SUBJECT: Neighborhood Revitalization Strategy Areas (NRSAs) in the Community Development Block Grant (CDBG) Entitlement Program

PURPOSE

The Department is encouraging jurisdictions to adopt Neighborhood Revitalization Strategy Areas (NRSAs) as a way to target CDBG resources in support of community revitalization efforts. This Notice renews HUD’s commitment to assisting CDBG Entitlement communities with the designation of an NRSA and sets out the process for the development, submission, approval and amendment of a strategy, as well as the measurement of outcomes.

In recent years, HUD's Office of Community Planning and Development (CPD) has encouraged a coordinated marshalling of resources to facilitate grantees' ability to engage in comprehensive place-based initiatives. Comprehensive community revitalization strategies seek to create partnerships among federal and local governments, the private sector, community organizations, and neighborhood residents. The Department seeks to create opportunity in distressed neighborhoods by stimulating the investment of human and economic capital and by economically empowering low-income residents. The Department recognizes the fundamental necessity of partnering to achieve greater success in our urban revitalization efforts. HUD believes that no effort will succeed without the support of all of the community actors. Successful neighborhood revitalization strategies bring together a variety of stakeholders in cross-sector partnerships that:

- lay the groundwork for community growth;
- make neighborhoods attractive for investment;
- ensure that the benefits of economic activity remain in neighborhoods for long-term development;
support the use of neighborhood intermediary institutions (e.g., Community Development Corporations [CDCs] and Community Development Financial Institutions [CDFIs]) to bridge gaps between local government agencies, the business community, community groups, and residents; and

foster the growth of resident-based initiatives to identify and address their housing, economic and human service needs.

The participation of all stakeholders, particularly the neighborhood’s residents, in the development of a comprehensive neighborhood revitalization strategy builds trust in and support for the strategy, enhancing the likelihood of its successful implementation. This approach also recognizes that the complexity of factors leading to neighborhood decline requires multi-pronged, coordinated solutions. The value of this approach has been borne out in the strategic planning process that many communities participated in during the development of Choice Neighborhoods initiatives or Promise Zones designations. HUD approval of an NRSA designation does not result in additional CDBG resources; however, it does provide for substantial benefits through various regulatory flexibilities discussed further in this Notice.

REGULATORY FRAMEWORK AND FLEXIBLE BENEFITS AND INCENTIVES

HUD is encouraging CDBG Entitlement grantees to develop and implement NRSAs as described in the consolidated plan regulations at 24 CFR 91.215(g). The Department provides incentives for the development of revitalization strategies by offering regulatory relief from a variety of requirements applicable to the use of CDBG funds by Entitlement communities. The consolidated plan and CDBG regulations establish criteria for approving locally coordinated comprehensive strategies for targeting the revitalization of neighborhoods. HUD requires that designation of a NRSA be included in a grantee’s consolidated plan submission. It may also be submitted as an amendment to the grantee’s annual action plan.

As an incentive for CDBG Entitlement communities to develop and use NRSAs, the Department provides greater flexibility in the use of CDBG resources, including Section 108 Loan Guarantee program funds. These incentives are described in the CDBG regulations at 24 CFR Part 570, as follows:

1) **Aggregation of Housing Units**: Housing units assisted in an approved NRSA, during each program year, may be considered a single structure for purposes of meeting a national objective. The grantee must maintain documentation that demonstrates 51 percent of the units completed were initially occupied by low- and moderate-income households and report such accomplishments in IDIS to comply with CDBG performance measurement requirements. Outside an NRSA, 100% of the single family homes must be occupied by low- and moderate-income households. This housing incentive applies to both single-family and multifamily housing in the NRSA and provides greater flexibility to carry out housing programs designed to revitalize neighborhoods through housing activities that meet the criteria at 24 CFR 570.208(a)(3) and (d)(5)(ii). HUD is aware of the growing need for communities to expand mixed-income housing opportunities and this incentive provides flexibility to accomplish that goal.
Example: A grantee wants to encourage homeowners to remain in the neighborhood and offers a homeowner rehabilitation program. During the program year, 50 homes are rehabilitated within the NRSA. Using the flexible benefit of aggregating housing units, the grantee will only need to document that 26 of these units were owned by low to moderate income homeowners.

2) **Job Creation/Retention as Low/Moderate Income Area Benefit:** Job creation/retention activities undertaken in an NRSA may be qualified as meeting the area benefit national objective [24 CFR 570.208(a)(1)(vii) and (d)(5)(i)], thus eliminating the need for businesses to track personal income and maintain records for jobs held by or made available to low- and moderate-income persons residing within the NRSA. However, the number of full time equivalent jobs created or retained must still be reported in HUD’s performance measurement system.

Example: A grantee would like to increase jobs in the designated NRSA and offers incentives to a business to expand to an existing building in the neighborhood. Within the NRSA, the activity may be qualified under the low to moderate income area benefit (LMA). As a flexible benefit, the business and grantee will need to report the number of full time jobs created but will not need to collect income information on every person filling the created jobs, as they would elsewhere.

3) **Aggregate Public Benefit Standard Exemption:** At the grantee's option, economic development activities carried out in a HUD-approved NRSA may be exempted from the aggregate public benefit standards, thus increasing a grantee's flexibility for program design as well as reducing the record-keeping requirements for meeting a public benefit [24 CFR 570.209(b)(2)(v)(L) and (M)]. Economic development projects must meet a public benefit standard both for individual projects and in aggregate for all economic development projects in that year. Exemption from the aggregate standard means that a grantee may offer more assistance to attract companies that will be able to create jobs within an NRSA.

Example: The grantee operates a small business loan program for the purpose of creating new jobs. The amount of funding a grantee commits to any individual business cannot exceed $50,000 per job. Under the aggregate public benefit standard [24 CFR 570.209(b)(1)], all the business loans the grantee makes during any given program year need to, in essence, average out to no more than $35,000 per job. Several of the loans to businesses in the grantee’s NRSA will cost well over $35,000 per job and would push the grantee over the $35,000 per job aggregate average. However, the grantee can exclude loans made to NRSA businesses from that average calculation; by excluding those loans, the grantee’s aggregate figure stays below $35,000 per job.

4) **Public Service Cap Exemption:** As a part of an overall economic empowerment and housing opportunity strategy, public services carried out in a HUD-approved NRSA are not subject to the statutory 15% public service cap when such activities are carried out by a designated Community Based Development Organization (CBDO) undertaking a neighborhood revitalization, community economic development, or energy conservation project [24 CFR 570.204(b)(2)(ii)].
Example: A grantee would like to increase the employment rate in the neighborhood and offers a job readiness and interview skills training program. The grantee contracts with a CBDO to carry out the activity to serve 150 residents. The activity aligns with the housing and economic opportunities identified in the NRSA plan. In the grantee’s CAPER, this activity is excluded from the tabulation of activities upon which compliance with the cap is determined.

SUBMISSION REQUIREMENTS

The NRSA design should provide viable solutions that address affordable housing and economic opportunity needs, as well as other long-term community improvements. Solutions identified should be accomplished within a reasonable period of time. Improvements should be apparent to the intended beneficiaries, which are principally the low- and moderate-income residents of the specific neighborhood.

HUD encourages submission of an NRSA request as a part of the grantee’s consolidated plan, as described at 24 CFR 91.15(b). HUD will not withhold approval of the consolidated plan if the NRSA request cannot be concurrently approved without unduly delaying the funding of the grant programs covered by the plan. The NRSA approval is separate from the consolidated plan approval, whether the request relates to an initial designation, renewal, or amendment, and will be expressed so in writing by HUD. Taking the grantee’s request into consideration, the local HUD Field Office will establish an operational term for the NRSA, not to exceed five years. It is preferable for the NRSA operational term to coincide with the grantee’s consolidated plan cycle, however, the grantee may submit the NRSA plan at any time.

The following submission options are available to the grantee and will affect the NRSA term accordingly: (1) submit an original NRSA approval request; (2) submit a request to renew an existing NRSA, with updated required contents and a written statement that the strategy can still be effective if approved; or (3) submit a request for approval of an amended strategy with a new term.

CONTENTS OF THE NEIGHBORHOOD REVITALIZATION STRATEGY

The grantee’s neighborhood revitalization strategy will be designed to provide tangible housing and economic improvements within a reasonable time period. In order to evaluate the overall strategy and specific activities proposed in the NRSA, HUD requires an understanding of the target neighborhood, particularly in regard to its strengths and challenges. The strategy should clearly describe how the target neighborhood will meet the following criteria:

1) **Boundaries**: A grantee's strategy must define a geographical area that comprises a neighborhood and its distinguishing characteristics. These areas are typically designated in comprehensive plans, ordinances, or other local documents, such as a neighborhood, a community, or similar geographical designation. NRSA projects should include activities of sufficient size and scope as to have an impact on the distinctive geographic area within a reasonable period of time. It may be advisable to reduce the size of the NRSA or to divide an area into smaller NRSAs to increase the likelihood of achieving meaningful change. The grantee would submit individual NRSA strategies for each smaller area. An
NRSA (or NRSAs) may not encompass the grantee’s entire jurisdiction. All areas within the NRSA boundaries must be contiguous and the grantee must define the NRSA by identifying census tracts and block groups in which the area is located. A map denoting boundaries of the targeted area must also be submitted with the grantee’s NRSA submission.

2) **Demographic Criteria:** The designated area must be documented as primarily residential and contain a percentage of low- and moderate-income residents that is equal to a community’s “highest quartile percentage” (as computed by HUD pursuant to 24 CFR 570.208(a)(1)(ii)) or 70 percent, whichever is less, but, in any event, not less than 51 percent.

3) **Consultation:** The grantee must describe how the strategy was developed in consultation with stakeholders. This involvement should be continuous from the beginning of the planning process through implementation and management of the designation period, which may not exceed five years. Stakeholders include affected residents of the proposed strategy area, including those that reside in public and assisted housing, owners/operators of businesses and financial institutions, CBDOs, nonprofit organizations, and community groups that are in or serve the neighborhood. Grantees should identify specific key stakeholders and explain how they will be engaged throughout the NRSA designation period. The intent of the consultation process is to demonstrate that the grantee actively engaged residents of the proposed NRSA. Prior to the submission of the NRSA plan to HUD, grantees are encouraged to conduct at least one public meeting with the residents and the broader community to discuss the proposed NRSA. This public meeting may be in addition to the consolidated plan or action plan public hearing. Residents, community members, and stakeholders should be given opportunities to express their support or lack of support for the proposals presented and given the power to effect changes impacting their living environment. Experience has shown that engaged residents greatly enhance the area’s chances for success. Grantees are encouraged to discuss each of the following issues during a public meeting: the NRSA planning and implementation process; the proposed physical plan, including the extent of proposed demolition or rehabilitation of existing structures, and if applicable, proposed site design; planned public service activities; neighborhood improvement projects; economic opportunities for low and very low income persons and businesses that provide economic opportunities to low and very low-income persons in the NRSA area.

4) **Assessment:** The grantee’s strategy must include an assessment of housing market and economic conditions of the area, an examination of the opportunities for housing and economic improvements, and the problems likely to be encountered in pursuit of such goals. The grantee should provide:
- a narrative description of the neighborhood, including the history, location, ethnic and racial changes, economics, community assets, transit, educational opportunities, employment centers, organizations, etc.;
- a description of the neighborhood’s current status in comparison to the rest of the grantee’s jurisdiction with regard to patterns of disinvestment, existing neighborhood...
assets, patterns of racial and ethnic concentration and patterns of poverty concentration;

- a description of ongoing or recent revitalization activities and new investment that may be taking place in the neighborhood or on its periphery;
- a description of challenges residents have in accessing job opportunities;
- a description of critical housing challenges facing the neighborhood.

5) **Housing and Economic Opportunities**: The grantee must develop its strategy and implementation plans to promote the area's economic progress. Such progress will focus on activities that benefit low- and moderate-income persons by increasing affordable housing opportunities and expanding economic opportunities through activities that promote the substantial revitalization of the neighborhood.

- **Housing**: Grantees are encouraged to develop housing available to households with a broad range of incomes. This includes housing that is available to households with moderate to middle income as is needed to improve the housing market dynamic in the neighborhood. Grantees should provide a description of the housing component of the plan and include a description of the housing that the grantee plans to demolish, develop, rehabilitate, construct or acquire, including the number of each type of units, such as public housing, Low Income Housing Tax Credits (LIHTC), market rate, and/or homeownership;
- **Economic Opportunities**: Grantees are encouraged to create or retain jobs that result in households that are economically stable and self-sufficient. Grantees should provide a description of the economic development component of the plan and include a description of the type of jobs the grantee plans to create and/or retain, as well as any targeted population for employment. The grantee should discuss any supportive services, such as job training, that may be provided as a part of this strategy.

6) **Performance Measurements**: The grantee’s strategy must identify the results expected to be achieved (e.g., physical improvements, social initiatives, increased affordable housing opportunities and/or economic progress), expressing them in terms of measurable outputs and outcomes of the CPD performance measurement framework. Performance measures should be tied to the neighborhood’s identified needs and the grantee’s proposed housing and economic opportunities. (See also the Performance Measurement and Reporting sections of this Notice.).

7) **Leverage**: Leverage is a critical element of neighborhood revitalization and a goal of the NRSA is to attract additional investment to the designated community. Leverage may be made in the form of cash or in-kind resources and the strategy should outline the grantee’s proposed leverage sources for the NRSA. The grantee will be required to report on leveraged resources received and used to support the NRSA. A failure to document leverage could result in the NRSA not being renewed at the end of its five-year term.
Choice Neighborhoods

HUD’s Choice Neighborhoods program supports locally driven strategies to address struggling neighborhoods with distressed public and/or HUD-assisted housing through a comprehensive approach to neighborhood transformation. To participate in the Choice Neighborhoods program, communities must be selected by HUD through a competitive process to: 1) develop a comprehensive neighborhood revitalization strategy with a Planning Grant award, or 2) implement a comprehensive neighborhood revitalization strategy, known as a Transformation Plan with an Implementation Grant. A CDBG grantee that has a designated Choice Neighborhood located within its jurisdiction may request that the Choice Neighborhood also receive NRSA designation. Upon confirmation from HUD’s Office of Public and Indian Housing, HUD-CPD will presume Choice Neighborhoods Implementation Grantees who are actively implementing their Transformation Plan and Choice Neighborhoods Planning Grantees (both current and former) who have completed their Transformation Plans to have met the above criteria and HUD-CPD will approve the NSRA designation.

Promise Zones

The Promise Zones initiative partners the Federal government with high-poverty communities across the country to create jobs, increase economic security, expand educational opportunities, increase access to quality, affordable housing, and improve public safety. Promise Zones are often larger than a single neighborhood; however, a NRSA strategy area may be located within a portion of a designated Promise Zone. To request that a portion of the Promise Zone area also receive NRSA designation, the grantee should submit the NRSA proposed boundaries and demographic information for HUD review. Promise Zones located within a jurisdiction actively implementing comprehensive community revitalization and meeting boundary and demographic requirements, as confirmed by HUD’s Office of Field Policy and Management, will be presumed to meet the above criteria and HUD-CPD will approve the NRSA designation.

Empowerment Zones (EZ), Renewal Communities (RC) and Enterprise Communities (EC)

All Federally-designated Empowerment Zone (EZ) and Renewal Community (RC) designations expired on December 31, 2009. All Enterprise Community (EC) designations expired in 2004. In the past, HUD presumed the strategic plan for an EZ or EC within an Entitlement community met the above criteria and, therefore, approved an initial NRSA submission at the written request of the grantee without further review. With this Notice, HUD has chosen to forgo any presumption of an EZ or RC strategic plan for the purpose of NRSA designation. After an existing NRSA designation expires, the grantee must submit an initial NRSA approval request for meeting the content criteria as outlined in this Notice. Notwithstanding this change, data submitted in connection with an EZ, EC, or RC designation may be used as part of any NRSA submission to the extent that such data is currently applicable to the grantee’s neighborhood revitalization strategy.
PERFORMANCE MEASUREMENTS

A grantee’s NRSA goals and objectives should be measurable and specific enough to show expected outputs and positive steps toward the desired ultimate outcomes of increased housing and economic opportunities for local residents. Within the submitted strategy, the grantees should identify achievable outcomes for the NRSA, particularly with respect to housing and economic opportunities, that can be measured and used to determine progress made. Outcomes may include:

- increase in homeownership rates;
- reduction in vacancy rates;
- increase in housing values;
- increase in educational attainment;
- increase in employment rates;
- increase in median household income.

Within each selected outcome, the grantee should identify expected outputs from the CPD performance measurement framework. Outputs may include:

- new businesses assisted;
- existing businesses assisted;
- jobs created or retained in area;
- funds leveraged;
- LMI persons direct benefit activities;
- LMI households assisted;
- acres of brownfields remediated;
- new access to public facilities;
- business facades/buildings rehabilitated;
- number of blighted buildings demolished.

Actual NRSA performance information should be updated at least semi-annually in the Integrated Disbursement and Information System (IDIS) and reported in the grantee’s Consolidated Annual Performance and Evaluation Report (CAPER).

LEVEL OF DETAIL

In order to avoid an unnecessary burden for the grantee in describing its strategy in the consolidated plan, the grantee may refer to specific portions of other documents that HUD has access to for this purpose. To allow HUD to determine that each of the criteria in the "Contents" section of this Notice has been met, the grantee will only need to provide additional information to the extent that sufficient detail is not already contained in such existing documents.

Since the grantee's HUD CPD Field Office representative will review the NRSA neighborhood strategy submission, the grantee should consult with its HUD representative to discuss what existing documents and information the grantee can rely on for its submission and what additional information HUD will need to make this approval.
While the grantee may wish to identify resources needed to implement the strategy, it need not formally commit itself to the use of CDBG funds for future years or any other resources it expects to receive from HUD. A grantee’s annual action plan must include the specific activities the jurisdiction plans to support with any of the HUD formula program funds covered in the consolidated plan for that year. In addition, each year’s action plan must clearly identify those activities the grantee will fund in pursuit of its revitalization strategy.

HUD PARTNERSHIP APPROVAL PROCESS

Grantees and their local HUD Field Office will work together in developing revitalization strategies that meet these guidelines. HUD’s review of a strategy shall place particular importance on the grantee's capacity, the extent to which the strategy is meaningful and reflects coordination with other public and private resources, and the likelihood that the planned actions will increase affordable housing and economic opportunities for local residents. HUD encourages innovative and creative strategies that promote active and meaningful participation of stakeholders throughout the development and implementation of the plan. HUD will not look favorably upon strategies that focus exclusively on using only one NRSA incentive, such as the exception to the cap on public services, or as a basis to receive housing tax credits. HUD is interested in strategies that will successfully use a range of resources to revitalize neighborhoods and provide viable and sustainable housing and economic opportunities to local residents.

HUD expects to approve strategies with measurable goals that set in motion activities that will result in positive changes for neighborhoods as a result of coordinated efforts. These positive changes should be apparent to the residents and clearly show results, such as an increase in the affordability and quality of housing and increased economic opportunities for local residents.

In the event HUD believes that a grantee's submission has not adequately consulted the area’s stakeholders, is missing or lacking in required contents and planned activities, or is unlikely to achieve measurable progress in addressing the needs of the NRSA, the HUD field office will provide technical assistance to the grantee in an attempt to develop a reasonable strategy given neighborhood needs and the level of resources available. If after such technical assistance HUD and the grantee remain apart in their assessment of what is a reasonable strategy, HUD has the option of not approving the strategy.

REPORTING

A HUD-approved NRSA is in effect for its full term, provided the grantee makes reasonable documented progress in the implementation of its strategy. That term may not exceed five years. HUD expects the grantee to achieve substantial improvements and create meaningful levels of housing and economic opportunities for local residents. HUD recognizes that all NRSA goals may not be fully realized within the five-year designation period, but does expect that the level of improvements will result in measurable outcomes. Each year following initial NRSA approval, the annual action plan will show the targeted achievements expected to be accomplished by the end of the grantee’s program year.
It is critical for grantees with HUD-approved NRSAs to enter at least semi-annually activity data correctly into IDIS. Grantees must check the NRSA box when setting up each activity that is undertaken in support of the NRSA. Additionally, several IDIS screens and fields are associated with NRSA activities. The IDIS User Reference Manual provides guidance on the use of the screens and the completion of fields. Data entered into these IDIS fields ensures that performance measurement information is reported in the PR84 report: the “CDBG Strategy Area, CDFI, and Local Target Area Report.” The PR84 report provides performance accomplishments achieved in each NRSA by program year. Absent or faulty data will diminish the ability to demonstrate that an NRSA is an effective approach for neighborhood revitalization through the targeting of CDBG and/or Section 108 loan guarantee funds.

PERFORMANCE REVIEW

HUD will review a grantee's progress at the end of each program year based upon information in the grantee's performance reports and, when appropriate, information from on-site monitoring. In the CAPER, the grantee must report on actual outputs and outcomes and provide for a narrative update on the NRSA’s progress regarding:

- continuing stakeholder involvement
- activities addressing identified housing and economic opportunities
- progress on achieving identified outcomes through reported accomplishments
- documentation that leveraged resources were actually received and used for their intended purposes

HUD’s review of a grantee’s performance will include an assessment of the grantee’s ability to make progress towards achieving the expected improvements; the grantee’s ability to account for funds and document activities appropriately; the timely use of funds received from the Department, meeting performance measures; and the receipt of matching or leveraged funds.

If HUD determines that progress towards achieving the expected improvements in the area is lagging substantially behind the projections, HUD may suspend its approval of the strategy. During any period of suspension, the grantee will not be able to use the incentives provided under the CDBG regulations discussed earlier in this Notice for expenditures that are contingent upon an approved strategy. If the grantee submits and HUD approves an amended strategy for the area that satisfactorily addresses the lack of performance, the grantee will again be able to avail itself of the authorized benefits. However, the original approved five-year term will not be reset or extended.

AMENDMENTS AND RENEWAL OF DESIGNATION

Because the neighborhood revitalization strategy is an element of the consolidated plan, it must be included with a jurisdiction's consolidated plan submission. When a jurisdiction makes a new consolidated plan submission in accordance with 24 CFR 91.15(b)(2), usually every five years, the grantee will submit a new or amended neighborhood revitalization strategy (for which separate HUD approval would be required). Grantees should follow the guidance provided in the "Level of Detail" section of this Notice. Amended strategies are to be reviewed by HUD using the same criteria applied to initial strategy submittals. The criteria for purposes of any amendment(s) to neighborhood revitalization strategies are:
• The criteria for consolidated plan amendments described at §91.505. It is presumed that these criteria would be applied whenever the conditions that existed at the time the strategy was developed have changed substantially (e.g., a decline in a dominant area industry, a natural disaster) or when a grantee determined that the strategy reflected in the HUD-approved plan was not working as well as it expected and it therefore wants to change its approach; or

• Whenever HUD suspends approval (or advises the grantee that it is so considering) as a result of performance lagging substantially behind the benchmarks.

If a jurisdiction received an approved NRSA designation in the middle of a consolidated plan cycle, the grantee does not need to submit a new strategy at the beginning of the next consolidated plan cycle. Grantees with existing, active NRSA designations at the beginning of a new consolidated plan cycle will submit the prior HUD-approved strategy with a statement that there has been no change in the strategy. In this case, HUD approval for the existing strategy is not needed a second time. This NRSA designation will, however, terminate at the end of the original five-year term period. It is optimal for an NRSA designation to run concurrent with the grantee’s consolidated plan cycle. Grantees with NRSA designations that will terminate in the middle of a consolidated plan cycle are strongly encouraged to consider resubmitting their plan or shortening their next NRSA designation time period to bring it into consolidated plan cycle alignment.

APPLICABILITY TO THE STATE CDBG PROGRAM

This Notice is not applicable to the State CDBG program and State CDBG grantees should continue to consult CPD Notice 97-01. That Notice outlines the process for state implementation of the revitalization strategy area concept. It describes the parameters within which states may design their implementation approach, the procedures for state submission of their process description statement, and the process for HUD's approval of state’s process descriptions.

CONTACT INFORMATION

Grantees that have questions and comments on other aspects of this Notice should contact their HUD CPD Field Office Representative. Field Offices should direct inquiries and comments to the Entitlement Communities Division in Headquarters at 202-708-1577.