

# CHAPTER 3: NATIONAL OBJECTIVES



## CHAPTER PURPOSE & CONTENTS

This chapter provides a summary of the three national objectives of the program, the categories for meeting the three national objectives as well as selecting and documenting the appropriate national objective for activities funded by state grantees.

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### 3.1 Introduction to National Objectives

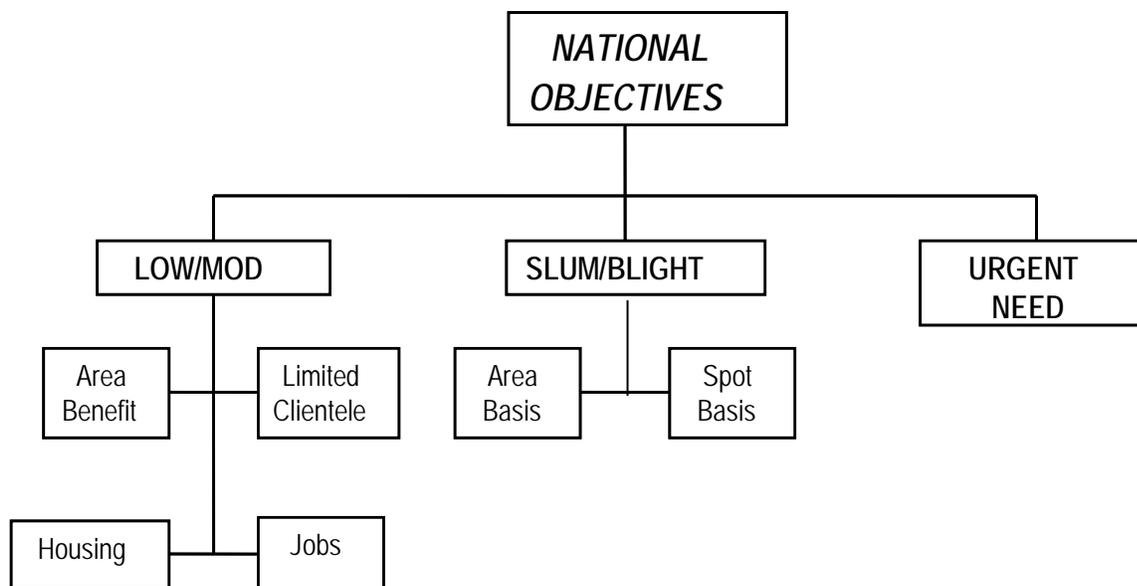
- ✓ This section provides general background on the three national objectives and an overview of the possible approaches.

Key Topics in This Section	✓ Overview of the three national objectives
Statutory Citations	Section 101(c), Section 104(b)(3), 105(c)
Other Reference Materials on This Topic	✓ Guide to National Objectives and Eligible Activities for States – Chapter 3: Meeting a National Objective

- ✓ The authorizing statute of the CDBG program requires that each activity funded except for program administration and planning activities must meet one of three national objectives. The three national objectives are:
  - Benefit to low- and moderate- income (LMI) persons;
  - Aid in the prevention or elimination of slums or blight; and
  - Meet a need having a particular urgency (referred to as urgent need).
- ✓ An activity that does not meet a national objective is not compliant with CDBG requirements and may be subject to remedial actions.



- ✓ The following exhibit depicts the different categories associated with each of the national objectives.



- ✓ Each national objective and the categories are discussed in further detail in subsequent sections of this chapter.
- ✓ This chapter will also explore the strategic decisions states can make when qualifying an eligible activity under a national objective. It is possible for an activity to qualify under more than one national objective, although only one national objective is required for an activity. Additionally, activities can qualify under more than one category. This chapter will discuss considerations for making a decision regarding which category works best for an eligible activity.
- ✓ HUD has developed a matrix of the national objectives, eligible activities and IDIS matrix codes. States may wish to refer to this matrix when selecting national objectives. A copy is attached to the IDIS chapter of this manual.

### 3.2 Benefit to Low and Moderate Income Persons or Households

- ✓ This section describes each of the possible LMI national objectives.

<p>Key Topics in This Section</p>	<ul style="list-style-type: none"> <li>✓ Overview of the primary objective and associated expenditure cap</li> <li>✓ Area benefit activities (LMA)</li> <li>✓ Limited Clientele Activities (LMC)</li> <li>✓ Housing Activities (LMH)</li> </ul>
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	✓ Job Creation and Retention Activities (LMJ)
Statutory Citations	Section 101(c), Section 104(b)
Other Reference Materials on This Topic	<ul style="list-style-type: none"> <li>✓ Guide to National Objectives and Eligible Activities for States                             <ul style="list-style-type: none"> <li>– Chapter 3: Meeting a National Objective</li> <li>– Chapter 4: Overall Expenditure Level –Benefit to LMI Persons</li> </ul> </li> <li>✓ CPD Notice 05-06: US HUD Suggested Survey Methodology to Determine the Percentage of LMI Persons in the Service Area of a Community Development Block Grant-Funded Activity</li> </ul>

- ✓ The LMI national objective is often referred to as the “primary” national objective because the statute requires that recipients expend 70 percent of their CDBG funds to meet the LMI national objective.
- ✓ Additional information on how to meet the 70 percent test and certification to HUD is located later in this chapter.
- ✓ In addition to meeting the 70 percent test, UGLG applicants must ensure that the activities proposed, when taken as a whole, will not benefit moderate-income persons to the exclusion of low-income persons. This does not mean that each activity has to include both low- and moderate income beneficiaries, but it further ensures that the CDBG program will primarily benefit low-income persons.
- ✓ This section covers the four categories that can be used to meet the LMI national objective:
  - Area benefit activities;
  - Limited clientele activities;
  - Housing activities; or
  - Job creation or retention activities.

### 3.2.1 Low Mod Area Benefit (LMA)

- ✓ The area benefit category is the most commonly used national objective for activities that benefit a residential neighborhood. An area benefit activity is one that benefits all residents in a particular area, where at least 51 percent of the residents are LMI persons.
- ✓ Examples of area benefit activities may include the following when they are located in a predominately LMI neighborhood:
  - Acquisition of land to be used as a neighborhood park;
  - Construction of a health clinic;
  - Improvements to public infrastructure like the installation of gutters and sidewalks; and
  - Development of a community center.
- ✓ The activities listed above benefit all LMI residents in a service area and thus are the type of activities that may qualify under the LMI area benefit category for the purposes of meeting a national objective.



- ✓ States and UGLGs are responsible for determining the service area of an activity. HUD will generally accept a state grantee's determination as long as it complies with CDBG regulations.
  - The factors that may be considered in making a determination regarding the service area include:
    - *The nature of the activity:*

In general the size and the equipment associated with the activity should be taken into consideration. A small park with a limited number of slides and benches would not be expected to serve the entire neighborhood. In the same way, a larger park that can accommodate a considerable number of people would not be expected to service just the immediately adjacent properties. The same applies to improvements or assistance to an alleyway versus a small two-lane street versus an arterial four-lane street within the same neighborhood. The service area for each of these infrastructure projects will be different in size and population.
    - *The location of the activity:*

In general, the immediate area surrounding a facility is expected to be included in the service area. Additionally, when a facility is located near the boundary of a particular neighborhood, its service area could likely include portions of the adjacent neighborhood as well as the one in which it is located.
    - *Accessibility issues:*

Geographic barriers can separate and preclude persons residing in a nearby area from taking advantage of a facility. Other limits to accessibility can include access fees, language barriers, time or duration that an activity is available, access to transportation and parking, etc.
    - *The availability of comparable activities:*

Comparable activities within the service area should be taken into account so that the service area does not overlap with the service area of another comparable activity.
    - *Boundaries for facilities and public services:*

The service area for some public facilities and services are determined based on specified and established boundaries or districts. Examples of such services and facilities are police precincts, fire stations, and schools.
  - If the service area has not already been identified for an activity, the state has to determine the service area before CDBG assistance can be provided under the LMI Area Benefit category.
- ✓ An area is considered to meet the test of being LMI if there is a sufficiently large percentage (51 percent) of LMI persons residing in the service area as determined by:
  - The most recently available decennial Census/Community American Survey information, together with the Section 8 income limits that would have applied at the time the income information was collected by the Census Bureau; or
  - A current survey of the residents of the service area.



- ✓ With respect to using Census/American Community Survey information to document that the service area qualifies, states can obtain the following data:
  - A listing of all census/American Community Survey tracts and block groups in the community's jurisdiction;
  - The number of persons that resided in each such tract/block group at the time of the last census/American Community Survey; and
  - The percentage of such persons who were LMI (based on the CDBG definition) at that time.
  - The above data is available directly from HUD online at:  
<http://www.hud.gov/offices/cpd/systems/census/lowmod/>
- ✓ If the proposed activity's service area is generally the same as a census/American Community Survey tract or block group, then the Census/American Community Survey data may be used to justify the income characteristics of the area served.
- ✓ Additionally, states can compute the percentage of LMI persons in multiple census/American Community Survey tracts and block groups because the data includes both the total number of persons as well as the number of LMI persons within a tract and block group.
- ✓ Income surveys are often used to determine LMI area in one of two instances:
  - If HUD data does not indicate the service area contains at least 51 percent LMI persons, and if a state or unit of general government decides it would be more appropriate to use a survey that is methodologically sound. This could be based on a change in either population or income of the area since the census/American Community Survey. For example:
    - Economic changes such as plant openings or closings (i.e., causing massive income increases or massive job losses in an area);
    - Non-geographic changes such as natural disasters or terrorist attacks; and/or
    - Recent demographic changes not reflected in current data (e.g., population migration changes).
  - Also, when the service area is not generally the same as a census/American Community Survey tract or block group, then the state should conduct household surveys to determine the LMI percentage for the service area.
- ✓ The following are typical steps in the household survey process:
  1. Determine sample size (including the random sampling process for selecting participants and if necessary, replacements);
  2. Select a survey instrument;
  3. Develop the questionnaire;
  4. Conduct the survey;
  5. Analyze the results; and
  6. Document and save survey results.
- ✓ Step 1: Determining the sample size:



- Determine the sample size needed in order to achieve an acceptable level of accuracy.
  - A sample is representative of the population from which it is selected if its aggregate characteristics closely approximate those same aggregate characteristics in the population.
  - The larger the sample, the more likely it is that its aggregate characteristics truly reflect those of the population.
  - However, sample size is not dependent on the size of the population, for large populations. This means that a random sample of 500 people is equally useful in examining the characteristics of a state of 6,000,000 as it would a city of 100,000 or 50,000. For this reason, the size of the population is irrelevant when it is large or unknown; however, it becomes relevant when dealing with sparsely populated areas.
  - Sample Size Calculator (SSC) is a website (<http://surveysystem.com/sscalc.htm>) developed by Creative Research Systems to enable survey researchers to calculate sample sizes from various population sizes.
- ✓ Step 2: Selecting the survey instrument that is determined to be the best for the sample size chosen, geography and nature of the activity. The survey must be methodologically sound for the purpose of establishing the percentage of LMI persons in a service area. A survey must meet standards of statistical reliability that are comparable to that of the Decennial Census/American Community Survey data for areas of similar size. Types of surveys include:
- **Mail survey (or self-administered questionnaire):** This is a basic method for collecting data through the mail: a questionnaire is a set of questions sent by mail accompanied by a letter of explanation and self-addressed stamped envelope for returning the questionnaire. The respondent is expected to complete the questionnaire, put it in the envelope and return it. HUD does not recommend mail surveys unless at least one follow-up letter or telephone call is made to obtain an adequate response rate. Combining a mail survey with a follow-up letter or telephone call may improve the rate of response.
    - Advantages:
      - Covers large geographic area;
      - Provides an opportunity for honest answers to very personal questions;
      - No travel required;
      - Enables researcher to target a particular segment of the population; and
      - Allows respondents to complete the questionnaire at their convenience.
    - Disadvantages:
      - May have possible coverage errors; for example, address lists might be inaccurate or out of date (duplicate address, incomplete or wrong addresses);
      - Not appropriate for requesting detailed written responses;
      - May have a low return rate if too lengthy, poorly worded, or seems too personal;
      - May not have anyone available to assist the respondent with questions, especially if the questions are in English but the respondent's primary language is not English.



(Provisions must be made to provide non-English-speaking residents with a questionnaire in their own language, as appropriate);

- Easiest for people to disregard, postpone, misplace or forget about it;
  - Needs to allow longer time to collect responses;
  - Costly—must pay for return postage to get a decent response rate; also you have paid for postage even for those that aren't returned;
  - It's all or nothing—people will either do it all or not at all; with phone or in-person surveys, one might at least get some answers; and
  - Lack of control over who fills out the questionnaire (for example, a child).
- **Face-to-face (or door-to-door) interviews:** This is a data collection technique in which one person (an interviewer) asks questions of another (the respondent) in a face-to-face encounter. It involves more work since the interviewer must go and knock on doors in order to obtain interviews.
- Advantages:
    - Is a very reliable method of data-collection ;
    - Researcher has full range and depth of information;
    - Interview may be scheduled to suit respondent's daily agenda;
    - Respondent has the option to ask for clarifications;
    - Target population may be easily located and defined; and
    - People may be willing to talk longer, face-to-face, particularly with in-home interviews that have been arranged in advance.
  - Disadvantages:
    - Responses may be less candid and less thoughtful;
    - Interviewer's presence and characteristics may bias responses;
    - Interviewer is required to go to the respondent's location;
    - Respondents who prefer anonymity may be influenced negatively;
    - May reach a smaller sample;
    - Lengthy responses must be sorted and coded;
    - Can take too much time;
    - Costs more per interview than other survey methods; particularly true of in-home interviews in rural areas where travel time is a major factor;
    - May not be able to gain access to the house (e.g., locked gates, guard dogs, "no trespassing signs," etc.); and
    - Translators may be needed when dealing with non-English speakers.
- **Telephone interviews:** A telephone interview is a data collection technique in which one person (an interviewer) asks questions of another (the respondent) via telephone. Telephone numbers of potential participants must be selected randomly. The interviewer



must ensure that the respondent is someone competent and knowledgeable enough to answer questions about the family income status. In a telephone survey, you must devise a method for contacting those families without telephones or those with unlisted numbers. Hence it may be preferable to conduct door-to-door interviews in small service areas, especially in rural areas.

- Advantages:
  - Relatively easy to conduct;
  - Saves money and time;
  - Appearance and demeanor of interviewer do not influence the respondent;
  - Respondents may be more honest in giving socially disapproved or sensitive answers due to greater anonymity for respondent;
  - Interviewer may use an alias rather than his/her real name for privacy or to conceal ethnicity if relevant to the study;
  - Allows interviewer to ask follow up questions; and
  - No fear for personal safety.
- Disadvantages:
  - Respondents may be hostile to interviews because of experience with previous telemarketing sales calls disguised as surveys;
  - Respondents may terminate the interview abruptly;
  - The interviewer may have problems reaching potential respondents by telephone because of the prevalence of answering machines that screen telephone calls;
  - May not be able to reach households with unlisted numbers, no telephone at all, or families that use only cell phones;
  - Some people often do not like the intrusion of a telephone call to their homes;
  - Difficulty of reaching people due to reasons such as conflicting schedules;
  - It may be easier to be less candid to someone on the phone than in person; and
  - Difficult to get accurate answers from non-English speakers.

✓ Step 3: Developing the questionnaire:

- Constructing a questionnaire is a skill, which requires decisions concerning the content, wording, format, and placement of questions—all of which have important consequences on the results to be measured.
- There are basically four areas involved in constructing a questionnaire:
  - Determine the question content, scope, and purpose;
  - Choose the response format to be used in collecting information from the respondent;
  - Word the questions so as to get at the issue of interest; and



- Determine how best (i.e., the order) to place the question(s) of interest among other questions in the questionnaire.
- ✓ Step 4: Conducting the survey:
- The interviewer should make contact with the head of the family or someone who is qualified to speak for the family and has knowledge about the family income.
  - It is important that all respondents be asked the same questions, in the same order, and their responses recorded exactly, without additions or deletions. To ensure this, the questions must be written properly and the exact response of each respondent recorded as it is presented. Finally, interviewers should be trained appropriately on the survey and how to ask the questions to ensure consistent information is collected.
- ✓ Step 5: Analyzing the results:
- For surveys where the respondents are selected through an acceptable random process, use the number of participants who responded to the survey is used to calculate the percentage of LMI persons for that area.
  - Add up the numbers to see what has been learned by tabulating the responses from the questionnaires and calculating an estimated proportion of low- and moderate-income persons; and determine how accurate that estimate is.
  - If the survey was undertaken correctly, including random selection of the required number of families, and the estimate shows that less than 51 percent of the residents of the service area have low- and moderate-incomes, LMI area benefit activities cannot be implemented in that area.
  - See CPD Notice 05-06 for sample calculation worksheets.
- ✓ Step 6: Documenting the results:
- It is important that the results of the survey be documented, since those who audit or evaluate your program may want to review the procedures and data used to determine that the service area qualifies under the CDBG program regulations. The contents of that documentation are as follows:
    - Keep the completed surveys.
    - Saving the cover sheets separately provides a record of who was contacted.
    - Keep a list of the actual families sampled. Replacement families should be noted too.
    - Survey data should be retained in accordance with record-keeping requirements of the State program at 24 CFR 570.490.
  - There is no firm answer as to how long an income survey for the purpose of determining the percentage of LMI persons in the service area is good for.



- Perhaps there might be instances in which an income survey could continue to be used until the next decennial census/American Community Survey (e.g., 2010), but the state would have to be sure that there have been no significant demographic, economic and non-economic changes in the area during that time.
- ✓ Additional guidance on developing and implementing surveys is also available in CPD Notice 05-06.
- ✓ Finally, the service area of the activity must be primarily residential and the activity must meet the identified needs of LMI persons.
  - An activity with a service area that is not primarily residential may not qualify under the LMI area benefit category even if the activity provides benefits to all residents in the service area and 51 percent of the residents are LMI persons.
  - This requirement does not apply to the location of the activity itself but rather the service area of the activity. As such it does not mean that activities located in commercial districts cannot be qualified under the LMI area benefit category on the virtue of their geography. The primarily residential test is applied to the service area of the activity.
    - For example, activities that support the infrastructure of a commercial district composed of institutions and firms that serve a national and international clientele will not qualify under LMI area benefit.
    - In contrast, if the commercial district is composed of stores and businesses that serve local customers such that the service area boundaries of the commercial district is around a primarily residential area with the requisite percentage of LMI residents, the activity qualifies under the LMI area benefit category.
- ✓ Activities under public facilities and improvements and some public service activities (e.g. police or fire services) tend to provide benefits to all residents in the service area. Additionally, public schools can be qualified under LMI area benefit because of the affect a school may have on the value of the residential property in the area. Public Schools are considered to benefit all the residents of the service area and may qualify under this category.
- ✓ There are activities and facilities that are located in a service area but are designed to meet special needs. These activities cannot be qualified under this category. For example, a senior center would qualify under the LMI limited clientele category and not the LMI area benefit category.
- ✓ With respect to exceptions and special situations, the statute allows two kinds of area benefit activities to meet the national objective of benefit to LMI persons even when the general requirements of the area benefit category cannot be met. The two kinds of area benefit activities are described below:

### 911 Systems

With prior HUD approval, a state may develop, establish and operate for up to two years after the establishment of a uniform emergency telephone number system serving an area having less than the percentage of LMI persons otherwise required.

### Special Assessments



The use of CDBG funds to pay special assessments levied against residential properties that are owned and occupied by LMI persons will qualify under the LMI area benefit category provided that this is the only use of CDBG funds in the financing of a public improvement. The activity will qualify even if the public improvement provides a benefit to all the residents of an area.

- ✓ Finally, there are two special situations that can meet the national objective of benefiting LMI persons under either the area benefit category or the job creation or retention category, at the option of the state grantee.
  1. Activities undertaken pursuant to a state approved Community Revitalization Strategy Area (CRSA) for the purpose of creating or retaining jobs, and
  2. Activities carried out for the purpose of creating or retaining jobs by a Community Development Financial Institution (CDFI) whose charter limits its investment area to a primarily residential area consisting of at least 51 percent LMI persons.

### **3.2.2 Low Mod Limited Clientele (LMC)**

- ✓ The limited clientele category is a second way to qualify specific activities under the LMI benefit national objective. Under this category, 51 percent of the beneficiaries of an activity have to be LMI persons.
- ✓ In contrast to the area benefit category, it is not the LMI concentration of the service area of the activity that determines whether the activity will qualify or not, but rather the actual number of LMI persons that benefit from the activity.
- ✓ Activities in this category provide benefits to a specific group of persons rather than everyone in an area. It may benefit particular persons without regard to their residence, or it may be an activity that provides a benefit to only particular persons within a specific area.
- ✓ Examples of activities that qualify under the limited clientele category include:
  - Acquisition of a building to be converted into a shelter for the homeless;
  - Rehabilitation of a center for training severely disabled persons to enable them to live independently;
  - Clearance of a structure from the future site of an neighborhood center that will exclusively serve the elderly; and
  - Public services activities like the provision of health services.
- ✓ The listed examples qualify under the limited clientele category because the beneficiaries can be identified as LMI residents.
- ✓ With respect to determining the beneficiaries of activities as LMI and qualifying under the limited clientele category, activities must meet one of the following tests:
  - Benefit a clientele that is generally presumed to be principally LMI. This presumption covers abused children, battered spouses, elderly persons, severely disabled adults (see the box below), 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. An example is a day care center that is designed to serve residents of a public housing complex.
- ✓ In addition, the following activities may qualify under the limited clientele national objective:
- Removal of architectural barriers to mobility for elderly persons or the severely disabled will be presumed to qualify under this category if it is restricted, to the extent practicable, to the removal of such barriers by assisting
    - The reconstruction of a public facility or improvement, or portion thereof that does not qualify under the area benefit category;
    - The rehabilitation of a privately owned nonresidential building or improvement that goes not qualify under area benefit or job creation or retention category: or
    - The rehabilitation of common areas in a residential structure that contains more than one dwelling unit and that does not qualify under housing activities category for meeting national objectives.
  - Microenterprise activities carried out in accordance with the HUD regulations when the person owning or developing the microenterprise is LMI; or
  - Activities that provide training and other employment support services when the percentage of persons assisted is less than 51 percent LMI may qualify if: the proportion of total cost borne by CDBG is no greater than the proportion of LMI persons assisted; and when the service assists businesses, CDBG is only used in the project to pay for the job training and/or supportive services.
- ✓ There are two sets of activities that are precluded from qualifying under this category based on statutory limitations:
- Acquisition, construction, or rehabilitation of property for housing, including homeownership assistance must qualify under the housing national objective which will be discussed below in further detail.
  - Creation or retention of jobs generally qualify under the jobs or the area benefit category of the LMI benefit national objective.



### **Exhibit 3-1: Definition of Severely Disabled**

Persons are considered severely disabled if they:

- Use a wheelchair or another special aid for 6 months or longer;
- Are unable to perform one or more functional activities (seeing, hearing, having one's speech understood, lifting and carrying, walking up a flight of stairs and walking);
- Need assistance with activities of daily living (getting around inside the home, getting in or out of bed or a chair, bathing, dressing, eating and toileting) or instrumental activities of daily living (going outside the home, keeping track of money or bills, preparing meals, doing light housework and using the telephone);
- Are prevented from working at a job or doing housework;
- Have a selected condition including autism, cerebral palsy, Alzheimer's disease, senility or dementia or mental retardation; or
- Are under 65 years of age and are covered by Medicare or receive Supplemental Security Income (SSI).

### **3.2.3 Low Mod Housing Activities (LMH)**

- ✓ The housing category of LMI benefit national objective qualifies activities that are undertaken for the purpose of providing or improving permanent residential structures which, upon completion, will be occupied by LMI households.
- ✓ Examples of eligible activities include, but are not limited to:
  - Acquisition of an apartment house to provide dwelling units to LMI households at affordable rents, where at least 51 percent of the units will be occupied by LMI households;
  - Site improvements on publicly-owned land to serve a new apartment structure to be rented to LMI households at affordable rents;
  - Housing rehabilitation for single family units;
  - Conversion of an abandoned warehouse to be reconfigured into new apartments, where at least 51 percent of the units will be occupied by LMI households at affordable rents.
- ✓ In order to meet the housing LMI national objective, structures with one unit must be occupied by a LMI household. If the structure contains two units, at least one unit must be LMI occupied. Structures with three or more units must have at least 51 percent occupied by LMI households.
  - Rental buildings under common ownership and management that are located on the same or contiguous properties may be considered as a single structure.
  - For rental housing, occupancy by LMI households must be at affordable rents, consistent with standards adopted and publicized by the state grantee.
- ✓ Under the following limited circumstances, structures with less than 51 percent LMI occupants may be assisted:
  - Assistance is for an eligible activity that reduces the development cost of new construction of non-elderly, multi-family rental housing; and
  - At least 20 percent of the units will be occupied by LMI households at an affordable rent; and



- The proportion of cost borne by CDBG funds is no greater than the proportion to be occupied by LMI households.
- ✓ When housing activities are conducted by a community development financial institution (CDFI) or as part of an approved CRSA, multiple units (e.g. scattered site housing) may be aggregated for the purposes of meeting the LMI housing national objective.
  - NOTE: This flexibility does not apply to activities under the Direct Homeownership Assistance eligibility category.
  - Please refer to the chapter on Revitalization Areas more information.
- ✓ There are a number of activities that generally do not qualify under the LMI Housing national objective. These include code enforcement, interim assistance, microenterprise assistance, public services, and special economic development activities.

### **3.2.4 Low Mod Job Creation or Retention Activities (LMJ)**

- ✓ The job creation and retention LMI benefit national objective addresses activities designed to create or retain permanent jobs, at least 51 percent of which (computed on a full-time equivalent basis) will be made available to or held by LMI persons.
- ✓ Some examples of activities that qualify when at least 51 percent of jobs created/retained will be for LMI persons include:
  - Clearance activities on a site slated for a new business;
  - Rehabilitation activity that will correct code violations and enable a business to survive and retain jobs;
  - Financial assistance to a manufacturer for the expansion of its facilities that is expected to create permanent jobs; and
  - Assistance to expand a small house cleaning service with four employees that agrees to hire three additional LMI employees.
- ✓ The following requirements must be met for jobs to be considered created or retained.
  - If states fund activities that *create* jobs, there must be documentation indicating that at least 51 percent of the jobs will be held by, or made available to, LMI persons.
  - For funded activities that *retain* jobs, there must be sufficient information documenting that the jobs would have been lost without the CDBG assistance and that one or both of the following applies to at least 51 percent of the jobs:
    - The job is held by a LMI person; or
    - The job can reasonably be expected to turn over within the following two years and steps will be taken to ensure that the job will be filled by, or made available to, a LMI person.
- ✓ The following requirements apply for jobs to be considered available to or held by LMI persons.
  - Created or retained jobs are only considered to be *available* to LMI persons when:



- Special skills that can only be acquired with substantial training or work experience or education beyond high school are **not** a prerequisite to fill such jobs, or the business agrees to hire unqualified persons and provide training; and
- The state and the assisted business take actions to ensure that LMI persons receive first consideration for filling such jobs.
- Created or retained jobs are only considered to be *held by* LMI persons when the job is actually held by a LMI person.
- ✓ For the purpose of determining if the preceding requirements are met, a person may be presumed to be LMI if:
  - He/she resides in a Census/American Community Survey tract/block numbering area that has a 20 percent poverty rate (30 percent poverty rate if the area includes the central business district); and the area evidences pervasive poverty and general distress; or
  - He/she resides in a Census/American Community Survey tract/block numbering area where at least 70 percent of the residents are LMI.
  - Jobs created or retained by assisted businesses may also be presumed to be LMI if the job and business are located in an area that has a 20 percent poverty rate (30 percent poverty rate if the area includes the central business district) **and** the area evidences pervasive poverty and general distress.
- ✓ To determine if an area evidences pervasive poverty and general distress, the following standards are applicable
  - All block groups in the census/American Community Survey tract have poverty rates of at least 20 percent;
  - The specific activity being undertaken is located in a block group that has a poverty rate of at least 20 percent; or
  - Upon the written request of the state grantee, HUD determines that the census/American Community Survey tract exhibits other objectively determinable signs of general distress such as high incidence of crime, narcotics use, homelessness, abandoned housing, and deteriorated infrastructure or substantial population decline.
- ✓ As a general rule, each assisted business shall be considered to be a separate activity for purposes of determining whether the activity qualifies under the job creation and retention category for meeting a national objective.
- ✓ However, in certain cases, such as where CDBG funds are used to acquire, develop or improve a real property (e.g., a business incubator or an industrial park), the requirement may be met by measuring jobs in the aggregate for all the businesses that locate on the property, provided such businesses are not otherwise assisted by CDBG funds.
- ✓ Additionally, where CDBG funds are used to pay for the staff and overhead costs of an entity making loans to businesses from non-CDBG funds, this requirement may be met by aggregating the jobs created by all of the businesses receiving loans during any program year.
- ✓ As mentioned under the area benefit category, certain job creation or retention activities carried out by a CDFI or under a Community Revitalization Strategy can meet the national objective of benefiting LMI persons under either category. In these instances, the state will



decide which category it will use to qualify the activity and record the decision in program files so that HUD will know which category is being applied.

### 3.3 Elimination of Slums and Blight

- ✓ This section highlights the national objectives related to the elimination of slums and blight.

Key Topics in This Section	<ul style="list-style-type: none"> <li>✓ Overview of elimination of slum and blight                             <ul style="list-style-type: none"> <li>- Area basis (SBA)</li> <li>- Spot basis (SBS)</li> </ul> </li> </ul>
Statutory Citations	Section 101(c), Section 104(b)(3), Section 105(c)
Other Reference Materials on This Topic	<ul style="list-style-type: none"> <li>✓ Guide to National Objectives and Eligible Activities for States                             <ul style="list-style-type: none"> <li>- Chapter 3: Meeting a National Objective</li> </ul> </li> </ul>

- ✓ Activities under this national objective are carried out to address one or more of the conditions which have contributed to the deterioration of an area designated as a slum or blighted area.
- ✓ The focus of activities under this national objective is a change in the physical environment of a deteriorating area. This contrasts with the LMI benefit national objective where the goal is to ensure that funded activities benefit LMI persons.
- ✓ This difference in focus has an impact on the information that is required to assess the qualifications of an activity. Under the LMI benefit national objective, determining the number of LMI persons that actually or could potentially benefit from an activity is central to qualifying the activity. Under the elimination of slum and blight national objective, determining the extent of and physical conditions that contribute to blight is central to qualifying an activity.

There are two categories that can be used to qualify activities under this national objective:

- Prevent or eliminate slums and blight on an area basis; or
- Prevent or eliminate slum and blight on a spot basis.

#### 3.3.1 Slum Blight Area Basis (SBA)

- ✓ This category covers activities that aid in the prevention or elimination of slums or blight in a designated area. Examples of activities that qualify when they are located within the slum or blighted area include
  - Rehabilitation of substandard housing located in a designated blighted area and where the housing is expected to be brought to standard condition;
  - Infrastructure improvements in a deteriorated area; and
  - Economic development assistance in the form of a low-interest loan to a business as an inducement to locate a branch store in a redeveloping blighted area.
- ✓ To qualify under this category, the area in which the activity occurs must be designated as slum or blighted. The following tests apply:



- The designated area in which the activity occurs must meet the definition of a slum, blighted, deteriorated or deteriorating area under state or local law;
  - Additionally, the area must meet either one of the two conditions specified below:
    - Public improvements (must be at least 2) throughout the area are in a general state of deterioration; or
    - At least 25 percent of the properties throughout the area exhibit one or more of the following:
      - Physical deterioration of buildings/improvements;
      - Abandonment of properties;
      - Chronic high occupancy turnover rates or chronic high vacancy rates in commercial or industrial buildings;
      - Significant declines in property values or abnormally low property values relative to other areas in the community; or
      - Known or suspected environmental contamination.
  - Documentation must be maintained by the state on the boundaries of the area and the conditions that qualified the area at the time of its designation. The designation of an area as slum or blighted must be re-determined every 10 years for continued qualifications.
- ✓ As stated above, qualified activities must address the identified conditions that contributed to the slum and blight.
- ✓ NOTE: When undertaking residential rehab in a slum/blight area, the building must be considered substandard under local definition and all deficiencies making the building substandard must be eliminated before less critical work is undertaken.

### **3.3.2 Slum Blight Spot Basis (SBS)**

- ✓ These are activities that eliminate specific conditions of blight or physical decay on a spot basis and are not located in a slum or blighted area. Examples include:
- Acquisition and demolition of a dilapidated property;
  - Rehabilitation of a decayed community center that eliminates code violations that are detrimental to the health and safety of potential occupants like faulty wiring, falling plaster, or other similar conditions;
  - Preservation of a deteriorated building of historic significance; and
  - Financial assistance to a business to demolish a decayed structure and construct a new building on the site.
- ✓ Activities under this category are limited to acquisition, clearance, relocation, historic preservation, remediation of environmentally contaminated properties, and building rehabilitation activities.
- ✓ Rehabilitation is limited to the extent necessary to eliminate a specific condition detrimental to public health and safety.









<b>Excluded Housing Activity Expenditures Example</b>	
Number of units occupied by LMI households	4
Total number of units in assisted structure	6
<i>Divide</i> number of units occupied by LMI households by total number of units in assisted structure and multiple by 100	$(4/6) * 100$
<i>Equals percent of LMI units in structure</i>	67%
Total cost of the housing activity (all sources of funds)	\$300,000
Multiplied by percent of LMI units in structure (i.e. proportion of housing costs attributed to LMI units)	\$200,000
CDBG assistance to the structure	\$250,000
<i>Excess CDBG funds that have to be excluded from LM expenditures</i>	\$50,000
* NOTE: This example is for illustrative purposes only.	

### 3.6 Choosing the Right National Objective

- ✓ States may have options regarding which national objective is used for a particular activity. This section provides tips on selecting the right national objective.

Key Topics in This Section	<ul style="list-style-type: none"> <li>✓ Activities that meet more than one national objective</li> <li>✓ Selecting the most appropriate national objective</li> </ul>
Statutory Citations	
Other Reference Materials on This Topic	<ul style="list-style-type: none"> <li>✓ Guide to National Objectives and Eligible Activities for States                             <ul style="list-style-type: none"> <li>– Chapter 3: National Objectives</li> </ul> </li> </ul>

- ✓ Activities may qualify for more than one national objective category. If an activity meets the LMI benefit national objective, then the best decision for most states will be to use the LMI Benefit national objective because of the 70 percent requirement associated with that national objective.
- ✓ For the activities that meet more than one national objective, states may find it useful to document compliance with all the applicable national objectives, especially if there is some uncertainty regarding the ability of an activity to meet the chosen national objective upon completion.
- ✓ For example, states may have concern that an activity qualifying on the basis of creating jobs may not meet the test that at least 51 percent of the jobs created will benefit LMI persons. If the activity could also qualify under the slum/blight area category, the state may be best served by documenting compliance with both national objectives. This way, if the activity does not meet the LMI job creation criteria the state can switch the activity to the slum/blight area national objective rather than have the activity in non-compliance with CDBG rules. Note that switching the activity from LMI benefit to slum/blight area may affect the states



certification that 70 percent of expenditures are associated with the LMI benefit national objective, so states should proceed with precaution.

### 3.7 Documenting National Objectives

- ✓ It is critical that states document the results of their activity and the related national objective. This section highlights that required national objective documentation.

Key Topics in This Section	<ul style="list-style-type: none"> <li>✓ Timing of documentation activities</li> <li>✓ Documenting LMI Benefit national objective</li> <li>✓ Documenting Prevention/Elimination of Slums or Blight</li> <li>✓ Documenting Urgent Need</li> </ul>
Statutory Citations	
Other Reference Materials on This Topic	<ul style="list-style-type: none"> <li>✓ Guide to National Objectives and Eligible Activities for States - Chapter 3: National Objectives</li> </ul>

- ✓ States and UGLG must maintain records that funded activities meet one of the national objectives. The records depend on the national objective category. This section walks states through the documentation requirements under the associated national objective categories.
- ✓ The Performance Measurement, Reporting, Recording Keeping and Monitoring chapter in this manual, Chapter 13, has more details regarding records that must be maintained to document compliance with CDBG regulations, including records on meeting national objectives.
- ✓ The timing of documentation for activities is an important consideration. Compliance with national objectives can be documented upfront for a number of the categories. For example, compliance documentation for the following national objectives can be established upfront:
  - Under the national objective of benefit to LMI persons, the LMI area benefit;
  - Under the national objective of elimination of slums or blight, both categories (area basis, spot basis); and
  - The urgent need national objective.
- ✓ Some national objectives have to be documented over time. For example, it is likely that the future occupants of a rental rehabilitation activity cannot be identified up-front. Compliance with the LMI Housing requirement that 51 percent of the occupants have to be LMI households, will require collecting documentation demonstrating compliance during the lease-up period.
- ✓ In the same way, future hires of created jobs cannot be identified and documentation of compliance cannot be obtained upfront. Rather, hires by the assisted business have to be monitored over a period of time.



- ✓ HUD is charged with negotiating recordkeeping requirements with states. What follows is a list of the types of records that generally may be kept to document national objective compliance.

### **3.7.1 Benefit to LMI Persons**

#### **LMI Area Benefit**

- ✓ The following records will demonstrate compliance under this national objective category:
  - Boundaries of service area;
  - Percentage of LMI persons that reside in the service area; and
  - The data used for determining percentage of LMI persons.

#### **LMI Limited Clientele**

- ✓ One of the following five types of records should be kept:
  1. Documentation showing that the activity is designed for exclusive use by a segment of the population presumed by HUD to be LMI persons; or
  2. Documentation describing how the nature and the location of the activity establishes that it will be used predominantly by LMI persons; or
  3. Data showing the family size and annual income of each person receiving the benefit; or
  4. Data showing that barriers to mobility or accessibility have been removed and how the barrier removal was restricted to the extent feasible to one of the particular cases authorized under this category; or
  5. Documentation showing that the activity qualifies under the special conditions regarding job services where less than 51 percent of the persons benefiting are LMI persons.

#### **LMI Housing**

- ✓ The following records should be maintained:
  - A written agreement with each landlord or developer receiving CDBG assistance. The agreement must specify
    - The total number of dwelling units in each multi-unit structure, and
    - The number of those units which will be occupied by LMI households after assistance.
  - Total cost of the activity, including both CDBG and non CDBG funds
  - The household size and income eligibility for each of the LMI households occupying assisted units
  - For rental housing
    - The rent charged (or to be charged) after assistance for each dwelling unit in each assisted structure; and
    - Documentation of compliance with the locally established standards for housing that is “affordable to LMI households”.



- When assisting structures with less than 51 percent LMI occupants, documentation of qualification under the special conditions:
  - Number of units to be occupied by LMI households at an affordable rent;
  - Total development cost of new construction; and
  - Amount of CDBG funds expended for activity.
- When aggregating scattered sites, documentation of the basis for aggregating scattered sites and considering them as a single structure.
- When assisting with the delivery costs of HOME assisted projects and assistance, evidence that housing projects and/or tenant based rental assistance achieves HOME income targeting requirements.
- ✓ While compliance with the housing national objective is based on the initial occupancy of the housing following completion of the CDBG-assisted activity, states are urged to establish their own requirements for replacing such households with other LMI households whenever the assisted unit becomes vacant within a period of time following completion that is commensurate with the amount of CDBG financial assistance that was provided to the developer.
- ✓ Another consideration when document compliance is that occupancy of the unit may not be for some time after the completion of the activity. For example, there may be a time lag between the acquisition or land clearing activity subsidized by CDBG funds and the development of the housing units. It is not sufficient to document the intention to comply. The state is responsible for documenting that the housing units are constructed and that the appropriate number of units are initially occupied by LMI households.

### LMI Job Creation and Retention

- ✓ Record keeping requirements in this category relate to both the status of the business, the jobs created or retained, and the LMI persons benefiting from the activity. The following is an outline of the documents that have to be maintained by states and/or UGLG:
  - Written agreement with the business in which the following is specified:
    - A commitment from the assisted business to hire or retain LMI persons;
    - The type of job and whether the job will be full- or part- time, and
    - The actions that the business will take to ensure that at least 51 percent of the hires or retainees will be LMI persons.
  - Compliance with the written agreement must be documented as follows:
    - The jobs that were actually created and/or retained;
    - Whether each such job was held by or made available to a LMI person; and
    - The full-time equivalency status of the jobs.
  - For created jobs that will be held by LMI persons, the records must demonstrate:
    - Listing by job title of the jobs created;
    - Listing by job title of the jobs filled;



- The name and income status of the person who filled each position; and
- The full-time equivalency status of the jobs.
- For created jobs that will be made available to LMI persons but are not taken by LMI persons:
  - The title and description of the jobs made available;
  - The full-time equivalency status of the job;
  - The prerequisites for the job; special skills or education required for the job, if any; and the business commitment to provide needed training for such jobs; and
  - How first consideration was given to LMI persons for the job can be recorded as follows:
    - The name(s) of person(s) interviewed for the job and the date of the interview(s); and
    - The income status of the person(s) interviewed.
- For retained jobs that would otherwise be lost:
  - Specific evidence that the jobs would be lost without the CDBG assistance.
  - If the retained job is held by a LMI person:
    - A listing by job title of permanent jobs retained;
    - The jobs that are known to be held by LMI persons at the time of assistance;
    - The full time equivalency status of each job; and
    - Family size and annual income of each LMI person.
- For retained jobs that are projected to turnover to LMI persons:
  - A listing of the retained jobs that are projected to become available within two years of assistance;
  - The basis of the determination that the job is likely to turnover within two years of assistance;
  - The actual turnover date;
  - The name and income status of the person who filled the vacancy;
  - If the person who took the job was not a LMI person, records to demonstrate that the job was made available to LMI persons:
    - The name(s) of person(s) interviewed for the job and the date of the interview(s) and
    - The income status of the person(s) interviewed; and
  - Information on the family size and annual income of each LMI person hired.
- ✓ There are five options for documenting the LMI status of an applicant or employee:
  1. Referrals from an agency that has agreed to refer individuals who are determined to be LMI based on HUD's category. These agencies must maintain records, which must be



available to the state or federal inspection, showing the basis upon which they determined that the person was LMI; or

2. A written self certification by the employee or applicant of his/her family size and total income that is signed and dated. Certification can either include actual size and income of family or can contain a statement that the annual family income is below the Section 8 low-income limit for the applicable family size; or
  3. Qualification of employee or application for assistance under another program with income qualification that are as restrictive as those used by the CDBG program. Examples include referrals from Public Housing, Welfare Agency, or the JTPA Program, with the exception of the JTPA Title III program for dislocated workers; or
  4. Evidence that the individual is homeless; or
  5. Evidence that the individual may be presumed to be LMI by way of residence address and poverty rates of applicable census/American Community Survey tract.
- ✓ The state can use any combination of documenting income status for the persons benefiting from a job creation or retention activity.
  - ✓ When documenting income, the income status of an individual is made at the time the CDBG assistance is provided. This may have an effect on the retention of high-paying unskilled jobs counting as eligible except for turnover purposes. This is because a person who occupies a high-paying but low-skilled job may not qualify as a LMI person. Whereas a LMI person may fill the job at a lower pay rate if it were created or if it became available through turnover.

### **3.7.2 Prevention/Elimination of Slums or Blight**

- ✓ Evidence of blight on a spot or areas basis must be documented and be part of record keeping. In documenting the presence of blight, the use of pictures is encouraged.

#### **Area Basis**

- ✓ Records to be maintained include:
  - Area designation (e.g., boundaries) and date of designation,
  - Documentation and description of blighted conditions (e.g., photographs, structural surveys, or development plans),
  - For residential rehabilitation:
    - Building qualification as substandard,
    - Pre-rehabilitation inspection report and work plan describing deficiencies,
    - Scope of work performed with documentation that substandard elements were addressed first; and
    - Evidence that the activities undertaken address the conditions that contributed to the deterioration.

#### **Spot Blight**

- ✓ State files should include the following:



- Description of condition addressed by activity,
- Documentation of eligibility of activity under this category, and
- Records required for residential rehabilitation as listed above under Area Basis.

### **3.7.3 Urgent Need**

✓ Files should include:

- Documentation of urgency of need and timing,
- Certification by the UGLG and determination by the State that other financing resources were unavailable and CDBG had to be used, and
- Condition has been in existence during the past 18 months.