

HUD's First 30 Years: Big Steps Down a Longer Road

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Assessing HUD's 30-year contribution to housing and urban development is a daunting task. The Department inherently has multiple missions, and certainly over time it has had to meet many different expectations regarding focus and performance. My own perspective is that HUD's basic goals of providing decent, affordable housing and suitable living environments for all Americans should include a central focus on service and increased opportunities for disadvantaged citizens, who are least likely to be able to meet their needs without public intervention. My viewing lens is further colored by my background as the son of a housing developer, a researcher and policy analyst, and a city official with responsibility for housing and community and economic development. For this article I chose to concentrate on a number of topics about HUD's accomplishments related to my own primary interests and to my focus on disadvantaged people: housing assistance to the poor and local community development, viewed in part from a city as well as a national perspective; housing conservation and rehabilitation; neighborhood preservation; the role of nonprofit organizations; and the practice of local economic development. I realize I have left out a great deal.

I view the nature of HUD's functions, contributions, and shortcomings in these areas as they apply to its multiple roles as:

- Resource provider—making available the substantial dollars and other Federal support necessary to address challenging national problems.
- Toolbox supplier—providing an array of appropriate policy and program instruments to allow appropriate responses to a variety of issues and circumstances.
- Targeter, allocator, and deliverer of resources—designating who will be served and positioning various actors to meet pressing needs.
- Steward—managing resources and initiatives, preserving assets, building the capacities of important partners, and extending the favorable impacts of given actions.
- Analyst, educator, and information sharer—helping to increase understanding of the way action can be most effective.
- Advocate—pressing for adequate resources to meet its objectives and shaping the action of all key players in its arena to meet national goals.

This article addresses HUD's progress in each of these roles within the substantive areas listed above. The balance among roles has shifted over HUD's lifetime and across its areas of work and can be expected to change significantly in the coming years as well.

There is a question inherent in any review of HUD's accomplishments and limitations: Which decisions and actions should be attributed to HUD and which to the President and Congress as makers of policy and law? With rare exceptions, I leave such distinctions to the political scientists and focus on the collective results, although I have frequently noted changes in policy that correspond to changed political priorities and philosophies.

Finally, I have directed my comments on 30 years of history in part to the future. HUD's experience in each of my areas of concern exemplifies important progress in the face of difficult conditions, shortcomings of varying types and degree, revision of approach over time (most often in ways that are useful), and opportunity for further learning and adjustment.

Broad Perspective From the City Side

Housing Assistance: A Critical Resource

From a city government perspective, HUD has served first and foremost as a resource provider. Over its lifetime the Department has given local government or, more often, housing industry members and citizens, a significant toolbox of programs for housing assistance and production (principally for low-income housing) and for certain types of community development. While HUD is one important source of community development resources, in low-income housing the Department is clearly the dominant player. City governments in general make very limited contributions of locally generated funds to housing. While it is common for local governments to appear to provide 30 to 35 percent of the cost of low-income housing rehabilitation and new construction, that money is primarily passed through from Federal allocations of Community Development Block Grant (CDBG) and Home Investment Partnership Act (HOME) funds (see *OMG/Teamworks*). City governments have almost no financial role in direct, non-project-based housing assistance to households. While city officials have taken issue over the years with many aspects of the way HUD delivers resources, there is no questioning whether Federal housing assistance has been substantial.

Even though they cannot always control their allocation, local officials have been eager to benefit from the array of programs offered by HUD, which have included, over HUD's lifetime, public housing, Section 236 assistance for rental construction and rehabilitation, Section 235 for homeowners, Section 8 in all its variations, Section 312/115 and Rental Rehab programs for housing renovation, Urban Development Action Grants (UDAGs) and Housing Development Action Grants (HoDAGs) principally for new construction, Section 202 targeting the elderly, McKinney programs to help the homeless, and CDBG and HOME resources for a variety of uses under greater local control.² From a city viewpoint, these programs offer a good selection of housing tools to meet the goals of housing affordability, availability, and quality, even though they have not all been simultaneously operational and changing from one to another has at times been troublesome.

Let us focus on aid to low-income renters, the principal sufferers of problems in housing affordability and quality and the major targets of assistance. Thirty years ago HUD assistance for low-income renters consisted primarily of fewer than 600,000 public housing units (Listokin), while in 1994 the cumulative number of households helped by public housing, Section 8, and related housing assistance programs was nearly 4.7 million, not including households aided by CDBG, HOME, and other community development sources. The total number of assisted renter households has doubled since 1977, despite slowdowns in growth during the Reagan years (Pedone, 1994) that have largely continued.

The resources are, of course, far from sufficient to meet the need. More than two-thirds of rental households eligible for assistance, including a large number of those classified as very low income, receive no Federal housing aid, leaving major burdens—primarily in housing affordability and, less so, in housing quality and crowding—for those households and local governments to address in other ways. Let us use just one possible way to illustrate both the continuing need for low-income housing and the importance of HUD's role in addressing it. Twenty years ago one could find a rough balance between the number of housing units (unsubsidized and subsidized combined) affordable to the very poor and the number of such rental households. Since then, powerful forces on both the housing supply and demand sides have taken us from that balance to a deficit of some 3.5 million units relative to households.³

However, the situation has been significantly bettered by the delivery of HUD assistance. For example, unsubsidized housing affordable to the lowest income quartile of renters declined sharply in the late 1970s and 1980s because of rent increases and demolitions. While HUD offset less than 40 percent of the loss, the share of assisted housing among all units affordable to the very poor rose dramatically, from 25 percent in 1975 to 55 percent in 1991 (Pedone, 1994). The ability of government at any level to serve the housing needs of the poor has clearly been driven by concentrated HUD resources.

The critical role of the Federal Government in addressing housing affordability for low-income people makes its decline over time frightening at the local level. During the 1970s additions to the number of assisted households were in a range that suggested real movement toward matching incremental needs, but since then the 75-percent drop in new commitments beyond those required to renew or replace existing subsidies has left local officials without a practical means of addressing deep subsidy needs.⁴ Projections regarding needs for renewing subsidies or preserving the subsidized stock seem to suggest that, at current budget levels, no funds would be available to increase the number of assisted households (Wallace; Pedone, 1994). The resources given to the new HOME program, if it stays at roughly its current level, might serve perhaps 30,000 to 40,000 households a year and thus are not adequate to offset the reduction in housing assistance dollars. Various HUD administrations have, unfortunately, shared with many other policymakers a reluctance to address these numbers issues head on.

A key matter for city officials and for society is the targeting of housing assistance. Most notably, what are the income levels of households being served? There is conclusive evidence (Nelson and Khadduri; Pedone, 1990) that very-low-income⁵ renter households have the highest prevalence of housing problems, as measured in terms of affordability and quality. Notably, because of the deep concentrated subsidies required, these are very difficult households for local government to serve with its own funds or even with other locally controlled resources.

HUD's rental housing assistance dollars have, to its substantial credit, consistently served this priority group, although with some weighting toward the elderly relative to their needs. Even before 1981 changes in Federal housing legislation gave more explicit priority to serving very-low-income (instead of low-income) people, some four-fifths of assisted households qualified as very low income. This occurred primarily because both the rent rules (setting rents at 30 percent of income) and the frequent location of assisted housing in rundown neighborhoods discouraged those not near the bottom of the income scale from entering the programs and encouraged people to move out of the programs as their incomes rose. Post-1981 legislation and priority-setting regulations strengthened these targeting tendencies (Nelson and Khadduri).

This targeting of federally controlled resources has served cities well overall, meeting pressing needs local officials could not satisfy and reaching more of the most needy than a less-focused effort would have. Indeed cities might instead be faulted for not fully targeting the needy themselves, notably in the choices they have made when using housing resources under the CDBG program (an issue to which I will return). No doubt there has been some real cost for project-based subsidies in exacerbating financial, management, and other related problems by having a tenant population with very restricted incomes and substantial likelihood of social problems. But on balance, tight income targeting has made courageous good sense. The HOME program, along with the Federal low-income housing tax credit, modestly relaxes the targeting requirements in several ways while allowing localities to target more deeply. This may prove to be a reasonable way to deal with some of the management and social challenges of assisted projects without undoing basic targeting objectives, provided that significant housing assistance under Section 8 and other deep-targeting programs continues to be available and adds a substantial number of units (a very key proviso). The actual income targeting occurring under the HOME program certainly bears watching and analysis.

Another long-running issue for local governments and cities regarding the allocation of housing assistance has been the distribution of aid to new construction, rehabilitation, and existing housing. Clearly, each option has different implications for the availability, quality, and affordability of housing, as well as different budgetary implications. Local housing markets can differ sharply in their ability to absorb assisted households into existing housing stock of decent quality and in their need to add to or upgrade the appropriate inventory. For many years HUD's programming was overwhelmingly concentrated in new construction, including the public housing and Section 236 programs (Listokin). HUD deserved credit during the 1970s for having explicitly recognized the potential importance of local differences, supporting analytical work on local housing market dynamics and the impact of various programs under changing conditions,⁶ and initiating a serious discussion of policy options. HUD also continued to press for attention to local allocations among the alternatives in mandated local Housing Assistance Plans (HAPs), until that split was eliminated from HAP requirements during the Reagan years.

Regrettably, this exercise in education and leadership has not been given great emphasis in actual programming. During the 1980s the longtime dominance of new construction was sharply reversed (U.S. House of Representatives). Later assistance was overwhelmingly in the form of helping households afford existing housing. This change came about on grounds other than close attention to specific local needs and probably with more attention to budgets and to beliefs about the appropriate roles of the public and private sectors. It is likely that some localities would have been better served by continued attention to their specific market conditions and to particular problems, such as the difficulty of large families in meeting their needs through the existing housing stock.

Much more consistent throughout the years of HUD housing assistance was the lower level of attention given to improving the existing stock; fewer than 10 percent of the incremental units assisted during the periods of construction dominance and of aid primarily to existing housing were designated for rehabilitation (U.S. House of Representatives). Notwithstanding the more aggregate measurements of housing quality in the American Housing Survey, I would contend that for some cities and neighborhoods the lack of support for rehabilitation meant failure to meet pressing needs, although other resources were available (including CDBG and smaller Federal programs). HUD's progress in the field of housing rehabilitation and preservation is discussed more extensively below.

Finally, within the housing assistance arena, let me touch briefly on two additional issues of HUD stewardship: public housing and continuing subsidies to individual households. For a former local official such as myself, there can be no question that the reputation of public housing, based at least in part on the reality of problems in certain locations, significantly and negatively shapes public perception regarding all low-income housing. HUD and others have recognized and responded to the problems of public housing by slowing production substantially after 1980 and devoting significant resources to physical improvements. The response has not been quick or substantial enough in seeking fundamental reform, either in building the capacity of public housing authorities to manage their projects more effectively or in seeking new mechanisms for management. Certainly some localities also deserve blame for failing to make their own management improvements, notwithstanding the challenges of serving public housing's clientele and neighborhoods. The impact on people and neighborhoods and the politics of support for low-income housing have called for more prompt and stronger stewardship. While I disagree with many important aspects of Secretary Cisneros' proposals for public housing change, the Secretary's sense of urgency about the need for change—including, in some cases, a switch to alternative management—more properly addresses the problems than has HUD's historic approach.

Another important issue of long-term stewardship, especially given limited housing resources, is that of devising a means to help residents of assisted housing prosper and move on. This is, of course, a difficult challenge, given the combination of personal and environmental problems that often confront residents and lead to their need for assistance. Efforts such as the relatively new Family Self-Sufficiency program, adopted in the National Affordable Housing Act of 1990 (NAHA), that coordinate other resources in support of housing-assisted households and give them incentives to improve their incomes deserve greater attention than has been given over the past 30 years or even the past 10. Simply asking local housing authorities and cities to find the resources for the new coordination themselves is not a sufficient response; direct Federal support is needed for so crucial an effort to succeed.

Block Grants: Cities' Natural Favorites

With the passage of the Housing and Community Development Act of 1974 and continuing today, substantial resources have flowed from HUD to large cities (and to small cities through State allocations) in the form of highly flexible CD block grants. These grants can be used for housing (mainly rehabilitation), public facilities, public services, economic development, property acquisition and clearance, and certain related planning and administration, with substantial discretionary choice delegated to the recipient. The National Affordable Housing Act created the HOME program, a block grant that provides for flexible use within the normal range of housing activities, such as construction, rehabilitation, and tenant rental assistance. Again grantees (States and larger cities) were offered substantial authority to decide how to use their funding. In round terms CDBG has been funded in the \$2.5 to \$3.5 billion range in most years (more, just recently) and HOME (since 1992) at varying levels between \$1.0 and \$1.5 billion. In both programs funds for individual grantees are determined by a formula based on local characteristics.

Not surprisingly, these grants are extremely popular with local elected officials and administrators. From my viewpoint, as major components of overall housing and community development policy they make basic good sense for both support of local action and Federal strategy and practice. They are valuable and effective tools of HUD support, although not without issues of specific program design and delivery.

The consistency and reliability of the much longer running CDBG program provide a valuable advantage to cities in creating and pursuing plans of action. Unlike most housing assistance resources, which competitively fund individual projects or make yearly allocations, CDBG takes the form of a predictable stream with a fairly consistent set of rules for its use. Communities can and do make continuing commitments to programs and neighborhoods, as seen nationally in the relatively stable mix of spending proportions by major types of activities (HUD, Office of Community Planning and Development). The primary shortcoming of the program has been the declining number of real dollars available, especially to the entitlement cities (cities that receive grants determined by formula). Real aggregate appropriations declined over time—by about 50 percent from 1975 to 1992—until they expanded under the current administration, while the number of entitlement cities grew and the share of all CDBG funds going to these cities decreased. Inadequacy of resources, and often of HUD's own advocacy for them, remained a problem. However, even with that constraint, communities could make reasonable projections about available resources and target them without a lot of guesswork and drastic changes from year to year.

At the same time, the range of activities allowed under CDBG is broad enough to allow local planners and policymakers substantial flexibility to respond to local needs and circumstances. The range of allowable activities is far wider than the real estate acquisition and write-down focus of urban renewal, CDBG's only earlier competitor in size and longevity in the community development field. An analysis of the program's recent experience suggests that underlying the national statistics of fairly steady proportions of funds for various uses is significant local adjustment and shifting in response to particular opportunities or political priorities (Walker, 1994).

These two characteristics—predictable flow and flexible, locally controlled use—work together so that localities can choose clusters of activities and implement them. In my city CDBG served as the principal mechanism for the first serious effort to revitalize the most distressed neighborhood, following an aborted attempt to use State redevelopment powers. We were able to retarget CDBG resources that had, in previous years, been used for one-time expenditures elsewhere and to make modest but steady annual commitments for key uses such as housing rehabilitation. This predictability, flexibility, and control is a combination that has not applied equally to housing assistance resources in the past.

On a national scale, however, a number of local observers suggest that this combination offers a unique opportunity for local officials that often has not been fully realized. HUD might usefully expand its efforts to identify, analyze, and share information about local initiatives that successfully take advantage of flexibility and consistency, as it did in CDBG's early years (and has recently sought to do again), in order to help catalyze effective local action.

For CDBG the issue of income targeting has been a source of continuing debate and legislative and regulatory action. It is worth remembering that the CDBG program was created as a consolidation of programs, including urban renewal, Model Cities, sewer and water grants, other public and neighborhood facilities, and Section 312/115 housing rehabilitation loans and grants. These programs differed widely in their focus with respect to low-income people and neighborhoods, although the 1974 legislation made it clear that benefit to low- and moderate-income people was the principal program objective. Local officials have argued that restraints are too strict and make it too difficult to demonstrate compliance; other critics contend that the requirements, when examined more closely, are lenient and weakly monitored and enforced.

In my view the income-targeting rules are generally far from burdensome, and HUD has fared better when it has leaned toward stricter requirements and enforcement. After all, in any recent year the vast preponderance of local expenditures—about 90 percent—has been justified under program rules as meeting the objective of benefit to low- and moderate-income people (HUD, Office of Community Planning and Development). The rules for assigning CDBG expenditures to that objective leave ample room to maneuver, including full credit for area benefits—investments in neighborhoods where many but not all residents are low-income, for majority benefits—activities where a majority but not all beneficiaries are poor, and for others.⁷ Thus, even though the legislated requirement for low- and moderate-income benefits has risen from 51 percent in 1983 to 70 percent in 1990, localities have had little problem meeting the requirement and, indeed, confirm that in surveys (Walker, 1994). Problems arise primarily when localities would like to carry out major activities that are out of step with the CDBG program's principal objective. The evidence shows that the income-targeting requirements may have affected the localities' choice of activities, but they have continued to select from high-priority projects. In some instances—particularly early in the program in satellite cities and smaller towns, especially in the South—the requirements made a significant difference in the inclusion of the poor and minorities, and some local officials found the mandates helpful in supporting their efforts to be inclusive (Dommel et al., 1980; Ferguson and Robison).

Indeed, what has been best demonstrated about targeting and flexibility/administrative ease in the CDBG program is that (1) changes designed to increase or reduce the emphasis on income targeting do have a significant impact, and (2) the substantial flexibility appropriate to the program within its broader policy mandate can be achieved without sacrificing targeting. During the Carter administration, a clear message of concern about targeting coupled with a review of localities' applications and performance for compliance with targeting goals (but little real change in legislation) had a sharp, positive impact on targeting, especially in jurisdictions with poor performance records, according to direct observers (Dommel et al., 1980). The Reagan administration sent the opposite message and made real legislative/regulatory changes,⁸ addressing such issues as prior review of local plans, the importance of low-income benefits as a program objective, eligible uses of funds, and the measurement of targeting. Again observers found an unexpectedly strong response (Dommel, 1983a; Working Group), this time away from low- and moderate-income benefits. But CDBG grantee jurisdictions consistently reported only a limited benefit from the administrative simplifications and related program adjustments that were the explicit focus of the early 1980s changes (Mayer, 1984a; Dommel, 1983a). Given the level of basic *programmatic* flexibility, local officials were reasonably satisfied with the previous rules and not greatly affected in terms of control and ease of operation by administrative changes that nonetheless posed real problems in the area of income targeting.

Fortunately, Congress stopped or reversed a number of the more draconian Reagan-era proposals for deemphasizing targeting,⁹ and the CDBG program has retained a substantial targeted focus, although not without continuing measurement and enforcement issues (Gramlich; U.S. General Accounting Office). The current administration should take great care with the message it communicates as it changes the way to measure economic development and other targeting and reduces program monitoring capacity, so that the program does not lose its targeted benefits focus while gaining little in local ease and flexibility.¹⁰

HOME—a block grant restricted to the housing arena—is another program in which significant flexibility and local control, within the specified framework of meeting national goals on behalf of people in need, mark a step forward in national policy and potential HUD programming effectiveness. Because the act is relatively new, however,

important questions await further observation. As a member of a working group on housing policy and programs that preceded the enactment of NAHA, I posited a number of standards for shaping new legislation (Mayer, 1990) to make it of maximum use to local officials while also supportive of Federal policy.¹¹ These standards included:

- Flexibility to choose among assisting new, rehabilitated, or existing housing and between project-based and household-based subsidies in order to allow cities to match local market conditions and to choose among objectives, including affordability, quality, and geographically targeted conservation and upgrading.
- Ability to mix rental, cooperative, and homeownership options.
- Substantial targeting to low- and very-low-income people as a primary national objective, and maintenance of affordability/income-targeting standards for an extended period, ideally permanently.
- A capital block grant or similar granting form so that the recipient can use the new assistance in conjunction with other resources, including tax credits, concessionary and conventional lending, other categorical Federal and State monies, and local dollars.
- A local fund matching requirement to encourage and expand the growing participation of local government in meeting housing needs.
- A formula allocation to localities that would increase their ability to predict the amount and timing of forthcoming funds and to plan continuing strategies.
- Flexibility to meet the requirements of special needs groups, including large families, the homeless, disabled individuals, and others.
- Careful recognition of the specific needs of nonprofit housing developers and providers, such as aid with capacity building, working capital, and the like.

The new HOME program meets many of these standards. It offers real flexibility in choice of activities, especially with the later easing of requirements for local fund matching and for HUD approval for new construction. Its formula grants offer the important element of funding predictability and can be used in a straightforward fashion in programmatic forms that fit well with other resources. Matching requirements are in place, with exceptions for financially strapped localities, so that local participation is encouraged but HOME resources are not denied to the places that need them the most. Income targeting to very-low-income households is fairly tight, at least in rental programs, although there are outstanding issues of how much money will go instead to low-income (but not very-low-income) homeowners and how much to very poor renters earning well below 50 or 60 percent of the median income.¹² Nonprofits benefit from both basic program structure and specialized provisions, as will be discussed later.

The principal question mark regarding HOME concerns how long its assisted housing will be affordable to people in need. Currently there is a minimum requirement to keep rental housing affordable for 5 to 20 years, depending on which housing activity (construction, rehabilitation, or tenant-based assistance) is undertaken and how much HOME money is spent. The parallel standards for owner-occupied housing are 5 to 15 years. As discussed below, the Federal cost of keeping the existing subsidized stock affordable has reached a very high level relative to available resources. This problem will recur with housing assisted by HOME and other newer programs unless we start to learn from the current crisis. HOME money comes in forms that permit an up-front subsidy, thus allowing for very long-term or permanent affordability. Why not use that potential? Nonprofit housing

organizations, and some for-profits as well, will be willing to undertake projects on a permanent affordability basis. Perhaps the contributions of HOME to nonprofit housing organizations will help increase their use of the program and moderate the permanence-of-affordability problem. From a local government point of view, it is often now so difficult to site, gain approvals for, and assemble all necessary resources for low-income housing that losing it 5 to 20 years after development is very expensive in terms of dollars and other resources. Perhaps localities will use the flexibility of the program to seek more permanent affordability than the minimum mandated by HOME legislation.

Assessing HUD's contribution to changes in policy and program is often made difficult by the need to separate HUD's role from that of other policymakers. In the case of HOME, during the Bush administration HUD was not an early supporter of the program's development. In the early days of the Clinton administration, HUD was not terribly helpful in making the program simple to operate. More recently, HUD has been supportive of changes in matching requirements and standards for its exemptions, use of funds for administration, capacity building for nonprofits, and other revisions that make the program more workable at the local level. The program inherently relieves localities of some of the burdens of dealing with HUD regulations on individual projects. It is a continuation of a promising trend to see HUD's "reinvention" include a broadening of the block grant approach, at least involving HOME and its related programs, as long as income-targeting provisions are retained and perhaps—in terms of permanence—strengthened in the process. The most difficult part of the effort may be to establish and maintain a useful and relatively consistent level of funding for HOME or a similar block grant so that the program can serve its purpose of allowing localities to predict funding and plan long-term strategies.

Together, CDBG and HOME make up a substantial quantity of resources around which localities could do real local planning to meet their housing needs. A locality could design a package of activities over several years and invite housing producers/owners/managers to propose individual projects within that framework. HUD deserves credit for stewardship in having encouraged such planning over the years in the form of Workable Plans, HAPs, Comprehensive Housing Affordability Strategies, Consolidated Plans, and the like. But too few of the resources were designed in flexible, predictable, and locally controllable ways to make that planning useful to many local officials; even now, too little of the funds targeted to the poorest households come in that form.¹³ More block granting of housing assistance programs could have value if income targeting and protection for the most vulnerable were preserved. That is an important "if." Housing assistance programs are so crucial, and historically so targeted to the very poor, that sacrificing targeting for flexibility is not a trade to risk.

A Further Note on the Importance of Stewardship

My discussion of HUD's contribution from a city perspective has concentrated on the provision of key resources, central mechanisms of their delivery, and preservation of national policy objectives in the context of meeting local operational needs. But in an era when willingness to continue to commit housing and community development resources at the national level and to use them "in my neighborhood" at the local level is in question, it is worthwhile to revisit the issues of HUD's long-term stewardship. Along with other factors, how HUD is perceived to carry out the details of its business and pay attention to long-term implications before and after initial resource or service delivery seems certain to affect the willingness of society to pay for it.

As I have already mentioned, HUD deserves credit for planning and prioritizing housing needs, discussing differences in local markets and the value of shaping programs to fit them and showing renewed concern for the conditions in which residents of assisted housing live and their opportunities for a better future. HUD's failure to come to terms fully with public housing problems has also been noted. One cannot help but be disappointed with past management of some of the rest of the assisted housing stock.¹⁴ Scandals in Section 235 and Section 8 funding have hurt the image of housing aid and, in the former program (together with other Federal Housing Administration [FHA] problems) have caused real and lasting damage to some city neighborhoods (Boyer). There is no shortage of other players to blame, including local government and its related agencies, the housing industry, trade associations in housing and community development fields, and political officials. But HUD is certainly one of the key players as well.

The elements of asset management in the broadest sense—capacity building for the institutions that are to deliver and tend housing and community development resources at the local level; monitoring of progress and failure, and rapid response at a level corresponding to the scale of pressing problems, and careful measurement of whether national policy for income targeting or other objectives is being complied with—all deserve greater attention in a future, reinvented HUD. It is essential that reinvention consider seriously how any new alignment of responsibilities and resources affect these critical matters.

Needs for Special Attention

In the areas of low-income housing assistance and broadly defined community development, HUD has clearly provided a substantial set of tools and resources on a continuing basis. In other areas of my special interest, the Department's record over time is a mix of notable accomplishments with identifiable gaps that deserve systematic attention in the future. Program design and performance in these areas show significant improvement since HUD's inception, but important elements of complete and fully effective strategies have been missing, either for an extended time or quite consistently. These areas of concern include conserving and improving the existing (especially the low-income) housing stock, preserving and revitalizing inner-city neighborhoods in comprehensive ways, helping build the nonprofit sector as a major contributor to the housing and community development industry, and promoting local economic development. These topics will be addressed in succession, highlighting progress as well as areas where increased effectiveness is needed.

Conserving the Low-Income Housing Stock and Preserving City Neighborhoods

Conserving low-income housing and preserving city neighborhoods are two tightly linked issues. A deteriorating housing stock weighs down a neighborhood and its residents; a deteriorating neighborhood or community discourages investment in housing upkeep by owners and residents. Together they fail to deliver to citizens on our national commitment to decent housing and environment. In both areas of preservation, HUD has faced challenging problems, often with insufficient tools.

Preserving the Existing Low-Income Housing Stock. Today we have clear evidence of the importance of caring for the existing housing stock in serving the needs of low-income people, both the unsubsidized stock and the federally subsidized portion. Recent analysis of the unsubsidized stock during the late 1970s and 1980s shows that the loss of inexpensive unassisted rentals over the period was a central factor in the growing shortage of affordable units for low-income people. Additions to HUD rental assistance from 1975

to 1991 were just sufficient in number to offset the growth in very poor households needing low rents. Loss of the existing low-rent stock, through a combination of demolitions, eroded habitability, and rent increases, corresponded closely to the shortage of 3.5 million affordable units that resulted during the period (Pedone, 1994). Furthermore, while housing affordability is clearly the largest problem for poor households, the numbers living in inadequate housing appear to be growing (Apgar, 1990). This finding, perhaps not coincidentally, corresponds with many local officials' perceptions that deterioration of the housing stock in low-income neighborhoods exceeds what is measured by the housing quality and geographic disaggregation capacities of the American Housing Survey.

At its outset HUD followed policies toward existing private-market, low-income housing consistent with its predecessor's focus in the urban renewal program. Its approach was not to rehabilitate and preserve existing units but instead to demolish deteriorated properties and clear sites. While the 1954 Housing Act provided for neighborhood-focused housing rehabilitation, few such units were repaired through the early 1960s (Heinberg). Change in favor of preservation quickened in the mid-1960s in response to the loss of population in many center cities, neighborhood decline, and displacement of low-income people by the urban renewal program (Dommel, 1983b). Around the time HUD was created, Section 312 loans and Section 115 grants for neighborhood-focused rehabilitation, often coupled with code enforcement, were introduced as the first substantial conservation-oriented categorical programs, primarily for homeowners. In the late 1960s, Section 236 rental assistance, with a modest rehabilitation component, and Project Rehabilitation experiments to reduce rehabilitation costs and time began as limited efforts.

Aid that emphasized rehabilitation never became a central component of housing assistance. Using the extent of project-based subsidies to existing housing (overstating the actual number of rehabilitations) as a proxy for rehabilitation, fewer than 600,000 rental units nationwide had been repaired by 1994. The figure, while not insignificant, accounted for less than an eighth of rental assistance (U.S. House of Representatives). The Section 8 program included a component for substantial rehabilitation, but that element was relatively short-lived; its moderate rehab program was added in 1979 but has been restricted in recent funding and narrowed in focus, largely to the homeless. Section 8 household-based aid has proven to be of comparatively little assistance in encouraging landlords to upgrade units, which is logical given the ability of households, along with their subsidized rent payments, to leave at any time (Wallace, 1981). Such Section 8 payments certainly serve to improve cash flows to inner-city landlords who receive them, but the fact that only some units in a building are occupied by Section 8 residents and that they may depart limits their value in encouraging rehabilitation and maintenance compared with project-based assistance.

Clearly, the big Federal resource for improving the existing stock has been CDBG, as allocated by localities. This was not true from the very start of the program, likely because of the residual legacy of urban renewal. From 1975 to 1979, the "elimination of slums and blight" received twice as much money as the CDBG objective of "housing conservation" (Struyk, et al., 1983). Until 1977, housing rehabilitation was an eligible CDBG activity only as part of a concentrated neighborhood effort.

However, since that early period housing has consistently been the major focus of CDBG entitlement funds (typically over 35 percent of funds). Because of restrictions on construction and household assistance, nearly all of that activity has been in housing rehabilitation (HUD/Office of Community Planning and Development). One estimate suggests that over 1.3 million units were assisted cumulatively by 1990, using \$12.6 billion in outlays (Walker, 1993). HUD and local governments collaborated to

transform an insignificant municipal function into a major ongoing activity in support of conservation of privately owned, usually otherwise unsubsidized, housing. This was a major accomplishment.

The primary limitation of CDBG rehabilitation support is its orientation toward homeowners, while the most acute needs are concentrated among very poor renters. A recent single-year estimate indicates that two-thirds of the units served are owner-occupied (Walker, 1994), and the long-term data on single-family vs. multifamily housing suggest an even higher concentration (HUD/Office of Community Planning and Development). Furthermore, estimates of less than \$10,000 in average rehabilitation expenditure per unit (Walker, 1993) suggest that many investments may not have been made in the housing most in need of improvement. The Rental Rehabilitation program complemented CDBG on the rental side during some of these years, but this program (often accompanied by Section 8 assistance and thus already counted in housing assistance figures above) has since been eliminated (folded into HOME).

Thus we have in CDBG a demonstration of major investment in the existing stock on behalf of HUD and localities, making contributions to both housing quality and neighborhood improvement. Nonetheless, we seem to fall short in targeting needy populations. The two levels of government should share the credit and blame. HUD has provided key resources, but has not fully shaped its programming to more effectively target rental housing quality. The current program package, with funding cuts aimed at rehabilitation-oriented rental housing assistance programs, could represent a step backward in balance and targeting. It will be important to watch how local HOME fund allocations and future packages of block grants and categorical housing assistance approach targeting housing rehabilitation aid to those most in need.

The discussion above focuses on delivery of housing *rehabilitation* resources to offset an earlier decline in the quality of private, unsubsidized housing and implicitly to prevent its removal from the housing stock. A critical issue, raised by Michael Stegman (1992) and others, is how to avoid losing the stock and its quality in the first place. For many years now, as Stegman notes, HUD has not supported the data collection and research necessary for a better understanding of the dynamics of private, low-rent housing and surrounding neighborhoods (following up on earlier work by George Sternlieb, Stegman, and others). How do we keep the landlords in business, encourage them to maintain and repair their buildings, and discourage demolition and conversion of buildings to other uses? As just one example, some of the early research highlighted the importance of owner-occupant landlords in stabilizing housing and neighborhoods because of such things as their knowledge of, and comfort with, the community and their tenants and the efforts of their own labor.¹⁵ We have not seen the further analysis or the informed program actions that would support this potentially critical component of the low-income housing industry. An interlocked set of stewardship roles—analysis and education, industry capacity building, and asset preservation—has gone unfilled. We know that losses in the unsubsidized, affordable stock make up most of the shortage of decent, affordable rentals and create a need for public subsidies that we have not been able to meet. However, we do not have adequate information about where the losses come from and what we can do about them.¹⁶

The other obvious shortcoming in low-income stock preservation concerns the subsidized stock of assisted rental housing, including public housing, Section 236, Section 8 new construction, and other FHA-insured housing. We face a daunting combination of problems that threatens losses of at least several hundred thousand units: mortgage default and other financial insolvency, expiring requirements to retain affordability for low-income people, declining housing quality, and inadequate resources to renew needed financial

assistance (Wallace, 1994; Pedone, 1990; Clay and Wallace). We are also confronted with the severe budget burdens of renewal of household-based Section 8 vouchers and certificates as they expire—now after 5 years instead of the earlier 15. The belatedness of attention to issues of the longevity of assisted housing is a regrettable shortcoming in stewardship. The serious attention reflected in analysis made during the late 1980s and 1990s and in legislative action (notably the 1990 Low-Income Housing Preservation and Resident Homeownership Act) is a promising response, if it is not now stopped by budget reductions.

What stands out are the recent Congressional Budget Office estimates of the cost of preserving and renewing the assisted housing and household assistance we have in place (Pedone, 1994). What the estimates show most markedly is that the costs could absorb the full level of recent Federal housing budget authority with little or nothing left for incremental assistance, or with incremental assistance provided only at real cost to preservation. The clearest lesson, I would argue, is to shape future assistance—in terms of financial structure, requirements for service to low-income people, management stability, and maintenance and repair—so that it contributes directly to permanent affordability. HUD might usefully become a consistent advocate for that approach.

Comprehensive Approaches to Neighborhoods and Communities. Clearly, preservation of and investment in the existing housing stock are influenced by conditions in the neighborhood and the wider community: the willingness of residents to occupy units in the area and to pay sufficiently to do so, the neighborhood income mix that affects the flow of funds to rent payments and homeownership expenses, access to jobs that generates income for residents to spend on housing and in neighborhood stores, attitudes and behavior of lending institutions, and vandalism and crime as “costs of the housing business” and factors affecting the quality of life. HUD and other agents of Federal policy have good reason to pay attention to this array of community conditions that influence the lives of residents and impact housing stock and quality.

By reasonable measures many urban neighborhoods have deteriorated over time, particularly as the concentration of poverty-stricken households has increased. These concentrations, and attendant social and economic weaknesses in communities, increased sharply during the 1970s, especially in older cities. During the 1980s, although there were pockets of improvement in the Northeast, “urban poverty concentration and neighborhood distress worsened nationwide.... The greatest deterioration occurred in midwestern cities ... Southern cities, whose neighborhoods and cities typically improved during the 1970s, slipped during the 1980s; conditions in western cities also deteriorated” (Kasarda).

One might expect that the extent and visibility of such problems would have produced significant efforts at comprehensive neighborhood and community revitalization, driven from the Federal level. The reality is, of course, otherwise. HUD’s only primary effort, until very recently, was the Model Cities program, created in 1966, funded from 1967 through 1973, and then consolidated into CDBG.

The Model Cities program incorporated some interesting and important notions about revitalization, especially in contrast to the clearance and demolition focus of urban renewal (Frieden and Kaplan; Fainstein, et al.; Haar). Its goal was to target revitalization benefits to the low-income people within designated Model Cities areas, not to remove their deteriorated housing and relocate them. The program provided for a wide range of eligible activities and concentrated more on human services than bricks and mortar, apparently in the belief that such a balance would do more to better people’s lives and lead to further physical improvements. It was intended to serve as a mechanism for

coordinating a wide variety of resources from other Federal agencies rather than to be funded as a stand-alone program. Model Cities aimed to build local capacity to deliver services and projects effectively. It avoided many of the weaknesses of urban renewal, including demolition followed by long delays before construction, displacement of small businesses and low-income households, and loss of housing, especially for the poor.

The Model Cities program was funded for a total of a little more than \$2.3 billion over 6 years, for nearly 200 model cities. There is general agreement that it was unable to obtain the coordination and focus of other Federal resources it had hoped to target to low-income neighborhoods along with its own direct program funds. Debates about its overall effectiveness and the reasons for its demise have been extensive. But most striking is that, in the face of worsening urban neighborhood problems, it has not been replaced.

The CDBG program provided localities with the opportunity to continue Model Cities-type efforts. It offered a wide range of eligible activities and gave local government some incentives to concentrate resources within limited geographical areas. But from the start it granted funds to a much larger number of communities and dispersed the funds more widely within those communities than had either Model Cities or urban renewal (Dommel, 1982) because of a looser definition of the income-targeted clientele and local political pressure to spread CDBG benefits. Nor was there any coordinated effort to direct the resources of other Federal agencies to neighborhoods that might be eligible for assistance under CDBG.

Furthermore, by the early 1980s two incentives for local government to target resources to neighborhoods had been removed from the CDBG program. Housing rehabilitation, as mentioned earlier, was originally an eligible activity only as a supplement to concentrated activities in a given neighborhood but became generally eligible early on. In addition, public services, which were originally eligible only in Neighborhood Strategy Areas (NSAs), were made generally eligible up to a capped level. NSAs withered away as official designations, and localities' CDBG applications were no longer reviewed to see if they included geographically concentrated activity. The short-term result was a sudden and substantial shift away from neighborhood revitalization strategies in general, including sharp declines in spending for neighborhood facilities and funding increases for other public facilities (Dommel, 1983; Mayer, 1984a). In the early 1980s, the notion of CDBG as a successor in the field of geographically concentrated neighborhood revitalization fell by the wayside, at significant cost to the Nation's cities.

How permanent this shift away from neighborhood revitalization has been is difficult to tell, for lack of data easily comparable over time. Recent research on patterns of CDBG use (Walker, 1994), concentrating on fiscal year 1992, found that cities spend a slight majority of funds on neighborhood (versus citywide or other) strategies. However, money is spent more often on neighborhood redevelopment (emphasizing property acquisition and clearance) than on neighborhood conservation. Nor is there a clearly dominant approach by cities: Various kinds of neighborhood strategies (redevelopment, conservation, and growth) collectively are little more common than citywide approaches or the absence of any dominant strategy. Among specific types of activities, only infrastructure improvements are clearly neighborhood focused, and for them there is a regulatory incentive to be assigned to an area in order to meet one of CDBG's national objectives. Housing rehabilitation is almost always targeted both citywide and in neighborhoods, if it is focused on neighborhoods at all. Public services are very dispersed and economic development focuses on downtown areas. The same research findings suggest that even when localities concentrate resources in particular neighborhoods, their approaches tend to be ad hoc rather than following a clear strategy.

Generally CDBG seems easily usable for comprehensive localized revitalization when localities choose to pursue it. A large and continuing resource, it has been used on a neighborhood-focused basis in a significant number of cases, but it is not systematically targeted like Model Cities or, in terms of geographic concentration, urban renewal. Flexible program design, amended over time to further reduce incentives for concentration, produces a less-concentrated result for CDBG than for a program designed to focus and coordinate resources in an area smaller than a city.

Interestingly, local observers in Walker's study report that there have been a significant number of cases in which concentration of resources showed promising results in stabilizing and improving neighborhoods, some in areas of heavy poverty concentration. There appeared to be a correlation between the level and continuity of CDBG effort and the impact of the program, although many other factors influenced outcomes as well. Thus we have some reason to believe that strategic and consistent concentration of resources toward neighborhood revitalization might be more widely successful, but for a long period no program focused on implementing comprehensive area approaches. Certainly we know that we have not sufficiently utilized place-based, people-based, or mixed approaches to the problems of inner-city neighborhoods in order to avoid increasingly severe concentrations of poverty.

It is also worth noting that for a long time there was neither extensive analysis and research about the CDBG program itself nor, at least at HUD's instigation, about the dynamics of neighborhood change and revitalization. The Carter administration, in developing its National Urban Policy Reports, supported such investigation, but interest waned in the 1980s. No doubt local governments could have used more help from lessons learned nationally in designing effective revitalization strategies as they pulled together CDBG and other resources on their own. As we return to a national effort at community revitalization, in the form of Empowerment Zones and Enterprise Communities (EZs and ECs), we are probably not as well informed as we might have been, given the long period elapsed since CDBG started up.

EZs and ECs constitute a new form of geographically targeted, comprehensive neighborhood and community improvement efforts under Federal sponsorship, the first in many years. The provision of nearly \$100 million to each EZ for use in a designated low-income area, along with tax credits that include an employer wage credit, is a marked departure from any other recent initiative, although EC resources will be much more limited unless coordination of other Federal resources is highly successful. Program designers have wisely included such important components as economic and social focus along with physical improvements, coordination/partnership with the public sector at all levels to augment the limited resources available (especially in ECs), advance commitments from private partners, strategic planning requirements, and early input from low-income residents. They appear to have adopted many of the more promising components of various early efforts at revitalization. The EZ/EC effort will be able to take advantage of growth in local program capacity over the life of CDBG and of CDBG and HOME resources already under local control.

However, the EZ/EC program raises some concerns that—I suppose ironically, after all this time—echo the Model Cities program. Resource levels are again limited, geographical areas are large, and problem and expectation levels are high. Even for EZs, immediate grants are not much greater in constant dollars than those received by larger Model Cities recipients. It is again crucial to coordinate with other Federal agencies to modify regulations and prioritize resources. In the Model Cities program, commitment at the Presidential level was not sufficient to gain widespread cooperation for HUD (Frieden and Kaplan,

Haar). We must hope that greater willingness and capacity for such collaboration can now be achieved. Mayors, other city officials, and neighborhood leaders are still trying to find common agendas. The body of knowledge about effective revitalization of distressed communities is neither as well understood nor as widely disseminated as it might be. It will be important for HUD to serve effectively as a leading coordinator and leverager of resources and cooperation and as a provider of technical assistance and capacity building to produce real community impacts.

Support for Nonprofit, Community-Based Organizations

To me, the role of nonprofit, community-based organizations in carrying out housing and community development policy and programs is crucial. As I have argued elsewhere, there is a substantial number of reasons for that importance (Mayer, 1990), including their concentration on serving very-low-income people (whether they are required to do so or not), their activity in the most difficult neighborhoods and on behalf of the hardest-to-serve groups, and their understanding of and ability to pursue integrated approaches to community building, often with a housing focus but also with attention to many related components. Perhaps the most important factor is their willingness—indeed eagerness—to commit to *permanent* affordability and high quality in the housing units they develop, rehabilitate, and/or manage for low-income people with the assistance of Federal and other public resources. Given their mission of serving low-income people,¹⁷ they have no incentive to prepay mortgages, wait out rent restrictions and then raise rents higher than low-income tenants can afford, or shortchange maintenance and repair. Many of the incentives and rules that have led to preservation problems with the existing stock do not produce the same negative behaviors when there is no motivation to maximize project profits. If community-based organizations receive sufficient financial resources to pay their bills and develop the capacity to manage (or oversee management of) their housing projects, we can expect continued service to people in need. While nonprofits are in no way immune to the challenges posed by difficult residents, building vacancies, and crime and vandalism in distressed neighborhoods, they tend to push program limits toward meeting crucial national objectives.

The size of the nonprofit community development industry is now substantial. Concentrating just on community-based nonprofits that have boards of directors with community representation and that have completed at least one project in the community development field,¹⁸ the number of such community development corporations (CDCs) was estimated to be about 2,000 in 1994. They produce some 30,000 to 40,000 units of newly constructed or rehabilitated housing per year, all for people of very limited incomes (National Congress for Community Economic Development [NCCED], 1995), up from 20,000 to 30,000 units in the early 1990s (NCCED, 1991; Walker 1993). They also carry out an array of commercial revitalization, job-generating, and service-providing activities.

Nearly all of the growth in this nonprofit area has occurred in the last 30 years, most of it in the last 20. During that period CDCs' access to HUD's *project* resources has been critical in enabling them to do their work. But HUD has rarely played a significant, conscious role in building this crucial industry, although a modest commitment of resources might have done a good deal more to create CDC capacity.

The development of CDCs as institutions has been supported principally by the private philanthropic sector and related organizations. The Ford Foundation took the lead in helping to formulate the concept of such organizations and to get them started, beginning with an initial grant to the Bedford-Stuyvesant Restoration Corporation in 1967. Since then it has contributed well over \$100 million in grants, as well as substantial program-related

investments, to the field as a whole (The Ford Foundation, 1989 and 1991), with a consistent policy of promoting both specific projects and programs and the capacity building and empowerment of the institutions themselves. An increasing number of foundations, and more recently corporations have added their resources over time (Council for Community-Based Development).

At the Federal Government level, principal support came not from HUD but from the Office of Economic Opportunity/Community Services Administration. In 1972 Title VII of the Community Services Act increased CDC assistance from demonstration status to a full operational effort, and thereafter about 50 CDCs received several hundred million dollars over time for operations and programming. During this period HUD's interaction with nonprofits was mainly with church-based and similar nonprofit organizations as sponsors of assisted housing projects (e.g., Section 236). HUD provided project funds to these organizations, which usually were not the actual project developers or managers but instead worked in partnership with other groups that played those roles. HUD was generally not involved in increasing nonprofit roles or capacities in that context and, with some exceptions, the nonprofit sponsors did not emerge as part of the growing independent industry (Mayer, 1991).

There is at least some evidence that the creation of the CDBG program played a significant role in helping the CDC sector to grow. Clearly a major increase in the number of CDCs occurred in the second half of the 1970s when the CDBG program first came into operation (NCCED, 1995, 1991). Two-thirds of the CDCs currently doing housing rehabilitation were established after 1976, and CDC formation accelerated in the mid-1970s and has continued at a higher rate since.¹⁹ CDBG had a natural link with CDCs, whose single most common activity has been housing rehabilitation (Mayer, 1991), thus matching the emerging primary focus of CDBG expenditures in entitlement cities. The growth of the CDC sector, however, was heavily dependent on local circumstances and support, and its distribution was concentrated for a long time on a limited number of Eastern, Midwestern, and west coast cities without effective mechanisms for moving beyond these areas (Vidal, 1992; Walker, 1993).

The later years of the Carter administration marked a change in HUD's attitude toward CDCs, with the Department undertaking efforts to build the organizations, expand their ability to carry out projects, and utilize existing Federal project and program resources. Discussions during preparation of the *1978 National Urban Policy Report* included both the needs of neighborhoods and the potential role of CDCs as delivery agents. A new Assistant Secretaryship (for Neighborhoods, Voluntary Associations, and Consumer Protection) and corresponding office were created to focus on neighborhoods and neighborhood organizations, and its key staff positions were filled by people supportive of CDC efforts and knowledgeable about their need for capacity building. Training, technical assistance, and networking opportunities received new support.

Most notably, a small program to support both CDC project efforts and their operations when implemented, the Neighborhood Self-Help Development program (NSHD), was created within HUD. Grants of up to \$150,000, totaling about \$11 million, were provided to 99 urban CDCs in 1980; \$3 million went to rural CDCs. The program was explicitly designed both to promote CDC projects and to build CDCs' capacity to do community development work. Applications in the NSHD competition were judged on the merits of proposed projects and on the commitment to a clear plan of building the organization's abilities in the process. To help further the goal of building a nonprofit industry, CDCs selected for awards deliberately included a mix of the more experienced organizations and those in the earlier stages of development.

Analysis of the results of HUD's effort (Mayer, 1984b) showed the power of such Federal support. CDCs largely met their project commitments—especially those in the large number that involved housing—despite some shifting of and reductions in Federal resources during the period of implementation. The benefits were consistently targeted to low-income people and severely distressed neighborhoods, and real capacity building was readily observable after just 1 or 2 years. Opportunities to undertake significant community development projects, often for the first time, as well as hiring and training of new key development staff, improved planning and management systems, and new skills in utilization of consultants, all contributed to CDCs' capabilities.

It is important to note that by this time CDCs were also drawing on the project resources of HUD for their housing work; they were not limited to the small CDC-specific programs. At least among NSHD recipients, the majority were using CDBG funds, and nearly all those doing housing work had HUD or HUD/local (CDBG) support for their project efforts. For the first time, there was an explicit opportunity to use HUD resources to enhance the ability of the CDC industry to employ housing and related project and program funds.

The change in administrations in 1981 eliminated the NSHD program as well as the Office of Neighborhoods and much of its support for community-based groups. Support for the Neighborhood Reinvestment Corporation (NRC) was, however, retained and expanded, and its network of local affiliates working on housing rehabilitation and homeownership later became more community based. The Neighborhood Development Demonstration program (which later became the John Heinz Neighborhood Development program) was created not long thereafter, but had less funding than even NSHD's modest appropriation and lacked its explicit framework for, and other support of, capacity building. The notion of moving CDCs to a prominent place in the range of HUD program agents was not retained.

Instead, funding again came almost entirely from private philanthropic support and local government aid (through CDBG). In the 1980s these funds were substantially augmented by the work of community development intermediaries, including the Local Initiatives Support Corporation (LISC), the Enterprise Foundation, and the NRC. The intermediaries provide grants, loans, training, and technical assistance to CDCs—particularly for predevelopment work in housing and other community development projects—and aid them in accessing public and private resources for full project implementation. Their aggregate loan and grant efforts now total hundreds of millions of dollars. By the end of the 1980s, the private philanthropic and intermediary players were leading the way in creating new mechanisms specifically directed toward capacity building. Efforts such as Chicago's Fund for Community Development and the Boston Neighborhood Support Collaborative explicitly sought to "grow the industry" by linking operating support grants, technical assistance in organizational capacity building, staff training, and risk-taking predevelopment investments. HUD was not a participant in these initiatives.

By the late 1980s and early 1990s, evidence of the Federal role was seen largely in the contribution of CDBG to CDCs' work. Christopher Walker (1993) estimates that 13 percent of cumulative CDBG housing resources have gone to nonprofits.²⁰ NCCED (1995) reports that more than half of all CDCs are using substantial CDBG funds. In some cities CDCs assemble enough collective political weight to affect significantly the allocation of CDBG resources (Rich, 1993). The mix between pure project resources and those supporting normal CDC operations and capacity building is less clear.

At the beginning of the 1990s, the combined result of CDC, private sector, and intermediary efforts—using CDBG dollars and to a lesser extent other Federal resources²¹—was a CDC industry apparently growing in strength and expanding despite cutbacks in direct Federal support and project resources that CDCs access (Vidal, 1992; NCCED, 1991).

The creation of the HOME program illustrates a new stage of HUD support for a CDC industry that has relied primarily on its own and private and local efforts. The basic structure of the program described earlier—including flexibility in use and targeting, potential for deep subsidy, and ability to be used in combination with other resources—generally meets the needs and activities of CDCs. Notably, HOME also contains a series of components of special benefit to CDCs, both in their project work and in the development of their capacity to do it well. These elements include:

- A set-aside of 15 percent of HOME funds that must be used by community-based nonprofits (following the set-aside concept contained in the Low Income Housing Tax Credit), assuring such organizations of a significant number of project dollars but allowing them to compete for more.
- Determination that the limited HOME funds allowed for program administration can be allocated to CDCs for basic operating support to implement their HOME projects, thus serving a key continuing CDC need for funds to pay for core development staff and operations.
- Eligibility of predevelopment costs (for nonprofits only) as a use for HOME funds, in response to CDCs' frequent difficulty in assembling the up-front resources necessary to take advantage of project opportunities in a timely way and to build a pipeline of projects.
- Ability to use 20 percent of the 15 percent set aside for CDC capacity building in local jurisdictions where the capacity of CDCs is weak, thus adding significantly to the store of scarce capacity-building resources and recognizing capacity building as a legitimate and important activity.

The project set-aside funds alone can run \$150 to \$200 million if past appropriation levels hold up. But the recognition of the smaller needs of CDCs, specifically for organizational support and strengthening and early risk capital, can be as important in the long run.

Another recent HUD departure from past practice has been to join with a consortium of major private foundations and corporations in the National Community Development Initiative (NCDI). This effort, begun in 1991 solely with private resources, emphasizes the building of local systems of support for CDC efforts. LISC and the Enterprise Foundation, operating in cities throughout the country, guide systems development and its translation into community development projects and programs, principally in housing but expanding over time. Systems development includes strengthening capacity building (such as expanding CDC activity to cities where it has been absent or weak), adding new CDCs, and helping emerging and mid-level organizations to become major producers by employing such tools as multiyear grant programs for CDC core operating support and continuing training programs for key staff. Systems development also includes new project financing sources, tools, and coordination that will enhance the ability of CDCs to move more rapidly to large-scale production or to take on new kinds of projects.

In 1994 HUD joined the second round of NCDI funding, contributing \$20 million in grant funds to an \$87 million grant and loan pot. In doing so, HUD combined efforts with many of the players who helped lead the way in CDC industry development (usually without HUD) in an overtly developmental effort. It has also contributed a large percentage of the

overall NCDI grant fund pot which, as the experience of NCDI's first 3-year round showed, was far more effective than its loan funds in driving long-term systems change. This is a prime example of the way in which a small resource commitment, from HUD's viewpoint, can have great potential power when used strategically to build the capacity of collaborating organizations.

The HOME and NCDI initiatives are promising new directions in the support of CDC growth. It will be very important to ensure that the "reinvented" HUD continues to provide resources to this still fragile industry and does not lose the ability to focus on nurturing these critically important partners in meeting national goals. If there is to be more movement toward block grants in particular, one hopes they will be carefully designed to match CDC circumstances and needs and will not curtail HUD's involvement in an area in which it has so recently revitalized its participation.

Economic Development: A Slowly Evolving Agenda

In contrast to its involvement in the housing area, HUD has provided neither a diverse and extensive set of tools in the field of economic development nor a large aggregate of resources, at least on a steady basis. Until the creation of the EZ/EC program, principal resources in recent years have been the modest (usually 8 to 12 percent) share of CDBG resources that localities have chosen to direct to economic development activities (HUD/Office of Community Planning and Development), which are in the range of \$300 million annually. Historically the urban renewal program, in what could be described in substantial part as an economic development effort, provided more than \$13 billion before being folded into CDBG in 1975. UDAG provided \$4.6 billion, primarily for nonresidential projects, from 1978 to 1989 (Rich, 1992) when, except for recycled and recaptured funds, it ended. These two programs, of course, concentrated on the real estate aspects of economic development.

If the tools are limited, it is not because the problems associated with maintaining strong city economies and providing economic opportunity to the residents are insignificant. Economic conditions deteriorated in different ways in larger cities at varying times during HUD's history, but they did deteriorate, and they affected residents and city officials in painful ways (Kasarda, Neal and Bunce). Part of the reason for limited HUD response is the presence of Federal activity with an urban economic development dimension in a number of other agencies, along with growing State and local participation. (Rough estimates place combined public economic development efforts as high as \$20 billion annually.) Another reason for HUD's limited activity is no doubt the belief by some that successful macroeconomic activity coupled with sorting out in the marketplace will be sufficient to meet local economic development needs. As a local economic development official for nearly a decade, I would argue that (1) the HUD agenda and resources have improved substantially over time in several important ways, and (2) the above considerations notwithstanding, HUD has placed an inadequate emphasis on key elements of need for economic development action and assistance and has been slow to take the lead on certain important issues.

One central role for HUD to play is that of recognizing and responding to the long-running problem of economic development benefits not reaching persons typically left out of the economic mainstream. Even today a large number of economic development professionals and elected city officials do not think of that issue as a central part of economic development. A recent survey of mayors and other key city leaders showed that 50 percent believe economic development and poverty reduction are two separate program areas pursuing different goals (National League of Cities). One of my current research projects

involves locating and analyzing local economic development initiatives that are effective in providing jobs for low-income workers.²² The study's initial survey of literature suggests that the extent of the focus on this objective and the degree of concrete accomplishment are limited, although there are some signs of a shift toward more inclusive, job-oriented strategic thinking (e.g., Robinson, Conservation Company). Over time HUD's economic development programming has turned more toward jobs, especially for those most in need. Historically, however, the change has been slower and less complete than one might have expected from an agency whose mission gave it reason to be a leader in concern about this issue.

In addition, the field of local economic development has evolved substantially in terms of thought about what best constitutes an effective package of interventions (Blakely, McNamera, Bartik). Emphasis on reducing the cost of business-site real estate by subsidy on a project-by-project basis has declined. Areas of increased emphasis include providing an array of tools for retaining existing enterprises and helping them to expand, helping firms be more competitive by making state-of-the-art technologies available and enhancing worker skills, networking among firms for market gains and other advantages, improving links between firms and training providers, strengthening access to private capital markets, increasing entrepreneurial skills, and concentrating on economic sectors of local comparative advantage. The greater flexibility of HUD's new set of tools may increase its value in these areas, but HUD and many of its partners in local government have not been at the forefront of such change in economic development approaches.

Let us look briefly at HUD's program history. Urban renewal, the prime economic development tool before 1975, was fundamentally a one-dimensional program. It paid for acquisition of property, clearance/demolition in most cases, infrastructure improvements, and resale at prices below market value and program cost. Part of the program constituted economic development in the form of redevelopment of property for office, retail, and—less often—manufacturing purposes, while part involved slum clearance and reuse for residential purposes.

Criticism of and debate on the merits of the effort and its outcome are widespread,²³ but the nature of the strategy is in much less dispute. Increasing the tax base, not job benefit, was the principal economic objective. Not only were jobs for low-income residents of urban renewal neighborhoods not a prime concern, but the program did not even, in its substantial tracking of its own long record, measure overall job impact (Eisinger). Many small businesses were displaced, and help in retaining existing firms was not part of the basic toolkit (Fainstein et al.). Weaknesses in ensuring that the private market was prepared to invest in subsidized and cleared land often meant long delays in moving from clearance to reinvestment.

UDAGs, the next primarily economic development program of consequence, addressed some of urban renewal's deficiencies as an economic development tool. Although UDAGs were similarly focused on writing down the cost of real estate development—paying for part of the cost of new offices, retail developments, manufacturing space, hotels, parking lots, and housing, and leveraging private dollars—they also embodied significant changes from urban renewal. Generating jobs and targeting them to disadvantaged and minority workers were among the UDAG program objectives and were included as factors (albeit along with many others) in making competitive awards. “Best efforts” to link such workers with the tenants of new commercial buildings were mandated. Private financial commitments were more likely to be secured in advance, ensuring that a higher proportion of projects went forward and prohibiting the use of Federal funds for demolitions alone. Manufacturing and neighborhood projects were better represented

in the project mix, although downtown retail and service projects were still predominant. The program likely contributed to an increase in local officials' development finance capacity, including the aspects of private leverage, payback of public funds, and partnership (Rich, 1992).

Still, because of its real estate orientation, the program fell short in terms of job creation. Real estate developments that often stood on shaky legs received public subsidies to help them get started. The developments, it was thought, would lead to more location and growth of businesses within central cities, which would then hire added workers, disadvantaged city residents in particular. It was a difficult multilink chain of events to sustain, made more difficult by disagreements about the importance of targeted hiring among Federal and local actors. Critics looking below the aggregate program status reports found frequent instances of projects falling short of goals for hiring low-income workers, long-term unemployed, and minorities (Center for Community Change). Ironically, project goals for hiring minorities were often below the proportions of minorities in the local workforce. While UDAGs represented a profound improvement over urban renewal, they fell short in supporting the growth of enterprises and hiring needy city residents. The UDAG experience also highlighted the need to improve monitoring capabilities on key issues such as job generation and targeting.

Returning to CDBG, the program was revised early on in its treatment of economic development as an activity. Initially cities were not permitted to give direct financial assistance to individual private firms. They concentrated instead—as with urban renewal and UDAGs—on helping to provide improved real estate for potential business use and related public infrastructure improvements and also on helping specific firms with physical improvements (through nonprofit intermediaries). By 1983 the cities were permitted to aid firms directly and to offer assistance not only in writing down the costs of improved real estate, but for equipment, working capital, and technical assistance. This new flexibility clearly increased the potential for job generation. Commitment of CDBG resources to economic development took a substantial jump due to the more flexible rules in place, but on a national basis the number of dollars, about \$300 million, certainly remained modest.

The CDBG program clearly differed from urban renewal in its perspective on jobs and local residents. The primary legislative and regulatory basis for justifying CDBG's economic development activity was its potential to aid low- and moderate-income people in obtaining work, business opportunities, and improved access to local goods and services. CDBG also departed from programs narrowly focused on real estate by offering a range of assistance to firms and groups of businesses within its list of eligible activities.

The operational record is more mixed. The choice of business assistance activities expanded, but localities chose overwhelmingly to use economic development funds for direct loans and grants to individual businesses, with little devoted to technical assistance and other strategies noted above (HUD/Office of Community Planning and Development; Walker, 1994), and with most of the money going to *very* small businesses. The program did, however, expand beyond real estate improvements to include equipment and working capital.

In terms of targeted jobs specifically, the limited amount of detailed knowledge available leaves some very real questions unanswered. Christopher Walker (1994), surveying a sample of businesses receiving CDBG assistance, found that only 38 percent of those hired were low income and 32 percent were from the neighborhood in which the business was located. The aggregate number of jobs created or retained per dollar expended was high in comparison to other programs, but the survey lacked data on other sources of funds contributing to the same job results. Given that over 80 percent of economic devel-

opment expenditures were justified by their low- and moderate-income benefits in that same time period, we have to wonder whether the CDBG rules for measuring targeted benefit—which allow for best efforts and various other elements short of actual hires—are sufficient to produce strong targeting results.

A CDBG feature of particular concern to me is the treatment of job training and placement activities: not as a component of economic development, but as a part of the public services category and therefore subject to its expenditure cap. Although a desire to leave job training to the U.S. Department of Labor's resources is understandable, it seems that the difficulty in adequately linking low-income city residents to economic development efforts under CDBG and other programs should make training and placement a priority. Even more specifically, this difficulty is an argument for efforts to increase the linkage between businesses and business assistance on the one hand and appropriate design and delivery of effective training and placement services on the other. In the city government where I worked, it seemed odd to us that what we regarded as our key job-targeting initiative—a “first source” job placement program for disadvantaged people, tightly tied to every aspect of our business assistance effort—was the one most subject to HUD regulatory review.

A recent regulatory change that allows training and placement closely tied to CDBG-supported job creation to count as economic development is an important step in the right direction. One hopes that it reflects a stronger focus on utilizing such approaches to achieve job targeting goals in the future. I am much less enthusiastic about recent regulations designed to make it easier for CDBG-driven jobs to qualify as serving target-income populations (based on the likely benefit due to the employee's or employer's location), although they may not actually serve them. The regulatory burdens of accurate counting are not unduly oppressive, while the critically important need to meet targeting objectives has not yet received sufficient attention nor been effectively addressed by local governments.

In summary, CDBG is a tool with the potential to serve effectively the current strategic thinking in economic development and the goal of job targeting. HUD and local government still have much to do together to shape the program's actual use to meet those objectives.

The EZ/EC program holds real promise in the economic development area.²⁴ Its combined focus on improving economic opportunity in the designated areas and enhancing area citizens' access to wider economic opportunity addresses a central issue, one about which HUD has recently raised the level of discussion and understanding.²⁵ Encouraging coupling of job training, job placement and linkage, and supportive services with business assistance and related job-generation approaches increases the chances of successfully targeted job benefits. Flexibility in fund use may yield productive local models.

HUD would do well to support the EZ/EC programs with extensive analysis, information sharing, and technical assistance, as well as help to incorporate other Federal resources. Many local governments do not feel knowledgeable about attaining economic development goals with emphasis on targeting benefits to those most in need, and they see the shortage of knowledge as a significant constraint to pursuing combined goals (National League of Cities). Using CDBG resources, they have not yet made major gains in upgrading low-income neighborhoods by raising the income of current residents (versus having it happen through changes in population) (Walker, 1994). Many State/local-sponsored Enterprise Zones are not well oriented to needy residents and their neighborhoods (Vidal, 1995). This is an important opportunity for HUD to take the leadership in shaping a flexible, potentially well-targeted initiative into a highly successful one.

A Few Concluding Remarks

The impact of HUD action and change over the past 30 years is highly visible. HUD has been a powerful provider of resources, especially low-income housing assistance, and has targeted them to people most in need. These are resources for which there has been no alternative provider and for which need still far outstrips availability. HUD has pioneered the delivery of flexible block grants for community development to cities and States and continues to struggle to adjust that delivery to meet Federal objectives, especially income targeting, without undue loss of local flexibility and control. The Department has moved from a concentration on “clearance of slums and blight” to at least modest strategies of housing and neighborhood preservation and seems to be learning how to do comprehensive community improvement more effectively, although for many years HUD lacked a program in this area. However, it appears to have a long way to go to become a fully effective steward of the affordable housing stock and an advocate for the permanence of assisted housing. Its (and others’) shortcomings in this area have been, and will continue to be, costly to the poor, their neighborhoods, and the country as a whole.

HUD has moved slowly and inconsistently toward supporting the growth and capacity building of some of its key partners, primarily nonprofit community-based organizations. But the Department has improved in significant ways in that area and needs to take care not to lose that direction in the quest for other productive changes. In economic development, HUD has emerged as a provider of flexible, better integrated tools, concentrating more on final goals—including job opportunities—and less on real estate development and subsidy. It has not yet become the leading player that it might be, specifically with respect to the principle that public investment in economic development ought fundamentally to yield major job benefits for disadvantaged people.

A 30-year-old institution is a youthful one. I expect HUD to keep learning from its experiences and amending its actions and techniques while continuing to work hard at meeting critical national needs and goals.

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Notes

1. Tony Daysog provided valuable research assistance in the preparation of this paper.
2. See Walker (1993) for a recent attempt at adding up the major activity levels (outside of Section 8 household-based subsidies).
3. These figures refer to households in the bottom quartile of renter incomes, although they do not always occupy the units with the lowest rent. See Pedone (1994) and Apgar (1992 and 1994) for various looks at this phenomenon.

4. The Listokin and Pedone (1994) figures together illustrate a drop in the range of 75 percent in actual incremental households assisted.
5. A low-income household is one whose income is less than 80 percent of the area median income. A very-low-income household is one whose income is less than 50 percent of area median income.
6. See, for example, Struyk et al. (1978).
7. See HUD/Office of Community Planning and Development, particularly the 1992 *Annual Report*, for ways that partially targeted expenditures count 100 percent toward the low- and moderate-income objective.
8. More extensive changes were rejected or soon reversed by Congress.
9. See Mayer (1984a) for details.
10. See this article's section on economic development for additional discussion.
11. In my case, with special attention to the needs of nonprofit, community-based housing producers. It is my view that these standards applied far more widely, as well.
12. See Nelson and Khadduri for detailed discussion.
13. CDBG adds some major housing dollars, but much of the money is used in shallow subsidies to homeowners not at the bottom of the income scale (see Walker, 1993, and 1994).
14. See, for example, Wallace (1994), Grow, Campbell, and Stanfield.
15. See, for example, Peterson et al.
16. There may be current HUD research projects beyond the timeliness of my information that will help fill this gap.
17. As well as legal restrictions on their distribution of surpluses and assets.
18. See NCCED (1991) for a fuller definition.
19. With, as we shall see shortly, CDBG help.
20. CDCs and others.
21. See Walker (1993) for estimates of nonprofit use of other HUD housing resources.
22. It is important to note that this project enjoys support from HUD's Office of Policy Development and Research and represents one of a variety of elements of heightened HUD interest in the topic.
23. See Frieden and Kaplan for one compilation of major pieces of the literature.
24. See, for example, HUD and U.S. Department of Agriculture (1994) for a description.
25. For example, in the August 1994 issue of *Cityscape*.

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