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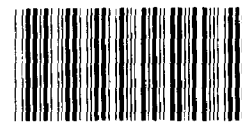
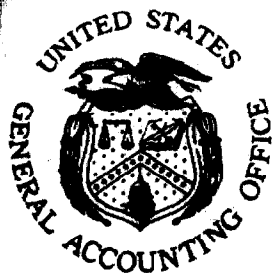
General Accounting Office

Housing Block Grant Activity In Dallas: A Case Study

Many cities have used Community Development Block Grant funds to develop and implement a wide variety of housing activities. This case study of experiences in one city--Dallas, Texas--provides insight on the kind and extent of housing activity under the Community Development Block Grant Program.

Dallas received \$75 million since 1975 in Community Development Block Grant Program funds, \$22 million (29 percent) of which was allocated for housing assistance activities. The remaining \$53 million was used for nonhousing related activities such as economic development and public works.

This study discusses the programs designed by the city, what they cost, and who has benefited. It also discusses the views of Dallas housing officials toward an overall housing block grant program.



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GAO/CED-82-75

APRIL 30, 1982

022074

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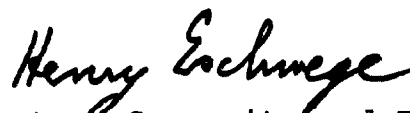
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FOREWORD

Considerable interest in consolidating Federal housing programs into some form of block grant has existed for years. Examples of this interest are (1) 1980 legislation requiring a Department of Housing and Urban Development study of the subject, (2) a variety of Housing and Urban Development demonstration projects, (3) a current administration budget proposal to create a rental housing rehabilitation block grant program, and (4) a recommendation by the President's Commission on Housing to expand the eligible activities under the Community Development Block Grant (CDBG) Program to include constructing new housing units. While no one knows the full ramifications of creating a major new block grant for housing or significantly altering the CDBG Program, this study shows what happened in the past when a local government-- Dallas, Texas--designed and implemented housing programs under the CDBG Program.

This case study is only a portion of our work on the housing block grant issue that focused on local governments' experiences under the CDBG Program. We have developed additional case studies on block grant housing activities in several other cities to provide a perspective on each city's experience in providing housing assistance. Our overall study on the housing block grant issue includes two national surveys of all CDBG entitlement cities and urban counties, as well as the case studies. The surveys are designed to provide an overview of local experiences and capabilities and attitudes toward a housing block grant program. This information should be useful to the Congress if it considers a new housing block grant or alters the role of housing under the CDBG Program.

Unless otherwise stated, the information in this study was provided by the city of Dallas and was not independently verified.



Director, Community and Economic
Development Division

D I G E S T

This case study examines local housing activities under the Community Development Block Grant program in Dallas, Texas. The study is one of several GAO is preparing to assist the Congress and others by describing how certain cities and counties have used block grant funds to provide and improve housing for low- and moderate-income families. (See p. 10.)

The Congress is currently considering various alternatives for administering Federal housing subsidies, one of which would consolidate categorical programs into a single block grant for housing. Various issues have been raised concerning block grants for housing, including the overall program design and local government capacity to design and implement housing programs.

Under title I of the Housing and Community Development Act of 1974, as amended, Federal funds are provided annually to certain local governments--like Dallas--to augment their community development activities. The program authorized by the act consolidated a number of previous Federal categorical programs such as urban renewal. Major cities and many large counties receive grants for which they are given latitude to set priorities, design programs, and fund projects which meet their local needs in such areas as streets, parks, public works, and housing. (See p. 7.)

AN OVERVIEW OF HOUSING ACTIVITY IN
DALLAS WITH COMMUNITY DEVELOPMENT
BLOCK GRANT FUNDS

Dallas is a city with a population of more than 900,000 and has been experiencing substantial population growth. To help rehabilitate its aging housing stock, the city has used 29 percent of its Community Development Block Grant funds for housing related activities. The remaining 71 percent has been used for activities such as economic development and public works.

To date, the city has received \$75 million from the U.S. Department of Housing and Urban Development under the Community Development Block Grant Program. Of this amount, the city allocated \$22 million to housing-related activities, of which \$9 million (42 percent) has been used to fund nine specific housing programs and \$13 million (58 percent) for indirect and administrative programs. (See pp. 8 and 9.)

Dallas has used Community Development Block Grant funds mainly for code enforcement activities; for direct assistance to low to moderate income elderly and minority homeowners in the form of conditional grants (conditional grants become payback loans if certain conditions are not met, such as holding the property for a certain period of time); and for public housing rehabilitation programs.

Dallas has used seven types of housing interventions. A housing intervention is a combination of housing activity and a financing method. For example, a housing rehabilitation program that provides loans and grants would be considered as having two housing interventions. Further, if both renters and owner-occupants were eligible, the program would have four interventions. (See p. 12.)

The housing interventions GAO identified were:

- Rehabilitation of 515 single family units, with the city providing conditional grants totaling \$1,877,616.
- Rehabilitation of 134 single family units, with the city or a city-contracted agency providing full loans totaling \$1,441,020.
- Relocation of 63 families from flood plain areas, with the city providing full grants totaling \$1,356,272.
- Rehabilitation of 105 low-rent public housing units, providing smoke detectors for 2,311 units, and 3 trash compactors serving 434 units by the city's housing authority (direct expenditures), totaling \$1,175,000.

- Rehabilitation of 30 single family units, with the city providing conditional grant/loan combinations totaling \$300,869.
- Rehabilitation of 49 single family units, with the city guaranteeing loans totaling \$286,158.
- Relocation of 3 houses, with the city guaranteeing loans totaling \$277,000.

SUBSTANTIAL FUNDS SPENT ON INDIRECT
AND ADMINISTRATIVE PROGRAMS

Of the \$10.7 million spent for indirect and administrative programs, more than \$6.5 million was spent on code enforcement activities. (See p. 9.)

City officials told GAO that with the housing funds spent for code enforcement activities, they had identified 57,200 housing units violating the city's housing code which were then corrected by the owner (47,568 units) and by the city through demolition (9,632 units). The Department of Housing and Urban Development has questioned the city about using such a large percentage of its funds for code enforcement rather than for loan and grant programs for low-income households. The city is re-evaluating its approach in order to provide a better mix of housing activity. (See p. 17.)

The city estimated that it spent an average of \$1,042 to process each loan or grant from the initial application to construction completion. GAO estimated that the city spent \$21 on administrative costs for every \$100 spent in providing direct assistance (loans or grants). City officials said that the city's administrative costs were high because, in contrast to private-sector lenders, the city provided beneficiaries with important services such as awarding contracts and inspecting work during construction. (See p. 50.)

CITY OFFICIALS SUPPORTED
HOUSING BLOCK GRANTS

City housing officials told GAO that they generally supported the move toward housing block grants and were optimistic about being able to administer a block grant program. They predicted some difficulty in acquiring the technical staff

needed to administer the programs, but believed that this could be overcome by contracting with private management firms. (See p. 60.)

City housing officials said that block grant funding should come directly to the city without State involvement in the process. One official said that, by involving the State, administrative costs would increase and difficulties would be encountered in gaining control over funding and program benefits. (See p. 59.)

The housing officials said that the Federal Government's involvement in a housing block grant program should focus on performing fiscal audits and evaluating program effectiveness. One official emphasized that local governments should also be fully committed to making both types of reviews. These officials said that the Federal Government should impose sanctions on local governments when fraud, waste, or abuse are discovered. (See p. 61.)

OTHER STUDIES

Several other groups are also addressing related housing issues. The President's Commission on Housing (established by Executive order on June 16, 1981) recommended that the successful Community Development Block Grant Program be strengthened by allowing funds to be used for new construction when for-profit developers are involved. The Commission believed an effective block grant program was needed along with a consumer housing assistance grant program (vouchers) to provide adequate, affordable housing. Also, the Department of Housing and Urban Development, by direction of the Congress, is conducting a comprehensive examination of the feasibility of a housing assistance block grant program. At the time of GAO's review, the study was not yet published. Finally, the Department has been experimenting with a separate block grant for rehabilitating rental properties and has proposed such a program in its 1983 budget. (See p. 10.)

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ABBREVIATIONS

GAO	General Accounting Office
CDBG	Community Development Block Grant
HUD	Department of Housing and Urban Development

CHAPTER 1

AN OVERVIEW OF DALLAS'

HOUSING PROGRAMS AND PROBLEMS

Dallas, Texas, is a large, expanding city with a growing population. An attractive location for various corporations and industries, its population has increased 14 percent since 1970. Many of its housing units, however, are over 20 years old and in need of general repair. This chapter discusses the city's housing needs and gives an overview of its policies and programs to meet these needs.

HOUSING CONDITIONS, NEEDS, AND GOALS

Dallas' 380 square miles make it the seventh largest city in the Nation--larger than the combined areas of Baltimore, Cleveland, St. Louis, Boston, San Francisco, and the District of Columbia. Dallas' increasing population--now at 904,000--is due in large part to the many companies attracted to the city's relatively low cost of living, mild climate, balanced economy, and proximity to the southwest trade market. The largest increases in the city's population have been in its northern section where residents have increased 66 percent from 1970 to 1980. The sharpest declines in population have been in two inner city areas, where population decreased 24 percent between 1970 and 1980. Since 1970, Black and Spanish-origin residents increased by about 55,000 and 43,000, respectively, and now constitute 42 percent of the total city population compared to 33 percent in 1970. The area's median household income, as of 1980, was \$18,000. Fifty-four percent of Dallas residents owned their homes in 1980.

Housing conditions

The following information gives an overall perspective of housing conditions in Dallas:

- The city had 381,065 housing units in 1980 (a 65-percent increase from 1960). Of these, 208,442 were owned and 173,522 were rented.
- Approximately 150,000 housing units (40 percent) were 20 years old or older.
- The number of substandard housing units in the city is increasing. As of 1980, 69,480 (18 percent) of the city's housing units were substandard. About 85 percent of these units were located in 5 of 12 community areas.
- New housing construction has averaged over 7,600 units per year during the last 8 years and is predominantly oriented toward multifamily units.

Housing needs

Homeowners were considered as needing housing assistance if they resided in a unit which

--lacked essential plumbing,

--was overcrowded, or

--was 30 or more years old and had a market value of less than \$7,500.

Renters needed assistance if they met either of the first two conditions above or if they paid more than 25 percent of their income for rent. There are 42,611 households in Dallas that qualify for housing assistance. This data is heavily weighted toward renters who pay more than 25 percent of their incomes toward rent. In fact, of the 36,756 rental households qualifying for assistance, about 75 percent were in this group. Overall, about half the households with housing needs are small families (2 to 4 persons), while the remaining half is evenly distributed between elderly and large family households. The following table summarizes the housing needs of lower income households.

Households in Need of Housing Assistance

	<u>Elderly</u>	<u>Small family</u>	<u>Large family</u>	<u>Total</u>
Owners	2,400	1,875	1,580	5,855
Renters	<u>7,341</u>	<u>21,688</u>	<u>7,727</u>	<u>36,756</u>
Total	<u>9,741</u>	<u>23,563</u>	<u>9,307</u>	<u>42,611</u>

The following table shows minority housing assistance needs.

Minority Households in Need of Housing Assistance

	<u>Elderly</u>	<u>Small family</u>	<u>Large family</u>	<u>Total</u>
Owners	725	1,180	1,370	3,275
Renters	<u>1,775</u>	<u>12,325</u>	<u>5,780</u>	<u>19,880</u>
Total	<u>2,500</u>	<u>13,505</u>	<u>7,150</u>	<u>23,155</u>

SOURCE: 1979-82 Housing Assistance Plan, Department of Housing and Urban Rehabilitation, City of Dallas.

Thus, of the 42,611 households in need, 23,155 (54 percent) are minorities. Renters--especially small families--are the largest kind of minority households in need of housing assistance.

Housing goals

The city set forth housing policies in a comprehensive housing plan adopted by the city council in 1977-78. In this document, four sets of goals and objectives were outlined and they focus on

- conserving housing through rehabilitation;
- assuring that housing investment, reinvestment, and maintenance resources are available to all residents;
- maintaining decent, safe, and sanitary housing; and
- encouraging the development and maintenance of adequate supplies of housing with balanced opportunities between high-, middle-, and low-cost units.

In addition to the above goals, the city has a stated goal of implementing appropriate planning, monitoring, and evaluation capabilities.

To meet these objectives, the city has designed various housing programs to provide housing assistance under the Community Development Block Grant (CDBG) program and other Federal housing programs. Chapters 2 through 6 give a detailed discussion of the various programs the city administers under the CDBG program.

HOUSING PROGRAMS IN DALLAS

Dallas has developed a number of programs to provide housing assistance under the CDBG program and other Federal subsidy programs. Each program was designed to meet specific needs of various population groups. The following chart shows the expenditures in Dallas for Federal subsidy programs from January 1, 1975, to June 30, 1981.

Expenditures in Dallas for
Federally Subsidized Housing Activities
January 1, 1975, to June 30, 1981

<u>Expenditure category</u>	<u>Total expenditures</u>		<u>Number of housing units</u>
	<u>Amount</u>	<u>Percent</u>	
<u>HUD program in which assistance is given directly to recipients</u>			
Rent Supplements Program	\$ 20,960,012		2,402
Section 8 Set-Aside Program	15,841,154		2,817
a/Section 8 Existing Program	15,264,513		3,024
Section 8 rent subsidies-- new construction	3,566,985		748
b/Section 312 Loan Program	2,370,850		179
b/Urban Homestead Program	1,447,273		366
Flexible Subsidy Program	<u>1,099,861</u>		<u>1,180</u>
Sub-total: HUD direct programs	60,550,648	36	10,716
<u>Dallas Housing Authority projects</u>			
Operating subsidies	36,305,384		7,300
Modernization programs	23,192,021		6,590
Section 8 rent subsidies - new construction	<u>1,708,911</u>		<u>423</u>
Total: Dallas Housing Authority projects	61,206,316	37	14,313
<u>CDBG expenditures by City of Dallas</u>	<u>17,013,425</u>	10	<u>899</u>
<u>Total Federal funds</u>	<u>138,770,389</u>	83	<u>25,928</u>
<u>Private funds - Section 8 new construction</u>	<u>28,655,819</u>	17	<u>1,073</u>
<u>Total: Federal and private funds</u>	<u>\$167,426,208</u>	100	<u>c/ 27,001</u>

a/Applicants are screened and approved by the Dallas Housing Authority.

b/Applicants screened and approved by the Department of Housing and Urban Rehabilitation, city of Dallas.

c/Units may have been counted in more than one expenditure category.

Source: Department of Housing and Urban Development Area Office, Dallas, Texas; and Department of Housing and Urban Rehabilitation, city of Dallas.

PROVIDING HOUSING ASSISTANCE IN DALLAS

Providing housing assistance in Dallas involves three major government organizations:

- The Department of Housing and Urban Development (HUD)
Area Office
- The Department of Housing and Urban Rehabilitation, City of Dallas
- The Dallas Housing Authority

HUD area office

HUD's area office in Dallas monitors for use of federal funds for rental assistance, rehabilitation, and new construction. Its primary functions under the CDBG program are to review the city's application for CDBG funding and to review program activities. This office also maintains contact with city housing officials to make sure their program efforts meet the goals in the city's Housing Assistance Plan. HUD's primary program responsibilities are:

- Rent Supplement. Payments are made on behalf of eligible tenants to privately owned multifamily housing complexes insured by the Federal Housing Administration.
- Section 8 New Construction. HUD guarantees rent assistance payments for a predetermined percent of low-income occupants of new units. Sponsors of projects have been the Dallas Housing Authority, nonprofit organizations, and private builders that obtain financing on the local market. Since 1975, 1,194 units in seven projects have been completed and construction is underway on an additional 300 units in two complexes.
- Section 202. Through this program direct loans to non-profit and limited dividend sponsors are given to construct new multifamily projects for the elderly and handicapped. Since 1975, builders have neared completion on 517 units in four projects, while an additional 288 units in three projects have HUD approval.
- Section 8 Set Aside. This program was designed to (1) reduce claims on HUD's mortgage insurance funds by stabilizing troubled multifamily projects and (2) assure the availability of units to low- and moderate-income families.
- Flexible Subsidy. HUD directly supports financially troubled multifamily projects which have federally insured mortgages. Funds are given to projects which demonstrate future ability to avoid financial problems.

Other programs, which have been administered by the city of Dallas with HUD oversight, are the Section 312 Loan Program and the Urban Homestead Program. Through section 312, HUD gives direct loans to homeowners and owners of multifamily projects within the CDBG target area to make property improvements. Loans are limited to \$27,000 per dwelling unit and carry an interest rate of 3 percent with terms up to 20 years. The Urban Homestead Program consists of making HUD repossessed government homes (primarily those constructed under the section 235 program) available for \$1 in periodic public drawings. Those who receive homes must agree to bring the unit up to HUD's minimum standards within 6 months after assuming ownership.

Department of Housing and Urban Rehabilitation

The Department of Housing and Urban Rehabilitation is responsible for planning and managing CDBG housing activities, performing inspections of nonresidential structures, administering procedures under fair housing laws, and providing relocation funds and services to citizens having to relocate due to city programs. As of June 30, 1981, this department had 306 employees and 8 field offices throughout the city. The table below shows the number of employees supported by CDBG funding as of June 30, 1981.

Number of Employees Funded
by CDBG as of June 30, 1981, Department of Housing
and Urban Rehabilitation--City of Dallas

	<u>Number</u>	<u>Percent</u>
Code enforcement and related activities	67	
Home Loan Division	37	
Research and Information Division	8	
Relocation Section	<u>4</u>	
CDBG funded positions	116	38
Remaining employees	<u>190</u>	<u>62</u>
Total	<u>306</u>	<u>100</u>

Source: Department of Housing and Urban Rehabilitation, city of Dallas.

Dallas Housing Authority

The Dallas Housing Authority--an independent, nonprofit agency--was established in 1938 to provide low-income families with clean, decent, and affordable housing. To be eligible for housing authority sponsored housing, an applicant's income

cannot exceed established levels--adjusted for family size. At the end of 1980, the housing authority was providing housing under the following programs:

- Public housing projects. There were 6,175 housing units in 15 projects ranging in size from 102 to 1,474 units. Occupants were paying an average rent of \$45 per month.
- Housing for the elderly, disabled, and handicapped. The authority has 1,043 units of this type of housing in five complexes. These projects were built under section 8 and section 202 programs.
- Turnkey III housing. This is a public housing homeownership program for qualified low- and moderate-income families who might otherwise be unable to purchase a home. Every month residents build credits toward a downpayment by performing maintenance on their homes. Similar to other housing assistance programs, Turnkey III residents pay no more than 25 percent of their adjusted income less a utility allowance as a monthly house payment. A total of 385 single-family homes are located in two subdivisions in Dallas.
- Section 8 existing housing. This program allows low- and moderate-income persons to rent quality housing at affordable prices in neighborhoods of their choice. Designed to help families, handicapped and disabled persons, and persons 62 years old and older, the program allows participants to pay no more than 25 percent of their adjusted monthly income for rent. The balance of the rent is paid directly to the landlord by the housing authority.
- Section 8 moderate rehabilitation. This program is designed to provide incentives for local private non-profit and profit organizations to rehabilitate existing housing for low-income people. The authority administers the construction contracts, but as of June 30, 1981, no projects have been completed.

THE COMMUNITY DEVELOPMENT
BLOCK GRANT PROGRAM

Under Title I of the Housing and Community Development Act of 1974, as amended, Federal funds are provided annually to certain local governments--like Dallas--to assist their community development activities. The CDBG program, authorized by the act, consolidated a number of previous categorical programs such as Urban Renewal and Model Cities. Under the CDBG program, major cities and many large counties are entitled to receive grants, the amount of which is based upon an entitlement formula that considers population, poverty, housing conditions, and other factors.

CDBG activity in Dallas

Between July 1975 and June 30, 1981, HUD allocated \$75 million in CDBG funds for Dallas, and of this total, the city had authorized \$22 million (29 percent) for housing programs, including related support activities and administration. Through June 30, 1981, \$17 million had actually been spent by Dallas, and about 800 households had received grant and/or loan assistance. Other households also have benefited--albeit indirectly--from home repair training programs, code enforcement efforts, and other support activities. Some programs such as the Neighborhood Housing Services, Inc., Loan Program are targeted to specific geographic locations within a broad CDBG target area. Others, such as direct loans and grants, are available citywide. CDBG funds have also been incurred to encourage interest in housing redevelopment in deteriorated neighborhoods. (See app. I for a map of community development designated areas.)

The following page summarizes the CDBG-related housing programs and the funds allocated and spent for these programs in Dallas over the 6-year period ending June 30, 1981.

CDBG Funds Allocated and Spent
for Housing Activities in Dallas
(July 1975 to June 1981)

<u>Direct programs</u>	<u>Allocated</u>		<u>Expenditures</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Home repair grant	\$2,968,000	13.5	\$2,075,286	12.2
Flood plain relocation	1,423,000	6.5	1,356,272	8.0
Guaranteed loan	1,235,000	5.6	a/ 38,154	.2
Public housing improve- ments	1,175,000	5.4	1,175,000	6.9
Neighborhood Housing Services loan	990,000	4.5	779,433	4.6
Low-interest loan	985,000	4.5	852,731	5.0
Loan leveraging	150,000	.7	0	-
Historic preservation	150,000	.7	0	-
House moving	145,000	.7	a/ 65,025	.4
	<u>9,221,000</u>	<u>42.1</u>	<u>6,341,901</u>	<u>37.3</u>
 <u>Indirect programs</u>				
Code enforcement	7,541,000	34.4	6,552,109	38.5
Home repair training	375,000	1.7	256,705	1.5
Condominium conversion	172,000	.8	513	-
Apartment improvement	143,000	.7	91,609	.5
Other	78,000	.4	81,047	.5
	<u>8,309,000</u>	<u>38.0</u>	<u>6,981,983</u>	<u>41.0</u>
 <u>Administrative</u>				
Home loan division	2,443,000	11.2	2,017,023	11.9
Housing research and information division	1,493,000	6.8	1,345,117	7.9
Neighborhood housing services	431,000	2.0	327,401	1.9
	<u>4,367,000</u>	<u>20.0</u>	<u>3,689,541</u>	<u>21.7</u>
 Total	 <u>\$21,897,000</u>	 <u>b/100.0</u>	 <u>\$17,013,425</u>	 <u>100.0</u>

a/Funds placed in escrow and not actually spent.

b/Does not add due to rounding.

Source: Department of Housing and Urban Rehabilitation,
city of Dallas.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Congress is currently considering the possibility of consolidating a number of categorical housing programs into one block grant program and has directed HUD to conduct a comprehensive examination of the feasibility of a housing assistance block grant program. Also, the President's Commission on Housing is evaluating how best to provide housing to those in need. We undertook this case study, as part of an extensive review of housing activities under the CDBG program, to provide the Congress with an empirical base for its deliberations. This extensive review includes three additional case study cities--Pittsburgh, Seattle, and St. Louis--and the compilation and analysis of responses to detailed questionnaires sent to more than 650 cities and counties receiving CDBG funding. The study should provide the first comprehensive view of all CDBG housing activities--what was done, for whom, and at what cost. Also included are the attitudes of city and county officials toward housing block grants as a mechanism for providing housing assistance to low- and moderate-income families.

Our approach in this case study of Dallas--the third in a series of case studies--was to look at CDBG housing activities during the first 6 program years (July 1975 to September 1981). Using June 30, 1981, as our cutoff date (program funds were not always obligated or spent in the year authorized), we reviewed data on the nine CDBG funded housing programs.

Based on our preliminary work on CDBG housing activities, we decided to collect data on housing activity/financial subsidy mechanisms (so-called interventions) rather than housing programs. We believe this approach will provide a better understanding of the CDBG housing activities taking place and the individuals benefiting. Therefore, a housing rehabilitation program that provides loans and grants would be considered as having two housing interventions. If both renters and owner-occupants were eligible, the program would have four interventions.

The raw data used in our tables and charts was provided by city agencies, and we did not verify to source documents that the data was accurate. However, we did selectively review case files on all the programs and we visited properties that were or are being rehabilitated. The photographs were provided by the city at our request.

We conducted our review at the Department of Housing and Urban Rehabilitation, Department of Urban Planning, and the Office of Management Services, city of Dallas. We also visited the Neighborhood Housing Services, Inc., Dallas. At these locations we interviewed program officials and obtained information on housing program activities. We met with:

Richard Wilson, Director, Department of Housing and
Urban Rehabilitation

Mark Wassenich, Assistant Director, Department of Housing
and Urban Rehabilitation

Stephen Smith, Administrative Assistant, Department of
Housing and Urban Rehabilitation

Ron Skopek, Director, Community Development Grant
Administration, Office of Management Services

Roger Jones, Director, Neighborhood Housing Services, Inc.

Marvin Krout, Program Manager, Neighborhood and Community
Development Planning, Department of Urban Planning

We also met with HUD area office officials and officials of
five lending institutions--First Texas Savings Association; Texas
Federal Savings and Loan; Dallas Federal Savings and Loan;
Metropolitan Savings and Loan; and Guardian Savings and Loan.

This study presents a history of CDBG housing activity in
Dallas and is not intended to comprehensively evaluate program
effectiveness. In this case study, we used the same data collec-
tion instrument as was used in our other case study cities. In
this way, we believe that a certain degree of uniformity was
obtained in collecting housing program data. Also, the case study
was reviewed by Dr. Robert K. Yin of The Case Study Institute,
Washington, D.C., for appropriateness of methodology and format.

We discussed the results of our work with city of Dallas and
HUD area office officials and asked them to verify the contents
of the case study. Where applicable, their suggestions were
incorporated into the study. The study was performed in accordance
with our current "Standards for Audit of Governmental Organizations,
Programs, Activities, and Functions."

CHAPTER 2

CDBG HOUSING PROGRAMS HAVE PROVIDED

LITTLE DIRECT HOUSING ASSISTANCE IN DALLAS

Dallas' CDBG housing programs had relatively little direct impact on the city's housing and the families needing housing assistance. In fact, the city's nine CDBG direct funded housing programs provided direct assistance to only about 800 out of the city's 353,000 households. Elderly and minority homeowners benefited the most from the CDBG programs. The seven active housing programs cost \$6 million (37 percent) of the \$17 million used for housing activities. Indirect and administrative costs accounted for the remainder (63 percent). The city asserts that its code enforcement program, an indirect housing program partially funded with CDBG funds, has had significant impact. While we did not analyze the code enforcement impact, HUD has questioned the program, and the city is re-evaluating its housing emphasis.

Seven different housing interventions were used in the city's seven CDBG housing programs. 1/ (See chart on the following page.) The seven housing interventions we identified were:

- Rehabilitation of 515 single family units, with the city providing conditional grants totaling \$1,877,616.
- Rehabilitation of 134 single family units, with the city or a city-contracted agency providing full loans totaling \$1,441,020.
- Relocation of 63 families from flood plain areas, with the city providing full grants totaling \$1,356,272.
- Rehabilitation of 105 low-rent public housing units, providing smoke detectors for 2,311 units, and providing 3 trash compactors for 434 units by the city's housing authority. These were direct expenditures totaling \$1,175,000,
- Rehabilitation of 30 single family units, with the city providing conditional grant/loan combinations totaling \$300,869.

1/As of June 30, 1981, two of the city's nine housing programs had not spent any funds. From this point on, we will be identifying only those interventions which were funded. See ch. 6 for a discussion of the two programs.

DALLAS HOUSING INTERVENTIONS USING CDBG FUNDS (note a)

	<u>CDBG funding (other) in millions</u>	<u>Number of loans/grants (other)</u>	<u>Average CDBG loan/grant (other)</u>	<u>Number of housing units</u>	<u>Average CDBG unit financing (total)</u>	<u>Targeted area</u>	<u>Eligibility criteria</u>	<u>Recipient characteristics</u>
Rehabilitation (owner-occupied);								
Home Repair Grant - provides conditional grants up to \$7,500	\$1.9	515	\$ 3,646	515	\$ 3,646	Citywide	Over 64 years old or handicapped	Elderly (83 percent), minority (70 percent), less than \$7,000 income (96 percent).
Low-Interest Loan - 0 to 3 percent interest direct loans	.7 <u>b/ (.1)</u>	85 (6)	8,675 (18,550)	85	8,675 (9,984)	Citywide	HUD's below market interest rate criteria	Nonelderly (72 percent), minority (75 per- cent), less than \$10,000 income (49 percent).
Combination of Home Repair Grant and Low-Interest Loan conditional grant loan	.2 .1	30 30	6,183 3,846	30	6,183 (10,029)	Citywide	See above	Elderly (73 percent), minority (63 percent), less than \$7,000 income (97 percent).
Neighborhood Housing Service - low interest direct loan	.7	49	14,361	49	14,361	3 specific neighbor- hoods	None	Nonelderly (86 percent), minority (78 percent), less than \$10,000 income (75 percent).
Guaranteed Loan - not to exceed a 10-percent interest rate	<u>c/ .1</u> <u>d/ (.3)</u>	- (49)	- (5,840)	49	2,937 (8,777)	Citywide	Occupying a substandard unit	Nonelderly (94 percent), minority (88 per- cent), less than \$15,000 income (76 percent).
Total rehabilitation (owner-occupied)	<u>e/ 3.8</u> (.4)	709 (55)	5,105 (7,227)	728	5,170 (5,716)	Citywide	Over 64 years old or handicapped	Elderly (67 percent), minority (72 percent), less than \$7,000 income (77 percent).
Public housing rehabilitation	1.2	-	-	105	11,190	Public housing	Public housing	Unknown.
House moving - guaranteed loans	<u>c/ .1</u> <u>d/ (.3)</u>	- (3)	- (92,333)	3	21,675 (114,008)	Specific neighborhoods		Unknown.
Relocation grants	<u>1.4</u>	<u>63</u>	<u>21,528</u>	<u>63</u>	<u>21,528</u>	Flood areas	Uniform Relocation Act	Low-income black households.
Total	<u>e/\$6.4</u> \$(.7)	772 (58)	\$ 6,445 \$(11,629)	899	\$ 7,074 \$(7,824)	Citywide	Over 64 years old	Elderly, minority, income less than \$7,000.

a/July 1975 to June 1981.

b/HUD's section 312 funds.

c/Funds placed in escrow not actually spent.

d/Bank loans.

e/Does not add due to rounding.

--Rehabilitation of 49 single family units, with the city guaranteeing loans totaling \$286,158.

--Relocation of 3 houses with the city guaranteeing loans totaling \$277,000.

The remainder of this chapter discusses the individual housing interventions and programs.

REHABILITATING OWNER-
OCCUPIED HOUSING--THE PRIMARY
HOUSING ASSISTANCE PROGRAM

Dallas' major CDBG housing activity was rehabilitating owner-occupied units using four different subsidy mechanisms. About \$3.8 million (59 percent) of the \$6.4 million spent on CDBG housing programs went toward owner-occupied housing unit rehabilitation. The major subsidy mechanism was conditional grants--grants which will not have to be paid back if certain conditions are met.

The city provided 709 grants and loans totaling \$3.6 million to rehabilitate 679 housing units (averaging \$5,331 per unit) and guaranteed an additional 49 bank-financed loans totaling \$286,158. Of the 709 loans and grants, 545 (77 percent) were conditional grants. Recipients were predominantly elderly (67 percent), minority (72 percent) and with incomes less than \$7,000 (77 percent).

Most of the remaining funds (38 percent) spent by the city on CDBG housing programs went to rehabilitate 105 units of a 650-unit public housing project (\$1 million) and to relocate families away from flood plain areas (\$1.4 million). The flood plain program is no longer operational.

GRANTS AND LOANS MAINLY PROVIDED BENEFITS
TO ELDERLY AND MINORITY HOUSEHOLDS

The city's different loan and grant programs provided assistance to low- and moderate- income homeowners throughout the city. Overall, elderly and minority homeowners benefited the most from the city housing programs.

Contrasting the beneficiaries of the city's housing programs against Dallas' housing assistance needs showed that the elderly and minority heads of households were being served the best by the city's housing interventions as compared to their estimated proportion among those in need. However, renters and homeowner households with more than four members were not as well served by the interventions. The table on page 16 illustrates this.

Percent Participation in Dallas CDBG
Housing Programs by Category of Recipient
Compared to Housing Assistance Needs

<u>Type of program</u>	<u>Recipients</u>	<u>Head-of-household</u>		
		<u>White</u>	<u>Black</u>	<u>Other</u>
		(percent of recipients)		
Grants	515	30	55	15
Loans	134	24	58	18
Loan/grant combinations	30	37	60	3
Guaranteed loans	<u>49</u>	<u>12</u>	<u>86</u>	<u>2</u>
Total	a/ <u>728</u>	<u>28</u>	<u>58</u>	<u>14</u>
Percent of all Dallas homeowners needing assistance		44	45	11
Difference		(16)	13	3

a/An additional 66 recipients also received assistance, however, demographic data was not available.

Percent Participation in Dallas CDBG
Housing Program by Family Type
Compared to Housing Assistance Need

<u>Type of program</u>	<u>Recipients</u>	<u>Family size</u>		
		<u>Elderly</u>	<u>Small</u>	<u>Large</u>
		(percent of participation) (note a)		
Grants	515	83	14	2
Loans	134	23	63	13
Grant/loan combinations	30	73	20	7
Guaranteed loans	<u>49</u>	<u>6</u>	<u>76</u>	<u>18</u>
Total	<u>728</u>	<u>67</u>	<u>28</u>	<u>5</u>
Percent of all Dallas homeowners needing assistance		41	32	27
Difference		26	(4)	(22)

a/Does not always add to 100 percent due to rounding.

Another way of analyzing the impact of the city's CDBG housing programs is to compare households needing assistance to those receiving assistance. Such an analysis also showed elderly and minority households being served the best.

Comparison of Housing Needs to
Assistance Provided

<u>Recipients by</u>	<u>Number needing housing assistance</u>	<u>Number receiving assistance</u>	<u>Ratio of assisted households to those in need</u>
<u>Race</u>			
White	2,580	201	8:100
Black	2,620	424	16:100
Hispanic and other	655	103	16:100
<u>Family size</u>			
Elderly	2,400	486	20:100
Less than 4	1,875	202	11:100
4 or more	1,580	40	3:100

SUBSTANTIAL FUNDING WAS PROVIDED FOR
INDIRECT AND ADMINISTRATIVE PROGRAMS

The city spent \$10.7 million (63 percent) of its CDBG housing funds for indirect and administrative expenses. More than 60 percent of the \$10.7 million went for the city's code enforcement program. According to city officials, the program has been very successful in identifying and correcting housing code violations. Administrative expenses totaled \$3.7 million (22 percent) and was about three-fifths as large as the direct housing program expenditures.

Code enforcement--a major
rehabilitation effort

Few housing units have been rehabilitated using the city's direct housing programs; however, the city asserts that significant housing units are being rehabilitated through its code enforcement program. Nevertheless, HUD and city officials are not completely satisfied with code enforcement.

During the first 6 CDBG program years, the city spent \$6.6 million (39 percent) of its housing funds in code enforcement and, despite some criticism from the HUD area office, this activity continues to be an important fixture in supporting CDBG housing programs. The city stated that its code enforcement inspectors, whose salaries are partially funded by CDBG, identified 77,531 units with code violations. Homeowners corrected code deficiencies in 47,568 units, and the city demolished another 9,632.

In the past, city officials have viewed code enforcement as an inexpensive means of eliminating substandard housing and neighborhood conditions, while HUD has taken the position that housing rehabilitation should be weighted to loan and grant programs. Recently, the city's Department of Housing and Urban Rehabilitation officials have been discussing the long-term

viability of code enforcement under current operational policies. Several officials believe that the program has become too selective or discriminatory (i.e., most cases are the result of complaints) and is not undertaken early enough in the stages leading to neighborhood deterioration. At the time of our review, they were considering providing a more balanced approach to solving the city's housing problems, including providing an additional loan/grant program.

Administrative costs were for housing programs and research

The city spent \$3.7 million (22 percent) of its CDBG housing funds for administrative expenses. The two primary administrative expense items were for the Home Repair Grant program (\$1.1 million) and the Housing Research and Information Division (\$1.3 million).

Home Repair Grant program

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 Home Repair Grant program administrative costs were mostly for personnel cost (84 percent).

It appears that these administrative costs are high even though the city provided numerous services to the borrower that private lenders would not, such as awarding contracts and making inspections during construction. According to HUD's Director for the Office of Block Grant Assistance, cities need to be able to provide more direct assistance to beneficiaries even if the result is less control over the assistance process. For example, instead of numerous city inspections during the construction phase, the city could make sure the contractor was adequately bonded 1/ so that job deficiencies would be corrected.

Housing Research and Information Division

Approximately 70 percent of the \$1.3 million spent for the city's Housing Research and Information Division went for salaries and fringe benefits, 15 percent went for supplies, and 15 percent went for contract services. This division is responsible for analyzing housing trends and needs, preparing housing assistance plans, developing program options and proposals, publishing housing data for public use, and maintaining a good relationship with community sectors.

1/A third party insures that the contractor will perform.

CHAPTER 3

REHABILITATING OWNER-OCCUPIED HOUSING

Dallas assisted in the rehabilitation of 728 owner-occupied units during the first 6 years of the CDBG program--making rehabilitation the city's major housing activity. The city primarily provided conditional grants to homeowners for rehabilitation. However, direct loans and guaranteed loans were also used. The primary recipients were low-income, elderly, and minority households.

Four of the seven CDBG funded housing programs involved rehabilitating owner-occupied housing units. These programs used five different subsidy mechanisms. The housing programs and interventions were as follows:

- The Home Repair Grant Program provided conditional grants totaling \$2.1 million to rehabilitate 545 housing units--30 of these grants were used in combination with the Low-Interest Loan Program (two interventions).
- The Low-Interest Loan Program provided direct loans totaling \$852,731 to rehabilitate 115 housing units. The interest rate was 0 to 3 percent based on the borrower's ability to repay.
- The Neighborhood Housing Services Loan Program provided direct loans totaling \$703,670 to rehabilitate 49 housing units. Interest rates varied from zero percent to just below market rates depending on the borrower's ability to repay.
- The Guaranteed Loan Program guaranteed loans totaling \$286,158 for rehabilitating 49 housing units.

THE HOME REPAIR GRANT PROGRAM-- DALLAS' LARGEST CDBG HOUSING PROGRAM

The city has allocated \$2,968,000 to the Home Repair Grant Program for rehabilitation conditional grants. Between program year 1977, when the initial grant was made, and June 30, 1981, 545 grants totaling \$2,063,104 were given. The average grant awarded was \$3,786. Thirty of these grants totaling \$185,488 were combined with \$115,381 in low-interest loans. These low-interest loans and loan/grant combinations are discussed in the following sections. Approximately \$1,134,119--representing 35 percent of program costs--was spent to administer the program.

The program is designed to aid low-income elderly (65 or over), disabled, and/or handicapped homeowners who cannot afford

to rehabilitate their substandard homes at commercial rates. Grants not to exceed \$7,500 per unit are provided to eliminate interior and exterior housing code violations and make weatherization improvements. Handicapped owners can receive an additional grant or loan of up to \$2,500 per unit to eliminate architectural barriers and install special equipment and appliances.

Grants are awarded on a first-come, first-served basis and do not have to be repaid unless the owner rents, sells, or vacates the property before "amortization" is completed. Grants are amortized at \$125 a month. For example, a \$6,000 grant would be amortized over a 4-year period (\$6,000 divided by 125 = 48 months) but if the owner moves and rents the property at the end of 3 years, he must repay \$1,500 in 12 monthly installments of \$125 (the monthly amount still to be amortized). If the owner sells the property or dies within 3 years after receiving the \$6,000 grant, the unamortized balance is repayable on demand, although terms can be arranged for direct heirs. Thus far, repayment has been required on only two grants--one homeowner died and another rented his house.

Recipients may reside anywhere in the city and must meet income levels which are adjusted annually. The following guidelines were in effect from July 30, 1979, to June 30, 1981.

Maximum Annual Income Allowed for Grant
Applicants July 30, 1979 - June 30, 1981
City of Dallas

<u>Family size</u>	<u>Family income</u>	
	<u>July 30, 1979- June 30, 1980 (note a)</u>	<u>July 1, 1980- June 30, 1981 (note b)</u>
1	\$ 4,344	\$ 7,400
2	5,681	8,450
3	7,017	9,500
4	8,354	10,550
5	9,691	11,400
6	11,027	12,250
7	11,278	13,100
8 or more	11,278	13,950

a/State of Texas Department of Welfare guidelines.

b/Housing Community Development Very Low Income guidelines, Department of Housing and Urban Development.

Source: Department of Housing and Urban Rehabilitation, city of Dallas.

The following table shows that the 515 grant recipients were mostly elderly (83 percent), minority (70 percent) and had income under \$5,000 (80 percent). Also, 56 percent were one-person households (data not shown). Two of the housing units rehabilitated under this program are shown on page 23.

Age Group, Ethnic Origin, and Income Range of
Those Who Received Only Conditional Grants Through June 30, 1981
City of Dallas

<u>Age group and ethnic origin</u>	<u>Income range</u>						<u>Unknown</u>	<u>Total</u>	<u>Percent</u>
	<u>\$3,000- or less</u>	<u>\$3,000- 4,999</u>	<u>\$5,000- 6,999</u>	<u>\$7,000- 9,999</u>	<u>\$10,000- 14,999</u>	<u>\$15,000-</u>			
Elderly- over 61									
White	10	98	17	5	-	-	130	25	
Black	47	144	44	3	1	-	239	46	
Spanish	3	14	-	-	1	-	18	3	
American Indian	-	3	-	-	-	-	3	1	
Black & Spanish	1	-	-	-	-	-	1	0	
Other	5	25	5	2	-	1	38	7	
Unknown	-	1	-	-	-	-	1	0	
Total	<u>66</u>	<u>285</u>	<u>66</u>	<u>10</u>	<u>2</u>	<u>1</u>	<u>430</u>	a/ <u>83</u>	
Non-elderly under 62									
White	1	15	3	1	2	-	22	4	
Black	7	27	9	2	1	1	47	9	
Spanish	2	2	-	1	1	-	6	1	
American Indian	-	1	-	-	-	-	1	0	
Other	<u>2</u>	<u>4</u>	<u>2</u>	-	-	<u>1</u>	<u>9</u>	<u>2</u>	
Total	<u>12</u>	<u>49</u>	<u>14</u>	<u>4</u>	<u>4</u>	<u>2</u>	<u>85</u>	a/ <u>17</u>	
Total	<u>78</u>	<u>334</u>	<u>80</u>	<u>14</u>	<u>6</u>	<u>2</u>	<u>515</u>	<u>100</u>	
Percent	15	65	16	3	1	0	100		
Cumulative percent	15	80	96	99	100	100	100		

a/Does not add due to rounding.

Source: Based on data provided by the Department of Housing and Urban Rehabilitation, city of Dallas.



THE HOME LOAN DIVISION, CITY OF DALLAS, MADE A \$12,182 GRANT/LOAN TO THE HOME TO THE LEFT AND A \$7,500 GRANT TO THE HOME TO THE RIGHT TO PERFORM INTERIOR AND EXTERIOR WORK.



THE HOME LOAN DIVISION MADE A \$9,377 GRANT TO THE OCCUPANT OF THIS HOME. INTERIOR AND EXTERIOR WORK INCLUDED AIDS FOR THE HANDICAPPED (RAMP IN FRONT) AND REPAIRS TO DOORS, SIDING, SCREENS, WINDOWS, PLUMBING, AND ROOF.

LOW-INTEREST LOAN PROGRAM

The city has allocated \$985,000 to the Low-Interest Loan Program. In turn, 115 loans totaling \$852,731 and averaging \$7,415 were made from program year 1979--the year of the initial loan--to June 30, 1981. Six of these loans totaling \$14,456 were combined with \$111,300 in loans financed through the Section 312 Loan Program. Thirty other loans totaling \$115,381 were combined with grants of \$185,488. (See the following section concerning loan/conditional grant combination.) Administrative costs spent for the program were estimated at \$423,210 (33 percent).

The program is directed to low-income homeowners who reside in substandard homes and cannot obtain a home repair loan from a private lender. Maximum loans of \$18,500 per unit 1/ can be obtained to eliminate housing code violations, make energy-saving improvements, and make general property improvements not required under minimum housing code standards. The loan amount is limited to the appraised value of the structure after rehabilitation, and no more than 20 percent can be for general property improvements (such as adding a room). Handicapped homeowners can receive an additional \$2,500 loan to eliminate architectural barriers and install special equipment and appliances. Loan terms are for 10 to 20 years at 0 to 3 percent interest, based on repayment ability.

The maximum loan amounts allowed are reduced by the amount of any grant received under the Home Repair Grant Program described in the preceding section. For instance, if a homeowner receives a \$7,500 home repair grant and a \$2,500 grant for handicap aids, he can receive a loan of only \$11,000 ($\$21,000 - \$7,500 - \$2,500 = \$11,000$) for a single family structure.

To qualify for a low interest loan, an applicant must have an acceptable credit record and be the owner-occupant of a house which is feasible for rehabilitation. Applicants with income meeting HUD's Below Market Interest Rate criteria are given preference for low-interest loans. Although these guidelines apply citywide, exceptions can be made when an applicant (1) lives in a CDBG target area, (2) just misses qualifying for a loan because household income is too high, or (3) does not have any other options for receiving assistance. For example, low-interest loans were occasionally added to section 312 loans to cover additional repairs for code violations discovered during construction work. The section 312 program does not permit loans to be increased once construction has begun. The Low-Interest Program guidelines in effect as of June 30, 1981, were as follows:

1/Maximum loan awards are adjusted periodically. This limit was in effect on June 30, 1981.

Maximum Annual Income Allowed for Loan
Applicants, Low-Interest Loan Program - City of Dallas
July 30, 1979 - June 30, 1981

<u>Family size</u>	<u>Family income</u>	
	<u>July 30, 1979- June 30, 1980</u>	<u>July 1, 1980- June 30, 1981</u>
1	\$12,300	\$14,050
2	14,050	16,050
3	15,800	18,050
4	17,600	20,050
5	18,650	21,300
6	19,750	22,550
7	20,850	23,800
8 or more	20,850	25,050

Source: Department of Housing and Urban Rehabilitation,
city of Dallas.

Between July 1, 1980, to June 30, 1981, low-interest loans ranged from a low of \$7,673 to a high of \$26,561; and loan payments ranged from \$24.32 to \$147.42 per month.

The table on the following page shows the age group, income range, and ethnic origin for those recipients receiving only a low-interest loan. Of these 79 homeowners receiving only a low-interest loan, 71 percent were non-elderly, 53 percent had income under \$10,000, and 75 percent were minority.

Age Group, Ethnic Origin, and Income Range of
Those Who Received Only Low-Interest Loans
Through June 30, 1981
City of Dallas

<u>Age Group and</u> <u>Ethnic Origin</u>	<u>\$3,001-</u> <u>4,999</u>	<u>\$5,000-</u> <u>6,999</u>	<u>\$7,000-</u> <u>9,999</u>	<u>\$10,000-</u> <u>14,999</u>	<u>\$15,000-</u> <u>19,999</u>	<u>\$20,000-</u> <u>24,999</u>	<u>\$25,000-</u> <u>or more</u>	<u>Unknown</u>	<u>Total</u>	<u>Percent</u>
Elderly - over 61										
White	-	3	6	2	1	-	-	-	12	15
Black	1	2	4	1	-	-	-	1	9	11
Spanish	-	-	-	<u>2</u>	-	-	-	-	<u>2</u>	<u>3</u>
Total	<u>1</u>	<u>5</u>	<u>10</u>	<u>5</u>	<u>1</u>	-	-	<u>1</u>	<u>23</u>	<u>29</u>
Non-elderly - under 62										
White	-	1	2	2	2	-	1	-	8	10
Black	3	4	9	7	3	4	2	-	32	41
Spanish	-	-	5	3	3	2	-	-	13	16
Other	-	<u>1</u>	<u>1</u>	-	<u>1</u>	-	-	-	<u>3</u>	<u>4</u>
Total	<u>3</u>	<u>6</u>	<u>17</u>	<u>12</u>	<u>9</u>	<u>6</u>	<u>3</u>	-	<u>56</u>	<u>71</u>
Total	<u>4</u>	<u>11</u>	<u>27</u>	<u>17</u>	<u>10</u>	<u>6</u>	<u>3</u>	<u>1</u>	<u>79</u>	<u>100</u>
Percent	5	14	34	22	13	8	4	1	a/ 100	
Cumulative percent	5	19	53	75	88	96	100	a/ 100		

a/Does not add due to rounding.

Source: Based on data provided by Department of Housing and Urban Rehabilitation, city of Dallas.

NEIGHBORHOOD HOUSING SERVICES, INC.
LOAN PROGRAM

The city has worked in conjunction with private foundations, lending institutions, and other local contributors to make the Neighborhood Housing Services, Inc., program possible in three neighborhoods. Between 1975 and June 30, 1981, the program made 49 "below market" interest rate loans using CDBG funds totaling \$703,670. Additionally, the city has contributed CDBG funds totaling \$327,401 to operate three program offices in the target areas.

Neighborhood Housing Services, Inc., was established in May 1973. It is now 1 of 125 nonprofit organizations in the Nation, which function under the auspices of the Neighborhood Reinvestment Corporation--a nonprofit organization funded by the Congress. The Corporation's goals are to reverse housing and neighborhood deterioration by coordinating the efforts of local lenders, charitable foundations, the city government, and neighborhood citizen groups.

According to the city's 1981 study of housing conditions, 15 percent of the housing units in the city's program target areas are substandard. The program makes repair and home purchase loans to residents who cannot qualify for assistance at commercial rates or through one of the city's loan or grant programs. Loans are usually limited to \$30,000, and there are no income limitations on applicants. Interest rates vary from zero percent to just below market rates, and the repayment period is adjusted to fit the borrowers ability to pay, although one homeowner has a loan which is to be repaid over 82 years, a more typical period was 18 years. As of June 30, 1981, Dallas employed 11 persons to administer these program activities.

The program attempts to promote a "unified approach" to community revitalization, and consequently, a portion of operating expenses are for stimulating local interest in the community and counseling homeowners. The basic operational philosophy is (1) educate residents in how to obtain the needed services and home loans, (2) convince financial institutions to make more loans in the neighborhoods, and (3) assure city cooperation in providing essential services.

As of June 30, 1981, loans totaling \$703,670 were provided to rehabilitate 49 housing units. The table on the following page shows that most loan recipients were black (67 percent), non-elderly (86 percent), and had incomes less than \$10,000 (75 percent). A photograph of a house rehabilitated under this program is shown on page 29.

Age Group, Ethnic Origin, and Income Ranges of
Loan Recipients
Neighborhood Housing Services, Inc.,
Loan Program, Dallas
Through June 30, 1981

<u>Age group and ethnic origin</u>	<u>\$3,000 or less</u>	<u>\$3,001-4,999</u>	<u>\$5,000-6,999</u>	<u>\$7,000-9,999</u>	<u>\$10,000-14,999</u>	<u>\$15,000-19,999</u>	<u>\$20,000-24,999</u>	<u>Total</u>	<u>Percent</u>
Elderly - over 61									
White	-	-	1	-	-	-		1	2
Black	-	3	1	2	-	-		6	12
Total	-	3	2	2	-	-		7	14
Non-elderly - under 62									
White	1	1	-	3	3	2	-	10	20
Black	1	7	2	11	4	-	2	27	55
Spanish	-	1	1	2	-	1	-	5	10
Total	2	9	3	16	7	3	2	42	a/ 86
Total	2	12	5	18	7	3	2	49	100
Percent	4	24	10	37	14	6	4	a/ 100	
Cumulative percent	4	28	38	75	89	95	99		

a/Does not add due to rounding.

Source: Department of Housing and Urban Rehabilitation, city of Dallas, and calculations.



THIS DUPLEX WAS REHABILITATED WITH AN \$8,000 LOAN FROM THE NEIGHBORHOOD HOUSING SERVICES, INC. THIS STRUCTURE CONTAINS 2,500 SQUARE FEET, AND WORK PERFORMED INCLUDED ROOFING, PAINTING, WEATHERIZATION, PLUMBING, WIRING, AND REPAIRS TO THE KITCHEN AND BATHROOMS.

CDBG GRANT/LOAN COMBINATIONS

The city's Department of Housing and Urban Rehabilitation provided loans totaling \$115,381 through the Low-Interest Loan Program, along with conditional grants totaling \$185,488 from the Home Repair Grant Program, to homeowners to rehabilitate 30 housing units. Grants and loans were combined when the costs to eliminate all code violations exceed \$7,500--the maximum allowable grant under the Home Repair Grant Program. The Low-Interest Loan Program provided the additional financing through a direct loan up to \$11,000. ^{1/} The average grant was \$6,183 and the average loan was \$3,846.

The following table shows the characteristics of the 30 grant/loan combination recipients. The recipients were mostly black (60 percent), had incomes under \$5,000 (87 percent), and were elderly (73 percent).

^{1/}Maximum grant and loan amounts are adjusted periodically. These loans were in effect as of June 30, 1981.

Age Group, Ethnic Origin, and Income Range of Those
Who Received Grants Combined With Low-Interest Loans
Through June 30, 1981, City of Dallas

<u>Age group and Ethnic origin</u>	<u>Income range</u>				<u>Total</u>	<u>Percent</u>
	<u>\$3,000 or less</u>	<u>\$3,001- 4,999</u>	<u>\$5,000- 6,999</u>	<u>\$7,000 or more</u>		
Elderly - over 61						
White	1	7	-	-	8	27
Black	-	10	3	-	13	43
Spanish & other	-	<u>1</u>	-	-	<u>1</u>	<u>3</u>
Total	<u>1</u>	<u>18</u>	<u>3</u>	-	<u>22</u>	<u>73</u>
Non-elderly - under 62						
White	2	1	-	-	3	10
Black	-	<u>4</u>	-	<u>1</u>	<u>5</u>	<u>17</u>
Total	<u>2</u>	<u>5</u>	-	<u>1</u>	<u>8</u>	<u>27</u>
Total	<u>3</u>	<u>23</u>	<u>3</u>	<u>1</u>	<u>30</u>	<u>100</u>
Percent	10	77	10	3		
Cumulative percent	10	87	97	100		

Source: Department of Housing and Urban Rehabilitation, city of Dallas, and calculations.

GUARANTEED LOAN PROGRAM

The city of Dallas attempted to rehabilitate a substantial number of housing units by guaranteeing loans provided by banks. However, few loans were made because of rising interest rates and administrative problems. In fact, loans totaling \$286,158 were provided to rehabilitate only 49 housing units. The average loan was \$5,840 and the borrowers were predominantly under 62 years of age, black, and had incomes of less than \$15,000.

The program's purpose was to provide incentives for home repair loans in neighborhoods where the city believed lenders sometimes preferred not to make loans or discouraged applicants from applying by requiring larger downpayments and unattractive terms. The city favored a loan guarantee arrangement over direct loans and grants because fewer funds were required. Also, the neighborhood benefited from the support of local lending institutions.

The city agreed to guarantee \$1 of every \$7.50 loaned to owner-occupants of substandard houses. The dwellings could contain one to four units and had to meet city housing standards after rehabilitation. The city screened all applicants and referred those who met eligibility requirements to the lenders who then determined whether the applicant met credit standards. The city agreed to deposit in an escrow account the funds necessary to cover the guarantee, and in the event a borrower defaulted, the city could either purchase the loan or reimburse the lender for the amount the borrower was delinquent. In the latter case, if delinquencies continued, the city could eventually buy the loan. To date, the guarantees have not been exercised on any of the 49 loans.

The city entered into agreements with three consortiums of private lenders to guarantee a maximum of \$735,000 of \$5.5 million in home repair loans. Between program years 1977 and 1979, two of the consortiums made 49 loans totaling \$286,158 on which \$143,931 1/ was escrowed for potential losses by the city. The consortium agreements have expired and new agreements are not anticipated because the lenders believe they are better able to address the lending needs of the low-income neighborhoods outside the consortiums. The third consortium did not provide any loans. The following table provides the conditions of each loan consortium agreement.

1/Only 38,154 remains escrowed as of June 30, 1981.

Comparison of Loan Guarantee Agreements
Between the City of Dallas and Participating Lenders

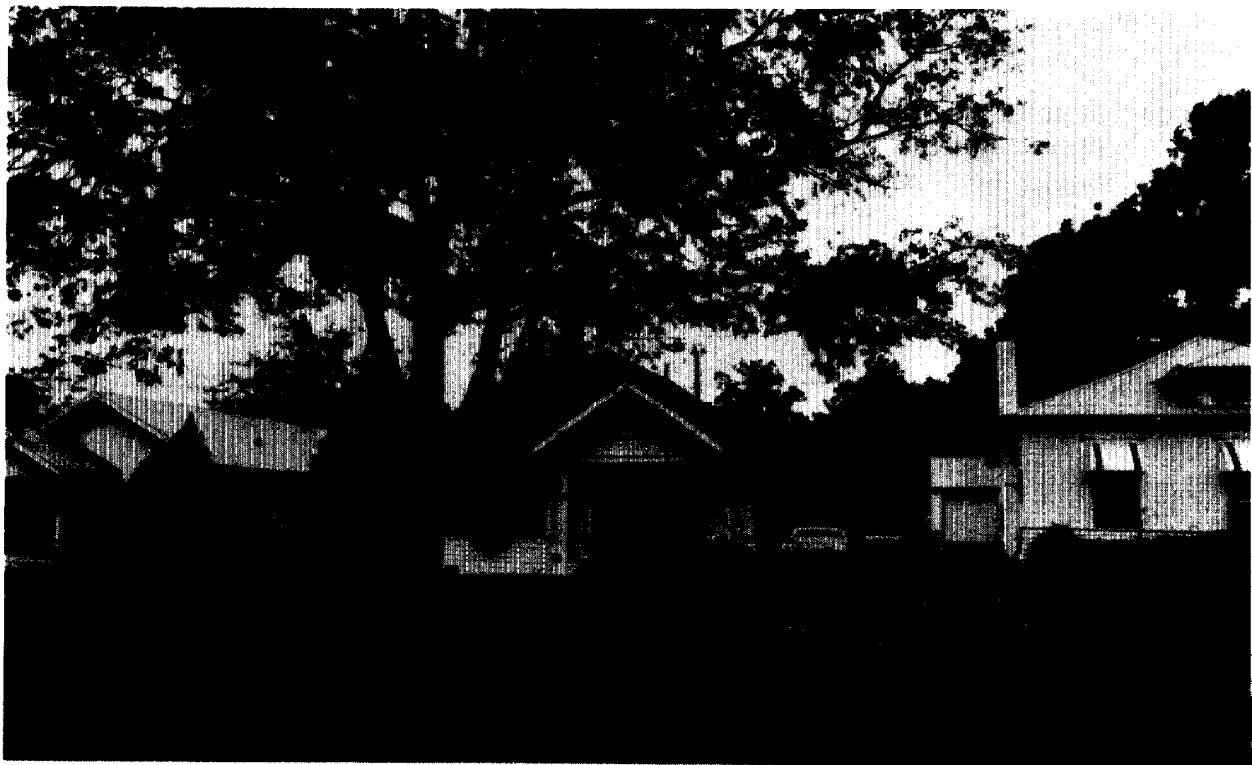
	<u>Target area</u>		
	<u>Homestead area</u>	<u>East Dallas</u>	<u>Citywide</u>
Members:	7 banks	3 banks 3 savings & loan assos.	17 banks 11 savings & loan assos.
Target clientele:	Participants in Urban Homestead Program <u>a/</u>	Low- and mod- erate income homeowners in designated areas in East Dallas.	Low- and moderate- income owners in city. Preference to owners in CDBG target area.
Term of agreement:	4/76 to 4/79	8/76 to 8/79	1/78 to 1/81
Loan terms:			
Interest rate	2% above prime not to exceed 10%	2% above prime not to exceed 10%	2% above prime not to exceed 10%
Duration	Up to 10 years	Up to 10 years	Up to 15 years
Maximum	\$ 15,000	\$ 15,000	\$ 15,000
Funds allocated:			
CDBG funds for guarantees	\$ 66,667	\$ 133,334	\$ 535,000
Private funds for loans	\$500,000	1,000,000	\$ 4,000,000
Loans made:			
Number	44	5	0
Total amount	\$237,894	\$ 48,264	0
Amount guaranteed	\$ 31,719	\$ 6,435	0
Average loan	\$ 5,407	\$ 9,653	0
Average guarantee	\$ 721	\$ 1,287	0

a/Program where borrowers are allowed to purchase city-owned houses for nominal amounts if they rehabilitate the housing units.

Source: Department of Housing and Urban Rehabilitation, City of Dallas.

Why didn't the program meet its original expectations? Although city officials believed the consortium concept was promising, no loans were ever made by the citywide consortium which had 28 lending institutions tentatively agreeing to participate. Several officials, including a representative from a savings and loan association we interviewed, said it was difficult to establish an efficient working relationship between the 28 lenders much less reach an agreement on how the loan fund was to operate. At the same time, the prime interest rate was rising rapidly and members of the other two consortiums also found it unprofitable to make loans at the 10-percent ceiling written into the agreements. If rates were increased, low- and moderate-income residents would not be able to afford the higher costs, which would further erode the program's benefits. According to the program coordinator, lenders decided to assume the responsibility for inner city lending on their own, instead of through consortium agreements which were viewed as having excessive administrative requirements. Despite the ultimate failure, the CDBG coordinator believes the program had a positive effect because a number of lending institutions began expressing more favorable views toward what they felt were "high risk" neighborhoods.

Age group, income range, and ethnic origin of the loan recipients are presented in the table on the following page. Of the 49 homeowners receiving loans, 94 percent were non-elderly, 49 percent were one- or two-person households, 76 percent had incomes under \$15,000, and 88 percent were minority. The smallest loan was \$2,558, of which \$341 was escrowed and the highest was \$16,483, of which \$2,198 was escrowed. A house which was rehabilitated using an \$8,800 guaranteed loan is shown below.



Age Group, Ethnic Origin, and Income Range of
Guaranteed Loan Recipients Through June 30, 1981, City of Dallas

Age group and ethnic origin	Income Range					Total	Percent
	\$5,000- 6,999	\$7,000- 9,999	\$10,000- 14,999	\$15,000- 19,999	\$20,000- 24,999		
Elderly - over 61							
White			1	1	-	2	4
Black			<u>1</u>	-	-	<u>1</u>	<u>2</u>
Total			<u>2</u>	<u>1</u>	-	<u>3</u>	<u>6</u>
Non-elderly - under 62							
White	-	-	3	1	-	4	8
Black	2	15	14	9	1	41	84
Spanish	-	<u>1</u>	-	-	-	<u>1</u>	<u>2</u>
Total	<u>2</u>	<u>16</u>	<u>17</u>	<u>10</u>	<u>1</u>	<u>46</u>	<u>94</u>
Total	<u>2</u>	<u>16</u>	<u>19</u>	<u>11</u>	<u>1</u>	<u>49</u>	<u>100</u>
Percent	4	33	39	22	2	100	
Cumulative Percent	4	37	76	98	100		

Source: Department of Housing and Urban Rehabilitation, city of Dallas,
participating lender, and calculations.

CHAPTER 4

PUBLIC HOUSING MODERNIZATION

AND OTHER CDBG HOUSING PROGRAMS

About \$2.4 of the \$6.4 million (41 percent) spent by the city in CDBG housing programs involved public housing modernization and relocation of households and houses. (Relocation programs are no longer operating because they were not needed or ineffective.) A total of 2,916 housing units were affected. However, more than 92 percent of the funds were spent on 171 units.

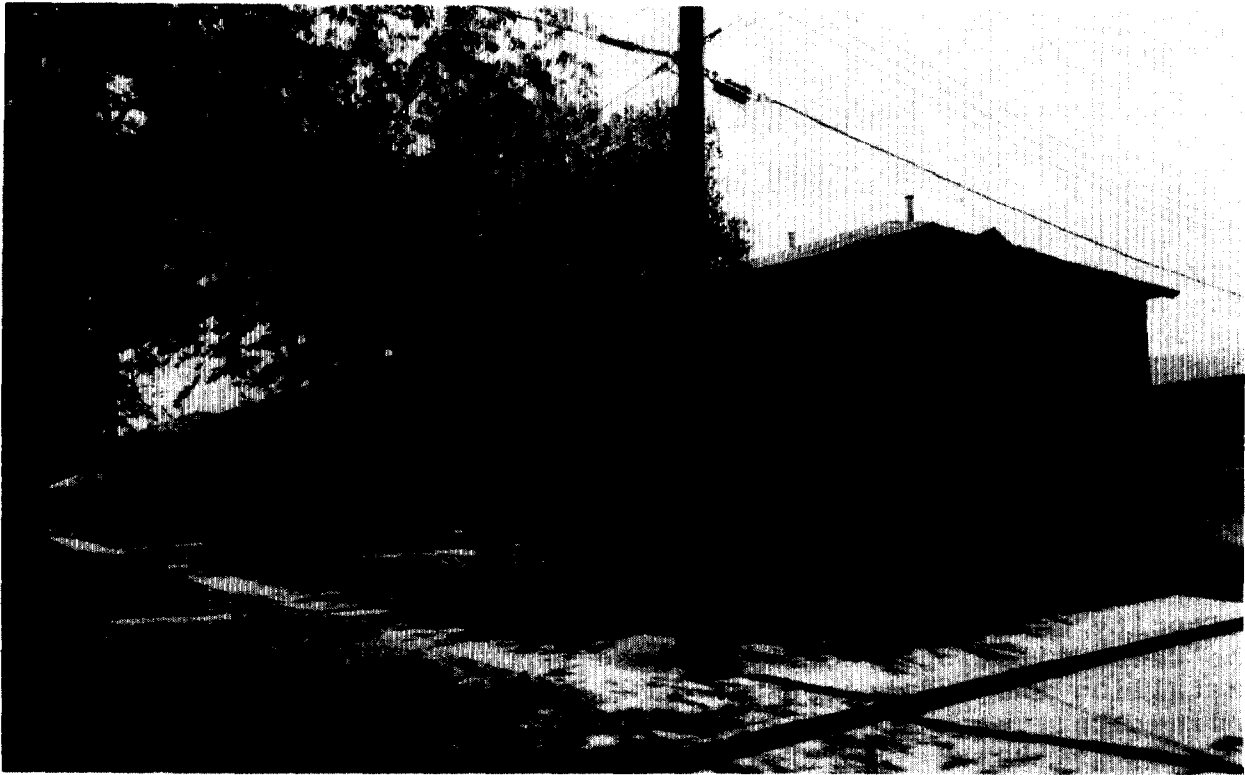
CDBG FUNDS WERE USED FOR RENOVATING AND IMPROVING PUBLIC HOUSING PROJECTS

The city has approved \$1,175,000 so that the Dallas Housing Authority could rehabilitate and maintain public housing projects. The rehabilitation efforts involved renovating 105 housing units, installing smoke detectors in 2,311 units, and replacing defective incinerators with industrial trash compactors in 2 projects containing 434 units. As of June 30, 1981, none of the efforts had been completed.

Renovation of a public housing project

In program year 1978, the city earmarked \$1 million in CDBG funds to renovate 105 housing units at a 650-unit public housing project. The average cost per unit was \$9,524. The remaining units are being rehabilitated with \$11,625,000 provided under HUD's Comprehensive Modernization and Urban Initiatives programs. The rehabilitation work was underway at the time of our study and was expected to be completed in April 1982.

This public housing project, the city's oldest, was built in 1940 and has never been renovated. After renovation, the project will contain a maximum of 611 units because some units will be combined to create more 3-bedroom apartments. The city has contributed to improving the surrounding neighborhood by emphasizing code enforcement; improving streets, curbs, and gutters; demolishing old buildings; and communicating crime problems to the police department. A photograph of the housing project is shown on the following page.



THE CITY ALLOCATED \$1,000,000 TOWARD REHABILITATING THIS 650 UNIT PUBLIC HOUSING PROJECT NORTH OF THE CENTRAL BUSINESS DISTRICT.

Smoke detectors for
2,311 units

The city also approved \$115,000 to provide smoke detectors for public housing units. This project was prompted by a HUD area office concern that some of the public housing units do not have this protection and by a State law that requires all rental units to contain smoke detectors by 1983.

The work will result in the installation of 2,676 smoke detectors in 2,311 housing units at an average cost of about \$50 per housing unit. The newer public housing units already contain smoke detectors, and others that are being modernized under HUD's Urban Initiatives and Comprehensive Modernization programs will have detectors in the near future. When all these programs are completed, only 2,902 public housing units in 2 housing projects will lack smoke detectors.

Trash compactors for
two projects

The city also approved \$60,000 to install three trash compactors in two high-rise public housing projects for the elderly. These buildings currently use incinerators that are defective, obsolete, and inefficient to service the 434 housing units. The total cost of this project is expected to be \$63,000 to \$65,000 of which the housing authority will fund the amount over \$60,000.

OTHER HOUSING ACTIVITIES
WERE FINANCED BY GUARANTEED
LOANS AND BY GRANTS

At the time of our review, all of Dallas CDBG funded housing programs involved either rehabilitating owner-occupied or public housing units. However, past housing activities included house moving and household relocation programs. Only 66 homeowners were affected by these two programs.

Guaranteed loans were used
for housemoving program

In program year 1976, the city budgeted \$145,000 to guarantee portions of interim housemoving loans made by private lenders. This program was developed after a community representative suggested to the city council that a housemoving program would (1) save homes of architectural and historical significance from destruction and (2) provide low-cost housing. The only activity in this program, which is currently inactive, was in program year 1977 when the city escrowed \$65,025 with a bank for three loans totaling \$277,000. The average loan was \$92,333 and the average escrowed amount was \$21,675--23 percent of the loan amount.

Program objectives were to (1) preserve sound housing stock in danger of demolition due to land use changes, (2) fill vacant inner-city lots, and (3) encourage homeownership by guaranteeing interim financing to purchase, move, and rehabilitate the house; buy the new lot; and clear the old site. The guaranteed portion of the loan was limited to the lesser of 25 percent of the after-rehabilitation value of the house or 15 percent of the amount allocated for the program.

The participating lenders approved applicants and established loan terms subject to various conditions. The house could contain no more than four units and had to be movable (certified by city inspectors). The structure had to be moved to a permanent location within a target area and be compatible with the new neighborhood. The applicant had to produce a commitment letter for permanent financing and had to occupy or sell the house to an owner-occupant. Not wanting to limit the program or make it any more complex than it was, the city decided not to direct the program to low- and moderate-income citizens.

Although the city made the program available to all federally regulated lending institutions in Dallas, only three banks agreed to the program. Only one of these banks participated in the three loans which were made. These loans involved moving one house for the community representative who suggested the program and two for houses situated on property the participating lender had purchased for building a new bank. Although all three projects experienced operational problems and unanticipated expenses, none of the loan guarantees were exercised. All funds have since been removed from

the program due to the lack of participation, but if interest is regenerated, contingency reserve funds will be set aside again.

The city's Department of Housing and Urban Rehabilitation officials said the house-moving concept was not successful because of the complexities and expenses involved in relocating homes. We were told by city officials that most lending institutions will not make loans due to the paperwork and resources required. Further, those which did probably would have made the loan regardless of whether or not a guarantee was given. Officials also noted that citizens with low- and moderate-incomes normally do not have the technical expertise and resources required to move a house. People with high incomes are usually uninterested in going through the complexities of housemoving or do not need guarantees to obtain financing. Another reason for the lack of success was that the city began requiring owners to pay the major expense of moving power lines.

The officials believed the program would be viable only if the city or a nonprofit organization looked for houses to move on a continuing basis. This would require three or four full-time employees--something the city is unwilling to do. Nonprofit organizations were reportedly not interested because the law is not clear on who is liable in the event of accidents, resulting injury, or death occurring during the move.



THE CITY USED CDBG FUNDS ALLOCATED TO THE HOME MOVING PROGRAM TO GUARANTEE LOANS MADE BY A LOCAL BANK TO RELOCATE AND REHABILITATE THESE HOUSES.



Flood Plain Relocation Program

CDBG funded grants made it possible to relocate 63 residents from several flood plain areas in the city. Between 1975 and 1979, the city spent \$1,356,272 of \$1,423,000 budgeted for the program to cover relocation expenses and adequate housing for each resident at an average cost of \$22,000. The neighborhoods were in advanced stages of decline and virtually all families volunteering for relocation were low-income blacks who were in substandard homes.

The city's Department of Housing and Urban Rehabilitation operated the Federal program which provided protection for the rights of citizens in the event of relocation. Local governments were required to pay the homeowner a fair market price for the unit occupied, reimburse him or her up to \$500 for moving expenses, and provide a comparable house, which meets city standards but does not exceed \$15,000 more than the value of the house which the homeowner vacated. Occupants were given the option of (1) selecting a house from a listing provided by the city, (2) locating homes on their own, or (3) moving into other federally subsidized projects which are required to give priority to families undergoing relocation. Detailed demographic data was not available on the relocated families.

CHAPTER 5

CDBG PROGRAMS WHICH INDIRECTLY

PROVIDED ASSISTANCE TO THE HOUSING COMMUNITY

This chapter discusses the seven programs which Dallas' Department of Housing and Urban Rehabilitation has implemented to indirectly support housing development and rehabilitation.

The city has spent at least \$6,981,983 through June 30, 1981, on seven CDBG housing programs which do not entail direct subsidies to the recipient. This amount represented 41 percent of the CDBG housing funds spent in Dallas. By far, the largest of these programs is the so called Code Enforcement Program which cost \$6,552,109. Code enforcement has been a focal point for CDBG housing efforts each year since 1975 (see ch. 2). The city has also sponsored (1) programs to address the problem of deteriorating multifamily housing, (2) homeowner and contractor training programs which housing officials believe assist in gaining community interest and skills in stabilizing housing conditions, and (3) programs to stimulate private housing construction in underdeveloped neighborhoods.

As of June 30, 1981, the city had funded the following programs.

- Code Enforcement for \$6,552,109.
- Apartment Improvement for \$91,609.
- Condominium Conversion for \$513.
- Home Repair Training for \$256,705.
- Developer Information System for \$75,047.
- Contractor Training for \$6,000.
- Infill Program for an unknown amount.

Two of these programs--Condominium Conversion and the Developer Information System--were suspended as of June 30, 1981. The former could be reinstated if interest rates slacken. Each of the seven indirect programs is discussed below.

CODE ENFORCEMENT PROGRAM

The city spent \$6.6 million (39 percent) of its CDBG housing funds for code enforcement and, despite some criticism from the HUD area office, this activity continues to be an important fixture in supporting CDBG housing programs. In the past, city officials

have viewed code enforcement as an inexpensive means of eliminating substandard housing and neighborhood conditions, while HUD has taken the position that housing rehabilitation should be weighted toward loan and grant programs. Most recently, city officials have also been reassessing the effectiveness of code enforcement as a mechanism for preventing neighborhood deterioration.

The city requires property owners to maintain premises and structures in accordance with minimum standards. When a city inspector discovers violations of the standards, the owner has 90 days to initiate repairs. The inspector is supposed to discuss the availability of the city's loan and grant programs to make repairs. If repairs are not made, the case is referred to the Urban Rehabilitation Standards Board (a permanent board appointed by the city council) or to the municipal court where a fine of up to \$200 a day may be imposed.

The Urban Rehabilitation Division is responsible for administering citywide code enforcement activities. As of June 30, 1981, there were 109 inspectors and support personnel--61 of which were CDBG funded--assigned to a main office and four sector offices. According to the city, in 6 program years through June 30, 1981, code enforcement inspectors identified 77,531 structures which did not meet minimum standards. The substandard condition(s) was eliminated in 57,200 units, 9,632 by demolition. The city estimated it cost the city \$173 a unit to bring houses into compliance. The following table shows the overall results of the code enforcement program.

Housing Code Enforcement Activity
City of Dallas
Program Years 1975 to 1981

<u>Year</u>	<u>Units identified as having code violations</u>	<u>Violations corrected (note a)</u>		<u>City's cost per unit</u>
		<u>By demolition</u>	<u>Total</u>	
1975-76	14,784	1,973	8,445	\$148
1976-77	12,888	2,813	12,128	129
1977-78	15,247	1,528	9,958	185
1978-79	14,308	1,187	7,693	234
1979-80	12,486	1,301	11,703	172
1980-81 (9 months)	<u>7,818</u>	<u>830</u>	<u>7,273</u>	<u>196</u>
Total	<u>77,531</u>	<u>9,632</u>	<u>57,200</u>	<u>\$173</u>

a/May include cases identified in prior years as having code violations and repeaters.

Source: Urban Rehabilitation Division, Department of Housing and Urban Rehabilitation, city of Dallas

Though most code violation cases stem from citizen complaints, the division has also concentrated its enforcement work in a number of CDBG neighborhoods. For instance, several areas were selected because residents requested additional inspections, three were a part of municipal improvement programs (capital improvements funded by bond issues), and three others were associated with the Neighborhood Housing Services, Inc. (see p.27). Another program has also been developed in which litter control teams make door-to-door inspections to identify nonhousing code violations. Personnel made initial inspections in 5 of the 11 program target areas adopted by CDBG planners and reinspected the same areas in 1981.

Recently, Department of Housing and Urban Rehabilitation officials have been discussing the long-term viability of code enforcement under current operational policies. Several officials believe that the program has become too selective or discriminatory (i.e., most cases are the result of complaints) and is not undertaken early enough in the stages leading to neighborhood deterioration. At the time of our review, they were considering a more balanced approach to solving the city's housing problems, including providing an additional loan/grant rehabilitation program.

IMPROVING MULTIFAMILY HOUSING STOCK PROGRAMS

Dallas' Department of Housing and Urban Rehabilitation has developed two programs to address the problem of deteriorating multifamily housing stock. One is the Apartment Improvement Program in which city staff worked with investors and lenders to acquire and rehabilitate apartment buildings in the early stages of decline. The second is the Condominium Conversion Program. It was designed so that the city's staff could help in coordinating the conversion of deteriorated apartment buildings into low-priced condominiums for owner-occupants with low- or moderate-incomes.

Apartment Improvement Program

The program centers on a concerted public/private effort to stabilize neighborhoods where multifamily units are in the early stages of decline. ^{1/} This program was developed because the city had no program--other than its code enforcement program--directed to substandard rental units. From October 1, 1979, to June 30, 1981, the city spent \$91,609 of the \$143,000 allocated to this program. The earlier months were devoted to developing a program structure and selecting a target neighborhood.

^{1/}In April 1978, more than 47,000 (approximately 30 percent) of 156,959 rental units in the city needed rehabilitation.

The city contracted with the Neighborhood Reinvestment Corporation to design the program and provide technical assistance. (See p. 27.) The corporation assisted city staff in designing a program to bring about improvements for troubled apartment operations. This included

- restructuring existing mortgages,
- restructuring property income and expenses,
- generating a physical improvement program,
- financing capital improvements through the city,
- restructuring property ownership and/or management arrangements, and
- providing services and counseling to new and existing tenants.

To select a target area, the city used this criteria: The area should contain basically good housing stock but have some multifamily buildings showing signs of age and/or neglect. Neighborhoods having major development problems or appearing too risky to attract lenders were not considered. The neighborhood eventually selected was a well established inner-city area containing 1,610 multifamily units, of which 121 were substandard and others needed at least minor rehabilitation. Four or five of the multifamily buildings were vacant. City staff believe it will take 3 or 4 more years to complete work in the neighborhood. A second neighborhood will not be designated until that time.

A vital part of the program is the Partnership Association. Composed mainly of lenders, property owners, city officials, representatives of community organizations, and tenant groups, this association sets goals, establishes objectives, directs program efforts in rehabilitating apartment buildings, reviews program performance, and helps to build trust in the community.

The first year's program objective was to rehabilitate 250 multifamily units and, in the long term, have an ongoing capability to rehabilitate 1,000 to 1,200 units per year. To date, the city has helped arrange for the renovation of a 44-unit building through private funds, approved a loan under the section 312 Loan Program to rehabilitate a second building with 16 units, and started code enforcement in the neighborhood.



THROUGH THE APARTMENT IMPROVEMENT PROGRAM, PRIVATE FINANCING WAS ARRANGED FOR THIS 44-UNIT APARTMENT BUILDING IN THE PROGRAM'S TARGET AREA.



ANOTHER PROJECT LOCATED ON THE SAME BLOCK AS THE ABOVE CONTAINS 16 UNITS. IT WAS RENOVATED WITH \$26,750 FINANCED THROUGH HUD'S SECTION 312 LOAN PROGRAM.

Condominium Conversion Program

The program was intended to be a public/private effort to convert deteriorated apartment complexes into owner-occupied condominiums for low- and moderate-income persons who have had few ownership opportunities in the past. Although a number of approaches were investigated, none were implemented because agreements could not be reached with private lenders and interest rates became too high. In fact, only \$513 of the allocated \$172,000 was spent in an attempt to convert several projects.

This small program originated in 1978 when representatives of the Federal National Mortgage Association, a local savings and loan association, and a developer approached the city with the idea. The city council approved a program whereby the developer would purchase deteriorated apartment complexes and after rehabilitating them, sell the units to owner-occupants. The savings and loan association was to finance the rehabilitation and provide purchase and construction loans. The Federal National Mortgage Association was to purchase the notes from the savings and loan association through the secondary money market, and the city was to counsel new homeowners. The program expected to renovate and convert 80 two-to four-bedroom apartments at prices of \$12,000 to \$16,000 per unit.

The program never succeeded, even though the developer had already purchased a 12-unit project to renovate, because the Federal National Mortgage Association headquarters eventually disapproved the proposal. The city attempted to develop an alternate strategy with the same developer and several other savings and loan associations. Finally, an attempt was made to interest three other savings and loan associations in another project with the same developer but each was reluctant to participate because it would require a long-term investment on their part. Additionally, interest rates were rising so rapidly that the conversion concept became impractical. Consequently, the city postponed any other attempts to negotiate a project.

TRAINING PROGRAMS

The city supplements its home repair programs with training courses for rehabilitation contractors and for homeowners. Early city experiences with the Home Repair Grant and Low-Interest Loan programs demonstrated that the housing rehabilitation industry was insufficient in size and experience to meet the city's housing goals. To remedy this, a program was initiated to provide skilled craftsmen with the information and management tools they need to operate their own businesses productively. Another program was introduced to train homeowners in making their own minor repairs.

Contractor Training Program

The city's Housing Plan, adopted in October 1978, recognized that the housing rehabilitation industry was not able to meet the

city's goals to conserve its existing housing stock and revitalize declining areas through concentrated rehabilitation programs. The industry was characterized as relatively young, fragmented, and not organized. The companies in the industry were primarily small firms. They had little experience and three or fewer employees. Rehabilitation projects ended in a number of defaults, substandard work, and misunderstandings between contractors and homeowners. The city believed (1) the insufficient size of the industry could be remedied by increasing minority and small business participation and (2) good craftsmen existed, but lacked the management skills necessary to run their own businesses.

Thus, the training program was created to provide contractors with basic information and management tools needed to become more competitive in the rehabilitation industry. The target groups for the program were small or minority general contractors engaged primarily in general housing rehabilitation work. Specialty construction contractors grossing a maximum of \$5 million per year and general construction contractors grossing no more than \$9.5 million annually were classified as "small." Minority contractors were defined as firms for which minorities and/or women owned at least 51 percent of the business and controlled the management and daily operations.

The city has budgeted \$18,000 for a community college to provide six rehabilitation contractor training courses from September 1, 1980, to August 30, 1982. As of June 30, 1981, the city had spent \$6,000 for two courses. The course, consisting of six 3-hour sessions for a minimum of 12 participants, provides instruction in rehabilitation market financing, work analysis, customer relations, and schedule management.

Home Repair Training Program

From October 1, 1975, to June 30, 1981, the city spent \$256,705 of the \$375,000 earmarked to provide home repair training courses to city residents. The city adopted this program to (1) increase the homeowner's ability to maintain and upgrade his or her home to minimum housing standards and (2) provide an economical way to meet the housing rehabilitation needs of the inner-city. It was designed to equip homeowners with the plumbing, electrical, and carpentry skills needed to alleviate minor or potential housing code violations. The primary target groups for this program were (1) city residents whose homes need minor repair, (2) city residents involved in government-sponsored housing programs such as the Homestead Program, and (3) individual neighborhoods where intensive and concentrated code enforcement is occurring, including Neighborhood Housing Service areas.

Home repair training was initiated as an in-house program in 1976 but this proved to be unsuccessful. Poor management, insufficient resources, and lack of expertise were the reported causes. Therefore, the city decided to hire a contractor to perform the training in late 1978.

The program was fully implemented by the contractor during program year 1979 and was active as of June 30, 1981. The current contract provides that the contractor will be paid \$165 for each student who attends at least three of the five training sessions in each course (electrical, plumbing, and carpentry) less the fees collected from each student. Each class is limited to a maximum of 30 students and a student can participate in only two of the three courses at a time. Course fees are \$10 for residents of CDBG target areas and \$30 for homeowners outside the target area. The \$30 fee is reduced to \$10 if the student attests he or she has a low- or moderate-income. All fees are waived for students unable to pay. From October 1, 1978, to June 30, 1981, the contractor was paid for 815 participants. 1/

STIMULATING PRIVATE HOUSING
CONSTRUCTION IN UNDERDEVELOPED
NEIGHBORHOODS PROGRAMS

The city also started two programs to stimulate residential development. In 1976, the Developer Information System was designed as a mechanism to provide information to investors who were exploring development opportunities. This program never met expectations, however, and was canceled in program year 1977. In 1978 the Infill Program was implemented. It was aimed at providing the private sector with listings of vacant lots throughout the city.

Developer Information System

The system was designed to have a city representative available to advise developers of building opportunities in the city. This representative would provide information about the types and extent of development opportunities citywide, zoning laws applying to each, and overall strengths and weaknesses of alternative development sites. The representative would also assist the developer in obtaining city approvals needed for his or her project. Although assistance was to be available for all types of development activities emphasis was to be placed on housing opportunities in the inner-city.

After spending \$75,047 in program years 1975 and 1976, the city discontinued the program due to a lack of response from the private sector. The Assistant Director, Department of Housing and Urban Rehabilitation, said it failed because of poor management and inadequate advertising.

Infill Program

The city implemented the program in 1978 to provide developers and contractors with listings of vacant lots. This was believed to be a means of stimulating construction in stabilized inner-city areas.

1/The total of 815 includes individuals double or triple counted because they completed more than one course.

The city estimated that inner-city communities contained sufficient vacant residential land to construct 13,000 new housing units. As many as 10,000 could be constructed on lots already served by streets, water, sewer, police, fire, and parks.

The development of this program began with a vacant lot inventory derived from tax files in November 1978. This process identified about 41,000 vacant land parcels. Information generally collected for each parcel included address, census geography, legal geography, legal description, taxpayer's name and address and when available, zoning, land use code, frontage, utilities, and street type. In 1978, the city notified potential users that this information was available by census tract.

This inventory was updated in January 1981, and new notices were sent to potential users. This updated file disclosed 22,667 usable lots in the CDBG target areas and 7,583 parcels outside the target area.

City officials said this program's success cannot be measured because the information on vacant parcels is so widely disseminated it would be difficult to assess the extent of new development; however, builders and developers that have contacted the city have said that at least 86 new units have resulted following this interaction with the city.

This program was funded through the general administrative account and cannot be separated. Therefore, the amount spent for this program is not known.

CHAPTER 6

ADMINISTRATIVE COSTS REPRESENTED A

SUBSTANTIAL PORTION OF CDBG HOUSING COSTS

As of June 1981, the city had spent \$3.7 million (22 percent of all CDBG housing funds) to plan and operate programs which have resulted in direct subsidies or assistance to the recipients. This chapter briefly discusses the programs under two segments-- those operated by the city and those operated through contracts with other organizations. Also included is a brief discussion of two programs which were being developed but had not been implemented. The table on the following page describes the administrative expenses as of June 30, 1981.

CITY OPERATED PROGRAMS

Dallas has spent \$3.4 million (20 percent) for planning and administering its housing programs. About \$2 million of the \$3.4 million was spent to administer three CDBG programs which have provided direct subsidies and assistance to beneficiaries. These three--the Home Repair Grant, Low-Interest Loan, and Paint programs--were being operated by the Home Loan Division, Department of Housing and Urban Rehabilitation, as of June 30, 1981. A fourth CDBG program, which consisted of relocating residents from flood plain areas, was administered by the Relocation Section from 1975-79. The remaining \$1.4 million was spent on planning and research.

Grants and loans

The Home Loan Division, with a staff of 37 personnel, makes grants and loans to eligible homeowners. It believes that it provides more extensive services than a private lender would render to its customers. Consequently, this has contributed to relatively high administrative costs (12 percent of CDBG expenditures thus far). 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 Home Loan Division, on the other hand, performs all this work for the homeowner. They inspect the applicant's home, list the work needed to bring the house up to minimum city standards, make cost estimates, request sealed bid proposals from local contractors, and administer the construction contract. At the time of our review, the city's Department of Housing and Urban Rehabilitation estimated that to process one loan or grant from date of application to work completion costs the city \$1,042.

CDBG Expenditures for Planning and
Administering Housing Programs
July 1, 1975, to June 30, 1981
City of Dallas

Expenditure category	<u>City operated by Department of Housing and Urban Rehabilitation</u>			<u>Total expenditures</u>	<u>Percent of total expenditures</u>
	<u>Home Loan Division</u>	<u>Housing Research and Information Division</u>	<u>Neighborhood Housing Serv., Inc.</u>		
Salaries and related costs	\$1,696,629	\$ 927,748	\$235,729	\$2,860,106	78
Supplies, equipment, telephone, etc.	229,932	169,397	85,124	484,453	13
Services by third parties	6,420	228,336	-	234,756	6
Travel	71,839	11,315	6,548	89,702	2
Advertising	<u>12,203</u>	<u>8,321</u>	<u>-</u>	<u>20,524</u>	<u>1</u>
Total	<u>\$2,017,023</u>	<u>\$1,345,117</u>	<u>\$327,401</u>	<u>\$3,689,541</u>	<u>100</u>

Source: Department of Housing and Urban Rehabilitation, city of Dallas, and Neighborhood Housing Services, Inc., Dallas.

This full range of customer-oriented services has also caused lengthy processing times. During initial program years, applications were sometimes delayed 6 to 8 months. According to the loan supervisor, the division has added additional staff to relieve some of the backlog.

Through June 30, 1981, the division had processed 1,494 applications for CDBG assistance and, of these, 670 (45 percent) were approved. Further, there were 441 applications for section 312 loans, of which 115 (26 percent) were approved. There were a variety of reasons for loans not being made. These included the homeowner withdrawing the application after processing had begun. This was the reason for 25 percent of the nonloan applications during program year 1980-81.

Under the Low-Interest Loan Program, borrowers make loan payments to the city tax department which has responsibility for collecting payments and following up on delinquencies. A Home Loan Division official said weaknesses existed in this process because loan servicing procedures were not established when the program was initiated. This has led to improper amortization of loans, inadequate follow-up on delinquent payments, and an overall lack of formal reporting between the two organizational units. For instance, he discovered during an inquiry that 40 loans were delinquent more than 30 days but past due notices had not been sent to the borrowers. After further review, he found that improper amounts of principal and interest were being posted on payment cards. Division officials have recognized a need for improvement in loan servicing and are working with tax department personnel to resolve the deficiencies.

Paint Program

Beginning in program year 1978, the city allocated \$12,182 of Home Repair Grant program funds to paint home exteriors at no cost to low-income homeowners. The city provided white latex paint while volunteers donated labor primarily for homeowners (1) who have received assistance in the grant program and/or (2) who reside in the three Neighborhood Housing Service target areas. One city official said the program is an inexpensive means of improving the appearance of neighborhoods (homes are painted at an average of \$30) and also serves as an incentive for other residents in the neighborhood to paint their homes. Thus far, 363 homes have been painted at a cost of \$10,993--255 by church organizations, 94 by Neighborhood Housing Services, Inc., 11 by a Comprehensive Employment Training Act organization, 2 by other groups, and 1 by a homeowner. Since this program was so small, we did not obtain demographic descriptors of the program recipients.

Planning and research

The basic framework for planning and research is self contained within each city department, i.e., Public Works for street construction, Park and Recreation for park facilities, Department

of Housing and Urban Rehabilitation for housing, etc. About 9 months prior to each fiscal year, the departments formulate programs and budget proposals and receive comments from community groups on departmental plans. The proposals are then submitted through assistant city managers to the Office of Management Services--a budget oversight group within the Office of the City Manager. Once the city manager has agreed to the budget, it is sent to the city council for public hearings, review, and approval.

When the city began receiving CDBG funds, the only changes made to the planning process was the addition of a community development group within the Office of Management Services. This group is responsible for developing CDBG applications, maintaining coordination with HUD, and monitoring CDBG program progress.

HUD has expressed some concern that the city was not performing comprehensive CDBG planning in the traditional sense, i.e., through a centralized mode rather than the departmental approach. The Assistant Director, Department of Housing and Urban Rehabilitation, said there was never any consideration to a centralized planning capability because the city's basic philosophy was aimed in just the opposite direction.

Housing and Urban Rehabilitation was one department which had limited planning and research capabilities when CDBG was implemented. Therefore, until permanent staff could be increased, consultant services were used to assist in essential projects. In 1976, the first two housing planners were hired and in 1977 the Housing Research and Information Division was formed to carry out all planning, research, and analytical responsibilities. About \$1.3 million has been expended by the division of which \$.9 million was for salaries, \$.2 million for supplies and \$.2 million for contract services.

The division has the capability to perform a wide range of analysis and research, but the Assistant Director, Department of Housing and Urban Rehabilitation, stated most past work has been associated more with near-term as opposed to long-term planning. Though the city has adopted a broad housing policy, this policy has not yet been backed with long-range program concepts, operational milestones, and implementation plans.

The division is responsible for analyzing housing trends and needs, preparing housing assistance plans, developing program options and proposals, publishing housing data for public use, and maintaining a good relationship with community sectors (lenders, developers, etc.). The remainder of this segment discusses the division's functions.

The planning group analyzes and interprets housing conditions, and certain key sources of data have been utilized in the process. These include:

--City profile surveys. Since 1972, when the State government performed a statewide study of housing, the city has contracted for a similar study every other year in Dallas. As part of an overall survey of citizen satisfaction with city services, a random sampling of homes are selected and given quality ratings on various factors such as roofing, plumbing, etc. The city also obtains some information on income ranges of each household. Since 1974, over 20,000 houses have been surveyed throughout the city at a cost of about \$24,000 in CDBG funds.

--Bureau of Census housing survey (referred to as Annual Housing Surveys). HUD has contracted with the Bureau to perform housing surveys every 3 years in 25 standard consolidated statistical areas and to make the data available on computer tape to each city upon request. In Dallas, the agency assesses 2,500 houses.

--Census data-1970. Used more extensively in the mid-1970's the data provides a wide range of information on housing quality by census tract.

--Baseline study. In 1980, the city contracted with the same firm that performed the profile study and requested a survey of housing conditions in the CDBG target area. The firm analyzed 35,000 houses using the same approach as the profile study at a cost of \$35,000.

Another function of the planning group is assessing program approaches and options. In addition to developing information and performing analysis locally, planners have drawn on experiences of other cities to assess program possibilities as was the case in the Condominium Conversion and Apartment Improvement programs. In contrast, other programs have been implemented in response to outside forces rather than long-range plans. A good example is the Housemoving program (see p. 37) which helped provide interim funding to move houses. The program was instituted because a local group succeeded in convincing the city council that there was potential for moving homes into the CDBG target area. Only three houses were moved, one of which belonged to a member of the group presenting the idea to the city council, and the program was eventually canceled.

Also, the Housing Research and Information Division provides information to the public and to other city departments on housing trends and conditions. Each year for instance, planners summarize and make available data on construction activity, including new housing starts and home repairs.

Finally, the planning group is responsible for maintaining and fostering a cooperative relationship between local lending institutions and the city. One planner is responsible for surveillance over lending activity in the CDBG area and is in frequent contact

with banking and savings and loan representatives. For example, the Community Reinvestment Act of 1977 mandated federally chartered lending institutions to serve the convenience and credit needs of their surrounding communities without geographic discrimination, especially in low- and moderate-income neighborhoods. Regulations implementing the act require lenders to (1) publish annual statements showing which communities are being served, (2) obtain citizen comments on the statements, and (3) make records available for public review. Each Federal regulatory agency for the various types of lending institutions has responsibility for evaluating the performance of each lender. According to city officials, the Housing Research and Information Division acted as the city's liaison with the lending community.

ADMINISTRATIVE PROGRAMS
UNDER CONTRACT WITH THE CITY

The city contracted with the Neighborhood Housing Services, Inc., to operate a rehabilitation loan program (see p. 27). To finance operations, the organization depends on contributions from local sources (including the city), three charity foundations, numerous lenders, and corporations. Also, the organization sells loans in a national secondary mortgage market. Since 1977, the city has been contributing CDBG funds on a one-to-one ratio with other contributors to cover administrative costs. The following table shows the distribution of administrative costs incurred since the organization began operation.

Administrative Costs
Neighborhood Housing Services, Inc., Dallas
Since Program Inception
 (note a)

<u>Category</u>	<u>Total</u>	<u>CDBG funds</u>
	(as of May 31, 1981)	(as of June 30, 1981)
Salaries	\$587,403	\$235,729
Rent, supplies, telephone, etc.	233,297	85,124
Taxes and insurance	52,066	-
Automobile	<u>17,876</u>	<u>6,548</u>
Total	<u>\$890,642</u>	<u>\$327,401</u>

a/The organization made its first loan in November 1974 and through June 30, 1981, CDBG funds had financed 49 of 91 loans.

Source: Independent audit reports, Neighborhood Housing Services, Inc., and GAO calculations.

HOUSING PROGRAMS WHICH WERE NOT YET IMPLEMENTED

The city allocated CDBG funds totaling \$300,000 for two programs but had not spent any funds as of June 30, 1981. One program, Historic Preservation, was conceived in 1977 and the other program, Loan Leveraging, was started in 1981.

Historic Preservation Program

In 1977, the city council's Historic Preservation Committee was interested in establishing a fund to finance repairs on historical homes; therefore, the city set aside \$150,000 in program year 1977-78 to preserve houses in the CDBG target area. The Office of Management Services, which assumed planning responsibility, envisioned the program as a revolving loan fund operated by either a nonprofit organization or the city. As of June 30, 1981, however, the program had not been implemented because officials were uncertain whether local governments in Texas have the authority to loan public funds for preserving historic structures.

Loan Leveraging Program

During program year 1981, the city budgeted \$150,000 for the program. The program's objective is to use CDBG dollars as a catalyst to encourage private lending activity that might not occur otherwise. For moderate-income homeowners unable to afford market rates, the city will make a lump sum interest subsidy payment to the lender sufficient to reduce the interest by 4 percent. The applicant must be an owner-occupant of a dwelling unit containing one-to four-units, and although the home does not have to be substandard to be eligible, minimum city housing standards must be met after repairs.

The lenders are to process these loans in essentially the same manner as conventional loans and advise each applicant of the city's involvement. Once repairs are completed, city inspectors will review the work to insure the home meets housing codes. The lenders receive the interest subsidy at loan closing and service the loans until final payment. Four lenders have signed contracts with the city to participate in this program and a fifth was in the process of signing an agreement. The following shows the program's income requirements.

Maximum Income Limits for Recipients of Leveraged Loans

<u>Family size</u>	<u>Income limits</u>
1	\$15,455
2	17,655
3	19,855
4	22,055
5	23,430
6	24,805
7	25,180
8 or more	27,555

Source: Department of Housing and Urban Rehabilitation, city of Dallas.

CHAPTER 7

CITY HOUSING OFFICIALS'

VIEWS ON HOUSING BLOCK GRANTS

This chapter briefly presents Dallas housing officials' views on the feasibility of housing assistance block grants. Information contained herein is meant to provide a fundamental and general perspective and not a detailed critique of advantages or disadvantages of block grants. Opinions were obtained from the Director and Assistant Director, Department of Housing and Urban Rehabilitation, and are discussed in three segments.

- Allocating funds and programs to be included in a housing block grant.
- Planning and implementing.
- Evaluating and monitoring.

Dallas has adopted housing policies which the housing officials feel are feasible and responsive to local needs. Also, planning and program delivery mechanisms have been developed, and officials feel optimistic about their overall abilities to eventually administer block grant programs. As a result, they would favor any movement by the Federal Government to begin delegating additional responsibilities to local governments.

ALLOCATING PROGRAMS AND FUNDS UNDER A HOUSING BLOCK GRANT

For the most part, housing officials believed housing programs currently operated by the Federal Government should be transferred to local authorities. Exceptions were voiced by the Assistant Director, who believed that the local governments should not be given responsibilities for programs which are currently designed to assist "faltering" HUD projects. He believes the decision to foreclose on mortgages or advance funds to mismanaged or troubled projects funded under prior HUD programs should rest with the Federal Government. For example, he did not favor cities taking over disbursing operating subsidies for public housing authorities, advancing funds under the Flexible Subsidy Program, or foreclosing on HUD-insured projects.

The Assistant Director indicated that if additional Federal funds were awarded he would like to see more emphasis placed on subsidizing interest rates and leveraging local funds to rehabilitate or construct new housing units. He added that projects for the elderly are very practical because they (1) provide an atmosphere attractive to older citizens, (2) are usually well managed, and (3) free single family units for others in need of housing.

Both the Director and Assistant Director agreed that funds should be distributed directly to eligible areas (i.e., cities, counties, etc.). The Assistant Director strongly disagreed with State involvement in the process because it would take the decisionmaking authority away from city or county governments. He envisioned serious problems with this approach because much of the program's impact could be lost to administrative costs at the State level and political maneuvering to gain control over funds and program benefits.

The two officials expressed differing opinions on the size of cities which should be included under block grants. The Director believed an appropriate population cutoff would be 50,000, while the Assistant Director believed cities as small as 10,000 could handle block grants. The rationale for larger cities is that they are best equipped and experienced with housing. On the other hand, the Assistant Director believed small cities should also be included because they usually use programs which are narrower in scope and less complex to administer. Also, many small cities have operated public housing authorities for years and seem just as capable as larger cities in addressing their own housing problems.

Both officials believed a housing block grant should use long-term funding cycles so local governments can make multiyear program commitments without having to speculate whether or not funds will be available. The two individuals thought the most important factors to be included in a formula used to allocate funds to local governments should be population, extent of poverty, and the severity of housing problems (measured by such indicators as substandard units and households needed assistance). Of lesser importance were area growth rates, age of housing, and unemployment rates.

PROGRAM PLANNING AND IMPLEMENTATION

The Director believed the Federal Government should establish minimum guidelines on planning functions such as assessing housing conditions, preparing grant applications, developing housing assistance plans, and obtaining citizen comments and A-95 clearinghouse reviews. The Assistant Director agreed that guidance is needed for grant applications but thought local governments should be permitted to establish their own parameters in the other planning functions. He said that existing Federal regulations tend to be cumbersome (for instance, having to submit citizen's participation plans) and are not flexible enough to allow local initiatives in assessing housing conditions, setting goals, and establishing programs. He stated that local governments should be allowed to develop their own housing assessments, housing assistance plans, and program applications with the Federal role limited to a review and comment process only. The Director, to the contrary, believed local governments should perform the necessary program planning but that State and Federal Governments should be involved in approving

housing assessments, plans, and applications. He believed this approval process was needed to assure consistency with State and/or Federal housing policies and legislation and to provide checks and balances over local governments.

Both officials predicted some difficulty in acquiring the technical staff to administer housing block grants; however, if administrative capabilities were lacking, they stated the city could contract with management firms to perform the work. In fact, this approach was used when the transition was being made into the CDBG program in 1975.

The following opinions were expressed on how funds should be targeted:

- It is important to target programs to the elderly or handicapped household but not as important to distinguish between small and large family (large families consist of 5 or more members) households. Small and large families should be targeted collectively, i.e., eliminate the distinction between the two groups.
- Targeting to substandard and overcrowded households is more important than to households paying excessive proportions of their income for housing expenses. The housing officials believe the cost of housing is often a personal choice of the occupant (i.e., some may elect to pay 40 percent of their income for housing) and should not be given as much importance when identifying housing needs.

The Director and Assistant Director expressed mixed opinions on roles and responsibilities for the Federal and local governments in implementing housing block grants. These differences hinged on the Director's concern that Federal involvement is needed to make local entities implement appropriate administrative and program procedures to achieve national goals. To illustrate, he believed that the Federal Government should establish some guidance in such areas of administration as financial management, citizen input, environmental considerations, compliance with the Davis-Bacon Act, and equal opportunity housing. In contrast, the Assistant Director thought requirements were not needed for financial management because city governments were often required to establish accounting and budget processes beyond what already existed in their systems. He also believed environmental issues were very minor in housing and saw little need for Federal regulations in this matter.

Both officials believed block grants should contain regulations for determining such things as program eligibility, performing audits, recordkeeping, reporting program results, and developing minimum property standards. The Director generally thought the Federal Government should have primary responsibility for establishing these requirements, whereas the Assistant Director

believed local governments would be better suited. Both individuals recommended that appropriate records be maintained on essential aspects of program operations, including project activities, types of people benefiting from programs, status of housing conditions, levels of housing needs, community input, and financial management.

The two officials thought local governments should have primary responsibility for performing all project functions such as underwriting mortgage insurance, loan management, rent valuations, mortgage credit analysis, economic analysis, legal reviews, and architectural work. The Director stated he would like to see Federal involvement in monitoring program activities, performing compliance reviews, and enforcing sanctions and penalties for noncompliance with project regulations. The Assistant Director, on the other hand, believed local governments could administer these three processes.

The Director emphasized the importance in having a readily assessible source of technical advice when local governments are making the shift to housing block grants. The logical place for this responsibility, he said, would be at the Federal level.

PROGRAM EVALUATION

Each official placed strong emphasis on performing fiscal audits and evaluating the effectiveness of programs. In making program reviews, both thought it would be important to have the Federal Government assume a role in these functions. Further, the Assistant Director urged that local governments should also be committed to making both types of reviews on a regular basis. The two officials said the following criteria were very important when assessing program performance.

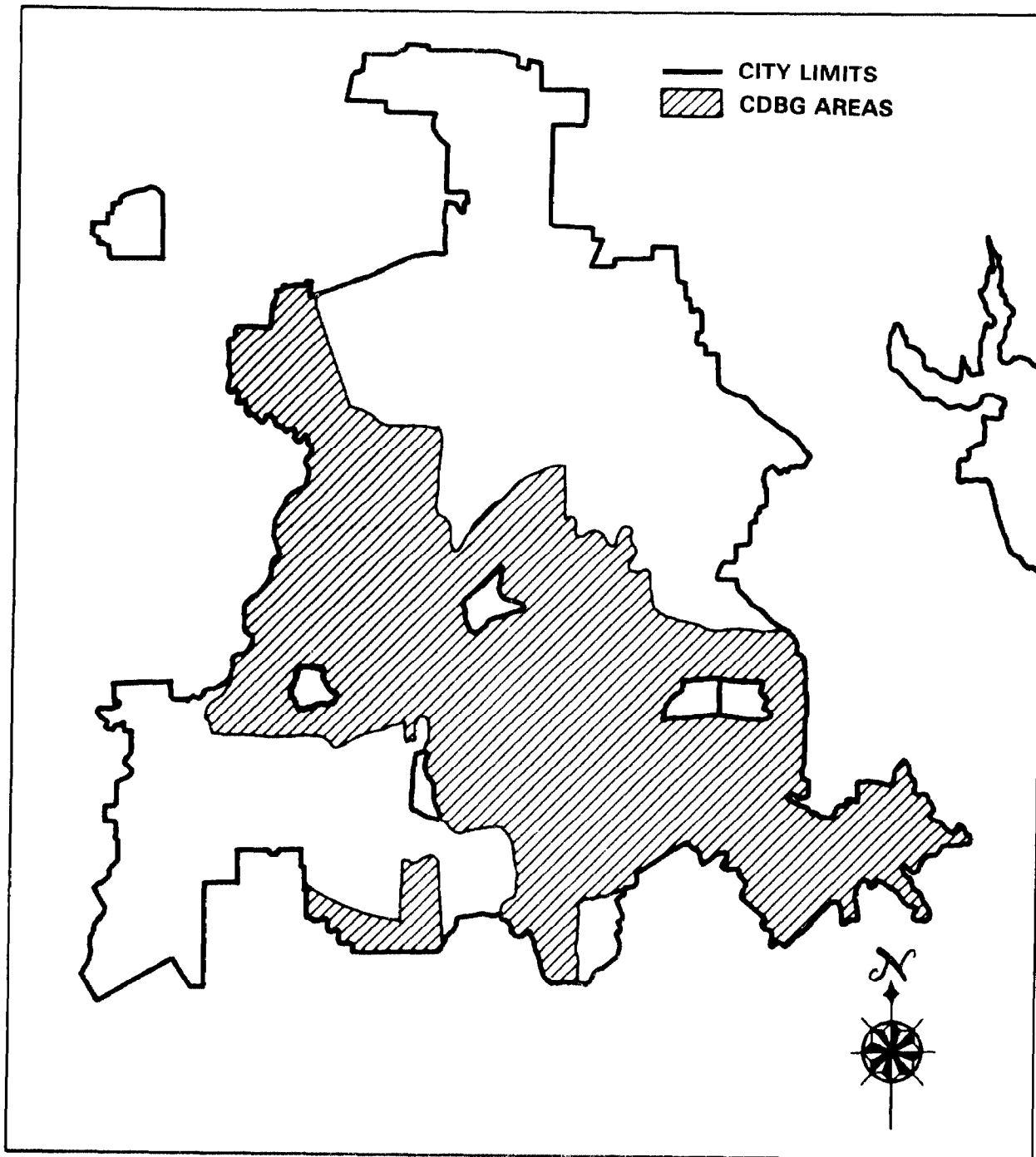
- Compliance with laws and regulations.
- Ability to plan, implement, and monitor programs.
- Adequacy of internal controls to prevent fraud, waste, and abuse.

Of lesser importance, in the Assistant Director's view, was the rate or timeliness of program expenditures.

The two individuals generally favored the idea of imposing sanctions on local governments in the event they failed to comply with specific performance standards. Sanctions proposed by the Assistant Director were generally stronger than those suggested by the Director. For example, he suggested that if a city did not comply with State, local, or Federal regulations, a series of actions could be taken, ranging from warning letters to reducing or terminating grants and, in extreme instances, referring the case to the Attorney General. He also believed a city's failure to maintain program planning, implementation, and evaluation capabilities justified terminating Federal funding.

The Director recommended less stringent penalties, such as warning letters, when regulations were not followed and periodic progress reports when a government did not have acceptable planning, implementation and evaluation capabilities. Opinions were unanimous for cases involving fraud, waste, or abuse.

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