

CHAPTER 10: REVITALIZATION AREAS



CHAPTER PURPOSE & CONTENTS

This chapter provides detailed information on Community Revitalization Strategy Areas (CRSA). Topics covered include:

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10.1 Background

- ✓ States and UGLG may designate local target areas for revitalization. There are no HUD rules concerning the designation of such areas; however, additional guidance is provided at the end of this chapter.
- ✓ The Community Revitalization Strategy Area (CRSA) approach are submitted as a part of, or as an amendment to, a state's Consolidated Plan. Under this approach, the state describes its CRSA process to HUD in the Con Plan and then upon HUD approval of this process, the State can approve local CSRA from UGLG.
- ✓ The following is a summary of applicable statutory and regulatory citations and other reference materials available from HUD:

Statutory Citations	
Other Reference Materials on This Topic	<ul style="list-style-type: none"> ✓ Guide to National Objectives and Eligible Activities for States <ul style="list-style-type: none"> - Chapter 2, Chapter 3 ✓ CPD Notice 97-01

10.2 Benefits

- ✓ Communities with state-approved CRSAs are offered enhanced flexibility in undertaking economic development, housing, and public service activities with their CDBG funds.
- ✓ This flexibility is designed to promote innovative programs in economically disadvantaged areas of the community.
- ✓ Areas of enhanced regulatory flexibility include:



- Job creation or retention effort focused on the selected neighborhood may be classified as meeting the LMI area benefit national objective requirements.
 - Businesses that receive such assistance need not track the specific income of newly hired employees to demonstrate LMI benefit.
 - This provision reduces the administrative burden to the business and is intended to provide an incentive to businesses to participate in the community’s job creation/retention programs.
- Aggregation of housing units for which CDBG funds obligated during each program year and treat them as a single structure.
 - 51 percent of total number of units must be occupied by LMI households.
 - This permits states greater flexibility in applying the LMI housing national objective criteria for the housing category.
 - In turn, states have flexibility in providing housing to residents of the CRSA neighborhood.
 - NOTE: The flexibility to aggregate housing units assisted does not change the requirement that homeownership assistance under 105(a)(24) must be provided only to LMI households.
- Economic development activities carried out in the CRSA may be excluded from the aggregate public benefit standards.
 - This reduces recordkeeping requirements.
 - This affords greater flexibility in selecting and implementing economic development activities, and reduces the amount and scope of information that states must collect and document regarding its programs.
 - Note, however, that projects are still subject to the individual/project public benefit standards.
- All public services offered within the CRSA **and** carried out as part of qualified projects under the CRSA **by a Nonprofit Development Organization under 105(a)(15)** are exempt from the public services cap.
 - This permits states to offer a more intensive level of services with the approved community, as needed to stimulate revitalization.
 - This flexibility includes job training and other employment related services and as such, it can provide an important foundation for economic opportunity for neighborhood residents.

10.3 Preparing and Submitting a CRSA

- ✓ In its Consolidated Plan, the state must describe its implementation approach and process for reviewing UGLG CRSA plans. The state’s review process should address all of the parameters in the following sections.

10.3.1 Boundaries

- ✓ The UGLG CRSA submission must identify the boundaries of the CRSA area. While the UGLG does not need to focus on a particular “neighborhood”, it does need to focus on an area with enough mass and population density that it will be effective.



10.3.2 Demographic Criteria

- ✓ The UGLG CRSA submission must fully describe the geographic area to be covered by the CRSA.
 - The selected area must be primarily residential.
 - The area must contain a high percentage of LMI households.
- ✓ The percentage of LMI residents within the neighborhood must be equal to:
 - 70 percent of the total population in the selected area;
 - Neighborhoods within Federally-designated Empowerment Zones (EZs) and Enterprise Communities (ECs) are assumed to meet this test; or
 - All of the Census/American Community Survey tracts/block groups in the area have at least a 20% poverty rate and at least 90% have a 25% poverty rate.

10.3.3 On-Going Support

- ✓ As a part of reviewing UGLG CRSA plans, the state must consider how that plan will be completed if its funding relationship with the UGLG is episodic. The state needs to consider whether there will likely be adequate resources to complete the proposed CRSA tasks, given the competitive nature of the state's CDBG funding.

10.3.4 Integration of Resources

- ✓ States are encouraged by HUD to integrate the use of other, non-CDBG resources into the CRSA.

10.3.5 Community Consultation

- ✓ The CRSA plan by the UGLG should outline the process used by the community to develop the NRSA. The CRSA must be developed in consultation with members of the community, including:
 - Residents of the area;
 - Owners/operators of businesses in the area;
 - Local financial institutions;
 - Non-profit organizations; and
 - Community groups.
- ✓ When describing the consultation process, it is important to describe the methods used by the community to provide outreach to the types of groups noted above and how the needs and concerns of the consulted parties were incorporated into the CRSA.

10.3.6 Assessment

- ✓ In this section of the CRSA, the UGLG must assess the area selected.
- ✓ First, the CRSA must assess the ***economic conditions*** of the proposed neighborhood. This analysis might include a discussion of such topics as:
 - Levels of unemployment;



- Numbers of businesses located within the area, including: numbers of service facilities such as grocery stores, drug stores, gas stations, etc.; and the number of people employed by such businesses;
 - Access to capital (or lack thereof) in order to form businesses in the area;
 - Housing needs of residents in the area including: rents; home prices; and housing quality; and
 - Current availability of economic development or other community services within the area.
- ✓ Next, the CRSA must describe the **opportunities** for economic development improvement within the neighborhood. This analysis might include a discussion of such topics as:
- Unmet demand for specific types of facilities or services (such as the need to create/foster a lending institution within the neighborhood);
 - Community organizations that are ready and available to assist with economic development efforts;
 - Skills or services that are currently unused or underutilized within the community; and
 - Visionary or fledgling projects unable to take root in the CRSA due to lack of funding.
- ✓ Finally, the CRSA must describe the **problems** that the community is likely to face as it implements programs in this neighborhood. This discussion might cover such common problems as:
- Hesitation from private sources (such as area banks) to invest in the area;
 - Community opposition to certain types of development activities (NIMBY sentiments);
 - Inexperience of local community groups or organizations; and
 - Crime and/or security concerns at project sites.

10.3.7 Economic Empowerment

- ✓ This section describes actions the UGLG will undertake to increase economic opportunities within the CRSA.
- ✓ The CRSA must discuss the activities that will be undertaken to create meaningful jobs for unemployed LMI residents of the area. This discussion should be realistic and indicate how the state plans to accomplish this objective.
- ✓ The CRSA must also highlight how the plan will promote revitalization of the neighborhood. In other words, what the CRSA is really going to do to help turn the neighborhood around and promote economic opportunity for residents.

10.3.8 Performance Measures

- ✓ Finally, the CRSA must set goals and anticipated results for the implementation of the plan. These results must be described in measurable terms. UGLG are expected to report on their progress toward these measurable outcomes to the state.
- ✓ Measurable outcomes may cover such areas as physical improvements, social initiatives, and economic empowerment. Examples may include:
 - Create 25 new businesses;



- Achieve five percent increase in employment;
- Open two new job training centers;
- Reduce families on welfare by five percent;
- Attract new community lending institution to the neighborhood;
- Formation of a community business association; and
- Offer ten training seminars to teach area residents about small business start-up.

10.4 Funding the CRSA Area

- ✓ HUD does not require that UGLG commit specific *future* funds for use in the CRSA at the time that the CRSA is submitted to the state but a state may wish to require this.

10.5 HUD Review, Approval, and Monitoring

- ✓ As noted above, the state's CRSA process request is submitted with the Consolidated Plan to HUD for review and approval or is submitted as an amendment to an existing plan.
 - If the state has already submitted its Consolidated Plan for a given year, the CRSA request may be undertaken as an amendment to the plan.
- ✓ Once approved, the CRSA process remains in effect for the term designated by the state in the Con Plan. If the state wishes to extend the CRSA beyond the original time frame, it must advise HUD in its subsequent Consolidated Plan submission.
- ✓ As applicable, HUD will approve the state's CRSA process at the same time it approves the Consolidated Plan. NOTE: HUD will not withhold its approval of the Consolidated Plan if all else is acceptable and the CRSA piece is not in order.
- ✓ CAREFUL: HUD must expressly state in writing its approval of the CRSA process. It cannot be assumed that approval of the Consolidated Plan is also an approval of the CRSA.

10.6 Local Target Areas

- ✓ Many CDBG states or UGLG decide to take a locally targeted approach to the investment of their CDBG funds to focus on neighborhood revitalization and set up specific target areas in their community.
 - States may offer special incentives or additional funding may be provided by the state in target communities.
 - These target areas do not have specific criteria like CRSAs. These areas do not need to be specifically approved by their HUD Field Office; however, these areas are typically included as part of the state's Consolidated Plan and Annual Action Plan.
 - The Integrated Disbursement and Information System (IDIS) also provides a mechanism for tracking and reporting data within a local target area.

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

Special Attention of:

Notice CPD-97-1

All CPD Division Directors

All State Coordinators

All State CDBG Grantees

Issued: February 4, 1997

Expires: February 4, 1998

Cross References:

Subject: CDBG Community Revitalization Strategies in the State CDBG PROGRAM

PURPOSE

This Notice outlines the process for state implementation of the revitalization strategy area concept. [The October 22, 1996, State CDBG Program interim rule amends Sect 91.315(e)(2) of the Consolidated Plan regulations to allow Community Revitalization Strategies.] It describes the parameters within which states may design their implementation approach, the procedures for state submission of their process description statement, and the process for HUD's approval of states, process descriptions.

In recent years, HUD's Office of Community Planning and Development (CPD) has stressed a coordinated marshalling of resources to facilitate grantees' ability to engage in comprehensive community revitalization strategies. Comprehensive community revitalization strategies seek to create partnerships among federal and local governments, the private sector, community organizations and local residents. The Department seeks to create communities of opportunity in distressed areas by stimulating the reinvestment of human and economic capital and by economically empowering low-income residents. on their own, a number of states have adopted "holistic" approaches to community development in administering the State CDBG program.

The Department recognizes the fundamental necessity of partnering in problem-solving in order to achieve much greater success in community revitalization efforts. Many citizens, unhappy with their residential environments, have generally had three options available to them: pack up and move to a more satisfactory environment; change the unsatisfactory aspects of their communities; or stoically accept their living conditions.

DGBS: Distribution: W-3-1

The continuing decline and widespread disinvestment in many communities and the spill-over effects in surrounding areas point to a need for a different approach to rebuilding communities. HUD believes that no effort will succeed without the support of all of the community actors. Successful revitalization strategies are those that

bring together the community's stakeholders to forge partnerships that:

- o obtain commitments to community building;
- o make communities attractive for investments, thereby creating a market for profits;
- o generate community participation to ensure that the benefits of economic activity are reinvested in the community for long-term development;
- o support the use of nonprofit intermediary institutions (e.g., Community Development Corporations [CDCs], Community Development Financial Institutions [CDFIs], community housing development organizations [CHDOs under the HOME program], and religious institutions) to bridge gaps between local government agencies, the business community, community groups, and residents;
- o foster the growth of resident-based initiatives to identify and address their housing, economic and human services needs;
- o coordinate the delivery of various local, state and Federal resources; and
- o support initiatives to move unemployed people from public assistance into jobs.

The participation of all of the stakeholders, particularly residents, in the development of a comprehensive revitalization strategy enhances the chances of its successful implementation by bringing all of the affected parties into the process from the beginning, thus gaining participants' trust and garnering needed financial support. This approach also recognizes that the complexity of the causes of community decline requires a multi-pronged coordinated approach. The value of this approach has been borne out in the strategic planning process that many communities participated in during the development of their federal Empowerment Zone/Enterprise Community applications.

B. REGULATORY FRAMEWORK AND INCENTIVES

HUD encourages states to adopt a comprehensive revitalization strategy approach to the use of State Community Development Block Grant (CDBG) resources by units of general local government. The Department seeks to stimulate the development of Community Revitalization Strategies by offering certain incentives for units of local government receiving State CDBG funding. These incentives are described in amendments to the CDBG regulations at [24 CFR 570](#) which were published in the Federal Register on October 22, 1996. They are

as follows:

- (1) Job Creation/Retention as Low/Moderate Income Area Benefit: Job creation/retention activities undertaken pursuant to a revitalization strategy may be qualified as meeting area benefit requirements, thus eliminating the need for a business to track the income of persons that take, or are considered for, such jobs [[24 CFR 570.483](#)(b)(1)(v) and (e)(5)(i)];
- (2) Aggregation of Housing Units: Housing units assisted pursuant to a revitalization strategy may be considered to be part of a single structure for purposes of applying the low- and moderate-income national objective criteria, thus providing greater flexibility to carry out housing programs that revitalize a community [[24 CFR 570.483](#)(b)(3) and (e)(5)(ii)];
- (3) Aggregate Public Benefit Standard Exemption: Economic development activities carried out under a strategy may, at the grantee's option, be exempt from the aggregate public benefit standards, thus increasing flexibility for program design as well as reducing record-keeping requirements [[24 CFR 570.482](#)(f)(3)(v)(L) and (M)]; and
- (4) Public Service Cap Exemption: Public services carried out pursuant to the strategy by a nonprofit entity pursuant to Section 105(a)(15) of the Housing and Community Development Act (as amended) will be exempt from the public service cap ([24 CFR 570.482](#)(d)(3)).

Two attachments to this notice provide further guidance on these flexibilities. Appendix 1 consists of excerpts from the October 22, 1996 interim rule which pertain to these benefits. Appendix 2 provides illustrative examples of situations in which these new provisions might be used.

C. STATE ACTIONS TO IMPLEMENT THE REVITALIZATION STRATEGY APPROACH

[24 CFR 91.315](#)(e) of the Consolidated Plan regulations (as amended on October 22, 1996) authorizes states to allow units of general local government to adopt and implement Community Revitalization Strategies. If a state elects to implement the revitalization strategy approach, the state must design its specific implementation approach and develop a process for approving local governments' strategies. States have substantial flexibility in designing an approach that fits the needs of its communities, and will be responsible for approving local strategies. A state's process for implementing Community Revitalization Strategies must be submitted to and approved by HUD before it can be implemented. The parameters within which HUD expects states to design their approach, and HUD's approval process, are

described elsewhere in this notice.

To the extent that a state's revitalization strategy review and approval process will be established as part of the method of distributing funds to local governments, the Action Plan contained in the state's Consolidated Plan must reflect this process. For example, the method of distribution must describe the selection criteria which will be used if a state: establishes a separate funding category for revitalization strategy projects; awards "bonus points" within its present funding system for projects which would implement a revitalization strategy; or requires submission of an acceptable strategy as a threshold requirement which applications must meet in order to be considered for funding.

On the other hand, a state might establish the submission of a strategy as a purely voluntary action on the part of localities, or a state might incorporate the development of a strategy as an application content or citizen participation requirement. The development of a strategy might thus have no bearing on the category of funding which can be applied for by the community or on the rating score the application receives. Under such scenarios, the state may need to make only minor revisions to its present method of distribution. It is difficult to imagine a situation in which the development of a strategy is so totally unrelated to the award of CDBG funds for specific activities that no mention of Community Revitalization Strategies is needed in the method of distribution.

A state must still submit a description of its specific approach and process for approving local revitalization strategies, even if no changes are required to the existing method of distribution. This is because HUD's approval of the state's process will be separate from approval of the Consolidated Plan.

In designing its process for implementing the revitalization strategy concept, the state must consult with affected units of local government in nonentitlement areas of the state, to the same extent that it must presently do in developing its method of distribution. In addition, the state must ensure that local governments' strategies are implemented in accordance with the civil rights-related program requirements stated in the Consolidated Plan rule at [24 CFR Part 91](#).

D. DESIGN PARAMETERS FOR COMMUNITY REVITALIZATION STRATEGIES IN THE STATE CDBG PROGRAM

Local government revitalization strategies should be designed to achieve substantial improvements in the target area and create meaningful levels of economic opportunities for residents within a reasonable period of time. States have the flexibility to define or negotiate appropriate time periods for achieving local goals, within the state's overall approach. HUD recognizes that it is unrealistic to expect that an area could be fully revitalized within some foreseeable time period; in developing their approach, states should

consider what level of improvement is realistically achievable.

HUD promotes the development of local strategies that not only will successfully revitalize the target areas but will also economically empower its residents. HUD encourages innovative and creative state approaches to promote the active and meaningful participation of the stakeholders throughout the development and implementation of the plan. A state's design for implementing the revitalization strategy approach (and its process description statement) must adequately address each of the following parameters.

- (1) **Boundaries:** A local strategy should identify the boundaries of the area for which the strategy applies. In the CDBG Entitlement program, this concept is referred to as "Neighborhood Revitalization Strategies." The Department avoids referring to "neighborhood" strategies in the State CDBG program; the concept of what is a "neighborhood" in small communities is nebulous or incongruous in many areas of the country. The nature of the areas in which states work varies greatly; states fund cities and towns which range in size from a few dozen to nearly 50,000. Some western counties may be larger than entire eastern states, but contain no incorporated communities. How residents of an area define the boundaries of their community varies greatly among regions of the country.

The Strategy Area concept represents a targeted approach to community development, requiring some critical mass of population density in order to be effective. HUD does not mandate a minimum or maximum population size or density for an area; a reasonable minimum population density would be very different in southern New England than in the northern Great Plains. There are areas in each state where the revitalization strategy concept is probably not practical. HUD expects states' designs to embody this principle of critical mass.

In designing their approach, states have flexibility to define size limits to fit the needs of their program and their communities. States should think carefully about the appropriate size (in area and population) for strategy areas, weighing available financial resources against the need for demonstrable improvement in the target area. In developing their approach, states should consider how they will handle strategy areas which cross jurisdictional boundaries. Large, multi-county regions are likely to be too large to effectively treat, unless a state is prepared to commit a major share of its available resources to the region. (See also a separate discussion of Federal Empowerment Zones and Enterprise Communities.)

- (2) **Demographic Criteria:** The intent of the revitalization

strategy area concept is to improve the lives of low-income residents of an area. HUD expects approved strategy areas to meet one of the following criteria:

- o The area is primarily residential in character, and contains at least 70% low- and moderate-income persons.
- o The area is in a Federally-designated Empowerment Zone or Enterprise Community;
- o All of the census tracts/block numbering areas in the area have at least a 20% poverty rate, and at least 90% of them have at least a 25% poverty rate; and the area is primarily residential.

For individual strategy areas, a state may request an exception to the 70% low/moderate income threshold or the 25% poverty rate threshold; approval must be gained from HUD before the state grants final approval to such a strategy. In no case, however, will HUD grant an exception for a revitalization strategy where fewer than 51% of the residents are low- and moderate-income and the poverty rate for the area as a whole is less than 20%.

HUD field offices will review and approve such exception requests on a case-by-case basis. Such cases are the only situations in which HUD would be actively involved in the approval of individual strategies. Exceptions are envisioned to be granted only for unusual circumstances, where strong targeting of benefits to low- and moderate-income residents can still be shown. (For example, a state may have income characteristics data which is more current than Census data, or data showing extremely high unemployment rates resulting from a major economic downturn.) HUD will not entertain requests for "blanket" exceptions covering all proposed strategy areas in a state.

- (3) Ongoing Support and Delivery of Resources: States' contractual relationships with local governments are usually for a finite and relatively short (one to three year) time period. Success in revitalizing a defined area may require a longer time period and more resources than can be provided by a single CDBG grant to the locality. Given the common limitations imposed by highly competitive funding processes, states should consider carefully how they can ensure the provision of adequate resources to accomplish local revitalization strategies. (Multi-year funding commitments may be one such means to ensure longer-term funding of activities.) States should also consider how they will ensure long-term local attention to carrying out approved strategies, particularly once grants to units of local government have been closed out.

HUD believes that the provision of economic opportunities to residents of revitalization strategy areas is an essential component of the concept. A number of states presently have funding categories wherein localities may apply for a combination of activities to be carried out in a defined target area. States' methods of distribution often refer to these as "comprehensive" applications. The revitalization strategy concept, as envisioned by HUD, may be more narrowly focused geographically, and encompass a wider variety of activities (particularly concerning economic empowerment of low and moderate-income area residents) than is presently provided for in typical "comprehensive" funding categories. States tying the revitalization strategy approach to their existing "comprehensive" funding category should closely examine their method of distribution criteria for such funding categories, and make changes as appropriate.

- (4) Integration of other Funding Resources and Initiatives: States have considerable flexibility--and are encouraged--to integrate the delivery of other state funding resources into their revitalization strategy approach. States have already proven themselves adept at using State CDBG funds to leverage other Federal and state resources. Given that substantial treatment of an approved strategy area is likely to require a commitment of resources beyond those available through the CDBG program, States are encouraged to consider additional ways in which their Revitalization Strategy process can be a vehicle for directing other state controlled resources into the target areas.

States are also encouraged to link the Revitalization Strategy concept to compatible state targeting or planning initiatives. In doing so, states are free to capitalize on existing locally-prepared documents or state review/approval and fund allocation processes, to avoid duplication of effort at the local or state level. The following is an illustrative list of common state programs and initiatives to which Community Revitalization Strategies might be linked:

- o State requirements for development of local strategic or comprehensive plans
- o "Certified economic development readiness" designations
- o State Enterprise Zone designations
- o Military base closure or defense industry adjustment planning processes
- o State welfare reform and welfare-to-work programs

- o Economic diversification initiatives in areas dominated by declining industries
- o Main Street programs
- o State-funded housing rehabilitation or housing development programs
- o State energy programs

The Community Revitalization Strategy approach also offers states the opportunity to link other HUD funding resources with CDBG to holistically improve communities. The HOME Program provides states with significant resources to address housing needs identified in local strategies--- particularly for needs such as rental subsidies and new housing construction, which may be undertaken with CDBG funds in only limited circumstances. Similarly, the Section 108 Loan Guarantee Program can provide additional resources to revitalization strategy areas, particularly for economic empowerment activities and large public works projects. States which do not presently participate in the Section 108 Program should seriously consider the role this program can play in "stretching" scarce CDBG dollars to accomplish comprehensive revitalization efforts.

Any "piggy-backing" of other federal or state initiatives or funding programs should be explained in the state's process description and (as necessary) in the method of distribution.

- (5) Consultation: HUD believes that local revitalization strategies will be most successfully achieved when there is community ownership in and support for the strategy; involvement of area stakeholders (including residents, owners/operators of businesses and financial institutions, non-profit organizations and community groups serving the area) is crucial. In developing its implementation approach, a state should carefully consider what expectations it will place on local governments regarding community involvement in the development of local strategies. At the least, a state's process must ensure that the citizen participation requirements for units of local government [at [24 CFR 91.115](#) and 24 CFR 570.486(a)] are complied with in the development of local strategies.
- (6) Assessment: A state's process must ensure that local strategies include an assessment of the economic conditions of the area; an examination of the opportunities for economic development improvement; and an assessment of the problems likely to be encountered.

- (7) Economic Empowerment: A state's process must ensure that local strategies contain a realistic development strategy and implementation plan to promote the area's economic progress, focusing on activities to create meaningful jobs for the unemployed and low- and moderate-income residents of the area as well as activities to promote the substantial revitalization of the area.
- (8) Performance Measurements: A state's process must include a mechanism which identifies the results (e.g., physical improvements, social initiatives and economic empowerment) expected to be achieved, and a mechanism by which localities report measurable accomplishments. States are free to determine whether reporting on revitalization strategy accomplishments is best handled within a state's existing CDBG grantee reporting process, or by an alternative mechanism. The Integrated Disbursement and Information System (IDIS), once implemented for states, may provide an avenue for reporting accomplishments.

States are expected to evaluate localities' progress and accomplishments against the strategy. HUD does not expect that all locally-identified goals must be met, but states should clearly define their performance expectations for communities. HUD encourages states who have adopted outcome-oriented evaluation processes to integrate their revitalization strategy approach into such initiatives. Within the context of the process by which a state will approve local strategies and evaluate performance, a state should carefully consider what steps it should take in situations where it determines that a locality is not adequately implementing its strategy or achieving its goals. (Welfare reform is an issue of great importance both nationally and to states. Various changes have been made to the CDBG program in the last several years specifically position the program as a valuable funding resource for job creation, job training and employment support services. HUD encourages states to consider as one possible performance measure the number of public assistance recipients who are employed or who receive employment training or support services as a result of CDBG assistance.)

HUD evaluation of a state's Revitalization Strategy concept implementation will occur primarily through existing processes, such as the Consolidated Plan report and monitoring for conformance with the Method of Distribution. As with other aspects of State administration of the CDBG program, states which encounter problems in implementing their Revitalization Strategy concept (at the local or state level) should take steps to modify their approach.

HUD PARTNERSHIP APPROVAL PROCESS

HUD expects to approve a state's revitalization strategy approach, if it addresses each of the design considerations outlined in the "Design Parameters" section above. Since the state's HUD CPD Field Office representative will review the process description, the state should consult with its HUD representative to discuss its proposed approach and to discuss whether changes to the existing method of distributing CDBG funds will be required.

In the event HUD believes that a state's submission does not satisfactorily address each of the design parameters HUD will provide necessary technical assistance to the state to try to arrive at a consensus of what would constitute an acceptable process design. If, after such technical assistance, HUD and the state remain apart in their assessment of what is a realistic process, HUD has the option of not approving the process description statement.

The process description may be submitted as part of the state's Consolidated Plan or may be submitted as an amendment to it. When applicable, HUD's approval of the state's Consolidated Plan will also indicate its approval of the revitalization strategy process. Approval of a state's Consolidated Plan, without such express approval of the state's revitalization strategy process description, shall not constitute approval of such strategy approach.

EMPOWERMENT ZONES AND ENTERPRISE COMMUNITIES

The revitalization strategy concept is rooted in the Empowerment Zone/Enterprise Community (EZ/EC) initiative. Many of the ingredients HUD sees as essential to a revitalization strategy have their counterparts in the strategies and benchmarks developed for the EZ/EC competition: active consultation with, and involvement of, the full range of community players; development of a comprehensive needs assessment; an action plan to guide the implementation of activities; economic empowerment of lower-income residents as an integral component of revitalization; and the establishment of performance measures by which the community and HUD can gauge successful implementation.

HUD applauds states for their support of the EZ/EC initiative. Many of the states in which Federally-designated EZs or ECs are located have committed additional state resources to the implementation of EZ/EC strategies, or have given such areas priority consideration in State CDBG funding competitions. HUD encourages states to use the EZ/EC process as a model for the design of their own approach to implement the revitalization strategy concept.

In the Entitlement program counterpart to this Notice (CPD Notice [96-01](#)), HUD indicated that it will presume that any Federally-designated EZ or EC located in an entitlement community meets the criteria for HUD approval; reports required under the EZ/EC program

will be considered to meet the neighborhood revitalization strategy reporting requirements. HUD encourages states to take a similar position regarding designated EZs and ECs in nonentitlement areas, for two reasons: successful applicants have already demonstrated the strengths of their plan through a highly competitive selection process; and by accepting existing assessments, action plans and benchmarks and Federally-required performance reports, states can save those communities the burden of recreating already-extensive documentation in a slightly different format.

Elsewhere, this notice discusses HUD's concerns about designating revitalization strategy areas which are too large. This concern, however, does not extend to Federally-designated EZs and ECs, even though a number of these span multiple counties. The approved EZs and ECs have developed strategies which demonstrate that they can effect substantial improvement in their designated areas. In addition, these areas have received a commitment of substantial Federal funding as a part of their designation. The CDBG regulations which allow economic development activities in revitalization strategy areas to use the low/moderate income area benefit criterion are written to presume that designated EZs and ECs meet that criterion. For these reasons, HUD strongly encourages states to accept Federally-designated EZ or EC areas as qualifying for state Community Revitalization Strategies, even if the size of those areas is larger than a state would otherwise allow.

Communities which submitted qualifying applications under the EZ/EC initiative, but which did not receive Federal designation, have similarly invested substantial time and effort in community consultation, needs assessment and strategy development. HUD believes those communities should generally be able to demonstrate that they meet a state's criteria for revitalization strategy approval. HUD encourages states to consider documents already prepared for the EZ/EC competition from such communities, and, where appropriate, to accept their documentation as evidence of meeting the state's revitalization strategy requirements.

States with questions and comments on aspects of this Notice should contact their HUD CPD Field Office Representative. Field offices should direct queries and comments to the State and Small Cities Division in Headquarters (202-708-1322).

APPENDIX 1: EXCERPTS FROM THE INTERIM REGULATIONS
REGARDING COMMUNITY REVITALIZATION STRATEGIES

Consolidated Plan regulations:

§91. 315 (e) (1):

Nonhousing community development plan. If the State seeks assistance under the Community Development Block Grant program, the consolidated plan must describe the State's priority nonhousing community development needs that affect more than one unit of general local government and involve activities typically funded by the State under the CDBG program. These priority needs must be described by CDBG eligibility category, reflecting the needs of persons or families for each type of activity. This community development component of the plan must state the State's specific long-term and short-term community development objectives (including economic development activities that create jobs), which must be developed in accordance with the statutory goals described in § 91.1 and the primary objective of the CDBG program to develop viable urban communities by providing decent housing and a suitable living environment and expanding economic opportunities, principally for low-income and moderate-income persons.

- (2) A State may elect to allow units of general local government to carry out a community revitalization strategy that includes the economic empowerment of low income residents, in order to obtain the additional flexibility available as provided in [24 CFR part 570](#), subpart I. A State must approve a local government's revitalization strategy before it may be implemented. If a State elects to allow revitalization strategies in its program, the method of distribution contained in a State's action plan pursuant to S 91.320(g)(1) must reflect the State's process and criteria for approving local governments, revitalization strategies. The State's process and criteria are subject to HUD approval.

91.320(g): Program-specific requirements. In addition, the plan must include the following specific information:

- (1) The method of distribution shall contain a description of all criteria used to select applications from local governments for funding, including the relative importance of the criteria -- if the relative importance has been developed. The action plan must include a description of how all CDBG resources will be allocated among all funding categories and the threshold factors and grant size limits that are to be applied. If the State intends to aid nonentitlement units of general local government in applying for guaranteed loan funds under 24 CFR part 570, subpart M, it must describe available guarantee amounts and how applications will be selected for assistance. If a State elects to allow units of general local government to carry out community revitalization strategies, the method of distribution shall reflect the State's process and criteria

for approving local governments' revitalization strategies. (The statement of the method of distribution must provide sufficient information so that units of general local government will be able to understand and comment on it and be able to prepare responsive applications.)

State CDBG Regulations:

570.482(d): Provision of Public Services. The following activities shall not be subject to the restrictions on public services under section 105(a)(8) of the Housing and Community Development Act of 1974, as amended:

(3) Services of any type carried out under the provisions of section 105(a)(15) of the Act, pursuant to a strategy approved by a State under the provisions of S 91.315(e)(2) of this title.

§570.482(f)(3): Applying the aggregate standards.

(v) Any activity subject to these standards which meets one or more of the following criteria may, at the grantee's option, be excluded from the aggregate standards described in paragraph (f)(2) of this section:

(L) Provides services to the residents of an area pursuant to a strategy approved by the State under the provisions of 91.315(e)(2) of this title;

(M) Creates or retains jobs through businesses assisted in an area pursuant to a strategy approved by the State under the provisions of § 91.315(e)(2) of this title.

570.483(b)(1): Area benefit activities.

(iv) Activities meeting the requirements of paragraph (e)(4)(i) of this section may be considered to qualify under paragraph (b)(1) of this section.

(v) HUD will consider activities meeting the requirements of paragraph (e)(5)(i) of this section to qualify under paragraph (b)(1) of this section, provided that the area covered by the strategy meets one of the following criteria:

(A) The area is in a Federally-designated Empowerment Zone or Enterprise Community;

(B) The area is primarily residential and contains a percentage of low and moderate income residents that is no less than 70 percent;

(C) All of the census tracts (or block numbering areas) in the area have poverty rates of at least 20 percent, at least 90 percent of the census tracts (or block numbering areas) in the area have poverty rates of at least 25 percent, and the area is primarily residential. (If only part of a census tract or block numbering area is included in a strategy area, the poverty rate shall be computed for those block groups (or any part thereof) which are included in the strategy area.)

(D) Upon request by the State, HUD may grant exceptions to the 70 percent low and moderate income or 25 percent poverty minimum thresholds on a case-by-case basis. In no case, however, may a

strategy area have both a percentage of low and moderate income residents less than 51 percent and a poverty rate less than 20 percent.

§570.483 (b) (3):

Housing activities. An eligible activity carried out for the purpose of providing or improving permanent residential structures that, upon completion, will be occupied by low and moderate income households. This would include, but not necessarily be limited to, the acquisition or rehabilitation of property by the unit of general local government, a subrecipient, an entity eligible to receive assistance under section 105(a)(15) of the Act, a developer, an individual homebuyer, or an individual homeowner; conversion of nonresidential structures; and new housing construction. If the structure contains two dwelling units, at least one must be so occupied, and if the structure contains more than two dwelling units, at least 51 percent of the units must be so occupied. If two or more rental buildings being assisted are or will be located on the same or contiguous properties, and the buildings will be under common ownership and management, the grouped buildings may be considered for this purpose as a single structure. If housing activities being assisted meet the requirements of paragraphs (e)(4)(ii) or (e)(5)(ii) of this section, all such housing may also be considered for this purpose as a single structure. For rental housing, occupancy by low and moderate income households must be at affordable rents to qualify under this criterion. The unit of general local government shall adopt and make public its standards for determining "affordable rents" for this purpose. The following shall also qualify under this criterion:

§570.483(e): Additional criteria.

(5) If the unit of general local government has elected to prepare a community revitalization strategy pursuant to the authority of §91.315(e)(2) of this title, and the State has approved the strategy, the unit of general local government may also elect the following options:

(i) Activities undertaken pursuant to the strategy for the purpose of creating or retaining jobs may, at the option of the grantee, be considered to meet the requirements of paragraph (b) of this section under the criteria at S 570.483(b)(1)(v) instead of the criteria at S 570.483(b)(4); and

(ii) All housing activities in the area undertaken pursuant to the strategy may be considered to be a single structure for purposes of applying the criteria at paragraph (b)(3) of this section.

(6) If an activity meeting the criteria in 570.482(f)(3)(v) also meets the requirements of either paragraph (e)(4)(i) or (e)(5)(i) of this section, the unit of general local government may elect to qualify the activity either under the area benefit criteria at paragraph (b)(1)(iv) or (v) of this section or under the job aggregation criteria at paragraph (b)(4)(vi)(D) of this section, but

not under both. Where an activity may meet the job aggregation criteria at both paragraphs (b)(4)(vi)(D) and (E) of this section, the unit of general local government may elect to qualify the activity under either criterion, but not both.

APPENDIX 2: EXAMPLES OF SITUATIONS IN WHICH NEW REGULATORY FLEXIBILITIES CAN BE USED IN REVITALIZATION STRATEGY AREAS

The Town of Amberwave submits a Community Revitalization Strategy to its state, which the state approves. Amberwave is a town of 1879 people. The strategy area covers about 2/3 of the town. This portion of the town contains 1155 people, 71.4% of whom are low- and moderate-income.

There are 352 single-family housing units in the strategy area, 105 of which are substandard, and 98 multi-family housing units, of which 51 are substandard.

(1) Job Creation/Retention as Low/Moderate Income Area Benefit: (24 CFR 570.483(b)(1)(v) and (e)(5)(i)): The Majestic County Economic Development Corporation will administer a CDBG-funded loan program for small businesses in the strategy area. Several such businesses have expressed an interest in expanding, but are reluctant to commit to creating a specific number of new jobs. Under the normal low/moderate income benefit national objective criteria for job creation activities, each business must be tracked separately for job creation/retention; 51% of the jobs created or retained by each individual business must be held by (or made available to) low/moderate income persons.

HUD will presume that any activity undertaken to create or retain jobs pursuant to a Community Revitalization Strategy benefits the entire strategy area. The business loan program can be classified as an area benefit activity (71.4% low/moderate income benefit). No information need be collected regarding the income of employees filling the new jobs; the Town and the businesses need not show that first consideration was given to hiring low-and moderate-income persons. (However, the Town must still demonstrate that jobs are created, and so should obtain information from each business on the number of new jobs created as a result of the CDBG assistance.)

(2) Aggregation of Housing Units: (24 CFR 570.483(b)(3) and (e)(5)(ii)): Amberwave will implement a housing rehabilitation program for both single-family and multi-family properties in the strategy area. Several dilapidated structures will be acquired and demolished; the Town will transfer the lots to a local non-profit housing developer, Housing Opportunities Unlimited in the SouthEast, (HOUSE, Inc.). HOUSE, Inc. will use CDBG funds to construct new single-family housing units on the vacant lots. To increase the percentage of homeownership in the target area, HOUSE, Inc. will offer first-time homebuyer assistance, using CDBG funds, to purchasers of houses in the target area.

Under the normal low/moderate income benefit national objective criteria for housing, each single-family housing unit built or rehabilitated must be occupied by a low- and moderate-income household. In essence, this means that single-family housing activities must achieve 100% low/moderate income benefit. But because Amberwave's housing rehabilitation program will be undertaken pursuant to its revitalization strategy, the Town can lump together the single- and multi-family housing rehabilitation and new construction activities in demonstrating national objective compliance; 51% of the assisted housing units must be occupied by low/moderate income households.

Section 105(a)(24) of the Housing and Community Development Act requires that CDBG-funded homeownership assistance activities be limited to low-and moderate-income persons. Therefore, if the state classifies the activity as eligible under §105(a)(24) of the Act, 100% of the households assisted through the first-time homebuyer program must be of low and moderate incomes. Any household which uses CDBG first-time homebuyer assistance to purchase one of HOUSE, Inc.'s newly-constructed homes must be low-and moderate income.

There is an exception to this rule, however. Prior to the permanent addition of homeownership assistance as an eligible activity in the Act, downpayment assistance could be undertaken as a public service, pursuant to §105(a)(8) of the Act. The addition of §105(a)(24) does not eliminate the option of classifying downpayment assistance as a public service. If the state classifies HOUSE, Inc.'s homeownership assistance program as a 105(a)(8) public service, all assisted units may be treated as a single structure; only 51% of the assisted housing units would then need to be occupied by low/moderate income households.

(3) Aggregate Public Benefit Standard Exemption: (24 CFR 570.482 (f)(3)(v)(L) and (M)): The Majestic County Economic Development Corporation has convinced a small, homegrown, high-tech start-up firm to stay and expand in Amberwave, rather than move to the Silicon Valley. CDBG funds will be lent to the firm to build a new facility. The nature of the business entails very high capital equipment acquisition costs; because the firm is still young, it cannot commit to create a large number of jobs.

Under the normal public benefit standards requirements, the aggregate average cost per job for all economic development activities funded by a state from a given year's allocation cannot exceed \$35,000. Given the high CDBG cost per job (\$48,795 per job) for this project, the state is worried that its statewide aggregate public benefit figure might be exceeded.

Because this project is being undertaken pursuant to a Community Revitalization Strategy, it may be exempted from the aggregate public benefit standard; it only needs to meet the individual activity public benefit standard (\$50,000 CDBG per job).

(4) Public Service Cap Exemption: (24 CFR 570.482(d)(3)):
Amberwave's Community Revitalization Strategy identified affordable day care as a major need, especially among lower-income households where the lack of day care forces a parent to stay home (and out of the workforce). In putting together its strategy, the Town learned that the one existing day care provider, run by the Fruited Plains Community Action Agency, is in danger of shutting down because of funding cutbacks. The Town has agreed to provide CDBG funds to the Community Action Agency to keep the day care center open, and to expand service once it returns to fiscal stability. Because this public service activity is being undertaken under 105(a)(15) of the Act and pursuant to a Revitalization Strategy, it can be exempted from the usual restrictions on public services (the 15% statewide cap on funding and the new/increased level-of-service requirement).