

Compliance with Low and Moderate National Objectives in Single Family Housing Activities

April 21, 1988

MEMORANDUM FOR: Raymond A. Harris, Regional Administrator-
Regional Housing Commissioner, 4S

ATTENTION: Charles N. Straub, Director, Office of Community Planning and Development, 4C

FROM: Jack R. Stokvis, General Deputy Assistant Secretary for Community Planning and Development,
CD

SUBJECT: Compliance with CDBG National Objectives or Low and Moderate Income Benefit in Single Family Housing Development Activities, Palm Beach County, Florida

This memorandum responds to your request of March 24, 1988, for a determination as to the required percentage benefit for low and moderate income occupancy of single family housing where CDBG assists in land acquisition. It also responds to two issues raised in documents accompanying the request. The memorandum from the Jacksonville Office asked about the use of CDBG funds for site development, and the letter from Palm Beach County questioned whether CDBG requirements would cause a concentration of low and moderate income households in large, single site developments.

Acquisition of property is considered to meet a national objective in accordance with the planned reuse of the property. For housing activities - including acquisition for housing construction - to meet the national objective of benefit to low and moderate income persons, a majority of units in a structure must be occupied at completion by low and moderate income persons. Thus, one unit structures (single family houses) must be occupied by a low and moderate income household.

Site improvements, such as clearance or grading, in preparation for housing construction may be made on publicly owned property as a public facilities and improvements activity provided a national objective is met. Other public facilities and improvements activities, such as street construction or water and sewer line installation, may be carried out on the same basis. For these area activities to meet a national objective of benefit to low and moderate income persons, at least 51 percent of the residents in the service area must be low and moderate income persons.

However, there are no residents in Palm Beach County's proposed housing development area. Any public facilities and improvements activities would be designed to serve future residents of the area. If the future residents of the area are not at least 51 percent low and moderate income persons, the public facilities improvements would be ineligible and Palm Beach County would be required to reimburse their letter of credit for the CDBG expenditure.

If the county chooses to carry out area benefit activities there now, the County would be expected to obtain a firm commitment from the developer and to ensure that at least 51 percent of the residents will

be low and moderate income persons. These steps are important because (1) it is difficult to construct new, single family houses affordable to low and moderate income persons, (2) a grantee has limited influence in ensuring that 51 percent of the residents in a development will be low and moderate income persons, and (3) the developer would receive a substantial benefit from the temporary use of CDBG funds even if the County required the reimbursement from the developer in the event the 51 percent target was not met.

On the other hand, there are several, more efficient ways to provide CDBG assistance to the development. These involve subsidies for individual units and are likely to result in a mixed income development, as desired by Palm Beach County. There is no limit on the amount of subsidy permitted for these approaches; housing may be given to qualifying households.

First, CDBG may be used for down payments and mortgage subsidies when these are provided through any of the three types of subrecipients described in 24 CFR 570.204(c) and the criteria in 24 CFR 570.204(a) are met. Households receiving such subsidies to purchase a house must be low and moderate income households in order to meet a national objective.

Second, CDBG may be used for new housing construction under the same conditions described in the previous paragraph for down payments and mortgage subsidies. Therefore, Palm Beach County could combine the efforts of a market rate housing developer with the efforts of a 570.204(c) subrecipient. Each developer would produce similarly styled housing, but the subrecipient would make its housing available at a subsidized cost only to low and moderate income households.

Third, Palm Beach County through a 570.204(c) subrecipient may use CDBG funds to acquire newly constructed houses and either lease or sell them to low and moderate income households.