Village of Arlington Heights
Housing Commission
Buechner Room, 1st Floor
Arlington Heights Village Hall, 33 S. Arlington Heights Rd.
Arlington Heights, IL 60005
January 8, 2020
7:00 PM

I. CALL TO ORDER

II. ROLL CALL

III. APPROVAL OF MINUTES

A. Minutes - 11/20/19

IV. REPORTS

V. OLD BUSINESS

A. Single-Family Rehab Program

VI. NEW BUSINESS

A. 2020 - 2024 Consolidated Plan and 2020 Annual Action Plan

VII. OTHER BUSINESS

A. Discussion of 2020 Regular Monthly Meeting Dates

VIII. ADJOURNMENT

Persons with disabilities requiring auxiliary aids or services, such as an American Sign Language interpreter or written materials in accessible formats, should contact David Robb, Disability Services Coordinator, at 33 S. Arlington Heights Road, Arlington Heights, Illinois 60005, (847)368-5793 (Voice), (847)368-5980 (Fax) or drobb@vah.com.

Housing Commission
1/8/2020

Item: Minutes - 11/20/19

Department: Planning & Community Development

ATTACHMENTS:

Description	**Type**
Minutes 11/20/19	Minutes

DRAFT

MINUTES OF A MEETING OF
THE ARLINGTON HEIGHTS HOUSING COMMISSION
HELD IN THE BUECHNER ROOM
VILLAGE OF ARLINGTON HEIGHTS, ILLINOIS
NOVEMBER 20, 2019

IN ATTENDANCE:

Commissioners Present:	Alex Hageli	Ken Kiefer	William Delea
	David Miller	Zach Creer	
Commissioners Absent:	John Eggum	Andrew Tripp	
Staff Present:	Nora Boyer, Housing Planner/Staff Liaison		

I. CALL TO ORDER

The meeting was called to order at 7:00 p.m. The Pledge of Allegiance was recited. Commissioner Kiefer was welcomed to his first Housing Commission meeting.

II. Roll Call

The following Commissioners were present: Hageli, Miller, Creer, Delea and Kiefer.

III. APPROVAL OF MINUTES

A motion was made by Commissioner Miller, seconded by Commissioner Delea to approve the minutes of the October 1, 2020 meeting. The motion was approved unanimously.

IV. REPORTS

None

V. OLD BUSINESS

A. Single Family Rehab Program

Ms. Boyer stated that there is $50,000 in CDBG fund available for this program for the program year of October 1, 2019 – September 30, 2020. She did not have an update on the case discussed last month because no additional information has been received from the applicant's attorney regarding what appears to be a foreclosure filing.

VI. NEW BUSINESS

A. Presentation of 2019-2020 Group Home Rehab Projects and Housing Commission Consideration of Approval for Funding

Ms. Boyer explained that the Village Board approved $76,900 in CDBG funds for this program for the 2019/2020 program year. The Housing Commission is asked to review and approve projects under this budget item. Three grant requests have been made from 1) Little City Foundation, 2) Clearbrook, and 3) Shelter Inc. Representatives of the agencies came to this meeting of the Housing Commission to present their grant requests.

<u>Little City Foundation Grant Request</u>

Tiana Brazzale, Director of Foundation and Government Grants and Paul Biagini, Facilities Project Coordinator. Presented Little City Foundation's request. Their grant request is for $32,050 in CDBG funds to remodel aspects of a group home on West Euclid Avenue.

Ms. Brazzale said that there are 6 residents in the home ranging in age from 40 – 73 years old. She said that the goal is to maintain the home to neighborhood standards. She also said that as the residents age, their physical impairments change, and the home requires modifications in response to those needs. She said that the residents are active in the Arlington Heights community.

Mr. Biagini reviewed the proposed scope of work which includes installing and replacing ceiling mounted light fixtures and switches in bedrooms, renovating one of the bathrooms to make it ADA accessible, renovations to a second bathroom, interior and exterior painting, and kitchen renovations.

Little City Foundation provided 3 bids and photographs for the proposed work. Ms. Boyer pointed out that purchase of the appliances included in the scope of work (for $4,000) is not eligible for CDBG funding. After removing the $4,000 for the appliances, the CDBG grant request is $28,050. Ms. Brazzale stated that Little City Foundation anticipated the possibility that it may not receive full funding and can pay for the appliances from other agency funds.

Commissioner Miller stated that the scope of work is straightforward. He asked if Little City is has any concerns about unexpected costs. Mr. Biagini responded that sometime work that is not anticipated needs to be done after walls are opened up and concealed conditions are revealed.

Commissioner Kiefer asked what happens with the residents while the work is being done. Ms. Brazzale responded that most often the residents can remain in the home while work is being done.

Commissioner Miller asked if Little City has worked with the contractor they chose for the job previously. Mr. Biagini responded that Little City has worked with this contractor before and everything went smoothly.

Clearbrook

Ms. Bev Saiz spoke as the representative from Clearbrook. She provided information about the residents and operation of the group home for which rehab funds are requested. She said that Clearbrook owns 7 CILA (Community Integrated Living Arrangement) homes, of which 2 are in Arlington Heights. She said that the home for which funds are requested is the home for 8 adult men. She said that the residents are encouraged to integrate with the community.

Ms. Saiz provided 3 bids and photographs of the work to be done. The scope of work involves replacement of the exterior siding, covering over soffits and fascia, and gutters. She said that other work will be done at the home also (ex. removing a balcony with a sliding door and replacing it with a window) for a total projected cost of $43,000. Clearbrook's CDBG request from the Village is for $28,350 toward that total cost. Clearbrook will pay the difference from other resources. Ms. Saiz said that the bid for $28,350 is the second lowest bid, but the lowest bidder did not include gutter replacement in his bid. All bidders were given the same scope of work.

Commissioner Miller asked how long Clearbrook has owned the home. It was thought that Clearbrook has owned the home for at least 15 years.

Shelter Inc.

Ms. Pat Cinquini presented Shelter, Inc.'s request. She explained that Shelter, Inc. is a child welfare agency that was created in 1975. The agency serves abused and neglected children. She said that the agency operates two shelters for children age 11 – 17 and has 2 foster care programs.

The agency's CDBG request if for their transitional living home in Arlington Heights which provides housing for persons 17 – 21 years old who have aged out of the child welfare system but who need assistance in transitioning to living independently. She said that without the home, the young residents would likely be homeless. She said that the residents participate in a 2-year program during which time they must be full time students with part time jobs or working full time.

The request of for funds to replace the flooring and baseboards throughout the home that have been restored previously but are not so work that the need to be replaced. Photographs were provided.

Ms. Cinquini said that the agency is working on entering into a 5-year lease with the property owner. Ms. Boyer explained that agencies usually own the homes they are requesting to rehabilitate, but rented property is also eligible for funding if there is a "long term" lease (usually defined as at least 5 years). Ms. Boyer explained that if funds are used to improve the home, and the home ceases to be used for a CDBG-eligible purpose within 5 years of the work being completed, the agency will be required under their grant agreement with the Village to repay the CDBG funds. Shelter Inc. has been renting and using the home for this purpose for 15 – 18 years and Ms. Cinquini said that they have a good relationship with the landlord.

Commissioner Miller asked if contingency amounts had been included in project budgets. They had not, but since the $4,000 cannot be used for appliances under the Little City Foundation request, that amount is available for contingencies.

There was also a question about whether any of the proposed work was repeat work (i.e. replacing work previously funded by the Village). The answer was that although CDBG funds have been previously used for renovations at the Little City and Clearbook homes, that funding was for other work and no work is being repeated. This would be the first grant to Shelter, Inc.

A motion was made by Commissioner Miller, seconded by Commissioner Creer to approved CDBG rehab grants as follows for the group homes and the scopes of work as specified in the agencies' CDBG grant applications for the 2019/2020 program year:

Little City Foundation (Euclid Ave. Group Home):	\$28,050
Clearbrook (Kennicott Ave. Group Home):	\$28,350
Shelter, Inc. (Golf Road Home):	\$16,500
Total Contingency (as needed for all projects):	\$ 4,000
Total:	\$76,900

The motion carried unanimously.

VII. OTHER BUSINESS

Mr. Keith Moens and Ms. Peg Lane, members of the audience, asked about whether the draft inclusionary zoning ordinance would be returning to the Housing Commission. Ms. Boyer responded that staff has been working on the draft ordinance. The Village Board will be notified of the Housing Commission's request to have the draft presented to them before it goes back to the Village Board. Ms. Boyer said that she did not know yet what the decision will be. She said that the normal process for commission recommendations is that matters not go back to commissions once they have reached the Board level, but she will get the Housing Commission know what is decided about their request.

There was a discussion about possibly moving the Housing Commission's regular meetings to the second Wednesday of the month. She will check that date with the two commissioners not present at this meeting and will check to see if a meeting room would be available. The regular meeting date will be discussed further at the January meeting.

VIII. ADJOURNMENT

A motion was made by Commissioner Hageli, seconded by Commissioner Keifer, to adjourn the meeting. The motion passed unanimously. The meeting adjourned at 8:10 pm.

NEXT MEETING: Wednesday, January 8, 2020 7:00 pm.

Housing Commission
1/8/2020

Item: 2020 - 2024 Consolidated Plan and 2020 Annual Action Plan

Department: Planning & Community Development

ATTACHMENTS:

Description	Type
Staff Report	Report
Exhibit A - CDBG Programs & Units of Measure	Exhibits
Exhibit B - Chapter 4: Housing Activities	Exhibits

Staff Report to the Housing Commission

To:	The Chairman and Members of the Housing Commission
From:	Nora Boyer, Housing Planner
Re:	2020 – 2024 Consolidated Plan and 2020 Annual Action Plan
Report Prepared:	December 30, 2019
Meeting Date:	January 8, 2020

<u>Background</u>
The Village of Arlington Heights is an "entitlement jurisdiction" under HUD's Community Development Block Grant (CDBG) Program. The purpose of the CDBG program is to address the housing and community development needs of the community's low- and moderate-income residents.

As an entitlement jurisdiction, Arlington Heights receives an annual direct allocation of CDBG funds through HUD. The amount of the annual CDBG allocation is determined by HUD using a federal statutory formula which uses several measures of community needs, including the extent of poverty, population, housing overcrowding, age of housing, and population growth lag relationship to other metropolitan areas. Entitlement jurisdictions must have a minimum population of 50,000 residents.

CDBG funds must be used to meet one of the program objectives:

1) Address housing community needs primarily of low- and moderate-income residents;
2) Address slum and blight conditions; or
3) Address an urgent community need (ex. a natural disaster).

CDBG eligible activities include, but are not limited to, the following (additional regulations apply):

1) Acquisition of real property
2) Relocation and demolition
3) Rehabilitation of residential and non-residential structures
4) Construction of public facilities and improvements, such as water and sewer facilities, streets, neighborhood centers, and the conversion of school buildings for eligible purposes
5) Public services, 15% funding cap
6) Activities relating to energy conservation and renewable energy resources
7) Provision of assistance to profit-motivated businesses to carry out economic development and job creation/retention activities
8) Administrative Costs (20% funding cap)

<u>Consolidated Plan and Annual Action Plan</u>
In order to receive its CDBG allocation, the Village must adopt a 5-year *Consolidated Pl*an. The current 2015 – 2019 Consolidated Plan expires on September 30, 2020, and a new 2020-2024 *Consolidated Plan* is due to HUD no later than mid-August 2020.

The 2020 – 2024 *Consolidated Plan*, in part, must include the Village's 5-year *Strategic Plan* in which the Village is to prioritize certain Priority Need Areas (listed below) as high, medium, or low priority.

The Priority Need Areas are:

1) Affordable Housing
    - Homeowner Rehab
    - Homebuyer
    - Rental Rehab
2) Homelessness
    - Outreach
    - Services
    - Shelter
3) Other Special Housing/Non-Homeless Needs
    - Public Facilities (ex. facilities for persons with special needs such as facilities for the homeless or domestic violence shelters, group homes for the disabled or facilities, Senior Centers or facilities for abused and neglected children.)
    - Public Improvements (ex. recreational facilities, parks, and playgrounds serving low- and moderate-income areas or improvements, for the removal of architectural barriers for persons with disabilities or for the benefit primarily for low- and moderate-income beneficiaries.)
    - Infrastructure (ex. construction or installation including, but not limited to parks, playgrounds, streets, curbs, and water and sewer lines in low- and moderate-income areas or for the removal of architectural barriers for persons with disabilities)
4) Economic Development
5) Public Services (otherwise known as social services) –15% funding cap applies
6) Planning & Administration – 20% funding cap applies

In the Strategic Plan, the Village must also identify the following for the 5-year period:

1) General descriptions of the program it intends to fund during the 5-year period and the and the 5-year numerical goals (see Exhibit A for the CDBG Programs and Units of Measure); and
2) Amounts of CDBG funding to be allocated to each Area of Need.

The 2020-2024 *Consolidated Plan* will also include the Village's 2020 *Annual Action Plan* which will contain the specific annual allocations, objectives and measurable outcomes to be achieved during the 2020 – 2021 program year (October 1, 2020 – September 30, 2021). Subsequent *Annual Action Plans* will be adopted each year for the next 4 years of the 5-year Plan.

The 2020 – 2024 *Consolidated Plan*, including the 2020 *Annual Action Plan* are scheduled to be adopted in either June or July 2020 after the completion of the citizen participation process which will include staff outreach, release of program year 2020 CDBG grant applications, two public hearings and a 30-day public comment period on the full, draft document. A more detailed timeline will be available soon.

<u>Request</u>

The Village is beginning its process of collecting public input on the housing and community development needs of its low- and moderate-income residents. At its January 8, 2020 meeting, staff requests that the Housing Commissioners provide input on the relative (high, medium or low) priority of the Priority Need Areas listed in this Report. If time permits, the Housing Commission may also wish to begin discussing programs/activities and numeric goals for the 5-year *Consolidated Plan* and 1-year 2020 *Annual Action Plan* period. Attached for your reference is "Chapter 4 Housing" from HUD's publication *Basically CDBG for Entitlements* https://www.hudexchange.info/resource/19/basically-cdbg-training-guidebook-and-slides/.

Exhibit A

CDBG - Programs and Units of Measure

1. Public Facility or Infrastructure Activities other than Low/Moderate Income - Housing Benefit Persons Assisted

2. Public Facility or Infrastructure Activities for Low/Moderate Income Housing Benefit - Households Assisted

3. Public service activities other than Low/Moderate Income Housing Benefit - Persons Assisted

4. Public service activities for Low/Moderate Income Housing Benefit - Households Assisted

5. Facade treatment/business building rehabilitation - Businesses

6. Brownfield acres remediated - Acres Remediated

7. Rental units constructed - Household / Housing Units

8. Rental units rehabilitated - Household / Housing Units H

9. Homeowner Housing Added - Household / Housing Units

10. Homeowner Housing Rehabilitated- Household / Housing Units

11. Direct Financial Assistance to Homebuyers - Households Assisted

12. Tenant-based rental assistance / Rapid Rehousing - Households Assisted

13. Homeless Person - Overnight Shelter Persons Assisted

14. Overnight/Emergency Shelter/Transitional Housing - Beds added Beds

15. Homelessness Prevention - Persons Assisted

16. Jobs created/retained - Jobs

17. Businesses assisted - Businesses Assisted

18. Housing for Homeless added - Household / Housing Units

19. Housing for People with HIV/AIDS added - Household / Housing Units

20. HIV/AIDS Housing Operations - Household / Housing Units

21. Buildings demolished - Buildings

22. Housing Code Enforcement/Foreclosed Property Care - Household / Housing Units

23. Other

CHAPTER 4: HOUSING ACTIVITIES

CHAPTER PURPOSE & CONTENTS

This chapter provides detailed information on CDBG eligible homeownership and rental activities, guidance for grantees on documenting national objectives and guidance on complying with other federal requirements and program design considerations for grantees.

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4.1 Homeowner Rehabilitation

Homeowner rehabilitation is one of the most common community development programs administered nation-wide. CDBG funds provide a wide range of flexibility with rehabilitation of projects and design considerations. Grantees can choose to do emergency repair programs, spot rehabilitation or full house rehabilitation. This section reviews the eligible and ineligible activities under the CDBG program for homeowner rehabilitation.

Key Topics in This Section	✓ Eligible homeowner rehabilitation activities
Regulatory/Statutory Citations	Section 105(a)(4) §570.202
Other Reference Materials on This Topic	✓ CDBG Guide to National Objectives and Eligible Activities ♦ Chapter 2 ✓ HOME and CDBG Model Guide

- ✓ CDBG funds may be used to assist existing homeowners with the repair, rehabilitation, or reconstruction of owner-occupied units.
- ✓ Grantees have the flexibility under the CDBG Program to design repair and rehabilitation programs that meet the needs of their residents. Examples of the types of local programs that may be funded include:
  - General programs aimed at rehabilitation of existing structures, including substantial rehabilitation programs, which typically bring the property up to local codes and standards.
  - Special purpose programs, including:

        - Energy efficiency programs aimed at improving the energy efficiency of homes through additional insulation, new windows and doors and other similar improvements;
        - Handicapped accessibility programs through which improvements, such as installation of ramps and grab bars, are made to homes of persons with disabilities to make the home more accessible;
        - Emergency repair programs that provide for the repair of certain elements of a housing unit in emergency situations, such as repairs to a roof that is leaking, but the whole house is not rehabilitated; and
        - Weatherization programs aimed at improving a home’s ability to withstand the elements, including insulation and weather-stripping.

- ✓ Rehabilitation to a single-family residential property that is also used as a place of business and is required to operate the business may be considered homeowner rehabilitation (as opposed to commercial rehabilitation) if the improvements provide general benefit to the residential occupants of the building.
    - NOTE: Assistance to microenterprises for the establishment, stabilization, and expansion of microenterprises, which might include rehabilitation of a home that contains a microenterprise, may be eligible under the separate microenterprise activity category.
- ✓ Reconstruction is an eligible activity. While the CDBG regulations have not yet been amended to reflect this change, it is generally defined as follows:
    - Reconstruction means demolishing and re-building a housing unit on the same lot in substantially the same manner.
    - The number of housing units on the lot may not be increased as part of a reconstruction, however, the number of rooms in a unit may be increased or decreased.
    - The number of housing units on the lot may be decreased to reduce density.
        - Decreasing units may trigger the one-for one replacement of LMI income dwelling units at 24 CFR part 42, subpart C (see the Relocation Chapter for additional guidance).
    - Reconstruction also includes replacing an existing substandard manufactured housing unit with a new or standard manufactured housing unit.
- ✓ Homeowner counseling programs for LMI persons may be funded by CDBG. A grantee may use CDBG to pay for homeowner counseling related to a HOME or CDBG homeowner rehabilitation program.
- ✓ CDBG can be used for grants, loans, loan guarantees, interest subsidies, or other forms of assistance to homeowners for the purpose of repairs, rehabilitation, or reconstruction.
- ✓ CDBG-eligible costs include:
    - Labor and materials,
    - Replacement of principal fixtures and components of existing structures;
    - Water and sewer connections;
    - Installation of security devices, including smoke detectors; and
    - Conservation costs for water and energy efficiency;

- – Landscaping, sidewalks, garages, and driveways when accompanied with other rehabilitation needed on the property; and
- – Evaluating and treating lead-based paint; and
- – For rehabilitation carried out with CDBG funds:
  - ▫ Initial homeowner warranty premium;
  - ▫ Hazard insurance premium (except when a grant is provided); and
  - ▫ Flood insurance premium.

✓ Loans for refinancing existing debt are eligible under CDBG if the grantee determines that this type of assistance is necessary to achieve local community development objectives. This refinance must be part of a rehabilitation project -- CDBG does not permit refinance only projects.

4.2 Home Purchase Activities

Owning a home is part of the American dream. CDBG funds can help support this dream by providing funds to income eligible households to purchase an existing or newly constructed home. This section reviews the eligible activities under the CDBG program for home purchase activities.

Key Topics in This Section	✓ Eligible homebuyer activities
Regulatory/Statutory Citations	Section 105(a)(24) §570.201(e), §570.201(n)
Other Reference Materials on This Topic	✓ CDBG Guide to National Objectives and Eligible Activities ♦ Chapter 2 ✓ HOME and CDBG Model Guide ✓ CPD Notice 02-06

✓ CDBG funds may be used to provide direct homeownership assistance to LMI households in two ways. Both options are described below.

- – As direct homeownership assistance under 570.201(n), a separate and permanent eligibility category that allows CDBG funding to:
  - ▫ Provide up to 50 percent of required down payment;
  - ▫ Pay reasonable closing costs;
  - ▫ Provide principal write-down assistance;
  - ▫ Subsidize interest rates;
  - ▫ Finance acquisition of housing occupied by the homebuyer; and
  - ▫ Acquire guarantees for mortgage financing from private lenders (i.e., assist homebuyers with private mortgage insurance).
- – As a public service activity; however, this eligibility category is limited to down payment assistance only and would count towards the 15 percent public services cap under 570.201(e).

  - For downpayment assistance to be provided as a public service to non-LMI households, it must be located in a HUD approved neighborhood revitalization strategy area (NRSA) (see §91.215(g)). This is because in a NRSA, the units for which assistance is obligated during a grantee's program year may be aggregated and treated as a single structure for purposes of determining compliance with the housing national objective. Therefore, only 51% of the units in a NRSA need to be occupied by LMI households to meet a national objective if the home purchase activity is funded as a public service. Homeowner assistance located in an NRSA and carried out as a public service by a CBDO can also be excluded from the 15 percent public services cap.

- ✓ Activities that support development of housing for LMI persons such as acquisition, clearance, and site improvements (when the land is in public ownership) are eligible for CDBG assistance.
- ✓ Providing assistance to private individuals and entities to acquire for the purpose of rehabilitation and to rehabilitate properties for use or resale for residential purposes is also eligible.
- ✓ Individual Development Accounts (IDAs), dedicated savings accounts providing start up funds to assist low-income persons purchase a home can be supported with CDBG funds.
  - CDBG funds may be deposited in an IDA to capitalize the account or as matching deposits over the course of the household's participation in the program.
  - If the individual does not complete the requirements of the IDA program, the CDBG funds must be returned to the grantee and any interest earned returned to the U.S. Treasury.
- ✓ Homebuyer counseling programs for LMI income persons may be funded by CDBG. A grantee may use CDBG to pay for housing counseling related to a HOME or CDBG homebuyer program.
- ✓ Community-Based Development Organizations (CBDOs) may use CDBG funds to construct housing for sale to LMI homebuyers in conjunction with a neighborhood revitalization or community economic development project.

4.3 Rental Housing Activities

Many communities struggle with providing decent, safe and sanitary affordable rental housing to their residents. CDBG funds can be used to acquire, rehabilitate or construct rental housing. There are tenant income requirements and rent restrictions for projects. This section reviews the eligible activities under the CDBG program for rental housing activities.

Key Topics in This Section	✓ Eligible rental activities
Regulatory/Statutory Citations	Section 105(a)(4) §570.201(a), 570.202
Other Reference Materials on This Topic	✓ CDBG Guide to National Objectives and Eligible Activities ♦ Chapter 2 ✓ HOME and CDBG Model Guide ✓ CPD Notice 03-14

- ✓ CDBG funds may be used for acquisition of property for an eligible rental housing project. CDBG may also be used to rehabilitate rental housing.
- ✓ In Rem housing--CDBG funds may also be used to make essential repairs and payment of operating expenses needed to maintain the habitability of housing units acquired through tax foreclosure proceedings in order to prevent abandonment and deterioration of such housing in primarily LMI neighborhoods.
  - Note the LMI benefit national objective is met through the Area Benefit subcategory.
- ✓ Conversion of a closed building from one use to residential use (such as a closed school building to residential use) is also eligible.
- ✓ Grantees may provide assistance in the form of loans, grants, loan guarantees, interest subsidies and other forms of assistance for rental housing rehabilitation and acquisition/rehabilitation projects.
  - Eligible properties may be:
    - Publicly- or privately-owned; and
    - Residential or mixed use.
  - Eligible expenditures include:
    - Labor, materials and other rehabilitation costs;
    - Refinancing, if necessary and appropriate;
    - Energy efficiency improvements;
    - Utility connections;
    - Evaluating and treating lead-based paint; (NOTE: This is also eligible as a separate activity);
    - Conservation costs for water and energy efficiency;
    - Landscaping, sidewalks, and driveways when accompanied with other rehabilitation needed on the property;
    - Rehabilitation services (loan processing, work write-ups, inspections, etc.); and
    - Handicap accessibility improvements.
- ✓ Grantees may also develop facilities for persons with special needs and homeless shelters. However, in general, these facilities are categorized under CDBG as public facilities and not housing.
- ✓ New construction of rental housing by a CBDO is eligible provided the construction activity is carried out as part of a neighborhood revitalization, community economic development, or energy conservation project.
- ✓ Grantees may provide support for the development of new rental housing as an eligible activity. See the new construction section below for more information.
- ✓ CDBG funds can be used to compensate property owners for the loss of rental income incurred while holding, for temporary periods, housing units for the relocation of households displaced by CDBG activities.

4.4 New Construction

CDBG funds can be used for new construction but only in very limited circumstances. This section reviews the eligible activities under the CDBG program for new construction housing activities.

Key Topics in This Section	✓ Eligible new construction activities
Regulatory/Statutory Citations	Section 105(a)(15) §570.204, §570.207(b)(3)
Other Reference Materials on This Topic	✓ CDBG Guide to National Objectives and Eligible Activities ♦ Chapter 2 ✓ HOME and CDBG Model Guide

✓ Generally, new construction of housing is not eligible under the CDBG program. However, the regulations allow for certain eligible entities to carry out this activity on behalf of the grantee (570.204(c)).

- This entity is known as Community Based Development Organization or CBDO.
- The eligible groups include neighborhood-based organizations, section 301(d) Small Business Investment Companies (SBICs), local development corporations (LDCs), and some Community Housing Development Organizations (CHDOs).
- These development organizations must meet the definition outlined in Section 105(a)(15) of the Housing and Community Development Act and §570.204 of the regulations to be considered eligible to undertake such activities.
- These organizations must be undertaking a neighborhood revitalization, community economic development or energy conservation project in order to use CDBG for new construction. Note that new housing construction carried out by an eligible CBDO must be part of a larger effort to revitalize the neighborhood (i.e., a plan for the community's revitalization efforts based on a comprehensive plan, not just for the sake of the CDBG project).
- See chapter 2 for more information about the types of organizations that qualify as CBDOs.

✓ Grantees may also provide support for the development of new housing as an eligible activity. "Support" refers to:

- Acquisition by the grantee or public or private nonprofit entities;
- Site clearance and assemblage; and
- Site improvements (if in public ownership).

✓ Finally, grantees may use CDBG funds to construct new housing under the last resort provisions of the URA (24 CFR Part 42, subpart I). This is housing that the grantee has determined must be constructed in order to provide suitable replacement housing for persons to be displaced by a contemplated CDBG project, subject to the Uniform Act, and where the project is prevented from proceeding because the required replacement housing is not available otherwise. Note: Under this provision, national objective compliance is based on the activity that caused the displacement rather than the income of the occupants.

4.5 Services in Connection with Housing

CDBG is flexible in allowing services to be provided to persons and households. CDBG funds may be used to pay costs in support of activities eligible for funding under the HOME program. This section details the services that provided in connection with housing activities.

Key Topics in This Section	✓ Eligible housing services activities
Regulatory/Statutory Citations	Section 105(a)(20); §570.201(k)
Other Reference Materials on This Topic	✓ CDBG Guide to National Objectives and Eligible Activities ♦ Chapter 2 ✓ HOME and CDBG Model Guide

✓ Services that are related to housing activities may qualify under several eligibility categories of the CDBG regulations, including:

– As a public service activity (e.g., a housing counseling program) if the activity meets the public service eligibility criteria. (Note, however, the amount of CDBG funds used for public service activities may not exceed the 15 percent cap.);

– As part of a CDBG-funded housing activity (e.g., preparing work specifications for CDBG-funded rehabilitation projects), generally referred to as a program delivery cost; and

– CDBG funds may be used to pay for program administration of the HOME program (under 570.206).

– As a separate eligibility category (under 570.201(k)) when the housing activities are linked to providing services to owners, tenants, contractors or other entities participating in or seeking to participate in the grantee's HOME Program. Eligible services under this category include:

- Housing counseling;
- Energy auditing;
- Preparation of work specifications;
- Loan processing;
- Inspections;
- Tenant selection; and
- Management of tenant-based rental assistance (TBRA) programs.

4.6 Ineligible Activities

Although CDBG is very flexible in its approach to housing activities, some activities cannot be funded. This section highlights ineligible activities related to housing.

Key Topics in This Section	✓ Ineligible activities
Regulatory/Statutory Citations	§570.207
Other Reference Materials on This Topic	✓ CDBG Guide to National Objectives and Eligible Activities ♦ Chapter 2 ✓ HOME and CDBG Model Guide

- ✓ CDBG funds cannot be used to subsidize or assist the new construction of housing, *unless* carried out by a CBDO, as part of certain kinds of projects. Note that activities, which support the development of housing for LMI households (e.g., clearance, site improvements, and public facilities), are eligible for CDBG assistance under other eligibility categories.
- ✓ CDBG may not be used to guarantee mortgage financing directly, and grantees may not provide such guarantees directly.
- ✓ CDBG funds may not be used to provide on-going income payments such as paying for a tenant's rent or a household's mortgage. The only exceptions to this are:
  - Income payments that are provided as a loan; or
  - Income payments that are emergency in nature and do not exceed three consecutive months.
- ✓ The purchase of construction equipment is generally ineligible. However, the purchase of tools to be part of a "tool-lending" rehabilitation program is eligible. Compensation for the use of construction equipment through leasing, depreciation or other use allowances (described in the OMB circulars) is allowable provided the activity is otherwise eligible.

4.7 National Objectives for Housing Activities

All CDBG activities must meet a national objective in order to be eligible to use CDBG funds. This requires that all housing activities must qualify as meeting one of the three national objectives of the program and meet specific tests for benefiting LMI persons, preventing or eliminating slums or blight and meeting other community development needs having a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community and other financial resources are not available to meet such needs. This section is set up by national objective and then lists the different housing activities that are applicable to that particular national objective.

Key Topics in This Section	✓ LMI Area Benefit ✓ LMI Limited Clientele ✓ Slum/Blight Area and Spot Basis ✓ Urban Renewal Completion ✓ Urgent Needs
Regulatory/Statutory Citations	Section 101(c)(2), 104(b), 105(c) §570.208
Other Reference Materials on This Topic	✓ CDBG Guide to National Objectives and Eligible Activities ♦ Chapter 3

4.7.1 National Objective Summary Chart

✓ The following chart summarizes the national objective options related to housing activities. The text below provides additional details. For a complete copy of the matrix codes and national objectives chart, please see the IDIS chapter of this manual.

National Objective (N = Not Allowed)									
HUD Matrix Code	Activity	LMA	LMC	LMH	LMJ	SBA	SBS	SBR	URG
05R	Homeownership Assistance (not direct)	N	N		N		N	N	
05S	Rental Housing Subsidies	N	N		N		N	N	
05T	Security Deposits	N	N		N		N	N	
05U	Housing Counseling	N		N	N	N	N	N	N
12	Construction of Housing	N	N		N		N		
13	Direct Homeownership Assistance	N	N		N	N	N	N	N
14A	Rehab; Single Unit Residential	N	N		N				
14B	Rehab; Multi-Unit Residential	N	N		N				
14C	Public Housing Modernization	N	N		N				
14D	Rehab: Other Publicly Owned Residential Buildings	N	N		N				
14F	Energy Efficiency Improvements	N	N		N				
14G	Acquisition for Rehabilitation	N	N		N				
14H	Rehabilitation Administration								
14I	Lead Based Paint/Hazards Test/Abatement	N	N		N				
16A	Residential Historic Preservation	N	N		N				N

4.7.2 LMI Housing National Objective

✓ If a grantee wishes to qualify a housing rehabilitation, acquisition or construction activity under the LMI national objective, the housing national objective must be used. The grantee may not use LMI area, LMI limited clientele or LMI job creation for these activities.

- A LMI household must occupy a structure with one unit. Two-unit structures must have at least one unit occupied by a LMI household. If the structure contains three or more units, at least 51 percent must be LMI occupied.
- When housing rehabilitation or new construction single family housing activities are conducted by a CDFI or as part of a HUD-approved Neighborhood Revitalization Strategy, multiple units (e.g. scattered site housing) may be aggregated for the purposes of meeting the LMI benefit national objective.

✓ Home Purchase assistance qualifies under the ***Housing*** criteria of the LMI benefit national objective.

- LMI persons must occupy structures with one unit. If the structure contains more than one unit, at least 51 percent must be LMI occupied. (Two-unit structures must have at least one unit occupied by a LMI household.)
- NOTE: Due to statutory requirements related to the eligibility category, when direct homeownership assistance is provided under 24 CFR 570.201(n), the flexibility to aggregate units when the assistance is provided by a CDFI or as part of an approved Neighborhood Revitalization Strategy to meet the Housing National Objective is NOT allowed.

✓ Rental housing (both new construction and rehabilitation) activities that provide or improve permanent residential structures can only qualify as benefiting LMI households under the ***Housing*** criteria of the LMI benefit national objective, which deals with the occupancy of units by LMI households.

- The general rule is that 51 percent of the units in each assisted structure are to be occupied by LMI households. However, when rental housing activities are carried out by a CDFI or as part of an approved Neighborhood Revitalization Strategy, multiple units (e.g. scattered site housing) may be aggregated for the purposes of meeting the LMI Benefit National Objective.
- When less than 51 percent of the units in a structure will be occupied by LMI households, CDBG assistance may be provided in the following limited circumstances:
  - The assistance is for an eligible activity to reduce the development cost of the new construction of a multifamily, non-elderly rental housing project;
  - Not less than 20 percent of the units will be occupied by LMI households at affordable rents; and
  - The proportion of the total cost of developing the project to be borne by CDBG funds is no greater than the proportion of units in the project that will be occupied by LMI households.
- In order to meet the LMI housing national objective, rents in CDBG-assisted rental projects must be set at levels which are affordable to LMI persons.

- Grantees are required to adopt and make public their standards for determining "affordable rents."
- The generally accepted affordability standard is that households pay no more than 30 percent of income for rent and utilities. However, use of this standard is not required by CDBG regulations.
- Grantees may want to establish rent limits or ceilings based on local LMI limits and bedroom sizes, similar to those used for the HOME Program. However, *each project* must be undertaken in such a manner as to ensure that rents are truly affordable to LMI persons.

✓ Housing services provided in connection with a CDBG-funded housing activity (generally as a program delivery cost) or in connection with a HOME-funded program qualify under the ***Housing*** criteria of the LMI benefit national objective.

- The general rule is that 51 percent of the units in each assisted structure are to be occupied by LMI households. Some housing activities, when carried out by a CDFI or as part of an approved Neighborhood Revitalization Strategy, may be aggregated for the purposes of meeting the LMI benefit national objective.

4.7.3 LMI Limited Clientele National Objective

✓ Housing counseling services provided as a public service activity must qualify under the LMI ***limited clientele*** national objective.

- LMI ***limited clientele*** national objective activities benefit a limited number of people as long as at least 51 percent of those served are LMI persons. These activities must:
  - Benefit a clientele that is generally presumed to be principally LMI (abused children, battered spouses, elderly persons, severely disabled adults, homeless persons, illiterate adults, persons living with AIDS and migrant farm workers); or
  - Require documentation on family size and income in order to show that at least 51 percent of the clientele are LMI; or
  - Have income eligibility requirements limiting the activity to LMI persons only; or
  - Be of such a nature and in such a location that it can be concluded that clients are primarily LMI.

4.7.4 Slum/Blight National Objective

✓ If a housing rehabilitation or acquisition activity does not meet the LMI Housing National Objective, it may qualify under the Slum/Blight National Objective. However, the use of this category should be limited due to the fact that grantees must ensure that 70 percent of CDBG funds benefit LMI persons.

- The requirements for meeting the Slum/Blight National Objective under the ***Area Basis*** criteria include:
  - The area delineated by the grantee in which the activity occurs meets a definition of a slum, blighted, deteriorated or deteriorating area under state or local law;

- At least 25 percent of the properties in the area experience one or more of the conditions identified at 570.208(b)(1)(ii)(A),, or the public improvements are in a general state of deterioration; and
- The activity addresses one or more of the conditions that contribute or contributed to the deterioration of the area. ***CAUTION:*** Residential rehabilitation meets this requirement only if the building to be rehabilitated is considered substandard under local definition (at least Section 8 Housing Quality Standards). In addition, if non-critical items will be addressed through the rehabilitation then all deficiencies making the building substandard must be eliminated.

– To meet the Slum/Blight National Objective under the ***Spot Basis*** criteria:

- The rehabilitation activity must eliminate specific conditions of blight or physical decay on a spot basis (i.e., not in an area meeting the Area Basis criteria); and
- The rehabilitation must remove only those conditions that are detrimental to public health and safety.

✓ New construction housing may qualify under the Slum/Blight National Objective under the **Area Basis**. However, the new housing only qualifies if the following conditions are met:

– The new housing is located with a designated slum or blighted area; and

– Development of new housing addresses one of the conditions which contributed to the deterioration of the area.

4.7.5 Urban Renewal Completion National Objective

✓ New construction housing may qualify under the Urban Renewal Completion National Objective. However, the new housing only qualifies if the following conditions are met:

– The new housing is located within an Urban Renewal project or an NDP action area designated under Title I of the Housing Act of 1949; and

– The new housing is necessary to complete the Urban Renewal Plan.

4.7.6 Urgent Needs National Objective

✓ New construction housing may qualify under the Urgent Needs National Objective. However, the new housing is needed to respond to a threat to the health or welfare of the community of recent origin and no other funding is available to meet the threat and the new construction is eligible (or the statutory waiver authority for Presidentially-declared disasters is exercised).

4.8 Drawing Down Funds

There are a number of different ways that grantees may draw down their CDBG funds for housing rehabilitation activities. This section discusses three ways, escrow accounts, lump sum drawdowns and revolving loans.

Key Topics in This Section	✓ Escrow Accounts ✓ Lump Sum Drawdowns and Revolving Loan Funds
Regulatory/Statutory Citations	Section 104(h) §570.511, §570.513, §570.500(b)
Other Reference Materials on This Topic	N/A

Escrow Accounts

✓ Grantees may draw down CDBG funds from HUD to set up escrow accounts for the rehabilitation of privately owned residential property. Many grantees use this type of account for paying contractors on behalf of homeowners under CDBG single-family rehabilitation programs.

✓ The escrow accounts are subject to the following limitations:

- Escrow accounts must be used for loans and grants for the purpose of rehabilitating primarily residential properties with no more than four units.
- Deposits to escrow accounts must not take place until a contract has been executed between the property owner and the contractor.
- The contract between the property owner and the contractor must specify that an escrow account will be used for payment purposes and that the grantee or a subrecipient will maintain the escrow account.
- All CDBG funds drawn down from HUD for escrow must be deposited into one interest bearing account.
- The amount of funds deposited into an escrow account must be limited to the amount expected to be disbursed within 10 working days from the date of deposit (any excess funds must be transferred to the grantee's program account).
- Funds deposited in an escrow account must be used only to pay the actual rehabilitation costs incurred by the owner under contract with a private contractor. Other costs may not be paid from escrowed funds.

✓ Interest earned on escrow accounts must be ***remitted to HUD at least quarterly*.**

Lump Sum Drawdowns and Revolving Loan Funds

✓ Lump sum drawdowns may be used for housing rehabilitation programs. Lump sum drawdown refers to the process of drawing down CDBG funds in a lump sum in order to establish a fund in one or more private financial institutions for the purpose of financing eligible activities. The fund may be used in conjunction with various financing techniques, including loans, interest subsidies, loan guarantees, loan reserves, or other uses approved by HUD.

- ✓ A revolving fund is a separate fund (independent of other CDBG program accounts) set up for the purpose of carrying out specific activities. These activities generate payments to the revolving loan fund for use in carrying out the same types of activities. Revolving loan funds are often set up for housing rehabilitation loan programs.
- ✓ The rules governing lump sum drawdowns and revolving loan funds are found in Chapter 11: Financial Management.