

COMMUNITY REVITALIZATION STRATEGY AREAS

Purpose

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This notice outlines the process for state implementation of the revitalization strategy area concept. [The October 22, 1996, State CDBG program interim rule amends 24 CFR 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 grant recipients' 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.

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:

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- ❖ obtain commitments to community building;
- ❖ make communities attractive for investments, thereby creating a market for profits;
- ❖ generate community participation to ensure that the benefits of economic activity are reinvested in the community for long-term development;
- ❖ support the use of nonprofit intermediary institutions (for example, 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;
- ❖ foster the growth of resident-based initiatives to identify and address their housing, economic, and human services needs;
- ❖ coordinate the delivery of various local, state and federal resources; and
- ❖ 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 multipronged 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.

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)(i)(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 grant recipients 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(x)(15) of the Housing and Community Development Act (as amended) will be exempt from the public service cap [24 CFR 570.482(d)(3)].

Further guidance on these incentives is provided at the end of Appendix E. Page 12 includes excerpts from the October 22, 1996 interim rule which pertain to these benefits. Page 15 provides illustrative examples of situations in which these new provisions might be used.

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.

**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 states 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 states 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:

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

For individual strategy areas, a state may request an exception to the 70 percent low/moderate income threshold or the 25 percent 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 tower than 514 of the residents are low and moderate income and the poverty rate for the area as a whole is less than 20 percent.

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:

- ❖ State requirements for development of local strategic or comprehensive plans,
- ❖ "Certified economic development readiness" designations,
- ❖ State Enterprise Zone designations,
- ❖ Military base closure or defense industry adjustment planning processes,
- ❖ State welfare reform and welfare-to-work programs,
- ❖ Economic diversification initiatives in areas dominated by declining industries,
- ❖ Main Street programs,
- ❖ State-funded housing rehabilitation or housing development programs, and
- ❖ 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 (for example, 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; grant recipient 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 states 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 states 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 EZ or EC 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 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 states 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.

**Excerpt from the
Regulations
Regarding
Community
Revitalization
Strategies**

Consolidated Plan regulations:

24 CFR 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 24 CFR 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 24 CFR 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.

24 CFR 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

24 CFR 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 24 CFR 91.315(e)(2) of this title.

24 CFR 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 grant recipient'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 24 CFR 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 24 CFR 91.315(e)(2) of this title.

24 CFR 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.

24 CFR 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.

24 CFR 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 24 CFR 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 grant recipient, be considered to meet the requirements of paragraph (b) of this section under the criteria at 24 CFR 570.483(b)(1)(v) instead of the criteria at 24 CFR 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 24 CFR 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.

Examples of Situations in which New Regulatory Flexibilities can be Used in Revitalization 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 percent 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 percent 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 percent 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 percent 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 percent 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 Section 105(a)(24) of the Act, 100 percent 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 Section 105(a)(8) of the Act. The addition of Section 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 Section 105(a)(8) public service, all assisted units may be treated as a single structure; only 51 percent 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 Section 105(a)(15) of the HCDA and pursuant to a Revitalization Strategy, it can be exempted from the usual restrictions on public services (the 15 percent statewide cap on funding and the new/increased level-of-service requirement).