter _.
- 2.12 Rehabilitation required to meet Code. All properties must be in need of rehabilitation to meet the requirements of the City of Madison Housing and Property Maintenance Code and other applicable rehabilitation standards.
- 2.13 Types of Owners. Any person or organization with ownership of an eligible property may make application for assistance. Eligibility shall not be precluded by the following, but the type and amount of assistance may reflect them:
- a) Income and Assets of applicant.
 - b) Form of organization, if not an individual.
 - c) Residence of owner.
 - d) Profit or Non-profit status.
- 2.14 Large Projects. Applications for the rehabilitation of more than eight units shall include a showing that it would be infeasible to develop and finance the project through the Wisconsin Housing Finance Authority.

Applicable part of section 8 program.

- 2.21 Participation in the section 8 - Substantial Rehabilitation Program. Only those properties in need of Substantial Rehabilitation (as defined by HUD) are eligible for participation in the section 8 - Substantial Rehabilitation program.

Properties requiring Substantial Rehabilitation shall be in a condition requiring more than routine or minor repairs or improvements of such an extent as to necessitate execution of an Agreement (to enter into a Housing Assistance Payments Contract) prior to the performance of the rehabilitation work. Substantial Rehabilitation may vary in degree from gutting and extensive reconstruction to cosmetic improvements coupled with cure of substantial accumulation of deferred maintenance. Cosmetic improvements alone do not qualify as Substantial Rehabilitation.

The Substantial Rehabilitation Program shall be used only when the project would not be feasible under the Existing Housing Program.

- 2.22 Participation in the section 8 - Existing Housing Program. Those properties that are not in need of Substantial Rehabilitation, but do not meet the requirements of the Housing and Property Maintenance Code, are eligible for participation in the section 8 - Existing Housing Program.

Participation in the section 8 programs.

- 2.31 Objectives of this section. The basic objective of the HRSP is to make all units rehabilitated in small projects on scattered sites available to Families assisted under section 8. That objective must be balanced against two others: that site occupants, regardless of income, should not be displaced by rehabilitation and participation in section 8; and that larger projects should provide for a mix of tenants from different economic backgrounds. Therefore, in small projects, units may be withheld from participation under section 8 only to allow for continued occupancy by current tenants not eligible for assistance under section 8. In larger projects, units may be withheld from participation under section 8 to allow for the economic integration of project occupants.
- 2.32 Minimum requirement. At least 50 percent of the units to be rehabilitated (rounded up to the next whole unit) shall be made available under the section 8 program, as specified in this section.
- 2.33 Units vacant prior to rehabilitation. All units that are vacant at the time of the Determination of Feasibility, plus any units that will become vacant prior to the start of rehabilitation due to the decision of the tenant, shall be made available under section 8.
- 2.34 The Agreement, and satisfaction of these requirements. The requirements of this section will be satisfied by the execution of either an:
- a) Agreement to Enter Into a Housing Assistance Payments Contract, in the case of Substantial Rehabilitation projects,
 - b) Agreement to Make Units Available, in the case of Existing Housing projects.

participation in the section 8 programs, cont.

- 2.35 The Agreement to Enter Into a Housing Assistance Payments Contract. Under the Substantial Rehabilitation program, all units covered by the Agreement will be put under the Housing Assistance Payments Contract at the completion of rehabilitation. By the basic design of the Substantial Rehabilitation Program, the Federal subsidy comes to the project "through the unit". Units are therefore placed under Contract before actually occupied by Eligible Families. Units remain under the Contract whether occupied or not, and as indicated in Chapter __, the owner may receive certain housing assistance payments for units that are vacant.
- 2.36 The Agreement to Make Units Available. Under the Existing Housing Program, a unit covered by the Agreement may be put under a Contract only after an Eligible Family holding a Certificate of Family Participation issued by the MHA has decided to occupy that unit. By basic design of the Existing Housing Program, the Federal subsidy comes to the project "through the tenant". Therefore, a Contract may be executed only after the Family has decided to occupy, and sign a lease for a rehabilitated unit. The Agreement to Make Units Available requires the owner to hold units for occupancy by Holders of Certificates of Family Participation for a period of 30 days after the completion of rehabilitation. After that time, if the unit has not been rented by a Certificate Holder, the owner may rent the unit to any other tenant. If the unit is rented by a Certificate Holder, a Contract will be executed. Once the Contract is executed, the owner and tenant will receive the same benefits as under the Substantial Rehabilitation Program.
- 2.37 Determination of number of units to be rehabilitated. For the purposes of this section, the number of units to be rehabilitated shall include:
- a) Each dwelling unit to be receiving rehabilitation repairs to its interior, or repairs to mechanical or structural systems or the exterior skin clearly allocable to that unit.

participation in the section 8 programs, cont.

- 2.37c b) An additional unit for each \$ 2,000 of estimated Unallocated Costs of repairs to central systems, the exterior, or public spaces not directly allocable to specific units. The amount of Unallocated Costs for the purposes of determining the number of additional units shall exclude a proportionate allocation of such costs to units already counted under subparagraph (a) above. All remainders shall be discarded.

Project Feasibility.

- 2.41 Project must be financially feasible. All proposals for HRSP rehabilitation financing will be reviewed to determine the adequacy of proposed rents to provide income to cover the debt service charges on the proposed rehabilitation work and the other operating, maintenance, and management expenses. HRSP market review will determine the reasonableness of proposed rents in relation to rents at competitive unsubsidized developments and the likelihood that units can be rented to assisted and unassisted families. HRSP will also review construction estimates and operating budgets. No project will receive financing if it is not economically viable.
- 2.42 Owner must show development and management capability. The HRSP Investor-owner Program has been designed to minimize the financial and technical burdens on the project owner. On the other hand, the owner and/or the rest of the owner's development team must show the capability to meet those requirements that are placed upon the owner, both by the HRSP and by HUD under the section 8 program. The review of the owner's capabilities shall include:
- a) Sufficient financial capacity to bear the economic risks normally involved in the rehabilitation process, and to make required equity contributions.
 - b) Sufficient management capacity to operate the project efficiently, market the project effectively, and meet the other management requirements under the section 8 Housing Assistance Payments Contract.
- 2.43 Limitation on use of HRSP Financing. HRSP shall provide rehabilitation financing only when the required rehabilitation would be infeasible with conventional rehabilitation financing, or when conventional financing is unavailable. This section shall not preclude the owner from receiving HRSP Technical Assistance, or Housing Assistance Payments under section 8.
- 2.44 Limitation on use of HRSP Technical Assistance. If review of the previous participation record of the owner indicates significant development capability, or if the project is

project feasibility, cont.

- 2.44c of sufficient size so as to afford the use of a professional consultant, the scope of technical services provided under the HRSP may be limited. This section is primarily intended to require such owners to take responsibility for making and processing proposals to HUD for section 8 assistance, but shall also cover other inspection, architectural, contracting, and management responsibilities of the owner. When technical assistance is provided, the service fees specified in Chapter _ shall apply.
- 2.45 Structural Feasibility. The structure itself shall be in a condition that will enable rehabilitation of the property to a Decent, Safe, and Sanitary Condition without unreasonable repairs to the basic structural or mechanical systems.

PREFERENCES FOR CERTAIN TYPES OF PROJECTS AND SITES

- 3.0 This chapter indicates the type of project and site preferred by the HRSP and by HUD. Those projects that most closely meet the objectives of this chapter will receive priority over HRSP financial and technical assistance. Such projects will also receive most favorable consideration from HUD in the evaluation of proposals for section 8 Housing Assistance Payments.

General Preferences.

3.11 Projects that promote a greater choice of housing opportunities.
The project shall be located such that it avoids undue concentration of assisted persons in areas containing a high proportion of lower-income persons. The site shall foster integration so that no segment of the population is segregated into a geographic enclave because of race, age, or economic standing. Particular preference will be given to projects that propose rehabilitation of a limited number of units in a larger development of unsubsidized units, and make all such units available under section 8.

3.12 Projects that meet a high standard of housing quality and amenity.
It is expected that savings from low cost HRSP financing and market rents provided under section 8 will be converted into a quality living environment for assisted families. That standard shall be reflected in the design of rehabilitation work, the quality of materials utilized, and the amenities both within the unit and in the rest of the development.

Particular preference will be given to the rehabilitation of dwelling units in a larger development that already meets a high standard for general amenities. (For example, the rehabilitation of units in a development with outdoor recreational amenities such as a swimming pool, etc.)

3.13 Projects that include units for families with special needs.
Such projects shall include a significant number of units designed to meet the special needs of:

- a) Large families, requiring units with three or more bedrooms.
- b) Handicapped individuals and families.

Permanent Relocation and Temporary Dislocation.3.21 Preference for projects not requiring permanent relocation.

Projects that do not require the relocation of tenants occupying dwelling units prior to rehabilitation shall receive preference. Projects requiring relocation will be considered only when there is a feasible plan for relocation that minimizes hardship on displaced tenants. The relocation plan shall provide for Decent, Safe, and Sanitary alternative housing, relocation assistance, and funding of incidental costs.

To avoid the need for permanent relocation, HRSP policies have been designed to allow for continued occupancy by both Eligible Families (to be assisted under section 8) and other families paying market rents. Those tenants occupying units prior to rehabilitation that would be eligible for section 8 assistance shall receive first priority for assistance to remain in that unit under the provisions of Chapter __. The objective of HRSP provisions requiring that only the minimum percentage of rehabilitated units be made available under section 8 is to allow tenants not eligible for assistance to remain in their units.

3.22 Preference for projects not requiring temporary dislocation.

Projects that do not require the dislocation of project occupants during the course of rehabilitation work shall receive preference. Projects requiring dislocation will be considered only when there is a feasible plan to provide displaced occupants with Decent, Safe, and Sanitary accommodations during rehabilitation, and to provide funds to cover reasonable incidental costs.

All reasonable attempts shall be made to schedule rehabilitation work to minimize the term and extent of dislocation.

3.23 Inapplicability of the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970. This Act is not applicable to projects financed by the HRSP and assisted under section 8. The policies of that act may be used as a guide for assessment of plans for relocation or dislocation of project occupants.

Coordination with Neighborhood Preservation District activity.

- 3.31 Designation of Neighborhood Preservation Districts. Such districts shall be designated by the Common Council of the City of Madison after study and recommendation by the City Plan Commission. Such designation shall follow the procedures and objectives specified in HRSP regulations.
- 3.32 Preparation of a Rehabilitation Program. The residents of the District shall prepare a detailed program for carrying out rehabilitation, with the assistance of the Department of Housing and Community Development. The detailed program shall be presented to the Common Council for approval.
- 3.33 Neighborhood Preservation Programs that include the HRSP Investor-owner Program. If the approved neighborhood program includes substantial use of the HRSP Investor-owner program, applications from that district shall receive priority for processing and approval by the HRSP.

HUD site and neighborhood standards.

- 3.41 General. HUD has prescribed standards for sites for section 8 Substantial Rehabilitation projects. These standards appear in the section 8 regulations at paragraph 881.112. Proposals must be approved by HUD as meeting the site and neighborhood standards. HUD will rank proposals for section 8 assistance according to the extent that these standards are satisfied.
- 3.42 Standards. All proposals shall meet the HUD standards with respect to:
- a) Adequate access and utilities.
 - b) Compliance with applicable Civil Rights Acts and Executive Orders.
 - c) Absence of serious, adverse environmental conditions.
 - d) Compliance with the Local Housing Assistance Plan.
 - e) Access to social, recreational, educational, commercial, and health facilities.
 - f) Feasibility of travel (by both public and private means) to places of employment offering jobs to lower-income workers.

ELIGIBLE TENANTS, TENANT SELECTION, AND HOUSING ASSISTANCE
PAYMENTS

4.0

This chapter sets forth basic policies with respect to the eligibility of tenants, priorities and responsibilities for selection of tenants, and for provision of Housing Assistance Payments under the section 8 programs. This chapter includes policies with respect to tenants paying market rents (and receiving no assistance), tenants assisted under the section 8 - Substantial Rehabilitation Program, and tenants assisted under the section 8 - Existing Housing Program.

Eligible Families.

4.11

Eligible Families under section 8. The Housing Assistance Payments under the section 8 programs are limited to families (and certain elderly, handicapped, disabled, or displaced persons) that have annual income below 80% of the median income for the Madison, Wisconsin metropolitan area. These income limits are adjusted for the size of the family as indicated in the chart below. In general, the HUD definition of income includes all regular income of family members over the age of 18, from which a standard percentage deduction and a deduction for each dependant and secondary wage earner are excluded. Income is to be determined annually for most families, but the income of elderly families may be redetermined only once every two years.

Eligible Families with income between 50% and 80% of the median income are termed "Lower-income Families". Eligible Families with income below 50% of the median income are termed "Very Low-income Families". As indicated in this chapter, Very Low-income Families receive certain additional deductions in the required Gross Contribution towards rent, and certain units may be reserved for occupancy by these families.

4.12

Eligibility for unassisted units. Units not covered by a Housing Assistance Payments Contract under section 8 are available to any individual or family with annual income below 125% of the median income for the Madison area. These income limits are adjusted for the size of the family, as indicated in the chart below. Income is to be determined in similar fashion to income for section 8 purposes. Eligibility for unassisted units is determined by reference to income only.

4.13

Applicability of Income Limits. Income limits for the section 8 programs and for unassisted units shall apply only to the initial occupancy of the unit. Subsequent increases in income shall not require the tenant to vacate either an assisted or unassisted unit. (Under the section 8 program, an increase in income may result in a higher Contribution from the Family towards the Contract Rent.) The income limits for unassisted units shall not apply to any tenant that occupies a unit prior to rehabilitation and wishes to remain after rehabilitation.

eligible families, cont.

4.14 Income limits. The following income limits shall apply to assisted and unassisted units, respectively:

<u>Number of Persons in the Family</u>	<u>Very Low- income Family</u>	<u>Lower- income Family</u>	<u>HRSP unassisted Family</u>
one	\$ 4,500	\$ 7,500	\$ 11,250
two	6,000	9,600	15,000
three	6,750	10,800	16,875
four	7,500	12,000	18,750
five	8,100	12,750	20,250
six	8,700	13,500	21,750
seven	9,300	14,250	23,250
eight (or more)	9,900	15,000	24,750

Tenant selection.

4.21

Selection under section 8 - Substantial Rehabilitation. The owner is responsible for the determination of eligibility of applicants, selection of families, and admission of families to Contract Units. (The owner may contract with a private or public agency to perform those tasks in accordance with chapter __.) Tenants will make application directly to the owner, in response to public advertising of the units. In general, the owner shall admit those tenants eligible for assistance on a first-come, first-serve basis. The owner shall arrange for Housing Assistance Payments for tenants admitted, and shall put other Eligible Families on a waiting list.

In addition, the owner shall follow these priorities in the solicitation of applications and the selection of tenants:

- a) Tenants occupying units rehabilitated. First priority for assistance shall be given to those tenants that are eligible for assistance, and wish to remain in their unit after rehabilitation.
- b) Very Low-income Families. The owner shall exercise his best efforts to initially rent at least 30% of the assisted units to Very Low-income Families, and shall continue best efforts to maintain 30% occupancy by Very Low-income Families. This requirement shall not result in the displacement of any family occupying an assisted unit prior to rehabilitation.
- c) Madison Housing Authority waiting list. Priority among other applicants shall be given to those applicants with greatest priority on the waiting list of the Madison Housing Authority.

4.22

Selection under section 8 - Existing Housing. The Madison Housing Authority is responsible for the taking of applications and the determination of eligibility of applicant families. Those families that are determined to be eligible are issued a Certificate of Family Participation by the MHA. The holder of a Certificate is responsible for finding an acceptable dwelling unit. The owner shall accept Certificate Holders on a first-come, first-serve basis, except that priority shall be given to Eligible Families wishing to remain in their rehabilitated unit.

The MHA shall establish its own policies for priority in the issuance of Certificates of Participation.

tenant selection, cont.

4.23

Selection of tenants for unassisted units. Applicants for unassisted units shall apply directly to the owner, who shall be responsible for the selection of tenants. The owner shall admit eligible applicants on a first-come, first-serve basis, except that priority shall be given to applicants wishing to remain in their rehabilitated unit.

Basic policies of the section 8 programs.

4.31

Family contributions and Housing Assistance Payments. The basic feature of the section 8 programs is that the contribution of the assisted family towards rent and basic utilities is limited to 25% of the family's adjusted income. The total amount that the Eligible Family pays towards rent and utilities is the "Gross Family Contribution". The Gross Family Contribution may be as low as 15% of adjusted income for families with very low income and a large number of dependants, or for families that have extraordinary medical expenses.

The remainder of the Contract Rent due the owner and the cost of basic utilities is paid by the Federal Government, under a Housing Assistance Payments Contract. Those payments are subject to the policies of this section.

Gross Family Contributions will be redetermined at least annually (bi-annually for elderly families) to reflect changes in family income. As family income increases, the Gross Family Contribution increases, until it is equal to the Contract Rent on that unit. At that point, the Housing Assistance Payments for that family will be discontinued, but the family will not be required to vacate the dwelling unit.

4.32

HUD Fair Market Rents. HUD has established Fair Market Rents for the Madison metropolitan market area. These rents represent a limit on the Gross Rents (the Gross Family Contribution plus the Housing Assistance Payment for that unit) that can be paid to owners under the section 8 programs. There are separate Fair Market Rents for the Substantial Rehabilitation Program and the Existing Housing Program. The Fair Market Rents are adjusted to reflect the type of structure and the number of bedrooms in the unit. The Fair Market Rents are only an upper limit, and the actual Contract Rents will be determined in accordance with the next section.

The current Fair Market Rents appear in Appendix _._.

basic policies of the section 8 programs, cont.

4.33

Initial Contract Rents. Both HUD and the HRSP must approve the Initial Contract Rents, which shall be subject to the following limitations:

- a) Fair Market Rent Limitation. The initial Contract Rent, plus any Allowance for Utilities to be paid directly by the tenant, shall not exceed the Fair Market Rent for the Substantially Rehabilitated or Existing Housing unit (whichever is applicable) of the same size and in the same type of structure. The published Fair Market Rents may be exceeded with certain market conditions with special HUD approval.
- b) Reasonableness of Rents. HUD will review the proposed Contract Rents to determine if they are reasonable in relation to the quality, location, amenities, and management services of the project. Under the Existing Housing Program, the reasonableness of the rents will be determined by the Madison Housing Authority. Under the Substantial Rehabilitation Program, the HRSP will review proposed Contract Rents in relation to project expenses, including debt service, real property taxes, operating, maintenance, marketing, and management costs, and return on invested equity.
- c) Increase from rents prior to rehabilitation. Proposed Contract Rents may represent an increase over rents prior to rehabilitation only to the extent necessary to cover:
 - i) Debt service on the HRSP rehabilitation loan.
 - ii) A 6% annual return on any portion of the rehabilitation cost paid for by the owner.
 - iii) Substantial increases in basic operating and maintenance costs beyond the control of the owner during the rehabilitation period. This shall include increases in property taxes, utility rates, etc.
 - iv) A reasonable operating deficit (on a cash flow basis) carried by the owner prior to rehabilitation, but such deficit shall not include lost revenues due to vacancy of units. This provision is intended to cover properties sufficiently in need of repairs, or in a depressed market area, so that the owner could not achieve rents needed to cover costs prior to rehabilitation and participation in section 8.

basic policies of the section 8 programs, cont.

- 4.33c d) Change of Initial Contract Rents during rehabilitation. Initial Contract Rents may not be increased during, or after, rehabilitation to reflect extra costs due to delays or changes in the work. On the other hand, HUD may reduce the Initial Contract Rents to reflect any change during rehabilitation that materially reduces the quality or amenity of the project. (The Initial Contract Rents are established in the Agreement, executed prior to rehabilitation.)
- 4.34 Rental Adjustments. The Initial Contract Rents will be adjusted periodically during the course of the Contract. Contract Rents must continue to meet the test of reasonableness, and the Contract shall provide for the following adjustments of the rents:
- a) Automatic Annual Adjustments. At least annually, HUD will publish Annual Automatic Adjustment Factors. On the anniversary date of the Contract, Contract Rents will be adjusted in proportion to the applicable Adjustment Factor. Such adjustments will reflect the Allowance for Utilities Paid directly by the tenant. Under the Existing Housing Program, adjustments will be made only at points of lease termination.
- b) Special Adjustments. To the extent that actual and necessary operating and maintenance expenses have increased beyond the coverage of the Automatic Annual Adjustment, the owner may request a Special Adjustment in the Contract Rents. Such increases will be given only to cover such items as increases in property taxes, utility rates, and other costs beyond the control of the owner.
- 4.35 Payments to the owner for vacant units. Under specified conditions, HUD will make payments to the owner for assisted units that are vacant. Such payments will be equal to 80% of the Contract Rent for the vacant unit, and may continue for a period of up to 60 days. The vacancy payment shall be reduced if the owner receives part of the rent from the vacating tenant.
- a) Vacancies during rent-up. Vacancy payments during rent-up are available only to Substantial Rehabilitation projects. Payments are made for units not rented at

basic policies of the section 8 programs, cont.

4.35c

the date of the Contract, and continue until the unit is rented, or the 60 day period expires. In order to receive vacancy payments, the owner must comply with HUD requirements for the advertising and marketing of the unit, and must not reject an eligible tenant without good cause.

- b) Vacancies after rent-up. Vacancy payments after rent-up are available for both Substantial Rehabilitation and Existing Housing projects. Payments are made until the unit is re-rented, the 60 day period expires, or the Contract expires, whichever comes first. The owner must notify the Madison Housing Authority or HUD (as appropriate) of the vacancy immediately, indicating the reason for the vacancy. The owner must then meet HUD requirements for the advertising and marketing of the vacant unit. The owner may receive payments for units from which the tenant has been evicted provided that the eviction meets HUD required tenant objection procedures, and is in conformance with the Contract, lease, and local law.

4.36

Maintenance of the Unit in Decent, Safe, and Sanitary Condition. All assisted units must be maintained by the owner in Decent, Safe, and Sanitary condition, as prescribed by HUD. Housing condition is Decent, Safe, and Sanitary provided that the property is maintained in the condition substantially the same as when accepted. Under the Substantial rehabilitation program, HUD will make periodic inspections to determine the condition of the property, and an initial inspection before accepting the unit. Under the Existing Housing Program, the MHA shall make such inspections. Housing Assistance Payments may be abated by HUD if the unit is not maintained in Decent, Safe, and Sanitary condition.

4.37

Term of the Contract. The term of the Contract, plus any provision for automatic renewals, shall be limited to the lessor of:

- a) a term that provides payments up to the date of the final payment of the HRSP permanent loan.

basic policies of the section 8 programs, cont.

- 4.37c
- b) for projects under Existing Housing, a term of three years.
 - c) for projects under Substantial Rehabilitation,
 - i) five years, if the relative cost of rehabilitation is less than 15% of the value of the project after completion.
 - ii) forty years, if the relative cost of rehabilitation is 15% or more.

Nothing in this section shall prevent the owner from making another Contract after termination of the original. Such a contract shall have terms, conditions, and Contract Rents acceptable to HUD or the MHA, as the case may be.

4.38 Responsibility for project development and administration of the Contract.

- a) Substantial Rehabilitation Project. HUD will be directly responsible for review of all submissions in the process of developing a project under the Substantial Rehabilitation Program. In most cases, HUD will be a party to the Agreement and Contract, and will be responsible for administration of the Contract. In some cases, the MHA will be the party to the Agreement and Contract, and will be responsible for administration of the Contract.
- b) Existing Housing Project. The Madison Housing Authority will be directly responsible for review of all submissions in the process of developing a project under the Existing Housing Program. The MHA will also be a party to the Agreement and the Contract, and will be responsible for administration of the Contract. Funds to provide for Housing Assistance Payments and MHA administrative costs will be made available by HUD under an Annual Contributions Contract with the MHA.

Basic policies for unassisted units.

- 4.41 Market Rents. Tenants occupying units not assisted under section 8 shall pay the owner full Market Rent. Market Rents will be regulated by the HRSP for the term of the permanent rehabilitation loan.
- 4.42 Initial Market Rents. Market Rents, to be approved by the HRSP, shall be subject to the following conditions:
- a) Initial Market Rents shall not be lower than the Initial Contract Rents on units similar in size and quality within the project.
 - b) Initial Market Rents must be reasonable in relation to the owner's costs, and stay in line with rents on competitive properties to assure successful marketing of the units.
 - c) Initial Market Rents shall not exceed rents prior to rehabilitation by more than an amount to cover the debt service on the HRSP rehabilitation loan, and to provide a 6% annual return on any portion of the rehabilitation cost paid for by the owner. Initial Market Rents may represent a further increase to cover increases of property taxes, utility rates, or other similar costs during the course of rehabilitation, and an operating deficit as with Contract Rents.
- 4.43 Rental Adjustments. Market Rents shall be increased on a corresponding basis as Contract Rents, including automatic annual increases, and special adjustments.
- 4.44 Vacant Units. The owner will receive no rental income for vacant units other than sums due from the tenant under the terms of the lease.
- 4.45 Maintenance of the Units. Units must be maintained in a Decent, Safe, and Sanitary Condition, similar to assisted units. The HRSP, or its designee, shall periodically inspect for compliance.

Appendix 4A

4A

Fair Market Rents - Substantial Rehabilitation. (dollars per month)

Structure Type	Number of Bedrooms				
	0	1	2	3	4+
Detached	-	-	321	375	443
Semi-detached	-	259	313	364	430
Walkup	189	225	275	317	-
Elevator	229	271	331	-	-

Fair Market Rents for units for the elderly or handicapped are 5% higher.

Fair Market Rents - Existing Housing.

Structure Type	Number of Bedrooms				
	0	1	2	3	4+
Non-elevator	146	166	195	223	243
Elevator					

TERMS AND CONDITIONS OF FINANCING

5.0 This chapter sets forth basic terms and conditions on HRSP interim and permanent financing.

Interest Rate.

- 5.11 Computation of rate. The annual rate of interest on all HRSP permanent rehabilitation financing and any interim rehabilitation financing shall be (rounded up to the nearest one-quarter of one percent):
- the average cost of funds to the City of Madison,
plus
a financing service fee of one percent.
- 5.12 Establishment of rate. The rate of interest shall be established annually by the Board of Estimates and approved by the Common Council of the City of Madison. The rate shall be based on the cost of funds as certified by the Director of the Department of Administration.
- 5.13 Changes of the rate. The rate that shall apply to each project is the rate in effect at the date of issuance of the letter of feasibility from the HRSP. Should the annual interest rate be reduced by the Board of Estimates prior to the initial closing, the reduction will result in a reduced cost of funds to the borrower. Should the annual interest rate be increased by the Board of Estimates prior to the initial closing, the increase will not result in an increased cost of funds to the borrower; provided, however, that the borrower shall be so protected only for a period of 180 days following the issuance of the feasibility letter.

As indicated in Chapter __, reduction in the cost of permanent financing may result in the reduction of the approved Contract Rents under section 8, while any increase in the cost of permanent financing may not result in the increase of Contract Rents.

Application Fee and Financing Fee.

- 5.21 Application Fee. Each application for an HRSP rehabilitation loan shall be accompanied by an Application Fee. The fee shall be fully refundable in the case that the application for financing is rejected. The fee shall be applied towards the Financing Fee at the closing of the loan. The amount of the Application Fee shall be:

\$ ___ per dwelling unit to be rehabilitated.

- 5.22 Financing Fee. In addition to the service fee included in the basic rate of interest on the HRSP rehabilitation loan, there shall be a Financing Fee payable at the initial loan closing. The full amount of the Financing Fee shall be a mortgageable item. The fee shall cover the cost to the HRSP of administering the rehabilitation loan. The amount of the Financing Fee shall be:

- a) % of the amount of the permanent rehabilitation loan, if the HRSP provides permanent financing only.
- b) % of the amount of the permanent rehabilitation loan, if the HRSP provides both permanent and interim rehabilitation loans.

Term of permanent financing.

- 5.31 Limitation by term of Housing Assistance Payments Contract. The term of every HRSP permanent rehabilitation loan shall be limited by the maximum term of the section 8 Housing Assistance Payments Contract (including all renewals at the option of the owner) for that project. Regulations for the section 8 programs specify the following limitations:
- a) Contracts under section 8 - Existing Housing.
The maximum term for HRSP loan is three years.
 - b) Contracts under section 8 - Substantial Rehabilitation.

If the relative cost of the rehabilitation is less than 15% of the value of the project after completion - the maximum term for the HRSP loan is five years.

If the relative cost of the rehabilitation is more than 15% of the value, the maximum term for the HRSP loan is forty years.
- 5.32 Limitation by remaining economic life of the property. No HRSP loan shall have a term exceeding three-fourths of the remaining economic life of the property.
- 5.33 Shortest term resulting in project feasibility. The term of every HRSP rehabilitation loan shall be no greater than required to achieve project feasibility, in light of the approved Contract Rents and other operating and financing expenses.
- 5.34 Consumer Transactions. The term of the rehabilitation loans made subject to Federal or State Consumer Finance legislation shall be governed by schedules included in such legislation relating the maximum term to the amount financed.

Interim financing.

- 5.41 Availability. Interim financing shall be available to any owner not subject to consumer finance legislation with respect to project financing. An interim rehabilitation loan shall be made only if the estimated cost of rehabilitation exceeds \$ 5000.00.
- 5.42 Computation of interest. Interest shall be computed monthly on the outstanding balance of the interim financing account. The interest rate applied to the outstanding balance shall be one-twelfth of the annual rate of interest.
- 5.43 Advances under the interim rehabilitation loan. Advances shall be made upon requisition of the owner and inspection by the HRSP. Advances will be made for costs includable in the permanent loan, except that advances to cover rehabilitation contract amounts shall be subject to a retention until completion. (Retention provisions are covered in Chapter __.) Interest on interim financing shall be fully accrued.
- 5.44 Consumer Transactions. For those projects not eligible for interim financing, closing of the permanent loan shall precede rehabilitation, and advances made from a project rehabilitation escrow account. Advances from the rehabilitation escrow account will be subject to the same regulations governing advances under the interim rehabilitation loan. The entire amount to be financed will be placed in the escrow account at closing, and all monthly finance charges shall be paid when due, regardless of the amount disbursed from the account.

Applicability of Consumer Finance Legislation.

- 5.51 Consumer transactions. Any loan transaction subject to the disclosure or rescission requirements of the U.S. Truth in Lending Act or the Wisconsin Consumer Act is termed a consumer transaction in this Handbook.
- 5.52 Applicability of Disclosure Requirements. Borrowers that are natural persons receiving financing for a residential property containing not more than four dwelling units shall be furnished with the appropriate Federal Truth in Lending and Wisconsin Act Disclosure Statement according to the requirements of those acts.
- 5.53 Applicability of Right of Rescission. Borrowers that are natural persons receiving financing secured by a residential property of which they are, or will be, a permanent resident, shall be entitled to the right to rescind the entire loan transaction, according to the provisions of the applicable legislation. Borrowers will receive notification of such right, and no funds will be disbursed until the rescission period has expired.
- 5.54 Reference. HRSP procedures with respect to consumer transactions can be found in the Handbook for the HRSP Homeowner Program.

Form of security.

- 5.61 Mortgage and note. All HRSP loans for amounts of \$ 1,000 or more shall be secured by a mortgage and promissory note. Loans for amounts less than \$ 1,000 need not be secured by mortgage. Financing may be on recourse or non-recourse basis.
- 5.62 Pledge of the Housing Assistance Payment Contract. All rehabilitation loans on projects under section 8 - Substantial Rehabilitation shall be secured by pledge of the Housing Assistance Payments Contract and/or Agreement to enter the Contract. The HRSP will obtain HUD approval of the pledge of the Contract or Agreement.
- 5.63 Guarantees. The HRSP may require the guarantee of individuals or organizations related to ownership entities organized on a limited liability basis.
- 5.64 Other secured interests. The HRSP may review terms and conditions of other secured interests in the property to be rehabilitated, other notes or liens, to determine the adequacy of the HRSP mortgage to protect the interests of the HRSP, and the ability of the owner to perform required responsibilities. The HRSP will review such documents and recordings to insure that the owner may rightfully offer the property as security for the loan. In some cases, the HRSP may require a title insurance policy.

Other conditions applicable to HRSP loans.

- 5.71 Regulatory Agreement. The various policies and conditions set forth in this Handbook may be made part of the note and mortgage in the form of a Regulatory Agreement. Continued violation of the conditions of the Regulatory Agreement shall constitute a default.
- 5.72 Transfer of the Property. The owner shall not sell or transfer the property in any manner whatsoever during the term of the HRSP loan, without the prior written consent of the HRSP.
- 5.73 Prepayment of HRSP Loan. The owner may prepay the outstanding balance of the HRSP loan at any point in time. Such prepayment will release the owner from the conditions of the Regulatory Agreement. The owner may continue to receive Housing Assistance Payments under the Contract after prepayment of the loan.
- 5.74 Civil Rights. The owner shall not discriminate upon the basis of sex, race, creed, color, class, national origin or ancestry in the sale, lease, rental, use or occupancy of the property to be rehabilitated with HRSP assistance. The section 8 regulations require compliance with Title VI of the Civil Rights Act of 1964, Title VIII of the Civil Rights Act of 1968, Executive Orders 11063 and 11246, and section 3 of the Housing and Urban Development Act of 1968.
- The owner shall comply with all applicable provisions of the Madison General Ordinances concerning equal employment opportunity in respect to the rehabilitation work, and shall assist and actively cooperate with the City of Madison in obtaining the compliance of contractors with such provisions of the Madison General Ordinances, and with the rules, regulations and relevant orders issued by the City.
- 5.75 Interest of Public Body. The owner shall allow no member of the governing body of the City of Madison, and no employee of the City of Madison who exercises any functions or responsibility in connection with the administration of the HRSP to have any interest, direct or indirect, in the proceeds of the housing

other conditions applicable to HRSP loans, cont.

- 5.75c rehabilitation loan, or in any contract entered into by the owner for the performance of work financed in whole or part with the proceeds of the loan.
- 5.76 Bonus, Commission, or Fee. The owner shall not pay any bonus, commission, or fee for the purpose of obtaining approval of the loan application, or the Proposal for Housing Assistance Payments, or any other approval or concurrence required by the HRSP, the Madison Department of Housing and Community Development, the Madison Housing Authority, or the U. S. Department of Housing and Urban Development required under this program.
- 5.77 Other Federal Requirements. The owner shall comply with the National Environmental Policy Act, the Clean Air Act, the Federal Water Pollution Control Act, and pursuant regulations.
- 5.78 Rehabilitation Contract and Procedure. The form of contract for rehabilitation work shall be prescribed (or approved, if alternate is used) by the HRSP. The Contractor shall be pre-qualified by the Board of Public Works of the City of Madison, or qualified prior to the start of rehabilitation. The contractor shall be selected through a competitive bidding procedure, unless otherwise authorized by the HRSP. In cases where there is a negotiated rehabilitation contract, the HRSP may prescribe certain cost certification procedures, and limit the profit of the contractor.
- 5.79 Davis-Bacon Wage Rates. Not less than the wages prevailing in the locality, as prescribed by the Secretary of Labor pursuant to the Davis-Bacon Act, shall be paid to all laborers and mechanics employed in the development of any Substantial Rehabilitation project with nine or more assisted units.

INCLUDABLE COSTS, REHABILITATION STANDARDS, AND LOAN LIMITATIONS

- 6.0 This chapter sets forth the basis for determining: i) the scope of work items to be included in the rehabilitation work, and ii) the scope of items to be included in the HRSP rehabilitation loan. Those items that may be included in the scope of rehabilitation work are termed "includable costs". Those items that may be included in an HRSP rehabilitation loan are termed "mortgageable items". While most includable costs are mortgageable items, the mortgage may provide funds to cover other fees, financing, legal, and carrying charges.

Determination of amount of loan.

- 6.11 Maximum amount of loan. The amount of the HRSP permanent loan shall be limited by the lessor of:
- a) 100% of the cost of all mortgageable items, as specified below.
 - b) an amount which, when added to any outstanding indebtedness on the property, creates a total debt service requirement no greater than 90% of the net income of the project, after payment of taxes, management, maintenance, and operating expenses. Satisfaction of this requirement shall be based on information provided on the HRSP Project Cost and Income Analysis Form.
 - c) \$, per unit (based on number of units after rehabilitation).
- 6.12 Mortgageable items. The following items may be included in the permanent loan:
- a) Includable rehabilitation costs. This refers to the "bricks and mortar" construction costs of items allowed by section two of this chapter. Included in such rehabilitation costs is all contractor overhead and general requirements, and profit.
 - b) Professional Fees. Fees must be approved by the HRSP if for professional consultant, architect, or lawyer engaged directly by the owner. All fees due the HRSP for technical assistance are includable. Initial marketing expenses are includable also.
 - c) Financing and carrying costs. Interest during the rehabilitation period, financing fees charged by the HRSP, taxes during vacancies, insurance, and title and recording expenses.
 - d) Rehabilitation Contingency Reserve. A reasonable portion of the loan will be set aside in a special reserve account to provide for contingencies during rehabilitation or during the early operating period. The reserve shall not exceed 5% of the loan.

determination of amount of loan, cont.

- 6.13 Refinancing of outstanding debt. Existing outstanding debt on a property to be rehabilitated may be refinanced if all of the following conditions are satisfied:
- a) The project must be under section 8 - Substantial Rehabilitation.
 - b) The project must be clearly infeasible without refinancing of outstanding debt.
 - c) The amount of outstanding debt to be refinanced must be exceeded by the amount of the HRSP loan for items other than refinancing.
 - d) The HRSP must determine that such refinancing is necessary to provide the HRSP with adequate security for the permanent or interim financing.
 - e) The prepayment of the outstanding debt shall be acceptable to the lender (or lenders) and shall not require excessive prepayment penalties.
 - f) The HRSP shall be satisfied that such refinancing is not intended to enable the owner to effect the purchase of the property. In the case of recently acquired properties, the HRSP shall be satisfied that there is no collusive prearrangement.
- 6.14 Items not mortgageable. The owner may make cash equity contributions to cover the cost of any item that would be mortgageable except for the limitations of this chapter. For example, the owner may make a cash contribution to cover rehabilitation costs that would have been allowed except for the 90% debt service/net income limitation.

Includable rehabilitation costs.

Costs to meet rehabilitation standards. All costs required to meet the rehabilitation standards listed below shall be includable rehabilitation costs. All such costs must be funded before funds are applied to any other includable cost.

6.21 The following standards shall apply to projects under section 8 - Substantial Rehabilitation:

- a) City of Madison Minimum Housing and Property Maintenance Code, and other applicable local and state property rehabilitation standards. That includes standards contained in other local codes and ordinances pertaining to housing construction, and to use, occupancy, and maintenance of residential properties, as they specifically apply to property being rehabilitated with HRSP assistance.
- b) HUD Minimum Design Standards for Rehabilitation of Residential Properties.
- c) HUD regulations issued pursuant to the Lead Based Paint Poisoning Prevention Act, 42 USC 4801.
- d) Other HUD regulations relating to the special requirements of units for the elderly, the handicapped, congregate living situations, and noise control.

6.22 The following standards shall apply to projects under section 8 - Existing Housing:

- a) City of Madison Minimum Housing and Property Maintenance Code, and other applicable local and state property rehabilitation standards.
- b) Performance Requirements and Acceptability Criteria established by HUD and the Madison Housing Authority for housing assisted under the Existing Housing Program.

6.23 Other costs. Other improvements shall be includable to the extent feasible under the approved Contract Rents. Subject to the limitations below, any cost item may be included if it contributes to the quality or amenity of the living environment of the project tenants. For example, costs of

includable rehabilitation costs, cont.

- 6.23c providing larger rooms, extra bathrooms, carpeting or finishes, laundry equipment or locations for connections, new appliances, energy saving equipment or finishes, etc. may be includable.

The following costs shall not be includable:

- a) New construction or substantial expansion of the structure.
- b) Conversion of a property to change the use of space, except when require by applicable local codes or ordinances, or to eliminate a non-conforming use.
- c) Purchase, installation, or repair of furnishings normally provided by the tenant.

- 6.24 Maximum dollar limitation. The total amount of includable rehabilitation costs shall not exceed:

\$ __, __ per dwelling unit (after rehabilitation).

HRSP REHABILITATION PROCESS, TECHNICAL SERVICES, AND OWNER'S RESPONSIBILITIES

7.0

This chapter sets forth the basic steps in the HRSP rehabilitation process, the extent of technical services provided under the HRSP, and the responsibilities of the owner for project development and operation. The HRSP process has been designed to limit the scope of the owner's responsibilities to those normally incumbent upon the owner of a conventional rental property. The HRSP rehabilitation process has also been designed to minimize the financial risk and exposure of the non-professional owner during the development of the project. The HRSP will make available to most owners a variety of technical services necessary during the course of project development and management. Some technical services will be provided on a contract basis, with terms and cost most favorable to the owner when compared to other professional services. In some cases, the owner will be required to contract for technical services from a qualified professional, or perform some services on his own behalf.

The topics covered in summary form in this chapter are covered in greater detail in chapters __ through__.

Basic steps in the HRSP rehabilitation process.

- 7.11 Outreach and Intake. Prior to taking applications, the HRSP will develop an Outreach Program to contact owners of rental properties requiring rehabilitation. The Outreach Program will include general advertising of the availability of assistance, and a concentrated effort to contact owners of properties in those Neighborhood Preservation Districts intending to utilize the HRSP Investor-owner Program as part of the preservation program. Those owners that are interested in the HRSP Program may meet with HRSP staff, to receive a more detailed explanation of the available assistance, and to determine if the owner is interested in making a Preliminary Application. If the owner is interested in making the Preliminary Application and providing the application fee, the staff will make an initial visit to the property and assist the owner in preparing the application information.
- 7.12 Initial Staff Review. The primary objective of the initial staff review is to identify those projects with the best chances of successfully meeting the requirements of the HRSP loan application process and the section 8 proposal process. Preliminary Applications will also be reviewed and evaluated against the Eligibility Requirements and Preferences set forth in this Handbook. The staff will indicate to the owner whether or not it is reasonable to proceed with further work on the application.
- 7.13 Feasibility. The Housing Finance Committee will review those applications that have passed the initial staff review to make a Determination of Feasibility. Such a determination will be based on preliminary financial information and cost estimates based on a preliminary work write-up. A Determination of Feasibility does not constitute a firm commitment by the HRSP to provide rehabilitation financing. The Determination does indicate that the Housing Finance Committee would act favorably on a fully developed Final Application containing substantially the same project parameters, and having obtained other necessary approvals.

basic steps in the HRSP rehabilitation process, cont.7.14 section 8 Preliminary Proposal.

- a) Substantial Rehabilitation Projects. A Preliminary Proposal for Housing Assistance Payments will be made to HUD for each Feasible project. The Proposal will include much the same preliminary information included in the feasibility submission. HUD will review the Preliminary Proposal for compliance with the policies of the section 8 program, and select the Proposal if it is acceptable.
- b) Existing Housing Projects. A Preliminary Proposal for Housing Assistance Payments will be made to the Madison Housing Authority for each Feasible project. The proposal will be less extensive than the proposal for the Substantial Rehabilitation projects. The MHA will primarily review the proposed Contract Rents, and determine if the unit will meet Acceptability Criteria after rehabilitation.

7.15 section 8 Final Proposal.

- a) Substantial Rehabilitation Projects. Upon selection of the Preliminary Proposal, a Final Proposal will be prepared and submitted to HUD. The Final Proposal must include plans and specifications for the rehabilitation work, and the management and marketing plans required by HUD. The Final Proposal must be based on a firm bid for the cost of rehabilitation work, as Contract Rents and other terms approved by HUD will be finalized for the Agreement and Contract.
- b) Existing Housing Projects. A less extensive Final Proposal will be submitted to the MHA, including the plans and specifications. MHA approval of the Final Proposal will establish the terms and Contract Rents for the Contract.

7.16 Commitment. When the Final Proposal has been approved by HUD or the MHA (as appropriate), the plans and specifications are completed, and a firm rehabilitation cost has been established, the Final Application for Commitment will be taken before the Housing Finance Committee. The Commitment represents an

basic steps in the HRSP rehabilitation process, cont.

- 7.16c irrevocable promise by the HRSP to provide the rehabilitation loan subject to any conditions included in the Commitment Letter. All Commitments for Substantial Rehabilitation projects will be conditioned upon the signing of the Agreement.
- 7.17 Initial Closing. The Initial Closing is constituted by the signing of all legal documentation, including the note, mortgage, regulatory agreement with the HRSP, any technical service agreements, the contract for rehabilitation work, and the Agreement to Enter Into a Housing Assistance Payments Contract, or the Agreement to Make Units Available for Existing Housing Projects.
- 7.18 Rehabilitation. Immediately following Initial Closing, the rehabilitation work shall begin. During the course of the rehabilitation work, the HRSP will make periodic inspections to insure that work is in compliance with the contract, and to determine the extent of completion for purposes of authorizing progress payments to the contractor.
- 7.19 Final Closing. When rehabilitation is substantially completed, the HRSP will inspect to determine the acceptability of the work under the rehabilitation contract, and to authorize release of the final payment. HUD, or the MHA, will also inspect the unit to determine acceptability of the work. When all parties have inspected, a date for Final Closing will be established. At the Final Closing, the permanent financing will be executed, and the Housing Assistance Payments Contract signed.
- 7.110 Project operations and management. Marketing of units will begin prior to the completion of construction, according to the approved marketing plan. Applications will be taken, the eligibility of applicants determined, and Eligible Families issued Certificates of Participation, or admitted to units, as appropriate. The amount of the Gross Family Contribution and Housing Assistance Payment will be determined, and the payments will begin. The owner will continue to provide normal management and maintenance services.

Preparation of the Plans and Specifications.

7.21 Availability of Technical Assistance. The HRSP will assist the owner in the preparation of the plans and specifications for the rehabilitation work in those cases in which the services of a Registered Architect are not required. The services of a Registered Architect (or other qualified professional) shall be required where:

- a) The contractor will require detailed drawings (other than normal shop drawings) to perform and coordinate the rehabilitation work.
- b) The contractor will require detailed specifications covering materials or work methods to a degree normally associated with new construction.
- c) HUD requires certain certifications from a Registered Architect for section 8 purposes.

7.22 Scope of Services. The HRSP will assist the owner in meeting all preliminary and final requirements of the HRSP loan application procedure, and the HUD section 8 proposal process. In providing Technical Assistance, the HRSP may:

- a) Make an initial inspection of the property to determine the scope of required rehabilitation, and to advise the owner as to the feasibility of rehabilitation.
- b) Arrange for an inspection by the Building Inspection Division (at the owner's request) to determine whether rehabilitation work is necessary to bring the property into compliance with the Minimum Housing and Property Maintenance Code.
- c) Prepare a Preliminary Work Write-up and Cost Estimate for the purposes of determining feasibility under the HRSP procedures.
- d) Prepare a Final Work Write-up, Cost Estimate, Property Description, and required sketches for the section 8 Preliminary Proposal to HUD, and for HRSP Commitment.

preparation of plans and specifications, cont.

7.22c

- e) Prepare Working Drawings and Final Specifications as required for the HRSP Closing and the section 8 Final Proposal, and for use in obtaining bids from qualified contractors.
- f) Make the required certifications as to the adequacy of the plans and specifications prior to the signing of the Agreement to Enter Into a Housing Assistance Payments Contract under section 8.
- g) In those cases where a professional is contracted for, the HRSP shall assist the owner in finding a qualified professional, making a contract with the professional, and shall review all preliminary and final plans and specifications for compliance with HRSP and HUD requirements.

7.23

Design Services Fee. There will be no charge for technical services under this section in those cases in which the owner has contracted with an architect or other qualified professional to provide plans and specifications.

When the plans and specifications are to be prepared by the HRSP, a technical service fee will be charged for items (c), (d), (e), (f) above. The following fee schedule shall apply:

<u>Total Includable Rehabilitation Costs</u>	<u>Fee, as percentage of Rehabilitation Costs</u>
\$ _____ to \$ _____	_____ %

The full amount of the Design Services Fee will be due at Initial Closing. If processing of the application stops prior to the Initial Closing, due to a disapproval by either HUD or the HRSP, the owner shall not be obligated to pay the Design Services Fee. The Fee shall be a fully mortgageable item.

Preparation and administration of the Rehabilitation Contract.

- 7.31 Availability of Technical Assistance. The HRSP shall make assistance available to all owners in the preparation and administration of the rehabilitation contract. The owner may have his own attorney assist in the preparation of any contract or agreement. Certain of the services listed below will be provided by the HRSP in all cases, consistent with the protection of the HRSP's interests as the rehabilitation lender.
- 7.32 Scope of Services. To assist the owner in the preparation and administration of the rehabilitation contract, the HRSP will:
- a) Prepare invitations to qualified contractors to make a bid and proposal for rehabilitation work.
 - b) Prepare the Rehabilitation Contract, incorporating the plans and specification, and standard HRSP general conditions.
 - c) Make periodic inspections during the rehabilitation period, to insure that rehabilitation work is being completed in accordance with the conditions of the Contract, and to determine the extent of completion for purposes of making progress payments to the contractor.
 - d) Arrange for appropriate inspections by the Building Inspection Division to insure that rehabilitation work is in compliance with applicable codes.
 - e) Review proposed changes in the rehabilitation work, issue change orders on the owner's instruction, and obtain HUD approval of any change materially reducing the quality of the project and affecting the Contract Rents.
 - f) Make a final inspection to determine that all rehabilitation has been completed in accordance with the contract, to allow for the release of the final payment to the contractor, and to make certifications that the property meets HUD standards for completion.
 - g) Assist the owner in making adjustments in the rehabilitation contract price to reflect changes in the work, and holdbacks against uncompleted work.

preparation and administration of the rehabilitation contract, cont.

- 7.32c h) Arrange for final inspection of the project by HUD, or the MHA, as appropriate, to review evidence of completion, and to obtain acceptance of the project enabling execution of the Housing Assistance Payments Contract!
- i) Make supplemental inspections to determine extent of defects or inadequacies covered by guarantee.
- 7.33 Fees. There will be no additional fees for services under this section. The HRSP shall receive compensation for such services as part of the basic Financing Fee.

Project development under section 8 - Substantial Rehabilitation.

- 7.41 Availability of Technical Assistance. The HRSP will provide assistance in the development of a project under section 8 to all owners except that:
- a) Owners that have substantial experience in developing projects under federally assisted programs (as determined by the HRSP) may be required to take responsibility for project development under section 8.
 - b) Owners developing projects with more than eight assisted units may be required by the HRSP to contract with a qualified housing consultant or other professional to perform section 8 project development functions.
- 7.42 Scope of Services. The HRSP will assist the owner in meeting all requirements of the section 8 project development process, and under an agreement to provide technical assistance, the HRSP will:
- a) Prepare and submit a Preliminary Proposal for Housing Assistance Payments, according to HUD regulations. The owner will be required to provide the HRSP with all necessary information and certifications.
 - b) Prepare and submit a Final Proposal for Housing Assistance Payments, according to HUD regulations.
 - c) Assist the owner (and the owner's attorney) in the execution of the Agreement to Enter into a Housing Assistance Payments Contract.
 - d) Prepare the Evidence of Completion and assist the owner (and the owner's attorney) in the execution of the Housing Assistance Payments Contract.
- 7.43 section 8 Processing Fee. The charge for services under this section will be:
- \$ _____ per unit to be assisted under section 8 - Substantial Rehabilitation.

project development under section 8 - Substantial Rehab, cont.

- 7.43c The full amount of the section 8 Processing Fee will be payable out of loan proceeds at Initial Closing. If processing of the application stops prior to Initial Closing, due to a disapproval by either HUD or the HRSP, the owner shall not be obligated to pay the section 8 Processing Fee.

Marketing and Management - Substantial Rehabilitation projects.

7.51 Availability of Technical Assistance. The HRSP will offer, on a contract basis, certain marketing and management services required of the owner under the section 8 program. The owner may contract for such services from any other capable management agent, provided that the agent is approved by both HUD and the HRSP. The owner may also demonstrate capability of performing those services on his own behalf. The owner may contract with the HRSP (or its designee) for some services while contracting with another management agent for other services, or providing services on his own behalf. In any case, the owner must have a plan acceptable to the HRSP and to HUD for providing all services required under section 8.

7.52 Scope of Services. The HRSP (or its designee) will provide the following service on a contract basis:

- a) Prepare an Affirmative Fair Housing Marketing Plan, which is required by HUD as part of Final Proposals for assistance for projects with five units or more.
- b) Prepare a Management Plan as required by HUD as part of the Final Proposal.
- c) Prepare a form of Lease acceptable to HUD.
- d) Execution of the Affirmative Fair Housing Marketing Plan.
- e) Take Applications for occupancy, determine Eligibility of Applicants, admit Eligible Families according to HRSP priorities, and keep appropriate records of that process.
- f) Determine, and redetermine when appropriate, the amount of the Gross Family Contributions, Allowances for Utilities, and make requisition for Housing Assistance Payments under the terms of the Contract.

marketing and management - substantial rehab projects, cont.

- 7.53 Marketing services fee. The HRSP will provide necessary marketing services during the initial rent-up of the project (items (a) and (d) above) for a basic marketing services fee:

\$ ____ per dwelling unit.

- 7.54 Management services fee. The HRSP will provide any or all of the management services covered under this section on an on-going basis. The annual fee under such a management contract will be negotiated based on the actual scope of services required by the owner. The HRSP will establish a detailed schedule of charges for the various items identified above.

Project development, marketing, and management under section 8 - Existing Housing.

- 7.61 Availability of Technical Assistance. By the basic design of the Existing Housing Program, the Madison Housing Authority is responsible for most tasks in obtaining and administering the section 8 assistance, which comes to the project "through the tenant". The MHA will provide those services on all Existing Housing projects.
- 7.62 Scope of Services. The MHA will perform a number of services that are required of the owner under the Substantial Rehabilitation program. These tasks are part of the MHA's responsibilities under the Existing Housing Program. The MHA shall:
- a) Make application to HUD for Contract authority under the Existing Housing Program.
 - b) Advertise the availability of assistance to Eligible Families, on an Affirmative Fair Housing Marketing basis acceptable to HUD.
 - c) Take applications for Certificates of Family Participation, and review those applications to determine eligibility.
 - d) Issue Certificates, and direct Certificate Holders to HRSP financed rehabilitation projects.
 - e) Execute the Contract and provide owner with appropriate form of Lease.
 - f) Determine the amount of Gross Family Contribution, and the amount of Housing Assistance Payments. Make Housing Assistance Payments to owner. Make appropriate redeterminations of family eligibility, contributions, and Housing Assistance Payments.
- 7.63 Fees. There shall be no fee to the owner for these services. The MHA is compensated for providing these services directly by HUD under an Annual Contributions Contract.

Responsibilities of the Owner.

- 7.71 Project Development. The responsibility of the owner for project development is limited primarily to making the Preliminary Application, and providing the Application Fee. The owner will be required to furnish all information necessary to the HRSP and HUD review processes, but the primary responsibility for expediting response from HUD and the Housing Finance Committee falls upon the technical staff, or the owner's professional consultants. The owner will be required to participate in several important sessions, and will be given every opportunity to participate in the process consistent with the protection of the owner's interests.
- 7.72 Project Operation and Management. The owner, or the approved management agent, will be responsible for all functions normally required of the manager of a conventional rental property. This includes:
- a) Collection of Rents, and terminations of tenancy.
 - b) Payment for utilities and services, insurance, and taxes.
 - c) Performance of all ordinary and extraordinary maintenance.
 - d) Keeping of appropriate records, both for financial purposes, and as required under the Housing Assistance Payments Contract.

HOUSING REHABILITATION SERVICES PROGRAM
OF
THE CITY OF MADISON

Department of Housing and Community Development
351 West Wilson Street
Madison, Wisconsin 53701

PREFACE

This edition of the Handbook for the Housing Rehabilitation Services Program of the City of Madison includes all Program revisions approved by the Housing Finance Committee through October of 1975. All previous editions are obsolete and should be discarded by the holder.

Additional information concerning the Program will be furnished on request by the City's Department of Housing and Community Development. The address, telephone number and regular office hours of the Department of Housing and Community Development are as follows:

Address: Department of Housing and Community Development
351 West Wilson Street, Post Office Box 1785
Madison, Wisconsin 53701

Telephone: (608) 266-4675

Office Hours: 8:00 A.M. to 5:00 P.M.
Monday - Friday

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HOUSING REHABILITATION SERVICES PROGRAM
OF THE CITY OF MADISONCHAPTER 1 - THE HOUSING REHABILITATION SERVICES PROGRAM - INTRODUCTION

Continuing programs of home maintenance and improvement are recognized as being vital to the well-being of the entire Madison community. It is also recognized by the City of Madison that programs designed to conserve and upgrade existing housing on any meaningful scale can only be successful if financial and technical assistance are made available by the City to those otherwise unable to obtain needed help. The Housing Rehabilitation Services Program of the City of Madison is the programmatic expression of the City's commitment to the conservation of its older, basically sound residential areas, and to the needed rehabilitation of existing housing for people of low and moderate income.

The Housing Rehabilitation Services Program is intended to be responsive to the particular needs of the Madison community. Accordingly, the content, policies, procedures and administration of the Program will be subject to continuing review and evaluation; it should be expected, therefore, that changes will be made in the Program from time to time on the basis of operating experience, and as community needs change. All revisions in Program content, policies, procedures and administration will be incorporated either in this Handbook or in subsequent editions of this Handbook.

1. Authority for Housing Rehabilitation Services Program. The Housing Rehabilitation Services Program described in this Handbook was approved by the Common Council of the City of Madison on February 12, 1974, at the request of Mayor Paul R. Soglin. Approval of the Housing Rehabilitation Services Program was given on the basis of the Common Council's findings that: (1) there currently exists in the City of Madison a pressing need to make financial and technical assistance available to property owners of low and moderate income, non-profit housing corporations and non-profit housing cooperatives in order to stimulate voluntary rehabilitation and repair of deteriorating residential structures in the City's older residential neighborhoods; and (2) it is a valid public purpose for the City of Madison to provide such financial and technical assistance, and in the City's best interests to do so within the framework of the policies, procedures and regulations contained in this Handbook.
2. Scope of the Housing Rehabilitation Services Program. The two major components of the Housing Rehabilitation Services Program are: (1) financial assistance in the form of low-interest housing rehabilitation loans to be made available to eligible property owners throughout the City, on a need basis, to assist them in financing the cost of rehabilitation work needed to bring their properties into compliance with the City of Madison Minimum Housing and Property Maintenance Code and other applicable property rehabilitation standards; and (2) a program of

technical assistance to be made available to all residential property owners within areas of the City designated as Neighborhood Preservation Districts by the Common Council.

- (a) Housing Rehabilitation Loans. In 1974 the Common Council of the City of Madison authorized the establishment of a \$225,000 revolving fund to provide the initial funding source for housing rehabilitation loans to be made to eligible property owners under the Housing Rehabilitation Services Program. Further funding of the revolving fund will be considered by the Common Council as the need arises.

Eligibility requirements for housing rehabilitation loans are set forth in Chapter 2 of this Handbook. The terms and conditions to which an applicant must agree in order to obtain a housing rehabilitation loan are set forth in Chapter 3, and the basis for determining the maximum amount of any single loan is set forth in Chapter 4.

Housing rehabilitation loans may be made for residential properties located in any area of the City of Madison. However, priority in processing and approval of loans will be given to: (1) eligible applicants whose properties are located in areas of the City designated as Neighborhood Preservation Districts by the Common Council; and (2) hardship cases, irrespective of the location of the property within the City.

- (b) Technical Services. The Housing Rehabilitation Services Program is directed not only to the rehabilitation of individual residential structures, but also to the overall improvement and preservation of the City's older residential neighborhoods. For this reason, in areas of the City designated as Neighborhood Preservation Districts, various kinds of technical assistance will be offered to all owners of residential properties, whether or not they are eligible for housing rehabilitation loans. It is anticipated that the types of technical services required by property owners will vary from owner to owner, depending on such factors as existing physical and financial condition of the property, the owner's willingness and ability to finance the cost of needed rehabilitation work, the specific nature of the owner's interest in the property, etc. Of necessity, therefore, the City's approach to provision of technical services will be both comprehensive and flexible. In general, the types of technical services to be made available by the Department of Housing and Community Development will include, but not necessarily be limited to, the following:

- (1) At the property owner's request, arranging for inspections to be made by the Building Inspection Division to determine whether or not rehabilitation work is needed to bring the property into compliance with the Minimum Housing and

Property Maintenance Code of the City of Madison and other applicable local codes and ordinances.

- (2) Analyzing inspection reports and advising owners concerning the extent of needed repairs, if any, and feasible methods for making needed repairs.
 - (3) Providing cost estimates of needed rehabilitation work.
 - (4) Recommending available sources of labor and materials to do needed rehabilitation work.
 - (5) Providing the owner with financial counseling services relative to continued home ownership and property maintenance, or making referrals to other appropriate counseling services.
 - (6) Assistance in securing financing for needed rehabilitation work, if needed by the owner.
 - (7) Providing the owner with information concerning the availability of housing rehabilitation loans under the Housing Rehabilitation Services Program and from other lending sources.
 - (8) Assisting owners in preparing applications for housing rehabilitation loans, either under the Housing Rehabilitation Services Program or from other lending sources, as appropriate.
 - (9) Providing the owner with general guidance in having plans and specifications prepared, and reviewing building improvements plans prepared by or on behalf of the owner.
 - (10) Assisting the owner in obtaining bids from competent contractors for needed rehabilitation work.
 - (11) Inspecting rehabilitation work being done, and upon completion.
3. Designation of Neighborhood Preservation Districts. In addition to providing assistance to applicants for housing rehabilitation loans, on a need basis, throughout the City, the Department of Housing and Community Development is also authorized to operate the Housing Rehabilitation Services Program on a neighborhood-wide basis in any area of the City of Madison designated by the Common Council as a Neighborhood Preservation District. Before designating any area of the City as a Neighborhood Preservation District, the Common Council shall direct the City Plan Commission to make a study of the area to determine appropriateness of the area for continued residential use; the condition of existing housing accommodations within such area; the degree to which conventional financing or refinancing of repairs, remodeling and/or rehabilitation of such housing accommodations is available; the proportion of residential structures within the area which are owner-occupied; the location and physical characteristics of the area and other indicators of vitality which indicate that the area may be restored to long-term sound condition through a municipally-assisted program of voluntary rehabilitation activities; and the expressed commitment of area residents, tenants as well as property owners, to participate in program activities on a continuing basis.

Upon completion of its study of an area, the City Plan Commission shall submit the completed study, together with the City Plan Commission's recommendations concerning the study area, to the Common Council for review and approval. The City Plan Commission's study may also include recommendations relative to the provision or upgrading of needed public amenities and services within the study area. Before taking official action on the recommendations of the City Plan Commission relative to the designation of any area as a Neighborhood Preservation District, the Common Council shall schedule and hold a public hearing concerning such designation and any matters related thereto.

Upon the Common Council's designation of any area of the City as a Neighborhood Preservation District, the residents of the District will be requested to prepare a detailed program for carrying out voluntary rehabilitation activities and the Department of Housing and Community Development will be authorized to provide assistance to the residents of such District in preparing such detailed program.

Such detailed program shall be presented to the Common Council for approval, and may include provisions for City funding of the administrative costs of the following types of activities:

- (a) Assisting in organizing representative neighborhood groups where such do not presently exist, and providing supporting staff services for such groups once formed, or where presently existing.
- (b) If necessary, establishing program information and service centers at locations readily accessible to neighborhood residents. These would serve as bases of operations for program staff and representative neighborhood groups involved in planning and carrying out program activities, and could be of the "store-front" type or located in existing neighborhood centers.
- (c) Providing technical assistance to representative neighborhood groups as needed in developing and maintaining community-wide understanding and support of program activities.
- (d) Providing general guidance to property owners and others concerning problems involving financing of home improvements and other matters related to program operations.

Upon Common Council approval of the detailed rehabilitation program for any designated Neighborhood Preservation District, priority in processing and approval of housing rehabilitation loans shall be given by the Housing Finance Committee to eligible applicants whose properties are located within such District, and the Department of Housing and Community Development shall provide a full range of technical rehabilitation services, as needed, to all owners of residential properties within such District, in

accordance with the detailed rehabilitation program for such District, as approved by the Common Council.

4. Housing Finance Committee.

(a) Membership. The Housing Committee shall consist of the following members, as appointed by the Mayor and approved by the Common Council:

- (1) Six citizen members;
- (2) Director, Department of Administration, or a member of his staff appointed by the Director of the Department of Administration to serve as his alternate on the Committee;
- (3) Director, Planning Department, or a member of his staff appointed by the Planning Director to serve as his alternate on the Committee;
- (4) Building Inspection Superintendent, or a member of his staff appointed by the Building Inspection Superintendent to serve as his alternate on the Committee;
- (5) One member of the Common Council, if such member has been appointed by the Mayor pursuant to the provisions of the following paragraph.

If one or more Aldermen request appointment to the Housing Finance Committee, the Mayor shall appoint one of those requesting such appointment. If no Alderman requests such appointment, no appointment shall be made and no Alderman shall serve. The term of such Aldermanic member of the Committee shall expire with the expiration of his or her term as Alderman.

Two of the citizen members shall be appointed for a one-year term ending on the third Tuesday in April of 1975; two shall be appointed for a term ending on the third Tuesday in April of 1976, and two shall be appointed for a term ending on the third Tuesday in April of 1977. Thereafter, the citizen members shall be appointed for staggered three-year terms (or until such other time as a replacement shall be appointed).

The Director of the Department of Administration, the Planning Director and the Building Inspection Superintendent, or their respective appointed alternates, shall be ex-officio voting members of the Housing Finance Committee. Upon their appointment, the names of the alternates of the Director of the Department of Administration, the Planning Director and the Building Inspection Superintendent, shall be furnished to the Secretary of the Housing Finance Committee.

- (b) Procedures. At its organizational meeting, and annually thereafter, the Housing Finance Committee shall select a Chairman and Vice-Chairman. The Director of the Department of Housing and Community Development shall serve as Secretary to the Committee and may participate in the deliberations of the Committee, but shall not be a voting member of the Committee.

Meetings of the Housing Finance Committee shall be called by the Chairman, or in his absence, by the Vice-Chairman, at such times as are deemed necessary to carry out the business of the Committee. A majority of the Committee membership shall constitute a quorum for the conduct of the business of the Committee. A majority vote by the Committee members present, at a meeting at which a quorum is present, shall be required for each loan approval or rejection. The Committee shall establish procedures to protect the confidentiality of information presented to the Committee from any source concerning applicants for housing rehabilitation loans, and shall adhere to such procedures at all times in approving or rejecting particular loan applications.

Meetings shall be held in the Second Floor Conference Room of the City Hall Annex, at 351 West Wilson Street (Doty School Building), unless otherwise designated by the Chairman.

Records shall be kept of each meeting of the Committee with respect to actions taken on housing rehabilitation loan applications and other related business which comes before the Committee for consideration.

A report of each Committee meeting, reflecting actions taken by the Committee, shall be prepared and distributed to the Mayor and Common Council and appropriate City Departments and Divisions.

Housing rehabilitation loan applications to be submitted to the Committee shall have been pre-reviewed by the Department of Housing and Community Development for accuracy, technical content, and general underwriting standards. The Director of the Department of Housing and Community Development shall designate one or more members of his staff to be responsible for such pre-review, and shall apprise the Committee of the name(s) of the person(s) responsible for such pre-review.

The Housing Finance Committee, in its review of each housing rehabilitation loan application, shall take into consideration the following:

- (1) The cover Letter of Recommendation by the Department of Housing and Community Development.
- (2) Location of the property.
- (3) Whether the property is vacant or occupied.
- (4) Type of property and ownership (i.e., whether the property is an owner-occupied single-family home, a non-profit housing corporation or housing cooperative-owned single-family or multiple-family structure, or an owner-occupied multiple-family structure containing not more than four dwelling units).
- (5) Present "as-is" value of the property.

- (6) The amount of the existing debt on the property.
- (7) Applicant's present monthly housing expense.
- (8) Applicant's projected monthly housing expense, including monthly payments for repayment of housing rehabilitation loan.
- (9) Cost of rehabilitation.
- (10) Income:
 - (a) For owner-occupants - employment, pension, or other income which has been verified by the Department of Housing and Community Development.
 - (b) For non-profit housing corporations or housing cooperatives - the income producing capacity of the property, as determined by the Department of Housing and Community Development.
- (11) Credit Information:
 - (a) For owner-occupants - credit report.
 - (b) For non-profit housing corporations and housing cooperatives - credit report and/or balance sheet and profit-loss statements.
- (12) Other pertinent financial data.

After reviewing the above information, the Committee shall approve or reject the application, and shall inform the applicant of the action taken by the Committee with respect to the application.

The starting date for repayment of each loan approved by the Committee shall be one month after the date of the loan closing.

Actions taken by the Committee on each loan application shall be considered final. However, applications may be submitted for further consideration after having been acted upon by the Committee, if additional facts or information relating to such applications warrant such further consideration.

5. Authority of the Director of the Department of Housing and Community Development.

- (a) The Director of the Department of Housing and Community Development, with the approval of the Housing Finance Committee, is authorized to make such rules and regulations and to issue such orders and notices, in such form or manner as may be necessary and proper in order to put into full force and effect any and all of the provisions of the Housing Rehabilitation Services Program.
- (b) Under appropriate conditions or circumstances, the Director of the Department of Housing and Community Development, with the prior

approval of the Housing Finance Committee, may waive such provisions or requirements as are promulgated in the Housing Rehabilitation Services Program.

- (c) The Director of the Department of Housing and Community Development is authorized on behalf of the Housing Finance Committee to call upon any department, board, commission or agency of the City for assistance and cooperation in carrying out the Housing Rehabilitation Services Program, and all City departments, boards, commissions and agencies are authorized and directed to cooperate with and furnish assistance to the Housing Finance Committee and the Department of Housing and Community Development in carrying out the Housing Rehabilitation Services Program.

6. Definitions. Following are definitions of various terms used in this Handbook with respect to the Housing Rehabilitation Services Program:

Annual Rate of Interest. The rate of interest charged the borrower of a housing rehabilitation loan. The annual rate of interest to be charged for all housing rehabilitation loans made in any given year shall be established by the Board of Estimates and approved by the Common Council of the City of Madison. The annual rate of interest shall not exceed the cost of the funds to the City of Madison in the previous year, as certified by the Director of the Department of Administration, plus a service fee of one percent, rounded upward to the nearest one-quarter of one percent.

Applicant/Borrower. Any person or other legal entity that applies for a housing rehabilitation loan under the Housing Rehabilitation Services Program. The terms "applicant", and "applicant/borrower" are used synonymously in this Handbook.

Borrower. A borrower is any person or other legal entity who holds title to a property being rehabilitated with the assistance of a housing rehabilitation loan, and who is legally responsible for repayment of the loan.

Department of Housing and Community Development. The City department having primary responsibility for administration of the Housing Rehabilitation Services Program.

Eligible Contractor. An eligible contractor is a contractor who has been pre-qualified by the Board of Public Works of the City of Madison to perform housing rehabilitation work financed with the assistance of a housing rehabilitation loan. Pre-qualification shall be made on the basis of written, objective standards established by the Board of Public Works.

Escrow Accounts. Accounts established at loan settlement providing for the payment of taxes and insurance by the borrower:

- where the security for the loan is a first mortgage;
- where there is no prior provision for these items in the event that the security is a second mortgage;

- where the Housing Finance Committee determines that it is in the City's best interests to provide for such accounts because the loan is secured only by a promissory note.

Housing Finance Committee. The committee having final responsibility for approval or rejection of applications for housing rehabilitation loans. The Housing Finance Committee is also responsible for reviewing administration of the Housing Rehabilitation Services Program by the Department of Housing and Community Development and making recommendations to the Mayor and Common Council on matters pertaining to program policies, procedures and administration.

Housing Rehabilitation Loan. A loan approved by the Housing Finance Committee to finance, in whole or in part, the cost of rehabilitation work needed to bring a property into compliance with the Minimum Housing and Property Maintenance Code of the City of Madison and other applicable property rehabilitation standards under the Housing Rehabilitation Services Program.

Incidental Expenses. Those costs incurred by a borrower in the process of obtaining a housing rehabilitation loan, which are deducted from the proceeds of the loan.

Minimum Housing and Property Maintenance Code. Chapter 27 of the Madison General Ordinances, as duly adopted and presently in effect, and as the said Chapter 27 may be duly amended from time to time by the Common Council of the City of Madison.

Owner-occupied Property. A property used entirely for residential purposes, occupied by the owner, and containing not more than four separate dwelling units.

Nonprofit Housing Cooperative. A nonprofit association duly organized and existing under Chapter 185 of the Wisconsin Statutes, which either holds fee simple title to a property to be rehabilitated for occupancy by individuals or families of low and moderate income who are also members of the association, or has purchased such property under a recorded land sales contract.

Nonprofit Housing Corporation. A nonprofit corporation duly organized and existing under Chapter 181 of the Wisconsin Statutes, which either holds fee simple title to a property to be rehabilitated for occupancy or continued occupancy by individuals or families of low or moderate income, or has purchased such property under a recorded land sales contract.

Person. One or more natural persons who occupy a property to be rehabilitated, and who either hold fee simple title to such property or have purchased such property under a recorded land sales contract.

Property Rehabilitation Standards. The standards contained in the Minimum Housing and Property Maintenance Code of the City of Madison and other local codes and ordinances pertaining to housing construction, and to use, occupancy and maintenance of existing residential properties, which are applicable to the property through code enforcement action.

Rehabilitation Cost. The total cost of repairs and improvements and other costs for rehabilitation to be incurred by the applicant/borrower that are includable in a housing rehabilitation loan, whether or not such costs are financed in part with funds from other sources.

Rehabilitation Escrow Account. A single cash account on the records of the Department of Housing and Community Development used to reflect the deposit and disposition of all funds to be used in the rehabilitation of a specific property.

Rehabilitation Loan Officer. The staff member of the Department of Housing and Community Development having primary responsibility for preparation and processing of housing rehabilitation loan applications, handling of loan settlements, and implementing loan repayment procedures.

Rehabilitation Supervisor. The staff member of the Department of Housing and Community Development having primary responsibility for day-to-day operation of the Housing Rehabilitation Services Program and supervision of the staff of the Department's Rehabilitation Division.

Right of Rescission. The borrower's right, within a three-day period from the date of loan settlement, to rescind the entire loan transaction. The right of rescission applies to a housing rehabilitation loan secured by a mortgage on a residential property which contains not more than four dwelling units and is owned by a borrower who is a natural person and who occupies one of the dwelling units on the property.

Work Write-up and Cost Estimate. A work write-up and cost estimate is a statement itemizing all rehabilitation work needed to be done on a property to bring the property into compliance with the Minimum Housing and Property Maintenance Code and other applicable property rehabilitation standards and including a reasonable estimate of the cost of each work item. The work write-up and cost estimate is prepared by the Rehabilitation Division of the Department of Housing and Community Development on the basis of an inspection made by the Area Housing Code Enforcement Officer and the Rehabilitation Supervisor.

Low and Moderate Income Individual or Family. For the purposes of the Housing Rehabilitation Services Program, a low income individual or family is one whose gross annual income does not exceed the appropriate maximum income shown in column (b) of Appendix 1 of this Handbook. A person or family of moderate income is one whose income exceeds the appropriate maximum income shown in column (b) of Appendix 1, but does not exceed the appropriate maximum income shown in column (d) of Appendix 1.

CHAPTER 2 - ELIGIBILITY REQUIREMENTS FOR HOUSING REHABILITATION LOANS

This chapter sets forth the eligibility requirements pertaining to the property and the applicant for a housing rehabilitation loan.

1. Property Eligibility Requirements. Housing rehabilitation loans may be made only for residential properties located in the City of Madison. Any property for which a housing rehabilitation loan is made, must:
 - a. contain not more than four dwelling units;
 - b. be in need of rehabilitation to meet the requirements of the City of Madison Minimum Housing and Property Maintenance Code and other applicable property rehabilitation standards; and
 - c. be physically and financially feasible of rehabilitation to a sound and readily maintainable condition.

The owner of the property must permit all inspections of the property deemed necessary by the Building Inspection Division and/or the Department of Housing and Community Development under the Housing Rehabilitation Services Program.

2. Types of Applicants. Housing rehabilitation loans may be made only to the following types of applicants:
 - a. a person of low or moderate income who either owns and occupies the property for which the housing rehabilitation loan is requested, or is the purchaser-occupant of such property under a recorded land sales contract; or
 - b. a nonprofit housing corporation which either owns the property for which the housing rehabilitation loan is requested, or is the purchaser of such property under a recorded land sales contract; or
 - c. a nonprofit housing cooperative which either owns the property for which the housing rehabilitation loan is requested, or is the purchaser of such property under a recorded land sales contract.
3. Requirements Applicable to Every Loan. In order to be eligible for a housing rehabilitation loan, the applicant must demonstrate both willingness and adequate capacity to repay the loan. A housing rehabilitation cannot be approved if the applicant's record shows a disregard for former obligations, or if there is a clear inability to make the payments that will be required. In addition to these requirements, which apply to all loans, the requirements of the following paragraphs of this chapter also apply, depending upon the type of applicant and property ownership involved.

4. Income Limits for Applicant Who is a Person. As used herein, the term "person" means one or more natural persons who occupy a property to be rehabilitated, and who either hold fee simple title to such property or have purchased such property under a recorded land sales contract. In approving housing rehabilitation loans to applicants who are persons, the Housing Finance Committee shall give priority to persons whose gross annual income is within the limitations prescribed for the City of Madison for occupancy of projects financed with below-market interest rate mortgages insured by the Federal Housing Administration (FHA) under Section 221(d)(3) of the National Housing Act. The Committee will not approve housing rehabilitation loan applications from persons whose gross annual income exceeds 135% of the Section 221(d)(3) limits. (See Appendix 1 for Section 221(d)(3) income limits.)

The following is a listing of the elements comprising income for purposes of determining an applicant's eligibility for a housing rehabilitation loan:

- a. The applicant's earnings.
- b. Spouse's earnings, and earnings of all other members of the family who share the household, if the employment of the spouse or other family member is a definite characteristic of family life. Excluded is the income of an adult family member other than the applicant and spouse who does not have an ownership interest in the property, but included are any funds contributed or paid to the family on a regular basis by an excluded adult family member.
- c. Other income regularly received by the applicant or his family from any source.
- d. Net income from real estate other than the property to be rehabilitated, and any other net business income.
- e. Net operating income from the property to be rehabilitated. If the applicant has not owned the property for two or more years, the Department of Housing and Community Development shall estimate the net operating income based on the available experience.

For purposes of establishing the amount of the applicant's income that is relevant to the Section 221(d)(3) income limits, there shall be excluded from the applicant's income the income of a dependent child or children, as defined by the United States Internal Revenue Service. The applicant's income, adjusted in this manner, shall be related to the Section 221(d)(3) income limits prescribed for the City of Madison for a family of the same size as the applicant's.

5. Income Limits for Applicant That is a Nonprofit Housing Corporation or Cooperative. As used herein, the term "nonprofit housing corporation" means a nonprofit

corporation duly organized and existing under Chapter 181 of the Wisconsin Statutes, which either holds fee simple title to a property to be rehabilitated for occupancy or continued occupancy by individuals or families of low or moderate income, or has purchased such property under a recorded land sales contract. The term "nonprofit housing cooperative" means a nonprofit association duly organized and existing under Chapter 185 of the Wisconsin Statutes, which either holds fee simple title to a property to be rehabilitated for occupancy or continued occupancy by individuals or families of low or moderate income who are also members of the association, or has purchased such property under a recorded land sales contract. In approving housing rehabilitation loans to nonprofit housing corporations and cooperatives, the Housing Finance Committee shall give priority to nonprofit housing corporations and cooperatives that have annual net incomes of \$6,800 or less (before depreciation and income taxes). The Committee will not approve housing rehabilitation loan applications from nonprofit housing corporations or cooperatives that have annual net incomes (before depreciation and income taxes) of \$9,180 or more.

The following is a listing of the elements of income attributable to an applicant nonprofit housing corporation or cooperative for purposes of determining the applicant's eligibility for a housing rehabilitation loan:

- a. Net income from real estate other than the property to be rehabilitated, and any other net income attributable to the applicant; and
- b. Net operating income from the property to be rehabilitated. If the applicant has not owned the property for two or more years, the Department of Housing and Community Development shall estimate the net operating income based on the available experience.

Income of a nonprofit housing corporation or cooperative does not include the income of any director, official, officer, employee, shareholder or other participant in the business.

6. Land Sales Contract. The term "land sales contract" refers to any transaction, regardless of the nomenclature by which it is known, in which the purchaser (if a nonprofit housing corporation or cooperative) or purchaser-occupant (if a person) obtains fee title only if he completes a series of installment payments over a period of years.
 - a. Eligibility Requirements. In order for a purchaser under a land sales contract to be eligible for a housing rehabilitation loan, all of the following minimum requirements must be met:
 - (1) The contract shall be a written, legally binding, properly recorded instrument involving a residential property containing, after rehabilitation, not more than four dwelling units.
 - (2) The seller of the property must hold fee simple title to the property and, while the contract is in good

standing, must be unable to use the property for collateral or to convey the property to any other party unless such use for collateral or conveyance of fee simple title is subject to the land sales contract.

- (3) Under the contract, the seller and any subsequent holder of the fee simple title to the property must be obligated, without qualification, to deliver to the purchaser fee simple title and a deed to the property upon full payment of the contract price, or some lesser amount.
 - (4) Under the terms of the contract, the purchaser shall have:
 - (a) Full use, possession and quiet enjoyment of the property,
 - (b) Equitable title to the property, and
 - (c) Full rights of redemption for a period of not less than 90 days.
 - (5) The purchaser shall have had possession and use of the property under the land sales contract for at least 12 months prior to the date of application for a housing rehabilitation loan.
- b. Opinion of Counsel. Before an application for a housing rehabilitation loan to a purchaser under a land sales contract is approved by the Housing Finance Committee, the Department of Housing and Community Development must obtain a copy of the land sales contract and a written legal opinion from the City Attorney that each of the foregoing conditions is satisfied, and setting forth the basis for the opinion. The contract and legal opinion shall be retained in the Department of Housing and Community Development files and shall also be part of the application file submitted to the Housing Finance Committee for approval of a housing rehabilitation loan.

CHAPTER 3 - TERMS AND CONDITIONS UNDER WHICH A HOUSING REHABILITATION LOAN IS MADE

This chapter sets forth the requirements of the City of Madison with respect to the terms and conditions to which an applicant must agree in order to obtain a housing rehabilitation loan.

1. Interest Rate. The annual rate of interest for a housing rehabilitation loan shall be established by the Board of Estimates and approved by the Common Council of the City of Madison. The annual rate of interest shall not exceed the cost of the funds to the City of Madison in the previous year, as certified by the Director of the Department of Administration, plus a service fee of one percent, rounded upward to the nearest one-quarter of one percent. The applicable annual rate of interest shall be as shown in Appendix 2.
2. Maximum Term for Repayment. The maximum term for repayment of a housing rehabilitation loan shall be based on whichever of the following results in the shortest time for repayment of the loan.

- a. three-fourths of the remaining economic life of the property; or
- b. the appropriate maximum term shown in the following table:

<u>Amount Borrowed</u>	<u>Maximum Term</u>	
	(in years)	(in months)
\$300 or less	2	25
\$300.01 - \$1,000	4	48
\$1,000.01 - \$2,000	5	60
\$2,000.01 - \$7,500	15	180
\$7,500.01 - \$10,500	20	240

3. Other Loan Conditions. The specific terms and conditions for a housing rehabilitation loan are incorporated in Form HRSP-6231, Terms and Conditions, Housing Rehabilitation Loan under the Madison Housing Rehabilitation Services Program, the mortgage or other security instruments as applicable, and the promissory note. As required by the pertinent documents, the applicant shall agree to comply with the following terms and conditions:
 - a. Civil Rights. The applicant shall not discriminate upon the basis of sex, race, creed, color, class, national origin or ancestry in the sale, lease, rental, use or occupancy of the property to be rehabilitated with the assistance of a housing rehabilitation loan.
 - b. Equal Employment Opportunity. The applicant shall comply with all applicable provisions of the Madison General Ordinances concerning equal employment opportunity in respect to the rehabilitation work to be done with the assistance of a housing rehabilitation loan, and shall assist and actively cooperate with the City of Madison in obtaining the compliance of contractors and subcontractors with such provisions of the Madison General Ordinances, and with the rules, regulations and relevant orders issued by the City

of Madison pursuant to such provisions of the Madison General Ordinances.

- c. Use of Proceeds. The applicant shall agree to use the loan proceeds only to pay for costs of services and materials necessary to carry out the rehabilitation work for which the loan will be approved.
- d. Inspections. The applicant shall permit inspections by the Building Inspection Division of the property to be rehabilitated with the assistance of the housing rehabilitation loan, for compliance with the Minimum Housing and Property Maintenance Code of the City of Madison and other applicable local codes and ordinances. The applicant shall also permit all other inspections deemed necessary by the Department of Housing and Community Development of the property, the rehabilitation work, and all contracts, materials, equipment, payrolls, and conditions of employment pertaining to the work.
- e. Completion of Work. The applicant shall assure that the rehabilitation work shall be carried out promptly and efficiently through written contract let after prior written approval of the Department of Housing and Community Development.
- f. Ineligible Contractors. The applicant shall agree not to award any contract for rehabilitation work to be paid for in whole or in part with the proceeds of a housing rehabilitation loan, to any contractor who, at the time, has not been pre-qualified by the Board of Public Works of the City of Madison as an eligible contractor under the Housing Rehabilitation Services Program.
- g. Records. The applicant shall keep such records as may be required with respect to the rehabilitation work performed with the assistance of a housing rehabilitation loan.
- h. Interest of Public Body. The applicant shall allow no member of the governing body of the City of Madison, and no employee of the City of Madison who exercises any functions or responsibilities in connection with the administration of the Housing Rehabilitation Services Program to have any interest, direct or indirect, in the proceeds of the housing rehabilitation loan, or in any contract entered into by the applicant for the performance of work financed in whole or in part with the proceeds of the loan.
- i. Bonus, Commission or Fee. The applicant shall not pay any bonus, commission or fee for the purpose of obtaining approval of the loan application, or any other approval or concurrence required by the Housing Finance Committee or the Department of Housing and Community Development to complete the rehabilitation work financed in whole or in part with the housing rehabilitation loan.
- j. Competitive Bids for Construction Work. The applicant shall agree to give full opportunity for free, open, and competitive bidding in selection of a contractor to perform any rehabilitation work financed in whole or in part with a housing rehabilitation loan; to give such publicity through written solicitations for bids

as will produce competitive bidding; and to award each contract to the lowest responsible bidder.

- k. Preservation of the Security. The applicant shall maintain the property in sound condition and permit the Building Inspection Division and the Department of Housing and Community Development to inspect the property during the term of the housing rehabilitation loan.
- l. Hazard Insurance. The applicant shall maintain hazard insurance on the property, as required, during the term of the housing rehabilitation loan.
- m. Transfer of the Property. The applicant shall not sell or transfer the property in any manner whatsoever during the term of the housing rehabilitation loan without the prior written consent of the Housing Finance Committee.
- n. Loan Security Requirements. The applicant shall provide security for the housing rehabilitation loan in the form of a mortgage and promissory note if the amount of the loan is \$1,000 or more. A mortgage shall not be required for a loan of less than \$1,000.
- o. Escrowing of Rehabilitation Funds. The applicant shall agree to permit the City of Madison, its agents or designees, to act as escrow agent of funds loaned through a housing rehabilitation loan, and other funds used in combination with a housing rehabilitation loan, and to permit the City of Madison, its agents or designees, to disburse such funds to the applicant/borrower and the contractor in the manner set forth in the contract between the applicant/borrower and the contractor, to insure the proper disbursement of such funds. The "borrower" shall be construed to be any person or other legal entity who holds title to the property being rehabilitated with the assistance of a housing rehabilitation loan, and who is legally responsible for repayment of the loan. In the case of multiple ownership, the signature of every title holder will be required on all documentation where the signature of the applicant/borrower is necessary.
- p. Standard Rehabilitation Agreement to be Used. The standard contract form provided by the Department of Housing and Community Development shall be used in rehabilitation work financed in whole or in part with a housing rehabilitation loan.
- q. Loan Repayment. The starting date for repayment of each housing rehabilitation loan approved by the Housing Finance Committee shall be one month after the date of the loan closing. The loan may be repaid at any time without a prepayment penalty.
- r. Loans Subject to Wisconsin Consumer Act. Each housing rehabilitation loan shall be subject to applicable provisions of the Wisconsin Consumer Act, as amended.

CHAPTER 4 - LIMITATION ON AMOUNT OF LOAN, PROGRAM FEES, AND INCLUDABLE AND NON-INCLUDABLE REHABILITATION COSTS

This chapter sets forth the basis for determining the maximum amount of a housing rehabilitation loan, the program fees, and the costs includable and not includable with respect to rehabilitation work financed with a housing rehabilitation loan.

1. Maximum Amount of Loan - How Determined. The maximum amount of a housing rehabilitation loan is the least of the amounts determined by application of the following limitations:

- a. \$7,500 for a residential property containing one dwelling unit, plus an additional \$1,000 for each additional dwelling unit, up to a maximum of \$10,500 for a residential property containing four dwelling units; for a residential property owned by a non-profit housing cooperative or a non-profit housing corporation, where the property has one kitchen which serves the needs of many residents living in separate rooms, the applicable maximum loan amount shall be \$10,500.
- b. The actual cost of rehabilitation.
- c. An amount not to exceed 90% of the as-is value of the property, minus the amount of the existing indebtedness on the property.

2. Program Fees.

- a. Application Fee. The amount of the application fee to be charged to an applicant for a housing rehabilitation loan shall be \$10.00 for a loan of \$1,000 or less, and \$35.00 for a loan of more than \$1,000. The application fee shall be paid to the Department of Housing and Community Development at the time the applicant makes formal application for the housing rehabilitation loan.
- b. Refund of Application Fees. A refund of an application fee shall be made only:
 - (1) to an applicant whose housing rehabilitation loan application has been rejected by the Housing Finance Committee; or
 - (2) to a borrower whose housing rehabilitation loan application has been approved by the Housing Finance Committee, but who has rescinded the entire loan transaction in accordance with Truth-in-Lending procedures.
- c. Title Report. Prior to the feasibility meeting (see also Sections 2 and 3 of Chapter 5) a title report shall be ordered by the Department of Housing and Community Development and reviewed by the City Attorney to determine adequacy of title for purposes of the housing rehabilitation loan. If the City Attorney's review discloses any title defects or impairments which must be corrected before an application for a housing rehabilitation loan can be approved by the Committee, the applicant shall be so advised as soon as practicable and, in any event, not later than the feasibility meeting. The cost of the title report, including any necessary updates, shall be paid by the borrower, and shall be deducted from the loan proceeds at final loan settlement.

- d. Recording Fee. The cost of recording the mortgage shall be paid by the borrower, and shall be deducted from the loan proceeds at final loan settlement.

3. Costs Includable in a Housing Rehabilitation Loan.

- a. General. A housing rehabilitation loan may be used to finance the cost of rehabilitation work needed to bring the property into compliance with the requirements of the City of Madison Minimum Housing and Property Maintenance Code and other applicable property rehabilitation standards. The term "other applicable property rehabilitation standards" means the standards contained in other local codes and ordinances pertaining to housing construction, and to use, occupancy and maintenance of residential properties, as they specifically apply to the property being rehabilitated with the assistance of a housing rehabilitation loan. After rehabilitation, the property must comply with the property rehabilitation standards which are applicable to that property.

A housing rehabilitation loan may also be used to finance the cost of rehabilitation work needed to put the property into sound and readily maintainable condition with all necessary facilities in good working order, whether or not such work is required by the property rehabilitation standards applicable to that property. However, all applicable property rehabilitation standards must be fully met before a housing rehabilitation loan is used for rehabilitation work not required by the applicable property rehabilitation standards.

- b. Includable Costs. The following costs are includable in a housing rehabilitation loan:

- (1) Rehabilitation work needed to bring the property into compliance with the requirements of the City of Madison Minimum Housing and Property Maintenance Code and other applicable local codes and ordinances.
- (2) If funds are available after required rehabilitation work items are provided for within the approved loan amount, additional rehabilitation work may be included to the extent necessary to put the property into sound and readily maintainable condition, including, but not necessarily limited, to the following:
 - (a) The rehabilitation, removal or replacement of elements of the dwelling structure, including basic equipment, and of other improvements to the property such as garages, fences, steps, walkways and driveways. The term "basic equipment" includes such items as heating furnace, hot water tank, electrical and sanitary fixtures, and kitchen stove and refrigerator, but does not include other appliances.

- (b) The provision of sanitary or other facilities, including the provision, expansion and finishing of space necessary to accommodate those facilities.
 - (c) Grading, filling or landscaping of the grounds.
 - (3) In general, conversion of a property so as to change either its use or the number of dwelling units may be provided for in a housing rehabilitation loan only if conversion is necessary to meet applicable local codes and ordinances, or to eliminate a nonconforming use.
 - (4) In cases where an applicant employs a private designer to prepare plans and drawings for the rehabilitation of his property, the cost of the design services may be included in the rehabilitation work to be financed by the housing rehabilitation loan.
 - (5) A housing rehabilitation loan may provide for the cost of title reports and recording fees.
4. Costs Not Includable. Except as otherwise provided in Section 3 above, a housing rehabilitation loan shall not provide for:
- a. New construction, substantial reconstruction, expansion of the size of a structure, or the finishing of unfinished spaces such as an attic or basement.
 - b. Materials, fixtures, equipment or landscaping of a type or quality which exceeds that customarily used in properties of the same general type as the property to be rehabilitated.
 - c. Appliances.
 - d. Purchase, installation or repair of furnishings.

CHAPTER 5 - PROCESSING OF A HOUSING REHABILITATION LOAN

This chapter sets forth the policies and procedures to be followed in preparing, processing and approving an application for a housing rehabilitation loan, and for cancelling a loan application or an approved loan under the Housing Rehabilitation Services Program.

1. Loan Initiation. Information concerning the Housing Rehabilitation Services Program will be made available to prospective applicants through neighborhood meetings, written informational statements, referrals from other public and private agencies actively involved in providing or assisting in the provision of housing for people of low and moderate income, and through the housing counseling services program being carried out by the Department of Housing and Community Development. Prospective applicants will be encouraged to contact appropriate Departmental staff to determine whether the assistance available through the Housing Rehabilitation Services Program meets their specific needs.

An appointment for an interview with the Rehabilitation Loan Officer will be made for each prospective applicant who indicates an interest in making use of the available financial and technical resources of the Housing Rehabilitation Services Program. During the initial interview with the prospective applicant, the Rehabilitation Loan Officer will explain the Housing Rehabilitation Services Program to the prospective applicant and furnish the prospective applicant with a written informational statement concerning the requirements for a housing rehabilitation loan. The prospective applicant will be requested to sign a Preliminary Loan Application and an Authorization to Process; after obtaining the prospective applicant's signature on these documents, the Rehabilitation Loan Officer will initiate the preliminary steps involved in the preparation of a formal housing rehabilitation loan application on behalf of the prospective applicant.

2. Preparation of Application for Housing Rehabilitation Loan.
 - a. Credit Verification and Title Report. After the initial interview has been held, the Rehabilitation Loan Officer will order the title report referred to in Section 2 of Chapter 4, and verify the information provided by the applicant regarding credit, mortgage balance, mortgage payments, taxes, insurance, employment, and other income and/or assets.
 - b. Property Appraisal. Concurrently with the activities related to credit verification, the Rehabilitation Division staff will either prepare, or have prepared, an "as-is" appraisal of the property for which the housing rehabilitation loan is sought. The as-is value of the property is defined as the highest price which the property will bring if exposed for sale in the open market, allowing a reasonable time to find a purchaser who buys with knowledge of all the uses to which the property is adapted and for which it is capable of being used. The value sought presupposes all cash to the seller, with the purchaser financing the transaction by the most advantageous means and terms generally available throughout the entire City.

- c. Property Inspection. Concurrently with the preparation of the as-is appraisal, the Rehabilitation Loan Officer will arrange for an initial inspection of the property to be made by the Area Housing Code Enforcement Officer and the Rehabilitation Supervisor, and the preparation of the inspection report referred to in Chapter 6, Section 1 of this Handbook.
 - d. Preparation of Preliminary Work Write-Up and Cost Estimate. On the basis of the inspection report referred to above, the Rehabilitation Division staff will prepare a preliminary work write-up and cost estimate of the rehabilitation work needed to be done on the property, for discussion with the applicant at the feasibility meeting. (See also Chapter 6, Section 2 of this Handbook.)
3. Feasibility Meeting. After the preliminary steps referred to above have been completed, the Rehabilitation Division staff will schedule a feasibility meeting with the applicant. The following information is required before the feasibility meeting is held:
- a. title report, credit verification and supporting documents;
 - b. preliminary work write-up and cost estimate;
 - c. building deficiencies report (completed by the Building Inspection Division);
 - d. preliminary evaluation of the applicant's ability to repay the indicated loan amount; and
 - e. preliminary determination of eligibility of the applicant and the property for a housing rehabilitation loan; if both the applicant and the property are eligible for a housing rehabilitation loan, a determination is made of the loan amount to be recommended to the Housing Finance Committee.

At the feasibility meeting, the loan application will be discussed in detail with the applicant and the rehabilitation work and the costs will be fully explained. If any title defects or impairments exist which must be corrected, the applicant will be advised of the necessary corrective actions to be taken. When final agreement has been reached between the applicant and the Rehabilitation Division staff that no alternatives or further additions are needed in the work write-up, the applicant will be requested to indicate acceptance by signing the work write-up, making formal application for a housing rehabilitation loan and paying the loan application fee.

4. Preparation of Plans and Specifications; Bidding of Work. After the feasibility meeting has been held and the applicant has made formal application for a housing rehabilitation loan, the plans and specifications for the agreed-upon rehabilitation work will be prepared for the bidding process. Upon completion of the plans and specifications, the Rehabilitation Division staff will initiate the bidding procedures specified in Chapter 8, Section 4

of this Handbook. Upon receipt of bids from interested contractors, the Rehabilitation Division staff will open and review the bids received, and forward the results of the bidding to the applicant for acceptance and final approval. If none of the bids received is acceptable to the applicant, the applicant may authorize the Rehabilitation Division staff to negotiate a rehabilitation work proposal acceptable to the applicant.

5. Preparation of Contract for Rehabilitation Work. Upon receipt of a contractor's bid acceptable to the applicant, or, in the event no acceptable bids have been received, upon completion of negotiation of a proposal acceptable to the applicant, the Rehabilitation Division staff will prepare the contract for the rehabilitation work, determine whether the contractor has been pre-qualified by the Board of Public Works as an eligible contractor, and, if the contractor has been so pre-qualified, have the contract signed by the contractor.
6. Presentation of Application for Formal Approval. After the contract for the rehabilitation work has been signed by the contractor, the Rehabilitation Division staff will complete preparation of the housing rehabilitation loan application for presentation to the Housing Finance Committee. The staff member(s) of the Department of Housing and Community Development responsible for pre-review of the application for accuracy, technical content, and general underwriting standards, will complete such pre-review, prepare the Departmental Letter of Recommendation and make the necessary arrangements for the Housing Finance Committee to meet for the purpose of considering and taking action on the application.
7. Housing Finance Committee Action. After all application preparation activities have been completed, the housing rehabilitation loan application will be presented to the Housing Finance Committee for approval or rejection.
 - a. If the application is approved by the Housing Finance Committee, the applicant will be notified of the Committee's approval, and the application will be returned to the Rehabilitation Loan Officer for loan settlement. (See Chapter 7 of this Handbook for a detailed discussion of loan settlement procedures.)
 - b. If the application is rejected by the Housing Finance Committee, the application fee will be refunded and the applicant will be notified of the basis for rejection, after which the Building Inspection Division and Rehabilitation Division staff will jointly initiate necessary follow-up action, for example, through provision of technical assistance, financial counseling, investigation of possibility of voluntary assistance, etc.
8. Loan Settlement. For housing rehabilitation loan applications approved by the Housing Finance Committee, the Rehabilitation Loan Officer will establish a date for loan settlement and prepare all necessary loan documents for signature by the applicant. The loan settlement will be completed on the established date, at which time the borrower will sign all necessary loan documents, including the Order to Proceed, pending rescission by the borrower

under Truth-in-Lending procedure. (See Chapter 9 of this Handbook for a detailed discussion of Truth-in-Lending procedure.)

After the three-day waiting period required by Truth-in-Lending procedure:

- a. If the borrower exercises the right of rescission, the loan is cancelled, the applicant fee is refunded, and follow-up action is taken by the Building Inspection Division and Rehabilitation Division staff, as in the case of an applicant whose loan application is rejected by the Housing Finance Committee.
 - b. If the borrower decides to proceed, the Rehabilitation Loan Officer will record the applicable loan documents, deposit the loan funds in the Rehabilitation Escrow Account, send the signed Order to Proceed to the contractor, and send all required loan documents to the Loan Servicing Agent, as provided for in Chapter 7, Section 4 of this Handbook.
9. Completion of Rehabilitation Work. During the time that the rehabilitation work is being performed, compliance inspections of the property will be made, as necessary. Upon completion of the rehabilitation work, the Rehabilitation Division staff will arrange for a joint final inspection by the Rehabilitation Supervisor and the Area Housing Code Enforcement Officer. When the rehabilitation work has been fully and satisfactorily completed, the Rehabilitation Supervisor will prepare a closeout report and order final payment to be made to the contractor. (See also Chapter 8, Sections 9-12 of this Handbook.)
10. Loan Closeout. After the rehabilitation of the property has been fully and satisfactorily completed, the Rehabilitation Loan Officer will complete the Disposition of Rehabilitation Funds form (Form HRSP-6246) for signature by the borrower and the Rehabilitation Supervisor. After the required signatures have been obtained, the Rehabilitation Loan Officer will send a closeout letter to the borrower. The closeout letter will include:
- a. Certificate of Completion;
 - b. Copy of Disposition of Rehabilitation Escrow Funds form; and
 - c. A reminder of where and when loan payments must be made.
- A post-completion inspection will be made by the Rehabilitation Supervisor not more than 60 days after issuance of the Certificate of Final Inspection (Form HRSP-6245).
11. Cancellation of a Housing Rehabilitation Loan.
- a. An applicant for a housing rehabilitation loan may withdraw the loan application at any time before the application has been approved by the Housing Finance Committee. An applicant who elects to withdraw a loan application may, on request, continue to be provided with technical assistance under the Housing Rehabilitation Services Program.

- b. The Rehabilitation Division staff may discontinue work on an application for a housing rehabilitation loan for any of the following reasons:
- (1) The applicant is not eligible for a housing rehabilitation loan.
 - (2) The property for which the loan is sought does not qualify under the requirements of the Housing Rehabilitation Services Program.
 - (3) The applicant consistently refuses to cooperate with the Department of Housing and Community Development in preparation of the application.
 - (4) The applicant gives false or misleading statements in the application.
 - (5) The applicant does not permit the property for which the loan is sought to be inspected by the Building Inspection Division and/or the Rehabilitation Division of the Department of Housing and Community Development.
 - (6) The rehabilitation of the property is not feasible due to the poor physical condition of the structure, or the financial inability of the applicant to make required repayment of the loan.
 - (7) The applicant withdraws the application.
- c. After a housing rehabilitation loan has been approved by the Housing Finance Committee, the applicant may cancel the loan within a three-day period after loan settlement by exercising the right of rescission provided by Truth-in-Lending procedure.
- d. Cancellation and termination of a housing rehabilitation loan may be effected by the City of Madison by sending a written notice of cancellation to the borrower at his mailing address as set forth in the application if, in connection with a loan in the amount of \$1,000 or more, a prior adverse lien has been recorded against the property before the mortgage securing the loan has been recorded, which would necessitate cancellation of the loan.
- e. Cancellation and termination of a housing rehabilitation loan may also be effected by the City of Madison by sending a written notice of cancellation to the borrower at his mailing address as set forth in the application if, for a period of sixty days from the date of execution of the security instrument, the borrower shall have failed or refused to cause the commencement of physical rehabilitation work on his property, or if the borrower shall have failed to complete such rehabilitation work in a reasonable time. Upon authorization of such action by the Housing Finance Committee, all funds for that particular loan will immediately be cancelled and any funds expended

by the borrower will be immediately due and payable to the City. The failure of the City to exercise this right shall not be deemed a waiver thereof, as long as the rehabilitation work remains uncompleted.

CHAPTER 6 - DETERMINING WORK TO BE DONE WITH A HOUSING REHABILITATION LOAN

This chapter sets forth the responsibilities of the Department of Housing and Community Development for determining the rehabilitation work necessary to bring a property into compliance with the City of Madison Minimum Housing and Property Maintenance Code and other applicable property rehabilitation standards, as well as the additional rehabilitation work needed, if any, to put the property into sound and readily maintainable condition, and for providing assistance in the rehabilitation of the property. In carrying out these responsibilities, the staff of the Rehabilitation Division of the Department of Housing and Community Development shall:

- a. Inspect the property;
 - b. Make a preliminary work write-up and cost estimate of the rehabilitation work to be done; and
 - c. Consult with and advise the owner concerning the rehabilitation work to be done, and the availability of a housing rehabilitation loan.
1. Property Inspection. The Area Housing Code Enforcement Officer and the Rehabilitation Supervisor shall jointly inspect the property and, on the basis of such inspection, prepare an inspection report that separately identifies all Minimum Housing and Property Maintenance Code deficiencies, all deficiencies in other applicable property rehabilitation standards, and all other deficiencies which should be corrected to put the property into sound and readily maintainable condition, and which may be corrected with the funds from a housing rehabilitation loan. (See Chapter 4, Section 3, for a discussion of the rehabilitation work which may be financed with a housing rehabilitation loan.) An inspection report prepared in this manner will later serve as the basis for preparing a work write-up and cost estimate.
 2. Work Write-Up and Cost Estimate. The Rehabilitation Division staff of the Department of Housing and Community Development shall prepare a preliminary work write-up that itemizes all the rehabilitation work needed to be done on the property. The preliminary work write-up shall also include a reasonable estimate of the cost of each work item. Each item of work and its estimated cost shall be identified in the preliminary work write-up as being either necessary to correct Minimum Housing and Property Maintenance Code deficiencies, deficiencies in other applicable property rehabilitation standards, or for other purposes for which a housing rehabilitation loan may be used. If the total estimated cost of the work shown on the preliminary work write-up exceeds the amount of the housing rehabilitation loan that the applicant could receive, or exceeds the applicant's financial ability to do all the work, the Rehabilitation Division staff shall eliminate or modify items in the preliminary work write-up as necessary to reduce the estimated costs; however the items of work necessary to correct Minimum Housing and Property Code deficiencies shall not be eliminated. The preliminary work write-up and cost estimate shall be discussed in detail with the applicant at the feasibility meeting.

3. Consultation with Applicant. As soon as practicable after inspection of the property, the Rehabilitation Division staff shall consult with the applicant concerning the preliminary work write-up and cost estimate. The Rehabilitation Division staff shall advise the applicant as to which items of work are required to correct Minimum Housing and Property Maintenance Code deficiencies, which are required to meet other applicable property rehabilitation standards, and which items of work, if any, are not required, but may be financed with a housing rehabilitation loan. The Rehabilitation Division staff shall advise the applicant as to both the technical and financial assistance available to assist the applicant in completing the required rehabilitation work. The applicant will be encouraged to undertake as much of the other rehabilitation work as he can reasonably afford.

As a result of the consultation and agreement reached between the Rehabilitation Division staff and the applicant concerning the rehabilitation work to be done, the Rehabilitation Division staff shall prepare the final work write-up and cost estimate. The applicant shall indicate his acceptance by signing the final work write-up and making formal application for a housing rehabilitation loan.

4. Assurances that Rehabilitation Work will be Completed. In some instances, the applicant for a housing rehabilitation loan may need or want to do more rehabilitation work than can be financed by a housing rehabilitation loan. In such instances, the housing rehabilitation loan may be conditionally approved by the Housing Finance Committee subject to the condition that the applicant shall present to the Department of Housing and Community Development, prior to the loan settlement, a bona fide written commitment from a recognized lending institution or other funding source stating that the funds are available for the applicant's use, and shall deposit the additional funds needed to cover the cost of the additional rehabilitation work in the Rehabilitation Escrow Account at the time of loan settlement. The source and amount of the additional funds; the terms and conditions under which the additional funds must be repaid, if borrowed; and the applicant's demonstrated financial capacity to make all of the required payments on a continuing and regular basis, shall be verified by the Rehabilitation Loan Officer before the applicant/borrower signs a Contract for Rehabilitation Work which includes rehabilitation work not covered by the housing rehabilitation loan.

CHAPTER 7 - LOAN SETTLEMENT PROCEDURES

This chapter sets forth the procedure to be followed in completing the settlement of a housing rehabilitation loan.

1. Preparing for Loan Settlement. Immediately after the Housing Finance Committee's approval of a housing rehabilitation loan, the Rehabilitation Loan Officer shall take the following actions to prepare for loan settlement:
 - a. establish a date certain for the loan settlement that allows sufficient time for scheduling a loan closing with the applicant/borrower and for processing the loan check.
 - b. prepare a requisition for the loan check.
 - c. arrange for the title report to be updated to the established date certain, if required by the City Attorney.
 - d. prepare Order to Proceed (Form HRSP-6259), for the borrower's signature at the closing. The signed Order shall be held until the Rehabilitation Loan Officer has determined that the borrower does not intend to cancel the loan in accordance with Truth-in-Lending procedure.
 - e. instruct the borrower to obtain:
 - (1) original or memorandum copy of the insurance policy for fire and extended coverage in an amount sufficient to adequately insure the property to be rehabilitated.
 - (2) original or certified copy of receipt for payment of the current insurance premium.
 - (3) original or certified copy of receipt for payment of current property taxes and/or special assessments.
 - f. prepare all other documents required for the loan settlement and make all other necessary arrangements for completing the loan settlement on the established date certain.
2. Delay in Loan Settlement. If for any reason the loan settlement cannot be accomplished on the established settlement date, or within ten days thereafter, the Rehabilitation Loan Officer shall return the loan check to the City Treasurer. The Rehabilitation Loan Officer shall then establish a new date certain for loan settlement and prepare a new requisition for the loan check and all other related documents with the new date certain specified thereon.

3. Completing the Loan Settlement. The Rehabilitation Loan Officer shall proceed with the loan settlement on the date certain, as follows:
- a. review with the borrower all documents involved in the loan transaction. If applicable, the Rehabilitation Loan Officer shall advise the borrower that the borrower must include an amount for accrued escrow expense account items in his first and subsequent monthly payments.
 - b. secure the borrower's signature on the promissory note.
 - c. if applicable, secure the borrower's signature on the mortgage.
 - d. obtain the required fire and extended coverage insurance policy and premium payment receipts from the borrower.
 - e. obtain from the borrower proof of payment of current property taxes and special assessments against the property, if any, in the form of the most recent receipt for payment.
 - f. secure the borrower's endorsement on the loan check.
 - g. advise the borrower regarding:
 - (1) the starting date for repayment of the loan (one month after the date of the loan closing), and of the need to make all monthly payments on the date due in order to avoid legal action.
 - (2) the name of the loan servicing agent to whom monthly payment checks shall be made payable, and where and when to send the first and subsequent monthly payments.
 - (3) the amount of the first monthly payment, and, if applicable, the fact that the first monthly payment will differ from subsequent monthly payments because of the initial interest payment adjustment.
 - (4) the borrower's rights under Truth-in-Lending procedures. The Rehabilitation Loan Officer shall also provide the borrower with two copies of the Notice of Right of Rescission, and shall keep an additional signed copy to document the fact that Truth-in-Lending procedure has been followed.
 - h. obtain approval of the City Attorney concerning the legality and sufficiency of the executed promissory note and, if applicable, the mortgage. To provide a basis for such approval, the City Attorney shall:

- (1) participate in the proceedings as necessary to assure legal validity of the loan application.
 - (2) review all loan documents for legal adequacy, and
 - (3) review the title report to assure that proper disposition has been made of any exceptions.
- i. secure the borrower's signature on the Contract for Rehabilitation Work (Form HRSP-6261) and on the Order to Proceed (Form HRSP-6259).
 - j. if applicable, obtain a check from the borrower to cover accrued escrow expense items (taxes and insurance).
 - k. if applicable, obtain the supplemental funds provided by the borrower to cover the cost of the rehabilitation work to be done in addition to the rehabilitation work being financed with the housing rehabilitation loan.
4. Post Settlement. If the borrower has not in the interim exercised the right of rescission provided by Truth-in-Lending procedure, after the three-day waiting period the Rehabilitation Loan Officer shall do the following, unless in the interim a prior adverse lien has been recorded against the property that would necessitate cancelling the housing rehabilitation loan:
- a. record the mortgage (if applicable).
 - b. mail the Order to Proceed (Form HRSP-6259) to the contractor on behalf of the borrower.
 - c. prepare and send a Letter of Transmittal to the Loan Servicing Agent advising that the loan has been closed and is being transferred to the Loan Servicing Agent for servicing. The transmittal letter shall provide the following information for each loan being transferred:
 - (1) loan number.
 - (2) name and address of the property to be rehabilitated.
 - (3) amount of the loan.
 - (4) type of security, i.e., whether a first or subordinate lien on the property.
 - (5) a signed copy of the approved loan application (Form HRSP-6230 or HRSP-6243, as applicable).
 - (6) a signed copy of the Order to Proceed (Form HRSP-6259).
 - (7) a signed copy of the Contract for Rehabilitation Work (Form HRSP-6261).

- (8) the promissory note (signed copy).
- (9) if applicable, the mortgage (signed copy).
- (10) memorandum of insurance and receipt.
- (11) updated title report.
- (12) Truth-in-Lending Disclosure Statement.
- (13) a signed copy of the Notice of Right of Rescission.
- (14) if applicable, a check from the borrower to cover accrued escrow expense items.

The signed original of the promissory note referred to in (8) above, and, if applicable, the signed original of the mortgage referred to in (9) above (after being recorded in the Dane County Register of Deeds Office), shall be sent to the City Attorney for transfer to the City Clerk's Office.

5. Management of the Rehabilitation Escrow Account. The Department of Housing and Community development shall maintain a single cash account as the depository for all housing rehabilitation loans funded by the City of Madison as well as for supplemental funds provided by the borrower. This account shall be separate and distinct from all other accounts maintained by the Department of Housing and Community Development and shall be for the sole purpose of depositing Rehabilitation Escrow Account funds.
- a. Separate Account for Each Borrower. The Department of Housing and Community Development shall establish and maintain a separate account, in the books of account for the Housing Rehabilitation Services Program, for each borrower who has received a housing rehabilitation loan. All receipts and disbursements made for the borrower shall be recorded in the account.
 - b. Disbursements from the Rehabilitation Escrow Account. Disbursements from the Rehabilitation Escrow Account shall be made only for the following purposes as may be appropriate for each borrower:
 - (1) to pay for expenses incidental to loan settlement.
 - (2) to reimburse the Department of Housing and Community Development for advanced loan expenses, where applicable.
 - (3) to make progress and final payments for rehabilitation work.
 - (4) to close out the Rehabilitation Escrow Account by applying unutilized funds, if any, to the principal amount of the loan.

The Rehabilitation Division staff, upon receipt of all appropriate invoices, shall draw a check for the payment of the completed and approved work and services. Each check shall be made payable to the appropriate payee. In the case of the owner-contractor, the check shall be made payable jointly to the owner-contractor and the appropriate sub-contractor or supplier.

- c. Progress and Final Payments to Contractor. Upon receipt of a contractor's invoice for a progress payment, if the work completed is satisfactory, the Department of Housing and Community Development shall make payment in an amount not to exceed 80% of the amount due the contractor for the work satisfactorily completed. The remainder due the contractor shall be withheld pending satisfactory completion of all the work set forth in the Contract for Rehabilitation Work. Each request for a progress payment shall be accompanied by a certification from the contractor to the effect that:
- (1) the contractor has performed the rehabilitation work for which the progress payment is requested in accordance with the Contract for Rehabilitation Work and is entitled to receive the amount requested;
 - (2) the remainder due the contractor after the progress payment has been made is sufficient to cover the cost of the remaining work to be completed pursuant to the said contract; and
 - (3) the necessary inspections have been made. Each request for a progress payment shall also be accompanied by lien waivers from all sub-contractors that have completed their portion of the rehabilitation work for which payment is requested.

In the event a dispute exists between the borrower and the contractor with respect to the rehabilitation work, the Department of Housing and Community Development shall take appropriate action in accordance with the provisions of the Contract for Rehabilitation Work. If the dispute cannot be readily resolved between the borrower and the contractor, the Rehabilitation Loan Officer, with the prior approval of the Housing Finance Committee, can make payments directly to the contractor, provided the work has been satisfactorily completed and certified by the Building Inspection Division.

6. Loan Closeout Action. After all funds have been disbursed from the Rehabilitation Escrow Account, and the account has been closed, the Rehabilitation Loan Officer shall prepare a Disposition of Funds statement (Form ERSP-6246), which shall account for the disposition of the full loan amount and any other funds deposited in the Rehabilitation Escrow Account for the borrower. After the signatures of the borrower and the Rehabilitation Supervisor have been obtained, a signed copy of the Disposition of Funds statement shall be mailed to the borrower. The signed original of the Disposition of Funds statement shall be retained in the appropriate file of the Department of Housing and Community Development.

CHAPTER 8 - CONTRACTING FOR REHABILITATION WORK

This chapter sets forth requirements and procedures with respect to contracts for rehabilitation work financed in whole or in part with a housing rehabilitation loan.

1. General. Rehabilitation work financed with a housing rehabilitation loan shall be undertaken only through a written contract between the contractor and the recipient of the loan. The standard contract form provided by the Department of Housing and Community Development, as shown in Appendix 3, shall be used in connection with rehabilitation work financed in whole or in part with a housing rehabilitation loan under the Housing Rehabilitation Services Program. The Rehabilitation Division of the Department of Housing and Community Development shall assist each applicant in arranging for and obtaining an acceptable contract for rehabilitation work.

The contract will consist of a single document signed by both the contractor and the borrower of a housing rehabilitation loan. However, the borrower shall sign the contract only after the loan has been approved by the Housing Finance Committee. The contract shall contain a bid and proposal by the contractor and the general conditions of the contract, as well as the written specifications for the rehabilitation work to be performed, and plans, if any.

The contract document prepared by the Rehabilitation Division may provide for alternates by which the bidder, as part of his bid and proposal, offers increases and decreases to the lump sum contract price to cover alternatives in the performance of the work. For example, the specifications may call for the removal of existing outside wood stairs and replacement with new wood stairs. An alternative may be provided for an additional price to make the replacement with concrete stairs. When used, alternates shall be provided for specifically in the section provided for bid and proposal by adding material such as the following:

Alternate #1 (Description of the Alternate) _____

Add \$ _____ Deduct \$ _____

Alternate #2 - Same as above, etc.

The Rehabilitation Division shall not consider unrequested alternates or other changes in the rehabilitation work proposed by a bidder that are not called for in the contract document prepared by the Rehabilitation Division.

2. Plans and Specifications. Written specifications, based on the final work write-up, covering the specific rehabilitation work for each property for which a housing rehabilitation loan will be made, shall be prepared by the Department of Housing and Community Development or, if prepared by others, shall be approved by the Department of Housing and Community Development. Plans shall be prepared only when essential to show the scope of the work involved so that a fair bid for the work can be obtained and so that misunderstandings with the bidder will be avoided. The written specifications (and plans, if any) shall

be based on the final work write-up resulting from an inspection of the property and consultation, as indicated, with the owner. The written specifications shall clearly establish the nature of the work to be done, and the material and equipment to be installed. Known acceptable brands shall be identified by reference to manufacturer's or association specifications, and provision shall be made for acceptance of equal substitutions.

Each page of the specifications (and plans, if applicable) shall be numbered and shall contain the acknowledgment and acceptance of the owner and contractor. (The initials of each and the date are construed to be acceptable.)

3. Pre-qualification of Contractors. The Department of Housing and Community Development shall establish and, on the basis of its experience, maintain a current listing of contractors, subcontractors, and materials suppliers who are interested in doing rehabilitation work financed through a housing rehabilitation loan and have been pre-qualified by the Board of Public Works as eligible contractors to perform such work under the Housing Rehabilitation Services Program.

The list shall not be used as a means of excluding bidders who are not on the list at the time the submission of a bid and proposal is in order. However, a contract shall not be awarded to a contractor who, at the time of award, has not been pre-qualified by the Board of Public Works as an eligible contractor under the Housing Rehabilitation Services Program. In order for a contractor to qualify as an eligible contractor under the Housing Rehabilitation Services Program, it will be necessary for the contractor to submit a completed Statement of Qualifications and Proof of Responsibility to the Board of Public Works, in the form prescribed by the Board of Public Works.

4. Invitation to Contractors for Bid and Proposal. The procedures to be used by the Department of Housing and Community Development for initiating and obtaining bids and proposals for rehabilitation work to be financed with a housing rehabilitation loan are the following:
 - a. A written notice of invitation for a bid and proposal shall be sent to every contractor on the current listing of eligible contractors maintained by the Department of Housing and Community Development. The notice of invitation shall request the contractor to notify the Department of Housing and Community Development, within five days from the date of the notice, whether he wishes to submit a bid and proposal in response to the invitation.
 - b. If the owner of the property wishes to submit a bid and proposal, or has a preferred contractor who has not been pre-qualified by the Board of Public Works, the owner or preferred contractor will also be invited to bid.
 - c. If the above procedures do not produce at least two bids, or if none of the bids received is acceptable to the owner, the Rehabilitation Division, upon written authorization by the owner, shall negotiate a rehabilitation work proposal acceptable to the owner.

5. Procedure When Owner Acts as General Contractor. If the owner of the property to be rehabilitated with a housing rehabilitation loan wishes to act as his own general contractor, he must demonstrate to the satisfaction of the Department of Housing and Community Development and the Housing Finance Committee that he is capable of doing so.

The rehabilitation work will be bid in accordance with the procedure outlined in Section 4, above.

The owner will complete a bid and proposal package and submit it to the Rehabilitation Division staff. The owner's bid and proposal package shall contain:

- a. at least two bids for each subcontracted item. These bids from subcontractors are to be submitted on the appropriate bid proposal form with a copy of the specifications for the work to be subcontracted.
- b. a breakdown of the material to be used and the labor to be hired by the owner if he elects to perform a portion of the rehabilitation work himself.
- c. lump sum bid and cost breakdown for the rehabilitation work.

The amount of the owner's bid for the proposed rehabilitation work to be performed will affect the amount of the housing rehabilitation loan. Any amount above the approved loan amount must be paid by the owner.

In cases where the owner is awarded the Contract for Rehabilitation Work as his own general contractor, the contracts of the subcontractors will be formalized using appropriate Housing Rehabilitation Services Program forms which are made a part of the case file to be retained by the Department of Housing and Community Development.

The contract with the owner shall include a draw schedule so prepared that the subcontractors can be paid. The draw payment will be issued in several checks, as required, with 80% of the amount due for satisfactorily completed work being paid to each contractor. The several checks shall be made payable jointly to the owner and the appropriate contractor or supplier. No money in excess of 80% of the total loan will be disbursed until the final closeout.

6. Selection of Successful Bidder and Award of Contract.

- a. Selection of Successful Bidder. Except under the conditions noted below, a bid and proposal from at least two contractors must be received by the Department of Housing and Community Development before selection of a contractor is made. Immediately after the cut-off date for receipt of bids and proposals, the Rehabilitation Division staff shall open and review all bids received. The results of the bidding shall be reviewed with the owner to determine which of the bidders is the lowest responsible bidder. A Contract for Rehabilitation Work financed with a housing rehabilitation loan may be awarded only to the lowest responsible bidder.

If the invitation procedure followed by the Department of Housing and Community Development does not produce more than one bid, and the bid received is acceptable to the owner, the bid may be accepted by the owner, with the written approval of the Housing Finance Committee.

If none of the bids received is acceptable, the owner may either authorize (in writing) the rejection of all bids and the rebidding of the rehabilitation work, by the Rehabilitation Division, or the negotiation by the Rehabilitation Division of a rehabilitation work proposal that is acceptable to the owner.

- b. Award of Contract for Rehabilitation Work. The contract shall be awarded by having the applicant for the loan properly execute the contract with the assistance of the Rehabilitation Loan Officer at loan settlement.
- (1) Issuance of Proceed Order. At the time the award is made, the Rehabilitation Loan Officer shall remind the applicant and the successful contractor that the undertaking of the work covered by the contract is subject to issuance by the owner of an Order to Proceed within 30 days from the date of award.
 - (2) Contract Award. In the award of a Contract for Rehabilitation Work, the applicant for the loan shall execute the original contract documents, as approved by the Department of Housing and Community Development. In order for the bid and proposal to be binding, the award shall be made within a period of 60 days from the cut-off date established by the Department of Housing and Community Development for the receipt of the bid and proposal, unless a later date is agreed upon in writing by the owner and the contractor. The Rehabilitation Loan Officer shall distribute the executed contract documents, as follows:
 - (a) executed original to contractor;
 - (b) executed counterpart to borrower;
 - (c) one executed copy to be retained by the Department of Housing and Community Development;
 - (d) executed copy to City Attorney;
 - (e) executed copy to loan servicing agent.
 - (3) When Bidders to be Notified of Selection or Rejection. The successful bidder shall not be notified of his selection until the owner's written acceptance of the successful bidder's bid and proposal has been received by the Department of Housing and Community Development, and, if necessary, approved by the Housing Finance Committee. Other bidders shall not be notified of the rejection of their bids before the successful bidder has signed the Contract for Rehabilitation Work.

7. Issuance of Order to Proceed. In accordance with the Contract for Rehabilitation Work, the owner will issue an Order to Proceed within 30 days of the owner's acceptance of the contractor's bid and proposal, which shall require the start of construction within 30 days from the date of the signed Order to Proceed. In order to conform with this contract condition, an Order to Proceed shall be issued promptly after the loan settlement has been completed for an approved housing rehabilitation loan. When the housing rehabilitation loan is secured by a mortgage, loan settlement is considered completed only after the mortgage is recorded. The Rehabilitation Loan Officer shall assist the borrower in the preparation and issuance of an Order to Proceed. The Order to Proceed shall be prepared for the applicant's signature and shall be distributed by the Rehabilitation Loan Officer, as follows:
- a. original to the contractor.
 - b. one copy to the borrower.
 - c. one copy to the loan servicing agent; and
 - d. one copy to be retained by the Department of Housing and Community Development.
8. Issuance of Change Order. In accordance with the Contract for Rehabilitation Work, no changes, alterations, additions, deletions or substitutions are to be made in the work or materials called for in the specifications which are part of the contract, except by written change order signed by the owner and contractor and approved in writing by the Department of Housing and Community Development. Change orders shall be limited to covering work items, the need for which cannot be determined until sometime during the performance of the rehabilitation work, and, when issued, shall be deemed to be modifications of the contract as originally executed by the owner and the contractor. All proposed change orders shall be reviewed and approved by the Department of Housing and Community Development before being signed by the owner.
9. Responsibility for Inspections of Rehabilitation Work. Inspections of rehabilitation work financed in whole or in part with a housing rehabilitation loan shall be made by the Building Inspection Division and the Department of Housing and Community Development, as follows:
- a. Code Compliance. During the performance of the rehabilitation work, the Building Inspection Division shall make inspections of the property as necessary to assure that the rehabilitation work being performed will bring the property into compliance with the requirements of the City of Madison Minimum Housing and Property Maintenance Code and other applicable local codes and ordinances.
 - b. Contract Compliance. During the performance of the rehabilitation work, the Rehabilitation Supervisor shall make inspections of the property as necessary to assure that the rehabilitation work is being completed in accordance with the Contract for Rehabilitation Work.

- c. Final Inspection. Upon completion of the rehabilitation work, a final inspection of the property shall be made jointly by the Building Inspection Division and the Department of Housing and Community Development to assure:
- (1) that the property has been brought into compliance with the requirements of the City of Madison Minimum Housing and Property Maintenance Code and all other applicable codes and ordinances; and
 - (2) that the rehabilitation work has been completed in accordance with the Contract for Rehabilitation Work.

10. Inspections for Progress Payments and Final Payment.

- a. Progress Payments. A compliance inspection of the rehabilitation work shall be made and an inspection report prepared by the Rehabilitation Division before a progress payment on a contractor's invoice is made. If the inspection determines that the work completed is satisfactory, the Rehabilitation Division staff shall draw progress payment checks on the escrow account, payable to the appropriate payee(s).

If the work completed is not satisfactory, and/or not in accordance with the requirements for a progress payment, as specified in the Contract for Rehabilitation Work, the Rehabilitation Supervisor shall advise the borrower of any noncompliance in the rehabilitation work, or of an incorrect invoice submitted by the contractor. The borrower shall be requested to obtain, with assistance from the Department of Housing and Community Development, appropriate corrective action from the contractor. No payment shall be made pursuant to a Contract for Rehabilitation Work until the contractor has satisfactorily completed the necessary corrective action.

- b. Final Payment. Upon completion of the rehabilitation work and receipt of the contractor's invoice containing his certificate of satisfactory completion of all work in accordance with the contract and his warranty, the Rehabilitation Division of the Department of Housing and Community Development shall arrange for the final joint inspection of the completed work. When the final inspection determines that the rehabilitation work has been satisfactorily completed in accordance with the contract, and the property is in compliance with the requirements of the City of Madison Minimum Housing and Property Maintenance Code and all other applicable property rehabilitation standards, the Rehabilitation Division staff shall obtain from the contractor a release of all liens and a copy of each warranty due the borrower for the work. After receipt of a release of all liens, including releases from all subcontractors and suppliers, and a copy of each warranty, the Department of Housing and Community Development shall make final payment in accordance with Section 5 of Chapter 7 of this Handbook.

11. Certification of Final Inspection. After the Department of Housing and Community Development has obtained the final inspection report and has determined that the rehabilitation work has been fully and satisfactorily completed, the Rehabilitation Supervisor shall prepare a Certificate of Final Inspection (Form HRSP-6245). The Certificate of Final Inspection shall be distributed as follows:
 - a. signed original to the property owner;
 - b. signed copy to the loan servicing agent; and
 - c. signed copy to be retained by the Department of Housing and Community Development.

12. Supplemental Inspections. In some cases defects and inadequacies in the rehabilitation work, not apparent at the time of final inspection, may show up after final payment for the work is made and the Certificate of Final Inspection is issued. Most of these are minor, such as doors and windows that stick after painting. However, others are serious, such as roof leaks not ascertainable until after a rain, defects in heating systems installed during the nonheating season that were not revealed in the limited tests after inspection, and plumbing leaks that did not show up in the final inspection. All work performed by the contractor is covered by a one-year guarantee; accordingly, the property owner may, for a period of one year, require the contractor to correct significant defects and inadequacies in the work performed under his contract.

Although a limited examination indicates that the incidence of serious defects and inadequacies in the rehabilitation work is not frequent, and contractors generally correct them promptly when requested, the Rehabilitation Supervisor, after the final inspection, shall make an additional call on the property owner to ascertain if there are any complaints about the work that had been done. This call shall be made not more than 60 days after the issuance of the Certificate of Final Inspection. The Rehabilitation Supervisor shall inspect the work to ascertain if the complaint is valid. If the complaint is valid, the Rehabilitation Division staff shall assist the property owner in obtaining prompt corrective action from the contractor.

CHAPTER 9 - TRUTH-IN-LENDING REQUIREMENTS FOR HOUSING REHABILITATION LOANS

1. Purpose. This chapter describes the Truth in Lending Act and its procedural and disclosure requirements which must be followed in the settlement of housing rehabilitation loans under the Housing Rehabilitation Services Program. Such requirements are in addition to those stated in Chapter 7 and other parts of this Handbook.
2. Effective Date. The requirements of the Truth in Lending Act were effective July 1, 1969.
3. Background
 - a. The Act. The Truth in Lending Act is Title I of the Consumer Credit Protection Act (Public Law 90-321; title 15, U.S. Code 1601 et seq.), enacted by Congress on May 29, 1968. The act requires that borrowers in "consumer credit transactions" be vested with certain rights and protections in connection with the transaction and receive specified written information from their lenders. The disclosures must be made before credit is extended and before the borrower becomes obligated in connection with the transaction; i.e., before execution of a note or mortgage. Among the required disclosures are:
 - (1) The amount of credit a borrower will have for his actual use (the AMOUNT FINANCED); and
 - (2) The FINANCE CHARGE (consisting primarily of interest but also other fees and charges) expressed both as a dollar amount and as an ANNUAL PERCENTAGE RATE.
 - b. Three-day Rescission Provision. In addition, the act enables a borrower, within 3 days following the loan transaction, to rescind the transaction, if the loan is secured by a lien on the borrower's residence.
 - c. The Regulations. The Board of Governors of the Federal Reserve System has promulgated regulations implementing and interpreting the act. These are entitled: "Regulation Z (12 CFR 226)." The text of Regulation Z and the act is presented in an informative pamphlet entitled, "What You Ought to Know About Federal Reserve Regulation Z; Truth in Lending; Consumer Credit Cost Disclosure." It can be obtained from any Federal Reserve Bank or from the Board of Governors of the Federal Reserve System, Washington, D.C. 20551. However, the applicability of those regulations to housing rehabilitation loans is prescribed by this chapter.
4. Truth-in-Lending Disclosure Statement; Use in Housing Rehabilitation Loan Settlements. The appropriate form of the Federal Truth-in-Lending and Wisconsin Act Disclosure Statement is to be used at loan settlement in meeting the requirements of the Truth in Lending Act.
 - a. Applicability. A completed Disclosure Statement shall be given to all borrowers of housing rehabilitation loans on residential

property containing one to four dwelling units, except those borrowers which are non-profit housing corporations or cooperatives under State law.

- b. Time of Furnishing Disclosure Statement to Borrower. The Disclosure Statement shall be given the borrower at loan settlement but prior to the time he executes the mortgage (if applicable) and promissory note obligating his repayment of the loan.
 - c. Receipted Copy of Disclosure Statement Retained by Department of Housing and Community Development. When the Disclosure Statement is given to the borrower, he shall be requested to sign and date an identically completed Disclosure Statement in the presence of the Rehabilitation Loan Officer or other authorized representative of the Department of Housing and Community Development who shall also sign as witness. The signed and witnessed copy of the Disclosure Statement shall be retained by the Department of Housing and Community Development in the loan application file.
5. Borrower's Right of Rescission; Secured Loans. Under the law certain borrowers have the right, within a 3-day period, to rescind the entire loan transaction. This right of rescission applies to any housing rehabilitation loan secured by a mortgage on a residential property containing one to four dwelling units, owned by a borrower who is a natural person, and who occupies one of the dwelling units on the property.
 6. Notice of Right of Rescission. Borrowers entitled by the preceding Section 5 to rescind the loan transaction shall receive a properly completed Notice of Right of Rescission.
 - a. Furnishing Notice to Borrower at Loan Settlement. The Rehabilitation Loan Officer shall give the borrower two copies of the notice at loan settlement, and prior to his execution of mortgage and note. The notice's nature and purpose shall be explained. One additional or third, copy of the notice shall be signed by the borrower so as to evidence his receipt of two copies of the notice. The receipted copy shall be retained by the Department of Housing and Community Development in its loan application file to document the fact that Truth-in-Lending procedure has been followed.

The notice shall be fully completed so as to show the application number, loan settlement date, deadline for rescission (three business days following loan settlement date), and the name and address, including ZIP code, of the Department of Housing and Community Development.
 - b. Three-day Rescission Period. To compute the running of the 3-day rescission period for entry on the notice, the date of loan settlement on which the borrower receives the notice shall be treated as Day Zero and the next business day thereafter as Day 1, etc. Three business days must elapse following loan settlement date to complete the rescission period. A business day is any calendar day except Sunday and the following holidays on the dates established by

Federal law: New Year's Day, Washington's Birthday, Memorial Day, Independence Day, Labor Day, Columbus Day, Veterans Day, Thanksgiving, and Christmas.

- (1) No Disbursements. The Department of Housing and Community Development shall make no disbursement from the Rehabilitation Escrow Account with respect to the borrower during the 3-day rescission period.
 - (2) Prompt Recordation. Instruments necessary to perfect the loan security shall be recorded promptly after expiration of the 3-day rescission period.
7. Cancellation of Loan Transaction by Borrower. The loan transaction shall be considered cancelled if the borrower's notice to that effect is given within the required period. Notification by mail shall be considered given at the time mailed as indicated by the postmark; notification by telegram shall be considered given at the time filed for transmission; and notification by any other writing shall be considered given at the time delivered to the Department of Housing and Community Development.
 8. Accomplishment of Rescission. It is expected in most cases that the borrower's rescission will be accomplished by his mailing or delivery of the notice, bearing his signature and date under the cancellation recital. However, rescission may be accomplished by any written communication signed by the borrower or a telegram sent by the borrower. Oral communications cannot accomplish rescission, but they shall be followed up by the Department of Housing and Community Development to obtain written rescission.
 9. Action on Receipt of Written Request for Rescission. Upon receipt of any timely, written communication signed by the borrower, or of a telegram sent by the borrower, the Department of Housing and Community Development shall cancel the loan.
 - a. Refund of Application Fee Within Ten-day Deadline Period. Within 10 days of receipt by the Department of Housing and Community Development of an appropriate written notice of rescission, the application fee shall be returned to the applicant. The Department of Housing and Community Development shall make the refund by check.
 - b. Refund of Other Funds. Any other funds deposited by the borrower with the Department of Housing and Community Development shall also be returned to the borrower at the time the application fee is refunded to the borrower.
 - c. Scope of Rescission Procedure. The foregoing rescission procedures apply only to rescissions requested by the borrower within the 3-day rescission period as described in this chapter, and not to other cancellations as described in Chapter 5, Section 11 of this Handbook.

10. Annual Percentage Rate. The Disclosure Statement has the Annual Percentage Rate (the annual rate of interest plus prepaid finance charge) expressed as the applicable percentage rate for the current year, as shown in Appendix 2. This is in keeping with the law and Regulation Z which permit rounding off the Annual Percentage Rate to the nearest one-quarter of one percent.

APPENDIX 1.Section 221(d)(3) BMIR Income Limits
for Madison, by Number of Persons in
Family*

<u>(a)</u> <u>No. of Persons</u> <u>in Family</u>	<u>(b)</u> <u>Maximum</u> <u>Income Limits</u>
1	\$ 6,800
2	8,250
3 & 4	9,700
5 & 6	11,150
7+	12,600

Maximum Gross Annual Income of
Applicants Eligible for Housing
Rehabilitation Loans, by Number
of Persons in Family**

<u>(c)</u> <u>No. of Persons</u> <u>in Family</u>	<u>(d)</u> <u>Maximum</u> <u>Income Limits</u>
1	\$ 9,180
2	11,137
3 & 4	13,095
5 & 6	15,052
7+	17,010

* Established by HUD Milwaukee Area Office, October 15, 1973.

** Figures shown are 135% of the Section 221(d)(3) Income Limits shown in column (b).

APPENDIX 2.APPLICABLE ANNUAL INTEREST RATE FOR HOUSING REHABILITATION LOANSAnnual Interest Rate for
Loans Made in Year Shown

1974 - 6%
1975 - 6½%
1976 -
1977 -
1978 -
1979 -
1980 -
1981 -
1982 -
1983 -

Approved by Common Council
on Date Shown

March 12, 1974 (Resolution #26,114)
May 13, 1975 (Resolution #27,756)

APPENDIX 3.STANDARD FORM OF
CONTRACT FOR REHABILITATION WORK

THIS CONTRACT, entered into as of _____, by and between
_____, hereinafter called the "Owner", and

of the City of _____, State of _____, hereinafter called
the "Contractor", WITNESSETH:

WHEREAS, the Owner has applied to the City of Madison, Wisconsin, hereinafter called the "City", for a housing rehabilitation loan under the City's Housing Rehabilitation Services Program, and the City, acting by and through its Housing Finance Committee, has approved such application; and

WHEREAS, the Owner proposes to finance the cost of the rehabilitation work provided for in this Contract with the proceeds of the housing rehabilitation loan made or to be made to the Owner by the City under the Housing Rehabilitation Services Program (and from other funds available to the Owner to finance the cost of such rehabilitation work); and

WHEREAS, in response to the invitation of the Department of Housing and Community Development of the City of Madison, hereinafter called "HCD", made on behalf of the Owner, the Contractor has submitted a Bid and Proposal for the performance of the rehabilitation work provided for in this Contract; and

WHEREAS, the Owner has accepted the Contractor's Bid and Proposal for the performance of such rehabilitation work, and desires to engage the Contractor to perform such rehabilitation work in accordance with the provisions of this Contract and applicable requirements of the City's Housing Rehabilitation Services Program:

NOW, THEREFORE, for the considerations stated herein, the Owner and the Contractor do hereby mutually agree as follows:

GENERAL CONDITIONS

Sec. 1. Property to be Rehabilitated. The property to be rehabilitated pursuant to this Contract is located at _____, in the City of Madison, Wisconsin, and is more particularly described as follows:

Sec. 2. Contract Documents. The Contract Documents that comprise this Contract for Rehabilitation Work consist of this Contract, as executed on behalf of the Owner and the Contractor, and the following additional documents, each of which has been attached to this Contract prior to its execution by the Owner and the

Contractor, and each of which is hereby incorporated in this Contract by reference: (a) the Contractor's Bid and Proposal, signed and dated on behalf of the Contractor as of _____, and accepted by the Owner as of _____; (b) the Specifications, including the Plan Drawings (if any), for the rehabilitation work to be performed by the Contractor pursuant to this Contract; and (c) the Progress Payment Schedule (if applicable to this Contract) that specifies the stages of completion of the rehabilitation work at which progress payments will be made to the Contractor and the percentage or amount of the Contract Price that will be paid to the Contractor for each stage of the rehabilitation work satisfactorily completed by the Contractor, as determined by HCD in the Owner's behalf. The Contractor shall perform the rehabilitation work provided for in this Contract in strict conformance with the Contract Documents that comprise this Contract.

Sec. 3. Acceptance of Contractor's Bid and Proposal. The Contractor's Bid and Proposal for the rehabilitation work provided for in this Contract was submitted to HCD, 351 West Wilson Street, P.O. Box 1785, Madison, Wisconsin, on or before _____, at _____, the place, date and time specified by HCD for receipt of such Bid and Proposal. The Contractor's Bid and Proposal has been accepted by the Owner as of the date of this Contract first above written, the said date being within 60 days from the date established by HCD for receipt of such Bid and Proposal.

Sec. 4. Scope of Work. The Contractor shall furnish all necessary materials, equipment, tools, labor and supervision necessary to perform, and shall perform, all of the rehabilitation work provided for in this Contract relating to the property described in Section 1 of this Contract.

Sec. 5. Time of Performance. The Contractor shall commence the rehabilitation work provided for in this Contract within 30 days from the date of the Owner's issuance of the Order to Proceed referred to in Section 6 of this Contract, and shall satisfactorily complete such work within _____ days after issuance of the said Order to Proceed. The Contractor shall be responsible for scheduling the rehabilitation work, and for coordinating the operations of all trades, subcontractors and suppliers engaged by the Contractor in connection with the work, in such manner as to assure the expeditious completion of the work. All rehabilitation work provided for in this Contract shall be done in a competent and workmanlike manner.

Sec. 6. Issuance of Order to Proceed. Any other provision of this Contract to the contrary notwithstanding, the Contractor shall not commence the rehabilitation work provided for in this Contract until the Owner has issued a written Order to Proceed to the Contractor. If the Contractor does not receive the written Order to Proceed from the Owner within 30 days from the date of the Owner's written acceptance of the Contractor's Bid and Proposal, the Contractor, at his option, may withdraw such Bid and Proposal, in which event this Contract shall be considered terminated. As an alternative to withdrawing his Bid and Proposal, the Contractor may notify the Owner in writing that the Contractor stands ready to perform the rehabilitation work provided for in this Contract, upon receipt from the Owner, within 10 days of such notification by the Contractor, of the Owner's written Order to Proceed. If the Contractor does not thereafter receive the Owner's written Order to Proceed within the time period specified in the Contractor's written notice, then this Contract shall be considered terminated without further notification or other action on the part of either the Contractor or the Owner.

Sec. 7. Permits and Codes. The Contractor shall, at his own expense, secure all necessary permits and licenses required in connection with the performance of the rehabilitation work provided for in this Contract, and shall perform all such work in full compliance with the requirements of applicable codes; ordinances and regulations of the City. Before installing any work, the Contractor shall examine the Specifications, including the Plan Drawings, if any, for compliance with applicable codes, ordinances and regulations of the City, and shall immediately report any discrepancy to HCD. Where the requirements of the Specifications, including the Plan Drawings, if any, fail to comply with applicable codes, ordinances or regulations of the City, the Owner, with the assistance of HCD, will adjust this Contract by Change Order to comply with such codes, ordinances or regulations, unless written waivers covering the difference have been granted by the appropriate agency or department of the City, and make appropriate adjustment in the Contract Price. If the Contractor should fail to observe the foregoing provisions, and proceeds with the installation of any work not in compliance with applicable codes, ordinances or regulations of the City, including any written waivers, notwithstanding the fact that such installation is in compliance with the Specifications, including the Plan Drawings, if any, the Contractor shall correct such work without cost to the Owner, but a Change Order will be issued by the Owner to cover only the excess cost that the Contractor would have been entitled to receive if the change had been made before the Contractor commenced work on the items involved.

Sec. 8. Care of Work. The Contractor shall keep the premises clean and orderly during the course of the rehabilitation work and shall be responsible for the proper care and protection of all materials delivered and work performed until completion and final acceptance of the work, and shall remove all debris on completion of the work. Materials and equipment that have been removed and replaced as part of the work shall belong to the Contractor.

Sec. 9. Insurance. The Contractor shall maintain in force, between the time that the Contractor commences the rehabilitation work provided for in this Contract and the time that such work is completed, comprehensive public liability insurance protecting the Owner for not less than \$100,000/\$200,000 in the event of bodily injury, including death, and \$100,000 in the event of property damage arising out of the Contractor's operations under this Contract, whether such operations be by the Contractor, any subcontractors or suppliers engaged by the Contractor in connection with such operations, or anyone directly or indirectly employed by either the Contractor or such subcontractors or suppliers, and such insurance or other coverage as is required by Wisconsin law governing Workmen's Compensation. Before commencing the rehabilitation work provided for in this Contract, the Contractor shall furnish HCD with certificates showing that the required insurance is in force. The Contractor's insurance policies shall also be submitted to HCD for approval, and shall be endorsed to provide that the policies will not expire or be cancelled or changed until ten days after written notice of expiration, cancellation or change has been delivered to HCD.

Sec. 10. Contractor to Hold Owner and City Harmless. The Contractor shall indemnify, and hold harmless the Owner, the City, its officials and employees from all liability and claims for damages because of bodily injury, death, property damage, sickness, disease, or loss and expense suffered or alleged to have been suffered by any person as a result of, or arising from the Contractor's operations under this Contract, whether such operations be by the Contractor, any subcontractors or suppliers engaged by the Contractor in connection with such operations, or any-

one directly or indirectly employed by either the Contractor or such sub-contractors and suppliers.

Sec. 11. General Guaranty. The Contractor shall guarantee the rehabilitation work performed under this Contract for a period of one year from the date of the Owner's final acceptance of all the work required by this Contract, and shall remedy any defect due to faulty material or workmanship and pay for any damage to other work resulting therefrom which shall appear within the period of one year from the date of final payment for such work. In addition, the Contractor shall furnish the Owner, c/o HCD, with all manufacturers' and suppliers' written guarantees and warranties covering materials and equipment furnished under this Contract.

Sec. 12. Inspection. During the performance of the rehabilitation work, the Contractor shall permit the City's Building Inspection Division and HCD to examine and inspect the rehabilitation work as necessary to assure that the rehabilitation work being performed by the Contractor: (a) will bring the property being rehabilitated into compliance with the requirements of the City's Minimum Housing and Property Maintenance Code and other applicable local codes and ordinances; and (b) is being completed in accordance with the requirements of this Contract. The Contractor shall also permit examination by HCD of all contracts, materials, payrolls and conditions of employment pertaining to the rehabilitation work being performed under this Contract.

Sec. 13. Equal Employment Opportunity and Affirmative Action. The Contractor shall comply with all applicable provisions of the Madison General Ordinances concerning equal employment opportunity and affirmative action programs and practices in connection with the rehabilitation work being performed under this Contract, and shall assist and actively cooperate with the City in obtaining the compliance of other contractors and subcontractors with such provisions of the Madison General Ordinances, and with the rules, regulations and relevant orders issued by the City pursuant to such provisions of the Madison General Ordinances.

Sec. 14. Assignment of Contract. The Contractor shall not assign this Contract without both the prior written consent of the Owner and the prior written approval of the City's Housing Finance Committee.

Sec. 15. Contract Changes. No modifications of this Contract shall be made after its execution by the Contractor and the Owner except by written instrument signed by the Contractor, accepted by the Owner and approved by HCD.

Sec. 16. Changes in the Work. No changes, alterations, additions, deletions or substitutions shall be made in the work or materials called for in the Specifications, including the Plan Drawings, if any, which are part of this Contract, except by written Change Order signed by the Owner and Contractor and approved in writing by HCD. Change Orders shall be limited to covering work items, the need for which cannot be determined until sometime during the Contractor's performance of the rehabilitation work, and, when issued, shall be deemed to be modifications of this Contract as originally executed by the Owner and the Contractor. All proposed Change Orders shall be reviewed and approved by HCD before being signed by the Owner.

Sec. 17. Owner to Cooperate with Contractor. The Owner shall permit the Contractor to use, at no cost to the Contractor, existing utilities such as light, heat, power and water necessary to the Contractor's performance and completion of the rehabilitation work provided for in this Contract, and shall otherwise cooperate with the Contractor to facilitate the performance of the work, including the removal and replacement of rugs, coverings, and furniture, etc., as necessary.

Sec. 18. Occupancy Provision. The premises are to be (occupied) (vacant) during the course of the rehabilitation work.

Sec. 19. Interest of City Officials and Personnel in Contract. No member of the Common Council of the City of Madison, and no official or employee of the City who exercises any functions or responsibilities in connection with the administration of the City's Housing Rehabilitation Services Program shall be allowed by either the Owner or the Contractor to have any interest, direct or indirect, in the proceeds of the housing rehabilitation loan made or to be made to the Owner by the City under the Housing Rehabilitation Services Program, or in this Contract.

Sec. 20. Contract Price. Upon satisfactory completion of the rehabilitation work provided for in this Contract, as determined on the Owner's behalf by HCD, the Contractor shall be paid the amount of \$_____, hereinafter called the "Contract Price", which shall constitute full and complete compensation for the Contractor's performance of the rehabilitation work provided for in this Contract, except as otherwise provided in Section 16 of this Contract.

Sec. 21. Lump Sum Payment of Contract Price. Unless otherwise provided for in a Progress Payments Schedule attached to this Contract as part of the Contract Documents, the Contractor shall be paid the Contract Price for the rehabilitation work provided for in this Contract in the following manner. Upon receipt of the Contractor's requisition for payment, HCD and the City's Building Inspection Division shall jointly make a final inspection of the property to which this Contract pertains, to assure that the property has been brought into compliance with the requirements of the City's Minimum Housing and Property Maintenance Code and all other applicable local codes and ordinances, and that the rehabilitation work has been satisfactorily completed in conformance with this Contract. The Contractor shall be paid the Contract Price as a lump sum payment for completion of the work only after final inspection and acceptance of all the work to be completed by the Contractor pursuant to this Contract, and the Contractor has furnished the Owner, c/o HCD, all guarantees and warranties due the Owner for the rehabilitation work, satisfactory releases of all liens or claims for liens by the Contractor, all laborers, all subcontractors having performed any work, and all suppliers of materials, equipment and services provided to the Contractor in connection with the work.

Sec. 22. Lien Waivers. The Contractor shall protect, defend and indemnify the Owner from any claims for unpaid work, labor, or materials. Payment for the rehabilitation work provided for in this Contract shall not be due until the Contractor has delivered to the Owner, c/o HCD, complete release of all liens arising out of this Contract or receipts in full covering all labor, materials and services for which a lien could be filed, or a bond satisfactory to the Owner and HCD indemnifying the Owner against any lien.

Sec. 23. Disputes. All disputes arising under this Contract or its interpretation, whether involving law or fact or both, or extra work, and all claims for alleged breach of contract shall be presented in writing by the Contractor to HCD, within 10 days of commencement of the dispute, for decision by the Housing Finance Committee. Such claim shall state the facts surrounding the claim in sufficient detail to identify the claim, together with its character and scope. In the meantime the Contractor shall proceed with the work. Any claim not presented within the time limit specified in this Section shall be deemed to have been waived. Each decision by the Housing Finance Committee will be in writing and will be mailed to the Contractor by registered mail, return receipt requested. If the Contractor does not agree with any decision of the Housing Finance Committee, the Contractor shall in no case allow the dispute to delay the work but shall promptly notify the Owner and HCD that he is proceeding with the work under protest and he may then except the matter in question from the final lien release until the dispute has been resolved according to law.

Sec. 24. Cancellation of Contract under Truth in Lending Procedure. Under applicable requirements of the City's Housing Rehabilitation Services Program and the Truth in Lending Act, the Owner has the right, within a 3-day period of settlement of the housing rehabilitation loan referred to in this Contract, to rescind the entire loan transaction. It is understood and agreed by the Owner and the Contractor that if the Owner rescinds the loan transaction within such 3-day period in the manner provided for in the Housing Rehabilitation Services Program, this Contract shall be considered terminated without any further notification or other action on the part of either the Owner or the Contractor.

ADDITIONAL CONTRACT PROVISIONS

(If this Contract includes additional provisions not included in the General Conditions, such additional provisions shall be attached to this Contract prior to its execution by the Contractor and the Owner. If no additional provisions are to be included in this Contract, this Contract shall so state by having the word "None" written or typed on the following line.) _____

IN WITNESS WHEREOF, the Contractor has executed this Contract as of _____, _____, and the Owner has executed this Contract as of the date first above written.

CONTRACTOR

OWNER

(Print Name of Firm or Individual)

(Print Name of Owner(s))

By _____
(Signature of Contractor or Contractor's
authorized representative)

By _____
(Signature of Owner)

By _____
(Signature of Owner)

Approved by the Department of Housing
and Community Development (HCD)

By _____
(Signature and title of authorized HCD
representative)

HOMEBUYER'S ASSISTANCE PROGRAM
OF
THE CITY OF MADISON

Department of Housing and Community Development
351 West Wilson Street
Madison, Wisconsin 53701

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PART 1 - INTRODUCTION

- 1.1 Objective of the Homebuyer's Assistance Program. The objective of the Homebuyer's Assistance Program is the expansion of home ownership opportunities for families of lower and moderate income. Accomplishment of this objective requires that technical and financial assistance be provided to lower and moderate families that are willing to assume the responsibilities of home ownership, in order to make it possible for such families to purchase available properties that are suitable for single-family occupancy, but which are in need of rehabilitation at the time of purchase, and, on completion of purchase, to rehabilitate, occupy and maintain such properties.

The properties expected to be available for purchase and rehabilitation through the Program are generally located in the older residential areas of the City. The preservation of such areas as suitable environments for continued family living is also an important community development objective of the City. Since improvement of the quality of the existing housing stock for family occupancy in such areas is basic to the attainment of this objective, the Program also provides for a built-in emphasis on available properties in such areas. Specifically, the Program provides that the Housing Authority of the City of Madison (MHA), with the approval of the Common Council of the City of Madison, may from time to time determine that available Program funds be used for the purchase and rehabilitation of properties located only in specified areas of the City.

The Homebuyer's Assistance Program is intended to be responsive to the particular needs of the Madison community. Accordingly, the content,

policies, procedures and administration of the Program will be subject to continuing review and evaluation. It should be expected, therefore, that changes will be made in the Program from time to time on the basis of operating experience, and as community needs change. All revisions in Program content, policies, procedures and administration will be incorporated either in this Handbook or in subsequent editions of this Handbook.

1.2 Authority for the Homebuyer's Assistance Program

The Homebuyer's Assistance Program described in this Handbook was approved by the Common Council of the City of Madison on August 10, 1976, at the request of the MHA. Approval of the Program was given on the basis of the following findings made by the Common Council:

- (a) that it is necessary and in the public interest for the City of Madison to make technical and financial assistance available to families of lower and moderate income in order to make it feasible for such families to locate, purchase, rehabilitate and occupy available properties which are in need of rehabilitation, and which are, or can be made, suitable for single-family occupancy; and
- (b) that it is a valid public purpose for the City to provide such technical and financial assistance, and in the City's best interests to do so in accordance with the policies and procedures contained in this Handbook.

In connection with its approval of the Program, the Common Council also authorized the establishment of a revolving fund to provide the money needed for Homebuyer's Assistance Loans to be made under the Program. The amount of money initially to be placed in the revolving fund is \$150,000, from funds made available to the City by the Federal Government through the Community Development Block Grant Program. Additional funding for the Program will be considered by the Common Council as the need arises.

1.3 Authority for Program Administration. In connection with its approval of the Homebuyer's Assistance Program, the Common Council assigned responsibility for administration of the Program to the City's Department of Housing and Community Development. Pursuant to such action by the Common Council, the Director of the Department of Housing and Community Development (HCD Director) is authorized:

- (a) to make such rules and regulations from time to time, and to issue such orders and notices, in such form or manner as may be necessary and proper in order to put into full force and effect any and all of the provisions of the Homebuyer's Assistance Program;
- (b) under appropriate conditions or circumstances, and with the prior approval of the MHA, to modify or waive such provisions or requirements as are promulgated in the Homebuyer's Assistance Program;
- (c) to execute and issue Preliminary and firm Commitments for Homebuyer's Assistance Loans under the Homebuyer's Assistance Program, and to execute such instruments in connection with the making, cancellation, refinancing, or repayment of such Loans as may be necessary and proper, provided that such instruments have been approved by the City Attorney, or his designee, prior to such execution; and
- (d) to call upon any department, board, commission or agency of the City of Madison for assistance and cooperation in carrying out the Homebuyer's Assistance Program.

All City department, boards, commissions and agencies have been authorized and directed to cooperate with and furnish assistance to the MHA and the HCD in carrying out the Homebuyer's Assistance Program.

PART 2 - BASIC PROGRAM POLICIES

2.1 Homebuyer's Assistance Loan. The City of Madison, acting through the Housing Authority of the City of Madison (MHA) and the Department of Housing and Community Development (HCD), shall make a Homebuyer's Assistance Loan to an Eligible Buyer (Buyer) to assist the Buyer in financing a portion of the cost of acquisition and rehabilitation of an Eligible Property (Property). In general, the total amount of the Homebuyer's Assistance Loan shall be not less than 10%, nor more than 25% of the Total Cost of Acquisition and Rehabilitation (Total Cost).

The additional funds needed by the Buyer for the purchase and rehabilitation of the Property shall be provided through a combination of the following:

- (a) A conventional home mortgage loan (First Mortgage Loan) made to the Buyer by a recognized lending institution or other funding source (Mortgage Lender), generally in the amount of at least 70% of the Total Cost; and
- (b) The Buyer's Downpayment, which shall be provided from the Buyer's own funds, in cash, in the amount of at least 5% of the Total Cost.

The Homebuyer's Assistance Loan shall consist of two components, a non-interest-bearing Deferred Payment Loan, and an interest-bearing Installment Loan. The relative proportions of the Homebuyer's Assistance Loan to be made as the Deferred Payment Loan and the Installment Loan will depend upon the Buyer's Adjusted Income; the Buyer with a lower Adjusted

Income will receive a Deferred Payment Loan that represents a larger proportion of the total amount of the Homebuyer's Assistance Loan than will the Buyer with a higher Adjusted Income. In no case, however, shall the Deferred Payment Loan be in an amount that is less than 25% of the total amount of the Homebuyer's Assistance Loan.

The Installment Loan shall bear the same annual interest rate and maximum term for repayment that are then applicable to housing rehabilitation loans made under the City's Housing Rehabilitation Services Program, and shall be repayable in substantially equal monthly installments. The starting date for repayment of the Installment Loan shall be the first day of the month after the date of the loan closing.

The Homebuyer's Assistance Loan, in the full amount of the Deferred Payment Loan and the then-outstanding balance of the Installment Loan, if any, shall become immediately due and payable to the City upon the occurrence of any of the following:

- (a) title to, or equitable ownership in, the Property is transferred to any party other than the surviving spouse of the Buyer;
- (b) the Buyer's family vacates the Property;
- (c) the Buyer defaults in meeting any of the terms and conditions of the Homebuyer's Assistance Loan Agreement; or
- (d) the Buyer's First Mortgage Loan is fully satisfied, in recordable form.

2.2 Responsibilities of the Buyer; Technical Assistance by HCD

(a) Selecting an Eligible Property. The Buyer shall be responsible for selecting an Eligible Property that best meets the Buyer's family living requirements within the Buyer's available financial means. Although the Buyer may select a property from a List of Available Properties maintained by the HCD, the Buyer will also be expected to utilize other available means to locate an Eligible Property, including the use of real estate brokers, published newspaper listings, etc. The Buyer may select a property located by the Buyer prior to the filing of an Application for Homebuyer's Assistance Loan, including a property which the Buyer is currently renting.

(b) Negotiating Property Purchase. The Buyer shall be responsible for negotiating the purchase price and other terms of the Offer to Purchase, and completing the purchase of the Property from the Seller. The Buyer shall also be responsible for obtaining all legal services necessary for completion of the Buyer's purchase of the Property. The HCD Staff shall assist the Buyer by providing an "as is" appraisal and the cost estimates of required rehabilitation work, and by providing other technical assistance (except legal services) as needed.

(c) Determining Scope of Rehabilitation Work. The Buyer, with assistance from the HCD Staff, shall be responsible for determining the scope of rehabilitation work to be included in the Rehabilitation Contract, based upon the work write-up and cost estimate prepared by the HCD Staff, and the Buyer's own inspections of the Property.

(d) Obtaining First Mortgage Loan. The Buyer shall be responsible for obtaining a First Mortgage Loan for the purchase and rehabilitation of the Property. Upon request, the HCD Staff shall assist the Buyer in the preparation of mortgage applications to be submitted to potential Mortgage Lenders. The HCD Staff shall also assist the Buyer in making presentations to potential Mortgage Lenders of the salient features of the Homebuyer's Assistance Program, the terms and conditions of the Homebuyer's Assistance Loan Firm Commitment, estimates of the costs of required rehabilitation work, and the current and projected market value of the Property, as determined by the HCD Staff.

(e) Contracting for and Supervising Rehabilitation Work. The Buyer shall be responsible for selecting a qualified Contractor, executing the Rehabilitation Contract, and authorizing payments to the Contractor. The HCD Staff shall provide technical assistance to the Buyer as needed throughout the rehabilitation process. The HCD Staff shall prepare and/or approve the plans and specifications for the rehabilitation work and the bid and proposal documents, and shall obtain and review bids from Contractors on behalf of the Buyer. The HCD Staff shall inspect rehabilitation work in progress, certify the satisfactory completion of rehabilitation work, manage escrowed rehabilitation funds, and assist the Buyer in enforcing the terms of the Rehabilitation Contract.

(f) Maintaining the Property. The Buyer shall be responsible for maintaining the Property in safe, sound and sanitary condition. The HCD Staff shall make available housing counseling services as needed from time to time to assist the Buyer in meeting the full range of responsibilities of home ownership.

2.3 Eligible Buyers

(a) Lower and Moderate Income Families. An Eligible Buyer must be a family of lower or moderate income, that is, a family having an Annual Income that does not exceed the applicable income limit set forth below. The income limits shown below are established at 135% of the applicable income limits for participation in the MHA's Section 8 Housing Assistance Payments Program. For the purpose of determining a prospective Buyer's eligibility for a Homebuyer's Assistance Loan, the Annual Income of the prospective Buyer's family shall be computed in accordance with the procedures used to determine eligibility for participation in the MHA's Section 8 Program.

<u>Number of Persons in the Family</u>	<u>Maximum Annual Income</u>
2	\$13,900
3	15,700
4	17,400
5	18,500
6	19,600
7	20,700
8 or more	21,800

(b) Previous Tenure. An Eligible Buyer shall not have been the owner-occupant or non-occupant owner of a residential property located in the City of Madison during the one-year period preceding the date of the Buyer's Application for Homebuyer's Assistance Loan.

(c) Financial Capacity. An Eligible Buyer must be able to obtain a First Mortgage Loan for the purchase and rehabilitation of the Property, and must also be able to provide the cash needed for the required Buyer's Downpayment.

(d) Ability to Assume Responsibilities of Home Ownership. An Eligible Buyer must demonstrate the willingness and capacity to assume the full range of responsibilities of continued ownership, occupancy and maintenance of the Property after the Buyer has completed the purchase and rehabilitation of the Property.

2.4 Eligible Properties

(a) Location and Type of Property. To be eligible for purchase and rehabilitation under the Homebuyer's Assistance Program, the Property must be located in the City of Madison. The Property must be suitable for single-family occupancy, or feasible of conversion for such occupancy, as determined by the HCD Staff. From time to time, the MHA, with the approval of the Common Council of the City of Madison, may determine that available Program funds shall be used to assist Eligible Buyers to purchase and rehabilitate Eligible Properties located only in specified areas of the City.

(b) Condition of the Property. The Property must be in need of substantial rehabilitation to meet the requirements of the Minimum Housing and Property Maintenance Code of the City of Madison and other applicable property rehabilitation standards. A Property is considered in need of substantial rehabilitation if the estimated cost of the rehabilitation work required to bring the Property into conformance with applicable property rehabilitation standards exceeds 10% of the estimated after-rehabilitation value of the Property.

(c) Feasibility of Rehabilitation. The acquisition and rehabilitation of the Property must be economically feasible. The combined costs of property acquisition and rehabilitation work required to bring the Property into conformance with applicable property rehabilitation standards may not exceed the estimated after-rehabilitation value of the Property by more than 5%. Estimates of the cost of required rehabilitation work and the after-rehabilitation value of the Property shall be made by the HCD Staff.

(d) Purchase Price. The proposed purchase price of the Property must be reasonable, as determined by the "as is" appraisal made by the HCD Staff.

2.5 Eligible Costs

(a) Total Cost of Acquisition and Rehabilitation. The basis for determining the amount of the Homebuyer's Assistance Loan is the Total Cost of Acquisition and Rehabilitation (Total Cost). The Total Cost is comprised of all Eligible Acquisition Costs and all Eligible Rehabilitation Costs, as detailed in Paragraphs (b) and (c) of this Section. The Buyer may incur other additional costs in connection with the acquisition and/or rehabilitation of the Property, but no part of such other additional costs shall be financed with a Homebuyer's Assistance Loan, nor shall any payment by the Buyer of such other additional costs be credited toward the amount of the Buyer's Downpayment.

(b) Eligible Acquisition Costs. The following costs of acquisition of an Eligible Property are Eligible Acquisition Costs:

- (1) The basic purchase price of the Property paid to the Seller, including the Seller's closing costs and a reasonable broker's fee, if any, included in the basic purchase price, but excluding any adjustment in the basic purchase price made to reflect the proration between the Buyer and the Seller of real estate taxes, special assessments, insurance premiums, fuel, or utility costs.
- (2) The closing costs paid by the Buyer, including the cost of required title reports, title insurance, escrow fees, recording fees, and reasonable legal fees.
- (3) Initial financing fees normally required by the Mortgage Lender.

(c) Eligible Rehabilitation Costs. The following costs of rehabilitation of an Eligible Property are Eligible Rehabilitation Costs:

(1) Rehabilitation work needed to bring the Property into compliance with the requirements of the Minimum Housing and Property Maintenance Code of the City of Madison and other applicable property rehabilitation standards. The term "other applicable property rehabilitation standards" means the standards contained in other local codes and ordinances pertaining to housing construction, and to use, occupancy and maintenance of residential properties, as they specifically apply to the Property being rehabilitated with the assistance of a Homebuyer's Assistance Loan. After rehabilitation, the Property must comply with the property rehabilitation standards which are applicable to that Property.

(2) The Homebuyer's Assistance Loan may also be used to finance the cost of rehabilitation work needed to put the Property into sound and readily maintainable condition with all necessary facilities in good working order, whether or not such work is required by the property rehabilitation standards applicable to that Property. However, all applicable property rehabilitation standards must be fully met before the Homebuyer's Assistance Loan is used for rehabilitation work not required by the applicable property rehabilitation standards. Accordingly, if funds are available after required rehabilitation work items are provided for within the Total Cost approved by the HCD, additional rehabilitation work may be included as an Eligible Rehabilitation Cost to the extent necessary to put the Property into

sound and readily maintainable condition, including, but not necessarily limited to the following:

- a) The rehabilitation, removal, or replacement of existing elements of the structure, including basic equipment, and the construction or reconstruction of other improvements to the Property, such as garages, fences, porches, steps, walkways and driveways. The term "basic equipment" includes such facilities as heating furnace, hot water tank, electrical and sanitary fixtures, and kitchen stove and refrigerator (but not other appliances), and also includes the provision, expansion and finishing of space necessary to accommodate such facilities.
 - b) Expansion of the size of the structure through construction of additional rooms, enlargement of existing rooms, or the finishing of unfinished spaces, such as an attic, porch, or basement.
 - c) Grading, filling or landscaping of the grounds of the Property.
- (3) In cases where the Buyer employs a private designer to prepare plans and specifications for the rehabilitation of the Property, the cost of the design services may be included in the rehabilitation work to be financed with a Homebuyer's Assistance Loan.

2.6 First Mortgage Loan

(a) General. The Buyer will generally be expected to finance at least 70% of the Total Cost from the proceeds of a conventional First Mortgage Loan obtained from a Mortgage Lender by the Buyer. The Buyer, with the assistance of the HCD Staff, shall select that Mortgage Lender which offers the best combination of loan terms, including interest rate, time for repayment, initial financing fees, and total dollar amount of the loan.

(b) First Mortgage Loan Below 70% of Total Cost. If the Buyer takes a First Mortgage Loan in an amount below 70% of the Total Cost, the amount of the required Buyer's Downpayment shall be increased by the amount by which the First Mortgage Loan is less than 70% of the Total Cost, unless the First Mortgage Loan amount is less than 70% of the Total Cost due to the "30% limitation" requirement stated in Paragraph (c) below.

(c) Annual Housing Expenses in Excess of 30% of Annual Income. The Buyer shall not be required to take a First Mortgage Loan in an amount, based on the best terms available, that would cause the Buyer's annual housing expenses to exceed 30% of the Buyer's Annual Income. The term "annual housing expenses" means the Buyer's payments for First Mortgage Loan principal and interest, real estate taxes and special assessments, mortgage insurance premiums, and hazard insurance premiums.

2.7 Amount of Buyer's Downpayment and Homebuyer's Assistance Loan

(a) Amount of Buyer's Downpayment. The Buyer shall provide, in cash, at least 5% of the Total Cost as the Buyer's Downpayment. The actual amount of the Buyer's Downpayment required in any specific instance may exceed 5% of the Total Cost, based upon a review by the HCD Staff of:

- (1) the Buyer's ability to provide a larger Buyer's Downpayment from the Buyer's own funds; and
- (2) the Buyer's ability to make the monthly payments on the Installment Loan, in relation to the Buyer's Annual Income, projected housing expenses, and other financial obligations.

(b) Amount of Homebuyer's Assistance Loan. The amount of the Homebuyer's Assistance Loan shall be the difference between the Total Cost and the sum of (i) the amount of the First Mortgage Loan, and (ii) the amount of the actual Buyer's Downpayment, subject to the following limitation: In no case shall the amount of a Homebuyer's Assistance Loan exceed \$12,500.

2.8 Adjusted Income, Amount of Deferred Payment Loan, and Amount of Installment Loan

(a) Adjusted Income. The Buyer's Adjusted Income shall be computed by making the following deductions from the Buyer's Annual Income, as determined by the HCD Staff:

- (1) a standard deduction of \$1,700; and
- (2) an additional deduction of \$1,100 for each member of the Buyer's family household who is a minor.

(b) Amount of Deferred Payment Loan. The amount of the Deferred Payment Loan shall be not less than 6.25%, nor more than 25% of the Total Cost, depending upon the Buyer's Adjusted Income. In each specific instance, the actual amount of the Deferred Payment Loan shall be computed by:

- (1) dividing the amount of the Buyer's Adjusted Income by \$72,000, and rounding the result downward to the nearest percent;
- (2) subtracting the result of (1) above from 25%; and
- (3) multiplying the result of (2) above by the Total Cost.

The effect of computing the amount of the Deferred Payment Loan by the above method is that, as among Eligible Buyers with different Adjusted Incomes, Buyers with lower Adjusted Incomes will receive Deferred Payment Loans that represent a larger proportion of the Total Cost than will Buyers with higher Adjusted Incomes.

(c) Amount of the Installment Loan. The amount of the Installment Loan shall be the difference between the total amount of the Homebuyer's Assistance Loan and the amount of the Deferred Payment Loan.

2.9 Repayment of Homebuyer's Assistance Loan

(a) Lump-sum Repayment. As stated in Section 2.1, the Homebuyer's Assistance Loan, in the full amount of the Deferred Payment Loan and the then-outstanding balance of the Installment Loan, if any, shall become immediately due and payable to the City upon the occurrence of any of the following:

- (1) title to, or equitable ownership in, the Property is transferred to any party other than the surviving spouse of the Buyer;
- (2) the Buyer's family vacates the Property;
- (3) the Buyer defaults in meeting any of the terms and conditions of the Homebuyer's Assistance Loan Agreement; or
- (4) the Buyer's First Mortgage Loan is fully satisfied, in recordable form.

(b) Refinancing in Hardship Cases. In any case where:

- (1) the Homebuyer's Assistance Loan becomes immediately due and payable because of any of the occurrences referred to in Paragraph (a) above; and
- (2) the HCD Staff, after a review of the Buyer's financial circumstances, determines that full and immediate repayment of the amount due would create undue financial hardship for the Buyer,

the HCD Director shall, if Program funds are available for such purpose, or are made available for such purpose by the City, authorize refinancing

of the Homebuyer's Assistance Loan. Any such refinancing shall be made on terms and conditions that will assure, to the extent feasible, timely repayment of the full amount of the Homebuyer's Assistance Loan, including any interest payable on such refinanced loan, on a monthly installment basis, without undue financial hardship to the Buyer.

(c) Repayment of Installment Loan. Except as otherwise provided in Paragraphs (a) and (b) above, the Installment Loan shall be repaid in substantially equal monthly installments. The starting date for repayment of the Installment Loan shall be the first day of the month after the date of the loan closing. The Installment Loan shall bear the same annual interest rate that is then applicable to housing rehabilitation loans made under the City's Housing Rehabilitation Services Program. The maximum term for repayment of the Installment Loan shall be the same as the maximum term for repayment of a housing rehabilitation loan of the same amount under the Housing Rehabilitation Services Program.

2.10 Other Terms and Conditions Applicable to Homebuyer's Assistance Loan

The specific terms and conditions for a Homebuyer's Assistance Loan are incorporated in Form No. 5, Terms and Conditions Applicable to Homebuyer's Assistance Loan under the City of Madison Homebuyer's Assistance Program, the promissory note, the mortgage, the Rehabilitation Contract, and other instruments as applicable. As required by the pertinent documents, the Buyer shall agree to comply with the following terms and conditions:

(a) Equal Housing and Employment Opportunities. The Buyer shall comply with all applicable provision of the Madison General Ordinances concerning equal housing and employment opportunities in respect to the Property to be purchased and rehabilitated with financial assistance under the City of Madison Homebuyer's Assistance Program, and shall assist and actively cooperate with the City of Madison in obtaining the compliance of all other parties whose participation in the purchase and rehabilitation of the Property is required, with such provisions of the Madison General Ordinances and the rules, regulations and relevant orders issued by the City of Madison pursuant to such provisions of the Madison General Ordinances.

(b) Use of Proceeds. The Buyer shall agree to use the proceeds of the Homebuyer's Assistance Loan only to finance those Eligible Costs of the Buyer's acquisition and rehabilitation of the Property for which the Homebuyer's Assistance Loan is approved by the HCD.

(c) Fee Simple Title. The Buyer shall obtain good and merchantable fee simple title to the Property at the time of purchase, by means of a Warranty Deed satisfactory to the City.

(d) Loan Security Requirement. The Buyer shall provide security for the Homebuyer's Assistance Loan in the form of a promissory note and non-recourse second mortgage satisfactory to the City.

(e) Title Insurance. The Buyer shall provide the City with a Mortgagee's Title Insurance Policy satisfactory to the City, in the amount of the Homebuyer's Assistance Loan, issued by a responsible title insurance company authorized to do business in the State of Wisconsin.

(f) Hazard Insurance. The Buyer shall maintain adequate hazard insurance on the Property during the term of the Homebuyer's Assistance Loan, with the City named as an additional insured.

(g) Real Estate Tax Escrow. The First Mortgage Loan obtained by the Buyer shall provide for the Buyer's monthly payment of estimated real estate taxes and hazard and mortgage insurance premiums into an escrow account managed by the Mortgage Lender on the Buyer's behalf.

(h) Preservation of the Security. The Buyer shall maintain the Property in safe, sound and sanitary condition during the term of the Homebuyer's Assistance Loan.

(i) Transfer of the Property. The Buyer shall agree not to sell or otherwise transfer title to, or equitable ownership in, the Property without the prior written approval of the City.

(j) Competitive Bids for Rehabilitation Work. The Buyer shall agree to give full opportunity for free, open and competitive bidding in selection of a Contractor to perform any rehabilitation work financed in whole or in part with a Homebuyer's Assistance Loan; to give such publicity through written

solicitation for bids as will produce competitive bidding; and to award each contract to the lowest responsible bidder.

(k) Ineligible Contractors. The Buyer shall agree not to award any contract for rehabilitation work to be paid for in whole or in part with the proceeds of a Homebuyer's Assistance Loan to any Contractor who, at the time, has not been qualified by the Board of Public Works of the City of Madison as an Eligible Contractor under the City's Housing Rehabilitation Services Program.

(l) Completion of Rehabilitation Work. The Buyer shall assure that the rehabilitation work shall be carried out promptly and efficiently through a written Rehabilitation Contract let after prior written approval of the HCD. The standard contract form provided by the HCD shall be used in connection with rehabilitation work financed in whole or in part with a Homebuyer's Assistance Loan.

(m) Inspection. The Buyer shall permit inspection by the Building Inspection Division of the Property to be rehabilitated with the assistance of the Homebuyer's Assistance Loan, for compliance with the Minimum Housing and Property Maintenance Code of the City of Madison and other applicable local codes and ordinances. The Buyer shall also permit all other inspections deemed necessary by the HCD of the Property, the rehabilitation work, and all contracts, equipment, payrolls, and conditions of employment pertaining to the work. The Buyer shall obtain the Seller's approval to have necessary inspections made prior to the Buyer's purchase of the Property.

- (n) Escrowing of Rehabilitation Funds. The Buyer shall agree to permit the City, its agents or designees, to act as escrow agent of funds provided to the Buyer under the Homebuyer's Assistance Program, and other funds, if any, provided by the Buyer for use in combination with such funds, and to permit the City, its agents or designees, to disburse such funds in the manner set forth in the Rehabilitation Contract, to assure proper disbursement of such funds.
- (o) Loans Subject to Wisconsin Consumer Act. Each Homebuyer's Assistance Loan shall be subject to applicable provisions of the Wisconsin Consumer Act, as amended.
- (p) Interest of Public Body. The Buyer shall allow no member of the governing body of the City, no member of the governing body of the MHA, and no employee of the City of Madison who exercises any functions or responsibilities in connection with the administration of the Homebuyer's Assistance Program to have any interest, direct or indirect, in the proceeds of the Homebuyer's Assistance Loan, or in any contract entered into by the Buyer for the performance of work financed in whole or in part with the Homebuyer's Assistance Loan.
- (q) Bonus, Commission or Fee. The Buyer shall not pay any bonus, commission or fee for the purpose of obtaining approval of the Application for Homebuyer's Assistance Loan, or any other approval or concurrence required by the HCD to complete property acquisition and rehabilitation work financed under the Homebuyer's Assistance Program.
- (r) Records. The Buyer shall keep such records as may be required with respect to property acquisition and rehabilitation work financed under the Program.

PART 3 - PROGRAM OPERATIONS

3.1 Public Information Program. Promptly after approval of the Homebuyer's Assistance Program by the MHA and the Common Council of the City of Madison, information about the Program will be made available on a community-wide basis. The Program will be publicized through public notices in the local daily newspapers, written informational statements, neighborhood meetings, community workshops at which Program requirements will be explained to prospective Buyers, real estate brokers, representatives of lending institutions, and others active in the marketing of existing sales housing, and through other suitable means. The HCD's efforts to publicize the Program will be directed toward:

- (a) informing lower and moderate income families that are interested in home ownership of basic Program requirements and the kinds of financial and technical assistance available through the Program;
- (b) encouraging owners of suitable properties that are available for sale to place their properties on the HCD's List of Available Properties;
- (c) encouraging potential sources of funds for First Mortgage Loans to participate in the Program by making such funds available to Eligible Buyers on reasonable terms; and
- (d) establishing and maintaining close working relationships with real estate brokers, sources of First Mortgage Loan funds, neighborhood associations, and public and private agencies actively involved in the provision of home ownership opportunities for lower and moderate income families.

The HCD's efforts to publicize the Program will continue until there is no reasonable prospect that Homebuyer's Assistance Loans could be made to additional Eligible Buyers within the limit of funds available for this purpose.

3.2 Taking of Applications; Suspension of Taking of Applications

(a) Taking of Applications. Any prospective Buyer that wishes to participate in the Program must apply to the HCD for a Homebuyer's Assistance Loan. Applications will be taken at the principal office of the HCD, at 351 West Wilson Street, at any time during regular business hours (8:00 AM to 5:00 PM, Monday through Friday), and at other times, as necessary.

An appointment for an interview with the appropriate member of the HCD Staff will be made for each prospective Buyer who indicates an interest in participating in the Program. During the initial interview, the HCD Staff will explain basic Program policies and procedures and furnish the prospective Buyer with a written informational statement concerning the requirements for a Homebuyer's Assistance Loan. The prospective Buyer will be requested to complete and sign an Application for Homebuyer's Assistance Loan, to give the HCD Staff written permission to verify the income and asset information contained in the Application, and to sign appropriate release forms that are required by various agencies before they will make information about the prospective Buyer available to the HCD.

The prospective Buyer will be told that in signing the Application he* is certifying that the information contained in the Application is, to the best of his knowledge, true and correct. The prospective Buyer will also

*A WORD ABOUT SEX. Throughout this narrative, the masculine pronouns "he", "his" and "him" are used to refer to an individual Buyer. This is done only as a matter of convenience, since it is awkward to keep saying "he or she", "his or her" and "him or her" all the time, and is not intended to imply that all Buyers are or should be men.

be informed that he will be notified in writing as to whether or not he will be issued a Preliminary Commitment, promptly after his Application has been completely verified and reviewed and such determination has been made by the HCD Staff. The completed Application, signed by the prospective Buyer, will be numbered in the order taken, time and date stamped, and accepted for processing by the HCD Staff.

(b) Suspension of Taking of Applications. The taking of Applications will be suspended when the number of outstanding Preliminary and/or Firm Commitments is such that there is no reasonable prospect that Homebuyer's Assistance Loans could be made to additional Eligible Buyers with the Program funds then available. At such time the HCD will publicly announce, through public notice in the daily local newspapers, that the taking of Applications has been suspended. Any then-pending Applications for which Program funds are not available will be placed on the HCD's waiting list, and the prospective Buyers will be notified in writing that such action has been taken.

3.3 Verification and Review of Applications; Notification of Determination of Eligibility or Ineligibility for Homebuyer's Assistance Loan

(a) Verification and Review of Completed Applications. The HCD Staff will verify all information on family income and assets shown on the prospective Buyer's completed Application for Homebuyer's Assistance Loan. The HCD's confidential file for each prospective Buyer will include complete notations indicating the specific methods and sources used for income and asset verification. Certification of information shown on the Application concerning family size and composition, current housing situation and needs, and other relevant information, will normally be provided by the prospective Buyer's signature on the Application; however, the prospective Buyer may be required to furnish other proof of the statements in his Application when needed by the HCD Staff to reasonably assure accuracy.

To be eligible for a Homebuyer's Assistance Loan, the prospective Buyer must meet all of the Program criteria applicable to an Eligible Buyer, as stated in Section 2.3. Accordingly, after all income and asset information contained in the Application has been verified, the Application will be reviewed by the HCD Staff for the purpose of determining whether the prospective Buyer qualifies as an Eligible Buyer under the Program. Since such determination is based, in part, on an evaluation of the prospective Buyer's willingness and capacity to assume the full range of responsibilities of home ownership, including the prospective Buyer's ability to obtain a First Mortgage Loan and provide the required Buyer's Downpayment, the review will include an analysis of the prospective Buyer's monthly income, fixed monthly expenses, current liabilities, monthly housing

expenses, effective income, and credit history. The review will also include an evaluation of the projected additional costs of home ownership in relation to the prospective Buyer's ability to pay such costs and still meet other living expenses.

(b) Notification of Determination of Eligibility or Ineligibility. Upon completion of the review referred to in Paragraph (a) above, the HCD Staff will determine whether or not the prospective Buyer is eligible for a Homebuyer's Assistance Loan. The HCD Staff will promptly notify the prospective Buyer of such determination by letter.

If the prospective Buyer is determined to be eligible for a Homebuyer's Assistance Loan, the HCD's letter will request the Buyer to contact the HCD Staff to arrange for the briefing meeting referred to in Paragraph (b) of Section 3.4. The Preliminary Commitment referred to in Paragraph (a) of Section 3.4 will be issued to the Buyer at the briefing meeting.

If the prospective Buyer is determined to be ineligible for a Homebuyer's Assistance Loan for any reason(s), the HCD's letter will include a statement of the reason(s) for such determination. The HCD's letter will invite the prospective Buyer to submit a new Application at any time that he believes that the reasons for the HCD's initial determination of ineligibility are no longer applicable, and prior to such time, to make use of such other needed housing assistance services as are available from the HCD.

3.4 Preliminary Commitment for Homebuyer's Assistance Loan

(a) Issuance of Preliminary Commitment. In issuing a Preliminary Commitment, the HCD will be certifying that the family named in the Preliminary Commitment is an Eligible Buyer under the Homebuyer's Assistance Program. The Preliminary Commitment, when signed by the HCD Director, or his designee, will be proof to prospective Sellers and Mortgage Lenders, that the City of Madison will make a Homebuyer's Assistance Loan to assist the Buyer in financing a portion of the cost of acquisition and rehabilitation of an Eligible Property. The HCD's issuance of the Preliminary Commitment will authorize the Buyer to locate a suitable property and take all other actions required to obtain a Homebuyer's Assistance Loan Firm Commitment. The HCD Staff will assist the Buyer, as needed, in completing the other actions to be taken before the Buyer submits a Request for Issuance of Firm Commitment to the HCD.

The initial Preliminary Commitment issued to the Buyer will expire 90 days from the date of issuance unless the Buyer submits a Request for Issuance of Firm Commitment to the HCD for approval within that time. If the Buyer submits a Request for Issuance of Firm Commitment to the HCD before the expiration date of the initial Preliminary Commitment, and the Request is disapproved, the HCD Staff will determine whether sufficient time remains under the initial Preliminary Commitment to give the Buyer a reasonable opportunity to locate another suitable property. If the HCD Staff determines that the remaining time under the initial Preliminary Commitment is not sufficient, the initial Preliminary Commitment will be voided, and a new Preliminary Commitment will be issued to the Buyer.

As with the initial Preliminary Commitment, the new Preliminary Commitment will be effective for a 90-day period from the date of issuance.

If the initial Preliminary Commitment expires or is about to expire, other than on the occasion of the HCD's disapproval of the Buyer's Request for Issuance of Firm Commitment, the Buyer may request an extension of the expiration date of the initial Preliminary Commitment. In such case, the HCD Staff will review with the Buyer the efforts he has made to locate a suitable property and the problems that the Buyer has encountered, and will determine what additional advice or assistance is needed by the Buyer. If the HCD Staff determines that there is a reasonable possibility that the Buyer may, with the additional advice or assistance, if any, locate a suitable property, the initial Preliminary Commitment will be voided and a new Preliminary Commitment will be issued to the Buyer. The new Preliminary Commitment will be effective for a 90-day period from the date of issuance. However, if the HCD Staff determines that the Buyer's failure to locate a suitable property is due to the lack of diligent effort by the Buyer, the initial Preliminary Commitment will remain in effect until the scheduled expiration date, but will not be extended.

(b) Briefing Meeting. At the briefing meeting at which the Preliminary Commitment is issued to the Buyer, the HCD Staff will provide the Buyer with a full explanation of Program policies and procedures as needed to assist him in locating an Eligible Property and completing the other actions to be taken in order to obtain a Firm Commitment, and will also provide him with Program forms and other written informational material needed during the Preliminary Commitment phase. The briefing meeting will be conducted so as to provide the Buyer with full opportunity to raise questions and discuss the information provided by the HCD Staff.

The Buyer will also be advised to contact the appropriate member of the HCD Staff for answers to any additional questions that may arise after the briefing meeting has been held.

3.5 Firm Commitment for Homebuyer's Assistance Loan

(a) Determination of Eligibility for Firm Commitment. Upon locating a suitable property that he proposes to purchase and rehabilitate, the Buyer will notify the HCD of the location of the property and request that a Determination of Property Eligibility be made by the HCD Staff. The Buyer will be responsible for making the necessary arrangements for a joint inspection of the property by the Buyer and the HCD Staff, as well as for any subsequent inspection needed to enable the HCD Staff to complete the requested Determination of Property Eligibility.

The Buyer and the HCD Staff will make the joint inspection of the property as soon as practicable after the HCD's receipt of the Buyer's request for a Determination of Property Eligibility. The HCD Staff will then prepare a Property Eligibility Report (Report), which will be furnished to the Buyer within 10 working days after the joint inspection of the property. The Report will state whether or not the property meets Program requirements pertaining to type, location, and condition of an Eligible Property, and the basis for such determination. If the HCD Staff determines that the property meets the said Program requirements, the Report will also include the following:

- (1) an as-is appraisal of the value of the property;
- (2) a work write-up and cost estimate of the rehabilitation work needed to bring the property into compliance with applicable property rehabilitation standards, with the work items needed to bring the property into compliance with the requirements of the Minimum Housing and Property Code of the City of Madison separately identified; and

- (3) an estimate of the after-rehabilitation value of the property, including an estimate of the maximum purchase price that would make purchase and rehabilitation of the Property economically feasible.

At the time the Report is furnished to the Buyer, the HCD Staff will request the Buyer to acknowledge receipt of the Report by either notifying the HCD that the Buyer does not propose to submit an Offer to Purchase (Offer) for the property, or by submitting to the HCD for review a copy of the Buyer's proposed Offer together with a Request for Issuance of Firm Commitment. Upon the HCD's receipt of the Buyer's proposed Offer and Request for Issuance of Firm Commitment, the HCD Staff will review the said documents for the purpose of determining whether a Firm Commitment should be issued.

(b) Issuance of Firm Commitment. The Firm Commitment will be issued to the Buyer only if:

- (1) the HCD Staff determines that the property selected by the Buyer meets all of the Program criteria applicable to an Eligible Property, as stated in Section 2.4; and
- (2) the terms of the Buyer's proposed Offer are consistent with the Program requirements stated in Section 3.6.

The Firm Commitment, when signed by the HCD Director, or his designee, will be proof to the Seller and prospective Mortgage Lenders that the City of Madison will make a Homebuyer's Assistance Loan, in the approximate amount specified in the Firm Commitment, in connection with the Buyer's purchase and rehabilitation of the Eligible Property identified in the Firm

Commitment, contingent only upon:

- (1) the Buyer's ability to complete the purchase of the Property at a purchase price that meets applicable Program requirements; and
- (2) the Buyer's execution of a Rehabilitation Contract approved by the HCD,

within the time period specified in the Firm Commitment (90 days from the date of issuance), or any extension of such time period requested by the Buyer and approved in writing by the HCD.

3.6 Offer to Purchase

(a) Making the Offer. The HCD's issuance of the Firm Commitment will authorize the Buyer to submit an Offer to Purchase for the Property identified in the Firm Commitment. The Buyer, with technical assistance from the HCD Staff as needed, will be responsible for determining the proposed purchase price to be included in the Offer, and for negotiating the purchase price and the other terms of the Offer with the Seller. If the Buyer's Offer is rejected by the Seller, the Buyer may make any number of additional Offers for the Property, provided that each Offer is consistent with the requirements stated in Paragraph (b) below. If the Buyer's Offer is accepted by the Seller, the Buyer will promptly notify the HCD by furnishing the HCD Staff with a copy of the Offer, as accepted by the Seller.

In any case where the Seller has rejected the Offer(s) previously submitted by the Buyer, and the Buyer, after consultation with the HCD Staff, notifies the HCD that he will not make another Offer for the Property, the HCD will cancel the Firm Commitment previously issued to the Buyer. Upon the HCD's cancellation of the Firm Commitment, the term of the Preliminary Commitment theretofore issued to the Buyer will be extended, if necessary, as provided for in Section 3.4.

(b) Terms of the Offer. The HCD Staff will provide the Buyer with a standard form of Offer to Purchase. The Buyer may also use any other form of Offer that is appropriate under applicable law, provided that the terms

of the Buyer's Offer, as stated in such form, are consistent with the following requirements:

(1) The combined amount of the earnest money and additional downpayment, if any, provided in the Offer shall not exceed the amount of the Buyer's Downpayment, as determined by the HCD Staff on the basis of the review referred to in Section 2.7, and shall be provided from the Buyer's own funds.

(2) All money paid by the Buyer in connection with the Offer shall be applied as part payment of the purchase price if the Offer is accepted on or before a specified date; otherwise, all such money paid by the Buyer shall be returned to the Buyer no later than the day following the said specified date, and the Offer shall become null and void.

(3) The Buyer's obligation to complete the purchase of the Property shall be contingent upon:

- a) the Seller's ability to deliver good and merchantable fee simple title to the Buyer by means of a Warranty Deed satisfactory to the Buyer, the First Mortgage Lender and the City of Madison;
- b) the Buyer's ability to obtain a First Mortgage Loan in the amount specified in the Offer, on terms that meet the requirements of the Homebuyer's Assistance Program; and
- c) the Buyer's ability to obtain a Homebuyer's Assistance Loan in the amount specified in the Offer on the terms available under the Homebuyer's Assistance Program,

on or before the closing date specified in the Offer, or at such other time as may be agreed to by the Buyer and Seller. The Offer shall provide that all money paid by the Buyer in connection with the Offer shall promptly be returned to the Buyer, and the Buyer's obligation to complete the purchase of the Property shall be terminated, if any of the foregoing conditions cannot be fulfilled on or before the closing date specified in the Offer, or at such other time as may be agreed to by the Buyer and Seller.

(4) The Offer shall specify the date on which physical possession of the Property is to be transferred to the Buyer; the date on which physical possession of the Property is to be transferred to the Buyer shall be not more than 30 days after the date that legal possession of the Property is transferred to the Buyer. Legal possession of the Property shall be transferred from the Seller to the Buyer as of the date of the closing.

3.7 Application for First Mortgage Loan

Promptly after the Buyer has provided the HCD Staff with a copy of the accepted Offer for the purchase of the Property identified in the Firm Commitment, the HCD Staff will consult with the Buyer to determine what assistance he needs in making application for a First Mortgage Loan. The HCD Staff will thereafter assist the Buyer as necessary in preparing mortgage applications and presenting them to potential Mortgage Lenders. The HCD Staff will also provide the Buyer with additional copies of the rehabilitation work write-up, the cost estimate of the rehabilitation work to be done, and the HCD estimate of the after-rehabilitation value of the Property, which may be required of the Buyer by potential Mortgage Lenders.

In order to meet the Program requirement that he "select that Mortgage Lender which offers the best combination of loan terms", the Buyer will be expected to make application for a First Mortgage Loan to not less than three recognized lending institutions authorized to make home mortgage loans. Each application will include a request that a written commitment for a First Mortgage Loan be provided to the Buyer, indicating the basic loan terms being offered. The HCD Staff will review such commitments with the Buyer in order to assist him in determining which lending institution offers the best combination of loan terms available, and will thereafter assist the Buyer in obtaining a First Mortgage Loan from that lending institution.

3.8 Contracting for Rehabilitation Work

(a) General. When the Buyer and the HCD Staff meet to determine what assistance is to be provided to the Buyer in obtaining a First Mortgage Loan, the Buyer and the HCD Staff will also review the rehabilitation work write-up and cost estimate previously furnished to the Buyer and the procedures to be followed in obtaining an acceptable Rehabilitation Contract for the agreed-upon rehabilitation work. On the basis of such review, the Buyer and the HCD Staff will establish a schedule for completion of the actions that must be taken by the Buyer and/or the HCD Staff before the Buyer executes the Rehabilitation Contract. The procedures to be followed in obtaining an acceptable Rehabilitation Contract are set forth in Paragraphs (b) through (e) of this Section.

(b) Preparation of Plans and Specifications. The HCD Staff will prepare plans and specifications that clearly establish the scope and nature of the rehabilitation work to be performed, and the material and equipment to be installed, unless the Buyer has arranged to have the plans and specifications prepared by others, in which case such plans and specifications must be reviewed and approved by the HCD Staff before bids for the rehabilitation work are taken. Whether prepared by the HCD Staff or by others, the plans and specifications must accurately reflect the requirements of the rehabilitation work write-up, as mutually agreed upon by the Buyer and the HCD Staff at the meeting referred to in Paragraph (a) above, and must be sufficiently detailed so that fair bids for the work can be obtained.

(c) Invitation for Bids. The following procedure will be used by the HCD Staff in obtaining bids and proposals for the agreed-upon rehabilitation work:

1) A written notice of invitation for bid and proposal will be sent to every Contractor on the current listing of Eligible Contractors under the City's Housing Rehabilitation Services Program. The notice of invitation will identify the Property by street address, and will include a brief description of the rehabilitation work to be performed. The notice will also state that bids and proposals must be received at the principal office of the HCD not later than 15 days from the date of the notice, and that any Contractor who wishes to submit a bid and proposal may obtain appropriate bid forms at the principal office of the HCD, or by writing or calling the HCD and requesting that the bid forms be mailed to him.

2) If the Buyer has a preferred Contractor who has not been qualified as an Eligible Contractor under the Housing Rehabilitation Services Program, the Preferred Contractor will also be invited to bid.

(d) Review of Bids; Selection of Successful Bidder. Except under the conditions noted below, a bid and proposal from at least two Contractors must be received by the HCD Staff before selection of a Contractor is made. Immediately after the cut-off date for receipt of bids and proposals, the HCD Staff will open and review all bids received. The results of the bidding will be reviewed with the Buyer to determine which of the bidders is the lowest responsible bidder, and whether any of the bids received is acceptable to the Buyer.

If the invitation procedure specified in Paragraph (b) above does not produce more than one bid, and the bid received is acceptable to the Buyer, the bid may be accepted by the Buyer, with the prior approval of the HCD Director. If none of the bids received is acceptable, the Buyer may reject

all bids, in which case the Buyer will be expected to authorize either the rebidding of the rehabilitation work, or the negotiation by the HCD Staff of a rehabilitation work proposal acceptable to the Buyer.

(e) Award of Rehabilitation Contract. Upon receipt of a bid that is acceptable to the Buyer, or, if no acceptable bids have been received, upon completion of negotiation of a rehabilitation work proposal that is acceptable to the Buyer, the HCD Staff will prepare the Rehabilitation Contract for execution by the Contractor. The HCD Staff will have the Contractor execute the Rehabilitation Contract, upon notification from the Board of Public Works that the Contractor has been qualified as an Eligible Contractor under the Housing Rehabilitation Services Program. The Buyer will be required to execute the Rehabilitation Contract at the closing session referred to in Paragraph (b) of Section 3.9. However, the Rehabilitation Contract will become effective only upon the Buyer's issuance of an Order to Proceed to the Contractor. The Buyer will be required to issue an Order to Proceed to the Contractor within 10 days after the date that physical possession of the Property has been transferred to the Buyer.

3.9 Closing of First Mortgage Loan and Homebuyer's Assistance Loan

(a) Preparation for Closing. As soon as practicable after (i) the Buyer has obtained both a written commitment for a First Mortgage Loan in an amount and on terms that meet the requirements of the Homebuyer's Assistance Program, and a Rehabilitation Contract executed by the Contractor selected by the Buyer and approved by the HCD; and (ii) all applicable Truth-in-Lending requirements and requirements of the Real Estate Settlement Procedures Act (RESPA) have been complied with by both the First Mortgage Lender and the HCD, the HCD Staff will schedule a pre-closing meeting with the Buyer and the First Mortgage Lender. At the pre-closing meeting, the First Mortgage Lender will explain all instruments and other documents to be used in effecting the closing of the First Mortgage Loan and the transfer of title to the Property from the Seller to the Buyer, including the closing statements to be used in connection with those transactions. The First Mortgage Lender will also provide the Buyer and the HCD Staff with a detailed statement of the financing fees and charges incidental to the First Mortgage Loan which the Buyer is required to pay.

Based on the information provided by the First Mortgage Lender at the pre-closing meeting, the HCD Staff will determine the exact amount of the Deferred Payment Loan and Installment Loan components of the Homebuyer's Assistance Loan to be made to the Buyer to enable him to complete the purchase and rehabilitation of the Property. The HCD Staff will explain all instruments and other documents to be used in effecting the closing of the Homebuyer's Assistance Loan.

At the conclusion of the pre-closing meeting, the Buyer will execute (i) the Promissory Note and Mortgage which secure the First Mortgage Loan,

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(ii) the Promissory Note and Mortgage which secure the Homebuyer's Assistance Loan, (iii) the Federal Truth-in-Lending and Wisconsin Consumer Act Disclosure Statement; and (iv) the Notice of Right of Rescission. Both of the Mortgages will be recorded, in appropriate sequence, by the First Mortgage Lender.

(b) Closing. At the Closing session, which will be scheduled to be held not less than three (3) business days after the date of the pre-closing meeting referred to in Paragraph (a) above, legal possession of the Property will be transferred from the Seller to the Buyer and all other actions required to complete the First Mortgage Loan and Homebuyer's Assistance Loan transactions, including disbursement of loan proceeds, will be taken. Upon completion of those actions, the Buyer will execute the Rehabilitation Contract. As stated in Paragraph (e) of 3.8, the Buyer will execute the Order to Proceed to the Contractor within 10 days after physical possession of the Property has been transferred to the Buyer.

(c) Escrowing of Homebuyer's Assistance Loan Funds. Immediately following the closing session referred to in Paragraph (b) above, the proceeds of the Homebuyer's Assistance Loan which are to be used to finance the cost of the rehabilitation of the Property purchased by the Buyer, as well as any supplemental rehabilitation funds provided by or on behalf of the Buyer, will at the option of the First Mortgage Lender, be deposited in either the HCD Homebuyer's Assistance Loan Escrow Account or an escrow account established on the Buyer's behalf for the same purpose by the First Mortgage Lender. Any funds deposited in the HCD Escrow Account by the First Mortgage Lender will be disbursed by the HCD Staff only with the First

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Mortgage Lender's prior written approval. Conversely, any Homebuyer's Assistance Loan funds deposited in the escrow account established on behalf of the Buyer by the First Mortgage Lender will be disbursed by the First Mortgage Lender only with the prior written approval of the HCD Director, or his designee.

The HCD Escrow Account will be separate and distinct from all other accounts maintained by the HCD, and will be maintained solely for the purpose of depositing and disbursing Homebuyer's Assistance Loan funds and supplemental rehabilitation funds provided by or on behalf of the Buyer, if any. All deposits and disbursements made for the Buyer will be recorded in this Escrow Account.

3.10 Performance of the Rehabilitation Work

(a) Issuance of Order to Proceed. In accordance with the executed Rehabilitation Contract, the Buyer, with the assistance of the HCD Staff, will issue an Order to Proceed to the Contractor within 10 days of the date that physical possession of the Property has been transferred to the Buyer. The Order to Proceed will require the Contractor to start the required rehabilitation work within 30 days from the date of the signed Order to Proceed. Under the terms of the Rehabilitation Contract, the Contractor will be responsible for scheduling and performing the required rehabilitation work, so that all work is completed in a timely, competent and workmanlike manner.

(b) Inspections. The HCD Staff will inspect the rehabilitation work and also arrange to have the work inspected by the City's Building Inspection Division, during the time that the work is being performed, and also upon completion of the work. Inspections will be made as necessary to assure (i) that the work is being performed in compliance with the requirements of the Rehabilitation Contract; (ii) that, upon completion of the work, the Property will be in compliance with the requirements of the City's Minimum Housing and Property Maintenance Code and other applicable local codes and ordinances, and (iii) that the making of progress payments, if any, requested by the Contractor, is warranted based on the quantity and quality of the work completed by the Contractor.

(c) Progress Payments. Progress payments will be made to the Contractor as follows:

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Upon completion of not less than 40% of the required rehabilitation work, the Contractor will be paid 80% of the value of the work satisfactorily completed, as determined by the HCD Staff.

Upon completion of not less than 70% of the required rehabilitation work, the Contractor will be paid 80% of the value of the work satisfactorily completed, as determined by the HCD Staff, minus the amount of any progress payment previously paid to the Contractor;

subject in each case to receipt by the HCD Staff of a requisition for payment from the Contractor, accompanied by a certificate from the Contractor to the effect that: (a) the portion of the rehabilitation work for which payment is requested has been performed in conformance with the Rehabilitation Contract, and that the Contractor is, accordingly, entitled to receive the amount requested under the terms of the Rehabilitation Contract; (b) the remainder due the Contractor, after payment of the amount requested has been made, is sufficient to cover the cost of remaining work to be completed pursuant to the Rehabilitation Contract; and (c) the necessary inspections have been made of the completed portion of the rehabilitation work, and the City's Building Inspection Division has certified that such portion of the rehabilitation work has been satisfactorily completed. Each requisition for a progress payment shall also be accompanied by releases of liens from all sub-contractors and suppliers that have completed their portion of the rehabilitation work for which the progress payment is requested.

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(d) Final Inspection and Payment. Upon completion of all of the required rehabilitation work, and receipt by the HCD Staff of the Contractor's requisition for final payment, the HCD Staff and the City's Building Inspection Division will jointly make a final inspection of the Property, to assure that the Property has been brought into compliance with the requirements of the City's Minimum Housing and Property Maintenance Code and all other applicable local codes and ordinances, and that the rehabilitation work has been satisfactorily completed in conformance with the Contract. Final payment of the Contract Price for the completed rehabilitation work, minus the aggregate amount of any progress payments previously made to the Contractor, will be made to the Contractor only after final inspection and acceptance of all the work to be completed by the Contractor pursuant to the Rehabilitation Contract, and the Contractor has furnished to the Buyer, c/o HCD, all guarantees and warranties due the Buyer for the rehabilitation work and satisfactory releases of all liens or claims for liens by the Contractor, all laborers, all subcontractors having performed any work, and all suppliers of materials, equipment and services provided to the Contractor in connection with the work.

(e) Closeout of Escrow Account. After all funds have been disbursed from either the HCD Escrow Account or the First Mortgage Lender's escrow account, as the case may be, and the account has been closed, the HCD Staff will prepare a Disposition of Funds Statement, which will account for the disposition of the full amount of the Homebuyer's Assistance Loan and any other funds deposited in the account by or on behalf of the Buyer. After reviewing the Disposition of Funds Statement with the Buyer, the HCD Staff will furnish the Buyer and the First Mortgage Lender with copies of the Statement, as signed by the Buyer and the HCD Director, or his designee.

(f) Supplemental Inspection. In some cases, defects and inadequacies in the rehabilitation work, not apparent at the time of final inspection, may show up after final payment for the work has been made. Since all work performed by the Contractor is covered by a one-year guarantee, the Buyer may, for a period of one year, require the Contractor to correct significant defects and inadequacies in the work performed under the Rehabilitation Contract.

Although the experience of the HCD indicates that the incidence of serious defects and inadequacies in the rehabilitation work is not frequent, and Contractors generally correct them promptly when requested, the HCD Staff, after the final inspection, will make an additional call on the Buyer to ascertain if there are any complaints about the work that has been done. This call will be made not more than 60 days after final payment has been made to the Contractor. The HCD Staff will inspect the work to ascertain whether the complaint, if any, is valid. If the complaint is valid, the HCD Staff will assist the Buyer in obtaining prompt corrective action from the Contractor.

3.11 Housing Counseling Services. During the term of the Homebuyer's Assistance Loan, the HCD Staff will provide housing counseling services to the Buyer, as requested by the Buyer from time to time, or as needed to protect the City's interests as Mortgagee of the Homebuyer's Assistance Loan. Such counseling services will relate to property maintenance, financial management and such other matters as may be appropriate to assist the Buyer in meeting the responsibilities of home ownership on a continuing basis.

Mr. PATTERSON. Thank you very much.
Mr. Hendricks?

**STATEMENT OF JAMES HENDRICKS, ASSISTANT CHIEF
ADMINISTRATIVE OFFICER, CITY OF FRESNO, CALIF.**

Mr. HENDRICKS. Thank you.

For the record, I am James Hendricks, the assistant chief administrative officer for the city of Fresno, Calif., and I appreciate the opportunity to appear before you here.

I must indicate at the outset that it is always a question of priorities in dealing with these things, and as a layman in this business, it is rather disappointing to me to see that we are facing two committee members here today, and I question in my own mind if this is indicative of the kind of priority rankings that we deal with as we face these kinds of issues.

And I am appreciative of the fact that you are here, Mr. Chairman, and the other member, and I only wish that we could have dealt with a broader perspective.

Mr. PATTERSON. Mr. Hendricks, let me, in defense of those who are not here, suggest to you that this is not unusual. The entire record is available for every member to read. It is unfortunate that there are not more here today. This phase of the congressional season, when each of us serve on probably more subcommittees than we would like to, places you at times in a position where you really should be six places at the same hour, and that, unfortunately, is something that we have not yet been able to prioritize in any better way.

But I assure you that this subcommittee and all the members of it are mightily interested in the subject matter, particularly, under consideration today, that of rehabilitation.

Mr. HENDRICKS. I appreciate that, Mr. Chairman.

Mr. PATTERSON. And it is good to see a fellow Californian here, I might say, even though you are from Fresno. Those of us from southern California are appreciative of the water you have been sending our direction. [Laughter.]

Mr. PATTERSON. We hope your drought ends very quickly.

Mr. HENDRICKS. Yes. Those days are changing, I am suspecting here now.

Mr. Chairman, let me indicate, the city of Fresno has been involved in rehabilitation in section 312 for a little over 8 years now. We have rehabilitated over 850 units. We think we have been very successful in the administration of that program, and we recommend to you its continuation.

Now, some of the problems we have had has been this on again, off again funding situation, insufficient funding. This is a problem. It is very difficult to plan when there is no certainty as to the availability of fund or, for that matter, the availability of the program as a concept. So this is a problem that most of us have to face.

The result of that has been that we have not rehabilitated as many units as we would like to simply because of this uncertainty. The program has a lot of advantages in the sense of having basically adopted standards and guidelines. It is accepted by the lending institutions,

it's accepted by the contractors, by the community, it is established. Folks understand it, they like it, and as a result of that it is the kind of thing you like to have around, because it is not necessary to go about explaining what it would be if folks were to get involved with it.

The other part of that, I think, is that in terms of being able to proceed in an orderly fashion, it is necessary to have tools to deal with particular kinds of areas.

Mr. Shiver has alluded to that.

One of the real advantages of the section 312 program is that it allows us to focus in certain areas, as you are well aware, where lending institutions have not shown an inclination to lend. We understand that problem and want to speak about that in just a little bit here.

We have a local program now involving the leveraging concept. We also involve the recycling kind of situation. We have been able to take our community development money, a little over \$400,000, as an example and where we would have been able to do only 153 units, used private funding and were able to do over a thousand units. So when we talk about leveraging, we really believe that is the name of the game and the way we should be going with these programs.

I would just submit, Mr. Chairman, that my prepared statement would be the one, but the real concept that I would like to make, the one statement that I believe is basic to this whole notion is setting this whole thing in perspective as to who should be doing what. Because of the uncertainties and because of the changing programs and so forth, localities have been forced to get into the business of rehabilitation. And basically, we have been forced to use the tools that we have. This has boiled down to the section 312 program, which is a direct funding kind of program, which is, in my opinion, the least productive means of leveraging the dollars. It is effective; it has standards; it has acceptability; it has all those good things. But in terms of getting a broader perspective and getting more units on the ground, it is the least productive way of spending the money.

I think what we should be thinking about is delineating the process in a fashion that the public bodies are doing those things that they do best while the private sector is doing those things that it does best, and through a combination of that we will get the partnership which is necessary, I think, to get a comprehensive program of rehabilitation.

I believe that the public sector should be dealing in the infrastructure improvements, the neighborhood facilities, these kinds of things—code enforcement, the kinds of police powers that it has to maintain the credibility of an area, once you have been able to get these programs underway.

On the other hand, I believe that the private institutions—and I really won't be satisfied—I don't think anyone should be satisfied until we work our way to a position where the private lending institutions in this country are the primary sources for funding as it relates to rehabilitation, conservation, or preservation. I think when we get to that point, then we will really maximize the use of the dollars and will establish the roles in terms of who should be doing what.

Now, we are aware of the problems, we are aware of why this has not occurred. Lending institutions are faced with the basic fiduciary relationships. They are faced with regulatory requirements from the

Federal Government, from this Congress, and from other places. They have relationships to their investors and to their owners and other folks, and then on the other hand they are faced with public requirements, asking them to do their part in trying to resolve a very basic problem. This is a conflict situation.

I believe what is necessary is to find the means whereby we can share the risk, whereby we can insure the loans, whereby we can facilitate more greatly this private involvement to eliminate this conflict between certain regulatory requirements on the one hand and public requirements on the other hand and begin to get at this question of redlining that everyone talks about.

We have had discussions in our own State just recently along that line in terms of who has been doing what, and to our surprise, after some 50 complaints within the State of California, we find that only four of those constituted legitimate redlining and that a closer analysis of those found that only two would be what you could call redlining, as such, on a geographical basis.

So this is not a blanket statement. Obviously, there are situations where we do have that as a problem. But I do believe that we can get at facilitating this involvement, and I think the economics of it is clear to everyone in terms of how we would be able to leverage the dollar.

Our own local situation of coming from 153 units using a direct program to 1,000 units using the private money, it is clear to me that all the questions about eligibility, as to whether or not it should be investor-owners, or whether it should be homeowners, or whether there should be an income ceiling, and all these other things that folks talk about, when there are a few dollars these concerns are eliminated when there is sufficient funds to get at it and folks begin to talk about doing what we are wanting to do, and that is to stabilize neighborhoods, to stabilize total communities.

So what I am saying is, I believe that the Congress and the regulatory bodies should focus on some means of getting at this question.

Now, it is my understanding, back in 1975, before this committee, the savings and loan representatives did make a presentation to you that would incorporate some of those kinds of considerations. We believe that that is a major direction that should be pursued. It should be instituted, because without that I don't believe we are going to really get at solving this problem in a comprehensive fashion.

I would support the notion that section 312 is a very valuable program. It has great utility. It should be continued. There should be consistency with the level of the funding. I believe, also, that we have to have this private leverage situation going. There has to be local lending programs, as well. And I guess what I am really saying is that the problems are so unique, there is a multiplicity of problems which would require a multiplicity of strategies. And what we have been trying to do, we have been forced to do, as a matter of fact, is to use a very limited resource, that is, the section 312 and more recently the community development programs. I think many of the localities have been quite innovative in coming up with ways of dealing with this problem, but I still believe that it is a piecemeal approach and we have to come back to rationalizing this public/private partnership

situation so that there is some consistency along this line, where this technical involvement is there, and where there is some unanimity in terms of folks understanding what the whole process is all about.

And that is basically the underlying thing. Obviously, the other part of that is having the local support in carrying out programs. You can't have rehabilitation unless folks want it to happen. Folks will not want it to happen unless they understand it in terms of the benefits that it has to them and to the total community, and in many of these things it is very difficult to rationalize potential increased taxes and all the other things that go with that simply on the basis of coming up to code items. So there is a broader kind of involvement in that, and you really don't get at this problem unless you are able to show folks that there is a broader good associated with this kind of activity, and you can't do that on a piecemeal basis.

I would submit to you as a major recommendation that you consider that as a basic notion.

Thank you,

[Mr. Hendricks' prepared statement follows:]

PREPARED STATEMENT

TO THE
SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT
OF THE
COMMITTEE ON BANKING, FINANCE, AND URBAN AFFAIRS
WASHINGTON, D.C.

March 3, 1977

BY
JAMES HENDRICKS
ASSISTANT CHIEF ADMINISTRATIVE OFFICER
CITY OF FRESNO, CALIFORNIA

INTRODUCTION

The purpose of this statement is to bring to the attention of the members of the United States House of Representatives Banking Committee my views and recommendations regarding the HUD Section 312 Residential Rehabilitation Loan Program. The statement will describe the City of Fresno's utilization of the program, the impact on and reception by the local citizenry, the problems encountered in the administration of the program, and the advantages for continuing and enhancing the scope of the program, as well as to point out program areas calling for improvement, describe the need to clarify the interrelationship of the program with other HUD housing and community development programs, and, finally, to propose recommendations for the Committee's further consideration.

BACKGROUND

The City of Fresno has been participating in the utilization of the HUD Section 312 Residential Rehabilitation Program for over eight years. Our experience with the program has been most favorable, both from a programmatic perspective as well as from an individual citizen participant point of view. The major shortcoming experienced locally has been the lack of continuity of an adequate funding level for the program. In other words, the seemingly perpetual on-and-off nature of the program, as administered by HUD, over the past several years has been frustrating, counterproductive, and distressing, to say the least.

In the last eight years, the City of Fresno has utilized the Section 312 loan program in conjunction with the 115 grant and has rehabilitated over 850 homes. These homes are located in various activity areas in the Southwest Fresno General Neighborhood Area. The Section 312 program has been a valuable tool in augmenting the very active urban renewal/NDP effort in the GNRA.

The Southwest Fresno GNRA was a seriously blighted and declining neighborhood for many years prior to the beginning of urban renewal and rehabilitation activities. The area presently consists of 5,729 residential units, of which 1,453 units are substandard to such a degree as to warrant demolition; 921 units require up to \$2,000 each in minor rehabilitation efforts, and 1,651 units need approximately \$2,000 to \$5,000 for major rehabilitation. Only 29.6% or 1,698 units are standard. During the past eight years, over \$8.7 million in public dollars has been invested in the Southwest Fresno GNRA in urban renewal activities, ranging from acquisition, relocation, clearance, rehabilitation, and new infra-structure construction to new

residential and school development. In addition, nearly \$6.25 million in private dollars has been invested, with promising prospects for more private investment in the near-term future. The area has enjoyed an increase in assessed valuation from just over \$8 million in 1969 to nearly \$13.5 million in the current fiscal year. Notwithstanding the large investment, both public and private, already made, there is clearly a need for additional and substantial amounts of public and private investment over the next five years in order to stabilize and to turn around the area into a more productive status. A great portion of the public investment needed must be in Section 312 residential rehabilitation loans. The facts clearly point out the need for public funding assistance.

MAJOR PROBLEMS

A. Insufficient and Inconsistent Funding Levels. The major problems encountered with the Section 312 program have not been the program itself but rather the lack of continuity in funding and the lack of national administration commitment to continuation of the program. The program locally has a marked and extremely high degree of success and citizen acceptance. Indeed, the Section 312 program seems to us to be a most efficient utilization of scarce funds in that it has a national set of standards, a record of experience, and a known success record. On the other hand, many of the efforts being expended now by cities and communities throughout the nation to establish local rehabilitation loan programs are handicapped by the absence of national assurances and guidelines, which inevitably results in unproductive downtime.

The lack of commitment and the absence of continuity to the Section 312 program have resulted locally in less units being rehabilitated than the case would have been had there been an adequate and continuous level of funding. We have a high local demand for the program, but limited resources to deal with the demand. This point is, even now, more fundamental than before in that under the new dual formula system which is proposed by the Administration, the City of Fresno's formula amount will drop from a high of \$8.9 million to a low of \$3.82 million in Fiscal Year 1980. It becomes most apparent that without the assistance of either Section 312 monies or urgent-need monies, or funds from the Urban Development Action Grant program, the City of Fresno's revitalization activities will be severely curtailed.

It is absolutely essential, therefore, that in those instances where communities are facing such severe cutbacks, as is the case of Fresno, that they be given top priority consideration in the allocation of discretionary monies, urgent-need monies, or funds from the Urban Development Action Grant category.

B. Funds for Commercial Rehabilitation. Another major problem which we have experienced over the years in carrying out the program

has been the unavailability of commercial rehabilitation funds in residential areas. What this has resulted in has been pockets of commercial blight being left or retained in essentially residential areas where rehabilitation activity has taken place without the wherewithall to cure the total problem.

It is unrealistic to feel that revitalization can occur without dealing with all of the component problems of blight, commercial blight being one major element. It is recommended, therefore, that a means be developed whereby commercial rehabilitation funds can be made available in defined residential rehabilitation areas. This would go a long way toward doing the total job, which is what we are all striving to do. Notwithstanding the potential for involving the Small Business Administration in this process, that methodology has proven ineffective at getting at this matter.

C. Insufficient Relocation Funds for Rehabilitation Areas. In community development rehabilitation areas, relocation monies are eligible on a very limited and token basis. We have found this to be a problem in two basic areas: (1) It does not allow for sufficient new construction to occur, and (2) It does not allow the neighborhood to retain financial equity from those individuals who would otherwise desire to remain in a given neighborhood.

In my opinion, what is needed is relocation benefits sufficient to move a family from Point A to Point B while rehabilitation or new construction is underway; provide for the rental costs at Point B; and provide for the moving costs back to Point A. We believe that if properly controlled and administered, this would be of vital assistance to neighborhoods which are desirous of not losing residents who are there but who must wait for a structure to be either built or rehabilitated.

D. Historic Preservation Designations. We fully support the concept of historic preservation and believe that this effort is a highly desirable activity. Problems have developed, however, with the unpreciseness and improper timing of designating structures and/or areas. As a general statement, we would hope that this process could be tightened up so as to preserve those structures or areas which are truly deserving of preservation, and not focus on all structures which are old. It does not follow that because a structure is old, it is worthy of retention.

E. Improperly Maintained Public Housing Units. A major concern that the citizens have expressed on many occasions has been that of intrusion into their neighborhoods of HUD Section 23 leased housing operated under the auspices of the local housing authority. The citizens are not objecting to the units themselves, or to the program, but to the apparent low-quality of construction and maintenance that is evident. They rightly perceive this as an intrusion of blight into their neighborhoods, and a disincentive to rehabilitate their own residences. The problem here is again that of an adequate level of funding for Section 23 and Section 8

to provide for maintenance and care of the units being provided in order to prevent a governmentally-backed program from blighting neighborhoods.

ADVANTAGES OF SECTION 312

The Section 312 program clearly has a set of definite advantages that merit close consideration by Congress. First, and it seems to us, foremost, is the nationwide set of standards, procedures, and guidelines for implementation that the program has already in place. The benefit here is the avoidance of costly downtime in setting up local programs and the greater efficiency that is possible in all using a common set of criteria and standards. Secondly, a major benefit is the direct involvement of FHA personnel in the loan process. This has the distinct advantage of providing an ongoing pool of professional administrative talent already in place.

Thirdly, a most important advantage is the high degree of program acceptance by citizens, homeowners, professionals, lending institutions, and home improvement contractors.

Fourthly, the Section 312 program has the distinct advantage of being adapted to a wide range of local housing and community development options, ranging from a combination of revitalization tools to a straight residential rehabilitation effort.

OBSERVATIONS

It is clear to me, and I hope ultimately to the Congress, that rehabilitation of housing does not work and will not work unless the people involved in the affected neighborhoods want it to work. The successful rehabilitation effort requires a high degree of community participation, both individually and collectively. No matter how much the need, or how high the purpose, if the local folks don't want to be involved, the program will fail.

In this regard, we have attempted locally to involve as many local citizen groups and public and private entities, such as local lending institutions, in the process of developing a feasible residential rehabilitation program. Locally, the public citizen groups include the Fresno Metro Ministry, the Southeast Fresno Concerned Citizens, the official citizen participation Neighborhood Councils and the Fresno Citizen Participation Commission, the Fresno Housing and Community Development Commission, the Redevelopment Agency, and, of course, the City Council which must make the decisions and take the responsibility for the program being adopted and implemented.

A most heartening development locally is the recent commitment of \$3 million in funds for below market rate interest loans by three

local lending institutions. They have agreed to participate provided the community does its share through upgrading the public investment in the target area's infra-structure as well as to augment the private loan program with local community development funded subsidized loan programs, Section 312 rehabilitation loans, non-interest bearing grants of community development funds to those residences with owners having incomes below the poverty level, and with professional assistance and monitoring by city staff personnel. A key factor in helping to organize and promote this multifaceted partnership effort has been the direct involvement of citizens in formulating the parameters of the local program. We are convinced that it will succeed because the people want it to succeed!

ANALYSIS

Notwithstanding all of the above, and I believe the comments to be valid, it seems to me that directly funded public rehabilitation programs, while they may be operationally sound and well managed, still constitute the least productive (volume wise) means of providing major rehabilitation in this country. It is my belief that to the extent that we are able to cause the private sector to become the major financing source for rehabilitation, conservation, and preservation in this country, only then will we be maximizing the public-private partnership which is absolutely essential if we are to succeed with the revitalization of American cities.

Although many localities, Fresno included, have been successful in developing locally administered rehabilitation programs, this represents only a piecemeal approach to a major and massive national problem. On the one hand, we have 312 rehabilitation which is a direct funding methodology. On the other hand, we have totally privately financed rehabilitation which is the most highly leveraged methodology of rehabilitation. It is my belief that through this partnership the public sector must do what it does best, and the private sector should do what it does best. In the former case, the provision of public facilities, infra-structure, code enforcement, and other police powers to insure and maintain quality units; and in the latter case, the provision of monies to the consumer for home improvement loans and other rehabilitation activities.

What is needed is a comprehensive approach to this problem, an approach which recognizes the necessity for a multiplicity of strategies in the resolution of the problem. These strategies would include direct lending programs such as the 312 and 115 grant, local community development rehabilitation activities which provide leverage, and the recycling of community development funds, as well as directly funded private monies for rehabilitation activities. Many private lending institutions are reluctant to make loans in high risk areas, based on fiduciary and other

management relationships which they have with the Federal government and its regulatory bodies and, therefore, on investors and shareholders. Many lending institutions find that they are faced with a conflict situation and an inability to meet job goals and priorities. The end result is the much talked about redlining.

It is my belief that the Congress, through this Committee and other pertinent committees, can get at this question of risk by providing shared risk mechanisms which would allow for a free flow of private monies into designated rehabilitation areas. I am not totally familiar with the mechanics of such a proposal, but representatives of the U.S. League of Savings Associations did present such a proposal to this Committee in September 1975. I have read the substance of that proposal and firmly believe that if the mechanics were adopted, it would go a long way toward establishing a national private strategy which would go a long way toward the matter of funding consistent and major rehabilitation efforts in this country.

The idea of shared risk is not new, and the idea of mortgage insurance is not new. It seems to me that with the quality of staff and knowledgeable people in the area of financing, that there is no reason why we should not be able to develop such a solution.

In summary and in the final analysis, it will be through this partnership of public and private actors that we get the job done. It will be through a combination of funding techniques that we are able to structure a program to get at the core of rehabilitation demands which exist; and finally, it will be through commitment to this notion and leadership that we are able to focus the attention and work effort necessary to getting this program underway.

Thank you.

Mr. PATTERSON. Thank you, Mr. Hendricks. Now, we have Mr. Benitez.

STATEMENT OF A. WILLIAM BENITEZ, DIRECTOR, DIVISION OF COMMUNITY IMPROVEMENT, METROPOLITAN DEVELOPMENT AGENCY, TAMPA, FLA.

Mr. BENITEZ. Thank you very much.

I am A. William Benitez, the director, Division of Community Improvement in the city of Tampa, Fla. I appreciate this opportunity to address the committee, and I have submitted a written statement that I wish to have included in addition to my comments.

Community development funded housing rehabilitation has been very effective in Tampa. We have developed direct grants for emergency repairs, deferred payment loans to address poverty level-income persons, and a low-interest loan program similar to section 312 to address low-income persons.

In order to leverage community development funds we have also developed a leveraging program that involves tax-exempt borrowing and 100 percent leveraging, that is, we don't put up any type of deposit in order to generate the funds that we borrow. We do view leveraging as an excellent tool in conjunction with community development. However, I think it is important in developing the leveraging techniques that we realize it is only workable for moderate-income persons, and when attempts are made to develop leveraging programs to address low-income persons they wind up to be as costly as the direct lending of funds, such as through the section 312 program.

We have also used section 312 very successfully in Tampa since 1968. We presently have over 800 outstanding section 312 loans with two defaults since the 1968 inception. We support actively the continuation of section 312, and we feel that consistent funding in an amount of \$250 million a year is important so that all of the problems that must be addressed with this program can be addressed.

In Tampa, contrary to the national regulations, we do impose income limits, low- and moderate-income limits on section 312, and I believe this should be encouraged for use by other communities.

Section 312 is very important in conjunction with the community development program because it is supportive of the community development activities, and it releases more of the housing allocation funds for use with leveraging techniques.

Community development is a good program; however, I feel that not enough is being expended on housing activities. In the city of Tampa approximately 10 percent of the total community development allocation is used to address housing assistance activities, and communities are able to use most of the funds in other than housing activities. Therefore, I believe that new housing assistance legislation is important, and this legislation should address all areas and all income limits, poverty through moderate income, and include programs to address the investor-owner. These programs must be flexible and have a heavy emphasis on rehabilitation but must include some new construction to address directly the problem, the continued problem, of condemnation and demolition of substandard houses.

It should also include administrative costs for rehabilitation programs. I don't think that we can continue to depend solely on community development funds for this purpose.

And most importantly, it must include an active training program to assist communities just getting started in rehabilitation with developing staffs that will conduct rehabilitation in a manner which will assure the quality work that is essential to long-range rehabilitation.

I think community development can be improved promptly by taking several steps.

First of all I feel that an additional emphasis is necessary on the use of community development to assist low- and moderate-income persons. I see a trend developing, a gradual trend developing away from this.

Second, more flexibility is essential in the targeting of areas. This is especially important to smaller communities that on many occasions cannot effectively target areas for rehabilitation. Long-term funding is also essential, with a minimum of 3 years' assured funding, so that a community can develop some comprehensive, long-range plan to use community development funding.

And finally, more direction from the Federal Government is necessary to assure the use of more community development funds for housing assistance.

Again, I would like to say that I appreciate the opportunity to address this committee.

Thank you very much.

[The prepared statement of Mr. Benitez follows:]

HOUSING REHABILITATION ASSISTANCE

A General Statement written and submitted by:

A. William Benitez, Director
Division of Community Improvement
Metropolitan Development Agency
1420 Tampa Street
Tampa, Florida 33602

Rehabilitation of existing housing has finally been recognized nationally as a major tool in the maintenance of a standard housing stock. Rehabilitation is not a substitute for new construction. It is a complimentary technique and plays an especially important role in increasing the inventory of standard housing available to low and moderate income families.

Many families continue to live in substandard housing because they cannot afford the present inflated cost of new housing. This problem is further complicated by the continued condemnation and demolition of substandard housing as a result of housing code enforcement efforts. Many of these units can be restored to standard condition for occupancy by low-income families.

Well-administered rehabilitation assistance programs can fill this void and serve both the individual low-income families and the community as a whole. Every dwelling unit saved from demolition and rehabilitated to standard condition is one more unit on the standard housing inventory. And these rehabilitated units will remain affordable to low and moderate income families.

Rehabilitation is a complex process involving a great deal of knowledge and experience to administer successfully. It is essential that the federal government be supportive of rehabilitation assistance efforts by providing funding for rehabilitation programs and expertise to assist communities that are just beginning to recognize the importance of housing rehabilitation. The political and administrative officials of local communities must be provided with sufficient direction so they will endorse and actively support the establishment of housing rehabilitation programs. The public must also be made aware that rehabilitation is not a "stepchild" to new construction, but a necessary method to improve housing conditions.

The Community Development Block Grant (CDBG) Program can provide great impetus in the housing rehabilitation assistance effort. However, it should not be viewed as a panacea to solve all our housing ills. Nor can we continue to depend solely on existing housing assistance programs such as Section 235 and Section 8 to address the housing problems of low and moderate income families. It should be quite obvious that these programs fall short of meeting the needs.

New legislation to address the myriad of existing housing problems is essential. Such new programs must encompass the direct loan concept. The many programs presently available involving mortgage banking work well in the open market, for the middle class, but they have proven unresponsive to the housing plight of low-income families.

The need for new legislation is great, but the first step should be to save existing programs that have proven effective. In spite of harassment by OMB and an attempt by the previous administration to have it rescinded, the Section 312 Rehabilitation Loan Program has emerged as a highly successful and frequently emulated program. It should be extended indefinitely and funded at a level of 250 million dollars per year. Section 312 has an excellent record with respect to delinquency and defaults even during a time when these rates are at an all-time high. Even with its limited funding over the past few years it still returns over 1.5 million dollars per month into the federal coffers. Such a program merits continued support.

Leveraging of loan funds from local lending institutions is essential. Programs of this type are beneficial to moderate income persons who are unable to afford market-interest financing for the rehabilitation of their homes. Tampa has developed a program that leverages these bank funds without the necessity of bad debt reserves or partial guarantees. The city borrows funds at 5.5% per annum interest and loans these funds to moderate-income persons at 7% per annum interest. Repay-

ment to the bank is guaranteed from CDBG funds if the city fails to repay. The program is legally acceptable to the bank, the city, and HUD. It is especially attractive because it generates 100% leveraging.

Based on this program, legislation should be developed to provide loan insurance for communities instead of individuals. A process similar to that presently used by FHA for individuals can be used to insure repayment to local banks from communities. This would overcome any resistance that banks may have to involvement in leveraging programs. Communities need only pay a modest insurance premium for this coverage. This type of program would generate the highest possible leveraging ratio with the lowest subsidy costs. The actual subsidy would be the revenue loss in taxes because the interest income from the loans to communities would be tax-exempt. This cost is lower than the cost of direct subsidy of existing loans.

The actual repayment of the bank loans can be made from funds generated by the repayment of the individual rehabilitation loans from this program and the direct loan programs that the community has established. The repayment process could be shortened significantly by the development of a secondary market to purchase the 7% mortgages after two or three years of satisfactory payment. The federal government should view this as a viable program because it does not have an immediate impact on the national budget. An extension of this same program can address investor-owned residential property and could be used in conjunction with the Section 8 program.

Condemnation and demolition of unrehabitable residential structures is a problem in hundreds of communities. In Tampa, the number of demolitions resulting from code enforcement has exceeded the number of new dwelling units for several consecutive years. These units should be replaced promptly with new units that are affordable to low-income persons. Some form of financing should be available to demolish the old home and replace it with a new home on the same lot.

Relocation is an extremely expensive situation and communities cannot afford to provide relocation replacement housing benefits to families affected by code enforcement. An extension of the programs proposed for housing rehabilitation could provide the financing necessary to rebuild on the same property at a reasonable cost. The low interest and favorable amortization of these loans would make the new home affordable. Such a program can be effective in dealing with abandoned and vandalized units by making them standard and available for purchase with a low-interest, long-term loan.

A direct grant program similar to the Section 115 Grant but with a higher maximum would be of great help to poverty-level homeowners. Poverty-level families cannot afford loan repayments in any amount. A grant may well provide standard housing to a family who would never have the opportunity otherwise. Grants should be used only as last resort financing. Grants of this type can be used in conjunction with loans.

CDBG should continue its flexible monitoring of individual CD programs; however, more control in some form should be exercised over the percentage of the CDBG funds that are expended to address the housing problems of low and moderate families.

Target area requirements under CDBG should permit some housing assistance funds to be used outside of targeted areas when necessary to assist individual low and moderate income persons. Many persons live in substandard conditions in census tracts that are not considered eligible for CDBG funds.

In addition, counseling programs to address home maintenance and repair on a self-help basis should be developed. Many persons want to make their own repairs, but need technical assistance and the proper tools to do the work.

Finally, in support of rehabilitation assistance activities, administration costs should be available as part of any new legislation to avoid complete dependence on CDBG.

No one program will ever resolve these problems mentioned above. Flexible programs are essential to address the multitude of complex problems existing in the field of low- and moderate-income housing. Legislation should also support existing programs that have been effective and eliminate those programs that have proven to be ineffective.

Mr. PATTERSON. Thank you, Mr. Benitez.

We appreciate the testimony of all of the members of the panel, and just before we get into questions of you, we would like to at this time introduce the Lieutenant Governor of the State of Massachusetts who has a statement for us, Lt. Gov. Thomas P. O'Neill III.

If you would come forward.

Earlier this morning we had you on the agenda, and Congressman Paul E. Tsongas of your State made a fine introduction but had to excuse himself to go to another hearing. And we welcome you here on behalf of the Members of Congress from Massachusetts, and we welcome you as other Members of Congress, and are delighted to have you here.

STATEMENT OF HON. THOMAS P. O'NEILL III, LIEUTENANT GOVERNOR OF THE COMMONWEALTH OF MASSACHUSETTS, REPRESENTING THE COALITION OF NORTHEASTERN GOVERNORS

Mr. O'NEILL. Thank you very much, Mr. Chairman. I'm sorry I missed Congressman Tsongas' introduction.

I will be brief. I know that you interrupted a line of questioning, and I appreciate that very much.

Along with the Governor of the Commonwealth, Mike Dukakis, I am also representing the Governors of the Northeast Coalition of Governors made up of eight different States in the Northeast section of the country.

In her testimony last week, Secretary Harris quoted Tocqueville, who said that America is great because it is good, and that we will cease to be a great Nation if we cease to be a good people.

Mr. Chairman, the essence of America's goodness is its spirit of reform, a reform which directs aid to what needs it most, be it a jobless individual, a moribund neighborhood, or a depressed region.

The intent of the coalition of Northeastern Governors is in the mainstream of American political reform, to direct aid to an economically troubled region not for a regional dominance, but for equity with the rest of the Nation.

The Northeast was built first, in housing, in neighborhoods, in sewers, roads, and park facilities, the network that allows a city to function. And not surprisingly, the Northeast's network of functioning is first in need of renovation.

That is why I welcome the opportunity to represent the views of the Coalition of Northeastern Governors on the subject of housing and community development, for HUD's programs in community development are America's central methods for improving the quality of life in its cities.

The community development block grant program can be a critical tool for the rebirth of Northeastern cities, but thus far the block grant program has not reached its potential. The current formula for allocation contributes to a perverse pattern of Federal aid, a pattern out of concert not only with the intent of the community development program, but also with the spirit of American reform. The block grant program directs too much aid to areas which do not need it, and not enough to areas which need it most.

Documentation abounds for the way the current formula directs aid away for the Northeastern cities. But perhaps the most dramatic figures are the reduction of funds in key cities from 1975 to 1980—Philadelphia, Boston, and Hartford showed decreases of 37 percent, 60 percent, and 68 percent, respectively, across the board.

The Coalition of Northeastern Governors therefore applauds the proposal of Secretary Harris to change the formula by which block grants are allocated.

The formula proposed by Secretary Harris—age of housing stock, population decline, and poverty—alleviates the inequitable pattern of funding distribution in the current formula. In addition, the coalition agrees with the dual formula approach, a concept which insures that regional equity need not mean regional dominance.

Block grants to large metropolitan cities is only one among many issues that the coalition regards as significant in meeting the Nation's needs in community development. There are a host of other significant issues which impact the Northeast: the fate of small, nonentitlement cities, the proposal to include economic development as an eligible community development activity, and third, the urban action grant program.

First, the needs of nonentitlement communities may not be great in scale, but they are severe in substance. Since the budget constraints for nonentitlement cities are as stiff as for the rest of the block grant program, it is necessary to rationally allocate the limited amount of funding for small cities, and therefore make effective use of the nonentitlement source of discretionary grants.

Accordingly, the coalition supports the Secretary's concept for comprehensive programs granted by a statewide allocation system. But the coalition also seeks additional reforms.

In particular, the coalition hopes that the project selection procedure for discretionary grants take special notice of past performance of the nonentitlement communities. Many small cities receive adequate funding under the hold-harmless provision of the current block grant program; the coalition hopes that these cities will continue to receive funds after the phaseout of hold harmless.

Second, on the Secretary's proposal to make economic development on eligible activity, the coalition supports the theory of coordinating development activities, both community and economic, but questions its use in practice.

Coordination is a concept of public administration which deserves study, and we welcome the administration's efforts to make rational the various elements and programs which aid urban America. But coordination should not be confused with the mission of directly aiding specific segments of our urban centers.

In short, since a major criticism of the community development block grant program is its use of funds for activities which really do not directly affect low-income neighborhoods, the coalition fears that the use of block grant funds for economic development may dilute the program's intent in the first place: to primarily aid low-income neighborhoods.

It is not the coalition's intent to belittle economic development, for job creation is an essential ingredient in the revitalization of urban

centers. Indeed, the coalition advocated increased funding for economic development. But this should be increased funding for economic development—but this should be accomplished by the agency whose mission it is to promote economic development, the Economic Development Administration, and not the agency whose mission it is to promote community development, the Department of Housing and Urban Development.

The coalition's third point concerns economic development itself, but economic development achieved not at the expense of the interests of low-income neighborhoods, but through the approach outlined by Secretary Harris, the urban action grant program.

Such a program provides the flexibility, the size, and the involvement of the private sector for a solution to the problems of the most distressed cities in the country.

In addition, the urban action grant proposal is a means to stimulate resources and aid in a concentrated, multiyear, large-scale approach, something the community development block grant program does not do now.

To insure that urban action grants go to cities most in need, however, the coalition proposes that those cities over 50,000 which are experiencing a loss of urban aid because of the phaseout of hold harmless be given a first priority in the competition for urban action grants.

As a step in aiding localities with their applications, the coalition advocates an increase in the technical assistance capabilities of the States, by funding section 811 of the HUD Act of 1974, a measure to strengthen the State's role in community development.

Finally, my last point is not a comment on Secretary Harris' proposals but a general discussion of the shortcoming in the Department of Housing and Urban Development's data-gathering system. In short, HUD now does not have the capability to provide sufficiently accurate data for regional cost of housing and for fair market rents.

Since not only future formal changes but also the administration of HUD housing program depend on the availability of such accurate data, the coalition seeks a congressional mandate for HUD to conduct a survey of its current data-gathering abilities and to develop means by which accurate data can be collected for the cost of house indexing.

In conclusion, Mr. Chairman, the Coalition of Northeastern Governors supports the new administration's initiatives in community development, for they reflect an awareness and sensitivity of the reforms needed to insure the development of viable communities.

What the coalition seeks is not a parochial, selfish set of considerations, but rather a national awareness of the differing effects of Federal policies on the various regions of the United States.

The coalition applauds Secretary Harris' proposals as a first step in what it trusts will be a lasting partnership between the aims of our Nation's older cities and the Federal Government.

[The prepared statement of Lieutenant Governor O'Neill follows:]

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REMARKS OF

LIEUTENANT GOVERNOR THOMAS P. O'NEILL III

BEFORE THE

HOUSING SUBCOMMITTEE OF THE BANKING AND CURRENCY COMMITTEE

RE:

COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

MARCH 3, 1977

MR. CHAIRMAN, IN HER TESTIMONY LAST WEEK, SECRETARY HARRIS QUOTED TOCQUEVILLE, WHO SAID THAT AMERICA IS GREAT BECAUSE IT IS GOOD, AND THAT WE WILL CEASE TO BE A GREAT NATION IF WE CEASE TO BE A GOOD PEOPLE.

MR. CHAIRMAN, THE ESSENCE OF AMERICA'S GOODNESS IS ITS SPIRIT OF REFORM, A REFORM WHICH DIRECTS AID TO WHAT NEEDS IT MOST --- BE IT A JOBLESS INDIVIDUAL, A MORIBUND NEIGHBORHOOD, OR A DEPRESSED REGION.

THE INTENT OF THE COALITION OF NORTHEASTERN GOVERNORS IS IN THE MAINSTREAM OF AMERICAN POLITICAL REFORM --- TO DIRECT AID TO AN ECONOMICALLY TROUBLED REGION NOT FOR A REGIONAL DOMINANCE, BUT FOR EQUITY WITH THE REST OF THE NATION.

THE NORTHEAST WAS BUILT FIRST --- IN HOUSING, IN NEIGHBORHOODS, IN SEWERS, ROADS, AND PARK FACILITIES --- THE NETWORK THAT ALLOWS A CITY TO FUNCTION.

AND NOT SURPRISINGLY, THE NORTHEAST'S NETWORK OF FUNCTIONING IS FIRST IN NEED OF RENOVATION.

THAT IS WHY I WELCOME THE OPPORTUNITY TO REPRESENT THE VIEWS OF THE COALITION OF NORTHEASTERN GOVERNORS ON THE SUBJECT OF HOUSING AND COMMUNITY DEVELOPMENT. FOR HUD'S PROGRAMS IN COMMUNITY DEVELOPMENT ARE AMERICA'S CENTRAL METHODS FOR IMPROVING

THE QUALITY OF LIFE IN ITS CITIES.

THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM CAN BE A CRITICAL TOOL FOR THE REBIRTH OF NORTHEASTERN CITIES, BUT THUS FAR THE BLOCK GRANT PROGRAM HAS NOT REACHED ITS POTENTIAL. THE CURRENT FORMULA FOR ALLOCATION CONTRIBUTES TO A PERVERSE PATTERN OF FEDERAL AID --- A PATTERN OUT OF CONCERT NOT ONLY WITH THE INTENT OF THE COMMUNITY DEVELOPMENT PROGRAM, BUT ALSO WITH THE SPIRIT OF AMERICAN REFORM. THE BLOCK GRANT PROGRAM DIRECTS TOO MUCH AID TO AREAS WHICH DO NOT NEED IT, AND NOT ENOUGH TO AREAS WHICH NEED IT MOST.

DOCUMENTATION ABOUNDS FOR THE WAY THE CURRENT FORMULA DIRECTS AID AWAY FROM THE NORTHEASTERN CITIES. BUT PERHAPS THE MOST DRAMATIC FIGURES ARE THE REDUCTION OF FUNDS IN KEY CITIES FROM 1975 TO 1980 --- PHILADELPHIA, BOSTON, AND HARTFORD, SHOWED DECREASES OF 37%, 60%, AND 68% RESPECTIVELY.

THE COALITION OF NORTHEASTERN GOVERNORS THEREFORE APPLAUDS THE PROPOSAL OF SECRETARY HARRIS TO CHANGE THE FORMULA BY WHICH BLOCK GRANTS ARE ALLOCATED.

THE FORMULA PROPOSED BY SECRETARY HARRIS --- AGE OF HOUSING STOCK, POPULATION DECLINE, AND POVERTY --- ALLEVIATES THE INEQUITABLE PATTERN OF FUNDING DISTRIBUTION IN THE CURRENT FORMULA. IN ADDITION, THE COALITION AGREES WITH THE "DUAL FORMULA" APPROACH, A CONCEPT WHICH ENSURES THAT REGIONAL

EQUITY NEED NOT MEAN REGIONAL DOMINANCE.

BLOCK GRANTS TO LARGE METROPOLITAN CITIES IS ONLY ONE AMONG MANY ISSUES THAT THE COALITION REGARDS AS SIGNIFICANT IN MEETING THE NATION'S NEEDS IN COMMUNITY DEVELOPMENT.

THERE ARE A HOST OF OTHER SIGNIFICANT ISSUES WHICH IMPACT THE NORTHEAST: THE FATE OF SMALL, NON-ENTITLEMENT CITIES, THE PROPOSAL TO INCLUDE ECONOMIC DEVELOPMENT AS AN ELIGIBLE COMMUNITY DEVELOPMENT ACTIVITY, AND THE URBAN ACTION GRANT PROGRAM.

FIRST, THE NEEDS OF NON-ENTITLEMENT COMMUNITIES MAY NOT BE GREAT IN SCALE, BUT THEY ARE SEVERE IN SUBSTANCE. SINCE THE BUDGET CONSTRAINTS FOR NON-ENTITLEMENT CITIES ARE AS STIFF AS FOR THE REST OF THE BLOCK GRANT PROGRAM, IT IS NECESSARY TO RATIONALLY ALLOCATE THE LIMITED AMOUNT OF FUNDING FOR SMALL CITIES, AND THEREFORE MAKE EFFECTIVE USE OF THE NON-ENTITLEMENT SOURCE OF DISCRETIONARY GRANTS.

ACCORDINGLY, THE COALITION SUPPORTS THE SECRETARY'S CONCEPT FOR COMPREHENSIVE PROGRAMS GRANTED BY A STATEWIDE ALLOCATION SYSTEM. BUT THE COALITION ALSO SEEKS ADDITIONAL REFORMS.

IN PARTICULAR, HOWEVER, THE COALITION HOPES THAT THE PROJECT SELECTION PROCEDURE FOR DISCRETIONARY GRANTS TAKE SPECIAL NOTICE OF PAST PERFORMANCE OF THE NON-ENTITLEMENT COMMUNITIES.

MANY SMALL CITIES RECEIVE ADEQUATE FUNDING UNDER THE HOLD-HARMLESS PROVISION OF THE CURRENT BLOCK GRANT PROGRAM, THE COALITION HOPES THAT THESE CITIES WILL CONTINUE TO RECEIVE FUNDS AFTER THE PHASE-OUT OF HOLD-HARMLESS.

SECOND, ON THE SECRETARY'S PROPOSAL TO MAKE ECONOMIC DEVELOPMENT AN ELIGIBLE ACTIVITY, THE COALITION SUPPORTS THE THEORY OF COORDINATING DEVELOPMENT ACTIVITIES, BOTH COMMUNITY AND ECONOMIC, BUT QUESTIONS ITS USE IN PRACTICE.

COORDINATION IS A CONCEPT OF PUBLIC ADMINISTRATION WHICH DESERVES STUDY -- AND WE WELCOME THE ADMINISTRATION'S EFFORTS TO MAKE MORE RATIONAL THE VARIOUS ELEMENTS AND PROGRAMS WHICH AID URBAN AMERICA. BUT COORDINATION SHOULD NOT BE CONFUSED WITH THE MISSION OF DIRECTLY AIDING SPECIFIC SEGMENTS OF URBAN CENTERS.

IN SHORT, SINCE A MAJOR CRITICISM OF THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM IS ITS USE OF FUNDS FOR ACTIVITIES WHICH DO NOT DIRECTLY AFFECT LOW-INCOME NEIGHBORHOODS, THE COALITION FEARS THAT THE USE OF BLOCK GRANT FUNDS FOR ECONOMIC DEVELOPMENT MAY DILUTE THE PROGRAM'S INTENT: TO PRIMARILY AID LOW-INCOME NEIGHBORHOODS.

IT IS NOT THE COALITION'S INTENT TO BELITTLE ECONOMIC DEVELOPMENT, FOR JOB CREATION IS AN ESSENTIAL INGREDIENT IN THE REVITALIZATION OF URBAN CENTERS. INDEED, THE COALITION ADVOCATED INCREASED FUNDING FOR ECONOMIC DEVELOPMENT, BUT THIS SHOULD BE

INCREASED FUNDING FOR ECONOMIC DEVELOPMENT, BUT THIS SHOULD BE ACCOMPLISHED BY THE AGENCY WHOSE MISSION IT IS TO PROMOTE ECONOMIC DEVELOPMENT -- THE ECONOMIC DEVELOPMENT ADMINISTRATION-- AND NOT THE AGENCY WHOSE MISSION IT IS TO PROMOTE COMMUNITY DEVELOPMENT -- THE DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT.

THE COALITION'S THIRD POINT CONCERNS ECONOMIC DEVELOPMENT, BUT ECONOMIC DEVELOPMENT ACHIEVED NOT AT THE EXPENSE OF THE INTERESTS OF LOW-INCOME NEIGHBORHOODS, BUT THROUGH THE APPROACH OUTLINED BY SECRETARY HARRIS -- THE URBAN ACTION GRANT PROGRAM.

SUCH A PROGRAM PROVIDES THE FLEXIBILITY, THE SIZE, AND THE INVOLVEMENT OF THE PRIVATE SECTOR FOR A SOLUTION TO THE PROBLEMS OF THE MOST DISTRESSED CITIES.

IN ADDITION, THE URBAN ACTION GRANT PROPOSAL IS A MEANS TO STIMULATE RESOURCES AND AID IN A CONCENTRATED, MULTI-YEAR, LARGE-SCALE APPROACH -- SOMETHING THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM DOES NOT DO NOW.

TO ENSURE THAT URBAN ACTION GRANTS GO TO CITIES MOST IN NEED, HOWEVER, THE COALITION PROPOSES THAT THOSE CITIES OVER 50,000 WHICH ARE EXPERIENCING A LOSS OF URBAN AID BECAUSE OF THE PHASE-OUT OF HOLD-HARMLESS BE GIVEN A FIRST PRIORITY IN THE COMPETITION FOR URBAN ACTION GRANTS.

AND AS A STEP IN AIDING LOCALITIES WITH THEIR APPLICATIONS, THE COALITION ADVOCATES AN INCREASE IN THE TECHNICAL ASSISTANCE CAPABILITIES OF THE STATES, BY FUNDING SECTION 811 OF THE HUD ACT OF 1974, A MEASURE TO STRENGTHEN THE STATE'S ROLE IN COMMUNITY DEVELOPMENT.

FINALLY, MY LAST POINT IS NOT A COMMENT ON SECRETARY HARRIS' PROPOSALS, BUT A GENERAL DISCUSSION OF THE SHORTCOMING IN THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT'S DATA GATHERING SYSTEM.

IN SHORT, HUD NOW DOES NOT HAVE THE CAPABILITY TO PROVIDE SUFFICIENTLY ACCURATE DATA FOR REGIONAL COST OF HOUSING AND FOR FAIR MARKET RENTS.

SINCE NOT ONLY FUTURE FORMAL CHANGES, BUT ALSO THE ADMINISTRATION OF HUD HOUSING PROGRAMS DEPEND ON THE AVAILABILITY OF SUCH ACCURATE DATA, THE COALITION SEEKS A CONGRESSIONAL MANDATE FROM HUD TO CONDUCT A SURVEY OF ITS CURRENT DATA-GATHERING ABILITIES AND TO DEVELOP MEANS BY WHICH ACCURATE DATA CAN BE COLLECTED FOR THE COST OF HOUSING INDEX.

IN CONCLUSION, MR. CHAIRMAN, THE COALITION OF NORTHEASTERN GOVERNORS SUPPORTS THE NEW ADMINISTRATION'S INITIATIVES IN COMMUNITY DEVELOPMENT, FOR THEY REFLECT AN AWARENESS AND SENSITIVITY OF THE REFORMS NEEDED TO ENSURE THE DEVELOPMENT OF VIABLE COMMUNITIES.

WHAT THE COALITION SEEKS IS NOT A PAROCHIAL, SELFISH SET OF CONSIDERATIONS, BUT RATHER A NATIONAL AWARENESS OF THE DIFFERING EFFECTS OF FEDERAL POLICIES ON THE VARIOUS REGIONS OF THE UNITED STATES.

THE COALITION APPLAUDS SECRETARY HARRIS' PROPOSALS AS A FIRST STEP IN WHAT IT TRUSTS WILL BE A LASTING PARTNERSHIP BETWEEN THE AIMS OF OUR NATION'S OLDER CITIES AND THE FEDERAL GOVERNMENT.

Mr. PATTERSON. Thank you, Lieutenant Governor O'Neill, for coming before us today, and we are delighted you could be with us. I invite you to remain, if you would, for questions, if you are able to. The bells that have been ringing advise us that we have about 4 minutes to answer a quorum.

The subcommittee will recess for 10 minutes, and we will resume with questioning of you, sir, if you can stay, and the panel which has previously testified in 10 minutes from now.

Mr. O'NEILL. Thank you.

[Brief recess.]

Mr. PATTERSON. The subcommittee will reconvene at this time. We were at the point of addressing questions to Lieutenant Governor O'Neill.

Governor, you referred to a spirit of reform which many of us can well appreciate, having spent the greater portion of yesterday, up until after 10 o'clock last night on the House floor, dealing with financial ethics reforms for Members of Congress. You referred to other issues in the spirit of reform, and this is a subject matter dear to the heart of Congress at this time.

I also should warn you that I am from the Southwest, as opposed to the Northeast, and have been addressing the question of age of housing, which I may spare you from this morning, and as to why that should be a factor in housing or given such weight. But in your testimony, you did refer to Secretary Harris' proposed urban development action grants that would be directed to areas of crucial need in terms of low-income persons, rather than in broad economic activities. I think that is what you were urging. I ask you if you would expand on this in view of the concern you have expressed in your testimony about economic development.

Mr. O'NEILL. I want to separate the two, if I possibly can. I was left with some amount of frustration in that I don't think I was talking specifically of the issue. I think what we ought to think about in the area of community development block grant programs and why it was set up, or extended in 1974, was to really come into those cities that desperately needed it to restore the revitalization that everybody was crying out for, especially in the Midwest and Northeast sections of the country.

I don't think that we can provide conflict between what two agencies are supposed to be doing, one the Economic Development Administration, and second, the Department of Housing and Urban Development, in producing housing programs for certain neighborhoods, in a targeted manner to do the job that we had seen outlined by the Congress in 1974. So I don't think that confusion should be allowed to exist. I think some degree of mandating programs should be provided to help municipalities so that mayors and city managers will have an opportunity to spend that money in a very direct fashion.

I don't think we need to separate the two issues as specifically as that, because I do think that in the longer term a tremendous benefit is not only going to be a social benefit, it is going to be an economic benefit. And to that extent, I do see that the grant program calling for urban action is tremendously important. But I would couple that with the mandate of Congress and the intention of Secretary Harris by

saying, look, we are not only trying to create new jobs, we are not only trying to provide an entree into the private sector capital market, what we are trying to do again is to target those cities that are desperately in need and those neighborhoods of those cities that really have the most to try to overcome very significant needs at the same time and to provide with a singular intent in order to get to the economic development and expansion of the community so that the ripple effect does in fact take place.

Mr. PATTERSON. Let me defer to some of my colleagues here for questions.

Mr. O'NEILL. I would like to make mention of the fact that—well, you made mention of it in the statement to me about the age of housing stock. I don't know how familiar most Members of the Congress are with what the northeastern city looks like.

It is a congested, physical layout. Houses, sometimes two- and three-family homes, side by side on lots less than 5,000 square feet. Now, understanding that and understanding that basically most of our housing stock goes back to pre-1940 and pre-1939, in Boston specifically we rank second, I believe, where some 77 percent of our housing stock dates before that time, that is an incredible feature.

When you couple that to real net income and understand what the poverty levels in relationship to that are, then understand what the flows of outmigration have been to other suburbs, or rural sections of our State or other States in general, then you begin to understand that we have got problems. And if we truly believe the philosophy that the center city is really the backbone and strength of a great industrial and economic sector of society, then we have a force to direct toward it, and that is important.

Mr. PATTERSON. Since you kind of raised the question I raised, I was not going to ask about it but I would pursue it just for a moment—I certainly can't disagree with concentrating housing funds where you have overcrowding, where you have low-income areas, where you have density and much of the poverty. But the age of housing factor being blended into the new proposal seems to me very directly going to the Northeast which was built first, as you stated in your testimony, as opposed to maybe the Southwest and maybe the Midwest, where your pre-1939 housing which is the formula really exists in much less numbers—much fewer numbers.

That isn't that there are not any pre-1939 houses, but it is certainly a benchmark date in terms of southern California where I come from, where virtually the housing boom hit in the 1950's

And a second aspect to that age of housing is that much of the housing that was built in 1945 to 1955 was, at least in the South and West, clapboard, low-cost junk housing, as opposed to the nice, red brick building that might last 100 years. And I asked the Secretary, if you have any comments on that. I certainly agree with the needs, that the money should go where the needs are, and not argue just for my district; but I do feel that there are a lot of housing problems involved in areas of the country that the pre-1939 housing simply is not going to help.

The only response I receive from the Secretary is well, you can use the other formula, the existing formula, and that is fine, which-

ever formula is the higher. The problem is if the higher formula helps, say the Northeast or whatever was built first, that obviously has to reduce the pool of funds available to other areas.

And this is a rhetorical question perhaps, and you may or may not wish to comment on it, but that is the dilemma, at least some Members of Congress will be faced with in making the judgment as to whether age of housing—it is simple, it is easy, but is it really what we are all after? And I am including the Northeast as well as other areas of the country.

Mr. O'NEILL. Oh, I think it is. I would offer certainly more than just the alternative. You have got the other formula to use, if that has to be used as an explanation. I would not disagree with that, except to tell you you have to go to the city streets to understand the pride of an individual living in a community that wants to see it restored. The only way we are going to keep him there is to do the work that they are screaming out for, and they can't afford it and somebody else must. But I think they have the incentive and the wherewithal to do the job that really must be done, and I think they look to Government to really help service or complement their programmatic approach, and that is why I am here. I would continue to stress the social and economic benefit.

Mr. PATTERSON. Mr. Wylie?

Mr. WYLIE. I want to follow up on the line of questioning Mr. Patterson has taken here, if you please, Governor.

I would like you to be a little bit more specific with reference to your statement at the end of page 4 and the top of page 5, where you say, indeed the coalition advocated increased funding for economic, but that this should be increased funding for economic development, to be accomplished by the Economic Development Administration and not the agency whose business it is to promote community development. I know what you are saying, and yet I don't think there is a clearcut definitional change in the new section 8 program which we have and which I voted for.

And also in the block grant program, I think you would come down kind of hard on the block grant program, and I would call that, in Urban renewal program, for example, in Columbus, Ohio, there was substantial economic development going on with the development of the housing in that area. And just recently we received a big section 8 grant for community development at least which contemplates a shopping center, a commercial enterprises, apartment dwellers, and then residential community on the outside. The point I am making there is that if you concentrate just on single family residences, I am not sure that you are contributing to the economic development. And in some case, the tax base has actually been lowered to the extent that it is not a viable community after the block grant program is finished, or after renovating of the area is finished.

Mr. O'NEILL. I don't disagree with that at all. I think you have certain programs in the community development block grant formula as has been proposed by Secretary Harris, and the old formula coupled with the dual approach that can service that program.

And I think that the urban action grant program really services some of the economic development again, the programmatic approach

that we are all trying to achieve. Both are going to have economic spinoff and the ripple effects take place. I understand that.

I think with good hard core understanding of what the data base shows, we can put on a good schematic approach to the revitalization of the center cities.

Mr. WYLIE. So there is a considerable amount of intermesh there.

Mr. O'NEILL. I did not mean to have—mean that as strictly as you interpret it.

Mr. WYLIE. Now, the Advisory Committee on Intergovernmental Relations was before us yesterday, two witnesses, and they recommended combining the section 312 block grant programs. Do you think that's good idea? The rehabilitation loan program with the block grant program?

Mr. O'NEILL. I would opt basically just for the increased funding level as has been called for by Secretary Harris. I think it is tremendously important, because I do think that it services—

Mr. WYLIE. You would come down in favor of keeping the categories?

Mr. O'NEILL [continuing]. The clientele who can certainly use that type of resources to achieve what we would like to see in the neighborhood. But we would go along with the separation of the program in the current levels she described.

Mr. WYLIE. Thank you.

Thank you, Mr. Chairman.

Mr. PATTERSON. Let me just say this. Is Mr. Le Criox in the audience?

Mr. LE CROIX. Yes.

Mr. PATTERSON. Thank you. I yield to, and recognize for 5 minutes, Mr. McKinney.

Mr. MCKINNEY. Lieutenant Governor, it is nice to see you. Paul Tsongas and I somewhat accused the Secretary, when she testified in front of us, of having done our homework for us on the report we were trying to get to, the problems of the Northeastern cities.

However, we do, I think, have a couple of areas of disagreement with the Secretary's formula. Certainly age of housing is something I have been looking for as a formula element ever since I arrived here.

I know you are Lieutenant Governor of the whole State and I guess it gets a little difficult at times, but I am Congressman of the whole 4th district, and I also have to face realities. The use of age of housing in a formula would give Greenwich, Conn., for instance, a fairly substantial amount of community development block grant funds, even though the average per household income in Greenwich, Conn., is about \$35,000 to \$38,000.

I have a problem with that, and I wonder if you would agree with me that we should add into this formula density of housing or density of population and realistic poverty levels as a kicker to go along with the age of housing.

Mr. O'NEILL. I would have to separate myself away from the Coalition of Northeast Governors in doing so. We tried in an attempt to do so from the State's perspective in Massachusetts. I do handle Federal-State relations. It may offer some greater benefits to the industrialized Northeast. I think you are going to have a more difficult time trying to provide that type of formula.

And after you do provide it, if in fact you do, you will have a greater degree of difficulty trying to draw that line of commonality across the Northeast section of the country. And consequently the law won't be in force and intact to give us the program we all need.

Mr. McKINNEY. Well, I do agree. If you were mayor of the city of Boston, it would be much easier for you to answer.

It bothers me, for instance, that community development block grants can be used by the nonentitlement communities. It seems to me that we have continued to decimate this program on the national level by, for instance—I shouldn't bang on poor Greenwich all the time, I suppose I could pick Beverly Farms or some suburb of Boston—spending \$110,000 for a harbor study, rather than actually getting that money to the people that we hope to help.

It just seems to me that particularly in our larger urban centers, and I represent Bridgeport, Norwalk, and Stamford, three cities surrounded by what you talked about as urban outflow, somehow we have to get into density and poverty. I was encouraged by the fact that the Secretary in her statement recognized high-cost areas, which in itself is a major step forward for us who are affected by either the Boston or the New York cost centers.

Mr. O'NEILL. First of all, I think you are right. I do think that you are talking about that part of the program in the 80-percent part, which is the nonentitled cities, the population under 50,000. Keep in mind there have always been nonentitled—the only history they have of success is some of the old categorical grant programs from the 1960's. And I think that where we provide the congressional mandate to upgrade the data base we currently have, understanding the true successes they have had in the past, we will have an opportunity with the pool of money, the discretionary pool of money to provide them with the same type of financial resources they will need to continue on with that program.

So I am less bothered by that in a systemic approach which is well thought out than I am about the theory of the—the unextended theory of that, your theory or say the representation from the Northeast-Midwest Coalition who were in here yesterday.

So I'm troubled by it. But I think if we provide the course of direction mandated by the Congress for the Secretary and HUD, that bureaucratically we can get that done.

Mr. McKINNEY. Let me ask you a rhetorical, philosophical question. How would you feel about changing the name, community development block grants to neighborhood development block grants?

Mr. O'NEILL. Again I would separate myself from the group that I am representing her today, but I could go along with that.

Mr. McKINNEY. I get a terrible feeling that—

Mr. O'NEILL. First of all, you have to understand that we are dealing with entities here. They are over 200 years old in many cases, so consequently, unless you begin to understand what neighborhoods and the separation of effort here is all about, and how they differ from one region of the country to the next, then you are really never going to be able to get to the bottom of the problem in the first place. That is my philosophical belief.

Mr. WYLIE. Would the gentleman yield just at that point?

Mr. MCKINNEY. I will yield.

Mr. WYLIE. Yesterday Governor Milliken of Michigan was here. He testified that he thought the States ought to have more input in the entitlement program, that—well, in the nonentitlement program, too, the block grants—that the States ought to have more input, and HUD ought to go through the Governors first.

What do you think about that?

Mr. O'NEILL. Let me ask a question. Let me answer it by asking it, a question. How did he want to do that? I mean mechanically.

Mr. WYLIE. He wanted the funds to come to the State of Michigan to the executive branch to be dispersed through the Governor's office.

Mr. O'NEILL. I would have trouble with that.

Mr. WYLIE. Do you think it is too political?

Mr. O'NEILL. It sounds to me like it is very political. I am trying to be basic as diplomatically as I can.

Mr. WYLIE. I thought it sounded a little political myself, but it came from a Republican Governor of Michigan. I thought maybe he was being nonpolitical about it.

Mr. MCKINNEY. My problem with that, in reviewing the Governor's testimony, was it seemed like a certain way to turn up the heat in the chair he sat in.

Mr. O'NEILL. It sounds like a great opportunity to kill a bill.

Mr. MCKINNEY. There is one other question I want to ask you to see what the Commonwealth of Massachusetts does in certain cases. I am having a battle in the District, as ranking member of the District Committee, and in Connecticut. I'm very concerned about the rehabilitation programs and that in many cases, the municipalities have become our own worst enemies.

You have, for instance, a deteriorated neighborhood with 20 or 40 percent of that neighborhood hanging in there, individual homeowners, who are just not going to go. So the city gets together in a conscientious effort and everyone else gets together in a conscientious effort to rebuild and rehabilitate that neighborhood. All of a sudden homeowner A is sitting on a block that is being rehabilitated, that has been deserted or burned down or condemned or one thing or another, and finds the block rehabilitated, and finds that he can no longer afford to live in his home because of the increased tax base. The city comes through suddenly and says even though he hasn't changed his house or anything else, the air is a little cleaner, the street is cleaner, the lights are working, and up go his taxes.

I wonder, in your major cities, is there any kind of "circuit breaker" tax situation for a rehabilitated neighborhood? Or are there grants from the State or from the city, or tax abatements so that people can stay in their houses and not be forced out by the real estate tax?

Mr. O'NEILL. No. I am sad to say we do not. We have investigated and explored different proposals like the circuit breaker. It is not to say that it is out of the ordinary or something like that could not happen in a very natural vein. I would suggest it as a matter of fact, at your suggestion. I think it is a good idea, but we do not create the incentives in a positive sense to attract, or to keep instead, or to sustain the population in our major cities.

Mr. MCKINNEY. I understand you have to race to catch a plane.

Mr. PATTERSON. I hate to interrupt the line of questioning, Lieutenant Governor, but we do know you have a plane to catch and we don't want to be responsible for your missing it.

Mr. O'NEILL. Thank you very much. I appreciate the opportunity to be here.

Mr. PATTERSON. Do you have anything you would like to make in closing? If not, we thank you very much for coming before the subcommittee this morning.

Mr. O'NEILL. Thank you. I thank you for the opportunity and if there's anything else, if you will allow me to give it to your staff or counsel, I will appreciate it.

Mr. PATTERSON. Thank you.

Mr. O'NEILL. Thank you.

Mr. PATTERSON. At this time I would like to ask our panel if they would return to the council table and let me express the appreciation of the subcommittee for your patience in waiting.

Just to outline what I hope will be an acceptable time frame—I don't know how long it will take with the questions, but I think we need to recess before 1 p.m., and the subcommittee has a resumption of afternoon hearings, commencing with Mr. LaCroix at 1:30 and a resumption of the regular agenda at 2 p.m.

So, with that in mind, I would start with a couple of questions and yield to my colleagues.

Mr. Shiver, you spoke of your conservation areas and the need to concentrate project boundaries, in which I concur completely. However, the political question that arises is, how do you determine those boundaries? What factors did you in Norfolk consider in order to determine the five or whatever number of conservation areas you selected? What factors did you consider in making that selection so that the boundaries were acceptable politically—and I mean that in the good sense of politics—acceptable to the public and acceptable to those the public elects to do their business?

Mr. SHIVER. It was sort of an interesting process in our city. We found the first project called Ghent, which was a fashionable suburb of Norfolk in the 1900's, was pretty well defined in and of itself through natural boundaries, water, and major streets.

We always do a condition survey, and under the Virginia law, we are required to show that there is deterioration in the area of at least 20 percent plus environmental problems. So that the neighborhood identified itself almost on a block-by-block basis.

However, boundaries also came from the people themselves, interestingly enough. In every project we have had after the first one, the neighborhoods petitioned for the conservation and rehabilitation project. They almost defined it themselves. But generally speaking, they are natural boundaries.

We have one exception to that. One of the neighborhoods petitioned for a conservation and rehabilitation project, and as we went to do it we found that an adjoining area wanted to be part of that project. We said, what about a separate one? And they said, no, we want to have a joint one. And so we have Colonial Place-Riverview, which is a joint project.

But generally they are defined by natural boundaries, streets, or neighborhood conditions.

Mr. PATTERSON. Would you say that these areas were, in your opinion, blighted? In other words, maybe everyone would like to be in a conservation area. On the other hand maybe you don't want to be. It might be dealt with on that basis.

How much do you say to the public in terms of their area—we want to come in and develop or rehabilitate your blighted area?

Mr. SHIVER. No. As I mentioned, the public—the neighborhoods—came to the authority, basically. They had problems. They knew it. They lived there. Housing turnover was rapid. They couldn't get loans in the area. Deterioration of the blocks and other things were happening in those neighborhoods.

They are well aware of the fact that there is deterioration in the neighborhood, and we usually—we always, in fact—do a survey and point out that there is deterioration on a block-by-block basis, and we make it public.

Mr. PATTERSON. So, they had to meet certain objective criteria as well as a subjective desire to join, and that did include an element of blight or deterioration or decline of neighborhoods?

Mr. SHIVER. That is correct.

Mr. PATTERSON. How closely do you define those boundaries in terms of including that kind of an area? Well, one example I can think of is, let us say there is no public forthcoming. They don't come to you and say we want to develop our area, but on the other hand objectively it meets that standard. Do you try to bring them in to an area?

On the other side of that coin, if you had an area that really wanted it but didn't have the same needs, how do you deal with that? They are coming to you and saying, we want it. But you are thinking there's an area that needs it more over here, and of course the money is limited. If it wasn't limited, we would not have the problem.

Mr. SHIVER. We try to limit projects to a manageable size. We made one terrible error, very frankly. We have one area that is too large to manage as a project in and of itself. It also has several different objectives within the same neighborhood. There are, for example, 3,000 housing units in this particular conservation project. On the north side of that project the housing is much better than the south side. As a result we have the objective of turning around that housing in the north. On the south side we're really only exerting a holding action.

We should have defined those as two separate projects with two separate, distinct objectives as such.

Now, if you have a street that is a natural boundary and the people on the other side of the street want to go into the project but they may not need it as badly; we usually go ahead and accept them. We will go to the rear property line on bordering streets, because in many cases, project borders need particular attention because this is where you are "drawing the line of attack."

Sound sections of rehabilitation projects may not get the priorities or the loans and other things, but at least they are included under the stabilizing protection of that project boundary.

Mr. PATTERSON. Let me add that if any other member of the panel feels a particular point is pertinent or has something to add to the questions of Mr. Shiver or anyone else, we will direct some questions to the panel directly as a group and others to individuals.

But don't let the individual inquiry inhibit your response if you have one.

I would like to ask Mr. Apperson, briefly, a question. I think you testified that for every one unit, I assume, of housing that you upgrade, four or five more upgrade on their own within, I assume, the same project area boundaries. Which leads me to a question of, has your area been selected in terms of need, in other words, or do you have the kind of dispersal as such that all the people of need are not in one area?

I guess my point is, many areas, if you have 10 homes, all 10 need the services, the public services, the public assistance. I would like for you, maybe, if you could, to explain that a little more. How does rehabilitating one with public funds generate more money?

I see how it generates the incentive and the property values, and so forth.

Mr. APPERSON. To answer your question, the area that I was speaking of has 1,400 residents in it. We do rather extensive research before we go into a neighborhood. It had the lowest income patterns, the highest percentage of extremely low incomes, and a very high percentage of elderly. It had all of the characteristics that we were looking for.

There were 457 residences by uniform building code standards that needed to be upgraded. They were considerably below that, but that was the standard we used.

Obviously if there are 1,400 homes in there and 437 substandard ones, there are some that are either not substandard or somebody has the resources to upgrade themselves.

And the activity we created by upgrading some—I think we are about halfway through now about 200 of those homes, the thing that was not surprising entirely but somewhat was that the numbers of people who had resources were enticed into doing that by the people who up to that point had not had the funds to do that.

Mr. PATTERSON. By what sources? Or if you do not know now, could you supply the subcommittee with information from what sources of private investment the people received their private investment.

For example, Did they go to savings and loans, mother-in-law? What approach?

Mr. APPERSON. I suspect out West—we are still westerners—I'm sure a lot of people did it on their own. They borrowed money from banks. There are title I loans. Just conventional-type loans.

Boise is an unusual city in that it has no large industrial payrolls. It has a relatively large number of very low-income people and a rather large number of high income. It has lots of headquarters of large corporations, for example.

Mr. PATTERSON. You don't suffer from redlining?

Mr. APPERSON. Yes; we do. But it is the same thing, except the people that live there are of a little different character. We just don't have large industrial settlements of people.

Mr. WYLIE. Would the gentleman yield?

Mr. PATTERSON. Yes; I would certainly yield.

Mr. WYLIE. Have you had widespread use of the section 312 program?

Mr. APPERSON. Not at all. The first allocation of section 312 money came to us in November of last year, and we are just making initial steps toward making the first loans.

Mr. WYLIE. So, the Federal money that you have used is the block grant program?

Mr. APPERSON. That is right.

Mr. WYLIE. You haven't used any section 8?

Mr. APPERSON. We have used some section 8, a very small number of section 8.

Mr. WYLIE. That is interesting. That brings me, if I may continue for a couple of questions, to a reference you made, Mr. Benitez, to so-called leveraging techniques.

And it was brought to mind by the fact that you said you used some Federal money through the block grant program, through money from the private sector.

Would you explain so that I think I know what you are talking about, so this subcommittee will know what you are talking about and what you mean by the leveraging technique?

Mr. BENITEZ. OK. There are various types of leveraging techniques, one of which is interest subsidy—reducing the interest rate on a loan to an individual so that their monthly payment will be low enough so they can afford it.

In the case of Tampa, what we are using is a municipal lending power, tax-exempt power, to borrow funds from a local lending institution. In our case we are borrowing it at 5½-percent interest, and we loan it at 7-percent interest, the 1½ percent is to assist in covering some of the costs involved in the process and also the collection fees involved—the collection services.

We feel it involves 100-percent leveraging, because the only cost involved, from the point of view of the city itself, is the cost of administration that already exists to handle our other rehabilitation programs.

So, all of the funds that come to us from this program are loaned out and recycled without any commitment from the city other than the fact that should the city fail to repay the funds—which is almost an impossibility—should they fail to repay the funds, the repayment is guaranteed from community development funds of the preceding year.

Mr. WYLIE. Now, is that Federal money or city money?

Mr. BENITEZ. The community development funds, is what we will use to guarantee it. But the funds that we borrow are bank funds. We borrow directly from the bank and we lend directly to individuals, so it is not Federal funds. It is private money.

We just serve as a middleman to reduce the interest, and the actual subsidy cost is the revenue lost in the form of the tax exemption, the revenue lost by the Federal Government in the form of tax exemption.

Mr. WYLIE. I see. That is interesting.

Mr. Hendricks, the section 312 program, we were told by the Secretary and we were told by Secretary Hills earlier, that there are almost no defaults under the section 312 program. Why do you think it does so well, and some of the other programs that have been in trouble, especially the FHA program?

Mr. HENDRICKS. I think perhaps, Mr. Chairman and Mr. Wylie, that the basic reason is that folks who enter into the program are involved because they want to be. That is No. 1.

No. 2, you are dealing essentially with homeowners or folks who would like to be homeowners, and they bring with them a certain characteristic and say that we kind of want to do this. And for those reasons—that is it.

The other part is, the amount of equity that they have in the overall process, even when there is total refinancing involved—essentially there is equity there, and folks have that kind of pride and as a result of that you have a very low default rate.

Mr. WYLIE. You used the magic word there. I just thought maybe somebody who has been in the program and been experienced in it who testified about it here before this subcommittee ought to say that.

I think it is the fact that they have been homeowners and have had homeownership and feel the responsibility of being homeowners and have developed some equity in it. Does that sort of sum it up?

Mr. HENDRICKS. That is it. I might add, Mr. Chairman, on the question of the criteria for selecting areas, there are some other things, some very subjective kinds of things, that you can get in on. We tried to evaluate the amount of public and private investment which may have occurred in an area prior to our coming there. As an example, if it were adjacent to an urban renewal area; if it were adjacent to a new school that was being built; what were the proposed public dollars coming in; or if there had been private investment in an area to try and link to that as a means of maximizing the involvement. So we used that.

The other thing, though, is this whole thing of desire in terms of folks indicating their wanting to be a part of the rehabilitation program.

This is the real key, and I come back to that, that no matter what the programs are and all the rest of that, unless you have a willing constituency in terms of people wanting to be a part of it, you cannot have successful rehabilitation programs. It is just as simple as that. Because this question that Mr. McKinney raised a moment ago regarding increased taxes, that is a real issue. Folks look at that and there are some hard choices that have to be made in terms of doing this, and in some instances, on improvements that you really cannot see—you know, plumbing and electrical—and to tell a person that this is good and you want to do that just to get the code items, it is difficult and he has to feel that sort of thing. So, it is the desire to do it that makes it work.

Mr. WYLIE. I thank you very much for this extraordinary panel and appreciate your testimony.

I think Mr. Shiver wanted to say something.

Mr. SHIVER. I think one of the other elements that is very important—and I think homeownership is the key—is the fact that they also have confidence in the neighborhood. To homeowners, it is more than just a house. Conservation doesn't work, in my judgment, just on a house. It works because the neighborhood is coming back.

Mr. WYLIE. I think that is a factor. They are already there.

Mr. BENITEZ. Mr. Chairman, could I address section 312?

Mr. PATTERSON. Yes.

Mr. BENITEZ. I think one of the very important sections of the section 312 program is the tools involved in it, to control the quality of rehabilitation to assure the longevity of the work.

I think in many of the insured programs that try to address home improvement, there is no control at all of the funds that are distributed on the basis of the owner doing things exactly as they want without any assurance of consumer protection or any assurance that the quality of the work will last any time at all.

And with section 312, the controls inherently built into the program assure the remaining economic life of 35 years, which is equal to almost any new home constructed today. And that major difference means that when you make that investment for 20 years that you have a worthwhile, long-range investment and not something that 2 or 3 years down the line will deteriorate right back to where it was before.

Mr. PATTERSON. We have a vote on now. I am going to continue until Mr. McKinney returns and then let him continue chairing.

Mr. WYLIE. Thank you very much. I am sorry I have to leave.

Mr. PATTERSON. I hope Mr. McKinney returns so my voting record stays at 98 percent.

Mr. Levin, let me address a question or two to you.

I would like to know what percentage of funds that you referred to goes into housing generally of the community development block grant money, and then—if you know, if you can supply that to us. And also, of that that goes in housing, how much goes into rehabilitation of housing in your agency.

Mr. LEVIN. Mr. Chairman, as respects any detailed figures, I will have to supply them; I do not have them with me.

Generally, although we are an entitlement city, because of the fact that some of the funds had to be used to complete urban renewal projects, a relatively small amount of funds was left for distribution for other community development activities. Despite that, and the fact that our community development program is somewhat diffuse and is used for a number of things, I would say that rehabilitation has done well.

In the first place, when the city set up its own rehabilitation program to parallel the section 312 program, this was totally locally funded. The revolving fund was established approximately a quarter of a million dollars in its first year, with the city council inviting us to request additional finds when that is used up.

Now, we were not able to use that money up for the simple reason that it became available at the same time that the section 312 money became available. When a low- or moderate-income person contested us, and they were eligible for either a 6-percent loan or a 3-percent loan, it did not take much to convince them that the 3-percent loan would be in their best interest.

From that experience we began to think about how we could use the block grant money to supplement the basic section 312 program.

In the deferred loan program of which I spoke, we have committed for the first year approximately \$80,000 with \$100,000 committed for the second year. And the homebuyer's assistance program has an allocation of \$150,000. And some of the bloc grant funds are used to pay for the staff services that we have in servicing loan applicants.

The cost of these staff services has run somewhere around \$50,000 or \$60,000 a year.

So there is, I think, a strong commitment.

If I may, Mr. Chairman, I would like to comment on the question of boundaries, as well.

In our own version of the housing rehabilitation services program, which I have left with the staff, we have indicated the criteria on which the designation of neighborhood preservation districts will be based. My comment goes to the question of whether boundaries should be imposed by a planning commission or city council or be self-selected.

In effect, in Madison we go both ways by saying that we will give priority in the use of available rehabilitation funds to areas that are designated by the city council as neighborhood preservation districts, but that we will also use the funds on a citywide basis.

The idea was that we would use the rehabilitation money as a point of departure and, in effect, say to neighborhoods in the city, if you are interested in becoming a neighborhood preservation district, we want you to petition to become one. You will then get priority for the funds. But in addition to that, we will work with you as a group to try to develop an overall neighborhood preservation plan which will then be fed back into the council's budgetmaking process, with the idea that if the council finds the plan acceptable, it will commit additional funds for implementation.

In a sense, it is an incentive approach that would cause areas to select themselves.

Mr. PATTERSON. Mr. McKinney.

Mr. MCKINNEY. Thank you.

It is very seldom that a minority of the minority gets to control anything.

Gentlemen, I apologize for being late this morning, but as the chairman said, I think I am on nine committees in this Congress, and priorities can be difficult at times.

I wanted to go over some basic comments that I caught in your testimony and have any of you say anything you would like to either reaffirm my impressions or to throw them out.

One of the questions which I started to cover with Mr. O'Neill was the situation of tax relief for the holdouts or the low-income homeowner in the neighborhood.

Have any of you put in any circuit breaker programs or programs of this sort to counteract some of the problems?

Mr. APPERSON. Mr. Chairman, Idaho has a property tax exemption for low-income people, and it has been very effective in our program.

Mr. MCKINNEY. How is it operated, on a circuit breaker type? In other words, percentage of income?

Mr. APPERSON. It is percentage of income, and there are some other criteria.

They give—for example, social security recipients get a priority. I am not that familiar with all of the details. And it is progressive on a scale to the extent that if the circumstances are not absolutely terrible, you still get some sort of exemption.

In our particular case that has been very helpful. We are in the process of trying to put together some input into our legislature to

consider some rehabilitation of the tax position for maintenance and upkeep and try to get the assessors to identify it as that as opposed to the kind of improvements that are normally described in increased tax situations. We have not been successful with that yet, but that is the direction we are going in.

Mr. SHIVER. Mr. Chairman, in the State of Virginia, it is unconstitutional, except for the elderly. However, the Virginia Housing Study Commission has been holding a series of hearings on these matters. We have testified concerning both the thing you are talking about, the incentive program. My own feeling is that you should give these incentives or a tax break to people that do rehabilitate, probably based on some sort of incomes criterion.

But I think you should also do something else. I think you should tax property as if it were standard, even if it is not. It doesn't make sense to me to have minimum housing laws, housing codes, and property standards and tax a property on a value below the laws standard. I think you ought to treat it as if it was all standard and tax it accordingly, and then give the breaks to the low-income families, if necessary, to do rehabilitation. And we have so testified.

Mr. MCKINNEY. Here is one of the problems, and I am sure that this type of building is recognizable to all of you. It sits on what is known as a legal alley in the District of Columbia. It is a garage, or was a garage. It's been everything, a body shop, a warehouse, a garage. Now, believe it or not, that building is going to be a house. And all of the people who live next to it, who have hung on with this blight, the rats running in and out, the doors being broken in, the pot parties and probably quite a bit more serious things than pot—these people have lived and put up with that, and the deterioration that covers a whole alley.

Now, about that alley—it is a marvelous thing in this city. First of all, you change it from an alley and you call it a mews. You give it a name—I think this is going to be called Lincoln Park Mews. I have nothing to do with this particular building, but I just know what's going to happen to it. And from its condition, it's not going to be a low-income home. It's going to take quite a bit of work. Its main asset, I guess, is four walls, and it covers ground.

Everyone else in the area, most of them are low-income homeowners, are going to see their taxes raised by a considerable amount under what the District of Columbia calls changing neighborhood price cost or value—changing neighborhood values. It is a great catch-all term.

I have a real problem with this approach. How do we rehabilitate the city if on the one hand we are rehabilitating the terrible blight in this building, and then on the other hand we are saying that those people who have stayed on in the neighborhood, are going to be taxed right out the front door.

I see this as one of the many negatives that we force on ourselves. We say we are going to try to help the low- and moderate-income people, and yet those people who have been helping themselves are going to be kicked right out the door when we help the others.

I am very interested in your plan, and I will ask the staff to see how your State does it; because I must admit, selfishly, I would like to see how it could be experimented within this city.

Mr. SHIVER. Mr. McKinney, just as an interest, are these families not entitled to relocation benefits in the project area?

Mr. MCKINNEY. Well, they would be, except they don't want to be. They have hung on through the heroin addicts, the robberies, the muggings, the broken street lights, the garbage collection stopping, and everything else. Suddenly the neighborhood gets a shot of regeneration from somebody who has more political clout within the District Government—I think that is a safe and polite way to put it—and the garbage starts to get picked up, the streetlights start to get fixed, the values go up, and those who have stayed on finally have a better day—they can walk out their front door after 9 o'clock at night—and find their taxes increased by 50 and 75 percent for the same house that they have been hanging onto, under that term, “changing neighborhood values.”

Mr. HENDRICKS. Mr. Chairman, I think you have really focused on a real problem in terms of encouraging the rehabilitation to take place. One of the first objections that you run into, as you are discussing rehabilitation of an area is, are my taxes going up? And you have to get around that.

But it is tough.

If you have, basically, an area that is capable of being rehabilitated, the counterargument can be, yes, they will go up; however, the increased value will accrue to you, and if you ever get to that point of selling, you might be able to get it out—that kind of thing.

Now, that works with some people.

I can remember for quite some time discussions about, speaking to solutions now—and I know very few that have done it—but providing the credit for the rehabilitation or the amount of improvement. It works just the opposite. Folks get taxed when they do it, and perhaps it should be reversed, where folks that are making the improvements should get the credit, and starting from that point of view.

But this has been talked about and talked about, but it seems never to happen. And I don't know really why it doesn't happen. And I am sure that municipalities throughout, in trying to assess what it means to their own taxing situation, and the cash flow associated with that, is whether or not they feel they can do that kind of thing. So you are going to have relief on the one hand, or a deferred situation short of that, or a reverse situation in terms of giving credit to individuals who go about the business of rehabilitating.

But it is difficult to get at. It is a very hard negative that you face when you go into these areas to try and get the thing focused.

Mr. MCKINNEY. We have a continuing worry in this city. It is called black removal. It is a very large political issue, and in trying to take street-by-street cases, I find black, low-income homeowners' removal is not caused so much by rehabilitation as by the city tax department.

For example, if the house is going to be worth \$30,000 more when it is sold, defer the tax increase until the time of sale, or put in a circuit-breaker clause that in a designated rehabilitation neighborhood a low-income family should not have to pay more than x percentage of their income. This is an automatic kicker that the city, in effect, is subsidizing.

It is more difficult here in the District because we don't have any State to look to for some kind of benefit program on top of it.

I have one other question.

I represent, as I said before, three older industrial cities, the real grinder being Bridgeport, Conn.: 98 percent built out, 16 square miles, an industrially based community with a minority population in excess of 30 percent.

One of the things that you all alluded to in your testimony as you went along is what I guess I could call flexibility. It is one of the reasons why I brought up the subject of changing the name of the program to "neighborhood."

First of all, I can't find any similarity in any one of my three cities. They are all as different as they possibly could be. What works in Bridgeport won't work in Stamford, and that would not work in Norwalk.

Second, I don't find any neighborhoods. We are just going ahead with an experiment in my city on bonded housing.

There are two ways to do it: tear it down, or co-op, or condominiumize it. We are going to try the latter. But what value is that to the neighborhood, what value is that going to be for us if we don't rehabilitate the neighborhood? We can spend all the money we want on Marina Village, but if we don't do the absentee-owned homes, plus the low-income-owned homes, plus the get-rid-of-these buildings which are everywhere in that neighborhood, we are not going to have a very long life proposal for our cooperative or our condominium. I would just like any specific comments. I am sure it is the same in any city in America.

First of all, do any of you ever have any success in rehabbing what basically are rental units, rental property?

Mr. SHIVER. We have had very good success in the rehabilitation of rental property. The most successful we have is an area known as Ghent. Everybody thinks it is a 100-percent homeownership; the truth of the matter is, it's about 50 percent. It looks as if it is. But about 50 percent of the units really are rental units in the area.

We had difficulty initially with the rental units. The homeowners went first. They were the most cooperative. But we are about 95 percent rehabilitated in the project area, including the rental units, there.

Two things have helped us tremendously. One, of course, is the section 312 and our local loan program. We use our local loan program a lot more than we have the section 312 in the investment property.

Second, though, I think the thing that has helped us is the occupancy permit, where we have an implied certificate of occupancy which says, before you can sell a unit or rent a unit it must be brought up to standard. At that point we were getting those properties rehabilitated very fast.

Mr. MCKINNEY. So that answers one problem in this neighborhood, which is the complexity of all the different aspects.

Another problem I find is that in a neighborhood where you have a Marina Village that has deteriorated so badly, all support services have deteriorated. I just happen to have a group of, thank God, very modern bankers who, believe it or not, have made an incredible effort to build, finance, grant, and even give some money to small community stores so that the neighborhood will have a washer-dryer area, a grocery area, a drug area, and so on.

I guess what I am really saying to you gentlemen is, you are the ones that sit out there frustrated, like I used to be; you tackle housing

development A, and you can't do a thing about what is around it; or you rehabilitate this but you can't do anything about the plant. I applaud the Secretary's action grant program because I feel that perhaps it will prove to be very helpful—but let's not kid ourselves, it's only a start. It is only \$400 million, and it is only going to go to certain specific cities.

What would you like to see as the optimum tool for you to operate on any specific neighborhood?

I will let you all just fire away and I will keep quiet.

Mr. HENDRICKS. I would like to enlist, first of all, Christ and 12 of the Disciples—no, I think that you raise obviously a very serious problem in terms of recognizing that communities are complex units, having a multiplicity of elements that make them what they are.

Mr. MCKINNEY. I just want you to define one word, let us say neighborhoods, because we think of communities as being diverse, and we forget that neighborhoods can be very diverse, too.

Mr. HENDRICKS. Well, in my written comments, there is one specific point—one of the problems we have had is the lack of funds for commercial rehabilitation in designated rehabilitation areas.

This is a problem. The mom-and-pop stores, others who are in there—we tried utilizing the Small Business Administration, the section 502 item, and it just didn't quite work out.

As a result of that, we find that we will have 95 percent or even in some cases 98 percent completion in terms of residential rehabilitation and have on the various corners scattered throughout, small shops, laundromats, and what have you, that are still in a very dilapidated state of repair.

It makes it very difficult to address that. We had, even within our community development block grant which was strictly new construction and major rehabilitation in downtown, a major mall situation. And as I look back on it now, I think we were able to secure essentially two SBA loans for a total of six blocks of commercial strip.

It makes it very difficult to do that, and I feel very confident that the results and the strategies that we would have used would have been totally different in Fresno, had we been able to utilize some commercial rehabilitation loan money before a lot of these things reach a point of deterioration.

I would just make one other comment in terms of the combination of the dollars in getting at a lot of these deals, and speaking to a question that was raised, I think someone mentioned that the folks yesterday had commented on the desire to pull out section 312 or combine it with the community development moneys.

Under this dual formula situation, Fresno is going to drop, I think, from a little over \$8.9 million in fiscal year 1980 down to \$3.8 million, and that is our allocation. We are one of the few that are really taking a kicking on this thing, and if you were to eliminate, as an example, or combine section 312 in there and have the community development as the only source, you can see right away we would be dead in the water.

You have to have the separate kinds of tools, we think, the financing tools, to get at this thing.

In addition to that, we would make the comment here that we believe—and it gets kind of on this question that Chairman Patterson

alluded to about the age of housing stock. You know, we understand one, the difficulty that folks had in establishing the criteria on the one hand; on the other hand, we recognize what that would do to cities such as our own and what this has meant to us.

You know, our option now is to remain with the existing formula, and then, even on that, we are coming out in real bad shape. One, we have to have a priority on the urban development action moneys; we have to have a priority on the discretionary moneys or any other funds that are available otherwise in terms of our ability to continue on and to do these things. We think performance should be a factor in here as well. We think we have a good track record that should be factored into these considerations; otherwise, we are going to find ourselves in a very difficult position to go about doing any community development.

Mr. APPERSON. I would like to say one thing. We had a situation where there were some unused section 8 allocations in our area, and the proposal from HUD was to take those allocations and recycle them to the States, and the thing they were going to do was break those allocations down and make very small landlords eligible, even single families.

The program, I am sure, would have worked for landlord-owned, tenant situations. The reason it does is because it eliminates the large problem, that is that you have no way of guaranteeing, if you use our type funds for those kinds of projects, that the elderly or the very low income will be the ultimate tenant.

Section 8 takes care of that, and I think it makes an enormous contribution. The allocations were taken away, so we were not able to use them. But if we had the small State allocations, then we could solve the problem in the area I was mentioning before.

Mr. LEVIN. Mr. Chairman, I don't know if I will be able to do an adequate job with this, but the question that was raised is identical to one that we were discussing in Madison the other day. I am talking about a strategy that could be applied in a heterogenous neighborhood, where everyone was different, where you have the multiple-family building, the single-family homeowner, poor people, people who were not poor, small shops, and so forth. How do you apply an overall program in an area like that?

The answer that we finally came up with is that we should have what might be called a "cafeteria" approach.

This, I think, is really what we are talking about when we say flexibility. There should be a number of different kinds of tools available and we should be able to apply them as the situation warrants.

We have got to be able to think in terms where for a particular type of situation we can use a specific tool, but are also able to use different tools for different situations.

The fact that the different situations are proximate, that they are in the same neighborhood, should not mean that we are going to say, well, we only use section 312 funds here and deferred payment loan funds there. In effect we should bring all available mechanisms to bear in that area.

Now, how do we do that without locking ourselves into the old kind of static planning that we had? I am referring to the redevelopment experience from 20 years ago, when life was simpler or so we thought.

We had a plan. The plan said clear everything away and put something new in its place. And we locked that plan in by recording it, and doing all the ritual kinds of things spelled out in the negotiations.

The problem is that in the 15 or 20 years that it took to carry out that plan, we, literally, had a different community, a different context.

The plan, conversely, was really locked in. To change it we had to go back and trace all of our footsteps.

From this experience came the idea of using a more flexible kind of planning, not as something that preceded the carving out of activities but as something that went on concurrently with execution, so that planning and execution could relate better to each other.

What that really means is, we develop a number of tools, broadly, and then through use, refine them. We may discard some; we may try others; we may decide tentative need to have more emphasis on one than on another.

The neighborhood itself will tell us that by how they react.

And then, finally, we came to something that I suppose could be considered a very radical strategy. What we said was, we can go to the neighborhoods and in effect we can say to them, you do some planning; we will be able to tell you what we think we can do, what we can't do, in a very upfront way; some things you may tell us that we may be able to do but we really don't know that we can now. But you give us the ideas; we don't have a monopoly on them. And by putting it all together we will come back with some kind of basic policy. If this is agreeable then implementation can be worked out. And this, I guess, is what I've referred to as a cafeteria approach. I prefer to call it flexible planning, with flexibility not being defined as the absence of a plan, but a different way of approaching a plan.

Mr. PATTERSON. Mr. Levin, we have about 15 minutes left in this hearing, and I have about 55 questions myself. I know my colleague has some. Let me—if someone wants to wrap this up and make a couple of points, fine.

I would like to ask some questions, and if we can get quick answers today, ask you to do so. And if you feel a longer statement is necessary, we will leave the record open for you to submit something in writing, but we will recess at 5 minutes to 1, so if there is anyone who wanted to comment? Mr. Shiver?

Mr. SHIVER. Mr. Chairman, if it would not be out of order, I would like to make a quick comment on the age of housing stock that was raised earlier.

I have to speak for Norfolk, Va. In Norfolk, we have done a pretty good job of tearing down old structures, about 11,000 of them; and we've done a pretty good job of rebuilding. We built about 9,000, mainly 235, 236 public housing and so forth.

I feel this concept of the age of housing stock—in Norfolk—is going to penalize us in two ways. Not only is the age of housing stock going down because we tore units down, but second we built new units. And that didn't help us either. So we are being penalized for a good job, as it seems to us.

Now, I can understand the needs, and I know that hold harmless can't last forever. I understand that. But I do know one other thing—mediocrity is not the name of the game either.

In Norfolk, we made an effort to do the right thing and to try to solve our problems. And to stop now is wrong, and with the amount of money we are going to get, as I understand it, with the new formulas, we can't do that job. And that is just mediocrity, and our city does not deserve that.

Mr. BENITEZ. I would like to address the statements made by Mr. McKinney regarding how one program would help us, and in stating that no one program will ever do the job—and I think Mr. Levin has emphasized that very well.

But right now the worst neighborhoods or the ones that need the most help are the ones that we can't do anything for. We have to use triage to determine what neighborhoods we can address with the tools that are available.

And I think that a program or a total concept that includes not just rehabilitation but acquisition, new construction, demolition, redevelopment, public improvements, all tied in—not just eliminate one portion and say, well, new construction for instance is going to be handled with insured loans from another pot, but you can't do that with community development. You limit yourself immediately with that concept.

And I think that whatever is developed in the future will have to address every problem or attempt to address every problem and be flexible enough to do so if we're going to do any good in the neighborhoods.

Mr. PATTERSON. Let me try to get some questions that might have short answers, and if not, maybe I'll get them on the record so we can get some response.

Mr. Levin, you referred in your testimony to combining the community development block grant with section 8 so that young families could get into that kind of program without raising the rents, I think is my recollection. I'm wondering why you can't, as a local community, under just the section 8 program, require as a condition of your agency in executing a long-term lease with the landlord require the rehabilitation and save that CDBG money for something else?

Mr. LEVIN. Well, Mr. Chairman, I can give you a short answer to that one. That landlord will say, no, thank you, I don't need the hassle; I can rent the unit to someone else. And in a tight housing market situation like we have in Madison, that's it.

The other side of that is, where we have the land——

Mr. PATTERSON. You don't have old housing?

Mr. LEVIN. We have old housing.

Mr. PATTERSON. But you have so many people wanting it?

Mr. LEVIN. Particularly in our downtown area. We have a large major university, the University of Wisconsin, with 38,000 students. It impacts heavily on a community that has a total population of 175,000, and what that does to the downtown housing market——

Mr. PATTERSON. I understand now. Let me ask you the second part of this question—and Mr. Hendricks might want to comment on this, too—why can't you then as a local agency put in the code enforcement?

In other words, if the housing stock is there but you are saving there are so many people willing to rent it, why not start a code

enforcement program to lay it on the landlords, if you'll excuse that expression?

Mr. LEVIN. If I may, Mr. Chairman, there is a strong effort to have code enforcement. And I think we are doing much more of that than had been done in the past.

The problem, seen from a standpoint of both the owner of the unit and the tenants, is that if, indeed, the code is enforced rigidly and the improvements are made, there is a cost that goes with them. And that landlord is going to recover those costs and he is going to raise the rent.

Mr. PATTERSON. Then put him under section 8, give him the alternative.

Mr. LEVIN. That's exactly what we want to do. Now, the problem with that, where we are dealing with the nonprofessional landlord—the person who really wants to cooperate—and we have many indications of this—we say to them, we will make you the loan, and they say fine. Then we say but now you will have to apply to HUD for a section 8 agreement to enter into a housing assistance payments contract and then a contract and you're going to have to give us a management plan and all these things.

And the person says, look, I pay my bills at the kitchen table every month; I can't bother with all of that.

What we were trying to set up was, we would package all HUD material for the owner, who continues to do the management and the maintenance that he had always done, and we would take care of the eligibility determinations and the packaging to HUD and so forth, and in the process make the owner a low-interest loan.

And so far, there is receptivity at that end. It is at the other (HUD) end—we don't presently have the authority to do that. And we have asked for this authority.

In effect we are saying we would take this burden from HUD in much the same way that Jack Shiver talked about, self-approval for 312 loans.

Mr. PATTERSON. You don't have that authority now, under the law?

Mr. LEVIN. No. The substantial rehabilitation program, as related to section 8, is designed for the older, large-scale apartment project, not for the small rental unit owner.

Mr. HENDRICKS. I was going to say, Mr. Chairman, in relationship to this section 8, for some of our problems, we were allocated some 365 units this year. The net effect of that is we get zero.

One, HUD, in converting section 23's to section 8's took a portion, two, in terms of foreclosures on another project, they took some more, and on one project they funded one Salvation Army which had been a set-aside section 202, and the net effect is that the city of Fresno has zero units for this upcoming year.

So that is the other side of that, in terms of wanting to deal with that. We don't even have any capacity at this point.

Mr. PATTERSON. Hopefully, that will be much improved. But if there are others that want to submit something, we would appreciate it.

Let me address the coinsurance. I think Mr. Hendricks and any others that referred to more involvement of the S. & L.'s and other private lenders in neighborhood rehabilitation—I think you may have

referred to this in the context of redlining—I am not sure. But I am wondering if, really, at the heart of what you are talking about isn't the coinsurance program for leverage and getting more people into housing.

Does anyone want to comment on the coinsurance question?

Mr. HENDRICKS. What I am saying, Mr. Chairman, by that is that I don't think there is any doubt—there should not be any real doubt as to the effectiveness and the quality of the section 312 program in terms of what it has been able to do, the low default rate, and all the rest of that. And the accepted standards—the builders like it, the lenders like it, the whole business.

What I am saying, though, is that there are times where it is not the most effective delivery system to get at this comprehensive problem that we are all facing; that it should be applied in limited situations where it is the best tool to apply.

And what I am saying further is that in terms of financing—and that is really the thrust of what we are talking about here—that I don't really believe we will have gotten to the core of this problem until we posture the savings and loans or the lending institutions to be the major sources for financing rehabilitation, conservation, and preservation. And you do that in getting around some of the opposition, on the one hand, in very clearly defined areas, there is no problem. They will go on. It becomes a question of risk and risk analysis, what they feel they can do, what they feel their relationships and obligations are to their shareholders, to their lenders, as well as to the regulatory bodies. They say we can't do that, we can't meet this thing you are asking us to do; we would like to do it but we can't.

Mr. PATTERSON. Because of the risks?

Mr. HENDRICKS. Because of the risks.

So we are saying now, in terms of getting at that, to obviate that objection, that the coinsurance or shared risk kind of mechanism, goes a long way toward getting around that and getting them into the business. And I think we start on one extreme with a highly leveraged program to one that is not leveraged at all, which is a direct kind of deal to me. The more you can leverage it, the better off you are, the more money is available.

A lot of the objections raised in terms of how you go about doing rehabilitation would be eliminated if you had sufficient funds to get at them. And that is the problem. We want to get more dollars out there to be balanced against a series of tools which would range from rehabilitation, special loan programs at the local level, as well as the direct private kind of moneys where we blend this thing together with the public and private sources, and that is what I really believe to be the ultimate solution to this thing.

Mr. PATTERSON. I agree with you. I think the ultimate answer is, we have got to get some private lenders involved more and more into the housing, and we have got to, instead of direct funding, I think as you referred to it, we have got to get into this other kind of programs like coinsurance; because housing Americans is becoming increasingly more difficult, whether you are low or middle income or whatever area. Fifteen percent of the American families who don't already own a home can buy their first home. The other 85 percent cannot afford to

buy their first home. And unless we address it, the Government cannot meet the 85-percent demand without the private lenders getting involved and participating rather heavily in this. And this is, I think, the crux of it.

It's an important point that strikes home to me, anyhow.

Mr. SHRIVER. Mr. Chairman, we have used the coinsurance program using the community development block grants. We had a range on that insurance as far as the leveraging concept up to 20 percent insured. The loan is 5 to 1. We had it down to zero, also.

But I think it is an answer, and I think it is very much needed.

I think it does another thing, too. You spoke of redlining. I mentioned earlier in the testimony, I think it gives institutions new confidence in that neighborhood, and they will go out and make other loans on their own sooner than they would have—at least that has been our experience.

We do need coinsurance very badly for this program today, I believe. I think there also has been some legislation or some ideas establish something like an "urban incentive fund" or "rehabilitation incentive fund." I think that could be looked at as a coinsurance program and could be very helpful, also, in the future.

Mr. LEVIN. Mr. Chairman, if I may comment, in a way it is coinsurance, although technically not so. The homebuyers' assistance program of which I spoke; when we discussed it with the local savings and loan institutions in Madison, they liked the program because—well basically, what it did was, if they were opposed of accomplishment of the rehabilitation of that house being purchased, if then the loan that they were making had a stronger security behind it, particularly since we were willing to take a second mortgage position. And so they were generally favorably disposed toward that.

Two problems that we ran into; one I addressed in my prepared remarks, the fact that we had some difference of opinion with HUD about whether or not making that kind of loan to help in the purchase of the house, as well as in the rehabilitation, was an eligible block grant cost; the other problem, which the savings and loan people pointed out to us, is that they have to base their loans on the value of the house as it is today, and we are talking about having them make their loans on the total cost of the package—acquisition and rehabilitation and, in effect, having to assure that the rehabilitation would be accomplished in order to have that stronger security. Once we got to that point, then they would really have a very good loan-to-value ratio in their loan.

Mr. PATTERSON. Mr. McKinney.

Mr. MCKINNEY. That's an interesting point that you just covered, the gap between what they see and what they are going to get.

One of the proposals I have made to the city council is that the city set up a guaranteed program to cover that gap, at which time the bank then comes in with the full mortgage on the completed project.

The only problem in Washington is, they have no money.

Mr. HENDRICKS. Another problem with that, too, is the question of delinquencies. That is a problem of some programs. I think the city of Oakland, as an example, had a guarantee program, and one of the problems you run into there is not the question of whether or not you will ultimately get the money but the slowness of folks paying it,

ranging as much as 12 to 15 percent of the total portfolio, and as a result of that, the operating costs, the servicing costs, the rest of it—and, so, you would almost have to combine this with the basic loan amount as well as the ability to handle this question of delinquencies.

Mr. MCKINNEY. I just had two very brief questions, Mr. Chairman.

What would you gentlemen think of a Federal income tax credit—and I have to underline the word “credit,” because deduction doesn’t help the poor—for rehabilitation above a basic level in certain designated areas of a city?

In other words, the mayor would designate an area and rehabilitation over a level is then certified. These people would be eligible for a credit on their Federal tax to help them with their real estate tax problem and with other financing problems.

Mr. SHIVER. I would think it would be excellent for middle and upper income families. I don’t see a great deal of help to lower income families, although I may be wrong.

Mr. MCKINNEY. Except that a credit is considered a direct payment. So if you were in a nontax bracket at all, say you had a \$300 credit, you would get a \$300 check.

Mr. SHIVER. Then I would see it as a great incentive.

Mr. PATTERSON. A \$300 check even if you haven’t paid any taxes?

Mr. MCKINNEY. Yes; because you would just file and you would have the credit and you would be eligible. You wouldn’t have been eligible to pay any tax; you would just receive the check. It does happen.

Mr. SHIVER. I think that the credit concept is one that certainly should be examined.

I especially think that should be examined in relationship to energy and energy savings.

And rehabilitation. I am talking about energy and rehabilitation at the same time.

Mr. MCKINNEY. Well, in this project in Bridgeport, which I was talking about where we are trying to condominiumize or co-op, we found out to our great interest that there is no Federal program that would allow us to make solar heating an intricate assist program in this project. The utility costs, in New England, at least, are the greatest failing point of public housing. But I hope we can change that, also.

The last question I want to ask is just a brief one.

It has been mentioned—last year, this year, at all of these hearings that I have participated in—and it was mentioned by NEPA, the environmental concerns; that in our cities we ought to have a separate standard of environmental concerns or categories or standards for our inner cities under the theory that, No. 1, they are too difficult and too complicated and No. 2, that almost anything we do in some cities is going to be an environmental improvement.

I wonder if you gentleman had any problem with environmental slowdown or concern or stoppage or anything else on the projects you worked with.

Mr. HENDRICKS. Not in terms of the substance as much as the slowing of the process.

Mr. MCKINNEY. I think this is probably the problem with our Chicagos, New Yorks, Detroit, and so on, and not so much with the medium-size cities.

I want to thank you gentleman. I have a great admiration for anyone that deals with housing on the local level. It is the most frustrating job in the world. But at least I can say one thing to you: There is nothing nicer than driving by and saying, by damn, you changed it. My wife always says, "Why do you fiddle around with housing?" And I say, "Because they are going to be here long after I am gone, and I put my mark on them."

I ran for mayor in my first political campaign, and the mayor is now my very best friend, and he is still there. The night I lost we were at a friend's, and I was very upset about losing. He came up to me and said, "Stewart, the best thing that ever happened to you is that you lost this election. Nobody can run these damn cities." [Laughter.]

Mr. PATTERSON. Let me ask a question of the entire panel, and I think I will ask maybe Mr. Apperson to lead off with a response.

We hear over and over again in testimony that builders don't want to do rehabilitation, because it is so much easier to go out to the suburbs where land is more available and the profit potential is higher, that they, the builders are involved in new developments, the new tracts, and that's where the profit is and that's where the money is. That is understandable.

On the other hand, the need for rehabilitation of existing stock is one of the most pervasive problems, as we have been discussing all morning.

Now, I am asking the question: Are there really builders out there that do rehabilitation construction? Or do you have any suggestions of how to encourage that in the building industry?

Mr. APPERSON. I have a fantastic suggestion, as a matter of fact, that I just stole from a meeting in Portland. It is called emergency housing. It employs the idea of using high school students selected from vocational training, paying them out of CETA funds and training them under our supervision, and we have the expertise to do that. We could use those individuals on very low-income properties.

So what you do is you take a young man out of a high school class that has not got the mustard academically and wants to go into the building trades and also desperately needs the income, and you put him to work on one of our rehabilitation programs under a supervisor and under my people who additionally supervise, and you train him for 1 year or so, and then you have manufactured your candidate as a building contractor.

This idea has already been employed in Portland, and I am beginning it right now, and it has the strong endorsement of everybody; that is the beautiful part of it.

Mr. PATTERSON. How about the building trades?

Mr. APPERSON. The building trades think it is the greatest thing that ever happened.

It is an initial step before somebody makes the decision to go into an apprenticeship program. That is why the unions endorse it—they are the AGC—because they have need of people that can make a legitimate decision to enter those trades. They have no background for making that sort of a decision, and this program would provide them with people who have had enough experience to make such a decision.

And the incidental benefits, of course, are it sharply reduces some of the costs in the programs, and it makes a very good use of the CETA program, and it makes everybody happy. In fact, it's the brightest spot in our program right now.

Mr. PATTERSON. That sounds very innovative. I think it may in a back-door way suggest that builders aren't in rehabilitation, and the construction trades aren't even concerned about it. It is kind of a sad commentary on their participation in this effort. But it is a delightful concept, and I hope it works well, not only in your area but so that others can use it, too.

Mr. SHRIVER. Mr. Patterson, I have a paper that I will submit to you. Not to belabor it, but it has to do with the certificate of occupancy concept, and basically it is like a car inspection. What you really need to do is build a rehab industry. We don't have one. And I think there is a way to do that, and I will submit you a paper on it, if that is satisfactory.

Mr. PATTERSON. That will be satisfactory.

And without objection, because there is no one to object, we will add that to the record.

[The paper referred to by Mr. Shriver is retained in the subcommittee file.]

Mr. HENDRICKS. Mr. Chairman, I would like to comment on the point, in our community we have tried to toy around with that, and a very simple thing of just housepainting. And the unions would not allow for that. And I submit that in our particular community where we have unemployed carpenters going anywhere from 18 to 20 percent, there is no way that unions would allow for that kind of a tactic to occur.

One of the reasons we have not been able to generate a legitimate pool of contractors, I think, is because of the on-again, off-again nature of the funding in the program. And you have to assemble sufficient enough units in order to make it attractive for folks to want to go into the business to do it. You can't do that when you start off in an area and find out that your funding is gone, and expect to get any legitimate pooling of these people. When you are able to define the area, guarantee the funding, it is then more simple to attract folks, because you have a degree of certainty that the work is going to be there. Until we can get to that point, you are not going to be able to develop this kind of skill bank.

Mr. PATTERSON. Mr. Benitez?

Mr. BENITEZ. Yes, Mr. Patterson.

In Tampa we have found that the small contractors are very interested in rehabilitation, and we have been able to maintain a relatively large and active contractor's list. However, these are small contractors who, while licensed and bonded, operate out of their homes, and as a matter of fact, 80 percent of our contractor's lists are minority contractors. Many of them have been with us since 1968, since the inception of the rehabilitation program. We have not encountered a major problem with that.

Mr. PATTERSON. Thank you.

I wasn't going to have another question, but Mr. Hendricks, I think, referred to displacement in the rehabilitation program. You know, that's the first time I have heard that, and I don't think it is

generally understood. Where most of us feel that we understand displacement when you level an area and move everyone out, we don't. And that, of course, involves displacement relocation. In the area of rehabilitation you just kind of think of moving to one of the other rooms while you rehabilitate that.

Could you, if so, very quickly—if not, if you could for the record and any other members—give the subcommittee an indication of actually how much displacement occurs in rehabilitation of housing?

And I ask that of Mr. Hendricks, since he raised it, and others, if you would submit it in writing.

Mr. HENDRICKS. I would be glad to do that.

[At the time the hearing went to press no response was received from Mr. Hendricks.]

Mr. PATTERSON. I want to genuinely, on behalf of the subcommittee—and those members absent missed a very fine hearing which they will have to now read rather than participate in—but it has been enlightening for me, and I have enjoyed every minute of it.

Thank you for spending your morning and part of the afternoon with us here at the Subcommittee on Housing and Community Development, and thank you for participating.

The subcommittee stands in recess until 1:30.

[Whereupon, at 1:05 p.m., the subcommittee recessed for lunch.]

AFTERNOON SESSION

Mr. PATTERSON. The Subcommittee on Housing and Community Development will come to order. And at this time we are privileged to continue our morning hearings with Mr. John L. LaCroix, staff attorney for the national economic development law project, Earl Warren Legal Institute, Berkeley, Calif.

I understand that means you are with the University of California School of Law.

STATEMENT OF JOHN L. LACROIX, STAFF ATTORNEY, NATIONAL ECONOMIC DEVELOPMENT LAW PROJECT, EARL WARREN LEGAL INSTITUTE, BERKELEY, CALIF.

Mr. LACROIX. Thank you, Mr. Chairman.

I am also a pinch-hitter today. Our director is suffering from the flu and could not make it, so I am going to read his statement into the record.

I have also submitted a study which we did on the block grant program as it applies to special impact areas. Your staff has that, and I would like to request that that be incorporated into the record.

Mr. PATTERSON. Let me just identify it here. Is that it, "Coordinating CDC and block grant programs: An evaluation of 1975 and 1976."

Mr. LACROIX. Yes.

Mr. PATTERSON. Alright. Without objection, so ordered.

Mr. LACROIX. Mr. Chairman, I want to thank you and the subcommittee staff for the opportunity to testify today with respect to that part of the community development block grant program which calls

for a new and more vigorous development approach to the revitalization of local neighborhoods in our Nation's inner cities.

For the past 10 years the law project has worked, nationally, in the field of economic development, with special emphasis on the very neighborhoods which title I of the Housing and Community Development Act of 1974 covers.

In pursuit of our tasks we have worked with several Federal departments and agencies.

In addition, we have worked with State and local governments in initiating economic development legislation and in establishing operational programs.

We have examined various substantive approaches and designed alternative legal structures; we have studied diverse sources of financing; we have been involved in business, corporate and commercial transactions; we have studied numerous issues involving tax exemptions and security offerings; and we have provided comprehensive planning assistance with respect to operational economic development programs.

As I understand it, the primary purpose of the request for increased funding is to demonstrate a dramatic commitment by the administration to reverse the prolonged conditions of economic deterioration which exist in our inner cities.

The purpose of the urban development action programs, therefore, would be to develop and implement a strategy of comprehensive economic development; one which is geared to: the attraction of capital resources; the rehabilitation of housing; the reversal of the condition of chronic unemployment; and the revitalization and redevelopment of the business and commercial sectors of our inner cities.

Obviously no one can oppose such laudable goals; but goals are abstracts, while means and delivery systems are concrete.

It is indeed curious that given the multitude of mistakes and the failure of past experiences that a more carefully designed programmatic effort is not spelled out.

We believe that it is the solemn responsibility of this subcommittee and Congress to statutorily require and/or recommend a flexible strategy that works.

If not, I can only suggest that 4 years from now we might well be sitting around a room offering testimony for still yet another program that might well go the way of "public housing," "urban renewal," "model cities," and "rent subsidies."

Professionals and legislators may be able to afford the luxury of doing business in this fashion, but the people who live and work in the neighborhoods to be served cannot and should not be forced to endure yet another round of goals, rhetoric, false hopes and dashed expectations.

They must deal with the reality of everyday suffering and deprivation.

Let us begin the process of zero-based budgeting by honestly and openly confronting the issue of zero-based rhetoric.

Obviously this is an extremely complex field. We have found that there is no simple answer to the development process and the balancing of economic and social growth that is imperative to the life of your Nation's urban centers.

However, the experience of the last 10 years has taught us that certain strategies have a greater potential than others; and that certain institutional mechanisms have greater potential than others.

On the basis of our experience we are convinced that it is absolutely imperative that any institutional economic development strategy must concern itself with two critical and basic factors—that of public accountability and that of local incentive.

It is with this in mind that we welcome this opportunity to share our experience in an effort to more fully achieve the objectives of the block grant program.

First, let us look at the statutory requirements. The Housing and Community Development Act of 1974 sets forth as its primary purpose:

The development of viable urban communities, by providing decent housing and a suitable living environment and expands economic opportunities, principally for persons of low and moderate income.

This statement of purpose represented a major departure from the Housing and Urban Development Act of 1968, which has as its primary objective the provision of: "A decent home and a suitable living environment for every American family."

For the first time in 1974, Congress clearly tied economic opportunities with housing and other community development activities, and clearly intended that these community development programs were to principally benefit low- and moderate-income persons.

In the same year that the block grant legislation was enacted, Congress approved a second community development bill—the Head Start, Economic Opportunity, and Community Partnership Act of 1974, referred to as the Community Services Act.

Title VII of this act authorizes funding for community development programs in designated special impact areas. Special impact areas are areas that contain some of the Nation's poorest peoples, and we will explain further how title VII originated.

The purpose of title VII is to encourage the development of special programs by which the residents of urban and rural low-income areas may improve the quality of their economic and social participation in community life, thus contributing to the elimination of poverty and the establishment of permanent economic and social benefits.

In 1974, Congress addressed the need for a comprehensive coordinated approach to community development. Both title I of the Housing and Community Development Act and title VII of the Community Services Act mandate consultation and coordination of activities with other federally assisted community development programs.

Section 114 of title I states that:

In carrying out the provisions of this title including the issuance of regulations, the Secretary shall consult with other federal departments and agencies administering Federal grant-in-aid programs.

In turn, section 748 of title VII directs the Secretary of HUD to take "all necessary steps to assist community development corporations and local cooperative associations" in their participation in HUD programs, including title I of the Housing and Community Development Act.

As we move into the third year of the block grant program, it would be useful to review a recently completed study, which you have and which is attached to the statement.

Let us review the crucial substantive issues. In the past 10 years a good deal of attention has been focused on economic development, capital investment, and commercial revitalization.

Two approaches have gained recognition: "Minority entrepreneurship" and local "community-based economic development."

Both of these critical programs were established and designed to improve the economic and social well-being of minority and low-income citizens as well as attacking the problem of chronic unemployment.

Yet it is crucial to distinguish and outline the basic differences between these two separate, though not mutually exclusive, approaches.

At one end of the spectrum are minority entrepreneurship programs which were established by the Nixon administration and were exclusively dependent upon the Office of Minority Business Enterprise and the Small Business Administration.

The underlying thesis was based on the premise that the success of a few minority people will open up opportunities for others. Former Secretary of Commerce, Maurice Stans, had often referred to the need to create some black millionaires for this purpose.

The local "community-based economic development" program—on the other hand—was conceived of by the late Senator Robert Kennedy, cosponsored with Senator Jacob Javits, passed by a Democratic Congress, and enacted by a Democratic President.

It evolved from antipoverty efforts and is concerned with a broader population and a wider group of activities which included: Capital formation, the development of housing, health and public facilities, job development, private business, industrial development, credit unions, and consumer and rural co-ops.

Community economic development, a self-help approach, concentrates on the development of local financial institutions allowing low-income and minority groups to pool their resources and talents to create jobs, income, and managerial and ownership opportunities for themselves.

It is an attempt to use traditional business methods and organization to provide economic and social benefits through comprehensive and institutional developmental projects.

It seeks to provide incentives for long-term investment by the private business and banking sectors, primarily capital sources.

In the past several years it has become clear that the problem with the "minority entrepreneurship" approach is that it is concentrated on "mom and pop" stores and is therefore subject to high failure rates.

More importantly, it does little for the disadvantaged. Individual entrepreneurs are usually not poor people. Small ghetto businesses cannot afford the financial burdens of hiring and training the unemployed.

Moreover, a program of individual aid to small businesses does not permit the kind of overall developmental planning that is absolutely essential to the economic betterment of an impoverished community, nor does it establish comprehensive institutions through which individuals can support and help each other.

This is not to say that the minority entrepreneurship programs should not be supported. Nonwhite businessmen have been systematic-

ally discriminated against for generations, and compensatory programs of financing and technical assistance are very much in order.

Minority entrepreneurship, SBA and OMBE-type programs, and industrial location programs are important ingredients in an overall economic development effort.

Small- and moderate-sized independent businesses are essential in an urban economy. But to have a genuine and realistic impact, these programs must be integrated into a comprehensive economic development effort.

Every serious analysis of the growth of economically underdeveloped areas, here and abroad, demonstrates that an organizing force, capable of building and catalyzing a network of economic relationships, is indispensable.

Such a force must be able to: Develop and pool local talent; obtain outside subsidies and high-risk funds; absorb technical assistance; link business projects with new and rehabilitated housing, public facilities, energy conservation projects, HMO's, employment, and day-care programs; and provide a mechanism through which the community residents can participate in planning and decisionmaking.

Such an organizing force can only be a local economic institution.

The guidelines for comprehensive local economic development are obvious. They must be broad enough to include jobs, disposable income, and local ownership.

The central purpose of community-based economic development is to promote substantial participation by individuals and groups who have been systematically denied access to capital in each aspect of the capital-generating power of their local economy.

This means a multifaceted approach directed toward: Finding jobs for the unemployed; providing training for the unskilled; providing a satisfactory income for the poor, the socially and physically disabled, and the unemployed; upgrading the skills and wage scales of low-level employees; that is, career development; increasing the responsibility and number of middle managers; establishing a parity of responsibilities and salary of local black, white, and brown managers, as opposed to having them as showpieces; providing capital and management assistance for small businessmen; and, most important, emphasizing the development of substantial minority and locally owned businesses with large infusions of capital and technical assistance; and finally, creating opportunities for talented local business leaders to develop leveraging skills and other sophisticated techniques.

The list can go on, and there are variables within each of the categories in which the managers, employees, and target residents can participate in the net capital surplus of their projects.

But the underlying basis for a future unified Nation is a vastly increased "have-not" participation in the economic development activity of the total system.

There must be a commitment to facilitate this dynamic process. The present economic system, at least as it affects minorities and low-income citizens in our inner cities—particularly in the ghettos and barrios—is not working; it is a self-perpetuating, debilitating, static death trap.

Community economic development corporations, funded under title VII of the Community Services Act of 1974, grow out of the turbulent period in the 1960's.

The Kerner Commission, in 1967, clearly stated what a rational strategy should include.

The Commission's report explicitly stated the need for shortrun programs to enrich the ghettos so they may share in the material benefits that are open to other segments of our society.

It argued that new leadership had to be identified, the economic environment of the ghetto had to be restructured, and new financial bases had to be created.

Partially in response to such warnings, 10 years ago Congress passed "Special impact", title I-D of the Economic Opportunity Act, otherwise known as the Kennedy-Javits amendment.

The intent of the amendment was to require that the Office of Economic Opportunity provide sufficient funds to make an appreciable impact on the problems of a few carefully selected urban and rural areas.

"Special impact" represented the first departure from the handholding approach to poverty; it established the entity of community-based economic development corporations—CDC's.

Since the program is flexible, the CDC ventures are varied. For example, Kentucky Highlands, a multicounty program in Kentucky serving the Appalachian white poor, is involved in diverse manufacturing concerns including a kayak manufacturing company, a line of toys, and a tent manufacturing firm.

Harlem Commowalth Council in New York has been involved in real estate ventures, a major manufacturing plant, a pharmaceutical corporation, and a travel agency.

On the Lummi Indian Reservation in Bellingham, Wash., the CDC has embarked on an ambitious aquaculture project which includes oyster and salmon farming, fishing production, and marketing.

In East Los Angeles, Telacu, a Chicano group has embarked on a substantial housing development program.

In the Delta of the Mississippi, the Delta Corp., has among other ventures, a successful jean manufacturing company.

And the Hough Development Corp. in Cleveland developed the Martin Luther King Shopping Plaza and owns three McDonalds.

If anyone doubts the realizations of the potential of this program, I strongly urge that all members of this subcommittee visit the Bedford-Stuyvesant Restoration Corp. in New York City. It is a singular example of what should be done and has been done. That neighborhood, one of the worst urban blights in the country, has been revitalized!

The claims are modest, but the successes are there. The program is young and it is growing. Its strength and vitality are a testament to the commitment and hard work of local staffs and boards, as well as the cooperation of local public officials.

From Bedford-Stuyvesant to East Los Angeles and in East Boston, and Southeast Baltimore: blacks, Chicanos, Puerto Ricans, Indians, urban ethnic whites, and Appalachian whites are developing enterprises and an important new kind of story is being told.

It is our genuine belief that the catalytic role of the community development corporation offers the best hope to revitalize and develop

those economically disadvantaged communities who suffer from: persistent unemployment, low incomes, populations with low workskills and training, and substantial physical deterioration.

To give further support and to reinforce these programs would both be a healthy and meaningful signal on the part of Congress and the administration of their commitment to turn around the drift of the past 8 years, one which has seen this Nation renege on its commitment to the poor and disadvantaged.

In any legitimate effort to help the disadvantaged to help themselves we must start with those who have suffered the most from unemployment, recession, and inflation.

We must begin anew to establish permanent institutions in those communities which, for want of a decent and humane economic and social policy, have become a national disgrace.

Finally, we believe that the Federal Government must be committed to a vigorous and expanded economic development effort on behalf of all low-income and moderate-income Americans.

Such a program should and must be maintained and administered in such a way that it is responsible to, and responsive to, the neighborhoods and the citizens which it will serve.

In doing so, we recognize that there must be a better coordinated and substantially increased Federal effort to revitalize economically disadvantaged neighborhoods.

And we believe that the cornerstone of this comprehensive program will be to encourage and develop these local community-based economic development corporations.

In conclusion then we are offering a specific and concrete alternative—an institutional delivery system that in the worst of circumstances and conditions has proven its potential.

Local development corporations and neighborhood development corporations are not the panacea but they do represent a remarkable opportunity.

Nor do I think it is necessary to place all your eggs in one basket. We are not recommending this as the sole strategy.

Some may say that the inducement to the private sector is the only answer; some may say that public works run through city halls is the only answer; all we maintain is that there is a third alternative which combines the best features of the first two.

Commonsense and experience seems to suggest a mix of the three approaches.

We do not say that ours is the only way. What we do say, though, is that each approach should be tried and then measured against tough objective standards and performance.

It seems to me that to do less is a serious disservice to the people who live and work in the neighborhood we purport to serve, and it would be a further avoidance of a vital responsibility.

Thank you, Mr. Chairman, and the members of the subcommittee, for your patience and for the opportunity to express our thoughts.

[Appendix I to Mr. LaCroix's oral statement along with the study referred to, "Coordinating CDC and Block Grant Programs: An Evaluation of 1975 and 1976," with attachments, and an additional study entitled "Coordinating Community Development Corporations' Activities and Community Development Block Grant Programs in Special Import Areas," with attached appendix A, follow:]

APPENDIX I - ABSTRACT OF STUDY

AS WE MOVE INTO THE THIRD YEAR OF THE BLOCK GRANT PROGRAM, IT WOULD BE USEFUL TO REVIEW A RECENTLY COMPLETED STUDY BY THE LAW PROJECT, OF THE EXTENT TO WHICH COORDINATION BETWEEN CDC AND CDBG ACTIVITIES HAS OCCURRED IN FISCAL YEARS 1975 AND 1976. GIVEN THE FACT THAT CDC'S SPECIAL IMPACT AREAS ARE RECOGNIZED BY BOTH THE COMMUNITY SERVICES ADMINISTRATION AND THE ECONOMIC DEVELOPMENT ADMINISTRATION, AS SOME OF THE NATION'S LOWEST INCOME AREAS REQUIRING SPECIAL ASSISTANCE, WE FELT THAT AN EVALUATION OF TITLE I ACTIVITIES IN THESE IMPACT AREAS WOULD INDICATE WHETHER HUD HAD SUCCESSFULLY ADMINISTERED THE BLOCK GRANT PROGRAM TO PRINCIPALLY BENEFIT LOW AND MODERATE INCOME PERSONS. THE ACTIVITIES OF ALL FUNDED BLOCK GRANT APPLICANTS IN, OR HAVING JURISDICTION OVER, THE IMPACT AREAS OF THE 41 TITLE VII CDCs WERE REVIEWED, REPRESENTING OVER 3% OF ALL FUNDED APPLICATIONS FOR EACH FISCAL YEAR.

THE LAW PROJECT FOUND THAT VIRTUALLY NO ATTEMPT HAS BEEN MADE TO COORDINATE COMMUNITY DEVELOPMENT PROGRAMS ASSISTED UNDER TITLE I AND TITLE VII LEGISLATION. TWO PRINCIPAL FACTORS SERVED TO EXPLAIN THIS LACK OF COORDINATION:

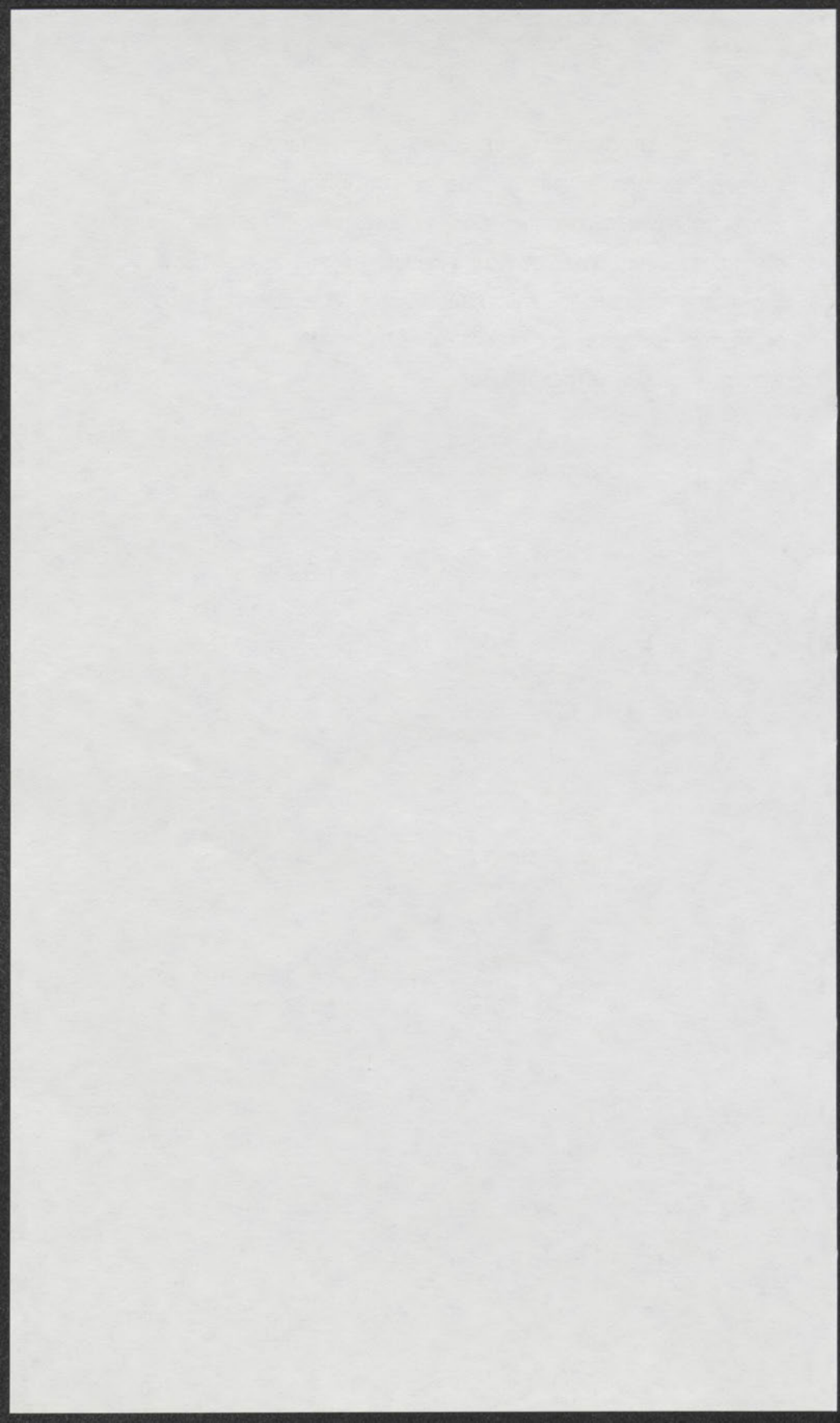
1. FIRST, BLOCK GRANT FUNDS HAVE PRIMARILY BEEN BUDGETED FOR PUBLIC WORKS AND OTHER PHYSICAL IMPROVEMENTS, AND NOT FOR ECONOMIC DEVELOPMENT PROGRAMS WHICH ARE THE PRIMARY CONCERNS OF CDCs. OF THE TOTAL BLOCK GRANT FUNDS AWARDED IN THE SAMPLE, 25.3 PERCENT WENT INTO PUBLIC WORKS, FACILITIES AND SITE IMPROVEMENTS. NEARLY HALF OF THE DISCRETIONARY GRANTS FELL INTO THIS CATEGORY. OF THIS BUDGET LINE ITEM, AN ESTIMATED 52 PERCENT FOR ENTITLEMENT COMMUNITIES AND AN ESTIMATED 45 PERCENT FOR DISCRETIONARY COMMUNITIES WENT INTO STREET CONSTRUCTION AND RELATED IMPROVEMENTS FOR WATER AND SEWER ACTIVITIES. THESE PROJECTS ARE NOT WITHIN THE SCOPE OF MANDATED ACTIVITIES CURRENTLY UNDERTAKEN BY CDCs ALTHOUGH THEY COULD BE COORDINATED TO SUPPORT SOME CDC HOUSING, HEALTH AND SOCIAL DEVELOPMENT PROGRAMS.

ECONOMIC DEVELOPMENT PROGRAMS ARE CLEARLY ELIGIBLE FOR BLOCK GRANT ASSISTANCE, THOUGH IN THE FIRST TWO YEARS OF THE PROGRAM'S IMPLEMENTATION SUCH ACTIVITIES HAVE RECEIVED ONLY MINIMAL SUPPORT. THE HOUSING AND COMMUNITY DEVELOPMENT ACT PROVIDES FOR ECONOMIC DEVELOPMENT ONLY AS A PART OF A GENERAL CATEGORY OF PUBLIC SERVICES TO BE UNDERTAKEN IN THOSE AREAS WHERE OTHER CDC ACTIVITIES ARE BEING CARRIED OUT IN A CONCENTRATED MANNER. THE BUDGET LINE ITEM FOR PUBLIC SERVICES SHOWS THAT ONLY 7.7 PERCENT OF THE SAMPLE'S TOTAL CDBG FUNDS WENT INTO THIS CATEGORY. AN EXAMINATION OF THE APPLICANTS' COMMUNITY DEVELOPMENT PROGRAMS SHOWS THAT MOST OF THESE FUNDS WENT INTO SUCH PROGRAMS AS CRIME PREVENTION, SECURITY AND ERADICATION OF RODENTS. NOT ONE SINGLE PROGRAM WAS IDENTIFIED THAT EXPANDED LEGITIMATE ECONOMIC OPPORTUNITIES FOR COMMUNITY RESIDENTS THROUGH INCREASED EMPLOYMENT OPPORTUNITY, TRAINING PROGRAMS, OWNERSHIP OR HIGHER INCOMES. THIS DISTINCT LACK OF EMPHASIS ON ECONOMIC DEVELOPMENT ACTIVITIES IS THE SINGLE MOST IMPORTANT FACTOR IN DISCOURAGING CDC INVOLVEMENT IN COORDINATION WITH BLOCK GRANT ACTIVITIES.

2. THE SECOND FACTOR EXPLAINING THE FAILURE OF PROGRAM COORDINATION IS THAT BLOCK GRANT ACTIVITIES TEND TO BENEFIT HIGHER INCOME PERSONS RATHER THAN LOW-INCOME CONSTITUENTS OF CDC. A STRONG, POSITIVE CORRELATION EXISTS BETWEEN THE LEVEL OF FUNDS TARGETED FOR URBAN SIA_s AND THE MEDIAN FAMILY INCOMES FOR THOSE AREAS, INDICATING THAT LOW-INCOME PERSONS ARE NOT BENEFITING FROM THE BLOCK GRANT PROGRAM. (A SIMILAR ANALYSIS FOR RURAL SIA_s WAS NOT POSSIBLE DUE TO DIFFERENT REPORTING PROCEDURES.)

OUR STUDY FURTHER INDICATES THAT SHARED PRIORITIES OF THE CDC_s AND BLOCK GRANT RECIPIENTS SUPPORT A POTENTIAL THRUST TOWARD GREATER COORDINATION OF THESE TWO PROGRAMS. IN HUD'S REPORT OF THE FIRST YEAR OF BLOCK GRANT ACTIVITIES, ENTITLEMENT GRANTEE_s WERE ASKED TO LIST THEIR THREE TOP PRIORITIES. SIMILARLY, THE LAW PROJECT REQUESTED CDC_s TO LIST THEIR OBJECTIVES BY PRIORITIES. TWENTY-SIX PERCENT OF BOTH THE CDC AND BLOCK GRANT RECIPIENTS LISTED HOUSING AS A TOP PRIORITY; 20 PERCENT OF THE CDC_s AND 19 PERCENT OF THE CITIES CITED COMMUNITY DEVELOPMENT. PROGRAMS DESIGNED TO MEET OTHER OBJECTIVES COULD EASILY BE COORDINATED TO MUTUALLY SUPPORT ONE ANOTHER.

IT IS IN THE REALM OF ECONOMIC DEVELOPMENT THAT THE GREATEST CONFLICT OF OBJECTIVES EXISTS. ECONOMIC DEVELOPMENT WAS THE PRIORITY OF 77 PERCENT OF THE CDCs BUT FOR ONLY 10 PERCENT OF THE ENTITLEMENT GRANTEEES, THOROUGHLY INDICATING A DISCOURAGEMENT OF NEEDED EMPHASIS ON ECONOMIC DEVELOPMENT IN THE NATION'S URBAN NEIGHBORHOODS.



COORDINATING CDC AND BLOCK GRANT

COMMUNITY DEVELOPMENT PROGRAMS:

AN EVALUATION OF 1975 AND 1976

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INTRODUCTION

Enactment of the Housing and Community Development Act of 1974 (P.L. 93-383) constituted a fundamental change in the allocation of federal community development assistance to units of general local government. Title I of the Act consolidated seven existing categorical programs¹ administered by the Department of Housing and Urban Development into the Community Development Block Grant (CDBG) program. Communities were given the authority to determine local community development needs, establish priorities, and allocate resources.

Federal assistance is provided with CDBG funds for seven specific objectives for which CDBG funds may be utilized, so long as the activities are consistent with the Act's primary objective. Congress clearly defined the primary objective of Title I which states:

The primary objective of this title is the development of viable urban communities, by providing decent housing and a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income.²

In carrying out community development activities, funds may thus be used anywhere within the local government's jurisdiction to serve principally the needs of low-and moderate-income residents.

In the same year that the Block Grant legislation was enacted, Congress approved a second community development bill, the Headstart, Economic Opportunity, and Community Partnership Act of 1974 (P.L. 93-644, popularly referred to as the Community Services Act). Title VII of this Act authorizes funding for Community Development Corporations (CDCs) to undertake comprehensive community development programs in designated Special Impact Areas (SIAs). The purpose of Title VII is to encourage the development of special programs by which the residents of urban and rural low-income areas may improve the quality of their economic and social participation in community life thus contributing to the elimination of poverty and the establishment of permanent economic and social benefits.³ Programs which encourage self-help and mobilization of the whole community are emphasized.

Both Title I of the HCDA and Title VII of the CSA mandate consultation and coordination of activities with other federally-assisted community development programs. Section 114 of Title I states that:

In carrying out the provisions of this title including the issuance of regulations, the Secretary shall consult with other federal departments and agencies administering federal grant-in-aid programs.⁴

In turn, Title VII directs the Secretary of HUD to take "all necessary steps to assist Community Development Corporations and local cooperative associations"⁵ in their participation in HUD programs, including Title I of the HCDA.

In April 1976, David O. Meeker, Jr., former Assistant Secretary for Community Planning and Development at HUD, sent a letter to the chief elected official in each community where a CDC is located, urging them to encourage CDC participation in the housing and economic development components of the local Block Grant program. (See Attachment A) As HUD moves into the third year of the CDBG program, the National Economic Development Law Project, a CSA-funded backup center for CDCs, felt it was an appropriate time to evaluate the extent CDC participation has occurred. Given the fact that SIAs are federally-recognized, low-income communities, such an evaluation can provide an insight into whether HUD has successfully administered the Block Grant program to principally benefit low- and moderate-income persons.

METHODOLOGY AND DATA SOURCES

In the course of this study, the Law Project has investigated three basic issues:

1. To date, how many CDBG funds have been budgeted

for projects in SIAs, and for what activities?

2. To what extent have the community development efforts of CDCs and the CDBG program been coordinated?

3. What is the potential for greater CDC participation in the Block Grant program?

The Special Impact Areas of the forty-one CDCs currently funded under Title VII of CSA define the geographic areas investigated. Fifteen of these CDCs are located in major metropolitan areas, and their SIAs consist of a small, geographic area under the jurisdiction of a single municipal government. Rural SIAs generally encompass several counties, and have within them numerous units of local government eligible to apply for nonmetropolitan discretionary funds. This essential difference between rural and urban SIAs has resulted in a more in-depth evaluation of CDBG activities in metropolitan areas, where it is possible to trace CDBG allocations by census tract, to determine how many CDBG dollars affect urban SIAs. In rural SIAs, all funds awarded to block grant applicants are automatically allocated to SIAs.

Information for this study was gathered from the following three data sources:

1. Application Analysis

The sample for this analysis represents the entire

universe of funded CDBG applicants in urban and rural SIAs for FYs 1975 and 1976.* A total of 100 applications for 1975 and 93 applications for 1976 were reviewed, representing 3.09 percent and 3.17 percent of the total applications funded by HUD for each respective year. The following is a breakdown of this sample:

	<u>1975</u>	<u>1976</u>
<u>Applicants in Sample</u>		
Total	100	93
Metropolitan	15	15
Nonmetropolitan	85	78
<u>CDBG Funded Applicants</u>		
Total	3,228	2,935*
Metropolitan	1,566	1,296*
Nonmetropolitan	1,662	1,639*
<u>Percent Sample Represents</u>		
Total	3.09%	3.17%
Metropolitan	.96%	1.16%
Nonmetropolitan	5.11%	4.76%

*Includes funded applicants through October 1976 only.

For both years, the total amount of CDBG funds awarded to the sample applicants exceeded \$722 million, or approximately 14.25 percent of all Block Grants awarded nationally.

*Copies of all funded applications for FYs 1975 and 1976 were requested from HUD area or Regional Offices having jurisdiction over SIAs. For a full list of applications reviewed, see Attachment B.

The following is a breakdown of these grants:

CDBG Funds Awarded to
Sample Applicants,
FYs 1975 and 1976

Total	\$722,822,711
Metropolitan	611,222,591
Nonmetropolitan	111,600,120

CDBG Funds Awarded
Nationally
FYs 1975 and 1976*

Total	\$5,073,905,000
Metropolitan	4,088,644,000
Nonmetropolitan	985,261,000

Percent Sample Represents

Total	14.25%
Metropolitan	14.95%
Nonmetropolitan	11.33%

*Includes funded applicants through October 1976, only.

Block Grant applications are often a weak source of consistent and detailed information. Nevertheless, in this evaluation, they were the primary source of information. Community development budget line item figures are used to determine what program activities are being funded. The allocation of funds by census tract in the community development program is used to estimate what percentage of the total CDBG budget is earmarked for urban SIAs. In addition, the community development program provides a detailed view of CDBG activities.

2. CDC Survey

Each community development corporation was sent a letter survey requesting:

- (a) the CDC's experience in the local CDBG application process in program implementation;
- (b) a list of the CDC's objectives by priority; and
- (c) a list of the funding sources for the CDC's activities.

Two weeks after this letter was sent, a follow-up telephone call was made to each CDC which had not responded. As a result, responses were received from all 41 CDCs in the sample regarding their involvement in the Block Grant program, and from 35 CDCs (or 85%) regarding their objectives by priority. The list of funding sources had no significance for this study.

3. Supplemental Data Sources

Supplemental data sources used in this evaluation include median income figures reported in the 1970 census and information on the first year CDBG program reported by HUD.⁶

RESULTS OF STUDY

Responses from the 41 CDCs surveyed indicate that virtually no attempt has been made to coordinate community development programs assisted under the Housing and Community Development Act and the Community Services Act. In

most cases, the CDCs were unaware of the type or location of local CDBG activities. Only in the case of St. Louis, Missouri was a conscious effort made to coordinate a CDC-sponsored housing rehabilitation project with the city's CDBG-funded street improvements.

This lack of coordination does not result from a dearth of CDBG funds available in the Special Impact Areas. Over the first two years of the Block Grant program, over \$722 million was awarded to governments located in rural SIAs or having jurisdiction over urban SIAs (see Table I). Over \$611.2 million, or 84.6 percent, of this amount went to entitlement communities (see Table II); the remaining \$111.6 million was awarded to nonmetropolitan discretionary applicants located in rural SIAs (see Table III). Entitlement communities have targeted substantially different levels of CDBG funds or census tracts in SIAs (see Table IV). The overall average of these cities' total CDBG budgets going into SIAs was 18.9 percent in FY 1975 and 17.6 percent in FY 1976. The range of funding for these years was between 8 percent (Kansas City, Mo.) and 60.7 percent (Phoenix, Az.) in 1975, and between 4.3 percent (Washington, D.C.) and 72.4 percent (Phoenix, Az.) in 1976.⁷

When the cost of administration, planning and management, contingencies, and citywide activities having no traceable benefit are excluded from these calculations,

TABLE I
Block Grant Funds Awarded to Local Governments Located in
Rural CDC Special Impact Areas or Having Jurisdiction Over
Urban CDC Special Impact Areas, FYs 1975 and 1976

<u>Program Activity</u>	<u>Amount</u>	<u>%¹</u>
1. Acquisition of Real Property	\$ 45,317,441	7.64
2. Public Works, Facilities, Site Improvements	149,942,913	25.28
3. Code Enforcement	10,072,929	1.70
4. Clearance, Demolition, Rehabilitation	66,975,834	11.29
5. Rehabilitation Loans and Grants	72,996,229	12.30
6. Special Projects for Elderly and Handicapped	1,135,380	.19
7. Payments for Loss of Rental Income	15,400	0
8. Disposition of Real Property	2,509,965	.42
9. Provision of Public Services	45,392,170	7.65
10. Payment of Non-Federal Shares	10,463,779	1.76
11. Completion of Urban Renewal/NDP Projects	33,458,744	5.64
12. Relocation Payments and Assistance	28,069,053	4.73
13. Planning and Management Development	17,158,339	2.89
14. Administration	55,093,342	9.29
15. Continuation of Model Cities Activities	37,421,217	6.31
16. Contingencies and/or Unspecified Local Option Activities	17,205,976	2.90
17. Total Program Activity Costs	\$593,228,711	100%
18. Total CDBG Funds Budgeted	\$722,822,711 ²	

¹These percentages are based on the total on line 17.

²This figure includes \$12,264,000 granted to San Juan and \$1,564,000 granted to the County of Fresno in 1975; \$5,164,000 granted to Alaskan communities in 1976; and \$86,402,000 granted to the City of Chicago and \$24.2 million granted to the County of Los Angeles for FYs 1975 and 1976. Budget breakdowns for these grants were either inconsistent with other applications or not available and, therefore, could not be included in the subcategories.

considerably higher percentages of these cities' budgets have been targeted for SIAs. The average level of SIA funding becomes 26.4 percent in FY 1975 and 24.2 percent in FY 1976 (refer to Table IV).

TABLE II
Block Grant Funds Awarded to Entitlement Cities
Having Jurisdiction Over Urban CDC Special
Impact Areas, FYs 1975 and 1976

<u>Program Activity</u>	<u>Amount</u>	<u>%¹</u>
1. Acquisition of Real Property	\$ 35,019,132	7.00
2. Public Works, Facilities, Site Improvements	104,592,503	20.89
3. Code Enforcement	9,021,905	1.80
4. Clearance, Demolition, Rehabilitation	63,323,625	12.65
5. Rehabilitation Loans and Grants	65,628,852	13.11
6. Special Projects for Elderly and Handicapped	753,000	.15
7. Payments for Loss of Rental Income	15,400	0
8. Disposition of Real Property	2,487,365	.50
9. Provision of Public Services	43,512,195	8.69
10. Payment of Non-Federal Shares	9,129,125	1.82
11. Completion of Urban Renewal/NDP Projects	30,082,094	6.01
12. Relocation Payments and Assistance	24,686,473	4.93
13. Planning and Management Development	14,569,290	2.91
14. Administration	49,214,595	9.83
15. Continuation of Model Cities Activities	35,733,000	7.14
16. Contingencies and/or Unspecified Local Option Activities	12,852,037	2.57
17. Total Program Activity Costs	\$500,620,591	100%
18. Total CDBG Funds Budgeted	\$611,222,591 ²	

¹These percentages are based on the total on line 17.

²This figure includes \$86,402,000 granted to the City of Chicago and \$24.2 million granted to the County of Los Angeles for FYs 1975 and 1976. Budget breakdowns for these grants were either inconsistent with other applications or not available and, therefore, could not be included in the subcategories.

Closer inspection of the block grant budgets by program activity indicates that the lack of coordination between CDC and CDBG efforts partly results in the types of activities local governments have sponsored. Of the total

TABLE III
Block Grant Funds Awarded to Nonmetropolitan
Discretionary Applicants in Rural CDC Special
Impact Areas, FYs 1975 and 1976

<u>Program Activity</u>	<u>Amount</u>	<u>%¹</u>
1. Acquisition of Real Property	\$ 10,298,309	11.12
2. Public Works, Facilities, Site Improvements	45,350,410	48.97
3. Code Enforcement	1,051,024	1.13
4. Clearance, Demolition, Rehabilitation	3,652,209	3.94
5. Rehabilitation Loans and Grants	7,367,377	7.96
6. Special Projects for Elderly and Handicapped	382,380	.41
7. Payments for Loss of Rental Income	0	0
8. Disposition of Real Property	22,600	.02
9. Provision of Public Services	1,879,975	2.03
10. Payment of Non-Federal Shares	1,334,654	1.44
11. Completion of Urban Renewal/NDP Projects	3,376,650	3.65
12. Relocation Payments and Assistance	3,382,580	3.65
13. Planning and Management Development	2,589,049	2.80
14. Administration	5,878,747	6.34
15. Continuation of Model Cities Activities	1,688,217	1.82
16. Contingencies and/or Unspecified Local Option Activities	4,353,939	4.70
17. Total Program Activity Costs	92,608,120	100%
18. Total CDBG Funds Budgeted	\$111,600,120 ²	

¹These percentages are based on the total on line 17.

²This figure includes \$12,264,000 granted to San Juan, Puerto Rico and \$1,564,000 granted to the County of Fresno, California in 1975, and \$5,164,000 granted to Alaskan communities in 1976. Budget breakdowns for these grants were either inconsistent with other applications or not available and, therefore, could not be included in the subcategories.

CDBG funds awarded, 25.3 percent went into public works, facilities, and site improvements. Nearly half of the discretionary grants fell into this category. Of this budget line item, an estimated 52 percent for entitlement

TABLE IV
 CDBG Funds Budgeted for Projects in Urban CDC
 Special Impact Area Census Tracts, FY 1975 and FY 1976

Community Development Corporation	F Y 1 9 7 5			F Y 1 9 7 6		
	Amount	% of City's Total	% of Targeted ¹ CDBG Funds	Amount	% of City's Total	% of Targeted ¹ CDBG Funds
Anacostia Economic Development Corp. (Washington, DC)	*	*		1,454,660	4.3	7.5
Bedford-Stuyvesant Restoration Corp. (Brooklyn, NY)	*	*		5,525,627	4.8	13.3
Chicanos Por La Causa, Inc. (Phoenix, AZ)	1,560,000	60.70	79.4	4,137,000	72.44	84.2
Community Development Corp. of Kansas City (Kansas City, MO)	1,428,475	8.00	20.7	1,714,892	10.63	15.0
Denver Community Development Corp. (Denver, CO)	2,321,435	14.68	28.5	2,697,750	18.26	30.6
East Boston Community Development Corp. (East Boston, MA)	1,923,440	6.00	8.5	2,836,953	9.29	10.3
Greater Roxbury Development Corp. (Boston, MA)	731,111	2.28	3.2	589,093	1.92	4.8
Harlem Commonwealth Council (New York, NY)	*		*	4,223,269	3.7	10.2
Hough Area Development Corp. (Cleveland, OH)	1,482,560	9.21	16.1	1,096,674	6.81	15.1
Hunt's Point Community Local Development Corp. (Bronx, NY)	*		*	10,992,535	9.60	26.5
Mexican-American Unity Council (San Antonio, TX)	4,800,335	26.81	27.8	4,744,397	29.58	31.4
Pyramidwest Development Corp. (Chicago, IL)	**	**	**	**	**	**
Southwest Virginia Community Development Corp. (Roanoke, VA)	**	**	**	**	**	**
UDI Community Development Corp. (Durham, NC)	812,111	34.06	43.9	1,255,031	52.64	60.1
Union Sarah Economic Development Corp. (St. Louis, MO)	1,301,110	8.56	9.4	746,736	4.60	5.1

¹-Targeted funds include only those amounts budgeted for activities in specified census tracts. In computing this column, costs of city-wide activities, planning, administration and contingencies were not included.

*Not able to determine

**Not available

communities and an estimated 45 percent for discretionary communities went into street construction and related improvements or water and sewer activities. These projects are not within the scope of activities generally undertaken by CDCs, although they could be coordinated to support CDC housing, social, and economic development programs.

The principal objective of the CDCs is to bring about economic development in their Special Impact Areas. Economic development programs are eligible for CDBG assistance as well, though in the first two years of the program's implementation, such activities have received only minimal support. The Housing and Community Development Act provides for economic development as a part of a general category of public services in those areas where other CDBG activities are being carried out in a concentrated manner.⁸ The budget line item for public services shows that only 7.7 percent of the sample's total CDBG funds went into this category. In rural communities, this percentage drops to a mere 2.0 percent, and increases among entitlement communities to 8.7 percent. An examination of these applicants' community development programs shows that most of these funds went into such programs as crime prevention, neighborhood security and eradication of rodents. Not a single program was identified that expanded economic opportunities for community residents through in-

creased employment opportunities, training programs, or higher incomes.

The available data substantiates the fact that, "in deferring to the wisdom of local officials about how best to plan for community development, HUD has also abdicated the one clear responsibility imposed on it by the Act: to guarantee that federal objectives are met in a community's application for funding."⁹ Whereas the HCDA calls for the provision of decent housing, a suitable living environment and expanded economic opportunities, implementation of the Block Grant program has clearly failed to further economic development in the nation's low- and moderate-income communities. This lack of emphasis on economic activities has been the single most important factor in discouraging CDC involvement and coordination with CDBG activities.

Whereas some CDBG funds have been targeted in all urban SIAs, in many cases the level of funding is not significant given the extent of poverty in these areas (refer to Table IV). Moreover, between the first and second years of the Block Grant program, the amount of funds targeted for urban SIA census tracts dropped by 2.2 percent. This data appears to substantiate NAHRO's study of the first-year program which reported a notable shift from low- and moderate-income tracts to moderate- and middle-income tracts.¹⁰

A positive relationship exists between SIA median family incomes and the percentage of CDBG funds targeted for SIA census tracts. Higher percentages of CDBG funds have been budgeted for SIAs with higher income levels (see Table V). When the ratios of SIA median income to SMSA median income and to the city's median income are compared to the percent of CDBG funds allocated to SIA census tracts, the correlation coefficients are the following:

- Variable A: $\frac{\text{SIA Median Family Income}}{\text{SMSA Median Family Income}}$
- Variable B: $\frac{\text{SIA Median Family Income}}{\text{City's Median Family Income}}$
- Variable C: % Total CDBG Funds Budgeted for SIA, FYs 1975 and 1976
- Variable D: % Targeted CDBG Funds Budgeted for SIA, FYs 1975 and 1976

Comparing A to C, Correlation Coefficient is .73746
 Comparing A to D, Correlation Coefficient is .67782
 Comparing B to C, Correlation Coefficient is .47754
 Comparing B to D, Correlation Coefficient is .38467

These correlations are significant enough to warrant further investigation by HUD. In addition, the fact that fewer funds appear to be going into lower income tracts has significance for CDCs. In general, SIA boundaries are designated according to major transportation routes intersecting a city, and CDCs concentrate their efforts in the lowest income pockets within their SIAs. If this same

TABLE V
 MEDIAN FAMILY INCOMES OF CDC SPECIAL IMPACT AREAS,
 SMSAs AND CDBG CITIES, AND PERCENT CDBG FUNDS BUDGETED FOR SIAs

CDC City and State	(A)	(B)	(C)		% Total CDBG Funds Budgeted in SIAs, Fy's 1975 & 1976	% Targeted ¹ CDBG funds Budgeted for SIAs, Fy's 1975 & 1976	
	SIA Median Family Income	SMSA Median Family Income	$\frac{A}{B}$	City's Median Family Income			$\frac{A}{C}$
Anacostia Economic Development Corp. Washington, D.C.	7,567	12,928	.59	9,576	.79	3.4*	7.5*
Bedford-Stuyvesant Restoration Corp. Brooklyn, NY	6,266	10,862	.58	9,673	.65	5.4*	13.3*
Chicanos Por La Causa Phoenix, AZ	7,977	9,853	.81	9,953	.80	66.6	81.8
CDC of Kansas City Kansas City, MO	5,783	10,564	.55	9,904	.58	9.3	17.9
Denver CDC Denver, CO	7,817	10,774	.73	9,650	.81	16.4	29.6
East Boston CDC East Boston, MA	8,954	11,448	.75	9,133	.94	7.6	9.4
Greater Roxbury Development Corp. Boston, MA	6,590	11,448	.58	9,133	.72	2.1	4.0
Harlem Commonwealth Council New York, NY	6,072	10,862	.56	9,673	.63	4.1*	10.2*
Hough Area Development Corp. Cleveland, OH	5,068	11,399	.44	9,098	.56	8.0*	15.6*
Hunt's Point Community Local Develop. Corp. Bronx, NY	5,613	10,862	.52	9,673	.58	10.8	26.5
Mexican-American Unity Council San Antonio, TX	5,598	7,979	.70	7,731	.72	23.2	29.6
Pyramidwest Development Corp. Chicago, IL	7,006	11,928	.59	10,239	.68	NA**	NA
Southwest Virginia Community Development Fund Roanoke, VA	8,159	9,141	.89	8,211	.99	NA	NA
UDI CDC Durham, NC	8,190	8,707	.94	7,353	1.11	43.3	52.0
Union Sarah Economic Development Corp. St. Louis, MO	5,768	10,495	.55	8,173	.71	6.9	7.3

¹ Targeted funds include only those amounts budgeted for activities in specified census tracts. In computing this column, costs of city-wide activities, planning, administration, and contingencies were not included.

*Based on 1976 only.

**Not available.

correlation between median income and funding allocations holds true for census tracts within SIAs, it is likely that CDBG funds are benefitting higher income tracts than CDCs are serving. In turn, this could partly account for the CDC's lack of participation in, and general unawareness of, Block Grant activities.

Shared priorities of CDCs and CDBG recipients support a potential thrust toward greater coordination of these two programs. In HUD's report on the first year of Block Grant activities,¹¹ entitlement grantees were asked to list their three top priorities. Similarly, the Law Project requested CDCs to list their objectives by priority. The results are reported in Table VI. Twenty-six percent of both the CDC and CDBG recipients listed housing as a top priority; 20 percent of the CDCs and 19 percent of the cities cited community development. Programs designed to meet other objectives could easily be coordinated to mutually support one another.

Economic development was the priority of 77 percent of the CDCs. Only 10 percent of the entitlement recipients indicated this as an objective, clearly demonstrating a lack of needed emphasis on economic activities in the nation's cities. It should be pointed out that indicating economic development as a priority does not necessarily mean that a city is undertaking such programs. For

TABLE VI
Top Three Priorities of CDCs
and CDBG Entitlement Cities

<u>Priority</u>	<u>% of CDCs</u>	<u>% of CDBG Entitlement Cities</u>
Improvement of Expansion of Housing Stock	26	26
Economic Development	77	10*
Employment Opportunity	43	
Community Services and Facilities	20	19
Revitalization of Central Business District		4
Real Estate Development	14	
Water and Sewer Activities		15
Street Construction and Repairs		5
Elimination of Slums and Blight		10
Community Planning	6	
Technical and Financial Assistance	6	

*Economic development and employment opportunity were listed as a single priority by entitlement cities. CDCs cited each as individual objectives.

instance, 14 percent of the first year CDBG funded applicants indicated the objective of reducing the isolation of income groups, yet no funds have been identified that specifically support this objective.¹²

In summary, this evaluation has shown that coordination between CDC and CDBG programs has not occurred. Three principal factors serve to explain this lack of coordination:

1. CDBG funds have primarily been budgeted for public works and other physical improvements, and not for economic and social projects which are the primary concerns of CDCs.

2. CDBG programs appear to be benefitting higher income residents than CDCs.

3. CDBG recipients have failed to address economic development, the top priority of CDCs and one of the three principal goals of the Housing and Community Development Act.

CONCLUSION

In its first annual report on the Block Grant program, HUD recognized the need for action in several areas, including: (1) the need to define eligible activities consistent with national goals yet responsive to local needs; and (2) the need to ensure that funding allocations are closely attuned both to community needs and the capacity to meet such needs.¹³

As the Block Grant program enters its third year, this study has shown that these needs have not been satisfactorily met. In particular, the program has failed to expand the economic opportunities of the nation's low- and moderate-income citizens. In fact, local governments are funding activities which appear to benefit higher income residents than the Housing and Community Development Act was

intended to serve. Clearly, HUD needs to more closely monitor Block Grant applications to ensure that proposed activities are not only eligible under the Act, but also further the primary objectives of the Act.

In theory, the HCDA should encourage the participation of community groups. The Act mandates citizen participation in the application process and coordination of assisted programs with other local community development efforts. Streamlining of the application process has resulted in decreased costs in terms of time, manpower and resources¹⁴ which, in turn, makes the program more accessible to community groups. In practice, however, the CDBG program has not involved CDCs despite the fact that they are located in low- and moderate-income communities, are representative of these communities, and are undertaking community development activities themselves. In order to achieve greater coordination between CDC and CDBG programs, the following recommendations are made:

1. Economic development must become a vital part of the Block Grant program. Whereas expanding economic opportunities for the nation's low- and moderate-income persons is one of the three basic objectives of the Housing and Community Development Act, it is neither defined nor stressed in the text or regulations of the Act. HUD needs to address this situation by amending

both the Act and the regulations to include a definition of economic development. In addition, economic development should be removed from the category of public services in the Act and made a separate eligible activity. By doing so, HUD could more readily monitor whether communities are sufficiently addressing the economic needs of their lower-income residents. Finally, HUD should require that all applicants address their economic needs as part of their comprehensive community development plan.

2. The congressional mandate to coordinate federally-assisted community development programs needs to be realized. HUD could require CDBG applicants to identify other local community development programs and to demonstrate how these programs will be coordinated with proposed CDBG activities. Efforts should be made to achieve greater coordination at the administrative level of those agencies funding community development programs.

3. To encourage the participation of CDCs in the Block Grant program, HUD could specifically recognize CDCs in the regulations as appropriate organizations to undertake the planning and implementation of economic and social programs in their communities.

With the enactment of the Housing and Community Development Act, Congress returned the responsibility of deter-

mining community development needs, establishing priorities and allocating resources to local governments. By doing so, the intent was to make federally-assisted programs more responsive to the community needs of the nation's low- and moderate-income citizens. Presumably, one means of achieving this responsiveness was to mandate coordination with other community development programs. After two years of experience with the Block Grant program, it is apparent that such coordination does not exist. If the national objectives of the Act are to be successfully carried out, coordination is imperative. In those communities where CDCs are located, HUD should encourage their participation in order to utilize their resources to further the goals of the Community Development Block Grant program.

FOOTNOTES

- ¹Urban Renewal, Model Cities, Water and Sewer Facilities, Open Space, Neighborhood Facilities, Rehabilitation Loans, and Public Facilities Loans.
- ²Section 101(c), Title I, P.L. 93-383.
- ³Section 701, Title VII, P.L. 93-644.
- ⁴Section 114, Title I, P.L. 93-383.
- ⁵Section 743, Title VII, P.L. 93-644.
- ⁶U.S. Department of Housing and Urban Development, Community Development Block Grant Program: First Annual Report, (Washington, D.C.: Government Printing Office, 1975).
- ⁷The amount of funds earmarked in FY 1975 for SIA census tracts in Washington, D.C., was not able to be determined. Since the lowest percentage of funds going into an SIA in FY 1976 was in the District, it is possible that the same was true for the first year of the program.
- ⁸Section 105(a)(8), Title I, P.L. 93-383.
- ⁹Werner, Frances E. and David M. Madway, "Application Review Requirements Under the Community Development Block Grant Program: A Legislative History Analysis," (Berkeley: National Housing Law Project, 1976), p. 1.
- ¹⁰Nenno, Mary K., "First Year Community Development Grant Experience: What Does It Mean?", Journal of Housing 4, no. 76, p. 172; and, NAHRO, Year 1 Findings: Community Development Block Grants: A Summary of Major Findings of NAHRO's Community Development Monitoring Project, (Washington, D.C.: National Association of Housing and Redevelopment Officials, 1976), p. 9.
- ¹¹HUD, First Annual Report.
- ¹²*Ibid.*, p. 7.
- ¹³*Ibid.*, p. 11.
- ¹⁴*Ibid.*, pp. 3, 13-22.



ATTACHMENT A
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D. C. 20410

OFFICE OF THE ASSISTANT SECRETARY
FOR COMMUNITY PLANNING AND DEVELOPMENT

IN REPLY REFER
CP

Honorable Patrick A. Dunne
Mayor of Greenville
Greenville, Mississippi 38701

Dear Mayor Dunne:

Subject: Delta Foundation
819 Main Street
Post Office Box 588
Greenville, Mississippi 38701

I am writing to you, as well as to all other local units of general purpose government located in areas which have been designated as "Special Impact Areas" under the provisions of Title VII of the Community Partnership Act of 1974. That Act mandates that the Department of Housing and Urban Development provide assistance and special priority for housing and business expansion programs of Community Economic Development Corporations (CDC's), which are the local organizations receiving funds under that Act.

As part of its assistance to CDCs, the Office of Community Planning and Development encourages all applicants for Community Development Block Grants (CDBG) whose locality includes or is included by a Special Impact Area to seek out the CDC's participation in development of the locality's community development program plans. (The CDC in your area is indicated above). Although there is a limitation on the use of CDBG funds for direct use in economic development, it is possible for a community to include CDC's in their CDBG plans and strategies.

For example under such plans, a CDC might receive assistance for rehabilitation and community improvement to local business concerns, and for other activities eligible under Title I of the Housing and Community Development Act of 1974.

Participation by CDC representatives in the Applicant's planning process, though not required by law, may result in partial satisfaction of the Applicant's citizen participation requirements. I also believe it will contribute to a better coordinated use of Federal funds in your community, and lead to more effective results from both the HCD Act of 1974 and the Community Partnership Act of 1974.

Sincerely,

David O. Meeker, Jr. FAIA, AIP
Assistant Secretary

ATTACHMENT B
CDBG FUNDED APPLICANTS
IN CDC SPECIAL IMPACT AREAS

1. Adela Development Corporation
Salt Lake City, UT
Impact Area: Counties of Box Elder, Cache, Weber,
Davis, Salt Lake, and Utah
Applicants:
Plain City, Weber County
2. Anacostia Economic Development Corporation
Washington, DC
Impact Area: Part of the District of Columbia
Applicants:
Washington, DC
3. Anthra-Penn Community Development Corporation
Centralia, PA
Impact Area: City of Centralia and counties of
Schuylkill, Carbon, Columbia, Montour
and Luzerne
Applicants:
Borough of Hughestown, Luzerne County
Borough of Hughestown, Luzerne County
Borough of Schuylkill Haven, Schuylkill County
City of Hazelton, Luzerne County
City of Wilkes-Barre, Luzerne County
Hanover Township, Luzerne County
Kingston Borough, Luzerne County
Laurel Run Borough, Luzerne County
4. Bedford-Stuyvesant Restoration Corporation
Brooklyn, NY
Impact Area: Part of New York City
Applicants:
City of New York
5. Central Coast Counties Development Corporation
Capitola, CA
Impact Area: Santa Cruz County

Applicants:

City of Watsonville, Santa Cruz County
 County of Santa Cruz, City of Capitola and City
 of Scotts Valley (combined application)
 City of Salinas

6. Chicanos Por La Causa, Inc.
 Phoenix, AZ

Impact Area: Part of Phoenix

Applicants:

City of Phoenix

7. Community Development Corporation of Kansas City
 Kansas City, MO

Impact Area: Part of Kansas City

Applicants:

City of Kansas City

8. Community Economic Development Corporation of Nassau
 County
 Hempstead, NY

Impact Area: Nassau County

Applicants:

City of Glen Cove
 County of Nassau
 Town of Hempstead
 Town of North Hempstead
 Village of Freeport
 Village of Hempstead
 Village of Rockville Centre

9. Community Enterprise Development Corporation of Alaska
 Anchorage, AK

Impact Area: State of Alaska (Excluding Anchorage)

Applicants:

City and Borough of Juneau
 City of Cordova
 City of Craig
 City of Eek
 City of Fairbanks
 City of Kodiak
 City of Kotlik

City of Lower Kalskag
 City of Scammon Bay
 City of Seldovia
 City and Borough of Sitka
 City of Valdez
 Kodiak Island Borough
 McGrath Native Village Council
 Minto Village Council
 North Slope Borough
 Village of Kongiganak
 Village of Lime Village
 Village of Newtok
 Native Village of Tynak

10. Delta Area Developers, Incorporated
 Forrest City, AR

Impact Area: Counties of Critterden, Cross, Lee,
 Monroe, Phillips, St. Francis, and
 Woodruff

Applicants:

County of Lee
 County of Phillips
 County of St. Francis

11. Delta Foundation
 Greenville, MS

Impact Area: Counties of Holmes, Humphreys, Issa-
 guena, LeFlore, Madison, Sharkey and
 Washington

Applicants:

City of Durant, Holmes County
 City of Greenville
 City of Greenwood
 City of Itta Bena
 City of Lexington, Holmes County
 Town of Cary, Sharkey County
 Town of West, Holmes County
 Town of Tchula, Holmes County
 Holmes, County
 Issaquena County
 Leflore County
 Washington County

12. Denver Community Development Corporation
 Denver, CO

Impact Area: Part of Denver

Applicants:

City of Denver

13. Dineh Cooperatives, Inc.
Chinle, Navajo Nation, AZ
Impact Area: Part of Navajo Reservation
Applicants:
Navajo Tribe
14. East Boston Community Development Corporation
East Boston, MA
Impact Area: Part of Boston
Applicants:
City of Boston
15. East Central Committee for Opportunity
Mayfield, GA
Impact Area: Hancock County
Applicants:
City of Sparta, Hancock County
Hancock County
16. East Los Angeles Community Union
Los Angeles, CA
Impact Area: Part of Los Angeles
Applicants:
County of Los Angeles
17. Greater Roxbury Community Development Corporation
Boston, MA
Impact Area: Part of Boston
Applicants:
City of Boston
18. Harlem Commonwealth Council
New York, NY
Impact Area: Part of New York City
Applicants:
City of New York

19. Hough Area Development Corporation
Cleveland, OH
Impact Area: Part of Cleveland
Applicants:
City of Cleveland
20. Hunt's Point Community Local Development Corporation
Bronx, NY
Impact Area: Part of New York City
Applicants:
City of New York
21. Impact Seven, Incorporated
Turtle Lake, WI
Impact Area: Counties of Pepin, Dunn, Chippewa,
Barron, Polk, Burnett, Sawyer, and the St. Croix
and Lac Court Oreilles Reservations
Applicants:
City of Eau Claire, Eau Claire County
Lac Court Oreilles Tribal Board, Sawyer County
St. Croix Tribal Council, Burnett County
22. Kentucky Highlands Investment Corporation
London, KY
Impact Area: Counties of Bell, Jackson, Whitley,
Clinton, McCreary, Wayne, Clay, Knox, Harlan
and Rock Castle
Applicants:
City of Albany, Clinton County
City of Columbia, Adair County
City of Cumberland, Harlan County
City of Harlan, Harlan County
City of Livingston, Rockcastle County
City of Manchester, Clay County
City of Monticello, Wayne County
Knox County Fiscal Court
McCreary County Fiscal Court
23. Lokahi-Pacific Corporation
Kihei, Maui, HI
Impact Area: County of Maui (including the islands
of Maui, Molokai, and Lanai)

Applicants:

County of Maui

24. Mexican American Unity Council
San Antonio, TX

Impact Area: Part of San AntonioApplicants:

City of San Antonio

25. Midwest Minnesota Community Development Corporation
Mahnomen, MN

Impact Area: Counties of Hubbard, Becker, Pennington, Mahnomen, Red Lake, Polk and ClearwaterApplicants:

City of Detroit Laker, Becker County
City of Thief River Falls, Pennington County
White Earth Reservation

26. Natchitoches Economic Development Corporation
Natchitoches, LA

Impact Area: Parish of NatchitochesApplicants:

City of Natchitoches

27. Northern Cheyenne Community Development Corporation
Lame Deer, MT

Impact Area: Northern Cheyenne ReservationApplicants:

Northern Cheyenne Tribal Council

28. Northern Community Investment Corporation
St. Johnsbury, VT

Impact Area: Counties of Orleans, Calcedonia, and Essex in Vermont, and counties of Carroll, Coos and Grafton in New HampshireApplicants:

City of Berlin, Coos County
City of Lebanon, Grafton County
City of Newport, Orleans County
Town of Brighton, Essex County
Town of Colebrook, Coos County

Town of St. Johnsbury, Calcedonia County
Town of Woodstock, Grafton County

29. Pyramid West Development Corporation
Chicago, IL
- Impact Area: Part of Chicago
- Applicants:
City of Chicago
30. San Juan Community Development Corporation
Hato Rey, Puerto Rico
- Impact Area: Cities of Hato Rei and San Juan,
Puerto Rico
- Applicants:
Municipality of San Juan
31. Seminole Employment and Economic Development Corporation
Sanford, FL
- Impact Area: Seminole County
- Applicants:
City of Sanford, Seminole County
Seminole County
32. Siete Del Norte Community Development Corporation
Española, NM
- Impact Area: Counties of San Miguel, Guadalupe,
Sandoval, Santa Fe, Mora, Taos, and Rio Arriba
in New Mexico
- Applicants:
City of Albuquerque, Bernalillo County
City of Española, Rio Arriba and Santa Fe Counties
City of Las Vegas, San Miguel County
City of Santa Fe, Santa Fe County
City of Santa Rosa, Guadalupe County
County of Bernalillo
County of Mora
Sandoval County
Town of Taos, Taos County
Town of Vaughn, Guadalupe County
Village of Chama, Rio Arriba County
Village of Cuba, Sandoval County
Village of Cuba, Sandoval County
Village of Wagon Mound, Mora County

33. Southeast Alabama Community Development Corporation
Troy, AL
Impact Area: Counties of Bullock, Coffee, and Pike
Applicants:
City of Brudidge, Pike County
City of Brundidge, Pike County
City of Elba, Coffee County
City of Troy, Pike County
City of Union Springs, Bullock County
34. Southwest Virginia Community Development Fund
Roanoke, VA
Impact Area: Counties of Craig and Botetourt, and
the City of Roanoke
Applicants:
Botetourt and Craig Counties
City of Roanoke
35. Southern Cooperative Development Fund
Lafayette, LA
Impact Area: Parish of Lafayette
Applicants:
City of Lafayette, Lafayette County
36. Tenco Developments, Inc.
Shelbyville, TN
Impact Area: Counties of Coffee, Marshall, Maury,
Giles, Franklin, Moore, Grundy, Bedford,
Lawrence and Lincoln
Applicants:
City of Lawrenceburg, Lawrence County
City of Lewisburg, Marshall County
City of Mount Pleasant, Maury County
City of Pulaski, Giles County
City of Shelbyville, Bedford County
City of Tullahoma, Coffee County
Grundy County
Lincoln County Public Utilities Board
Marshall County
Maury County Water Authority
Murray City Corporation, Salt Lake County
Town of Wartrace, Bedford County

37. Tri-Island Economic Development Council
St. Thomas, U.S. Virgin Islands
Impact Area: Virgin Islands of St. Thomas, St.
Croix and St. John
Applicants:
Government of the Virgin Islands
38. United Durham, Inc. Community Development Corporation
Durham, NC
Impact Area: Part of Durham
Applicants:
City of Durham, Durham County
38. Union Sarah Economic Development Corporation
St. Louis, MO
Impact Area: Part of St. Louis
Applicants:
City of St. Louis
39. West Side Planning Group, Incorporated
Fresno, CA
Impact Area: Fresno, King, and Imperial Counties
Applicants:
Fresno County
40. Zavala County Economic Development Corporation
Crystal City, TX
Impact Area: Zavala County
Applicants:
Zavala County

COORDINATING COMMUNITY DEVELOPMENT CORPORATIONS'
ACTIVITIES AND COMMUNITY DEVELOPMENT BLOCK GRANT
PROGRAMS IN SPECIAL IMPACT AREAS

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Introduction

It is our contention that economic development is a required and essential activity to be promoted and carried out under Title I of the Housing and Community Development Act of 1974. This conclusion is reached by reviewing the Act itself in which Congress found and declared in §101(a) "that the Nation's cities, towns and smaller urban communities face critical social, economic, and environment problems. . .", and the purpose of the Act which Congress set forth in §101(c), stating:

The primary objective of this title is the development of viable urban communities by providing decent housing and a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income.

Further, we contend that Title VII of the Headstart, Economic Opportunity and Community Partnership Act of 1974 also requires that economic development be carried out in Special Impact Areas which are localities containing the nation's poorest citizens. These areas overlap those areas in which Title I activities take place.

We shall establish that it was congressional intent that the programs under these two laws be coordinated and shall suggest ways through which HUD should effectively discharge its legal responsibilities under Title I by seeking out and utilizing vehicles available to it in Special Impact Areas.

Underlining Public Policy and Purpose of the
Housing and Community Development Act of 1974 and
Title VII of the Headstart, Economic Opportunity, and
Community Partnership Act of 1974

Both the Housing and Community Development Act of 1974 and the Headstart, Economic Opportunity and Community Partnership Act of 1974 (popularly referred to as the Community Services Act of 1974), have as their primary goal, the improvement of the quality of life of the nation's low- and moderate-income people.

The Housing and Community Development Act of 1974 [HCDA of 1974] sets forth its primary purpose as:

the development of viable urban communities, by providing decent housing and suitable living environment and expanding economic opportunities, principally for persons of low and moderate income.¹

The purpose of Title VII as stated in the Community Services Act of 1974 [CSA of 1974] is:

the development of special programs by which the residents of urban and rural low income areas may, through self-help and mobilization of the community at large, with appropriate federal assistance, improve the quality of the economic and social participation in community life in such a way as to contribute to the elimination of poverty and the establishment of permanent economic and social benefits.²

¹Housing and Community Development Act of 1974, §101(c).

²Section 701, Title VII, P.L. 93-644.

Under §101(a) of the HCDA of 1974, Congress made a finding "that the Nation's cities, towns and smaller urban communities face critical social, economic and environmental problems. . ." (emphasis added). In §101(c) of the Act, Congress stated its goal as "providing decent housing and a suitable living environment and expanding economic opportunities principally for persons of low and moderate income." In so doing, Congress recognizes that three factors vital to the viability of a community were in grave danger and must be addressed--namely, housing, the environment, and economic opportunity. These findings and goals are significant in light of the fact that the Conference Report states that the House Amendment "...set forth the purpose of the Title as furthering the development of a national growth policy by consolidating certain programs."³

In adopting the Senate revisions, both houses recognized the necessity of going beyond the broad language of the original House amendment, to spell out clearly those factors necessary for the viability of a community: housing, the environment and economic opportunities.

To implement its program, Congress provided that communities submit a comprehensive three-year plan under §104(a) of Title I of the HCDA of 1974 as follows:

³Conference Report No. 93-1279, p. 4449.

No grant may be made pursuant to §106 unless an application shall have been submitted to the Secretary in which the applicant (1) sets forth a summary of a three-year community development plan which identifies the community development needs, demonstrates a comprehensive strategy for meeting those needs, and specifies both short- and long-term community development objectives which have been developed in accordance with area-wide development planning and national urban growth policy.

In light of Congress' expressed recognition of the three vital factors necessary for a viable community, a community development plan should include economic development as an element. However, §570.3003 of the Department of Housing and Urban Development (HUD) Regulations covering application requirements, while clearly recognizing that a community development plan must address itself to two of the congressionally recognized factors, housing and environment, does not mention the economic development component.

One reason given by HUD for its failure to treat economic development on an equal footing with housing and environmental development is that Congress specifically limited economic development as an eligible activity under Title I of the HCDA by placing it in §105(a)(8) of that title. There, economic development is an eligible activity under the general provisions of public services not otherwise available in areas where other activities under Title I are being carried out. HUD has limited economic development to

this public service category which was not Congress' intent. The Report of the Committee of Banking, Housing and Urban Affairs of the United States Senate evidences an entirely different intent in explaining the Senate Committee's desire to restrict the percentage of Community Development Block Grant [CDBG] funds for public services:

Specific percentage limitations were included in order to make clear the Congressional intent that community development funds be used chiefly for "hardware" rather than "software" activities, and for activities directed towards improving blighted or deteriorating areas or economic and social opportunities for persons of low and moderate income.⁴

While the Act itself did not impose the 20 percent limit, the Conference Report states "the conferees expect not more than 20 percent of any community's grants will be used to finance such activities."⁵ The language in the Senate Report indicates that it was the intent of Congress that Community Development Block Grant funds be used for hardware activities directed towards improving economic opportunities for low- and moderate-income people.

⁴Report of the Committee of Banking, Housing and Urban Affairs, U.S. Senate, to accompany S. 3066, page 52.

⁵Housing and Community Development Conference Report, No. 93-1279, page 4455.

The 93rd Congress also recognized the vital factors of the need for decent housing, a suitable living environment and economic opportunities in building a viable community when it enacted Title VII of the Headstart, Economic Opportunity, and Community Partnership Act of 1974.

Much has been written about whether HUD has met the congressional mandate that Title I monies under the HCDA of 1974 be directed "primarily for persons of low and moderate income."⁶ It is not the purpose of this paper to debate the issue. However, we do affirm that the primary purpose of the Act was to reach persons of low and moderate income.

Title VII is directed solely at the nation's poorest people. Its purpose is the elimination of poverty and the establishment of permanent economic and social benefits in low-income areas. These low-income areas are called Special Impact Areas and have special significance since they have been singled out as those areas which have a concentration or substantial numbers of low-income persons. To respond to the needs of these residents, the Act provides for the establishment of community development corporations

⁶HCDA of 1974, §101(c). For a discussion of the failure of HUD to implement the HCDA in a manner which meets the goals of reaching low- and moderate-income people, see, "Application Review Requirements Under the Community Development Block Grant Program, A Legislative History Analysis," by Frances E. Werner and David M. Madway, attached hereto as Appendix A.

(CDCs) which are responsible to residents of the area served through a governing board which must have not less than 50 percent of its members residing in the Special Impact Area. The CDC is required to carry out such programs as:

(1) community economic and business development programs, including but not limited to: (a) programs which provide financial and other assistance (including equity capital) to start, expand, or locate businesses in or near the area served so as to provide employment and ownership opportunities for residents of such areas, and (b) programs for small businesses located in or owned by residents of such areas;

(2) community development including industrial parks and housing activities which contribute to an improved environment and which create new training, employment, and ownership opportunities for residents of such area;

(3) training and public service employment programs and related services for unemployed or low-income persons which support and complement community development programs financed under this part, including, without limitation, activities such as those described in the Comprehensive Employment and Training Act of 1973; and

(4) social service programs which support and complement community economic development programs financed under this part, including but not limited to child care, educational services, health services, credit counseling, energy conservation, and programs for the maintenance of housing facilities.

The Special Impact Area has major significance in

relationship to the implementation of the Community Block Grant program by virtue of the fact that such areas contain concentrations of the nation's poorest people. The expenditure of Block Grant monies within these areas is a step to insure that the congressional goals of meeting the needs of low- and moderate-income people will be met. However, as significant as such expenditures are, equally important is the manner in which such monies are spent to insure revitalization of the area to meet the congressional mandate of creating viable communities. To insure that the mandate is carried out within the Special Impact Area, the community development corporation should be made a part of the process, both during the planning stage and implementation stage of the Block Grant program. The community development corporation is the logical vehicle for such activities since by legislative mandate it must be controlled by the residents of the Special Impact Areas. Therefore, citizen participation in the program is insured, and such participation and involvement insures that those whom the Act seeks primarily to reach would have some degree of control over how such programs would be implemented in the neighborhood. A brief look at the programs which community development corporations are required to carry out, as previously stated, will show that such programs must have as their goal the attainment of the three significant factors in the creation and

maintenance of a viable community as determined by HUD in the HCDA of 1974, namely, the housing, environment, and economic opportunity. The community development corporation is a ready-made tool for citizen participation, area-wide planning, and the implementation of the Block Grant program.

Coordination of Programs is Required by Congress

The suggestion that community development corporations play a larger role in the implementation of the Block Grant program is not a revolutionary concept. It is a logical implementation of Congress' stated intention that programs aimed at low- and moderate-income people be coordinated. That this was congressional intent is clear by reviewing both Acts discussed herein. Section 114 of Title I of the HCDA of 1974 states that:

In carrying out the provisions of this title including the issuance of regulations, the Secretary shall consult with other federal departments and agencies administering federal grant-in-aid programs.

Congressional intention was specific that the programs under Title VII of the CSA Act of 1974 be coordinated with HUD activities. Section 743 of that title directs that the Secretary of HUD take "all necessary steps to assist community development corporations and local cooperative associations" in their participation in HUD pro-

grams including Title I of the Housing and Community Development Act of 1974.

In practice, there has been little or no coordination of these programs. When there has been an effort at coordination, this effort has been the result of the initiative taken by the community development corporations and the National Economic Development Law Project. This initiative did result in a letter from former Undersecretary Meeker to local units of government containing, or contained within, Special Impact Areas. This letter encouraged the local units of government "to seek out the CDC's participation in development of the locality's community development program plans" and informed them that community development corporations could be recipients of Block Grant monies: ". . . [A] CDCs might receive assistance for rehabilitation and community improvement to local business concerns, and for other activities eligible under Title I of the Housing and Community Development Act of 1974" (see letter of David O. Meeker, Jr., attached hereto as Appendix B). While efforts such as Mr. Meeker's letter are encouraging, the coordination of programs established by Congress in Title I of the Housing and Community Development Act of 1974 and Title VII of the CSA of 1974 has not been realized.

Conclusion

To guarantee that the Block Grant program is administered in accordance with congressional intent, we are faced with the two-fold problem of ensuring that Block Grant funds reach those people they were intended to reach, principally low- and moderate-income people, and that the importance of expanding economic opportunities under the Block Grant program be emphasized as a major factor in reaching the goals set forth by Congress as vital components in developing viable communities.

We are not alone in recognizing the need to emphasize economic development as a vital part of the Block Grant program. The National Association of Housing and Redevelopment officials has suggested in its program for city rebuilding that:

Title I of the Housing and Community Development Act of 1974 should be amended to permit Block Grant funds to be used for the payment of reasonable administrative costs and the carrying charges related to the planning and execution of community development, housing, and economic development activities.⁷ (Emphasis theirs)

Like NAHRO, we believe that the Housing and Community Development Act should be amended to ensure that the attain-

⁷Journal of Housing, August 1976, p. 389.

ment of economic opportunity is given proper emphasis. Congress should consider defining economic development within the Act so that it is absolutely clear that Block Grant monies may and should be used for economic development.

Community development corporations provide a unique opportunity of channeling Block Grant funds into low-income neighborhoods in those areas where such corporations exist. HUD regulations should be amended both to ensure that the development of economic opportunities is given proper focus in preparing the overall three-year comprehensive plan for a locality, and that the input of community development corporations be required in those areas where they exist. The application review process should be strengthened to require that the application address itself to a stated objective of the Act, expanding economic opportunities.

We can no longer tolerate the luxury of uncoordinated federal programs. The implementation of the suggestions made in this paper would be a first step at developing both interagency cooperation and carrying out the goals of both Title I of the Housing and Community Development Act of 1974 and Title VII of the Community Services Act of 1974.

APPENDIX A

APPLICATION REVIEW REQUIREMENTS
UNDER THE COMMUNITY DEVELOPMENT
BLOCK GRANT PROGRAM--A
LEGISLATIVE HISTORY ANALYSIS

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INTRODUCTION

There is a growing suspicion on the part of lower-income groups that the 1974 Housing and Community Development Act, intended to be a special revenue-sharing program, is being administered by the U.S. Department of Housing and Urban Development (HUD) as if it were a no-strings-attached, general revenue-sharing program. The Act proclaims that its primary objective is to principally benefit lower-income groups, yet the community development block grant program, about to enter its third program year, has already rigidified in many communities into a pattern of benign neglect.

HUD protests that it cannot look over the shoulders of local governmental officials and suggest modifications of proposed activities as it could in the days of the categorical grants. Yet in deferring to the wisdom of local officials about how best to plan for community development, HUD has also abdicated the one clear responsibility imposed on it by the Act: to guarantee that federal objectives are met in a community's application for funding. In order to meet that responsibility, HUD should adopt a two-tiered test for review of applications:

(1) whether the proposed activities further the primary objective of the Act; and, if so,

(2) whether they are eligible under the Act.

The purpose of this memorandum is to review the legislative history leading up to the enactment of the 1974 Act to demonstrate that Congress did not lightly legislate in the interests of lower-income groups and that the two-tiered test proposed above is entirely consistent with the special revenue-sharing approach. It examines the importance of the primary objective, the nature of the application review procedures set up in the Act, and the abuses of the Act committed in the past two years by HUD.

The results of the research* are supportive of the conclusion that, contrary to HUD's position, the application review--not just the year-end performance review--must include a determination that the activities proposed principally benefit lower-income persons. Otherwise, HUD will be institutionalizing the annual expenditure of millions of dollars for purposes that do not serve the Act's principal beneficiaries.

I. THE PRIMARY OBJECTIVE OF THE 1974 HOUSING ACT:
THE SECTION THAT SPEAKS FOR ITSELF

After making its findings and declarations in Title I of the Housing and Community Development Act of 1974 that the very survival of our nation depends upon the survival of our urban centers, Congress stated,

* Transcripts of the Sen. Banking, Housing & Urban Aff'rs Comm. Oversight Hearings of Aug. 23-26, 1976 were not available at this writing; they will be incorporated at a later date.

The primary objective of this title is the development of viable urban communities, by providing decent housing and a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income.¹

Congress then outlined seven "specific objectives" for which community development funds may be utilized, so long as the activities are "[c]onsistent with this objective." As Judge Blumenfeld pointed out in Hartford v. Hills,² the focus of the primary objective is reflected in these seven specific objectives: four of the seven make express reference to the needs of low- and moderate-income persons and two make implied reference to the needs of low- and moderate-income persons.

The legislative history of the Act's primary objective, and the statutory mechanism ultimately chosen by Congress to make its primary objective operative,³ demonstrate the

¹42 U.S.C. §5301(c).

²408 F. Supp. 879, 898 (D. Conn., 1975).

³The primary objective is implemented at the local level in 42 U.S.C. §5304(b)(2), which requires the block grant applicant to certify--in a manner which satisfies HUD--that it has given "maximum feasible priority to activities which will benefit low- or moderate-income families or aid in the prevention or elimination of slums or blight."

importance with which it was regarded. Senate bill 3066, which went to the conference committee, is the origin of the wording of the primary objective provision. The Senate bill additionally would have prohibited the expenditure of more than 20% of community development funds for activities which did not "directly and significantly benefit low- and moderate-income families or blighted areas."⁴

The House bill which went to conference, H15361, on the other hand, contained neither an overall objective directing expenditures to the needs of low- and moderate-income persons nor a mechanism by which that objective would be implemented. The lack of a clear directive that funds must be spent on programs to aid low- and moderate-income families caused great concern to some members of the House. For example, Representatives Drinan and Harrington (Mass.) expressed a preference for the Senate bill's 20% limitation on expenditures which did not directly and significantly benefit low- and moderate-income groups, claiming that while local autonomy was desirable, it did not require federal relinquishment of overall program objectives.⁵ Representative Young (Ga.) opined that "[i]f

⁴Conference Comm. Rpt. No. 93-1279, Housing, Community Development P.L. 93-383, 1974 U.S. Code Cong. & Admin. News, 4453 (hereinafter, Conf. Rpt.).

⁵Remarks of Rep. Drinan, 120 Cong. Rec. 90, 93d Cong., 2d Sess. H5406 (June 20, 1974); remarks of Rep. Harrington, 120 Cong. Rec. 90, 93d Cong., 2d Sess., H5403 (June 20, 1974).

the experience with general revenue-sharing has been disappointing in terms of social programs, the administration's community development program will be disastrous."⁶

At conference, however, both bodies of Congress . . . agreed that the primary objective of the block grant program was the objective stated in the Senate bill. Accordingly, the conferees agreed that the funds should, 'to the maximum extent feasible,' be targeted to benefit low- and moderate-income persons and deteriorating areas,"⁷ Senator Taft (Ohio) introduced the amendment to the conference committee calling for maximum feasible expenditures on activities which would effectuate the Act's primary goal and while he felt that it was "not nearly as strong" as the original 80% requirement, he thought it provided a sufficiently clear federal directive.⁸

The directive, unfortunately, has not proven to be clear enough for HUD. It has taken the position that the maximum feasible priority provision overrides the primary objective provision. It has, in effect, interpreted the

⁶120 Cong. Rec. 90, 93d Cong., 2d Sess. H5401 (June 20, 1974).

⁷Remarks of Senator Sparkman (Ala.) introducing the Conference Comm. Rpt. to the Senate, 120 Cong. Rec. 123, 93d Cong., 2d Sess. S14879 (Aug. 13, 1974).

⁸120 Cong. Rec. 123, 93d Cong., 2d Sess. S14891 (Aug. 13, 1974).

Act to mean that the primary objective of principally benefiting lower-income persons may be ignored whenever a blight-reducing activity is proposed, regardless whether that activity fails to benefit, and even if it disadvantages, lower-income persons. This is permissible, according to HUD, because the applicant may certify that it is, to the maximum extent feasible, either aiding lower-income persons or preventing blight.⁹

This issue was the subject of a controversy between the NAACP and Santa Rosa, California and HUD in which the defendants prevailed on the meaning of the use of the disjunctive in the maximum feasible priority provision.¹⁰ Santa Rosa proposed to spend \$550,000 on acquisition and clearance of a Sears store which was located in a downtown redevelopment area. Plaintiffs complained, among other things, that the shopping center which would be built in Sears' stead would primarily benefit middle- but not lower-income groups. In finding that the plaintiffs' claim was without merit, the

⁹ See, e.g., Appendix I, where Acting Assistant Sec'y Butler responded to the National Housing Law Project's claim that the Act requires review of applications on the basis of the two-tiered test set out in Introduction, supra, and discussed in more detail infra.

¹⁰ NAACP v. Santa Rosa, 412 F. Supp. 102 (N.D. Cal. 1976).

Court failed to discuss the primary objective provision but looked solely to the seven specific objectives which follow the primary objective, noting that the elimination of blight is an approved specific objective.¹¹ The Court also found significant the fact that acquisition and clearance activities fall within 42 U.S.C. §5305's listing of eligible activities.¹²

This line of reasoning is simply not supported by the statute itself or the legislative history.

The principal defect in the Court's decision was its failure to observe that while one of the seven specific objectives in 42 U.S.C. §5301(c) is the elimination of blight, under the express terms of §5301(c) all seven objectives may be undertaken only if they are "[c]onsistent with [the] primary objective" of principally benefitting lower-income groups. Whether or not the activity is "eligible" under §5305 is irrelevant to this inquiry.

What little legislative history there is on what constitutes appropriate blight-reducing activities under the Act also casts grave doubt on the correctness of the Court's ruling in Santa Rosa. When the House bill was being discussed on the floor, Representative Vanik (Ohio) brought

¹¹Id. at 109.

¹²Id. at 110.

up the question of the type of downtown or industrial redevelopment of blighted areas permitted by the bill. He began by noting that such activity would appear to be within the parameters of the bill's listing of eligible activities. He further pointed out the plight of the cores of older urban cities and the job loss suffered there due to the migration to suburbia of companies, and he finally stated:

Mr. Chairman, I would hope that the new community development bill would have enough flexibility to permit the use of formula allocations for land bank and industrial park purposes. I have received assurances from the chairman of the committee in the other body that, as long as such a land bank project was designed to assist low- and moderate-income individuals and fit into a city's overall development plan, such expenditures would be permissible under the bill passed by the other Chamber. I hope that this committee will also support this type of program.¹³

In the Santa Rosa case, if the proper test were applied, the redevelopment project at issue should have been disapproved by HUD because no showing could be made of a nexus between the proposed use of the area and the benefit to lower-income groups.

The Comptroller General's Report of June 23, 1976, requested by the Chairman of the Subcommittee on Housing and Urban Affairs of the Senate Committee on Banking, Housing and Urban Affairs, shows the confusion of HUD officials due

¹³120 Cong. Rec. 90, 93d Cong., 2d Sess., H5423 (June 20, 1974).

to HUD's failure to develop standards to implement the primary objective of the Act and its maximum feasible priority provision. The Report notes that HUD has failed to define what the maximum feasible priority provision means in its regulations¹⁴ and, as a result, the HUD officials interviewed, confused as to its meaning, did not conduct an independent review of the application to determine the veracity of a local community's certification. Half of the HUD officials responded that the phrase had little or no meaning at all; a couple said that if 51% of the expenditures benefitted lower-income census tracts or prevented blight, that was sufficient; two others thought that whatever was of the highest priority to the local citizens should receive maximum feasible priority.¹⁵

¹⁴Daniel Moynihan in Maximum Feasible Misunderstanding (1969), which discusses a similar provision in the 1964 Economic Opportunity Act creating Community Action Agencies, notes that there the phrase "maximum feasible" participation was included without any legislative history to assist in its definition. The same cannot be said of the "maximum feasible" priority clause of the 1974 Housing Act and there is no reason why it should suffer the same fate of "souring rhetoric" and "minimum performance" as did the war on poverty. Id. at 203.

¹⁵Report of the Comptroller General, Meeting Application and Review Requirements for Block Grants under Title I of the Housing and Community Development Act of 1974 (June 23, 1976) pp. 10-12.

The following exchange between Senator Proxmire and Secretary Hills best illustrates the reason for HUD field office confusion. Secretary Hills was asked what criteria HUD had developed to provide guidance to applicants in making their maximum feasible priority certification. She responded:

First, let us start with the proposition that the legislation does not require those communities to address exclusively the needs of our lower income population. The statute provides that the funds may be used to eliminate blight, to meet urgent community development needs and to address the needs of lower income citizens.

We have been assessing those goals and are now in the process of getting the first year performance reports from the local communities.

Senator Proxmire. Let me read from the law. I think we may have a difference of opinion on this matter. In title I, section 101(c), the law states 'the primary objective of this title is the development of viable urban communities, by providing decent housing and a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income.'

Secretary Hills. That is the purpose of the entire act. But I think you will find that in the legislation governing title I, there are three criteria.

Senator Proxmire. I am reading from title I itself. It is the primary objective of this title, title I, the community development portion of the act.

Secretary Hills. That is a primary objective and there is an enumeration of objectives that follow, set out in section 101(c).

The list includes the elimination of slums, the elimination of conditions which are detrimental to health, the conservation and expansion of the Nation's housing supply, the expansion and

improvement of community services, a more rational utilization of land, the reduction of the isolation of income groups within communities, and the restoration and preservation of properties of special value for historic, architectural or esthetic reasons. These activities are all enumerated by the Congress as purposes for which the funds should be spent.

Senator Proxmire. Exactly right. Those particular clauses that you have read are all subordinate to the initial statement that 'the', not 'a', but 'the primary objective of this title is the development of viable urban communities, by providing decent housing and a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income.'

Secretary Hills. I do not disagree with your reading. I think the section speaks for itself.¹⁶

If the section speaks for itself--as indeed it does--it is more than passing strange that Secretary Hills should have initially responded to Senator Proxmire that the funds may be used to (1) eliminate blight, (2) meet urgent needs and, finally, (3) address the needs of lower-income groups.

II. THE 1974 HOUSING ACT'S APPLICATION REVIEW PROCEDURES REQUIRE HUD TO MAKE AN INDEPENDENT DETERMINATION THAT THE PRIMARY OBJECTIVE OF THE ACT IS CARRIED OUT

Under the Act, the Secretary of HUD is required to approve an application unless:

- (1) on the basis of significant facts and data, generally available and pertaining to community and housing needs and objectives, the Secretary determines that the applicant's description of such needs and objectives is plainly inconsistent with such facts or data; or

¹⁶Senate Hearings before a Subcommittee of the Comm. on Appropriations, 94th Cong., 2d Sess., Pt. 4, pp. 1239-40.

(2) on the basis of the application, the Secretary determines that the activities to be undertaken are plainly inappropriate to meeting the needs and objectives identified by the applicant pursuant to subsection (a); or

(3) the Secretary determines that the application does not comply with the requirements of this title or other applicable law or proposes activities which are ineligible under this title.¹⁷

The third basis for disapproval clearly encompasses the situation where a community's application fails to further the primary objective of the Act. This view is not only compelled by the plain meaning of the statutory language, but it is also amply supported by the legislative history.

The Conference Committee was faced with differing House and Senate application and review requirements and chose the more simplified House approach. The Senate bill would have required communities to submit much more supporting data generally on community development needs than did the House bill.¹⁸ The application review imposed on HUD

¹⁷42 U.S.C. §5304(c)(1)-(3). (Emphasis supplied.)

¹⁸Senate Rpt. No. 93-693 of the Comm. on Banking, Housing and Urban Affairs to Accompany S.3066, 93d Cong., 2d Sess., 55. (Hereafter Senate Report.) The Senate would have required applicants "to submit a reasonable amount of supporting data and descriptive information to satisfy the Secretary that they have pressing development needs and a program to develop a more viable community in a manner which meets the bill's requirements." Rep. Blackburn, who was Chairman of the House Republican Task Force on Housing, characterized the House application and program requirements which were adopted by the conferees as "less restrictive." 120 Cong. Rec. 125, 93d Cong., 2d. Sess., H8432 (Aug. 15, 1974).

was necessarily more demanding because of the amount of supporting data to be received, and HUD was given 90 days to conduct it. But even the Senate professed to be reducing the amount of "second-guessing," the chief complaint by local governmental units of the categorical grant program, by its "shift from project to program review."¹⁹ The Conference Committee, however, opted for the House procedures which required documentation of housing needs only, and which set up the "plainly inconsistent," "plainly inappropriate," and violation of the Act tests cited above. The amount of HUD review time--75 days--represented a compromise between the 90 days provided by the Senate and the 60 days afforded by the House.

Whatever the difference between the House and Senate in their choice of statutory language setting up application and review requirements, it is clear that the intent of both houses was to design a procedure which would ensure that the goals of the Act would be met with a minimum of bureaucratic red tape. For example, the House Committee said of the application review standards ultimately adopted by Congress:

The bill establishes a review process which the Committee believes strikes a reasonable balance between the needs of communities for prompt processing of grant requests, on the one hand,

¹⁹Senate Report at 56.

and the need to assure that Federal funds will be used to achieve national objectives, on the other.²⁰

The House Committee went on to say:

The Committee believes these review requirements provide communities substantial latitude and flexibility to determine their particular needs and the range of activities they deem necessary to meet those needs, without derogating from HUD's responsibility to assure that nationally-established objectives are being met in a reasonable manner.²¹

The inference is fairly strong that Congress, in striking a balance between local flexibility and the achievement of national goals, intended that HUD stay within the four corners of an application in conducting its review-- unless, of course, significant, generally available facts and data contradicted a community's statement of needs and objectives. The House Committee's examples of the "plainly inconsistent" or "plainly inappropriate" tests support this inference: if a community misstated its housing needs, or failed to address them, both tests are failed.²² Even the Senate, with its more detailed application requirements,

²⁰House Report No. 93-1114, Committee on Banking and Finance to Accompany H15361, 93d Cong., 2d Sess., 8 (Hereafter House Report.).

²¹Id. at 8.

²²House Report at 9.

spoke of the need for a "substantial reason to believe the requirement of the bill will not be fulfilled" ²³ A facial review was recommended early on by witnesses testifying on behalf of the special revenue-sharing approach, ²⁴ and Congress expressly deferred a more detailed review by establishing a year-end performance reporting requirement. For example, the House Committee said of the performance reports:

²³Senate Report at 58.

²⁴For example, Roman S. Gribbs, testifying on behalf of the U.S. Conference of Mayors and National League of Cities at the Hearings on S.1743 and 1744 (Better Communities Act) of the Sen. Subcom. on Housing and Urban Affairs, 93d Cong., 1st Sess., 451, said:

"The primary role for HUD should be to determine at the beginning of each year whether, on the face of the application, the community has complied with the process set forth by the statute."

Similarly, Hugh McKinley of the International City Management Association, testified,

"We would hope that HUD's review of an application be limited to seeing that the application meet specific national goals and that it is workable and that the review take not more than two or three months."

Id. at 496.

The Committee wishes to emphasize the importance of these post-audit and review procedures to be conducted by the Secretary. Since federal application review requirements are being simplified to such a great extent, the post-audit and review requirements will serve as a basic assurance that block grant funds are being used properly to achieve the bill's objective.²⁵

It appears, however, that HUD has taken the position that the Act requires a determination that the primary objective is being met only at the performance review stage. The Comptroller General's report reflects utter confusion within HUD as to the level of application review, if any, of the maximum feasible priority certification. For example, the Under Secretary of HUD in 1975 told the Senate Appropriations Chairman that HUD employees were required to make a specific finding that the application's proposed activities met the maximum feasible priority standard. Approximately one year later, HUD had failed to develop criteria for such a determination.²⁶ Moreover, HUD indicated to the Comptroller General that even if criteria were developed, they would probably not be quantitative (as urged by the Comptroller General) and that they would probably not be applied at the

²⁵House Report at 10.

²⁶Note varying field office interpretations, discussed supra, at 9 as a result of this failure to develop standards.

application review stage, but rather at the performance review stage. This last position appears to be current HUD thinking. Immediately after Secretary Hills commented to Senator Proxmire that the primary objective provision of the 1974 Act "speaks for itself,"²⁷ the following exchange took place:

Senator Proxmire. Let me proceed. Do HUD reviewers apply such specific criteria to make a determination before an application is approved or do they accept the applicant's certification without reviewing the application in terms of maximum feasible priority?

Secretary Hills. We have departmentwide monitoring. HUD does monitor, but HUD does not mandate. We are providing a regional monitoring system. We are requiring a guarantee to file a performance report.²⁸

It must be concluded that HUD does not apply any criteria at the application review stage and that HUD is still clinging stubbornly to the notion that a performance review will adequately determine whether the goals of the Act are being met. HUD will check to see if the barn door is open only after the horses have fled.

III. GOLF COURSES AND MONUMENTS TO LOCAL HEROES: A PROPOSED HUD REVIEW TO FURTHER THE PURPOSES OF THE 1974 ACT

The preceding sections support the conclusion that HUD would be reasonably interpreting the statute if it developed

²⁷Supra, p. 11.

²⁸Senate Appropriation Hearings for 1977, at 1240.

standards to determine whether, on the face of the application:

(1) proposed activities principally benefit low- and moderate-income persons; and, if so,

(2) whether the proposed activities are eligible.

Yet, while it could even be said that the Act mandates such a basic two-tiered test, the evidence compels the conclusion that HUD, except in rare circumstances,²⁹ utilizes only the second prong of the test.

Senator Taft, in describing the Conference Report to his colleagues on the floor of the Senate, said of the 1974 Act:

If sensibly administered it should help assure that community development does not become something akin to a duplication of a general revenue-sharing program, in which expenditures for slum clearances, golf courses, housing and neighborhood preservation and monuments to local heroes are not assigned priorities in terms of the Federal law.³⁰

²⁹ HUD disapproved seven applications for program year 1976-177. 4 Housing and Dev. Rptr. 297 (Sept. 6, 1976). One applicant was disapproved because it flunked its performance review. 3 Housing and Dev. Rptr. 1107 (April 19, 1976). The remaining six applicants were disapproved because they had either failed to identify their housing needs correctly or they had failed to set up appropriate goals to meet correctly-identified housing needs. 4 Housing and Dev. Rptr. 23 (June 23, 1976) and 4 Housing and Dev. Rptr. 297, *supra*. No applicant was rejected because its community development program and the activities it had chosen to fund failed to principally benefit lower-income persons.

³⁰ 120 Cong. Rec. 93d Cong., 2d Sess., 123 (Aug. 13, 1974) S14891.

The kindest thing that can be said is that HUD has failed to administer the Act "sensibly" by approving golf courses and tennis courts--³¹though, gratefully, no instances of block grant-funded monuments to local heroes have been reported.

When former Assistant Secretary for Community Development Meeker was recently questioned about Little Rock, Arkansas' expenditure of \$150,000 for construction of tennis courts, he demurred:

We have reviewed their application and find that there is not any line item identifying a tennis court at all. What there is is money for the acquisition of land for tennis courts and lighting of existing courts.

The land appears from our first analysis to be located in a census tract containing low and moderate income people.³²

³¹In a recently-filed lawsuit, it is alleged that nearly one-half of Davenport, Iowa's \$925,000 block grant funds will be used for parks and tennis courts in upper-income neighborhoods. 4 Housing and Dev. Rptr. 481 (Nov. 1, 1976). In Alhambra, California, the filing of a lawsuit prompted the city to change its mind about devoting \$156,000 to a golf course. Property Management Journal, 9 (June, 1976).

³²Hearings before a Subcomm. of the House Appropriations Comm., Dep't of Housing and Urban Dev. - Independent Agencies Approp's for 1977, Pt. 6, 745. (Hereafter House Appropriations for 1977.)

HUD operates on the assumption that if a block grant-funded activity is in a census tract which contains some low- and moderate-income persons, then the activity is for the benefit of those persons. Former Assistant Secretary Meeker's response to the abuses alleged in a report of the Southern Regional Council can be summarized as follows:

1. Tennis courts were justified because the census tracts chosen contained 25%, 27%, 35% and 39% low and moderate income persons. One tennis court got by as an 'urgent need.'
2. A public road which leads to a country club was justified because it divided 2 community development areas, and upgrading roads in such areas is an eligible activity.³³

The notion that if the activity is eligible then it is unassailable was seen in HUD's response to an Urban League study which concluded that while one-half of the expenditures in the 27 communities studied benefitted lower-income persons, one-third of the expenditures were counter to the welfare of lower-income persons.³⁴ Secretary Hills criticized the Urban League's failure to "look at the various statutory purposes" and its small sample compared to the 1,321 applicant communities.³⁵

³³House Appropriations Hearings for 1977 at 747.

³⁴Cited in Senate Appropriations Hearings for 1977 at 1242.

³⁵Id. at 1242. HUD also criticized the Southern Regional Council sample as not being statistically representative, House Appropriation Hearings for 1977 at 747. Yet, if so many abuses are found in so few communities, one wonders why HUD does not attempt to remedy the abuse instead of worrying about statistically reliable samples.

Problems connected with HUD's refusal to look beyond the eligibility factor are compounded when a community proposes a commercial or economic development project. The problem that often arises in connection with commercial redevelopment projects and the designation of a particular area as "blighted" is the definition of blight itself. HUD has traditionally left that definition to state and local law and current block grant regulations similarly defer.³⁶ As a result, activities are funded with block grant money which are not only of highly doubtful value to lower-income persons, but which also may be located in areas which are not in fact "blighted." Unfortunately, Senator Taft, in discussing the Senate bill, was overly-optimistic about the manner in which communities would define blight and propose activities to arrest it, when he said:

Activities destined to take place in blighted or deteriorating neighborhoods should be easy to distinguish from other activities. Whether a neighborhood should be considered 'deteriorating' can be determined partly by the activity proposed for it. For example, sensible activities along the lines of a code enforcement program normally would be proposed only for an area which could be classified as 'deteriorating'. In general, a neighborhood should be considered to be deteriorating if its long-term stability is presently threatened. That is not by any means an enormously difficult judgment to make.³⁷

³⁶24 C.F.R. §570.200(a)(1)(i).

³⁷120 Cong. Rec. 31, 93d Cong., 2d Sess., S3364 (March 11, 1974).

The present threat of blight often is translated into the possibility of a future threat, especially by suburban communities who wish to undertake shopping center redevelopment.³⁸ And in some cases, where an entire city is declared blighted because it suffers from numerous, scattered blighted areas, HUD has no way of determining whether the location of specific block grant-funded activities are in truly blighted areas. In defending its approval of construction of a fire house in Gulfport, Mississippi, HUD noted that the entire city had been designated an urban renewal area for the reason mentioned above, and the fire house, which was located downtown, could also serve adjacent lower-income neighborhoods.³⁹

Results like this will continue to obtain so long as HUD looks first to see if an activity is eligible and if it only secondarily, if at all, looks to see whether lower-income persons are beneficiaries.

³⁸Joe Guggenheim, Coalition for Block Grant Performance, in an Issue Paper for HUD Consumer Forum on the Block Grant Program, 3, submitted to HUD's Ass't Sec'y for Consumer Aff'rs, dated Oct. 27, 1976 wrote that the rationale offered by suburban Detroit officials is that the shopping districts "enhance property values and, in the long run, help to prevent the outset of blight."

³⁹House Appropriations Hearings for 1977 at 747. The Southern Regional Council had called the city's action a subversion of the 1974 Act.

HUD-55 (7-75) PREVIOUS EDITION MAY BE USED

*Memorandum*U.S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT

TO : Betty Adams Raymond Brown DATE: November 24, 1976
 Joseph Guggenheim Rick Eison
 Glenda Sloane Malachi Knowles
 Robert Ginsburg Kwane McDonald
 Pete Buchsbaum Don Slator
 Christopher Alston Mary Bates
 Connie Maffin Frances Warner

FROM : Tom Fox

James Brodsky

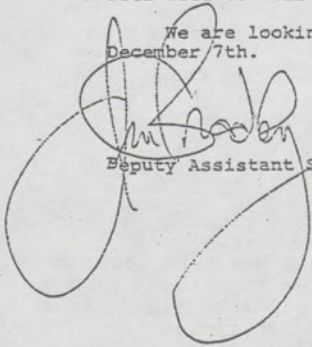
IN REPLY REFER TO:

SUBJECT: Submission to and reply from Community Planning and Development

As a follow-up to our meeting of October 29, 1976, we have enclosed a copy of our memorandum to the Acting Assistant Secretary for Community Planning and Development and his response to the issues we outlined. Your reaction to Community Planning and Development's responses will be discussed in the meeting of December 7th.

If you have any questions prior to the meeting, feel free to call either myself or Joseph Smith.

We are looking forward to an active session on December 7th.



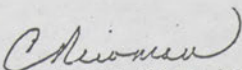
Deputy Assistant Secretary

Memorandum

U.S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT

TO : Warren Butler, Acting CFD Assistant Secretary DATE: November 24, 1976

IN REPLY REFER TO:

FROM : 
Constance B. Newman, Assistant Secretary for
Consumer Affairs and Regulatory Functions

SUBJECT: December 7th Consumer Forum

Thank you for your very helpful response to our November 3 memo setting forth the views, concerns and recommendations of several consumer and public interest groups about the block grant citizen participation and complaint handling process. We recognize that this is an especially busy time for you, and are grateful for the time taken to respond as carefully as you did, and as promptly. We think your memo, which we have forwarded to all who have participated with us thus far, provides the basis for an intelligent discussion of the issues that have been raised, and eagerly anticipate our December 7th Consumer Forum and your participation in it.

In this period prior to the Forum, we know that you and your staff will be carefully examining the individual papers submitted by the various groups, and not just the summary which we prepared. As you are aware, we consider these individual papers to be at the heart of our December 7th meeting, and expect that the authors of these recommendations, who will be with us, will justifiably be pressing for particularized responses to the very specific suggestions they have made. We are hopeful, for example, that the detailed discussion of the "Pre-application," "Public Hearings," "Application," "Citizen Participation," and "Complaint Handling" subjects in our memo, which was generally deferred in your response, will be forthcoming at the Forum, and that further information about the status of your evaluation work and studies will be shared at that time. If you have additional data prior to the December 7th meeting, we would, of course, be delighted to distribute it in advance.

Again, we thank you for your very constructive participation in this process of trying, together, to fashion the best possible community development block grant program.

HUD-24 (4-72) PREVIOUS EDITION MAY BE USED

*Memorandum*U.S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT

TO : Constance B. Newman, Assistant Secretary for DATE
Consumer Affairs &
Regulatory Functions, M IN REPLY REFER TO:
C

FROM : Warren H. Butler, Community Planning
and Development, C

SUBJECT: Consumer Forum in Citizen Participation/Complaint
Handling in the CDBG Program

I welcome the opportunity to deal with the CDBG issues surfaced through your consumer communications network. Your memorandum of November 3, 1976, has been a most helpful document. It pulled together the comments from the separate organizations with their differing perspectives, and prompted us to deal with the issues in what we hope will be a responsive manner.

The combination of the time constraints and the voluminous materials provided by the organizations precluded a definitive response to each of the papers. We have, however, provided a separate statement for each of the areas addressed in the recommendations summarized in your memorandum. These statements address the areas of (1) Evaluation, (2) Monitoring, (3) Citizen Participation-related issues, (4) Maximum Feasible Priority, and (5) Housing Assistance Plans. Within the body of each of these statements we will address the related specific claims (identified herein as Findings) summarized on page 2 of your memorandum.

I look forward with eager anticipation to the December 7 meeting of the Consumer Forum when these issues can be further refined. Such an effort, as part of a continuing dialogue between the Department and the affected consumers groups, should greatly enhance the effectiveness of the Department's community development efforts.

Acting Assistant Secretary

EVALUATION OF CITIZEN PARTICIPATION

The Office of Evaluation, CPD, recognizes that citizen participation is an important aspect of the Community Development Block Grant (CDBG) Program that provides citizen input into program development and local accountability for program results. The Office also recognizes that the subject was given little attention in the First Annual Report. A substantial study effort has been underway since mid-August, with results now being put in final shape for the Second Annual Report.

The approaches being taken in the current study, the sources of information that are being used, and some tentative conclusions and the tendencies that are emerging from the study are as follows:

The evaluation effort for citizen participation has sought to assess the following questions:

1. Through what means and with what success have recipient jurisdictions disseminated information, attained citizen input, and involved citizens in the program?
2. What types of groups have been involved and to what extent?
3. What has been the degree of involvement by citizens in various stages of the program: developing the application, implementing the program, and monitoring progress?
4. What has been the impact of citizen participation as indicated by the success of citizens in influencing programs undertaken in the program?
5. What complaints and legal challenges have been raised by citizens and public interest groups, and to what extent have these had an impact on the program?
6. How do citizens assess the citizen participation process and what changes have they recommended?

The sources of information for the citizen participation study efforts are a survey of citizens in 40 cities, a survey of the HUD Regional Citizen Participation Advisers, analysis of relevant questions from a survey from all local governments that have received funds from the CDBG Program (Experience Survey), site visits and examination of HUD records and reports on complaints and monitoring. The surveys of citizens and HUD regional offices were designed to obtain information to be used along with the reports from local officials. The citizen

questionnaire was administered to two persons in the community development program recommended by local officials and two leaders of public interest groups identified independently of local officials in each of 40 cities. The questionnaire covered citizen recommendations and officials response, assessment of the citizen participation process, and extent of involvement by citizens in the program. The other survey was administered to the Citizen Participation Adviser in each HUD Regional Office, and covered levels of involvement, impact of citizen participation, complaints, and a review of successful citizen participation programs and problems with citizen participation. The results from this study effort will be included in an expanded section in the Second Annual REport on the CDBG Program, which will be released in January 1977.

In addition to this in-house research, the Office of Evaluation has also cooperated with the Special Assistant for Citizen Participation, CPD, to amend and expand a contract for on-site investigation of the CDBG Program (and the 701 Program) in 40 jurisdictions. Based on experience gained in the in-house telephone survey, the amended contract will involve an intensive examination of the extent and impact of citizen participation, as well as study structure and process. This work is being done by the National Citizen Participation Council (NCPC), an organization which has been an active participant in public affairs as well as an observer of citizen participation. The report and recommendations from NCPC will be available by June 1977.

With much of the research on citizen participation in progress, few results are available. For purposes of discussion, however, two tentative conclusions can be offered.

First, based on reports from the HUD Citizen Participation Advisers in the Regional Offices, almost all (88 percent) of the block grant entitlement cities are complying with the legislative and regulatory requirements for citizen participation.

Second, beyond the regulatory requirements, cities vary in every dimension of performance and success we have examined: efforts by government, involvement by citizens, impact of citizens, and satisfaction with the process. In many cities, citizen participation could be dramatically improved, as a number of critics have charged. In a large number of cities, an effort is made to obtain citizen input and involve citizens in making recommendations that exceed a narrow interpretation of the regulations. In some cities, there is extensive involvement with substantial impact. An important topic for the CARF Group to address (as they have begun to do in the position papers) is how active citizen participation can be attained (i.e., the observed variation reduced) by changes in the law or the administration of the program that are consistent with local discretion inherent in the block grant approach.

Set out elsewhere in this analysis, is a more detailed statement regarding the findings and recommendations concerning citizen participation.

COMMUNITY DEVELOPMENT BLOCK GRANT BENEFICIARIES

HUD studies do not substantiate the claim that CDBG funds have not been expended for activities that serve the intended beneficiaries, principally lower income persons. In the First Annual Report on Community Development Block Grants, HUD used two different techniques to estimate the percentage of funds benefitting low and moderate income families. One of these methods showed that 71 percent of the 1975 CDBG funds was to benefit low- or moderate-income areas. The other method showed 69 percent. For the Second Annual Report, due to the Congress December 30, 1976, HUD has used six different methods for determining low or moderate income benefit. Preliminary results show that low and moderate income persons continue to be the principal beneficiaries.

First Annual Report Findings

Several groups have taken issue with the findings that HUD reported in the First Annual Report relating to the percentage of funds benefitting low or moderate income persons. However, of the two techniques that HUD used to estimate the percentage of funds benefitting low and moderate income families, the first was similar in all but two aspects to that used by other researchers in their studies. HUD categorized all census tracts receiving CDBG funds in 151 sample cities into four types according to the relationship of their median income to the SMSA median: 0-50 percent of SMSA median, 51-80 percent, 81-100 percent, and above 100 percent. Low income was defined as being those tracts with median incomes of 0-50 percent of the SMSA median and moderate income was defined as 51-80 percent of the SMSA median. This technique showed how much money, excluding administration (10 percent of the total funds), planning and studies (4 percent), contingencies (5 percent), and citywide activities (11 percent) which have no traceable benefit, was going to each census tract in each category. This first technique showed that low and moderate income persons were the principal beneficiaries of CDBG funds since they were targeted 69 percent of the funds.

The differences between the percentage calculated by HUD and other researchers is found in two assumptions that HUD used and the others did not: (1) HUD excluded citywide activity costs from the computations, and (2) used SMSA median income instead of city median income. If HUD's technique and the other studies are adjusted to conform with each others' assumptions, then the results are virtually the same. For example, NAHRO's study concluded that 51 percent of the CDBG funds are programmed for low and moderate income census tracts. If their study is adjusted such that the assumption used by HUD are included, their study would have shown 73.7 percent of the funds benefitting low and moderate income families.

A second technique that HUD used to estimate benefit to low and moderate income families ranked all census tracts in each of the 151 sample cities - both those receiving funds and those not - by their median income level from the highest to lowest. The technique then broke these ranked tracts in each city into four equal groupings (quartiles) and showed how much CDBG funds were programmed for each quartile. The quartile at the lowest end of the rank ordering was considered to be low income while half of the second lowest was moderate income. Again, as with the first technique, program activity funds which could not be traced as falling within any specific definition of benefit were excluded: administrative costs, planning and studies, unspecified contingencies, and city-wide project funds.

This second technique which showed that a majority, 71 percent, of the CDBG funds were targeted for low and moderate income persons was used by HUD because of deficiency in the first technique. That deficiency was that tracts which had the lowest median income in a community were not considered to be low when compared to the SMSA median income. Yet, these were the census tracts in which the community was targeting its CDBG funds. The result was that a smaller percentage of the funds are targeted for low income areas by this technique.

The second technique, on the other hand, shows these areas as being the low income tracts in the city since they fall into the lowest quartile. As a result, a larger percentage of the funds are targeted for low income areas by this technique.

Second Annual Report Findings

Since the final calculations for the Second Annual Report are not available at this time, the methods used to determine benefit to low or moderate income persons will only be described briefly.

As a result of the comments regarding the findings published in the First Annual Report on benefit to low and moderate income families, HUD has examined this issue for the Second Annual Report using six methods. Two of these methods were those used in the First Annual Report. Two other methods have expanded on the SMSA Median Income Method using the city median and the national median. Another method is a variation of the quartile method and is the most complex of all the methods. A final method examines the 1975 expended funds from the perspective of where the activities that are underway or completed are located and what percentage of the population benefitting is lower income. This method gets away from the census tract analysis and into determining what income population is benefitting from CDBG funds.

Preliminary calculations from these various methods show that communities are making the low and moderate income persons the principal beneficiaries.

Conclusion

At issue here is not whether CDBG funded activities are serving the intended beneficiaries, because HUD has shown that lower income persons are the principal beneficiaries. At issue is how "principally lower income" should be defined.

HUD is well aware that the Act states that "the primary objective of this title is the development of viable urban communities, by providing decent housing and a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income." HUD is also aware that four of the seven specific objectives include the reference to persons of low- and moderate-income or to persons of lower income. However, community development block grant applicants are also bound by the certification in Section 104(b)(2) which states:

Any grant under the title shall be made only on condition that the applicant certify to the satisfaction of the Secretary that its Community Development Program has been developed so as to give maximum feasible priority to activities which will benefit low or moderate income families or aid in the prevention or elimination of slums or blight. The Secretary may also approve an application describing activities which the applicant certifies and the Secretary determines are designed to meet other community development needs having a particular urgency as described in the application. (Emphasis added)

The scope of this provision is discussed more fully below in the statement dealing with forum participants' specific recommendations. That analysis is compatible with the emphasis in the primary objective on low and moderate income persons.

A-95 Process and CDBG

All applications for CDBG funds must be submitted for review and comments to the appropriate areawide and State A-95 clearinghouses. Assurances by the applicant that this has been done are part of the application package. Also, HUD area offices have been instructed not to accept applications without A-95 comments or a waiver of comments.

The Office of Evaluation, CPD, has recently completed a study entitled, A-95 Project Notification and Review System: An Evaluation Related to Community Development Entitlement Block Grants, which is now being printed.

The study included an in-house review of 151 metropolitan applicants. Compliance with the terms and conditions of A-95 was met by all applicants reviewed. The second phase was an on-site evaluation of 18 entitlement recipients including their 17 corresponding areawide clearinghouses and 7 State clearinghouses, and 7 HUD area offices.

The study results indicated that comprehensive areawide housing plans were used as the A-95 standard to review Housing Assistance Plans by 76 percent of the areawide survey, whereas only 29 percent of the State clearinghouses surveyed had State housing policies or plans to use as the A-95 standard. Many areawide clearinghouses had comprehensive plans for A-95 standards in such areas as transportation, recreation, open space, solid waste, drainage and waste water management. Generally, state plans and policies do not exist in these areas. Where metropolitan or regional plans and policies existed in housing and community development areas, they were used by the clearinghouses to review CDBG applications.

The clearinghouses with such plans and policies made more substantive and useful input into the A-95 process than others lacking such standards. It was noted that often community development projects and activities are of such a local nature (street repair) to not have any impact on metropolitan or regional plans.

HUD area offices noted that a deficiency in the A-95 process was the lack of substance to the A-95 comments by clearinghouses often reflecting the absence of plans and policies in the housing and community development area.

GRANTEE PERFORMANCE REPORT

The Grantee Performance Report which is required of all CDBG recipients on an annual basis does require data indicating beneficiaries by income level, race, and sex. Specifically:

- Form I-A - Households Benefitting from Activities Underway or Completed-Physical and Capital Improvements requires data on percentage of lower income and minority households benefitting.
- Form I-B - Population Benefitting from Activities Underway or Completed-Services or Assistance requires data on percentage of lower income, percentage of male, percentage of female plus minority population benefitting by sex.
- Form I-C - Relocation Funded under CDBG requires data on relocation workload by minority and sex.

- Form V-A - Equal Opportunity in CDBG Programs or Activities requires information on steps taken to identify low and moderate income needs and actions taken to correct conditions limiting minority participation.
- Form V-B - Fair Housing requires information on specific actions which can be taken to provide for greater housing opportunities for minorities and women.
- Form V-C - Provides data on actions to prevent discrimination in the sale, rental, and financing of housing.
- Form V-D - Entrepreneurship and Employment requires data on using lower income residents as trainees and employees; affirmative action plan for Section 3 Businesses; and minority owned commercial banks, savings and thrift institutions.
- Form V-E - Title I Assisted Prime Contracts over \$10,000 requires data on contracts concerning whether it was an eligible Section 3 business, competitive, minority or female contractor.
- Form V-F - Title I Assisted Sub-Contracts over \$10,000 requires the same data as Form V-E.
- Form V-G - Recipient Employment requires data on total employment for minorities, and by sex according to salary range.

Monitoring Under the Community Development Block Grant Program

Section 104(d) of Title I of the Housing and Community Development Act of 1974 provides that:

"The Secretary shall, at least on an annual basis, make such reviews and audits as may be necessary or appropriate to determine whether the grantee has carried out a program substantially as described in its application, whether that program conformed to the requirements of this Title and other applicable laws, and whether the applicant has a continuing capacity to carry out in a timely manner the approved Community Development Program."

The provisions of 24 CFR 570.909, further delineate this responsibility.

HUD Handbook 6500.1 sets forth the general methods and standards for carrying out the Department's responsibilities for program monitoring under Section 104(d). Pursuant to those guidelines, each of HUD's ten Regional Offices devised its own monitoring system, to be implemented by the respective Area Offices in that Region. The Regional Handbooks setting forth these systems were reviewed by the Central Office with both program policy and field staffing considerations in mind.

The Regional Offices retained responsibility for the overall management of monitoring activities in their respective jurisdictions. Additionally, on a very selective basis, Central Office personnel accompany Area Office staff on monitoring visits to ensure that the monitoring activity is carried out in a manner consistent with the statute and program regulations.

Although the different Regional Monitoring Systems vary with respect to the nature and scope of activities to be undertaken by Area Office, they all mandate a mix of activities combining both in-house and on-site monitoring reviews of grantee performance and compliance with program requirements. Under this Departmental system, Area and Regional Offices monitor for procedural compliance with the citizen participation requirements of Title I. Section 104(a)(6) of Title I requires that the applicant provide satisfactory assurances that prior to submission of its application it has:

- (a) provided citizens with adequate information concerning the amount of funds available for proposed community development and housing activities, the range of activities that may be undertaken, and other important program requirements;
- (b) held public hearings to obtain the views of citizens on community development and housing needs; and
- (c) provided citizens an adequate opportunity to participate in the development of the application.

The Department conducted approximately 3,500 regular site visits to entitlement and discretionary grantees between October 1, 1975 and September 30 1976. Under HUD's monitoring procedures, a regular site visit provides comprehensive coverage of most areas of the CDBG program. One of the areas usually covered in those regular site visits is compliance with the citizen participation requirements of Title I.

In addition, to the regular site visits, HUD Area and Regional Offices conducted 171 special site visits to review specifically for compliance with citizen participation. The special site visit provides intensive coverage of a single monitoring area, such as citizen participation, in which issues have been previously identified as a result of other monitoring or is deemed necessary as a result of other information brought to the attention of the Department.

HUD Area and Regional Offices review records and interview local officials on these regular and special site visits to determine if the localities are complying with the citizen participation requirements. HUD staff also review the grantee's annual performance report and check other information available in-house to HUD, such as citizen complaints and litigation files in order to determine compliance with Section 104 (a)(6).

Based on the results of the monitoring effort, the citizen participation area did not represent a major problem for localities. A number of other statutory requirements accounted for a higher percentage of findings in the program and posed more problems for the grantees, such as relocation acquisition, equal opportunity, environment, and labor standards.

Citizen participation findings accounted for approximately 3% of the total deficiencies identified as a result of HUD's monitoring activities. A finding is made by HUD when substantial evidence is gained as a result of any monitoring activity which indicates grantee non-performance or non-compliance with a specific requirement of the Act, Regulations, or Grant Agreement, or other applicable law or standards cited or referred to in the Act, Regulations, or Grant Agreement.

The type of citizen participation findings reported by the Area and Regional Offices were generally of a procedural nature, such as lack of minutes for the citizen participation hearings, no citizen participation procedures for handling revisions in the approval program, or a process for advising residents affected by projects in their neighborhoods during the execution stage of the program.

Where deficiencies were found, the applicants were generally advised as to the corrective action necessary, and in some cases given technical assistance to implement the needed correction. Applicants were also advised that failure to take corrective actions could jeopardize future grants. In some cases, communities were advised that the Department would not accept the assurance on Citizen Participation until detailed evidence of the Citizen Participation Process had been submitted to HUD.

The Department's position that communities are generally complying with the procedural requirements of Section 104(a)(6) of Title I is consistent with the GAO Report published on June 23, 1976, which concluded that the 23 communities reviewed met the requirements of the Act regarding citizen participation.

Although the Department does not evaluate the actual implementation of citizen participation plans beyond the statutory requirements, HUD has made a strong effort to monitor for procedural compliance with the law.

Under the Community Development Block Grant program, localities identify needs and objectives, establish priorities and select their own activities. HUD's review of the application must determine that the activities are not plainly inappropriate to meeting those needs and objectives.

HUD also reviews for eligibility of activities described in the CDBG application under Section 105 of Title I. In addition, applicants certify that the Community Development Program has been developed so as to give maximum feasible priority to activities which will benefit low-or-moderate income families or aid in the prevention or elimination of slums or blight. An application may also be approved describing activities which the applicant certifies and the Secretary determines are designed to meet other community development needs having a particular urgency. HUD's review of the application includes a review to insure that the requirements of this provision of the law is satisfied by the applicant. Beyond these statutory requirements, HUD has no authority under Title I of the Act to control the quality of the activities funded by the CDBG program.

CITIZEN PARTICIPATION FINDINGS
AND RECOMMENDATIONS

Finding 3 contends that citizen participation has proven to be an exercise in futility in many communities.

To date, we have no factual data to support the claim/statement that citizen participation has proven to be an exercise in futility. We have received complaints from citizens to the effect that their views were not incorporated in the final application, that public hearings did not allow them sufficient time to express their views, that they were not satisfied with the localities citizen participation process, etc. It is our policy to target for monitoring those communities where a significant number of citizens have questioned the communities CP certification. Under any circumstance, however, all complaints received by HUD from citizens are looked into by our field offices.

Our process for handling complaints from citizens against their communities' block grant program is to refer the complaint to the Chief Executive Officer for response, direct to the complainant, with a copy of that response simultaneously forwarded to the appropriate HUD Area Office. Upon the receipt of the official response each Area Office assesses the adequacy of the response and, if applicable, will take action necessary and appropriate to assure compliance with the grantees certification.

As mentioned in the previous statement on evaluation, and in an effort to gather more factual data, we have contracted with a Washington-based citizen organization to survey citizens in forty(40) cities. The express purpose of the survey is to obtain first-hand information and data directly from citizens on their views and impression of citizen participation activities in their respective communities. The compilation and analysis of this data will give HUD a clearer picture, inclusive of input from citizens, of the extent to which citizens view their involvement in the Community Development Block Grant program and the extent to which they believe grant recipients are fulfilling the Block Grant citizen participation requirements.

Finding 9 states that current regulations address citizen involvement in the application process only.

Both entitlement and discretionary regulations require that grant applicants and recipients are to provide citizens an opportunity to participate not only in the application process but in all subsequent amendments and changes.

Section 570.305, Program Amendments, stipulates that whenever an applicant's CD program is revised so that the amendments, either cumulatively or independently, add up 10 percent or more of the CD budget (excluding

unspecified local option activities), and the activities are new or different and were not included in the approved Community Development Program, full citizen participation requirements must be met. Under these circumstances, the grantee must submit to HUD the citizen participation certification and assurances as described in 570.303(e) of the regulations, along with the amended application.

For program amendments not requiring HUD approval, (that is less than 10 percent of the CD budget) 570.900(d) (2) requires that applicants make public in its citizen participation plan the nature and timing of citizen participation in the development of any future CD program amendments, including reallocation of funds and the designation of new activities or location. Additionally, the recipient is required to report such amendments as part of the Annual Performance Report required with the subsequent annual application.

Program amendments which require submission to HUD are to be submitted to the A-95 clearinghouse for a 30-day review and comment period.

Finding 11 charges that the current process precludes citizens review of the performance report in conjunction with proposed activities.

The performance report serves as a tool available to both HUD and the citizen for use in assessing and measuring recipient's annual performance consistent with its approved CD application. As such, the Annual Grantee Performance Report, with few exceptions, covers the recipient's previous year CD program accomplishments.

So as to allow both the A-95 clearinghouse and citizens ample time to review and access the report, we revised our regulations effective November 2, 1976 (Published in the Federal Register, November 3, 1976) to require that the annual performance report will be submitted to HUD and the A-95 clearinghouse at least 30 days, but not more than 60 days, prior to the submission of its annual application. Additionally, the subject report is to be made available to citizens for their information and consideration.

In order to give citizens an opportunity to review the performance report in conjunction with the previous year's activities, our regulations previously required that efforts be taken by recipients to notify citizens when HUD had accepted the locality's application for processing and required that the application be made available to citizens at that time. To assure that both individual citizens and the A-95 clearinghouses had ample time to review the application the revised regulations changed the citizen notification process. We now require that the application be made available to citizens at the same time it is submitted to HUD. This allows those persons who did not participate in the development of the application time to review it and make comparisons with the performance report. Our regulations stipulate that the previous year's application also be made available to citizens. Additionally, citizens now

have 30 days instead of 15 days to submit data to HUD supporting their assertions that the application is plainly inconsistent with generally known facts and data.

Finding 12 criticizes the fact that technical assistance is only optional.

Though technical assistance is optional, grant applicants and recipients are required to provide citizens with information concerning the CDBG program including the amount of funds available for the proposed CD and housing activities, the range of activities, as well as information about other important program requirements. However, the applicant's citizen participation plan is to specify when and how any technical assistance it may choose to provide will be made available to assist citizen participants to understand the above mentioned program requirements.

Finally, Finding 13 is not so much a finding as a general complaint that the certification process is meaningless.

To date, we do not have sufficient data or evidence to support the statement that the certification process is meaningless. As was mentioned earlier, we are hopeful that the research study currently underway will provide us with sufficient data from which to assess the adequacy of the citizen participation certification process.

With respect to specific recommendations, the primary one dealing with citizen participation is that:

"The citizen participation plan should include an explanation of the process and mechanism that will be used to implement the citizen participation program. The structure for such a mechanism may vary...but, it must be defined with far greater specificity and precision."

To implement the community development block grant program, consistent with the Congressional intent, we established performance standards designed to assure that the requirements for citizen participation are achieved thereby accomplishing both the letter and the spirit of the law.

Section 570.900(d) (1) and (2) of the regulations prescribes those specific standards by which HUD will determine whether the recipient has complied with citizen participation requirements. Each applicant is required to develop and make public a citizen participation plan, inclusive of time-tables, which specifies when and how information will be disseminated; when public hearings will be held; and how citizens will have an opportunity to participate in the development of the application; when and how technical assistance will be made available to citizens; and the nature of citizen participation in the development of any future community development program amendments. The citizen participation plan must also address

how citizens are likely to be affected by community development and housing activities; have been afforded an opportunity to articulate needs, express preferences about proposed activities, assist in the selection of priorities and otherwise participate in the development of the application; and have individual and other complaints answered in a timely fashion.

The accomplishment of these requirements is, in fact, an enunciation of the manner in which the grant recipient will implement the citizen participation requirements. For HUD to mandate or specify to local governments how they should achieve citizen participation would not be consistent with the Congressional intent and would not, in essence, return decisionmaking to local governments. More importantly, for HUD to prescribe to local governments how they should achieve citizen participation would handicap, restrict and/or impede innovativeness on the part of local governments and would not foster the concept of locally-elected officials and their constituent citizens working together in an effort to improve their communities.

The Department shares the desire of the groups participating in the citizens forum to ensure that the citizen participation requirements of the law are fully met. It is because we are committed to the philosophy and the intent of citizen participation and because we too would like to confirm the extent to which citizen participation is being carried out that we entered into the contract to survey citizen participation mentioned earlier.

Should the results of this survey/study reveal that weaknesses exist in citizen participation, you can be assured that HUD will take appropriate action to strengthen any deficiencies uncovered. In the meantime, we think it would not be appropriate to dictate the form or mechanism which communities elect to involve their citizens.

Among the recommendations contained in the report which we are actively considering are the following:

- Inclusion in the performance standards of a requirement that citizens be provided a status report of progress in executing the community development program.
- Indication by the recipient, in the performance report, of whether or not the views of citizens were the basis for any decision on how block grant funds were used and/or the extent to which citizens planned housing activities.
- Preparation of a monitoring guide/manual for the specific use of consumer groups that summarizes the key aspects of the regulations, handbooks, administrative policy letters, and manuals.
- The manner and extent to which informational techniques on the preapplication and application process can be improved.

RECOMMENDATIONS CONCERNING MAXIMUM FEASIBLE PRIORITY

As indicated above, we believe that the statutory policies toward benefiting low and moderate income families are being satisfied. However, some of the Forum participants' recommendations concerning the "maximum feasible priority" requirement of the Act are at variance with each other, and some evince a misconception of the statutory requirements. Accordingly, before responding to the specific recommendations, it may be helpful to state what section 104(b)(2) requires.

First, this provision requires that each applicant certify to the satisfaction of the Secretary that its Community Development Program has been developed so as to give maximum feasible priority to either of two kinds of activities: (1) those benefiting low or moderate income families, or (2) those aiding in the prevention or elimination of slums or blight. As indicated, this certification applies to the program as a whole. HUD would ordinarily not look behind the applicant's certification in this regard except where, pursuant to section §570.305(b)(1) of the regulations, there is substantial evidence challenging the certification. In this connection, the first recommendation reported in Assistant Secretary Newman's November 3 memorandum is inaccurate in setting forth the test that the entire application give maximum feasible priority only "to aiding low and moderate income families." A tendency to view the maximum feasible priority requirement exclusively in terms of low and moderate income beneficiaries runs through some of the position statements (e.g., National Housing Project) which have been submitted, although the dual objectives of both benefiting low or moderate income families and preventing or eliminating slums or blight are elsewhere appropriately and clearly delineated (e.g., Coalition for Block Grant Compliance).

Secondly, section 104(b)(2) also provides that the Secretary may approve an application describing activities which the applicant certifies and the Secretary determines are designed to meet other community development needs having a particular urgency as specifically described in the application. Accordingly, in its review of applications, the Department requires that each activity contained thereunder meet at least one of the three objectives of benefiting low or moderate income families, aiding in the prevention or elimination of slums or blight, or meeting particularly urgent needs.

Within this context, as suggested above, we cannot agree with the first recommendation.

The second recommendation calls for prescriptive, quantitative measurement with respect to those activities benefiting low and moderate income families. Again, we do not believe that HUD should be reviewing each and every activity in this kind of detail, which would not comport with the statutory standard of review under section 104(c) or the basic legislative intent as

No!
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Newman's
objection, not max. feasible priority.

to the degree of application review by HUD. In this connection, we assume that Finding 6 (page 2 of November 3 memorandum) refers to HUD's review, not its evaluation, of community development activities; the description of program evaluation above points to different techniques used last year and being considered this year for measuring benefits to low and moderate income families. But nothing in the legislation contemplates activity-by-activity review with respect to furthering the purposes of the Act and contributing to a comprehensive plan to improve the quantity of life in a community. Moreover, reliance upon quantitative measurement of relative low and moderate income family distribution in the census tract where a given activity is being carried out could produce anomalous results; one example is the provision of public services, in accordance with block grant regulations, which might be in areas not meeting such a locational test but which could be of benefit primarily, or even exclusively, to low or moderate income families.

The third recommendation is to instruct HUD staff to examine the applicant's needs and objectives statements as they might relate to aiding the poor and attacking blight. The primary vehicle for handling needs identification at the review stage is set forth in section 10⁴(c)(1) of the Act, under which the Secretary is to approve an application unless, on the basis of significant facts and data, the Secretary determines that the description of needs and objectives is plainly inconsistent with such facts or data. We believe that HUD's review of applications follows this statutory directive. Similarly, the appropriateness of the proposed activities to meeting those needs and objectives is reviewed pursuant to section 10⁴(c)(2).

The fourth recommendation is for a policy letter with respect to the types of activities which may be permitted for preventing blight and rests upon terms such as "serious threat of blighting" or "substantial impact in actually preventing onslaught of blight in the next three years." It is not entirely clear what is meant by this terminology, in either the November 3 synopsis or the Coalition statement from which the recommendation is taken. To this point, HUD has not defined the term "blight" by prescriptive, and relatively restrictive, standards such as obtained under the urban renewal program because we do not believe such measures are necessary or contemplated by the legislation. We would be interested however, in finding out generally the Forum participants' perception of the problem and concrete proposals to remedy such problems as exist.

The fifth recommendation calls for guidelines as to those needs having a particular urgency. At this stage, HUD has not devised an absolute standard because of the wide variety and complexity of community development problems confronting localities. It is clear that such needs should be those that are imminent and not merely convenient for a city to fund in a year in which it happens to have block grant resources. While we are receptive to suggestions on the general issue, we do not believe there is any statutory basis

for the specific suggestion contained in this recommendation that the applicant demonstrate "that the needs of low and moderate income persons and the needs to attack blight should be superseded" in justifying activities designed to meet particularly urgent needs. So long as the need has a particular urgency, it is the community's choice to address that need, given, of course, conformance with the plainly inappropriate test of section 104(c)(2).

We are a little puzzled by the sixth recommendation that HUD policy encourage the use of block grant funds to meet the need for new or rehabilitated low and moderate income rental housing under Section 8 or other programs. The rather detailed identification of housing needs in Table II of the Housing Assistance Plan (HAP) is a part of the overall application review by HUD. There appears to be no benefit in duplicating the recitation of those needs in the statement of needs in the community development portion of the application which, by statute and by regulation, is directed toward addressing community development, not housing needs.

The last sentence in the recommendation proposes disapproval of applications when "financial resources have not been made available as necessary to stimulate the development of subsidized housing in adequate numbers to meet the goals in the HAP". Because the recommendation is somewhat ambiguous in this respect, it may be well to note that expenditures of block grant funds for new construction are ineligible under the Act. If the recommendation refers to other classes of expenditures relating to infrastructure and supporting facilities, we would appreciate some clarification as to precisely what the recommendation means. In this connection, your attention is called to the proposed performance standards for the block grant program published for comment on November 15. Section 570.909(e) of that regulation proposes performance standards against which HAP performance would be evaluated. We believe these performance standards will be helpful in ensuring the quality of HAP performance under the program.

Finally the seventh recommendation would require the mandatory use of funds for rehabilitation to alleviate blight and would require a summary of the extent of existing blight in the community.

The first part of this recommendation goes beyond what we believe to be HUD's responsibilities or prerogatives under the Act. One of the main purposes of the Act is providing flexibility to communities in establishing their local priorities. At the same time, however, proposed activities to be funded under CDEG cannot be plainly inappropriate to meeting identified needs; this principle would apply to the provision of necessary rehabilitation

and other activities aimed at eliminating blight. As to the second issue, we do not believe it necessary to issue instructions requiring in the statement of needs a summary of the extent of existing blight. The block grant regulations currently provide that the application describe a program designed to eliminate or prevent slums, blight, or deterioration where such conditions or needs exist and to provide improved community development facilities and public improvements where necessary and appropriate.

HOUSING ASSISTANCE PLANS

In addition to responding to the recommendations concerning Housing Assistance Plans (HAPs) summarized in the November 3 memorandum, we believe it is appropriate to refer to Findings 4 and 5 on page 2 of that memorandum. Finding 4 is that housing and community development activities have not been coordinated so as to establish viable urban communities. There is no question but that the linkage between HUD's housing and community development responses is key to the primary objective in title I of developing viable urban communities. In this connection, we believe that the HAP itself and the provisions of section 213 utilizing approved HAPs furnishes an effective framework for carrying out this objective.

We disagree sharply with finding 5 that HAPs "are merely paper plans." While available resources cannot now meet all of the heavy demand for lower income housing reflected in all of the needs assessments in HAPs submitted by communities, the section 213 process is one which coordinates communities' plans with the use of Departmental housing resources. Moreover, the requirement in Section §570.303(c) (3) of the block grant regulations that the provision of housing under a community's three-year goal must be proportional to the type of housing need (family, large family, and elderly) further ties HAPs to the statutory concern for realistic goal achievement. Further, HUD has considered HAPs of such importance as to warrant disapproval of a number of entitlement applications because of their failure to propose acceptable HAPs. Finally, the proposed performance standards published for comment on November 15 tie HAP performance to sanctions, including funding adjustments to the block grant.

As to the recommendations, we see no particular benefit in, or reason for limiting housing goals by 10 percent in the case of section 8 housing with regard to proportionality and to minimal goals. Similarly it appears that the second part of the recommendation calling for strict limits within which the proportionality test is applied could, in many cases, frustrate the effectiveness of the housing response. Economies of scale and general reasonableness in developing three-year goals support the existing percentage options for the two types of housing needs identified by the Congress in section 104(a) of elderly and large families, and the remaining class of families generally.

With respect to approval of existing section 8 housing, under the second recommendation, we would defer to the constituent units of the Department which have the responsibility of administering the section 8 program.

Under the third recommendation, it is not clear to us that the legislation "indicates" HUD should adopt standards as to what are realistic and adequate goals, rather than minimal goals. The high

variation of local needs makes it difficult to adopt uniform standards; the single example given calling for applicability of a ten-year housing goal enacted over eight years ago does not seem particularly apt. We would be interested in other specific recommendations in this respect, but believe it is appropriate to note the focus in the legislative history that HUD would be expected to look beyond an application which proposed only minimal activities to improve housing despite the application's identification of substantial housing needs (H.R. Rep No. 93-114 at 9).

Mr. PATTERSON. Thank you, Mr. LaCroix. We appreciate your testimony before the subcommittee. And while I have not had a chance to look through the other couple of documents you have left with us, let me just ask you a couple of questions perhaps at this point.

I take it from what you said in your testimony that you believe the proposed urban development action grants recommended by Secretary Harris should be specifically targeted for the type of economic development activities in a community such as Bedford-Stuyvesant. Is that correct?

Mr. LACROIX. What we are saying is that we are supporting the action program. We feel that among the participants in the program should be these community-based development corporations; we are not saying that those funds should be exclusively targeted to those corporations, but that Congress should bear in mind that they do exist, the delivery system does exist, and there should be legislation which allows the channeling of those funds directly through local governments to these corporations.

Mr. PATTERSON. Well, the ultimate benefit to society and what we are all after is the production of some model or some system that will improve the economic stability of neighborhoods.

You referred heavily to Bedford-Stuyvesant as a prime example.

Mr. LACROIX. Bedford-Stuyvesant does represent a prime example of the infusion of both Federal moneys, participation of business and the private sector, and it is an excellent example of what can be done.

Mr. PATTERSON. Well, how does the mechanism of what agency you use make the program better, I guess is what I am saying.

In other words, can you clarify for the subcommittee how the type of economic development that took place there or in the instance that you are proposing differs from the type that can be done and is being done through community development block grants?

Mr. LACROIX. Well, I don't really think there need be a difference. I think that is what we are trying to say, that the same type of development could take place utilizing community development corporations, existing local development corporations, and by channeling block grant moneys to them. This has taken place in some areas of the country. For example, we have programs in which block grant moneys are being used for revitalization programs, the rehabilitation of housing, in which cities have taken blocks of block grant moneys and set up revolving funds from which community development corporations borrow, rehabilitate housing, sell the housing, and return the funds to the city.

Mr. PATTERSON. I guess maybe I got the wrong impression, but the impression I got was that the community development corporation can do what cannot be done under the present programs. I got the impression that you pointed to the alternatives and said there is a third alternative and that you are saying the community development block grant program and the other programs that we have can only either build public works or pump money into minority enterprise but cannot in fact accomplish this.

Mr. LACROIX. This broad base type of economic development.

Mr. PATTERSON. I am asking you if that is what you said.

Well, I guess that first question is: Is that what you are saying, is that it can't be done?

Mr. LACROIX. We are saying that all facets have to be looked at, that all three approaches have been tried. We are saying that this does have a proven success record in a broad area affecting a large number of people where other urban programs have not.

Mr. PATTERSON. I don't want to beat this into the ground, and I agree with what you are saying—all three can be done and should be done—but cannot in fact all three be done with or without providing Federal funds to community development corporations?

In other words, can it not be done under present programs if you just direct the effort in that kind of way?

If it can't be, I would like to know.

Mr. LACROIX. Well, the question is that of funding. And under this proposed legislation there will be \$400 million that will be going into urban areas. And what we are saying is, some of that money should be used in those programs which have proved to be successful.

Mr. PATTERSON. But you are not saying that the Bedford-Stuyvesant type development could not have been done by a city like New York City?

Mr. LACROIX. It could not have been done by a city.

Mr. PATTERSON. You are saying it could not?

Mr. LACROIX. It could not have been done without infusions of vast amounts of Federal funds.

Mr. PATTERSON. Now, I am not saying, without Federal funds. I am saying, could it not have been done by New York City or a corporation, a local corporation, either one with public funds?

Mr. LACROIX. Perhaps; but CDC—the Bedford-Stuyvesant model has proven to be the most effective local instrument to assure public accountability.

Mr. PATTERSON. I guess I am not really differing with what you are saying. Other than the creation of new agencies, I guess, bothers, at least me—you know we have the Federal level, the State level, the county level, the city level, the special district levels, new committees, new corporation levels, and I am just wondering if at some point we can't just fix on cities and counties or cities and regional agencies to utilize Federal funding programs to accomplish the kinds of programs that you have spoken of, and others, rather than spread it to 18 different forms.

Mr. LACROIX. I believe we can, and I believe we must, and I believe that is one of the issues we are addressing; and that is that there be cooperation and communication between the various Federal agencies in these programs that exist already to be utilized by the various agencies, that we don't have a proliferation of programs that are creating more and more agencies.

Mr. PATTERSON. The committee has heard—or the subcommittee has heard testimony from a number of other witnesses to the effect that more Federal coordination is needed in order to make community development programs work.

Would you agree with that?

Mr. LACROIX. I would agree with that.

Mr. PATTERSON. Do you have or can you suggest any administrative or legislative actions that might assure that coordination in fact works, that we have coordination?

Mr. LACROIX. It seems to me that there does exist now in legislation requirements that there be such coordination. I think that the major focus should be administrative. I think that perhaps Congress should see to it in enacting new legislation that it sets forth once again the requirement that there be such cooperation between various cabinet level—between the various Secretaries. But I think it is a matter of administration, and you are dealing with a very large, unwieldy bureaucracy, and very often the cup doesn't make it to the lip.

Mr. PATTERSON. Well, thank you, Mr. LaCroix. I appreciate your patience and your testimony that you offered to the subcommittee this morning, and want to thank you for coming. And it is always good to see a fellow Californian.

If you have any summary statement, we can accept that now, and if not, the materials you have given us will be inserted in the record.

Mr. LACROIX. Thank you, Mr. Chairman, for your time and patience.

Mr. PATTERSON. Thank you.

Well, the chairman of our subcommittee, Mr. Ashley, has recruited me to continue chairing the subcommittee hearings, and we will start our portion of the hearings that commence at the 2 o'clock hour at this time.

I would like to ask Mr. Whiteside—William A. Whiteside and Robert S. Warwick to come forward, if they would, to the council table, and we will receive their testimony.

Mr. Whiteside and Warwick are from the Urban Reinvestment Task Force.

Welcome, gentlemen, to the Subcommittee on Housing and Community Development. It is a pleasure to have you.

STATEMENT OF ROBERT S. WARWICK, ACTING DIRECTOR, OFFICE OF HOUSING AND URBAN AFFAIRS, FEDERAL HOME LOAN BANK BOARD

Mr. WARWICK. Thank you, Mr. Chairman.

I am Robert S. Warwick, acting director of the Office of Housing and Urban Affairs at the Federal Home Loan Bank Board.

I have a prepared statement. I would just like to make a few summary remarks at this time.

The Federal Home Loan Bank Board very much appreciates the opportunity to share with the subcommittee the experience of its Office of Neighborhood Reinvestment and the Urban Reinvestment Task Force with the community development block grant program and other efforts in the cities.

The Board, I think, has a very strong commitment to the cities, and I think this is nowhere more evident than in our work on behalf of neighborhood reinvestment. I have shared with the subcommittee in prior testimony some of the lessons the Board has learned, and they are in my printed statement, so I will not repeat them here.

I would simply say, though, that I am very happy to have with me today William A. Whiteside, who is the director of the Board's Office

of Neighborhood Reinvestment and the staff director of the Urban Reinvestment Task Force. He and the task force have had a great deal of direct operating experience with the community development block grant program in several dozen cities, and it is my hope that the subcommittee will find his experience and views as helpful as we at the Board have.

If you have any questions now or later, I will be glad to entertain them.

Mr. PATTERSON. Thank you, Mr. Warwick. And your written testimony, if you will submit it to the clerk, will be made a part of the record.

[The prepared statement of Mr. Warwick on behalf of the Federal Home Loan Bank Board, follows:]

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STATEMENT OF
ROBERT S. WARWICK
ACTING DIRECTOR
OFFICE OF HOUSING AND URBAN AFFAIRS
ON BEHALF OF THE
FEDERAL HOME LOAN BANK BOARD
BEFORE THE
SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT
OF THE
COMMITTEE ON BANKING, FINANCE
AND URBAN AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES

March 3, 1977

Mr. Chairman and Members of the Subcommittee, my name is Robert S. Warwick and I am Acting Director of the Office of Housing and Urban Affairs at the Federal Home Loan Bank Board. I am appearing this afternoon on behalf of the Board, which welcomes the opportunity to share with you the experience and views of its Office of Neighborhood Reinvestment on Housing and Community Development.

Here with me today is William A. Whiteside, Director of the Office of Neighborhood Reinvestment of the Federal Home Loan Banks. This Office is the operating arm of one of the Board's efforts to assist inner city housing finance. Mr. Whiteside will give you his views on the CD Block Grant Program based on his direct operating knowledge of the program. As preface to Mr. Whiteside's remarks, I would like to present a brief description of the history and structure of the Office of Neighborhood Reinvestment and the Urban Reinvestment Task Force, and the Board's views on revitalization of the city and on our efforts to alleviate inner city housing problems.

The Board has a strong and long-standing commitment to the revitalization of this Nation's cities. We have long been aware of the problems confronting our urban neighborhoods and of the problems confronting lenders seeking to serve those neighborhoods. We have encouraged positive efforts to solve these problems, and these efforts have helped us to recognize several important factors.

First, an older residential neighborhood is often best served by the restoration and preservation of its existing housing stock. Many neighborhoods presently denominated as "declining" contain sound housing whose abandonment constitutes a waste of valuable resources we can ill-afford.

Second, the causes of neighborhood decline are many and diverse. Thus, a solution requires a combination of strategies, each tailored to particular aspects of the total problem.

Third, the Board's experience has confirmed the fact that healthy neighborhoods are complex organisms composed of many elements. Special care must be taken to insure that efforts to save do not, in the end, destroy.

The Board itself has been active in encouraging constructive efforts to preserve urban neighborhoods. We have pioneered in the development and support of the Neighborhood Housing Services program, a carefully conceived neighborhood preservation strategy which involves many of the essential participants in the revitalization and preservation of existing urban neighborhoods. Our support for NHS began on an experimental basis five years ago when the Board first undertook to bring to other cities a program initiated by financial leaders, private citizens, and local government officials in Pittsburgh, Pennsylvania.

In 1974, these initial efforts were expanded by the formation of the Urban Reinvestment Task Force and the

receipt of demonstration grant assistance from the Department of Housing and Urban Development. The Task Force was originally composed of the Secretary of HUD and the Chairman of the Bank Board. Since then the Task Force membership has been expanded to include the Chairman of the Federal Deposit Insurance Corporation, the Comptroller of the Currency and a governor of the Federal Reserve Board.

Board members and key staff officials have taken a deep personal interest in this program, as have the Presidents of our regional Federal Home Loan Banks. The degree of our commitment to this effort is underscored, we believe, by the creation in December 1975 of an Office of Neighborhood Reinvestment of the Federal Home Loan Banks to provide core administrative support for the ongoing activities of the Urban Reinvestment Task Force.

The progress we have made with the Urban Reinvestment Task Force has led many to urge that these efforts be expanded on a dramatic scale. In this regard, we have noted that the NHS program has its own multiplier effect. It has taught lenders that there are sound inner city loans to be made. It has served as a model for other groups seeking to solve neighborhood deterioration problems. In our opinion, the impact of the program goes far beyond the mere number of projects in operation. Nevertheless, we have welcomed these expressions of confidence and share the belief that the activities of the Task Force must be expanded. Our experience

has taught us, however, that each increase in our efforts must be thoughtfully planned on a manageable scale if we are to continue the quality of work which so many have thus far found encouraging and useful.

From our experience with the Urban Reinvestment Task Force, we have learned that neighborhood preservation is a complex and delicate undertaking. We believe it must be essentially a local effort if it is to succeed, as we have come to recognize that involvement by the Federal Government is frequently most effective when the Government serves as a catalyst for local participants. In the NHS program, the Task Force role has been to encourage and facilitate the development of local working partnerships of neighborhood residents, local government officials, and private lenders. This balanced partnership then deals with local neighborhood preservation in ways appropriate to each local setting. We have found that the process of encouraging local working partnerships is a critical and sensitive matter which must be undertaken with great care if we are to avoid jeopardizing the very cooperation we are seeking.

Community Development Block Grant funds have played a vital role in the NHS program -- 26 of the NHS programs use CD funds. We believe this experience by the Task Force with CD programs at the local level has been very valuable and we are pleased that the Task Force Director, Bill Whiteside,

could be here today to share with you his views and recommendations about this aspect of our urban preservation efforts.

I would be pleased to respond to any questions you may have.

Mr. Whiteside, if you would like to proceed.

**STATEMENT OF WILLIAM A. WHITESIDE, STAFF DIRECTOR,
URBAN REINVESTMENT TASK FORCE**

MR. WHITESIDE. Thank you, Mr. Chairman. I appreciate the opportunity to appear before you today, and my written testimony has been submitted for the record. I would like to just touch on the highlights of that testimony in the few minutes available to me. I will begin by saying that I would not want to put myself forward as an expert in the area of community development block grants or section 312 loans, but rather in the position of one who has had a chance to observe them to a considerable degree in action, in local communities in which we also have programs. We have seen, particularly community development block grants, work in close cooperation with the neighborhood housing services programs that we have developed.

Before commenting on the community development block grant program and on the section 312 rehabilitation loan program, I would like to say just a few words about the neighborhood housing services program and the work of the Urban Reinvestment Task Force to put my recommendations into context.

Since 1972 we have been developing neighborhood housing services programs in cities throughout the country, and since 1974 we have been assisting, funding, and monitoring neighborhood preservation projects.

The neighborhood housing services program is a private program which involves a working partnership of lenders, community residents and local governments in a joint effort to bring reinvestment to a neighborhood which needs it and to try to turn around that neighborhood. The residents provide leadership to the program in the neighborhood and bring credibility to it with their fellow neighborhood residents. They introduce the concept (which is sometimes a radical new concept) to their fellow residents of a systematic housing inspection program which is to be conducted by the city but which will have its effects softened by the availability of the services of neighborhood housing services and the loan resources that it can bring to bear. NHS makes available normal loans from financial institutions to all of the residents who qualify under normal underwriting criteria, and also makes available the resources of a revolving loan fund which is administered by the neighborhood housing services, to make loans to the residents who don't qualify under commercial underwriting standards.

In this way, every resident can be assured of having a way to bring his home up to minimum health and safety standards, and hopefully, well above, as the program moves along, and snowballs.

The city government plays a key role in this program, and it has been a growing role since the advent of the community development block grants. The city provides the inspection services and frequently funds these out of community development block grants. They provide public improvements in the neighborhood and increased service levels, and frequently fund these from community development block grants. And often, they supply a grant to the revolving loan fund of the neigh-

neighborhood housing services to expand on the funds that we are able to make available from the urban reinvestment task force. The revolving loan funds are often further expanded by private fund-raising among foundations, industry, and similar resources.

The neighborhood housing services normally has a three-member professional staff, a very small staff of capable people who are acting as advocates for the homeowners in the neighborhood, who counsel them on their needs for rehabilitation and on their financial requirements, who monitor construction, and generally acting as ombudsmen for the neighborhood to deal with all of the many areas of need in that neighborhood to begin to turn it around.

I have a section in my prepared remarks, which I won't go into now, which details the kind of activity that this staff conducts in the neighborhood. I would commend it to you for review when you have an opportunity.

But let me say now that we have developed programs of this nature in 30 cities. We have 14 under development at the moment. We anticipate that by the end of 1977 we will have a total of 50 on stream. And it has been a very rewarding experience for us and I believe for the cities involved.

One of the elements that we have stimulated, in addition to this, is a national loan purchase pool which provides a safety valve for the NHS revolving loan funds so that when from time to time they become illiquid, they can sell off some loans and the program can move forward in a smooth, steady fashion.

Neighborhood Housing Services of America is administering this national loan purchase pool and is currently exploring ways to leverage the funds, so that it becomes more of a true secondary market. We believe this is an important and significant role. We have granted \$250,000 to Neighborhood Housing Services of America so far for this purpose and have committed an additional half-million dollars.

The Neighborhood Housing Services of America staff is currently negotiating with individual neighborhood housing services programs around the country for purchase of loans against that \$500,000 commitment, and we expect to have it in those revolving loan funds in the next few months.

In our neighborhood preservation projects we are doing quite a different thing. This is an outreach for other innovative strategies which will provide elements required by a neighborhood that the neighborhood housing service itself does not provide. It is an outreach for new ideas. We provide a modest amount of funding. We monitor projects that are submitted to us. And those that prove out, and that prove to be really replicable in other cities around the country, we will enter into new programs to replicate them alongside neighborhood housing services to address those additional neighborhood needs.

I have detailed in my testimony the topic areas we get into with these programs and the existing 16 programs that are in operation. In the question period, if you would like for me to go into some detail on that, I would be pleased to.

Thirteen of these 16 operating neighborhood preservation projects have received community development block grant funding locally, and 26 of the 30 neighborhood housing services programs have received community development block grant funding.

These grants have complemented our program in a major way, and I must say, that without the community development block grant program, our program could not have progressed nearly to the extent that it has.

Just to quickly recap the kind of support, 15 cities and counties have used community development block grant funds to pay developmental costs of the program. Nineteen have made or committed grants which exceed \$3 million, to revolving loan funds. Seventeen have committed over \$6 million for capital improvements and improved service levels, in 22 neighborhoods served in those 17 cities. Five of the NHS programs are benefiting from small grants to their operating budgets from community development block grant funds. In our neighborhood preservation projects, I mentioned 13 were receiving support, this totals approximately \$7 million, in funds expended or committed to date.

In addition to this direct experience with the community development block grants, we have had the opportunity in our work in cities around the country to observe other community development activities they have been engaged in, and we are heartened by the progress they are making. I think it is well understood that there was a difficult start-up time for cities taking this major new function, and we have seen a growing competence in this and feel very good about it.

We feel that the neighborhoods are being benefited and there is clear progress toward making this a significant and effective national program.

Our experience with the section 312 loan program has been less direct. We have been able to see it work through federally assisted code enforcement programs. We've been able to see it work in special programs that are going on around the country. Twenty-one of the cities in which neighborhood housing services are operating have active section 312 programs. But typically these are targeted in other than NHS neighborhoods. It is not typical that they would be functioning simultaneously in the same neighborhood.

In fact, only four of the neighborhood housing services programs have direct experience with the section 312 loan program. We believe that the section 312 loan program can be strengthened, and I am pleased to have an opportunity to offer some recommendations on this subject.

In the way of recommendations on the community development block grants, I would like to commend to the Congress the concept that there be incentives developed for increased targeting of funds in neighborhoods. Not only neighborhoods in the nature of those the neighborhood housing services is serving, but other neighborhoods having more difficult housing stocks and populations that have greater need.

One of the concepts that I was very intrigued by, that I heard at our last hearings here, was Gale Cincotta's suggestion of "double dollars" for funding focused on neighborhood needs. It seems to me that that kind of incentive to the city, to really examine how community development block grant dollars could be targeted on neighborhoods, would be an important positive way to induce more funds to flow in that direction.

An area in which some problems have been experienced by neighborhood housing services in the use of community development block

grant funds is in draw-down procedures. The draw-down procedures are properly designed to limit interest costs to the Treasury, and certainly no one can fault that. We believe, however, that some minimum threshold could productively be arrived at, which would allow modest lump sum payments to be paid instead of the restrictive step-by-step, almost day-by-day draw-down process that is going on now, with the very strict requirement for immediate expenditure of funds drawn down.

I don't know what the right threshold is, but it seems to me that lump sum grants of \$100,000 or \$50,000 or \$25,000, some threshold like that, would involve minimum interest costs to the Treasury and would save a great deal of operating expense to small subgrantees in the cities in carrying out community development responsibilities.

Finally, I would like to strike what may be a familiar note to you, but one that is very important when we are dealing with the really tiny programs that we are dealing with in NHS. This is the weight of regulation and paperwork on a small program. The HUD regulations, regulations by other Federal agencies, the statutes that apply to the use of the community development block grant funds, each in its own individual way is important and serves an important public service. The total weight of all of these reporting requirements and record keeping requirements and staff time demands on a tiny program such as we are promoting, with only three staff members, is a punishing load, and is affecting the effectiveness of a program which I think the Congress would like to see achieve maximum results.

I think again, some kind of thresholds need to be established, so that in an effort to properly protect the purpose for which Federal funds are being expended, we don't enter into costs that might be greater than the savings we are trying to achieve.

There are four points I would like to make on the section 312 loan program. We feel it is a very important program, as I said before; we would like to see it continued and expanded. We think, though, there are some areas where some attention can be given.

First, and just quickly, I think again it is a theme you have heard before, the paperwork involved and the processing time is excessive. Attention needs to be given to reducing this.

Second, we are concerned that many cities, and this is not a requirement by HUD, but many cities have established an extremely high level of property standards as a condition of obtaining a loan, far above what would be required under minimum health and safety housing codes. It is a way of getting houses brought up to a very high quality of rehabilitation. But even with 3-percent interest rates and 20-year terms, this can represent an extreme hardship for moderate-income homeowners to be required to bring their homes to this level of rehabilitation.

We would recommend that this higher level of rehabilitation be permitted for homeowners who can afford it, but that minimum health and safety standards be the required level in the program.

Another area is in standards that cities could be applying, but that HUD is not requiring, that is the area of income limits. Cities are permitted to establish income limits on the use of section 312 loan funds. Our observation is that in most of the cities in which we have been involved, these limits have not been imposed. Homeowners of all

income levels are eligible to receive the section 312 loan funds, and we believe it is not desirable public policy for affluent homeowners who are fully capable of making payments on normal loans to receive this subsidy.

One of the impacts of not imposing income limits on 312 loans is that it can interfere with the effort that all of us are involved in now. The effort of trying to eliminate redlining, trying to bring really large-scale private resources into neighborhoods. It seems counterproductive that residents who would normally be obtaining these loans from financial institutions would have available to them subsidized Federal loans at 3-percent interest.

Our thought is that applying a reasonable income limitation so that the 312 loans are available to the people in the neighborhood at the lower end of the income scale would be an appropriate way to make these subsidized funds go further, and would permit the large volume of private funds to flow into the neighborhood, that we all want to see.

Finally, I would like to mention that a possible way to make the 312 loan program more flexible would be to follow the procedure utilized in the neighborhood housing services revolving loan fund and in at least one city's municipal loan program that we are familiar with; namely, having a graduated scale of interest rates, based on the ability to pay of the homeowner, where you might aim for an average cost of 3 percent, but have interest rates running from perhaps 1 percent to 6 or 7 percent, depending upon the homeowner's ability to pay, and again, getting a more flexible program out of it.

I would suggest that this recommendation needs to be reviewed carefully, and if it turns out that the regulatory load or the processing requirements of bringing this flexibility into existence would offset the benefits, then that the suggestion be discarded. If it can be done in a simple way, I think it would be beneficial. But I can see a risk in adding a great deal of paperwork and would not recommend getting into that.

Thank you. I would be pleased to accept your questions.

[The prepared statement of Mr. Whiteside, on behalf of the Urban Reinvestment Task Force, follows:]

STATEMENT OF
WILLIAM A. WHITESIDE
STAFF DIRECTOR OF THE
URBAN REINVESTMENT TASK FORCE
BEFORE THE
SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT
HOUSE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

March 3, 1977

Good afternoon Mr. Chairman. I am William A. Whiteside, Staff Director of the Urban Reinvestment Task Force and Director of the Office of Neighborhood Reinvestment of the Federal Home Loan Banks. I am pleased to have this opportunity to testify before this Subcommittee in your hearings on Housing and Community Development Authorizations.

Before beginning my statement, let me say that I do not purport to be an expert on the Community Development Block Grant program. But I do know how CD block grants have been used in connection with the Neighborhood Housing Services (NHS) and Neighborhood Preservation Project (NPP) programs and I would like to share with the Subcommittee my views on this one area of the overall CD Block Grant program.

Before commenting upon my observations of the Community Development Block Grant program and the Section 312 Rehabilitation Loan Program, and making recommendations related to both programs, let me briefly describe the work of the Urban Reinvestment Task Force, so that you can understand the experience from which these observations are drawn.

Neighborhood Housing Services

Since 1972, we have been replicating Neighborhood Housing Services programs in cities throughout the U.S., and since 1974 we have been funding, monitoring and offering assistance to Neighborhood Preservation Projects (NPP) in cities throughout the U. S.

The Neighborhood Housing Services (NHS) program has been modeled after a program begun in Pittsburgh, Pennsylvania in 1968. Each NHS is a private program, focused on one or more neighborhoods, designed to reverse neighborhood decline by promoting reinvestment in the neighborhood.

Each NHS is a working partnership of neighborhood residents and representatives of local financial institutions and local government. It is organized as a non-profit corporation, with its operating budget provided in the main by charitable contributions of financial institutions.

The neighborhood residents provide leadership for the program in the neighborhood, building support for the program and the concept that the neighborhood can be "turned around." Neighborhood residents invite the City government to conduct a systematic but sensitive housing inspection program, and undertake to bring their own homes up to minimum health and safety standards, and frequently invest further in the modernization and visual improvement of their homes.

The City government provides a systematic housing inspection program in the neighborhood -- closely coordinated with NHS -- designed to bring about voluntary compliance with the minimum housing code. The City provides capital improvements and improves service levels where necessary. The City also may make grants to a revolving loan fund administered by the NHS and often funds the development costs of bringing the NHS

into existence. Since 1975, most cities have financed the capital improvements, grants to the NHS revolving loan fund, and developmental costs out of Community Development Block Grants, and many have also financed the housing inspections and other increased service levels in the same way.

Local financial institution representatives serve on the board of directors of the NHS along with neighborhood residents, and their institutions undertake to make every loan generated in the neighborhood which meets their normal underwriting standards, waiving any doubts they might have previously entertained regarding the neighborhood's future. The financial institutions also provide many in-kind services for the NHS, such as auditing services, loan servicing, staff training, assistance in developing forms and loan processing procedures.

The NHS normally has a professional staff of three persons who have skills in rehabilitation counselling, construction monitoring, financial counselling, loan processing and servicing, administration and community relations. They also act as advocates for the homeowner in dealing with the City, with contractors and with lenders.

NHS operation in neighborhoods

The typical order of events in a neighborhood receiving NHS assistance is as follows:

Resident members of the NHS board hold meetings in a potential target block and explain the NHS program, with a NHS

staff member describing NHS services and a City inspector describing the housing inspection program. After one or more such neighborhood meetings, and a consensus has been reached among the homeowners, the City is invited to begin inspections in the block.

Following the inspections, homeowners whose homes do not meet code standards are notified of the work which needs to be done, and several courses of action are open to the homeowner. If the improvements needed are minor or if the homeowner has the savings or other personal resources, he or she may simply do the work without involving NHS. Similarly, if the homeowner already has a relationship with a financial institution, he or she may arrange for a loan to finance the work without contacting NHS.

Homeowners who contact NHS are provided with an estimate of repair costs and, if they appear to be "bankable", are referred to reliable contractors and a local financial institution for a loan. If they are "unbankable," i.e. cannot qualify for a normal commercial loan, they receive counselling, help in obtaining bids on the work and can apply for a loan from the NHS revolving loan fund. The loan committee (normally three residents and two financial institution representatives) will consider the loan application and, if they approve it, will tailor a loan to the homeowner's ability to pay. Interest rates may range from 0% to market rates and terms can be extended as far as needed to achieve a monthly payment the homeowner can handle. A lien is placed on the property to

guarantee eventual repayment, so that the loan fund can continue to revolve and serve other homeowners.

As the program proceeds through the neighborhood, there is normally an increasing sense of confidence in the neighborhood by residents, lenders, and the City government, and voluntary home improvements snowball, the real estate market improves, mortgage loans become more freely available, prices stabilize or start to rise, and the neighborhood begins to turn around.

There are now 30 NHS programs in operation, and the Urban Reinvestment Task Force is in the process of developing programs in an additional 14 cities. By the end of 1977, we expect over 50 programs to be functioning.

National Loan Purchase Pool

A group representing many of the early NHS programs recognized in 1975 that a source of liquidity was necessary for the revolving loan funds of the local NHS programs, if they were not to be faced with the problem of recurring slow-downs in the program due to shortages of lendable funds. This group formed a non-profit corporation which they called Neighborhood Housing Services of America (NHSA) with the objectives of raising private and public funds to support a national loan purchase pool, purchasing loans from local NHS programs, and providing other services to local NHS programs.

The loan purchase pool purchases loans from NHS programs (in packages of up to \$50,000) at par, with recourse. It presently holds the loans to maturity, allowing its funds to

revolve slowly. Plans are being made to develop procedures to resell or borrow against packages of loans, so that the pool functions more like a secondary market.

The Task Force has made or committed grants to NHTSA totalling \$750,000. The NHTSA Board of Directors is also conducting a fund raising campaign for private contributions.

Neighborhood Preservation Projects

Beginning with the formation of the Task Force in 1974, we have participated in the developmental funding of selected demonstration projects -- called Neighborhood Preservation Projects (NPPs) -- in 16 cities. Community Development Block Grant funding is involved in 13 of these projects.

The purpose of the Neighborhood Preservation Projects is to identify, monitor and evaluate promising locally-developed neighborhood preservation strategies which can complement the Neighborhood Housing Services program. Successful projects will become models for future Task Force replication in other communities.

The Task Force has invited applications for projects in the following fields:

- Neighborhood Commercial Revitalization
- Apartment Building Rehabilitation
- Default and Foreclosure Prevention
- Vacant Property Rehabilitation and Marketing
- Property Maintenance
- Neighborhood Stabilization
- Innovative Education Strategies
- Innovative Crime Prevention Strategies
- Equitable Treatment for Current Residents of Neighborhoods
- Experiencing Rapidly Rising Housing Costs

The 16 projects which have received Task Force demonstration grants to date include:

Baltimore, Maryland	Homeownership Development and Marketing Program
Berkeley, California	Pilot Rehabilitation Program
Boston, Massachusetts	Jamaica Plain Vacant House Renovation Program
Chicago, Illinois	Pilot Program for Foreclosed and Abandoned Properties
Cleveland, Illinois	Buckeye Road Commercial Revitalization Program
Cleveland Heights, Ohio	Comprehensive Real Estate Program
Hartford, Connecticut	Northwest Hartford Commercial Revitalization Program
Hoboken, New Jersey	Central Hoboken Tenant Rehabilitation Program
New York, New York	Queens Home Maintenance Training Program
Oak Park, Illinois	Oak Park Neighborhood Preservation Project
Pittsburgh, Pennsylvania	Central Northside Pittsburgh Neighborhood Preservation Project
Portland, Oregon	St. John's Business District Stabilization Project
San Francisco, California	Housing Conservation Institute
Toledo, Ohio	East Toledo Neighborhood Revitalization Program
Worcester, Massachusetts	Crown Hill Delead Project
Yonkers, New York	City of Yonkers Multi-family Rehabilitation Program

Experience with Community Development Block Grants

To recap, 13 of 16 NPP projects have received CD funding and 26 NHS programs are recipients of CD funds. Hence, the availability of Community Development Block Grants has complemented Neighborhood Housing Services and Neighborhood Preservation Project activities in a major way.

Fifteen cities and counties have used or committed Community Development funds to defray the costs of program development in their NHS programs. To date, the total outlays and commitments for this purpose have been approximately \$500,000.

Nineteen cities and counties have made or committed grants to NHS revolving loan funds in excess of \$3,000,000.

Seventeen cities have committed a total of over \$6,000,000 for capital improvements or increased service levels in 22 neighborhoods served by an NHS.

Five NHS programs have received grants or commitments toward their operating budgets, totalling over \$200,000.

Similarly, the 13 Neighborhood Preservation Projects in which the Task Force is participating have received CD commitments, totalling approximately \$7,000,000.

In addition to this direct experience with the use of Community Development funds in Task Force programs, we have been able to observe the use of Community Development resources in other programs designed to combat neighborhood deterioration in many cities. We witnessed early difficulties in many cities in taking on this new responsibility, but have seen

a growing competence and professionalization in handling Community Development programs. We believe the Community Development Block Grant program has benefited neighborhoods, and permitted clear progress, nationally, in neighborhood preservation. Our experience leads us, also, to the belief that the program can be productively strengthened, and we are pleased to have the opportunity to share these observations with the Congress.

Experience With The 312 Rehabilitation Loan Program

Our direct experience with the 312 loan program has been more limited, although we have been able to observe it in operation in many cities. Our observation is that the 312 program has been a valuable tool to cities, even though its fluctuating level in recent years has made it difficult for cities to plan and implement its use.

Twenty-one cities with Neighborhood Housing Services programs have active 312 programs. Typically, the 312 loan programs have been targeted on other than NHS neighborhoods. Of the seventeen NHS neighborhoods which are eligible to receive 312 loans, only twelve actually have loans available at this time. Only four NHS programs have referred clients to city 312 loan programs. We believe the 312 loan programs can be strengthened, and are pleased to have the opportunity to offer our recommendations.

RECOMMENDATIONSCommunity Development Block Grants

We believe the Community Development Block Grant program should be continued, expanded, and strengthened.

In general, we would like to see an increase in the funding targeted on neighborhoods. As an example, during last summer's hearings on the National Neighborhood Policy Act a "double dollars" concept was proposed by Ms. Gale Cincotta of the National Training and Information Center. Under this approach, a city would receive a matching grant from the Federal government equal to the amount expended from their CD funds for rehabilitation and capital improvements in existing neighborhoods. We would hope that the Subcommittee would give consideration to incentives for cities to invest their CD grant funds in neighborhood preservation and revitalization projects.

We recommend that consideration be given to modifying Community Development Block Grant draw down procedures. Current restrictions on the drawing and disbursement of grant funds have adversely affected some NHS programs, which, with their small staffs and limited operating capital, find it difficult to cope with the paperwork delays and rigid disbursement requirements. Certainly, the Department of the Treasury must guard against Federal grant funds being held for long periods at substantial interest expense to the Treasury. However, the interest cost would not be substantial if a reasonable threshold were established below which lump sum advances to loan funds were permitted.

We recommend that careful review be given to the weight of regulation and paperwork falling on organizations contracting with cities under Community Development programs. We have not been in a position to thoroughly evaluate this, but we have the definite impression that regulations and reporting requirements have been escalating in the Community Development programs. We think it would be valuable to place a great deal of emphasis on developing techniques which would secure the necessary accountability and adherence to broad Federal policy in a way which would be self-policing and rely to the greatest extent possible on a post-audit approach.

312 Rehabilitation Loan Program

We believe that the 312 loan program should be continued and the funding level increased.

We recommend that the program be carefully reviewed with a view to reducing paperwork and shortening processing time.

We recommend that cities be encouraged to remove excessively high property standards which accompany the loans in some communities, limiting the required rehabilitation to minimum health and safety standards -- but permitting improvements above this level where the homeowner desires and can afford it.

We recommend that cities be encouraged to apply income limits to the use of these Federally subsidized loan funds, so that affluent property owners are not subsidized and that the income limits be set low enough to encourage the widest

possible use of private credit resources -- thus making this limited Federal resource go further.

Our experience with the flexible interest rates employed by the Neighborhood Housing Services' revolving loan funds, and at least one city's municipal loan program, leads us to believe that consideration should be given, bearing in mind administrative considerations, to a graduated scale of interest rates on 312 funds (perhaps aiming for an average rate of 3%) to further take into account the ability of the homeowner to pay.

Thank you for this opportunity to share our experience with you. I will be pleased to answer your questions.

Mr. PATTERSON. Thank you, Mr. Whiteside. I certainly appreciate both of you gentlemen coming here and testifying before us on what is a rather interesting and to me new concept that we might employ. The latter part of your remarks, I think, raised the question you have been talking about, reducing the paperwork. The income addition increases the paperwork to an extent and I see that you recognize that, also.

Sometimes I guess you have to balance the desirable public policy goal and ease of administration and make sure that—I am making a little argument, I guess, with regard to the issue of age of housing, that it is simple and easy and therefore reduces paperwork, but isn't always a measure of a deteriorating neighborhood.

I have made this point in other instances, not with you, and this income requirement is the same thing. I think that bears directly on whether a person should receive a lower interest rate loan. So it is probably worth the additional paperwork that would be required.

You mention, I think on page 11, a self-policing method, again as a part of developing techniques. One of the reasons we have all the paperwork that none of us like is to make sure that funds are spent in a way that is accountable to the public. You mentioned that and it intrigued me, and I wonder if you have anything more to say on this point.

Do you have something in mind when you say selfpolicing methods, so that you can reduce the paperwork, but it will police itself?

Mr. WHITESIDE. The combination of establishing thresholds so that below a certain dollar amount reporting is reduced, and following this by a postaudit, is what we have in mind. Periodically the agencies involved, HUD in relation to the cities, the city in relation to its subgrantees, can assure themselves that the regulations have been followed, but our recommendation would limit the reporting and limit the time that is expended on this on the part of the agency that is trying to do the job in the street.

Mr. PATTERSON. The double dollars program that you mentioned is just that, a proposal? Have you seen this work in other areas? I know there are matching grants like for highway development, but then it is city and Federal funds, and perhaps State. You are basically saying that Federal funds from community development block grants, if they are applied to rehabilitation, would then qualify for an additional matching dollar to go into that?

Mr. WHITESIDE. I think this is a unique concept.

Mr. PATTERSON. It is a carrot approach, rather than a stick.

Mr. WHITESIDE. That is what I like about it. There might be other better incentives to use, but it seems to me that it would be valuable to give a great deal of consideration to approaching this by way of an incentive, rather than in a punitive way.

Mr. PATTERSON. In other words, instead of shutting off funds if you don't do something. I think this is a very interesting concept, and certainly would be supportive of that.

I yield to my chairman.

Mr. ASHLEY. Well, I appreciate your testimony very much indeed. I might just say at the outset that one of the things that interests me—one of the many things that interests me about the testimony of

Secretary Harris recently was a rather glaring omission as far as attention being directed to rehabilitation, aside from the action grant program. The only proposal at this juncture was a continuation of the authorization of the section 312 program for 1 year with no request for additional funding, on the basis that some \$68 million would be available from rollover and carryover funds.

I was surprised at that frankly, because I would have thought that there would be an effort to build on the experience of the urban reinvestment task force, and to expand what has been a relatively low key, low profile area of activity into one that would be more readily available to meet what we all recognize is a very urgent and pronounced need in our American cities, particularly those that are aging and beset with declining neighborhood conditions.

Let me ask you this. In 1972 we started the NHS—you started the NHS program, isn't that correct? And that is what involves the tripartite kind of arrangement between neighborhood residents, the city fathers, and the lending institutions.

Mr. WHITESIDE. That is correct.

Mr. ASHLEY. Then in 1974, you advanced the concept of neighborhood preservation projects. Now that latter area of activity allows a more concentrated kind of attack on problems. Would that be true?

Mr. WHITESIDE. It opens up the possibility. They are really demonstrations to determine if there are some other things that will work.

When we originally began the funding, it was to experiment with them and track them closely. We are hopeful we will come up with some programs as valuable as neighborhood housing services out of that experience.

Mr. ASHLEY. Are there any neighborhood preservation projects that have been made available for neighborhoods that have not been selected for NHS-type treatment?

Mr. WHITESIDE. We are just at the point where we will be experimentally replicating a program which would do just that. One of the neighborhood preservation projects that we have supported is in Berkeley, Calif. It is the municipal pilot rehabilitation project. It is patterned very much after neighborhood housing services, but it is actually operated by the city government. It fits a small city which does not have the kind of financial institutions resources to support a NHS, which is a nonprofit corporation supported by contributions of banks and savings and loan institutions.

And it fits a situation where the community politics may not permit the community base necessary to an NHS. We expect to be able to offer this program to many cities, and it is a relatively simple program to put together. It may benefit many cities where NHS's don't seem to fit.

Mr. ASHLEY. My question stems from page 6 of your testimony in which you identify the purpose of the neighborhood preservation projects as being able to identify, monitor, and evaluate promising locally developing neighborhood strategy, which would encompass the neighborhood housing services program. In that context it suggests that neighborhood preservation projects to date may have been used in conjunction with the neighborhood housing services program in the cities, where NHS applications have gone forward, and where your neighborhood preservation projects have been approved.

Mr. WHITEHEAD. This is true in some cases. It is not a required part of the program. Basically the NPP program is a search. In Toledo, I am sure you are familiar with the River East project that we are supporting, which is a commercial revitalization experiment. Our support there, which is just a tiny drop in the bucket compared to all the city funds that are going into it, is really to give us an opportunity to study that approach, so that in the future we can take that approach, if it proves out to be as successful as it appears it is going to be, to other cities.

Mr. ASHLEY. Now just take Toledo as an example. As far as the River East project is concerned, that is a neighborhood preservation project, isn't it?

Mr. WHITESIDE. Yes, it is.

Mr. ASHLEY. Has that been marked as an NHS project as well?

Mr. WHITESIDE. A neighborhood housing services project is in development in Toledo now.

Mr. ASHLEY. So, they are going forward on a side-by-side basis?

Mr. WHITESIDE. Yes; but in terms of whether it will target the same neighborhood, that is still unknown. In other words, a local site-selection committee, made up of Toledo lenders, city officials, and community representatives, is working right now on making that determination. It may or may not target the same neighborhood.

Mr. ASHLEY. Well, I am interested, because I did not know whether you felt that this basic concept that is involved in your NHS approach is in turn basic to the more concentrated treatment or strategy represented by the neighborhood preservation project.

Mr. WHITESIDE. I think basically it is; yes.

Mr. ASHLEY. So, you would feel more comfortable if a preservation project was in the same targeted area as an NHS undertaking?

Mr. WHITESIDE. Except we don't normally have that degree of control. We may receive several hundred applications from people who have neighborhood preservation project ideas. Occasionally they are in the same city where we have an operating NHS. Occasionally they happen to come onstream about the same time as the neighborhood housing service in the same city, as in Toledo, but it is a rather independent process at this point.

We hope to make them a complementary process as we begin an active replication process on NPP's that prove out.

Mr. ASHLEY. I guess that what I am getting at is that as far as a basic foundation for perhaps some expanded neighborhood preservation effort, we should look to the NHS program as being constructive, particularly from the standpoint of requiring certain conditions to be met locally before there would be Federal support.

Mr. WHITESIDE. I believe that would be true, when we are ready to replicate an NPP program. I would see that there could be a rare instance where we would think the neighborhood, without the neighborhood housing services treatment, would be stable enough to invest in a program for apartment buildings, say, or for commercial revitalization.

At the moment, during the neighborhood preservation project phase, while it is really an outreach to discover what is out there in terms of good ideas, we give the projects a little bit of funding, encouragement,

and we study them. We are not putting that kind of a requirement on them.

Mr. ASHLEY. Well, that is very useful. What I gather you are saying, then, is that you are more comfortable with the experience and the data that has been gleaned from the NHS program than you are to date with regard to the neighborhood preservation projects.

Mr. WHITESIDE. That is right. We have had a number of years to work with NHS. We know it, and we know what it can and cannot do. The others we are still studying.

Mr. ASHLEY. Now, the tie-in between the activities of the Urban Reinvestment Task Force and community development and section 312. Your testimony suggests that community development is important mainly, I suppose, because it is a source of local funds for the revolving fund, and, I suppose, to provide public facilities and other services.

Mr. WHITESIDE. That latter is extremely important, because much of the work on homes in these neighborhoods is on basic internal systems, and one of the most visible aspects is the public works, work on streets and this kind of thing. To get a momentum going, to get the people understanding that really something is happening in the neighborhood, is really critical.

Mr. ASHLEY. Your comments with respect to section 312 were interesting. I suppose any Federal program requires that the first line of attack be the bureaucracy and the redtape.

But, then, in many cities income limits have been set pretty high. What is the tradeoff of the higher income rehabilitation activities that are undertaken through the conventional lending institutions at regular interest rates?

Hopefully, that is going to free up more money for low-income housing activities. But I think that we probably should look at that fairly closely.

We know we spawned a lot of incentives for people to move to the suburbs in the years following World War II, and it struck me that one of the things that we have to do is not reverse those incentives but to come up with counterincentives that make city living attractive.

We pay for a lot of services for people who are moving to the suburbs and I'm just wondering if this might not be the kind of positive incentive, as distinguished from many of the disincentives for inner-city living that might promote a more healthy mix of incomes as far as inner-city composition is concerned.

Mr. WHITESIDE. I would say our observation has been mostly in terms of the current residents. Section 312 loans are not available, as far as I know, to buyers. So, it's the person who already owns the property who is going to benefit from the 312 loan.

And our observation has been that the knowledge that low-interest loans are available, or were available, or are going to be available, sets a level of expectation that there is cheap money available and is a disincentive to homeowners who could otherwise afford loans from a financial institution to work on their home, now. They would rather wait until they see cheap money come along. That is a very natural expectation, and in the very few situations where 312 loans without income limits have come together with the neighborhood housing serv-

ices, the neighborhood housing services staff, in good conscience, can do nothing but direct each resident to the section 312 loan program.

Mr. ASHLEY. You answered this in your fourth suggestion, which is that an NHS type of loan fund, which might present a scale of interest rates that might well satisfy those requirements. We don't want to discourage more affluent people.

Mr. WHITESIDE. Absolutely not. I think what I'm looking for is a meshing, a meshing of the private reinvestment efforts with the Federal efforts.

They are both absolutely necessary, and the last thing I want to do is say anything that sounds discouraging to the section 312 loan program.

It is an awfully important program, and it's not even that HUD requirements are not supportive. HUD does permit cities to set income limits; it is just that most cities do not appear to be doing so.

And so, what I am suggesting is that if cities would avail themselves of this ability, it would mesh better with a private reinvestment program that might be going on at the same time.

Mr. ASHLEY. Mr. Warwick, you commented on the suggestions that the activities of the Urban Reinvestment Task Force be substantially expanded and perhaps universalized as being a more readily available tool to attack neighborhood blight and problems of preservation.

You say that you welcome these expressions of confidence. I share the belief that the activities of the task force must be expanded to the extent the activities have been expanded by virtue of the fact that additional cities have been added as far as the neighborhood services program is concerned, and you are more and more getting into the innovative initiatives that represent neighborhood preservation projects.

So, there has been growth already. Is this the kind of growth that you are satisfied with, or do you think we are in a position now where we can take the experience which has been not inconsiderable and at least consider a broader scale program more readily available to the unhappily hundreds of cities that are in need?

Mr. WARWICK. The need for programs that work is undeniably there. There is no escaping that.

What I have suggested here is that growth of the efforts of the task force is a good thing and is to be encouraged, and we support growth, but we, I think, very strongly believe that we have to keep it at a manageable scale. You have commented about the amount of experience we have and the increasing experience we are developing, and Mr. Whiteside can correct me if I'm wrong, but I believe we have just about doubled the number of cities the task force has been active in each of the last 3 years.

Mr. ASHLEY. From one to two is a doubling.

Mr. WARWICK. But next year we are doubling from two to four and the year after that from four to eight.

I think what I am suggesting is that our experience so far indicates that it is an extraordinarily delicate process that goes on in each city where the task force has been active, and that so far we have not outstripped our resources or our ability to do that successfully. But the end result is so logical, it looks so rational, that there is a great temptation to start trying to shortcut all the very difficult development

steps in the middle and say, if we can get to this perfectly logical conclusion now, we ought to be able to get to the same logical conclusion in a lot more cities and let us do it fairly rapidly.

I think the real key to the success of NHS lies in the just extraordinarily skilled effort that is required throughout the development process in each of the cities.

The expansion and growth of the effort is very, very desirable, but I think it would be a disservice to try and expand it so fast that we lose the ability to continue succeeding with it.

Mr. ASHLEY. Well, we might like some further comment from you on that—on how fast this program can be expanded, not necessarily with the present resources—and after all, you do have some more section 312 money and presumably you are interested in the double-dollar approach, not necessarily firmly in favor of it but I think we have got to be aware of the fact that a lot of promises have been made recently.

In fact, when the election campaign really got heated about what we were going to do to preserve neighborhoods and cities—and while I applaud your efforts—and I think you know that I do, genuinely, but we can't be talking about 28 or 30 cities.

We can't be talking about a 6- or a 10-year time frame while we gain additional experience. I think that is a requisite, and I don't think we should be shortcut, yet I understand the complexity of what has been done.

I would not diminish the local requirements one bit. I think that the experience in 1971 indicates that the communities that can't meet these preconditions should not be considered for Federal support. And it is just too risky to put the Federal taxpayers' dollars down the drain.

So, I am very sympathetic to the approach and the complexities that are inherent in the process, but I am also sensitive to the fact that we are going to have to develop tools for the preservation of our neighborhoods beyond those that are readily available at the present time.

The section 312 program, even with the modifications suggested and even if we were to triple the dollars available, would not give us the breadth of range of approach that is needed. And I am sure that you agree with that.

So, what would be helpful to this subcommittee and to the deliberations of the task force that looked specifically and exclusively at this subject matter would be the parameters and the extent to which you can structure a program that will not dissipate under HUD. What are the type of activities you feel are so important and with which I agree, but will permit the logical and rather demonstrable expansion of a tool of this kind so that it can be made use of where the need requires it?

Mr. WHITESIDE. I might comment on that, Mr. Chairman, that we were operating at a \$2½ million level of demonstration grant support last year, and following the hearings that were held and the suggestion that was made by one of the witnesses that we escalate to \$100 million level, I was asked by the task force members what level I thought we could handle.

I responded that I thought we could handle an additional \$5 million in the 1977 fiscal year.

We were fortunate enough to receive an additional \$2 million and have handled that nicely. We are now operating at a \$4½ million level, and we are comfortable with that rate of growth.

I think the context of the previous discussion of doubling or tripling as compared to jumping to the \$100 million level needs to be borne in mind. I think it would be a mistake to feel that we don't think the program could be expanded—and noticeably expanded.

Mr. ASHLEY. Thank you, Mr. Chairman.

Mr. PATTERSON. Thank you.

Suppose an area of a neighborhood wanted to join or belong or associate with an NHS program, and the local public officials were for it. What might they do? What should be their approach?

I know we have been talking about what your capacity might be, but it seems to me that the approach that you are taking might well apply almost better in an area that is just starting to go down as opposed to one that is a blighted or deteriorating area that is going to take a tremendous infusion of money—probably Federal money or public money of some sort.

And it seems to me that the kind of program you are describing catches things before it gets to that point and with less public money and a great deal of participation by the private sector—can in fact prevent blight from taking place or from spreading.

So, hypothetically, I guess, I ask, suppose an area of 1,700,000 people in the metropolitan area, with a central core of 200,000 that might be right on that cutting edge of just about ready to go down and become an inner city and maybe hasn't become one—might that be a good prospect for such a program, and what would you suggest they might do?

Mr. WHITESIDE. That is the typical scenario. And the procedure is that the city government—occasionally it will be a group of residents, occasionally it will be a group of lenders—but normally the city government will contact us and ask for our services in putting a neighborhood services program together.

We will look at their application, from the point of view primarily of the resources they are willing to allocate and the leadership that is there.

Those are the absolute requirements, really, for the program. If adequate resources and leadership appear to be there, we will send staff on a field visit and look at housing stock and talk to other leaders in the community and get a sense of whether the conditions are ripe for the creation of this kind of a partnership.

And then, if the odds are that the conditions will be ripe, then we will schedule them for developmental work.

What we have tried to do is respond to applications with one of two answers: either "yes" or "not yet." We have a limited staff, but it is growing, we are having good success in attracting very talented people and training them. And most of the cities that apply and do not get selected have more or less self-selected themselves out, as they learned more about the program and discovered it was not exactly the tool they were looking for.

But we now have, as I mentioned, 14 programs in development. We have over a score of programs that we have reviewed and appear ready to go as fast as we can schedule staff there. And it is a continuing process that as fast as we can get ready—to provide the assistance, we are entering into contracts with the city to do it.

Mr. PATTERSON. When you speak of resources, you mean the financial institutions?

Mr. WHITESIDE. There are several kinds of resources. You want to look at the financial institution base there, because the neighborhood housing services, when it is really being effective, is a private program and it needs to be supported by private contributions. So, you need enough financial institutions that they can support about a \$60,000 annual budget in annual contributions.

We are looking at foundations that might be willing to support the revolving loan fund, at the city government's willingness to pledge some community development block grant funds, at the city's willingness to mount a systematic, sensitive inspection program.

In other words, these are the kind of resources we need. If we get general commitments that they are there, we will go to work and bring the details into place.

Mr. PATTERSON. I can understand your wanting to go slow and feeling that your organization can only do so much. The other side of the coin is the need or demand, I think, that Chairman Ashley referred to which is much greater than you can handle.

Also, Secretary Harris is proposing \$400 million for action grants. It seems like the kind of project that you are undertaking is very ripe or very appropriate, maybe, for the action grant program.

Is it feasible, or would you see other organizations—not yours, maybe—you can only go so far—\$5 million or \$10 million—but could others follow the pattern and do essentially what you are doing through action grant programs?

Mr. WHITESIDE. We have seen a great deal of learning taking place. I think in my last testimony here I referred to the NHS as a living laboratory, and it has been that in many cities, with a constant stream of visitors picking up program elements and applying it in other cities, and I think that is a very fruitful role for the NHS.

I am not aware of spontaneously, except for the first program in Pittsburgh, all of the elements coming together in an exact duplicate of an NHS program. We are in a particularly good position with the regulatory agencies involved on the task force to get that full cooperation of financial institutions that is critical. But we expect to see many variants and positive programs growing out of our work, and that is part of the idea. The idea is to get the financial industry equipped with some models of how they can play a bigger role in neighborhood preservation and to provide models growing out of these demonstrations of how cities can put together different programs.

Mr. PATTERSON. Well, thank you, Mr. Whiteside and Mr. Warwick. And unless Mr. Ashley has some questions—

Mr. ASHLEY. I appreciate your testimony.

Mr. PATTERSON. We really appreciate your coming, and appreciate very much your interesting testimony.

Thank you.

At this time we have a panel entitled "Large Scale Projects," and we would like to ask those gentlemen to come forward at this time.

From the Department of Community Development, Commissioner John Stainton, Rochester, N.Y.; from the Chicago Department of Development and Planning, Commissioner Lewis W. Hill; and from the Redevelopment Commission of Winston-Salem, James K. Haley, executive director.

Gentlemen, the Housing and Community Development Subcommittee welcomes you to our hearings and thanks you for your patience in waiting and partaking in the process of adding to our wisdom that we hope will produce better legislation for this country.

I understand at least one of you, maybe more, have time constraint problems or a plane to catch. In short, if you can identify yourself, or if not, then I thought we would lead off with that individual, and I want to make sure each of you get your opportunity.

**STATEMENT OF LEWIS W. HILL, COMMISSIONER, CHICAGO
DEPARTMENT OF DEVELOPMENT AND PLANNING**

• Mr. HILL. Mr. Chairman, I think I got the straw that was the closest plane time, and I appreciate my colleagues' consent for me to go forward.

I do have a prepared statement that I would like to submit for the record, and perhaps summarize, and particularly following the previous witnesses, I would like to make a couple of comments on something which is not even included in my prepared statement.

First I would like to express my appreciation for being here to be able to testify before your subcommittee, and to participate in the deliberations, and to give some criticisms and hopefully some suggestions on what might be done.

I would also like to say that I believe the staff report of February that summarizes the findings of the staff in terms of their investigations well summarizes many of the issues and the concerns that we do have in the community on problems of implementation and on the program, and summarizes some of the things that have been accomplished.

Second—it's not in my prepared statement—I would urge your consideration for an expansion of the homestead program.

We are now moving into the second year in Chicago with an allocation of funds, and we have found our first year's experience to be very rewarding and expect that—again, this is a program similar to the previous witness's—that if expanded, I believe can substantially help the reoccupancy of many of the repossessed FHA-financed houses in our urban communities.

Third: I believe it would be most helpful if the Congress would expand and extend not only the authorization but the funding under the section 312 loan program, and personally, I believe that there should not be closed income limits to obtain those loans. My feeling is that if we operate in a community where our objective is to bring every building up to standard, and if a particular owner who may have—especially in the case of Chicago—a building with 6 or 8 or 10 apartments—must meet a personal income requirement to obtain the section 312 3-percent loan funds, and if the conventional lending sources are not available, we may then have a building in the midst of others that have been repaired which still becomes a drag on the community. I also think that the amount of paperwork that is already involved in section 312 is enough detriment to the program so that a person although concerned about the spread of 3 percent to 6 percent—I don't know where you can get 6 percent—will go to the private market because it is easier to deal with than the bureaucracy that we already have.

So in that regard, I would not be in favor of imposing strict income limits. I think it must be done prudently, but the objective is to carry out rehabilitation in a community of all buildings, and for that section 312 is beneficial; not that it is the only program, but it should be mentioned with others.

There are some other problems I would simply like to mention briefly in my impromptu comments but not dwell on, as I do want to spend more time talking about the current limitations of carrying out large-scale programs.

First: I believe we have, through the procedures for environmental review, created a substantial problem that causes implementation delays.

As a simple illustration, we in Chicago, through community development funds, have approved a \$200,000 grant to Roosevelt University to help them in the restoration of the auditorium theater in Chicago which is a national and local landmark. These funds will be used to assist the university in carrying out repairs to the pipes in order to keep the plumbing system and heating system operating. It really does not make much sense to have to file an environmental impact statement and make a determination that it has no adverse environmental impact, advertise, and then submit to the area office of HUD so that they can await comments before we can give the check to Roosevelt University and that they can get on with the job.

I think that there should be some further refinement of the need for an environmental impact statement and under what circumstances.

Second: In regard to the HUD release of funds which was already touched on—while recognizing the requirement that we not draw down substantially on the Federal treasury and thereby increase interest costs—I believe that the present restrictions ought to apply only to major projects requiring a full environmental impact statement rather than for all program expenditures.

Third: We continued to find—or we did find in the transition from year one to year two a great deal of ambiguity and uncertainty as to what need be done in that transition period. We are moving to our application for the third-year funding, and hope to avoid the same problem we had last year—where we were told we could not submit our environmental impact statements until the second-year funding was approved and then we were told that that interpretation was in error. We had a funding gap between year one and year two because of the environmental impact statement.

Fourth: There has been substantial criticism of the housing assistance plan—and I do not want to dwell on that—but in my judgment it has in fact proved to be, for us at least, almost a meaningless exercise, because we submit it as an assessment of needs—the resources are not there or available—and the HUD area office does not follow it in their advertising, and in fact the only way we can find out what is happening is by making sure that we read the advertisements inviting developers to come in and submit proposals.

In our judgment, section 8 is not a meaningful device so far in Chicago to provide expanded housing opportunities.

The last item that I would like to touch upon is included in the recent rules issued by HUD under their provisions of section 570.303(b). The rule now says, under this amendment, that all community development

activities other than those affecting deterioration, or slum and blight, should benefit low- and moderate-income families or show a reason why there is a special need.

Now, when it says "all" for low- and moderate-income or clearing slum and blight or special cases, it seems to me that this is substantially different from the legislation language which says "principally." I find a big difference between "all" and "principally."

For Chicago, in terms of our first- and second-year community development use, we are spending about 75 percent of all of the funds in low- and moderate-income neighborhoods and in areas of minority concentrations. But to then have to further justify the remaining 25 percent in such a way that the area office and the returnees can make a determination that this fits the exceptions, when we don't know what the groundrules are, is terribly damaging, and we have responded under the normal procedures in that fashion. Perhaps you might have the committee staff look at that, because it appears to me that this is a direct contradiction of the language of the original legislation.

If I might move then quickly to the major purpose of my being here, and that is to discuss the difficulty of carrying out large-scale renewal programs under the present legislation where a program may include clearance, rehabilitation, and the provision of supporting facilities, or a program with an intensive treatment of a smaller area including, almost total clearance and the public facilities needed to support redevelopment activities or an extended rehabilitation program.

Now, the success of these types of programs always implies planning an implementation over an extended period of time. This in turn requires an assurance that funds will be available starting with the initial conception of the project when public expectations are first raised.

Commitments must be obtained from a wide range of public agencies to provide supporting facilities as they are needed from local public agencies.

Large private investment both for rehabilitation and redevelopment can only be attracted if public confidence exists that the project will be completed substantially as planned over the stated period of time.

While the community development block grant program provides an adequate vehicle for the financing of many services and development activities, additional legislative provisions are required for the sound undertaking of those desirable large-scale urban renewal projects.

Efficient management of large-scale redevelopment projects requires that the land disposition process begin concurrently with project implementation if no undue delays are to be encountered between clearance and development. Unless delivery of the site can be guaranteed, this is impossible, as no developer is going to incur the substantial preliminary development costs necessary unless the local government can commit itself to entering into contractual obligations to deliver a site at a specified time.

Alternatively, large-scale redevelopment must be undertaken on an incremental basis with the attendant problems of coordination and deferred land disposition until the entire site is assembled, thus lengthening the entire process.

Further, no prudent public agency would wish to expose existing residents and property owners to the relocation problems that a system of partial funding would entail.

It should also be kept in mind that once an area is designated, property owners are reluctant to incur any major cost of maintenance, and an already blighted area can be expected to deteriorate faster.

In a large area many property owners may demand immediate acquisition rather than commit themselves to an extended, though temporary, management and operating procedure or interim period of time.

At present, too many deserving programs must be funded from the annual block grant to permit a city to commit a major portion of one of its yearly entitlements for a single large-scale urban renewal project and at the same time, tell other communities to wait in line or to come back next year or the year after, even though those funds committed out of that year's program would not be extended or expended other than over a longer period of years.

Therefore, it is my recommendation that the community development program should be amended to allow HUD at least to guarantee a temporary loan which would be secured by the allocation of a portion of the city's entitlement over a period of years.

This, of course, then also relates back to the authorization period, and the enabling legislation, and a commitment for longer term funding over a period of years.

But to enter into a contract with a private redeveloper who proposes new construction or extensive rehabilitation without the ability to make a commitment at the local level for timely delivery of the property is not a meaningful approach. Such a contract, if conditioned upon future funding from the Federal Government beyond the time period covered by authorized Federal legislation is, in reality, no contract, and therefore, the seriousness of a private developer's commitment to enter into such an agreement, to expend the sums necessary in the beginning stages in order to be able to develop a project when, as, and if the site is available, is I believe, meaningless.

I think that this would summarize the basic issues. If we recall that many of the previous projects that were carried out under previous legislation extended over a period of 5, 10, and 15 years—not because of inefficiency of operation but because of the complexities of the program and the magnitude of the development. I think we can see that a program which is limited to a 3- or 4-year authorization, and dependent upon an annual funding mechanism, that depends in turn upon the dollars available to the city this year or next, really brings with it some very serious problems if we are to attack large-scale deteriorated areas. And therefore, we must have something in addition to what we now have, because while I believe we have a good program to start with, it does not yet solve the problem of large-scale, long-term development.

Thank you.

[The prepared statement of Mr. Hill follows:]

Statement of Lewis W. Hill
Commissioner of Development and Planning, Chicago,
before the U.S. House Subcommittee on Housing
and Community Development

March 3, 1977

Rayburn Office Bldg.
Washington, D.C.

Mr. Chairman, Members of the Committee:

I welcome the opportunity to share with the distinguished members of the House Subcommittee on Housing and Community Development my views on the limitations and problems that adversely affect major redevelopment projects funded under the Community Development Block Grant program.

A major problem area in my view concerns the present method of funding large scale urban renewal projects. The basic requirement for the successful planning and execution of a large-scale urban renewal project is the assurance that adequate funds will be available over an extended period of time.

By large-scale I mean either the treatment of a large area with a complex program that includes clearance, rehabilitation, and the provision of supporting public facilities, or a more intensive treatment of a smaller area, including nearly total clearance and public facilities to support redevelopment

activities. The success of either type project always implies planning and implementation over an extended period of time. This in turn requires an assurance that funds will be available, starting with the initial conception of a project when public expectations are first raised. Commitments must be obtained from a wide range of public agencies to provide supporting facilities as they are needed. Large private investment, both for rehabilitation and redevelopment, can only be attracted if public confidence exists that the project will be completed substantially as planned over the stated period of time.

While the Community Development Block Program provides an adequate vehicle for the financing of many service and development activities, additional legislative provisions are required for the sound undertaking of desirable large-scale urban renewal projects.

Efficient management of large scale re-development projects requires that the land disposition process begin concurrently with project implementation if no undue delays are to be encountered between clearance and development.

Unless delivery of the site can be guaranteed, this is impossible as no developer is going to incur the substantial preliminary costs necessary unless the local government unit can commit itself to entering into contractual obligations to deliver a site at a specified time.

Alternatively, large scale redevelopment must be undertaken on an incremental basis with the attendant problems of coordination, and deferred land disposition, until the entire site is assembled, thus lengthening the entire process.

Further, no prudent public agency would wish to expose existing residents and property owners to the re-location problems that a system of partial funding would entail. It should also be kept in mind that once an area is designated, property owners are reluctant to incur any major costs of maintenance and an already blighted area can be expected to deteriorate faster.

At present too many other deserving programs must be funded from the annual block grant to permit a city to commit a major portion of its entitlement for a single large-scale urban renewal project. Therefore, it is my strong recommendation that the present Community Development program should be amended to allow HUD to guarantee a temporary loan which would be secured by an allocation of a portion of the city's entitlement over a period of years.

Another problem area under the current Community Development Block Grant Program derives from the proviso that only public service programs supportive of physical development activities funded exclusively out of the Community Development Block Grant Program are eligible. This is the case even though locally funded physical development projects may be funded in a

variety of ways. In my opinion the regulations should be changed to make any public service activity eligible for Community Development funding if it is undertaken in connection with the physical renewal of designated residential areas, whether or not the physical development is funded in whole or in part from other sources. It would also facilitate program execution if the present requirement for proof of the unavailability of funds from other sources were not required annually. At present if any public service activity continues for more than one CDBG yearly funding cycle, the unavailability of other fund sources must be confirmed for each cycle. It would seem more desirable to allow for a three to five year confirmation period. Our experience has shown that almost without exception other fund sources are already committed.

In the same vein the present requirement for an environmental review of all Community Development activities other than planning and administration, can create an implementation delay of four weeks or more for carry-over activities and eight weeks for new activities. Inasmuch as most of the eligible activities under the Community Development program have only the most minimal environmental impact, the federal regulations should exempt from review such routine activities as code enforcement, rehabilitation loans and grants, demolition of hazardous buildings, and such public improvements as new curbs and gutters, or street landscaping.

Another restriction that causes considerable delay and weakens

the local administrative flexibility is the requirement that a HUD release of funds be obtained before any expenditure be made. This would appear to make sense only for major project requiring a full environmental impact statement rather than for all program expenditures. Local administration would also be greatly simplified if the procedure for transition from one CDBG program-year to the next were less ambiguous. At present, depending on one's interpretation of the regulations, it is permissible for activities initiated in one year to be carried through to completion resulting in a program with elements funded from two or more annual block grants. Another interpretation holds that all Community Development activities must be terminated at the end of the program year and continued only by funding out of the second year grant. Various combinations of these two extremes are now practised but it would help if the regulations stated explicitly how the transition from one year to the next should be handled.

The CD program's Housing Assistance Plan requirement has little or no usefulness in determining the actual allocation of local housing resources if the area HUD office is not bound by the HAP in its solicitations for Section 8 housing proposals. Now, in effect, the local review for a city's conformity to the Housing Assistance Plan consists of modifying the local Plan or making the exceptions necessary to hang-on-to potential developments. Further, the failure of the federal government in recent years to develop a meaningful housing

development program for lower-income families denies the basic purpose of the HAP. While the stated legislative intent is desirable, until the nation has a realistic program of lower-income housing development, the administrative requirements for filing a HAP should be held to a minimum.

Finally I would like to point out that the proposed amendment to Section 570.303(b) of the Community Development regulations published in the Federal Register on February 1, 1977 comprises a major and dangerous change in the basic thrust of the Community Development Block Grant Program. As proposed, the amendment now states that all community development activities other than those affecting deterioration, should benefit low and moderate-income families. I wish to strongly object to this change; first, because it is clearly in violation of the legislative purpose of the Housing and Community Development Act of 1974 and secondly, because it could seriously impair a city's ability to deal with related social, economic and environmental problems.

Section 101(c) of Title I of the Housing and Community Development Act of 1974 states "The primary objective of this title is the development of viable urban communities, by providing decent housing and a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income." The use of the words primary and principally clearly indicate that it was not the intent of Congress that all community development activities must

directly benefit persons of low and moderate income. It should be obvious to all that if cities today are to deal effectively with the social and economic problems that confront them, they must have the flexibility to develop programs which respond to the needs and aspirations of all segments of the population.

If the Community Development Block Grant Program is limited to the development needs of only moderate lower-income groups, we will see our central cities gradually become the exclusive preserve of the disadvantaged.

It is self-evident that any program responsive to sound community development benefits the low and moderate income segment of the populations even if they are not the direct object of program expenditures. Under the proposed change programs aimed at a city's economic revival or well-being would be denied funds unless a "particular urgency" could be proven. This would mean eliminating or curtailing such job-creating entities as new local shopping centers or industrial parks with all that such curtailment would mean for the health of presently sound neighborhoods.

Programs for multi-level income groups are an obvious necessity. Today it could well be that a proposed improvement for a middle-income neighborhood like a small park or shopping center could make the difference in that community's viability.

It is with these very real concerns in mind that I wish the record to show that the City of Chicago is strongly opposed to the proposed amendment of the existing regulations. As I stated in the beginning, the Community Development Block Grant Program has proven itself a workable vehicle for the financing of many needed service and development activities. But it isn't all that it should be. I hope the objections and suggestions raised here today will be of some use to the members of this committee in their all-important task of revision.

Thank you for the opportunity to participate.

* * * * *

Mr. PATTERSON. Thank you, Mr. Hill.

In keeping with the panel, I think we will proceed to the other two gentlemen,

Do either of you have a similar situation—leaving on the next plane, is the next question.

And I would say to Mr. Hill, we have incorporated your written testimony in the record, and if you can remain for the questions that will come later, fine. And we know you'll be watching the clock, and when you have to leave, if you have to leave, you are certainly excused. And thank you for coming.

Mr. Haley?

STATEMENT OF JAMES K. HALEY, EXECUTIVE DIRECTOR, REDEVELOPMENT COMMISSION OF WINSTON-SALEM, WINSTON-SALEM, N.C.

Mr. HALEY. Thank you.

I am James K. Haley from Winston-Salem, N.C.

My comments will be relatively brief. I want to convey a couple of points. The main point is the importance that we feel of having Federal funds available to local communities for their long-term, large-scale development and redevelopment activities. And to do this, I am going to use Winston-Salem as an example, knowing there are many other cities around the country just like Winston-Salem.

We are a manufacturing city, an industrial city, with a population of only about 150,000, so obviously we are not one of the larger cities with the severe problems that you read about in the paper each day. But because there are so many cities in our circumstances, we feel it is important to have the necessary Federal tools to continue our efforts on a local level.

Winston-Salem through the years has used virtually all of the tools that have been available from the Federal Government, from the local government, and from the State government. This is an attempt to give our community a healthy community, particularly from an economic standpoint.

We had a basic premise—we still have that basic premise—that each public dollar spent will create an atmosphere, an environment that will attract private investment. And in the beginning when we really got into this program about 15 years ago we recognized the need of a partnership—and I mention this now and I will bring it up again later to show where we feel there is a missing link.

The initial partnership that we started out with was a 3-way partnership: the Federal Government, the local government and the private sector.

In our State there has been very little activity from the State government level, so we had the Federal Government, the local government, and the private sector.

In using this partnership we developed a total plan for our center city, and in the statistics which I have submitted you will see the importance of our center city to our community: about 30 percent of the employment and 20 percent of the tax base and only 1 percent of the land area. But with this partnership we had a long-term commitment

from each of the parties, a major investment commitment, and it worked. It has worked. And the results you will see—what I call the arithmetic of this program—on the information presented will show to you that public funds leveraged private funds. It shows our tax base was increased. It shows that employment was increased. It shows slums and blight being removed from our community.

What those results won't show you is that there is still much to be done in Winston-Salem. And to continue this, cities like Winston-Salem and other cities will need the Federal commitment to provide the financial assistance to these large, long-range development and redevelopment plans.

I mentioned the partnership earlier today. Let us look at the partnership. The city has the leadership. The city still has the commitment to continue their efforts toward building and maintaining an economically sound city. We have the private sector. It is another part of this partnership; and the institutions. We have manufacturing, financial, commercial, educational, the medical, residential—all of them are committed in our community to continue their investments.

The third part of that partnership, the Federal tool that we have used successfully in the past, is not available at this point in time to the extent we think it needs to be. This public/private partnership then is missing one important and essential element.

As I thought about this, the first thing that comes to my mind, and I am sure yours, is why not the community development block grant?

The community development block grant works well in Winston-Salem. It does not provide the funds for the large, long-range commitments. We were receiving over \$8 million annually prior to the community development block grant. We are now at a level of \$3.5 million and will be reduced to \$2.3 million. This is not enough to even meet the commitments we have in our residential neighborhoods.

The block grant program does not assure us of this financial assistance that is essential to the partnership for the long term, long-range programs.

I mentioned that the partnership has worked in the past. We have an atmosphere in Winston-Salem in which it can continue to work. And if it works, if we have the missing ingredient, what does it mean to the different partners in the venture?

I have tried to outline in this—and I won't read all of these—what it would mean to us in our local community and the many communities like us.

I think basically it would mean an ad valorem tax base that provides revenues to pay for a full range of services, both social and physical, for all of its citizens. Without this tax base, the housing and social services for our lower-income families cannot be provided.

It means employment and increased job opportunities.

It means investment opportunities for the private sector.

It means institutions can continue their functions in their existing locations with space made available for orderly growth in an environment that is acceptable; particularly in our community, medical colleges, universities, and historic neighborhoods.

It means that the close-in, older neighborhoods can remain stable, and rehabilitation will be feasible. This we have talked about and I

have heard talked about today several times. It means that we can provide the middle-income amenities they seek and can stop the exodus to suburbia.

It means the existing utility system and transportation systems can be utilized.

From the Federal Government's standpoint it would mean less demands for emergency assistance. It would mean less dependence on the Federal dollar. It would create an environment where the local citizens would have all of the tools necessary and needed to carry out the plans.

I am convinced, if we are to have strong local communities in the United States, we must continue this public/private partnership, doing together what we cannot do individually.

In closing, I want to make an important observation, at least to us in Winston-Salem, and I think others like us. We talked today about the \$400 million that might be available for action grants. There have been a lot of formulas and a lot of guidelines and a lot of suggestions, and I wanted to add one, and I think this is a critical one, from our standpoint.

It is, please don't write the law so that a city has to be almost beyond saving before they can participate.

From most of the information I have read and talked about regarding distressed cities, possibly the best investment would be to make financial assistance to Winston-Salem and others like us so that we can become and remain sound, economically, physically, and socially. Don't wait for the emergency distress call. It will then be too costly and may be too late. Reward for performance and help us keep the momentum that we have. Protect investments that have been made—and we have some very impressive statistics about the private sector's response to the public dollars spent. We want to keep that climate for new investors.

With this partnership, we in Winston-Salem feel that we can continue this stabilizing and improving our center city, a community of less than 200,000 people. We feel that this is one way that cities all over the country can continue and will not then get into this emergency financial need.

I thank you for your time.

[The prepared statement of Mr. Haley, with attachment, follows:]

Mr. Chairman - Members of the Committee,

I am Jim Haley from Winston-Salem, North Carolina.

I want to convey to you the importance, the necessity of having Federal funds available to local communities for their long-term, large-scale development and redevelopment activities. To do this I will use Winston-Salem as an example knowing that there are literally hundreds of cities around the country just like Winston-Salem.

Winston-Salem is a manufacturing city, an industrial city.

Winston-Salem is a city of approximately 150,000 with a county population of 250,000. Obviously we are not one of the large cities with severe financial problems that you read about in the paper each day. But, because there are so many cities in our same circumstances you can see the importance of having the necessary tools available so that we on the local level can continue our efforts to stay viable communities.

The City of Winston-Salem has used all of the federal and local tools available to keep our community healthy. Our basic premise is this; each public dollar spent will be to create an atmosphere, an environment that will attract private investment.

In the beginning we recognized the need of a partnership: 1. federal government, 2. local government, and 3. the private sector. Using this partnership Winston-Salem developed a total plan for the center city* that required a long term commitment of major investments by all parties. This partnership has worked. I wish I had time to show you some of the results, however, the report you have will show you the arithmetic of this process. It will show how the public funds leveraged private funds, how our tax base was increased, how employment increased, how slums and blight were removed, etc. But it won't show you that there is still much to be done to assure that Winston-Salem won't become a declining city. We need, the cities like Winston-Salem need, a federal commitment to provide financial assistance to large, long-range development and redevelopment plans. The city has the leadership and the commitment to continue their efforts toward building and maintaining an economically sound city; Winston-Salem has the private sector and the institutions, (manufacturing, financial, commercial, educational, residential) committed

to continue their investments; what we don't have now is the federal tool that provides financial assistance to this public-private partnership. This assistance has been and will be an essential element. Why not Community Development Block Grant?

The Community Development Block Grant program works well in Winston-Salem but it does not provide the funds for large, long-range commitments. Winston-Salem was receiving over 8 million dollars annually prior to Community Development Block Grant; under the formula we now receive 3.5 million and will be reduced to 2.3 million. This is not enough to meet the commitments made to improving our residential areas. Also Community Development Block Grant does not assure financial assistance that is essential to the partnership.

If this partnership works, what does it mean to the partners in this venture?

it means that we can look forward to a viable, functioning, full service city

it means an ad valorem tax base that provides revenues to pay for a full range of services both social and physical for all of its citizens - without sufficient revenue, housing and social services for our lower income families cannot be provided

it means employment and increased job opportunities

it means investment opportunities for the private sector by giving them an environment for expanding and improving rather than moving

it means that institutions can continue their functions in their existing location with space made available for orderly growth in an environment that is acceptable

it means that the neighborhoods can remain stable and rehabilitation will be feasible

it means that our city can provide the middle income amenities they seek and stop the exodus to suburbia - I even see the day when the flow will be reversed

it means that the utility systems and transportation systems can be utilized rather than building new ones.

it means that the Federal Government will have less demands for emergency assistance

- it means less dependence on the Federal dollar
- it means a reduction in the unemployment problems facing the nation
- it means that each partner can play their appropriate role
- it means a living environment in our own local communities that meets the needs determined by its citizens
- it means that plans developed by local citizens will have all of the tools needed to carry out the plans

I am firmly convinced if we are to have strong local communities in the United States, we must continue this public-private relationship - doing together what we cannot do individually.

In closing I would like to make one very important (to us) observation. I have seen formulas of every description, guidelines galore, suggestions, recommendations. May I add one? Please don't write the laws so that a City has to be almost beyond saving before they can participate. Possibly the best investment would be to make financial assistance available to Winston-Salem and others like us, so that we can become and remain sound (economically, physically, and socially). Don't wait for the emergency distress call. It will then be too costly and maybe too late. Reward for performance, keep the momentum. Protect investments made and keep the climate for new investments.

Thank you.

* Center City Statistics - 1% of land in Forsyth County
 20% of total County tax base
 32% of total County employment
 7% of total County resident population
 (\$37.5 million in public funds)
 (\$139.5 million in private funds) spent from 1968-75

Attachments: Summary of statistics Center City

WINSTON-SALEM, NORTH CAROLINA

FACTS ABOUT DOWNTOWN WINSTON-SALEM

Approximately \$100 million dollars has been spent on new development in Downtown Area.

Approximately 54,986 square feet of new retail space has been built in Downtown area.

Approximately 938,282 square feet of new office space has been built in Downtown area.

155 businesses have been relocated from the Downtown urban renewal project and 80 of these were relocated into the Downtown area.

123 businesses have spent over \$6 million dollars rehabilitating existing retail facilities in Downtown area.

2 parking garages costing over \$6.7 million dollars and providing 1,309 parking spaces brings the total spaces available for hourly and monthly parking to 7,440 in the Downtown area.

More than 13,000 people are employed in the Downtown area.

35 eating establishments provide seats for 2,259 people in Downtown area.

742 hotel rooms are available in the Downtown area.

Approximately 250,000 visitors yearly attend conventions at the Convention Center in Downtown area.

Pedestrian walkway system connecting Winston-Salem Mall (Trade Street Mall) with Liberty/Main Parking Garage, Cherry/Marshall Parking Garage, Hyatt House, Convention Center, and NCNB Plaza is completed.

3,272 new parking spaces provided in Downtown Winston-Salem

Employment in Downtown Winston-Salem has increased approximately 20%. Estimated to increase an additional 20% by 1980.

The Redevelopment Commission of Winston-Salem

901 CLEVELAND AVENUE, WINSTON SALEM, NORTH CAROLINA 27103

TELEPHONE (319) 724-1973

COMMISSIONERS

JOHN K. GALLAGHER - Chairman
 WILLIAM N. DIXSON, JR. - Vice Chairman
 A. TORRACE DELORNEY
 MRS. LOUISE HARRINGTON
 DR. FELIX JACKSON
 NICHOLAS W. MITCHELL, SR.
 NORMAN L. NIFONG

December 31, 1975



JAMES K. HALEY - Executive Director

1,960 acres of Winston-Salem are now under Urban Renewal Planning. This includes all of the Central Business District and most of East and North Winston-Salem. All segments of the private and public elements of the City are involved in the carrying out of these plans.

All types of Urban Renewal are being used: Rehabilitation, Clearance, Conservation, Code Enforcement.

\$ 45,074,799.	Federal funds committed
<u>26,155,478.</u>	City funds committed
\$ 71,230,257.	Total funds committed

\$ 39,721,709.	Federal funds spent in carrying out Urban Renewal projects
<u>28,965,421.</u>	City funds spent in carrying out Urban Renewal projects
\$ 68,687,130.	Total funds spent to date

4,313 slum, sub-standard dwelling units have been removed in 12 years of Urban Renewal.

315 more scheduled to be eliminated during the next 2 years.

13,809 units have been improved through rehabilitation and code enforcement at a cost of \$22,244,142.

\$5,435,845. has been paid to relocate 3,257 families and 487 businesses.

402 families moved from Urban Renewal areas have bought homes at an estimated cost of \$6,353,411.

\$91,000,000. has been spent on new construction in Urban Renewal areas.

\$165,000,000. estimated to be spent for new construction in Urban Renewal areas. (\$100,000,000. of this is the Downtown Area.)

119 Businesses in the Downtown area have completed rehabilitation totaling \$5,500,500.

\$383,275. received by City as tax revenue prior to redevelopment.

\$1,769,122. estimated to be received by City as tax revenue after new development completed (East Winston, Downtown, Kimberly/North Winston and Neighborhood Development Project areas).

In addition to money spent in Urban Renewal areas, the displacement and breaking up of high density slums initiated the construction of new housing both close-in and suburban:

6,076 new dwelling units have been constructed in last 11 years at an estimated cost of \$92,146,911. This figure includes apartments and single-family homes for low and moderate income. 949 of these are in the Urban Renewal areas.

The Housing Authority of Winston-Salem has 967 single-family homes in their Turnkey III Homeownership Program. They have 1,538 units of Conventional public housing, 403 units of HI-Rise for the elderly, and 228 units of Leased Housing under Management. They also have the management contract for 114 units of 236 housing.

CENTRAL DOWNTOWN

NEW DEVELOPMENT

10/68 thru 2/77

<u>TOTAL:</u> Completed	\$ 88,007,337.
Proposed	44,000,000.
Rehabilitation	<u>5,973,000.</u>
	<u>\$137,980,337.</u>

I. NEW CONSTRUCTION COMPLETED:

A. Project Boundary: (\$56,022,337)

(1) Private: (\$22,785,000)

Reeds Drug	\$ 70,000.
Nissen Annes	70,000.
Royal Finance	60,000.
Kay Jewelers	120,000.
First Presbyterian Church	1,800,000.
Insurance Services	100,000.
NCNB Plaza (Phase I & II)	9,600,000.
Hyatt House Hotel	8,300,000.
Winston-Salem Savings & Loan	2,400,000.
Galiski Optical	115,000.
Booe, Mitchell & Shugart, Attorneys	150,000.
TOTAL	<u>\$ 22,785,000.</u>

(2) Public: (\$31,499,964)

Benton Convention Center	\$ 4,175,000.
Hall of Justice	6,700,000.
Cherry/Marshall Parking Deck	3,957,070.
Liberty/Main Parking Deck	2,770,914.
City/County Surface Parking	60,980.
Federal Building	13,800,000.
City Hall Parking	36,000.
TOTAL	<u>\$ 31,499,964.</u>

(3) Public: (\$1,737,373)

Streets:	\$ 315,053.
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Second (Cherry to Church)	
Trade (2nd N. 150' and S. 100')	
Liberty (2nd to 3rd)	
Sixth (Cherry to Marshall)	
TOTAL	<u>\$ 315,053.</u>

Pedestrian System:

Mall (5th to 3rd)	\$ 254,243.
Underpass (5th St.)	106,439.
Mall (Trade to Cherry)	434,743.
Mall (Trade to Liberty)	527,090.
Mall (4th to NCNB Plaza)	90,500.
NCNB Sidewalks	9,305.
Federal Building Sidewalks	
TOTAL	<u>\$ 1,422,320.</u>

B. Downtown (CBD) Area: (\$31,985,000)

(1) Private: (\$27,060,000)

Southern Bell	\$ 11,000,000.
Downtowner Motor Inn	2,000,000.
Wachovia East	9,500,000.
R. J. R. Warehouse	2,600,000.
Holly Building	100,000.
Douglas Battery	200,000.
ARCO Service Station	30,000.
Winston Radiator	30,000.
Liberty Building	250,000.
Blue Bird Cab Company	250,000.
Le Chateau Restaurant	200,000.
TOTAL	<u>\$ 27,060,000.</u>

(2) Public: (\$4,925,000)

Crystal Towers	\$ 4,100,000.
Fire Station No.#1	825,000.
TOTAL	<u>\$ 4,925,000.</u>

II. NEW CONSTRUCTION PROPOSED:

A. Downtown (CBD) Area (\$44,000,000)

(1) Private:

Reynolds Plaza	\$ 34,000,000.
Piedmont Publishing Company	10,000,000.
TOTAL	<u>\$ 44,000,000.</u>

III. REHABILITATION:

Completed:	\$ 5,663,000.
Under Construction:	310,000.
TOTAL	<u>\$ 5,973,000.</u>

IV. SUMMARY:

TOTAL COMPLETED AND PROPOSED:

Private Development	\$ 93,845,000.
Public Development	36,424,964.
Site Improvements	1,737,373.
Rehabilitation	<u>5,973,000.</u>

GRAND TOTAL: \$137,980,337.

Mr. LUNDINE [presiding]. Thank you very much.

We will not introduce the statement of Mr. Stainton from Rochester into the record, and you may proceed.

PREPARED STATEMENT OF JOHN STAINTON, COMMISSIONER, DEPARTMENT OF COMMUNITY DEVELOPMENT, ROCHESTER, N.Y.

Mr. STAINTON. Thank you, Mr. Lundine. I appreciate giving testimony before another upstate resident. I know that all of us share a lot of common problems and Jamestown's problems are not that much different than Rochester's.

Rochester likes the community development program. We see a lot of benefits accruing from it, which were not available under the old categorical formulas.

We are, however, one of the cities in the country most impacted by the hold-harmless phaseout formula. The figures published by Brookings showed a 70-percent cut from our present level of about \$14 million, so anything that we say tends to revolve around that kind of a statistic.

I would urge the subcommittee—and I think the subcommittee report that was done by the staff supports the position—that additional constraints on the spending of community development funds should be avoided if possible. I don't want to sound like a senior citizen, but I have been involved in community development now for almost 20 years, and it has been a real pleasure and a real relief not to have to spend time so much on Federal procedures, applications, regulations, and all of that kind of thing, and to put the money into the street, where I think it belongs on a systematic basis. My testimony which I would like to leave tries to say that. I think we are doing a better job than we were able to do before, that we are able to program funds in a better way than we were able to do before, and that the community development program has integrated the work we are doing more effectively into the overall community development work that the city is doing, rather than a kind of an all-or-nothing approach, in which the city is required to put all of its eggs in a few baskets and lets everything else go downhill.

We have been able to use the CD moneys on a flexible basis and I give some examples in my prepared statement, which I won't repeat, but which are available for the record. On page 4 of my statement, I list the costs associated with a 10-year downtown development plan that we have recently completed as a draft, using community development moneys. It shows a total projected expenditure of about \$36 million, and you will note that only \$7 million of that is coming from community development funds, which I think is a significant leverage of funds. I would say, however, it is more significant than we would like. If there were additional community development funds available, the city debt impact would be less.

Not all cities are as fortunate as Rochester to be able to sustain that kind of impact; and even though we are prepared to do it, it does have a negative impact on the city's overall tax rate.

One of the things that has been happening under the community development legislation which I think is significant, even when we are planning over a long period of time, is that less money is going into

land acquisition, demolition and clearance, and relocation. And I think that this is being done, not just because funds are more limited, but because I think we have gained some experience that acquiring property, tearing it down, and making it available for development is not a sufficient response to community development activities. There are thousands of acres around the country of vacant land and acquiring more land is not often a useful approach. The figures that we project are that only about 18 percent of the total amount of money for the downtown plan will go for those purposes, whereas under the old urban renewal programs, typically it ran two-thirds to three-quarters. This is important in terms of giving early visibility and credibility to our program efforts.

We have found at least in New York State that land acquisition through condemnation is outrageously expensive and uses up much of the funding that was available.

The major difficulty we have in Rochester, as elsewhere, in attracting private investment for large-scale development is the confidence in what will happen to the city overall. We have got a number of institutions now that are thinking about locating in the city and even one that is tax exempt worries about embellishment charges that may be in the city; they worry about security; they worry about parking. Those are not all things that can be addressed directly with community development funding.

I think I am a bit of a maverick probably when I raise some concerns about the action grant program.

Mr. ASHLEY [presiding]. Excuse me. We do have the second bells of a vote on the floor. And I think from your standpoint, you might want us to conclude.

Let me just ask you gentlemen this. We will pay a lot of attention to your written testimony, but are you suggesting that there be changes in the community development block grant program to make larger scale development more economically feasible and if so, does your testimony go specifically to recommendations?

Mr. STANTON. My testimony as it affects Rochester is primarily concerned with the funding level and the continued availability of community development funds as it affects Rochester.

Mr. ASHLEY. Now second, are you familiar with the proposal of the Secretary for a new action grant program?

Mr. STANTON. Yes. And I am concerned about it because that tends to introduce uncertainty as to the availability of funding of cities such as Rochester, which then is counterproductive to private investment. Now, as I indicated, I think that in a sense that is a maverick position, but what I am concerned about is the reintroduction of the old categorical program where you take 3 or 4 years to get your money. You have plans in the paper, everybody gets upset, you create the urban renewal blight that has often been prevalent throughout the country and by the time you get your money, the problem is three times worse than it was before.

Now maybe we can write regulations that avoid that problem and maybe we can carry out a program in a way that we will have the necessary assurances. That is very, very important.

[The prepared statement of Mr. Stainton, on behalf of the Rochester (N.Y.) Department of Community Development, with attached newspaper article, follows:]



City of Rochester

Department of
Community Development

Office of the Commissioner
150 State Street
Rochester, New York 14614

Testimony Before the U.S. House of Representatives Subcommittee
on Housing and Community Development

by John Stainton, Commissioner
Department of Community Development
Rochester, NY

March 3, 1977

I have been Commissioner of Rochester's Department of Community Development for the past 3 years under a plan that reorganized Planning, Zoning, Urban Renewal, Community Development, and a number of other municipal functions into one department. I have been invited by the Subcommittee to "discuss the limitations and problems in obtaining commitment from financial institutions in developing major redevelopment-type projects under the Community Development Block Grant Program".

I know there has been considerable concern within Congress and professional groups that the Block Grant approach to funding has resulted in a defusion of funds away from the areas of greatest need, has met only limited short-range program objectives, and has limited the participation of outside financial institutions.

My position, based on our experience over the past several years in Rochester, is that nothing in Community Development legislation prevents long-range planning and development commitments and, to the contrary, that if adequate funding is provided, a sound and more balanced approach can be achieved.

Rochester is a city of approximately 285,000 people in a metropolitan area of 1 million. Although the financial constraints have been severe, Rochester is one of the few cities of any size in the northeast that still has a triple A bond rating. At one time it had the thirteenth largest urban renewal program in the country and has actively participated in a variety of low and moderate income housing programs. Rochester received approximately \$150 million in Federal urban renewal monies and Community Development funds over a 10 year period from 1963 to 1973 for an average of \$15 million per year. Rochester is a hold-harmless city, one that shows a drop from \$14.6 million to \$4.5 million over the 6 year period.

After first registering our concern over the projected loss of funding, I firmly believe the Block Grant approach has been much more effective in meeting our local needs than the previous categorical grant programs.

My reason for stating that long-range development objectives can be addressed with Community Development funds is illustrated in the work undertaken and projected for our central business district. First and second year funds were used initially on an opportunity basis to:

1. Acquire a blighted site adjacent to the New York Central Railroad. The purchase leveraged State and Amtrak funds for station construction and site development on the railroad property.
2. Acquire through negotiation a large blighted parcel in the heart of the business district.
3. Provide money for development plans and a rehabilitation loan of \$850,000 to renovate a vacant department store into a theme retail center. Local banks are participating by providing over \$400,000 in working capital.
4. To provide staff support for promoting special events downtown.

None of the above activities nor the participation from other funding sources would have been possible on a timely basis (if at all) if only the old categorical programs had been in place.

At the same time these short-term program opportunities were being undertaken, we also spent CD funds in the preparation of a 10 year downtown development plan. This was the first such effort made in 12 years and included an estimate of the sources of financing an estimated \$36 million in public improvements. Sources include:

<u>Source</u>	<u>Amount</u>
Federal Community Dev. Funds	\$ 7,281,000
City Debt	19,143,000
Water Revenues	515,000
Debt Reimbursable by Pure Waters	1,680,000
County Street Program	1,575,000
Federal Bureau of Outdoor Recreation Funds	1,690,000
State/Federal Highway Funds	3,250,000
Federal Urban Mass Transit Agency Funds	<u>1,100,000</u>
TOTAL	\$ 36,234,000

Downtown's future is critical to the health and vitality of the city and its people. It is the only retail center accessible to large numbers of low and moderate income people dependent on public transportation; it is a major center of employment for city residents; and our downtown area provides 20% of the city's tax base. Without these tax revenues it would be impossible to maintain essential city services.

Several other points can be made:

1. The city undertook a planning/development process that anticipates an expenditure of Community Development funds over an extended period of time. If we carry the plans through on a timely basis, I believe it will considerably strengthen the potential for private investors to have confidence in the future of the city and the downtown area.

2. The amount of Community Development funds shown above would be considerably higher in relation to the city debt if it weren't for the sharply reduced funding we are facing. Rochester is fortunate in that the amounts required can be raised within the city debt limit. However, it would be far preferable not to create the need for additional debt that must be met by local real estate taxes, particularly if we consider the broad spectrum of other needs an aging city faces.
3. Not apparent in the figures above is that only 18% of the \$36 million is being used for land acquisition, relocation, and demolition of property. Under the Urban Renewal Program, 2/3 to 3/4 of the Federal dollars of an urban renewal project were typically used for this purpose. Rochester and many other communities have a supply of vacant land in the central areas as a result of these earlier program activities that now form a land bank available for future development. The plan will put Community Development and city money into improvements rather than land acquisition and demolition. It will do it not for limited project areas within downtown, but on a broader basis tied to achieving plan objectives and responsive to public investment.

Instead of engaging in what came to be an outrageously costly process of assembling land through condemnation as was done in the past, we have been successful in making these assemblies over an extended period of time by negotiation. Over the past

3 years we have acquired millions of dollars in property without a single condemnation, simply by being patient.

4. As a result of the plan preparation, and because CD funds can be used on a much more flexible and timely basis, there has been a significant upsurge of interest and participation by the downtown business community in working with the city in planning and development activities. It gives the city a much greater potential for effectively leveraging private investment than was previously possible. Downtown interests have formed a development corporation and are in the process of raising funds to hire an executive. (See attached clipping.) I do not believe these steps would have occurred had CD funds not been available.

The major difficulty in attracting private investment in Rochester and many other cities has not been the lack of available sites, or available utilities and other needed improvements. If it were, then we wouldn't have thousands of unsold acres around the country. The problem is confidence in the city itself - does it have a future; will it be safe; are the real estate taxes going to become progressively heavier in comparison with suburban areas. No amount of Community Development dollars can answer those questions. Community Development dollars can, however, be a catalyst in providing essential support on a timely basis. Obviously, if the amount of funds potentially available to cities like Rochester

is increased through use of the proposed dual formula or a separate Action Grant Program, we will benefit by being able to carry out our programs more rapidly and at less cost to city taxpayers.

At the same time I would like to express my concern at the re-introduction of the use of categorical grants and the inevitable grantsmanship in the Community Development process. One key to attracting business investment is to be certain of funding sources. One way to generate uncertainty is to do a plan, file an application, and wait for someone else to make a decision. All who have been active in the urban renewal business over the years are familiar with the blighting effect of an urban renewal planning process that takes place over several years. An Action Grant Program is likely to have far more applications than can be funded and will result in all of the old bureaucratic and political in-fighting experienced in previous programs. Any legislation should work to eliminate uncertainty, not foster it.

Our neighborhood development efforts have followed a somewhat similar pattern to downtown efforts in developing longer range programs. During the first several years, the city concentrated on the renovation of existing parks and recreation facilities, rehabilitation grants for private non-profit social service agencies, and rehabilitation loans and grants available to low and moderate income homeowners throughout the city. These

short-range programs have generally been well received. At the same time, using Community Development funds, we embarked on a neighborhood planning program which begins to look ahead to meet community priorities over a number of years. These will include more concentrated targeted types of activities.

At the same time, the ability to avoid the early and often arbitrary deliniation of project boundaries as happened under the past urban renewal and other categorical programs has been most helpful in maintaining program flexibility and in achieving a match with other funding sources. I would urge that Congress not return to the former application procedures which severely limited the areas in which programs operated, and leave those decisions up to the local community.

The loan program operates in participation with local banks. The city matches 35% of a home improvement loan up to \$5000. We also permit homeowners to use their own savings or private financing if they wish to do so. Grants are available for low income households. The program thusfar has been well received and without major operational difficulties. All local commercial and savings banks are participating. We could significantly expand the volume of activity if additional CD funds were available.

Our industrial planning as well as planning for supportive public services follows a similar pattern - the first several

years the city operated largely on an opportunity basis but is now shifting to more developed, longer range programs. This coming year, using CD funds, we will be carrying out an intensive study of the potential opportunities and development requirements for industrial growth within the city.

To conclude:

1. The major problem in Rochester is and will continue to be the availability of funds for Community Development purposes. Rochester could effectively utilize several times the annual appropriations presently available. If the current formula is not altered, the city will be severely handicapped in carrying out a program of any scope.
2. There is nothing in the Community Development legislation that precludes the use of funds for long-range development activity. In fact, in Rochester, I believe just the opposite has happened. We are moving away from the "all or nothing" project approach which involves cataclysmic change and extensive social and economic disruption within limited areas, towards a more realistic, less costly approach to achieve Community Development objectives.

Cash for Downtown Is Rolling In

2-24-77

By STUART ELLIOTT

Local businesses today showed they're putting money where their firms are, to help downtown redevelopment.

In separate actions:

The Downtown Development Corp. (DDC) said it has raised more than half its goal of \$300,000 to push plans for reviving the central business district.

And a key banker indicated several banks are near agreement to provide financing for The Mill, the long-talked-about renovation of the old Edwards Building on Main Street.

"We're saying we want to make this go," said Frederick G. Ray, DDC chairman, "and we're confident it's going to go."

At a breakfast this morning, the DDC announced pledges of more than \$150,000 over three years. The funds will be used to hire full-time staff to aid city planners in implementing the downtown revitalization proposals suggested last fall.

More than 90 chief executive officers of industrial, retail, law and accounting firms attended, said Ray, who also is chairman of Rochester Savings Bank. Sources said the pledges included these firms, all three-year totals:

McCurdy & Co., \$30,000; Sibley, Lindsay & Curr Co., \$30,000; Eastman Kodak Co., \$30,000; Rochester Gas & Electric Corp., \$7,500; Rochester Telephone Corp., \$7,500; and Xerox Corp., \$15,000.

Within the next two weeks, Ray said, additional pledges are expected from others who attended the breakfast. Today's turnout and DDC's plans to hire full-time staff, he added, "give evidence of a serious commitment" by business to revive downtown and, especially, "participate dollar-wise."

The City of Rochester projects that the plan will take up to 10 years and cost up to \$152 million in public and private funds. Its major components are a downtown mall along Main Street, a convention center and an Eastman Theater cultural district.

As for The Mill, an outline for a loan agreement has been prepared, said Arthur Richardson, head of the Rochester Clearing House Association

and president of Security Trust Co. "There's clearly a positive attitude," he added, "and I'm optimistic we can finalize the matter" by next month.

The agreement calls on local banks to provide \$440,000 in loans to the Sutton Co., a Syracuse development firm which is designing The Mill. The city plans to spend up to \$850,000 on the project, on Main between St. Paul Street and North Clinton Avenue.

Ray said that he expects work on The Mill, a 4-story collection of shops and restaurants, to begin by April. "We will see it open by fall," he added, "in time for the Christmas shopping season." The building is owned by the state Urban Development Corp.

Mr. ASHLEY. Well, I quite agree with you.

I do hope you will be understanding of our situation. We worked late last night; we've got a heavy legislative schedule; we're just going to be obliged to terminate at this juncture, even though we would all like the opportunity to question you further.

The subcommittee has received a statement from Charles R. Krusell. The statement will be inserted into the record at this point.

[The statement follows:]

STATEMENT OF CHARLES R. KRUSELL, EXECUTIVE VICE PRESIDENT OF THE
GREATER MINNEAPOLIS CHAMBER OF COMMERCE
AND THE GREATER MINNEAPOLIS HOUSING CORPORATION

MARCH 3, 1977

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

I AM PRIVILEGED AND HONORED TO HAVE THIS OPPORTUNITY TO TESTIFY BEFORE YOUR SUBCOMMITTEE ON THE SUBJECT OF MAJOR REDEVELOPMENT-TYPE PROJECTS UNDER THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM.

I AM THE EXECUTIVE VICE PRESIDENT OF THE GREATER MINNEAPOLIS CHAMBER OF COMMERCE. I AM ALSO THE EXECUTIVE DIRECTOR OF THE GREATER MINNEAPOLIS HOUSING CORPORATION WHICH HAS ASSISTED IN PROVIDING MORE THAN 1,000 DWELLING UNITS OF HOUSING FOR LOW AND MODERATE INCOME FAMILIES IN THE CITY OF MINNEAPOLIS AND ITS IMMEDIATE SUBURBS. MY TESTIMONY IS BASED UPON MY EXPERIENCE IN THESE POSITIONS SINCE 1970 AND AS EXECUTIVE DIRECTOR AND ASSISTANT EXECUTIVE DIRECTOR OF THE MINNEAPOLIS HOUSING AND REDEVELOPMENT AUTHORITY FROM 1955 TO 1970.

SOME QUESTIONS I WAS ASKED TO RESPOND TO AND MY ANSWERS FOLLOW:

IS IT POSSIBLE TO PLAN AND CARRY OUT LARGE SCALE REDEVELOPMENT PROJECTS UNDER THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM ?

IT IS POSSIBLE, BUT MOST UNLIKELY. IN THE FIRST PLACE, CITIZEN PARTICIPATION REQUIREMENTS OF THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM RESULT IN HIGH

PRIORITIES FOR RESIDENTIAL NEIGHBORHOOD PROJECTS RATHER THAN LARGE SCALE REDEVELOPMENT PROJECTS. THE REASON IS THAT THE NEEDS OF THE NEIGHBORHOODS ARE FAR GREATER THAN THE AVAILABLE RESOURCES AND CITIZEN REPRESENTATIVES VOTE FOR IMPROVEMENTS WHERE THEY LIVE RATHER THAN WHERE THEY WORK.

IN MINNEAPOLIS THE CENTRAL BUSINESS DISTRICT AND THE AREA IMMEDIATELY SURROUNDING IT IS THE MOST LIKELY AREA FOR LARGE SCALE REDEVELOPMENT PROJECTS. THIS AREA, HOWEVER, HAS VERY FEW HOUSING UNITS AND THEREFORE VIRTUALLY NO REPRESENTATION ON CITIZEN ADVISORY COMMITTEES OF THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM. THIS FACT MAKES IT VIRTUALLY IMPOSSIBLE FOR LARGE SCALE REDEVELOPMENT PROJECTS TO BE RECOMMENDED OR APPROVED.

ANOTHER FACT CONTRIBUTING TO THE UNLIKELIHOOD OF LARGE SCALE REDEVELOPMENT PROJECTS UNDER THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM IS THE UNCERTAINTY OF CONTINUING FEDERAL AID. THE SHORT TERM COMMITMENT FOR THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM DISCOURAGES CITIES FROM EMBARKING UPON LARGE SCALE REDEVELOPMENT PROJECTS, EVEN WHERE THE CITIZEN PARTICIPATION PROCESS ALLOCATES FUNDS TO THESE PROJECTS. THESE PROJECTS REQUIRE CONSIDERABLE SUMS OF MONEY, AND IT IS DIFFICULT TO PLAN LARGE SCALE REDEVELOPMENT WITHOUT SOME ASSURANCE OF FUNDING THE ENTIRE PROJECT.

IT THEREFORE FOLLOWS THAT IF WE ARE TO HAVE LARGE SCALE REDEVELOPMENT PROJECTS FUNDED BY THE FEDERAL GOVERNMENT FOR THE PURPOSE OF REBUILDING THE CENTRAL CITIES OF THIS COUNTRY, THEN FUNDS MUST BE SET ASIDE FOR THIS PURPOSE, EITHER BY A SEPARATE PROGRAM OR OTHER MEANS.

WHAT WILL MAKE LARGE SCALE REDEVELOPMENT PROJECTS ATTRACTIVE TO THE PRIVATE SECTOR FOR INVESTMENT PURPOSES ?

FIRST AND FOREMOST, WE MUST FIND A WAY TO PROVIDE ECONOMIC INCENTIVES. THE PRIVATE SECTOR IN THIS COUNTRY RESPONDS TO ECONOMIC INCENTIVES. IT IS EASY TO FORGET THIS SIMPLE TRUTH ABOUT OUR ECONOMIC SYSTEM. IT HAS BEEN MY EXPERIENCE THAT WHERE AN OPPORTUNITY FOR PROFIT IS AVAILABLE, THE PRIVATE SECTOR REACTS.

IN THE FEDERAL GOVERNMENT'S HOUSING PROGRAM FOR LOW AND MODERATE INCOME FAMILIES THERE WOULD BE VIRTUALLY NO ACTIVITY BY THE PRIVATE SECTOR IF THE ECONOMIC INCENTIVES OF THESE PROGRAMS WERE NOT AVAILABLE. TO NAME A FEW -- GOVERNMENT GUARANTEED MORTGAGES, INTEREST RATE REDUCTIONS, REAL ESTATE TAX REDUCTIONS, DIRECT ASSISTANCE PAYMENTS, AND LOWER INTEREST RATES FOR INTERIM FINANCING.

IN THE REDEVELOPMENT OF OUR CENTRAL CITIES WE NEED HOUSING, BUT WE ALSO NEED COMMERCIAL AND INDUSTRIAL REDEVELOPMENT. IT THEREFORE SEEMS LOGICAL THAT WE CONSIDER PROVIDING SOME ECONOMIC INCENTIVES FOR COMMERCIAL AND INDUSTRIAL DEVELOPMENT IN REDEVELOPMENT AREAS. FOR EXAMPLE: (1) A 50% REDUCTION IN REAL ESTATE TAXES (THE AMOUNT OF SUCH REDUCTION BEING REIMBURSED BY THE FEDERAL GOVERNMENT TO THE COMMUNITY); (2) FEDERALLY GUARANTEED LONG TERM MORTGAGES; (3) TAX EXEMPT LONG TERM INTEREST RATES (THE INDUSTRIAL REVENUE BOND METHOD); (4) INTERIM FINANCING AT REDUCED RATES. THESE AND OTHER INCENTIVES, A COMBINATION OF WHICH, WILL MAKE REDEVELOPMENT AREAS COMPETITIVE WITH OTHER LOCATIONS.

THE QUESTION OF PROVIDING ECONOMIC INCENTIVES FOR THESE PURPOSES IS MORE A QUESTION OF PRIORITY THAN ANYTHING ELSE. IF SIGNIFICANT REBUILDING OF OUR

CENTRAL CITIES IS OF THE HIGHEST PRIORITY, THEN ECONOMIC INCENTIVES AS DESCRIBED MAKE GOOD SENSE. IT IS CERTAIN THAT IF SUFFICIENT ECONOMIC INCENTIVE IS PROVIDED, THE REBUILDING OF THESE REDEVELOPMENT AREAS WILL NO LONGER BE A PROBLEM.

ANOTHER ESSENTIAL REQUIREMENT FOR INVESTMENT OF THE PRIVATE SECTOR IN REDEVELOPMENT PROJECTS IS THAT SUFFICIENT LAND BE MADE AVAILABLE IN ONE LOCATION SO IT IS POSSIBLE THROUGH REDEVELOPMENT TO CHANGE THE CHARACTER OF THE REDEVELOPMENT AREA. PIECEMEAL REDEVELOPMENT SURROUNDED BY BLIGHT WILL NOT ATTRACT PRIVATE INVESTMENT EVEN WITH ECONOMIC INCENTIVES EXCEPT IN THE MOST UNUSUAL CIRCUMSTANCES.

IS LARGE SCALE REDEVELOPMENT A HIGH PRIORITY ?

ALTHOUGH EVERY LARGE CITY HAS ITS OWN PECULIARITIES, IT ALSO HAS SIMILARITIES WITH OTHER LARGE CITIES. IN MINNEAPOLIS A LARGE SCALE URBAN RENEWAL PROJECT OF THE EARLY 1960'S, THE GATEWAY CENTER URBAN RENEWAL PROJECT, WAS THE CATALYST FOR PRIVATE REBUILDING AND RENOVATION OF OUR CENTRAL BUSINESS DISTRICT. WE HAVE SEVERAL ADDITIONAL AREAS IN THE CENTER CORE THAT NEED REDEVELOPMENT BUT LACK FUNDING. IN THE EXAMINATION OF REDEVELOPMENT OF OUR CENTRAL CITIES THERE ARE MANY GOOD AND POSITIVE REASONS SOCIALLY AND OTHERWISE FOR REDEVELOPMENT. I WILL PLACE EMPHASIS ON TWO OF THESE REASONS SINCE I THINK THEY ARE MOST SIGNIFICANT IN CONSIDERING THE MERITS OF RETAINING HEALTHY CENTRAL CITIES, CENTRAL BUSINESS DISTRICTS AND COMMERCIAL AREAS.

FIRST IS THE REAL ESTATE TAX BASE. IN MINNEAPOLIS, WHICH CONTAINS 56 SQUARE MILES OF LAND, A FEW BLOCKS IN THE CENTRAL BUSINESS DISTRICT PAYS 26% OF THE REAL ESTATE TAXES OF THE ENTIRE CITY. ANOTHER EXAMPLE IS THAT ONE BLOCK IN DOWNTOWN MINNEAPOLIS PAYS THE SAME REAL ESTATE TAXES AS 500 SQUARE BLOCKS OF SINGLE

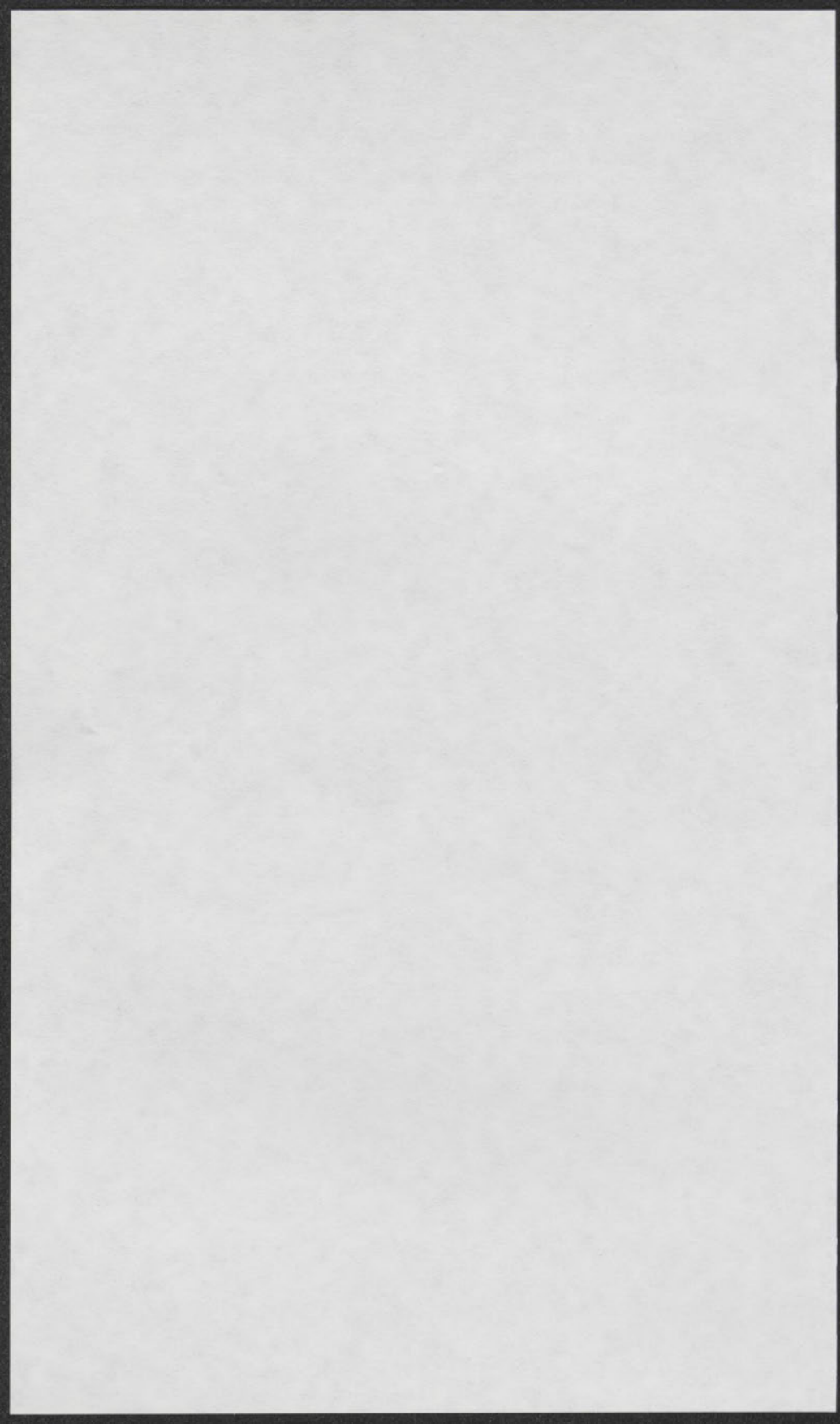
FAMILY HOMES. THE POINT IS, SINCE THE REAL ESTATE TAX IS THE BASE FINANCING FOR CITY SERVICES IT BECOMES INCREASINGLY DIFFICULT TO PROVIDE EFFECTIVE SERVICES WITHOUT A STRONG COMMERCIAL TAX BASE. MANY OF THE CITIES OF THIS COUNTRY, INCLUDING MINNEAPOLIS, CANNOT REBUILD THEIR COMMERCIAL TAX BASE WITHOUT LARGE SCALE REDEVELOPMENT SINCE ALL OF THE LAND IS PRESENTLY UNDER USE AND THE CITIES DO NOT HAVE THE RESOURCES TO UNDERTAKE THESE URGENTLY NEEDED REDEVELOPMENT PROJECTS.

THE SECOND REASON IS PROVIDING JOBS FOR THE CITIZENS OF THE CENTRAL CITIES. THE LOWER INCOME FAMILIES AND INDIVIDUALS THAT LIVE IN THE NEIGHBORHOODS IMMEDIATELY SURROUNDING THE CENTRAL BUSINESS DISTRICT IN THE CITIES OF THIS COUNTRY DO NOT HAVE THE FINANCIAL MEANS, NOR ACCESS TO JOBS WHICH ARE AVAILABLE IN THE SUBURBS. THEREFORE, IF JOBS ARE NOT AVAILABLE IN THE CITY THEIR ONLY ALTERNATIVE IS SOME FORM OF PUBLIC ASSISTANCE. THE TYPE OF REBUILDING THAT IS NEEDED IN OUR CENTRAL BUSINESS DISTRICTS, THAT IS OFFICE BUILDINGS, HOTELS AND HOUSING, PROVIDE SUBSTANTIAL JOB OPPORTUNITIES FOR CENTRAL CITY AREA RESIDENTS, AND AS THEY BECOME EMPLOYED IN MEANINGFUL WORK, THE IMPROVEMENT PROCESS COMMENCES.

AS TO THE QUESTION OF WHETHER PRIORITY FOR REBUILDING OUR CENTER CITIES, AND ESPECIALLY LARGE SCALE REDEVELOPMENT PROJECTS, IS ONE THAT SHOULD BE ELEVATED IN OUR SYSTEM OR NOT, I OF COURSE, CAN HARDLY BELIEVE THAT THIS COUNTRY HAS NOT GIVEN HIGHER PRIORITY TO THIS HUMAN NEED. WHEN I THINK OF HOW WE ALLOCATE OUR RESOURCES AND CONSIDER THAT WE ARE PRESUMABLY ALLOCATING THEM ON THE BASIS OF NEED, IT IS INCOMPREHENSIBLE TO ME THAT WE VIRTUALLY HAVE NO FEDERAL PROGRAM IN THIS COUNTRY TODAY FOR THE LARGE SCALE REBUILDING OF OUR CENTER CITIES. SUCH A PROGRAM IS URGENTLY NEEDED.

Mr. LUNDINE [presiding]. The subcommittee will stand in recess, pending the call of the Chair.

[Whereupon, at 3:40 p.m., the hearing was adjourned, to reconvene at 10 a.m., on Friday, March 4, 1977.]



HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1977

FRIDAY, MARCH 4, 1977

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING AND COMMUNITY
DEVELOPMENT OF THE COMMITTEE ON BANKING,
FINANCE AND URBAN AFFAIRS,
Washington, D.C.

The subcommittee met at 10:10 a.m. in room 2128 of the Rayburn House Office Building, Hon. Thomas L. Ashley [chairman of the subcommittee], presiding.

Present: Representatives Ashley, Moorhead, Fauntroy, AuCoin, McKinney, Kelly, and Grassley.

Mr. ASHLEY. The subcommittee will come to order.

The Subcommittee on Housing and Community Development continues its hearings this morning on the administration's authorization request for fiscal year 1978.

Our first set of witnesses will include Hon. William Hudnut III, the mayor of Indianapolis, Ind.; Hon. Paul Lessig, mayor pro tem, and Fil Chavez, community development director, Leavenworth, Kans.; and Commissioner Allen Arthur, Orange County, Orlando, Fla.

If the panelists will please come forward, we can proceed.

I am going to call on Representative Fauntroy at this time for purposes of filling the chair and conducting the hearings, and I will be back as quickly as I can, but I do have Budget Committee responsibilities, as well.

Mr. FAUNTROY [presiding]. Thank you, Mr. Chairman.

Pursuant to the chairman's announcement, we will now hear from the distinguished panel of witnesses who are before us at this time.

I am particularly pleased to welcome our former colleague and the now distinguished mayor of the city of Indianapolis, the Honorable William Hudnut III, with whom was shared not only the great privilege of having served together in this House, but who also has another important calling, which I share, the highest of all callings, that of the ministry.

So that it is with that spirit and recognition that I am pleased at this time to call upon Mayor Hudnut.

STATEMENT OF HON. WILLIAM HUDNUT III, MAYOR, INDIANAPOLIS, IND.

Mayor HUDNUT. Thank you very much, Congressman Fauntroy.

Mr. Chairman and members of the subcommittee, I appreciate your gracious introduction and the opportunity to appear here. It is a

(1591)

pleasure to be back. I thank you for your gracious introduction and wish you and your colleagues well in your public ministry of service here. I am grateful for the opportunity to speak before you this morning on our city's experience in title I of the Housing and Community Development Act of 1974.

I must confess at the outset that I speak as a generalist and not as a specialist, as a Member of the 93d Congress who became mayor of the city of Indianapolis a year or so ago. I soon became almost overwhelmed as I made the transition from Washington to Indianapolis by two realizations.

First, the amazing maze of Federal regulations that make the administration of local programs much more complex and difficult than most Congressmen would probably even appreciate or tolerate if they became aware of what is really going on as local officials interface with the nonelected Federal officials.

And second, I became aware of the compelling need for more freedom and greater flexibility at the local level with fewer Federal strings and less Federal interference, leaving us alone to spend our community development dollars as we determined best with a minimum of Federal guidelines and regulations.

My remarks this morning are intended to elaborate on this basic concern.

During 1973 and 1974 the city established the basic objectives we wished to meet through our participation in the community development block grant program. At that time the mayor of the city of Indianapolis was the Honorable Richard G. Lugar who is now one of the two U.S. Senators from the State of Indiana. These objectives were developed with significant input from a 50-member advisory task force on community development.

Basically, they stem from our conviction that the United States has fallen behind in meeting the housing needs of the American people, and from the further conviction that we must work together in the public sector and in the private sector, in combining our resources to help turn the situation around.

Our Indianapolis objectives that we set forth early on in the program are as follows:

One, further implementation of our metropolitan housing policy by eliminating substandard housing, improving existing stock of housing in our community, and preserving and stimulating new housing production oriented to meet our community's specific needs.

Second, to provide necessary social and public services to areas of greatest need and link service delivery to related physical improvement programs.

Third, to multiply private investment dollars and related Federal categorical resources through judicious and calculated expenditures of community development moneys, thus strengthening the local economic base.

Fourth, to facilitate orderly and planned growth in the developing areas of the county through removal of obstacles to proper expansion, such as lack of proper public facilities, drainage, and flood hazards.

Five, to improve the comprehensive planning and management capacity of local government to insure coordinated program implementation, more effective neighborhood planning, and strengthen budgetary processes.

And six, to continue operating an open and participatory process for citizen involvement in community development decisionmaking.

My comments will be based upon our experience in meeting these objectives through the first 3 years of the community development block grant program.

One of the most important concepts of the program that I would like to see retained is the legislative objective that allows "maximum certainty with minimum delay." The predictability of funding through a 3-year period by meeting annual application requirements has allowed the financial integration of the title I funds with our local budget.

I, as the mayor, and the elected city council members are now able to discuss, debate, and set in a public forum the annual program priorities for the use of these program dollars with other local dollars in our community. However, we have done this with some difficulty. Our program year is not in consonance with our calendar budget cycle. I would strongly recommend that Congress allow an automatic shift or transition to the local budgeting cycle rather than the cumbersome, one-month-at-a-time process now in place.

We have been trying for 3 years to bring this about and have yet to accomplish the integration of these budget cycles. This includes appeals all the way up to the Secretary of HUD for special consideration, which appeals, though not neglected, have been turned down.

I am not sure how this could be accomplished, but the integration of the community development program year and local government budget years is a mandatory feature, it seems to me, of the new legislation you are working on and ought to become automatic in the total process.

The predictability of funding is a welcome response from Congress. Even more welcome is the delegation, or designation of local elected officials as the responsible persons for setting local program funding levels and priorities. Any action which continues this role or strengthens it will be welcomed at the local level.

Not so welcomed, however, are some of the proposals being circulated by various interest groups that would amend title I of the act by placing new restrictions on the way in which we set local priorities within the context of congressional program objectives.

We need fewer restrictions, not more, Mr. Chairman; and more flexibility locally, not less. You have provided local government with the charge and responsibility to meet these national objectives within a flexible program. We believe the citizens of Indianapolis can do a better job of deciding how to meet those objectives than can a HUD bureaucrat in a Washington, D.C. office.

Local objectives Nos. 1 and 3, which I mentioned earlier, speak to housing opportunities in the private sector. Under the model cities program and continued until ruled ineligible under community development block grant program, we had a project called housing assistance to developers. This program was designed to reduce investment risks and provide seed money, thereby encouraging housing construction in the inner city. A seed-money loan paid back in full from this program was the only thing that made construction of a 65-unit apartment complex possible. We now have, as a result of a \$100,000

investment, 65 units of new housing and more than \$1.3 million of private investment in the city.

We were meeting congressional objectives our way. Because of specific restrictions, however, this is not an eligible program under community development even though it relates to meeting program objectives. We feel we can better operate to meet national objectives if we are not hamstrung by specific restrictions and bureaucratic regulations that sometimes impress me, if you want to put it this way, as a former Congressman as exceeding the original intent of the Congress and its legislative authorization; which brings me to my next point.

The discretion and flexibility built into the act should be assured or guaranteed in the administrative regulations for the program. This is presently not the case, as I understand it. Over the past 3 years we have witnessed a gradual erosion of this flexibility through the promulgation of regulations, policy memoranda, program handbooks and so forth. I would characterize this as a retreat to the safety and comfort of categorical aid programs by those who are charged with the program's administration.

The general effect of this in Indianapolis has been to diminish our ability to meet local and, I might say, national objectives.

A notable example has been the elimination of legitimate social services that benefit the low- and moderate-income population. We have implemented in Indianapolis a coordinated network of health centers, multiservice centers, and senior citizens' centers that serve general areas of the county. Through 3 years of regulation modifications we now find ourselves faced with the prospect of losing these services. In our 1977 application we lost our ability to serve one area of the county entirely. This was not because the need had not been demonstrated, not because the income of the area was too high, not because we had not been providing physical development activities, also; it was because in 1977 we were not proposing to spend enough money there on physical development activities and because we could not identify the specific and direct relationship of neighborhood physical improvement such as street improvements and housing rehabilitation and so forth to each of the social services we proposed to be continued. And so the area office of HUD declared that section of our city ineligible to receive community development-funded social services.

You might put it this way: If I asked you, in order to run a well-baby clinic, to document its specific relationship to street resurfacing, you could appreciate the problem that we had. And there are lots of other examples.

Last year I made some remarks through the deputy mayor of Indianapolis, Mr. Michael Carroll, to the Federal Paperwork Commission—and those are a matter of record—which more or less elaborate the same point; that the city is burdened day after day after day with an inundation of paper and paperwork generated by the Federal Government. A veritable plethora of regulatory changes and especially policy memoranda that have the effect of regulatory change are strangling the program and our ability to carry it out.

As another example of this problem I have today sent to our area office an appeal of an earlier ineligibility determination for the refurbishment of play areas at several neighborhood schools. The local

school board and parks board have developed a cooperative program that will provide improved recreation opportunities for the young persons in these neighborhoods. Because the city does not own the land—the school board owns it—we cannot provide playground improvements to meet the need of the neighborhood.

The list of other similar examples is a long one. These, examples of programs lost through the diminishing flexibility are local programs that clearly relate to national objectives for the community development block grant program. They have been developed to meet needs identified in our local planning program which, like the intent of the Housing and Community Development Act of 1974—which I voted for when I was in Congress—is a program that is comprehensive and integrated.

We are now in the seventh year of our planning program that pioneered the integrated grant or block grant process. It is the integration of the physical, social, and economic elements that we have attempted to pursue in implementing our plans through the hardware domestic assistance plans.

In 1974 we proposed to combine the community development block grant program with urban homesteading, and an urgent needs proposal, in one simplified application designed to meet the requirements of the Joint Funding Simplification Act of 1974. The proposal was greeted with confusion and reluctance by the Federal regional office. Our effort was laid to rest when HUD did not designate the community development block grant program as one of the eligible programs for joint funding.

Congress, in my opinion, could assist us in meeting local and national objectives by encouraging the use and coordination of the community development block grant program with other Federal assistance through the Joint Funding Simplification Act of 1974. This could be particularly useful in attracting private investment through coordination with the Economic Development Administration programs.

Finally, let me say a word about the required housing assistance plan.

The general requirement of the HAP plan with the block grant program is one that is important to us. Our experience with this required element, however, has not been very pleasant. The Federal definitions of housing need and the surveys required have little realistic bearing on the establishment of 1- and 3-year housing goals. The proportionality test is simply not acceptable to us as a requirement for preparing our 3-year goal.

Without going into detail, I would simply suggest that local government, working with the private sector, can adequately set realistic goals for housing assistance to the elderly families and large families based upon capacity and delivery potential expressed by local market conditions.

Our community has delivered over 13,000 units of subsidized housing in less than 10 years to persons in need. We wish not to shut persons out but rather to deliver needed housing in a realistic manner.

Let me draw upon one very troubling example that illustrates the point.

The city and HUD have invested over \$6 million in an area of the city through the categorical renewal program. We have attempted,

and are even required to do so by another HUD regulation, to obtain unit reservations in our HAP plan for assisted housing in this program area. For the past 2 years we have been told to take the units out of the HAP plan or the grant application will be rejected.

I believe other groups, in your staff report, have presented similar examples of this problem during the testimony over the past few days.

In closing, let me reassure you that the Indianapolis experience, in general, has been a very positive one over the past 3 years regarding the community development block grant program. If my comments could be summarized in one sentence, it would be that Congress has given local government a significant and powerful tool to address community development needs, and we are trying to respond, but what we need now and over the next 3 years is more flexibility, more local flexibility, more local freedom, and more local autonomy and authority to meet the challenge.

Thank you very much.

Mr. FAUNTROY. Thank you, sir, very much, Mayor Hudnut, for your very studied and provocative presentation to us, and we look forward to raising some questions with you about it presently.

But at this time we are going to move right on to our next panelist, the distinguished mayor pro tem of Leavenworth, Kans., and director of the community development program there, Hon. Paul Lessig.

STATEMENT OF HON. PAUL LESSIG, MAYOR PRO TEM, LEAVENWORTH, KANS., ACCOMPANIED BY FIL CHAVEZ, COMMUNITY DEVELOPMENT DIRECTOR

Mayor LESSIG. Thank you Mr. Chairman and members of the subcommittee.

It was just a week ago that I attended a Governors' prayer breakfast in Topeka, Kans. And the honorable mayor of Indianapolis was our guest speaker, and he was praying for something and I did not realize until this morning exactly what he was praying for.

The city of Leavenworth has taken the intent of the Housing and Community Development Act of 1974 as a serious commitment in accepting the community development block grant funds.

The \$797,000 per year has been used to improve the housing conditions for the low- and moderate-income residents of our community, to involve the interest and investment of the private sector and to employ and train unskilled residents of our community.

We are not here to argue for or against any one of the formulas, present or proposed. We become alarmed, however, when we hear that many of the formulas would sacrifice communities like Leavenworth, Kans.

It seems we would be sacrificed for some other community which can demonstrate more need than we, regardless of how either of us has addressed the intent of the act. There have been many proponents supporting the formula revisions to benefit "those areas of greatest need." There have been few to support the rest of us.

Our report lists the facts about our program. These facts are obviously incomplete since we have had only 1 full year of community development block grant activities.

This loss of funds would happen at a time when our local government is tightly pressed to provide public services. We are already cutting back services to which our citizens have become accustomed and to which they feel entitled.

Now we see the spectrum of another cutback. This cutback is even more critical since it affects the only effective catalyst toward resolving the housing problems of our low- and moderate-income citizens.

While we have no position to take on any specific formula, there is one proposed factor for allocation of funds which we would address.

It is difficult for us to comprehend how population is a reliable indicator of a community's needs as defined by the 1974 act. Even the insertion of population in "growth lag" does not necessarily reflect a true picture of needs.

One of the formulas suggests that the population growth rate from 1960 to 1973 should be used in allocating future funds. The intention is to target resources to cities which are losing population or where growth has slowed substantially.

In Leavenworth, we increased our population by 35 percent during this period. This increase in population accentuated our housing needs.

In 1960, 85 percent of our housing stock was built before 1939. In 1970, that percentage had decreased to 58 percent.

Unfortunately, all the new houses that were built, accounting for the decrease in that percentage, were built for the higher income residents of our community.

During that same period, housing for the low- and moderate-income person was characterized by demolition, not by construction. Had we lost population or experienced slow growth, their housing needs, our housing needs, would not be as acute as they are today.

As Hon. Ann Crichton, mayor of Decatur, Ga., pointed out last week, substandard housing, blighted neighborhoods, and inadequate public facilities, do not recognize population limits. Those problems exist in communities of 33,000 as well as in communities of 3.3 million.

Population also has little to do with the success of a housing and community development program. We, in Leavenworth, have had a fair amount of success in the few months that our program has been in operation.

Not only have we improved the household circumstances for many of our residents, we have also leveraged our community development block grant dollars quite well.

For instance, with an investment of \$400, we have contracted with the major residential developer in our community to build two new houses. This means that about \$45,000 worth of new housing will be built in an area which had experienced only two new houses in 10 years.

We have also used our funds in other ways to benefit low- and moderate-income persons while involving the interest and investment of the private sector. We generated \$36,594 in residential rehabilitation loans with an investment of \$703 of community development funds.

We do not use those two examples to suggest that all our successes have been of that order. We do so to show you what kind of successes in meeting the intent of the Congress have been possible in the community of Leavenworth, Kans., a community which may be forced to

either divest itself of community development activities or to enter an arena of unsure funding, having to prove anew that we can do what we have already been doing for 20 months.

In Leavenworth, 74 percent of our funds have been addressed to households of low and moderate incomes. If more funds are needed for those cities which show great distress, we would respectfully suggest that those funds not be taken from Leavenworth, Kans., but instead be taken from the community which our 74 percent has balanced to achieve the 52-percent national average reported by the Brookings Institute. That theoretical community spent only 30 percent of its funds for direct, short-term benefits to the low and moderate income.

Our recommendations, outlined in the report, suggest that the formulas reflect the intent of Congress in making these funds available. Using our recommendations, if a community has neither the needs nor the intention to address those needs, they would not be awarded those points.

On the other hand, if they had both, they would receive the necessary support. Thus, the 50-percent weighting which we suggest would be reflective of a community's need and of their commitment to the intent of the act.

We thank the Congress for having made these community development block grant programs possible. We also encourage the administration's pledge for an urban policy based on mutual trust, respect, and commitment between cities, their governments, and Federal Government.

We further applaud HUD's objectives "that programs showing the greatest need and most promise for improvement should be encouraged."

Perhaps we should advise you that we have not found HUD to be an adversary. On the contrary, we have been quite pleased with the cooperation and advice given us by the HUD area office in Kansas City, Kans., and by the insuring office in Topeka, Kans. We feel that the partnership desired by Secretary Harris between the people of HUD and the people in the local community has been implemented in Leavenworth.

In closing, we feel we have administered a community development block grant program in Leavenworth which is reflective of both the community's needs and the intent of Congress. We feel we have done so completely in compliance with the intent of the Congress and, in fact, with a high degree of success having involved citizens of our community and the private sector of our community.

We respectfully request that you give your most serious consideration to assuring that any changes you make in the authorization of the community development block grant funds be done so that our program, which is already demonstrating success, be continued.

We respectfully request that the continuance be on a multi-year basis with a specified amount of funds in order to assure success of these programs.

We thank you for listening to us and for making the community development block grant programs possible in the first place.

[The following report by the city of Leavenworth, Kans., was submitted by Mayor Lessig for inclusion in the record:]

1599

REPORT SUBMITTED TO
UNITED STATES HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT
OF THE
COMMITTEE ON BANKING, FINANCE, AND URBAN AFFAIRS

BY THE
CITY OF LEAVENWORTH, KANSAS

WASHINGTON, D.C.

MARCH 4, 1977

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STATEMENT OF THE PROBLEM

The objectives of the 93rd Congress in passing the Housing and Community Development Act of 1974 plays a small part in the distribution of these funds. Those objectives should be a basic part of any formula which distributes the funds. Instead of being based on meeting the stated objectives, all the formulas, including the existing one, are based on some determination of need. Theoretically, the determination of need is based on the intent of the Act. There are, however, an endless array of eligible activities which meet all legal requirements for funding. Many, however, do not meet the primary intent of the Act. The allocation of funds for some of these programs is totally unrelated to the primary intent of the Act. Those activities which only indirectly address the national objectives carry the same weight for allocation of funds as do those which directly meet those objectives.

For the low and moderate income persons who dared hope that there was a program which did not uproot them for a temporary improvement in their life style, Community Development funds were the promise of a better future. That future will fade in Leavenworth if these funds are eliminated.

In Leavenworth, Kansas, we have built confidence in the Community Development Block Grant Program. We have built that confidence in the hearts of many of the low and moderate income residents. More critically, we have raised the level of confidence in the financial community. Within the next few months, five houses will be available for purchase for about \$20,000 each in the most blighted area of our city. Three of these houses will have been rehabilitated with Community Development funds. Two of the houses will have been built with private funds. During the past ten years, only two houses had been built in the same area.

The program that raised the confidence that this residential area would be improved may no longer be available to us. The expectations that accompanied that confidence will thus be nullified. The fact that we have done the job the Congress asked us to do will have been irrelevant.

RECOMMENDATIONS FOR FUTURE FUNDING

We respectfully offer you our recommendations for how funds should be allocated. It is our opinion that future funding should be based on how well the proposed programs address the intent of the Act, and how well past Community Development Programs have met the intent of the Act.

More specifically, we respectfully recommend that for future funding:

- A. The stated objectives of the 1974 Act should be prioritized into primary and secondary objectives;
- B. The primary objectives should consist of:
 1. The conservation and expansion of the Nation's housing stock;
 2. The elimination of slums and blight and the prevention of blighting influences and the deterioration of property and neighborhoods;
 3. The elimination of conditions which are detrimental to health, safety, and public welfare; and
 4. The expansion and improvement of the quantity and quality of community services;
- C. The secondary objectives should consist of the remaining objectives;
- D. The distribution formulas should reflect those priorities by assigning up to 50% of the weight for programs that directly address the primary objectives, with secondary objectives being eligible for 15% (from the 50%) weighting;
- E. The distribution formulas should reflect bonus points, up to 25%, for those programs which have unquestionably addressed the primary objectives;

- F. The other half of the distribution formula should reflect the determination of needs;
- G. The formulas should not be determined so that any type of community is discriminated against; and
- H. None of the formulas should include the meaningless factor of population in any form except "low and moderate income population as a percentage of the total population."

Lastly, these funds should be available for three year periods instead of on an annual basis so that programs can be fully developed.

LEAVENWORTH: OBJECTIVES

Since we feel strongly that communities which have accepted Community Development Block Grant funds have committed themselves to achieving the objectives of the Housing and Community Development Act of 1974, we wish to list for you our objectives and how we have addressed them in relation to the intent of the 93rd Congress.

With the very fine support and cooperation of the Director and staff of the Department of Housing and Urban Development Area Office in Kansas City, Kansas, Leavenworth has tried to develop programs which meet as many of the national objectives as possible. For the sake of brevity, the programs have been listed only under the objectives which they directly and primarily address.

As listed under Public Law 93-383, the specific objectives were:

- "1. The elimination of slums and blight and the prevention of blighting influences and the deterioration of property and neighborhoods and community facilities of importance to the welfare of the community, principally persons of low and moderate income;

2. The elimination of conditions which are detrimental to health, safety, and public welfare through code enforcement, demolition, interim rehabilitation assistance, and related activities;
3. The conservation and expansion of the Nation's housing stock in order to provide a decent home and a suitable living environment for all persons, but principally those of low and moderate income;
4. The expansion and improvement of the quantity and quality of community services, principally for persons of low and moderate income, which are essential for sound community development and for the development of viable urban communities;
5. A more rational utilization of land and other natural resources and the better arrangement of residential, commercial, industrial, recreational, and other needed activity centers;
6. The reduction of the isolation of income groups with communities and geographical areas and the promotion of an increase in the diversity and vitality of neighborhoods through the spatial deconcentration of housing opportunities for persons of lower income and the revitalization of deteriorating or deteriorated neighborhoods to attract persons of higher income; and
7. The restoration and preservation of properties of special value for historic, architectural, or aesthetic reasons."

In Leavenworth, the short-term objectives of our three, annual programs have related to the national objectives as follows:

1. The elimination of blight and blighting influences emphasizing areas consisting principally of low and moderate income persons have been addressed by:
 - the removal of non-conforming land uses which discourage development in an otherwise residential neighborhood;

- the landscape buffering of a major arterial which bisects a residential area;
 - the clearance of dilapidated accessory structures and dead trees;
 - the clean-up of alleys and of a creek traversing our residential areas;
 - the landscaping and painting of residences which are otherwise in good condition; and
 - the exterior rehabilitation of old commercial structures in the Central Business District which is contiguous with and penetrates the area where we have concentrated our Community Development activities;
2. The elimination of health and safety hazards in areas consisting principally of low and moderate income persons has been addressed by:
- the provision of a concentrated Code Enforcement effort; and
 - the provision of Interim Housing Assistance including emergency repairs and minor maintenance;
3. The conservation and expansion of our housing stock in areas consisting principally of persons of low and moderate incomes were addressed by:
- residential rehabilitation loans;
 - residential rehabilitation grants;
 - acquisition, improvement and resale of structurally sound, but vacant and deteriorating housing structures;
 - redevelopment of a two block area which is 75% vacant with ten of the twelve housing structures in a state of disrepair;
 - acquisition of scattered parcels for redevelopment of new houses by the private sector; and
 - utilization of Section 8 and Section 235 Housing Programs;
4. The expansion and improvement of the quantity and quality of community services, emphasizing areas consisting principally of low and moderate income persons were addressed by:

- completion of new water supply lines;
- reconstruction of sanitary sewer lines;
- improvements of two city parks;
- construction of residential streets;
- construction and improvement of street lighting systems;
- construction of a sidewalk along a major arterial leading to one of our schools.

In addition, we have acted to improve the economic viability of the community by employing and training residents of the areas in which we have been working. We have, also, acted to increase the involvement and investment of the private sector in these Community Development activities.

LEAVENWORTH: HISTORY AND STATUS

Leavenworth is located in northeastern Kansas along the west side of the Missouri River, approximately thirty miles northwest of the Kansas City Metropolitan Area.

In 1750, this area comprised the hunting grounds for such historic Indian tribes as the Delaware, Pawnee, Kickapoo, Otoe, and the Pottawatomie.

Responding to civil disorders in 1827, the War Department directed Colonel Henry Leavenworth to select a military post on the west side of the Missouri River. The first unit of the United States Cavalry was thus organized and trained at the cantonment camp here.

In January, 1855, just after the Kansas-Nebraska Bill was passed, Leavenworth was officially incorporated. When Kansas was admitted into the Union in 1861, Leavenworth had a population of approximately 7,500 and by 1867, it was estimated to have a population of 22,000.

For the past twenty-five years, Leavenworth has experienced a steady and moderate population growth of about 10%. Projections indicate this

trend should continue because of the high growth rate the Kansas City area is expected to undergo in the next twenty years.

The 1970 Census showed that Leavenworth had a population of 25,147, 11% being black, and 19% being 62 years and older. Of the 8,203 households, 764 were households headed by females. The average family median income throughout the city was \$9,360. Those persons earning incomes below the poverty level comprised 10.1% of the city's population.

As of 1977, the city has a population of approximately 31,500. This total does not include the population of the Federal Penitentiary or of Fort Leavenworth, which shows as much activity today as it did in the 1800's. Fort Leavenworth is the home of the United States Army Command and General Staff College. At this prestigious institution, the United States trains some of our country's finest allied military personnel.

LEAVENWORTH: HOUSING NEEDS

Leavenworth began its Community Development Block Grant activities in June, 1975. Having gotten a late start on effective grantsmanship, our hold-harmless funding has been \$797,000 per year. With these funds, we have attempted to resolve a critical lack of decent housing. In 1970, 58% of our housing units were built prior to 1939.

As updated by a Housing Needs Analysis in January, 1976, our housing problems were characterized by the following facts:

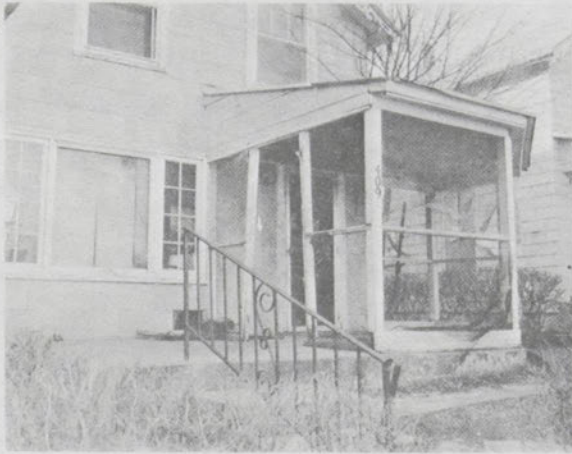
1. There were 8,890 households in the City of Leavenworth;
2. Of these total households, 3,750 were lower income households with annual incomes ranging from \$6,600 and less for one-person households to \$13,250 and less for eight-person households;
3. Of these lower income households, 846 (23%) were minority households;

4. Of these lower income households, 1,531 (41%) were female headed households;

5. Of the total households, 1,005 (11%) lived in substandard housing units;

6. An additional 380 substandard units were vacant;

7. The total housing stock available (standard, substandard, occupied, and vacant) was 9,397, with a 5.40% vacancy rate;



Occupied, substandard housing

8. There was a 1.6% vacancy rate in the standard housing stock, 1.83% for owner units and 1.23% for rental units;

9. The First and Second Year Programs provided \$641,800 to conserve and expand our housing stock, addressing principally lower and moderate income households. The proposed Third Year Program will similarly provide \$160,000.

LEAVENWORTH: COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAMS

Our entitlement for the past two years and for the impending year will total \$2,391,000.



Our
housing
needs

Conservation and Expansion of Housing

The conservation and expansion of our housing stock has been funded with \$801,800, 33% of the three year total. These programs have all been geared towards households consisting principally of low and moderate income persons. In the area where we have concentrated our activities, the history of housing has been characterized by demolition, not by improvement.

Residential Rehabilitation Loans and Grants

Residential rehabilitation loans and grants have been a mainstay of this housing effort. We have budgeted \$198,000 for loans and \$200,000 for grants. The Savings and Loan Association with whom we are working has committed their funds as the actual loan money. Community Development Block Grant funds have been used to lower the interest rates for the loans. Without that reduction in the interest rate, many applicants would not have been able to repay the loan. With this arrangement, we have been able to generate \$64,384 in loans with interest rates ranging from 2 to 8%. Combination loan/grants were made for five applicants who were not capable of repaying a loan for the full amount needed for repairs to their homes. For eight applicants who could afford no repayment, we have awarded \$38,685 in grants.

Direct Rehabilitation

We have acquired three structurally sound houses which were vacant and which had been allowed to deteriorate. With crews consisting of previously unemployed residents of the area who are supervised by skilled instructors, we have completed rehabbed one of the structures and expect to have the other two completed within two months. The purchase prices for these properties were \$450, \$4,500, and \$5,000. The cost of rehabilitation ranges from

\$12,000 to \$22,000 including the cost of training. When completed, they will be placed on the market for resale at between \$15,000 and \$20,000.

If they were

located

elsewhere in
the community,

they would

easily be

worth \$20,000

to \$30,000.

In this next

year, we expect

to acquire and

refurbish five

more units for

eventual resale.



Unit bought and refurbished

\$105,000 has been allocated over the three years for this project.

Availability of Sites for New Houses

Permeating the area in which we have concentrated our Community Development Block Grant activities are vacant lots with twenty-four foot frontages. We have budgeted \$298,000 for grouping of these narrow lots in order to induce homebuilders back into the area. As a result of this packaging and of the other neighborhood improvements, the city's major residential developer has committed herself to building two new houses in the area. While two new houses are not significant on a national scale, they are highly significant in a neighborhood which has experienced seventy-five demolitions and only two new houses in the last ten years.

These \$20,000 to \$25,000 houses will be on sale in late May or early June. We also propose to acquire a two block area which consists mainly of vacant

lots (75% of the area).

Ten of the twelve houses on the two blocks are in a state of disrepair.

Proposals for a mix of multi-family and single-family housing will



Site for mix of housing

be invited which will produce about one hundred units of new housing.

Elimination of Blighting Influences

To complement the positive efforts of physical improvements, we have initiated a series of projects aimed at eliminating structures which are beyond repair. This series of projects has been emphasized in the neighborhood with greatest blight. \$560,000 of our funds have been allocated for this purpose.

Removal of Non-Conforming Uses

\$130,000 was targeted for the elimination of several uses which are not compatible with a residential neighborhood. The removal of clubs and taverns in an otherwise residential neighborhood will make the area more

attractive for residential development.



Non-conforming use

Urban Amenities

\$112,000 has also been targeted for removal of a variety of blighting influences. Projects undertaken have included the removal of dead trees and dilapidated secondary structures, such as sheds and fences. Ninety-seven households were affected last summer. This summer, the program will be expanded to include cosmetic improvements such as landscaping and painting of residential units. The work will be done for residents who are physically incapable of such labor.

Otherwise, materials will be provided for their use.



Blighting influence

Rehabilitation of Commercial Structures

Since many of our business enterprises had been abandoning the Central Business District in favor of newer shopping areas in other parts of the City, numerous buildings in the downtown area were becoming vacant or were being allowed to deteriorate. The residential area in which we have been exerting our efforts for improvements is contiguous to the downtown area. Certain portions of the district, in fact, penetrate this residential area. Knowing that a continued improvement of that residential area would not be permanent unless there were an anchor such as the business district, the Community Development Block Grant programs have assigned \$58,000 to encourage the businesses to improve the appearances of their structures.

Thirteen grants have been approved to date. Two of these grants have been used to restore structures of historical significance.

Landscaping of Bicentennial Boulevard

\$260,000 of the third year funds are proposed for improvements to the City's major arterial which bisects the area in which we are working. Long range plans call for a bypass to be built around the City which would remove much of the heavy traffic. In the meantime, we will buffer the abutting residential areas from the street with landscapes, at the same time eliminating more blight.

Acquisition of Land and Property

In addition, we have acquired six lots at costs ranging from \$20 to \$1,000. The area in which we have been working abounds with twenty-four foot frontage lots. Where desirable, we have grouped two vacant twenty-four foot lots into one forty-eight foot lot.



Narrow lots being cleared

In other cases, we have made the vacant property available to the adjacent

household. If the property has an unoccupied structure in a state of

disrepair, we may demolish the structure. The new, vacant lot thus adds to the livability of the neighborhood.

The Elimination of Health and Safety Hazards

Through the Concentrated Code Enforcement Program, 243 properties have been inspected to assure maintenance of acceptable housing standards. Approximately

fifteen structures in the area have been demolished as part of the City's Code Enforcement Program. \$40,000 has been budgeted for this effort.



Health and safety hazard

Improvement of Community Services

In an effort to improve community services, several projects have been funded which provide benefits not only to target areas but to the entire City. During these three years, \$388,000, or 16% of the total budgets, have been allocated for community service parks.

Parks

Northside Park is the only City-operated recreational facility in

an area which consists of 67% low and moderate income persons and 37% minority. Approximately 7,000 persons of the City's population, 21%, live within the park's service area. The improvements included the renovation of the pool deck, improvements in the filtering system, construction of a new park restroom, resurfacing of the basketball court, landscaping, rewiring of the bath house, installation of additional playground equipment, and construction of a shelter house. The improvements were completed at a total cost of \$60,000 and have added thirty years to the life expectancy of the park.

The improvement of these facilities provided a highly visible, physical improvement to the neighborhood. Northside Park has become an important neighborhood amenity and an anchor for redevelopment in the area.

Proposed in the Third Year Program is an improvement in another of the City's parks and the study of a mini-park in a creekbed which collects debris and trash. These were funded with \$20,000 and \$2,000, respectively.

Streets

Financial support for a street paving project which will provide guttering of the street and replacement of sidewalks was funded with \$100,000. Previously, the streets were seal-coated rock without a designated base, 18 to 22 feet wide without gutters or curbs.

Most residents living on these streets are on fixed incomes in the low and moderate income ranges and could not afford the owner's 70% share of the cost which is normally required for such a project. Costs were shared in this manner: 30% by the City at large, 25% by the adjacent property owners, and 45% by the Community Development Block Grant Program.

Sanitary Sewers

This project provided for the replacement of flush tanks, sewer lines and the building of manholes at a cost of \$50,000. A total of sixteen manholes were constructed which benefitted fifty households. Prior to the improvements, the area was served by flush tanks 100 years old, many of which were obsolete and impossible to maintain.

Waterlines

This project was designed to eliminate inadequate private lines, improve domestic water circulation and increase fire flow. Forty-seven house taps were completed as a result of this project at a cost of \$36,000. The remainder of the \$50,000 budgeted for this project will be used to extend the project to serve other households in the same neighborhood as our concentrated efforts. An additional \$35,000 has been proposed for the Third Year to extend similar improvements to at least fifteen households in the abutting residential area. This new area also has a high concentration of low and moderate income persons, 65% of the residents of the area.

Street Lights

Our budget has provided \$22,000 for street light improvements in residential areas, \$20,000 of it targeted to complement our concentrated housing efforts.

Sidewalks

\$49,000 has been earmarked for matching with other funds to provide sidewalks leading to one of our schools. Currently, most students must walk on the pavement or the shoulders of the highway.

Involvement of the Private Sector

Most symbolic of the impacts of the Community Development Block Grant Program in Leavenworth has been the interest expressed by the private sector. One of our first steps was to create a Financial Advisory Committee comprised of representatives of the four banks in town, the two Savings and Loan Institutions, two realtors, and two developers. The Financial Advisory Committee was instrumental in the development of programs which were planned to make their impact obvious to the community in general, to the private sector, and to the residents in the area.

Having provided the community with insight into the programming, they have further provided constructive criticism of the projects as they have been implemented. In the process, they have gained confidence in the sincerity of the Community Development Block Grant programs in these areas of high risk investment. Directly attributable to this participation, one of the Savings and Loan Associations has pledged \$243,000 of their funds to be made available in loans.

As mentioned earlier, we have successfully stimulated interest among local and non-local residential developers. With an investment of \$400 (which paid for the property and back taxes), we have thus far generated about \$45,000 of new housing to be built by the private sector.

In the two block area planned for redevelopment, we have discussed residential investments in the range of \$3,000,000.

With \$703 of Community Development Block Grant monies, we have generated \$36,594 in residential rehabilitation loans. An additional \$27,790 of residential rehabilitation loans have been matched with \$20,315 of Community Development Block Grant residential rehabilitation grants.

Our commercial rehabilitation efforts have generated \$123,573 of private investment. These were based on our investment of \$35,444.

Utilization of Matching Funds

Community Development Block Grant monies have stimulated the matching of funds from various sources.

Title XX of the Social Security Act has provided \$78,007 for match with \$32,671 of Community Development Block Grant funds for home maintenance services. One-hundred-fifty indigent households have already been served. Two-hundred more will receive improvements, such as, the insulation of their houses, the replacing of unsafe walkways and railings, reroofing, or adequate plumbing. Those who can contribute for the cost of services, do so. For all others, the services are provided without cost.

Another program has been jointly funded with \$63,242 of Title III funds under the Older American's Act matching \$20,409 of Community Development Block Grant funds. Since the program began, 100 elderly households have received attic insulation, storm windows, and minor repairs. Another 100 will receive the services this year.

A program to provide transportation for our elderly was funded with \$13,087 of Community Development funds and \$15,938 of Title III funds.

Another match of Title XX funds, \$7,547, with \$6,209 of Community Development funds will make possible a Homebound Meals Program. About 7,600 meals will be served during one year.

Aspects of Employment

Although employment was not emphasized as a national objective of the Community Development Act, Leavenworth has made it an integral part of its programming.

Under the programs designed to conserve and increase the amount of housing, Leavenworth has employed two supervisors who provide training for a crew of six unskilled, previously unemployed trainees, residents of the target area. The first supervisor was a union carpenter with over twenty years of experience who provided the needed contact with the union for the formal training of the trainees. One of those trained at the union school was employed by a local contractor. Since then, two other persons have attended the union training school. Two more will attend this spring.

Six of the persons employed under this program have been placed with local contractors or in upgraded employment.

The residential rehab programs have also been successful in the utilization of minority contractors; seventy percent of all contracts have been awarded to minorities under this program.

Under the auspices of our Urban Amenities program, fourteen unemployed persons were temporarily placed in jobs during the historically high unemployment period of the summer.

In trying to expand our resources, we have cooperated with the program funded under the Comprehensive Employment and Training Act by placing and later hiring several of their personnel.

In addition to the employment generated by the contract itself, the City was able to place one trainee on the Waterline Project. The City was also able to place one trainee on the Sanitary Sewer Improvements Project.

LONG RANGE OBJECTIVES FOR FUTURE FUNDS

Future Community Development Block Grant funds, if they are available, would continue to be used to meet the needs of our community's residents

who live in grossly substandard units, whose incomes are so meager that they cannot afford even the simplest of home repairs, and whose neighborhoods have been ignored. To date, we have allocated 74% of our funds for their needs. We intend to continue in this direction until their problems are well in hand and their pride and self-confidence are restored.

CONCLUSION

Leavenworth has administered its Community Development Block Grant funds through programming reflective of both the community's needs and the intent of Congress.

In developing such programs, we have succeeded in establishing an embryo of confidence within the residents, the community, and the private sector. These confidences were established by doing the job the Congress requested of us. We wish to maintain these confidences until the deterioration of our residential neighborhoods has been arrested. The programs which combat the physical decline of neighborhoods must project continuity from year to year.

No one community, nor one type of community, has a proprietary interest on housing needs. All the older communities and some newer ones have these same needs. The resident in a substandard unit in Leavenworth, Kansas, suffers as badly as the resident of one of our metropolitan areas. The cost effectiveness of treating each of their problems differs, but their needs are the same. In smaller communities, the private sector is not as skeptical and is, therefore, more willing to invest, often because of community pride.

In Leavenworth, the few Community Development Block Grant dollars so far spent have generated positive benefit/cost ratios. The interest and investments of the private sector are increasing. We have tied the programs

together in order to accomplish the best return on our investment. In the process, we have improved residential areas, we have involved the private sector, and we have employed and trained some residents.

Assurance that such programs will be continued on a multi-year basis with a specified amount of funds is basic to the success of these programs.

We respectfully request that you give most serious consideration to how changes in the allocation procedures may affect those of us who have fully supported the intent of the Housing and Community Development Act of 1974.

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Mr. AuCOIN [presiding]. Thank you, Mayor Lessig.

The next witness, Mr. Arthur, is a constituent of one of our colleagues on the subcommittee, Mr. Kelly, and I think it would be appropriate if we were to recognize him to introduce the witness. Mr. Kelly?

Mr. KELLY. Thank you, Mr. Chairman. I would like to introduce to the subcommittee Commissioner Allen Arthur, one of the Commissioners of Orange County. Orange County is one of the major counties in the district that I represent in Florida, and I thank you gentlemen for permitting me this opportunity.

**STATEMENT OF ALLEN ARTHUR, COMMISSIONER, ORANGE COUNTY,
ORLANDO, FLA.**

Mr. ARTHUR. Thank you, Mr. Kelly and members of the House Subcommittee on Housing and Community Development.

We appreciate the opportunity to appear before you today and present our views on community development and how it relates to Orange County, Fla.

Neighborhood rehabilitation is a relatively new experience for Orange County. As a little bit of personal background, I am a member of the board of county commissioners, and specifically, I have the responsibility for the supervision of the community development and housing department. I am also a registered architect in the State of Florida, and through my practice I have had the opportunity to design many elements of housing, both public and private. And I have also had the opportunity to serve on the city of Orlando's Neighborhood Rehabilitation Board, and this has given me some background experience which has been very good in helping to implement this program in Orange County.

Orange County is a large urban county of approximately 424,000 people. Much of this growth has occurred since the Disney boom of the early 1970's.

Orlando is a central metro city and the largest of 13 municipalities, including the 2 small cities comprising the Disney World complex.

Relations between county government and the local cities were frankly strained and distant as late as 2 years ago. In 1969 the legislature gave Florida counties home rule, or the ability to provide municipal services, without returning to the capital for approval of each project, ordinance, or service.

As a result, today over 60 percent of the residents of Orange County live outside of the municipalities in the unincorporated area because we now have the ability to provide necessary municipal-type services.

Orange County has been very politically conservative. There was initial reservations on becoming involved in community development and housing.

This attitude has now changed to a very positive respect for our programs due to the manner in which we have run the department and the excellent rapport that we have built up within the unincorporated neighborhoods and the local cities, large and small.

I have brought a number of letters of support from local city officials from Winter Garden, Apopka, Maitland, and Orlando.

Our general philosophy in Orange County has been to use community development and its related housing programs to act as a catalyst in rehabilitating blighted neighborhoods. We have approximately 17 targeted neighborhoods that we have found through our comprehensive planning programs.

These areas know no political boundaries or geographical limits. They are both rural and urban. Until the community development program we have not had the necessary resources to do those things that government traditionally does, such as paving roads, installing neighborhood drainage systems—which is so very important in Florida, providing utilities and recreation facilities.

Hopefully, we can then attract the homeowners and the private developers back into these blighted areas to construct, remodel, and rehabilitate homes and business areas.

Further, the block grant approach has given us the incentive and the flexibility to meet local needs which are different within the various local neighborhoods.

I personally feel, based on numerous articles and architectural publications, that this approach is more pragmatic than the massive urban renewal projects of the 1950's and the 1960's.

These large-scale redevelopments require vast amounts of capital, land, and other resources that it seems that so few of the original residents ever return to.

The American Institute of Architects, of which I am a member and which I understand have recently testified here, have a 1976 policy statement which I feel reflects a much more practical approach to rehabilitating blighted neighborhoods and conserving our present housing stock before it, too, disappears.

With this approach, the residents of these neighborhoods remain in them and are not displaced to other areas.

[The prepared statement of Mr. Arthur, on behalf of the Board of Commissioners of Orange County, Orlando, Fla., with attachments including attachment A, the letters from municipalities referred to in Mr. Arthur's oral statement, follow:]

TESTIMONY BEFORE THE
SUBCOMMITTEE ON COMMUNITY DEVELOPMENT
AND HOUSING

U.S. HOUSE OF REPRESENTATIVES

by Allen Arthur, A.I.A.

Commissioner

Board of County Commissioners

Orange County, Florida

There is no exemplary C. D. community because every local government in this country has something a little different about it. Perhaps this is a function of geographic location, climate, terrain, economics, population characteristics or whatever. We can all be thankful for that diversity and the Block Grant concept responded to that difference by giving local governments flexibility.

It's a bit cooler here in Washington today than in Florida. In Orange County, professional golfers are playing in the Citrus Open Golf Tournament with 70° temperatures. While the namesake of the tournament and other agricultural interests have provided the economic mainstay for our community, golf courses, beautiful lakes and parks, and more recently giant entertainment attractions like Walt Disney World have brought attention and many visitors to Orlando and Orange County. I'm told that the Orlando SMSA is the 5th fastest growing in the country.

Unfortunately, chronic problems have plagued some neighborhoods in the county, leaving them behind in the wake of progress and affluence. Blight was like a cancer of sorts, eating away at certain neighborhoods, slowly destroying low income housing. Orange County simply did not have the resources to halt this decline until 1975.

Substandard areas were developed long before the advent of proper subdivision and zoning ordinances. Thus, unpaved streets, inadequate utilities and a general lack of services helped cause and then combined with unhealthy housing conditions in numerous "pockets of poverty," some almost in the shadows of the spires of Cinderella's Castle. Since 1975, with the help of the Community Development program, Orange County has been able to provide the missing resources and help to reverse this trend of blight.

Perhaps some organizational background is appropriate at this time. County government in Florida was originally established as an administrative arm of the State government. The chief responsibility of County governments was to provide for the administration of the district court system. In the 1960's and 1970's this slowly evolved until at this time County government is "the biggest City government in the County," as the Chairman of our County Commission likes to point out. Especially after State Constitutional changes in 1969, Orange County has moved forward in 3 areas:

Professionalism of staff

Additional functions

Intensified intergovernmental action

All of this, of course, is always to better serve County residents, increasing numbers of whom now live in the unincorporated area.

After 1970, the County Administrator's position was added to this government. A Planning Department was becoming better established. The Public Works Department gave expert professional guidance to what is still the backbone of local County government initiative. The County has the first and only local Pollution Control Department to safeguard natural resources. Within the past 3 years, the Orange County Sewer and Water Department was formed to provide a service where private initiative was unable to get the job done. The local community action agency joined County government. A new Parks system was begun with land acquisition to provide for recreation resources before it was too late. Social Services, the Health Department, the Agricultural Center, the Sheriff's Department all provided increased levels of services as the growing population demanded.

expanded services and necessary capital improvements strained County resources - and certainly this is a familiar story - so assistance from the federal government in selected areas was certainly welcome. Federal revenue sharing helped provide extension courthouses to serve outlying areas of this 1,000 square mile jurisdiction. More recently, the CETA program was sponsored by the County to provide jobs for an ailing economy. The County has also been previously involved with HUD programs - neighborhood centers and parks and open space - however, this was an admittedly incremental approach to meet area wide, not neighborhood needs.

COMMUNITY DEVELOPMENT

The County has been involved at the neighborhood level. There have been programs for paving and street lights and other improvements which have always been popular. However, in many cases, these programs were not able to reach chronic problem areas where people were severely affected by detrimental living conditions. The Community Development opportunity came in 1975 and, like County government, the program itself has evolved.

At the beginning, public works sponsored by the Community Development program seemed appropriate for several reasons. Most of the "target neighborhoods" desperately needed improvements often taken for granted in other areas, such as paved roads and adequate drainage. Additionally, sewer and water system improvements were undertaken to provide immediate and long term benefits. Additional capital investment

from the private market place is expected to complement these completed "infrastructures."

And these types of improvements were the ones selected by the residents of these neighborhoods in a wide spread citizen participation effort (see below). People were most concerned about having a neighborhood which provided a paved road and the basic necessities. Coincidentally, the public works arena is the one where the County has traditionally been involved and has an expert staff on hand to handle the projects.

Of course, public works were also complemented by some social services and other projects. The diversity of needs required flexibility in response. So in one area a neighborhood center was instituted to provide for extension services in a remote area. Another neighborhood was most concerned about park improvements. As a result of that request, other funds were obligated for park acquisition and improvement.

One of the most significant steps recently taken by Orange County government has been in the housing area. The County's involvement in low income housing is the direct result of the Community Development program and more specifically, the Goals Statement in the Housing Assistance Plan. For the first two years within that program, the Statement took into consideration several different items:

- New units built by the existing housing authority outside the City of Orlando
- Units subsidized in the area by existing government programs, i.e., Farmers Home Administration
- Efforts made by non-profit organizations
- Existing County programs

When the Commission learned of the new Section 8 program it became obvious to them that the time had come for the County to become a Public Housing Agency. The program was well suited to the Orlando market area where rental units within apartment complexes have actually been overbuilt since the opening of Walt Disney World. This presented a paradox of housing needs and resources: even though people were without adequate housing, rental units were standing vacant and unused. Starting a year ago, the County now has an allocation of 574 units under the Section 8 program with almost one-half of those already "rented up."

In addition to an active involvement in the Section 8 program itself, the County is taking a broad interest in housing issues with low income programs.

The latest step in the evolutionary process is an outcome of awareness of housing programs and needs. A rehabilitation program for existing low income housing is about to get off the ground in Orange County. At the same time, a bold new step is government involvement in actual redevelopment of a neighborhood, including site acquisition, site improvements and site pre-selection for housing subsidized with new construction in concert with private developers.

Some additional and expanded comments on selected aspects of the County Community Development program may be worth your attention at this time.

CITIZEN PARTICIPATION

The County took the requirement for citizen participation very seriously. Target neighborhoods were identified. A community organization effort was undertaken by the existing "community action" agency. At each neighborhood meeting, residents reviewed a complete presentation of all relevant aspects of the Community Development program as well as neighborhood characteristics. Priorities were drawn by the residents themselves and presented to a County wide Community Development Advisory Board. This Board, in turn, passed their recommendations on to the 5 member Board of County Commissioners. The process exposed the workings of County government to a then skeptical population. Over 70 neighborhood meetings have been held to date. People who were never before involved in County government decision making now have a chance as the County has an opportunity with Community Development programs to meet their needs.

URBAN COUNTY

To qualify for the Community Development program, Orange County had to entice cities within its borders to sign a cooperation agreement to reach a desired population level. This exercise was frustrating but understandable. Obviously, the unincorporated areas had more than 260,000 people in their boundaries along in 1975. However, this growth

had occurred in the previous 4 years since the 1970 Census. Those people were there, they deserved to be served but the federal government needed a standard requirement to assess population levels and this could only be the '70 Census. Fortunately, since that time HUD has decided to use 1973 population characteristics. This has helped us somewhat.

Actually, in the long run, this requirement has paid off for several reasons. Most small towns would not have been able to apply for this Community Development program and few would have been able to implement a program if they could because of staff limitations. But the most important aspect of this local intergovernmental cooperation has been a practical one: more people have been served in a comprehensive program that makes more sense. Certainly, poverty knows no political, jurisdictional boundaries and low income neighborhoods spill over between the cities and the County. In many areas low income neighborhoods seem to spring up just outside the city boundaries. Services are often more economical than in the city and the cohesive neighborhood exists straddling the city limits. Thus, a combined and focused effort between cities and the County has paid off.

And the County record has been good. No one has "opted out"; in fact, each year one additional city has signed a cooperation agreement. The reason for this success is that there are no sophisticated "urban" solutions imposed on a smaller town atmosphere. The planning and implementation are sensitive to local needs and modes of services while

insuring all federal regulations are met. The County delegates very little responsibility to the cities. All allocations are based on an objective evaluation of needs throughout the County.

In addition to our cooperating cities, the County has enjoyed a successful working relationship in the Community Development effort with the central City of Orlando. Here again, many blighted neighborhoods seem to straddle the City/County line. The County and the City have undertaken several joint projects and are planning for additional ones in an effort to meet housing and neighborhood needs on an area wide basis. (See letters in Appendix A).

ELIGIBLE ACTIVITIES

We believe an excellent balance has been struck with this block grant approach. The eligible activities are focused toward neighborhood improvement but flexible enough to meet a wide range of improvement needs. And I can tell you that this local government, for one, would have been sorely tempted to "overbroaden" the intent of the local program had not ineligible activities been specified. Orange County needs for a large capital outlay have surfaced in almost crisis situations concerning the following:

- A new correctional institution
- A large sewer extension into a moderate and high income neighborhood
- Improvements for administration of County wide programs

Everywhere, local resources seem to be shrinking while population demands more from local government. The focus of this program, however, should be on blighted neighborhoods and this is where it has been and will remain in Orange County.

One additional word on social services in this regard. The 20% limitation makes sense to us. Social services are far different from other types of improvements for several reasons: they are recurring and once a social service program begins, it builds in an on-going clientele. Perhaps this clientele should be served but certainly the fiscal responsibility is a built-in and continuing one after the initial commitment. The County and the citizens have enjoyed an emphasis in this program on "hardware" improvements which are complemented by social services.

PROGRAM CONTINUITY

Entitlement status gives Orange County a comfortable feeling toward the Federal government. The benefits of "systematic and sustained action" can be realized at the neighborhood level. If a project cannot be funded in one year, there may be a good chance for funding in the next program year. This continued availability of resources makes citizen participation much more rational. Competition between neighborhoods for limited funds is substantially reduced. The credibility of both the local and the Federal government is increased.

The long term commitment makes more sense for an organizational framework, as well. Adequate staff can be employed for financial and program management. Without dramatic changes in government programs, i.e., from urban renewal to model cities to neighborhood programs, a stable organization can provide continuous services to local residents.

HUD

We have been very pleased to work with HUD officials. The HUD area office serving Orange County from Jacksonville has been most responsive in the Community Development program. A list of the names of area HUD officers who should be credited for successful local programs is attached (see Appendix B). However, there seems to be an Achilles' Heel within the HUD operation and perhaps other government offices at this time. We believe the Block Grant approach has been successful for several different reasons but it has certainly given more responsibility to local governments and, with us, we believe that has worked. The programs are shaped to serve local needs tailored to a metropolitan or non-metropolitan areas.

Unfortunately, some sections in the HUD organization seem to be slower in transition than others. For instance, Housing Production functions seemed to be keyed to programmatic goals rather than local government needs as expressed in Housing Assistance Plans. Previous commitments for subsidized units and unfamiliarity with intentions may be at the root of this circumstance.

Judging from Orange County's experience, great possibilities exist for combining Housing and Community Development programs in one neighborhood. Recent HUD regulations on "Section 8 - Special Allocations for Select Neighborhoods" have this intention.

One additional area for program improvement is for additional time for expenditure of funds. HUD presently requires Orange County to expend all Community Development grant funds deposited in the local depository within three days. Program costs are often difficult to anticipate with over 30 projects operating at any time. Additional time in deposit would be one change we would appreciate.

Hopefully, HUD will continue to forge a strong working partnership with local governments.

SUMMARY

We hope other local communities enjoy the program success that has been experienced in Orange County. The advent of the Community Development program was timed just right for organizational and political changes in Orange County.

The program flexibility and long term commitment have been important inducements for citizen participation and intergovernmental coordination to stop blight and preserve low income housing in Orange County.

APPENDIX A

Letters from Municipalities



Mr. Dan Cahill
 Director
 Orange County Community Development
 19 S. Court St.
 Orlando, Florida 32802

RE: Community Development Act in Winter Garden

Dear Dan:

We want you and your Board to know that the City of Winter Garden appreciates the improvements which have been afforded by the Housing and Community Development Act of 1974.

The priority items within the City of Winter Garden have included important and necessary drainage projects, enclosing the LA-5 Canal and much needed improvements in the Klondike Street Area. When the Klondike Street drainage is completed, the City will install curbs, gutters, new sewer mains and remodel the Klondike Swimming Pool and Recreation Park.

We look forward to future progress as we work together in this important program.

Sincerely,

Denver F. Baxter
 Denver F. Baxter
 City Manager

DFB/zd



Mayor
JOHN H. LAND

Commissioners
J. WILLIAM ABERCROMBIE
RICHARD L. MARK
W. S. MCGUFFIN
ALONZO WILLIAMS, JR.

CITY OF APOPKA

P.O. DRAWER 1229
APOPKA, FLORIDA 32703

February 28, 1977

Home of...



Honorable Allen E. Arthur
Orange County Board of Commissioners
P. O. Box 1393
Orlando, Florida 32802

Re: Housing & Community Development Act of 1974

Dear Allen:

This is to state that the City of Apopka has been very pleased with the cooperation and communication it has had with Orange County during the past 2½ years since entering into an agreement to join it as an urban county in applying for block grants under the Housing & Community Development Act of 1974. A portion of the funds received by Orange County have been spent on improving drainage facilities, paving additional streets, and expanding the Apopka water system in the City and adjoining County areas, and providing an additional employee in the Apopka Recreation Department which serves the area County residents as well as those in the City.

We are looking forward to another progressive year of working with the County as it administers funds that may be received under the block grant.

Sincerely yours,

John H. Land
Mayor

JHL:es

Indoor Foliage Capital of The World



CITY OF

MAITLAND

FLORIDA

P. O. BOX 26

32751

MAYOR

HOMER H. HOUGH

COUNCILMEN

E. X. BLACHKA

JIM DUVA

LOUIS EMMONS

RICHARD HOWELL

1 March 1977

Orange County Commissioners Board
 P. O. Box 1393
 Orlando, Florida 32802

Attention: Commissioner Allen Arthur

Subject: Community Development Program

Dear Allen:

The Community Development Grant Program, now under way in Maitland, is providing sanitary sewers for a low income area in the southwest part of Maitland.

The residents of this area are not financially able to participate in assessment cost recovery for sewer service and the City could not have funded the entire project. The grant has significantly reduced the property owner's cost to a level which they can afford to pay.

To implement the program, the County Staff has done everything possible to assist the City. The willingness of the staff to accomplish the task and their knowledge of implementation of the program are remarkable and invaluable. We look forward to completion of this project and the beginning of the next phase of improvements by paving the streets in this area.

Sincerely,

CITY OF MAITLAND

Homer H. Hough
 Mayor

HHH:MPC:sjm



CITY OF ORLANDO

OFFICE OF MAYOR CARL T. LANGFORD

March 3, 1977

The Honorable John C. Martin, Chairman
Board of County Commissioners
Orange County
Post Office Box 1393
Orlando, Florida 32802

Dear Mr. Chairman:

The purpose of this letter is to express Orlando's appreciation for the cooperation extended by Orange County and its staff in planning, programming and implementing our respective Community Development Block Grant Programs.

By virtue of our joint efforts on such projects as Washington Park, Ivey Lane and Columbia Street, mutual benefits have accrued to both City and County residents within the target neighborhoods. Through coordinated efforts like these, much needed community improvements are accomplished and maximum benefits are derived from available tax dollars.

In looking to our respective third year (1977 - 78) CDBG programs, it is the City's desire to continue to work together to attack common problems within our contiguous target areas to effectively bring about positive neighborhood improvements.

The City is most grateful to the Orange County Commission and staff for your continuing cooperation in coordinating efforts on the Community Development Block Grant Programs.

Sincerely,

Carl T. Langford
Mayor

APPENDIX B

Our thanks and compliments to:

Mr. R. W. Buskirk

Area Director
(Jacksonville Office)

Mr. Phil Johnson

Director of Community
Planning and Development

Mr. Tom Lackey

Community Planning and
Development Representative,
Southeast Florida

Mr. Nick Sotiropoulis

Chief, Program Support
Branch

Mr. Ellis Brossett

Financial Analyst

APPENDIX C

Profile of Orange County's
Community Development Program

905,000	Block Grant for 75 - 76
<u>2,046,000</u>	Block Grant for 76 - 77
2,951,000	Total

I. Census tracts served:

Tracts with minority concentrations:	9 tracts
Tracts with low income concentration:	11 tracts

II. Road construction:	<u>45,904</u>	feet
Sidewalk construction:	<u>10,000</u>	feet
Secondary drainage work:	<u>11,100</u>	feet
Water system improvement:	<u>22,043</u>	feet
Sewer system:	<u>36,370</u>	feet

Child Care:	800 children served
Meals on Wheels:	Approximately 50,000 meals served to elderly shut-ins
East Orange Neighborhood Center:	8,630 visitor/clients
Recreation:	11 separate projects

Code Enforcement: 87 vacant units demolished

49 units rehabilitated by
owner

Relocation: 200+ through Section 8

Major crisis because of
migrant housing without
heat accommodated

Rehabilitation: Complete 1
Objective 20

Mr. ALLEN. I would like now to call on Dan Cahill, the director of our community development and housing department, to explain a few mechanics of our program in Orange County.

STATEMENT OF DANIEL F. CAHILL, JR., DIRECTOR, OFFICE OF COMMUNITY DEVELOPMENT AND HOUSING ASSISTANCE, ORANGE COUNTY, ORLANDO, FLA.

Mr. CAHILL. Well, while Commissioner Arthur explained the political and philosophical concerns of the program, I would like to review a few points on the mechanics of Orange County's community development.

The allocations for Orange, as an urban county, were \$905,000 for the 1975-76 first program year; \$2,046,000 for the second program year; and we expect about \$3 million for the third program year.

Our projects were chosen as a result of extensive citizen participation. Over 70 meetings have been held within the identified target neighborhoods. Meetings were held in the evening when working residents could attend. The residents really picked the projects in order of priority, and a representative then presented these suggestions to the community development advisory board, which recommended a program to the board of county commissioners.

The 15-member advisory board includes many residents of the target neighborhoods. Planning, programing, and budgeting have always been in the county's hands. Much of the work is done in conjunction with cooperating municipalities. However, no city receives a set-aside or subgrant from the county.

Numerous jurisdictions that simply were too small to participate on their own have been able to work with the county in this program.

In Orange County, the community development program fostered local government involvement with housing, as Commissioner Arthur indicated. The county entered into an annual contributions contract with HUD for almost 500 units of section 8 housing assistance payments.

To date the program has enjoyed much success. In fact, in a very brief period the change in Orange County with these two programs has really been dramatic.

Orange County government had no ongoing HUD programs 20 months ago. Now, community development is in full swing and the county has become a public housing agency for the first time.

We will continue, hopefully, to move forward in these areas.

Mr. ARTHUR. In conclusion, we in Orange County very much appreciate the resources and incentives that the community development program has provided us. It is already providing very positive results in improving neighborhoods and rekindling individual participation in neighborhood activities and building a new era of rapport and cooperation with local city governments.

We would respectfully ask you to renew the community development program, and we feel that the present funding levels are quite adequate for our needs. Thank you.

Mr. AU COIN. I want to thank the witnesses.

Mr. Chavez, did you have testimony?

Mr. CHAVEZ. No, sir. I am here to answer any questions you might have. Thank you.

Mr. AuCOIN. Mayor Hudnut, Indianapolis is essentially a metropolitan government, almost a regional government, which is somewhat uncommon, given the nature of local governments across the country. And I am wondering whether you think the goals and objectives established in this act meet your unique needs, and do you feel that the section 701 comprehensive planning grants are adequate? Could you respond to those questions?

Mayor HUDNUT. So far as the first part of your question is concerned, Mr. Chairman, I think that the objectives as outlined are perfectly synchronous with the objectives that we have locally. There is no problem there. And there is no problem, by virtue of the fact that we do have a consolidated city-county arrangement there and a unified government.

The answer to the second part of your questions is, there is not enough money available for planning and for implementation, and the cities are very hard pressed, as I don't have to tell you, to make ends meet. And we need to do everything we can to continue section 701 assistance to large cities and the community development block grant program for this reason, because we just don't have the local resources.

Mr. AuCOIN. But the structure of your unique form of local government is not perfect so far as you can see it?

Mayor HUDNUT. That is correct. It has not hurt us, I don't feel. Maybe the HUD area office does. I don't feel that we have. Our problem is with the local flexibility that I was speaking of and perhaps our experience is unique in desiring greater flexibility because of our form of local government. I doubt that however.

Mr. AuCOIN. Thank you very much.

Mr. McKinney?

Mr. MCKINNEY. Mr. Hudnut, it was very interesting that you used the word "flexible." We have had testimony now going on for many days, and that keeps coming back and back. For instance, I have three cities in my congressional district, Bridgeport, Norwalk, and Stamford, that are all within a 38-mile span of the Connecticut Turnpike, and yet there is not one of them that is the same. What will work in Bridgeport, which is the largest city in the State of Connecticut but is only 16 square miles and is 98 percent built out, just doesn't work in Stamford, which is 36 square miles and has a very, very wealthy satellite area north of the city.

We had a lot of discussion yesterday on section 312 and the frustration that housing authorities felt when rehabilitating, for instance, a certain group of houses or projects, and having something else right next door that they could not touch because it was under another program, and the terrible frustration they really felt by not being able to attack the neighborhood as a whole.

So, we zeroed in on the discussion of neighborhood improvement. In fact, I even suggested—and got no disagreement—which surprised me—that we change the name of the program from the community development block grants to the neighborhood development block grants. I guess what I would like to ask you as a mayor, and I would

have to ask these other gentleman also as practitioners of the art, is what would you like to see us do? I see no resemblance between the regulations that are coming out of HEW, HUD, DOT, and the laws we pass here in Congress.

How would you like us to change this program, and reaching beyond it, our whole housing picture so that it would work for you?

Mayor HUDNUT. Perhaps I would be guilty of oversimplification in the way I respond, but nonetheless, a short and sweet answer to your question is that we would like to see you retain the objectives of the program which have to do with combating neighborhood deterioration, but give us the money at the local level without any strings attached or guidelines.

Now, that is an oversimplification. But what I mean by that is that we have literally been hamstrung, crippled, paralyzed, in our efforts to do what we think is right and fitting and proper in our particular community by restrictions, policy memorandums, guidelines, regulations, that are promulgated from on high, as it were, and then enforced by the local office of jurisdiction.

Let me give you a couple of examples or just elaborate on what I alluded to in my opening remarks. We have a multiservice on the southwest side of Indianapolis that has a demonstrable need; but because we have not made a sufficient commitment there in terms of the hardware services through the community development dollars, that area has been declared ineligible, and so the multiservice center is drying up.

Another example: the housing assistance plan. We feel that we know pretty well where we should have some of this housing plan emphasized and put into effect. I am speaking in terms of the geographical areas of our city. And yet the HUD area office comes right back, backed by the regional office, and tells us we are not doing enough with section 8 housing, that we ought to have more, we ought to have more in certain sections of the city where perhaps the grassroots people don't want it, and so forth. And so we are stymied.

Another illustration of the same thing is the failure to synchronize our budget years so that at the local level we are forced to extend programs without any assurance of the community development dollars coming through.

What we want, really, basically and simply, is as much local autonomy and freedom in the administration of these programs as is possible; and that means the correlation is the fewer Federal guidelines that are promulgated and the fewer restrictions that are imposed, the better.

Mr. MCKINNEY. Some of us have been talking about what we would call guided policy. In other words, instead of a categorical grant or the community development program the way it is now or section 312, we simply state that if a community comes to us and has a program to house x number of people, be it rehabilitation, new housing, a mix of the same—rental property or homeownership—that we just simply turn around and say, all right, do it. Here is the money. But the guiding would come in the fact that we would require assurances, either by percentages or by plan, that minority and low-income people would be accommodated.

Would you agree with that sort of posture?

Mayor HUDNUT. I think it is moving in the right direction. When you talk about percentages and that sort of thing, you immediately get into problems, because then the local area office has jurisdiction to determine how you get those percentages filled, and it begins to spin back into the same kind of a problem that I was referring to.

But the thrust of this idea, which is a new one to me, sounds as though it would be very helpful.

Mr. MCKINNEY. Well, I agree that we certainly can't get into the national percentage business. I share your frustrations, because I am trying to bring three old New England cities back into the 20th century. I realize the minute you give HUD the word percentage, you are in trouble.

Let me use site criteria as an example. HUD just finished telling me in Stamford that I am impacting subsidized housing by doing over a 5-story apartment building that sits across General Telephone & Electronics' \$33-million corporate headquarters and across another street from the Dreyfuss Corp.'s \$19 million headquarters. My feeling is, it is pretty hard to impact subsidized housing next to a brand new \$30 million corporate headquarters where that corporate president, if nothing else, is going to make sure that subsidized housing shines so it does not diminish his magnificence next door.

But that is HUD.

They have also just been telling me that in Stamford a Clinton Avenue senior citizen housing development where everyone can walk to the movies, the grocery store, the liquor store, or wherever they want to go, has a noise level which is too high. It seems to me they want to put my senior citizens out in Bucolic Woods with no transportation, no buses, no laundromats, and nothing else. I agree, giving HUD the word is a difficult thing, because our words become something that I cease to recognize.

One other question I would like to ask you, as a mayor.

We have passed a \$4 billion public works bill. Don't you think, as an operating executive of a community, that that \$4 billion public works bill should have been tied to community development?

Mayor HUDNUT. Should have been what?

Mr. MCKINNEY. Should have been tied to community development or integrated with all of this the rest of us are trying to do through some form of economic development?

Mayor HUDNUT. That is a hard one for me to answer.

It certainly might have been better. But at least in our locale we are trying on a voluntary basis to tie the public service dollars, or the public works dollars, to community development areas to make sure that the unemployed people who will be the beneficiaries of some of those dollars that are coming down to us through our manpower program will actually be employed and helped.

What I am trying to say is, it would be easy for some of those dollars to be siphoned off and just make rich people richer and developers more wealthy, and it would help the problems that we have, which are very acute, with 35, 45 percent unemployment of young blacks in the center of the city. And we have said that even though the Federal guidelines with regard to these dollars suggest that we ought to have 10, 15 percent of the money used to help the disadvan-

taged, the unemployed, and so forth, we are trying to do it up around 80 percent and use it within the area of our community development block grant programs.

So we are trying on a voluntary basis to yoke these two together, because we think that is the way to go, irrespective of what you have done over here.

Mr. MCKINNEY. Mayor Lessig, or the rest of you gentlemen, would you like to comment?

Mr. ARTHUR. Your comment about the public works funds—being an architect, I think one of the fastest ways to get the economy moving is construction projects, because generally speaking, they are fairly easy to get moving in a hurry, and construction workers are generally well paid and they get that money back into the economy probably faster than any other way you could stimulate it.

Now, in Orange County there were two major appropriations. We used ours for part of a sewer system in a low-income neighborhood. And then one city in our county has used it for local street and public works projects which are directly related to our community development efforts.

Mr. MCKINNEY. If you were sitting asking the same question I asked Mayor Hudnut, if either one of you were sitting here where I am sitting writing this legislation, what would you do to it to make it better for you?

One of the reasons I applauded Bob Embry's appointment to HUD is because he has been suffering in Baltimore for so long that perhaps when he gets down there in that concrete monolith he will be able to lessen the suffering a little bit for the rest of us.

How would you have me change this legislation to lessen the suffering?

Mr. CAHILL. May I comment on this?

Mr. MCKINNEY. It is a free-for-all. Anybody can comment.

Mr. CAHILL. I think you were referring earlier to something like a bloc grant for housing on the rehabilitation programs and the section 8 and others. And I understand that the subcommittee has considered that. But there are problems with it, including that for long-term financing.

We think that there is a possibility it might solve some of our problems that we have encountered, and I will give you an example.

Orange County took this housing assistance plan very seriously and tried to do something about the housing situation in the local metropolitan area. We found it somewhat difficult at times to deal with HUD and FHA people because of the dichotomy there on matters such as fair market rents and using other programs along with section 8. We got the feeling sometimes like we were kind of a pinball working between an FHA Office in Tampa and a HUD Office in Jacksonville.

That is not to blame any of the individual people involved, because we have had very good success dealing with both offices on that basis. But there seems to be somewhat of an inertia built into HUD and FHA programs that works against the concept of this housing assistance plan, a comprehensive approach to a housing problem in a metropolitan or nonmetropolitan area.

Federal officials seem to be a little bit more programmatic rather than looking at an areawide problem. In other words, section 235 comes in here, then a rehabilitation program, and some governments may apply for that or they may not.

Wouldn't it be a wonderful opportunity if—looking at the problem from the grassroots element—if a person could come off the street into one office and say, "Look, I have a housing problem." And he may have a home that he needs to have rehabilitated or he may want to own a home or he may want to rent a home. And if he could go to one office in a local area and have all of the opportunities discussed with him, and his position qualified by income and family size, at that one point, it would make a lot more sense than having to go to three or four different offices perhaps all over the State to qualify for different programs.

Mr. CHAVEZ. Sir, if I may comment on your three questions in reverse order. About the public works, we submitted three different applications. Only one would have been in conjunction with our community development program, so I am not sure that the tie-in would have been necessary in our case, the public works and the community development program.

With respect to your second question about having a prepared program, where one can work in, saying, "OK, may we get funded?", one of the problems we had was the matter of no one being interested earlier. We had to establish the initiative and the confidence of the private sector. Therefore, we would not have had a program to walk in with. We had to develop our own program to show that they could walk in themselves afterward. So we would not have had that program available to us.

Your first question asked about how you could help us.

We have no direct problems with the act as it is. We don't have the problems that Mayor Hudnut is running into, but we do have some indirect problems. That is, there are an endless list of eligible activities, and we feel that a lot of the programs that are being funded are not meeting the primary intent of the act. As a result, people now are saying there is not enough money to go around. Yet, a lot of the funds that are being allocated are not being spent for the primary intent of the act.

We would suggest that that endless list of eligible activities be shortened; that someone decide what the primary intent of the act is, and let us act according to that without those restrictions, as Mayor Hudnut was suggesting.

Mr. FAUNTROY [presiding]. Thank you.

I yield to Mr. Kelly.

Mr. KELLY. Thank you, Mr. Chairman.

Mr. ARTHUR, I think that there must be something the matter with the equipment here. I thought I heard you say that the present funding levels are adequate. Is that what you said?

Mr. ARTHUR. Yes, sir. We have reached the point in Orange County where we feel we can very adequately supervise and efficiently perform the functions we are doing in community development programs now. And we interface these with a lot of other departmental activities, such as road and bridge and housing and things of that nature.

So I think we have a program now that is adequate for our needs, and to expand it much further we would have to expand our staff and resources considerably. We have reached the point where I think we are at an optimum level of efficiency in county government.

Mayor HUDNUT. Leavenworth and Indianapolis will be glad to take what Orlando doesn't want. [Laughter.]

Mr. KELLY. Mr. Arthur, you were going to contribute to the idea that everybody from central Florida is a little unusual, and I don't know whether that is good or bad, but I don't believe I have ever heard that in Congress before.

Let me ask you this. Your testimony and your prepared statement indicate that you have had and do have some neighborhood problems in Orange County. Do I understand you correctly that the basis of these problems stem from the fact that probably the housing there, when it was originally constructed, was not of good quality; that the streets oftentimes are not so much in need of being repaved as being paved for the first time, that they were never paved; and that there is a need for sewage because there was never any kind of a system?

Do I understand the situation correctly?

Mr. ARTHUR. Yes, sir.

I think Orange County, probably 15 years ago, was considered a very rural, agricultural county, and Orlando was the predominant city and where most of the people lived. As a result of the electronics boom in the 1950's and the activities at Cape Canaveral and, of course, the Disney boom, Orange County has now grown tremendously, and 60 percent of the people live outside of 13 municipalities. So we just did not have the ordinances, the code enforcement, and other resources to adequately attack the problem of housing and make sure that subdivisions were properly constructed, that drainage systems were installed, when people built homes, that homes were properly built and with some code enforcement program to keep the housing in good shape.

Mr. KELLY. Now, in these neighborhoods that you have these troubles in, are not neighborhoods that you have destroyed by bad government.

Mr. ARTHUR. No, sir.

Mr. KELLY. I mean, you haven't driven the people out of those towns, out of those neighborhoods, because they could not afford to live there.

Mr. ARTHUR. No, sir.

I think it's a case of, frankly, the county government is playing catchup with municipal governments.

Mr. KELLY. Mayor Hudnut, I wanted to ask you, you mentioned something about you had 40 percent unemployment among the black teenagers in your community. Do you think that it would be of any assistance to that situation if industry and business and just the public in general could make jobs available that would—to these young people at something less than minimum wage that has been established by law?

Mayor HUDNUT. Yes, sir, I think that it would be of some assistance.

Of course, the long range answer, in my opinion, to some of these severe unemployment problems in the cores of urban America lie not

in more and more people on the public payroll and in public service jobs but in the kind of manpower training and development that spins them off into productive enterprise in the private sector.

We in Indianapolis feel very strongly that it is important to work as partners, the public sector and the private sector, with the National Alliance of Businessmen, and so forth, on job programs in the private sector.

So far as the minimum wage is concerned, I do think that as it goes up and up, it is succeeding in pricing much potential manpower out of the labor market.

Mr. KELLY. Mayor, let me ask you this: Isn't it true that with most of these young people, that the thing they need more than a high wage scale is an opportunity to learn how to do something that is marketable?

Mayor HUDNUT. That is correct.

Mr. KELLY. So that they need to know how to do something, which means that they have got to start working at something, almost anything.

Mayor HUDNUT. Absolutely right, sir. But one of the problems we have is with the politics of elevated expectations that has characterized the American psychology for the last 20 years. And many, many, many of these young people come to us and say, we don't want to take anything less than the minimum wage. And they talk about paying them the prevailing wage and not being forced into menial work and being moved into decisionmaking responsibilities and so forth, right at the start. And this is a very large problem that we have.

But I agree with what you say.

Mr. KELLY. OK, let me ask you something else.

When the Government is just pounding the table with, we have got to get these people employed, and it is all right to use the public's money to do it, wouldn't it make a bunch of sense to let the communities get these jobs done at the very best possible price so that you could have more projects going on at the same time instead of fewer, instead of hidebouding the program with the idea that you have got to pay Davis-Bacon wages?

Mayor HUDNUT. That is right. Organized labor would not agree with you, but I am inclined to agree with you.

Mr. KELLY. There just is definitely something wrong with our electronics session here because this session seems to make some sense to me this morning. And I thank you, Mr. Chairman. [Laughter.]

Mr. FAUNTROY. Thank you, Mr. Kelly.

I would like, Mr. Arthur, to ask first of all, whether or not the lack of need for more community development funds in your community might be related to the fact you are a new community. You mentioned that 15 years ago most of the area was rural. It was a rural economy and that perhaps a place like Leavenworth, Kans., and other older communities which have largely the kinds of problems that our community development program is designed to address might well benefit from a sharper focus on their needs.

Mr. ARTHUR. Mr. Fauntroy, I think we could well document the needs in Orange County. And it is a case really that we have a comprehensive planning effort that we are trying to rehabilitate and do things on a very steady, systematic plan.

And just in my district alone I have developed a road paving plan that is going to take time, but we are systematically solving these problems. And I think really to try to accelerate them might really impact us. I don't want to see our staff grow out of proportion to the population. And I would prefer to do these things over a time frame or a time certain, and not a sudden on-and-off massive program.

Now we have an unemployment problem in Orange County and that is why the public works grant was so very important to us. But it is, hopefully, I think, a short-term thing.

Mr. FAUNTROY. While you would not object to the public works programs and the assistance that the people of the Nation give you through that, you are fair enough to recognize that you should not be asking for more funds for community development than you feel are necessary for your community.

You would not mind, as Mr. Hudnut has suggested, then that a community like Leavenworth, Kans., which has more of the older city problems, received additional money.

Mr. ARTHUR. I agree that the cities—and I was really born and raised in Orlando and have a great deal of experience in Orlando's problems, and I think we have done a very good job rehabilitating the blighted areas of Orlando; we have still got a way to go—but obviously the cities have certainly pressing problems.

Mr. FAUNTROY. One of the questions that has been raised here by Mayor Lessig is the emphasis in the legislation here on those areas of greatest need. I suspect you would support that formulation?

Shifting from your testimony first to that of Mayor Hudnut—Mr. Mayor, you mentioned the fact that you have advocated a shift from the community development program year to one coinciding with the local fiscal and program years, that you have sought that for your own community, but have not received a favorable response from HUD. Would you share with us the reasons given you for not adopting this seemingly reasonable proposal?

Mayor HUDNUT. Mr. Chairman, I am glad you think it is reasonable. And we appealed to the area office, the regional office, and all the way up to the Secretary's office that before January 29th we had a little more leverage in the Secretary's office than we have had since then. But we struck out. The reasons they gave us we thought were totally inadequate.

Do you have to go to a quorum call?

Mr. FAUNTROY. Not I.

Mayor Hudnut, this gives me an opportunity to mention the fact that you are looking at the person who represents more tax-paying citizens than any single Member of the House. In fact, I represent more taxpayers than do 20 Senators in the other body, but because 200 years after the founding of this great Nation, the people of the District of Columbia still endure the tyranny of taxation and government without representation, I am not allowed to vote.

Even though our residents pay \$1 billion in Federal taxes a year, we have no vote, unlike your residents, in the House and the Senate. I would urge all of you gentlemen, as you return to your home communities, to urge upon the Senators and the Representatives whom your taxpayers elect to give us a favorable vote on a constitutional

amendment which will provide the citizens of the District of Columbia voting representation in the House and the Senate.

Thereafter when a quorum call is made, you would have the privilege of resting while I go over to vote; but, inasmuch as I don't go over to vote, you shall not rest, and I shall continue to raise questions with you.

MAYOR HUDNUT. Will the gentleman yield?

MR. FAUNTROY. I would be very happy to yield.

MAYOR HUDNUT. I was very anxious for you, sir. And I am glad you have assauged my anguish. I seem to remember that three bells meant a quorum. We will take the word back that you want another star in the flag.

MR. FAUNTROY. May I now ask—

MAYOR HUDNUT. Getting back to your original question to me, sir, if I may just finish up on that. I honestly do not feel that the reasons that were given us for not coordinating the community development block grant calendar with our local calendar had any validity. They were reasons, frankly, that were unfathomable, not because they were deep but because they were shallow. And I have been caused a great deal of anxiety, or we have, in Indianapolis by this lack of coordination and this refusal to have a positive response to our appeal. So we don't know where we are at, if you will pardon the bad English, and we feel we're on the end of a yo-yo. And we go up and down from January to February to March, so to speak, without knowing exactly when the money will be available on a calendar year basis.

And it makes planning almost impossible and makes it very, very difficult to have any kind of continuity in the social service programs that are funded with some of these community development dollars, where the staffs of multiservice centers and so forth come to us and say, will we be on the payroll a month from now. And they don't know and we can't tell them because we cannot get that coordination.

MAYOR LESSIG. May I also comment?

MR. FAUNTROY. Yes; Mayor Lessig.

MAYOR LESSIG. I think this is one of the big problems we are having and I agree with the mayor. We don't know how to plan. Our help, particularly our good help, are trained staff. One month they are looking for another job; and it is very, very hard when we get good people on our staff to guarantee employment. As a result of that, they are out looking for other jobs and we are losing them. You get them retrained and then bingo, something happens.

May I put a little personal plug in here for my own community?

MR. FAUNTROY. Certainly.

MAYOR LESSIG. It isn't quite a part of this program, but as you know, we are the oldest city in Kansas. We started up with the Pony Express, or when the Indians were there—I guess it was Colonel Leavenworth at that time—who set up the post, 150 years ago. It is the boyhood home of Buffalo Bill Cody. It was the start of the Pony Express there. We had a lot of the cross country people in the area; it was a large city at that time.

This is the original townsite that we are trying to reconstruct. I don't know how many blocks that we are trying to reconstruct. We think we have enough private investors who will go in there and rebuild

it if we clean it, or if we upgrade the residents that are in the area. And this is very important. We don't have the money. We are a Federal community.

I am a retired school administrator. And at one time in our schools in Leavenworth, 54 percent of the children in our school were from people employed by the Federal Government. We have the Federal penitentiary, the Command General Staff College, the disciplinary barracks, and we have the Veterans' Administration all within the city, or will be within in the next 2 months. As a result, we get no tax money or any money at all in lieu of taxes for this huge development of Federal people. And our tax base is tremendously low.

We have a very good income. We have one of the highest incomes per capita in the State, but we can't tax it. The State won't let us. We have tried and tried and tried. So as a result of that we have not a lot of money to do a lot of these things on our own.

Our block grant money, we have been putting it into sewers; we have been replacing water lines over 100 years old; we have been replacing private lines that were running up somebody's alley and everybody would hook onto it as they want along. We are paving streets that have never been paved before.

As a result in our planning and development with the people on our advisory committee, who are volunteer people who have gone from door to door themselves with no payment at all, to convince the people of this area this is the best thing. And they have convinced them.

It was hard at first, because urban renewal kind of killed a lot of those people off. It took a lot of their homes that they had for a long, long time. But this is something that they have convinced the people, and it was hard to convince them, that this is what they need for this community. And we have got it going, it is on the way. But we have to complete it and the city itself does not have the funds.

I thank you for that particular personal insertion at this point.

Mr. FAUNTROY. We thank you. I have really two questions pursuant to your remarks. First of all, we have heard witnesses during the course of these hearings who have complained that the State has not had an adequate role or access to community development funds, because of the way the legislation is structured and they have argued for a more definitive role in this regard.

How do you react to that proposal, given the experience you have had?

MAYOR LESSIG. Well, as a former member of the house of representatives of the State of Kansas, my own personal feeling is if that money goes to the State, it will be like the revenue sharing funds, they will use it for themselves and not help us too much. Now that is my own feeling.

Now, I am on the legislative committee of the League of Municipalities in the State of Kansas and we are trying to get certain things done. We tried to plea with our Governor last week, but I don't think we got over to him that this is what we need on a local basis, which they won't give us. Now we are on a cash basis law, we can't go in the red. The State can't go in the red. And we have millions of dollars tied up just in case someday the State goes down. I don't know what the average increase is in the State as far as earning power is concerned. It was around 10 or 12 percent a year. It is decreasing slowly.

But now my own personal feeling is that we can handle it better on a local basis. I don't know whether the State should get into this and get involved in a fight back and forth, because we have two political parties and one controls one house and the other controls another house, and where it would end up.

Mr. FAUNTROY. Second, you make a rather startling statement about the return on investment which Leavenworth has made that would certainly be instructive, I think, to the members of this subcommittee as we look at this legislation. You say, for instance, with an investment of \$400, you contracted with a major residential developer, and he is building two houses.

About \$45,000 of housing is being built in an area that experienced only two houses in the last 10 years. I just wondered how were you able to do that? You also mentioned a \$703 investment of community development funds which yielded \$36,000 in rehabilitating programs.

Mayor LESSIG. I will let the man who did it answer that question.

Mr. FAUNTROY. All right.

Mr. CHAVEZ. The \$400 was for the cost of buying the properties. One of the parcels was bought at a tax sale—well, actually, I guess these two sites were bought at tax sales. They cost us \$100 per lot. We took two sets of 24-foot lots and made them into a 48-foot lot. It cost us \$400 of community development moneys.

With the fact that we had packaged the property, the fact that we were doing a lot of other work in the area, the fact that we had involved our private sector early—we established a financial advisory committee consisting of representatives from all of our banks, the savings and loan institutions, the realtors and developers—they knew what we were trying to accomplish. They finally got confidence in the fact that we were trying to improve the area.

The major developer in town said she would take a chance and would go up there and build two houses around \$20,000, \$22,000, or \$25,000. Our cost was \$400. Her commitment to us, our contract, is that she build houses in that income range. I think the market anyway would have dictated that they be about that.

In addition it had a secondary benefit of providing housing that you don't find very often, especially in our community, of a \$20,000 house. Most of them are \$35,000, \$45,000, or \$55,000 houses. The \$703 that generated the \$36,000 in loans, resulted from an involvement of the private sector. One of the members of the financial advisory committee is also the president of one of our savings and loan institutions. He, because he had faith—in both cases, there is a lot of community pride in a smaller community, people are willing to take a few more risks, because they can see the people that they are talking to, that are signing the contract on the other end—committed \$243,000 of their funds to be made available for loans. We had deposited—at that time it was eligible—the funds for the rehabilitation loans. We are drawing interest on those funds. With that money that is deposited, plus the interest that we are drawing, we are subsidizing the interest for the loans.

So it is costing us \$703 of our funds to have generated those \$36,000 in loans.

Mr. FAUNTROY. Mayor Hudnut, in earlier testimony, raised the question of the prospect of further limitations on the flexibility of communities in utilizing these funds and suggested that the seed money which had been made available in his community resulted in not only development, but also a return of the funds for the community development purposes.

I want you and Mr. Hudnut to answer the question, therefore whether in your instance, your case, seed money flexibility, community development money used for seed money purposes, is one that you think ought to remain available to you.

Mr. CHAVEZ. Yes, sir, I would very heartily encourage that. The private sector examples I cited was using seed money. We have also matched our funds with other acts like title XX and title III. With the title XX for home maintenance services, we have done a lot of things like insulation of houses and providing adequate plumbing. We have used about \$33,000 of our money. They have made available \$78,000 of theirs. We leveraged our funds about 2½ to 1 or 2 to 1. We have had other matches with title III funds.

I would definitely encourage that to remain a part of the program.

Mr. FAUNTROY. Mayor Hudnut, would you care to comment on that?

Mayor HUDNUT. Yes, sir. When I mentioned the seed money ineligibility, I was trying to make the point earlier that the restrictions that have been imposed upon us, that declare that this seed money program is not an eligible program, even though it directly relates to meeting some of our program objectives, that these restrictions ought to be lifted.

I also emphasized the nature of the seed money as being a loan paid back in full, but it did make possible the leveraging of development that I think is significant. And the anxiety that I have is that this particular program apparently is no longer eligible unless an act of Congress reinstates it.

Mr. FAUNTROY. Gentlemen, I thank and commend you for having contributed much to our understanding of the impact of this proposed legislation. I assure you we are going to give your valuable thoughts careful consideration.

At this time if there are no other questions, we will move on to our next witness.

Mayor HUDNUT. Mr. Chairman, we want to thank you for giving us the opportunity to testify. We are aware of the problems you face. We thank you for your dedication and service too.

I want to call now to the witness table, Mr. James R. Taylor, the city manager of Newburgh, N.Y., accompanied by Mr. David Abrams, director of community development for the city of Newburgh, who will testify at this time.

Mr. Taylor and Mr. Abrams will be presented by Congressman Benjamin A. Gilman, either after they have made their presentation or before, in light of the fact that with the recent quorum call he may not have had an opportunity to get back over here.

But Mr. Taylor, we are very pleased to have you come to the hearing, and we suggest that you proceed in whatever manner you and Mr. Abrams feel is best suited to assist us in understanding your point of view.

**STATEMENT OF JAMES R. TAYLOR, CITY MANAGER, NEWBURGH,
N.Y., ACCOMPANIED BY DAVID ABRAMS, DIRECTOR OF COMMU-
NITY DEVELOPMENT**

Mr. TAYLOR. Fine. Thank you very much, Mr. Chairman, and members of the subcommittee that are here.

As you know, my name is James Taylor, and I am city manager of Newburgh, N.Y., and with me is Dave Abrams, who is our head of the community development program.

I appreciate the opportunity of being here this morning, and I am sure you have probably listened, and listened diligently, to many other municipalities, some of which I had the opportunity of listening to in the background this morning.

Perhaps what I am about to say may seem a little redundant to you, in that we may cover some of the same areas that have already been covered.

Let me assure of one thing, though. I sat in the background or in back of the group that was here, and we happened to be from Orange County, N.Y. And Orange County, N.Y., and Orange County, Fla., are two separate communities, and entirely different, let me assure you of that.

Be that as it may, please do not misunderstand what I am about to discuss with you this morning. I am certain that everybody who has been here prior to me has a legitimate concern and are trying to make the best case they can before you.

I am not trying to discredit our bigger sisters or bigger brothers; however, I am here to tell you about the plight and need of Newburgh, N.Y.

We are an old, old Northeast city, located about 53 miles from my office to the George Washington Bridge. Now, if we were just a few miles closer and were within that SMSA or metropolitan area, we would be in much better shape for a lot of the Federal programs that are available. Unfortunately, that is not the case.

We are a city that is a microcosm of any large metropolitan city in the United States.

Mr. FAUNTROY. Mr. Taylor, may I interrupt you for a moment? Our distinguished colleague, Congressman Benjamin A. Gilman, has arrived, and I would like to afford him the opportunity to introduce both of you and to share with us his knowledge of Newburgh, and that about which you are to familiarize us.

Mr. GILMAN. Thank you, Mr. Chairman. I appreciate this opportunity of appearing before your subcommittee and while I intend to testify at a later date before the subcommittee, I welcome this opportunity of presenting to the subcommittee our city manager, Mr. Taylor, and the director of our community program, Mr. Abrams, who are here to give you the benefit of their views of how this program has worked successfully in our own region.

The city of Newburgh is one of the larger communities in my 26th Congressional District in the State of New York. It has a substantial minority population and it has some serious urban problems of rehabilitation and problems of urban decay, as we have throughout the Northeast. I know that our city manager is very much concerned

about the maintenance of this program and the continuance of this program and has some constructive suggestions. I am sure both Mr. Abrams and Mr. Taylor have some ideas that will be worthwhile for the subcommittee's consideration.

I thank you again for affording them this opportunity to appear before you.

Mr. FAUNTROY. Thank you. And we look forward to your testimony in your right before the subcommittee in the near future.

Mr. GILMAN. Thank you, Mr. Chairman.

Mr. FAUNTROY. Mr. Taylor, you had just mentioned the fact that Newburgh is an old community about 53 miles from the George Washington Bridge and just beyond the SMSA that would entitle you to more funds. I wonder if you would pick up at that point.

Mr. TAYLOR. Certainly. Thank you very much. We are a city which has been facing urban decay and blight and a downward trend over the past 15 or 20 years. We have a fiscal condition that puts us second to none. We are in a situation that is closely parallel to the larger city of New York City. The so-called bankruptcy or default is just around the corner.

We are not like many of the communities who enjoy many more dollars than we do in community development moneys around the country. We are not trying to build for the first time streets which were dirt prior to new water and sewer systems. We are in a situation of trying to rebuild already deteriorated and aged roadways, sewer and water systems, and bring the city back into a situation where it can be somewhat competitive with the rest of the country.

I think that is critical. I think that is important. From a taxation point of view, the city of Newburgh has been given the dubious distinction of being the highest in the State of New York. There is no question we cannot any longer, because we have a constitutional limit, go back and ask for any more, when we are already No. 1 in the State.

This has happened with an alarming increase in the cost of operation over the same period of time. Our budget from 1969 through 1975 has doubled, with the inability through taxation to meet the demands and the cries for general services, much less rebuilding a city in deteriorating condition.

As Hon. Ben Gilman indicated here, we do have a city with a makeup of approximately 43-percent minority population. We have a city that I consider to be devastated by a previous program known as urban renewal.

Mr. FAUNTROY. Urban "removal"?

[Laughter.]

Mr. TAYLOR. It is the same thing.

Although we are here, certainly, to plead and beg and, if necessary, demand, that you do not forget about cities the size of Newburgh. Newburgh has approximately 28,000 in population, and we are more than concerned and alarmed, if what we hear is correct, that after 1979, cities of less than 50,000 population will be no longer considered for the same level or any level of funding under community development.

That is alarming and very concerning to me and the city of Newburgh. Unfortunately, we have to look to Federal assistance to bale us out of a real big hole.

I will admit that in the past administrations, and I don't want to put blame—I am not here to put blame—we have seen our community shun Federal aid that was available to them that might have helped them, but they did not want to become put in a position where the Federal Government was holding all the cards and controlling the local municipality. Be that as it may, they have been brought to their knees, and we have to look to Federal assistance to keep our head above water.

Turning back specifically to what we have accomplished, in addition to what is spelled out in the statement that you have a copy of, we feel that Newburgh, and we challenge you, the members of your subcommittee or an investigator, to come into Newburgh and look for yourself at what we have been able to accomplish in the last couple of years with the community development funds that have been available.

I might add that quality and quantity do not necessarily equate, both from the size and population and from the amount of money we were able to receive. We were concerned and are still concerned that there should be a better definition or criteria for the formula-making process that you have utilized in the past.

We have a neighboring city just about one-half hour from us that received \$10 million for the first couple of years versus our \$2 million.

We think that this is unfair. This is not being based on the need of a community. And I think we would like to see if we had any, and some of the suggestions that I think Dave Abrams will get into toward improvements, that this kind of situation be considered approved, based on need, based on proven and a demonstrated utilization of past funding, and a more equitable manner for the funding of community development entitlement cities.

But we have to make our case and hope and plead that we will not be disregarded at the end of this 5-year program in 1979.

We have as much need as any other community in the country, and a greater need than probably 50 or 60 percent of them.

But we did our best, and I think, as I said before, you will find the same by checking with HUD that we have followed the concept and the criteria for living with the guidelines of the program.

We have approached our community development efforts more from a neighborhood concept. In fact, the first takeoff and the first moneys that were expended were on a continuation of the old neighborhood improvements program, which was a previous HUD program.

We think it is the only logical way to overcome the problems that we have in the community.

We have put much of our funds into street improvement, and we have also put the next biggest share into our housing rehabilitation programs. We feel that if we are going to entice the people there now, or new people to come in and buy and rehabilitate, that we have to have a decent looking street and services to provide them.

Oftentimes, we are accused of "What are you putting the money into, the street improvements? You should be putting a little bit more into housing rehabilitation." We think it is a chicken-and-egg thing. And you have to have both to be successful.

Nevertheless, we have put a great deal of money into street improvements, and as I indicated, a great amount into our housing rehabilitation program.

We also are beginning an urban homesteading program. We have the usual rehabilitation loans and grants, the section 312. We have applied for, and were fortunate in receiving a discretionary grant for \$132,000 to establish a housing rehabilitation revolving fund, whereby we would purchase, not purchase, but use properties that we receive through tax sales to rehabilitate. And that is held out to people in the area to encourage ownership of these properties once again, to uphold the neighborhood, and to, hopefully, put these pieces of property back on the tax rolls.

We have also utilized a portion of the community development funds to match a grant from the Department of the Interior, Bureau of Outdoor Recreation, for a Newburgh landing project in our so-called urban renewal project area. We feel it is our commitment to the community, to any potential developers with any interest at all in building the blighted level of devastated urban renewal area, and so far we have found it to be real attractive. And not only will it encourage—it already has many nibbles—in the area of private development coming in to rebuild in the area, this is also assuring our citizens of a constant access to the Hudson River and to some form of recreation where they had none before.

Another critical area where we have expended \$1 million of our funds is for the water filtration plant. This is a system that was instituted 50 to 75 years ago, and because of our own neglect was allowed to deteriorate to a condition where we now face a \$4.5-million rehabilitation program that is necessary to put our water filtration plant back into shape to service the needs of the community and the surrounding area.

Now, as I indicated, I intentionally tried to stay away from many things that we have spelled out specifically within the statement presented to you because of my sympathy to what you have had to sit through and listen to over a period of time when you get so many communities and municipalities talking about the same thing. I hope that we are making comments that are falling on sympathetic and more than sympathetic ears when we plead the case for not considering and not reducing the level of expenditures that we face in the next 2 years. And we would like to see the same amount at least that we enjoyed the first 3 years over the final 2 years of the program, that being \$2.118 million, and certainly let you know of the situation we would be placed in in trying to keep a city from drowning if at the end of 1979 cities the size of Newburgh were discontinued as being eligible to receive funds at least at the same level that we had the first 3 years.

[The prepared statement of Mr. Taylor, on behalf of the city of Newburgh, N.Y., follows:]

STATEMENT MADE
BY
JAMES R. TAYLOR
CITY MANAGER
NEWBURGH, NEW YORK
BEFORE THE
HOUSE SUB COMMITTEE
ON HOUSING AND
COMMUNITY DEVELOPMENT

MARCH 4, 1977

Mr. Chairman... Members of the Sub-committee. My name is James Taylor and I am the City Manager of Newburgh, New York. With me is David Abrams, who is the head of our Community Development Program.

I am pleased to have the opportunity this morning to report to you direct from the frontlines. My purpose here is two-fold: First, to ask that the current level of funding for community development "hold-harmless" communities be extended without regard to population, for an additional three year period. Secondly, by way of backing up this request, I would like to share with you some of the results that have been achieved in this war against urban blight and deterioration during the first three years allocation of community development monies.

The City of Newburgh is located in eastern Orange County in the mid-Hudson Valley region of New York State. We are a microcosm of any other northeastern city, be it New York City, Washington, D.C., Yonkers, Buffalo or Boston. The city's current population is approximately 25,000. As an Entitlement city, we have received 2.118 million dollars in Community Development funds in each of the last two fiscal years. Newburgh is slated to receive this same amount in the upcoming fiscal year. Community Development Block Grant funds as per the current funding formula, would then be reduced to approximately

1.4 million in the fourth year and approximately 750,000 in the fifth year. No additional funding has been projected beyond that point. In addition to the Entitlement funds, the City of Newburgh has been successful in obtaining a HUD Discretionary Fund allocation of \$132,000 in order to implement a Housing Rehabilitation Revolving Fund.

From the time that Newburgh's first Community Development Program Year began in June, 1975, the major thrust of our Community Development Program has been in the upgrading, on a neighborhood basis, of the city's existing housing stock and undertaking greatly needed physical improvement to the city's streets.

We are extremely, and I believe justifiably proud that our Community Development Program has been able to meet congressional intent. Insofar as those activities that have been selected for implementation by the City Council utilizing Community Development monies, have been done so in order to achieve "maximum feasible priority" for the benefit of low and moderate income families and have aided in the prevention and elimination of further blight and deterioration. The Block Numbering areas in which the bulk of the city's Community Development monies have been spent, contain the largest amount of substandard housing in the city and the largest concentration of lower income and minority families.

Specifically, the City of Newburgh has utilized its Community Development monies during the past two years in order to carry out a comprehensive and meaningful program of housing rehabilitation and street improvements in three separate neighborhoods; Community Development monies have financed several neighborhood playground facilities in neighborhoods that have previously been without; badly needed improvements to the storm drainage system have taken place; Community Development funds have been utilized to help plan for the revitalization of the city's downtown commercial area; and we have been able to begin urgent work on our city water filtration plant.

In order to carry out our stated goals as contained in our Housing Assistance Plan, the city has implemented several inter-related housing rehabilitation strategies. The Community Development Program's rehabilitation staff has been able to achieve local loan approval status from HUD's area office and is conducting neighborhood rehabilitation programs throughout the city. The monies utilized come from the Section 312 Rehabilitation Loan Program. Community Development monies are utilized for rehabilitation grants in those cases where the applicant's economic status so decrees. Additionally, the City Council will very soon act upon a proposed Urban Homesteading Program and work will soon begin on implementing the aforementioned Housing Rehabilitation Revolving fund. This HUD Discretionary funded project will enable the city to renovate city owned vacant and abandoned structures and subsequently resell

them to individuals who will then become owner-occupants.

Leverage of our Community Development funds has also been accomplished. One prime example is that of our Newburgh Landing Project. A portion of our First Year's Community Development Local Option funds was used to meet the local, non-federal share of a Department of Interior Bureau of Outdoor Recreation grant. This new park facility has been constructed on a portion of previously owned Urban Renewal land adjacent to the Hudson River. The Newburgh Landing Park consists of an extensive pier and docking facility, walkways, landscaping, and on-site parking. We are confident that Newburgh Landing will become a major focal point for the city's revitalized riverfront area.

It has proved fortunate that the Community Development Block Grant Program was created at the time that it was. Newburgh, like many other cities nationwide, has been in a severe economic situation for the past decade and has seen this condition worsen over the last few years. The City of Newburgh and its surrounding area has had a substantial unemployment problem. Although State and Federal agencies are unable to cite a precise unemployment rate for the city, we have been able to determine that the current unemployment rate is in excess of 12%. In the City of Newburgh the construction unemployment rate has been cited as being close to 85%. Within

only the past several months, the largest industrial employer in the City of Newburgh, Stauffer Chemical Company, has announced that it will be phasing out its Newburgh facility as part of a corporate decision to relocate three of its northeastern plants to South Carolina. The phaseout is expected to be completed and the entire facility shut down over the next twelve to eighteen months. The firm presently employs some 450 people.

Growth in the City of Newburgh has been non-existent this decade. Urban Renewal projects demolished large business areas in the 1960's and early 1970's. Most businesses relocated to areas around the City, went out of business or moved out of the immediate shopping area. The cleared land, with only a few exceptions has not been redeveloped.

The tax burden on the City of Newburgh has not decreased as growth has slowed. As in many older cities Newburgh has found its municipal expenses have grown much faster than the tax base which supports these expenses. During the period 1965-75 our total city budget increased from four million to eight million dollars. In the current fiscal year, the city is using its full constitutional taxing authority. Despite the high property tax rate, the city has had to lay off Civil Service employees, cut back municipal services and negotiate a "freeze" on contractual wage increases for all local government employees to balance the 1976 budget. It is only through the availability of Community

Development funds, we have been able to undertake capital improvement projects that otherwise would not have been able to be afforded. The projects have also aided in making a dent in the high construction industry unemployment rate for this area.

I wish to stress the fact that the Community Development Block Grant Program is working effectively in the City of Newburgh. As a "frontline soldier" I am hopeful that any changes to the current Community Development formula will not work to the detriment of cities such as Newburgh and that we be allowed to continue to rebuild, continue to create opportunities to expand our tax base, and continue to rehabilitate our existing housing stock. Assurances of continued funding at a level consistent with our need is vital if we, as a city, are to win our battle.

I sincerely request that funds be provided for a full three year extension at the same level of Fiscal Year '75 '76 and '77.

At this point I would be pleased to answer any specific questions that the sub-committee may have.

Mr. FAUNTROY. Thank you very much, Mr. Taylor.

Mr. Abrams, do you care to make additional comment?

Mr. ABRAMS. Yes; thank you.

Perhaps the one area that most concerns me with the community development block grant program is, as it has been operated to date, is in the area of relationship between the HUD regional and area office and the municipalities, the entitlement cities. And that is an increasingly frequent occurrence and dealing with my colleagues throughout the State, I find that HUD regulations as they come down from Washington to the area, to the regional office and then to the area office, get interpreted differently by area offices. So that I have found in many cases, or several cases, differences in how the regulations are interpreted and how they are explained via the field representatives at the area level to the guy out on the front lines, the community development administrator, or the city manager, the chief executive officer of the city. And it makes it very difficult when serving as the liaison between HUD and the city in being able to give my boss or the members of the city council information that they have requested, because I am not sure that somebody else, some other citizen, some other group, will not contact HUD independently and get a different answer.

This happened several times, and it seems to me something that is on the upswing.

Another situation we are experiencing—for example, when we left Newburgh yesterday afternoon to come down here, I left the office, my office, in which I had a section 8 housing representative who was doing a management audit. She had brought along an auditor to do the books for section 8 existing housing program that we are running. We had a section 8 housing specialist in utility allowances there at the same time. I had received correspondence just yesterday morning notifying me of the fact that we had to conduct a full fiscal audit, and I also received notification yesterday that HUD—of the date HUD would be up to do the annual management audit, and at the same time I was having members of my staff busily pulling together the necessary documents to put together the performance, the grantee performance reports.

So in the 2 years or so that I have been involved in community development in Newburgh I have seen the administrative guidelines and regulations steadily increase, and this disturbs me somewhat because one of the factors that we were explained in the beginning in getting involved in community development was it was relatively in regulation-free program. And this is of concern to me. That is my primary concern.

Mr. FAUNTROY. Thank you, gentlemen. You both raise very serious problems that have, of course, been raised in these hearings before. I would like to get your views on a couple of solutions that have at least been suggested for the problems that you have outlined here that affect smaller communities.

In the first instance, I wonder if you would not agree that if you can demonstrate your need to HUD sufficiently, that you might receive discretionary funds when your entitlement runs out. In many cases the hold-harmless funding to smaller communities has been called

inequitable because some cities no longer need the community development funds and would continue to receive their entitlements under the hold harmless, while others who had not established as high a hold-harmless level go without funds.

What approach do you suggest to allocate these scarce funds to already small cities?

MR. TAYLOR. I don't necessarily subscribe to the discretionary grant as being a viable answer or alternative to cities the size of Newburgh if they are going to be disregarded in the future. It sounds too much to me like the old categorical grant programs which I don't think have been that successful, and I think it is not what the intent of the present community development program is trying to accomplish.

I think you are on the right track in trying to funnel moneys through programs such as community development into local areas, to decide where it should be put. And they can't blame you if they blow it themselves.

But going the other route, it suggests to me you are getting back to a categorical type of approach. I have to write up a program in a special area where I want to spend moneys and have a need for and justify it, and it is going to take that much more time and that much more paperwork, that much more bureaucracy and redtape that I have to go through, when under the present system we have the ability to come up with a 5-year plan and submit an application each year to indicate basically what we intend doing with the funds that we have coming to us.

It would seem like there must be somewhere, based on all the information and reports we have to submit, documentation of cities like Newburgh that have demonstrated their need and their ability to utilize these funds in a proper and legitimate manner, as they were intended to be. And I would suggest that perhaps attention be given to doing exactly that.

I recognize there are many communities of our size across the country, in the Midwest and West, that are not in need at the present time like we are. I think that somehow, not only in this program but many other programs that are federally funded, you have got to start considering the plight and needs of the cities like Newburgh.

I wish I had a magic answer for you. How do you do this? How do you find out which ones really need it and which ones do not? I recognize the situation you find yourself in, and unfortunately I don't have an answer for you on that.

But I would be concerned and I do not think that the discretionary route is the answer to the problem. I think that somehow—and I think it can be done within the information and knowledge that our HUD agencies have at the present time. They can clearly identify it based on declining—based on taxation, based on our own efforts and initiatives we have taken in the past.

I don't think that communities which are operating on a basis of taxation of about maybe 50 percent of what they actually could fund or tax at should be entitled to receive the same consideration that communities like Newburgh who are at the top of the ladder.

Many of these areas, I think, should be taken into consideration and could be taken into consideration, and the funding could continue

in the same vein that we are talking about for our larger cities and still have discretionary grants.

Mr. FAUNTROY. You, of course, address a problem that has been addressed by a number of smaller communities, and I, as a member of this subcommittee, am certainly in sympathy with the dilemma that many face with the prospect of having these funds cut off in the near future.

One of the arguments for continued support of the smaller communities has been that one of the reasons for the problems that the larger urban centers have is the fact that we have allowed blight in the smaller communities, the quality of life to deteriorate so, that people just flood the major cities.

I wonder if you could give us some evidence or some hope on the basis of your experience in Newburgh that the people might be attracted back to the 28,000-population cities were you allowed to do the kinds of things that you have reported to us today that you have been doing. What prospect is there that by continued work in the area of older cities—do we have of attracting people away from what would appear to be the areas of greatest need because of the large number of people that are concentrated there?

Mr. TAYLOR. Well, I might address myself to that from the experience we have had in Newburgh and the largest area that I can see hopes and actual evidence where the trend is being turned around is by subscribing to the constant recycling and rehabilitation and renovation rather than demolition concept.

We do live in an area that is blessed with, I guess, a Greek type of architecture. It goes way back. One of the first in the United States—I think the Hudson Valley and Newburgh in particular was one of the first areas in the United States where this style of architecture was really a common theme for development. We have many of the brown houses. We have many of the old nostalgic type of houses that we still feel are rehabitable. We have seen certain areas of our city which were either in or on the fringe area of the blighted critical areas in Newburgh starting to come back with some of the programs, and some of our people—young, middle-class adults who are buying some of these places and rehabilitating them themselves, with their own sweat equity—and now coming to us and saying, “What are you going to do to improve the roads and the conditions of the streets and the curbs and so forth?”

We also have been blessed with a gentleman from England by the name of Brian Thompson who has an international reputation in renovation and the reconstructing of castles, palaces, as well as older homes, who has taken an interest in Newburgh, who has gotten about about 10 pieces of property in the areas that we are talking about where the blight and deterioration has taken place. And we think through efforts such as this that it is the best hope that we have of attracting people back into the city of Newburgh from some of the surrounding areas that are in competition with us. And we see actual signs of people moving up from New York to buy and rehabilitate these parcels of property.

But without the moneys and the sources of revenues to go along with their improvements of homes, to improve the streets, the services, to demand the utilities, and so forth, we are going to be hard pressed

to see this trend continue. That it the best we have been able to hope for, because we know we are in competition with the rest of the country. We are not fooling ourselves. We are 4 square miles, we are landlocked. We are not going to become a community that has a large industrial base from which to work with, or we are not going to be able to put up an industrial park and be in competition with our surrounding areas, and in the State of New York, that is not too healthy a climate anyway.

Mr. FAUNTROY. Thank you for that searching answer to a very difficult question for us. I just wonder if I just may ask another question in that regard. Is there any prospect that, pursuant to your plans, that with the commitment of community development funds, Newburgh might become an attractive alternative to people who live close to the George Washington Bridge?

Mr. TAYLOR. We think so. I might try to answer that question by saying, in addition to what I just made comments on pertaining to our housing stock, we do pride ourselves on having one of the most beautiful views in the United States. We have the Hudson River, Mount Beacon; we can see West Point from our waterfront over the east side, which incidentally is the side that was demolished.

We are working with several different agencies who plan to develop within that area if we can provide needed improvements to the area. That is a normal city's responsibility. We think that we can come up with an answer, too.

I am sure the Representative from Connecticut knows Mystic, the situation they have there. And we think we have an area that we can redevelop following a common, nostalgic, old northeastern river city theme for redevelopment of the urban renewal area.

And we also are working with community development funds to overcome the blight of our downtown main street known as the Broadway area. One naturally ties in with the other, and unless we have the funds and the ability to put into improvements needed in our eastern urban renewal area, the moneys we have expended for improvements to Broadway to revitalize Broadway and our shopping areas might be for naught. And we certainly don't want to see that.

Tourism, a common joke—I don't know if you're familiar with that area or not—George Washington's headquarters was located in Newburgh, was during 1782 and 1783, I believe, where he made the decision to be a President rather than a king; and the common joke is, you know, when George left there, he said, don't do anything till I get back, and they are still waiting.

I don't subscribe to that. I think we are doing our best and we are fighting to make the city of Newburgh turn. We think we have utilized community development funds to the utmost, and Dave Abrams, here, likened it the other day when we were discussing it to the Drano ad where we put the Drano in the plugged drain, it is right now at that point, down below here where it is getting ready to rush over the top.

We firmly think that it can, if we are able to receive continuation of funding at least at the same level, to push this thing over the top and things are going to start going again.

We are not going to make it into what it was 40 or 50 years ago, which was the "queen of the Hudson," the center for culture, business, indus-

try, and whatever you have. But we certainly think we can bring it back to a community that is self-sustaining and one that we all can be proud of again.

Mr. FAUNTROY. Thank you very much.

Mr. Abrams?

Mr. ABRAMS. If I may, while Mr. Taylor was talking, another thought occurred to me, and that is that one of the beneficial byproducts of the community development funds for cities the size of Newburgh is that it has enabled the city to develop a management capability to carry out housing rehabilitation programs, commercial area rehabilitation programs, and allowing having the staff onboard to seek out ways to leverage the community development funds and to bring in the ideas that have come forth in other parts of the country, and so forth, and to see whether they can be adapted to a city such as Newburgh.

Obviously, that is through the community development funds. If these funds were taken away, the city would not—is not in a position to absorb the staff that has come onboard since the community development funds have been available. And I think the cities such as Newburgh and similar in size would be a loser for that.

Mr. FAUNTROY. I guess the short answer to my question is simply that while you may not be able to attract people back, certainly you will stem the flow of people into the more highly populated and highly afflicted areas of the country.

Mr. TAYLOR. We would certainly be able to improve the condition of those people—captive people—that we have there who cannot afford to move. And you cannot overlook that.

Mr. FAUNTROY. Thank you.

Mr. McKinney?

Mr. MCKINNEY. Gentlemen, you leave me really not much to say because I agree with almost all that you have had to say. I am sorry that I had to leave. In this place you often have to do three things at once.

I used to drive through Newburgh every weekend in the 1950's on my way to that glorious spot called Sampson Air Force Base in upper New York State, and the city was a mess.

But I would gather from the size of your hold-harmless, that you certainly have been attacking the problem. It is a beautiful old city.

Restoration is my major outside interest. I don't play tennis or golf; I like to restore buildings.

One of the things that really interests me is the formula problem which you brought up. A tax effort is something that the Delegate—or Representative, as I like to call him—and I discuss at great length because we are both on the District Committee. The district's tax effort is so staggering that it has become what you almost call counterproductive.

I have a problem with tax effort because I don't know how we can measure it. I have tried and tried and tried, but I can't find the common denominator. In other words, even though your taxes are high, are you getting as much as you could get?

It is the dichotomy of a Greenwich, Conn., which in essence has got such colossal tax revenues that its tax rates are the lowest in my district; this seems very strange, but that's the way it works out.

Of course, it is because a doghouse there costs \$150,000. The average cost of a house sold in Greenwich last year was over \$100,000. That is pretty high.

One of the questions I asked the Secretary concerned, for instance, age of housing, which would help you considerably, I would assume and also would help Greenwich since most of those big houses were built in the 1930's. It was a very established community.

However, age of housing doesn't help Bridgeport that much, which is where we need the help.

I suggested to the Secretary that density of housing and density of poverty be considered. And I wonder if you would like to comment on that?

Mr. TAYLOR. I can understand your plight. And, yes, I would like to try to comment on that. I think that there are ways in which you can determine whether or not a community is truly—or has truly exhausted every possible avenue of self-assistance through taxation.

For example, in Newburgh, our budget for a community of approximately 28,000 is over \$8 million. Now, we are taxing at the constitutional limit that is allowable in the State of New York. We are also bringing in about, through these efforts, only about half of what our operating budget is. We are already dependent on State and Federal aid to approximately half of our operating budgets.

I think that communities—and I recognize as you go through different States, they tax different—mills and so forth—and it is real difficult to figure out whether or not a community has done everything that it can for itself or whether they are trying to keep taxes down and utilize funds that were meant for communities who are already in a situation where—such as Newburgh.

But I think that it can be done, and if the time is taken to explore a couple of things such as the operating budget and what percentage of the budget is coming from their own taxation efforts, and if they have—and even if they have to certify that they have exhausted every taxable means at their disposal.

But another more important reason for consideration—and I agree with you—should be the level of poverty and the level of need, the level of unemployed, and all the other socioeconomic factors that are causing us our problems.

And I think they can be identified, although here again, we ran into this problem when we put in an application for our water filtration plant through the recently enacted public works bill, we know that we can demonstrate if we were given the opportunity that we have an unemployment rate of probably 16 percent. Unfortunately because of our size, we are not an SMSA or part of an SMSA, and because of our size and because of the fact that the Bureau of Labor Statistics does not have any way of knowing exactly what our unemployment is.

And we are also a part of CETA in Orange County, which carries an 8.91 unemployment percentage. We are locked into that. Now, we think it is probably double that. And we think, given the opportunity—

Mr. MCKINNEY. OK. That's an interesting point. I have the same problem. I think that the small city is unique, really, to the north-east—these clusters of five- and six-story buildings built around a mill or a plant—in your case, I guess, a port at that time—surrounded by

acres and acres of fields or what used to be apple orchards up where you are I guess.

We have a continual problem. For instance, in Stamford, Conn., I am attacked by the statistics of North Stamford and Greenwich, so that a reflection of my true unemployment and my true income problems in the core city are gone.

What I am trying to get at is that in the 6 years of suffering through these problems of formulas and all the rest of it, since I have been here in Congress—and for 4 years in the Connecticut legislature—it seems to me the quality of the program is what you get for the money. To simply formulize giving out money is wrong, and perhaps we in Congress should give HUD broad objectives such as we did in the community development block grant program to make them judge quality of effort and reward that, rather than formulize the funding.

Formulas were used in title I of the public works than we passed last year. The biggest city in the State of Connecticut, Bridgeport—with unemployment over 16 percent and minority unemployment at 40-plus percent—got \$3.11 million under that formula. Greenwich, on the other hand—the only city in the State of Connecticut with no bonded indebtedness—paid \$19.5 million cash for its brandnew high school and it received \$4.1 million.

How would you feel as a small city? I know you have a particular problem because you are in New York, and I am sure you want to come straight to Washington, because I don't know how in New York State you fight Schenectady and Buffalo and Rochester and the rest of them. But how would you feel if we based our program on quality of effort toward proven goals?

Mr. TAYLOR. We would welcome it. We would welcome it. In fact, I tried to allude to that just a little bit in my presentation here. We certainly would welcome that because we challenge you or anybody to come in and think that there could be systems instituted within HUD to monitor and determine whether or not it is a quality program and is doing what it is supposed to do.

Mr. McKINNEY. In other words, your application could, but would not necessarily have to show its quality by accomplishment and all of the various things we are talking about.

You could talk about your tax effort being as high as is constitutionally possible?

Mr. TAYLOR. Bonded indebtedness has got to be considered there. That should be definitely be considered.

Mr. McKINNEY. So you can talk about all of these various factors in your goal, and then we would be rewarding competence. However, I don't want this to be thought of as another categorical program.

What I am talking about is a guided program. Congress decides—in what is sometimes called its astute wisdom, and I have another word for it—that it wants to make a viable living community for people and make it possible for moderate- and low-income people to own a home within that community. So you need to put in a terrific program, but one of the things we have been discussing here, and you gentlemen haven't really mentioned it that much, is the lack of flexibility. For instance, go into a neighborhood in one of my cities, it may have public housing, private housing, rental housing, and factories that are empty, unfortunately. We need to be able to conquer

every single aspect of the problem or that neighborhood is no good. If we just simply do over the individual homes and leave the 1939 public housing rotting on the other side of the street, the homes are going to rot the next year.

We need to be able to give you the tools so that your plan could have all that you need, that we need to be able to make sections 8,312, and all other programs work.

The only problem I guess I get into is I have never seen a city that didn't think it had the greatest program going, and how do you judge that?

Mr. ABRAMS. Excuse me. One of the things that I am constantly asking HUD is where do we, where does Newburgh stand. In other words, I am trying to find out where we stand as far as performance, trying to get benchmarks as to how we are doing in relationship to other cities, at least, if not in the mid-Hudson Valley, at least in New York State. And in most instances, I am not able to do that. I have to get it either from people in the community development business, when I run into them or make an concerted effort to find out from these people how many units of section 8 existing housing have they done so far, and then compare where Newburgh is, so I know whether we are doing the job or not.

In many areas, we are operating in a vacuum.

Mr. MCKINNEY. This is one of the things that bothers me, and I am sure it bothers the chairman. We don't have any real judgment here either. We can listen to the Secretary of HUD, who can tell us how many units of this and how many units of that, and so on and so forth. But we don't have a register of "bang for the buck." I guess that is what it is called. In other words, should not the city, be it a Newburgh, or be it a Bridgeport, that is producing the most housing for the least amount of money, shouldn't that be one of the criteria that be one of the criteria that you reward as competence?

Mr. TAYLOR. Yes. I could not argue with that. I would agree with that. And I think, as we discussed in our short period of time here this morning, some of the areas, rewarding for competency certainly has to be what the whole thing is all about.

And I think that those areas we discussed are some of the areas that could be taken into consideration in trying to determine whether competency has been displayed.

Mr. MCKINNEY. Well, that is a problem. And the staff member saying, "How do I handle the problem of cost in getting the bang for the buck?" Because I would assume that in a register of public expense, building expense, you have to consider are you in an Albany price market or a New York City price market?

Our problem is, I am in a New York City price market.

Mr. TAYLOR. In most cases, I would say we are too.

Mr. MCKINNEY. It always fascinates me that the Government pays temporary postal employees for the Christmas rush \$3.50 if he is on the east side of the Connecticut boundary. If he's over on the west side of the Connecticut boundary, otherwise known as New York and Westchester, he gets \$4.50. Then, they refuse to recognize that our costs in, say, Stamford, are higher probably than they are in New York. In fact, our real estate costs are much higher per square foot.

I wish I could give you the answer, gentlemen. I don't know. I tend to feel, Mr. Chairman, that competence, is spending tax payers' dollars to house the poor and moderate-income people in a town like Newburgh which has done a job, should be acknowledged.

But I don't know how you do it.

Mr. TAYLOR. Well, I think we discussed the areas and ways it can be done. Whether it can be put together in the form of a Federal act or not, I am not that well versed.

Mr. MCKINNEY. I never fear the Federal act. I just wonder what happens once it gets downtown and they start writing telephone books of regulations.

Mr. TAYLOR. But we feel within the original concept and idea of community development and its programs, that we can prove we have done the job, and we also think that, well, we stand ready to let anybody come in and examine to determine whether or not we have. And I think people will agree with us that with the limited funds we have received, we have done a heck of a good job. And I would think from your point of view, that it is easier to measure in communities like Newburgh rather than New York City.

Mr. MCKINNEY. Well, try to measure Washington. Enough said, before I get in trouble.

Mr. FAUNTROY. On that note, we will recess the hearing until 2 p.m.

I want to thank Mr. Taylor and Mr. Abrams again for a very fine testimony.

Mr. TAYLOR. Thank you very much.

Mr. ABRAMS. Thank you.

[Whereupon, at 12:20 p.m., the hearing was recessed, to be reconvened at 2 p.m., this same day.]

AFTERNOON SESSION

Mr. MOORHEAD [presiding]. The Subcommittee on Housing and Community Development will please come to order.

This afternoon we are very pleased and honored to start the proceedings with our very able and distinguished colleague from Virginia, the Honorable Joseph L. Fisher.

And I understand, Mr. Fisher, you will be accompanied by Mrs. Ellen Bozman of the Arlington County Board. Do you want to appear together, Mr. Fisher?

Mr. FISHER. Yes.

Mr. MOORHEAD. Well, then, you both come forward, please.

The subcommittee knows of your very fine record in public service before you came to the Congress, and of course we are grateful for the great contribution you have made since you've been here. We welcome you.

You may proceed, Mr. Fisher.

STATEMENT OF HON. JOSEPH L. FISHER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VIRGINIA

Mr. FISHER. Thank you very much, Mr. Chairman.

I do appreciate the opportunity to testify before this committee on amendments to the Housing and Community Development Act. I

will talk only for 2 or 3 minutes, and then I know Mrs. Bozman, who is a member of the Arlington County Board and its former chairman, has a statement to make. And together we would be glad to try to answer any questions.

The 1974 Housing and Community Development Act was an important change of course in the approach to Federal housing and related programs. It created a block grant system for Federal assistance, and major issues in designing a block grant program are the composition of the purposes for which the funds and the identification of the purposes for which the funds are to be spent.

I understand that one of the reasons for these hearings is to examine the present formula for allocating the housing funds. The 1974 act established categories of governmental units which are eligible for automatic entitlement grants to finance local housing and development programs. One category is the urban country.

The act states that an urban county is any county within a standard metropolitan statistical area which has a population of 200,000 or more and which is authorized by State law to undertake development activities in any of its unincorporated areas. As I understand it, the committee's intention in creating the urban county category was to recognize the role that suburban counties play in physical and social development in metropolitan areas. It was also meant to identify counties with the willingness and capacity to undertake community renewal and moderate-income housing activities.

Arlington County, Va., which is in my district, would be considered by most observers to be an urban county. Arlington is more like a city than a county. It is a city/county, if you will, the only one of its kind in the State. For purposes of the housing and community development program, it is a suburban county. Arlington County and neighboring Alexandria, a city, both of which would appear to be very much the same in general characteristics and function in this metropolitan area, are treated differently under this act. Arlington has many of the characteristics, actually, which are common with the older cities in the Boston-Washington urban corridor which make it in some ways more like them than like the usual stereotype of a sprawling suburban county. It is as densely settled as many cities. Within its 25 square miles live 157,000. Its housing stock is growing older, and its population is declining.

Despite these urban characteristics, Arlington does not meet the urban county definition of the Housing and Community Development Act because it does not meet the 200,000 population standard. I have introduced a bill, H.R. 2683, to make it possible for a densely settled county like Arlington to be designated an urban county. My bill will make either population of 200,000 or population density of at least 5,000 people per square mile the measure for determining entitlement, in addition to the other criteria already in the act. I do not think that the committee originally intended to prevent a county such as Arlington from being considered an urban county and therefore eligible for automatic entitlement grants. My bill would correct this difficulty.

I should add that no county in the United States other than Arlington has a population under 200,000 and a density of at least 5,000 per square mile. Thus, this bill will recognize a unique situation without creating a new category of entitlement communities.

I hope the committee will view H.R. 2683 favorably and in some way include it in legislation which it supports.

And if it is agreeable, Mr. Chairman, I would like to give way to Mrs. Bozman.

Mr. MOORHEAD. Thank you, Congressman Fisher.

Mrs. Bozman?

Mrs. BOZMAN. Thank you. I have a prepared statement which has been given to your staff, and if you will, I will simply brief it because Mr. Fisher has already pointed out some of the points, and you have many other things to do.

Mr. MOORHEAD. Without objection, the entire statement will be made a part of the record, Mrs. Bozman.

Mrs. BOZMAN. Thank you.

STATEMENT OF ELLEN BOZMAN, MEMBER, ARLINGTON COUNTY BOARD, ARLINGTON, VA.

I am Ellen Bozman, a member of the Arlington, Va., County Board, here in support of H.R. 2683, Congressman Fisher's bill.

As he has already explained to you, his bill would add a population density factor to the definition of an urban county currently utilized in the act.

As he has explained, we are in essence urban. We were originally part of the Federal city of Washington. Our demographics and housing stock are typical of the older community. Our 1973 population, for example, was down 7 percent from our 1970 population; 19 percent of our housing stock predates 1940; 49 percent of our housing predates 1950. We have 10,000 people living below the poverty line; 5 percent of our units are substandard or overcrowded. And our population of minority and non-English-speaking residents is increasing significantly. Our density is in excess of 6,000 persons per square mile. This is comparable with the densities, for instance, of Albany, N.Y.; Cincinnati, Ohio; and St. Paul, Minn.

Thus, Arlington's profile is more typical of an older urban center than a new suburb. Our current status is a result, of course, of the definition problem, and Mr. Fisher's bill would, in our opinion, correct that definition problem in a very good way.

There is an alternative way to correct the definition, which would be to insert the word county where the words municipalities, towns, and townships are used. But our first choice is the population density.

As he explained, we are a county by choice. Our voters have chosen to be a county, and we believe this should not preclude us from the same level of Federal funding as similarly situated jurisdictions which happen to be called cities.

Arlington as a unit of general local government possesses powers and performs functions comparable to those associated with municipalities. As Mr. Fisher has said, we have no incorporated places. We do not have the 200,000 people. We do have the powers of urban counties, and we can and do undertake housing and community development assistance programs.

So as you have gathered by this point, Arlington County feels caught up in a definitional morass. We call ourselves a county, but

because we don't have 200,000 people, we can't qualify as an entitlement county. We meet all the legal descriptions of a city, but because we don't call ourselves a city or a municipality or a town, we are not eligible for funding as such.

Community development dollars are of crucial importance to insure the continuation of viable communities, to assure the viability of communities such as Arlington as economically mixed, healthy communities. We have already in Arlington committed significant amounts of local taxpayer dollars to community development-type activities over the past 13 years. Our small size and our history of result-oriented programs, we believe, would insure that any additional community development money would have immediate physical impact, not only in Arlington, but in the northern Virginia area.

We have been very frustrated by our inability to be responsive to the requests for community development activities which our citizens have brought to us.

Very briefly, I would like to outline three programs Arlington has undertaken with local tax money in the 13 years which we believe are significant community development activities.

The first of these programs is our neighborhood conservation program. We believe this was the first program of its type in the United States. It has been cited by HUD as a model program. It was begun in 1964, and since that time more than \$4 million of local tax money has been spent on neighborhood-identified projects. These projects are developed by neighborhood residents. They are designed to preserve and enhance their neighborhoods.

We will leave with you booklets describing this program and the individual program outline by each of the 10 neighborhoods which have completed their neighborhood conservation programs, not completely funded as yet. We have seven other projects in the mill which have not been funded at all.

We are proud of the program. We feel it has enhanced Arlington. We are proud of our citizens who worked on it. It really foreshadows the community development concept of coupling the physical upgrading of the infrastructure, be it playgrounds, the parks, or whatever, with the housing improvements. Unfortunately, we have been able to provide the dollars only for the public improvements, although the neighborhoods have, in a remarkable sense, done some private upgrading. We think the results are remarkable, and we will be delighted, if any of you would care to come visit some of our neighborhood conservation projects.

Our second major program is a locally funded, locally initiated, housing expense relief program.

This program was begun in 1972. We now distribute in excess of half a million dollars to 1,100 households. These households, all of whom had incomes below \$9,000 receive a check monthly, the size of which is based on the rent they pay for their unit. It is really an early form of housing allowance.

It is administered by the county staff with minimal staff and minimal administrative redtape.

We believe the program has been very successful.

A companion program, also introduced in 1972, was a program of tax relief. In the last year 650 households are being—again, with in-

comes below \$9,000—given relief from their property taxes. This program costs the county about \$250,000 a year and forgives a portion of the tax of the household, or defers it until the property is sold.

We have been an enthusiastic participant in the community development block grant program for the 2 years of its existence. However, despite our efforts and the helpful assistance we have received from the HUD area office, we have received only \$287,000 in the course of the 2 years. We have committed 75 percent of this to housing, direct housing and rehabilitation programs. The remaining \$72,000 has gone into neighborhood park improvements in our lower income census tracts, and these tracts have also been targeted for our housing rehabilitation neighborhoods.

We are very pleased with the success of the section 8 program. Our first annual contribution contract was for 343 units. I think we did very well. We received this in September of 1976. By February of this year, 75 units were under lease, and certificates of eligibility had been issued for approximately 250 additional households.

In December of 1976 we received from HUD an additional 75 family units which will constitute our second year's program.

I have brought with me copies of our third preapplication for anyone who has the time to review it. It is an informative document. It tells you a great deal about the program and how it is administered. In addition to reviewing the status of current programs, it contains seven programs, all of which have been developed by our citizens and presented to the county board for funding, all of which programs, we believe, are deserving of funding ranked in priority order. But to fund these projects we would need over a million dollars—\$1,655,000.

When many smaller jurisdictions which we believe to have less urgent problems are funded at significantly higher levels than Arlington because of their entitlement status, we believe that there is something askew with the program.

We hope that your revisions will better achieve the objectives of the act and reward those communities that have taken the initiative on community development-type activities.

Thank you very much.

I would, with Mr. Fisher, be happy to answer any questions you may have.

[The prepared statement of Mrs. Bozman, on behalf of the Arlington County Board, together with the preapplication forms referred to and additional material, and a letter dated March 9, 1977, from Mrs. Bosman to Congressman Moorhead with enclosed letter dated July 12, 1976, from Vincent P. Barabba, Director, Bureau of the Census, to Congressman Joseph L. Fisher in regards to a request for a list of counties which meet certain specified criteria, follows:]

STATEMENT OF ELLEN BOZMAN
BEFORE THE HOUSE COMMITTEE
ON BANKING CURRENCY AND URBAN AFFAIRS
SUBCOMMITTEE ON HOUSING

March 4, 1977

Good afternoon. My name is Ellen Bozman. I am a member of the County Board of Arlington County, Virginia. I am here to speak in support of H.R. 2683, a bill introduced by Congressman Joseph Fisher of Virginia's 10th District.

This bill, to amend Title I of the Housing and Community Development Act of 1974, would add a population density factor to the definition for an Urban County currently utilized in the Act.

Arlington County should be eligible to be an entitlement community under the 1974 Housing and Community Development Act.

Arlington, Virginia, was originally part of the federal City of Washington. Our demographics and housing stock are typical of an older urban community. Our population is declining and our housing stock is aging.

- 1973 population down 7% from 1970, to 160,000;
- 19% of housing stock was built before 1940, and 49% before 1950;
- 10,000 persons (6%) below poverty line;
- 5% of our housing units are substandard and/or overcrowded;
- minority and non-English speaking residents significantly increasing.

Arlington County's density is in excess of 6,000 persons per square mile. This compares with the densities of cities such as Albany, New York, Cincinnati, Ohio, and St. Paul, Minnesota.

Thus, Arlington's profile is more typical of an older urban center than of a new suburb.

Our current status is the result of a definition problem that can easily be corrected by modifying the original Act in one of two ways. One way is to add density criterion to the urban county definition which is contained in Section 102(a)(6)(B) of the Act. Congressman Fisher's bill, H. R. 2683, would amend this section as follows:

"... has a combined population of two hundred thousand or more (excluding the population of metropolitan cities therein), or has a population density of 5,000 or more individuals per square mile (excluding the area and population of metropolitan cities therein)..."

Density is a basic component of urbanization.

An alternative modification would insert the word "county" into Section 102 (a)(5)(B) as follows:

"... any other unit of general local government which is a town, township, or county..."

Arlington is a county by choice. Our form of government, which the voters have chosen, should not preclude us from receiving the same level of federal funding as similarly situated jurisdictions nationwide, most of which are called cities,

Arlington is a unit of general local government that possesses powers and performs functions comparable to those associated with municipalities. (In the judgment of the Census Bureau, it is 100 percent urbanized.) It contains no incorporated places. But, we do not have the 200,000 threshold population necessary for the urban county designation as specified in the Act. We have the powers of urban counties, and can undertake housing and community development assistance programs.

But, as you have probably gathered by this point, Arlington County feels lost in a definitional morass. We call ourselves a county, but because we don't have 200,000 people we don't qualify as a county. We meet all the legal descriptions as a city, but because we don't call ourselves a city we are not eligible for funding as such.

We believe that to deny Arlington County those things granted to cities, towns, townships and other counties, is to deny its taxpayers and residents equal protection under the law. Arlington County is as much a municipality as is a town or township which meets the conditions stated in the Act or Regulations. We are a county, with the powers of a county, and we are indisputably urban.

Our preferred amendment to the Act would add the phrase as that proposed by Congressman Fisher in HR 2683 "or density in excess of 5,000 per square mile" to Section 102a(6)B. We believe that this

amendment would conform with the general concept of urban which, after all, is what the urban county legislation was intended to do. It would also enable Arlington, and perhaps other counties in the future, to develop Community Development programs and activities that are in keeping with the objectives of the original enabling legislation. This modification would not affect any other County but would move the focus of the program back towards its intended urban orientation.

Community Development dollars are of crucial importance to insure continued viability of communities such as Arlington as economically mixed, healthy communities. Arlington County, as I will demonstrate in a few moments, has committed significant amounts of its own local taxpayers' dollars to Community Development-type activities for 13 years and can no longer afford to do so. Our budget, like most other local governments in the County, is tight.

Arlington's small size and history of result-oriented programs insure that any additional Community Development money will have immediate visible impact not only in Arlington County but in the larger community of Northern Virginia. Arlington citizens are active, interested and aware and the array of programs they have brought to the County Board, for each of the three years the Community Development Program has been available has been extraordinary. We have been very frustrated by our inability to be responsive, in any significant fashion, to the vast majority of requests.

As mentioned earlier, Arlington County has a long history of locally-funded programs, developed by Arlington residents to address community development objectives. The first of these programs is our Neighborhood Conservation Program which we believe was the first program of its type in the United States, and has been cited by HUD as a model program. In the 13 years since its inception in 1964, more than four million dollars have been spent by the County on neighborhood identified projects. These projects developed by neighborhood residents are designed to preserve and to enhance the quality of life of the residents in those neighborhoods. To date, 17 Arlington neighborhoods have done extensive work required for participation in the program. Of these 17, 10 have completed approved plans and have received funding assistance from the County. I have with me today booklets which are an introduction to the overall program and booklets which are the plans of specific neighborhoods. Each neighborhood initiates its own project. The work is done by community residents with minimal staff assistance. We are proud of this program. We feel it has enhanced Arlington and has strengthened our neighborhoods.

It foreshadows the Community Development concept of coupling physical upgradings of publicly-owned infrastructure, streets and playgrounds, for example, with individually financed housing improvements. Arlington's program, unfortunately, has only been

able to provide dollars for public improvements. We have been unable to provide funding to individuals to upgrade and maintain their own homes. However, we have been very pleased to discover that by the County expending in a neighborhood, homeowners and landlords have responded by upgrading their properties. We find the results to be remarkable, and we would enjoy the opportunity to take you or any of your staff on a tour of some of these neighborhoods in Arlington.

Our second major locally-funded, locally-initiated program, is Housing Expense Relief. This program, begun in 1972, now distributes in excess of \$500,000 a year to 1,100 households. These households, all of whose incomes are below \$9,000, receive a check monthly, the size of which is based on the rent which they pay for their unit. This is an early form of the housing allowance program.

It is administered by the County with minimal staff and minimal administrative red tape. We believe the program has been successful.

Also, in 1972 Arlington County established a tax relief program. In 1975, 650 households with incomes below \$9,000 were given relief from their property taxes. This program, which costs the County approximately \$250,000 a year, either forgives the tax of the household completely or defers it until such time as the property is sold. In total, we are assisting almost 1,750 households with local dollars.

We believe that these three programs demonstrate convincingly Arlington County's commitment to Community Development objectives. We know that with expanded Community Development funding we would be able to expand these programs to meet the needs of Arlington's citizens and their neighborhoods.

Arlington County has been an enthusiastic participant in the Community Development Block Grant program for the two years of its existence. Despite our efforts and the most helpful assistance we have received from the HUD Area Office, we have received only \$287,100.00 for the two years. With this funding we believe we have established an exemplary track record in Arlington. We have committed 75 percent or \$215,300 of our two-year grant total of \$287,100 to direct housing and rehabilitation programs. The remaining \$72,800 has gone to neighborhood park improvements in our lowest income census tracts. These census tracts are our targeted housing rehabilitation neighborhoods.

Along this same line, we have been very pleased with the success of our Section 8 program. Our first annual contributions contract with HUD was for 343 units of Section 8 housing. During the application period, in September of 1976, approximately 500 applications were received. By February 1977, 75 units were under lease and certificates of eligibility had been issued to approximately 250 additional households who are currently seeking suitable units. In December of 1976, the County filed for and HUD approved an additional 75 family units which will constitute our second year Section 8 commitment.

Our third preapplication (of which I have brought copies of for your review) continues this emphasis on activities designed to preserve and enhance our low and moderate income neighborhoods. We believe these neighborhoods are an important resource to Arlington County and a resource we want to preserve and maintain for the future. We believe that our third preapplication provides additional documentation and support of our beliefs that Arlington County ought to be an Entitlement Community under the Community Development Act of 1974.

The preapplication contains a status report of our first two years of participation in the program. It contains a report on activities that we have undertaken in Arlington County in support of our HAP. It contains maps describing and demonstrating the areas of need in Arlington as well as those areas in which we have targeted our first two years of funds, which we believe further demonstrates our need for additional funding.

In addition, the main part of the application contains seven programs, all of which citizens developed and presented to the County Board. We believe that these programs, which we ranked in order of priority based on the rating system, are all deserving of funding. To fund them we would need a grant of \$1,655,000.

When many small jurisdictions, with what we believe to be less urgent problems, are funded at significantly higher levels than Arlington because of their Entitlement status, we believe there is something wrong with the program.

We hope that revisions will better achieve the objectives of the Act and will reward those communities that have taken the

initiative on Community Development-type activities.

In conclusion, Arlington County, Virginia, recommends that the original Community Development legislation be modified. Our proposed modification would relieve a definitional inequity that is inhibiting our efforts to provide decent housing and a suitable living environment for our low and moderate income residents.

Thank you very much for your time. I would be delighted to answer any questions you may have.

Thank you.

FEDERAL ASSISTANCE		2. APPLICANT'S APPLICATION	3. STATE APPLICATION IDENTIFIER	4. NUMBER	5. NUMBER
1. TYPE OF ACTION (Use appropriate box) <input checked="" type="checkbox"/> PREAPPLICATION <input type="checkbox"/> APPLICATION <input type="checkbox"/> NOTIFICATION OF INTENT (CPL) <input type="checkbox"/> REPORT OF FEDERAL ACTION		a. DATE 19 77 2 14		b. DATE Year month day ASSIGNED 19	
4. LEGAL APPLICANT/RECIPIENT a. Applicant Name : W. V. Ford, County Manager b. Organization Unit : Arlington County, Virginia c. Street/P.O. Box : 1400 N. Courthouse Road d. City : Arlington e. County : Arlington f. State : Virginia g. ZIP Code: 22201 h. Contact Person (Name & telephone No.): Elizabeth Nachbaur 703-558-2291			5. FEDERAL EMPLOYER IDENTIFICATION NO. 54-600-1123		
7. TITLE AND DESCRIPTION OF APPLICANT'S PROJECT ARLINGTON COUNTY'S PROPOSED CD3 ACTIVITIES			6. FEDERAL PROGRAM (From Federal Catalog) a. NUMBER : 14 10 2 1 19 b. TITLE : Community Development Block Grants - Discretionary grants		
1. Arlington Housing Corp.....\$300,000 2. Ballston Neighborhood Improvements.....\$505,000 3. Colonial Terrace Neighborhood Imp.....\$385,000 4. Nauck/Green Valley Activities.....\$215,500 5. Glebe School/Highview Park Neighborhood Improvements.....\$ 90,000 (over)			8. TYPE OF APPLICANT/RECIPIENT A-State B-County C-City D-School District E-Other (Specify) F-Community Action Agency G-Higher Educational Institution H-Indian Tribe I-Other (Specify) Enter appropriate letter <input type="checkbox"/> D		
10. AREA OF PROJECT IMPACT (Name of cities, counties, States, etc.) Arlington, Virginia			9. TYPE OF ASSISTANCE A-Basic Grant B-Supplemental Grant C-Loan D-Insurance E-Other Enter appropriate letter(s) <input type="checkbox"/> A		
11. ESTIMATED NUMBER OF PERSONS BENEFITING Approx. 10,000			12. TYPE OF APPLICATION A-New B-Continuation C-Revision D-Augmentation E-Other (Specify) Enter appropriate letter <input type="checkbox"/> A		
13. PROPOSED FUNDING a. FEDERAL \$.00 b. APPLICANT \$ 1,655,000 .00 c. STATE .00 d. LOCAL .00 e. OTHER .00 f. TOTAL \$ 1,655,000 .00		14. CONGRESSIONAL DISTRICTS OF: a. APPLICANT : VA 10th b. PROJECT : VA 10th		15. TYPE OF CHANGE (For 15 or 16) A-Increase Dollars B-Decrease Dollars C-Interest Duration D-Interest Duration E-Continuation F-Other (Specify) Enter appropriate letter(s) <input type="checkbox"/> A	
16. PROJECT START DATE Year month day 19 77 unknown			17. PROJECT DURATION 12 Months Enter appropriate letter(s) <input type="checkbox"/> A		
18. ESTIMATED DATE TO BE SUBMITTED TO FEDERAL AGENCY 19 77 2 15			19. EXISTING FEDERAL IDENTIFICATION NUMBER		
20. FEDERAL AGENCY TO RECEIVE REQUEST (Name, City, State, ZIP code) HUD Washington, D.C. 20009				21. REMARKS ADDED <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
22. THE APPLICANT CERTIFIED THAT: a. To the best of my knowledge and belief, data in this preapplication/application are true and correct, the document has been duly authorized by the governing body of the applicant and the applicant will comply with the attached assurances if the assistance is approved. b. If required by OMB Circular A-95 this application was submitted, pursuant to instructions therein, to appropriate clearinghouses and all responses are attached.		(1) Council of Governments (2) No. Va. Planning Dist. Commission (3) National Capital Planning Commission		No response required Response attached <input checked="" type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/>	
23. CERTIFYING REPRESENTATIVE a. TYPED NAME AND TITLE W. V. Ford, County Manager		b. SIGNATURE <i>W. V. Ford</i>		c. DATE SIGNED Year month day 19 77 2 14	
24. AGENCY NAME			25. APPLICATION RECEIVED Year month day RECEIVED 19		
26. ORGANIZATIONAL UNIT			27. ADMINISTRATIVE OFFICE		
29. ADDRESS			30. FEDERAL GRANT IDENTIFICATION		
31. ACTION TAKEN <input type="checkbox"/> a. AWARDED <input type="checkbox"/> b. REJECTED <input type="checkbox"/> c. DEFERRED FOR AMENDMENT <input type="checkbox"/> d. DEFERRED <input type="checkbox"/> e. WITHDRAWN		32. FUNDING a. FEDERAL \$.00 b. APPLICANT \$.00 c. STATE .00 d. LOCAL .00 e. OTHER .00 f. TOTAL \$.00		33. ACTION DATE 19	
34. STARTING DATE 19		35. CONTACT FOR ADDITIONAL INFORMATION (Name and telephone number)		36. ENDING DATE 19	
37. REMARKS ADDED <input type="checkbox"/> Yes <input type="checkbox"/> No		38. FEDERAL AGENCY A-95 OFFICIAL (Name and telephone number)			

SECTION IV-REMARKS (Please reference the proper item number from Sections I, II or III, if applicable)

- 6. Design Study for Sheltered Workshop.....\$ 15,000
- 7. Removal of Architectural Barriers at Schools....\$125,000
- 8. Home Repair Program in Nauck/Green Valley.....\$ 20,000

COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM
DISCRETIONARY GRANT PREAPPLICATION
CITIZEN PARTICIPATION CERTIFICATION

Pursuant to Section 570.303(a)(4) and Section 570.402(g), the applicant hereby certifies and assures that prior to the submission of the preapplication, the applicant has:

- a. provided citizens with adequate information concerning the amounts of funds available for the proposed community development and housing activities, the range of activities that may be undertaken, and other important program requirements;
- b. informed citizens of the maximum discretionary grant for which the applicant may apply, the criteria for selection of preapplications, and that the number of preapplications submitted may substantially exceed the number of applications that may ultimately be approved from the available funds;
- c. held at least two public hearings to obtain the views of citizens on community development needs; and
- d. provided citizens with an adequate opportunity to articulate needs, express preferences about proposed activities, assist in the selection of priorities, and otherwise to participate in the development of the preapplication.

W. V. Ford

W. V. Ford
County Manager

February 14, 1977

Date

10/76

STATUS REPORT: COMMUNITY DEVELOPMENT BLOCK GRANT #1

Arlington's first Community Development Block Grant was approved by HUD on November 26, 1975. It provided funding for the following four activities:

1. Rehabilitation loans and grants to low income homeowners (\$75,000)
2. Garden apartment acquisition/rehabilitation (\$43,500)
3. Expansion of housing opportunities for mentally handicapped citizens (\$17,500)
4. Removal of architectural barriers at a geriatric center (\$10,000)

Rehabilitation Loan and Grant Program

This activity, which is known as HIP (Home Improvement Program) is administered by the Arlington Housing Corporation (AHC). As of January 18, 1977, 29 grant commitments totalling in excess of \$66,000 have been made to low income homeowners in ten census tracts and approximately \$3,000 has been spent for administrative costs, including management and inspection fees (see Map 1). It is significant to note that this has been accomplished in the six months since July, 1976.

At the time the CD Grant was approved by HUD, AHC had not been incorporated. Since November, 1975, the eleven member Board of Directors, who represent community, housing and financial interests, have established a strong organization. With the efforts of a part-time Executive Director, they have developed and utilized rigorous HIP application solicitation, receipt, screening, funding and inspection procedures based on the HUD Section 312 Program.

Garden Apartment Acquisition/Rehabilitation

Following receipt of HUD's approval of this activity, the Arlington Housing Corporation began its search for a suitable property. Such a property was located and the owner indicated her willingness to sell it in January, 1976. Feasibility studies, including an HUD equal opportunity site inspection and a Virginia Housing Development Authority (VHDA) site inspection took place in March, 1976. As a result, HUD approved the location and VHDA tentatively set aside 22 units of Section 8 funding authority in September, 1976.

In April, the AHC Board of Directors submitted their first offer to the owner. Negotiations continued until November, 1976 when, after making five different offers, the Board of Directors terminated negotiations on the grounds that the owner did not seem to be seriously interested in consummating a sale.

When these negotiations began to drag, AHC sent letters to all of the owners of small garden apartment buildings in Arlington in an effort to identify another suitable project, whose owner was seriously interested in selling. They received no affirmative responses from owners of suitable properties.

The Board of AHC is frustrated and distressed by their seeming inability to complete successfully the acquisition activity, and intends to continue to search for a suitable project which would utilize the VHDA mortgage commitment. If they are unable to do this, they will request County staff to get authorization from HUD to reprogram the funds allocated to this project to the Loan and Grant Program, where they will be expended immediately.

The Board of AHC and Arlington County both remain committed to an acquisition activity as it is the one sure way to preserve a stock of low cost rental units in the County. They hope that their lack of success to date will not have negative effects on future Community Development applications. It is worth noting that Arlington County gave \$7,000 to AHC for various costs associated with the apartment project.

Expansion of Housing Opportunities for Mentally Handicapped Citizens

Arlington Community Residences, Incorporated (ACRI), a nonprofit charitable corporation, was established by the County's Mental Health/Mental Retardation Services Board in early 1976.

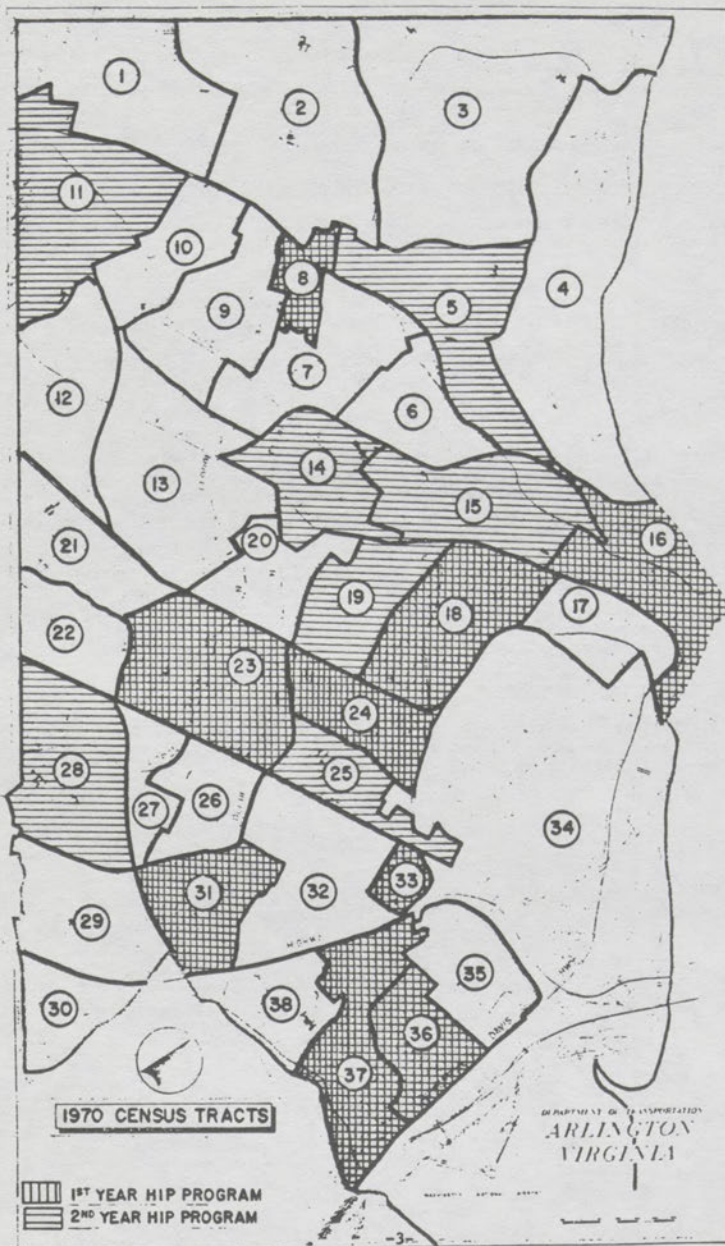
ACRI is committed to utilize the \$17,500 approved by HUD to expand the existing housing resources available for mentally ill and handicapped citizens in Arlington. ACRI signed the rental/purchase agreement on one house in December 1976. Approximately \$3,000 of Community Development funding will be used to rehabilitate it. The County, as trustee for ACRI, signed the sales contract on the second house on February 4, 1977. Community Development funds will provide the downpayment for it. ACRI will be assigned the contract by the County, prior to settlement.

Because of the administrative and procedural complexities inherent in an ambitious project of this type, no actual expenditures of CD funds have occurred. However, the environmental review requirements have been satisfied, draft contracts have been approved by the HUD (D.C.) Area Office Counsel and it appears that the actual acquisition and rehabilitation will occur soon.

Some of the slowness of progress may be accounted for by the very specific housing needs of the program. Affordable houses suitably located, of sufficient size and within one of the target census tracts were difficult to locate. The technical details of acquisition also served to inhibit progress on this activity. However, with two houses currently under contract, the expenditure of CD funds should occur quickly.

Removal of Architectural Barriers at a Geriatric Center

This activity was completed in July, 1976 and the HUD funds were expended in August. The Geriatric Center opened in October and is used by 37 senior citizens whose access to the building is facilitated by the HUD-financed driveway.



STATUS REPORT: COMMUNITY DEVELOPMENT BLOCK GRANT #2

Arlington's second Community Development Block Grant application, for \$141,100, was approved by HUD on October 19, 1976. It was for the following activities:

1. Arlington Housing Corporation Rehabilitation Loans and Grants and administrative expenses (\$78,300)
2. Nauck/Green Valley Neighborhood facilities upgrading and administrative expenses (\$62,800)

As of January 18, 1977, none of this grant has been expended. However, the environmental review process for the Housing Corporation program and for two of the three neighborhood facilities has been completed, and it has been initiated for the third.

The Housing Corporation is presently soliciting applications for rehabilitation loans and grants from the six census tracts added to the first year's ten (see Map 1). Because of the limited amount of funding received and the ever increasing demand for assistance, AHC intends to try to make a lower percentage of grants and more loans with their second year funding. They also expect to be working more closely with local financial institutions to reactivate the County's moribund low interest loan program.

The design work for the improvements to Jennie Dean playground has been completed, wage rates have been received and materials have been ordered. We expect to initiate construction as soon as the weather permits.

A list of proposed improvements and estimated costs has been drawn up for the Kemper Center. Actual work is expected to begin when the weather permits.

The design work for the project to remove barriers at the Drew School and to upgrade its outdoor resources is completed. The environmental review has been initiated and work should begin in early April.

ACTIONS TAKEN BY ARLINGTON COUNTY TO SUPPORT HOUSING ASSISTANCE PLANS (HAP)

During its two years as a participant in the Community Development Block Grant Program, Arlington has prepared and submitted two HAP's. In support of these HAP's, the County has undertaken four different types of actions. They are: legislative initiatives, the establishment of the Arlington Housing Corporation, a Section 8 Program and approval for construction of 835 units of new housing designated for elderly Section 8 occupancy.

The legislative initiatives resulted in two amendments to the Code of Virginia. One which was passed in 1975, made it permissible for any County City or Town to participate in the Section 8 program. A second amendment, which was passed in 1976, made it permissible for any County, City or Town to undertake the Community Development activities specified in Title I of the Housing and Community Development Act of 1974. It also made permissible the expenditure of local moneys for the same purposes for which federal funds may be employed under the provisions of the Community Development Act. Copies of both amendments are attached.

The establishment and subsequent incorporation of a community based nonprofit charitable housing corporation was enthusiastically supported by the County. To indicate this support, the County contributed \$7,000 to supplement the \$118,500 of Community Development funds which had already been committed. In the six months of its active operation, the Arlington Housing Corporation has made 29 rehabilitation grants to low income homeowners. In addition, it attempted to purchase for rehabilitation and Section 8 occupancy a deteriorated garden apartment. If AHC is unsuccessful in its effort to do this, the CD funds allocated for it will, with HUD's permission, be utilized to expand the first year loan and grant program. By emphasizing low cost loans in the future, AHC hopes to be able to assist even more households than would be possible if the emphasis were to remain on making grants.

In August of 1976 Arlington signed the County's first Annual Contributions Contract (ACC) for 343 units of Section 8 housing. This is Arlington's first participation in a Federally subsidized housing program. During the application period in September, approximately 500 applications were received. By February 1977, 75 units were under lease, and certificates of eligibility had been issued to approximately 235 additional households who are currently seeking suitable units. In December, the County filed for and HUD approved an additional 75 units which constitute our second year Section 8 commitment. These should be added to the ACC in February. They will all be family units, which is the area of greatest need.

Since November, 1975, 835 units of new Section 8 subsidized units for the elderly have been approved for construction in Arlington County. County staff is currently at work revising the zoning ordinance to encourage the construction of townhouse units, which it is hoped will generate some family sized Section 8 new construction. It should be noted that there have been no new construction Section 8 family sized units made available by HUD to Arlington during the life of the program. However, the AHC is optimistic that the County will receive CD funding to be used for the development of Section 8 family sized cooperative townhouses.

As a result of the above activities, Arlington County feels that it has made a good start at meeting its HAP objectives.

CHAPTER

An Act to amend the Code of Virginia by adding a section numbered 15.1-29.7, providing for local government participation in certain federal community development activities.

[H 389]

Approved

Be it enacted by the General Assembly of Virginia:

1. That the Code of Virginia is amended by adding a section numbered 15.1-29.7 as follows:

§ 15.1-29.7. Participation by local government in certain federal community development activities.—Any county, city or town may participate in a program under Title I (Community Development) of the United States Housing and Community Development Act of 1974. Any such county, city or town may undertake the community development activities specified in Title I of that act, unless such activities are prohibited by the Constitution of Virginia. Any county, city or town may appropriate its own moneys for the same purposes for which federal funds may be employed under the provisions of such federal legislation unless prohibited by the Constitution of Virginia.

.....
President of the Senate

.....
Speaker of the House of Delegates

Approved:

.....
Governor

CHAPTER

An Act to amend and reenact § 15.1-29.6 of the Code of Virginia, relating to local government participation in certain federal housing programs.

[H 398]

 Approved

Be it enacted by the General Assembly of Virginia:

1. That § 15.1-29.6 of the Code of Virginia is amended and reenacted as follows:

§ 15.1-29.6. Participation by local government in certain leasing programs.—Any county, city or town may participate in a program under § 8 (Housing Assistance Payments Program - ~~Existing Housing~~) of the United States Housing Act of 1937, as amended, on behalf of eligible families or eligible persons leasing privately-owned housing directly from owners or private leaseholders. Any such county, city or town may also appropriate its own money for the same purposes for which federal funds may be employed under the provisions of such federal legislation as well as for the purpose of increasing the payments to eligible families or eligible persons beyond federally approved levels when the fair market rent of the rental unit is greater than that established by the United States Department of Housing and Urban Development.

If any power granted in the foregoing paragraph is held invalid, the other remaining power shall not be affected thereby. If the application of the power granted in the foregoing paragraph to any persons or circumstances is held invalid, the application of the power to other persons shall not be affected thereby. Nothing in the foregoing powers granted local governments shall include the authority to pledge the full faith and credit of such local government in violation of Section 10 of Article XI of the Virginia Constitution.

.....
 President of the Senate

.....
 Speaker of the House of Delegates

Approved:

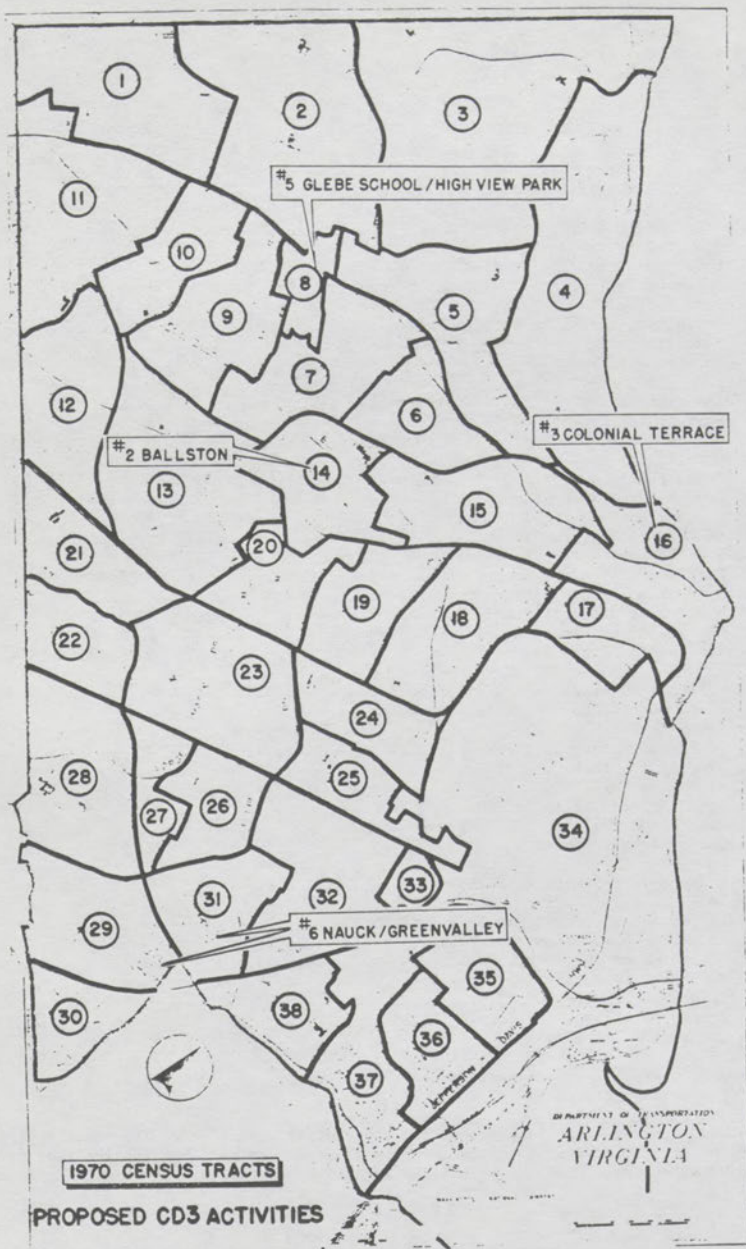
.....
 Governor

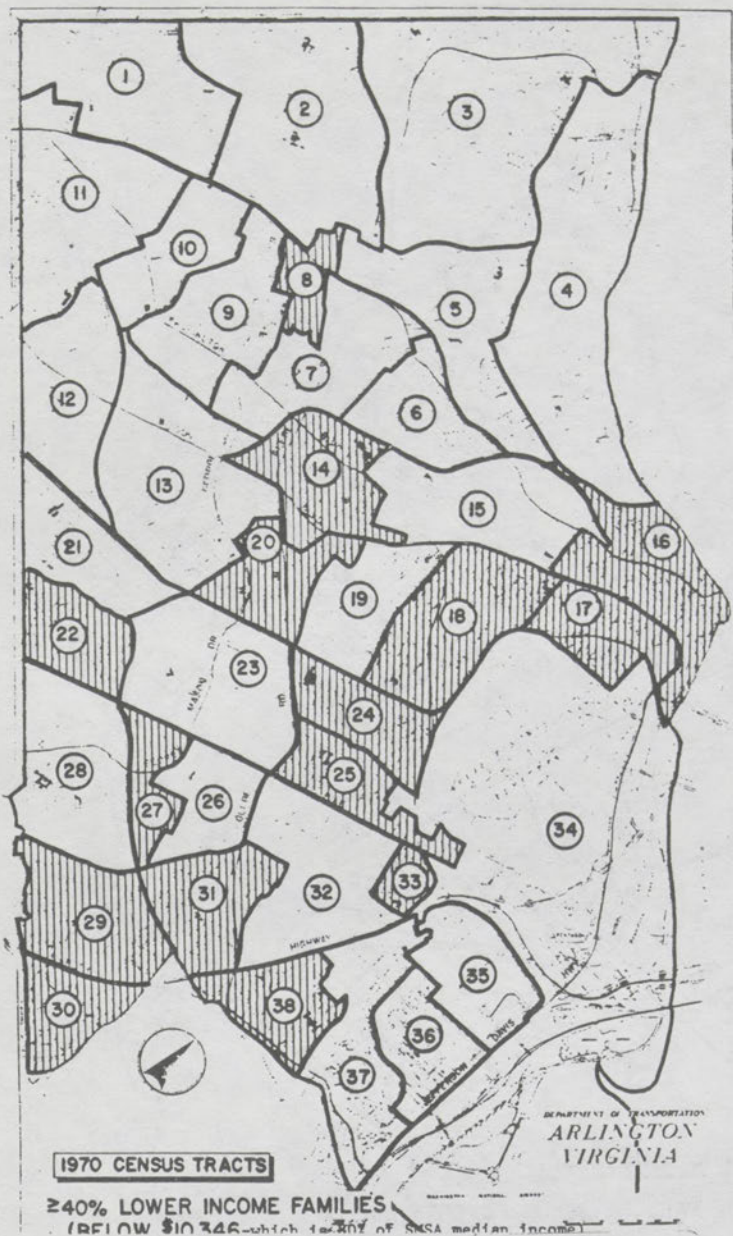
SUMMARY OF ARLINGTON COUNTY'S PROPOSED CD3 ACTIVITIES

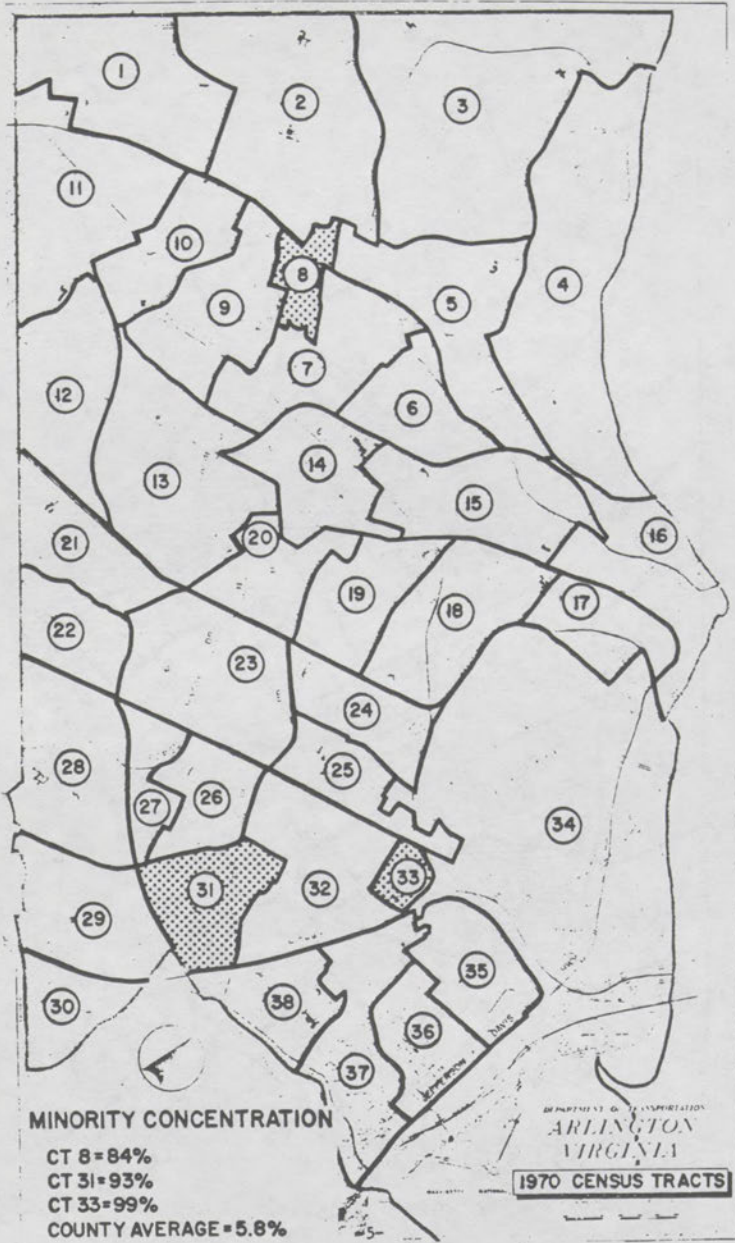
PART III

1. Arlington Housing Corporation.....		\$300,000
a) Home Improvement Activities		\$175,000
1) HIP.....	\$125,000	
2) Family Loan.....	\$ 50,000	
b) Townhouse Cooperative (Ground Acquisition & Adm.)		\$ 75,000
c) Administrative Expenses		\$ 35,000
-- County Adm. Expenses		\$ 15,000
2. Ballston Neighborhood Improvements.....		\$505,000
a) Stuart Street/Pedestrian Improvements		\$190,000
b) Home Improvement Activities		*
c) Urban Designer/Planner		\$ 15,000
d) Park Acquisition		\$ 55,000
e) Additional Street/Pedestrian Improvements		\$240,000
f) Poss. Land Acq. for Sec. 8 Townhouses		*
-- County Adm. Expenses		\$ 5,000
3. Colonial Terrace Neighborhood Improvements.....		\$385,000
a) Street Work/Pedestrian Improvements		\$310,000
b) Open Space Acquisition & Site Imprvmts.		\$ 70,000
c) Home Improvement Activities		*
d) Poss. Land Acq. for Sec. 8 Townhouses		*
-- County Adm. Expenses		\$ 5,000
4. Nauck/Green Valley Activities.....		\$215,000
a) Home Improvements Activities		*
b) Poss. Land Acq. for Sec. 8 Townhouses		*
c) Pedestrian Bridge Linking Shirlington Shopping Center & Jennie Dean Playground		\$200,000
d) Martin Luther King Community Center Bus		\$ 10,000
-- County Adm. Expenses		\$ 5,000
5. Glebe School/Highview Park Neighborhood.....		\$ 90,000
a) Playground & Open Space Improvements		
1) Glebe School.....	\$ 14,000	
2) Langston.....	\$ 21,000	
3) Highview Park.....	\$ 23,000	
4) Big Walnut.....	\$ 25,000	
b) Home Improvement Activities		*
c) Poss. Land Acq. for Sec. 8 Townhouses		*
-- County Adm. Expenses		\$ 7,000
6. Design Study for Sheltered Workshop.....		\$ 15,000
7. Removal of Architectural Barriers at Schools.....		\$125,000
a) Arlington Career Center.....	\$ 26,000	
b) George Mason Center.....	\$ 57,600	
c) McKinley Elementary School.....	\$ 32,000	
d) Kenmore.....	\$ 3,600	
e) Thomas Jefferson.....	\$ 2,500	
-- County Adm. Expenses		\$ 3,300
8. Summer Home Repair Program for Youth.....		\$ 20,000
-- County Adm. Expenses		\$ 4,000

*No specific funding level is proposed for this activity as it would be administered by AHC, out of their funding. No prior amount will be determined, but applications from owners in neighborhoods where other CD activities are being undertaken will be given priority.







COMMUNITY DEVELOPMENT
TARGET OBJECTIVES

CENSUS TRACT	More than 50% of DUS built before 1949	More than 4% overcrowding	CT's with 8% persons with income below poverty line	≥40% of families with median income ↓ 80% of 1960 SMSA median	Community Development Loan and Grant Program	
					1st Year	2nd Year
5	X		X		X	X
6	X					
7	X					
8	X	X	X	X	X	X
9	X					
10	X					
11	X					X
13	X					
14	X	X	X	X		X
15		X	X			X
16	X	X	X	X	X	X
17		X	X	X		
18	X		X	X	X	X
19	X					X
20	X			X		
21	X					
22				X		
23					X	X
24	X	X		X	X	X
25	X			X		X
27	X			X		
28	X					X
29				X		
30	X			X		
31	X	X	X	X	X	X
33	X	X	X	X	X	X
34		X				
36					X	X
37	X				X	X
38				X		

ARLINGTON COUNTY PROPOSED ACTIVITY #1

Arlington Housing Corporation (\$300,000)

Background

The Arlington Housing Corporation, a nonprofit charitable corporation, was established in 1975 to expand and to preserve housing opportunities for low and moderate income Arlington residents. In the 14 months of its existence it has made 29 grants to low income homeowners to upgrade their properties to minimum safety standards. In addition, the corporation sponsored a contractors workshop and attempted to purchase a 22 unit garden apartment for substantial rehabilitation and rental under the Section 8 program. The corporation is a broadly based community organization whose proposals and activities represent a high level of professional expertise, effort and commitment.

Description and Objectives of Proposed CD3 Activities

Though each of the following activities is distinct, if AHC is to make a significant impact, funding is required to implement the full program. Though they are listed in priority order, they should be rated as a program.

a) Home Improvement Activities (\$175,000)

1) Home Improvement Program (\$125,000)

Purpose

The purpose of the Arlington Housing Corporation Home Improvement Program is to provide low-interest loans and subsidies to low and moderate-income Arlington residents who need to fix up their homes. Attendant to this major purpose are two others - namely, to encourage and enable eligible low and moderate-income residents to make needed repairs on their dwellings; and, in doing so, to preserve the housing stock in Arlington County which is available for low and moderate-income people.

Description of Assistance

The Home Improvement Program tries to operate with as much flexibility as possible, so as to leverage its limited funds and to maximize their benefit to the largest possible number of low-income and moderate-income recipients. It does this by:

1. providing interest rate subsidies on conventional loans made by conventional lenders to recipients whose income is not large enough to repay a loan made at conventional interest rates.
2. providing direct loans to loan applicants who meet the eligibility criteria set forth by the Arlington Housing Corporation, but who are not able to receive a loan from a conventional lending source.
3. providing to eligible loan applicants, direct loans whose principal repayment and/or interest charges are deferred to the date of the next transfer or lease of the property upon which the loan is made, whether during the life or after the demise of the borrower/property owner.
4. providing loan guarantees to lenders making rehabilitation loans to eligible applicants, when such loan guarantees are necessary for the loan applicants to obtain the loans.

5. providing to eligible applicants direct grants which will meet an urgent or immediate repair or rehabilitation need, and which because of the very low income of the recipient, is not considered to be repayable.

Procedural Guidelines

1. Eligible Properties include:
 - A. Dwellings in census tracts where other CD activities are being undertaken will receive priority.
 - B. Owner-occupied dwellings located in Arlington County, in either standard condition or substandard condition, shall receive priority over renter-occupied dwellings.
 - C. Properties located in areas of Arlington County scheduled for major redevelopment in the immediate or short-range future shall be excluded from consideration for participation in the Home Improvement Program, except where the unique circumstances of the situation call for consideration.
 - D. Properties upon which rehabilitation loans are made under this program must be insured by a hazard insurance policy in an amount sufficient to cover the amount of the rehabilitation loan in addition to the property's present encumbrances, and the lender of the rehabilitation loan shall be listed as a loss payee in such hazard insurance policy.

2. Eligible Improvements

The types of improvements to receive priority in this Home Improvement Program shall be those which are needed for the health and safety of the owner or resident, and those which are necessary to preserve and to extend the life of the property. The types of improvements which this program shall address are those of a basic nature designed to provide a decent, safe and sanitary housing accommodation for the occupant.

Public Notification and Application

The Arlington Housing Corporation Home Improvement Program will be widely publicized and advertised, with emphasis in those census tracts where other CD funding is being spent.

Relationship to Funding Criteria

This program will provide direct benefits only to low income households. In most instances, this assistance is necessary for the retention of the unit in Arlington's low and moderate income housing stock.

- 2) Family Loan Program Segment of HIP Activities (\$50,000)

Purpose

The purpose of AHC's Family Loan Program segment of the HIP is to increase the availability of suitable, safe and healthful housing for families through the reduction of payments on conventional home improvement loans and the provision of loan guarantees to low and moderate income families who own older houses in Arlington. Two secondary purposes of this program are to encourage private lenders to take an active role in preserving Arlington's existing houses and to encourage homeowners to make improvements to their houses.

Types of Assistance

The Home Improvement Program will operate with as much flexibility as possible, so as to leverage its limited funds and maximize their benefit to the largest possible number of low-income and moderate-income recipients:

1. By providing interest payment subsidies on conventional loans made by conventional lenders to recipients whose income is not large enough to repay a loan made at conventional interest payment. By reducing the interest rate on a conventional loan, AHC reduces the initial payments on the loan when interest is the bulk of the payment and tapers out its assistance at the end of the term of the loan when the payments are primarily composed of principal. This relieves the immediate burden on families who anticipate an increase in income over the years.
2. By providing loan guarantees to lenders making rehabilitation loans to eligible applicants, when such loan guarantees are necessary for the loan applicants to obtain loans.

Both of the above-mentioned processes involve an ongoing program known as the Rehabilitation Loan Program through which seven participating banks in Arlington have agreed to make home improvement loans at 8% to eligible applicants. This program has not worked largely because of the applicants' failure to demonstrate to the bank's satisfaction their ability to repay the loan. Both facets of the Family Loan Program should increase the number of people who will be able to meet the lending institutions' requirements for loan eligibility.

Eligibility Requirements

In addition to AHC's eligibility requirements, the borrowers, properties, and improvements must satisfy any requirements of the individual lending institutions.

Public Notification and Application

The Arlington Housing Corporation Home Improvement Program will be widely publicized and advertised, with emphasis on those census tracts where there are other CD activities.

Anticipated Benefits

1. This program will help to preserve and extend the life of the housing inventory in Arlington County by making the existing housing more livable because it is better maintained.
2. This program will better balance the financing gap between older houses and those that are newly constructed. At present, it is difficult for families to take on the larger down-payment generally required for the purchase of older houses and any concurrent major repairs or improvements that need to be made.
3. This program should contribute to a more balanced population in Arlington. By helping to make the existing housing stock expandable and repairable without unreasonable financial strain, AHC hopes that this program will aid in creating a community that is more stable and better able to utilize and contribute to the County's public schools and other capital investments.
4. AHC believes that, by working with private lenders in this program, private lenders will be encouraged to relax some of their guidelines for loans in mortgaging of older homes and neighborhoods in Arlington.

Relationship to Funding Criteria

This program will provide direct benefits only to low and moderate income households. In many instances, the availability of this assistance will determine whether or not a housing unit will remain a part of Arlington's low and moderate income housing stock.

b) Proposal for Townhouse Co-Operative Development Activity (\$75,000)

Purpose

The purpose of Arlington Housing Corporation's Townhouse Development Program is to provide additional housing for low and moderate income families through the provision of 16 to 20 new units for this income group. The Townhouse Development Program will provide two, three and four bedroom townhouse units on one or more sites to be developed as Section subsidized cooperative(s), with monthly carrying costs equivalent to the fair market rents.

A second goal of this program is to create a stable low and moderate income community within the co-op as contrasted with the more transient rental situations. In a co-op, the family has the opportunity to build up equity in the unit with an initial down payment as low as 2%, thereby providing many of the advantages of home ownership without the large front-end expense.

Process Description

The Townhouse Development Program will be able to achieve its goals only if the price of the units can be kept low enough that the monthly carrying costs to the co-oppers do not exceed the fair market rent levels. This cannot be done through traditional private market development. Townhouse-type construction will help to cut down on the building costs of the units, and any available interest subsidy will result in savings, but a reduction in the land costs would make the program workable because it would cut down on a large expense. AHC has briefly outlined below, the proposed use of the Community Development money, the mortgaging programs available, the Section 8 subsidies to the co-oppers, and the possibilities of available land.

1. The Community Development money would be used by the Arlington County Government to purchase one or more suitable sites for townhouse development. AHC estimates the cost of this land to be as much as \$5,000 per unit, depending on the location of the parcel(s) and the existing zoning of it or them. The County can then take a CD-allowable write-down expense on the cost of that land and lease the land to AHC or a subsidiary, private non-profit corporation set up to handle this co-op development and operation on a long-term basis. With this long-term lease, AHC will be able to obtain financing for the project. This action will reduce the land costs to AHC and enable the Corporation to provide lower costs units. While CD regulations allow the County to purchase land for this purpose, AHC, because of its private status, is not able to do so.
2. Arlington Housing Corporation would then begin the development process to include the following:
 - a. any necessary rezoning to make the land eligible for townhouse development;
 - b. the assemblage of a development team to include at least a contractor, an architect, and a management representative; and

- c. the securing of commitments for interim and long-term financing.
3. AHC has researched the possibilities for financing of a project such as this. Money is available for long-term financing from both VHDA and FHA. Neither program provides for any kind of interim financing which means that all development front end costs must be deferred until an initial closing prior to the beginning of construction work. This method of operation, while not ideal, is workable, particularly if the real estate transaction has already been completed.
- a. VHDA has financing available for projects for this type with interest rates ranging from 7½% to market rate. Initial conversations with them show them to be very interested in a project of this type although they cannot make any kind of commitment until the proposal process is further along.
- b. FHA has two possible insurance programs under Section 221 (d) 3 and (d) 4 which would also provide a final federally insured mortgage with an interest rate between 7½% and market rate. Both of these are insurance programs, and there is no danger of the money not being available under the program.
4. Before either of the above-described mortgage programs can be applied to the townhouse project, AHC must receive a Section 8 commitment which will insure that Section 8 money will be set aside for the subsidized operation of the co-op. AHC now has such a commitment from VHDA for 22 units. While AHC has not yet been able to capitalize on this commitment, the receipt of such a commitment leads them to believe that they would be able to get the necessary commitments for the proposed project.
5. At the completion of construction, either AHC or a subsidiary private, non-profit corporation set up specifically to take charge, the co-op will take on the final mortgage for the development, will select the tenant/owners and will be responsible for the cooperative management of the development. The Board of Directors of this corporation will be comprised of members of AHC, residents of the co-op and residents of the neighborhood surrounding the development to insure that the goals of the corporation, the co-op and the neighborhood at large are served by the co-op.

Beneficiaries

The Section 8 income limits will be used to select occupants. The program requires that 30% of the units be made available to very low income households, and the other 70% to low income households. The broad range of low incomes allowable under Section 8 insures that there will be a variety of income groups residing in this project.

Anticipated Benefits

AHC anticipates many benefits from this proposed development both to the individual tenant/owners and to the Arlington community in general. Most important among those are the following:

1. This kind of program is a very direct way to provide much needed moderately priced housing for younger, less affluent families who cannot afford to buy Arlington's existing housing.

2. Through the co-op mechanism, AHC is creating an ownership development rather than a rental development, making this project a more stable part of the community.
3. By requiring the units to be owner-occupied, there should be none of the professional real estate speculation within the co-op which is, in the long run, contributory to the decay of the neighborhood.
4. The design of the proposed project shall provide a variety of unit sizes, and, in some cases, shall include enclosed unfinished spaces. This will allow for a variety in family size within the co-op and gives any given family the option to increase the usable space in their home without moving.
5. By using the Section 8 income maximums, the co-op is assured of attracting a fairly wide range of incomes.
6. Townhouse type construction is in greater harmony with older residential neighborhoods than many types of apartment construction and provides relatively high density in a human scale, single family setting.
7. The property tax revenue to the County will increase once these vacant land parcels have been developed.
8. The managing directorship of the co-op insures that the co-op will be a cohesive development and an important part of the surrounding neighborhood(s).

Relationship to Funding Criteria

This project will both provide housing for low and moderate income residents and will increase the County's low and moderate income housing stock. Consequently, the primary benefits will be realized by low and moderate income persons.

c) Proposal for Administrative and Consultant Activities (\$35,000)

Purpose

The purpose of the proposed Administrative and Consultant activities is two-fold. First, AHC wishes to insure that there be sufficient day-to-day involvement with the on-going projects to have them carried out efficiently and effectively. Secondly, AHC, from time to time needs to hire consultants such as lawyers, appraisers, or architects, to perform specialized functions for the Corporation's programs.

Projected Costs

At present, AHC has one part-time paid staff person. Even with the assistance of several volunteers, this is inadequate to administer the on-going programs and to perform all the communications and general office functions.

For Program Year 1978, we propose to augment the staff with a second part-time person, locate into a more accessible and workable office setting, and include an allowance for the hiring of specialized consultants. AHC has broken down these needs as follows:

1. One part-time (30 hr) staff person to administer the on-going programs and work with the Directors of the Corporation to develop new programs.

2. One part-time (30 hr) staff person to handle AHC's communications and outreach efforts and to supervise volunteers.
3. To locate an office with enough space and opportunities for privacy to allow three people (two staff, one volunteer) to work and perform their duties which include applicant interviews and small group meetings.
4. The possibility of hiring consultants for on-going or proposed projects.

Request for Funding

AHC requests a total of \$35,000 for the funding proposal above outlined. The projected breakdown of these expenses is as follows:

Part-time staff #1	\$10,000
Part-time staff #2	8,500
Office rent & utilities & telephone	3,000
Office supplies, misc. insurance & fees	3,500
Consultants	<u>10,000</u>
TOTAL	\$35,000

This amount, together with the income from dues and contributions should cover the operating expenses for the Corporation so that the success of the on-going programs will not be jeopardized for lack of adequate planning, administration and follow-up.

Relation to Selection Criteria

These proposed programs are all designed to benefit exclusively low and moderate income Arlington residents. These activities are all felt to be necessary for the conservation and expansion of the County's low and moderate income housing stock. In many instances, the repairs provided under the HIP alleviate conditions which are a serious threat to the dwellings occupants, all of whom are low income. The proposed Section 8 townhouse cooperative development, which will expand the County's low moderate income housing stock, is dependent on the County being able to use CD funds for land acquisition costs so that AHC's construction costs will be low enough for the units to be affordable by persons who meet the Section 8 income criteria. The continued competence, commitment and thoroughness of AHC's staff is necessary for AHC's continued success. The expansion of AHC's programmatic activities and the concurrent expansion of administrative complexity requires the expansion of AHC's staff as suggested above.

The magnitude of Arlington's low and moderate income residents is documented in Table II of the August 19, 1976 HAP. It shows 11,864 households in need of assistance. The County's rent and tax relief program, which was begun in 1974, assisted approximately 1,900 of these persons at a cost of approximately \$800,000 in fiscal 1976. Additional steps taken by the County to meet the housing needs of these households are documented in Part II of this application. Obviously, this assistance is a mere fraction of what is needed if the housing needs of Arlington's low and moderate income residents are to be ameliorated.

ARLINGTON COUNTY PROPOSED ACTIVITY #2Ballston Neighborhood Improvements (\$505,000)Background

Ballston, located in census tract 14, was developed at the turn-of-the-century as a working-class commuter neighborhood. Presently the area consists of a mixture of commercial and low to moderate income residential uses. The neighborhood is in close proximity to a major interchange of the proposed I-66, and centers around the Glebe Road Metro-rail station. As a result, there has been considerable anticipation of redevelopment of the low density single family residential area to high density residential and office uses, expectations that have been growing since these transportation projects were first discussed, over 20 years ago. The County Board demonstrated its opposition to this type of development in order to preserve a sizable portion of the County's low to moderate income housing stock located within walking of rapid transit service in January, 1977. Preventing high density redevelopment will principally benefit the present low to moderate income families and is necessary to the preservation, stability and expansion of the neighborhood's low to moderate housing stock.

The Ballston community on its own initiative recently obtained the cooperation of the Urban Design Studio, Catholic University, and with a grant from the National Endowment for the Arts, documented deteriorating conditions and changes in Ballston and prepared a community design for the area, (see attachment, Ballston, A Community Plan). This design preserves the residential orientation of the area, and demonstrates how the present low to moderate income housing stock can be integrated into a comprehensive commercial and residential community. If implemented it would become a national model for the preservation and expansion of low to moderate income housing in a neighborhood setting which is compatible with the land use, economic, and transportation requirements of an urbanized area. (See attached Washington Post editorial).

Description and Objectives of Proposed CD Activities

In January, 1977, the Arlington County Board adopted a land use plan supportive of the Community Plan. The CD funds proposed for this project would be used to implement a portion of the Community Plan. While the action of the County should contribute to the stability of the area, additional public investments are essential to counter the effect of speculative investment activity of recent years.

The major objectives of the CD funded activities proposed are to improve the physical appearance of the area, to preserve and upgrade the existing housing stock, to stimulate residential development compatible with the present neighborhood and the 1977 land use plan, and to enhance the sense of community that prevails in the area. The proposed improvements, which should trigger investments by low and moderate income homeowners and landlords to upgrade their property, will be supplemented by CD funded rehabilitation loans and grants. Most of the housing in the area is sound, but deteriorating as a result of investor ownership, high density expectations and commercial encroachment. In addition, it is hoped that designation as a third year CD target area will stimulate both private and CD supported new residential construction for low and moderate income families. Crucial to attracting private investment is the early construction of the much needed new streets, sidewalks, lights and landscaping. Because current residents are unable to pay for even a portion of these improvements (as is the general county procedure) the receipt of CD funding is necessary for the preservation of this neighborhood.

The proposed activities will not displace any current residents, and are in fact designated to encourage them to remain and to participate in the revitalization of their neighborhood. The proposed activities are part of the overall plan for the community. Consequently, they should be rated as a program. They are however, listed in priority order.

1. Stuart Street/Sidewalk Improvements: \$190,000 - The proposed project would include a combination of new sidewalks, curb, gutter, underground utilities, street lights and landscaping. Improved county storm and sanitary sewers scheduled for 1977 would correlate with these proposals. These improvements would integrate the residential section of Ballston north of Fairfax Drive with the commercial section south of it, and would conform to the community and to investors the intent of the County to preserve the area as a low density mixed income neighborhood. We believe these improvements will inhibit further speculation and discourage displacement of low income residents as development occurs.
2. Rehabilitation loans/grants to low income home owners and to landlords who sign up for Section 8 Substantial Rehabilitation - (Because this activity would be undertaken by the Arlington Housing Corporation, no funding level is indicated here. This area, which is eligible for second year loans and grants would, if funded, become a priority area in the third year.)
3. Possible acquisition of ground for the construction of new Section 8 units - (No specific funding level is proposed for this activity as it would be administered by AHC, out of their funding. No prior amount will be determined, but applications from owners in neighborhoods where other CD activities are being undertaken will be given priority.)
4. Funding to hire, on a consultant basis, the Community Planner who was primarily responsible for Ballston: A Community Plan: \$15,000 - It is anticipated that as the revitalization of Ballston becomes a reality there will be many issues where it will be important to the community to have a professional architect/planner to assist in assuring that their plan becomes a reality. The proposed funding would allow the development of a final plan, which would ensure that HUD's Community Development objectives are integrated with the County's and that actions taken by private developers are responsive to the Community's needs and desires.
5. Acquisition of a portion of the proposed Stuart Street Park: \$55,000 - This neighborhood contains no public open space/recreational resources. Funding of this component would provide for some and would be another indication to the neighborhoods low and moderate income residents of the County's seriousness of purpose.
6. Improvements to up to four neighborhood streets and sidewalks: \$240,000 - These proposed improvements would include sidewalks, curbs, gutters, underground utilities, street lights and some landscaping and would have the objective of creating an orderly, cohesive neighborhood appearance which would help to stabilize and to enhance the area. The four streets under consideration have virtually no sidewalks. The up-grading of these streets and the provision of sidewalks will hopefully attract the desired infill development and by reducing developer's cost might permit lower prices for the new dwellings.

Relation to Funding Criteria

The Ballston: A Community Plan report, which is enclosed with this pre-application, provides considerable detailed information on the area. Seventy percent (70%) of the families are low income and have incomes below \$15,000 a year. Approximately sixty percent (60%) of the homes were built before 1949, and many of them are severely deteriorated.

It is believed that the undertaking of the proposed activities is necessary to preserve low/moderate income housing in the area. Since most of the residents are either of low or moderate income, they will be the primary beneficiaries of any improvements or stabilization that results. Because of the proximity of this area to the Glebe Metro Station and the resulting pressure for commercial development of the area, the initiation of these preservation activities is crucial at this time. Neighborhood residents have endorsed the Community Plan and are anxious to preserve their current residences and to enhance and stabilize their community.

Washington Post 22 December 1966 Urban Growth Without Urban Blight

BALLSTON IS A SMALL Arlington neighborhood developed at the turn of the century as a tranquil commuter village at the end of the long-abandoned Fairfax Drive-to-Key Bridge trolley line. Real urbanization, started there at mid-century and turned out to be a mixed blessing. First the Hecht Company built its Parkington Shopping Center just across Wilson Boulevard. Apartment houses, including some highrises, and other commercial establishments followed. With them came high expectations that were not fulfilled. Old residents moved on, absentee landlords took over, investors drove up land prices and much of the land was skipped over and lies idle. The county board's approval of high densities has only aggravated the increasing deterioration. There has been little street and sewer improvement and housing code enforcement.

Now Ballston has another chance. In two years the Glebe Road Metro station should be completed. Again, vast new investment is anticipated and Arlington County and the Rosslyn-Ballston Corridor Committee have recommended a land use plan that initially calls for surrounding the Metro station with highrises. Led by Katherine Freshley, the Ballston-Page Civic Association is trying to avoid the mistakes of the past, however, and use the advent of the Metro station not only for the benefit of a small area but to enhance the entire community. With the help of the Arlington Committee on Optimum Growth and the Catholic University Urban Design Studio, and with funds from the National Endowment for the Arts, the association drew up its own community development plan. The plan demonstrates convincingly, we think, that urban growth is possible without urban blight.

Three principles have guided the Ballston Com-

munity Plan—principles we wish other planners would adopt: that "the present matters as much as the future"; that "the desire for continuity is a fundamental human trait"; and that "the human scale must be maintained."

To spread the blessings of the Glebe Road Metro station, the plan would restrict high-density development. To avoid waste of land, it calls for a municipal, multi-level parking garage. It would further assure balanced development of housing and community facilities as well as office and shops. It would keep what is left of single family homes and low-rise apartments from falling under the shadow of highrises. Instead, new development of more townhouses and walk-up apartment condominiums would be encouraged, particularly on small lots between existing houses, as what planners call "infill." To reduce increased traffic as much as possible, the community plan also recommends a pattern of one-way streets around the Metro station. To enhance the sense of community, it would provide greenways, preserve as many old buildings as possible and, in general, aim for what author Jane Jacobs has called an "exuberant diversity." The resulting stability and availability of desirable but small land parcels, the Ballston community planners believe, is more likely to attract developers than high density zones that demand investments higher than the market can bear.

The plan, as we see it, sets an example for other suburban communities to follow. It will require an amendment in Arlington's zoning ordinances and other government measures that the report has clearly spelled out. We endorse them wholeheartedly. And we agree that these actions will bring all of Arlington, as Ms. Freshley put it, "revenues and satisfaction."

ARLINGTON COUNTY PROPOSED ACTIVITY #3Colonial Terrace Improvements (\$385,000)Background

Colonial Terrace is a small, old, deteriorating neighborhood adjacent to Rosslyn, which is a major regional employment center. It is comprised of small garden apartment projects, duplexes and some single family homes. Because of its location there have been private efforts to redevelop it, which the Arlington County Board has rebuffed preferring to preserve it as a low density moderate income housing resource. Recently, the County Board reiterated this commitment as part of a revision of the County's General Land Use Plan. However, it is believed that the proposed activities are necessary to conserve the existing low and moderate income housing stock, and to stabilize this neighborhood.

Description and Objectives of Proposed CD Activities

The following combination of proposed CD activities was put together as a coordinated and comprehensive program to demonstrate both Arlington County's commitment to the stabilization and enhancement of the Colonial Terrace neighborhood, and to respond to resident and HUD priorities.

The need for physical improvements in the Colonial Terrace Neighborhood is immediately apparent to even the casual viewer. Roads are in poor shape, there are few sidewalks and street lighting is minimal. There has been virtually no investment in the area because of uncertainty as to its future. Pedestrian movement is unsafe due to the lack of sidewalks and street lights. Access to nearby open space resources is difficult for the same reasons. Many of the neighborhood homeowners have neglected to maintain their properties due to the pervasive uncertainty. Some of the neighborhood's homeowners are elderly and/or low income and are unable to maintain their properties. Current residents, many of whom are low income renters, have a strong sense of neighborhood identity. It is hoped that the expenditure of CD funds for physical improvements will both stabilize and enhance Colonial Terrace.

The comprehensive program being proposed for CD funding has the following components, in priority order:

1. Street and Pedestrian Improvements.....\$310,000
2. Rehabilitation Loans/Grants to Low Income Residents Owners... *
3. Rehab. of Deteriorating Rental Properties For Sec. 8 Use..... *
4. Open Space Acquisition and Site Improvements.....\$ 70,000
5. The Possible Acquisition of Ground Suitable for Construction
of Section 8 Co-op Units..... *

*No funding level for these proposals is indicated because they would be undertaken by the Arlington Housing Corporation, whose proposal is considered to be a separate activity. However, Colonial Terrace, along with Ballston, Highview Park and Nauck/Green Valley (see proposed activities), will be designated as target neighborhoods by AHC and priority will be given to requests from these neighborhoods to ensure the comprehensive nature of the activity.

Relation to Selection Criteria

Colonial Terrace is located in census tract 16 of Arlington County (see enclosed maps). According to the 1970 U.S. Census, 65% of the dwelling units in the tract were built before 1949 and many are in substandard condition. More than 70% of the resident households are low income and have incomes below \$15,000, and more than 51% have incomes below \$10,000 yearly. Many of the tracts residents are elderly and there has been and continues to be an influx of Spanish speaking households. We believe that the principal beneficiaries of any CD funding spent in this area would be low income. CD funding is necessary for the conservation and enhancement of this neighborhoods low and moderate income housing opportunities. In addition, the County's experience with its own Neighborhood Conservation Program is that the expenditure of such funds results in an overall neighborhood improvement and stabilization. Because of the location of this neighborhood, the County believes that unless this type of program is undertaken, the area will continue to deteriorate. This will lead to its redevelopment with high cost housing and the loss of many low/moderate income housing opportunities close to one major employment center and with easy mass transit access to many others.

ARLINGTON COUNTY PROPOSED ACTIVITY #4Nauck/Green Valley Activities (\$215,000)Background

The Nauck Green Valley Neighborhood (Census Tracts 29 and 31) is one of Arlington's primary CD target areas. CD1 funds are being used to assist low income homeowners, and CD2 funds are being used to upgrade three neighborhood facilities. For the third year, we propose to continue the housing support activities, to build a pedestrian bridge, and to buy the neighborhood Community Center a bus.

The Nauck/Green Valley neighborhood is quite isolated. It is a primarily black, low income neighborhood. There is currently no pedestrian access to the only convenient drug or grocery store. The adjacent Shirlington Shopping Center not only contains these types of stores, but also a library and a large array of other commercial resources. It is also a major Metrobus stop and thus provides access to employment opportunities in Arlington and in the region.

The Martin Luther King Community Center (Census Tract 31) was established in 1969 by the community to provide a wide range of recreational and educational opportunities for the residents of the Nauck/Green Valley Community. Though Arlington County does not run the center, it does provide extensive and continuing support to it.

Description and Objectives of Proposed CD Activities

As all of the proposed activities are mutually supportive, we wish to have them considered as a program, they are however listed in priority order if only partial funding is available.

- a. Housing Activities - The continuation and expansion of the HIP is necessary to preserve and to stabilize this neighborhood by assisting the low income residents in maintaining their homes. AHC spent nine months negotiating for the purchase of a severely deteriorated garden apartment in this area. Though that project has to date been unsuccessful, AHC is still committed to, either by acquiring or providing assistance to owners, to upgrading and conserving low cost rental housing opportunities in this neighborhood.
- b. Section 8 Townhouses - The success of a recent privately built townhouse project in this neighborhood has shown that new construction of housing in this area is marketable. Consequently, it will be considered as a possible site for the proposed Section 8 coop townhouse project. No specific funding level is proposed for this activity as it would be administered by AHC, out of their funding. No prior amount will be determined, but applications from owners in neighborhoods where other CD activities are being undertaken will be given priority.
- c. Pedestrian Bridge: \$200,000 - The proposed bridge will relieve the current isolation of the Nauck/Green Valley community. It will link a playground located at the edge of the neighborhood to a regional shopping center. It will be approximately 170 feet long and 8 feet wide. It will be uncovered and the side fencing will be of a design to ensure good visibility of and by users at all times. The stream it will be placed over has recently been stabilized and should not flood except in 100 year storms. The playground, which is at the northern end of the proposed bridge, is currently being upgraded with second year CD funding. The objectives

of the proposed activity are to increase access to the adjacent commercial center, to further stabilize and enhance the neighborhood and to link the neighborhood with the proposed redevelopment of the shopping center.

- d. Martin Luther King Community Center Bus: \$10,000 - The proposed CD activity is the purchase of a bus by the Community Center to be used for a variety of programs. This bus, which would be a neighborhood facility and resource, would expand the ability of the center to sponsor job seeking expeditions and cultural enrichment programs. It would also be used to take low income community residents to job training and other educational opportunities. It will also be used to convey residents and equipment to the Jennie Dean playground, which is being upgraded with Community Development Block Grant funds. It will also facilitate shopping expeditions

Relation to the Selection Criteria

We believe that the successful completion of these activities will contribute to the on-going stabilization of the Nauck/Green Valley Neighborhood. The primary beneficiaries will be the low income residents of census tract 31, where 86% of the households are low income and where 14% of the residents fall below the poverty line and 20% are ill housed. The establishment of easy access to shopping and employment centers (via Metrobus) should significantly enhance this neighborhood as a potential site for new low and moderate income households, and should enhance the neighborhood for current residents.

Neighborhood residents believe these activities are necessary to support the conservation and expansion of housing opportunities for low and moderate income persons in this community. The "opening up" of the neighborhood as a result of these activities might also induce the owners of some of the very badly neglected properties in the area to better maintain their properties which would serve to improve the quality of housing available to the low and moderate home seeker in Arlington County.

This neighborhood is characterized by high levels of citizen commitment to its upgrading. Neighborhood residents have been and continue to be very strong supporters of a Neighborhood Conservation Plan and of the previous CD expenditures at three of their neighborhood facilities.

ARLINGTON COUNTY PROPOSED ACTIVITY #5Glebe School/Highview Park Neighborhood Improvements (\$90,000)Background

The Glebe School/Highview Park neighborhood is one of the most racially, ethnically and economically diverse in the County. The following program of activities, which includes upgrading the four neighborhood playgrounds, is designed to enhance and to stabilize this community, which is a major area of low and moderate cost housing opportunities in the County. The component activities were specifically designed to benefit a wide range of neighborhood residents, especially the young, the elderly, the poor and the non-English speaking. The package was put together by a neighborhood committee whose intent was to provide an array of recreational opportunities which would both be responsive to the current needs of their community and would also strengthen it to ensure its preservation. This neighborhood, which was an early participant in the County's Neighborhood Conservation Program, has a long history of citizen interest and involvement in its future.

Description and Objectives of Proposed CD Activities

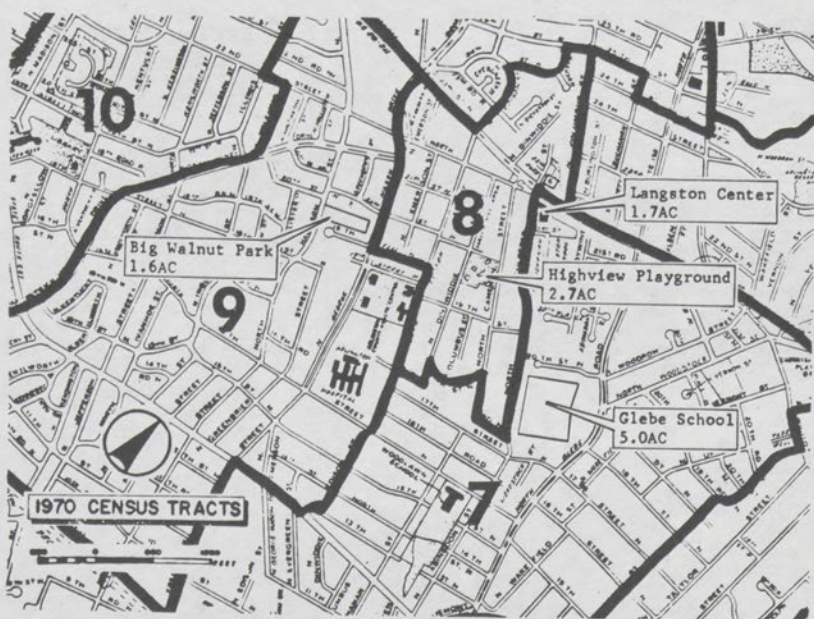
The following program of activities focuses specifically on the recreational and housing needs of the neighborhood. It was developed with the belief that upgrading recreational resources would, in turn, result in neighborhood stabilization. Each of the four park elements are designed to serve a specific element of the neighborhood. Langston Brown is the basic community center and contains a community action program day care center, Glebe is the neighborhood elementary school, Highview Park is the traditional play area and Big Walnut is a new natural play area. The attached map shows the location of these sites.

The basic purpose of these activities and of the housing improvements is the preservation and stabilization of this neighborhood. Though it traditionally has been a Black neighborhood, it has recently become integrated and the community members who participated in formulating this program of activities hope that the expenditure of CD funds will stabilize and enhance it. The following activities are proposed as a program, however, if funding is insufficient for them all, they are listed in priority order:

1. Playground Upgrading.....\$90,000
 - a) Glebe.....\$15,000
 - b) Langston Brown.....\$23,000
 - c) Highview Park.....\$25,000
 - d) Big Walnut.....\$27,000
2. Home Improvement Activities
 - a) Rehabilitation/Loans and Grants to Low Income Homeowners* - a sizeable portion of the area to be served by this project has been a target area for first and second year HIP loans and grants. It is anticipated that this emphasis will be continued and that coordinating this activity with those proposed above, will significantly strengthen and enhance this community.
 - b) Rehabilitation Loans and Grants to Landlords*
3. Development of Section 8 Cooperative Townhouses* - there are two major potential sites for townhouses development in the area defined by this project. It is hoped that if this activity is funded one of them might be available to the AHC for this type of development. The construction of new low cost family sized units in this area would certainly help to achieve the full spectrum of CD objectives and would expand housing opportunities for low-moderate income families in a cohesive neighborhood.

Relation to the Selection Criteria

Census Tract 8 has been and continues to be a primary CD target area due to its high percentage of low income households, lower quality housing and racial composition. Approximately one third of the elementary school children from this census tract attend Glebe School. In addition, Glebe has always been a title I (supplemental benefits due to low income children) School and has recently had an English Spoken as an Other Language program (ESOL) initiated because of the influx on non-English speaking children, whose parents are, in many cases, low income. We believe that the proposed projects would be of virtually exclusive benefit to the low and moderate income families who make up approximately 75% of the service area population. We also believe, as does the neighborhood, that the proposed improvements to the four playgrounds and to the community's housing stock are necessary to support the conservation of existing low and moderate income housing stock which will, in turn, stimulate the expansion of this type of housing in this area.



*No specific funding level is proposed for this activity as it would be administered by AHC, out of their funding. No prior amount will be determined, but applications from owners in neighborhoods where other CD activities are being undertaken will be given priority.

ARLINGTON COUNTY PROPOSED ACTIVITY #6Design Study for New Sheltered Workshop (\$15,000)Background

The Arlington Adult Activity Center and the Sheltered Occupational Center provide a variety of services to the mentally retarded and handicapped residents of Arlington. The Sheltered Occupational Center owns the building in which it is housed, while the Activity Center is operating in two church facilities.

Both programs have a critical need for additional space and have for many years operated in inadequate space. Current space limitations will not permit either the addition of either new clients or new services. Both programs have reached the point where it is difficult to maintain the current level of services due to an increase in the number of more severely handicapped clients, particularly the non-ambulatory, the lack of storage space and basic changes in program concepts.

Description and Objectives of Proposed CD Activities

This request is for \$15,000.00 of Community Development Block Grant funds to permit joint planning for a facility to be used by both programs. The advantages of planning to house the two facilities in one location are considerable and the economics of planning together are obvious.

We are currently seeking funds to plan for future re-location to more adequately serve a greater number of Arlington's handicapped citizens. We feel that a combined facility will lead to more efficient use of skills between programs and better service to clients.

Relation to Selection Criteria

The client populations in both programs are similar in that they are all handicapped adults and over 90% are S.S.I. recipients. Thus, this activity is virtually of exclusive benefit to low income persons and their families. During FY '76 the Sheltered Occupational Center provided services to 75 persons and the Activity Center provided services to 75 persons and the Activity Center provided services to 45 retarded persons.

ARLINGTON COUNTY PROPOSED ACTIVITY #7Removal of Architectural Barriers in Schools (\$125,000)Background

The following proposed physical modifications to Arlington Public Schools are designed to address the needs of the handicapped children by making accessibility, utility, safety and health and environmental improvements. The funding of these activities will benefit approximately 119 handicapped children.

Description and Objectives of Proposed CD Activities

The specific objectives of these activities are:

1. To encourage the development of a sense of community among handicapped persons;
2. to reduce their sense of isolation;
3. to maximize opportunities for the handicapped to utilize public facilities and services; and
4. to expand the role of the school to serve the entire age spectrum of handicapped persons.

1. School Name: Arlington Career Center

Handicapped pupils served: Hearing impaired, visually impaired and physically handicapped persons. In 1976-77, eight handicapped students would be served and the projection for 1977-78 is sixteen. These students are served on a daily basis for the full school year. These children come from census tracts 31, 29, 18 and 5. Other patrons or purposes to be served by the modification are as follows:

- Handicapped adults could participate more easily in Career Center educational programs and enrichment activities, as well as better access to the public library.
- Senior citizens would also benefit and the use of Career Center services will be facilitated for them.

Amount requested: \$26,000

Justification: The project would improve student educational activities, relieve their limitations and facilitate their participation in Career Center programs in the following ways:

- Allow them to participate in career education activities presently not available to them or only available on a limited basis.
- Allow handicapped students to carry out normal student activities presently unavailable to them, or limited, because these students need to be assisted by the staff or volunteers.
- Allow handicapped students to be served sufficiently within the Career Center thus improving their self-image and dependence upon others for assistance.

Modifications proposed: Lower public telephones, drinking fountains, paper towel dispensers and soap dispensers; provide visual fire alarm system; provide automatic exterior door openers.

2. School Name: George Mason Center

Handicapped pupils served: 82 trainable mentally handicapped and multi-handicapped students. (See spot map attached)

Other handicapped programs served: Senior citizens participating in DHR activities which are conducted in the same building.

Amount requested: \$57,600

Justification: These alterations will benefit trainable mentally handicapped and multihandicapped students. The ramps will not only help wheelchair students and cane walker students, but will also aid in the mobility of senior citizens who attend activities planned by the Department of Human Resources at the Center.

George Mason Center students come from all areas of Arlington County. The numbers from each area have been indicated on the enclosed 1970 Census Tract map.

20 students are on free lunch and 2 are on reduced lunch; this indicates the income level of 1/3 of our student population.

It is vital that George Mason Center have an adequate, operable intercom system since the safety of our students depends upon the ability to relay messages quickly from the classrooms to the office. Because of their handicapping conditions, our students have seizures, may fall, or may run out of the building.

All of these improvements will greatly improve the mobility and safety of our students not only in the building but also on the playground.

Modifications proposed: Paving to improve wheelchair access; elevator for persons with motion impairment (\$55,000); curb cuts and ramps; extend and improve intercommunication system.

3. School Name: McKinley Elementary School

Handicapped pupils served: 20 physically handicapped. (See spot map attached)

Other handicapped programs served: Physically handicapped Boy Scout Troup (10/15)

Amount requested: \$32,000

Justification: To improve accessibility for wheelchair and those using crutches. To provide shelter while loading and unloading passenger vehicles. To improve safety and to provide for the teaching of living skills to handicapped.

Modifications proposed: Curb cuts and ramps; bus loading shelter; handrails in hallways, toilets and classrooms; enlarge classroom toilets and provide bathing facilities; provide and install washer, dryer and stove for teaching living skills to handicapped students; improve room security; provide room dividers in multiple handicapped room.

4. School Name: Kenmore Junior High School

Handicapped pupils served: Nine children with cerebral palsy, muscular dystrophy, and post polio. (See spot map attached). Family activities related to above.

Amount requested: \$3,600

Justification: To provide interior circulation (currently must use outdoor ramps), and to permit use of bathroom facilities in addition to those in the clinic.

Modifications proposed: Interior ramps and rails; modify toilet booths and install grab bars.

5. School Name: Thos. Jefferson Jr. High School & Community Center

Handicapped pupils served: Very few on a regular basis.

Amount requested: \$2,500

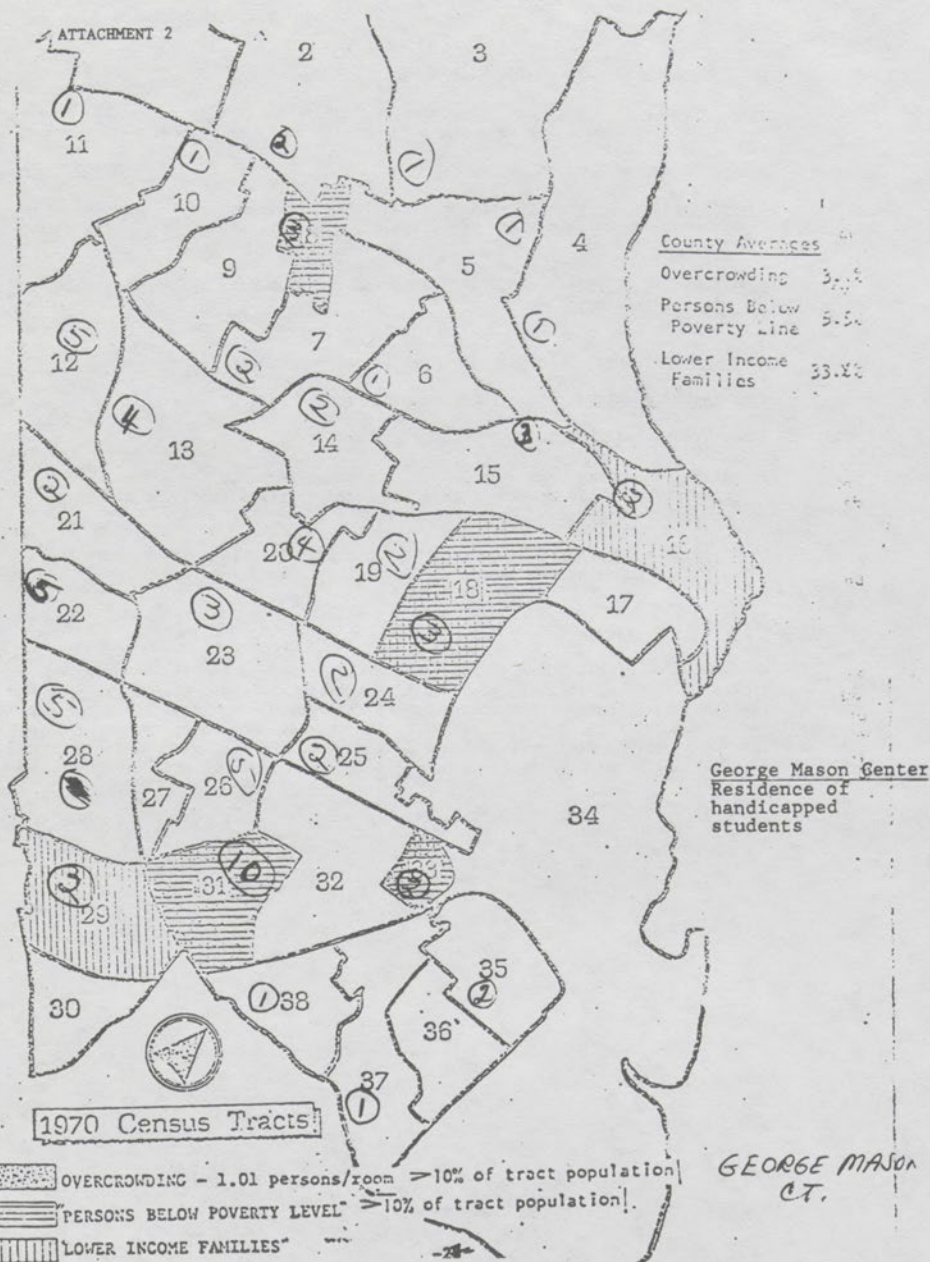
Justification: This Community Center is a focal point to the entire community. While access is generally good, certain small improvements would make it better.

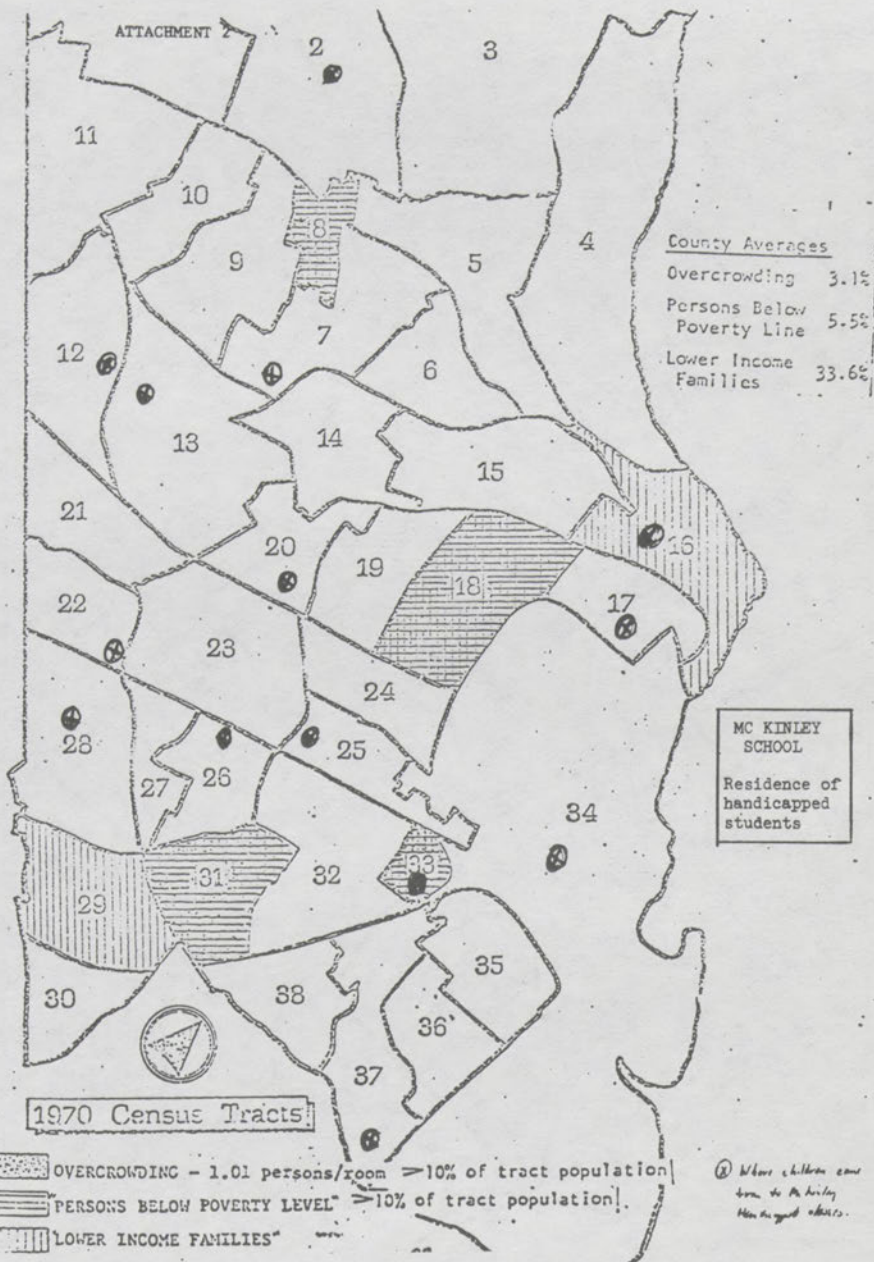
Modifications proposed: Curb cuts; signage; grab bars in toilets, emergency lighting in elevator; vision strips at lower level indoors.

Relation to Selection Criteria

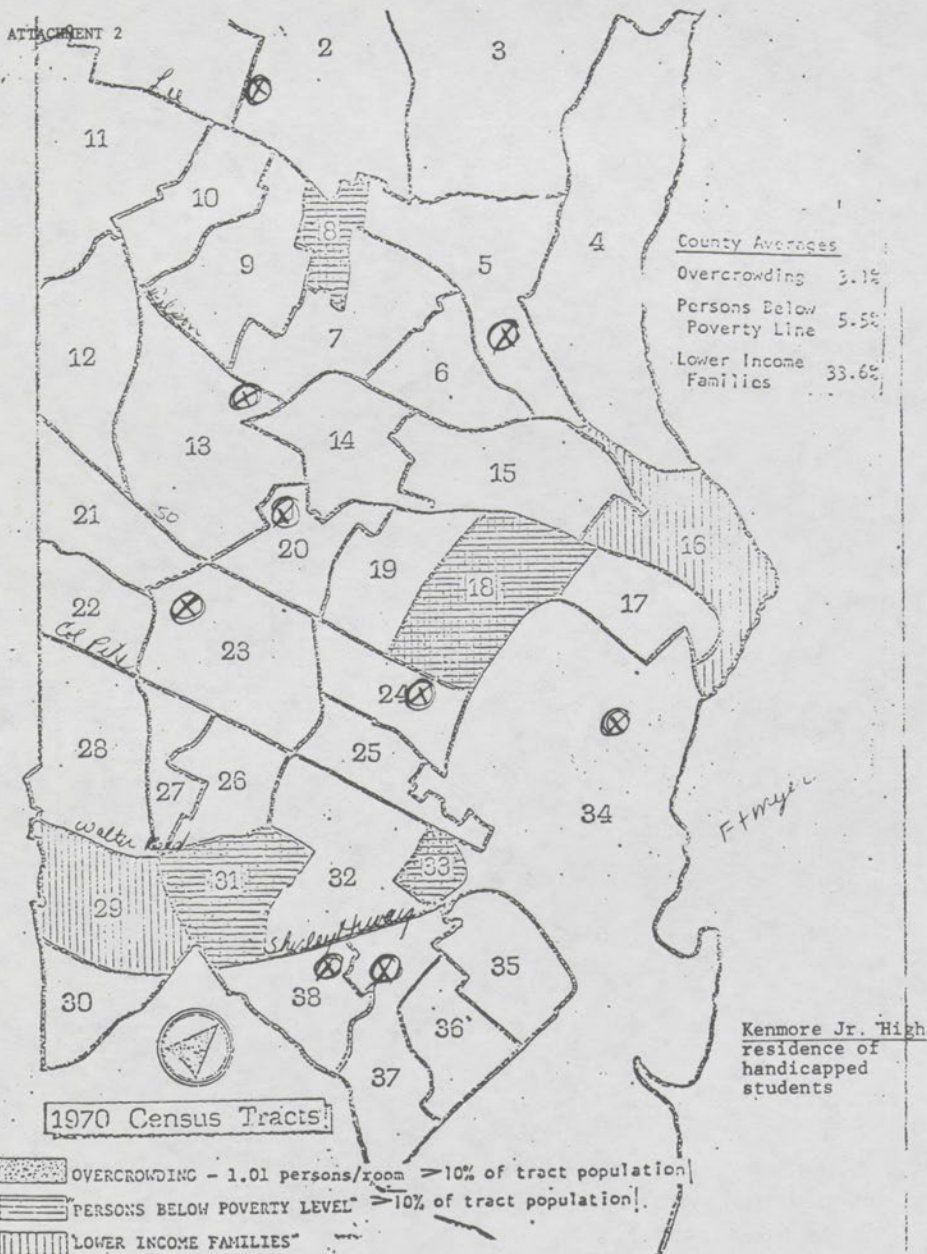
Though removal of architectural barriers is a CD eligible activity, it does not relate directly to the discretionary grant selection criteria. However, as the attached maps show, a significant number of the handicapped children who would be aided, if these proposals were funded, do reside in CD target census tracts. Consequently, we believe that the removal of the barriers will enhance neighborhood schools, which will in turn enhance and stabilize specific neighborhoods which is the primary CD objective.

ATTACHMENT 2





ATTACHMENT 2



ARLINGTON COUNTY PROPOSED ACTIVITY #8Home Repair Program in Nauck/Green ValleyBackground

The Nauck/Green Valley Communities, both of which were early participants in the County's Neighborhood Conservation Program, feel that neighborhood youths should have the opportunity to participate in fixing up deteriorating and dilapidated housing in their neighborhood. This proposed activity would be undertaken in the summer of 1978 in conjunction with the County funded Summer Program for Youth (SPY).

Discription and Objectives of Proposed CD Activity

This activity has two primary objectives: the stabilization and preservation of low income housing in census tracts 29 and 31 and the summer employment of low income youth in their own neighborhood.

The activity is proposed to work in the following fashion. The Committee for Arlington Repair and Revitalization by its Youth (CARRY) will hire a local high school shop teacher to administer the twelve week program. Approximately 25 youths, age 12 through 17, will be hired from census tracts 29 and 31 by the CARRY Committee. Working with their neighbors, the teams of youths will identify homes which are in need of "fixing up" which will include painting, cleaning up the yards and other maintenance. Having this work done will serve to enhance and to stabilize the neighborhood and will supplement the Arlington Housing Corporation's Home Improvement Program, which has been active in the area, but due to its limited fund has not been able to undertake any of the much needed "cosmetic" improvements.

The primary benefit of this activity would be the preservation and maintainance of the housing in two low income neighborhoods. Additional benefits include gainful summer employment for neighborhood youth, the visual enhancement of two neighborhoods, the development of useful skills and a heightened sense of neighborhood pride by both the youths and by the persons whose homes are enhanced.

Relation to Selection Criteria

These two neighborhoods are among Arlington's primary target areas. Most of the residents are low income and many of them live in deteriorated housing. This activity is anticipated to both stabilize and to preserve these neighborhoods by enhancing housing opportunities for low income residents. The support given to CARRY by the neighborhood, which is indicative of its desirability and utility as a CD activity, also portends its success in realizing its objectives.

ARLINGTON COUNTY, VIRGINIA,
OFFICE OF THE COUNTY BOARD,
Arlington, Va., March 9, 1977.

Hon. WILLIAM S. MOORHEAD,
Rayburn Office Building,
Washington, D.C.

DEAR MR. MOORHEAD: Thank you very much for your interested response to the testimony I presented before the Housing Subcommittee on Friday, March 4, 1977.

Enclosed for your review is a copy of a letter received by Congressman Fisher from the Census Bureau. You will note that Arlington and Henrico Counties, both of which are in Virginia, were the only jurisdictions in the United States identified as having municipality like powers while being called counties.

The National Association of Counties has also been researching the density issue for us. They have been unable to locate any other county in the country with fewer than 200,000 residents, a density in excess of 5,000 persons per square mile, and the necessary powers to be an Entitlement jurisdiction under the Housing Community Development Act of 1974. Therefore, as I said before the Subcommittee, Arlington's situation is unique.

In addition, we believe that making the slight modification proposed by Congressman Fisher's bill will not have any effect on any other jurisdiction, but it will eliminate what, is to us, a gross inequity.

Again, thank you for your attention to this matter. If you or the Subcommittee staff have any questions, please feel free to contact Betsy Nachbaur, Arlington's CD Coordinator, at 558-2291.

Sincerely yours,

ELEN M. BOZMAN,
Member, Arlington County Board.

OFFICE OF THE DIRECTOR,
U.S. DEPARTMENT OF COMMERCE,
BUREAU OF THE CENSUS,
Washington, D.C., July 12, 1976.

Hon. JOSEPH L. FISHER,
House of Representatives,
Washington, D.C.

DEAR MR. FISHER: This is in further response to your letter of June 7 requesting a list of counties which meet certain specified criteria.

A review was made of all counties and county equivalents in the United States and municipios in Puerto Rico using the following criteria:

1. Total 1970 census population of less than 200,000.
2. Performs functions comparable to those associated with municipalities—specifically, provision of fire and police protection, and water and sewer service.
3. Is closely settled—specifically, two-thirds or more of the population is included in an urbanized area as defined by the Bureau of the Census. (This is the operational definition used by the Department of Housing and Urban Development under the provisions of the Housing and Community Development Act of 1974, Title I, Section 102. (a) (5) (ii)).
4. Contains within its boundaries no incorporated places as defined by the Bureau of the Census—specifically, political units incorporated as cities, boroughs (except in Alaska), towns (except in the New England States, New York, and Wisconsin), and villages.

The review indicated that only two counties met all of the above qualifications, Arlington and Henrico Counties, Virginia.

If I can be of further assistance, please let me know.

Sincerely,

ROBERT L. HAGAN,
(For the Director, Vincent P. Barabba).

Mr. MOORHEAD. Mrs. Bozman, have you received any funds under what we call the discretionary fund under the 1974 act?

Mrs. BOZMAN. Yes. The discretionary money we have received—the only money we have received has been from the discretionary balance.

The first year we received approximately \$143,000, when our neighboring Alexandria was receiving \$1,400,000. And the second year again

we received approximately \$144,000, bringing us to the total of \$287,000 for the 2 years.

Mr. MOORHEAD. The conditions in Alexandria are similar to those in Arlington County, except actually Alexandria has a lower population; is that correct?

Mrs. BOZMAN. Yes. There are nuances. Alexandria has a lower population, about 110,000 to our 150,000. Alexandria has a slightly higher concentration of substandard housing, so that as you would work the formula out—I don't know the exact number—our larger population and their smaller—I think the two would come out about the same if we were both entitlement jurisdictions, reasonably close.

Mr. MOORHEAD. How about population density?

Mrs. BOZMAN. Their population density approximates Arlington's. It would not be significantly higher. Alexandria, of course, is a city, and since it is 110,000, and being over 50,000, it gets its entitlement funds by its city status.

Mr. MOORHEAD. Well, I think Congressman Fisher would understand that. Whenever we draw an arbitrary line like 200,000 there are obviously going to be people that fall above and are unfairly treated and maybe treated when they shouldn't be, and some below. And it is extremely difficult.

My own reaction is that merely to say 5,000 population density, no matter how small the unit is, might end us up with HUD dealing with many, many more communities, and maybe we should maintain some population figure. Let us just suppose, to take care of your county, we dropped the 200,000 to 150,000 but added in the 5,000 population density. How would you react to that, Mr. Fisher.

Mr. FISHER. My understanding is, from our investigation, that Arlington would be the only county that would have the excess of 5,000 per square mile density with less than 200,000 population.

If I could just add this. It is apparent to me that Arlington is ruled out because it happens not to be a city, although it looks like a city and it functions like a city within this metropolitan region, and now finds itself penalized in an important program because it has chosen to eliminate a whole layer of government. There is the State, and then Arlington, which is really a city-county, and this makes a lot of sense, but it is not typical. It is just very rarely found. It is the only one of its kind in Virginia. And it finds itself penalized for having elected this form of government which adds to its effectiveness by eliminating a whole layer of bureaucracy.

And so we were searching for some way that would recognize the reality and we hit upon this formula, less than 200,000 but a density of more than 5,000, and we believe that Arlington would be the only county in the country in this situation.

Mrs. BOZMAN. If I might add to that. We got this information from the Census Bureau. We inquired of them last year on different questions, and their answer was that we were the only county in this category.

We did bring a large map with all the urban counties who are entitlement jurisdictions marked in red. And hat you find from this map is that they are either out somewhere or, when you find them clustered around a major city, you find a total ring of them.

Unfortunately, Arlington is so petite that you have to get this close to the map to discover that there is still this white area of Arlington in the nonentitlement category.

Mr. MOORHEAD. It occurs to me, first, you know, we did not intend to single out and discriminate against Arlington County. Actually we originally thought there would only be, I think, somewhere around 10 to 15 urban counties, and there turned out to be 70—some counties that qualified. And I think we should look at it.

And, just off the top of my head, we should not completely eliminate the population figure, because then another group that calls itself a city that is below 50,000 would not qualify, but a county might.

Mrs. BOZMAN. Yes, sir. I think Mr. Fisher's bill proposes this as an either/or. It would leave in it the definition of county, which has a combined population of 200,000 or more, and add an "or" clause—"or has a population density of 5,000 or more individuals per square mile"—so that it would not affect anyone who is currently receiving funds as an entitlement jurisdiction.

Mr. MOORHEAD. Well, speaking as one member and as only chairman pro tem, I would like the staff to look into it and see if we did take care of the unique situation of Arlington, how much effect it would have on the rest of the country before we made a firm commitment. But I do understand your problem.

If we did not see the signs, we did not know when we were moving out of Washington, D.C., into Arlington, or Arlington to Alexandria, because of the urban nature. It crosses arbitrary boundary lines.

Believe me, your position and that of Congressman Fisher's will be sympathetically heard by the subcommittee.

Mr. GRASSLEY?

Mr. GRASSLEY. Thank you, Mr. Chairman.

What jurisdictions does Arlington County compete against for discretionary funds in the SMSA that you talked about?

Mrs. BOZMAN. Yes. We compete against Prince William County, Loudoun County, the towns of Fairfax City, Manassas, Manassas Park, and Purcellville. There are two large counties which are further out of the metropolitan area—Prince William County and Loudoun County, and within each of them there are a number of small towns which have populations of under 25,000.

Mr. GRASSLEY. Thank you for your answer.

Thank you, Mr. Chairman.

Mr. MOORHEAD. Thank you very much, Mrs. Bozman and Mr. Fisher. It has been a pleasure to have you with us, and we appreciate your statement and assure you it will be sympathetically reviewed. But you understand our problem.

The subcommittee would now like to hear from the All-Indian Pueblo Council: Mr. Wendell Chino, president of the National Tribal Chairman Association; Mr. Peter Masten, chairman of Hoopa Valley Business Council; and Mr. Cecil Williams, chairman of Papago Tribe.

I think we should probably start with Mr. Chino. I think you are considered by many to be the elder statesman of Indians in this country, which makes you more of an elder ancestry than any of the members of this subcommittee, sir. And we welcome you and recognize your past achievements as president of the Mescalero Apache Tribe for 16 years

and 20 years overall past president of National Conference of American Indians, and currently president of the National Tribal Chairmen's Association, and your second term in that post. So, Mr. Chino, we would hear from you first, and then from your associates.

STATEMENT OF WENDELL CHINO, PRESIDENT, NATIONAL TRIBAL CHAIRMEN'S ASSOCIATION

Mr. CHINO. Thank you, Mr. Chairman. Thank you for affording me the opportunity of speaking to you concerning the great and urgent needs of this country's Indian tribes in the area of housing and community development.

We are here to present proposals for certain amendments to the Housing and Community Development Act of 1974, which we believe our unique situation requires.

I am Wendell Chino, president of the National Tribal Chairmen's Association, and president of the Mescalero Apache Tribe of New Mexico.

I am here today on behalf of the National Tribal Chairmen's Association, and at the special request of several tribes and intertribal organizations in the Southwest.

With me today are Cecil Williams, chairman of the Papago Tribe of Arizona, and Peter Masten, chairman of the Hoopa Valley Tribe of California.

NTCA is an association of the elected or appointed chairmen, presidents, governors, or chiefs of the federally recognized Indian tribes of the United States and the Alaskan native regional corporations.

Our membership includes the leaders of approximately 190 tribes from all regions of the country and most of the major reservations and represents approximately 90 percent of the estimated 800,000 American Indians and Alaskan natives.

NTCA was formed in 1971 to represent the federally recognized tribes at the national level in working to secure the rights of Indian tribes and people. Our association and the many individual tribes represented at recent meetings in Phoenix and Albuquerque are united in our desire for a resolution of the pressing problem of on-reservation community development. The needs of Indian people, especially of reservation people, for improved housing and community facilities are a matter of great concern to me personally because they are so genuinely basic to the issues of individual human dignity and tribal viability.

Look for a moment at some of the traditional indicators of economic condition. Indians fare poorly, usually situated on or near the lowest rung of the ladder. According to the 1970 Census reports, the median-family income for reservation Indians was only \$4,230 or 44 percent of the U.S. average for all families. Over 53 percent of reservation Indians lived on incomes below the Federal poverty level. By each of these measures Indians fell well behind the averages reported for blacks, whites, and persons of Hispanic origin.

The problem of Indian poverty is a product of many factors but among the most important are chronic high levels of reservation unemployment and a population that is growing at one of the highest rates of any segment of the American people.

Recent Bureau of Indian Affairs reports indicate an average of 40-percent unemployment on reservations, over four times the national rate, with variations as high as 62 percent for the reservation populations of some States.

Substandard, unsanitary, and overcrowded housing, isolated, backward, and unproductive communities are the real symptoms of the rather stark statistics I have just described. They are symptoms that afflict far too many of our people.

When I speak of reservation housing needs, I am not talking about cosmetic improvements. I am talking about an estimated 26,704 Indian reservation families who are forced to live with other families because of the shortage of housing units.

I am talking about some 33,500 houses that should be replaced completely and another 27,992 that are considered substandard and in need of renovation. At the rate the Federal Government is now committing housing to Indian people, it will take an estimated 28 years to meet the need.

On many of our reservations we are not yet ready to talk about removing the appearances of blight or simply rehabilitating structures; we cannot consider for ourselves projects such as street lights, pedestrian malls, playgrounds, and recreation centers specifically mentioned in the act as eligible projects.

While we understand the importance of such facilities in the urban setting, too many Indian tribes are still faced with bringing some of the most basic aspects of 20th century life to their people.

Many Indian communities need initial water and sewer systems. We need to extend roads into the remote parts of some of the larger reservations and to pave some of the more than 92 percent of reservation roads that are unpaved.

Basic utilities such as gas and electricity should be extended to communities where people now rely on dangerous and costly liquid fuels.

The community development needs of most Indian tribes are quite basic and, therefore, quite costly. They are also quite different qualitatively and quantitatively from those of the communities with which tribes have had to compete for community development block grants. This combination of factors, we believe, clearly states the need for a set-aside of funds for Indian tribes.

It is important that this subcommittee recognize in its deliberation of any legislative proposal that will impact upon Indian tribes that the tribes are distinct political entities set apart from the states by the Constitution, treaties, and laws of the United States.

They possess and exercise inherent sovereign powers over the lands and people within their reservation boundaries. Primary among these is the right of the tribes, within the Federal context, to make their own laws and to be governed by them. This principle underlies the guiding Federal policy of promoting Indian self-determination.

Congress has in fact expressly recognized in the recent Indian Self-Determination Act "the obligation of the United States to respond to the strong expression of the Indian people for self-determination by assuring maximum Indian participation in the direction of . . . Federal services to Indian communities so as to render such services more responsive to the needs and desires of those communities."

Under the Housing and Community Development Act as now written and implemented, however, Indian tribes are defined as units of local government. As such they must compete for available balances with counties and cities with which they have little in common legally, structurally, geographically, or culturally.

Indian tribes have not fared well in such competition in relation to the magnitude of their need. Recent community development funding has only begun to close the gap between existing facilities and essential needs.

The community development block grant program represents the only real source of funds for community development. We, therefore, strongly urge creation of a set-aside as being necessary to increase the amount of funding available to the tribes.

This concept of an Indian set-aside is not new. Title II of the legislation before us contains such a provision as does the public works bill pending in this Congress. Numerous other Federal general development and assistance acts have specially recognized Indian tribes.

The absence of a distinct funding mechanism for Indian tribes has worked hardship and inequity in many reservations, creating difficult administrative burdens and peculiar, unintended results. My fellow chairmen intended to address some of those problems specifically.

Let me conclude by emphasizing the relationship between the act being considered here this week and the aspirations of Indian people. The Housing and Community Development Act declares that the future welfare of this country depends on the establishment of viable social, economic, and political communities and that this goal requires systematic and sustained governmental action.

The same can be said of the communal survival of Indian tribes. Tribal survival and vitality, we believe, are goals fully comprehended within this act. It is certainly a commitment of the United States that is manifest in the unique trust relationship between the tribes and the Federal Government.

We believe we are still struggling for parity with our non-Indian neighbors in terms of our community capacity to provide the basic amenities of life to our people.

In this context, when we are indeed talking about reservation viability, we see the set-aside as a needed reaffirmation of Federal commitment to performance of its trust responsibility.

We respectfully request that the subcommittee pass favorably upon our recommendations. My colleagues will be commenting further on specific aspects of the problem, and we will submit for the record a more comprehensive written statement.

Thank you.

[The prepared statement of Mr. Chino, on behalf of the National Tribal Chairmen's Association, with the following attachments: Attachment A, proposed language for an Indian set-aside to the community development block grant; attachment B, a memorandum from HUD, region IX, regarding a proposal for an Indian community development block grant set-aside; attachment C, a list of native Americans endorsing block grant set-aside; tribal resolutions; and a telegram from Peter MacDonald, chairman, Navajo Tribal Council to HUD Secretary Patricia Harris re proposed changes in community development block grant legislation, follows:]

STATEMENT OF
WENDELL CHINO, PRESIDENT, MESCALERO APACHE TRIBE,
AND PRESIDENT OF NATIONAL TRIBAL CHAIRMEN'S ASSOCIATION
BEFORE THE
SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT,
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
ON
AMENDMENT TO THE HOUSING AND
COMMUNITY DEVELOPMENT ACT OF 1974
MARCH 4, 1977

Mr. Chairman, thank you for affording me the opportunity to testify before the committee regarding the great and urgent needs of this country's Indian Tribes in the area of housing and community development.

I am Wendell Chino, President of the Mescalero Apache Tribe of New Mexico and President of the National Tribal Chairmen's Association (NTCA).

NTCA is an association of the elected or appointed chairmen, presidents, governors, or chiefs of the federally recognized Indian Tribes of the United States and the Alaska Native regional corporations. Our membership includes the leaders of approximately 190 Tribes from all regions of the country and most of the major reservations. The organization represents approximately 90 percent of the estimated 800,000 American Indians and Alaska Natives.

I was asked to come here and speak to you on behalf of a number of Indian Tribes and organizations including the National Tribal Chairmen's Association, National Congress of American

Indians, Association of American Indian Affairs, my Tribe, the Papago Tribe, the Hoopa Tribe, the Washoe Tribe, members of all Indian Pueblo Council, Oglala Sioux, Rosebud Sioux, Navajo Nation and others. These Tribes and organizations represent the vast majority of the Indian community in this country.

I want to take this opportunity to review with you the massive needs among Indian Tribal governments for community development assistance and our proposal for meeting these needs and thoughts on amendments to the Housing and Community Development of 1974 to establish a reasonable set-aside for Indian Tribes.

I. Indian Housing and Community Development Needs

The critical needs of Indian people, especially of reservation people, for improved housing and community facilities are a matter of great concern because they are so genuinely basic to the issues of individual human dignity and Tribal viability.

On many of our reservations we are not yet ready to talk about removing the appearances of blight; we cannot consider for ourselves projects such as street lights, pedestrian malls, playgrounds, and recreation centers specifically mentioned in the Act as eligible projects. While we understand the importance of such facilities in the urban setting, too many Indian Tribes are still faced with bringing some of the basic aspects of 20th century life to their people. Many Indian communities need initial water and sewer systems. We need to extend roads into

the remote parts of some of the larger reservations and to pave some of the more than 92 percent of reservation roads that are unpaved. Basic utilities such as gas and electricity should be extended to communities where people now rely on dangerous and costly liquid fuels.

The community development needs of most Indian Tribes are quite basic and, therefore, quite costly. They are also quite different qualitatively and quantitatively from those of the communities with which Tribes have had to compete for community development block grants. This combination of factors, we believe, clearly states the need for a set-aside of funds for Indian Tribes.

Substandard, unsanitary, and overcrowded housing, isolated, backward, and unproductive communities are a basic reality of reservation life. They are symptoms that afflict far too many of our people. When I speak of reservation housing needs I am not talking about cosmetic improvements. I am talking about an estimated 26,704 Indian reservation families who are forced to live with other families because of the shortage of housing units. I am talking about some 33,500 houses that should be replaced completely and another 27,992 that are considered substandard and in need of renovation. Look for a moment at some of the traditional indicators of economic condition.

According to the 1970 census, better than half of all reservation Indians lives below the poverty level. In Arizona, rural Indians have four times the national poverty rates and in

South Dakota, five times. The per capita income for reservation Indians is less than \$800.00 per year. The unemployment rates on most reservations exceeds 40%.

Rural Indian housing conditions are equally severe. Indians have the largest families and one of the highest birth rates of any segment of the American people. Severe overcrowding (1.5 or more persons per room) for rural Indian housing is eight times that of rural America. One third (32.6%) of rural Indians live in houses without water, almost four times the rate for all rural families. In 1970, when 13.6% of rural houses lacked complete bathrooms and 11.4% lacked plumbing, 48% of rural Indian houses were without complete bathrooms and 40% lacked plumbing; needs almost four times greater than the rest of the rural population.

No accurate housing condition inventory for Indian reservations exists. Perhaps the best way to describe the dimensions of unmet community development needs of Indian reservations is to outline the costs of completely meeting the needs of one relatively representative reservation.

The Papago Reservation in Arizona is neither the largest nor the poorest Indian reservation in the country. The Tribe, BIA and IHS estimate that it will cost \$29,350,000 in 1976 dollars to meet Papago's community development needs: \$2,500,000 for housing rehabilitation; \$4,050,000 for domestic water and environmental services; \$2,300,000 in electrification; \$500,000 for small community services facilities and \$20,000,000 in minimal road paving.

Other federal agencies have some authority to provide community development assistance. However, none have a primary mandate to fund community development, none have a broad mandate to support the range of community development activities, and all are underfunded. For example, although the Public Works Programs have been utilized for community development purposes, these programs are intended to support economic development activities. Although the authorizations under the Indian Self-Determination and Education Assistance Act, Pub. L. 93-638, are arguably broad enough to include community development, Congress has indicated very strongly that Self-Determination Act funds should be used for administrative support to meet the costs of providing basic governmental services to Indian communities. Finally, although the Indian Health Service has been authorized to install water and sewer systems to new and existing housing, this authority has been given secondary status and is critically under funded. Further, the authorization would not permit comprehensive support to meet other community needs.

The total cost of meeting the unmet development needs of Indian communities has never been determined. American Indians are just now beginning to emerge from a long dormancy. Relatively modern reservation communities are just beginning to develop. Thousands of miles of roads need to be paved, and gas and electric utilities extended to reach distant and scattered communities. Beyond these exceptionally elementary priorities there exists a

need to plan and develop actual neighborhood infrastructures to assure the continued life of viable, successful Indian communities. Costs that have been aggregated regionally or nationally indicate that it will cost billions of dollars just to meet these needs, not in the future, but right now.

II. Status of Tribal Governments

As will be developed below, we believe that these massive community development needs can be met only through the recognition of Tribal governments as sovereign and independent entities. Recognition of this compels the establishment of a legislative set aside for Indian Tribes. This approach is consistent with the current Federal policy regarding Indian Tribes and is similar to the treatment of Tribal governments under various programs administered by several other Federal agencies.

The Federal Government has consistently recognized Indian Tribes as polities that possess the characteristics of a sovereign entity and exercise powers of self-government over their lands and members. Worcester v. Georgia, 31 U.S. 15 (1832).

Because of the magnitude and uniqueness of the Indian situation in almost all societal areas, the Federal government has been turning more and more to special recognition of Indian Tribes, Indian programs, and Indian allocations. The present Federal policy towards Indians, as expressed by Congress in the Indian Self-Determination Act, is to give Tribes the authority to control their own destinies and to give them the resources to build viable Indian governments. This policy has been carried

forward by Congress in a number of acts, in which specific set asides for Indian Tribes have been established.

This policy was recognized by this Committee in 1974, when it created special provisions for Indian Housing in Title II of the Act. Another significant law in this respect is the State and Local Fiscal Assistance Act which specifically includes Indian Tribes in the Revenue Sharing Program, 31 U.S.C. §1227(b)(4). Other laws which give specific recognition to Indian Tribes include: The Economic Opportunity Act, 42 U.S.C. §2790(f), the Public Works and Economic Development Act, 42 U.S.C. §3131(a), the Housing and Urban Development Act, 42 U.S.C. §1460(h), the Juvenile Delinquency Prevention and Control Act, 42 U.S.C. §3891(2), the Crime Control Act of 1973, 42 U.S.C. §3781(d), and the Comprehensive Employment and Training Act, 29 U.S.C. §§1801 et seq.

In addition, the 95th Congress is now considering an amendment to the Local Public Works Capital Development and Investment Act of 1976 to provide a set aside of 2-1/2% for Tribal governments.

III. The Housing and Community Development Act and Indian Communities

Indian Tribes are presently one of the units of local governments eligible for Community Development Block grants. Most compete with other rural communities for funds in the non-metro portion of the program. However, a number of Tribes are located in metropolitan counties and compete for "balance-of-county" funds.

In the past two years Indian Tribes have received approximately \$10 million a year in Block Grant funds. As discussed below, administrative provisions in the Act which are inappropriate for Tribes, as well as inequities in the funding system, have caused enormous difficulties for Tribes. It has resulted in administrative nightmares for Tribes and a level of funding to Indians which is far below the amount they need or are entitled to as their fair share of the Block Grant funds.

A. Many provisions of the Act itself are not responsive to the special legal, geographical, and cultural situations of Indian reservations.

Even though the Block Grant Program primarily addresses the needs and problems of urban areas, the special needs of more rural areas were recognized and the discretionary grant program was established. Many major provisions of the Act, however, do not apply or respond to the even more special problems of rural Indian communities. This urban and municipal orientation can make the simplest, most flexible and potentially most responsive of all community development programs cumbersome, rigid, and unresponsive when applied to Indian reservations.

Some of the major legal and administrative problems caused by the provisions of the Statute itself include the following:

1. Statutory Funds Allocation Process: The Act prescribes the allocation of funds by formula according to state and county demography. This ignores the fact that Indian communities

must be treated the same as non-Indian communities, despite the fact that the borders of many Indian reservations cross state, county, and even regional boundaries. These Indian communities must compete for funds from as many as three different balances according to two different application schedules, sometimes in two or more Regional Offices. The geographically based funds allocation system causes HUD to treat one Indian community as if it were several communities competing with each other. As a result, one area of the same reservation can receive Community Development Block Grant funds and others cannot. These accidents of geography, moreover, preclude reservations from being able to address their own needs according to their own priorities and create extra work and confusion for the typically small and inexperienced staffs of Indian Tribes.

a. For example, the Papago Reservation in Arizona spans the borders of three counties, two metropolitan and one non-metropolitan. The Papago population is unevenly distributed. More Papagos live in Pima County (metro) than in either Maricopa County (metro) or Pinal County (non-metro). Papago residents are almost all poor and most of the reservation lacks basic community facilities. The Tribe applied for all three balances. Papago received 69% of the small (\$275,000) Pima County balance because of the large, poor population in the Pima County area of the reservation. The Tribe received none of the larger Maricopa balance and only 2.3% of the much larger (\$2,938,000) non-metropolitan balance. Clearly, this was the result of having to

treat Indian and non-Indian communities with absolute consistency. The small towns in Pima County feel the Papago share was disproportionate compared to the amount of money available. The Papago Tribal Council is finding it difficult to explain to their Maricopa County constituents why they cannot get running water when their neighbors across the line in Pima County can.

b. Navajo is another example. This enormous Reservation covers contiguous land in New Mexico, Arizona, and Utah. Region IX has jurisdiction for New Mexico and Arizona but Region VIII administers Community Development Block Grants in Utah. The largest, and in many ways the poorest, Tribe in the U.S. has to compete for grants with well over 200 other communities from three state balances administered by two HUD Regions. The confusion caused by this geographical accident resulted in the Utah portion of the Navajo Nation getting no 1976 Community Development Block Grant funds at all.

These kinds of problems, principally caused by the formula allocation process, can only be resolved by creating a set-aside that would not require HUD to treat Indian and non-Indian applicants with rigid consistency.

2. Overlay Statutes and Other Program Requirements

Other parts of the statute and regulations have caused unanticipated administrative and legal problems for HUD and Indian communities. The Act incorporates by reference and applicants must certify compliance with, a variety of other statutes: the

Civil Rights Acts of 1964 and 1968 as well as the Executive Orders 11246 and 11063; NEPA; Davis-Bacon; the Real Property Acquisition and Relocation Act; the Flood Insurance Act; and others. Subject to further legal research, it appears that while some of these statutes questionably apply to Indian Tribes they do not recognize the special legal relationship which Indian Tribes have with the Federal government. In addition, some of the other program requirements such as application and submission deadlines adversely affect Indian communities. (See the attached memo from HUD Region IX for further information on the overlay statute problems.)

The simplest, most direct and effective way for HUD to deal with the unusual legal and administrative problems a large and growing Indian clientele presents is to create a separate set-aside of Community Development Block Grant funds for Indian communities. This would allow HUD to develop coherent, flexible, and responsive policies for administering the Community Development Block Grant program in Indian Communities. The special circumstances of Guam, American Samoa, and the Trust Territories have already been recognized. This proposal would merely extend that recognition to Native American communities.

3. Other Program Requirements

The demand for consistent program administration creates other kinds of problems both for HUD and for Indian communities. While most of these are not insurmountable obstacles, they are

illustrative of the problems of applying a municipal law to an Indian situation. For example, the Housing Assistance Plan requirements include estimates of the number and nature of lower income families that could be expected to reside in the applicant communities if adequate low income housing were available. While important national objectives can be achieved by this program requirement, it hardly applies to Indian reservations that are remote, whose residents are almost all low income and whose residency policies are otherwise allowed by law to be restrictive.

The competitive nature of the Discretionary Grant Program has led to formulation of a rating and ranking system that requires the extensive use of population, housing, and poverty data as the measurements of the relative community development needs of the residents of applicant communities. Indian and non-Indian communities must be treated consistently, and only published and verified data can be used in the rating competition. Indian data is so inaccurate that many tribes have not been competitive despite obvious and extreme needs.

B. Inequities in Funding Patterns.

1. Inequities to non-Indian communities.

The present allocation arrangement also discriminates against the non-Indian communities in the counties and states in which Indian reservations reside. Because most states that have reservations are sparsely populated, the allocation to those states is small to begin with. Then, because Indian poverty and

housing problems are so severe, the Tribes receive the bulk of the Block Grant funds, leaving very little for the non-Indian communities. For example, in Nevada, Indian Tribes received 100% of the discretionary non-metro balance. In Arizona they received 62% of that balance. In Region VIII, Indian communities got over 33% of the discretionary non-metro balance.

This situation is unsatisfactory for both the tribes and the non-Indian communities. Indians get a big piece of a small pot and as we will show, this is far below what they deserve. The non-Indian communities in these states receive almost no funds at all. The community needs in small cities in Nevada are no more nor no less severe than those in towns and cities in the non-metro part of mid-Western or Eastern cities. But because these communities have Indian reservations in their states, they receive a much smaller share of the Community Development Block Grant funds than do communities elsewhere in the country.

This situation serves only to contribute to existing hostility and tension between Indian and non-Indian communities. It is also unfair. Indian reservations were created by the Federal government and the problem is a Federal problem. It is unjust to place the burden of solving reservation housing and community problems on neighboring communities. Since it is a Federal responsibility, the burden should be shared equally by the entire nation rather than the few states.

The only way to justly share this burden is through the creation of a set-aside, which draws funds from all communities nationwide.

This same point was made by Rural America, Inc. in its testimony before this Committee. That organization strongly endorsed an Indian set-aside under the Community Development Block Grant program. (See the testimony of Harriet S. Barbou on March 1, 1977.) After noting that the "present arrangement loads a national responsibility on the relatively few states where there are large concentration of Indians, that organization endorsed a set-aside of 1% of the total Block Grant program. (See the testimony of Harriet S. Barbou, March 1, 1977.)

2. Inequities to Indians

As indicated earlier, the extent of Indian need is massive. The amount of funding they are now receiving from the Community Development Block Grant program, approximately \$10 million a year, is inadequate in absolute terms. It is also inadequate and inequitable in terms of the allocation formula provided in the Housing and Community Development Act itself. Applying that formula to the Indian situation: Indians comprise 0.8% of the non-metropolitan population in the country. Their extent of poverty is four times that of the rest of the non-metro population. The extent of overcrowding is four times that of the rest of the non-metro population. Applying the Block Grant allocation formula, which counts poverty twice, Indians should

be receiving approximately ten percent of the total non-metropolitan balance. This year that balance is approximately \$300,000,000, so the Indian share should be \$30 million or three times what they have actually been getting. Therefore, without looking at any other factors, a fair distribution of funds, based on the Act's own formula of the current level of appropriations, should be bringing Indian Tribes at least \$30 million dollars.

The existing allocation system is the reason they are getting less than a third of this fair share. Since it is not politically realistic to expect that Tribes could receive a larger proportion of the non-metropolitan allocations to the states in which they are located, the Tribes believe that the only logical solution is to establish a set-aside that earmarks the Indian's fair share of the Block Grant funds solely and specifically for their use.

IV. Conclusion

The Indian Tribes of this country believe that the only viable solution to the extensive problems outlined above is an Indian set-aside within the Block Grant program. Each one of the factors discussed above creates a strong justification for a set aside; cumulatively, they create an overwhelming justification.

--A set-aside is the only solution to the undue burden which the existing system places on the non-Indian communities in states and counties in which reservations are located. Indian poverty is a national responsibility and a set-aside is the only way to assure that the burden is shared equitably by the entire country.

--A set-aside is the only way to correct the administrative problems under the existing program, including county and state "split" problems. These problems tend to compartmentalize the funding and make it difficult for Tribes to undertake the comprehensive planning and development which we all know is necessary.

--A set-aside is the only approach that will provide Indians with the level of funding which they so desperately need to meet their severe poverty and housing problems. It is also the only way Indians could be assured their fair share of the Block Grant funds.

We believe that any one of three possible set-aside approaches would be equitable and appropriate:

1. An Indian set-aside consisting of 1% of the Community Development Block Grant appropriations.
2. An Indian set-aside consisting of 10% of the discretionary balance in the non-metropolitan allocation.
3. Seven and one-half percent of the entire non-metropolitan allocation (7-1/2% of the 20% pt.). Each of these approaches would produce a set-aside amount in the range of \$30 to \$40 million, which is far less than Indians need but which matches the fair share amount to which they are entitled. Whichever approach is adopted, there would also be a need to authorize the Secretary

to develop administrative regulations and allocation and distribution formula that are responsive to the unique needs of Indians. This is essential if Tribes are to avoid the problems they now face by trying to fit into requirements that were set with places such as Chicago or New York in mind. Lastly, the provision should give the Secretary the authority to waive any overlay statutes which are inappropriate to Indians. A clear precedent for this kind of waiver was established in the Indian Self-Determination and Education Assistance Act, which authorizes the Secretary of the Interior to waive any contracting regulations or laws which conflict with the intent of the statute. (Proposed legislature language is attached.)

Mr. Chairman, we would like to submit for the record a copy of the memorandum prepared by the HUD Region VIII Office which recommends that a legislative Indian set-aside be established. This memorandum was transmitted to the Assistant Secretary for Community Planning and Development last September and we understand that it will be forwarded to the Secretary for her review. We request that this Committee ask the Secretary to submit her views after she has had an opportunity to review this proposal.

Also attached are letters, Tribal resolutions and other statements of support from Indian Tribes and organizations. We appreciate this opportunity to appear before you on this important issue. Thank you.

ATTACHMENT A

PROPOSED LANGUAGE FOR AN INDIAN SET ASIDE TO THE COMMUNITY DEVELOPMENT
BLOCK GRANT

1. In section 102(a)(1), after the phrase "the Trust Territory of the Pacific Islands;" delete the phrase, "and Indians tribes, bands, groups, and nations, including Alaska Indians, Aleuts, and Eskimos, of the United States."
2. In Section 102(a) add a new subsection (14), which shall read as follows:

"Indian tribe" means any Indian tribe, band, nation, or other organized group or community, including any Alaska Native village or regional or village corporation as defined in or established pursuant to the Alaska Native Claims Settlement Act (85 Stat. 688), which is recognized as eligible for the special programs and services provided by the United States to Indians because of their status as Indians;
3. In Section 103(a)(1), in the first sentence, after the term, "and units of general local government," add "and Indian tribes."
4. In Section 107 add a new subsection (d), which shall read as follows:

"Of the total amount of authority to enter into contracts approved in appropriation Acts under Section 103(a)(1) for

each fiscal year, an amount equal to 1 per centum thereof shall be reserved and set aside in a special discretionary fund, to be used for the sole purpose of making community development block grants to Indian tribes.* Indian tribes shall not be eligible for any grants provided for in Section 106 of this Title. The Secretary, after consultation with national Indian organizations and Indian tribes, shall promulgate regulations for the allocation, distribution, administration, and use of funds provided for in this subsection. Also, the Secretary may waive any provisions of this Act, the Davis-Bacon Act, and the 1964 Civil Rights Act as amended, which she determines are inappropriate for, or inconsistent with, the purposes of this Act, or which will impede Indian tribes from developing viable communities or achieving the objectives of Indian Self-determination."

*ALTERNATIVES TO THE FIRST SENTENCE OF THIS PARAGRAPH

1. "Of the 20 percentum of the funds allocated by Section 106(f)(1) of this Title, for each year, an amount equal to 7-1/2 percentum of those funds shall be set aside in a special discretionary fund for the sole purpose of making community development grants to Indian tribes."
2. "Of the funds allocated for the purposes set out in Section 106(f)(1)(B) of this Title, each year an amount equal to 10 percentum of those funds shall be set aside for the sole purpose of making community development block grants to Indian tribes."

ATTACHMENT B

HUD-85 (7-78) PREVIOUS EDITION MAY BE USED

*Memorandum*U.S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT

TO : David O. Meeker, Jr., Assistant Secretary
Community Planning
and Development, C

DATE: 8 SEP 1976

IN REPLY REFER TO:
90C

FROM : Robert H. Baida
Region IX, San Francisco

SUBJECT: Proposal for an Indian CDBG Set-Aside

Regions I, VII, VIII, and X join me in proposing for your consideration a recommendation to amend the Housing and Community Development Act to establish a set-aside of CDBG funds for Indian communities. During the first two years of the Block Grant Program, Regions with substantial numbers of Indian clients have found that the regulations and funding procedures governing discretionary grants are not as responsive to the extraordinary needs and special legal situations of American Indian communities as they could or should be.

Indian communities have community development needs that are several times greater than most non-Indian communities. In Fiscal Year 1975, however, only \$9,300,000 (or 3.7%) of the appropriation went to Indian tribes. In Fiscal Year 1976 it appears that CDBG funding of Indian communities will actually decline relative to the increased appropriation. Fiscal Year 1976 funding projections indicate that Indian communities will receive only about \$9,600,000 (or 2.8%) of funds available. For your information, I have attached as complete an Indian funding history as it was possible for us to compile.

On the one hand this level of funding is too small to have a substantial impact in meeting Indian community development needs. On the other hand, the proportion of CDBG funds going to Indian communities in some states is very large. For example, more than 60% of the Arizona discretionary balance is going to Indian communities. This severely reduces the number and amount of grants going to non-Indian communities. The formula allocation of discretionary funds has frequently resulted in irrational or inequitable funding decisions for both non-Indian and Indian communities. The many Indian tribes whose reservation boundaries cross state and regional and/or county boundaries are particularly affected.

The most important overlay statutes incorporated in the Housing and Community Development Act either do not apply to Indian recipients or our compliance requirements create severe hardships for the most disadvantaged and least experienced group of HUD's clients. It appears that the Act failed to take into account the special legal status, need and cultural patterns of an entire category of applicants. In our view, the simplest way to help meet the extraordinary needs of Indian applicants and make the CDBG program more responsive to their special legal situation without severely reducing the funding opportunities for non-Indian communities, is to establish a legislative set-aside for eligible Indian communities.

This recommendation results from a nationwide meeting of HUD Indian programs staff. The staff of the Regions present at that meeting endorsed the set-aside approach and requested Region IX to develop a recommendation for Central Office consideration.

A legislative approach is being proposed because it is the only set-aside alternative available to the Department. The General Counsel in an earlier advisory opinion, noted that the administrative set-aside Region IX suggested may be vulnerable to constitutional challenge as a violation of the due process clause of the Fifth Amendment (and by precedent a possible violation of the equal protection provisions of the Fourteenth Amendment as well).

In proposing this legislative amendment, we presume that the General Counsel's concern arose principally out of the funds allocation process that specifically includes the demography of the total population within a state in calculating the amount of Block Grant funds going to eligible applicants in that jurisdiction. A result of this statutory funds allocation process is that all eligible applicants whose demography contributed to a state or county balance must be treated the same and given equal opportunity to compete for a share of the funds. The Office of General Counsel's concern appears to be that an administrative act to set-aside part of a statutorily allocated fund for a special ethnic classification was discriminatory unless some compelling governmental interest were shown.

We believe that this proposal meets these constitutional concerns for several reasons.

- 1) Indian reservations are a special category of applicants, not just another minority. The normal civil rights laws have been found not to apply to them. It may not, therefore, be necessary to apply constitutional protections to Indian reservations in the same way they apply to the general population.

- 1)(cont.) That there are special categories of applicants (as opposed to racial classifications) has already been recognized in the Block Grant Program with the special provisions in the Act for Guam, etc. This proposal extends that recognition to Native American communities.
- 2) There may well be a compelling governmental interest in providing for a special Indian set-aside. The parts of the HCD Act as it is currently written do not apply to Indian reservations. Indian communities, therefore, are being made to comply with laws that legally do not apply to them. This situation could very well be the subject of a constitutional challenge. Moreover, the needs of most Indian communities are so extraordinary that there may well be a compelling governmental interest to take steps to give special consideration to these needs. This proposal justifies a compelling governmental interest based on need and the unapplicability of some existing laws to Indian communities.
- 3) There is ample legislative precedent for special treatment of Indian communities. The Housing and Community Development Act of 1974 itself provides for a housing set-aside for Indian Housing Authorities. The 1974 Amendments to the Public Works and Economic Development Act of 1965 provide for \$25 million (16% of the total appropriation) Indian set-aside. (PL 93-423, 88 Stat 1162, Part C, Sec. 404, 42 USC Sec 3172). This money was allocated to Tribes in addition to other funds available in order to assure a minimum Federal commitment to alleviate the economic distress of Indians. This legislative provision merely continued the existing administrative set-aside EDA established in about 1966.

An outline of the attached proposal has been sent to all Regional Offices and to Indian communities in Region IX for comment. With the exceptions described below the reaction to a set-aside has been universally endorsed.

REGIONAL RESPONSES:

Most Regions have been polled by telephone for their reactions and preferences regarding a set-aside.

Region I gave the concept a qualified endorsement.

Region II could not be reached.

Region III has no CDBG eligible Indian clients.

Region IV took no position.

Region V took no position.

Region VI has taken no official position but there are indications that they oppose a set-aside.

Region VII endorses the recommended proposal.

Region VIII endorses the concept of a set-aside if the amount of money going to Indian communities increases substantially.

Region X endorses the recommended proposal.

INDIAN RESPONSES:

Almost every Indian Tribe consulted to date (some 50 tribes) has endorsed an Indian CDBG set-aside. Most Indian communities (and some Regions), however, feel that the amounts proposed are too small and should be increased substantially. New Mexican Tribes recommended a 5% set-aside, for example.

With regard to specific aspects of the alternatives proposed, the following Indian preferences have emerged:

Region X Indian communities favored a set-aside so long as a "second-chance" funding appeal process was established and/or the EDA "not-less-than" approach was adopted.

One group of Nebraska tribes feels that they might get more money in open competition.

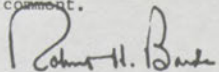
Some Oklahoma tribes feel that they are too rich and a formula would decrease their funding level. Nevertheless, the Western Kansas and Oklahoma Indian Tribal Council has endorsed a CDBG set-aside. They would prefer that HUD's Indian programs be centralized.

Region IX Tribes have had the most exposure to the various set-aside alternatives. The percentage set-aside approach has been universally and enthusiastically endorsed. Concern for the smaller Tribes was expressed and there was some sentiment in favor of granting even small entitlements to every Tribe. The majority of Region IX Tribes, however, appeared to favor the discretionary distribution of funds to Indian communities.

Enclosed is the detailed proposal for an Indian CDBG set-aside. This staff paper describes all the programmatic and statistical justifications it was possible for a regional staff to compile. We hope it will be useful to Central Office staff in developing the Department's official legislative recommendation. Inasmuch as it is an extensive piece, a duplicate summary of the Region's recommendations is attached to this memorandum for your convenience.

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I would appreciate hearing from you regarding the Department's reaction to this proposal. Copies have been sent to all Regional Administrators for their concurrent review and comment.



Robert H. Baida
Regional Administrator

Attachments

This is a proposal to set-aside a portion of the appropriation of Title I of the Housing and Community Development Act of 1974 for Native American communities. The proposal is divided into three major sections:

- I. The reasons and justifications for an Indian Set-Aside
- II. The alternatives considered and rejected
- III. The alternatives recommended together with proposed legislative and regulatory changes

I. The Reasons and Justifications for an Indian CDBG Set-Aside

The first part of this section describes a few of the legal and administrative problems HUD and Indian recipients have experienced in applying a municipally oriented law to the special situations of rural Indian reservations. The second part of the section describes in statistical terms the nature and magnitude of the unmet community development needs of Indian communities. It justifies the set-aside on the basis of relative need.

A. The Housing and Community Development Act and Indian Communities

Many provisions of the Act itself are not responsive to the special legal, geographical, and cultural situations of Indian reservations.

Even though the Block Grant Program primarily addresses the needs and problems of urban areas, the special needs of more rural areas were recognized and the discretionary grant program was established. Many major provisions of the Act, however, do not apply or respond to the even more special problems of rural Indian communities. This urban and municipal orientation can make the simplest, most flexible and potentially most responsive of all community development programs cumbersome, rigid, and unresponsive when applied to Indian reservations.

Some of the major legal and administrative problems caused by the provisions of the Statute itself include the following:

1. Statutory Funds Allocation Process: The Act prescribes the allocation of funds by formula according to state and county demography. This, in turn, requires that Indian communities must be treated the same as non-Indian communities, despite the fact that the borders of many Indian reservations cross state, county, and

even regional boundaries. These Indian communities must compete for funds from as many as three different balances according to two different application schedules, sometimes in two or more Regional Offices. The geographically based funds allocation system causes HUD to treat one Indian community as if it were several communities competing with each other. As a result, one area of the same reservation can receive CDBG funds and others cannot. These accidents of geography, moreover, preclude reservations from being able to address their own needs according to their own priorities and create extra work and confusion for the typically small and inexperienced staffs of Indian Tribes.

- a. For example, the Papago Reservation in Arizona spans the borders of three counties, two metropolitan and one non-metropolitan. The Papago population is unevenly distributed. More Papagos live in Pima County (metro) than in either Maricopa County (metro) or Pinal County (non-metro). Papago residents are almost all poor and most of the Reservation lacks basic community facilities. The Tribe applied for all three balances. Papago received 69% of the small (\$275,000) Pima County balance because of the large, poor population in the Pima County area of the Reservation. The Tribe received none of the larger Maricopa balance and only 2.3% of the much larger (\$2,938,000) non-metropolitan balance. Clearly, this was the result of having to treat Indian and non-Indian communities with absolute consistency. The small towns in Pima County feel the Papago share was disproportionate compared to the amount of money available. The Papago Tribal Council is finding it difficult to explain to their Maricopa County constituents why they cannot get running water when their neighbors across the line in Pima County can.¹
- b. Navajo is another example. This enormous Reservation covers contiguous land in New Mexico, Arizona, and Utah. Region IX has jurisdiction for New Mexico and Arizona but Region VIII administers CDBG in Utah. The largest, and in many ways the poorest, Tribe in the U.S. has to compete for grants with well over 200 other communities from three state balances administered by two HUD Regions. The confusion caused by this geographical accident resulted in the Utah portion of the Navajo Nation getting no 1976 CDBG funds at all.

1. See letter from the Chairman of the Papago Tribe dated August 13, 1976, Attachment 1.

- c. There are 27 Indian reservations in urban counties in Region IX alone. Few of these small reservations have running water; many have no paved roads; several have no electricity or telephone service; all have substantial housing and poverty problems.² Their collective populations are very small, however, and their contribution to the counties' entitlements is estimated at less than \$10,000. Many urban counties have relatively small entitlements and have been reluctant to allocate funds to included units of government on other than a formula pass-through basis. So, even if all the urban county Indian communities joined their respective counties, they would not receive funds approaching what it would actually cost to relieve some of their truly urgent housing and community development needs.³

These kinds of problems, principally caused by the formula allocation process, could be resolved by creating a set-aside that would not require HUD to treat Indian and non-Indian applicants with rigid consistency.

2. Overlay Statutes and Other Program Requirements

Other parts of the statute and regulations have caused unanticipated administrative and legal problems for HUD and Indian communities. The Act incorporates by reference, and applicants must certify compliance with, a variety of other statutes: the Civil Rights Acts of 1964 and 1968 as well as the Executive Orders 11246 and 11063; NEPA; Davis-Bacon; the Real Property Acquisition and Relocation Act; the Flood Insurance Act; and others. Subject to further legal research, it appears that while some of these statutes questionably apply to Indian Tribes they do not recognize the special legal relationship which Indian Tribes have with the Federal government. In addition, some of the other program requirements such as application and submission deadlines adversely affect Indian communities.

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2. No separate quantitative housing and poverty statistics are available for Indian reservations in SMSA's. SMSA statistics are too inaccurate to quote.
 3. California is a P.L. 93-280 State and certain California counties have tried to interpret this law as granting them authority over Indian lands. Several lawsuits are still pending and neither the counties nor the Tribes are willing to sign cooperation agreements that might influence the outcome of those suits. Only the Barona Reservation in San Diego County has signed a cooperation agreement and will receive County CDBG funds in Region IX.

a. Civil Rights Statutes

In some cases, the overlay statutes are in direct conflict with other statutes that specifically address Indian situations. The Indian Civil Rights Act and the Indian Preference provisions of Section 7(b) P.L. 93-638 are examples.

Currently, all applicants are required to certify that they will comply with Title VI and Title VIII of the Civil Rights Acts of 1964 and 1968. The Housing and Community Development Act, however, is silent on the degree to which these statutes apply to Indian recipients. This silence has led to the determination that Indian communities must comply with these overlay statutes regardless of their inapplicability or their apparent conflict with other "Indian" laws. As a result, few, if any, Indian recipients are in compliance with the Civil Rights Acts of 1964 and 1968. (See General Counsel Opinion dated 4-19-76, Attachment 2.)

Similarly, it has been determined that the Indian Preference provisions of P.L. 93-638 (and perhaps the Indian preference requirements of other statutes) do not apply to the 701 and, by inference, CDBG programs because they are programs of general applicability. (See memo dated 6-17-76 from Margulies to Rodgers, Attachment 3.) This may be a necessary determination but it has unfortunate results. Many Indian communities are so remote from population centers that they have difficulty in recruiting, hiring, and housing the non-Indian workers they need in order to meet affirmative action requirements. It is also unfortunate that Indian communities must dilute the job generating potential of the CDBG program when their own unemployment rates are typically six times greater than the national average.

The Indian preference problem is further complicated by Section 3 (of the 1968 HUD Act) which requires CDBG recipients to give residents of community development areas preference for the jobs CDBG funds create. All applicants must certify compliance with Section 3.

It is recommended, therefore, that the appropriate sections of the Housing and Community Development Act of 1974 be amended to:

- (1) Make compliance with the Indian Civil Rights Act of 1968 applicable to Indian CDBG recipients, notwithstanding the provisions of Section 109.
- (2) Specifically allow for Indian priority in employment and contracting if job applicants and/or contractors are qualified.⁴

b. The Davis-Bacon Act

Compliance with the Davis-Bacon Act is also required of all CDBG recipients including Indian communities. While general wage parity is a desirable objective, requiring it frequently creates inequities and hardships for Indian reservations. Many Indian tribes have begun to establish and train tribal "force account" construction crews to generate jobs with tribal resources. Typically tribal workers are not paid full journeyman wages. The tribes feel that they can employ more people at a living wage and build more badly needed facilities by paying tribal crews less than the wages prevailing in the wider labor market area. The rigid enforcement of Davis-Bacon wage rates creates the inequitable situation of paying some workers more than others, thereby disturbing the prevailing income standards on the reservations.

The other overlay statutes cited above also cause administrative, legal, and compliance problems for Indian CDBG recipients. For example, some of the handbook requirements governing real property acquisition assume powers of eminent domain which Indian communities typically do not have. The degree to which it is reasonable to require Indian tribes to comply with these regulations should be investigated.

The problems the overlay statute provisions of the Housing and Community Development Act create for Indian communities could be resolved by amending the Act to instruct the Secretary to develop a separate assurances form for Indian applicants. Only in those instances noted above, where

4. See *Morton v. Mancari*, 94 S. Ct. 2474, 417 U.S. 535, 41 L.Ed 2d 290 (1974); 25 USC § 45; 42 USC § 2000 e - 2(i); 25 USC § 450 e; and the new Indian Health Care Improvement Act for precedents. Many Tribal leaders prefer Indian priority over Indian preference language and encourage the inclusions of qualification requirements in any Indian employment/contracting provisions.

there is an actual conflict between laws would specific amendments be required to allow the use of a special assurances procedure.

Other Program Requirements

The demand for consistent program administration creates other kinds of problems both for HUD and for Indian communities. While most of these are not insurmountable obstacles, they are illustrative of the problems of applying a municipal law to an Indian situation. For example, the Housing Assistance Plan requirements include estimates of the number and nature of lower income families that could be expected to reside in the applicant communities if adequate low income housing were available. While important national objectives can be achieved by this program requirement, it hardly applies to Indian reservations that are remote, whose residents are almost all low income and whose residency policies are otherwise allowed by law to be restrictive.

The competitive nature of the Discretionary Grant Program has led to formulation of a rating and ranking system that requires the extensive use of population, housing, and poverty data as the measurements of the relative community development needs of the residents of applicant communities. Indian and non-Indian communities must be treated consistently, and only published and verified data can be used in the rating competition. Indian data is so inaccurate that many tribes have not been competitive despite obvious and extreme needs.

A related problem is the definition of "resident." As a result of adverse policies and living conditions, many Indian families were forced to leave their reservations. Most are eligible and enrolled members of various tribes. Many continue to live in areas adjacent to their reservations and would move back if there were adequate housing and community development facilities. To cite one case: on the Susanville Rancheria in California, there are currently 26 housing units and about 41 families. There are another 500 to 750 Indians of related tribes in the immediate area who, the IHS estimates, would move back to the Reservation if they could. In the competition for CDBG funds, however, HUD could only count the resident population of Susanville Rancheria itself for purposes of assessing its relative community development needs.

Indians living on or near reservations as defined by BIA or IHS ought to be included in HUD's calculations of poverty and housing needs.⁵

The simplest, most direct and effective way for HUD to deal with the unusual legal and administrative problems a large and growing Indian clientele presents is to create a separate set-aside of CDBG funds for Indian communities. This would eliminate the need to treat Indian communities with the absolute consistency the current fund allocation process requires and allow HUD to develop coherent, flexible, and responsive policies for administering the CDBG program in Indian communities. The special circumstances of Guam, American Samoa, and the Trust Territories have already been recognized. This proposal would merely extend that recognition to Native American communities.

3. Eligible Activities

Some of the project eligibility provisions of the Statute and the Regulations are unresponsive to the needs of Indian communities.

Project eligibility requirements uniformly relate to the needs and situations of municipal governments. As a result, many requirements are too restrictive and Indian communities cannot apply for activities that directly meet their needs.

- a. Support tests of various types are required for many activities. Housing rehabilitation, for example, can only be carried out in connection with other community development activities being carried out in the same census tract. Indian reservations, however, are almost entirely dependent on Federal grant programs for community development activities. The funding priorities and schedules of other Federal departments are different from HUD's. Frequently no other funds are available for community development activities to support housing rehabilitation, especially in a specific area of a large reservation.

Fire protection equipment and facilities are eligible only if they meet a locational support test. It

5. *Morton v. Ruiz* (415 S. Ct. 1055, 415 U.S. 199, 39 L.Ed. 2d 290 (1974)) defines "on or near" in even broader, non-geographical terms than the BIA traditionally uses.

appears that this restriction was included to discourage entitlement communities and municipal governments from providing fire protection to the exclusion of other less popular activities. The needs of Indian communities for fire protection are of a different sort. Frequently, fire protection is not available at all, or is so inadequate that the purchase of new fire equipment is not an optional expansion of an existing service but a basic community necessity.

There are similar restrictions on some water and sewer, utilities, and other public works projects. For example, large, inhabited areas of many reservations are entirely without gas or electricity. CDBG funds may be used to help provide these services only if utilities are publicly owned. This restriction can be overcome if tribes are capable of owning and managing their own utility companies. Most tribes do not have these capabilities.

- b. In the examples cited above, relaxation of certain eligibility standards for Indian applicants is appropriate and recommended. In other cases, some activities that are currently ineligible should be made eligible for Indian applicants. Maintenance and operating costs of CDBG funded public facilities are an example. A portion of each public facilities construction grant should be placed in an interest-bearing escrow account, revolving fund or other restricted-use account. Many tribes with urgent needs for community facilities have less than \$5,000 in annual use income and cannot pay utility bills much less structural maintenance costs. CDBG Regulations assume the ability to pay for such costs as if Indian communities had the taxing authority cities do. Establishing operations and maintenance accounts for CDBG funded facilities would allow tribes to build badly needed facilities and assure the government that it will not be wasting money.

B. Indian Housing and Community Development Needs

The housing and community development needs of Indian communities are so large and so basic that extraordinary steps such as a CDBG set-aside are both necessary and justified. Of all minority groups in the country, Native Americans have the lowest incomes, the largest families, the least economic opportunity, and live in the worst conditions. Reservation Indians are even worse off than the general Indian population.

While no accurate assessment of the total unmet need for housing and community facilities on Indian reservations (or the general Indian population) has been made, conservative estimates range in the billions of dollars just to help Indians achieve a standard of living similar to the rest of the country.⁶

As a category of CDEG applicants, Indian reservations and Alaskan villages have housing and community development needs that are probably several times greater than any other category of applicants. And the need appears to be growing. The rate of deterioration of existing facilities is accelerating and the Indian population is growing faster than any other group in the nation.⁷

This section of the proposal documents in statistical terms the nature and magnitude of the housing and community development problems and needs of Indian communities and seeks to justify a set-aside based on need.

Indian Population

The 1970 Census estimated the total Native American population at 827,268.⁸ The Bureau of the Census acknowledges this to be a severe underestimation of the U.S. Indian population. In some cases, the Census count for reservation Indians is only 10% of BIA estimates. BIA data itself, however, is suspect and is also considered to be low.⁹

A few cases illustrate the discrepancies which exist between the BIA and Census counts:

<u>Reservation</u>	<u>BIA Count</u>	<u>Census Count</u>	<u>% of BIA</u>
Navajo, Arizona	131,379	56,949	43.3
Fort Yuma, California	1,290	565	43.8
Potawatomi, Kansas	1,371	146	10.6
Mille Lacs, Minnesota	748	303	40.5
Nambe Pueblo, New Mexico	321	92	28.7
Allegheny, New York	3,497	746	21.3
Skokomish, Washington	316	100	31.6

6. BIA estimates \$2.5 billion for road construction alone.
7. See State of California Indian housing analysis, Attachment 4. The 1970 Census indicates that Indian population increased by 51% between 1960 and 1970.
8. See Selected Socio Economic Indicators - Attachment 5.
9. For example, BIA estimated that there are 1300 housing units on the Papago Reservation. A house-to-house survey found that there are, in fact, 2435 units on the Reservation. While BIA data is the best available, it is probably not reliable.

A relatively accurate estimate of the total Indian population can be derived by using BIA data to "correct" the Census estimate. Using this approach, the total Native American population is 1,019,322 or about .5% of the U.S. total. It is estimated that 54.2% of the total Indian population, or 552,472 (or .27% of the U.S. population) Indians live on or near reservations.¹⁰

Indian Poverty and Unemployment

Lacking other sources of proportional data, Census percentages have been used in this justification. However, the Census 20% sample is statistically unrepresentative and the figures presented below are certainly low estimates of the real situation.

Indians in general have the largest incidence of poverty and the highest unemployment rates of any minority group. According to the 1970 Census, the median family income for all Indians (urban and rural) was \$5,832 as compared to \$9,955 for Whites, \$6,063 for Blacks, and \$7,533 for persons of Spanish origin. One third of all Indian families were below the poverty level in 1969 compared to 10.7% for all families, 29.8% for Blacks, and 21.2% for families of Spanish origin.¹¹

Per capita, poverty rates for Indians are even higher. For example, in 1969, 55% of all Indian males had incomes below the poverty level and of unrelated individuals 14 and over, 54.4% of the Indians were below the poverty level compared to 37% for the entire population, 47.8% for Blacks, and 39% for persons of Spanish origin.

The foregoing statistics are for the general Indian population. Poverty rates for reservation Indians are much higher: 53.4% of Indian persons living on reservations are below the poverty level.¹² The median family income among reservation Indians is \$4,230, or only 44% of the U.S. total and 69% of Black median family incomes. Reservation Indian families are also the largest in the country. The median number of persons per household for reservation Indians is 5.14 compared to 3.65 for Blacks and 3.05 for Whites.

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10. See Selected Socio Economic Indicators for the derivation of this estimate. Another way to correct the Census is to assume that the known Census undercount (58.6% of BIA) is general and apply this percentage to BIA data. This less accurate approach results in an estimated total Indian population of 1,500,000 (.78% of the U.S. total) of which 831,000 (or .4% of the U.S. total) live on or near reservations.
11. See Selected Socio Economic Indicators
12. 1970 Census

More current unemployment data reinforces the view that the already high poverty rates among reservation Indians are not only higher than the Census indicates, but also, the highest by far of any single minority group.

The following Table is a random selection of Indian reservations of 100 or more population with unemployment rates above 50%. Experience indicates that unemployment rates on many small, more isolated reservations often approach 100%.

TABLE I

Unemployment Rates on Selected Indian Reservations
with Populations of 100 or More¹³

<u>Reservation</u>	<u>Unemployment Rate</u>
Cocopah, Arizona	75%
Havasupai, Arizona	62%
Santa Rosa, California	78%
Tule River, California	68%
Hannahville, Michigan	81%
Fond du Lac, Minnesota	64%
Lower Sioux, Minnesota	60%
Rocky Boy, Montana	60%
Omaha, Nebraska	63%
Santee, Nebraska	60%
Winnebago, Nebraska	61%
Fort McDermitt, Nevada	78%
Alamo, New Mexico	89%
Canoncito, New Mexico	88%
Nambe Pueblo, New Mexico	76%
Picuris Pueblo, New Mexico	61%
Pojoaque Pueblo, New Mexico	95%
Tesuque Pueblo, New Mexico	65%
Cheyenne & Arapaho Tribes, Oklahoma	60%
Kaw, Pawnee, Otoe-Missouria, Ponca, and Tonkawa Tribes, Oklahoma	76%
Crow Creek, South Dakota	69%
Yankton, South Dakota	66%
Spokane, Washington	69%
Tulalip, Washington	68%
Potawatomi, Wisconsin	66%

13. U.S. Department of Commerce. Federal and State Indian Reservations and Indian Trust Areas. Washington, D.C.: Government Printing Office, 1974.

Unemployment rates of these magnitudes become even more dramatic in the context of the overall labor force participation rates for Indians. Overall, the labor force participation of rural Indians is the lowest of any group in the country: 56% for Indian men and 29% for Indian women as compared to 77% for all men and 41% for all women. On reservations with 100 or more Indian population, only 31.7% are in the labor force.¹⁴

Given this level of poverty and unemployment, continuing and increasing dependency of Indian communities on Federal housing and community development programs is certain.

Indian Housing and Community Development Needs

Indian housing problems are almost as severe as Indian poverty and employment conditions.¹⁵ Of rural Indians, 32.6% live in substandard houses (those without water) or almost 4 times the rate for all rural families. In 1970, when 13.6% of rural houses lacked complete bathrooms and 11.4% lacked plumbing, 48% of rural Indian houses were without complete bathrooms and 40% lacked plumbing; needs almost four times greater than the rest of the rural population. These estimates of substandardness are somewhat belied by the GAO which in 1971 estimated that 66.2% of Indian families were living in substandard housing. It seems reasonable to assume that the bulk of these units were on or near reservations because according to the Census, urban Indian housing conditions are considerably better than for rural Indians. Only 9.3% of urban Indian families live without plumbing, for example.

When other indicators such as overcrowding are added to the definition of substandard, it is not unusual to establish 150 to 200% substandard housing counts on Indian reservations.¹⁶ The incidence of severe overcrowding (1.5 or more persons per room) for rural Indian housing is twice that of Blacks and 5 times the rate for all housing.

In addition to the obvious needs for housing rehabilitation and water and sewer facilities statistics like these reflect, there are many other kinds of unmet community development needs on Indian reservations. Only 7.7% of roads on Indian reservations are paved and most reservations have large areas where

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14. See Selected Socio-Economic Indicators, Attachment 5.
 15. Adequate housing data is unavailable. BIA definitions of standard and substandard differ radically from HUD's and the Census'. As a result of dissimilar definitions, rural Census comparisons are the most useful. Again, all conditions are severely underestimated.
 16. Of the 59 preapplications received from Arizona, California, Nevada, and New Mexico, 24 have more than 100% substandard housing.

there are no roads at all. Basic utilities are also lacking on most reservations. Many Indian communities, for example, are not served by natural gas systems. Propane gas in tanks is not only more dangerous, it is also much more expensive (\$41 in average monthly gas bills as opposed to \$15 per month for natural gas in New Mexico)*. Indian families in this situation must pay about 11.4% of their \$4,320 a year income for one utility.

The total cost of meeting unmet community development needs of Indian communities has never been determined. Costs that have been aggregated regionally or nationally indicate that it will cost billions of dollars just to meet the current needs, not counting deterioration and growth rates.¹⁷

The Indian Health Service does prepare annual cost estimates for the unmet needs for environmental services (water and sewer facilities) for existing housing on and off reservations. Typically, these costs are calculated on a per housing unit basis. For example, IHS staff estimates that it costs about \$4,000 per unit to provide basic plumbing for a new house and more for an existing house. The IHS definition of basic plumbing, however, allows only for the provision of water and sewer lines from the trunk line to the house, a bathroom and kitchen sink, a toilet and an outdoor spigot. It does not include the provision of hot running water, a water heater or a bathtub. Many times IHS will, if the funds are available, pay for hot water lines and will install water heaters, etc., if the Indian family buys them. The provision of this "extra" service costs IHS about \$500 per unit and Indian families about \$400. In short, even after IHS provides water and sewer to an existing unit, that house would still be substandard according to the Census definition. It also means that there is an average unmet need of about \$1,000 for almost every existing Indian housing unit.

During FY 1976 and FY 1977, however, the IHS had no money for their "regular" program, the program to provide or upgrade plumbing services to existing housing. Whatever was available was devoted to the support of new BIA or HUD housing units. Even at that, HUD absorbed several million dollars in what could have been IHS costs in order to reach its housing goals in FY 1976. No accurate housing condition inventory for Indian reservations exists. If one were to assume, however, that there are 100,000 existing units on reservations, then 32.6% or 32,600 are without water and 40% or 40,000 lack plumbing.

17. BIA estimates it will cost 2.5 Billion just to meet part of the roads needs.

* Estimates are from recent utility analysis for the Zuni Pueblo. Costs are for a basic four-bedroom unit using gas for cooking, hot water and heat.

At the \$5,000 per unit cost estimate, at least \$180,000,000 would be needed to provide water and sewer connections and basic plumbing. These calculations only roughly indicate the potential magnitude of the unmet needs for water and sewer services for existing housing and apparently do not include the cost of installing the trunk lines, etc.

Perhaps the best way to describe the dimensions of unmet community development needs of Indian reservations is to outline the costs of completely meeting the needs of one relatively representative reservation.

The Papago Reservation in Arizona is neither the largest nor the poorest Indian reservation in the country. The Tribe, BIA and IHS estimate that it will cost \$29,350,000 in 1976 dollars to meet Papago's community development needs: \$2,500,000 for housing rehabilitation; \$4,050,000 for domestic water and environmental services; \$2,300,000 in electrification; \$500,000 for small community services facilities and \$20,000,000 in minimal road paving. The Arizona CDBG discretionary balances totaled about \$3,800,000 in FY 1976. Papago with 78% poverty and 180% substandard housing received \$125,000 for housing rehabilitation (or 5% of the total need) and \$248,000 for water services and indoor plumbing installation (or 6% of its total need). The annual BIA roads budget for Papago is \$1,500,000 or 7.15% of the total need. At this rate it will take 13 years to pave the roads, 20 years to meet the Papago housing rehabilitation need and 17 years to provide plumbing. This does not count growth and deterioration rates or inflation.¹⁸

When needs of the magnitudes described above are compared to the resources available and the almost complete dependence of Indian communities on Federal programs is considered, it seems clear that every Federal agency must do its part. Funds going to Indian communities must be increased at lower cost to the Federal government and the time it takes actually to get the money onto the reservations must be decreased.

The Community Development Block Grant Program ought to be a major contribution toward meeting both of these goals. It

18. These time spans are overstated because CDBG and BIA are not the only sources for funds. BIA also provides housing rehabilitation and construction grants. The 1977 budget for BIA housing programs is \$16,000,000 almost evenly divided between rehabilitation and new construction. Just to meet Papago's housing needs would require 31% of the 1977 allocation. Similarly, 10% of the total IHS facilities construction budget for 1977 (\$39,600,000) would be required to meet Papago's needs for water.

has among the fastest application processing time of any major Federal grant program. It can take less than 50 days from full application to the actual expenditure of funds. Other programs have taken years to get from application to implementation.

If this proposal is accepted, the amount of CDBG funds going to Indian reservations will be increased substantially over the little they have received in the past.¹⁹ Finally, from a cost/benefit standpoint, the CDBG program is among the most cost effective and efficient of all Federal programs. CPD has the lowest administrative cost of any major Federal agency providing similar grants to Indian communities. In 1977 only 2.23% of the total CPD appropriation will go for salaries and expenses.

Establishing an Indian CDBG set-aside would, therefore, make it among the most effective, efficient and responsive of Federal programs in helping to meet the community development needs of Indian communities. The amount of money being proposed is still very small in relation to the needs of 1.6% of all eligible CDBG applicants. A set-aside of the magnitude described below would enable the Department to respond more adequately to some of the more immediate needs and allow other agencies to concentrate on the longer-term problems within their areas of specialization.²⁰

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19. In 1975, about 62 (of the total 500 Native American communities known to be eligible CDBG recipients) received only about \$9,300,000 or 3.7% of the \$254,000,000 discretionary appropriation. In 1976, when the discretionary appropriation increased by 36%, it appears that Indian communities will receive approximately \$9,600,000 or 2.8% of the much larger amount of money available. This does not indicate a reduction in Indian needs relative to the rest of the discretionary applicants. It suggests, rather, that the changes in the rating system reduced the competitive ability of Indian communities and made CDBG even less responsive to Indian needs than it already is.
 20. Since 1966, EDA, for example, has funded 70 (of a total of 122) basic infrastructure development projects that appear to be eligible Block Grant projects.

II. ALTERNATIVES CONSIDERED AND REJECTED

This section of the proposal for an Indian set-aside describes the alternatives for authorization, appropriation and administration that were considered and discusses the pros and cons of those that are not being recommended.

A. Authorization Alternatives

Two major alternatives for legislative authorization approaches were considered:

1. A simple, general enabling amendment that would
 - establish a percentage set aside as part of the Secretary's discretionary fund;
 - instruct the Department to revise existing regulations governing program and overlay requirements to recognize the special needs and legal situations of Native American communities; and
 - amend for conformance and clarification purposes such other sections of the Act as necessary to address the issues that cannot be addressed by revising the regulations.
2. A major amendment that would
 - establish a new section of the Act to provide for an Indian fund similar to the entitlement, discretionary and Secretary's funds
 - provide for special Indian program requirements and overlay statute applicability and compliance
 - specifically establish the method for distributing funds to the Regions and Indian applicants, etc.

Both alternatives have merit. Both would recognize and address special Indian legal situations and, if large enough, the set-aside authorized would contribute substantially to meeting the extraordinary community development needs of Indian communities.

The Alternative that would establish a separate section of the Act should be rejected. Potentially, this approach would provide for the most comprehensive treatment of the problems. Experience has shown, however, that there is almost no way to anticipate all of the problems and the immense regional variations in legal status and community conditions of Native American applicants. The certainty that the amended law would fail to address some situations would probably preclude the Department from being responsive to special circumstances. Inasmuch as regulations can be revised more easily than statutes, the most effective approach is to provide for maximum executive flexibility in responding to Indian applicants.

This approach would authorize a statutorily fixed amount. This should also be rejected. This alternative is not consistent with the percentage allocation approach of the funds allocation process. It would establish a ceiling for Indian funding that could only be increased by amending the authorizing legislation. The existing authorization allows for annual appropriations increases and this approach will probably continue. If it does continue, the Indian set-aside would not grow with the appropriation; the size of the set-aside would effectively be reduced by growing inflation; and the resources available for Indian communities would decrease as their needs are increasing.

B. Appropriation Alternatives

Three major alternatives were considered for establishing the amount of the Block Grant set-aside:

- one percent of the total appropriation
- three percent of the discretionary balance appropriation
- fixed allocation of about \$32 million

The fixed-amount approach should be rejected for the reasons discussed above. This approach would be appropriate only if it were in some way related to the actual dollar needs for Indian community development. As described in an earlier section, the needs are so great and so difficult to measure precisely that this approach is not practical.

Even though setting aside three percent of the discretionary balance is the approach most consistent with the Act in that Indian communities are eligible only for discretionary grants, it too should be rejected. It results in too little money (approximately \$18 Million) given the magnitude of the needs (estimated in the billions of dollars). It is not much larger than the current level of Indian funding (\$10 Million) which served only about 10 percent of the approximately 500 Indian communities known to be eligible applicants.

Furthermore, there is growing concern over the increasing size of the discretionary balance as hold harmless communities "fall out". If legislative adjustments are made that would reduce the size of that balance, even less would be available for Indian communities under this approach.

C. Administrative Alternatives

Alternatives for the administration of an Indian Block Grant set-aside are of concern and were considered even though no legislative action may be required. There are a series of sub-parts to the question of how a set-aside should be administered by the Department.

Five alternatives for the nationwide distribution of a set-aside were considered:

- Distribution to Regions according to the standard formula for regular discretionary redistribution to the Tribes;
- Distribution as above but according to a modified formula;
- Centralization of the entire program;
- Entitlement of individual reservations according to a formula (standard or modified);
- Entitlement of the larger reservations according to formula using 80 percent of the set-aside and distribution of the remaining 20 percent for regional discretionary grants to the smaller tribes.

The alternative of allocating the set-aside to the regions according to the standard formula should be rejected. The current formula emphasizes population over need and is almost a per capita distribution formula. Under this approach, the very large tribe(s) would receive a disproportionate share of the set-aside and the very large needs of the many small reservations would continue to go unmet. Furthermore, the needs of these small reservations would not be adequately reflected in the regional allocation because the needs are disproportionately large compared to the population. For example, in assessing relative needs by size of community, it is estimated that it takes a 200 percent substandard housing factor in a small place to equal a 28 percent factor in a place only two or three times larger.

The entitlement of all reservations individually according to the standard formula should also be rejected. Indian data is very poor and the entitlement grants would almost certainly not reflect any Indian communities' real needs. Moreover, those Indian communities with relatively accurate data would probably be rewarded and those without would certainly be hurt. Entitlement grants for very small communities would be too small to have significant impact and/or even to carry out a single important project in most cases. An entitlement approach would also result in small grants generally (the average grant would be \$64,000) and would make it impossible for HUD or tribes to contemplate large one-shot grants. Moreover, all communities would receive grants regardless of their capacity. Finally, the entitlement approach is inconsistent with the congressional purpose that small communities with great needs should have an opportunity to meet those needs.

Centralizing the administration of an Indian set-aside in Washington is another alternative. It has the advantage of avoiding the establishment of a formula on the basis of inadequate data and would allow the establishment of a single nationwide competition. It should nonetheless be rejected for several

reasons: most Federal Indian programs including HUD's housing program are or will be decentralized. Centralizing a CDBG set-aside would prevent the coordination of HUD's own housing and community development programs: a principal objective of the Act. Most Indian communities are about 2,000 miles away from Washington. Given the needs of Indian communities for extensive technical assistance, centralization is not practical.

Establishment of an entitlement/discretionary division of a set-aside has advantages in that it is consistent with the overall approach of the Act; it would provide some funds to every eligible Indian community and still leave funds for discretionary or special project use. This alternative should also be rejected. The available data is bad enough on an aggregate basis. For individual reservations the probability of severe inequities is unacceptably high. Under this alternative, average basic grants would be even smaller (\$51,200) than under the 100 percent entitlement distribution approach discussed above. Similarly, this approach would result in meaningless grants to the very small tribes.

Whatever policies regarding nationwide distribution are finally adopted, most field office staff and Indian communities consulted have preferred that the set-aside be regionalized, regardless of the distribution formula established.²¹

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21. One Oklahoma group of tribes has expressed its preference for centralization because of perceived problems with its Regional Office. This group supports a set-aside. However.

III. ALTERNATIVE RECOMMENDED

It is recommended that the Block Grant set-aside for Indian communities contain the following features:

- The set-aside should amount to one percent of the total appropriation and should be included as a specific earmark in the Secretary's discretionary fund.
- The set-aside should be distributed to the Regions according to a formula that drops population (or perhaps weights population as half) and adds percent and number of unemployed in a recent base year (1975 is suggested) of on or near reservation Indian population.
- The set-aside should be administered as a discretionary grant program by regional or area office staff according to regulations devised specifically for Indian communities.

This composite alternative is recommended because it is the simplest approach and allows the Department maximum flexibility in designing coherent and responsive regulations for Indian CDBG applicants. It requires less massive legislative change than a separate Indian section of the Act would. All the legislative changes that would be required or are being suggested are summarized below. Most of them are relatively minor conforming and clarifying amendments.

Precedent for including a set-aside within the Secretary's fund has been established in that Guam, etc. (the other special category of applicants) are already provided for there.²² Concern with the increasing "categoricalization"

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22. There is ample precedent for the general concept of legislative and administrative set-asides for Indian communities. The Housing and Community Development Act of 1974 itself provides for a housing set-aside for Indian Housing Authorities. The 1974 Amendments to the Public Works and Economic Development Act of 1965 provide for \$25 million (16% of the total appropriation) Indian set-aside. (PL 93-423, 88 Stat 1162, Part C, Sec. 404, 42 USC Sec 3172). This money was allocated to Tribes in addition to other funds available in order to assure a minimum Federal commitment to alleviate the economic distress of Indians. This legislative provision merely continued the existing administrative set-aside EDA established in about 1966.

of the CDBG program, particularly in the context of Secretary's fund, has been expressed. Establishing an Indian set-aside will by definition add a category of applicant. Given the flexibility placing a set-aside in the Secretary's fund would provide, the advantages of this location appear to outweigh the disadvantages of creating another category of applicant.

The recommendation for distributing the set-aside to regions for subsequent funding of Indian applicants according to the general provisions of the discretionary grant program is the alternative most consistent with the Act. All Indian communities (except for those located in urban counties) are located in non-urban areas. There are more Indian tribes with needs than there will ever be resources to meet the needs, so a discretionary competition is the only sensible approach. Data aggregated on a regional basis will be less inequitable than data calculated on an individual basis, and smaller tribes with great needs would have a better chance to receive meaningful grants under a regional discretionary process.

ATTACHMENT C

September 2, 1976

Native Americans Endorsing Block Grant Set-Aside

Tim Love
Executive Director
Penobscot Indian Community Action Program

Jerry Quintana
Governor
Pueblo of Cochiti

John P. Montowine
Secretary/Treasurer
Nambe Pueblo

Bernard Souphanavong
Economic Planner
Pueblo de Santa Clara

Andrew X. Akins
Executive Director
Penobscot-Passamaquoddy Tribal Planning Board

Danny Little Axe
Tribal Chairman
Absentee Shawnee Tribe of Oklahoma

Kenneth E. Black
Executive Director
United Indian Tribes of Western Oklahoma and Kansas

Vivienne C. Jake
Chairwoman
Kaibab-Paiute Tribe

Russell Socoby
President
The Association of Aroostook Indians, Inc.

Ray M. Huhndorf
President
Cook Inlet Region, Inc.

Mike Tribble
Tribal Governing Board
Lac Courte Oreilles

Scott Jacket
Tribal Chairman
The Ute Mountain Ute Tribe

Jim Shefler
Program Coordinator
Lower Elwha Tribal Office

Herbert Hawley
Tribal Chairman
Burns Paiute Reservation

Frances Jack
Chairwoman
Shanel Band of Pomo Indians, Inc.

Resolution of the
Penobscot Tribal Council
Penobscot Indian Nation, Maine.

Where as we the elected officials of the Penobscot Indian Nation believe that the Department of Housing and Urban Development Region I office, Boston, Massachusetts, Area Office, Manchester, New Hampshire, and National H.U.D. Office Washington, D.C., has without regard caused continued hardship and suffering to the needy people of Penobscot Indian Nation due to a direct result of procedural changes made in the application process for the Community Development Block Grant of 1974 and which was approved by HUD officials.

Therefore be it resolved with these declaration of fact that the Penobscot Tribal Council, Penobscot Indian Nation, does request the Department of Housing and Urban Development to rectify this unjust inequity which occurred due to program changes and establish an American Indian set aside from the Community Development Block Grant of 1974 for all Indian Nations and communities so that a more efficient and equitable delivery system may be provided.

8 In favor

0 Opposed

0 Abstain

August 26, 1976
Date

John D. ...
Tribal Clerk

Theresa J. ...
Notary Seal

RESOLUTION OF THE GOVERNING BODY
OF THE
WASHOE TRIBE OF NEVADA AND CALIFORNIA

- WHEREAS: The Washoe Tribe of Nevada and California is organized under the provisions of the Indian Reorganization Act of June 18, 1934 (48 Stat. 594) as amended, to exercise certain rights of home rule and be responsible for the general welfare of its membership; and,
- WHEREAS: The Washoe Tribe of Nevada and California has reviewed and analyzed the 1974 Housing and Community Development Act; and,
- WHEREAS: The 1974 Housing and Community Development Act does not specifically provide for an Indian 'set aside' in Title I of the Act; and,
- WHEREAS: Indians have realized great benefit from legislation which specifically addresses itself to Indians or specifically requires a percentage and/or set amounts of the appropriation to be directed to Indians, for example the Public Works and Economic Development Act of 1965, as amended, P.L. 89-136.
- NOW BE IT THEREFORE RESOLVED by the Washoe Tribal Council that Title I of the Housing and Community Development Act of 1974, P.L. 93-383 be amended to provide a specific set aside for Indian communities.
- BE IT FURTHER RESOLVED that the amount of the set aside be commensurate with the development needs of Indian communities.
- BE IT FURTHER RESOLVED that the full Act be amended where appropriate and necessary to recognize and reflect the unique legal relationships of Indian communities.
- BE IT FURTHER RESOLVED that the Chairman, Washoe Tribal Council be authorized to take any and all steps he deems necessary to convey this resolution and its intent to the appropriate public officials.

CERTIFICATION

It is hereby certified that the Washoe Tribal Council is the governing body of the Washoe Tribe of Nevada and California and is composed of nine (9) members of whom 9, constituting a quorum, were present at a meeting duly held on the 10th day of September, 1974, and that the foregoing resolution was adopted by the affirmative vote of 9 for, 0 against, 0 abstentions, pursuant to authority vested in Article VI, Section 1A, of the amended Constitution and by laws of the Washoe Tribe of Nevada and California.

Jim Frank
SECRETARY

SECRETARY, WASHOE TRIBE OF NEVADA AND CALIFORNIA




RT. 2 STONE LAKE, WIS. 54676
Telephone 715-865-3611

RESOLUTION NO. 76-35

- WHEREAS, the Lac Courte Oreilles Tribal Governing Board has the responsibility of establishing policy and programs to provide economic development and comprehensive planning for the Lac Courte Oreilles Reservation, and
- WHEREAS, the Lac Courte Oreilles Tribe has become a Grantee under the Community Development Block Grant Program, and
- WHEREAS, very few Indian projects in the State of Wisconsin were funded this year under the Dept. of Housing and Urban Development Community Block Grant Program,
- NOW THEREFORE BE IT RESOLVED, that the U.S. Department of Housing and Urban Development, establish an Indian Set-Aside for all Indian Reservations and communities so that a more efficient Community Development Delivery System is provided assuring that more eligible Indian projects be funded.

CERTIFICATION

I, the undersigned, as Secretary-Treasurer of the Lac Courte Oreilles Tribal Governing Board, hereby certify that the Governing Board is composed of 5 members, of whom 3 being present, constituted a quorum, at a meeting thereof, duly called, convened and held on this 31 day of August, 1976, that the foregoing resolution was duly adopted at said meeting by an affirmative vote of 2 members, 0 against, and that said resolution has not been rescinded or amended in any way.


Margaret Diamond, Secretary-Treasurer
Lac Courte Oreilles Tribal Gov. Bd.

Mr. MOORHEAD. Before we proceed with the questioning of you, Mr. Chino, I suggest we call on Mr. Peter Masten, chairman of the Hoopla Valley Business Council.

Mr. MASTEN. Thank you, Mr. Chairman.

I think the gentleman from Papago was scheduled to go on next, and I was to conclude the presentation.

Mr. MOORHEAD. That is perfectly agreeable.

Mr. Williams?

**STATEMENT OF CECIL WILLIAMS, CHAIRMAN, PAPAGO TRIBE,
SELLS, ARIZ.**

Mr. WILLIAMS. I have some documents that I would like to submit to you.

Mr. MOORHEAD. Is this a separate statement, Mr. Williams?

Mr. WILLIAMS. It is a separate written document which provides some statistical data in support of my oral testimony.

Mr. MOORHEAD. Then without objection, the separate statement will also be made a part of the record.

[The supporting material may be found in the appendix.]

Mr. WILLIAMS. Mr. Chairman, thank you for this opportunity to testify before this subcommittee.

I am Cecil Williams, chairman of the Papago Tribe of Arizona. Allow me briefly to provide some background on the Papago Reservation. The Papago Reservation encompasses 4,000 square miles, and includes some 45 villages. There are approximately 3,600 square miles and 36 villages in Pima County. 35 square miles and two villages are in Maricopa County. In Pinal County there are seven villages and 700 square miles. There are approximately 860 miles of reservation roads, of which 270 are paved.

[A map of the area referred to follows Mr. Williams' oral statement.]

The per capita income is \$850. The reservation is split into three counties—Pima, Maricopa, and Pinal. We have to submit three separate community development block grant applications for one tribe, two metropolitan and one nonmetropolitan.

A particular problem unique to Indians that was more or less looked over in the community development block grant program was that people living on reservations do not have title to their homes. Yet for a time it was said that the tribe had to take temporary title to a person's home if community development block grant moneys were used on that particular home.

This is another example of community development block grants being oriented toward the urban situation and not to Indians.

More Papagos live in Pima County, which is a metropolitan county, than either in Maricopa County which is also a metropolitan county or Pinal County which is nonmetropolitan. The tribe applies for all three. The Papago tribe received 69 percent of the small \$279,000 Pima County balance, because of the large poor Papago population in the Pima County area of the reservation. The tribe receives none of the larger \$500,000 Maricopa balance and only 2.3 percent of the much larger \$2,938,000 nonmetropolitan State balance.

The small non-Indian towns in Pima County feel that Papago's share was disproportionately large compared to the amount of money available to the county. On the other hand we now have a situation where the tribal council is trying to explain to the Pinal and Maricopa Papagos why they're not receiving a share of the block grant moneys, since the Pima County CDBG funds can only be used in Pima County.

To add to the confusion, one Papago village is in Pima County, but is part of the Papago governmental district, the rest of which is located in Pinal County. This interferes with tribal government process and procedure. Another village is technically split, one-half in Pima County, the other half in Maricopa County.

The tribe now maintains two administrative structures doing the same thing, administering block grant programs, one in Pima and one in Pinal; there are two separate accounts in the same bank. Under the regulations, we have to hold four separate public hearings, 70 miles apart. Planning is difficult and coordination is a nightmare. The amount of time spent on preparing three different applications, and holding hearings eats up 20 percent of the community development money we receive before the project even begins.

The Papagos are not unique. The Navajo Nation is located in three States, New Mexico, Arizona, and Utah. The Pine Ridge reservation is located in South Dakota and in Nebraska. The Standing Rock reservation is in South Dakota and North Dakota.

Thank you very much, Mr. Chairman.

Mr. MOORHEAD. Thank you, Mr. Williams. And thank you for those photographs. [The photographs referred to are retained in the files of the subcommittee.]

[Mr. Williams submitted the following letters, for inclusion in the record, regarding the need for a set-aside in the community development block grant program, along with a map of the Papago Indian reservation in Arizona:]

Mr. MOORHEAD. Mr. Masten?



THE PAPAGO TRIBE OF ARIZONA

P. O. Box 837 • Telephone (602) 353-2221

Sells, Arizona 85634

March 3, 1977

The Honorable Thomas L. Ashley
 Chairman
 Subcommittee on Housing and Community
 Development
 House of Representatives
 Washington, D.C.

Dear Congressman Ashley:

The Papago Tribe has endorsed the testimony submitted by the Indian community on the need for an Indian set-aside in the Community Development Block Grant program. We are also submitting, for the record, the enclosed letter which the Papago Tribe sent to the Housing and Urban Development Regional Office. The letter describes, in detail, the great need Papago has for community development funds, indicating the need in such basic areas as electrification, water systems, and roads. The bottom line is that our tribe alone, with 10,000 members, has an immediate need for Community Development money in an excess of \$20 million.

We hope this will assist you in your deliberation and we urge that an Indian set-aside be included in the 1977 CDBG Legislation.

Sincerely yours,

Cecil Williams
 Cecil Williams, Chairman
 Papago Tribe

CW/mjl

Enclosure



THE PAPAGO TRIBE OF ARIZONA

P. O. Box 837 Telephone (602) 583-2221
 Sells, Arizona 85634

August 13, 1976

Mr. Robert Vasquez, Director
 Indian Desk
 U.S. Dept. of Housing & Urban Development
 450 Golden Gate Ave.
 P. O. Box 36003
 San Francisco, CA 94102

Attn: Bob Barth

Dear Sir:

Persuant to our recent conversation.

A. The Papago Tribe totally supports a set aside of block grant funds specifically for Indians to be allocated and administered on a total reservation rather than a county basis. We refer you to the narrative submitted in support of our FY-76 pre-applications for metro and non-metro funds. That narrative clearly sets forth the strong opinions voiced by the Papago Council on this issue. There was, as a matter of fact, serious discussion of NOT submitting an application solely due to this issue.

I would make several observations concerning this matter:

- 1) Since the Tribal government and most federal support agencies administers the reservation as a single unit, irrespective of county and boundaries, the present mechanism greatly complicates the planning of community development efforts.
- 2) The same mechanism promotes intra-Tribal rivalry rather than coordinated planning since different areas have different access to the needed resources. As an example, the small but very needy Maricopa section of Papago is excluded from benefits under our FY-76 allocations.

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- 3) General administrative, accounting, and both fiscal and programmatic reporting is made more complex and more expensive. This is especially true where efforts are desired to integrate Block Grant funds with other available resources to achieve maximum efficiency.
- 4) The present arrangement violates the very considerable legal and judicial precedents concerning Indian autonomy and sovereignty.
- 5) Reservation planning parameters are in general completely different from non-Indian areas. This is especially true in the spread out Arizona geography.
- 6) The present system is unfair to county and non-urban governments in an Indian county, they cannot reasonably compete with the extremely poor reservation conditions.

B. NEED LEVEL: Papago is, of course, one of the poorer and larger reservations. Developmental needs within the authorization of Block Grant monies are enormous. Specifically:

- 1) Housing repair: Our survey shows a total of 2,463 units. Of these only 12-14% meet national minimum Property Standards. Within even the basic, greatly diluted locally defined standard there is a need for replacement or repair of 1,000 units. Available funding for new construction cannot meet this need within the foreseeable future. Therefore, repair and renovation money is required for at least 50% of the existing repairable units. At a minimum full renovation cost of \$5,000, our immediate need is for at least \$2,500,000.
- 2) Domestic water and environmental health: The IHS 5 Year Development Survey and Plan prepared by the Tucson Environmental Health Office based on detailed 1974 surveys of households in the 50 major Papago villages revealed a total capital improvement need of over \$4,050,000. This figure includes:

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- \$350,000 immediately required renovation of 15 major village water distribution systems with high leakage and contamination rates due to deteriorated inferior pipe;
 - \$200,000 construction of water distribution systems for 8 villages currently without any water system;
 - \$300,000 for drilling of 11 primary source water wells;
 - \$700,000 for drilling of 26 back up wells;
 - \$700,000 to establish 8 regional solid waste collection and disposal systems;
 - \$2,000,000 for construction of indoor bathrooms and septic tanks for households and for additional waste facilities needed.
- 3) Electrification: The Papago Tribal Utility Authority estimates a total of \$ 1,600,000 is required for electrification of 26 villages now without power. An additional \$ 700,000 is required for electrification of individual low income households.
- 4) Community Buildings: Only four of eleven districts have community meeting facilities. At least \$300,000 is required to provide such in the remaining 7 districts, including the Sells capital. An additional \$200,000 is required for various special facilities necessary in the Sells area.
- 5) Roads Construction and Repair: The Bureau of Indian Affairs Roads Department estimates that a sum of \$20,000,000 is required for road construction needed on the reservation. Of this only \$1,500,000 is expected to be available from BIA funds each year. In addition, an estimated sum of \$1,500,000 is required to service the redevelopment of the Papago Farms agricultural area.

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The above documented needs within some of the community development areas authorized by the HUD Block Grant legislation total over \$20 million.

There are a large number of additional needs falling outside the HUD legislation.

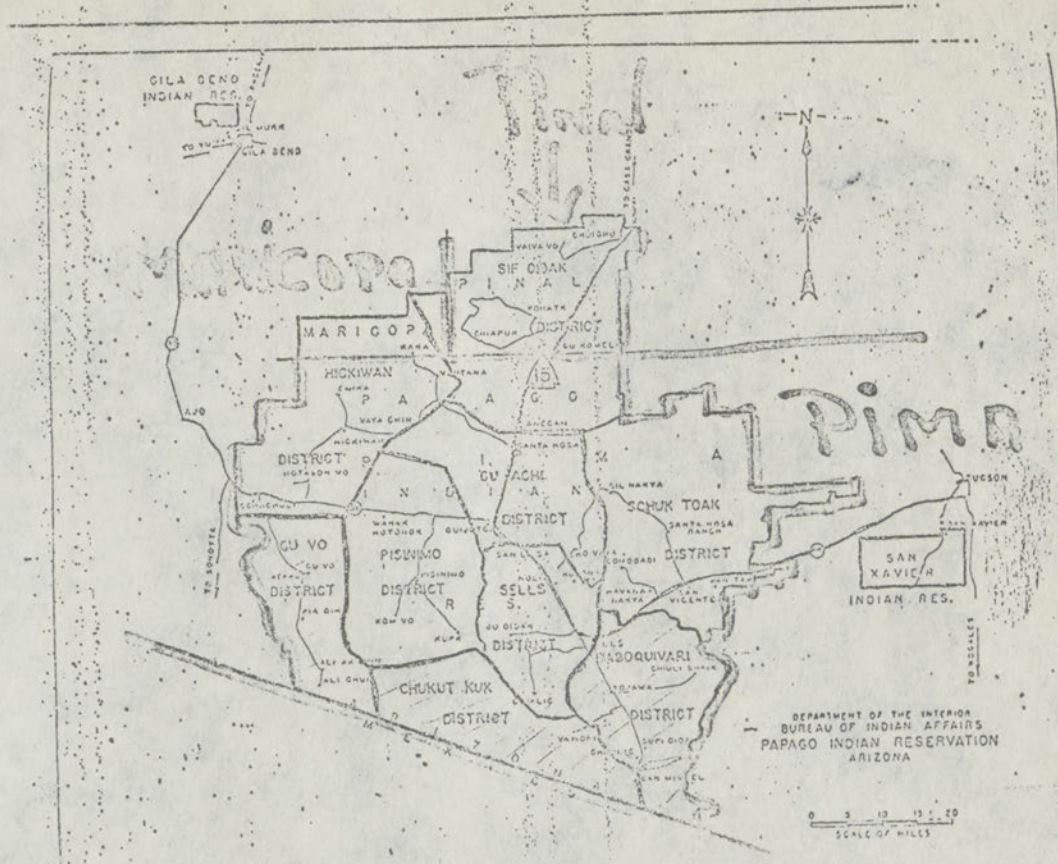
Thank you for your attention.

Respectfully,

Cecil Williams

Cecil Williams, Chairman
THE PAPAGO COUNCIL

cc: Planning Dept.
George Esquivel, OEH
Superintendent
Sen. Paul Fannin
AZ Congressional Delegation



STATEMENT OF PETER MASTEN, JR., CHAIRMAN, HOOPA VALLEY
BUSINESS COUNCIL

Mr. MASTEN. Thank you, Mr. Chairman.

Members of the subcommittee, I am Peter Masten, Jr., chairman of the Hoopa Valley Tribe, located in northern California. I enthusiastically endorse this proposal on behalf of Hoopa Valley Tribe and the California Tribal Chairmens Association, whose membership consists of 38 tribes.

I, like my colleagues, would like to point out to the subcommittee some of the problems we as Indian people are confronting as we try to utilize this act for the benefit of our people on the reservations.

The provisions of this legislation, the Housing and Community Development Act of 1974, title I, when enacted, was flexible to the extent that community activities and priorities of tribes could be addressed relative to long-range tribal planning with some assurance of succeeding year funding.

However, this flexibility was not to last as HUD's policy in regard to the community development block grant program has changed in each year after the passage of the act. In California, a \$200,000 maximum was placed on all community development block grants applicants. This was done at the discretion of the region 9 office in San Francisco.

Existing HUD policy for the most part restricts the use of community development block grant funds to housing rehabilitation, and community facilities to the extent that they are housing related. This policy approach by HUD may be workable and advantageous to cities, but is inappropriate for Indian tribes, because tribes need to develop an entire basic community structure, such as paved roads, fire protection, electricity, community recreational facilities, plumbing and bathroom facilities.

Sixty percent of all Indian homes have no running water or indoor bathrooms. Telephones, water systems, housing, natural gas line installation are unavailable. The costs to meet the unmet needs is astronomical. For example, it would take \$20 million to meet the immediate needs of the Papago Reservation in areas previously mentioned, such as \$4.5 million for domestic water and environmental health and \$1.6 million to supply electricity to the 26 villages now without power.

On the Hoopa Reservation, it will cost \$10 million for a valleywide domestic water irrigation and sewer system, \$8 million for road construction and improvements.

I believe Congress intended that the needs of the reservations be addressed under the act. But the present policy of restrictions imposed by HUD do not allow for meaningful participation by Indian tribes. If the act's formula of population, poverty counted twice and substandard housing were applied to the Indian population as a whole, the fair share for Indians out of the nonmetropolitan balance would be over \$30 million.

We endorse the testimony to this committee by Harriet S. Barlow of the Rural America, Inc., on March 1, 1977, when she said,

Under the present arrangement, eligible Indian grantees compete with other nonmetro communities in the same state. This in effect leads to imposing a

national responsibility on a few States where there are a large concentration of Indians. It also instigates a destructive competition between these two groups. The logic of this situation and the consistency with the legal fact that Indian tribes are not creatures of State governments would seem to argue strongly for an initial set aside of community development block grant funds for Indian grantees.

We respectfully submit for your consideration three alternative approaches for a set-aside. We believe that any one of the following approaches would be equitable and acceptable. First, an Indian set-aside, consisting of 1 percent of the community development block grant appropriations. Second, an Indian set-aside consisting of 10 percent of the discretionary balance in the nonmetropolitan allocation. Third, 7.5 percent of the entire nonmetropolitan allocation.

Each of these approaches would product a set-aside amount in the range of \$30 to \$40 million, which is far less than the needs of Indians, but which matches the fair share amount to which we are entitled.

In closing, we respectfully request this subcommittee to instruct the Department of HUD to explore the above-mentioned approaches and develop the technical data in consultation with Indians and report back to this subcommittee.

Thank you, Mr. Chairman. The group here will try to answer any questions that the subcommittee members may have.

Mr. MOORHEAD. Well, thank you three gentlemen very, very much for this eye-opening bit of testimony.

The first question I will ask you will sound unsympathetic, but I want to ask it to get some answers. Then I think you will find me a little more sympathetic.

But one of the problems is, aren't some of the functions that you want to have funded under the community development block grant already funded under other acts by other committees of the Congress, under other Federal programs, such as under the Bureau of Indian Affairs and the Indian Health Service, and are we not in danger of actually duplicating funds, when we expand the Housing and Community Development Act to cover Indian tribes?

Mr. CHINO. I would like to perhaps respond to one aspect of your question concerning the Bureau of Indian Affairs.

There is a gross misconception about the funds appropriated by Congress to the BIA. Really, a good bit of those dollars maintain the bureaucracy, and the amount of money or the few cents that get down to the Indian people is very small.

Many people have the conception that just because Congress sets aside dollars for the maintenance of the Bureau, it is going to do the job.

We do not believe that the Bureau, through its funds, is doing the kind of a job that is necessary, and we do not know of any funds which are duplicating any of these community block grant concepts, or any programs.

Mr. MASTEN. May I add to that?

Mr. MOORHEAD. Yes. I want any of the members of the panel to answer any of the questions.

Mr. MASTEN. I agree. The Bureau of Indian Affairs does receive funding that is supposed to go to tribes for some of the basic community needs that I identified. Although they are provided for through

the Bureau of Indian Affairs, that is, they are a budget item or an item that is identified on the band analysis; in reality, at least in California, those funds are almost nonexistent.

There are some things, such as fire protection, electricity, community and recreational facilities, telephones, things such as that, that are not provided for in the Bureau budget. There is money for roads, but the funds are almost nonexistent, considering the magnitude of the need.

Mr. WILLIAMS. Mr. Chairman?

Mr. MOORHEAD. Mr. Williams, if you could hold on this, I will give you the opportunity, but Mr. Grassley has to leave, and he has a question. And then as soon as he has finished, I will recognize you.

Mr. GRASSLEY. I have really two now. I want to follow up on that. Because I am a member of the Agricultural Committee, I am interested in what happens to the Farmers Home Administration money. Do Indian tribes get any of that money in rural housing?

Mr. MASTEN. I can respond to that.

Mr. GRASSLEY. Well, anybody.

Mr. MASTEN. It is available, but it is a very difficult and, incidentally, I have a loan that I acquired through FHA right after the floods in 1965 in California. It took me approximately 1 year to process that loan. The major problem was because of the status of the land. And I think at the time that my loan was approved, there were only two in the State of California. That may have changed now. However, you do have to have to get backing from some private lending institution, as a rule, unless you go through SBA, and that's almost an impossible bureaucracy of restrictions to try to get through. But unless you do go through SBA, it requires that a private lending institution guarantee that loan.

And it is for the most part a loan. The part that I am familiar with. And it is a payback. And, of course, relating that to the low incomes and high unemployment rate on the reservation, it is a very difficult program to participate in.

Mr. GRASSLEY. OK. How about any REC money or REA money?

Mr. MASTEN. I am not familiar with that, sir.

Mr. GRASSLEY. Do any of you know?

Mr. WILLIAMS. Well, I was going to answer part of the question that you were asking. We have attorneys finding funds for our people on the reservation, and they have looked into the FHA. And it was our understanding that there was enough money to allocate for the construction of at least 12 houses. The papers have to be processed. But as of the latest word that we got, we were able to apply for only one house, which is currently under construction. And I understand that even that is limited now. There isn't enough funding to provide for that much housing.

Mr. GRASSLEY. OK, the question I really want to ask before I leave is, you talk about conflicting jurisdictions and, because your jurisdiction overlaps so many other jurisdictions, maybe I missed it, but I don't think—if you said it, just emphasize it then.

Do you feel that that is the cause of not getting an adequate amount of money or is that just part of the problem? There is not enough money in the first place directed in your area?

Mr. CHINO. Let me first of all respond to your original question. The Farmers Home Administration, as you know, requires that certain acreage must produce a certain amount of return. In other words, the land has to be put into production. Well, in many cases, in Indian communities, these lands are small. There are parcels of land that are really only sufficient to provide for the residents, and the economic return is so small that it really precludes the Indians from participating under the Farmers Home Administration program.

Now, with regard to what you are saying, I think that the Administration requires that there must be certain compliance with rules and regulations. Therefore, the Papago are, by regulations, required by administrative process, to go through all of these counties.

But I think that what makes us suffer is that we are forced to compete for funds. And by the time the dollar gets to us, why it is pretty small. So small, that it hardly begins to make an impact.

Mr. GRASSLEY. Let me comment again, before I leave, about the Farmers Home Administration programs.

Like, for instance, some of them are directly related just to housing, not to an agricultural venture that an individual might have.

I think in some instances, even a 1-percent loan that can be qualified for under the section 504 program. I don't know whether Indian tribes qualify, and that was the basis of my question. Or we have a section 515 program that works in conjunction with section 8 of the Department of Housing and Urban Development, which was specifically to get more money and some HUD money into rural areas through the Farmers Home Administration bureaucracy, in a sense, by using those agencies to get to the people.

So it might be worth looking into.

Mr. SUDOW. I am William Sudow. I am with this Washington, D.C. law firm of, Fried, Frank, Harris, Shriver & Kampelman. Our firm serves as counsel to several Indian tribes across the country and is general counsel to the Association on American Indian Affairs, Inc.

I would like to respond to Mr. Grassley's questions if I could. First, in connection with the Farmers Home Administration, it is true that tribes and individual members of tribes can and do qualify for certain categories of FmHA assistance. However, I think Mr. Grassley would agree that if FmHA programs are available to individuals—whether Indian or non-Indian—living in rural areas, the communities in which these individuals reside should not be denied block grant funds.

Perhaps you are just trying to determine if individual Indians are taking advantage of these additional programs. I don't believe, however, that this should be used as a basis for arguing that other programs should be used in lieu of block grant funds to meet the very serious needs of rural Indian communities.

Mr. GRASSLEY. No, I would not want my question to be interpreted as my conclusion, but it was a followup on his and also for my own interest as well.

Mr. SUDOW. Let me respond to the other question you raised regarding the level of funding problem.

The majority of the Indian population is concentrated in two HUD regions—region 8 and region 9. The problem is that a small proportion of the Block Grant funds is allocated to these regions and an even

smaller portion is suballocated to the State in which these tribes are actually located. The tribes are then forced to compete against one another and against small rural non-Indian governments for this small pot of money.

Because their needs are so massive, they end up, in relative terms, taking a high percentage of that limited amount of money. But in actual dollars, it still comes out very small in comparison with actual needs.

I think you would agree that the Indian situation presents a national problem. I don't think there is time here to go into the question of how the Federal Government forceably relocated Indians and the basis for the geographical distribution of the Indian population. But it essentially is a national problem, and we need to deal with it on a national basis. This can be done by setting aside an adequate amount of money at the national level and allocate it directly to tribal governments. This would also relieve the pressure on the local communities that are contiguous to the Indians communities.

Mr. GRASSLEY. Thank you, Mr. Chairman, for yielding to me.

Mr. MOORHEAD. Thank you, Mr. Grassley.

When I yielded to Mr. Grassley, Mr. Williams was about to make a comment.

Mr. WILLIAMS. Excuse me, Mr. Chairman, I think I forgot what it was I was going to comment on.

I believe the question earlier was, what other agencies were contributing to the funding to the tribe, whether it is for water, construction, or electrification. The example on our reservation is that there is agreement between IHS and HUD, and until we have HUD approval to build a certain amount of homes, IHS will only commit funds for water and sewer to new HUD housing. IHS does not provide for exacting housing that might need repairs or bathrooms or need water faucets.

So it is that kind of an arrangement.

Mr. SUDOW. Mr. Chairman, if I could just add one other point here.

Mr. MOORHEAD. Certainly.

Mr. SUDOW. There are perhaps three categories of funds that many people think could provide some community development assistance. One is public works assistance through economic development Administration, a second is Self-Determination Act assistance through the Bureau of Indian Affairs, and the third is Indian Health Service assistance. In all three instances, none of these three categories of assistance is directed primarily towards community development activities, nor is it comprehensive enough to take care of a whole range of community development needs. Further, all three are simply underfunded.

In the case of Indian Self-Determination Act funds, Congress really has through report language and through informal agreement mandated that that money be used by the Bureau of Indian Affairs to support administrative type of services to support the development of tribal governments and internal tribal administrative procedures.

Public works money has as its primary forms supporting of economic development, whether on reservations or in non-Indian communities. Unfortunately, because not enough community development

money has been available over the last several years economic development assistance has been used for community development. We would hope, that by increasing the amount of money under the block grant program, EDA money would become available so that it could be used for its primary purpose.

Indian Health Service assistance is available for some water and sewer projects. However, as these gentlemen have indicated, it is limited, and there really isn't enough money to fund all the projects. Finally, Health Service Assistance is limited just to one particular aspect of community development activity. I don't believe it could be viewed as a substitute for an adequate level of block grant support.

Mr. MOORHEAD. Thank you.

I want to thank you, Mr. Williams, for those photographs which I passed down to Mr. Grassley, and I trust you want them back again. They are a very dramatic example of your needs.

Having first asked the unsympathetic question, let me ask some more intended to be sympathetic.

Suppose we did agree that the structure does not fit in as we have defined it very well into the community development bloc grant, and we do need a set-aside. How, in your opinion, should such moneys, clearly set aside, be administered? Should they be administered on a discretionary basis by the Secretary or on a formula basis, such as we do for what we call entitlement cities and counties?

Mr. MASTEN. I think probably our position could be best explained by Mr. Sudow.

Mr. SUDOW. There are a number of ways to provide for a sub-allocation. One proposal would be to separate the Indian money at the national level and then provide for a general suballocation to the regional offices based on the existing bloc grant formula. The HUD regional offices would accept applications as they are now doing from various Indian tribes and would make the individual determinations based on the amount of money in the region and on the quality of the application.

I think we would prefer a more flexible approach, rather than an entitlement to each particular Indian tribe.

Mr. MOORHEAD. Well, in the 1974 act we talked about the unit of general local government, including Indian tribes.

Would it be logical or workable to say, to make the division more geographical—that is, a reservation—rather than population, poverty, and that area, or do we still have to work directly with tribes?

Mr. PRESS. My name is Daniel Press. I am an attorney with Press & Blank, law firm here in Washington, and we represent the Papago Indian Tribe.

In the submissions that Mr. Chino gave to you there is a memo from the region 9 HUD office which sets out the various alternatives for distribution once the set-aside is created.

It discusses each of the alternatives, the advantages and disadvantages, and recommends an allocation to the regions based on your basic formula in the act, which is housing, poverty times two, and population within the regions. It recommends distribution to tribal governments as the only units on the reservation that can deal with the money comprehensively in the way that the Congress is trying to see that

money spent. You can find this set out in some very good detail in the submission. The Indian tribes support the approach that region 9 has developed.

Mr. MOORHEAD. Well, we will certainly read Mr. Chino's full statement, which I have not had the opportunity to do. And if one region has developed a formula that is satisfactory and can be applied in other regions, I, as one member of the subcommittee, would be very sympathetic, because I do realize—and I hope you all realize it—that when we try to set up a national formula, that there are—just as the witnesses who preceded you say—there are certain unusual situations, such as in Arlington County, or the Indian situation, which does not fit into the normal pattern. And we want to learn from the experiences under the 1974 act, which was the first time we had community development grants, how we can improve and end inequities.

Mr. MASTEN. Mr. Chairman, can I add one more thing?

I think the recommendation that came out of region 9 was a result of numerous meetings with Indian people in the western part of the United States, and I believe that regions 7, 8, 9, and 10 of HUD support that concept. Those are the regions where the largest population of Indian tribes are.

Mr. MOORHEAD. How do you total up the population of a tribe?

Remember, I come from a different part of the country. I know that you are talking about not just—if you talk about a tribe, you are talking about not just those individuals who live in the reservation, but those who live outside. Or are you talking about the population of a tribe that is in a particular geographic location?

Mr. MASTEN. Well, I can't speak for the other tribes.

In the Hoopa tribe we have a membership roll. In this membership roll we have addresses—we know where all of our tribal members are. We can tell you within 10 minutes how many of these tribal members live on the reservation and how many live off the reservation; how many live in an area, what we consider near the reservation.

In the various applications that we submit to Federal agencies, for the most part we use only the tribal membership reservation population when we quote figures.

Mr. MOORHEAD. So when we are talking about community development, we are talking about physical development based on the population on the reservation.

Mr. CHINO. I think this is what we are talking about. We are talking about people who are residing within their reservation proper and who have many needs.

Now, I would just like to add one comment regarding set-aside funds. I think that these funds, if you are going to do it, should be specifically earmarked for the Indian community. Invariably, when somebody wants to set aside some funds for Indian people, instead of just seeing that they are serving as a conduit, they want some of it, also. And they cream it. And they may use it for another pet project of some kind.

Mr. MOORHEAD. Well, this does lead me to a question of whether there is unanimity or near to it among the tribes on the proposition (a) of a set-aside and (b) of suballocation of the set-aside with a good bit of discretion in the regional offices of HUD.

I would imagine there is fairly good unanimity on point (a), set-aside, but I wonder about point (b). Maybe I am wrong about point (a).

Mr. CHINO. I think that in the early days of the Office of Economic Programs, that type of an effort revealed that a certain amount of dollars could be passed to the Indian community with a minimum of redtape so that it can do the type of job that needs to be done. This has already been demonstrated, and I feel that the tribal agency that is charged with the responsibility of working with the Indian community can be very responsible and accountable.

Mr. PRESS. Mr. Chairman, may I just add to the response to your second question.

The suballocation process is generally agreed to by the tribes that have participated in the deliberations leading to the testimony today.

What we would like—because these tribes do not represent all, though they represent most of the tribes—are two opportunities. One, we would like HUD's central office—because we have not really had a chance to consult with them—to sit down with a group of representative Indian leaders to get some precision on the formula before the subcommittee actually adopts its legislation. And second, what we have recommended in our proposed legislation is that the suballocation formula not be included in the act but left to regulation by the Secretary and that the legislation require her to develop some consultation mechanisms with Indian tribes before she comes up with a suballocation formula. That way we can be guaranteed that the suballocation formula does represent the needs and the desires of the Indian community.

Mr. MOORHEAD. So what you are testifying before this subcommittee is—and we are now talking about a dual formula—the old formula of the 1974 act and the proposed new one, that neither one of them really fits the Indian situation, and that you are asking the Congress, in effect, to grant a great deal of discretion to the Secretary of HUD for the suballocation.

Is that correct?

Mr. PRESS. Yes, Mr. Chairman.

Mr. MOORHEAD. And I take it there is not dissent from that argument.

Mr. SUDOW. That is correct.

Mr. MOORHEAD. I have some reservations myself about the Secretary of an urban development agency having too much discretion, whether he or she would understand all of the ramifications. The beauty and some of the defects of the block grant is that it is a formula which removes any favoritism from one group to another and sometimes results in inequity.

But I appreciate your testimony. I think I understand it. What you are advocating is the fundamental proposition that the Indian population, as you particularly, Mr. Chino, pointed out, is at the bottom of the economic ladder; therefore, under our general theory of the formula, it should receive a higher percentage of the total community development block grant program than you have received.

Therefore, first, you propose a set-aside, and second, you are proposing that the suballocation, because you don't fit quite the same formula as the cities and counties and other local municipalities, that there must

be a greater degree of discretion in the Secretary than we allow in the overall program.

Is that about the essence of it?

Mr. PRESS. Yes.

One example of that, Mr. Chairman, is that if you applied the formula being proposed for urban areas, which is age of housing, the Hopis would get all the money, because their pueblos are 400 or 500 years old.

So you do need to have a very special set of criteria developed for Indians.

Mr. MOORHEAD. I don't think the formula distinguishes between housing 400 years old and before 1939, so I don't think it would be that far out of line.

But I do think I understand the proposal you are making. I think the staff of the subcommittee does. And I assure you that it is our intention to try to get the money where the greatest need and where it can be most effectively utilized.

And you have made an excellent presentation today, and we thank you very, very much.

Mr. CHINO. Thank you.

Mr. MASTEN. Thank you.

Mr. WILLIAMS. Thank you.

Mr. MOORHEAD. The subcommittee would now like to hear from Mr. Paul C. Brophy, executive director, Action Housing, Inc., of Pittsburgh, Pa.

While the Chair welcomes all witnesses, it's quite obvious that the Chair has particular friendship for the representative from Pittsburgh, Pa. So, Mr. Brophy, would you proceed?

STATEMENT OF PAUL C. BROPHY, EXECUTIVE DIRECTOR, ACTION HOUSING, INC., ALLEGHENY COUNTY, PA.

Mr. BROPHY. Thank you, Mr. Chairman.

I have a prepared statement that I have given to the staff that I would like to serve as my formal remarks. I would like to summarize those rather than read them to you, Mr. Chairman.

Mr. MOORHEAD. Without objection, the entire statement will be made a part of the record, Mr. Brophy.

Mr. BROPHY. As you are aware, ACTION housing is a Pittsburgh-based, nonprofit housing civic agency.

The word "ACTION" stands for Allegheny Council To Improve Our Neighborhoods.

And since 1957 we have worked on a comprehensive program of rehabilitation and housing development, citizen education, and research and planning in housing.

Our agency's direction is set by a citizens' board that consists of corporate, labor, neighborhood, political, labor, and civic leadership.

If I may, Mr. Chairman, I want to bring to you this perspective today and suggest that the Housing and Community Development Act, as it currently stands, has a deficiency which I think, if amended, would considerably improve the act; namely, municipalities and urban counties are currently precluded from using community development dollars to subsidize new housing construction.

As you know, many local governments are using their community development block grant dollars to subsidize some form of housing rehabilitation, and ACTION housing has been working very closely with Allegheny County and the city of Pittsburgh in implementing programs along these lines in the city and county.

A HUD study indicates that 62.7 percent of all block grant dollars are going toward neighborhood preservation programs, if one excludes administrative costs and planning costs and contingencies, and that these programs were developed by local governments, and they are working well.

I was recently at a statewide workshop in Pennsylvania conducted by Pennsylvania's Department of Community Affairs to help operators of local preservation programs around the State exchange ideas on how to effectively operate these programs. I was quite impressed with fact that we did not spend a day talking about filling out Federal forms. Rather, we talked about the substance of the programs. And these programs are quite innovative, all of them using some form of interest reduction or grants to facilitate housing rehabilitation.

The program that we are assisting Allegheny County operate, for example, has four components: A codes inspection component, municipal public improvements, the participation of financial institutions to make home improvement loan dollars available, and the use of community development dollars to subsidize the cost of the improvement.

This is now underway in four neighborhoods in Allegheny County and three more are going to begin in a few weeks.

The city of Pittsburgh has operated a very successful program. It has during its first year completed 757 housing units, also using the community development dollars as leverage for the generation of private dollars from lending institutions.

Now, I think that the example that we have in housing rehabilitation of the creativity of local governments in establishing these programs can also be generated if we allow local governments to develop programs to subsidize and facilitate the development of new housing construction using community development dollars. I would not recommend this if I did think it would work, and we can point to the Pittsburgh area for prime examples of this.

The first of these is an aided construction program for new sales and rental housing which has been developed and is being operated by the Turtle Creek Valley Housing Development Corp.

Now, that is a nonprofit agency created by the model cities program in Allegheny County.

ACTION housing is a consultant to that program. The program concept is quite simple. A front-end grant subsidizes the difference between development costs and the market price of newly constructed sales and rental housing. The model cities funds are used for the subsidies. The subsidy for sales housing averages \$7,500 per unit, while the subsidy for rental housing averages \$11,000 per unit. Once the subsidy is made, the properties are either privately owned, if they are a homeownership, or by a single developer, if they are a rental property.

Now, since 1973, this program, given its modest funding level, has produced 102 apartments and 36 houses in Turtle Creek Valley.

Now, it does not just produce housing. It has a number of advantages over federally assisted programs. For one thing, it is administratively simple. If you look at this program and compare it with the section 8 program in Allegheny County, it is fair to say that no one is living in a newly constructed section 8 project, the processing of which was begun after the act. There have been some conversions of section 236 to section 8's. And during that time period this housing development corporation has produced 130 units of new housing.

In addition to its administrative simplicity, the program has the advantage of being less costly than the federally subsidized programs, section 8, section 235, and section 236.

I would like, Mr. Chairman, to submit for the record a study which was done in the Pittsburgh area of this program, which was submitted to the Pittsburgh area office of HUD, which compares this program with the section 236 program and will be able to indicate some of the cost savings that accrue.

Mr. MOORHEAD. Without objection, that will be made a part of the record, Mr. Brophy.

[The study referred to follows Mr. Brophy's prepared statement.]

Mr. BROPHY. If I may give an example from the study, the average per-unit, per-month subsidy under this Turtle Creek Housing Development Corp. program is \$24 per month over a 25-year period, compared to, under the section 236 program, a subsidy of \$103 per month over 40 years.

Now, I won't get into the arithmetic of that, but it is clearly a program that is producing units that are larger than were constructed under the section 236 program, but they are less costly in subsidy, and they are sound in units that are renting for the same general level and are going to the same general income group.

The second program that I think can serve as an example for the concept I am suggesting is the city of Pittsburgh's neighborhood housing program. This is a single-family sales program in which the city uses State renewal dollars and some local capital budget dollars to pay the difference between the actual cost of the housing unit and the market value of the home.

And, Mr. Chairman, I would like to submit here a recent record from the journal called "Practicing Planner," which is published by the American Institute of Planners in which Robert Paternoster, their former director of the City Planning Department in Pittsburgh, describes this program in some detail.

Mr. MOORHEAD. Without objection, that will be made part of the record.

[The article referred to follows Mr. Brophy's prepared statement.]

Mr. BROPHY. To date, this program has completed or has under construction 110 units of housing. Now, this program works very much the same way as the Turtle Creek program. The subsidy per unit thus far has been \$13,000.

It works this way: The total development costs to the builder has averaged about \$34,300. The fair market value established by the bank and the city for the neighborhoods in which this housing is being constructed has averaged \$21,300, resulting in a subsidy of \$13,000.

Now, what does that mean to the home buyer? It means that with a minimum 3-percent downpayment of \$640, this results in a monthly

mortgage payment of \$159 to the buyer, and what the buyer is getting is a newly constructed house.

Now, I don't see this program as a substitute in any sense for the section 8 program or for the Federal housing commitment that we so need. Rather, what I see it as is a supplement to the other activities that a city undertakes in a particular neighborhood.

Any given neighborhood has housing stock that varies from good to very poor. We have rehabilitation programs that allow us to go to the point of rehabilitating older units and even demolishing those units that are past the point of rehabilitation. With this minor change in the act, we would allow municipalities and urban counties to include in their program subsidy dollars coming from the community development block formula to subsidize in a modest way new construction. New construction in some of the rehabilitated neighborhoods go a long way to rounding out an otherwise good neighborhood preservation program. And at least in the Pittsburgh and Allegheny County settings I would see this new construction program, if implemented, being used largely in conjunction with those kinds of activities.

Mr. Chairman, that ends my oral statement. I will take any questions.

Thank you.

[The prepared statement of Mr. Brophy, on behalf of ACTION-Housing, Inc., along with a study entitled "The Turtle Creek Valley Aided Housing Program" prepared by Edith Simonds, and an article from the "Practicing Planner" magazine of December 1976, entitled "Pittsburgh Subsidizes New Home Mortgages," follows:]

Statement of
Paul C. Brophy
Executive Director
ACTION-Housing, Inc.
2 Gateway Center
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before the
Subcommittee on Housing and Community
Development
of the
Committee on Banking, Finance and Urban Affairs
March 4, 1977

Mr. Chairman, distinguished committee members, my name is Paul C. Brophy. I am executive director of ACTION-Housing, Inc. a Pittsburgh based nonprofit civic agency. The word "ACTION" stands for Allegheny Council to Improve Our Neighborhoods, and, since its beginning in 1957, ACTION-Housing has worked to improve neighborhoods through a coordinated program of housing development and rehabilitation, citizen education, and research and planning. Our agency's direction is set by a citizens' board that consists of corporate, labor, neighborhood, political, and civic leadership.

Working from this perspective--of a local nongovernmental citizens' organization--I am here today to urge this subcommittee to expand and strengthen the Housing and Community Development Act of 1974 to give local governments a fuller range of tools for improving neighborhoods. Specifically, I urge the subcommittee to include in Section 13(b) of Title I of the 1974 law, a provision that permits the use of community development block grant funds to subsidize new housing construction.

The flexibility of the Community Development Act of 1974 represents a major shift in federal programs by permitting local governments to make their own decisions about the use of federal dollars to solve local problems. Local governments have shown that they can implement and administer creative programs well. Studies by the Brookings Institute and the Joint Center on Urban Studies at Harvard/MIT, have described some of the broader issues related to local decision making. I will not touch on these broad range pluses and minuses, but will concentrate on an area of which I have first hand knowledge--the area of local government administrative capability.

One key benefit to the Community Development Act, as I see it, is that local governments have been able to plan and implement local programs according to local needs. This opportunity has produced a level of creativity and competence that soundly refutes earlier fears that local governments don't know how to spend money wisely. When presented with an opportunity to make an impact on local problems, many local decision-makers have shown that they can design programs that meet local needs and that deserve the attention of the federal government.

Let me illustrate with a few examples from the neighborhood preservation efforts currently under way in many cities throughout the nation and for which there is no federal model. A study by NAHRO indicates that 21% of all second year community development funds are going into some form of subsidized homeownership loan or grant program. And all of these programs were designed by local governments.

Our agency has studied many of these programs and is currently operating programs in Allegheny County. The programs we have studied are creative adaptations of the HUD federally assisted code enforcement programs.

Two of these programs are in the Pittsburgh area. The County of Allegheny is operating--with ACTION-Housing assistance--a neighborhood preservation program with four components: codes inspection, municipal public improvements, the participation of financial institutions to make home improvement loans and the use of community development dollars to subsidize those loans so that home repair costs are within the budget of the homeowners. The County program operates on a target neighborhood basis, seeking the visual and psychological impact of total revitalization by concentrating resources within a selected area. Four neighborhoods of approximately 250 units each are participating in the program now, and three more neighborhoods will begin in a few weeks.

The City of Pittsburgh is operating a Home Improvement Loan Program with most of the same components and, by the end of that program's first year, 757 housing units had been improved.

These are both local programs - local in design, local in implementation, and both are highly successful.

In June, 1976 I participated in two statewide workshops conducted by Pennsylvania's Department of Community Affairs. These workshops were attended by operators of local preservation programs throughout the state and the level of learning and idea exchange was both astonishing and reassuring. Little attention was given to learning new federal regulations or forms. These program operators wanted to deal with program issues. Discussion centered on who should be served, how to work with financial institutions and program administration. We all came away stimulated and better equipped to develop and operate our own programs.

I cite these examples to underscore one essential point: local governments

have the capacity to develop and implement successful housing programs and to work successfully with the private sector. This capacity should be acknowledged and encouraged through increased local determination of how community development dollars are spent.

If local governments have achieved so much in rehabilitation, you may ask why they need increased local determination. They need it because rehabilitation is only one part of the neighborhood preservation picture. The other part is new construction and the 1974 law has not permitted local governments to develop activities that directly stimulate new housing construction. This restriction is both harmful and unnecessary.

It is harmful because it prohibits local governments from using the tools of demolition and new construction as part of a neighborhood improvement strategy. In any neighborhood that needs public intervention, rehabilitation requirements vary from modest to substantial. Community development funds can be used for this rehabilitation. But there are other units that are beyond the point of rehabilitation; these must be demolished.

After demolition, a city has no easy way of stimulating new housing construction. Housing built in neighborhood rehabilitation areas usually cannot be built inexpensively enough for the residents of that area to afford it. Inflation has pushed new construction costs to a median of nearly \$45,000 in Pittsburgh and even if size and design are scaled down somewhat to reduce costs, the final cost is still well beyond the means of most moderate and middle income families. Yet these are the families living in the areas needing preservation programs. There is a solution--if community development funds could be used to bring the selling price or rent level to one that can be afforded by residents in the area--new construction could augment rehabilitation efforts for a total neighborhood revitalization effort.

I have seen this type of subsidy work successfully in two programs in the Pittsburgh area.

The first is an aided construction program for new sales and rental housing, developed and successfully implemented by the Turtle Creek Valley Housing Development Corporation, a local non-profit housing development agency created as part of the Allegheny County Model Cities program.

The program concept is quite simple: a front-end grant subsidizes the difference between development costs and the market price of newly constructed sales and rental housing. Model Cities funds have been used for the subsidies. The subsidy for sales housing averages \$7,500 per unit, while the subsidy for rental housing averages \$11,000 per unit.

Since 1973, this program has produced 102 apartments for rent and 36 houses for sale in the Turtle Creek Valley.

This program not only produces houses; it has a number of advantages over federally assisted programs. It is administratively simple. The average time from site selection to actual construction is less than one year.

Put another way, since the passage of the Section 8 program in 1974, this aided construction program has produced 130 units of new housing that are now occupied; no one in Allegheny County is living in a newly constructed Section 8 project, the processing of which was begun after passage of the act.

The aided construction program has other advantages besides administrative simplicity. It is extremely cost effective. The costs of subsidization are significantly lower than in the Section 8 program, and in programs based on Section 235 or Section 236.

One comparison with three apartment complexes developed by the Turtle Creek Valley non-profit with the Section 236 program indicates that the unit development costs are 13 percent lower with the aided construction front-end subsidy than with the Section 236 program. The comparison also showed an average per-unit per-month subsidy of \$24.00 over a 25 year period for units built under the aided construction program while the per-unit per-monthly subsidy for the Section 236 units was \$103.00 over 40 years. I have submitted a copy of this study to the subcommittee as an exhibit to my remarks.

(Exhibit A)

In addition, the program has produced soundly constructed units that are larger than the traditional federally assisted unit while rents remain comparable. Conventional and FHA insured financing has been used for the permanent financing of these units.

In short, the program has been able to construct quality housing for moderate income people quickly and without creating an expensive administrative bureaucracy, simply by using a front-end subsidy to reduce the principal on the mortgage required by the developer.

The second similar program is the Neighborhood Housing Program operated by the City of Pittsburgh. This is a single family sales program in which the City uses state renewal funds to pay the difference between the actual costs of the housing unit and the market value of the home, as determined by a local lender, and the City. A recent article in Practicing Planner magazine published by the American Institute of Planners, describes this program, and is attached to my remarks as an exhibit. (Exhibit B)

To date this program has completed or has under construction 110 units of housing.

The purpose of this program is to develop new homeownership housing in renewal areas where land has been acquired and cleared. Under this program the subsidy per unit has been \$13,000. The total development cost to the builder has averaged \$34,300, the fair market value established by the bank and city has averaged \$21,300, resulting in a subsidy of \$13,000. With a minimum 3% down payment of \$640.00, this results in a monthly mortgage payment of \$159.00 to the buyer. The mortgages provided by the participating financial institution have been FHA insured.

The program is also administratively manageable, and, has led to the development of new houses in neighborhoods that have not seen new construction in many years.

These programs have been funded with state and model cities funds. They have proved themselves and have proved to me that this form of housing subsidy approach is workable and should be a permissible activity under the Community Development Act. I have described two approaches that use the private development and financial communities well. I am sure that the creativity coming from other cities would be as rich as it has been in the development of neighborhood preservation programs if they were permitted to pursue subsidization of new construction as part of their overall community development plan.

I should add one final point: I am in no way suggesting that the use of funds be substituted for the Section 8 program contained in the Act. I am saying that in some cases the flexibility of using community development funds to subsidize housing construction would bring an additional, and important tool to local governments.

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**THE TURTLE CREEK VALLEY AIDED HOUSING
CONSTRUCTION PROGRAM**

**An Evaluation Of The Program
Prepared For The
Department Of Housing And Urban Development**

By:

**Edith Simonds
James W. McCarthy**

October, 1974

1817

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I. OBJECTIVES OF REPORT

This report has been prepared at the request of the Director of the Pittsburgh Area Office of the Department of Housing and Urban Development.

It is written in the hope that the conclusions drawn can be of help both to the Federal government in its approach to housing as well as to local communities which are trying to develop effective housing strategies.

Toward these ends, the report addresses the following specific objectives:

1. To contrast the structure, operation, and efficiency of the Turtle Creek Valley Aided Construction Program (the HDC model) with the Federal Section 236 Program (the HUD model);
2. To identify and quantify the variances between the two programs and to suggest reasons for same;
3. To translate these reasons into dollars and cents.

II. OVERVIEW

This report is a comparison of two housing subsidy programs: the Federal Section 236 Program and the Turtle Creek Valley Aided Construction Program.

The Federal Section 236 Program has provided interest subsidy to reduce operating costs and consequently apartment rents during the life of the project mortgage. The Aided Construction Program has provided front-end grants to reduce the permanent mortgage and consequently the apartment rents during the life of the mortgage.

As a component of the Turtle Creek Valley Model Cities program, the Aided Construction Program was initiated and implemented by a community-based, non-profit housing development corporation, using local developers and meeting local objectives.

An analysis of the two programs indicates that the Aided Construction Program is superior to the Section 236 Program in the following areas:

1. Costs are substantially lower.
2. Quality of construction is superior.
3. Size and unit liveability are considerably superior.
4. Development time is less.
5. Subsidy required to achieve desired rent level is less.
6. Developers and community-oriented financing institutions prefer the Aided Construction Program.

At the same time, however, the program is subject to several limitations:

1. The size, flexibility, and relative autonomy of the administering agency;
2. The availability of substantial amounts of cash;
3. The availability of buildable sites.

The reasons for superior performance under the Aided Construction Program lie in the areas of program requirements, developer selection, and program implementation.

Requirements of the Aided Construction Program were kept simple, stressed the use of existing plans, and provided only those minimum controls consonant with the achievement of stated objectives.

Implementation of the program set a high priority on the establishment and maintenance of good faith between developer and agency. The proposal selection process emphasized choice

of developers with both a personal and professional stake in the area and in the success of the projects.

The overriding conclusion of the report is that developers who can build and maintain units of high quality and relatively lower costs can be attracted to participate in government housing efforts. However, current federal housing programs discourage this participation for a number of reasons ranging from the imposition of a multiplicity of goals onto the housing effort to burdensome financing, legal, and working capital requirements to a "poker-game" modus operandi on the part of the administering agency.

To employ the Turtle Creek Valley model in whole or in part would require significant changes in government housing program design and implementation.

III. SUMMARY OF THE TURTLE CREEK VALLEY AIDED CONSTRUCTION PROGRAM

In January of 1973--in response to the freeze on federal housing subsidies--the Turtle Creek Valley Housing Development Corporation was assigned the task by Model Cities of creating a substitute housing program. The objectives of this program were to be the stimulation of construction of new rental and sale housing at a price which could be afforded by families whose incomes fell within the County's middle income range--from \$7,000 to \$15,000 per year.

Specific program objectives were set in relation to the financial and political resources available and were designed to accommodate the objectives of the municipalities involved as expressed in meetings with the affected councils.

Strategy and procedures were developed with an eye to 1) attracting participation by locally based developers, and 2) insuring quality construction at a reasonable cost. Reaction to the program concept was sought from a variety of developers and was incorporated.

The method selected to reduce the costs and thereby reduce the rents and sale prices was to provide a construction grant to the mortgagee on behalf of the project. This grant was made at the beginning of construction. The grant was secured by a second mortgage on the projects, this mortgage to be satisfied when occupancy is 70% complete. Grants on sale homes are made on behalf of the buyers at time of closing.

In return for the grant, the developers agreed to give priority to four categories of applicants: young families, elderly families, families who worked in the Valley but did not live here, and families whose incomes ranged between \$7,000 and \$15,000.

The rent levels are regulated by way of a recorded regulatory agreement which controls the rents for 25 years.

As a guideline for evaluating the program concept in relation to the number of units it might produce, and in order to have a basis for evaluating proposals, the HDC prepared a budget for its own use, estimating costs and subsidy amounts.

In June, 1973, a Request for Proposals was mailed to fifty developers, was advertised in wide-circulation newspapers, and was communicated through the Homebuilder's Association of Metropolitan Pittsburgh. The stated objective of the program was:

one occupied. Applications have been received for the remaining units.

The developer for the remaining 18 apartment units has been approved by the Redevelopment Authority. Construction is projected for early 1975.

IV. SUMMARY OF FEDERAL SECTION 236 PROGRAM

Since this report is being prepared at the request of the Department of Housing and Urban Development with members of that Department as its principal audience, the report assumes a knowledge on the part of the readers of the components and workings of the Section 236 program.

V. FINANCIAL COMPARISON AND ANALYSIS

The following financial exhibits are provided in a special section following the text:

1. Analysis of Development Costs for three projects
2. Analysis of Income and Expenses for three projects
3. Equity Analysis for three projects
4. Subsidy Analysis for three projects
5. General Unit and Development Information for three projects

An examination of the above exhibits indicates that the Aided Construction Program is superior to the Section 236 Program in the following areas:

1. Costs are substantially lower
2. Quality of construction is superior
3. Size and unit liveability are considerably superior
4. Development time is less
5. Subsidy required to achieve desired rent level is less
6. The number of problems encountered in administering the program are minimal

The following is a more detailed discussion of the significant differences between the programs as they show up in each of the analyses provided.

A. Analysis of Development Costs

In this analysis of the development costs are divided into physical improvement costs and intangible costs. Intangible costs are costs other than the actual labor, materials, and overhead expenses of the site improvement and building construction.

There are four significant figures to note:

1. Unit development costs under the Aided Construction Program averaged \$2,620 less than average unit development costs under the section 236 program. This is 13% cheaper.

(It should be noted that this figure assumes that the units are comparable, where in reality the HDC units are larger and of better quality. See Section E for a detailed discussion.)

2. Physical improvement costs of the HDC program averaged \$889 less than HUD unit costs. This attributable in large measure to the factors discussed in Chapter VI.

3. Intangible costs of the HDC units average \$1,731 less than intangible costs of the HUD units.

This is due to three principal factors:

- a) Architect's fees under the HDC program were low because of the emphasis placed on the use of existing designs.
- b) Financing fees were considerably less as handled through the private sector than the fees required when funding was through government programs, despite the fact that Federal mortgages are fully insured and therefore, involve little or no risk to the lender.
- c) Legal fees in the HDC program were low, due in large part to the fact that no specialized legal expertise was required. This is unlike HUD programs where the special legal knowledge and experience required is rare and commands a high price.
4. Bidder and Sponsor's Profit and Risk Allowance

Comparing actual profit amounts is difficult, since one can only assume that profit equals the equity which the builder leaves in the development.

The interesting data to note in this analysis is the fact that the per unit amount of builder's equity and the percentage of this equity in relation to development costs is so varied in the HDC model. The model is designed to permit extreme flexibility in order to accommodate a variety of developer objectives.

One developer contributed 25% less equity per unit than required under the HUD section 236 program. We believe that this is because this amount was all the profit he had included in the project.

A second developer contributed twice as much equity as required by HUD. This is because he wanted to build larger units than he had been required and was willing to pay to do so.

A third developer contributed 40% less equity than is required under the HUD Section 236 program. Again, this was because this was the only amount of profit in his proposal.

B. Analysis of Income and Expenses

There are three points in this exhibit to note:

1. The HDC rents averaged about \$23 per month higher than the adjusted rents of comparable Section 236 projects.

Under the HDC model, however, the rents could be lowered to a level comparable with HUD rents by providing another \$2,800 per unit subsidy. (For a more detailed discussion see section on the Equity Analysis.)

Here again, the assumption is made that the units are comparable which they are not. (See Section E for a more detailed discussion.)

2. Operating expense estimated under the HDC program are approximately the same as those under a HUD program--or--slightly higher.
3. The return accepted by the developer under the HDC program were significantly less than the return permitted by HUD. The difference ran from 50% to as much as 90% lower.

The reason for this, we feel, is because cash return in front was not the primary objective of any of the developers involved.

C. Equity Analysis

There is one significant factor to note here.

All of the projects developed under the HDC program were able to finance out, where under HUD programs, developers would be short from \$500 - \$700 per unit in front-end cash. About one-half of this results from the working capital requirements of HUD. The other half stems from differences in the operation of the program.

D. Subsidy Analysis

The total subsidy required for 84 units under the HDC program was \$599,688. Average per unit subsidy was \$7,139.

For comparable projects under Section 236, the total

subsidy over the life of a 40-year mortgage would be \$4,180,440 or \$49,767 per unit.

Discounting the HUD subsidy to the present value-- assuming a 6% interest rate--reduces the present value of the total HUD subsidy to \$1,572,504 or \$18,720 per unit.

It should be noted, of course, that the HUD subsidy affects 40 years of unit occupancy while the HDC subsidy affects only 25 years. Taking this factor into account in an effort to further equate the two forms of subsidy produces the following information:

Under the HDC program the per-unit, per-month subsidy amount is \$24 over 25 years. Under the HUD program the per-unit, per-month subsidy is \$103 over 40 years.

Again, this discussion assumes that the units are comparable, which they are not. (See detailed discussion in Section E) This analysis assumes that the HUD tenants will pay the basic rent for 40 years, and it does not address the question of what happens to the rents in the HDC units after the 25-year regulatory agreement expires.

E. General Unit and Development Information

Five important differences between HDC units and average Section 236 units should be noted:

1. HDC units are 30% larger in square foot area than HUD units.
2. All HDC units are of masonry construction while many HUD projects are brick or siding facing over wood frame construction.
3. HDC units have the following features:
 - a) All have full brick exterior and all-brick hallways thereby minimizing long-term maintenance costs.
 - b) All have individually controlled air-conditioning.
 - c) All HDC units have individually controlled furnaces.
 - d) All HDC units have individually controlled security systems.
 - e) All HDC units have ceramic tiled tub areas in the bath.

- f) All HDC units have either dishwashers or balconies.
4. When costs are reduced to a square foot common denominator, the total per square foot costs of the HDC units are substantially lower than those of HUD units.

The average total development cost of HDC units is \$22.11 per square foot.

This means that HUD costs were 47% per square foot more than HDC costs. Differences in net development costs (total costs less developer's equity) are even more significant. HDC per square foot net development costs range from 27% to 43% less than comparable costs of a section 236 project.

Again, the above analysis assumes that the units are comparable. They are not.

5. There is a difference in the development time of average section 236 projects as compared to the projects being built under the HDC program.

HUD projects average from 18 to 24 months from the time of submission of the initial application through the final closing.

Experience to date with the HDC program indicated that projects can be built in from 12-15 months between submission of initial proposal and final closing.

It would appear that the HDC model can shorten development time by about 33%.

A separate report on the Aided Construction Sales Program is being prepared. However, it should be noted, in summary, here that the three-bedroom all-brick units with concrete drives and walks were built for a total cost of from \$23,900 to \$25,050 per unit, including land costs but excluding financing fees.

Although the FHA mortgage commitments were \$24,500, the FHA evaluation section established the intrinsic value of the homes in excess of \$29,000. The marginal market area accounted for the reduced value accorded the units.

VI. FACTORS CONTRIBUTING TO LOWER CONSTRUCTION COSTS

Four principal factors account for the low construction costs of the Aided Construction Projects:

1. Competition among developers for selection by HDC
2. Characteristics of the developers who were selected
3. Characteristics of the developer-HDC relationship
4. Certain operational policies adopted by the HDC

A. Competition

Although low costs were not the sole criteria for proposal selection, they were important. Because the developers who submitted proposals strongly desired to be selected, they submitted lean costs.

Competition was fostered by three principal means.

First, and most important, the program was designed to be attractive to developers.

Objectives were limited to the production of housing, and within the constraints of federal regulations, controls were kept at a minimum. The subsidies offered were in amounts sufficient to produce the desired rent levels without sacrificing return to investors, adequate operating costs, profit, or the developer's control over his own project. The subsidy amount was also sufficient to attract private mortgage funds.

The grant form of subsidy offered at the beginning of construction provided the least complicated form of subsidy and minimized the developer's risk.

Second, competition was fostered by the active role assumed by the HDC. A number of developers were consulted during the designing of the program in order to stimulate interest and to include developer objectives in the program planning process. After the RFP was distributed, the HDC followed up with phone calls and visits to those developers who expressed an interest or whom the HDC felt should be interested.

Third, requirements for proposal submission were kept at a minimum:

1. Preliminary plans and elevations
2. Brief narrative describing type and quality of construction
3. Completed application form

4. A statement of developer's qualifications
5. A brief statement of intentions of developer regarding ownership of project.

The Request for Proposals stated a strong preference for the use of existing plans. This not only made submission easier, but it also proved to be a factor which contributed significantly to reduction of costs.

B. Characteristics of Developers Which Affected Costs

In seeking developers, the HDC assumed that the more coincident the objectives of the developer were with the objectives of HDC, the more likely that both sets of objectives would be achieved.

Consequently, the HDC looked for developers with the following characteristics:

- 1) A developer with a personal and professional stake in producing and maintaining quality units--someone whose local reputation was important to him and whose past activity showed a desire to contribute positively to the community.
- 2) A developer who was seeking to establish equity in a real estate project, who was seeking a reasonable long range return and a safe project but who was not looking for a great deal of cash in front.
- 3) A developer who could accomplish several personal objectives by completing a successful project. For example, one of the developers selected wished to use the HDC program to open the development of a large parcel of land which he owned. Another developer selected wished to use the HDC program to move his company from primarily a single family to multifamily construction company and to contribute to his own retirement income.

A third developer wished to combine housing with a commercial project to mitigate the risk of an all-commercial development in a redevelopment area and to make maximum use of a not-quite-prime site.

In seeking developers, the HDC also sought and found developers with two additional characteristics which affected project costs:

- 1) Developers who, knowing the local market and feeling confident in being able to build and manage within its constraints, had no need to inflate costs to accommodate the unknown.

- 2) Developers with organizational overhead costs which were either low in the absolute sense or were low because their operation did not require the HDC project to support an unreasonable portion of such costs.

C. Characteristics of HDC-Developer Relationship Which Affected Costs

There are two characteristics of the HDC-Developer relationship which we feel contributed to lower project costs.

1) Candor

At every stage, from the distribution of the RFP through construction, the HDC made a full disclosure of the financial and political resources available for the projects. Every effort was made to be realistic in assessment of funds and votes. As a consequence, we feel that the developers indulged in a minimum of cost inflation as a "poker playing" response to uncertainty.

2) Credibility

The program was designed so that the HDC expectation of developers was realistic. We had made reasonably accurate estimates of costs so that when cost breakdowns were submitted, we could judge them knowledgeably and negotiate them intelligently. We knew in advance what subsidy range would be reasonable, so when the requests came in we were not "thrown".

We made every effort to understand the constraints and the objectives of the developers so that we were talking the same language. We assumed that it was our mutual goal to produce the housing units, and we considered ourselves partners with rather than adversaries of the developers.

We promised only what we were able to produce. If we were not able to make good on a commitment, we communicated this as quickly as possible and were prepared with alternate plans for action.

The consequence of establishing credibility with the developers was their willingness to share a greater risk in many situations rather than build in a financial contingency to cover the costs of the unpredictable performance which many businessmen have come to equate with government agencies.

D. Operational Policy Which Affected Costs

The principal operational policy which made a significant difference in costs is that we equated time with money.

At each stage when decisions had to be made, we weighted the time factor very heavily. We acted on the firmly-held assumption that delays were sure to bring increased costs and could even jeopardize the project altogether.

Even when decisions to act quickly meant an increased risk or increased short-term costs, we tended to take action which would move the project along.

Two examples of this come readily to mind. When the time came to secure performance bonds, both developers had difficulties with bonding companies--in one case because of limited experience by the developer and in the other case because of the uncertainties of the aided construction program as perceived by the bonding company. We spent a reasonable amount of time trying to satisfy the bonding companies, but at the point where we felt that further delay would jeopardize the project, we created our own guarantees of completion backed by personal assets of the developers and substituted these for the bonds.

During the early part of the program, we had hoped to use the Pennsylvania Housing Finance Agency as permanent mortgagee. However, at the time they were not operational to the degree that processing procedures were dependable. We also encountered resistance from the developers to some of the constraints and controls of the PHFA program. While these problems could probably have been overcome, a time came when we had to decide whether to move ahead with PHFA or not. We decided not to go with the PHFA even if it meant some increased costs due to the higher interest rates with conventional financing.

A second operational policy also contributed to reduced costs. This was the policy of equating tested experience with lower costs.

- 1) We elected to attract for-profit private developers rather than to act as a non-profit developer ourselves. Our reasoning was that the inexperience of a non-profit sponsor could only result in delays and inefficiencies. The psychological appeal of a not-for-profit sponsor could in no way outweigh the real benefits of dollars and cents.
- 2) We decided to request tested plans--buildings that have been previously built--rather than ask for new designs. This resulted in savings three ways--it cut down on the time necessary to prepare architectural drawings; it provided plans which were freer of "bugs", having been modified through actual experience; and it significantly reduced the architectural costs of the project.

VII. THE EFFECT OF PREVAILING WAGE REQUIREMENTS ON COSTS AND PROGRAMS

Because the mortgages of the projects constructed under the Aided Construction Program were reduced with federal money, the question of payment of prevailing wages was relevant. An interpretation of the function of federal money in this program was not clearcut, however, and therefore the HDC did not include in the Request for Proposals the stipulation that costs should be calculated on prevailing wage rates.

The initial submission costs were based on the assumption that "construction wage amounts will be the same as those amounts anticipated to be paid by the developer for conventionally financed market units during the projected construction period".

After the developers had been selected, it was determined by HUD that prevailing wages should be paid. At that time, the HDC asked the selected developers to recalculate their construction costs based upon the current prevailing wage determination. As a result, the HDC subsidy amount set aside for each project was increased.

In one project the construction cost difference attributable to the payment of prevailing wages was \$1,850 per unit making a total difference for the 30-unit project of \$55,000. In the other multifamily project, the difference was \$2,269 per unit or \$81,700 for the 36 units.

Costs on the third multifamily project were initially calculated and the proposal submitted in accordance with the prevailing wage determination. Prevailing wages were not paid in conjunction with the single family construction.

Three conclusions can be drawn from the experience of the HDC in requiring prevailing wages for the Aided Construction projects:

1. Even though the costs of paying prevailing wages were covered by the HDC subsidy, the developers do not like the requirement. It put them into a position of either paying their regular sub-contractors significantly more for one job or finding new sub-contractors.
2. The paper work was significant. On an ongoing basis, the monitoring of this requirement has taken more time and caused more aggravation than all of the other elements in the program combined.
3. Knowing what they know now, the developers have indicated that were they to participate in another aided construction project, they would increase their costs to accommodate staff time and aggravation caused by the prevailing wage requirements.

VIII. CONCLUSIONS

Two overriding conclusions are clearly indicated by an analysis of the Aided Construction Program:

1. There are housing producers in the County capable of building quality housing at costs much lower than have so far been generated in government housing programs.

But--

2. The design and implementation of existing government housing programs effectively discourages these producers from participating.

The factor which accounts for this discouragement stems from a straw-that-breaks-the-camel's-back situation in which a variety of apparently minor requirements of the programs combine to create a situation where any possible benefits to the developer are outweighed by aggravation.

Among such factors are the following:

1. Too many requirements are made a part of the housing programs which are not directly related to the efficient production of quality units for a target market. These requirements are in the areas of:

Environment
Employment
Architectural Design
Marketing

Each of these demands increases costs, paperwork, development time, and developer exasperation.

2. Complexity of the legal requirements demand expertise not readily available from the lawyers who usually work for medium-sized developers. This forces the developer to change a member of the "team" he is comfortable with and trusts--a move not undertaken lightly.

3. Federal financing requirement discourage participation by small savings and loans. Again, a developer may be forced to go outside of a familiar and trusted development team.

4. The working capital requirement makes it impossible for

the developer to "mortgage out". Significant amounts of cash required in front reduce the number of developers who can participate in the program.

5. The requirement of government programs for access to a developer's books and records as well as for the disclosure and regulation of a great deal of detail in regards to the project creates resistance. Medium-sized successful developers rightly attribute their success in the private sector in large part to their own control over their projects as well as their willingness to be accountable for their product.

Most legitimate developers are more than willing to submit their product for evaluation according to "bottom line" criteria: value of product in relation to net costs. Unusual regulation is perceived by the developer, however, as increasing his own risk by transferring control over important project elements into the hands of persons who are perceived to be adversaries with less-than-competent judgment.

The government housing programs are simply not designed with the successful medium-sized developer in mind.

A third conclusion drawn from the analysis of the Aided Construction Program relates to the manner in which a housing program is administered. The key factor in attracting cost-conscious developers appears to be the establishment and maintenance of good faith between the developer and the government agency.

Although intangible, this element is essential! Its maintenance must be a prime objective of the agency during both the selection and the implementation phases of the program.

It would seem that some situations are more conducive to the establishment of good faith than others. The Aided Construction Program, for instance, has been geared to a small geographical area where agency, developers, and community officials can relate on a personal basis in the pursuit of mutually defined goals.

It is geared to local developers and to medium to small projects. It is geared to small, flexible staffs both on the part of the agency and on the part of the developers. It is geared to the willingness of the funding source to allow flexibility in the use of funds and autonomy in making funds-related decisions.

How reproduceable these factors are in other settings is open to conjecture. They do seem to have worked in the Turtle Creek Valley on a limited basis.

While the Aided Construction Program does not presume to offer a panacea for housing, perhaps it does harbinger new directors which might hold promise.

LIST OF EXHIBITS

I. Parkside Apartment Development

- I-A Development Cost Analysis
- I-B Operating Statement Analysis
- I-C Equity and Subsidy Analysis
- I-D General Information Analysis

II. Oak Hill Apartment Development

- II-A Development Cost Analysis
- II-B Operating Statement Analysis
- II-C Equity and Subsidy Analysis
- II-D General Information Analysis

III. Wilmerding Plaza Apartment Development

- III-A Development Cost Analysis
- III-B Operating Statement Analysis
- III-C Equity and Subsidy Analysis
- III-D General Information Analysis

COMPARING ACTUAL AMOUNTS TO CORRESPONDING PROBABLE HUD SECTION 236 AMOUNTS
FOR THE PARKSIDE APARTMENT DEVELOPMENT (WILMERTON)

As of October, 1974

DESCRIPTION	UNIT AMOUNTS		TOTAL AMOUNTS		DIFFERENCE	
	Actual	HUD	Actual	HUD	Actual	HUD
Physical Improvement Cost						
Land and structure (including builder-sponsor profit and loss allowance)	16,224	17,585	584,090	633,064	1,361	48,974
Intangible Costs						
Architects fees	50	943	1,800	33,948	893	32,148
Interest	594	862	14,873	31,023	268	16,150
Real Estate taxes	33	33	1,200	1,200	-	-
Insurance	25	25	900	900	-	-
FHA Mortgage Ins.	-	96	-	3,447	96	3,447
FHA Examination Fee	-	57	-	2,068	57	2,068
FHA Inspection Fee	-	96	-	3,447	96	3,447
Financing Fees	-	383	6,527	13,788	383	7,261
FNMA/GNMA Fees	-	335	-	12,064	335	12,064
Title & Recording	-	-	-	-	-	-
Legal & Accounting	42	139	1,500	5,000	97	3,500
Other	56	-	2,000	-	(56)	(2,000)
Total	800	2,969	28,800	106,885	2,169	78,085
Land	726	726	26,125	26,125	-	-
Total Development Costs	17,750	21,280	639,015	766,074	3,530	127,059
Developers Equity Contrib.	(1,111)	(1,869)	(40,000)	(67,268)	(758)	(27,268)
Outside Capital Required	16,639	19,411	599,015	698,806	2,772	99,791

- NOTES: (1) Architect's fees for the HUD units were assumed to be 6%.
 (2) Total construction time for both units is 12 months.
 (3) Total Development costs for the HUD units were assumed to be \$18,112 for a one-bedroom unit and \$21,735 for a two-bedroom unit plus \$27,090 for change order for unusual subsurface problems encountered.
 (4) Land and structure amounts for the HUD units is the residual of all other items.

OPERATING STATEMENT ANALYSIS OF THE ABOVE REE CONSTRUCTION PROJECT
 COMPARING ACTUAL AMOUNTS TO CORRESPONDING PROBABLE HUD SECTION 236 AMOUNTS
 FOR THE PARKSIDE APARTMENT DEVELOPMENT (WILMERDING)

As of October, 1974

DESCRIPTION	UNIT AMOUNTS		TOTAL AMOUNTS		DIFFERENCE	
	Actual	HUD	Actual	HUD	Actual	HUD
Income						
Rental Income						
1-bdrm. units (12)	147	133	21,168	19,152	(14)	(2,016)
2-bdrm. units (24)	167	145	48,096	41,760	(22)	(6,336)
Gross Rentals	160	141	69,264	60,912	(19)	(8,352)
Vacancies	(5)	(7)	(2,078)	(3,046)	2	968
Net Income	155	134	67,186	57,866	(21)	(9,320)
Other income (laundries)	-	2	-	864	2	864
Total	155	136	67,186	58,730	(19)	(8,456)
Operating Expenses	75	77	32,565	33,360	2	795
Net Operating Income	80	59	34,621	25,370	(21)	(9,251)
Mortgage Payments	75	49	32,621	20,930	(26)	(11,691)
Net Income for Developer	5	10	2,000	4,440	5	2,440

- NOTES: (1) Rental income amounts assume that the tenant will directly pay his own electric costs (units have gas heat).
- (2) HUD unit rents were based upon a monthly rent of \$140.63 for a one-bedroom unit and \$154.69 for a two-bedroom unit less estimated monthly electric costs of \$10 and \$12 respectively, plus \$2 per month (exception limits) for change order for subsurface problem.
- (3) Vacancies were computed at 5% for HUD units.
- (4) Operating expenses for HUD units are the residual of total income over mortgage payments and net income for builder-sponsor.
- (5) Mortgage payments are based upon 30 year, 8.5% mortgage for the actual units and a 40 year, 1% mortgage for the HUD units (with a market rate of 9%).
- (6) HDC amounts are for a 25-year period while HUD amounts are for a 40-year period.

CONTAINING ACTUAL AMOUNTS TO CORRESPONDING PROPOSED HUD SECTION 236 AMOUNTS
FOR THE PARKSIDE APARTMENT DEVELOPMENT (WILMERDING)

As of October, 1974

DESCRIPTION	UNIT AMOUNTS		TOTAL AMOUNTS		DIFFERENCE	
	Actual	HUD	Actual	HUD	Actual	HUD
<u>EQUITY ANALYSIS</u>						
Capital Required						
Total Development Cost	17,750	21,280	639,015	766,074	3,530	127,059
Initial Operating Deficit	-	-	-	-	-	-
Working Capital Deposit	-	383	-	13,788	383	13,788
Discount Points	-	-	-	-	-	-
Off-site Improvements	-	-	-	-	-	-
Total	17,750	21,663	639,015	779,862	3,913	140,847
Sources of Capital						
Mortgage Proceeds	9,816	19,150	353,440	689,400	9,334	335,960
Grant from HDC	6,823	-	245,575	-	(6,823)	(245,575)
Land	-	-	-	-	-	-
Developers Equity Contr.	1,111	1,869	40,000	67,268	758	27,268
Total	17,750	21,019	639,015	756,668	3,269	117,653
Net Capital Required	-	644	-	23,194	644	23,194
<u>SUBSIDY ANALYSIS</u>						
Monthly & Annual Costs						
Operating Expenses	75	77	32,565	33,360	2	795
Mortgage Payments	75	156	32,621	67,217	81	34,596
Profit to Developer	5	10	2,000	4,440	5	2,440
Total	155	243	67,186	105,017	88	37,831
Less Net Annual Rentals	(155)	136	(67,186)	(58,730)	(19)	(8,456)
Net Deficit	6	107	245,575	46,287	101	199,288
Number of Years	-	-	-	40	-	39
Total Subsidy Required	6	107	245,575	1,851,480	101	1,605,905
Present Value Factor	1.00	15.0463	1.00	15.0463	14.0463	14.0463
Net Subsidy Required	6	16	245,575	696,448	10	450,873

- NOTES: (1) Present value factor assumes a 6% annual interest rate.
 (2) HUD mortgage payments and subsidy based upon a 40-year, 9% mortgage.
 (3) HUD rent amounts assume that all tenants pay only basic rent amounts throughout 40-year mortgage.
 (4) HDC amounts are for a 25-year period while HUD amounts are for a 40-year period.

HOUSING DEVELOPMENT CORPORATION
 GENERAL INFORMATION ANALYSIS OF THE AIDED NEW CONSTRUCTION PROGRAM
 COMPARING ACTUAL DATA TO CORRESPONDING PROBABLE HUD SECTION 236 DATA
 FOR THE PARKSIDE APARTMENT DEVELOPMENT (WILMERSING)

As of October, 1974

DESCRIPTION	UNIT AMOUNTS		TOTAL AMOUNTS		DIFFERENCE	
	Actual	HUD	Actual	HUD	Actual	HUD
<u>UNIT INFORMATION (In Square Feet)</u>						
One-bedroom unit size	700	550	8,400	6,600	150	1,800
Two-bedroom unit size	830	685	19,920	16,440	145	3,480
Average unit size	787	640	28,320	23,040	147	5,280
Average Unit Cost						
Construction Costs	20 62	27 48			6 86	
Other Costs	1 02	4 64			3 62	
Land Costs	91	1 13			22	
Total Development Costs	22 55	33 25			10 70	
Developers Equity Contrib.	(1 41)	(2 92)	()	()	(1 51)	()
Net Development Costs	21 14	30 33			9 19	

DEVELOPMENT INFORMATION (Exclusive Of Site Control Time)

Feasibility processing Time	1	3
Commitment processing time	2	7
Initial closing time	1	2
Construction time	8	8
Total Time	12	20

COMPARING ACTUAL AMOUNTS TO CORRESPONDING PROBABLE HUD SECTION 236 AMOUNTS
FOR THE GAK HILL APARTMENT DEVELOPMENT (NORTH VERSAILLES)

As of October, 1974

DESCRIPTION	UNIT AMOUNTS		TOTAL AMOUNTS		DIFFERENCE	
	Actual	HUD	Actual	HUD	Actual	HUD
Physical Improvement Cost						
Land and structures (including builder-sponsor profit & risk allowance)	16,435	15,829	493,050	474,850	(606)	(18,200)
Intangible Costs						
Architects fees	333	847	10,000	25,417	514	15,417
Interest	260	822	7,800	24,647	562	16,847
Real Estate taxes	133	133	4,000	4,000	-	-
Insurance	50	50	1,500	1,500	-	-
FHA Mortgage Ins.	-	91	-	2,739	91	2,739
FHA Examination fee	-	55	-	1,643	55	1,643
FHA Inspection fee	-	91	-	2,739	91	2,739
Financing fees	160	364	4,800	10,954	204	6,154
FINMA/GNMA Fees	-	320	-	9,585	320	9,585
Title & Recording	17	17	500	500	-	-
Legal & Accounting	167	167	5,000	5,000	-	-
Other	-	-	-	-	-	-
Total	1,120	2,957	33,600	88,724	1,037	55,124
Land	1,500	1,500	45,000	45,000	-	-
Total Development Costs	19,055	20,286	571,650	608,574	1,231	36,924
Developer's Equity Contr.	(3,641)	(1,708)	(109,234)	(51,234)	1,933	58,000
Outside Capital Required	15,414	18,578	462,416	557,340	3,164	94,924

- NOTES: (1) Architect's fees for the HUD units were assumed to be 6%.
 (2) Total construction time for both units is 12 months.
 (3) Total development costs for the HUD units were assumed to be \$18,112 for a one-bedroom unit and \$21,735 for a two-bedroom unit.
 (4) Land and structure amounts for the HUD units is the residual of all other items.

OPERATING EXPENSE ANALYSIS OF THE OAK HILL APARTMENT DEVELOPMENT
 COMPARING ACTUAL AMOUNTS TO CORRESPONDING PROBABLE HUD SECTION 236 AMOUNTS
 FOR THE OAK HILL APARTMENT DEVELOPMENT (NORTH VERSAILLES)

As of October, 1974

DESCRIPTION	UNIT AMOUNTS		TOTAL AMOUNTS		DIFFERENCE	
	Actual	HUD	Actual	HUD	Actual	HUD
Income						
Rental income						
1-bdrm. units (10)	140	116	16,800	13,920	(24)	(2,880)
2-bdrm. units (20)	160	125	38,400	30,000	(35)	(8,400)
Gross Rentals	153	122	55,200	43,920	(31)	(11,280)
Vacancies	(4)	(6)	(1,656)	(2,196)	2	540
Net Income	149	116	53,544	41,724	33	11,820
Other income (laundries)	-	2	-	720	2	720
Total	149	118	53,544	42,444	(31)	(11,100)
Operating Expenses	84	62	30,000	22,435	(22)	(7,565)
Net Operating Income	65	56	23,544	20,009	(9)	(3,535)
Mortgage Payments	64	47	23,079	16,628	(17)	(6,451)
Net Income for Developer	1	9	465	3,381	8	2,916

- NOTES: (1) Rental income amounts assume that the tenant will directly pay his own electric costs (units have electric heat).
- (2) HUD unit rents were based upon a monthly rent of \$140.63 for a one-bedroom unit and \$154.69 for a two bedroom unit less estimated monthly electric costs of \$25 and \$30 respectively.
- (3) Vacancies were computed at 5% for HUD units.
- (4) Operating expenses for HUD units are the residual of total income over mortgage payments and net income for builder-sponsor.
- (5) Mortgage payments are based upon 25 year, 9% mortgage for the actual units and a 40-year, 1% mortgage for the HUD units (with a market rate of 9%).
- (6) HDC amounts are for a 25-year period while HUD amounts are for a 40-year period.

EQUITY AND SUBSIDY ANALYSIS OF THE HUD RENT CONSTRUCTION PROGRAM
 COMPARING ACTUAL AMOUNTS TO CORRESPONDING PROBABLE HUD SECTION 236 AMOUNTS
 FOR THE OAK HILL APARTMENT DEVELOPMENT (NORTH VERSAILLES)

As of October, 1974

DESCRIPTION	UNIT AMOUNTS		TOTAL AMOUNTS		DIFFERENCE	
	Actual	HUD	Actual	HUD	Actual	HUD
<u>EQUITY ANALYSIS</u>						
Capital Required						
Total Development Cost	19,055	20,286	571,650	608,574	1,231	36,924
Initial Operating Deficit	-	-	-	-	-	-
Working Capital Deposit	-	365	-	10,954	365	10,954
Discount Points	-	-	-	-	-	-
Off-site Improvements	-	-	-	-	-	-
Total	19,055	20,651	571,650	619,528	1,596	47,878
Sources of Capital						
Mortgage Proceeds	7,954	18,257	238,616	547,700	10,303	309,084
Grant from HDC	7,460	-	223,800	-	(7,460)	(223,800)
Land	1,500	1,500	45,000	45,000	-	-
Developers Equity Contr.	2,141	1,708	64,234	51,234	(433)	(13,000)
Total	19,055	21,465	571,650	643,934	2,410	72,284
Net Capital Required	-	(814)	-	(24,406)	(814)	(24,406)
<u>SUBSIDY ANALYSIS</u>						
Monthly & Annual Costs						
Operating Expenses	84	62	30,000	22,435	(22)	(7,565)
Mortgage Payments	64	148	23,079	53,401	84	30,322
Profit to Developer	1	9	465	3,381	8	2,916
Total	149	219	53,544	79,217	70	25,673
Less Net Rental	(149)	(118)	(53,544)	(42,444)	(31)	11,100
Net Deficit	6	101	223,800	36,773	95	187,027
Number of Years	-	-	1	40	-	39
Total Subsidy Required	6	101	223,800	1,470,920	95	1,247,120
Present Value Factor	1.00	15.0463	1.00	15.0463	14.0463	14.0463
Net Subsidy Required	6	15	223,800	553,298	9	329,493

- NOTES: (1) Present value factor assumes a 6% annual interest rate.
 (2) HUD mortgage payments and subsidy based upon a 40-year, 9% mortgage.
 (3) HUD rent amounts assume that all tenants pay only basic rent amounts throughout the 40-year mortgage period.
 (4) HDC amounts are for a 2 1/2-year period while HUD amounts are for a 40-year period.

REPORT OF THE FEDERAL BUREAU OF INVESTIGATION ON THE INVESTIGATION OF THE
 COMPARISON OF THE COSTS OF DEVELOPMENT OF APARTMENT DEVELOPMENT DATA
 FOR THE GRAY HILL APARTMENT DEVELOPMENT (MORRIS LEVINSKILLER)

As of October, 1974

DESCRIPTION	UNIT AMOUNTS		TOTAL AMOUNTS		DIFFERENCE	
	Actual	HUD	Actual	HUD	Actual	HUD
<u>UNIT INFORMATION (In Square Feet)</u>						
One-bedroom unit size	800	550	9,600	6,600	250	3,000
Two-bedroom unit size	1,000	605	18,000	12,330	315	5,670
Average unit size	933	640	27,600	18,930	323	8,670
Average Unit Cost						
Construction Costs	17.62	24.73			7.11	
Other Costs	1.20	4.62			3.42	
Land Costs	1.61	2.34			.73	
Total Development Costs	20.43	31.69			11.26	
Developers Equity Contrib.	(3.91)	(2.67)			(1.24)	
Net Development Costs	16.52	29.02			12.50	

DEVELOPMENT INFORMATION (Exclusive Of Site Control Time)

Feasibility processing time	1	3	2
Commitment processing time	2	7	5
Initial closing time	1	2	1
Construction time	8	8	-
Total Time	12	20	8

UNIT AMOUNTS TO CORRESPONDING UNITABLE HUD SECTION 236 AMOUNTS
FOR THE WILMERDING PLAZA DEVELOPMENT (WILMERDING)

As of October, 1974

DESCRIPTION	UNIT AMOUNTS		TOTAL AMOUNTS		DIFFERENCE	
	Actual	HUD	Actual	HUD	Actual	HUD
Medical Improvement Cost						
Land and structure (including developer-sponsor profit and loss allowance)	14,121	16,033	254,185	288,584	1,912	34,399
Development Costs						
Architects fees	1,034	858	18,603	15,452	(176)	(3,151)
Interest	325	799	5,850	14,378	474	8,528
Real estate taxes	111	111	2,000	2,000	-	-
Insurance	28	28	500	500	-	-
FHA Mortgage Ins.	-	89	-	1,598	89	1,598
FHA Examination Fee	-	53	-	959	53	959
FHA Inspection Fee	-	89	-	1,598	89	1,598
Financing Fees	172	355	3,100	6,390	183	3,290
FHMA/GAMA Fees	-	311	-	5,591	311	5,591
Title & Recording	25	25	450	450	-	-
Legal & Accounting	56	221	1,000	4,000	165	3,000
Other	-	-	-	-	-	-
Total	1,751	2,939	12,900	37,464	1,364	24,564
Land	750	750	13,500	13,500	-	-
Total Development Costs	16,622	19,722	299,188	355,000	3,100	55,812
Developers Equity Contrib.	(1,294)	(1,725)	(23,300)	(31,045)	(431)	(7,745)
Outside Capital Required	15,328	17,997	275,888	323,955	2,669	48,067

- NOTES: (1) Architect's fees for the HUD units were assumed to be 6%.
 (2) Total construction time for both units is 12 months.
 (3) Total Development costs for the HUD units were assumed to be \$18,112 for a one-bedroom unit and \$21,735 for a two-bedroom unit.
 (4) Land and structure amounts for the HUD units is the residual of all other items.

COMPARING ACTUAL AMOUNTS TO CORRESPONDING PROBABLE HUD SECTION 236 AMOUNTS
FOR THE WILMERDING PLAZA DEVELOPMENT (WILMERDING)

As of October, 1974

DESCRIPTION	UNIT AMOUNTS		TOTAL AMOUNTS		DIFFERENCE	
	Actual	HUD	Actual	HUD	Actual	HUD
Income						
Rental Income						
1-bdrm. units (10)	145	131	17,400	15,720	(14)	(1,680)
2-bdrm. units (8)	165	143	15,840	13,728	(22)	(2,112)
Gross Rentals	154	136	33,240	29,448	(18)	(3,792)
Vacancies	(5)	(7)	(997)	(1,472)	2	475
Net Income	149	129	32,243	27,976	(20)	(4,267)
Other income (laundries)	-	2	-	432	2	432
Total	149	131	32,243	28,408	(18)	(3,835)
Operating Expenses	79	77	17,069	16,659	(2)	410
Net Operating Income	70	54	15,174	11,749	(16)	(3,425)
Mortgage Payments	68	45	14,674	9,700	(23)	(4,974)
Net Income for Developer	2	9	500	2,049	7	1,549

- NOTES: (1) Rental income amounts assume that the tenant will directly pay his own electric costs (units have gas heat).
- (2) HUD unit rents were based upon a monthly rent of \$140.63 for a one-bedroom unit and \$154.69 for a two-bedroom unit less estimated monthly electric costs of \$10 and \$12 respectively.
- (3) Vacancies were computed at 5% for HUD units.
- (4) Operating expenses for HUD units are the residual of total income over mortgage payments and net income for builder-sponsor.
- (5) Mortgage payments are based upon 25-year, 9% mortgage for the actual units and a 40-year, 1% mortgage for the HUD units (with a market rate of 9%).
- (6) HUD amounts are for a 25-year period while HUD amounts for a 40-year period.

COMPARING ACTUAL AMOUNTS TO CORRESPONDING FEASIBLE HUD SECTION 236 AMOUNTS
FOR THE WILMERDING PLAZA DEVELOPMENT (WILMERDING)

As of October, 1974

DESCRIPTION	UNIT AMOUNTS		TOTAL AMOUNTS		DIFFERENCE	
	Actual	HUD	Actual	HUD	Actual	HUD
<u>EQUITY ANALYSIS</u>						
Capital Required						
Total Development Cost	16,622	19,722	299,188	355,000	3,100	55,812
Initial Operating Deficit	-	-	-	-	-	-
Working Capital Deposit	-	355	-	6,390	355	6,390
Discount Points	-	-	-	-	-	-
Off-site Improvements	-	-	-	-	-	-
Total	<u>16,622</u>	<u>20,077</u>	<u>299,188</u>	<u>361,390</u>	<u>3,455</u>	<u>62,202</u>
Sources of Capital						
Mortgage Proceeds	8,088	17,750	145,575	319,500	9,662	173,925
Grant from HDC	7,240	-	130,313	-	(7,240)	(130,313)
Land	-	-	-	-	-	-
Developers Equity Contr.	1,294	1,725	23,300	31,045	431	7,745
Total	<u>16,622</u>	<u>19,475</u>	<u>299,188</u>	<u>350,545</u>	<u>2,853</u>	<u>51,357</u>
Net Capital Required	-	602	-	10,845	602	10,845
<u>SUBSIDY ANALYSIS</u>						
Monthly & Annual Costs						
Operating Expenses	79	77	17,069	16,659	(2)	(410)
Mortgage Payments	68	144	14,674	31,151	76	16,477
Profit to Developer	2	9	500	2,049	7	1,549
Total	<u>149</u>	<u>230</u>	<u>32,243</u>	<u>49,859</u>	<u>81</u>	<u>17,616</u>
Less Net Rentals	<u>(149)</u>	<u>(129)</u>	<u>(32,243)</u>	<u>(28,408)</u>	<u>(20)</u>	<u>(3,835)</u>
Net Deficit	6	101	130,313	21,451	95	(129,862)
Number of Years	-	-	1	40	-	39
Total Subsidy Required	6	101	130,313	858,040	95	727,727
Present Value Factor	1.00	15.0463	1.00	15.0463	14.0463	14.0463
Net Subsidy Required	<u>5</u>	<u>15</u>	<u>130,313</u>	<u>322,758</u>	<u>10</u>	<u>192,045</u>

- NOTES: (1) Present value factor assumes a 6% annual interest rate.
 (2) HUD mortgage payments and subsidy based upon a 40-year, 9% mortgage.
 (3) HUD rent amounts assume that all tenants pay only basic rent amounts throughout 40-year mortgage period.
 (4) HDC amounts are for a 25-year period while HUD amounts are for a 40-year period.

COMPARING ACTUAL DATA TO CORRESPONDING PROBABLE HUD SECTION 236 DATA
FOR THE WILMERTING PLAZA DEVELOPMENT (WILMERTING)

As of October, 1974

DESCRIPTION	UNIT AMOUNTS		TOTAL AMOUNTS		DIFFERENCE	
	Actual	HUD	Actual	HUD	Actual	HUD
<u>UNIT INFORMATION (In Square Feet)</u>						
One-bedroom unit size	600	550	6,000	5,500	50	500
Two-bedroom unit size	850	685	6,000	5,480	165	1,320
Average unit size	711	610	12,800	10,980	101	1,820
Average Unit Cost						
Construction Costs	19.86	26.28			6.42	
Other Costs	2.46	4.82			2.36	
Land Costs	1.05	1.23			.18	
Total Development Costs	23.37	32.33			8.96	
Developers Equity Contrib.	(1.81)	(2.83)	()	()	(1.02)	()
Net Development Costs	<u>21.56</u>	<u>29.50</u>			<u>7.94</u>	

DEVELOPMENT INFORMATION (Exclusive of Site Control Time)

Feasibility processing time	1	3	2
Commitment processing time	2	7	5
Initial closing time	1	2	1
Construction time	6	6	-
Total Time	<u>10</u>	<u>18</u>	<u>8</u>

Pittsburgh Subsidizes New Home Mortgages

City pays the difference between costs and marketable price in lower income neighborhoods.



By Robert Paternoster, AIP

New housing built near the CBD.

The City of Pittsburgh began an unusual program in 1973 to stimulate private construction in lower income areas, originally urban renewal areas. The city, developers and Equibank, a local bank, work together essentially to create an artificial market for new housing among lower income families. The market is created by making the cost of the housing affordable, with down payments of as little as \$640. The city simply pays the difference between the actual costs of the housing unit and the amount the buyer pays through a mortgage with Equibank.

The program is administratively simple, and 110 homes have been built so far. There is no federal money involved in this particular program. It is fully independent of Pittsburgh's subsidized interest loan program for rehabilitation

Robert Paternoster, AIP, was planning director of Pittsburgh when this program was developed. He recently became planning director of Long Beach, California.

which is being done with community development block grants, and of the well known neighborhood housing services program which pioneered in Pittsburgh.

The need. The January, 1973, moratorium on the federal 235 and 236 housing subsidy programs left the City of Pittsburgh in a difficult position. Like many other cities, Pittsburgh was counting on these programs to produce the new housing planned for large sites acquired and cleared through urban renewal. We were in the midst of two large residential renewal programs, and we had already completed most of the acquisition and relocation phases. Vacant sites stood ready for new housing construction. Yet, without the housing subsidies, disposition and development could never take place.

It was in this setting that Pittsburgh's neighborhood housing program was developed. It wasn't the type of program that would have been politically acceptable if such a crisis were not upon us. Although by that time we had already become

disenchanted with the 235 and 236 programs, we were living with them because they were all we had. The 235 sales program, in particular, had been less than totally successful in Pittsburgh: federal mortgage limits had severely lowered the quality of new housing that was being constructed. And 236 rental projects, like both the sales and rental projects in many other cities, were beginning to fall into default due to operating budget problems. Perhaps we should have been seeking other solutions sooner.

The Department of City Planning set out in earnest in early 1973 to come up with an answer. We decided to design a local program to replace the 235 sales program. No local effort was envisioned to supersede the 236 rental program, because the city felt that homeownership was a higher priority. Also, a rental program posed the problem of a long term city commitment to rental subsidies and/or rent control. Furthermore, we felt that building new housing for sale in these low income neighborhoods might attract the

type of family that we desired to establish an income mix and community stability.

Fortunate help. We were fortunate in one respect. The Commonwealth of Pennsylvania has had, since the early '50s, a state urban renewal grant program to assist cities and towns to participate in the federal renewal programs. The Commonwealth program offers a match of up to 50% of the local share of the cost of an urban renewal effort. But federal renewal funds began waning in 1972, leaving available state renewal funds that were not necessary to support federal projects. Rather than permitting these funds to lapse, the City of Pittsburgh budgeted local capital funds to match the state grants for use in renewal activities outside of federal project areas. For the two years 1972 and 1973, a total of \$10 million was available, \$5 million in state funds and \$5 million in city capital funds. Mayor Pete Flaherty authorized us to use \$7 million from this pot to complete the two stalled federal residential renewal projects in the Hill and Manchester areas.

We knew that the mayor did not want to embark upon an effort that would require a long term financial commitment by the City. Therefore, the 235 program, with its 30 year commitment to mortgage subsidies, could not serve as a model. We had to come up with a program that was simple, had a minimum of administrative overhead, and provided all of its subsidy in the "front end". Once these objectives were articulated, the design of the program flowed quite naturally.

Obviously, the reason that new housing construction was not pro-

ceeding through the normal market in these low income neighborhoods was because the cost of construction of a new home exceeded the price for which it could be sold. To remedy this, the neighborhood housing program would subsidize the difference between the development cost of a new home and its fair market value in that neighborhood. The city

We decided to design a local program to replace the 235 program.

would use its funds to artificially create a sales housing market where none existed naturally. A large local subsidy at the time of initial sale would be simple, involve little administrative headache and keep the city out of a long term commitment to housing subsidies.

How it works. The program works as follows:

1. **Designation of eligible areas.** The planning department designates those areas in the city where neighborhood housing program subsidies are available. Initially, only the two large residential renewal projects, the Hill and Manchester, were so designated. Soon after the program began, all active urban renewal areas were designated as eligible.

2. **Solicitation of proposals.** The Urban Redevelopment Authority, the city's operating agency for this program, announces the availability of the program and solicits proposals from builders. The proposal form is not complex. An interested builder is required to submit a site plan for the site he has chosen, floor

plans for typical units and an estimate of development cost (construction cost plus profit) and sales price.

3. **Establishment of fair market value.** The developer submits a letter from a financial institution setting forth its estimate of fair market value for that particular unit in that specific neighborhood. The letter is, in effect, a commitment from the institution to offer a mortgage to a qualified buyer on the basis of the estimated fair market value, much the same as the process used by the institution in offering any other mortgage. The Urban Redevelopment Authority then obtains an independent evaluation of that unit's fair market value. The two separate estimates are reconciled to establish the fair market value to be used in the contract with the developer.

4. **Negotiation of agreement with developer.** The Urban Redevelopment Authority, together with representatives from the neighborhood involved, review the site plan and unit designs to assure that they are of sufficiently high quality. Special attention is given to the quality of materials to be used and to the extent of landscaping provided. The authority independently checks the developer's construction cost estimate. Once the design and construction cost are agreed upon, the required public subsidy can be calculated as the difference between the development cost (construction cost plus profit) and the fair market value. The authority enters into an agreement with the developer wherein the authority pledges to make this subsidy available, upon completion of the unit, to a qualified low or moderate income buyer.

5. **Construction and marketing of units.** The developer acquires the land, obtains his construction financing and begins construction. The builder pays his normal construction wages. There is no requirement that union wage rates be paid, since the public subsidy is made to the home buyer rather than to the builder. The developer begins marketing the units in the same manner as he would in any other development, except that only families with income less than \$19,237 per year can be considered eligible buyers (a restriction imposed by the state due to constitutional requirements that state funds to subsidize housing be used only to benefit the low and moderate income.

6. **Transfer of title to the buyer.** Upon completion of the unit the de-

Typical Cost Breakdown Pittsburgh Neighborhood Housing Program

Typical development costs for a three bedroom detached unit	
Total development cost of builder	\$34,950
Fair market value established by bank and city	21,350
Subsidy by city	\$13,000
Monthly housing cost, using minimum downpayment	
Minimum downpayment by buyer (3% of fair market value)	\$ 640
Mortgage by bank (97% of fair market value)	20,710
Monthly payment for interest and amortization for 30 years at 8½% (\$7.69/\$1000)	\$159
Real estate taxes per month	40
Total monthly payment	\$199

Note: experience indicates that a \$2000 downpayment is not uncommon. Many purchasers also are buying extras such as log burning hearths and game rooms. This increases the total mortgage payment beyond basic cost. The city does not subsidize the cost of these additional items.

veloper certifies his construction cost to the satisfaction of the authority. A closing is scheduled as soon as an eligible buyer is presented who offers to pay the agreed upon fair market value. At the closing, the authority presents to the buyer a check for the subsidy amount. The buyer combines this with his own downpayment and the mortgage amount from the financial institution to acquire title to the property from the developer.

Some pitfalls. The process was designed to be simple and straightforward. It had to work. Yet, as we began implementation, a number of pitfalls arose.

First, developers were leary of an untried new program. Homebuilders who had been involved in the 235 and 236 programs experienced rigid federal regulations and costly red tape. They suspected the same of the city's neighborhood housing program.

In addition, most builders of sales housing were used to operating in the suburbs. They were hesitant about the more complex building regulations in the city, and they feared the construction problems that they would encounter building in the "ghetto".

The city had to overcome these problems through an aggressive sales program. A booklet was prepared which described the program and identified available sites. With assistance from the homebuilders association, these were mailed to all homebuilders in the area. A kickoff meeting was scheduled to present the program to builders and to answer questions. Despite these efforts, most builders took a wait and see attitude. If it were not for the terrible economic slump in the housing construction business, we might not have received any proposals at all. Finally, half a dozen proposals were submitted.

We next discovered that the developers were completely unprepared for the community review process. Since all of the sites were in renewal areas which had active project area committees, the proposals were submitted to these committees for review. Many developers quickly found themselves on the hot seat, especially those who felt that relatively high density, stripped down models were all that would sell in these neighborhoods.

We learned that the residents of our low income neighborhoods do not want townhouses, even if sub-

sitized. They are also suspicious of "sensitive urban design" and prefer standard suburban type tract housing. Needless to say, this was quite a blow to our planners, who gave in to the community desires with considerably more reluctance than the builders themselves. The resultant new homes may be "out of character with the neighborhood", but that's just what the residents want. And they sell!

The next problem that arose was that developers could not get adequate construction financing. State and federal banking regulations limit construction financing to 80% of the fair market value of the units being built. Since, in this case, the fair market value was considerably below construction cost, the builders were unable to obtain sufficient funds to complete construction. The Urban Redevelopment Authority solved this problem by executing an agreement with the lending institution pledging 80% of its subsidy amount against any possible default during construction. Together with the bank's normal 80% of fair market value, this

especially in April of 1974) due largely to the careful scrutiny given any proposed new program by city council and by the state attorney general. The first steps of implementation were taken slowly, as each of the above cited problems was solved one by one. On its second anniversary, the program saw 52 units completed and sold, and 58 more units under construction.

The average subsidy per unit is \$13,000 (see accompanying table). This figure has remained constant over the life of the program, despite a 23% increase in construction costs in the Pittsburgh area. This means that the fair market value of the units has been rising at a rate close to that of inflation of construction cost.

The relatively high public cost per unit has raised the eyebrows of some. But we know of no cheaper way to stimulate new housing construction in these neighborhoods. Some critics view the program as a "public give away", unfairly helping moderate income families to buy expensive new housing. But we

The relatively high cost has raised the eyebrows of some, but we know of no cheaper way to stimulate new housing construction in these neighborhoods.

pledge permitted the bank to lend the full 80% of development cost.

Another problem which arose, particularly during the last two years, was the high cost of permanent financing and, in the case of FHA insured mortgages, the fluctuating cost of discount points demanded by lenders. We had originally included all of the closing costs, including points, in the builder's development cost. This was done in order to minimize the initial cash required of the buyer, thus making the homes affordable to as many people as possible. But builders were leary of agreeing in advance to a development cost which included closing costs, because they had no way of knowing what the discount points would be at the time of completion and sale. Therefore, the authority executed an agreement with the lenders that it would pay the FHA points at the closing, thus freeing the builder from the uncertainties of the mortgage market.

What's happened. We are generally pleased with the success of the program to date. It took over a year to launch (the program began of-

consider the program in the context of community development as opposed to social welfare. In this view, the housing subsidy becomes a neighborhood capital improvement. It is the public investment necessary to sell publicly owned land, to cause taxable development to take place and, most importantly, to bring vitality back to the neighborhood. The homebuyer is getting no particular bargain. If he should turn around and sell the house the next day, he could probably sell it for no more than he paid, since that was its fair market value. (Actually, the homebuyer is required, as a condition of the subsidy, to own and reside in the home for a period of two years following purchase.) Hopefully, over time, these homebuyers will enjoy the same or greater increase in the value of their homes realized by all other Pittsburgh homeowners. If they do, it will mean that our renewal effort is working and that the housing market in these neighborhoods is coming back to life.

Conclusions. Before concluding, I must advise that the neighborhood

housing program, while important, is not Pittsburgh's major housing program. Rehabilitation and modernization of generally sound existing housing is our primary effort.

The cornerstone of our housing strategy is the home repair loan program (see article in June, 1976 *Practicing Planner*) which provides low interest loans as a stimulus to encourage homeowners to reinvest in their properties. The \$18 million of federal community development funds allocated to this program over three years should cause 3000 existing units to be rehabilitated. This is obviously a much more cost effective approach toward attaining sound housing in the city than the neighborhood housing program. One must remember, however, that creation of sound housing is not the only objective of the neighborhood housing program in the specific communities in which it is operating. When overall community development objectives are taken into account, its benefits are well worth its costs.

Some limited expansion of the neighborhood housing program is now being considered. Several other

Residents do not want townhouses. They prefer standard suburban type tract housing.

low income neighborhoods outside of active urban renewal projects have requested that they be made eligible. These requests are being considered carefully, and the program may be extended into these neighborhoods to provide new housing on vacant lots acquired by the city through tax delinquency. Also, attempts are being made to adapt the program to major rehabilitation of existing housing, which may involve a lower per unit subsidy than new construction. Finally, some day the neighborhood housing program concept may be applied to rental housing.

The \$7 million currently budgeted for the program is sufficient, given present subsidy levels, to build 500 new homes. The 110 units completed or under construction are obviously only a beginning. But it is a significant beginning. New homes are being built and sold in neighborhoods that haven't seen a new single family house constructed in more

than 50 years. Families of moderate but steady income are moving into areas that had witnessed nothing but out migration of stable families over the past two decades. Old time residents are beginning to have new faith in the future of their communities.

More information. For more information, contact Stephen George, Director Urban Redevelopment Authority 200 Ross Street Pittsburgh, Pennsylvania 15219

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SNOB Continued from page 33.

a decision has been six months, and 11 decisions took more than 18 months.

Added to that time is the time taken in the superior court when a HAC decision is appealed, and 21 HAC decisions have been appealed. In the 11 decisions handed down, the HAC has been upheld in each one. Unfortunately, the appeal to superior court has added at least four months, an average of ten months and one delay of 27 months. Soaring building costs during the wait have killed many developments.

If one looks at HAC more as a protector of Chapter 774, then the HAC is doing its job well. Each court decision strengthens the law. Slowly cities and towns are becoming convinced that Chapter 774 is here to stay and that delaying tactics such as automatic court appeals only waste the community's money on legal fees. In a recent case of abutters challenging Chapter 774, the appeals court of Massachusetts upheld the law in a terse statement that the issues were settled in the original Concord/Hanover decision and awarded double costs to the ZBA and a developer.

Social results. The stated legislative goal for Chapter 774 was to aid communities to provide low and moderate income housing for the young and elderly already living within their borders. Chapter 774 has done this. Although the law has been more successful in providing housing for the elderly (65%), family housing has been built. In developments occupied so far, at least 80% of the residents are from the community itself and often the

rest are from surrounding communities.

The unstated goal of providing alternative housing choices for the urban poor and minorities has not been achieved to any extent. Suburban communities are now beginning to house their fair share of their own less affluent residents, at least slowing down the migration of these citizens to the cities. But they are providing very little subsidized housing for outsiders. Minority occupancy has been significant in only two developments. The range is from 0 to 19%, with a large percentage of minorities coming from the community and surrounding communities.

That Chapter 774 has not resulted in a minority invasion of the suburbs should encourage local ZBAs as they consider future applications for comprehensive building permits. For low income housing advocates and fair housing groups who had hoped that Chapter 774 would provide alternative housing for the poor living in the core cities, the outcome, so far, has been disappointing. And until more subsidized housing is built in the suburbs, more aggressive recruitment of minorities and the urban poor, better public transportation access to jobs established, Chapter 774 will not produce major social changes.

More information. The following documents are available:

From the State Bookstore, room 116, The State House, Boston, Massachusetts 02202.

Chapter 774, An Act Providing for the Construction of Low or Moderate Income Housing in Cities and Towns in which Local Restrictions Hamper Such Construction. § 20.

Rules and Regulations of the Housing Appeals Committee. June 3, 1974, regulation #15-1L, § 90.

From Citizens Housing and Planning Association of Metropolitan Boston, 7 Marshall Street, Boston, Massachusetts 02108.

Overriding the Suburbs: State Intervention for Housing Through the Massachusetts Appeals Process. §2.50.

Court Decision Upholding Chapter 774, A Summary, a special report from CHAPA, § 30.

For answers to detailed questions about the process or the HAC, contact

Dorothy Altman, AIP 43 Gibson Street Cambridge, Massachusetts 02138 617 864-9344 □

Mr. MOORHEAD. Mr. Brophy, I think this is tremendously significant testimony, and the programs you have demonstrated have a cost comparison that is absolutely fantastic. I want to be sure to bring it to the attention of all of the members of the subcommittee.

Let me see if I can understand why this cost figure—that the difference between a \$24-per-month subsidy over 25 years compared to \$103 per month over 40 years—I have not done the arithmetic, but it must add up to fantastic figures. Is that because of what I will call the front-end money that you described on page 5? Why is that such a dramatic difference?

Mr. BROPHY. There are a number of reasons for the differences. First of all, the subsidy vehicle itself works very simply. That means that the redtape costs in this kind of program for the developer are virtually zero. The only thing different for the developer in this program is that instead of going to a closing to get his permanent mortgage with a financial institution, he is also going to that closing with the agency that is providing the subsidy dollars and with the financial institutions. He gets those dollars at the front end. There has been very little redtape for him. That is one important difference.

The other important difference in this program is that the kind of developer that has been attracted to it is a developer that is interested in taking an equity position in the development. There is not a lot of front-end profit in this program; rather, the developer in owning the property over a number of years is slowly making a profit and so it is not a program that would be attractive to developers who want to make a large profit at the front end.

So, I think that is the second reason that we are getting some cost savings and lower subsidies in this program compared to the section 236 program.

I might also add, however, that the comparisons are similar. We are not cutting costs, for example, by not using Davis-Bacon. Davis-Bacon is included in this comparison. Those costs are equivalent in both programs.

Mr. MOORHEAD. Well, do you in your \$24-per-month subsidy—do you prorate this advanced money?

Mr. BROPHY. That is how that is calculated, Mr. Chairman. We have taken the \$7,500 and basically looked at it over a 25-year mortgage and taken that on a per-unit per-month basis, and it comes out to \$24. That is correct.

Mr. MOORHEAD. So, when you say \$24-per-month subsidy, there actually is no dollars going out; it is all in that front-end money, which you then prorate at presumably an appropriate interest rate over the 25-year period?

Mr. BROPHY. That is correct. The reason we had to state it this way is because it is a comparable comparison with the section 236 program, but there is no ongoing subsidy coming from the housing development corporation, rather the subsidy comes at the front. It is once; it is over. And in the case of rental, there is a regulatory agreement between the owner, the developer, and the housing development corporation that restricts rent increases to a formula based on Bureau of Labor Statistics cost-of-living formula. That is the only relationship the two have.

Mr. MOORHEAD. Now, you suggest that you are not suggesting a substitute for the section 8 program. Well, I think there is not total satisfaction with the section 8 program in the committee. Looking at the Nation as a whole, and you pointed out there was no real new section 8 money in Allegheny County, Pa., and I think that that experience is not universal but very largely the case across the Nation.

I am willing to go along with the Secretary, the new Secretary of HUD, who says, give me a chance to see if I can make section 8 work, but can't we use your experience of the front-end subsidy which you demonstrate is less costly than a Federal program, or is it by the nature of Federal Government to have redtape, is it just unworkable on a Federal level?

Mr. BROPHY. I don't think it is unworkable at all, Mr. Chairman. I think it should be looked at very carefully as a Federal program. I think as a starter, if we were to allow local governments to begin using community development dollars for this kind of a subsidy approach, I think what we would begin to see is that a lot of the creativity that local governments have brought to bear in shaping up their neighborhood rehabilitation programs, we would begin to see in the new construction area.

I am citing two examples, and I think if we change the law in 2 years there may be people from around the country who are able to improve on this model. So, perhaps we need that kind of experimentation that is locally based and meets local needs and local concerns as a way of moving into this as a Federal program.

Mr. MOORHEAD. Let me understand this, Mr. Brophy. Are you saying that under existing law, local communities are prohibited from using community development funds in this method, or is it just as a practical matter? Politically, one likes to see today's dollars go as far as they can.

Mr. BROPHY. We have a legal problem here, Mr. Chairman. Subsidization of new housing construction is not an allowable use of community development dollars under the law passed in 1974. I am suggesting to this subcommittee that an amendment to that provision, which would allow for local governments to use community development dollars for new construction would have a lot of benefits.

Mr. MOORHEAD. So, you are not suggesting to us a new—what I call housing block grant program. You are merely suggesting that we change the existing community development block grant money to eliminate the prohibition of the kind of housing subsidy that you have worked so successfully; is that correct?

Mr. BROPHY. That is correct, Mr. Chairman. And what I am speculating we will see if that is done is a great deal of creativity coming from local governments around the country who are going to begin to take these models, use them in their own communities.

I think that we are going to see some creativity brought to bear and some experimentation and some improvement on these models, so that we are going to see local governments as successful in being able to subsidize new construction as all the reports that I see indicate that they have been in subsidizing and developing neighborhood rehabilitation programs over the past 2 years.

I think it would be a very exciting thing to see local governments begin to subsidize new construction along these general lines.

Mr. MOORHEAD. Now, let's turn to your second program on page 6, which is the homeownership. Do you have any comparative figures, let us say, between this program, your program, and the section 235 program that would compare with your Turtle Creek rental programs?

Mr. BROPHY. Unfortunately I don't have figures. I think, however, it would be relatively simple to make that kind of an analysis. We have not been able to do so at this point. The figures for the program that I described that is operated by the city results in an average subsidy of about \$13,000, and I just can't bring it to mind, but I think the Library of Congress has done some work that looks at section 235 figures over the length of a mortgage.

I think, however, that without pinning it down to specific numbers that we are going to see the same kind of cost savings between this model and the section 235 program that we do between it and the section 236 program, because the models are essentially the same. And the formula for subsidization between section 235 and section 236 is also the same.

Mr. MOORHEAD. It seems to me the economics are clear if you are willing to come up with what I call front-end money. Over a long period you will save time, but politically it is easier to come up with a little bit over many years, which would actually in the long run cost more. Isn't that what you're saying?

Mr. BROPHY. That is exactly right. The difficulty with this program for a mayor or for a Congressman or for a Governor is that the subsidy is not hidden. The subsidy is up front.

It is clear that we are subsidizing a house to the tune of \$13,000. To a layman that sounds like an enormous amount of money, but when one looks at the hidden costs, the length of the mortgage costs under the section 8 programs and other programs, it is clear that the cost is significantly greater than that.

And there is a difficulty in putting the money up front and showing it as a subsidy, because we need—it is sometimes not acceptable to the public to see that kind of a subsidy up front.

But I think once it is explained that it is less costly to the taxpayer than doing it over the life of a mortgage, I think it would be very acceptable.

Mr. MOORHEAD. Do you think—you do say you don't want to substitute or terminate section 8. Do you have any suggestions as to how that program can be made more workable than in my experience it has been since we enacted it?

Mr. BROPHY. I think there are a couple of things, Mr. Chairman. In my conversations with developers, they continue to indicate that they are fearful of getting involved in a program with as much redtape as exists. And one of the roles we have been playing as a nonprofit is to assist private developers to participate in the program. I think that is the one problem.

We really need to begin to market this program to the developers.

Second, even when we have had some developers participate, we are having a great deal of difficulty in interesting conventional lenders in participating in the program. And here, too, I think there is a marketing program that must go on between HUD and the commercial lenders and the savings and loans institutions in the country, perhaps using their associations or using their regulatory bodies to make it

known that we are talking here about a good investment, but they, too, are so turned off by the amount of paper that is required to get these things underway that they have stood back.

And I think, once again, this assumes that the program is workable from a number viewpoints, that is, the market rents have got to be high enough so that the building can be developed and a profit made. And we are currently now looking at those rent levels in the Pittsburgh area as an example.

But, assuming the rent levels are there, I think the section 8 program could basically be a good program if we minimize the paperwork and reach out a hand to the private sector and get them involved in the program, both developers and lending institutions, because I don't think we can expect that program to work without their active participation.

Mr. MOORHEAD. You point out the difficulty of new construction in rehabilitation areas. Let me turn now to the subject of rehabilitation, where I think Action Housing was a pioneer.

Are you still engaged in the rehabilitation business, as it were?

Mr. BROPHY. Yes. We are the operating agency for Allegheny County in helping them implement a neighborhood preservation program in seven municipalities outside the city of Pittsburgh but within the urban county of Allegheny County. And here we have been very successful in involving the financial institutions.

We have developed a loan model that is quite simple. For someone who qualifies for a bank loan, Allegheny County provides a front-end subsidy to reduce the effective cost of their money to 3 percent. We are doing that in concentrated areas, and those areas are chosen based on a commitment from the local municipality to make improvements in those neighborhoods.

This program is based on a philosophy and a set of assumptions that says, if a neighborhood is going to improve itself, the homeowners in that neighborhood have got to want to make an investment. The financial institutions need to make loans available in that neighborhood. They cannot have redlined that neighborhood.

The municipal government has got to have the commitment to invest and make public improvements in that neighborhood, to both show the financial institutions and homeowners that they intend to maintain that neighborhood as a decent place to live.

Now, those three ingredients need to be built into the program. We built them into the programs that we are helping Allegheny County operate in the mill towns surrounding the city of Pittsburgh.

As I pointed out in my statement, I have seen those kinds of programs being developed around Pennsylvania, and I am quite impressed with the level of creativity and sophistication that local governments are bringing to bear in implementing these programs.

In almost every case, there is ongoing communication between the local government operators and local banks who are being asked to participate in these programs and act as a bank should and make loans that are good loans in neighborhoods, and they are doing that. And it is not only having the effect of leveraging the community development dollars, but it is also having the effect of having these financial

institutions involve themselves in older neighborhoods, which is, in the long run what it is going to take to save these neighborhoods.

Mr. MOORHEAD. I notice that you do not mention that Federal section 312 program. If not, why not? And should that program be continued as a separate programs?

Mr. BROPHY. Just an oversight on my part, Mr. Chairman. We are using that program in our neighborhoods. It is an excellent program. Our program was designed to really supplement an active section 312 program.

For example, we have a limit of \$10,000 as the amount of repairs that we can finance. Now, this section 312 program is used in those instances when a house needs more than 10,000 dollars' worth of repairs. And it is working very well in the neighborhoods in which we are using it.

That program, I would hope, will be continued and will be refunded substantially. It is a very good program.

Mr. MOORHEAD. Well, I think there are those who would agree with your proposition that community development block grants should be expanded to include housing, as you suggested. But they would say that is in place of the section 312 program, which is "a categorical program and we're trying to get rid of all categorical programs."

What would you comment on that?

Mr. BROPHY. Well, I would comment—I would say this, that the community development dollars are limited in their effect. We cannot, using the dollars that are now located, adequately rehabilitate the amount of housing that needs to be taken care of.

If you are asking, if we substituted those dollars that are now available through the section 312 program and put them dollar for dollar into the Community Development Act, I think that, as a practical matter, there is some concern by myself and other local actors that something gets lost in the shuffle when that happens and that there is a successful categorical program there that we are using well and want to protect.

It is a matter, however, that if there were adequate and full substitution of dollars and the dollars were used for housing rehabilitation, the program limits that we are now underway with could be changed so that we can take into account the missing section 312 program.

But, as I say, I want to hedge my bets and I want to make sure that that is still there and still useful.

Mr. MOORHEAD. I don't think you would lose the dollars from the Federal level, but I have a feeling when it got down to the local level that we would find that the community development block grants would be used for more dramatic things than the more pedestrian rehabilitation, so that, in my judgment, section 312 should be continued.

Mr. BROPHY. Yes. I think there's some evidence in the reports done on the block grant program so far that, if you will, the section 312 dollars were shuffled into the community development block grant allocations—we would see the same kind of distribution, 20 percent going directly to housing rehabilitation, another x percent going into public works, and so on. And we would be losing some dollars.

Mr. MOORHEAD. Well, Mr. Brophy, it is a particular pleasure to welcome someone from Pittsburgh and to have someone present a program so clearly and lucidly with a view toward producing more for our people at less cost; and you have done it in such an articulate fashion that I want to bring it to the attention of my colleagues. Thank you for your patience and being with us.

Mr. BROPHY. Thank you, Mr. Chairman.

Mr. MOORHEAD. And when the subcommittee adjourns, it will adjourn to continue the hearings on next Monday. The subcommittee is now adjourned.

[Whereupon, at 3:50 p.m., the hearing was adjourned, to reconvene on Monday, March 7, 1977.]



