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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Block Grants For Housing: A Study Of Local Experiences And Attitudes

Considerable interest in consolidating Federal housing programs into a block grant has existed for years. However, no one knows the full ramifications of creating a major new block grant program for housing or significantly altering the Department of Housing and Urban Development's existing Community Development Block Grant Program. Accordingly, GAO examined housing activities at four major cities and surveyed 664 cities and counties concerning their housing programs and opinions on the subject.

This report presents the results of a national survey on (1) local experiences in designing and implementing housing programs under the Community Development Block Grant Program and (2) local housing officials' attitudes toward housing block grants. Taken together, these two areas can be used to provide some insight into how a block grant could be designed and the potential consequences of its implementation.

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

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To the President of the Senate and the
Speaker of the House of Representatives

This report is part of our study of the often discussed strategy to provide housing assistance to the Nation's lower income families under an overall housing block grant program. We have already issued several related staff studies on current housing activities funded under the Community Development Block Grant Program.

We made our study to provide an empirical data base for the Congress and other decisionmakers to use in evaluating future housing strategies. Specifically, this report discusses the experiences of a large number of the Nation's communities in providing housing assistance under the Community Development Block Grant Program. It also describes local housing officials' views on whether a block grant is desired and what it should look like.

We are sending copies of this report today to the chairmen of various congressional committees having an interest in housing; the Director, Office of Management and Budget; the Secretary, Department of Housing and Urban Development; and other interested parties.

Charles A. Bowsher

Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

BLOCK GRANTS FOR HOUSING: A STUDY OF LOCAL EXPERIENCES AND ATTITUDES

D I G E S T

The Congress and the administration are currently rethinking Federal housing policies and strategies. One trend seems to be away from federally administered production programs, such as the section 8 rehabilitation and new construction programs, and toward increasing local discretion through some form of block grant. Block grants provide funds, usually to local governments, for use in broad functional areas. Local governments are allowed considerable discretion in identifying problems, designing programs, and allocating resources. The only Federal block grant program which permits significant housing assistance is the Community Development Block Grant (CDBG) Program administered by the Department of Housing and Urban Development.

In this report GAO describes (1) the experiences of entitlement communities (cities with populations over 50,000 and urban counties with populations over 200,000) in providing housing assistance under the CDBG program, (2) the views of local CDBG housing officials on the desirability and form of a new housing block grant, and (3) the design issues for a housing block grant. The report provides an empirical data base for the Congress to use in evaluating future housing strategies, particularly those emphasizing block grants to increase local discretion in providing housing rehabilitation and new construction assistance. Questionnaire results of GAO's nationwide survey are detailed in a supplement to this report. (See pp. 1, 4, 6, and 30.)

LOCAL COMMUNITIES' EXPERIENCES UNDER THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

To characterize CDBG housing activities, GAO sent questionnaires to 531 communities. GAO received and analyzed 424 responses. (See p. 7.)

Communities have generally emphasized homeownership assistance, while reporting that renters are in greater need of assistance. The communities indicated that twice as many renters needed assistance than did homeowners and that 31 percent more rental units needed rehabilitation than did owner units. But, in meeting these needs, CDBG funds were used to assist 28 percent more owner units than renter units. (See pp. 13, 39, and 62.)

Communities have primarily funded rehabilitation activities. Of the respondents, 98 percent rehabilitated single-family, owner-occupied housing and about 60 percent rehabilitated multifamily rental housing. (See pp. 13, 39, and 61.) CDBG program regulations prohibit communities from financing new construction activities, unless such funding is provided for "last resort housing" or for certain activities permitted by nonprofit groups. Considering these limitations, a significant number of communities have financed construction activities. For example, about 10 percent funded construction for homeowners and about 7 percent funded multifamily rental housing construction. Also, 46 percent funded site acquisition and clearance activities in preparation for housing construction. Several recent housing initiatives have proposed adding new construction as an eligible CDBG activity or establishing a new block grant for rehabilitation and construction activities. (See pp. 17, 51, and 72.)

Communities have used a wide variety of housing finance methods. Most communities reported the use of straightforward grants and loans. More complex methods, such as interest subsidies and loan guarantees, which can have a greater short run impact in providing housing assistance were reported less frequently. Of the respondents, 81 percent used full grants, 53 percent used full loans, 35 percent used interest subsidies, and 17 percent used loan guarantees. (See pp. 16, 38, and 63.) Communities can use CDBG funds to attract other sources of funds for housing. The extent of this leveraging, however, was generally minimal. Communities reported that other funding sources, primarily private sources, provided about 11 percent of the funds used to rehabilitate owner-occupied housing and about 27 percent of the funds used to rehabilitate private rental housing. (See pp. 18, 45, and 69.)

Communities have apparently targeted housing assistance mainly to lower income familiies.

Communities that provided data reported that over 90 percent of the rehabilitation-related assistance benefited lower income groups. About 20 percent of the communities, however, did not provide enough detail on families receiving assistance to characterize the beneficiaries. (See pp. 21, 46, and 67.) Also, a substantial number of local officials indicated that certain other data regarding their communities' housing conditions and needs and the extent of CDBG assistance provided was unavailable. For example, 17 percent and 11 percent, respectively, stated that data was unavailable on the number of housing units and households needing assistance. Also, 14 percent and 18 percent, respectively, stated that data was unavailable on the number of owner and renter housing units assisted under the CDBG program. (See pp. 23, 36, and 73.)

LOCAL HOUSING OFFICIALS' VIEWS ON AN OVERALL HOUSING BLOCK GRANT

GAO sent a second questionnaire to 133 communities to obtain local CDBG officials' views on the housing block grant concept. GAO received and analyzed 100 responses. (See p. 7.)

The level of Federal funding for housing strongly influences these local officials' support for a housing block grant. Over 70 percent strongly favored block grants if Federal funds were to increase. If funds were to remain the same, support begins to erode. More than half did not want a block grant if housing funds were cut. (See pp. 26 and 76.) Generally, the officials supported the inclusion of most Federal housing functions in a housing block grant. Over 60 percent favored including the present rental assistance, rehabilitation, and new construction programs. (See pp. 27 and 83.)

Almost two-thirds of the officials emphasized program objectives which would provide assistance to low- and moderate-income households living in substandard housing. To achieve these objectives, the officials believed that assistance should be specifically targeted to low-income households and households in substandard housing. (See pp. 28, 79, and 87.)

Nearly all of the officials indicated that Federal funding should be allocated to local governments, using an entitlement formula. The most important factors to be used in the formula are the extent of substandard housing, households needing assistance, and poverty in the community. (See pp. 29 and 80.) The officials also indicated that a housing block grant program should be planned, implemented, and evaluated mainly by local governments. The officials believed, however, that the Federal Government should have a fairly strong role in evaluating block grant performance based on specific criteria, but with limited sanctions for noncompliance. The officials also believed that there should be little involvement by State governments. (See pp. 29 and 93 to 103.)

DESIGN ISSUES FOR A HOUSING BLOCK GRANT

Block grants for housing would give local governments greater discretion and flexibility in designing and implementing housing programs. Many local housing officials do not want these increased responsibilities if Federal funding decreases. Most are willing to accept these responsibilities, however, if Federal funding increases. Although explicit targeting criteria would decrease local decisionmaking, 90 percent indicated that block grant assistance should be targeted to specific households based on both income and housing need.

Such targeting would depart from the method used under most current Federal housing programs, such as the section 8 rehabilitation and new construction programs. Eligibility has been based only on household income, which is generally used as a proxy for housing need. A majority of the officials indicated that low-income households living in substandard housing have the greatest need for assistance. Better targeting assistance to such households would enable communities to more effectively and efficiently use housing funds.

In general, most officials favored consolidating into a block grant Federal housing programs to provide rental assistance, rehabilitation, and new construction activities. Under the CDBG program, many communities have experience in rehabilitating housing for homeowners. Relatively few communties, however, have experience in rehabilitating and constructing rental housing.

Considering this limited local experience, a housing block grant program including rental rehabilitation and construction activities might require significant Federal technical assistance early in the program. Also, more innovative financing methods designed to recapture and/or leverage limited Federal funds might require some emphasis under a new block grant. Finally, communities would need to collect and maintain data on housing conditions and needs, as well as cost and beneficiary data on the types of assistance provided, to effectively and efficiently administer and evaluate a local program under a housing block grant. Specific Federal guidance on the type and format of the information needed under a housing block grant program could help local governments in developing and evaluating housing programs that adequately address their housing needs. (See p. 33.)

AGENCY COMMENTS AND GAO'S RESPONSE

Department of Housing and Urban Development officials generally found this report to be (1) a very useful summary of communities' experiences in providing housing assistance under the CDBG program and (2) an objective discussion on local attitudes toward a housing block grant program.

They pointed out, however, that the report reflects the views of local CDBG officials and not those of elected officials or officials responsible for other housing programs, such as public housing. GAO agrees and made revisions, where appropriate, to reemphasize that the information contained in this report was primarily based on experiences and attitudes of officials in the CDBG program. They provide an indication, but not definite proof, of what might happen under a housing block grant.

Department officials also pointed out that some housing activities, such as rental rehabilitation and new construction, would be substantially different from CDBG activities. Thus, the CDBG communities' limited experience in funding these activities does not provide a strong basis for projecting what would happen under a housing block grant program. Because of the limited experience of CDBG communities in providing rental assistance activities, GAO discusses several design issues, such as Federal technical assistance, innovative financing methods, and information needs, which might be required if these activities are included in a housing block grant. (See p. 34.)

Contents

ABBREVIATIONS

CDBG	Community Development Block Grant
FmHA	Farmers Home Administration
FHA	Federal Housing Administration
GAO	General Accounting Office
HUD	Department of Housing and Urban Development

TABLES

CHAPTER 1

INTRODUCTION

The Congress and the administration are currently rethinking Federal housing policies and strategies. One trend seems to be away from federally administered production programs, such as the section 8 rehabilitation and new construction programs, and toward increasing local discretion and flexibility over the use of Federal funds for housing. This is evidenced by recent housing program initiatives stressing some form of block grant. Block grants provide funds, usually to local governments, for use in broad functional areas. Local governments are allowed considerable discretion in identifying problems, designing programs, and allocating resources. Currently, the only Federal block grant program which permits significant housing assistance is the Community Development Block Grant (CDBG) Program administered by the Department of Housing and Urban Development (HUD).

This report discusses the experiences of localities that provide housing assistance under the CDBG program, some of which is similar to assistance expected to be provided under a block grant program for housing. It also addresses attitudes of local housing officials toward a Federal housing block grant program. Local experiences and attitudes should be of considerable value in any policy debate that concerns increasing local discretion and flexibility over the use of Federal funds for housing, particularly under a comprehensive block grant program for housing.

FEDERAL EFFORTS TO HOUSE LOWER INCOME FAMILIES

The Federal Government's role in providing housing for the Nation's citizens has grown dramatically over the last 45 years. One of its major efforts has been to help lower income households. 1/ In the early part of this century, the location, character, and quality of housing in the United States were almost exclusively a matter for individual determination. Housing was regulated, if at all, by local governments acting through planning and zoning boards. The Great Depression of the 1930's, however, dealt a blow to this tradition of exclusive local control and private responsibility for housing and brought about the Federal Government's participation. Since then, as Federal laws and administrative actions created a wide variety of new housing goals and objectives, Federal housing programs have increasingly become

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1/Generally refers to families with incomes of 80 percent or less of an area's median income. Specifically, we define low-income households as those with incomes 50 percent or less of an area's median income and moderate-income households as those with incomes between 51 and 80 percent of an area's median income.

subject to Federal control, with concurrent reductions in local responsibility and accountability.

Responding to the collapse of the housing industry in the 1930's, the Federal Government devised two major policies which are still in place. First, the Government decided to restructure the home financing system by creating institutions to provide mortgage insurance, insurance for banks and savings and loan associations, and a permanent secondary mortgage market. Second, the Federal Government decided to subsidize housing for low-income families. This decision was first incorporated in the Low-Rent Public Housing Program authorized in 1937. Under this program, Federal funds were provided to local governments, which had overall responsibility for administering and managing the program.

Since 1937 the Federal Government's role in housing for lower income families has expanded significantly. The Housing Act of 1949 set a national goal of "a decent home and a suitable living environment for every American family." To help achieve this goal, additional Federal programs were created and the flow of Federal funds into housing was increased. In 1968 the Congress decided that progress toward achieving the 1949 national goal was too slow and established a production schedule for constructing or rehabilitating 26 million housing units over the following decade. New Federal programs were set up to help meet the housing needs of low- and moderate-income families, including greater financial assistance for homeownership and rental housing.

Currently, the major Federal housing programs for assisting low- and moderate-income families include conventional public housing, rental assistance, homeowner assistance, and community development housing programs. Public housing programs include the Low-Rent Public Housing, Public Housing Operating Subsidy, and Public Housing Modernization programs. The major rental assistance programs include Section 8 Lower Income Rental Assistance (for existing, rehabilitation, and new construction housing), Section 202 Housing for the Elderly and Handicapped, Flexible Subsidy, and the Section 515 Rural Rental Housing programs. The major homeownership assistance programs include Title I Home Improvement Loan Insurance, Section 235 or 235 Revised Mortgage Insurance and Assistance Payments, Section 221(d)(2) Mortgage Insurance, and Section 502 Rural Homeownership programs. Community development programs include CDBG, Section 312 Rehabilitation Loan, Urban Homesteading, and Urban Development Action Grant programs. Appendix I briefly describes these and other housing assistance programs; the CDBG program is discussed below.

Over the years, these and other Federal housing programs have been relatively successful in producing housing. In fact, the direct subsidy programs, aided by insurance and tax provisions, have produced over 1.2 million public housing units and assisted about 2 million privately owned rental units. Federal programs have also greatly contributed to increased homeownership so that today nearly two-thirds of all American families own their homes.

Nevertheless, the Nation's housing goal remains somewhat elusive. The 1980's are already being referred to by many housing experts as a decade of crisis. The demand for housing is expected to remain strong throughout the 1980's, with some estimates of need for new housing ranging from 20 to 26 million units by 1990. Projections of total production for the decade range from 16 to 22 million units. Based on these projections, production would probably fall short of demand by about 4 million units during the decade.

The demands of the 1980's, combined with severe budget constraints, are stimulating new Federal housing policies and strategies and causing a reexamination of housing responsibilities at all levels of government. In one of its early initiatives, the Reagan administration began to reevaluate Federal housing policy through the President's Commission on Housing, established in June 1981. In its April 29, 1982, report, 1/ the Commission recommended that:

--The primary Federal program for helping low-income families to achieve decent housing should be a "voucher-like" housing payments program. This program, coupled with housing supply assistance through the CDBG program, would replace future commitments to build or substantially rehabilitate additional units under Federal housing programs.

--New construction by "for-profit" developers should be made an eligible activity of the CDBG program, and a housing component, weighted to local housing needs, should be added to CDBG as a replacement for the categorical assisted housing programs of both HUD and the Farmers Home Administration (FmHA).

--Within a specified period of years, public housing should be restored to local management and control, passing the responsibility and choice in the use and disposition of public housing projects to public housing authorities and local governments.

Several new program initiatives, such as the administration's fiscal year 1983 budget proposals and S. 2607, would sharply limit expanding programs and shift their thrust from new construction and substantial rehabilitation to using existing housing stock. Other initiatives, such as S. 2171, H.R. 6296, H.R. 5731, and H.R. 5750 would replace current rehabilitation and new construction programs with new housing rehabilitation and production programs. Almost all of the new program initiatives, however, would increase local discretion and flexibility over the use of Federal funds and generally stress providing some form of block grant to States and local governments. These initiatives are discussed in more detail starting on page 30.

1/"The Report of the President's Commission on Housing," President's Commission on Housing (Washington, D.C.: 1982).

THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM: AN OPPORTUNITY TO LEARN

The Housing and Community Development Act of 1974 (Public Law 93-383) marked the start of a new era in housing relations between Federal and local governments. Title I of this legislation created the CDBG program, replacing seven categorical grant-in-aid programs. 1/ The change to the block grant approach reflected a desire to shift the responsibility for community development from the Federal Government to the local governments, as well as to streamline the application and review process.

While the 1974 act and recent amendments provided greater authority to cities--compared to the categorical programs CDBG replaced--local discretion was somewhat limited because CDBG activities must address broad national statutory objectives. For instance, CDBG's primary objective is the development of viable urban communities by providing decent housing, a suitable living environment, and expanding economic opportunities--principally for persons of low- and moderate-income.

The 1974 act represented a compromise between the administration and the Congress, resulting in a program with more Federal involvement than a "revenue sharing" program but less than the earlier categorical programs. Reauthorizing legislation in 1977 and 1980, however, reflected the concern over local governments' performances in meeting statutory requirements and resulted in new HUD operating procedures and regulations, increasing HUD's role in local decisionmaking. Later, the Housing and Community Development Amendments of 1981 (Public Law 97-35) substantially revised the CDBG program to put local officials more clearly at the center of the decisionmaking process and to reduce the discretionary power that HUD held over program decisions.

The CDBG program has three major components--the Entitlement and Small Cities Programs and the Secretary's Discretionary Fund. The Fund provides technical assistance and makes grants to Indians, U.S. territories, and new communities. The Small Cities program awards grants to competing communities with populations below 50,000. The Entitlement Program makes grants to eligible metropolitan cities and urban counties.

Cities with populations over 50,000, central cities in standard metropolitan statistical areas, and some urban counties with populations over 200,000 are "entitled" to receive funds. In fiscal year 1981 about 580 cities and 86 counties had entitlement status. In 1982, as a result of the new census data, about 636 cities and 96 counties have entitlement status.

1/Urban Renewal, Model Cities, Water and Sewer Facilities, Open Spaces, Neighborhood Facilities, Rehabilitation Loans, and Public Facilities Loans.

Entitlement communities are assured of receiving a yearly allocation--an entitlement--that is determined by a set of statutory formulas and by the amount of funds the Congress appropriates. During the program's first 7 years (through fiscal year 1981), the Congress appropriated more than $23 billion for the CDBG program, with about $18 billion, or 78 percent, going to entitlement communities. The CDBG program is authorized through fiscal year 1983.

Communities assisted under CDBG can undertake a wide range of activities. These include (1) rehabilitating private properties, (2) acquiring and disposing of property, (3) improving streets, (4) fixing water and sewer facilities, and (5) building and servicing public parks, playgrounds, and other recreational facilities. In the most recently completed program year, entitlement cities spent the greatest amount of CDBG funds--about 35 percent--for housing rehabilitation and related activities. During the same period, urban counties spent about 31 percent of their CDBG funds for housing rehabilitation and related activities.

In chapter 3 we discuss specific local communities experiences in providing homeowner assistance under the CDBG Entitlement Program. In chapter 4 we discuss specific local communities experiences in providing rental assistance under the CDBG Entitlement Program.

HOUSING BLOCK GRANTS

The idea of a housing block grant is not new. It was first proposed in the mid-1950's. However, it received little notice until the last decade when, at various times, block grant programs were proposed as alternatives for delivering Federal housing subsidies.

The first significant proposal came in 1973 when the Nixon administration considered replacing various subsidy programs, notably HUD's sections 235 and 236, with a block grant program. Simultaneously, several Congressmen introduced legislation designed to replace the public housing and sections 235 and 236 programs with one block grant program. Interest in block grants waned, however, after the section 8 program was proposed and eventually enacted.

By 1976 experiences with section 8, particularly restrictions on allocating new and existing units to individual localities, generated renewed interest in block grants. Consequently, the Ford administration proposed a narrow, at least initially, block grant program whereby section 8 budget authority would be allocated to individual localities, giving them the responsibility of distributing the money among new, rehabilitated, or existing housing. After a 3-year transition period, however, localities would have been permitted to design their own forms of housing assistance to meet local market situations. Under the 1976 proposal, block grants would have eventually replaced the sections 8, 235, 236, 312, and 202; public housing; rent supplements; and possibly some FmHA subsidy programs. Public housing operating subsidies would also have been eliminated, or at least reduced.

Most recently, the 96th Congress, in the Housing and Community Development Act of 1980 (Public Law 96-399), directed HUD to provide a comprehensive study of the feasibility of a housing assistance block grant program. The final report was due to the Congress by March 31, 1981; however, the administration was still reviewing the draft report at the time our review was completed.

A block grant is a mechanism for delivering funds. It can be designed in a variety of ways, and the choice of design can exert a great influence over the housing programs of the recipient States or localities. This point is illustrated by the various housing block grant proposals of the past few years, all of which have been different--some quite substantially. The major policy issues concerning the design of a housing assistance block grant program are discussed in chapter 5. In chapter 6 we discuss specific governmental roles in planning, implementing, and evaluating activities under a housing assistance block grant program.

Our previous reports have found that consolidating closely related categorical programs into broader purpose grants could improve program efficiency and effectiveness. Frequently, local officials must combine separate categorical programs to effectively deliver services, but face obstacles due to the separate constraints and inconsistent requirements of each grant program. Consolidation can eliminate duplication and overlap and reduce administrative costs.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objectives in this review were to provide the Congress with an empirical data base for its deliberations on alternative housing strategies and to take a comprehensive look at all CDBG housing activities--what was done, who has benefited, and at what cost. We also wanted to obtain the views of city and county housing officials toward block grants as a mechanism for providing housing assistance to low- and moderate-income families.

Our work consisted mainly of reviewing housing activities at four case study cities and compiling and analyzing responses to two detailed questionnaires. We sent either of two questionnaires to chief executive officers at 664 cities and counties entitled to receive CDBG funding. These cities and counties represented the entire universe of CDBG entitlement communities at the time of our review, except for the four case study cities--Dallas, Texas; Pittsburgh, Pennsylvania; Seattle, Washington; and St. Louis, Missouri. We requested that the questionnaires be answered by the local housing officials responsible for administering housing activities under the CDBG program. We did not send questionnaires to State or regional officials. We also did not send questionnaires to local officials of communities receiving CDBG funding under the Small Cities Program; that is, communities with populations below

50,000. Appendix II describes the methodology we used in selecting the sample groups and in developing the two questionnaires.

The first questionnaire was designed to obtain local housing officials' attitudes toward the concept of a housing block grant program. This questionnaire was sent to officials at 133 cities and counties in October 1981. Four questionnaires, however, were either nondeliverable or sent to locations that have elected not to participate in the CDBG program. We received and analyzed questionnaire responses from local officials at 100 cities and counties, or 78 percent of the sample group eligible to complete the questionnaire. All responses were received by the end of February 1982.

About 84 percent of the responses to the attitudinal questionnaire reflect the views and opinions of local CDBG housing officials, and about 16 percent are those of locally elected officials, such as mayors, city managers, and city planners. CDBG housing officials may be guided and motivated by objective program considerations, but CDBG program decisions may be made by locally elected officials based, in part, on political influences. Consequently, the views of others on the future of a housing block grant program would also be important.

The second questionnaire was designed to characterize the housing activities of entitlement cities and counties receiving CDBG funds. Four versions of this questionnaire were created to reduce respondent workload. Each version was identical except for one important difference: detailed cost and benefit information was requested for a sample of housing activity and finance method combinations. We called these combinations housing interventions. Each questionnaire version was sent, in November 1981, to a sample group of local officials at 133 cities and counties, except one version was sent to officials at 132 locations. Overall, we received and analyzed questionnaire responses from local officials at 424 cities and counties, or 82 percent of the four sample groups eligible to complete the questionnaire. The response rate for each of the four sample groups was 82, 82, 82, and 81 percent. All responses were received by the end of March 1982.

We recognize that while some CDBG housing activities are similar to those under the Federal housing assistance programs, other activities are substantially different. For example, rehabilitation and new construction activities, especially those for rental housing, are generally more extensive and complex under the housing assistance programs than under the CDBG program. Therefore, caution is urged in using CDBG housing activities to project what would happen under a housing block grant program.

The responses to our questionnaire on local attitudes and our questionnaire on local experiences under the CDBG program are summarized in a supplement to this report--(GAO/RCED-83-21A). 1/ Responses to questions are shown in aggregate.

Based on our preliminary work on CDBG housing activities, we decided to collect data on housing activity and finance method combinations (referred to in this report as housing interventions) rather than housing programs. We believe that this approach will provide a better understanding of the CDBG housing activities taking place, how they are financed, the individuals benefiting, and their cost. Therefore, a housing program that provides loans and grants would be considered as having two housing interventions, and if both renters and owner-occupants were eligible, the program would have four interventions.

Although each of our questionnaires was administered with a statistical sample and response rates for all forms were roughly 80 percent, certain items had lower response rates. Therefore, we interpret each set of responses separately and provide caveats where information was too sketchy to be generalizable to the universe of entitlement communities. Consequently, we believe that our findings regarding communities performing certain activities are descriptive of entitlement communities operating similar housing activities. While we did not systematically verify the responses, follow-up inquiries were made to clarify some information.

As mentioned, we also reviewed activities under the CDBG program in four case study cities. We did not select these cities statistically and, therefore, make no claim that their housing activities are representative of the universe of CDBG entitlement communities. Our selection was designed to include a geographical distribution and a variety of housing activities. Our approach at each location was to review CDBG housing activities during the first 6 program years (January 1975 to June 1981), using similar data collection procedures. The results of our detailed review at three cities--Dallas, Pittsburgh, and Seattle--have already been issued as separate case studies. 2/ The data contained in the case studies is summarized where appropriate in this report.

1/The supplement is available on request. Requests for copies should be sent to the U.S. General Accounting Office, Document Handling and Information Services Facility, P.O. Box 6015, Gaithersburg, Maryland 20760.

2/"Housing Block Grant Activity in Pittsburgh: A Case Study" (CED-82-52, Mar. 24, 1982); "Housing Block Grant Activity in Seattle: A Case Study" (CED-82-60, Mar. 30, 1982); and "Housing Block Grant Activity in Dallas: A Case Study" (GAO/CED-82-75, Apr. 30, 1982).

We reviewed the CDBG program's legislative history; HUD regulations, handbooks, and notices; and other HUD documents and analyses. We also considered reviews by HUD's Office of the Inspector General, HUD internal work or HUD-sponsored studies by outside contractors, and work done independently by groups with various viewpoints. Appendix III is a bibliography of some of the more important documents pertaining to the housing block grant issue and the CDBG program.

We also interviewed most of the office directors and many other staff members involved with CDBG under HUD's Assistant Secretary for Community Planning and Development. We met with HUD area office and local government officials in Dallas, Pittsburgh, Seattle, and St. Louis. We also met with representatives of independent evaluation groups interested in the CDBG program and with representatives of various private interest groups.

The review was made in accordance with generally accepted government auditing standards. A draft of this report was reviewed by Dr. Robert Yin of The Case Study Institute, Washington, D.C., for appropriateness of methodology and format. We also received helpful comments from representatives from the staffs of the Advisory Commission on Intergovernmental Relations, Congressional Research Service, National Association of Counties, National League of Cities, and U.S. Conference of Mayors.

The report's findings and conclusions may not apply to other Federal block grant programs, such as those recently created by the Omnibus Reconciliation Act of 1981. Unlike many of the newer block grant programs, CDBG has had relatively more crosscutting requirements and somewhat greater Federal involvement in local government administration of the program. Finally, it is important to reemphasize that the information contained in this report was primarily based on experiences and attitudes of officials in the CDBG program. They provide an indication--but not definite proof--of what might happen under a housing block grant.

CHAPTER 2

OVERVIEW OF CDBG HOUSING EXPERIENCES AND ATTITUDES TOWARD THE HOUSING BLOCK GRANT CONCEPT

Under a housing block grant program, local governments will play a much greater role than under existing categorical programs. In fact, the essence of the concept is that local officials will set their own priorities, choose their own strategies, and determine specific projects and undertakings with minimal Federal participation. Because these local governments will be crucial to the success of a block grant, we surveyed local housing officials to (1) characterize their experiences in providing housing assistance under the CDBG program, the only Federal block grant program currently designed to provide significant housing assistance and (2) determine their attitudes toward a housing block grant program.

The CDBG program provides flexibility to local governments in planning and implementing specific housing programs and activities to meet their communities' needs. Thus, their experiences under the CDBG program provide one indication of types of housing activities, finance methods, costs, and beneficiaries that can be expected under a comprehensive housing block grant program. Chapters 3 and 4 discuss what local governments have done under the CDBG program. Our analysis of questionnaire responses from 424 local officials and our detailed review at 4 major CDBG entitlement communities indicate that under the CDBG program most communities have:

--Financed a wide range of housing activities. The emphasis, however, has been on helping homeowners, not renters.

--Used less innovative financing methods, such as grants.

--Attracted few private funds to supplement CDBG funds.

--Assisted mainly low- and moderate-income households. However, demographics on income and household types was limited.

--Expended about 15 percent of CDBG housing funds for administrative expenses.

Chapters 5 and 6 of this report discuss local housing officials' views on whether a block grant is desired and, if so, what it should look like. Our analysis of questionnaire responses from 100 local housing officials indicates that the extent of Federal funding dictates the level of local support for a block grant. These officials mainly support the block grant concept if funds for housing increase. Support for the concept decreases significantly if funds are assumed to decrease. Regarding the design and implementation of a housing block grant program, we found that the majority of local officials believe that:

--Most existing Federal housing programs should be consolidated into a block grant. The officials also indicated, however, that it would be very important to include rehabilitation and other specific activities.

--Housing assistance to low- and moderate-income families living in substandard housing should be the primary goal. Further, almost all the local officials agreed that block grant assistance should be targeted to low-income households and households living in substandard housing.

--A long-term, all purpose block grant program would be the most beneficial in providing the necessary housing assistance for their communities to achieve their housing objectives and goals.

--Local governments should have the major role in planning, implementing, and evaluating block grant activities. The officials further believed that the Federal Government should have a fairly strong role in evaluating block grant performance based on specific criteria, but with limited sanctions for noncompliance. The officials believed that there should be little involvement by State governments or regional groups.

The attitudes of local housing officials and the experiences of communities in providing housing assistance, as expressed above, apply to evaluating not only the housing block grant concept, but to other related program initiatives. For example, several initiatives are being made to replace existing subsidized rental housing production programs with voucher/certificate payments and/or rental rehabilitation and construction grants to State and local governments. Generally, these new program initiatives stress some form block grant.

LOCAL EXPERIENCES IN PROVIDING HOUSING ASSISTANCE UNDER THE CDBG PROGRAM

Local experiences in providing housing assistance under the CDBG program should be of considerable value in any policy debate that concerns increasing local discretion and flexibility over the use of Federal funds for housing. The CDBG program provides flexibility to local governments in planning and implementing specific housing programs and activities. Many new program initiatives would either expand the CDBG program or establish new block grant programs to replace the categorically assisted Federal housing programs. Thus, local experiences under the CDBG program provide one indication of the types of housing activities, finance methods, costs, and beneficiaries that can be expected under these new program initiatives. Table 1 on page 12 shows the CDBG funded activities and the finance methods used by communities.

TABLE I

CDBG FUNDED ACTIVITIES AND FINANCE METHODS USED (note a)

Finance Methods

Number Of Communities Funding Activity	Housing Activities Description	Full Grant	Partial Grant	Conditional Grant	Full Loan	Partial Loan	Forgivable Loan	Deferred Loan	Loan Guarantee	Equity Participation Loan	Interest Subsidy Payment	Rental Assistance Payment	Grantee Service	Other
416	Rehabilitation of owner-occupied single-family housing (1-4 units)	258	217	130	210	148	67	190	58	3	138	2	62	22
167	Rehabilitation of investor-owned single-family rental housing	9	47	16	75	44	5	15	19	3	52	6	20	9
163	Rehabilitation of investor-owned multi-family rental housing	8	37	18	69	54	4	17	19	4	47	4	14	13
99	Rehabilitation or modernization of local housing authority multi-family housing	68	24	1	1	3	1	1	1	0	1	2	5	4
29	Construction of multi-family housing for local housing authority management	8	10	3	0	0	1	1	1	0	0	0	6	2
42	Construction of single-family housing for owner-occupants	8	13	4	4	6	1	3	2	2	3	0	8	11
24	Construction of investor-owned multi-family housing for rental to low-income families	1	5	3	0	3	0	1	0	1	1	2	6	4
31	Construction of multi-family housing by non-profit groups for rental to low-income families	3	19	3	2	5	1	1	1	0	0	2	5	2
197	Site acquisition and clearance for construction of housing	87	44	18	5	4	2	6	1	1	0	5	19	46
141	Demolition for construction of housing	76	13	6	2	2	0	6	0	0	0	1	19	29
101	Acquisition, rehabilitation, and resale of single-family housing	20	31	7	21	12	4	12	3	3	5	1	13	24
36	Acquisition, rehabilitation, and resale of multi-family housing	8	9	7	4	7	1	4	1	0	2	0	5	4
11	Purchase of multi-family housing for local housing authority management	3	3	1	1	1	0	0	0	0	0	0	1	1
43	Purchase and resale of single-family housing to owner-occupants	8	10	3	11	10	0	4	3	0	3	1	8	5
19	Conversion of rental units for tenant ownership	1	6	3	6	7	1	3	1	0	1	0	6	1
41	Conversion of rental units to facilitate access by the elderly or handicapped	29	10	2	6	5	1	5	3	0	6	1	3	2
192	Weatherization of single-family housing	129	68	30	49	30	10	41	8	1	24	1	25	8
49	Weatherization of multi-family housing	26	15	5	11	8	1	4	1	0	5	1	5	2
230	Emergency repairs	156	54	46	50	26	16	38	4	1	15	2	19	4
60	Other (*SPECIFY*)	26	9	9	2	7	3	3	0	1	1	3	17	5

a/ *For each housing activity listed, the table shows the number of local officials indicating the activity was funded under CDBG and the frequency of occurrence of each finance method used with the activity as reported by 424 respondents.*

Communities emphasize homeowner assistance, but renters had the greater need for assistance

Communities have concentrated on helping homeowners even though they reported that renters have a greater need for assistance. Data provided by over 80 percent of the communities indicated that more renter households needed assistance and that more rental units needed rehabilitation. Even though the rental problem was substantially greater, communities reported that CDBG funding assisted more owner housing units.

Local officials responding to our survey reported that renter households have a much greater need for assistance than homeowners. About 3.9 million renter households and 1.2 million owner households were reported in need of housing assistance. Thus, 225 percent more renter households needed housing assistance.

Likewise, local officials reported that substantially more rental units need rehabilitation than owner-occupied units. About 1.7 million renter housing units and 1.3 million owner housing units were reported in substandard condition suitable for rehabilitation. Thus, 31 percent more rental units needed rehabilitation.

When compared to need, however, significantly more owner-occupied units were assisted under the CDBG program than rental units. The officials reported that CDBG funding assisted 232,673 owner-occupied units but only 181,338 rental units. Thus, 28 percent more owner-occupied units were assisted. In fact, over 40 percent of the local officials reported that they have not used CDBG for rental rehabilitation. This figure is increased to 50 percent if public housing rehabilitation is excluded.

HUD officials told us that when the CDBG program began communities initially emphasized homeowner assistance because their major housing experience had been under the section 312 program which is a homeowner program. Communities expected to provide rental assistance through other Federal programs, particularly the section 8 program. While the section 8 and public housing programs do provide for rental rehabilitation, most of the funding is for assistance to existing housing and new construction activities. These activities cannot effectively address the rental rehabilitation needs identified by local officials. According to the HUD officials, homeowner assistance may be more politically acceptable to locally elected officials making CDBG program decisions. They said that recent HUD initiatives have tended to encourage communities to shift their emphasis to rental assistance.

Communities emphasize rehabilitiation actitivies, but limited construction activities were financed

Local officials reported that a wide variety of housing activities have been financed under the CDBG program. Table 2 on page 15 summarizes the housing activities financed by communities under the CDBG program.

CHARACTERISITICS OF HOUSING ACTIV

Type of housing activity	National sample (note a): Percent of sample communities having this activity	Most frequently reported finance method (note c)	Average allocations for activity per community (note d) (thousands)
Rehabilitation			
Single-family, owner-occupied (1-4 units)	98	Full grants	$440.5
Investor-owned, single and multifamily rental housing	50	Full loans	322.9
Local housing authority multifamily housing	23	Full grants	144.6
Conversion of units to facilitate access by the elderly or handi-capped	10	Full grants	114.3
Emergency repairs	54	Full grants	248.5
New construction			
Local housing authority units	7	Partial grants	g/
Single-family housing for owner-occupants	10	Partial grants	g/
Investor-owned, multi-family units	6	Partial grants	g/
Nonprofit groups--multifamily	7	Partial grants	g/
Construction-related			
Site acquisition and clearance	46	Full grants	562.0
Demolition	33	Full grants	190.3
Acquisition and ownership			
Rehabilitation and resale of single family housing	24	Partial grants	302.6
Rehabilitation and resale of multifamily housing	8	Partial grants	g/
Purchase of multifamily housing for local housing authority	3	Full and partial grants	g/
Purchase and resale of single family unit to owner-occupants	10	Full loans	229.6
Conversion of rental units for tenant ownership	4	Partial loans	g/
Energy conservation (note f)			
Single family--weatherization	45	Full grants	234.8
Multifamily--weatherization	12	Full grants	196.7

a/Information is based on responses from 424 cities and counties that used CDBG funds for housing.

b/The sample characterisitcs are based on data reported by a sample of communities reporting the activity. The values shown only represent the amounts reported by the community and do not reflect totals for the housing activity.

c/Most frequent finance method checked in the overall matrix of housing activities. This does not take into account combinations of finance methods.

LE 2

ITIES FUNDED UNDER THE CDBG PROGRAM

Characteristics of a sample of communities (note b)

CDBG as a percent of total allocations	Average total number of units assisted per community (note e)	Average amount of assistance: Per loan	Average amount of assistance: Per grant	Percent of assistance to: Low- and moderate-income households	Percent of assistance to: Minority households
88.6	309	$ 9,904	$ 6,205	97	40
73.3	75	37,913	10,355	94	51
79.7	230	14,000	35,675	100	47
75.6	60	10,819	7,442	100	48
95.7	171	6,069	1,782	99	34
g/	g/	g/	g/	g/	g/
g/	g/	g/	g/	g/	g/
g/	g/	g/	g/	g/	g/
g/	g/	g/	g/	g/	g/
90.3	234	138,050	60,646	100	37
96.7	169	10,000	6,386	80	55
86.0	17	17,000	12,175	54	68
g/	g/	g/	g/	g/	g/
g/	g/	g/	g/	g/	g/
56.8	9	13,675	9,250	94	76
g/	g/	g/	g/	g/	g/
85.7	191	9,846	3,714	94	16
87.1	60	8,412	2,126	100	93

d/Average total funds allocated in the last program year based on a sample of the local officials reporting this activity. The average funds only represent those funds identified for the interventions sampled and do not reflect totals allocated for the activity.

e/Average number of units assisted per community over the entire CDBG program based on a sample of local officials reporting the activity.

f/Weatherization activities were, in some cases, part of rehabilitation programs. The data reported was not adjusted for any duplication.

g/Data received not sufficient to analyze.

Rehabilitation activities were the major means of providing housing assistance. Over 98 percent of the local officials responding to our survey reported rehabilitating owner-occupied, single-family housing units. Almost 60 percent reported rehabilitating either investor-owned, single and multifamily rental housing units and/or public housing rental units. Except for Dallas, all the case study locations did both rental housing rehabilitation activities. Dallas did not finance either investor-owned, single or multifamily rental housing rehabilitation. Except for St. Louis, all the case study locations showed a strong preference for homeowner rehabilitation.

CDBG program regulations prohibits communities from financing new construction activities, unless such funding is provided for "last resort housing" or for certain activities permitted by non-profit groups. Considering these limitations, however, a significant number of communities reported financing construction and construction-related activities. In fact, 10 percent provided financing for construction of single-family housing for owner-occupants, 7 percent for construction of multifamily rental housing by nonprofit groups, 7 percent for construction of multifamily housing for local housing authority management, and 6 percent for construction of investor-owned rental housing. In addition, 46 percent provided financing for site acquisition and clearance for construction of housing and 33 percent provided financing for demolition for construction of housing.

Communities used less innovative financing methods

Most local officials reported that their housing activities were most often combined with grants and loans. Potentially less costly financing mechanisms such as interest subsidy payments and loan guarantees were identified to a lesser extent. We made no attempt to correlate the use of these methods with actual spending. Table 3 on page 18 shows the number of communities using different financing mechanisms.

Table 3 shows that financing methods which required CDBG funds to finance the entire costs--full grants and full loans--were two of the three financing methods reported most frequently. More complex methods, such as interest subsidies and loan guarantees, which have a greater short term impact in providing housing assistance were reported less frequently. To use these methods, local governments would need to obtain funding from private sources which would require the availability of private funds and the ability of local officials to understand complex financing mechanisms. Although many communities have this capacity, other communities identified coordinating financing techniques and availability of private financing as major barriers to effective program implementation.

Table 3

Types of Financing With CDBG Funds

Financing methods	Communities using financing methods (note a)	Percent
Full grants	344	81.1
Partial grants	280	66.0
Full loans	226	53.3
Deferred loans	202	47.6
Partial loans	172	40.6
Conditional grants	165	38.9
Interest subsidy payments	149	35.1
Forgivable loans	79	18.6
Loan guarantees	72	17.0
Equity participation loans	13	3.1

a/Total number of respondents was 424.

Grant financing is the most expensive financing method. Once given, the funds are gone forever. Also, the beneficiary has little incentive to control costs. In contrast, full loans will eventually be recovered. Also, they provide greater cost control because the beneficiary will want to contain the cost of repaying the loan. Nevertheless, full loans commit substantial funds for extensive periods of time and reduce the impact of CDBG funding. For example, we estimated that Pittsburgh could have rehabilitated 65 percent more units in the same time period using interest subsidy payments instead of full loans. Interest subsidy payments require significantly less funds than full loans since CDBG funds are being used only to reduce loan interest costs.

Likewise, loan guarantees may or may not commit any funds. By guaranteeing a loan a community spends funds only if the borrower defaults. However, we noted that some lenders required communities to set aside a fund reserve for potential losses.

Few private funds were leveraged with CDBG funds

Most of the major CDBG-financed housing interventions leveraged less than 10 percent of the CDBG funds. That is, for every $9 CDBG spent only about $1 was contributed by other than Federal sources. The primary non-Federal source was private funds. Investor-owned rental rehabilitation was an exception since it leveraged about $2 for every $8 of CDBG funds. Also, two of our four case study locations significantly leveraged their CDBG funds.

One of the supposed strengths of the block grant program is local communities' ability to use block grant funds as "seed money" to attract other sources of funds. This is called leveraging.

Therefore, we asked communities to identify sources of funds used with CDBG funds.

As shown in table 4 on page 20, the least leveraged housing activity, considering all funding sources, was emergency repairs. CDBG contributed 96 percent of the funding. However, if leveraging was calculated only for non-Federal funding sources, the rehabilitation/modernization of local housing authority multifamily housing was the least leveraged. Federal funding constituted over 99 percent of the total funding. Most likely, communities were using HUD's public housing modernization program with CDBG to rehabilitate low-income public housing.

The only major housing activity (funding over $10 million) which had any significant leveraging was rehabilitation of investor-owned rental housing--over 20 percent of the financing came from non-Federal sources--primarily private funds. Even then, our analysis of the 95 housing interventions involving this activity showed that 53 rental rehabilitation interventions (56 percent) were totally funded by CDBG. The remaining 42 rental interventions had CDBG funding of between 5 and 98 percent, with the median CDBG funding participation of 33 percent. Private funds constituted the major non-Federal funding source for investor-owned rental rehabilitation. Thirty-three of the 42 interventions (79 percent) had some private financing with a median share of 67 percent of the total rehabilitation costs.

In contrast to the questionnaire respondents, two of our four case study locations were using substantial leveraging. One city was leveraging its owner-occupied rehabilitation activities while the other was leveraging owner-occupied and rental rehabilitation activities as well as new construction.

Pittsburgh's CDBG funded, owner-occupied rehabilitation programs affected 10,194 housing units. Rehabilitation activities ranged from painting to major renovation. The total cost was $56.3 million of which $30.7 million was CDBG. The remaining $25.6 million came from locally issued tax-exempt revenue bonds.

Another case study location--St. Louis--had significant leveraging for a number of its CDBG-financed housing activities as shown in table 5 on page 21. According to St. Louis housing officials, they seek projects "leveraging at least $6 for each $1 of CDBG funds." Although they do not often achieve this ratio, leveraging was relatively substantial.

Table 4

Funding Levels and Sources for Communities Providing Detailed Data on CDBG-Financed Housing Activities (note a)

Housing activity	Number of communities providing data	Funding levels: Total reported	Funding levels: Average per community	Funding sources (note b): CDBG	Other Federal	State (note c)	Local (note c)	Private
		---(thousands)---		---(percent)---				
Rehabilitation of owner-occupied single-family housing (1-4 units)	214	$94,262	$440.5	88.6	2.2	1.8	0.7	5.8
Rehabilitation of investor-owned rental housing	61	19,698	322.9	73.3	3.9	1.5	0.1	19.8
Rehabilitation or modernization of local housing authority multifamily housing	16	2,314	144.6	79.7	19.7	0.0	0.7	0.0
Site acquisition and clearance for construction of housing	40	22,480	562.0	90.3	5.8	1.9	0.8	0.0
Demolition for construction of housing	20	3,806	190.3	96.7	0.0	3.3	0.0	0.0
Acquisition, rehabilitation, and resale of single-family housing	22	6,658	302.6	86.0	1.5	1.5	1.6	3.3
Purchase and resale of single-family housing to owner-occupants	9	2,066	229.6	56.8	6.9	0.0	0.0	21.3
Conversion of rental units to facilitate access by the elderly or handicapped	13	1,486	114.3	75.6	2.9	0.0	0.0	21.4
Weatherization of single-family housing	36	8,451	234.8	85.7	5.6	3.9	3.5	0.0
Weatherization of multi-family housing	11	2,164	196.7	87.1	6.4	1.4	0.0	5.0
Emergency repairs	51	12,675	248.5	95.7	2.4	1.2	0.1	0.6

a/The above characterisitics are based on data reported by a subsample of communities reporting the activity. The values shown only represent the amounts reported by the communities and do not reflect totals for the housing activity.
b/May not total to 100 percent due to rounding.
c/Includes tax-exempt revenue bonds.

Table 5

Leveraging Private Funds in St. Louis

Housing activity	Total funding	Private funds generated: For each CDBG dollar	Private funds generated: For each Federal dollar
	(millions)		
Rehabilitation, owner-occupied single-family housing	$ 2.4	$2.55	$2.55
Rehabilitation, investor-owned multifamily units	54.3	1.60	0.35
New construction, single-family "for sale" housing	3.3	4.56	2.06
Acquisition, rehabilitation, and resale existing single-family housing	14.1	6.29	6.29
New construction of privately owned multifamily housing	76.0	0.86	0.09

Limited data indicates that assistance was targeted mainly to lower income households

Effective targeting enhances the impact of housing interventions by directing programs to those in greatest need. Several local officials did not report how many housing units were assisted nor the types of households occupying the assisted housing unit. Local officials providing us with detailed data, however, reported that CDBG housing interventions were heavily targeted by household income and property location, thus, providing assistance to low- and moderate-income households residing in blighted areas.

Officials reported that about 414,000 total housing units were assisted under the CDBG program since its inception. However, 14 percent of the officials could not provide data on the total number of owner-occupied units assisted and 18 percent could not provide similar data on total rental units assisted. In addition, they did not identify the household size (elderly, small, or large) for about 108,000 of the 414,000 assisted units (26 percent).

The officials did not provide us with data on income or race for a substantial number of units assisted in the last program year--20 and 22 percent, respectively. The problem was most noticeable in the investor-owned rental rehabilitation activity where about 50 percent of the households assisted could not be identified by income and 37 percent by race. Similar results were noted in our case study reviews. For example, Pittsburgh financed the rehabilitation of 800 rental units but did not have demographics on tenants occupying the units.

Most housing assistance provided under the CDBG program is to principally benefit low- and moderate-income persons. HUD regulations require communities to maintain in their files the documentation they use to determine that CDBG activities benefit lower income persons. For direct benefit activities, such as housing rehabilitation, the documentation would likely be the financial information, if any, collected on the beneficiary applications. HUD also requires communities to submit an annual performance report showing, among other things, the percentage of each activity's low-income and moderate-income beneficiaries. We recently reported that the benefit information cities reported to HUD often did not accurately reflect the extent that lower income persons benefit from the CDBG program. 1/ We reviewed 49 selected activities in 9 CDBG entitlement cities and found that grantees used inconsistent methods of identifying and reporting lower income beneficiaries and HUD's weak oversight did not identify problems in grantees' programs or verify performance information.

Although communities are not required to maintain household data as specific as we requested in the questionnaire, this data would be vital to communities in assessing their housing needs and performance. To determine if this data was available, we contacted 10 local officials to determine the reasons for not providing data on who benefits. Six officials stated that the data was not readily available and review of each file would be required to obtain the data. Four officials stated that the information was not in the form we had requested.

Local officials providing us with detailed data on their housing interventions, reported that 25,853 housing units were assisted during the last funding year. Household income data provided on 20,873 (81 percent) of these units showed that 20,274 units (97 percent) assisted low- and moderate-income households and 599 units (3 percent) assisted middle- and upper-income households. The only housing activity with a relatively high percent of units assisting middle- and upper-income households was acquisition, rehabilitation, and resale of single-family housing (46 percent). Even if all the assisted units where household income data was not provided (4,980 units) were assumed to benefit middle- and upper-income households, then 78 percent of the total reported assisted units would still have assisted low- and moderate-income households.

Communities also reported that 60 percent of the households assisted were white. Non-whites were better represented in the

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1/"HUD Needs To Better Determine Extent of Community Block Grants' Lower Income Benefits" (GAO/RCED-83-15, Nov. 3, 1982).

rental interventions, while whites received a greater share of homeowner assistance. For example, 84 percent of the homeowners receiving assistance to weatherize their homes were white, while 93 percent of the renters assisted were non-whites.

When asked if the community targeted housing interventions by neighborhoods, substandard housing conditions, or household incomes, an overwhelming number of officials stated that they used at least one of the targeting criteria and many used more than one. For example, about 75 percent of communities providing data on owner-occupied rehabilitation interventions reported that they used HUD's section 8 income criteria for determining program eligibility. Section 8 income limits are 80 percent of the area's median income adjusted for family size. In addition, 70 percent of the respondents stated that they were targeting housing interventions by specific area. Thus, according to respondents, areas needing significant rehabilitation assistance, such as blighted areas, were given special attention.

Many communities indicated that specific data was not available

A substantial number of communities indicated that specific data was not available relating to their community's housing conditions and needs, as well as to the extent of CDBG assistance provided. As previously noted many communities also did not provide information on tenant demographics. Such data is important in determining how efficient and effective a community's housing interventions are and what housing and tenant needs still remain to be done. In the future such data may be even more important to communities because HUD recently proposed eliminating some of its present performance reviews.

When asked about the number of owner and renter housing units in need of rehabilitation, 17 percent of the local officials stated that data was not available. Further, 11 percent did not provide data on the number of owner and renter households in need of housing assistance. More surprising was that 14 percent of the officials did not provide data on the number of owner housing units assisted and 18 percent on the number of renter housing units assisted under the CDBG program. In providing detailed data on recipients who received home improvement assistance, local officials did not identify recipients by income group in over 35 percent of the interventions and they did not identify household type in 29 percent of the interventions. In providing detailed data about tenants occupying CDBG-assisted rental units, over one-half of the communities did not provide data on units assisted, tenants' income, or race.

On October 4, 1982, HUD published proposed interim rules to amend the CDBG regulations to reflect recent legislative changes to the program. In restructuring the approach used to determine compliance with the primary CDBG objectives, HUD will no longer conduct any review of the grantee's overall program with respect to benefit to low- and moderate-income groups, but will rely on certifications made by the grantee. In the past, HUD reviewed each entitlement community's application to determine the extent the program as a whole would benefit low- and moderate-income persons.

Administrative costs

Overhead expenditures are expected in any government program. The CDBG program is no exception. 1/ Because of the inherent flexibility of the CDBG program, overhead expenditures associated with administering and planning the program will vary from locality to locality and program to program. To strike a balance between administrative flexibility and statutory constraint, HUD has allowed liberal interpretation of administrative costs, requiring, until recently, only that such costs be "reasonable."

During the first several years, the CDBG program acquired a reputation for high administrative costs. In fact, a Brookings Institute study reported administrative costs up to 44 percent of second year program allocations. 2/

Our survey showed that the percent of CDBG housing funds used for administrative costs ranged from an average 9 percent during the first year to 18 percent in the fifth and seventh years. Table 6 shows the percent of administrative costs by year.

Table 6

Administrative Costs as a Percent of Total Housing Costs

	CDBG program years						
	1	2	3	4	5	6	7
Average percent of CDBG housing funds used for administrative costs	9	13	12	15	18	16	18

Since 1978 the Congress has placed a 20-percent cap on a community's administrative expenditures for any given CDBG program year. A congressional staff investigation found a lack of

1/HUD considers overhead costs to include administrative costs for planning and executing community development and housing assistance activities funded entirely, or in part, by the CDBG program.

2/Decentralizing Community Development" (Washington, D.C.; HUD, June 1978).

uniformity among entitlement cities' interpretations of administrative costs and unusually high costs in some jurisdictions. HUD was reluctant to institute a cost ceiling because it felt that an appropriate figure could not be found that would consider the varying needs and abilities of each grantee. Nevertheless, the Congress strengthened the limitation by incorporating a 20-percent ceiling on grantee expenditures for planning and administrative costs for each year's grant into HUD's appropriations acts since fiscal year 1979. This limitation affected most cities in their fifth program year.

While administrative costs generally fall below the 20-percent cap, some communities provide little direct benefit assistance relative to total CDBG housing costs. Direct assistance is defined as those activities which provide physical or financial assistance to individual households or housing units.

Table 7 shows some examples from our case studies. Dallas and Seattle CDBG housing funds went predominately to administrative and indirect costs. We could not extract the indirect category from our questionnaires.

Table 7

Percent of Total Housing Funds Being Spent or Obligated for Administrative and Indirect Costs (note a)

Case study location	Direct assistance	Indirect assistance (note b)	Administrative
	- - - - - - - -	(percent)	- - - - - - - - - -
Dallas	37.3	41.0	21.7
Pittsburgh	77.8	6.0	16.2
Seattle	52.8	9.9	37.3

a/This data covers each city's multiyear participation in CDBG.
b/Includes assistance such as counseling, housing studies, and code enforcement.

A Seattle housing official told us that the high indirect and administrative costs were due to (1) the city's block grant housing programs needed careful management because of the complexity of the programs and (2) block grant administrative funding was used so that more direct assistance could be provided to beneficiaries of other city housing programs.

Dallas housing officials told us that their substantial administrative and indirect costs were due to the city providing extensive services which private lenders would not render to their customers. To illustrate, they stated that a commercial lender would not make home repair estimates, award home repair contracts, or conduct inspections during construction. The borrower would be responsible for coordinating all these tasks. The city's housing department, on the other hand, performs all this work for the homeowner. They inspect the applicant's home, list the work needed, bring the house up to minimum city standards, make cost estimates, request sealed bid proposals from local contractors, and administer the construction contract. According to the city, it cost an average of $1,042 to process a grant from application to work completion. In contrast, the average grant was $3,646. Thus, for every $100 of direct assistance, $29 had to be spent for administrative functions (for all loans and grants it was $21). The program's administrative costs were mostly for personnel costs (84 percent).

FEDERAL FUNDING DICTATES THE LEVEL OF LOCAL SUPPORT FOR BLOCK GRANTS

Whether Federal funds for housing increase, decrease, or remain the same strongly influences the level of support by local housing officials for a block grant program. As shown in Table 8 on page 27, local support for a housing block grant

--is the strongest when the officials assume Federal funds would increase,

--begins to erode when the officials assume Federal funds would remain the same, and

--markedly deteriorates when the officials assume Federal funds would decrease.

The last point is perhaps the most significant. While Federal funds for housing have historically increased, the current administration is generally proposing to reduce Federal subsidies. This may have affected the local officials' responses.

Table 8

Extent Local Housing Officials Would Prefer a Housing Block Grant Program Under Different Funding Levels

Level of preference	Level of Federal funding: Funds increase	Funds remain the same	Funds decrease
	---------(number of responses)--------		
Not at all prefer	4	15	a/48
Prefer:			
Somewhat	7	21	12
Moderately	15	a/24	3
Greatly	a/31	16	11
Very greatly	38	19	19
Total prefer	91	80	45
Missing responses or no basis to judge	5	5	7
Total responses	100	100	100

a/The median response was in this group.

LOCAL HOUSING OFFICIALS' VIEWS ON WHAT A HOUSING BLOCK GRANT SHOULD LOOK LIKE

Major policy issues exist regarding the design and implementation of a housing block grant program. We asked local housing officials for their views on the major design issues and on the specific governmental roles in administering a housing block grant program.

What housing programs and activities should be consolidated into a block grant?

Local housing officials believe that most Federal categorical housing programs should be consolidated into a housing block grant program. The only program not receiving majority support was the Urban Development Action Grant. Nevertheless, many Federal programs received less than a two-thirds vote, indicating some uncertainty about which specific housing programs the communities should be responsible for under a housing block grant. Generally, the local officials agreed that rehabilitation and new construction programs should be included in a housing block grant. At least 69 percent of the officials favored including such programs in a housing block grant. Also, 64 percent favored including income assistance programs. In contrast, 56 percent or less favored including insurance and other types of programs.

The local officials also indicated, however, that it would be very important for a housing block grant program to include rehabilitation and other specific activities. Overall, there were only seven specific activities that a majority (above 50 percent) of the officials indicated would be greatly or very greatly important to include under a housing block grant program. Two of these activities were rehabilitation activities--rehabilitation of owner-occupied, single-family housing (90 percent) and rehabilitation of investor-owned, multifamily housing (60 percent). Depending on such factors as the type of community, its location, or its population size, a majority of the officials also considered it very important to include other rehabilitation and construction activities. For example, a majority of the officials from entitlement cities, communities with populations of less than 250,000, and communities in the South considered it very important to include rehabilitation or modernization of local housing authority multifamily housing. Also, a majority of the officials from communities with populations of 500,000 or more, and communities in the West considered it very important to include construction of multifamily housing for local housing authority management and construction of investor-owned multifamily rental housing.

<u>What primary housing objectives should be emphasized?</u>

Local officials indicated a strong preference 1/ toward housing objectives which would (1) provide help to low- and moderate-income households living in substandard housing and (2) improve the quality of blighted and deteriorated neighborhoods. To a lesser extent, local officials would emphasize increasing the total available supply of decent quality housing units. By far, the most important housing objective was helping low- and moderate-income households living in substandard housing. Regardless of the future level of Federal funding, almost two-thirds of the officials stated that it would be either their first, second, or third priority objective. Local officials also indicated that housing assistance should be highly targeted to various household groups.

By household incomes, 92 percent of the officials stated that it would be greatly or very greatly important to target assistance to low-income households, and 75 percent stated the same for moderate-income households. Only 10 percent supported targeting assistance to to middle-income households, and only 1 percent supported targeting assistance to upper-income households.

By household needs, 91 percent of the officials strongly supported targeting assistance to households living in substandard housing. Only 59 percent, however, indicated that it would be

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1/Strong preference, strong support, etc., is used throughout this report to indicate those respondents that had a great or very great preference.

greatly or very greatly important to target assistance to households paying an excessive portion of their incomes for housing expenses, and only 55 percent strongly supported targeting assistance to households living in overcrowded housing.

By household type, 77 percent of the local housing officials strongly supported targeting assistance to elderly households, 62 percent strongly supported targeting assistance to large family (5 persons or more) households, and 55 percent strongly supported targeting assistance to small family (1 to 4 persons) households.

How should block grant funds be distributed?

Almost all (97 percent) believed that an entitlement formula would be needed under a housing block grant program. Three factors were considered to be of great or very great importance by more than three-fourths of the officials. These were the extent of substandard housing (89 percent), the number of households needing housing assistance (88 percent), and the extent of poverty (76 percent).

What type of housing block grant program would have the greatest benefit to communities?

We briefly described four alternative housing block grant models and asked each local housing official to indicate how beneficial each model would be in providing the necessary housing assistance for their communities to achieve their housing objectives and goals. A majority of the officials (69 percent) believed that a long-term, all purpose housing block grant would be of either a great or very great benefit to their communities.

What are the specific governmental roles under a block grant?

Local housing officials overwhelmingly believed that local governments should have the major role in planning, implementing, and evaluating block grant activities. The officials further indicated that most local governments, based on their experiences under the CDBG program, have the capacity necessary to plan and implement housing activities. The officials believed, however, that the Federal Government would be needed to help evaluate block grant performance based on specific criteria, but with limited sanctions for noncompliance with most of the criteria. According to the local officials, State governments and regional groups should only be minimally involved in planning, implementing, and evaluating block grant activities. The responses related to the State role are not surprising since, until recently, there has been very little State involvement in the CDBG program. Also, State involvement would represent another level that local communities would be responsible to under a housing block grant program.

RECENT NEW PROGRAM INITIATIVES STRESS BLOCK GRANTS FOR HOUSING

In the future, cities and counties may have to rely on a housing block grant program instead of federally funded categorical programs to solve their housing problems. Several attempts are being made to replace existing subsidized rental housing production programs with voucher/certificate housing payments and/or rental rehabilitation and construction grants to States and local governments. Generally, these new initiatives stress some form of block grant.

The President's Commission on Housing's recommendations

The Commission has recommended that a housing block grant program be implemented which would allow cities and counties the flexibility to effectively rehabilitate a locality's substandard housing. Further, the housing block grant program would be an integral part of the CDBG program.

The Commission recommended that the primary Federal program for helping low-income families achieve decent housing be a consumer-oriented housing assistance grant (vouchers). Further, the grant system should replace future commitments to build additional units under sections 8 and 202 and public housing. However, the Commission recognized that several communities lacked the necessary adequate housing to make the housing assistance grant program viable and recommended that a housing rehabilitation and construction block grant component be added to the CDBG program.

The Commission emphasized that housing block grant funds be used to primaily benefit low-income persons living in substandard housing. Because rehabilitation generally produces more units of adequate housing per dollar than new construction, the Commission suggested that the principal use of housing block grants be for rehabilitating housing stock for low-income households. However, when States and localities determine, based on appropriate documentation, that rehabilitation is not a feasible or cost effective means for providing housing for poor people, funds may be used for new construction under certain conditions, such as scarcity of units appropriate for rehabilitation. Housing block grant funds could be used with any Federal, State, or local assistance programs such as CDBG, housing payment programs, Federal Housing Administration (FHA) insurance/co-insurance, mortgage revenue bonds, etc.

Administration's proposed rental block grant program

HUD plans to curtail most present rehabilitation programs and implement a new block grant for rental housing rehabilitation. The administration is requesting $150 million for fiscal year 1983 to implement a new rental rehabilitation grants program. This program would provide grants to States and units of local governments for up to one-half of the cost of rehabilitating single-family and small multifamily rental properties. Special allocations of modified section 8 certificates (vouchers) are to be made available to low-income tenants in conjunction with the program. An estimated 30,000 rental units will be rehabilitated under the program in fiscal year 1983. The administration believes that the program will have several advantages over the programs it replaces--the Section 8 Moderate Rehabilitation Program and the Rehabilitation Loan Fund. Among these possible advantages are more efficient and less costly economic subsidies, greater incentives to encourage rehabilitation of multifamily rental properties by localities, and concentration on low-income tenants through links with the modified section 8 housing certificate program.

In commenting 1/ on the administration's proposal we stated that the proposed rental rehabilitation grant program with the housing voucher proposal has the potential to be effective in upgrading a badly deteriorated rental housing stock at lower costs than past mechanisms. In commenting on this report, HUD officials told us that housing vouchers need to be complemented by other assistance programs to meet the housing needs of communities. This position is the basis for the administration's legislative proposal to implement a new block grant for rental housing rehabilitation.

S. 2607--certificate payments and rental rehabilitation and construction grants

S. 2607 would terminate most subsidized housing production programs and establish a new housing production program under the CDBG program. In addition, S. 2607 would establish a rural housing block grant program. These new programs would be used with a modified section 8 existing certificate (voucher) program. In effect, S. 2607 would essentially implement the administration's fiscal year 1983 budget proposal.

Using HUD's experience with the section 8 existing program and the Experimental Housing Allowance program, S. 2607 would create a modified certificate program. According to the housing committee report accompanying S. 2607, this modifed certificate program will improve the section 8 existing housing program by giving very low income families more flexibility to shop around for housing which best suits their needs, improve the responsiveness of the subsidies to local rental market changes, and focus assistance on the neediest families.

S. 2607 would create a new housing section under the CDBG program authorizing HUD to make rental rehabilitation and new

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1/"Perspectives and Questions on Key Housing and Urban Development Policy Issues," General Accounting Office (Apr. 1982), pp. 52-54.

construction grants to States and local governments. Grants would be available to help support the rehabilitation of privately owned real property, and in communities with severe housing shortages, the construction of new rental units. HUD is also authorized to provide modified section 8 certificates (vouchers) to units of government administering a rehabilitation or new construction program. The certificates are provided to minimize the displacement problems often caused by rehabilitation projects.

The proposed rural housing block grant program would provide States with the flexibility to develop new mechanisms to serve the housing needs of the poor. The State may engage in a variety of activities, including the rehabilitation of existing units, the provision of rental assistance payments, or the construction of new units, for the benefit of very low-income persons.

In establishing these new subsidized housing production programs, S. 2607 would repeal authority for new construction and substantial rehabilitation of units under the public housing and section 8 programs, with the exception of units financed under the section 202 program.

H.R. 6296--single-family and multifamily housing production programs

In contrast to S. 2607, H.R. 6296 would continue funding existing subsidized housing production programs. In addition, H.R. 6296 would establish two new programs--the single-family housing production program and the multifamily construction stimulus program.

The single-family production program would provide subsidies to reduce mortgage interest rates. Eligible structures would include single-family houses, manufactured homes, and individual units in a condominium or cooperative, including substantially rehabilitated condominiums and cooperatives in certified historic structures. The program would assist families below 130 percent of the area median income. H.R. 6296 also extends the regular section 235 program which provides subsidies to reduce the mortgage interest rate to 4 percent.

The multifamily construction stimulus program would provide subsidies to stimulate the construction or rehabilitation of multifamily rental or cooperative housing units in areas with a severe shortage of affordable rental housing for families without other reasonable affordable housing alternatives. States and units of local government would apply for funds which may be used as capital grants, loans, interest reduction payments, or other comparable forms of assistance to help developers to reduce the cost of the rental or cooperative project. The assistance would be the amount necessary to make rents affordable for all tenants. For 20 years, 20 percent of the units must be available to tenants whose income is 80 percent of area median or below. Projects would be selected on the basis of several criteria, including reduction of rental housing shortage, public and private contributions that reduce project costs, lessening of displacement, and the cost per housing unit. In addition, a demonstration project would be established to provide grants to States and local governments to improve the housing of families receiving public assistance.

S. 2171--rental housing production and rehabilitation program

The multifamily construction stimulus program proposed in H.R. 6296 is similar to the rental housing production and rehabilitation program proposed in an earlier Senate bill (S. 2171) introduced by Senator Christopher J. Dodd. Under S. 2171, however, the section 8 rehabilitation and construction programs would be terminated. Earlier House bills, H.R. 5731 and 5750, were also similar to S. 2171.

In introducing S. 2171, Senator Dodd stated that the bill is essential to reverse the conditions contributing to a national housing shortage reaching crisis dimensions. He further stated that (1) the crisis is especially severe regarding the availability of rental housing, (2) Americans who want to rent housing cannot find decent, affordable housing, (3) the vacancy rate for rental housing shows no signs of improving from the recent record low levels, and (4) the supply of rental housing has been exacerbated further by the loss of existing units as the inventory ages and is not replaced.

In commenting on S. 2171, 1/ we stated that the bill had a variety of advantages over past production and rehabilitation programs by incorporating several excellent features, such as the requirement for recapturing subsidies if project owners breach contract conditions or convert housing developments to condominiums during the assistance term. Further, the bill also provided several excellent principles, such as its emphasis on cost effectiveness and priorities.

We made several recommendations to improve S. 2171. For targeting, we recommended that certain program provisions be strengthened to ensure that projects provide the maximum possible assistance to low- and moderate-income renter households.

DESIGN ISSUES FOR A HOUSING BLOCK GRANT

Block grants for housing would give local governments greater discretion and flexibility in designing and implementing housing programs. Many local housing officials do not want these increased responsibilities if Federal funding decreases. Most local housing officials are willing to accept these responsibilities, however, if

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1/B-206888 (CED-2-158), Apr. 13, 1982.

Federal funding increases. Although explicit targeting criteria would decrease local decisionmaking, 90 percent of the officials indicated that block grant assisistance should be targeted to specific households based on both income and housing need.

Such targeting would depart from the method used under most current Federal housing programs, such as the section 8 rehabilitation and new construction programs. Eligibility has been based only on household income, which is generally used as a proxy for housing need. A majority of the officials indicated that low-income households living in substandard housing have the greatest need for assistance. Better targeting assistance to such households would enable communities to more effectively and efficiently use housing funds.

In general, most officials favored consolidating into a block grant Federal housing programs to provide rental assistance, rehabilitation, and new construction activities. Under the CDBG program, many communities have experience in rehabilitating housing for homeowners. Relatively few communities, however, have experience in rehabilitating and constructing rental housing, which many communities indicated had the greatest need for assistance.

Considering this limited local experience, a housing block program including rental rehabilitation and construction activities might require significant Federal technical assistance early in the program. Also, more innovative financing methods designed to recapture and/or leverage limited Federal funds might require some emphasis under a new block grant. Finally, communities would need to collect and maintain data on housing conditions and needs, as well as cost and beneficiary data on the types of assistance provided, to effectively and efficiently administer and evaluate a local program under a housing block grant. Specific Federal guidance on the type and format of the information needed under a housing block grant program could help local governments in developing and evaluating housing programs that adequately address their housing needs.

AGENCY COMMENTS AND OUR RESPONSE

In general, HUD found this report to be (1) a very useful summary of entitlement communities' experiences in providing housing assistance under the CDBG program and (2) an objective discussion on local attitudes toward a housing block grant program.

In commenting on a draft of this report, HUD officials pointed out that:

--The report reflects the views of local CDBG officials and not those of elected officials or officials responsible for other housing programs, such a public housing.

--Communities initially emphasized homeowner assistance under the CDBG program because of their experiences in providing assistance under the Section 312 Rehabilitation Loan Program. Other Federal programs, such as the section 8 programs, were expected to provide most rental assistance. HUD initiatives to encourage communities to shift their emphasis to rental assistance have been successful in some communities.

--Some housing activities under a housing block grant program would be substantially different from CDBG activities. For example, rental rehabilitation and new construction activities under housing assistance programs are more complex than CDBG activities and require very long-term funding requirements. Thus, the limited experiences of CDBG entitlement communities in funding these activities does not provide a strong basis for projecting what would happen under a housing block program.

--Communities, in many cases, do not recognize that technical assistance is needed until pointed out by HUD officials. Under a housing block grant program, HUD should provide technical assistance early in the program to help improve local management.

We generally agree with HUD's comments and have made revisions, where appropriate, to reemphasize that the information contained in this report was primarily based on experiences and attitudes of officials in the CDBG program. They provide an indication, but not definite proof, of what might happen under a housing block grant.

We report, in this chapter and chapter 4, that relatively few CDBG communities have experience in rehabilitating and constructing rental housing. We also recognize that many communities have relied on other Federal programs, particularly the section 8 program, to provide most rental assistance. These programs were considered important to include in a housing block grant program. Because of the limited experience of CDBG communities in providing rental assistance activities, the report discusses several design issues, such as Federal technical assistance, innovative financing methods, and information needs, which might be required if these activities are included in a housing block grant.

We also made revisions to this report based on other technical comments received in meetings with responsible HUD officials.

CHAPTER 3

PROGRAMS FOR HOMEOWNERS ARE THE

PREDOMINANT HOUSING EMPHASIS UNDER CDBG

Under the CDBG program, nearly all local governments have developed housing programs to help homeowners. To do this, many communities have used a wide range of financing methods--from relatively infrequent loan guarantees to more frequent traditional grants--to deliver assistance. The programs appear to be concentrating on the less affluent segments of the population. In fact, low- and moderate-income homeowners appear to be benefiting the most from these programs. This is being done by targeting assistance through income eligibility requirements. A significant point, however, is that in about 35 percent of the interventions identified, local officials did not identify beneficiaries by income group. In addition, in over 29 percent of the interventions local officials did not identify beneficiaries by family type.

Specifically, we found that local governments had:

--Concentrated on rehabilitation programs as the major means of providing housing assistance for homeowners. Local officials used mostly grants to fund these programs. Assistance by grants averaged less per unit than loans, but because loans will likely be repaid, the net cost is greater. Likewise, loans and grants cost more than interest subsidized assistance.

--Provided assistance mainly to low- and moderate-income families. Most programs appear to be targeted to low- and moderate-income families, using specific income eligibility criteria.

--Financed a limited number of new construction and construction-related programs, including site acquisition and clearance and demolition activities.

--Financed few homeownership programs, including acquisition and resale of single-family units and conversion of rental units. Most buyer assistance programs were financed with other sources of funds.

--Financed many energy conservation and emergency repair programs.

Table 9 on page 37 and table 10 on page 38 summarize the costs and types of beneficiaries for homeowner assistance housing interventions identified by local officials responding to our survey.

Table 9

Financial Characteristics of Programs Funded Under CDBG for Homeowners in a Sample of Communities

Housing activity	National sample: Percent of sample communities (note a)	National sample: Major financing methods (note b)	Sample characteristics: Average funds identified per community (note c) (dollars)	Sample characteristics: CDBG as percent of total allocations (note d)
Rehabilitation of owner-occupied, single-family housing	98.1	Full grants, partial loans, and full loans	$440,477	88.6
Acquisition, rehabilitation and resale of single-family housing	23.8	Partial grants, full loans, and full grants	302,636	86.0
Construction of single-family housing for owner-occupants	9.9	Partial grants and full grants	(e)	(e)
Purchase and resale of single-family housing	10.1	Full loans, partial grants, and partial loans	229,555	56.8
Conversion of rental units for tenant ownership	4.5	Partial loans and partial grants	(e)	(e)
Weatherization of single-family housing (note f)	45.3	Full grants, partial grants, and full loans	234,750	85.7
Emergency repairs (note f)	54.3	Full grants, partial grants, and full loans	248,529	95.7

a/Based on 424 responses from local officials that used CDBG-funds for housing.

b/Finance methods are those that were most frequently reported by the sample group.

c/This figure does not represent total funds for the housing activity but reflects average funds identified by a sample of housing interventions. Average funds allocated per community were based on total funds reported by the local officials responding. Amounts reported were for the last program year.

d/Percent of total funds represents that portion of total funds allocated to the activity that were provided by the CDBG program.

e/Data received not sufficient to analyze.

f/Weatherization and emergency repairs are often funded under rehabilitation programs. The data represents the information provided by local officials and does not account for duplication.

Table 10

Beneficiary Characteristics of Programs Funded Under CDBG for Homeowners

Housing assistance	Number of total units assisted (note a)		Percentage of households assisted during the last funding year (note b)						
			Household income group			Household type			Minority
	Total units reported	Average per community	Low and Moderate	Middle	Upper	Elderly	Small	Large	households
Rehabilitation of owner-occupied, single-family housing	60,949	309	96.6	2.5	1.0	44.0	42.9	13.1	40
Acquisition, rehabilitation and resale of single-family housing	341	17	54.2	39.1	6.7	25.0	63.3	11.7	68
Construction of single-family housing for owner-occupants	(c)	(c)	(c)	(c)	(c)	(c)	(c)	(c)	(c)
Purchase and resale of single-family housing	70	9	93.8	3.1	3.1	3.1	75.0	21.9	76
Conversion of rental units for tenant ownership	(c)	(c)	(c)	(c)	(c)	(c)	(c)	(c)	(c)
Weatherization of single-family housing	6,117	191	94.5	5.5	0.0	50.6	39.3	10.0	16
Emergency repairs	7,523	171	99.1	1.1	0.0	64.7	23.5	11.8	34

a/Total units based on a sample of all communities reporting that they funded this activity. This total does not reflect the total units assisted by each community but does reflect the total for all interventions reported.
b/Percentage of assistance is based on a sample of the communities reporting this activity. The sample group provided income group and household type characteristics only for their last project year.
c/Data received not sufficient to analyze.

REHABILITATION OF OWNER-OCCUPIED HOUSING IS THE MAJOR CDBG HOUSING ACTIVITY

By far, communities are using more CDBG funds for rehabilitating owner-occupied housing than for any other housing activity. In fact, HUD reported that rehabilitating residential structures is the fastest growing CDBG activity. Our survey results show that nearly all CDBG entitlement communities fund rehabilitation of owner-occupied housing.

HUD reported in its sixth annual CDBG report that about one-third ($1.9 billion) of the total CDBG funds budgeted for 1978-80 were for rehabilitating housing. HUD also reported that over 80 percent of CDBG rehabilitation expenditures during 1975-79 went toward single-family housing. Overall, HUD estimated that 261,692 units were rehabilitated, of which 213,743 (82 percent) were owner-occupied units.

Over 98 percent of the local officials responding to our survey reported financing rehabilitation of owner-occupied, single-family units. In most cases financing involved full and partial grants and full loans. CDBG funds were the primary source of funds, with few private sources used to supplement CDBG.

Most communities were financing owner-occupied, single-family rehabilitation

Overall, the local officials responding to our questionnaire reported that 232,673 homeowners have been assisted using CDBG financing. Much of this assistance was provided in the form of grants and loans to rehabilitate homes.

In fact, over 98 percent of the local officials surveyed--416 communities--provided assistance to homeowners for rehabilitating their homes. Thus, homeowner rehabilitation is almost universally accepted as an appropriate use of CDBG funds.

Three of the case study locations also showed a strong preference for homeowner rehabilitation. Pittsburgh (65 percent), Dallas (59 percent), and Seattle (58 percent) all spent over half of their CDBG housing program funds on homeowner rehabilitation. Only St. Louis (3 percent) devoted few CDBG funds to rehabilitate owner-occupied housing units.

Local governments used various methods to finance home improvements

Numerous financing methods were used to finance single-family rehabilitation. Nevertheless, about 62 percent of the communites used full grants as the primary method.

The 416 communities which were financing rehabilitation of owner-occupied units reported that they used various methods--an average of three financing methods per community. Some of the financing methods identified included the following:

--Full grants or loans--the grants or loans cover all of the costs of rehabilitation.

--Partial grants or loans--the grants or loans pay only a portion of the costs.

--Conditional grants--the grants must be repaid if certain pre-specified conditions are not met.

--Forgivable loans--the loans are forgiven if certain prespecified conditions are met. These loans are similar to conditional grants.

--Deferred loans--the loans are to be repaid when the property is sold or transferred.

--Loan Guarantees--a portion or all of the loan from a private lender is guaranteed.

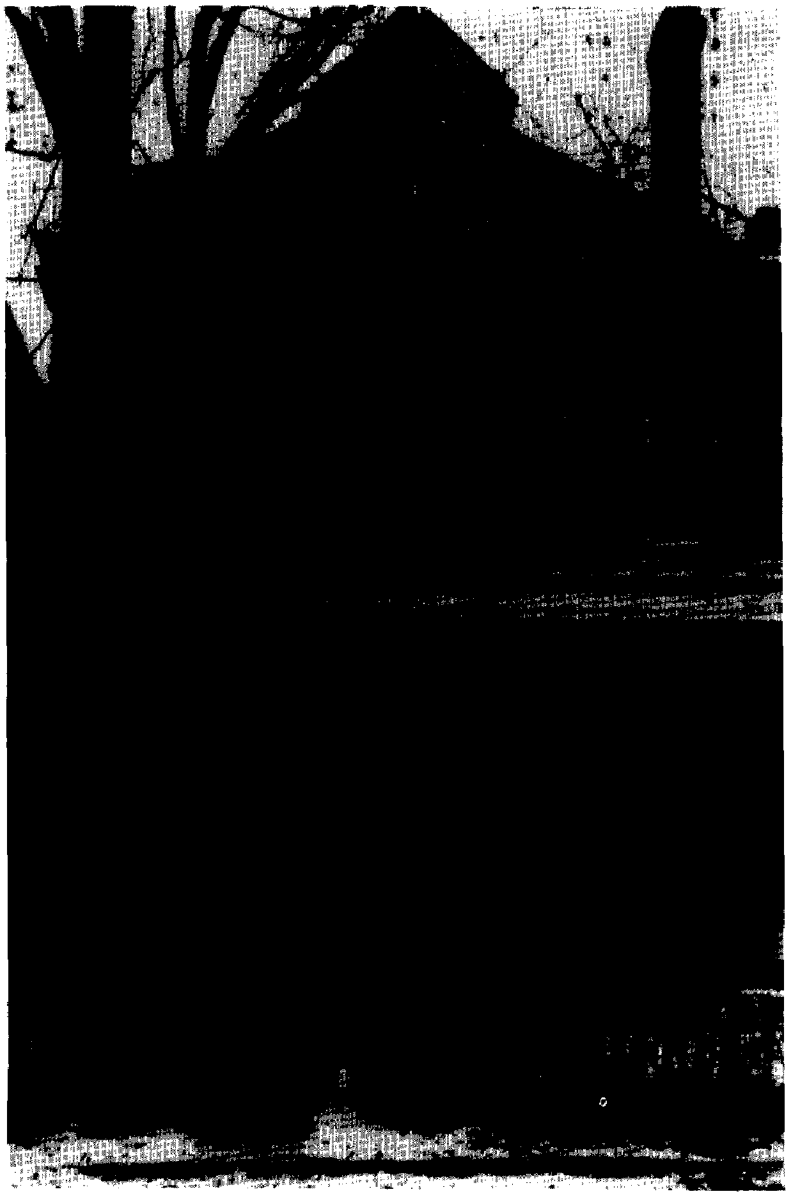
--Interest subsidies--a portion of the interest on the loans is funded to reduce the borrower's cost.

--Grantee service--services, such as housing counseling, are provided; no funds are received.

Some of the methods listed were used separately, such as full grants or full loans, others were used in combination. For example, a full or partial grant could require specific conditions to be met and thus would become a conditional grant or part of the financing could be a loan with a conditional partial grant.

Table 11 on page 42 shows the methods reported by the locations responding to our survey. It clearly shows that most communities used full grants (62 percent) and full loans (50 percent). More innovative methods, such as loan guarantees (14 percent) and interest subsidies (33 percent), were reported much less often. To use these methods, local governments would need to obtain funding from private sources which would require the availability of private funds and the ability of local officials to understand complex financing mechanisms. Although many communities have this capacity, other communities identified coordinating financing techniques and the availability of private financing as barriers to effective program implementation.

EXAMPLE OF LOAN AND GRANT FINANCING



The homeowner received a 3-percent interest loan of $6,387 and grants totaling $5,823 for window, porch, roof, and door improvements on a house in Pittsburgh.

Table 11

Financing Methods Respondents Used
To Rehabilitate Owner-Occupied Housing

Financing method	Communities	
	Number	Percent
Grants		
Full	258	62
Partial	217	52
Conditional	130	31
Loans		
Full	210	50
Partial	148	36
Forgivable	67	16
Deferred	190	46
Loan guarantees	58	14
Interest subsidies	138	33
Other (note a)	89	21

a/Other methods included combinations of the above financing methods and grantee services that did not involve CDBG funds.

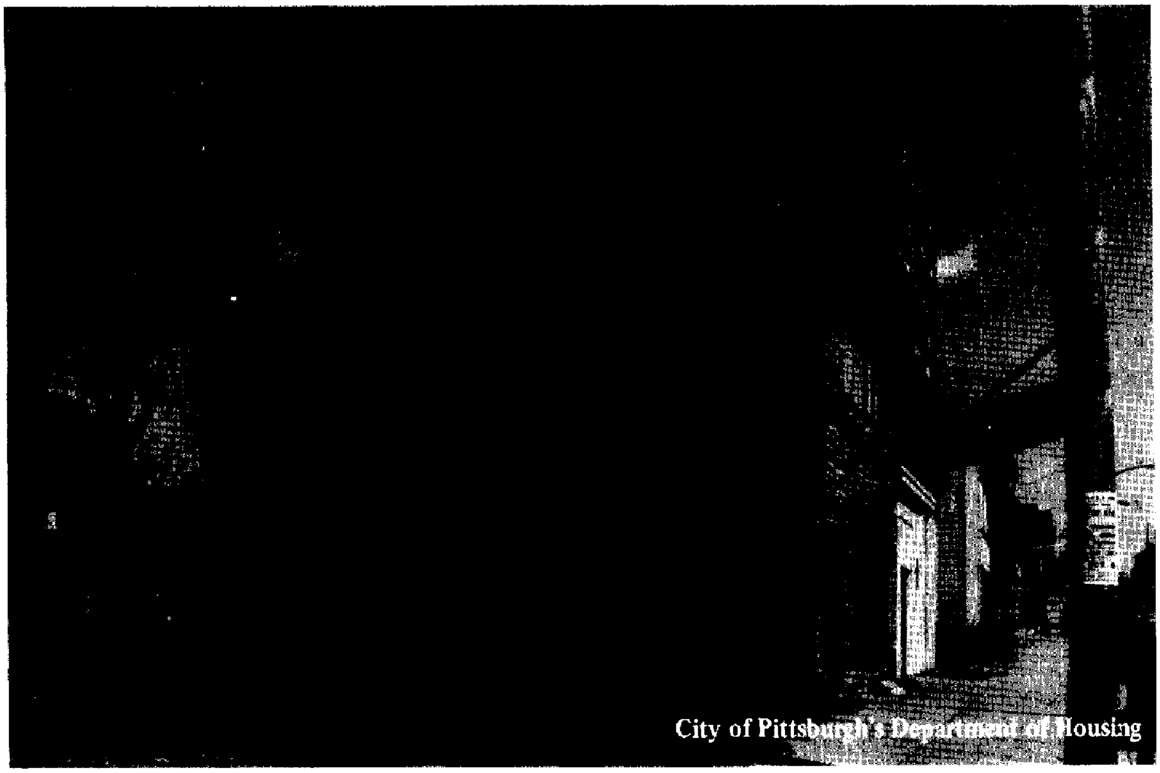
We also found a similar pattern of financing methods at the four case study locations. Table 12 on page 43 highlights the major financing methods used at each location, the number of units assisted, and the total amount of assistance.

Table 12

Financing Methods For Home Improvements at Case Study Locations

Case study locations	Housing units assisted Number	Housing units assisted Percent	Funding Amount (millions)	Funding Percent
Dallas				
Full grants	515	70.7	$ 1.9	46.3
Full loans	134	18.4	1.5	36.6
Loan/Grant combinations	30	4.1	.3	7.3
Guaranteed loans	49	6.7	.4	9.8
Total	728	100.0	$ 4.1	100.0
Pittsburgh				
Full grants	1,853	18.2	$ 1.3	2.3
Interest subsidy payments	1,024	10.0	9.5	16.9
Loan/Grant combinations	3,946	38.7	26.5	47.1
Other	3,371	33.1	19.0	33.7
Total	10,194	100.0	$ 56.3	100.0
Seattle				
Deferred loans	254	3.4	$ 2.6	47.2
Full loans	642	8.6	2.1	38.2
Full grants	6,560	88.0	.8	14.5
Total	7,456	100.0	$ 5.5	100.0
St. Louis				
Full grants	53	15.8	$ .4	14.3
Partial grants	204	60.7	.8	28.6
Full loans	44	13.1	.3	10.7
Loan guarantees	26	7.7	1.0	35.7
Interest subsidy payments	9	2.7	.3	10.7
Total	336	100.0	$ 2.8	100.0

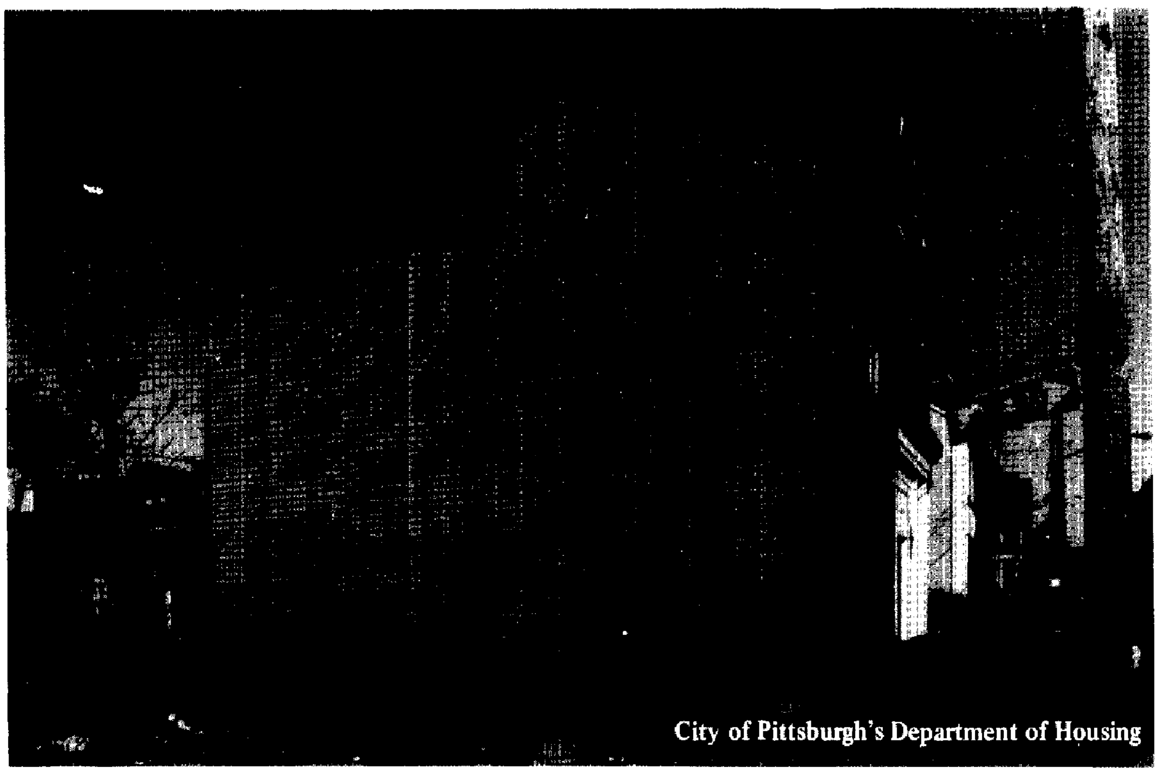
EXAMPLE OF FULL GRANT FINANCING



BEFORE

COST TO REHABILITATE THE PARTY WALL IN PITTSBURGH WAS $2,690.

AFTER



Another way of examining financing methods used is to determine the percent of respondents indicating use of one or more financing methods. Table 13 shows that most--51.5 percent--communities were using three or less financing methods to rehabilitate owner-occupied housing.

Table 13

Respondents Using One Or More Methods To Finance Owner-Occupied Housing Rehabilitation

Number of financing methods used	Percent of respondents
1	13.4
2	18.7
a/3	19.4
4	18.0
5	15.1
6	7.4
7	5.0
more than 7	2.9
Total	b/100.0

a/ Median.
b/ Does not add due to rounding.

Leveraging of funds was low

One of the supposed strengths of the block grant program is local communities' ability to use program funds as seed money to attract other sources of funds. This is called leveraging. As shown in table 14 on page 46, however, the CDBG program was the major source of funds to rehabilitate owner-occupied, single-family units. Local officials reported that CDBG funds accounted for 88.6 percent of the total funds allocated to single-family rehabilitation in the latest program year. Other sources accounted for 11.4 percent, with over half coming from private sources. The major Federal programs used with CDBG-financed home improvements were the Section 312 Rehabilitation Loan Program and the Title I Home Improvement Loan Insurance Program.

Table 14

Financing Sources for Rehabilitating Owner-Occupied, Single-Family Units

Source of funds	National sample (note a)	Case study locations: Dallas	Pittsburgh	Seattle	St. Louis
	-------------(percent of funding)-------------				
CDBG	88.6	90.5	54.5	91.0	28.2
Other Federal programs	2.2	2.4	0.0	0.0	0.0
Other State programs	1.5	0.0	0.0	0.0	0.0
Private	5.8	7.1	0.0	0.0	71.8
Tax-exempt bonds	0.7	0.0	45.5	0.0	0.0
Other local funds	0.3	0.0	0.0	9.0	0.0
Other (not identified)	0.9	0.0	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0

a/Percent of funds based on total rehabilitation funds for the latest program year reported by a sample of local officials.

Pittsburgh and St. Louis used substantial leveraging of CDBG funds to attract non-Federal funds. Pittsburgh used the proceeds from its issuance of tax-exempt bonds to help finance \$25.5 million in rehabilitation loans. St. Louis used four financing mechanisms--partial grants, direct loans, loan guarantees, and interest subsidies--to rehabilitate owner-occupied, single-family units. Total funding was \$2.4 million, including \$0.7 million (28 percent) from CDBG and \$1.7 million (72 percent) private funding. Private funds leveraged were \$2.55 for each \$1 in CDBG funds for these subsidy mechanisms, with interest subsidy mechanisms showing the largest leverage, \$11.51 for CDBG's \$1.00.

BENEFICIARIES AND COSTS OF REHABILITATING OWNER-OCCUPIED HOUSING UNITS

An analysis of the beneficiaries and the costs of CDBG rehabilitating owner-occupied housing showed that local officials targeted their housing interventions mainly to low- and moderate-income homeowners, but they may be using relatively less innovative financing methods (full grants and loans). In addition, a significant number of officials did not identify the types of households receiving assistance.

Who benefits from home improvements?

We asked local officials to provide detailed data on recipients who received home improvement assistance. Unfortunately, they did not identify recipients by income group in over 35 percent of the interventions, and they did not identify household type in 29 percent of the interventions. For the officials that did respond to our question, however, it appears that low- and moderate-income households are the primary recipients. In fact, over 96 percent were low- and moderate-income households. Some of the major observations concerning beneficiaries were that local governments have generally:

--Developed specific income criteria or targeted assistance to specific areas. For example, in 89 percent of the interventions, the sample group reported that they used established income criteria for determining eligibility. In about 75 percent of these interventions, local officials reported that they used established section 8 income criteria.

--Strongly assisted the elderly and the small-family homeowner. Our analysis showed that about 44 percent of the recipients were low- and moderate-income elderly and 43 percent were small-family households.

The results of our survey generally indicates that home improvement assistance is provided to low- and moderate-income families. Likewise, at the case study locations we also found rehabilitation of owner-occupied units to be targeted to low- and moderate-income households. However, we also noted instances where income data on recipients was unavailable or only available by reviewing each application file.

Table 15 on page 48 summarizes the beneficiary data we obtained at the four case study locations.

Table 15

Selected Descriptions of Beneficiaries at Case Study Locations

Location	Major program (note a)	Eligibility critieria	Beneficiaries
Dallas	Home Repair Grant	Over age 64 or handicapped	83% elderly, 70% minority, and 96% less than $7,000 income
Pittsburgh	Home Improvement Loan Program	Less than $7,000 annual income	59% residing in community development area, 77% white, 53% male, and 71% over age 45
Seattle	Neighborhood Housing Rehabilitation-deferred loans	50% of area median income	70% income under $7,950 (other data unavailable)
St. Louis	Neighborhood Housing-Services—direct loans	Reside in designated area	91% income less than $10,000 (other data unavailable)

a/The owner-occupied home improvement program receiving the major portion of CDBG funds.

The sample group also provided data on household type and income group for units assisted in the last program year. Tables 16 and 17 summarize the data provided by the sample group.

Table 16

Beneficiaries of Home Improvement Assistance by Household Type

Household type	Units reported	Percent of total
Elderly	5,528	44
Small family	5,393	43
Large family	1,645	13
Total	12,566	100

Table 17

Beneficiaries of Home Improvement Assistance by Income Group

Income group	Units reported	Percent of total
Low and moderate	10,568	96.6
Middle	269	2.5
Upper	101	.9
Total	10,938	100.0

As shown above, the locations that reported data on beneficiaries indicated that most (96.6 percent) are low- and moderate-income households. About 3 percent were middle- or upper-income beneficiaries. This data also was generally true for our case study locations. However, we noted that local officials did not provide income group data in over 35 percent of the housing interventions and household type data in 29 percent of the housing interventions. Possible explanations for local officials not providing the data include

--beneficiary data was not readily available in aggregate form, and to obtain the data would have required a review of individual case files;

--eligibility was not determined by income and no data was kept; and

--information was not maintained in the manner which was requested by our questionnaire.

Regardless of the reasons for not providing detailed data, we believe that the local unit of government should know who has benefited, in order to plan for future housing assistance programs.

The costs of home improvements

Most local officials indicated that they have used full grants and loans to provide CDBG financing for owner-occupied housing rehabilitation. These are more costly to the Government than other forms of financing.

As previously shown, full grants were the most frequently reported mechanism for owner-occupied rehabilitation. Detailed data provided by local officials shows that the average full grant provided was about $6,700. Conditional grants were about $200 less than a full grant. The distinction between these terms may have been blurred somewhat by our respondents. For example, Dallas provided 515 full grants, averaging $3,646, but with the condition that the owner could not sell or rent the house for a specified time after repair work was completed.

Full grants are the most costly financing mechanism since homeowners do not contribute to the cost and there is little incentive to control costs such as needless repairs. Such financing also provides little opportunity for recapture.

Communities also were using full and deferred loans as major CDBG financing mechanisms. While loans allow funds to be recovered, such financing requires the same substantial initial investment as do full grants. According to data provided, the average full and deferred loan was about $12,000 and $11,700, respectively. These funds are given to the borrower so that he or she can rehabilitate the housing unit. Thus, the community has "lost" the use of the funds for the duration of the loan--installment loans will be paid back over the life of the loan, whereas deferred loans will not be repaid until the property is sold or transferred.

Interest subsidy payments may provide a more efficient means of financing housing rehabilitation. By using non-CDBG funds to finance the loan, the community may more effectively use its CDBG funds to reduce the borrower's costs and to increase rehabilitation impact. For example, we estimated that Pittsburgh could have initially rehabilitated 65 percent more units--5,364 units compared with 3,251--using interest subsidy payments rather than full loans. It should be noted, however, that in the long run, more units may be rehabilitated using direct loans because the city can turn over its loans--as loans are repaid, more loans can be made. Nevertheless, this impact can also be dissipated--loans may not be repaid (borrower defaults), rehabilitation costs will increase due to inflation and delay in making needed repairs, and repaid loan funds may be used for purposes other than housing.

NEW CONSTRUCTION AND CONSTRUCTION-RELATED ACTIVITIES WERE LIMITED

Although new construction activities are generally restricted by the CDBG regulations (see p. 17), a limited number of communities reported financing new construction. One case study location, St. Louis, also reported the activity. A significant number of communities, however, reported financing construction-related activities, such as site acquisition and clearance and demolition, for housing construction.

About 10 percent of our sample (42 communities) reported using CDBG funds to finance the construction of single-family housing for owner-occupants. Since very few locations fund the activity, we only received six responses providing detailed data on new construction. Unfortunately, the data the six locations provided was not sufficient enough to make a detailed analysis of new construction activities. For example, only two local officials provided information on income of households receiving new construction assistance. Based on the limited data provided, we found that:

--The total funds reported in the last program year ranged from $66,000 to $21 million, with CDBG funds representing an average 54 percent of the total funds allocated. The officials reported a range of 1 percent to 100 percent CDBG financed.

--One city reported that tax exempt revenue bonds provided 99 percent of the funds allocated to new construction.

--Only two cities provided the number of homeowners assisted by income group. The two cities reported assisting 27 low- and moderate-income families in the last year. Five locations reported that income was used to determine eligibility.

St. Louis reported new construction of single-family units with CDBG funds. The city used partial grants and interest subsidies to help finance new construction. The program used $0.5 million from CDBG, $2.2 million in private funds, and $0.6 million from other Federal programs through June 1981. Grants awarded under this program financed up to 50 percent of projected costs. The CDBG funds financed construction site fees and site preparation costs. At one project, CDBG funds were used with HUD's Section 235 Homeownership Program. For this project, the developer was given grant funds to help lower the purchase price of the homes so low-income homebuyers could qualify for section 235 assistance. Under this project, 24 units were produced through June 1981, with a unit cost of $55,467 representing 21 percent CDBG funds. This could also be thought of as buyer assistance which is treated separately.

St. Louis also used interest subsidies as part of its overall program. A total of 30 units were produced through June 1981, with a unit cost of $64,682. CDBG funds were used to subsidize the interest rates for the first 7 years of the mortgage.

Many communities reported financing construction-related activities with CDBG funds. We were unable to determine, however, the extent these activities related to the construction of homeowner and rental housing. Almost one-half of the communities (46 percent) provided CDBG funds to acquire and clear sites for housing construction. One-third of the communities (33 percent) also provided CDBG funds to demolish existing structures for new housing construction. CDBG financing for these construction-related activities has primarily included full and partial grants.

LOCAL HOUSING OFFICIALS REPORTED FEW BUYER ASSISTANCE PROGRAMS

Major housing activities to help finance actual homeownership have not received as much attention as home improvement activities. While our sample group reported that they financed acquisition and resale of single-family units and conversion of units for tenant ownership, the frequency of activities reported was much lower than for other owner-related housing activities. Accordingly, very little detailed information was reported by the sample group. Table 18 summarizes the activities reported.

Table 18

Homeownership Assistance Programs Financed Under the CDBG Program

	Percent of sample (note a)
Acquisition, rehabilitation, and resale of single-family units	23.8
Purchase and resale of single-family units	10.1
Conversion of rental units to tenant ownership	4.5

a/Based on 424 responses.

Each of the above activities involved various types of financing. However, like the rehabilitation activities discussed earlier, grant financing was predominant.

The major homeownership activity is acquisition, rehabilitation, and resale of single-family units

Two of the case study locations and about 24 percent of our sample group reported funding acquisition, rehabilitation, and resale of single-family units under the CDBG program. Analysis of the questionnaire results and our work at the case study locations show that:

--Acquisition, rehabilitation, and resale of single-family units is generally targeted to specific neighborhoods. For example, in 67 percent of the interventions, local officials reported that they used property location as the criterion for eligibility.

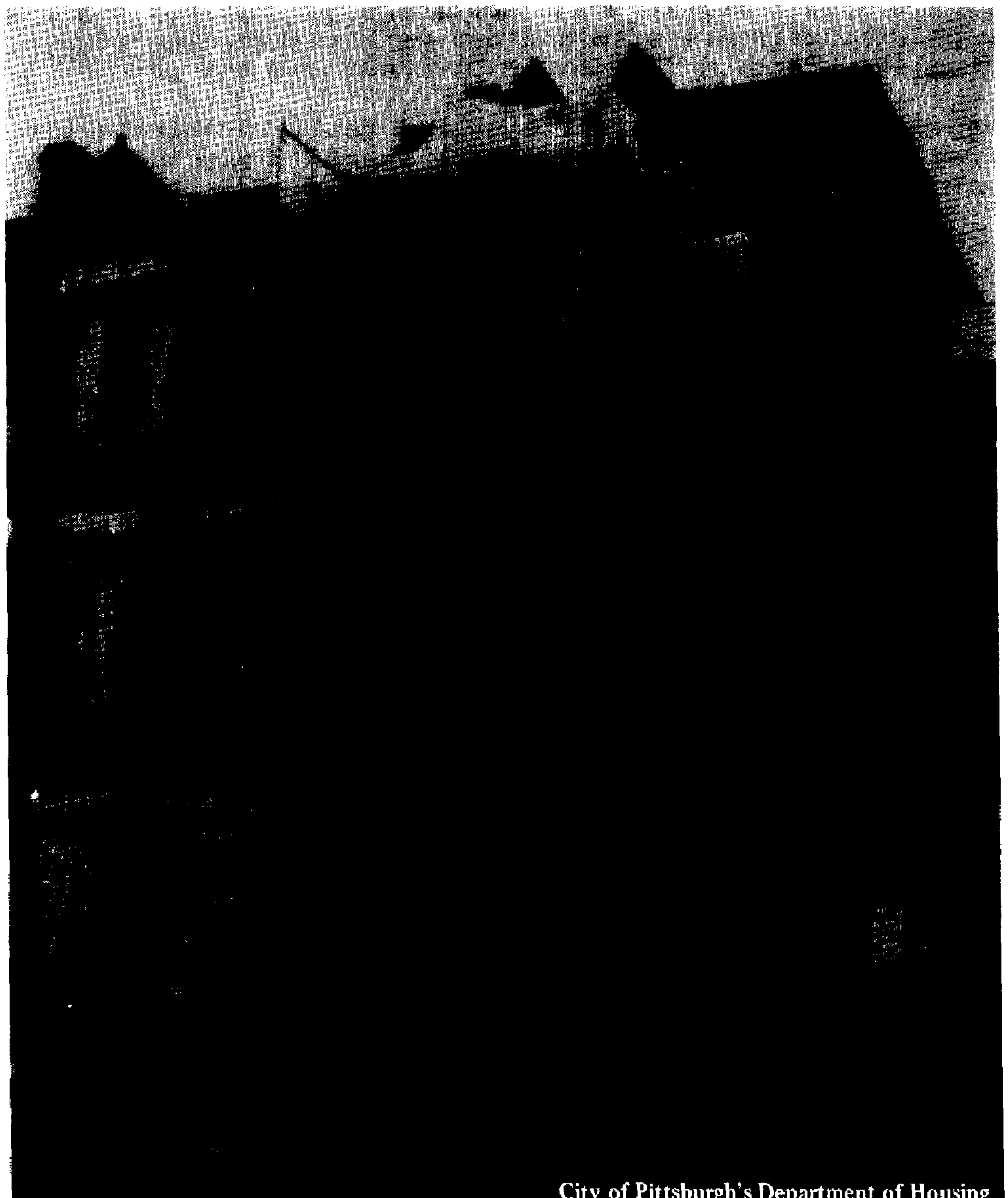
--Financing has primarily included CDBG grants. However, 14 percent of the total funds were provided from other sources.

--Although little data exist on who has received assistance, local officials reported that only 54 percent of the assisted households were low or moderate income.

Table 19 on page 55 highlights some of the data provided by a sample of those communities which reported financing acquisition, rehabilitation, and resale under the CDBG program.

Our analysis of data reported by the sample group also showed that other Federal housing programs were used with CDBG funds. For example, 45 percent of the sample group reported using at least one other Federal program. The Urban Homesteading Program (23 percent) was reported most often. Other programs included the sections 312 and 8 programs.

EXAMPLE OF BUYER ASSISTANCE FINANCING


City of Pittsburgh's Department of Housing

The owner-occupant acquired and rehabilitated this structure in Pittsburgh for a cost of $146,000, with the buyer making a downpayment of $5,000. Using CDBG funds, the city provided the owner with a historical preservation loan of $15,000, a deferred loan of $26,200, and an installment loan of $4,800. The owner also received a $95,000 mortgage at 8½percent interest from the city. When rehabilitated, the property will have an appraised value of $100,000. (Units on both sides are vacant and boarded.)

Table 19

Acquisition, Rehabilitation, and Resale of Single-Family Housing (note a)

Percent of sample group financing activity (note b)	23.8
Average total funds allocated per community	$302,636
Average percent of CDBG funds	86
Major financing methods:	partial grants full loans full grants
Average unit financing by finance method:	
Grants	$12,175
Loans	$18,417
Loan guarantee	$17,000
Average total number of households assisted per community	17
Percent of households assisted by income group and household type:	
Income	
Low and moderate	54.2
Middle	39.1
Upper	6.7
Household	
Elderly	25.0
Small	63.3
Large	11.7

a/The data presented in this table is based on information provided by a sample of 22 out of 101 local officials who reported financing this activity.

b/Based on a sample of 424 entitlement communities.

The most frequent finance method used to acquire, rehabilitate, and resell single-family housing was partial grants. About 31 percent of the sample group indicated this method. Both full grants and full loans were also used by 20 percent of the sample group.

As stated earlier two of the four case study locations reported acquisition, rehabilitation, and resale of the single-family units. Table 20 on page 56 highlights the data obtained at the case study locations.

Table 20

Funding of Acquisition, Rehabilitation, and Resale of Single-Family Units at Case Study Locations

Location	CDBG funding (other)	Financing method	Number of CDBG loans and grants (other)	Average CDBG loan/grant (other)	Number of housing units assisted	Targeting
	(millions)			(dollars)		
Pittsburgh	$ 1.8 a/(1.5)	Partial loans	58 (32)	$13,275 (45,850)	83	Targeted to specific areas; no income criteria
St. Louis	$ 1.9 b/(12.1)	Partial grants, loan guarantees, and interest subsidies	23 (15)	$33,265 (55,514)	234	Targeted to specific areas; no income criteria

a/ Tax-free revenue bonds.
b/ Private funds from lending institutions.

Purchase and resale of single-family units

Local officials representing 43 communities (10 percent) reported financing purchase and resale of single-family units. None of the case study locations we visited reported this activity. We received very little data on program characteristics from local officials reporting purchase and resale of single-family units. Local officials representing nine cities (20 percent of those reporting) provided detailed characteristics. Some important observations based on their responses are presented in table 21.

Table 21

Purchase and Resale of Single-Family Units to Owner-Occupants (note a)

Percent of sample group financing activity (note b)	10.1
Average total funds allocated per community	$229,555
Average percent of CDBG funds	56.8
Major financing methods:	full loans partial grants partial loans
Average unit financing by finance method:	
Grants	$ 9,250
Loans	$13,675
Average total number of households assisted per community	9
Percent of households assisted by income group and household type:	
Income	
Low and moderate	93.8
Middle	3.1
Upper	3.1
Household	
Elderly	3.1
Small	75.0
Large	21.9

a/The data presented in this table is based on information provided by a sample of 9 out of 43 local officials who reported financing this activity.

b/Based on a sample of 424 entitlement communities.

Conversion of units
for tenant ownership

Conversion of units for tenant ownership was reported by about 5 percent of the sample group. We received very little data concerning this activity. For example, only 6 of 19 respondents provided detailed program characteristics. None of the case study locations financed conversion of rental units for tenant ownership. Some of the more important characteristics are that:

--Partial loans, full loans, and partial grants were the most favored financing methods.

--CDBG funds accounted for 24 percent of total funds allocated. The sample group reported that $4.2 million was allocated.

--Over 96 percent of the households assisted were low-and moderate-income.

Unfortunately, data on unit financing was not sufficient to analyze.

MANY COMMUNITIES FUNDED
ENERGY CONSERVATION ACTIVITIES

Weatherization is aimed at improving a home's energy conservation potential. Types of weatherization include insulation, energy-saving windows, etc. Over 45 percent of the communities responding to our survey reported that they provide financing for weatherizing of single-family, owner-occupied units. Likewise, all our case study locations had financed weatherization of owner units. However, some locations provide weatherization assistance as a separate program, while others include the activity within established rehabilitation programs. For example, Pittsburgh established one program that provided a matching grant of up to $400 as part of its overall home improvement program. In addition, Pittsburgh had established a program that used CDBG funds to pay labor costs associated with insulating units under the Department of Energy's weatherization program.

Weatherization programs were primarily for homeowners rather than renters. Of the 194 communities which reported that they financed weatherization programs with CDBG funds, only 2 reported they only weatherized rental units. Whereas, 145 reported weatherization programs only for homeowners.

Communities responding to our survey provided detailed data on various questions concerning weatherization programs. Much of the data provided was similar to that given under rehabilitation programs. Where possible, we eliminated data that duplicated information provided earlier. However, in most cases, the communities that provided detailed data did not indicate if the weatherization programs were separate or part of an overall rehabilitation program. Table 22 highlights some of the more important information provided.

Table 22

Weatherization of Single-Family Units (note a)

Percent of sample group financing activity (note b)	45.3
Average total funds allocated per community	$234,750
Average percent of CDBG funds	85.7
Major financing methods:	full grants partial grants full loans
Average unit financing by finance method:	
Grants	$3,714
Loans	$9,846
Average total number of households assisted per community	191
Percent of households assisted by income group and household type:	
Income	
Low and moderate	94.5
Middle	5.5
Upper	0.0
Household	
Elderly	50.6
Small	39.4
Large	10.0

a/The data provided in this table is based on information provided by a sample of 36 out of 192 local officials who reported financing this activity.

b/Based on a sample of 424 entitlement communities.

MANY COMMUNITIES FUNDED EMERGENCY REPAIRS

Emergency repairs also are reported as a major housing activity using CDBG funds. As shown in table 23 on page 60, about 54 percent of the communities we surveyed reported emergency repairs as a CDBG-funded housing activity. We did not distinguish between emergency repairs for owners versus renters. However, most of the benefits reported were for owners. Likewise, at the case study locations the emergency repair programs were specifically designed for owners.

Table 23

Emergency Repairs (note a)

Percent of sample group financing activity (note b)	54.3
Average total funds allocated per community	$248,529
Average percent of CDBG funds	95.7
Major financing methods:	full grants partial grants full loans
Average unit financing by finance method:	
Grants	$1,782
Loans	$6,069
Average total number of households assisted per community	171
Percent of households assisted by income group and household type:	
Income	
Low and moderate	99.1
Middle	0.9
Upper	0.0
Household	
Elderly	64.7
Small	23.5
Large	11.8

a/The data provided in the table is based on information provided by a sample of 51 out of 230 local officials who reported financing this activity.

b/Based on a sample of 424 entitlement communities.

Emergency repair programs are designed to provide loans and grants to correct the major defects that make units unsafe and/or uninhabitable but in other respects would be adequate once the major defects are removed.

The range of values the sample group reported also suggests that many communities fund emergency repairs as part of their rehabilitation program. For example, the sample group reported a maximum grant of $12,500 in one case and a maximum loan of $46,000 in another. The minimum grant and loan reported was $400 in each case.

CHAPTER 4

CDBG ASSISTANCE TO RENTERS HAS BEEN UNDER-EMPHASIZED

Nationwide, renters are experiencing serious problems in obtaining adequate and affordable housing. Nevertheless, under the CDBG program, rental assistance programs have taken a "back-seat" to programs directed to homeowners. Apparently, many communities depend on other Federal programs to provide most rental assistance. Where rental assistance was provided under CDBG, however, low- and moderate-income households were the primary beneficiaries. However, 21 percent of the communities did not report how many rental units were assisted.

CDBG FUNDING HAS HAD LESS IMPACT ON RENTERS THAN HOMEOWNERS

CDBG housing funds were used sparingly to either rehabilitate rental units or provide assistance to renters. Although several financial mechanisms were used, the assistance that was provided was primarily in the form of loans. Our analysis of questionnaire responses from local housing officials representing 424 communities showed that

--only about 60 percent of the cities and counties rehabilitated any rental units and only 50 percent rehabilitated investor-owned rental units,

--28 percent more owner-occupied units were assisted than rental units, and

--60 percent of the cities and counties financing investor-owned rental rehabilitation were providing loans to investors.

Many cities did not rehabilitate any rental units

Local housing officials reported that substantially more rental units needed rehabilitating than owner-occupied units. Likewise, renters had a much greater need for assistance than homeowners. Nevertheless, over 40 percent reported that they have not used CDBG for rental rehabilitation. This figure is increased to 50 percent if public housing rehabilitation is excluded.

In response to the questionnaire, 246 out of 424 (58 percent) local housing officials reported that they used CDBG funds to finance either investor-owned, single and multifamily rental unit rehabilitation and/or public housing rehabilitation. Except for Dallas, all of the four case study locations did both housing activities. Dallas did not finance investor-owned, single or multifamily rental housing rehabilitation. Table 24 on page 62 shows the number of respondents who are financing rental rehabilitation with CDBG funds.

Table 24

Number of Communities Reporting That They Financed Rental Rehabilitation With CDBG Funds

Housing activity	Number of respondents	Percent
Rehabilitation of investor-owned, single-family rental housing (A)	36	14.6
Rehabilitation of investor-owned, multifamily rental housing (B)	29	11.8
Rehabilitation or modernization of local housing authority multi-family housing (C)	36	14.6
Combination A and B	82	33.3
Combination A and C	11	4.5
Combination B and C	14	5.7
Combination A, B, and C	38	15.4
Total	246	a/100.0
Less public housing (C)	36	
Total rehabilitation of investor-owned rental housing	210	

a/Does not add due to rounding.

Fewer rental units are being assisted

Local housing officials responding to our experiences questionnaire reported that 1.7 million rental units needed to be rehabilitated and 3.9 million renters needed assistance in contrast to 1.3 million owner-occupied units and 1.2 million homeowners. Even though the rental problem was substantially greater, the respondents reported that CDBG funding assisted 232,673 owner-occupied units but only 181,338 rental units. Thus, 28 percent more owner-occupied units were assisted. If the local governments had funded assistance to renters proportionate to need, then about 238,000 should have been helped. Our case study cities showed a similar trend. A comparison of housing units needing rehabilitation and units rehabilitated with CDBG funding assistance is shown in table 25 on page 63.

Table 25

A Comparison of Housing Needs and CDBG Assistance Provided

	Housing units needing assistance (note a)		Housing units provided some assistance (note b)		
	Owner-occupied	Rental	Owner-occupied	Rental	Public housing
Questionnaire respondents (note d)	1,267,464	1,709,086	232,673	181,338	Unknown
Case study cities:					
Pittsburgh	25,553	28,078	12,457	1,721	9,688
Dallas	9,700	21,300	794	0	105
Seattle	1,700	11,900	c/7,456	410	0
St. Louis	5,670	40,620	876	3,402	6,778

a/Housing units which can economically be rehabilitated.
b/Units assisted may not be those identified as needing assistance.
c/Most of the units (6,560) received minor CDBG assistance--about an average of $50 per unit.
d/Based on 424 responses. Between 58 and 75 respondents, however, responded that data was not available for one or more of these categories of information.

Rental units assisted by CDBG communities as shown in table 25 could be overstated in relation to need. In reporting need, the respondents did not include public housing units since HUD considers all public housing unit tenants to be adequately housed for reporting purposes. However, assistance provided does include public housing units. This can clearly be shown by looking at Pittsburgh's housing data. Investor-owned rental units represented 52 percent of Pittsburgh's housing rehabilitation needs and 48 percent of the units assisted when all rental units were included. When public housing units are excluded, only 12 percent of the private sector units rehabilitated were rental units--12,457 owner-occupied compared to 1,721 investor-owned rental units.

In another instance, one respondent city--Huntsville, Alabama --reported that it had allocated or spent $5.2 million to rehabilitate 304 owner-occupied housing units and nothing for rentals. Yet, rental units represented 42 percent of the total units needing rehabilitating and renters represented 88 percent of the households needing assistance. A similar situation occurred in Dallas where no investor-owned rental units were rehabilitated, yet 69 percent of the units needing rehabilitation were rentals.

Loans were the primary funding mechanism used

The respondents to our questionnaire and three of the four case study locations used CDBG funding in a wide variety of financing mechanisms to rehabilitate private rental housing. Loans, however, were the primary means. Nevertheless, few cities and counties used more than two financing methods. For example, public housing rehabilitation was generally financed by direct grants between the CDBG entitlement community and the local housing authority.

Of the 210 respondents who reported financing investor-owned rental rehabilitation with CDBG funds, 127 (60 percent) were using loans, usually full loans, to do so. In fact, 53 of 127 used nothing else but loans. In contrast, only 72 respondents (34 percent) used grants and 63 (30 percent) used interest subsidy payments. Except for one instance, loan guarantees were used with another financing method.

When financing methods were used in combination, the predominate combinations were (1) loans and interest subsidy payments, and (2) loans and grants. Loans and interest subsidy payments accounted for 17 of the 96 combinations and loans and grants were 14 of the combinations. Table 26 shows the financing methods CDBG communities used.

A further analysis of questionnaire responses showed that 152 CDBG entitlement communities (72 percent) used two or less financing methods to rehabilitate private rental units. Less than 10 percent used more than three financing methods.

Table 26

Types of CDBG Financing for Rental Rehabilitation

Financing method	Single use	Combinations	Total
	------(number of respondents)------		
Grants	29	43	72
Loans	53	74	127
Loan guarantees	1	26	27
Interest subsidy payments	16	47	63
Other	15	33	48

We found that when financing methods were used in combination:

--Grants were most likely combined with loans (33 percent), with interest subsidy payments (16 percent), and with loan/interest subsidy payments (14 percent).

--Loans were most likely combined with grants (19 percent), with interest subsidy payments (23 percent), and with other financing methods (19 percent).

--Loan guarantees were most likely combined with loans (23 percent) and with loan/interest subsidy payments (19 percent).

--Interest subsidy payments were most likely combined with loans (36 percent) and with grants (15 percent).

Of the 246 communities which reported that they rehabilitated rental housing, 90 provided us with detailed data on 22 housing interventions. 1/ Most of these interventions (82 percent) involved rehabilitating investor-owned, single and multifamily rental units. The remaining interventions involved public housing modernization and rehabilitation. Table 27 on page 66 shows the number of respondents using various financing methods to fund the two major housing activities.

1/Except where noted, all of the data to follow was provided by 90 cities and counties which responded to our detailed questions. Seventy-four respondents provided detailed data on 18 interventions involving rehabilitation of investor-owned rental units and 16 respondents provided detailed data on 4 interventions involving public housing modernization and rehabilitation.

Table 27

Types of Rental Financing Methods
Local Governments Used
Under CDBG (1975 to mid-1981)

	Respondents financing rehabilitation of investor-owned units with CDBG funds		Respondents financing rehabilitation of public housing units with CDBG funds	
Single financing methods	Number	Percent	Number	Percent
Full grants	1	1.0	10	62.5
Partial grants	9	9.5	4	25.0
Conditional grants	7	7.4	-	-
Full loans	28	29.5	1	6.3
Partial loans	9	9.5	-	-
Forgivable loans	2	2.1	-	-
Deferred loans	2	2.1	-	-
Loan guarantees	2	2.1	-	-
Equity participation loans	1	1.0	-	-
Interest subsidy payments	13	13.7	-	-
Grantee service	5	5.3	-	-
Other	1	1.0	1	6.3
Total	80	84.2	16	a/100.0
Combination financing methods				
Full loan/interest subsidy payments	3	3.2	-	-
Partial loan/interest subsidy payments	3	3.2	-	-
Conditional loan/ interest subsidy payments	2	2.1	-	-
Other combinations (3)	7	7.4	-	-
Total	15	15.9	-	-
Total	b/95	a/100.0	16	100.0

a/Does not add due to rounding.
b/Local officials representing 74 communities provided detailed data on 95 investor-owned rental rehabilitation interventions.

COMMUNITIES MAINLY ASSISTED LOW- AND MODERATE-INCOME RENTERS

Local officials which provided us with detailed data on their CDBG rental housing rehabilitation interventions reported that their programs were targeted to helping low- and moderate-income households and households living in substandard rental units. In addition, CDBG funding was frequently combined with Federal and private funds to provide the needed assistance.

A discussion of investor-owned rental rehabilitation activities

As mentioned, most of the interventions (82 percent) involved rehabilitating investor-owned rental units. About 51 percent of the respondents did not identify the total number of units assisted or the income and/or race of the tenant households assisted. Local officials that did provide detailed data, however, reported that

--94 percent of the housing interventions (and 91 percent of the funding) were targeted to low- and moderate-income families and/or to substandard housing units;

--over 94 percent of the renter households assisted had low- or moderate-incomes and 51 percent were nonwhite; and

--44 percent of the housing interventions involved non-CDBG funding, primarily private and other Federal funds.

Rental housing interventions were highly targeted

Effective targeting enhances the impact of rental rehabilitation efforts by directing programs to those in greatest need. Therefore, we asked communities if they used targeted neighborhoods, substandard housing conditions, or tenant incomes as eligibility criteria. Communities reported that they used at least one of the three criteria on 93 of 95 interventions (98 percent)--substandard housing conditions (81 percent), targeted neighborhoods (77 percent), and tenant incomes (51 percent). In fact, 82 percent of the interventions were targeted by more than one eligibility criteria. Table 28 on page 68 shows the number of housing interventions by targeting criteria.

Table 28

Number of Interventions by Targeting Criteria

Targeting criteria	Number of interventions	Percent
Specific area (A)	5	5.3
Substandard housing conditions (B)	6	6.3
Tenant income (C)	4	4.2
Combinations A, B, and C	27	28.4
Combination A and B	34	35.8
Combination A and C	7	7.4
Combination B and C	10	10.5
Total	93	97.9
None	2	2.1
Total	95	100.0

Of the 95 interventions, 48 (51 percent) had income eligibility criteria, which in 90 percent of the cases was HUD's section 8 income criteria. Section 8 income limits are 80 percent of the area's median income adjusted for family size. HUD considers household incomes that are 80 percent or below the area's median as being low- and moderate-income households. Therefore, almost 50 percent of the interventions restricted the activity to low- and moderate-income households.

The case study locations also used targeting mechanisms in combination. For example, Pittsburgh had a citywide rental rehabilitation program which required that rehabilitated units be occupied by a household meeting section 8 criteria. Such criteria was waived if the rehabilitated unit was located in depressed areas of the city. Whereas, Seattle also had a citywide program, it was usually tied to the section 312 program. Section 312 criteria restricts rehabilitation work to specific areas within the locality.

Our analysis showed that 91 percent of the rental rehabilitation funding assisted low- and moderate-income renters. Thus, it would appear that program targeting other than by income, can effectively target housing assistance to low- and moderate-income households since only 51 percent of the interventions were targeted by income.

Low- and moderate-income households benefited the most from CDBG interventions

As pointed out in the previous section, rental housing rehabilitation interventions were heavily targeted. Therefore, it comes as no surprise that local officials reported that most of the households they assisted were either low- or moderate-income. The case study locations, however, had little data supporting characteristics of households which were assisted.

Local officials reported that, during the last activity year, 2,647 renter households were assisted using the 95 housing interventions. They provided income data on 1,410 households which showed that about 94 percent of the households had low to moderate incomes. Data by race was available for 1,597 households of which 51 percent of the assisted households were nonwhite.

The case study locations had little data concerning the characteristics of tenants occupying CDBG rehabilitated rental units. For example, Pittsburgh financed the rehabilitation of 800 rental units but did not have demographics on tenants occupying the units. Likewise, Seattle rehabilitated 410 units and had no tenant demographics.

CDBG funding was often combined with other funding

Local officials reported that substantial non-CDBG funding was combined with CDBG financing. Private funds were the primary non-CDBG funding source. Several of the case study locations also had substantial non-CDBG funding interventions.

Local officials representing 74 communities provided detailed data on 95 investor-owned rental rehabilitation interventions. Total funding for these interventions in the last activity year was $19.7 million of which $12.6 million (64 percent) was provided by CDBG. Of the 95 interventions, 53 (56 percent) were totally funded by CDBG and accounted for 1,666 (63 percent) of the 2,647 rental households or units assisted. Private funds were the primary source of non-CDBG funds used to rehabilitate investor-owned rental properties. In fact, 33 of the 95 rental rehabilitation interventions involved some private financing. The median private funding share of rehabilitation costs on these 33 interventions was 67 percent of the total costs. The only other significant funding source was other Federal programs. Of the 95 interventions, 8 had some Federal funds other than CDBG, with the median Federal share being 44 percent of rehabilitation costs.

The reported Federal cost-sharing may be understated because when we asked local officials, "in addition to CDBG funds, which (if any) of the following Federal housing programs are used to help finance this activity," they reported that 59 of the 95 interventions involved other Federal programs. In contrast, cost-sharing percentages were reported for only eight interventions. Table 29 on page 70 shows what Federal programs were reported as (1) being used with the 59 CDBG funded housing interventions and (2) providing cost-sharing for 8 interventions.

Table 29

Federal Programs Involved With CDBG Rental Rehabilitation Interventions

Federal program	Number of responses: Federal involvement	Participation in cost
Section 312	24	4
Section 8 existing	28	-
Section 8 rehabilitation	21	4
Other	18	5
Total	a/91	b/13

a/Involved 59 interventions, which may or may not include funding.
b/Involved 8 interventions.

Part of the reason for the inconsistency is that housing interventions were tied to the section 8 program. This program provides only rental assistance payments to tenants and not financing for rehabilitation. Most likely, some of the CDBG funded rehabilitated rental units are being occupied by tenants receiving section 8 rental assistance payments.

However, a similar conclusion cannot be drawn for the section 312 rehabilitation program. This program funds rehabilitation cost and should have been shown as participating in cost. A possible explanation is that the cities and counties showed Federal programs which were also involved in rental rehabilitation activity but not in "this particular CDBG activity."

Two of the case study locations illustrate the involvement of non-CDBG financing. For example, St. Louis spent $54.3 million to to rehabilitate 1,597 rental units. Financing was provided by a Federal program other than CDBG ($28.2 million), private funds ($12.7 million), CDBG ($7.9 million), and the State ($5.5 million).

At another location--Seattle--$3.2 million was spent on rental rehabilitation of which $793,000 was section 312 funds and $235,000 was private funds. The latter two funding services were combined with $86,000 in CDBG funds to rehabilitate 59 rental units. The remaining CDBG funds (about $2.1 million) totally financed rehabilitation of single-room units--units in which tenants shared kitchens and and bathrooms.

Costs per unit

It was not possible to determine per unit rehabilitation costs from the questionnaire results since communities reported the average loan or grant which financed rehabilitation of multifamily units. However, data obtained from case study locations provide some insight.

The three case study locations which were financing investor-owned rental rehabilitation showed significantly different cost data. Pittsburgh's per unit rental rehabilitation costs were relatively similar to its owner-occupied units--$7,680 rental costs compared to $6,605. Seattle's owner-occupied rehabilitation costs were substantially higher than rental costs--$9,742 compared to $5,900. The cost difference was probably due to the nature of the rental units. Seattle's primary rental rehabilitation program financed the rehabilitation of single-room units. Such costs should be lower than rehabilitating larger private units.

St. Louis showed the most significant difference between rental and owner-occupied rehabilitation costs. Owner-occupied rehabilitation costs averaged about $3,600 in contrast to rental unit costs of over $34,000. Part of the cost difference was due to the poor condition of the city's rental housing stock.

Several cities are using CDBG financing to modernize public housing

Public housing modernization and rehabilitation activities were substantially less than owner-occupied and rental housing rehabilitation activities. Nevertheless, several respondents were devoting substantial CDBG resources to public housing.

Overall, 90 respondents reported that they allocated CDBG funds totaling $95 million for public housing modernization and rehabilitation. The median allocation was $210,500, with 16 respondents allocating $1 million or more. Of the 90 respondents, 16 provided us with the following detailed data.

--2,755 public housing units were assisted using CDBG funds totaling $6 million. Most of the units (2,693) were assisted in the last year the activity was funded.

--4 of the 16 respondents reported combining CDBG funds with HUD's public housing modernization program funds. CDBG's share ranged from 5 to 50 percent.

--10 of the 16 respondents reported some coordination with other Federal housing programs--primarily HUD's public housing programs.

All four case study locations allocated CDBG funds totaling $1 million or more for public housing modernization and rehabilitation. One location--St. Louis--allocated $17.7, million, making the program the second largest of all the questionnaire respondents and case study locations. Only Washington, D.C., had a larger ($21.6 million) CDBG-financed public housing program.

Between 1975 and 1981, Pittsburgh received $26.4 million from HUD to modernize its 9,688 public housing units. The city also allocated CDBG funds totaling $6.7 million to support the modernization effort. About 71 percent of CDBG funds were used on 1,984 housing units in 3 of the 19 public housing projects in Pittsburgh. Activities funded included a complete modernization of one project ($1.3 million), 1/ conversion of a dwelling unit to a recreation center ($0.8 million), and replacement of windows ($0.8 million), roofs ($0.9 million), and utility distribution systems ($0.6 million).

At another case study location--Seattle--the city allocated over $5 million to finance the acquisition and rehabilitation of existing city housing for public housing. Most of the acquisition and rehabilitation costs will be financed by HUD's Scattered Site Public Housing Program. CDBG funding financed the difference between HUD's cost allowances on these low-income public housing projects and the actual cost of developing the units. The city's CDBG allocation was based on an average of $4,000 difference per unit.

NEW CONSTRUCTION AND OTHER RENTAL ACTIVITIES WERE LIMITED

New construction and other rental activities have not received as much attention as rental rehabilitation activities. Accordingly, very little detailed data was reported by the sample group.

Although new construction activities are generally restricted by the CDBG regulations, a limited number of communities reported financing the construction of multifamily housing for rental to lower income families. About 7 percent reported financing construction of multifamily rental housing for nonprofit groups and for local housing authority management. Also, about 6 percent reported financing construction of investor-owned, multifamily rental housing. The most frequent finance method used to construct multifamily rental housing was partial grants. Since very few locations financed construction activities, the data provided was not sufficient enough to make a detailed analysis on costs and beneficiaries.

A limited number of communities also financed other rental activities. Our survey indicated that:

--Twelve percent financed the weatherization of multifamily housing, primarily with full and partial grants and loans.

--Ten percent financed the conversion of rental units to facilitate access by the elderly or handicapped, primarily with full grants.

1/See photograph on page 74.

--Eight percent financed the acquisition, rehabilitation, and resale of multifamily housing, primarily with full, partial, and conditional grants and partial loans; and

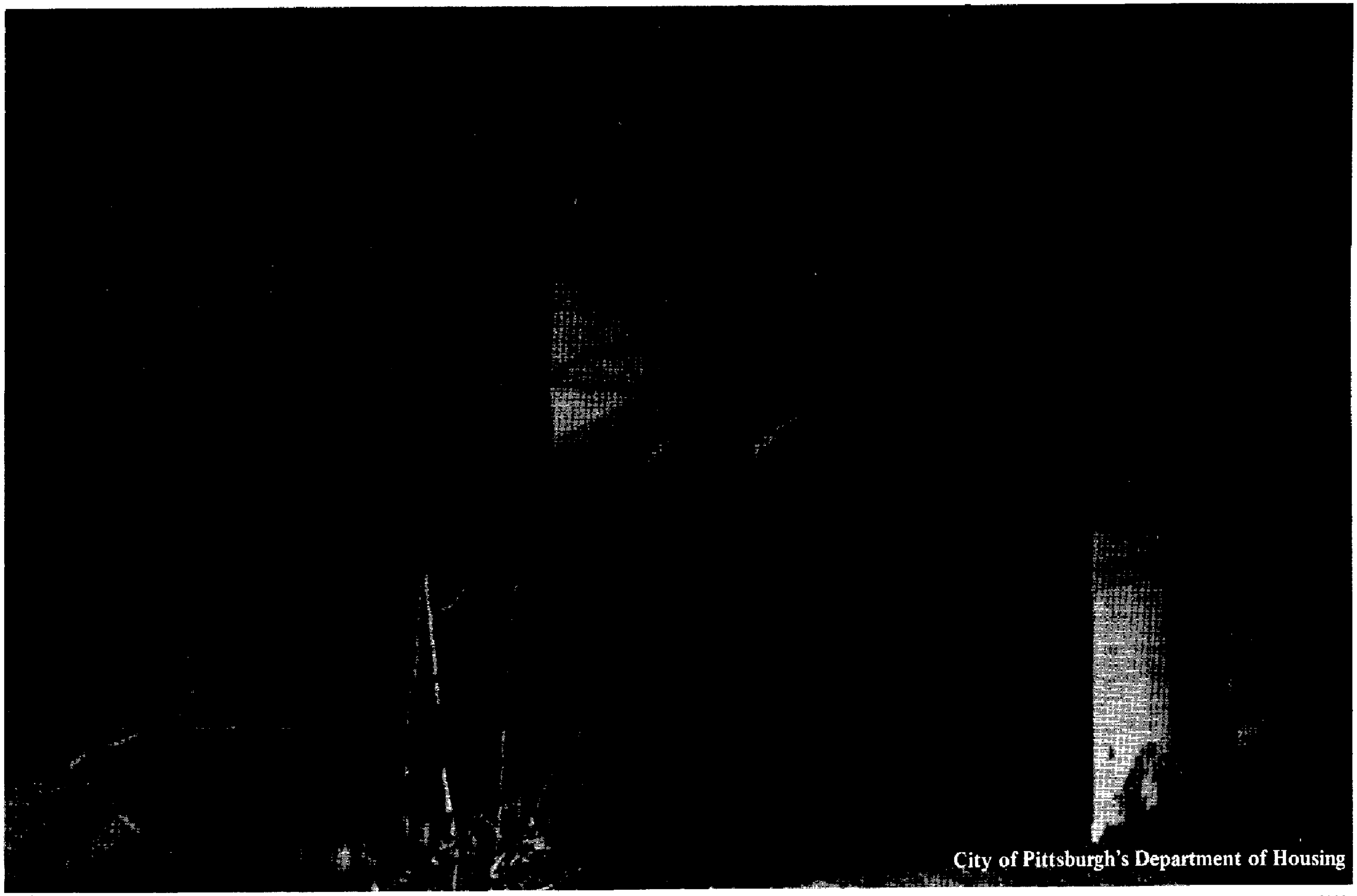
--Three percent financed the purchase of multifamily housing for local housing authority management, primarily with full and partial grants.

MANY COMMUNITIES DID NOT PROVIDE TENANT DEMOGRAPHICS

Local officials responding to our questionnaire and case study locations often did not report how many rental units have been assisted and/or tenant characteristics. Without such data, we do not believe that CDBG entitlement cities and counties can adequately determine how effective their housing interventions are nor what housing and tenant needs still remain to be done.

In response to our question "How many renter housing units has your city/county assisted under the CDBG program?" 75 of the 424 respondents did not identify how many renter housing units were assisted. The renter identification problem is probably greater because 102 of the 355 cities and counties reported that no renter housing units were assisted. Therefore, if the 102 cities and counties were deleted, the nonresponse rate would be at least 23 percent (75 out of a possible 322 locations).

In providing detailed data about tenants occupying CDBG-assisted rental units, respondents also disclosed weaknesses in identifying tenant's income and race. Overall, only 36 of 74 (49 percent) cities and counties could provide us with either data on units assisted, tenant's income, or race.



THREE ADJACENT BUILDINGS WERE COMPLETELY RENOVATED TO CREATE THIS 36-UNIT PROJECT. HUD MODERNIZATION FUNDS PROVIDED $275,000 AND CDBG CONTRIBUTED $1.3 MILLION TOWARD RENOVATION.

CHAPTER 5

ATTITUDES OF LOCAL HOUSING OFFICIALS

TOWARD A HOUSING BLOCK GRANT PROGRAM

This chapter presents information on the attitudes of local government housing officials toward a housing block grant program. The key questions we presented to these officials were whether existing housing programs should be consolidated into a block grant and, if so, what form should the block grant take. Responses to our questionnaire indicate that these officials mainly support the block grant concept if Federal funds for housing increase. Support for the concept decreases significantly if Federal funds are assumed to decrease--a distinct possibility because of current political sentiment.

We also found that the majority of the local housing officials believe that:

--Housing assistance to low- and moderate-income families living in substandard housing should be a primary goal.

--Federal funding should be allocated by an "entitlement formula" with objectively measurable indexes.

--Most Federal housing subsidy programs should be included in an overall block grant.

--Housing assistance should be highly targeted to various household groups.

--A long-term, all purpose block grant program would be most beneficial.

We sent our questionnaire to 133 randomly selected communities (115 cities and 18 urban counties) entitled to receive assistance under the CDBG program. We requested that the local housing official responsible for administering housing activities under the CDBG program complete the questionnaire. We received and analyzed 100 questionnaires. The overall responses to each question are shown in our supplement to this report.

We analyzed the responses by using four major analysis categories--the type of community, its population size, whether its population had grown or declined, and its geographic location. We received 100 responses from local officials representing (1) 83 entitled cities and 17 entitled urban counties, (2) 79 communities with populations of less than 250,000, 15 with populations of 250,000 to 499,999, and 6 with populations of 500,000 or more, (3) 58 communities that had increases in population during the last 10 years and 42 with declining populations, and (4) 31 Northeastern communities, 18 North-Central communities, 31 South communities, and 20 West communities.

THE EXTENT OF FEDERAL FUNDING DICTATES THE LEVEL OF LOCAL SUPPORT FOR A BLOCK GRANT

Whether Federal funds for housing increase, decrease, or remain the same strongly influences the level of support by local housing officials for a block grant program. Specifically, we found that:

--The strongest showing of support for a block grant exists when the local officials assumed Federal funds would increase. In fact, 73 percent were strongly in favor (greatly or very greatly prefer) of a block grant under this assumption.

--Support begins to erode when the officials assume funding levels remain constant. Under this assumption, 37 percent strongly favor a housing block grant.

--Local support for a block grant markedly deteriorates when Federal funds are assumed to decrease. Over half of the local officials stated that they would not at all prefer a block grant.

The last point is perhaps the most significant. While Federal funds for housing have historically increased, the current administration is proposing to reduce Federal subsidies. This may have affected the local officials' responses.

We asked each local housing official to what extent their community would prefer that the Congress consolidate most of the present categorical Federal housing programs into a housing block grant program if Federal funds received by the community were to either increase, remain the same, or decrease. Table 30 on page 77 shows the percent of local officials preferring a housing block grant program under different funding levels.

Table 30

Percent of Local Housing Officials Preferring a Housing Block Grant Program Under Different Funding Levels
(percent based on 100 responses)

Level of preference	Level of Federal funding: Funds increase	Funds remain the same	Funds decrease
	--------------	(percent)	--------------
Not at all prefer	4	16	52
Somewhat or moderately prefer	23	47	16
Greatly or very greatly prefer	73	37	32
Total	100	100	100

Table 31 on page 78 shows how the various types of communities responded to our question. Specifically, it shows that the support for a housing block grant generally erodes as Federal funds decrease in all kinds of communities regardless of size, change in population, geographic location, or designation as a city or county. Communities with populations over 500,000, however, generally supported a housing block grant under all funding levels.

Table 31

Analysis of Local Housing Officials Indicating Strong Preference for Housing Block Grants (note a)

Community categories b/	Funds increase	Funds remain the same	Funds decrease
	(percent)		
Community type:			
City (83)	67	31	28
Urban county (17)	76	53	41
Population size:			
Less than 250,000 (79)	67	33	28
250,000 to 499,999 (15)	73	33	27
500,000 or more (6)	83	67	67
Population growth/ decline area:			
Growth area (58)	67	38	33
Decline area (42)	71	31	26
Geographic region:			
Northeast (31)	81	42	32
North Central (18)	61	28	28
South (31)	68	35	29
West (20)	60	30	30

a/Strong preference, strong support, etc., is used throughout this report to indicate those respondents that had a great or very great preference.

b/The number in the ( ) under each community category represents the total number of responses.

HOUSING ASSISTANCE TO LOW- AND MODERATE-INCOME FAMILIES WOULD LIKELY BE EMPHASIZED UNDER A HOUSING BLOCK GRANT PROGRAM

A major concern with a housing block grant program is whether many of the Federal Government's housing-related goals would be addressed if Federal direction were eliminated. Federal legislative and administrative actions have set forth a variety of housing goals over the years, including, among others, promoting homeownership, improving housing for the poor, and developing the Nation's neighborhoods. Concern has been expressed that, without Federal requirements, assistance for low-income families and some other groups may be hindered under a "no-strings" housing block grant program.

To address this issue, we asked local housing officials to consider 15 major housing objectives. We asked them which objectives their communities would likely emphasize under a block grant program if Federal funds received by their communities were to increase, remain the same, or decrease. While each of the 15 objectives was selected by at least one respondent as a high priority, we found that the most favored objectives would be (1) assisting low- and moderate-income households living in substandard housing and (2) improving the quality of blighted and deteriorated neighborhoods. To a lesser extent, local officials would emphasize increasing the total available supply of decent quality housing units. The overall responses for each objective under the different funding levels is shown in question 24 of the local attitudes questionnaire in our supplement to this report.

By far, the most important housing objective was helping low- and moderate-income households living in substandard housing. Regardless of the future level of Federal funding, almost two-thirds of the respondents stated that it would be either their first, second, or third priority objective. In fact 40 to 44 percent of the respondents listed helping low- and moderate-income households living in substandard housing as their first priority. Our analysis of these responses shows that this objective would be the number one objective for both cities and counties, communities in growth and decline situations, all population size groups, and all geographic regions.

The second most favored housing objective was improving the quality of blighted and deteriorated neighborhoods. From 45 to 52 percent of the respondents--depending on the funding level--indicated that improving the quality of neighborhoods would be a priority housing objective. Twelve to 14 percent of the respondents listed it as their first priority. Our analysis of these responses shows that the largest level of support for this objective generally came from cities, communities with populations of less than 250,000, and the Northeast and South.

Besides the two housing objectives mentioned above, only two other objectives were listed by more than one-fourth of the respondents as being one of their three major housing objectives. Both of these objectives are tied to new construction. The two objectives were (1) increasing the total supply of decent quality rental units and (2) increasing the total supply of decent quality owner housing units. The first objective was listed as a priority by 30 to 34 percent of the respondents, depending on the funding level, with 6 to 11 percent listing it as their first priority objective. The second objective was listed as a priority by 24 to 32 percent of the respondents, depending on the funding level, with 5 to 6 percent listing it as their first priority objective.

AN ENTITLEMENT FORMULA IS DESIRED TO DISTRIBUTE BLOCK GRANT FUNDS

HUD often uses distribution formulas to allocate Federal funds. These formulas describe various mathematical relationships or sets of relationships, specifying each eligible recipient's share of a given amount of Federal aid. Almost all (97 percent) of the local officials believed that an entitlement formula would be needed under a housing block grant program. In fact, only three respondents indicated that the block grant entitlement amount should be allocated on some basis other than a formula. At least two of these respondents, however, still indicated it was important to consider various entitlement formula factors.

Entitlement formula precedents

This section discusses three funding formulas HUD uses under housing and community development programs--the CDBG entitlement dual formula, the section 312 distribution formula, and the Fair Share formula.

The dual formula used to distribute CDBG funds offers a model for measuring housing needs in rather broad terms, making it potentially applicable for a general purpose housing block grant. The original CDBG formula was based on population, poverty (weighted twice), and the extent of overcrowded housing. However, to assure ease of transition to CDBG from the categorical programs which it replaced, a "hold harmless" provision provided funding above the formula entitlement levels to communities which had participated extensively in the prior categorical programs. The hold harmless entitlements were phased-out in 1980.

Concern developed that allocations based solely on the original formula would cause a substantial reduction in funding for cities experiencing substantial physical deterioration. These tended to be larger and older cities, especially those in the Northeast and North-Central regions. In response to this concern, a second entitlement formula was developed in 1977. It is based on population growth (weighted 20 percent), poverty (weighted 30 percent), and age of housing (weighted 50 percent). The entitlement received by communities is the greater of the amounts computed under the original formula or the 1977 formula.

The section 312 distribution formula is used to distribute funds for a specialized purpose--housing rehabilitation. Under this system, HUD headquarters first calculates a formula amount for each HUD field office based on (1) community development and housing needs, (2) the local priority for rehabilitation, and (3) the local capacity to rehabilitate housing with section 312 funds. Each of the three factors receives equal weight in determining the field office amounts. Using the same indicators, each HUD field office then performs its own formula distribution, assigning target allocations to communities within its jurisdiction. The target allocations may be adjusted on the basis of local communities' performance in meeting priority objectives.

The Fair Share formula, based on statutorily-prescribed criteria contained in section 213 (d) of the Housing and Community Development Act of 1974, has been used to distribute contract authority under both the section 8 and public housing programs. The basic criteria used in this formula are also applicable to the distribution of any funds available under sections 235, 236, 202, and rent supplement programs. The formula is unique because of its small-area coverage and because it defines need basically in terms of rental housing. The factors used in this allocation formula include 1975 population data, extent of poverty, housing lacking plumbing facilities, extent of overcrowded housing, vacancy deficits, and renters with problems such as spending more than 25 percent of their incomes for housing expenses.

Importance of entitlement formula factors under a housing block grant program

We asked local housing officials how important it would be to have certain specific factors in any formula used for allocating entitlement amounts to eligible areas under a housing block grant program. The specific factors we identified and the replies we received are shown in table 32 on page 82.

Table 32

Level of Importance of Entitlement Formula Factors Under a Housing Block Grant Program (percent based on 100 responses)

Entitlement formula factor	Not at all important	Somewhat or moderately important	Greatly or very greatly important	Missing responses or no basis to judge
	(percent)			
Current population	2	46	51	1
Poverty	1	20	76	3
Overcrowded housing	0	42	55	3
Substandard housing	0	10	89	1
Number of households needing housing assistance	0	8	88	4
Vacancy rate	7	44	43	6
Age of housing	4	42	52	2
Population growth/ decline	6	38	53	3
Unemployment	7	41	48	4
Construction costs	10	44	41	5
Cost of living	7	38	50	5
Per capita income	5	50	40	5
Local capacity to use funds	6	47	45	2
Local capacity to plan and implement housing activities	4	32	61	3

While none of the 14 factors was generally considered to be of no importance, only three factors were considered to be of great or very great importance by more than three-fourths of the officials. These were the extent of substandard housing (89 percent), the number of households needing housing assistance (88 percent), and the extent of poverty (76 percent). Other factors considered to be of great or very great importance by between 50 and 75 percent of the local officials included the communities' capacity to plan and implement activities (61 percent), the extent of overcrowded housing (55 percent), the changes in population (53 percent), the age of housing (52 percent), the communities' current population (51 percent), and the cost of living in the community (50 percent).

There was very little difference in the level of importance of the entitlement formula factors among cities and counties, population size groups, population growth and decline areas, and geographic regions. Our analysis showed that 67 percent of the communities with populations of 500,000 or more indicated that the substandard housing factor was greatly or very greatly important. Also, 55 percent of the communities in the West indicated that the poverty factor was greatly or very greatly important. Moreover, 80 percent of the local officials representing communities with populations between 250,000 and 499,999 and 71 percent of the entitled counties indicated that the current population factor was greatly or very greatly important. Fifty-seven percent of the areas with declining population and 50 percent of those with population growth indicated that the population growth/ decline factor was greatly or very greatly important.

The responses of the communities in the Northeast and North-Central regions, which were the regions of primary concern in adopting a dual formula approach under the CDBG program, were somewhat surprising. As previously noted, the second CDBG entitlement formula is based on poverty, population growth lag, and age of housing. Although the communities in the Northeast and North-Central regions had a high response rate for the poverty factor, only 68 percent and 55 percent of the communities in the Northeast region and only 44 percent and 39 percent of the communities in the North-Central region indicated that the age of housing and population growth/decline factors, respectively, were greatly or very greatly important.

LOCAL HOUSING OFFICIALS WANT MOST FEDERAL HOUSING PROGRAMS CONSOLIDATED INTO A HOUSING BLOCK GRANT PROGRAM

One of the major issues in the design of a housing block grant program is the selection of eligible activities which can be funded under the program. Because the objective of a housing block grant is to provide maximum flexibility in program design to recipient jurisdictions, it has been argued that any list of eligible activities is potentially limiting and that a housing block grant should instead assert that any activity demonstrably connected to the housing objectives of the program should be inferred to be eligible. On the other hand, many observers agree that some list of eligible uses is desirable to reduce the risks of uneven interpretation by localities.

Our questionnaire respondents indicated that--as a group--most Federal categorical housing programs should be consolidated into a housing block grant program. The respondents also indicated, however, that it would be very important for a housing block grant program to include rehabilitation activities, particularly rehabilitation of owner-occupied, single-family housing, and other specific activities.

Which programs should be consolidated?

We provided local housing officials a list of 18 existing categorical Federal housing programs 1/ and asked them which programs should not be consolidated into a housing block grant program. Only one program--the Urban Development Action Grant Program--was cited by a majority of officials as a Federal program that should not be consolidated. The Federal programs receiving the strongest support for consolidation were the Urban Homesteading program, the Rehabilitation Loan program (section 312), and the Lower Income Rental Assistance (section 8-existing, rehabilitation, and new construction) programs. Generally, the mortgage insurance programs received less support for consolidation than the other Federal programs. The results of this question are shown in table 33 on page 85.

As shown in table 33, over two-thirds of the respondents indicated strong support for consolidating 7 of the 18 Federal housing programs. Further, 50 percent or more of the respondents favored consolidating all the Federal housing programs, except the Urban Development Action Grant Program. For this program, 35 percent of the respondents indicated that it should be consolidated into a block grant program. Generally, there were only slight differences in the responses for most Federal housing programs, regardless of the type of community, population size groups, population growth and decline areas, and geographic regions.

1/These programs are described in app. I.

Table 33

Respondents Favoring Consolidation of Federal Housing Programs Into a Housing Block Grant Program (percent based on 100 responses)

Federal housing programs	Percent favoring consolidation
Section 8 Rehabilitation	78
Urban Homesteading	77
Section 8 New Construction	75
Section 312 Rehabilitation Loan	75
Section 8 Existing	73
Section 202 Direct Loan for Elderly and Handicapped	68
Low Income Public Housing	67
Public Housing Modernization	62
Flexible Subsidy (public housing troubled projects)	62
FmHA Section 515 Rental Housing	61
Section 236 Mortgage Insurance	60
Title I Home Improvement Loan Insurance	59
FmHA Section 502 Homeownership	59
Section 235 and 235 Revised Mortgage Insurance	58
Public Housing Operating Subsidy	54
Section 221(d)(2) Mortgage Insurance	50
Section 221(d)(3) and (4) Mortgage Insurance	50
Urban Development Action Grant	35

Representatives from the staff of the U.S. Conference of Mayors and the National League of Cities told us that some of this information was inconsistent with the views held by locally elected officials. According to the representative from the Conference, local mayors have indicated that they do not want the responsibility for public housing because

--public housing has been a committment made by the Federal Government to lower income households;

--the Federal funding support system for public housing is a "bankrupted" system that the cities have no desire to inherit; and

--the public housing program could potentially absorb a majority of, if not all, local housing funds.

Importance for a block grant program to include rehabilitation and other specific activities

We also provided local housing officials a list of 25 specific housing activities and asked them how important it would be for a housing block grant program to include each of several specific housing activities. Overall, there were only seven specific activities that a majority (above 50 percent) of the respondents indicated would be greatly or very greatly important to include under a housing block grant program, including rehabilitation and other activities such as emergency repairs and weatherization. The overall results of this question are shown in question 26 of the local attitudes questionnaire in the supplement. Table 34 shows the results for the seven housing activities considered very important to include under a housing block grant program.

Table 34

Housing Activities Considered Important To Include Under a Housing Block Grant Program (percent based on 100 responses)

Housing activities	Not at all important	Somewhat or moderately important	Greatly or very greatly important	Missing responses or no basis to judge
	(percent)			
Rehabilitation of owner-occupied, single-family housing	2	7	90	1
Weatherization of single-family housing	5	24	71	0
Rental assistance to low- and moderate-income families	5	25	69	1
Weatherization of multifamily housing	5	31	64	0
Emergency repairs	5	32	61	2
Rehabilitation of investor-owned, multifamily housing	6	33	60	1
Site acquisition and clearance for construction of housing	12	34	53	1

For the two rehabilitation activities shown in table 34, there were only slight differences in the responses, regardless of the type of community, population size groups and decline areas, and geographic regions. Except for the North-Central region, a majority of the local housing officials from each analysis category considered it very important to include both of these rehabilitation activities.

Overall, less than a majority of the local housing officials indicated that it would be greatly or very greatly important to include other rehabilitation and construction activities under a housing block grant program. Our analysis of these responses, however, shows that several of these rehabilitation and construction activities were considered very important to include by a majority of the officials from specific analysis categories. For example, a majority of the local housing officials from

--entitlement cities, communities with populations less than 250,000, and communities in the South consider it very important to include rehabilitation or modernization of local housing authority multifamily housing;

--communities in the South and communities with populations between 250,000 and 499,999 consider it very important to include rehabilitation of investor-owned, single-family housing;

--communities with populations of 500,000 or more, communities in the West, and population growth areas consider it very important to include construction of multifamily housing for local housing authority management; and

--entitlement counties, communities with populations of 250,000 or more, and communities in the West consider it very important to include construction of investor-owned, multifamily rental housing.

On the other hand, two of the four activities that one-third or more of the officials indicated would not be at all important to include under a housing block grant program were construction activities--construction of investor-owned, single-family rental housing (41 percent said that it was not important) and construction of single-family housing for local housing authority management (39 percent said that it was not important).

LOCAL HOUSING OFFICIALS WANT HOUSING ASSISTANCE TARGETED TO VARIOUS HOUSEHOLD GROUPS

The concept of targeting is, simply put, providing housing assistance to various groups with specific characteristics, such as living in poverty or in overcrowded houses. One of the most controversial issues confronting a housing block grant is the balance needed between maximum local flexibility and the national interest of assuring that lower income households have access to housing. Under the CDBG program, for example, targeting requirements were imposed in response to concerns that not enough program funds were benefiting the poor. Some critics claim that the program has become increasingly encumbered with Federal program rigidities which interfere with effective local use of funds. In fact, recent CDBG program changes have been designed to eliminate this rigidity.

To provide insight into this area, we asked local housing officials how important it would be, under a housing block grant program, to target eligible housing assistance activities to various groups by household type, needs, and income levels. Overall, local housing officials indicated that a housing block grant program should be highly targeted.

By household type, 77 percent of the local housing officials stated that it would be greatly or very greatly important to target assistance to elderly households, 62 percent stated it would be greatly or very greatly important to target assistance to large family (5 persons or more) households, and 55 percent stated it would be greatly or very greatly important to target assistance to small family (1 to 4 persons) households. This attitude was generally the same for each of the four analysis categories. Table 35 summarizes the responses on the importance of targeting assistance under a block grant program to household type groups.

Table 35

Targeting Assistance by Type of Household
Under a Housing Block Grant Program
(percent based on 100 responses)

Household type	Not at all important	Somewhat or moderately important	Greatly or very greatly important	Missing responses or no basis to judge
	(percent)			
Elderly	5	16	77	2
Small family (1 to 4 persons)	6	37	55	2
Large family (5 persons or more)	5	31	62	2

By household needs, 91 percent of the local housing officials stated that it would be greatly or very greatly important to target assistance to households living in substandard housing. Only 59 percent, however, indicated it would be greatly or very greatly important to target assistance to households paying an excessive proportion of their incomes for housing expenses, and only

55 percent indicated that it would be greatly or very greatly important to target assistance to households living in overcrowded housing. Table 36 below summarizes the responses on the importance of targeting assistance under a block grant program to household need groups.

Table 36

Targeting Assistance to Households Needing Assistance Under a Housing Block Grant Program (percent based on 100 responses)

Type of need	Not at all important	Somewhat or moderately important	Greatly or very greatly important	Missing responses or no basis to judge
	(percent)			
Living in sub-standard housing	1	5	91	3
Living in over-crowded housing	4	39	55	2
Paying an excessive proportion of their incomes for housing expenses	3	34	59	4

By household incomes, 92 percent of the local housing officials stated that it would be greatly or very greatly important to target assistance to low-income households, and 75 percent stated the same for moderate-income households. However, only 10 percent stated that it would be greatly or very greatly important to target assistance to middle-income households, and only 1 percent supported targeting assistance to upper-income households. In fact, 77 percent of the officials stated that it would not be important at all to target assistance to upper-income households. The strongest support for targeting assistance to middle-income households came from communities with populations between 250,000 and 499,999 (27 percent), entitled counties (23 percent), and communities in the Northeast region (19 percent). In addition, communities with populations between 250,000 and 499,999 favored targeting assistance to moderate-income households (100 percent) over low-income households (93 percent). On the other hand, only 50 percent of the communities with populations 500,000 or more favored targeting assistance to moderate-income households. Table 37 on page 90 summarizes the responses on the importance of targeting assistance under a block grant program to household income groups.

Table 37

Targeting Assistance by Household Income Groups
Under a Housing Block Grant Program
(percent based on 100 responses)

Household income groups	Not at all important	Somewhat or moderately important	Greatly or very greatly important	Missing responses or no basis to judge
	(percent)			
Low income	0	3	92	5
Moderate income	0	20	75	5
Middle income	17	68	10	5
Upper income	77	15	1	7

The high percentage of local housing officials indicating that assistance under a housing block grant program should be targeted to low- and moderate-income households and households living in substandard housing is consistent with the most important housing objective these officials stated they would likely emphasize under such a program. As previously noted, almost two-thirds of the officials stated that the most important housing objective was helping low- and moderate-income households living in substandard housing.

A LONG-TERM, ALL PURPOSE HOUSING BLOCK GRANT IS SEEN AS HAVING THE GREATEST BENEFIT

One of the major issues in designing a housing block grant program is the nature of spending authority to be allowed. The current method for providing spending authority for subsidized housing is to "obligate" (earmark) funds for all estimated program costs at the time that housing projects are initially approved, but to spread out the payments against these obligations over a period of 15 to 40 years. Other approaches include having (1) budget authority intended for short-term use, as is done in the CDBG program and (2) budget authority with flexibility over the expenditure time period.

It is important to understand that any allocation scheme for spending authority would create a bias in favor of some types of housing subsidies. For example, the allocation mechanism will likely affect the flexibility localities have in choosing between new construction programs or relying on existing housing stock. Programs oriented toward building new houses require assured funding over a considerable period of time to be effective. Without long-term spending authority, subsidies would have to take the form of a relatively large lump sum payment to "write down" costs at the outset to interest developers to construct projects. This reduces the number of units to be assisted in any one year. Therefore, with short-term spending authority localities will likely rely on existing housing stock.

Below are brief descriptions of four alternative models. Each has been identified as having potential to be the basis for a housing block grant program. Each model considers not only the type of spending authority, but housing delivery mechanisms as well. Furthermore, the division of responsibility between Federal and local control over the mix of resources for income maintenance, housing conservation, and housing production are addressed in each of these models. The models are:

--A long-term, all purpose housing block grant. This model would provide budget authority (the authority provided by law to enter into obligations that will result in immediate and future outlays involving Federal Government funds) to eligible areas for use in a wide range of housing activities. Localities would plan for multiyear expenditure of funds obligated in any one year. These plans would be subject to Federal control either through contract authority (statutory authority that permits obligations to be incurred in advance of appropriations for the payment of such obligations) or percentage caps on annual outlays. Under this model, each eligible area would be responsible for determining the mix of resources and the method of delivery.

--A short-term, all purpose housing block grant. This model is similar to the long-term housing block grant model, except that program funding would be for a shorter time period. Each eligible area would be responsible for determining the mix of resources and the method of delivery.

--Allocating budget authority under current programs. In this model, some or all of the current housing subsidy programs would continue to be funded. Eligible areas would be informed of their formula allocation of budget authority and could choose from a range of existing federally administered programs. This model would defer to each eligible area the responsibility of selecting a mix of those Federal programs considered appropriate to meet local housing needs.

--A limited purpose housing block grant. This model differs from the preceding models because it would provide funds for only certain types of activities. Specifically, it would combine the funds previously allocated to one or more housing programs and substitute a formula-driven allocation designed to achieve the general purpose(s) of the replaced programs only. For example, funds for section 8 substantial and moderate rehabilitation could be combined into a rehabilitation block grant. This model would leave at the Federal level the responsibility for deciding the share of resources to be devoted to each Federal need category. However, it also provides that, within these limited categories, the local level would be responsible for determining the method of delivery.

We asked each local housing official to indicate how beneficial each of the four alternative housing block grant models would be in providing the necessary housing assistance for their communities to achieve their housing objectives and goals, considering their housing conditions and needs, as well as their capacity to plan, implement, and evaluate a housing block grant program. As table 38 below shows, 69 percent of the respondents believe that a long-term, all purpose housing block grant would be of either a great or very great benefit to their communities. The limited purpose model--the most restrictive--was the least desired model, with 15 percent stating that it had great or very great benefit and, in fact, 55 percent said that it had some, little, or no benefit.

Table 38

Potential Benefit of Four Alternative Housing Block Grant Programs (percent based on 100 responses)

Alternatives	Some, little, or no benefit	Moderate benefit	Great or very great benefit	No basis to judge
	---------------	(percent)	----------------	
Long-term, all purpose model	11	13	69	7
Short-term, all purpose model	21	35	35	9
Current programs budget authority model	15	36	44	5
Limited purpose model	55	23	15	7

A representative from the staff of the U.S. Conference of Mayors told us that many elected officials would not prefer a long-term, all purpose model because cities would rather hold the Federal Government responsible for long-term commitments for income assistance and the cities are hesitant about making long term commitments after observing the Federal governments consistent underestimating of the funds needed for assistance.

CHAPTER 6

LOCAL HOUSING OFFICIALS DEFINE SPECIFIC GOVERNMENTAL ROLES UNDER A BLOCK GRANT

The purpose of the housing block grant concept is to give local governments greater flexibility and control in the use of available housing funds. However, the extent of local control and flexibility will depend on specific Federal, State, and local roles in administering a housing block grant program. Closely related to this issue is whether localities can develop the technical capacity needed to administer an effective block grant program. In this chapter we discuss local housing officials' attitudes toward (1) the specific Federal, State, and local roles in planning, implementing, and evaluating housing activities under a housing block grant program and (2) local capacity to plan, implement, and evaluate housing activities under the CDBG program.

Local housing officials responding (100 of 133) to our attitudes survey (see p. 75) overwhelmingly believed that local governments should have the major role in planning, implementing, and evaluating block grant activities. The officials further indicated that most local governments, based on their experiences, have the capacity necessary to plan and implement housing activities. The officials believed, however, that the Federal Government would be needed to help evaluate block grant performance based on specific criteria, but with limited sanctions for noncompliance with most performance criteria. According to the local officials, State governments and regional groups should only be minimally involved in planning, implementing, and evaluating block grant activities.

LOCAL GOVERNMENTS ARE SEEN AS HAVING THE GREATEST ROLE IN PLANNING

Planning includes assessing housing conditions and needs, as well as establishing housing assistance objectives and goals for a community's housing activities. In this section we examine local housing officials' attitudes toward (1) planning activities under a housing block grant program and (2) local communities' capacity to plan housing activities under the CDBG program.

Most communities would prefer to plan housing activities

We provided local housing officials with a list of 12 specific planning activities that could be performed under a housing block grant program. We asked the officials (1) how important it would be, in the absence of Federal regulations, for their communities to perform each of the planning activities and (2) how involved various organizations--Federal, State, regional, local, and private--should be in performing each planning activity under a housing block grant program. The specific planning activities are listed and the responses are shown in question 29 of the local attitudes questionnaire in our supplement.

The local housing officials indicated that setting priorities and selecting housing assistance activities to be funded would be the most important planning activity for them to perform. In fact, 86 percent of the officials stated it would be greatly or very greatly important to perform under a block grant program. Other "very important" planning activities include surveying housing needs and conditions, setting housing assistance objectives, and selecting neighborhoods in which to locate housing projects. For each of these activities, over 70 percent of the officials stated it would be greatly or very greatly important to perform.

Planning activities that officials indicated would be moderately important to perform include setting annual and long-term goals for housing assistance, selecting population groups in need of housing assistance, preparing grant applications and applications for other sources of funds, and including citizen participation in planning activities. Except for the citizen participation activity, between 60 and 70 percent of the officials stated that it would be greatly or very greatly important to perform these activities. Only 39 percent of the officials indicated that citizen participation was greatly or very greatly important. Over 60 percent of the officials stated that the A-95 Areawide Clearinghouse 1/ review activity would be not at all important to perform.

Little or no involvement was foreseen for either Federal or State organizations in any of the 12 planning activities. Instead, local housing officials overwhelmingly indicated that local organizations should be greatly involved in performing planning activities under a block grant program. In fact, except for two activities--citizen participation and A-95 review--over 80 percent of the officials stated that local organizations should be greatly or very greatly involved in performing each of the other activities. Some regional and private involvement was foreseen in surveying housing conditions and needs. In addition, some private involvement was indicated for setting housing assistance objectives, setting priorities and selecting housing assistance activities to be funded, selecting neighborhoods needing assistance, and helping citizens plan housing activities.

<u>Local communities' capacity to plan housing activities under the CDBG program</u>

Will local governments develop the capacity necessary to plan housing block grant activities? To help find out, we measured

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1/Office of Management and Budget Circular A-95 provides for the designation of State and areawide clearinghouses to review and comment on applications for certain Federal grant funds.

three related items under the CDBG program. First, who influences decisions related to planning CDBG housing activities? Second, have communities overcome the barriers to planning that confronted them at the start of the CDBG program? Third, do communities constantly turn to others--particularly the Federal Government--for planning assistance? Although these are not perfect measures, they at least provide some indication of whether local governments can develop the capacity to plan under a housing block grant.

Localities have major influence in planning CDBG activities

We asked local housing officials what single organization has dominant responsibility for planning housing activities in their communities and the extent Federal, State, regional, local, and private organizations influence decisions relating to planning CDBG housing activities. The results of these questions are shown in questions 1-A and 2-A of the local attitudes questionnaire in our supplement.

Almost 80 percent of the officials indicated that either local Departments of Community Development (57 percent) or the local planning agency (20 percent) has dominant responsibility for planning CDBG activities in their communities. Local officials indicated that while HUD has a moderate influence on planning activities, other Federal organizations have little or no influence. With the exception of local citizens, who have moderate influence, and local special interest groups, which have some influence, private organizations have little or no influence on planning decisions. Also, State organizations, including State housing agencies, have little or no influence related to planning CDBG housing activities.

Localities are able to overcome most barriers to planning

We asked local housing officials to what extent various factors were initially and are currently a barrier to their communities' capacity to plan CDBG housing activities. These factors are identified and the results are shown in questions 3-A and 4-A of the local attitudes questionnaire in our supplement.

Initially, none of the factors were cited as significant barriers. In fact, most of the factors were only considered as being "somewhat" a barrier to planning. Furthermore, in most cases, the extent of these barriers have been reduced. The only factors that are still perceived as somewhat of a barrier to planning are the lack of a long-term Federal financial commitment (which is perceived now as a moderate barrier), the shortgage of funds from private lending institutions, and Federal regulations. The most significant barrier to a community's capacity to plan CDBG activities is the lack of a long-term Federal financial commitment, with 46 percent of the local housing officials indicating it is currently a great or very great barrier. Almost 30 percent of the officials stated that the shortage of funds from private lending institutions is currently a very great barrier.

Although the extent that staffing (lack of staff, trained staff, or experienced staff) is a barrier to planning has been reduced, 40 percent of the respondents still indicated that staffing is currently a barrier to planning. Related to specific planning activities, 28 percent stated that staffing is a barrier in surveying housing conditions and 26 percent stated that staffing is a barrier in surveying housing assistance needs.

Localities provide most technical assistance needed to plan activities

We asked local housing officials to indicate if their communities needed technical assistance from others for the various planning activities. Generally, less than half of the officials indicated that their communities needed technical assistance for any of the planning activities. The only exception was in setting long-term goals for housing assistance, where 51 percent of the officials stated that technical assistance was needed. The results are shown in question 5 of the local attitudes questionnaire in our supplement.

We also asked the officials to indicate how much technical assistance their communities received from Federal, State, regional, local, and private sources. The officials told us that little or no assistance was received from State, regional, or private sources for any of the nine specific planning activities. Although some assistance was received from Federal sources--particularly for setting annual and long-term housing assistance goals--the majority of assistance was received from local sources for each planning activity performed under the CDBG program.

HUD officials told us that they believe many communities do not recognize that they need technical assistance until that need is pointed out by HUD. In fact, from fiscal year 1979 to 1981, HUD has provided--through the Secretary's Disretionary Fund--about $14 million to promote housing rehabilitation training and advisory services to communities. The officials also said that, under a housing block grant program, technical assistance should be provided early in the program to help improve local management.

LOCAL AND PRIVATE ORGANIZATIONS ARE SEEN AS HAVING MAJOR ROLES IN IMPLEMENTING BLOCK GRANTS

Implementation includes administering and managing a variety of housing activities necessary to carry out a community's housing assistance objectives and goals. In this section we examine local housing officials' attitudes toward (1) implementing activities under a housing block grant program and (2) local communities' capacity to implement housing activities under the CDBG program.

Most communities would prefer to perform block grant implementing activities

We provided local housing officials with a list of 18 specific implementation activities that could be performed under a housing block grant program. We asked the officials (1) how important it would be, in the absence of Federal regulations, for their communities to perform each of the implementation activities and (2) how involved should Federal, State, regional, local, and private organizations be in performing each implementation activity under a housing block grant program. The specific implementation activities are listed, and the responses are shown in question 30 of the local attitudes questionnaire in our supplement.

The local housing officials indicated that monitoring project activities and publicizing housing assistance programs would be their most important implementation activities, with 78 percent and 71 percent, respectively, stating that these actitivies would be greatly or very greatly important to perform under a block grant program. The officials also indicated that most implementation activities would be moderately important to perform. However, implementation activities that the officials indicated would only be somewhat important to perform include mortgage credit analysis, underwriting mortgage insurance and loans, and wage rate analysis. Overall, about 20 percent of the officials stated that these activities would not be important at all to perform.

Local housing officials indicated that local organizations should be heavily involved in performing implementation activities, with relatively moderate involvement by private groups. In fact, for only two activities--underwriting mortgage insurance and loans and wage rate analysis--were local organizations seen as having a less than moderate involvement. Little or no involvement was foreseen for State and regional organizations in most of the implementing activities. The Federal Government was expected to be involved minimally in most areas. Areas where the Federal Government's role is desired include (1) performing compliance reviews, (2) enforcing sanctions for noncompliance, and (3) underwriting mortgage loans and insurance.

Local communities' capacity to implement housing activities under the CDBG program

To determine whether local governments will develop the capacity to implement housing block grant activities, we attempted to measure

--the level of influence local organizations and others have on decisions related to implementing CDBG housing activities,

--the extent communities have overcome the barriers to implementation that confronted them at the start of the CDBG program, and

--the extent technical assistance was received from local and other sources--particularly the Federal Government--for CDBG implementing activities.

Although these are not perfect measures, they do provide some indication of whether local governments can develop the capacity to implement activities under a housing block grant program.

<u>Localities have major influence in implementing CDBG activities</u>

We asked local housing officials what single organization has dominant responsibility for implementing housing activities in their communities and the extent Federal, State, regional, local, and private organizations influenced decisions relating to implementing CDBG housing activities. The results are shown in questions 1-B and 2-B of the local attitudes questionnaire in our supplement.

Almost 70 percent of the officials indicated that either the local Departments of Community Development (57 percent) or the local housing authorities/agencies (12 percent) has dominant responsibility for implementing housing activities in their communities. Local Departments of Community Development also have the major influence on implementing decisions relating to the CDBG program. Local officials indicated that while HUD has a moderate influence on implementing decisions, other Federal organizations have little or no influence. Private organizations having some influence on implementing decisions include local citizens, local banking and financial institutions, private housing developers, nonprofit housing corporations and community development agencies, and local special interest groups. State and regional organizations have little or no influence on decisions related to implementing CDBG housing activities.

<u>Localities are able to overcome most barriers to implementation</u>

We asked local housing officials to what extent various factors were initially and are currently a barrier to their communities' capacity to implement CDBG housing activities. These factors are identified and the results are shown in questions 3-B and 4-B of the local attitudes questionnaire in our supplement.

Initially, many of the factors were considered somewhat of a barrier to implementation. In most cases, however, the extent of these barriers have been reduced. The only factors that are still somewhat of a barrier to implementation are the lack of long-term Federal financial commitments, shortage of funds from private lending institutions, Federal regulations, and Federal recordkeeping and/or reporting requirements. The most significant barriers are the lack of long-term Federal financial commitments and shortage of funds from private lending institutions, with 41 percent and 34 percent, respectively, of the local housing officials indicating that these barriers are a great or very great barrier to implementation. Less than 30 percent of the officials stated that Federal regulations and Federal recordkeeping/reporting requirements are a great or very great barrier.

Although the extent that staffing (lack of staff, trained staff, or experienced staff) is a barrier to implementation has been reduced, 49 percent of the respondents still indicated that staffing is a barrier to implementation. Related to specific implementation activities, 24 percent stated that staffing is a barrier in coordinating financial techniques; 21 percent stated that it is a barrier in counseling homeowners and tenants; 18 percent stated that it is a barrier in supervising project design, financing, contracting, and inspection; and 16 percent stated that it is a barrier in processing loans and grants.

Localities provide most technical assistance needed to implement activities

We asked local housing officials to indicate if their communities needed technical assistance for the various implementing activities. Although less than half of the officials indicated that their communities needed technical assistance for any of the implementing activities, the greatest need was generally for the same activities where staffing was a barrier--coordinating financial techniques; counseling homeowners and tenants; supervising project design, financing, contracting, and inspection; and processing loans and grants. The results are shown in question 6 of the local attitudes questionnaire in our supplement.

We also asked the officials to indicate how much technical assistance their communities received from Federal, State, regional, local, and private sources. The officials told us that little or no assistance was received from either Federal, State, or regional sources for any of the specific implementing activities. Although some assistance was received from private sources-particularly for coordinating financing techniques--the majority of assistance was received from local sources for each implementing activity performed under the CDBG program.

LOCAL AND FEDERAL GOVERNMENTS ARE SEEN AS HAVING MAJOR EVALUATION ROLES

Evaluation includes assessing (1) the housing activities' impact on accomplishing housing assistance objectives and goals, (2) local communities' conformance to applicable laws and regulations, and (3) local communities' capacity to plan and implement housing activities. In this section we examine local housing officials' attitudes toward (1) evaluating activities under a block grant program and (2) local communities capacity to evaluate housing activities under the CDBG program.

<u>Federal Government would be needed to help evaluate block grant performance</u>

We asked local housing officials how involved Federal, State, regional, local, and private organizations should be in performing evaluation activities under a housing block grant program. The results are shown in question 31 of the local attitudes questionnaire in our supplement.

Local housing officials, in general, indicated that local organizations should be greatly involved, and the Federal organizations should be moderately involved, in monitoring program activities, conducting program fiscal audits, and conducting program performance reviews. Some involvement by private organizations would also be needed in conducting program fiscal audits. As in previous sections, little or no involvement was foreseen for State or regional organizations in performing any of the activities. The average level of involvement by Federal, State, regional, local, and private organizations for each potential evaluation activity is shown in table 39 below.

Table 39

Average Level of Involvement Needed in Evaluating Block Grant Activities (note a)

Evaluation activities	Federal	State	Regional	Local	Private
Monitor program activities	3.0	1.3	1.4	4.3	1.9
Conduct program fiscal audits	3.0	1.4	1.2	3.9	2.1
Conduct program performance reviews	3.1	1.3	1.3	4.3	1.7

a/Ratings are based on mean scores from 1 to 5; where 1 equals no involvement, 2 equals some involvement, 3 equals moderate involvement, 4 equals great involvement, and 5 equals very great involvement.

We also provided local housing officials with a list of 13 performance criteria that could be used for evaluating performance under a housing block grant program. We asked the officials (1) which of the criteria should be used for evaluating performance under a housing block grant program and (2) what sanction would be appropriate for noncompliance with the performance criteria. The performance criteria and sanctions are listed and the results are shown in question 32 of the local attitudes questionnaire in our supplement.

As shown in table 40 below, the vast majority of the officials believed that most of the performance criteria would be needed under a housing block grant program. Except for two criteria, over

Table 40

Performance Criteria and Sanctions Needed Under a Block Grant Program (percent based on 100 responses)

Performance criteria	Criteria should be used	Sanctions: No sanction should be imposed	Sanctions: Issue warning letter
	(percent)		
Achieve and maintain capacity to implement program	87	12	66
Prevention of fraud, waste, and abuse	87	3	45
Rate of progress achieved in moving activities into execution	86	12	73
Progress achieved in meeting objectives/goals established under a housing plan	86	22	59
Achieve and maintain capacity to plan the program	85	16	66
Compliance with applicable local laws and regulations	83	25	52
Achieve and maintain capacity to monitor program	80	13	70
Compliance with applicable national program regulations	79	11	65
Resolution of monitoring and audit findings	79	6	55
Compliance with applicable national program legislation	78	12	65
Compliance with applicable State laws and regulations	77	19	54
Rate of expenditures and obligation of grant funds	67	19	68
Progress achieved in meeting national housing objectives and goals	24	52	26

three-fourths of the officials indicated that each performance criteria should be used for evaluating performance. For the two exceptions, 67 percent indicated that the rate of expenditure and obligation of grant funds should be used and--most significantly--only 24 percent indicated that the progress achieved in meeting national housing objectives and goals should be used. For the latter criteria, 40 percent of the officials were definite that the criteria should not be used and 32 percent were not sure if it should be used. In any event, 52 percent agreed that no sanctions should be imposed for not achieving progress in meeting national housing objectives and goals.

For the other performance criteria, over 50 percent of the officials indicated that a letter of warning should be issued as a first sanction for noncompliance. The one exception to this was the criteria to prevent fraud, waste, and abuse, where only 45 percent stated that a warning letter should be issued. Instead, over 50 percent stated that noncompliance should be referred to the Attorney General--a much stronger penalty. Generally, about 20 percent indicated that grant payments and/or grant allocations should be reduced or limited for noncompliance with many of the performance critieria. Also, about 10 percent of the officials generally indicated that grant payments and/or grant allocations should be terminated for noncompliance with many of the performance criteria.

Local communities' capacity to evaluate housing activities under the CDBG program

We used the same three measures used for the planning and implementing functions to determine whether local governments will develop the capacity to evaluate housing block grant activities. Again, these are not perfect measures, but they do provide some indication of whether local governments can develop the capacity to evaluate activities under a housing block grant program.

Federal Government has a significant influence in evaluating CDBG activities

We asked local housing officials what single organization has dominant responsibility for evaluating housing activities in their communities and the extent Federal, State, regional, local, and private organizations influence decisions relating to evaluating CDBG housing activities. The results are shown in questions 1-C and 2-C of the local attitudes questionnaire in our supplement.

Almost 70 percent of the officials indicated that either the local Department of Community Development (53 percent) or the local planning agency (14 percent) has dominant responsibility for evaluation decisions related to CDBG housing activities. In addition, almost 60 percent of the officials stated that HUD has a great or very great influence on decisions relating to evaluating CDBG housing activities. The only private organizations having some influence are local citizens groups. State and regional organizations have little or no influence on decisions relating to evaluating CDBG housing activities.

Localities are able to overcome most barriers to evaluation

We asked local housing officials to what extent various factors were initially a barrier and are currently a barrier to their communities' capacity to evaluate CDBG housing activities. These factors are identified and the results are shown in questions 3-C and 4-C of the local attitudes questionnaire in our supplement.

Initially, only a few of the factors were somewhat of a barrier to evaluation and, in all cases, the extent of these barriers have been reduced. Although the extent that staffing (lack of staff, trained staff, or experienced staff) is a barrier to evaluation has been reduced, 36 percent of the respondents still indicated that staffing is a barrier to evaluation. Regarding specific evaluation activities, 19 percent stated that staffing is a barrier to performing fiscal audits of housing assistance activities, 17 percent stated that staffing is a barrier to monitoring housing assistance activities, and 13 percent stated staffing is a barrier to performing performance reviews.

Local, Federal, and private sources provide technical assistance needed to evaluate CDBG activities

We asked local housing officials to indicate if their communities needed technical assistance for various evaluation activities. Generally, less than one-third indicated that their communities needed technical assistance for each of the evaluation activities. The one exception was performing fiscal audits of housing assistance activities, where almost half of the officials indicated that their communities needed technical assistance. The results are shown in question 7 of the local attitudes questionnaire in our supplement.

We also asked the officials to indicate the extent of technical assistance their communities received from Federal, State, regional, local, and private organizations. The officials told us that (1) little or no technical assistance was received from State or regional sources for any of the evalution activities, (2) Federal sources provide some technical assistance for monitoring housing assistance activities and performing performance reviews, (3) private and local sources provide most of the assistance needed to perform fiscal audits of housing assistance activities, and (4) local sources provide some or a moderate amount of technical assistance for most of the evaluation activities.

SUMMARY OF MAJOR FEDERAL

HOUSING ASSISTANCE PROGRAMS

The Housing Act of 1949 set a national goal of "a decent home and suitable living environment for every American family." To meet this goal, substantial amounts of Federal aid have been used to provide assistance to low- and moderate-income households. This appendix summarizes the major Federal housing programs for (1) conventional public housing, (2) rental assistance, (3) homeownership assistance, and (4) community development housing programs.

CONVENTIONAL PUBLIC HOUSING PROGRAMS

The Low-Rent Public Housing Program, authorized by the United States Housing Act of 1937, was created to stimulate employment and clear the slums during the post-Depression recovery period. It became the first Federal Government effort to provide housing for low- and moderate-income households. In 1965 Federal funds were made available under a public housing modernization program to revitalize deteriorating projects. In 1968 HUD began to subsidize the operating and maintenance costs incurred by public housing agencies in order to ensure their continued operations.

The Low-Rent Public Housing Program

Under the Conventional Bid Public Housing Program, local public housing agencies develop, own, and operate low-rent projects financed through the sale of long-term, tax-exempt obligations. The Federal subsidy consists of a 40-year contract for annual contributions that pay the debt service on the tax-exempt bonds and notes sold to cover development costs. Low tenant rents contribute to the costs of managing and operating the project. The "turnkey" approach of the public housing program allows the public housing agencies to purchase projects designed and built by private developers under contract. Through fiscal year 1981, over 1.2 million units were assisted by the public housing program. Budget outlays as of 1981 totaled $19.5 billion for public housing, including operating subsidies funded from the "Housing Payments" account through 1975.

Public Housing Modernization Program

This program provides additional annual contributions to help pay for the cost of revitalizing deteriorating public housing projects. The Federal subsidy enables public housing agencies to obtain capital funds for (1) upgrading living conditions in older projects to acceptable standards, (2) repairing physical deficiencies and (3) obtaining levels of operating efficiency. Capital improvements are financed over a 20-year period.

Public Housing Operating Subsidy Program

HUD provides additional annual contributions (that is, operating subsidies) to public housing agencies to maintain their projects, establish operating reserves, and offset operating deficits. HUD calculates the individual subsidies using a formula based on the Performance Funding System. This system relates operating expense levels expected for well-managed programs and factors which account for cost trends, tenant incomes, and characteristics of individual public housing agencies.

RENTAL ASSISTANCE PROGRAMS

Three rental assistance programs discussed in this section include Section 8 Lower Income Rental Assistance, Section 202 Housing for the Elderly and Handicapped, and Section 515 Rural Rental Housing. In addition to these direct subsidy programs, several multifamily housing programs provide mortgage insurance or other assistance.

Lower Income Rental Assistance (section 8)

The section 8 program, authorized under the Housing and Community Development Act of 1974, has been the major federally subsidized housing initiative to provide rental assistance to lower income households seeking decent housing in the private market. Section 8 rental assistance may be used in existing housing and housing newly constructed or rehabilitated under prior commitment from HUD.

As of the end of fiscal year 1981, budget outlays totaled over $7.8 billion to assist approximately 1.3 million section 8 units.

Section 8 Existing Housing and Moderate Rehabilitation

Rental assistance is given to households that are certified by a public housing agency for units in existing structures. Each certified family finds its own housing in the private market at no more than the fair market rent. The owner must agree to participate and meet HUD requirements. The only Federal requirement for households is income, with the maximum generally 80 percent of median for 4-person families. The existing housing program also includes a moderate rehabilitation program to upgrade deteriorating buildings for use as subsidized rental property.

A cash payment is made by HUD or the public housing agency directly to the owner on behalf of the tenant. The maximum possible subsidy amount is the contract rent, assuming tenants with no income. HUD may require households to pay up to 30 percent of income for rent. When a commitment is made, HUD reserves funds for the total rent for the length of the contract, which for existing housing extends for 5 years and for moderately rehabilitated housing for 15 years.

Section 8 New Construction

Rental assistance is provided to households living in dwellings newly constructed under prior commitment from HUD. The owner must contract with HUD before construction and build according to agreed-upon specifications as to the number of units, type of construction, and rent levels. The original contract for payment of subsidies is for a 20- to 40-year term, with a maximum of 20 years for FHA-insured projects, 30 years for those with conventional or FHA co-insured mortgages, and 40 years for other financed projects. Except for projects specificially built for the elderly and handicapped, the only eligibility criterion is income. The maximum income is generally 80 percent of median for 4-person families.

A cash payment is made directly to a landlord on behalf of the tenant. As with the existing program, the maximum subsidy is the total contract rent, and HUD may require households to pay up to 30 percent of their income for rent. HUD reserves funds for the total rent for the length of the contract when a commitment is made.

Section 8 Substantial Rehabilitation

This program is the same as the new construction component except that rental assistance payments are made to the landlord on behalf of tenants living in buildings substantially rehabilitated with prior commitment from HUD. Generally, rehabilitation costs are greater than 25 percent of the total value.

Direct Loan Program for Housing the Elderly and Handicapped (section 202)

Under the section 202 program, direct Federal loans are made to nonprofit sponsors for the construction, rehabilitation or alteration of rental housing for the elderly or handicapped. The original section 202 program provided loans at a 3-percent interest rate and produced about 45,000 units during its 10 years of operation. The original program was phased out in favor of section 236 construction financing, but was reactivated and revised in 1974 to provide construction and permanent financing loans with interest based on the average rate paid on Federal obligations. In addition to the financing subsidy, all section 202 projects received the benefits of housing assistance payments under the section 8 program. Since the section 202 program has been revised, about 56,000 housing units have been funded and completed under the program through fiscal year 1981. Budget outlays for section 202 totaled $2.6 billion through fiscal year 1981.

FmHA's Rural Rental Housing Program (section 515)

This program authorized FmHA to make loans available to non-profit and profit-oriented entities to build, purchase, or repair multifamily rental or cooperative housing in rural areas for low and moderate-income households or the elderly. FmHA makes direct loans which reduce the mortgage interest rate to as low as 1 percent. The maximum repayment period is 50 years for projects designed for the elderly and 40 years for all others.

Eligible recipients of rural rental housing loans include individuals, consumer cooperatives, State or local public agencies, limited partnerships, and profit or not-for-profit corporations. All sponsors must be unable to acquire credit from other sources on terms enabling rental of units to eligible households. Non-profit sponsors are eligible to receive loans equal to 100 percent of the appraised value of the property or the development cost, whichever is less. Profit-oriented sponsors are eligible for 95 percent loan-to-value financing at FmHA's multifamily housing loan interest rate.

Since its inception in 1970 through fiscal year 1980, approximately 225,000 units have been financed.

Mortgage Insurance and Assistance Payments for Multifamily Rental Housing for Low- and Moderate-Income Families (section 236)

The section 236 program was a major source of new privately owned and financed rental housing for low- and moderate-income families from 1969 to 1973. FHA mortgage insurance encouraged participation of private lenders by reducing their risks. Since 1973 the Federal Government has been phasing out new construction under this program. Households that occupy section 236 housing units built in prior years continue to receive subsidies.

Mortgage interest reduction payments are made to the mortgage holder on behalf of the owner and is passed on to the tenants in the form of lower rents. The maximum subsidy is the difference between (a) amortization of the mortgage at FHA ceiling rate plus FHA insurance premium and (b) amortization at 1 percent. The Housing and Community Development Act of 1974 authorized payments of an operating subsidy for increases in utility costs and property taxes for section 236 projects.

Approximately 537,000 units were subsidized by section 236 as of September 1981, with budget outlays totaling $4.7 billion.

Flexible Subsidy Program

Short-term cash assistance is awarded to eligible projects to correct deferred maintenance and current operating deficits.

Assistance is conditioned upon the development of an acceptable management plan which usually attaches onsite management procedures to project funding and requires additional equity investment by project owners.

Projects eligible for this program include those which (1) have mortgages insured or held by HUD and (2) are subsidized under the section 236 and section 221(d)(3) programs authorized under the National Housing Act. Non-insured projects financed by State agencies and receiving HUD subsidy under one of these programs after October 1, 1979 are also eligible.

As of September 1981, budget outlays for this program totaled $63.3 million.

Mortgage Insurance for Multifamily Rental Housing for Low- and Moderate-Income Families (sections 221(d)(3) and (4))

Section 221(d)(3) was created to help finance construction or rehabilitation of rental or cooperartive housing for low- and moderate-income or displaced households. HUD may insure 100 percent of the total replacement cost if the mortgagor is a nonprofit entity. Only 90 percent insurance is offered to limited dividend sponsors. The rental insurance component combined with the rent supplement program provides affordable, privately owned, financed and operated rental housing for lower income households.

Section 221(d)(4) offers profit incentives and tax incentives for project owners/sponsors to construct or rehabilitate multifamily rental units for moderate-income households. Regardless of the type of mortgagor, HUD/FHA may only insure 90 percent of the total replacement cost of the project.

As of March 1981, section 221 insurance was written for over 940,000 units for a total value of $19 billion.

HOMEOWNERSHIP ASSISTANCE PROGRAMS

The major homeownership assistance programs include the Title I Home Improvement Loan Insurance, Section 235 Homeownership Assistance, Section 502 Rural Homeownership Assistance, and Section 221(d)(2) Mortgage Insurance for Single-Family Housing programs.

Home Improvement Loan Insurance (title I)

Under this program, HUD insures loans to finance major and minor improvements, alterations, and repairs of individual homes and nonresidential structures. The loans may be up to $15,000, bear interest up to 13 percent, and be paid back over 15 years. Loans on apartment buildings may be as high as $7,500 per unit, but the total for the building may not exceed $37,500, and the terms may not exceed 15 years. Loans may also finance new construction for agriculture or nonresidential use. Lenders determine eligibility for and process those loans. Loans of not more than $7,500 are generally unsecured personal loans. (Loan terms are as of August 1980.)

Through March 1981, HUD had insured about 31 million loans for a value of nearly $31 billion.

Mortgage Insurance and Assistance Payments for Single-Family Homes for Low- and Moderate-Income Families (sections 235 or 235 Revised)

Section 235 provides home buying assistance to low- and moderate-income families. HUD makes direct cash subsidy payments to a mortgage lender on behalf of a participating family to reduce mortgage interest costs to as low as 8 percent under the revised section 235 program. The participating homeowner must contribute at least 20 percent of adjusted gross income toward monthly mortgage, insurance, and tax payments on the home. The original program was suspended in 1973, but a revised section 235 program was implemented in early 1976. Under the revised program, assistance was limited to new or substantially rehabilitated single-family units. However, in 1979, assistance was authorized to eligible households in rental buildings being converted to condominiums or cooperative ownership. To be eligible, households must have incomes that do not exceed 95 percent of the area median, adjusted for family size.

Section 235 insurance was written for approximately 550,000 units for a total value of $11.6 billion as of March 1981.

FmHA's Rural Homeownership Program (section 502)

Section 502 provides subsidized loans for acquisition, construction, and repair of rural, single-family homes. FmHA makes "interest credit" loans to low-income households and to moderate-income households at slightly higher rates. The interest rate on the loan may be as low as 1 percent for low-income households and slightly higher rates based on FmHA's borrowing rate for moderate-income households. The maximum repayment period is 33 years. FmHA also provides non-interest loans to families unable to afford the 1-percent loans. In this case, the subsidy is equal to the difference between 25 percent of the family's income and homeownership costs. Loan guarantees are also provided to households above moderate incomes.

In fiscal year 1980, an estimated $3.1 million was obligated for about 92,000 units under this program.

Mortgage Insurance for Single-Family Housing for Low- and Moderate-Income Families (section 221(d)(2))

Section 221(d)(2) was designed to increase homeownership opportunities for low- and moderate-income households by insuring lenders against loss on mortgages used to finance the acquisition, construction, or rehabilitation of low-cost one-to-four unit buildings. As of March 1981, 849,000 units were insured under section 221(d)(2) for a total value of more than $12.3 billion.

COMMUNITY DEVELOPMENT HOUSING ASSISTANCE

Several community development programs, other than CDBG, also provide housing assistance to low- and moderate-income households. These include the Section 312 Rehabilitation Loan, Urban Homesteading, and Urban Development Action Grant programs.

Rehabilitation Loan Program (section 312)

Section 312 provides direct, long-term, low-interest rehabilitation loans to individuals whose residential and business properties are located in certain certified program areas. Local public agencies, on behalf of the property owner, make loan applications to HUD, which reviews and services the loan. The local agency disburses the funds. The program is intended to make low-interest, long-term financing available on properties located in areas where loans with comparable terms and conditions are generally unavailable. Further, there are no income limits for loan recipients, but priority is designed to be given to low- and moderate-income households.

Section 312 funds also provide support for the Urban Homesteading Program. Such loans may be approved to rehabilitate HUD-owned properties transferred to the program or privately owned properties in the homesteading area.

Section 312 also provides direct loans. The loan amount is based on the as-is value of the property, as determined by appraisal and the cost of rehabilitation. The loan bears an interest rate of 3 percent for terms up to the lesser of 20 years or three-fourths of the remaining life of the structure after rehabilitation.

Cumulative through fiscal year 1981, about 88,000 loans were serviced, totaling about $1.1 billion. An estimated $68 billion will be used to rehabilitate 680 single-family and 4,536 multifamily units in 1982. Section 312 is proposed for termination during 1983, with future rehabilitation assistance available under CDBG and the proposed rental rehabilitation grant program.

Urban Homesteading
Program (section 810)

This program provides homeownership opportunities in selected neighborhoods. HUD transfers one-to-four family properties, acquired through foreclosure of FHA-insured mortgages, to local governments at little or no cost. Localities then sell the projects to homesteaders at a modest cost. The owner must agree to occupy the unit for a specified period and to rehabilitate the dwelling to a level acceptable to the local government.

As of September 1980, the cumulative dollar value of single-family properties conveyed totaled $28 million dollars for about 4,330 units.

Urban Development Action Grant Program

This program provides grants to cities and urban counties experiencing severe economic distress to stimulate economic development. A key program feature is the leveraging of private investment in projects located in distressed areas. Eligible grant recipients include localities that meet the minimum standards of physical and fiscal distress and have a proven track record of providing housing to low- and moderate-income households. Amendments to the 1974 act, legislated in 1979, provided assistance for economic development and neighborhood revitalization projects in targeted areas.

As of September 1980, cumulative grant obligations equaled $1.4 billion and 741 grant agreements had been made. Program projects that were approved in fiscal year 1981 will leverage approximately $4.8 billion in private investment, providing rehabilitation or new construction funding for more than 16,000 housing units.

TECHNICAL DESCRIPTION OF

QUESTIONNAIRE DEVELOPMENT AND SAMPLING METHODOLOGY

This appendix describes (1) the response rates and methodology that we used in selecting Community Development Block Grant (CDBG) entitlement cities and counties and (2) the process that we followed in developing the questionnaires used in our survey. This description also appears in the supplement to this report.

RESPONSES TO QUESTIONNAIRES

The table below shows how many local government officials responded to our questionnaires. This table indicates--for each of the five samples--the number of questionnaires mailed and the outcome of the mailing. For example, the attitudinal questionnaire was sent to officials at 133 locations. We received and analyzed 100 completed questionnaires. The remaining 33 were not analyzed for several reasons--2 officials told us that they had never participated in the CDBG program, 2 questionnaires were not deliverable, and 29 questionnaires were either returned after our analysis was completed or were not returned. Thus, local government officials at 129 (133 minus the 2 nonparticipants and the 2 nondeliverables) CDBG locations had the opportunity to complete the attitudinal questionnaire. Since 100 questionnaires were analyzed, the response rate for this questionnaire was 78 percent (100 divided by 129).

Response Rates for the Questionnaires

	Local attitude	Housing experiences Sample A	Sample B	Sample C	Sample D	Total
Number mailed	133	133	133	133	132	664
Nondeliverables	2	2	0	1	0	5
Nonparticipants	2	3	2	2	3	12
Returned too late or not returned	29	23	23	24	24	123
Number returned and analyzed	100	105	108	106	105	524
Response rate (percent)	78	82	82	82	81	81

The table also shows that the four subgroups of questionnaires on local housing experiences--A, B, C, and D--had response rates of 82, 82, 82, and 81 percent, respectively. The combined response rate for each of these similar questionnaires was 82 percent, representing a combined response rate of 81 percent for entitlement cities and 90 percent for entitlement counties. When the attitudes questionnaire and the four questionnaire versions on local housing experiences are considered together, an overall response rate of 81 percent was achieved in this survey. In our view, this is a relatively high response rate for such sophisticated questionnaires.

INTERPRETATION OF DATA

Several questions appear in the attitudinal questionnaire and in the questionnaire on local housing experiences which present a specific list of items to which respondents replied by either rating or ranking each item. In addition to the list of specific items, we provided an "other" category as a catch-all, so that respondents could write in a response which did not appear on the list. Most officials did not use this category. For the responses that were supplied, no response occurred often enough to allow us to derive a statistically significant response. Therefore, the reader should be cautioned that summary statistics reported in these categories should be used with caution.

The reader should also be cautioned that the totals for questions 16, 17, 19, 20, and 22 in the attitudinal questionnaire and questions 5, 6, 8, 9, and 12 in the experiences questionnaire do not always reflect the sum of each question. Some respondents provided only one line of data which did not allow us to derive totals, while other respondents provided only totals. Initially, this response pattern caused concern over whether the officials that did respond to these questions were representative of the communities used in the overall survey. For example, if a significant number of the respondents who offered only one line of data and no totals were large cities, we would suspect that the totals for these questions would be low. Therefore, to assure that the officials responding were representative of the respondents to the overall questionniare and to assure that the missing responses to any element did not distort the relationship of elements within a question we tested the responses from local officials to determine what kinds of localities responded to each question--the large or the small. We found that localities responding to the questions were representative of the population sizes of the overall sample of communities. We also found that more respondents reported vacant units than occupied units for questions requiring such information. Therefore, the reader should be aware that the number of respondents to each part of such questions varies.

Frequency distributions are used throughout the questionnaires to present local officials' responses. A frequency distribution is an arrangement of statistical data that shows the number of times values of a variable occur. In the attitudinal questionnaire, the frequency can also be interpreted as an approximate percentage of the entire sample group since there are exactly 100 respondents to the questionnaire. This application does not hold true for the questionnaire on local experiences because 424 local officials responded. Therefore, the frequency distribution should not be interpreted as a percentage distribution in the experiences survey.

OBJECTIVES

Our objectives in this review were to provide the Congress with an empirical data base for its deliberations on alternative housing strategies and to take a comprehensive look at all CDBG housing activities--what was done, who has benefited, and at what cost. We also wanted to obtain the views of city and county housing officials toward block grants as a mechanism for providing housing assistance to low- and moderate-income families.

Information to address these two objectives was collected through the mail by two standardized questionnaires and detailed reviews at four major entitlement cities. A detailed description of how these questionnaires were developed is presented later in this section.

SAMPLE SELECTION

Initially, we compiled a list of 664 CDBG entitlement communities (579 cities and 85 counties) from the Department of Housing and Urban Development's management information records. This list represents all of the entitlement locations, except for the four cities where we reviewed CDBG housing activities. One of the two standardized questionnaires was sent to each of these entitlement locations.

To determine which questionnaire version would be sent to each location, the 664 locations were randomly assigned to one of five sampling groups. Assignment was made using a stratified random sampling technique, where stratification was based on estimated 1978 population size. Five population strata were used. To verify that the five sample groups were similar, the incidence of nonwhite population was compared with the total population for locations with populations over 100,000, using the 1970 Statistical Abstract of the United States. Results of this analysis indicated that the sampling technique yielded five comparable lists of CDBG entitlement locations.

Two mailings were used in this survey. In the first mailing, a cover letter, questionnaire, return envelope, and a post card were sent. The post card, which participants were asked to send back immediately after receiving the questionnaire, helped us to identify those communities which may not have received our initial mailing. Six weeks after the first mailing, all communities which had not returned a questionnaire were sent a second questionnaire packet. Most cities which did not return a completed questionnaire within 10 weeks after the first mailing were contacted by telephone to encourage participation.

QUESTIONNAIRE DESIGN

Our goal throughout the survey was to design a questionnaire which could be completed without unreasonable burdens on the respondents. We determined that requesting 3 staff days during a month was reasonable. This time frame was based on recordkeeping practices at eight pretest cities and counties and the opinions of local government officials. The cities which participated in the pretest were: Hartford, Connecticut; Baltimore, Maryland; Harrisburg and Pittsburgh, Pennsylvania; and Alexandria and Richmond, Virginia. Participating counties were: Montgomery County, Maryland, and Allegheny County, Pennsylvania.

Our original draft questionnaire requested information about the two topics covered in this survey (housing activities and attitudes toward block grants for housing). Since we assumed it would take more than 3 staff days to complete a questionnaire which would adequately cover all of the topics, we divided the topics into two groups. One version of the questionnaire would cover attitudinal issues, while the remaining version would cover housing assistance activities, including methods of financing and beneficiary descriptions.

Modifications associated with respondent burden fell into two broad categories--accessibility of information and extent of housing assistance programs. Regarding the accessibility of information, modifications were made so that examination of individual case files for housing aid was kept to a minimum. Furthermore, existing approaches for tabulating information were adopted. Consequently, the respondents did not have to categorize their data in unfamiliar formats.

The problems associated with the extent of housing assistance programs were more difficult. Some entitlement communities provided housing assistance through a vast array of housing activities. Therefore, even if the questionnaire only asked for elementary information (which it did not), the respondent would have to answer many burdensome questions. Since the survey also focused on financing methods, it became critical to understand the nature of how housing activities and financing methods interacted.

Consequently, we sent a mailgram questionnaire to 200 entitlement communities to identify the frequency that (1) housing activities were performed and (2) finance methods were used with each housing activity. We termed the housing activity and finance method combinations "housing interventions." In the final survey we identified 20 housing activities and 12 finance methods, for a total of 240 possible housing interventions. Based on the frequency that each housing intervention was used, as reported by 105 mailgram questionnaire respondents, we assigned the 240 housing interventions into four groups of 60 housing interventions. Each of the four questionnaire versions on housing experiences requested detailed information on 60 different housing interventions which equated respondent burden across the four sample groups.

The local attitudes questionnaire

Since the specific design of a housing block grant was not established, local housing officials were asked to give their opinions on various major design issues. For example, this section of the questionnaire involved collecting information about distribution formulas; the role of other government and private organizations; targeting; eligible housing activities; consolidating other Federal housing programs; and the importance of various planning, implementing, and evaluating activities. The purpose of these questions was to gather opinions on housing block grant design from those local CDBG officials who have directly managed local housing programs.

In addition to these local attitudinal questions, a general description of CDBG housing activities and demographic information was collected. From this data we were able to analyze attitudes in terms of demographic profiles of cities and counties.

Experiences under the CDBG program questionnaires

In addition to questions concerning demographics and a general description of CDBG housing activities, the four questionnaire versions on housing experiences requested detailed information on ways in which entitlement communities have provided housing assistance since the CDBG program began. Each version requested data on 60 of 240 possible housing interventions which they financed with CDBG program funds. If a housing activity was financed by two or more methods, communities also provided detailed information on these housing assistance activities.

Detailed information requested for each housing intervention included its recency of use; amount of funds spent; sources of funds; number and type of beneficiaries; maximum, minimum, and average assistance payments; eligibility requirements; and involvement in other Federal housing programs.

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