

Using CDBG Funds for a Tara Project

January 26, 1989

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT WASHINGTON, D.C. 20410-7000

ASSISTANT SECRETARY FOR LEGISLATIVE AND CONGRESSIONAL RELATIONS

Honorable Donald W. Riegler, Jr.
United States Senator
Federal Building
Suite 716
110 Michigan Avenue, N. W.
Grand Rapids, Michigan 49503

Dear Senator Riegler:

This is in response to your letter dated October 7, 1988, on behalf of Mr. Gary Zick, Community Director for the City of East Lansing, Michigan. Mr. Zick objects to a determination by the Detroit Field Office that community development block grant (CDBG) funds may not be used to fund the City's Targeted Acquisition and Rehabilitation Assistance (TARA) Project. We apologize for the delay in responding to your letter. However, we thought it appropriate to have the Detroit Field Office respond to us concerning the matters raised in your letter.

As we understand it, East Lansing's TARA Project was proposed to provide both acquisition and rehabilitation assistance to low and moderate income households wishing to purchase and rehabilitate substandard housing units within the City. Assistance under the project includes rehabilitation costs as well as down payment assistance, interest subsidies, and other costs normally associated with the purchase of a house. According to a letter from the City, rehabilitation assistance under the project would have to constitute the majority (at least 51 percent) of the funds approved for a property. The Detroit Field Office determined that the activity was ineligible, in violation of § 570.207(b)(4) of the block grant regulations, as an income payment.

While income payments such as housing allowances, down payments and mortgage subsidies are generally ineligible program expenditures, § 570.202(b)(1) of the block grant regulations specifically provides for the use of block grant assistance to acquire properties "for the purpose of rehabilitation." This rule thus requires that rehabilitation of the property be a necessary and vital component. Eligibility may therefore be brought into question when rehabilitation activities are found to be disproportionately low when compared with the acquisition costs.

After reviewing the materials presented, our Office of the General Counsel has determined that the City of East Lansing's TARA Project meets program requirements and is thus eligible for block grant funding.

Thank you for your interest in the programs of this Department.

Very sincerely yours,

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Timothy L. Coyle
Assistant Secretary for Legislation and Congressional Relations