U.S. Department of Housing and Urban Development
Office of Community Planning and Development

1987

Consolidated Annual Report to Congress on Community Development Programs

(CDBG, UDAG, Rental Rehabilitation, Section 312, Urban Homesteading)

Executive Summary

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410-7000

OFFICE OF THE ASSISTANT SECRETARY
FOR COMMUNITY PLANNING AND DEVELOPMENT

APR 9 1987

Executive Summary

The Executive Summary of the "1987 Consolidated Annual Report to Congress on Community Development Programs" provides a basic overview of the purposes, funding levels, participation, and activities supported by the major community development programs funded by the U.S. Department of Housing and Urban Development. These programs provide a comprehensive array of community development, economic development, and housing rehabilitation assistance to States, counties, and cities of all sizes. They afford State and local officials substantial latitude to design and implement programs to meet the unique needs of individual communities and lower income persons.

The executive summary describes actions and activities undertaken during FY 1986 to meet the legislative objectives and requirements of the following programs:

- o Community Development Block Grant (CDBG) Entitlement Program
- o State and Small Cities CDBG Programs
- o Urban Development Action Grant Program
- o Rental Rehabilitation Program
- o Urban Homesteading Program
- o Section 312 Rehabilitation Loan Program
- o Secretary's Discretionary Fund Program

Individual copies of the full report may be obtained by writing to the following address:

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and Development

HUD

SUMMARY

1987 CONSOLIDATED ANNUAL REPORT TO CONGRESS ON COMMUNITY DEVELOPMENT PROGRAMS

This Report Incorporates Statutorily-mandated Reports to Congress for FY 1986 on the:

Community Development Block Grant Program
Urban Development Action Grant Program
Rental Rehabilitation Program
Section 312 Rehabilitation Loan Program
Urban Homesteading Program

U.S. Department of Housing and Urban Development
Office of the Assistant Secretary for Community Planning and Development
Office of Program Analysis and Evaluation

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INTRODUCTION

The U.S. Department of Housing and Urban Development, through its Office of Community Planning and Development (CPD), operates the Federal Government's major community development, economic development, and housing rehabilitation programs. These programs, the Community Development Block Grant (CDBG) Entitlement, State and Small Cities CDBG, Urban Development Action Grant, Rental Rehabilitation, Urban Homesteading, and Section 312 programs, provide a comprehensive array of community development assistance to States, counties, and cities of all sizes. These programs target assistance to grantees through formulas or selection criteria that reflect the programs' purposes and the local needs of the individual communities. They also afford substantial latitude for local officials to decide how the program funds will be used. Because of this latitude, local officials often use these programs to complement one another.

This report, the Consolidated Annual Report to Congress on Community Development Programs, describes the FY 1986 operations of these programs. The first section of this Executive Summary provides a basic overview of the purposes, funding levels, participation, and the activities supported by the CPD-funded programs and estimates the actual accompiishments of the programs for selected types of products. The second section provides a summary of the operations of each program.

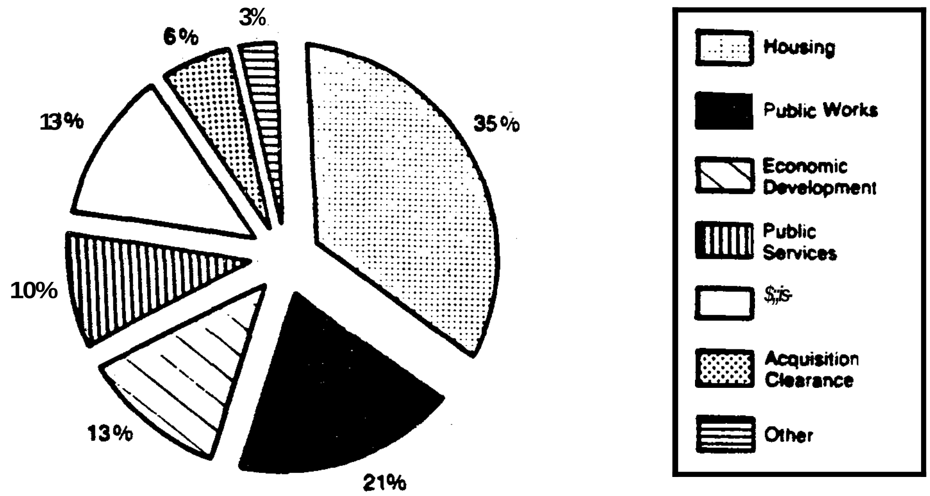
OVERVIEW OF PROGRAMS

COMMUNITY DEVELOPMENT

Community Development Block Grant Entitlement Program. The largest of the programs operated by the Office of Community Planning and Development is the Community Development Block Grant program (CDBG) for Entitlement Communities, which provides formula grants to all central cities in metropolitan areas, all other cities with a population of 50,000 or more, and Urban Counties. These grant amounts are determined by each community's population, population growth lag, number of persons in poverty, extent of overcrowded housing, and amount of housing built prior to 1940.

Localities can use their formula grants to undertake a broad range of eligible activities, including housing rehabilitation, public improvements, economic development, and public services. The proportions of Entitlement funding going to the major activity groupings have remained nearly constant over the last five years with housing rehabilitation activities most prevalent, public improvements next, followed by smaller shares for economic development and public service activities. The FY 1986 planned spending reflects the same priorities.

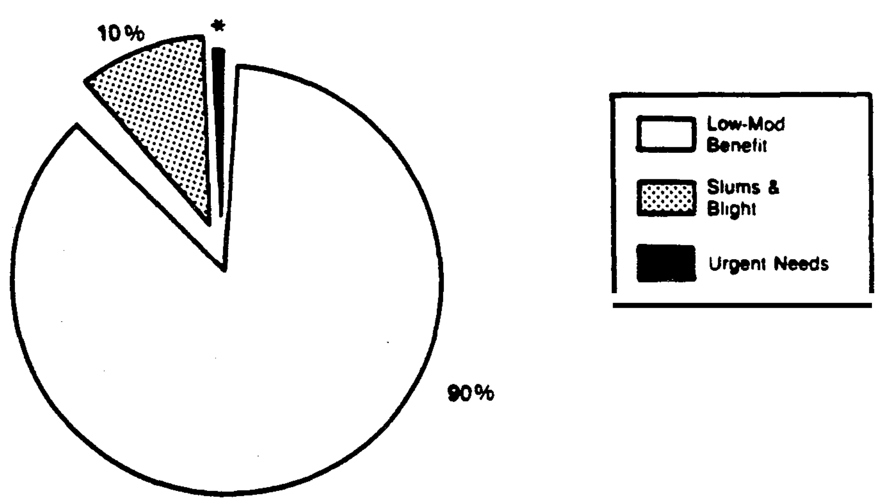
Figure 1
Activities Funded by tho CDBG **Entitlement Program**
FY 1986



Source: U.S. Department of Housing and Urban Development, Community Planning and Development, Office of Program Analysis and Evaluation.

Each CDBG activity must meet one of the program's three national objectives; i.e., benefitting low- and moderate-income persons, preventing or eliminating slums and blight, or meeting another urgent community development need. Benefit to low- and moderate-income persons continues to account for nine-tenths of aggregate program activity with prevention or elimination of slums and blight for the bulk of the remainder.

Figure 2
National Objective of CDBG Entitlement Program
Spending, FY 1986



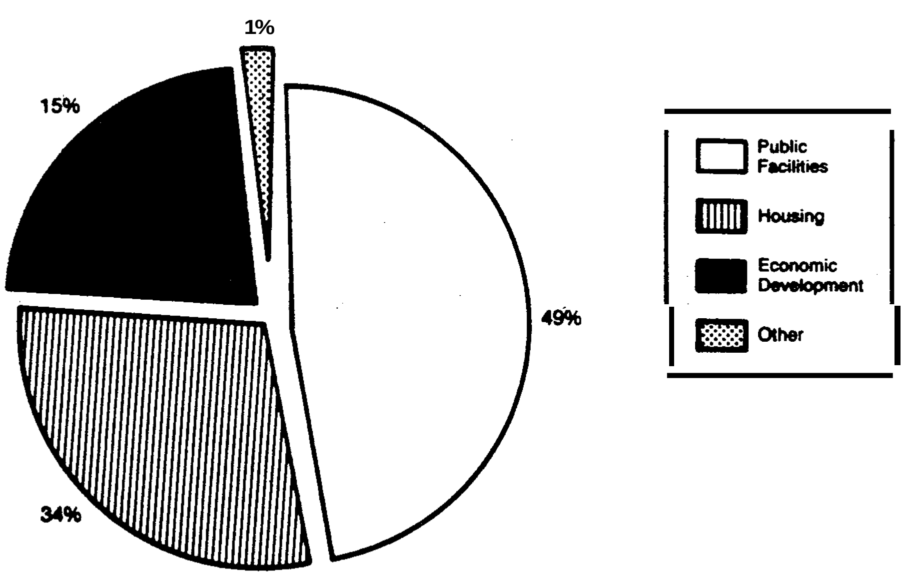
* = less than .5%

Source: U.S. Department of Housing and Urban Development, Community Planning and Development, Office of Program Analysis and Evaluation.

State and Small Cities Community Development Block Grant Programs. The State and Small Cities Community Development Block Grant programs offer funding to smaller communities that are not eligible for entitlement grants. These funds are allocated to States using the same formulas used in the Entitlement component of the program. However, the formulas are adjusted to include only the data for non-entitlement areas of the State. In 48 States, including Puerto Rico, State officials select the communities to receive the funds. In the other three States, the HUD field office(s) responsible for the Department's operations in that area administers the program.

State and local officials have the same broad latitude to undertake activities as do the grantees in the Entitlement program. Based on the first one-third of FY 1986 grants awarded by States, the' relative share of funding to the three major activity groupings continued as they have since program inception. Public facilities remained the principal activity funded by the State CDBG program with housing activities next most prominent, and economic development, third. Since many States make their economic development awards later in the year, the proportion of FY 1986 funds for economic development probably will increase when States award the remaining two-thirds of the funds.

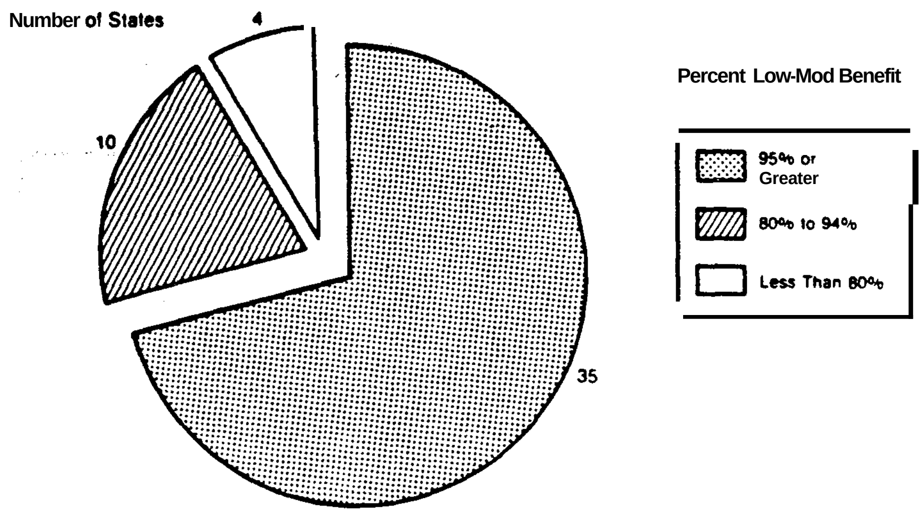
Figure 3
Activities Funded by the State/Small Cities CDBG Program, FY 1986



Source: U.S. Department of Housing and Urban Development, Community Planning and Development, Office of Program Analysis and Evaluation.

States are bound by the same requirements as Entitlement communities regarding meeting the program's national objectives. As in the Entitlement program, benefit to low- and moderate-income persons accounts for a very large percentage of State CDBG activity for FY 1986.

Figure 4
State CDBG Program Benefit
to Low- and Moderate-Income Persons
FY 1986 Expenditures



Source US Department of Housing and Urban Development, Community Planning and Development, Office of Program Analysis and Evaluation

Secretary's Discretionary Fund. The Secretary's Discretionary Fund (SDF) is authorized by Section 107 of the Rousing and Community Development Act of 1974 to provide a source of non-entitlement funding for special groups and projects. During FY 1986, the SDF supported four program areas: The CDBG program for Indian Tribes and Alaska Natives; the CDBG program for Insular Areas; the Technical Assistance program; and the Special Projects program.

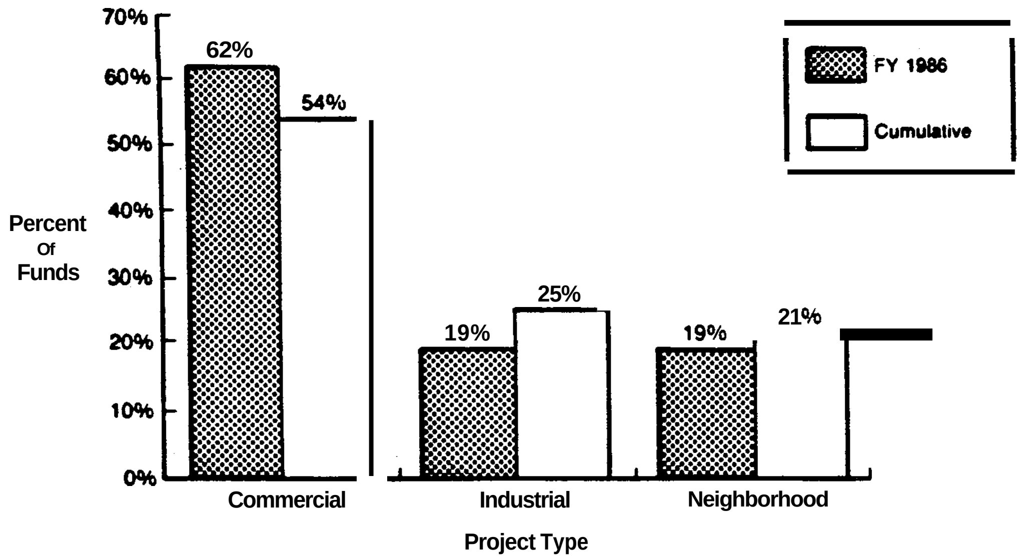
ECOBOWIC DEVELOPMENT

Urban Development Action Grant Program. The Urban Development Action Grant program (UDAG) is the Department's only program designed primarily to foster economic development in areas experiencing economfc distress. Directed both to large cities and small cities, UDAG is a categorical program in which the Secretary selects projects to fund from among applications submitted by local officials of eligible jurisdictions.

To obtain a UDAG award, an eligible community must: obtain firm financial commitments from private sector participants; generate private investment that is at least two and one-half times the amount of the Action Grant; and demonstrate that, "but for" the UDAG award, the project could not be undertaken and that the UDAG amount is "the least amount" required. UDAG funds awarded to units of general local government are, in most cases, used to make loans to private sector developers or companies.

Commercial projects have been awarded the majority of UDAG funding both across all fiscal years and for FY 1986 with industrial and neighborhood projects receiving smaller and similarly-sized shares.

Figure 5
Types of Projects Funded With Action Grants
FY 1986 and Total Program



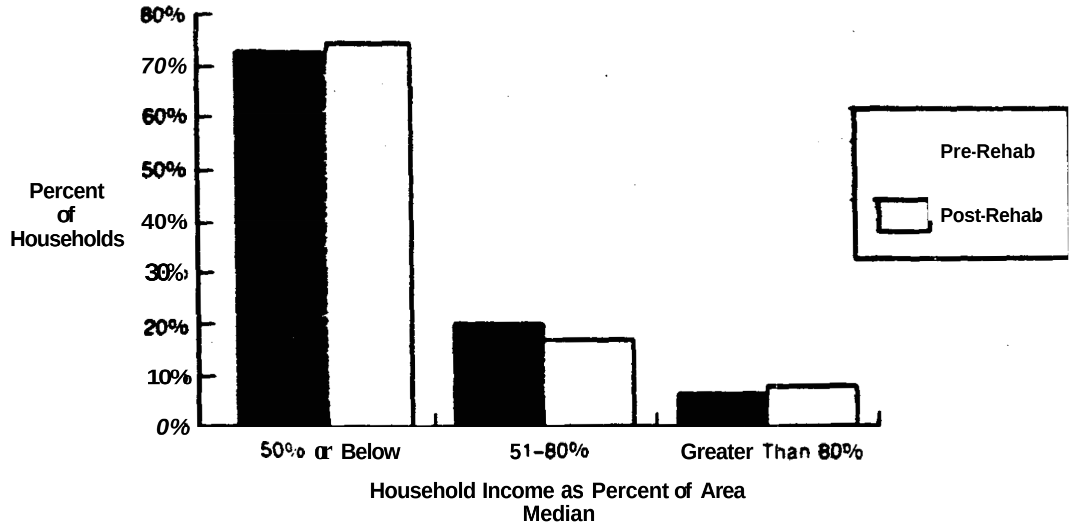
Source U S Department of Housing and Urban Development. Community Planning and Development, Office of Program Analysis and Evaluation.

HOUSING REHABILITATION

Rental Rehabilitation Program. The Office of Community Planning and Development operates three programs specifically devoted to conserving America's existing housing stock. The largest of these is the Rental Rehabilitation program (RRP), which, like the CDBG program, is divided into an entitlement component for larger cities and counties and a State- or HUD-administered program for smaller communities. The Rental Rehabilitation program provides grants to States and eligible communities based on the amount of each jurisdiction's rental housing stock that is old, deficient, or occupied by persons in poverty.

Officials in RRP communities can use the grant funds to provide reduced rate financing for rehabilitating substandard rental housing for Power-income renters. The program also makes rental assistance available in the form of Section 8 Certificates and Housing Vouchers to lower-income tenants so that they will be able to afford increased rents charged by the owners of the properties. One effect of these policies has been to maintain the same high level of low-Income occupancy for the properties once rehabilitated that existed before rehabilitation.

Figure 6
Household Income of Rental Rehabilitation Program
Project Occupants, FY 1986



Source US Department of Housing and Urban Development. Community Planning and Development. Office of Program Analysis and Evaluation

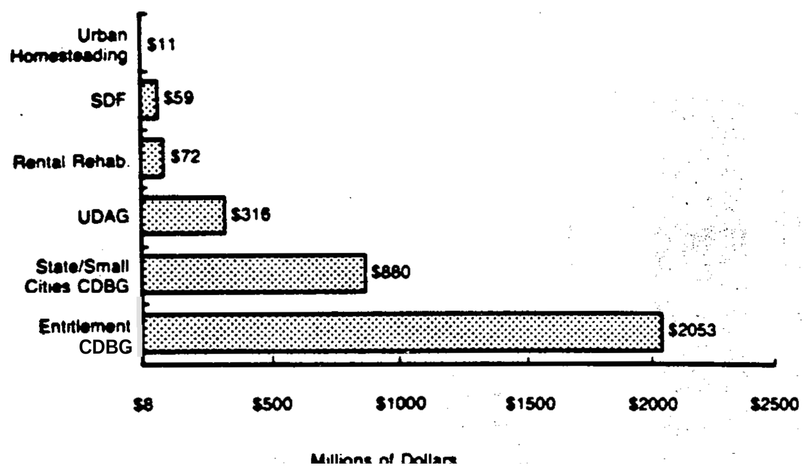
Urban Homesteading Program. The Urban Homesteading program provides financing for acquiring properties whose owners have defaulted OR Federally-insured loans. In this program, once the properties are acquired, they are given at nominal cost to lower-income "homesteaders" who contract to repair them and reside in them for a period of at least five years. The Urban Homesteading program relies on both the CDBG and Section 312 programs for financing rehabilitation of the properties.

Section 312 Rehabilitation Loan Program. The Section 312 Rehabilitation Loan program provides reduced rate financing for rehabilitating properties, usually single-family residential properties. Frequently, loans in this program are made in conjunction with the Urban Homesteading program as a means of subsidizing the repair work needed in that program.

PROGRAM APPROPRIATIONS

Appropriations for these programs totalled $3.390 billion in FY 1986, down from $4.074 billion in FY 1985. This decline resulted from a decrease in appropriations for the CDBG, UDAG, and Rental Rehabilitation programs and from reductions required by the Gramm-Rudman-Hollings deficit control process. The relative level of funding for each CPD program in FY 1986 is Illustrated in Figure 7.

Figure 7
CPD Funding FY 1986

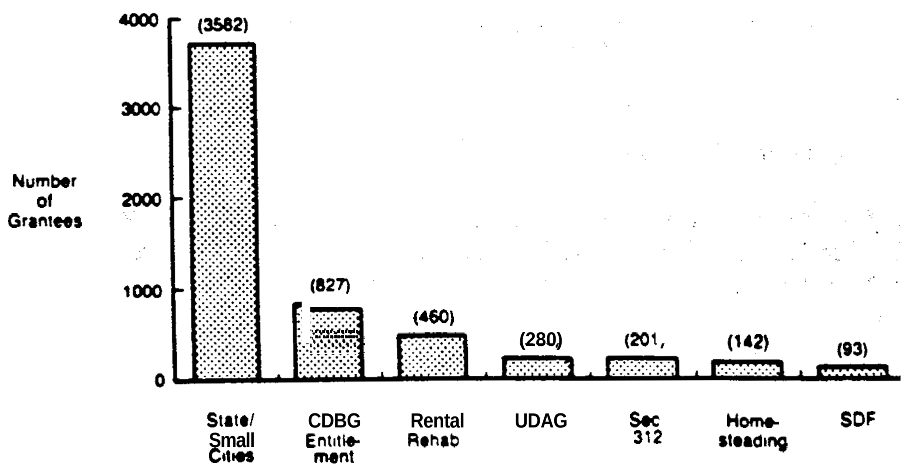


Source. U.S. Department of Housing and Urban Development, Community Planning and Development, Office of Program Analysis and Evaluation.

PROGRAM PABTICIPAITS

During FY 1986, **CPD** provided grants to all States and to more than 5,700 localities for a variety of community development activities under all of its programs. Figure 8 indicates the numbers of participants in each program during FY 1986. Since many communities participate in more than one program, the actual number of communities benefitting from **CPD** programs in **FY** 1986 is somewhat less than 5,700. For example, about half of the CDBG Entitlement recipients also received Rental Rehabilitation grants and about one in ten also received one or more UDAGs.

Figure 8
CPD Program Participants, FY 1986



Source U S Department of Housing and Urban Development, Community Planning and Development, Office of Program Analysis and Evaluation.

PROGRAM SUMMARIES

This section of the Executive Summary describes actions and activities undertaken in the CPD programs during FY 1986 to meet the legislative objectives and requirements of each program.

COMMUNITY DEVELOPMENT BLOCK GRANTS
ENTITLEMENT PROGRAM

Participation and *Funding.* The Community Development Block Grant (CDBG) Entitlement program is HUD's principal program to assist urban areas. The program provides an annual entitlement to localities based upon objectively measured need factors.

- In FY 1986, 827 jurisdictions (711 cities and 116 counties) were eligible to receive Entitlement grants. The number of eligible communities has increased 39 percent since the program's beginning in 1975.

- The FY 1986 CDBG Entitlement program appropriation amounted to $2.053 billion, a 14 percent decrease from FY 1985. Excepting pending approvals, Entitlement cities received $1,564 million and Urban Counties $385 million.

- During FY 1984 (the most recent year for which information is available), program income equalled almost 16 percent ($372 million) of the Entitlement grant appropriation for that year. Most of program income ($255 million) derived from the repayment of loans made from CDBG funds. Proceeds from the sale of property also produced substantial income ($67 million) for Entitlement cities and counties.

FY 1986 Activities. Grantees have broad discretion to undertake neighborhood revitalization, public works, social service, **or** economic development projects to address local needs.

- Housing-related activities, principally rehabilitation, continue to receive the largest share ($859 million, **or** 35 percent) of budgeted FY 1986 funds. The next largest budget category in FY 1986 was public works ($506 million) followed by economic development ($304 million) and public services ($236 million). Lesser amounts of funds were budgeted for acquisition and clearance activities, contingencies, and repayment of Section 108 loans.

- Planning and general program administration were budgeted for $304 million **or** 13 percent of all funds awarded, far less than the statutory cap of 20 percent.

- In FY 1986, the relative amounts budgeted for major activity categories varied little from that exhibited since 1982.

- Since FY 1983, over $100 million in CDBG funds has been directed to the homeless.

National Objectives. Each CDBG-funded activity must meet one of three national objectives: benefit to low- and moderate-income persons; prevention or elimination of slums and blight; and meeting urgent local needs. Starting with FY 1984, each Entitlement grantee could choose a one- to three-year period over which at least 51 percent of its expenditures had to benefit low- and moderate-income persons.

- Nearly all communities spent at least 51 percent of their 1984 expenditures on activities qualified under the low- and moderate-income benefit objective, and 98 percent spent over 90 percent of their funds under that objective.

- Overall, grantees reported spending approximately 90 percent of their 1984 funds on activities to benefit low- and moderate-income persons, 10 percent to relieve slums and blight, and less than one percent to meet local urgent needs.

- Grantees reported that about 30 percent, or $716 million, of their 1984 expenditures involved activities to directly benefit individuals--96 percent of whom were of low and moderate income. The proportion of minority households receiving direct benefits approximated their share of the poverty population.

Section 108 Loan Guarantees. Communities may pledge their current and future annual CDBG Entitlement grants as collateral for loans guaranteed under the Section 108 program. For FY 1986, Congress established a program limit of $225 million in guarantee authority. Congress also shifted the provision of loan funds from the Federal Financing Bank to the private sector.

- In FY 1986, HUD approved 25 new Section 108 guaranteed loans totalling $113.3 million, bringing total FY 1978-86 guarantee approvals to $888 million.

- The vast majority of the loans approved in FY 1986 involve the acquisition of real property. In almost 75 percent of these projects, a second activity, usually clearance or rehabilitation, was also included.

- Between 1978 and 1986, 151 communities participated in the program. Each of these communities has secured an average of 1.6 approvals, with a mean approval amount of $2.9 million.

COMMUNITY DEVELOPMENT BLOCK GRANTS
THE STATE AND SMALL CITIES PROGRAMS

Participation. The State Community Development Block Grant and HUD-administered Small Cities programs are HUD's principal vehicles for assisting eligible communities under 50,000 population that are not central cities. Statutory changes made in 1981 gave States the option of administering the program funds which HUD allocates by formula to each State.

- Forty-seven States and Puerto Rico now administer their own programs, and HUD continues to make grant awards for three States--Hawaii, Maryland, and New York.

- The appropriation for FY 1986 was $879.8 million, of which approximately $835 million went to the 48 participating States and $45 million to 127 grantees in the three States where HUD administers the program.

- Since the inception of the program in FY 1974, about $9.3 billion has been awarded to States, small cities, and counties.

Activities Funded. States may, within the scope of national program objectives, set their own priorities to meet the particular needs of their smaller communities and to respond to the pdlicy preferences of the State officials.

- Of $3.6 billion in CDBG funding distributed by States since FY 1982, approximately 47 percent ($1.68 billion) has gone to activities whose purpose was public facilities-related; 29 percent to activities whose purpose was housing-related; 22 percent to activities whose purpose was economic development-related; and the remaining two percent to planning- and public service-related activities.

- As of June 30, 1986, States reported that about 48 percent of their FY 1986 awards had been made for public facilities-related activities, 33 percent for housing-related activities, and 17 percent for economic development-related activities. The early date for reporting this information probably understates the prominence of economic development activity because many economic development activities are funded throughout the year on a non-competitive basis.

Law- and Noderate-Income National Objectives. At least 51 percent of all State grant funds must be used to satisfy the-low- and moderate-income national objective. States may decide to meet this requirement over a one-, two-, or three-year period.

- Thirty-one of the 45 States for which we have information have awarded at least 95 percent of their allocations since FY 1982 to meet the low- and moderate-income objective. In four States, the overall proportion of funds awarded to support this objective was less than 80 percent with the lowest being 57 percent.

- Across all States, 97 percent of FY 1986 funds awarded through June 30, 1986 were intended to meet the national objective of providing benefit to people with low and moderate incomes.

Program Administration Features. States have broad latitude to administer their programs. Consequently, there is considerable variation among States regarding such features as basic program objectives, selection systems and priorities, and the use of set-asides to encourage applicants to meet special State objectives.

- All 48 States distribute at least some portion of their CDBG allocations through competitions, and, for most States, it is the principal form of distribution.

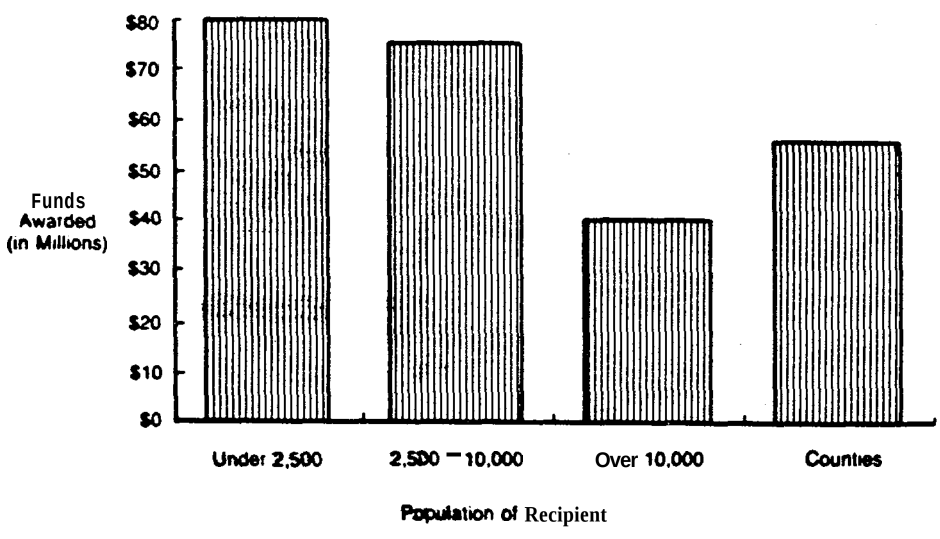
- Thirty States also distribute some part of their allocations through an ongoing noncompetitive consideration of applications in specific categories, primarily economic development. This is the main distribution mechanism in five States.

- Four States use formulas In addition to other distribution systems. Only one, however, uses a formula as the principal way to distribute its allocation.

Characteristics of State Recipients. In FY 1986, State selection systems resulted in the following profile of awards and activities.

- Of the $250 million in awards distributed for program activities as of June 30, 1986, towns (under 2,500 population) received 32 percent, very small cities (2,500-10,000 population) accounted for 30 percent, larger cities (over 10,000 population) were awarded 16 percent, and counties received 22 percent.

Figure 9
Population of State/Small Cities CDBG Program Recipients, FY 1986



Source: U.S. Department of Housing and Urban Development, Community Planning and Development, Office of Program Analysis and Evaluation.

- In FY 1986, the principal program focus of communities under 10,000 is population and of counties was public facilities. Only in communities larger than 10,000 was housing more prominent than public facilities. Economic development was the third major activity for all recipient categories.

HUD-Administered Small Cities Program. In FY 1986, HUD awarded $45 million to 127 of 305 applicants in the three States of Hawaii, Maryland, and New York.

- o Housing-related activities accounted for 38 percent of the funds distributed, with 30 percent going to comprehensive projects. Lesser amounts went to economic development and public works (16 percent each) activities.

- o Very small cities (2,500 to 10,000) received the largest amount of funds awarded, 30 percent; followed by towns (less than 2,500), 29 percent; small cities '(over 10,000), 22 percent; and counties, 19 percent.

URBAN DEVELOPMENT ACTION GRANT PROGRAM

Participation. Eligibility to compete for UDAG funds depends upon the community's relative degree of economic distress and its demonstrated results in providing housing for low- and moderate-income persons and equal opportunity in housing and employment for low- and moderate-income persons and members of minority groups.

- o During FY 1986, HUD announced preliminary application approval for 280 Action Grant projects for $437 million to 185 eligible communities. Seven additional awards were announced but subsequently terminated during the year.

- o Since the beginning of the program in FY 1978, the Department has awarded 2,764 Action Grants totalling more than $4.2 billion to approximately 1,150 eligible communities. An additional 492 awards had been announced and later terminated by the end of FY 1986.

Activities Funded. Action Grants are intended to attract private investment in economic development projects of a commercial, industrial, or neighborhood character.

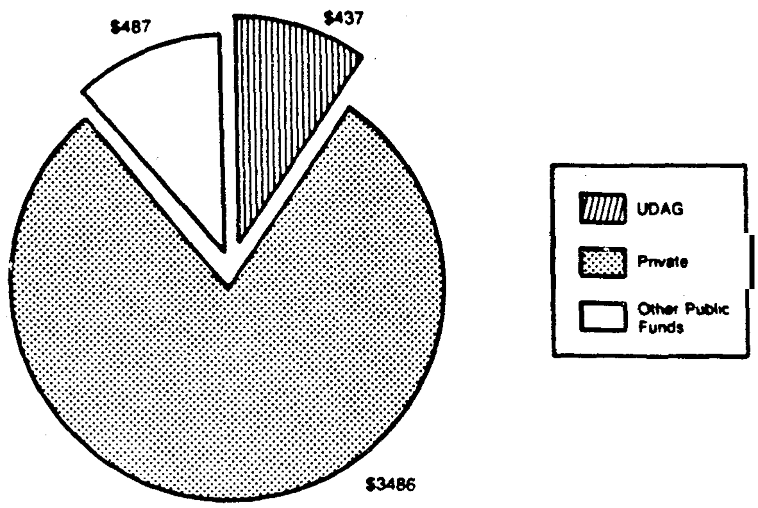
- o Of the $437 million of UDAG funds awarded in FY 1986, commercial projects received 62 percent, and industrial projects and neighborhood projects, primarily related to housing activities, each received 19 percent.

- o Over the life of the program, commercial projects have received 54 percent of the funds awarded compared to 25 percent for industrial projects and 21 percent for neighborhood projects.

Planned Expenditures in Funded Projects. "Funded" UDAG projects refer to those for which there has been an announcement of preliminary application approval, which have not been terminated, and are either approved but not yet started, underway, closed out, or completed.

- o In FY 1986, 280 funded UDAG projects involving $437 million leveraged $3.486 billion in planned'private investment and $487 million in other public funds, bringing total planned project expenditures to $4.411 billion.

Figure 10
UDAG Project Funding Sources, FY 1986
(Dollars In Millions)



Source U.S. Department of Housing and Urban Development, Community Planning and Development, Office of Program Analysis and Evaluation

- Over the life of the program, there have been 2,764 UDAG projects funded with a value of $4.2 billion. These have leveraged $26.1 billion of planned private investment and $2.4 billion in other public commitments for a total of $32.7 billion in planned project expenditures.

UDAG Funds Obligated and Drawn Down. When HUD signs the grant agreement between itself and the grantee, the Department obligates the UDAG funds involved.

- Obligations of $365.4 million were incurred for 285 projects during FY 1966.

- Since the beginning of the program, HUD has signed 3,150 grant agreements, thus obligating appropriated UDAG funds of $4,606,187,000.

- Just over $2.9 billion in UDAG funds have been drawn down by grantees through the end of FY 1986; this constitutes 63 percent of the program funds obligated.

Project Progress and Private Expenditure Rates. Grantees periodically report to HUD on project status. As of the end of FY 1986:

- Construction was underway or had been completed in 81 percent of all funded projects.

- More than 1,300, or forty-eight percent of all funded projects, had been closed out or completed as of the end of FY 1986.

- More than $21.7 billion of private investment had been expended--83 percent of the planned total of almost $26 billion.

Program Benefits. Grantees also report periodically on their progress in achieving the benefits called for in the grant agreements. Performance highlights through the end of FY 1986 include:

- The creation of 273,500 new permanent jobs, or 50 percent of the more than 550,000 planned. Of the total new jobs created, over 164,000 (60 percent) have been filled by low- or moderate-income persons and more than 69,000 (25 percent) by minority persons.

- The receipt of almost $210 million in new annual tax revenues, or 33 percent of the $628 million planned. These additional revenues include $135 million in property taxes, $52 million in other local taxes, and $21 million in payments in lieu of taxes.

- The payback of approximately $232 million from UDAG loans received by almost 560 local communities.

- The development of almost 60,000 units of both new and rehabilitated housing--56 percent of the 107,000 units planned.

- The receipt of contracts with a value of $1.2 billion by minority contractors or sub-contractors. Fifty-six percent of all UDAG projects in which contracts have been awarded involve the participation of one or more minority contractors. They have received 16 percent of the total number of contracts awarded and eight percent of the dollar amount of all such contracts.

THE RENTAL REHABILITATION PROGRAM

Participation. The Rental Rehabilitation program, authorized under the Housing and Urban-Rural Recovery Act of 1983, provides formula grants to cities with populations of 50,000 or more, Urban Counties, approved consortia of local governments, and States to finance the rehabilitation of privately-owned rental housing.

- In FY 1986, 409 communities, including 306 cities, 102 urban counties, and one consortium, qualified for direct allocations under the Rental Rehabilitation program. The 50 States plus Puerto Rico also were eligible for direct program funding.

- Of the 409 communities eligible for a direct allocation, 353 elected to participate as formula grantees. In addition, 39 States (including Puerto Rico) have chosen to administer the Rental Rehabilitation program for communities that did not receive a formula grant in their jurisdiction. The Department is administering the program for the other States.

Program Funding. Congress appropriated $150 million for the program in each of FY 1984 and FY 1985. During FY 1986, the program received $71.775 million in appropriations. The FY 1986 appropriation was allocated to grantees during June of 1986 and, consequently, was not available to grantees until very late in the fiscal year.

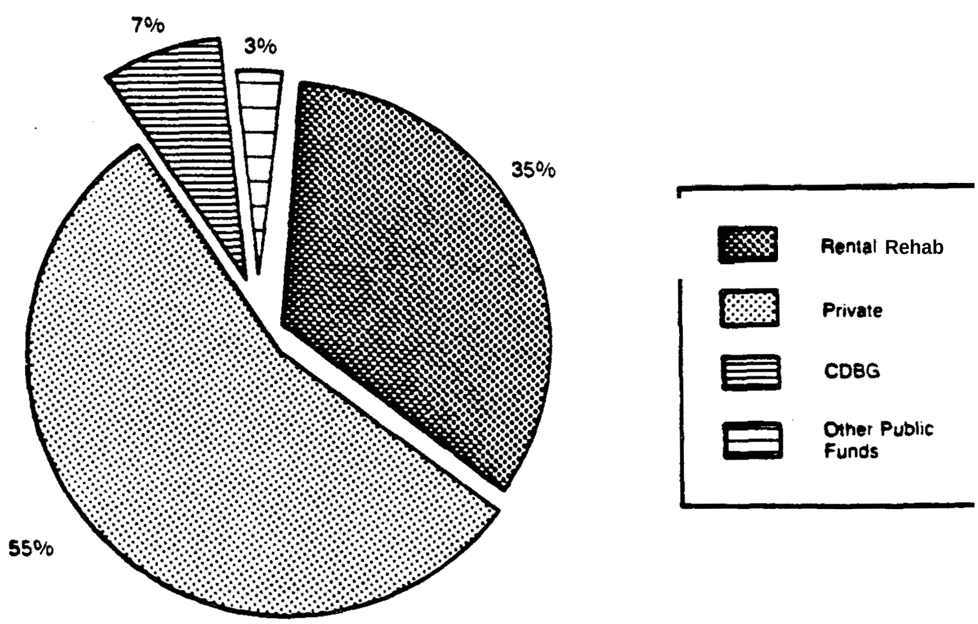
Program Progress. A committed project is one in which a program grantee and project owner have reached a legally binding committment to begin construction within **90** days. Completion occurs when the grantee has made the final drawdown of program funds for **a** project.

- Through the end of October **1986**, grantees had committed **10,788** projects containing **64,895** units.
- Through this same period, grantees had completed **5,863** projects containing **19,621** units.

Rehabilitation Financing. The rehabilitation subsidy provided by the Rental Rehabilitation program is intended to maximize the commitment of private funds and to minimize the public contribution to the project. The portion of rehabilitation costs funded by the program ordinarily may not exceed 50 percent.

- For every dollar of Rental Rehabilitation program **funds** spent through November 30, 1986, **$1.59** in private money was spent on rehabilitation.
- The average per unit rehabilitation cost in the program has been **$8,978,** of which 35 percent have been Rental Rehabilitation program funds, seven percent have been CDBG funds, three percent have been other public funds, and 55 percent have been private funds.

Figure 11
Sources of Financing for
Rental Rehabilitation Program Projects, FY 1986



Source U.S Department of Housing and Urban Development. Community Planning and Development. Office of Program Analysts and Evaluation

- In nearly two-thirds of completed Rental Rehabilitation projects, the rehabilitation subsidy was provided through a deferred payment loan. Grants were used in 21 percent of projects, and direct loans financed 11 percent.

Rental Assistance. In addition to providing a rehabilitation subsidy, the Rental Rehabilitation program includes rental assistance to ensure that lower-income tenants can continue to afford to live in program properties. This rental assistance is provided through Section 8 Existing Housing Certificates and Housing Vouchers.

- Although only about 13 percent of tenants of Rental Rehabilitation projects were receiving rental assistance before rehabilitation, after rehabilitation some 62 percent of tenants received such assistance.

- Eighty percent of households with incomes of less than 50 percent of the area median living in projects after rehabilitation were receiving either a Section 8 Certificate or Housing Voucher.

Project Characteristics. The Rental Rehabilitation program offers each grantee considerable discretion in the selection of neighborhoods and types of owners and properties to be assisted. Program regulations do mandate, however, that projects must be in lower-income neighborhoods and that at least 70 percent of grants must be used to rehabilitate units with two or more bedrooms.

- As of November 30, 1986, 78 percent of completed units had two or more bedrooms and 22 percent had three or more bedrooms.

- The 5,331 completed projects for which information was available contained an average of 3.1 units.

- The occupancy rate of completed projects increased from 55 percent before rehabilitation to 89 percent afterwards.

- Ninety-two percent of units completed and occupied for rent had rents that were less than or equal to HUD's Section 8 Existing Fair Market Rents, a basic indicator of the affordability of the housing to lower-income households.

Tenant Characteristics. To maximize benefit to lower-income tenants, the Act requires that 100 percent of all grant amounts be used to benefit lower-income families with provision for reduction to 70 percent or 50 percent benefit in accordance with certain statutory tests and the Secretary's regulations.

- Ninety-three percent of households in completed projects prior to rehabilitation had incomes of less than 80 percent of the area median, and seventy-three percent had incomes of less than 50 percent of the area median. After rehabilitation, ninety-two percent had incomes of less than 80 percent of the area median income and seventy-four percent were below the 50 percent figure.

- Minority groups constituted 47 percent of the households in completed projects prior to rehabilitation and 52 percent of households after rehabilitation. These proportions have remained fairly constant over the life of the program. Blacks were the largest minority group both before and after rehabilitation.

URBAN HOMESTEADING PROGRAM

Participation. Section 810 of the Housing and Community Development Act of 1974, as amended, authorizes the transfer (without payment) of unoccupied one- to four-family properties owned by certain Federal agencies to communities with homesteading programs approved by HUD. Section 810 funds are used to reimburse the respective Federal agencies for the value of the units transferred to communities for homesteading.

- By the end of FY 1986, the Department had approved 174 communities, including three States, for participation in the Urban Homesteading program. Minnesota, one of the State participants, has selected ten communities to participate in its program. Of the approved communities, 142 remained formally in the program as of the end of FY 1986. All of the Minnesota State participants also remained in the program.

- During FY 1986, 28 jurisdictions, including the States of Ohio and Minnesota, entered the program.

Program Funding and Expenditure. While the Urban Homesteading program transfers properties to homesteaders without substantial cost, it is the homesteader's responsibility to pay for or do whatever rehabilitation is needed to meet required local standards.

- In FY 1986, $11.358 million was appropriated for Section 810 acquisitions. The program incurred obligations during the year of $12.145 million and outlays of $9.9 million.

- Communities acquired 723 properties using Section 810 funds in FY 1986.

- The average value of Section 810 properties transferred to communities during FY 1986 was $18,127.

- The average cost of rehabilitating a homesteading unit during FY 1986 was $20,602, with the Section 312 loan program providing the largest source of rehabilitation financing.

SECTION 312 REHABILITATION LOAN PROGRAM

Participation. Section 312 of the Housing Act of 1964, as amended, provides low-interest loans to property owners to finance the rehabilitation of eligible properties.

- During FY 1986, the Department obligated 1,180 loans totalling $40.411 million in 201 communities. Program funding depends entirely on loan repayments, recovery of prior year commitments, and the unobligated balance from previous years.

Loan Characteristics. The Department charged a minimum interest rate of three percent for lower-income families and a floating interest rate to all other borrowers. The term of the Section 312 loan cannot exceed 20 years or three-fourths of the remaining economic life of the property, whichever is shorter.

- Ninety-nine percent of Section 312 loans in FY 1986 went to rehabilitate single-family properties. These loans averaged $27,381 per unit for the 1,292 units rehabilitated.

- The remaining 16 loans financed rehabilitation of 268 units in multi-family properties at an average cost of $18,794 per unit.

Loan Collection Activity. The Department services active Section 312 loans through a number of contracts and subcontracts. The Federal National Mortgage Association (FNMA) and its private servicers administer 71 percent of the outstanding loans and 53 percent of the outstanding loan amount. The HUD Central Office manages the remaining loans, including defaulted loans and all new loans, through a private contractor.

- During FY 1986, the proportion of Section 312 loans whose repayment is current increased to 83 percent from 80 percent in FY 1985. The proportion of outstanding loan amounts in loans whose repayment is current increased to 77 percent in FY 1986 from 74 percent the previous year.

SECRETARY'S DISCRETIONARY FUND

Secretary's Discretionary Fund. The Secretary's Discretionary Fund is authorized by Section 107 of the Housing and Community Development Act of 1974 to provide a source of non-entitlement funding for special groups and projects. The appropriation for FY 1986 was $57.9 million.

- The Office of Community Planning and Development (CPD) distributed $24.6 million of the $25.8 million allocated to the CDBG Program for Indian Tribes and Alaska Natives. Eighty-nine grants for community development activities were awarded. Almost three-fifths of the funds distributed went to either housing rehabilitation (30 percent) or economic development (29 percent) projects.

- The Insular Areas CDBG program made grants totalling $4.1 million out of the $6.0 million available to Guam, the Commonwealth of Northern Mariana Islands, American Samoa, and the Trust Territories of the Pacific. The distribution of funds for the Virgin Islands is still under review. Approximately 37 percent of the program funds awarded are planned to be used for community facilities and about 26 percent for infrastructure development. Administrative expenses, housing rehabilitation, and economic development will share the remaining funds.

- In addition, $14.6 million was allocated to provide technical assistance to participants in CPD programs and $11.4 million for special projects. A total of 101 contracts and grants were awarded under both programs in FY 1986.

Reflecting the Secretary's priority, over 50 percent of the Technical Assistance funds supported the participation of minority firms in local community and economic development programs.

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EQUAL HOUSING OPPORTUNITY

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