



U.S. Department of Housing and Urban Development
Office of Policy Development and Research

Rural Rental Rehabilitation Demonstration

Report to Congress

Rural Rental Rehabilitation Demonstration

Report to Congress

Prepared by:
Program Evaluation Division
Office of Policy Development and Research
U.S. Department of Housing and
Urban Development

January 1993

TABLE OF CONTENTS

List of Tables	ii
Executive Summary	iii
I. Background	1
- The Rental Rehabilitation Program	1
- The Rural Rental Rehabilitation Demonstration	2
II. Overview of the Evaluation	4
III. State Participation, Funding, and Progress	6
- Participation	6
- Funding	8
- Progress	11
IV. Effectiveness in Meeting Need	13
- The Need for Rental Rehabilitation in Rural Areas	13
- Effectiveness in Meeting Need	14
- "Ruralness" of Project Areas	14
- Rate of Spending	16
- Project Size, Unit Size, and Occupancy Rates	16
- Tenant Characteristics	17
- Unit Rents	18
V. Program Participation by Rental Property Owners	20
- Project Ownership	20
- Program Structuring	22
- Centralization-Decentralization	23
- Subsidies & Other Funding Differences	23
- Marketing	23
VI. The Cost of the Program	25
- Development Costs	25
- Administrative Costs	26
VII. Strengths and Weaknesses	28
Appendices:	
A - Published Reports on the Rental Rehabilitation Program	30
B - C/MI Data Base	31
C - Sampling Strategy for Interviews	32
D - Questions to Participating States	34
E - Questions to Non-Participating States	36
F - Measuring Ruralness	37
G - Centralization/Decentralization of State	38

LIST OF TABLES

Table 1: Number of States Participating in Demonstration	6
Table 2: Reasons for State Participation	7
Table 3: Reasons for State Non-Participation	8
Table 4: Scale of Demonstration Funding by State	10
Table 5: Demonstration Funds Committed by State	12
Table 6: Demand for RRP Funding by Jurisdiction Type	14
Table 7: Project Location by County Population and Density	16
Table 8: Comparison of Unit and Project Characteristics	17
Table 9: Comparison of Tenant Characteristics	18
Table 10: Comparison of Rent Changes - Pre- and Post-Rehab	19
Table 11: Property Owners by Number of Projects and Units	21
Table 12: Administrative Changes to Implement	22
Table 13: Principal Marketing Strategies for Demonstration	24
Table 14: Comparison of Project Costs and Financing	26
Table 15: Administrative Costs	27
Table 16: Cost Effectiveness of the Demonstration	27
Table 17: Perceptions of Strengths and Weaknesses	28
Table C-1: Number of States Participating	33
Table G-1: Centralization-Decentralization of Demonstration	39

EXECUTIVE SUMMARY

Section 311 of the Housing and Community Development Act of 1987 (P.L. 100-242) established the Rural Rental Rehabilitation Demonstration. This initiative allowed States to allocate unutilized funds provided under the regular Rental Rehabilitation Program (RRP) to rural areas previously ineligible for the program. These rural areas were defined under Title V of the Housing Act of 1949 as towns and other jurisdictions with populations less than 10,000. Authorization for both the regular RRP and the rural Demonstration expired in 1991. The programs have since been replaced by the HOME Housing Investment Partnership Act.

Section 311 required the Department to submit to Congress a report that evaluates the Rural Demonstration on three dimensions:

- o The effectiveness of the program in meeting the need for the rehabilitation of rental housing in rural areas;
- o The extent of participation by the owners of rental properties in the program; and
- o The cost of the program.

Several previous studies have shown that the regular RRP has been successful and effective in meeting its objectives. (See Appendix A). This success includes effectiveness in meeting the need for the rehabilitation of rental housing and in reaching the target populations. This study therefore uses the regular program as a point of comparison to measure the outcomes of the demonstration.

Summary of Findings

Overall, the Demonstration appears to have been successful in each of the three evaluation areas, based on a comparison with outcomes in the regular State RRP in the 33 States that participated in the Demonstration. The typical projects of both were closely comparable on the principal performance criteria for the program. The few differences appear to be largely the consequence of expected differences in the rental housing stock between larger and smaller communities.

Program Participation and Progress. The authorization for the Demonstration concluded on September 30, 1991, and the program is phasing out at this point. As of September 30, 1992:

- o \$19.9 million of the \$21.5 million (92.8%) allocated to the Demonstration has been committed to the rehabilitation of a total of 4,724 housing units.
- o The rehabilitation of 3,944 housing units in 1,612 projects has been completed.
- o In at least 12 States, the Demonstration was a major share of the overall State RRP, equalling 30% or more of the total State RRP grants for FY 1989 to 1992.

Effectiveness in Meeting Need. There appears to be a significant need for rental rehabilitation funding in rural areas, and the Demonstration appears to work about as well to

address those needs in rural areas as it does in urban areas.

- o Thirty-three of 45 States eligible to participate in the Demonstration chose to do so. In States that chose not to participate, the primary reason was a lack of unutilized funds with which to participate.
- o Seventy-nine percent of the State officials interviewed said that demand for the program was at least as great in rural areas as it was in urban areas.
- o There was little difference between Demonstration and regular State RRP projects in the number of bedrooms per unit, but there were slightly more smaller projects, especially relatively more one-unit projects, in the Demonstration.
- o There was little difference in tenant composition in Demonstration units as compared with those in the regular State RRP in terms of incomes, racial and ethnic characteristics, and the extent to which families received rental assistance.
- o Consistent with the rural nature of the Demonstration, rents were lower in Demonstration units, both before and after rehabilitation, than they were in regular State RRP units. The percent increase in rents as a result of rehabilitation was slightly higher for Demonstration units as for regular State RRP units.

Owner Participation. Based on the progress evidenced in committing funds to specific projects, owner participation in the Demonstration appears to be adequate. Additionally, the type of owner and the extent of their participation in the Demonstration appears similar to the regular State RRP. State officials reported having to resort to somewhat different marketing strategies in rural areas.

- o Properties completed in the Demonstration had similar types of owners as those completed in the regular State RRP. Most properties had individuals as owners, and partnerships and corporations respectively owned smaller numbers of the projects. Despite the overall similarity, partnerships owned smaller shares of Demonstration projects.
- o Except for the area of outreach and marketing, State officials reported having to make few changes to make their programs work in rural areas. They reported using direct outreach and "word-of-mouth" procedures for marketing more in the Demonstration because of a "lack of sophistication" among local officials and owners in rural areas.

Cost. Project development costs (primarily rehabilitation) on a per unit basis were somewhat lower in Demonstration projects. While the rural projects surpassed the required 50% leverage in funds from sources other than the Rental Rehabilitation Program, the proportion of public funds to private funds was higher in the demonstration than in the regular RRP.

- o Per unit costs were somewhat lower in Demonstration projects than in regular State RRP projects, both overall (\$11,802 compared with \$12,672) and in terms of RRP subsidy (\$4,677 compared with \$4,820).

- o **The Demonstration was successful in leveraging private investment. For every program dollar invested in Demonstration projects, private investment totalled \$1.27. In the regular State RRP, the comparable figure was \$1.55.**



RURAL RENTAL REHABILITATION DEMONSTRATION

I. BACKGROUND

The Housing and Urban-Rural Recovery Act of 1983 authorized the Rental Rehabilitation Program (RRP) to increase the supply of affordable rental housing. The program provided financing for rehabilitating privately-owned rental housing. Appropriations for the program totalled more than a billion dollars. Annual appropriations ranged from \$70 million in Fiscal Year 1991 to \$200 million in Fiscal Years 1987 and 1988 for an annual average of about \$140 million.

The RRP was a decentralized program in which HUD provided funding by formula to States and units of general local government, which then designed and administered programs for rehabilitating specific properties. Units of general local government that qualified for at least \$50,000 by formula received a grant directly from HUD, which they then administered. Units of general local government that did not qualify directly for a formula grant and had populations over 10,000 could receive funding from their States, which also received a program amount under the formula. If a State chose not to accept a grant from HUD and consequently did not administer the program for its small communities, HUD administered the program for those communities. States received about 25 percent of funds and formula communities the other 75 percent over the years.

The Rental Rehabilitation Program

The regular RRP sought to increase the supply of standard (physically adequate) rental housing at rents that were affordable to lower-income families. Funds were to rehabilitate privately owned rental housing in neighborhoods where market rents for rehabilitated housing were not expected to exceed the HUD-published Section 8 Fair Market Rents (FMRs). The key features of the program are described below.

- o Low Income Benefit. HUD regulations required that 100 percent of the RRP grant funds be used for the benefit of lower-income families, i.e., those whose incomes are at or below 80 percent of the median income for the area in which they live. However, this 100 percent level could have been reduced to 70 percent of the grantee's RRP units if the grantee concluded that a lower benefit standard was needed to minimize displacement or to provide for unanticipated circumstances. In practice, most grantees used the 70 percent lower-income benefit standard.
- o Split Subsidy Approach. Under a split subsidy approach, rehabilitation subsidies were given to owners of rental properties to make needed repairs, and separate rental subsidies were given to eligible lower-income tenants so that they could afford the after rehabilitation rents, or the rents at an alternative location of their choice. The tenant subsidy was not tied to the rehabilitated unit. Eligible lower-income tenants displaced physically or by exceptional rent burden by the rehabilitation process had high priority to receive rental assistance.

- o **Market Rents.** Owners could rent their rehabilitated properties at market rents, with no State or local control imposed, except in limited circumstances. Rents were not controlled by HUD regulations, but by private market forces. However, grantees were required to select projects in neighborhoods where the uncontrolled market rents for standard units would be affordable to lower-income tenants. It was also required that projects be located in neighborhoods where the median income was less than 80 percent of the metropolitan area median income. This meant that grantees were expected to fund projects in areas where the after-rehabilitation rents were expected to be at or below the FMR and remain so. HUD's guideline for affordability is that 80 percent of the units must rent for less than the area's FMR.
- o **Large Family Benefit.** The program was designed to benefit primarily families with children, particularly families requiring three or more bedrooms. At least 70 percent of each grantee's funds had to be used for the rehabilitation of units containing two or more bedrooms. Nationally, HUD assured that at least 15 percent of each year's grant amounts were used to rehabilitate units containing three or more bedrooms.
- o **RRP Cost Limitations.** One objective of the program was to use RRP funds as a leverage for private funds. Rehabilitation subsidies were limited to 50 percent of the cost of rehabilitation (except in cases involving refinancing) and could not exceed a scale running from \$5,000 to \$8,500 per unit depending on the number of bedrooms (except where a higher per unit figure was approved by HUD in high cost areas).
- o **Maximum Discretion to Grantees.** States were given broad discretion to design rehabilitation programs that fit their unique resources and goals. States had to identify communities to receive funding and determine how they wanted to divide administrative responsibility between themselves and units of general local government. In administering the program, they had to identify target neighborhoods, apply HUD rules as to what rehabilitation costs were eligible, determine the amount of subsidy and its form (e.g., a loan or a grant), attract private lenders and property owners to the program, select which properties to repair, work with public housing agencies on tenant assistance, and monitor program implementation.

The Rural Rental Rehabilitation Demonstration

The original authorizing legislation for the RRP specified that rural areas designated by the Farmer's Home Administration (FmHA) as eligible areas under Title V of the Housing Act of 1949 were ineligible to participate in the RRP. In effect, this made towns with populations of less than 10,000 ineligible to receive RRP funding from their States. Section 311 of the Housing and Community Development Act of 1987 (P.L. 100-242) established the Rural Rental Rehabilitation Demonstration, which had the effect of making FmHA Title V rural areas eligible to receive RRP funds from their States. State RRP officials could now expend rehabilitation subsidy funds in communities below the 10,000 population line.

However, Section 311 did not provide new funding for the Demonstration. Instead, States could only use uncommitted funds from the previous fiscal years' RRP grants. The Demonstration initially was to end September 30, 1989, but the 1990 Appropriations Act (H.R. 2916) extended its life until September 30, 1991.

Section 311 also required the Department to submit a report on the Rural Rental Rehabilitation Demonstration to Congress. The law specified that the report include an evaluation of the following:

- (1) The effectiveness of the program in meeting the need for the rehabilitation of rental housing in rural areas;
- (2) The extent of participation by owners of rental properties in the program; and
- (3) The cost of the program.

II. OVERVIEW OF THE EVALUATION

This evaluation compares the Demonstration to the regular State Rental Rehabilitation Program. This type of analysis assumes, based on previous evaluations, that the regular State RRP is successful. It compares characteristics of the units, costs, and tenants of projects in the Demonstration with those of the regular State RRP Programs in States participating in the Demonstration.

Several previous studies have shown that the regular RRP has been successful and effective in meeting its objectives (see Appendix A). This success includes effectiveness in meeting the need for the rehabilitation of rental housing and in reaching the target populations. This study therefore uses the regular program as a point of comparison to measure the outcomes of the Demonstration.

Administratively and substantively, the Demonstration more closely resembles the State-administered portion of the existing program than the HUD-administered or formula-based portions. Thus, the principal comparisons were made between the Rural Demonstration projects and those undertaken under the regular State-administered program. The key feature of the Demonstration is that it operates in rural areas, which have different housing markets that might be expected to pose difficulties for the program.

These comparisons use data from the RRP's Cash and Management Information (C/MI) System, for projects started and completed between October 1, 1988 and September 30, 1992, and data from interviews conducted with officials from 28 States in the Fall of 1990.

The evaluation uses the already existing State programs as a frame of reference for assessing the Demonstration because of the availability of the C/MI data. The significance of the similarities and differences with the already existing programs can be analyzed using an already tested data base. It does not mean that comparability to the already existing programs is necessarily the only or the most important basis for assessing the performance of the Demonstration.

Analysis of C/MI Data. The RRP Cash and Management Information System (C/MI) provides much of the information needed for this analysis. The C/MI has information on every project committed and completed in the program (including the Demonstration), including basic information on project location, project cost, extent of rehabilitation subsidy, project size, milestone dates, tenant characteristics, and unit rents. The characteristics of this data base are more fully discussed in Appendix B.

All States with both regular RRP and Rural Demonstration programs were compared for the four fiscal years (FY 1989 to FY 1992) for which both programs were in operation. The C/MI data used as dependent variables in this analysis include: dollars authorized, obligated, and disbursed; project and unit size; rehabilitation cost per project and unit; vacancy rates before rehabilitation; rents before and after rehabilitation; and related unit and project characteristics. Information available on tenants before and after rehabilitation includes their income level, race and/or ethnicity, household size, elderly status, and whether or not they received rental subsidy assistance.

Small variations in the completeness of the entries made by grantees on individual items in the C/MI data base mean that the total number of cases (Ns) recorded in different tables are not always identical.

Analysis of Interview Data. To supplement the data from the C/MI, qualitative data was gathered through interviews. State RRP officials who were directly in charge of the Demonstration and regular RRP were interviewed in focus groups on program design, marketing, administrative cost, and demand.

The sample design for the interviews is discussed in more detail in Appendix C. RRP officials of 19 of the 33 States participating in the Demonstration (58%) and 9 of the 12 RRP States not participating in the Demonstration (75%) were interviewed in focus groups. The two interview guides for the officials in participating and non-participating States are found in Appendices D and E, respectively.

Outline of Report. The evaluation starts with basic descriptive information on the scope of the Demonstration. It then turns to a comparative assessment of the Demonstration and the regular State RRP on the three primary questions of effectiveness, participation, and cost. It concludes with a brief section on strengths and weaknesses of the Demonstration as identified by interviewees.

III. STATE PARTICIPATION, FUNDING, AND PROGRESS

This section documents the scope of the Demonstration in terms of the number of States participating and the extent of their participation, both in absolute dollar amount and relative to their regular RRP programs. It discusses why some States elected not to participate, and it documents the overall progress in terms of funds committed and units rehabilitated by September 30, 1992.

Participation

By the time the authorization for the Demonstration expired on September 30, 1991, 33 States were administering Demonstration programs. Additionally, rural communities in the State of Arkansas received funding directly from HUD because the State of Arkansas declined to administer the RRP. Because the HUD-administered program was markedly different from the State-administered programs in its structure and administration, Arkansas was excluded from the evaluation. Five States in addition to Arkansas did not administer the RRP and did not participate in the Demonstration. The remaining 12 States (including Puerto Rico, which is considered a State in the RRP) chose not to participate in the Demonstration even though they administered the RRP (Table 1).

Table 1

NUMBER OF STATES PARTICIPATING IN THE DEMONSTRATION

<u>State RRP Administered by:</u>	<u>Participation in Demonstration?</u>		
	<u>Yes</u>	<u>No</u>	<u>Total</u>
State	33	12	45
HUD	1	5	6
<hr/> Total	<hr/> 34	<hr/> 17	<hr/> 51*

* Puerto Rico is defined as a State.

SOURCE: U.S. Department of Housing and Urban Development, Office of Affordable Housing Programs.

The leading reasons for a State's participation provided by interviewed State officials are listed in Table 2 below. The demand for rehabilitation funds in areas not currently served by the regular State program was mentioned by more States (15 of 19) than any other reason for participating in the Demonstration. Some States (7) noted that the vast majority of their counties were rural and had unmet rental rehabilitation needs. Other States (6) described the large number of inquiries that they had received from potential participants.

Table 2

REASONS FOR STATE PARTICIPATION

<u>Reasons for Participation</u>	<u>Number</u>
Demand in areas not served	15
Vast majority of counties rural	7
Inquiries from potential participants	6

SOURCE: "Individual Reports of Participant Focus Groups for HUD's Rural Rental Rehabilitation Demonstration Program," November 1, 1990, prepared by Westat, Inc.

Why Some States Did Not Participate. Interviews with officials in nine of the twelve States that administered the RRP but did not participate in the Demonstration provide some insight into their reasons for not participating. The primary reason for non-participation was because States had no funds available for the Rural Demonstration, having used all their prior year grant funds for the regular RRP. Only in two of the nine States did the State RRP officials indicate that they did not think there was enough demand in rural areas to justify participation. These results are indicated in Table 3.

Table 3

REASONS FOR STATE NON-PARTICIPATION

<u>Reason Offered</u>	<u>Primary</u>	<u>Secondary</u>	<u>Total</u>
No funds available	4	1	5
Not enough funding to justify	0	3	3
Not enough demand	2	0	2
Other, Unclassifiable	3	3	6
<hr/>	—	—	—
Totals	9	7	16

Source: "Individual Reports of 'Non-Participant' Interviews for HUD's Rural Rental Rehabilitation Demonstration Program," November 1, 1990, prepared by Westat, Inc.

In two States, lack of know-how in rural communities was offered as either a primary or secondary reason for not participating in the Demonstration. The lack of Section 8 funds or responsive PHAs in some of the rural jurisdictions was raised as a problem in two States. One State was unaware of the Demonstration and another felt that it was ineligible for the Demonstration because it had no "rural" areas.

The willingness of States to participate in the Demonstration suggests that State officials believe the RRP can be effective in meeting the need for rehabilitation of rental housing in their rural areas. States that did not participate in the Demonstration, for the most part, lacked the resources with which to participate.

Funding

The funding allocated to the Demonstration by each participating State came from the unused funds from the previous year's regular RRP grant (FY 1987 and FY 1990). By the conclusion of the Rural Demonstration's authorization, the 33 participating States had allocated approximately \$21.5 million for use in the Demonstration. The 33 States received some \$100 million from HUD in FY 1988 through FY 1991 grants for the regular RRP. Thus, the new grants received by the States in these four years represented almost five times the amounts they had allocated for the Demonstration. Table 4 presents the scale of the Demonstration in the participating States by showing the size of the Demonstration funding allocations relative to the size of new RRP grants the States managed during a comparable period.

Table 4 shows that, while the Demonstration was a major part of the overall RRP in many States, in others it was a rather small component of the overall program. Twelve of the 33 States had allocated to the Demonstration a sum equal to 30% or more of the grants for the regular State program in fiscal years 1988 to 1991. (Those states have ratios in Table 4 of .30 or more.) Minnesota and Nebraska, in particular, had large relative allocations to the Demonstration. Overall, the Rural Demonstration allocations equalled 21% of the total State RRP grants for the four years.

Table 4

SCALE OF DEMONSTRATION FUNDING BY STATE

<u>State</u>	<u>Demonstration Allocation</u>	<u>Regular State RRP FY 1988 to 1991</u>	<u>Ratio of Demo Allocation to State RRP</u>
Arizona	\$ 442,235	\$ 990,000	.45
Colorado	380,699	1,641,000	.23
Connecticut	39,500	2,709,000	.01
Georgia	1,149,141	4,754,000	.24
Illinois	957,005	5,502,000	.17
Iowa	145,699	2,314,000	.06
Kentucky	705,459	2,983,000	.24
Louisiana	21,808	2,673,000	.01
Maine	555,373	1,818,000	.31
Massachusetts	205,176	6,466,000	.03
Michigan	1,011,050	6,047,000	.17
Minnesota	1,964,988	2,149,000	.91
Missouri	1,915,646	2,852,000	.67
Montana	412,057	973,000	.42
Nebraska	607,177	949,000	.64
New Hampshire	713,255	1,067,000	.67
New Jersey	393,818	3,654,000	.11
New Mexico	906,503	1,204,000	.75
New York	557,417	6,695,000	.08
North Carolina	205,719	4,675,000	.04
Ohio	1,318,544	6,693,000	.20
Oklahoma	492,635	2,780,000	.18
Oregon	398,848	2,107,000	.19
Pennsylvania	198,053	6,841,000	.03
Rhode Island	45,389	1,393,000	.03
South Carolina	873,919	3,040,000	.29
South Dakota	692,556	751,000	.92
Tennessee	1,879,166	2,855,000	.66
Vermont	700,607	828,000	.85
Virginia	1,274,528	2,956,000	.43
Washington	35,000	2,716,000	.01
West Virginia	172,800	1,785,000	.10
Wisconsin	113,242	3,404,000	.03
Totals	\$21,485,012	\$100,264,000	.21

Source: State allocations are the minimum allocations as reported in the appropriate Federal Register. Rural Demonstration allocations are from the RRP Cash and Management Information System, September 30, 1992.

At the other extreme, 10 of the 33 States allocated less than 10% of their FY 1988 to FY 1991 grant amount to the Demonstration. Eight states had especially small amounts allocated to the Demonstration relative to their overall grants, less than five percent.

The relative size of the Demonstration does not seem to be strongly related to the overall grant amount a State received. To some extent, Table 4 does indicate relatively larger amounts of funds being allocated for the Demonstration in States that are more rural in character. It is worth re-iterating that the "Demonstration Allocation" was funding not used in the previous year's regular RRP and was not otherwise related to the size of the State's prior year grants.

Progress

Overall, about \$19.9 million of the \$21.5 million (93%) allocated by States for use in the Demonstration had been committed to specific projects by September 30, 1992. These funds were committed to rehabilitating 4,724 housing units. By September 30, 1992, 1,612 projects containing 3,944 housing units had been completed under the Demonstration. Table 5 details the commitment of funds and units by State.

Table 5

DEMONSTRATION FUNDS COMMITTED BY STATE

<u>State</u>	<u>Demonstration Allocation</u>	<u>Amount Committed</u>	<u>Percent Committed</u>	<u># of Units Committed</u>
Arizona	\$442,235	\$ 442,235	100.0%	71
Colorado	380,699	373,442	98.1	74
Connecticut	39,500	39,500	100.0	6
Georgia	1,149,141	1,147,348	99.8	183
Illinois	957,005	914,049	95.5	287
Iowa	145,699	145,699	100.0	28
Kentucky	705,459	701,514	99.4	161
Louisiana	21,808	21,808	100.0	7
Maine	555,373	405,558	73.0	192
Massachusetts	205,176	205,176	100.0	37
Michigan	1,011,050	1,011,050	100.0	238
Minnesota	1,964,988	1,334,738	67.9	368
Missouri	1,915,616	1,635,267	85.4	393
Montana	412,057	386,437	93.8	112
Nebraska	607,177	599,177	98.7	152
New Hampshire	713,255	650,118	91.1	146
New Jersey	393,818	354,572	90.0	109
New Mexico	906,503	883,003	97.4	125
New York	557,417	420,935	75.5	153
North Carolina	205,719	205,719	100.0	37
Ohio	1,318,544	1,318,544	100.0	294
Oklahoma	492,635	492,635	100.0	259
Oregon	398,848	398,848	100.0	207
Pennsylvania	198,053	197,378	99.7	35
Rhode Island	45,389	45,389	100.0	8
South Carolina	873,919	863,519	98.8	166
South Dakota	692,556	658,151	95.0	133
Tennessee	1,879,166	1,879,166	100.0	288
Vermont	700,607	641,057	91.5	112
Virginia	1,274,528	1,269,528	99.6	257
Washington	35,000	35,000	100.0	37
West Virginia	172,800	172,800	100.0	10
Wisconsin	113,242	97,193	85.8	39
Totals	\$21,484,982	\$19,946,553	92.8%	4,724

SOURCE: RRP Cash and Management Information System, projects committed as of September 30, 1992.

IV. EFFECTIVENESS IN MEETING NEED

This section addresses the effectiveness of the program in meeting the need for rehabilitation of rental housing in rural areas. The analysis uses a variety of measures to assess the effectiveness of the Rental Rehabilitation concept in a rural setting. It begins with information from a sample of State officials that shows how they perceive the need for the program in rural areas. Then it turns to a series of comparisons between properties completed in the Demonstration and those completed in the regular RRP in the same States.

The Need for Rental Rehabilitation in Rural Areas

Before turning to an assessment of how the Demonstration addresses needs, the evaluation considered the extent of need in areas served by the Demonstration. Participation by 33 of 45 eligible States, 73 percent, suggests that those States had a need for the program. In addition, non-participation does not necessarily mean the State did not have a need; as shown in Table 3, many States explained their non-participation in terms of a lack of funds. These and other reasons for participation and nonparticipation are discussed above in Section III.

The State RRP officials were asked how demand for funding from Rural Demonstration applicants compared to demand from communities eligible for the regular program. As shown in Table 6, 12 of the 19 States interviewed said that the ratio of demand to supply of funds was higher in the Rural Demonstration than in the regular program. In an additional three States, program demand was as great in the previously ineligible rural areas. Only three States said the relative intensity of demand was higher in the regular program. By this measure, there is considerable demand for rental rehabilitation funding in rural areas.

The perceived difference in relative demand may be due to two factors that were mentioned by the respondents. First, the prior operation of the RRP in the larger communities might have reduced the immediate intensity of demand from the previously existing constituency for the program. Two State RRP officials spoke of a "saturation" of that constituency as a reason to shift funds to the Rural Demonstration. On the other hand, the smaller communities had pent-up rehabilitation demand which was addressed for the first time by this program. Secondly, the generally smaller allocation of funds to the Demonstration meant that more communities were competing for fewer dollars, which would heighten the perceived intensity of demand.

Most State officials (17) said that they had little or no difficulty in obligating funds to Demonstration projects. Officials of two States thought that rental housing in need of rehabilitation was easier to identify in rural areas which have relatively low building density. The owners' inability to raise the required matching funds was mentioned by two State officials as a reason why demand may have been low. Two other States felt that the uncertainty in funding from year to year created problems in getting private sector commitments and that making the Rural Demonstration permanent might result in an increase in rural demand.

Table 6

DEMAND FOR RRP FUNDING BY JURISDICTION TYPE

<u>Program Demand is:</u>	<u># States Responding</u>
Greater in Rural Areas	12
Same in Rural and Urban	3
Greater in Urban Areas	3
Unclassifiable Response	1
<hr/>	
Totals	19

SOURCE: "Individual Reports of Participant Focus Groups for HUD's Rural Rental Rehabilitation Demonstration Program," November 1, 1990, prepared by Westat, Inc.

Effectiveness in Meeting Need

While State officials indicated a need for rental rehabilitation in rural areas, it was possible that the RRP was not well suited to rural areas. The rental rehabilitation concept was designed for urban markets and relied significantly on the housing market in its operation. This section tests the effectiveness of the Demonstration by comparing its outcomes with those in the regular State RRP in the same States.

This section is organized to answer the following questions:

- o To what extent was the Demonstration targeted to areas that are truly rural?
- o How do the properties rehabilitated in the Demonstration compare with those in the regular State RRPs in terms of project size, unit size, and occupancy rates?
- o How do the residents of Demonstration properties compare with those in the regular State RRPs in terms of income levels, age, and race and ethnicity?
- o How do unit rents of Demonstration properties compare with those in the regular State RRPs?

"Ruralness" of Project Areas. The Demonstration was successful in undertaking projects in areas that were considerably more rural in character than those in the regular State RRP. The Demonstration was targeted to a high degree to counties that were the least densely populated and had the smallest populations in the country.

To assess the rural character of the project areas, all counties in the United States were divided into three groups corresponding to lowest decile (bottom 10%), next lowest decile, and the remainder in terms of total population and population density per square mile (the methodology for this categorization is discussed in Appendix F). Projects completed in both the Demonstration and the regular State RRP between October 1, 1988 and December 31, 1990 were geocoded to determine their county location and, thus, the character of the project location.

Table 7 shows the extent to which the Demonstration reached rural areas previously ineligible for the program. While only 1.7 percent of projects in the regular State RRP were located in counties with populations of less than 30,408 (the lowest decile of the population), more than half of all Demonstration projects were located in these small counties.

Similarly, 39.3 percent of the Rural Demonstration projects were in counties with densities of less than 41 persons per square mile (containing the lowest decile of the population) compared with 4.4 percent in the regular State RRP.

Table 7

**PROJECT LOCATION BY COUNTY POPULATION
AND POPULATION DENSITY**

<u>County Total Population</u>	<u>Percent of Projects</u>	
	<u>State RRP</u>	<u>Demonstration</u>
Less than 30,408	1.7%	53.6%
30,408 - 61,335	16.8	31.3
61,336 or More	81.5	15.1
<hr/>		
Total Percent	100.0%	100.0%

<u>County Population Density</u>	<u>Percent of Projects</u>	
	<u>State RRP</u>	<u>Demonstration</u>
Fewer than 40 per Sq. Mile	4.4%	39.3%
41 - 79 per Sq. Mile	13.2	37.4
More than 80 per Sq. Mile	82.3	23.2
<hr/>		
Total Percent	100.0%	100.0%
Total Projects*	3,520	873

* Approximately 10% of Demonstration and 17% of regular State RRP projects missing because of inability to locate address.

SOURCE: RRP Cash and Management Information System, projects completed between October 1, 1988 and December 31, 1990.

Rate of Spending. Based on the rate at which they committed funds to Demonstration projects (see Table 5), States had little difficulty operating rental rehabilitation programs in rural areas. By September 30, 1992, the 33 participating States had committed 92.8 percent of Demonstration funds to 4,724 housing units. No State had committed less than 68 percent of its funds, 14 States had committed all of their funds, an additional 10 States had committed 95 percent or more of their funds, and only three States had committed less than 85% of their funds.

Project Size, Unit Size, and Occupancy Rates. Projects completed in the Demonstration were not significantly different from those completed in the regular State RRP during the same time

(see Table 8). Demonstration projects tended to contain somewhat fewer units, 2.4 units per project as compared to 2.8 units per project in the regular State program. The units were comparable overall in terms of the number of bedrooms with slightly more two-bedroom units and slightly fewer three-bedroom units in the Demonstration. The pre-rehabilitation occupancy rate was slightly higher in the Demonstration projects. These differences, however small, appear consistent with the rural character of the Demonstration.

Table 8

COMPARISON OF UNIT AND PROJECT CHARACTERISTICS
IN COMPLETED PROJECTS

<u>Characteristic</u>	<u>Percent of Completed Units</u>	
	<u>State RRP</u>	<u>Demonstration</u>
Two Bedrooms	48.4%	51.4%
Three Bedrooms	23.5	21.9
Occupied	52.2	55.9
Building Size:		
- 1 to 4 Units	58.8	55.2
- 5 or More Units	41.2	44.8
Total Units	16,136	3,944
Total Projects	5,858	1,612
Average Units/Project	2.8	2.4

SOURCE: RRP Cash and Management Information System, projects started and completed between October 1, 1988 and September 30, 1992.

Tenant Characteristics. Overall, the residents of Demonstration properties were very similar to the residents of regular State RRP projects completed during the same period. Although the regular State RRP achieved a very high rate of benefit to tenants with incomes below 80 percent of the median family income of the area in which they lived, the Demonstration achieved an even higher proportion of benefit to this group. Based on tenant characteristics, it appears that the RRP program design is as effective in meeting needs in rural areas as in non-rural areas.

Table 9 shows the similarity of the residents of completed Demonstration projects with those of the regular RRP. While this table indicates that the residents of the Demonstration are slightly more likely to have low incomes, somewhat less likely to be from minority groups, and

slightly more likely to be elderly, these differences are not significant and the two groups are essentially similar in these characteristics.

Table 9

COMPARISON OF TENANT CHARACTERISTICS
IN COMPLETED PROJECTS

<u>Characteristic</u>	<u>Percent of Post-Rehab</u>	
	<u>State RRP</u>	<u>Demonstration</u>
Income:		
- Below 50% of Area Median	60.9%	62.6%
- Below 80% of Area Median	90.7	91.6
Race/Ethnicity:		
- Black	21.1	17.2
- Hispanic	6.6	4.8
- Native American	.6	.9
- Asian/Pacific Islander	1.0	.3
Elderly	12.0	13.9
Receive Section 8 Assistance	30.9	31.2
<hr/>		
Total Occupied Units	15,998	3,924

SOURCE: RRP Cash and Management Information System, projects started and completed between October 1, 1988 and September 30, 1992.

Unit Rents. The C/MI data base provides rents on units both before and after rehabilitation. There are two complications in using this data. First, for the many units that were not occupied before rehab, the C/MI pre-rehab rents are not necessarily meaningful numbers, often nominal or zero. Inclusion of the previously unoccupied units in the analysis would exaggerate the level of rent increases after rehab. Second, since the bedroom size of some units was changed by rehab, the rent change could also reflect the change from a three-bedroom to a four-bedroom unit, for example.

In Table 10 below, the analysis compensates for these two complications. First, the pre-rehab and post-rehab rents are compared only for those units which were occupied before and after rehab. Second, the average rents by unit size both pre-rehab and post-rehab were calculated for this subset of units. The differences between these pre-rehab and post-rehab averages were then

weighted by the percentage of units with zero, one, two, three, etc. bedrooms and an overall, weighted average was determined.

Table 10

COMPARISON OF RENT CHANGES IN UNITS OCCUPIED
BOTH BEFORE AND AFTER REHAB

<u>Characteristic</u>	<u>State RRP</u>	<u>Demo</u>	<u>Demonstration / State RRP</u>
Before Rehabilitation:			
- # of Occupied Units	8,337	2,143	
- Average Unit Rent	\$354	\$275	78%
After Rehabilitation:			
- # of Occupied Units	13,933	3,535	
- Average Unit Rent	\$401	\$327	82%
Average \$ Rent Increase	\$47	\$52	
Average % Rent Increase (Unweighted)	13%	19%	
Average % Rent Increase (Weighted)	10%	18%	

SOURCE: RRP Cash and Management Information System, projects started and completed between October 1, 1988 and September 30, 1992.

Table 10 indicates that rents were generally lower in Demonstration properties than in the regular State program. That Demonstration units rent for about four-fifths (78 and 82 percent, respectively) of the rents charged for units in the regular State RRP, both before and after rehabilitation, is to be expected given that rents tend to be lower in rural areas. With either weighted or unweighted averages, the rent increases after rehab are modest in both programs, although higher in the Rural Demonstration, 18-19% as compared to 10-13%.

V. PROGRAM PARTICIPATION BY RENTAL PROPERTY OWNERS

The performance of the RRP depends on the willingness of private property owners to participate in the program and rehabilitate their rental properties. To assess the performance of the Demonstration, the characteristics of owners of the properties rehabilitated in the Demonstration were compared to the characteristics of the owners of properties in the regular State RRP. The extent to which States may have modified their programs to ensure participation by owners of housing in their less densely populated regions is also important in understanding the success of the Demonstration.

This section is divided into two parts. The first examines C/MI data to compare ownership characteristics of the Demonstration with the regular State RRP. It explores the question:

- o How does the type of owner of Demonstration properties compare with owners of properties in the regular State RRP? For example, are individuals more prevalent than partnerships or corporations in the Rural Demonstration?

The second part uses information gathered in interviews with State officials to determine how they organized to conduct the program and the procedures they undertook to market the program in their rural areas. The key questions include:

- o Did the States need to structure the RRP differently for the Demonstration?
- o To what extent do the rehabilitation subsidies offered to owners differ in the Demonstration from the already existing programs?
- o How do the States market the Demonstration? How does this compare with the already existing programs?

Project Ownership

The types of owners participating in the Demonstration overall were very similar to those who participated in the regular State RRP. In both programs, a large majority of the projects and units were owned by individuals. Similarly, in both programs, partnerships, corporations, and non-profits respectively were the next three most common forms of project ownership (Table 11).

Table 11

PROPERTY OWNERS BY NUMBER OF PROJECTS AND UNITS

Projects

<u>Owner</u>	<u>State RRP</u>		<u>Demonstration</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent**</u>
Individual	4,938	84 %	1,446	90%
Partnership	487	8	88	6
Corporation	273	5	47	3
Non-Profit	89	2	18	1
Cooperative	3	*	3	*
Other	68	1	10	1
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Projects	5,858	100 %	1,612	100%

Units

<u>Owner</u>	<u>State RRP</u>		<u>Demonstration</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent**</u>
Individual	10,956	68 %	3,174	81%
Partnership	3,288	20	404	10
Corporation	1,124	7	181	5
Non-Profit	278	2	120	3
Cooperative	38	*	38	1
Other	452	3	27	1
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Projects	16,136	100%	3,944	100%

* Less than .5 percent

** May not add to 100% because of rounding.

SOURCE: RRP Cash and Management Information System, projects started and completed between October 1, 1988 and September 30, 1992.

Despite this basic similarity, there were differences in the pattern of ownership between the Demonstration and the regular State RRP. The percentage of projects and units owned by individuals was greater in the Demonstration than in the regular State RRP, which had more partnerships among its owners.

For both the regular RRP and the Demonstration, comparing the owners of projects to the owners of units, individuals own a smaller percentage of units than they do projects while partnerships correspondingly own a larger percentage of units than projects. Partnerships are more likely to sponsor multi-unit projects with larger capital requirements. This pattern is stronger in the State RRP than in the Demonstration, which changes only slightly.

Program Structuring

The appropriateness of the rental rehabilitation concept to rural areas perhaps is best illustrated by the fact that the outcomes of the Demonstration and the regular State RRP were very similar despite very few adjustments made in program implementation for the Demonstration. The sample of State officials who participated in the Demonstration were asked about changes they made to their program to operate in rural areas. The interviews indicated little change, except in the area of marketing and outreach to owners. The results of the survey are summarized in Table 12.

Table 12

ADMINISTRATIVE CHANGES TO IMPLEMENT
THE DEMONSTRATION

<u>Administrative Area</u>	<u>Number of States Reporting:</u>	
	<u>No Change</u>	<u>Change</u>
Degree of Centralization	19	0
Type of Subsidies Offered	19	0
Definition of Target Population	16	3
Marketing/Owner Outreach	11	8
Qualification Requirements	17	2
Procedures of Approval	19	0
Follow-Up Activities	19	0

SOURCE: "Individual Reports of Participant Focus Groups for HUD's Rural Rental Rehabilitation Demonstration Program," November 1, 1990, prepared by Westat, Inc.

Except for marketing, the reported changes were minor. Three States changed their definition of target areas from a neighborhood targeting more appropriate to an urban setting to a more

area-wide eligibility for the Demonstration. Similarly the changes in qualification requirements were quite minor.

Centralization-Decentralization. In the regular State RRP, States are about equally divided between those that operate "centralized" programs and those whose programs are "decentralized." Although the distinction is rarely so clean, in a decentralized program the State makes awards to units of general local government, which then select and manage projects. In a centralized program, the State itself selects and manages individual projects. In rural areas, one might suppose that the lack of local expertise might lead States to favor a centralized approach for the Demonstration. It is interesting that States did not change either the centralization of their administrative structures or the types of subsidies they offered. For further discussion on centralization vs. decentralization, see Appendix G.

Subsidies and Other Funding Differences. The State officials indicated in their interviews that they did not vary the type of subsidies offered, the qualification requirements, or the procedures of approval. In the regular RRP, different States use different types of financing. Most use some form of deferred payment loan, usually with forgiveness of principal if the owner meets specified requirements. On the other hand, some States use direct, amortizing loans (at a subsidized rate of interest) and still others use grants. Regardless of the type of subsidy favored in a given State, none reported changing the subsidy mechanism for the Demonstration.

The changes in target population definitions in three States reflected necessary adaptations of urban based definitions of neighborhood to the different spatial arrangements of smaller communities. The two changes in qualification requirements were very modest adjustments.

Marketing. Eight State officials of the 19 interviewed reported changing their marketing procedures for the Demonstration. The differences in the marketing of the Rural Demonstration noted in Table 12 came from a variety of reasons. It reflected perceptions by State officials about the difficulty of reaching property owners in the more rural areas of the state with the necessary information. Both the local officials and the property owners were regarded as lacking in experience and technical know-how in many cases and as needing a special outreach effort. The variety of approaches used to market and/or advertize the Rural Demonstration are listed in Table 13. In addition, the State officials stressed the importance of "word of mouth" and interaction over the telephone based on more general inquiries from interested parties.

Table 13

PRINCIPAL MARKETING STRATEGIES FOR THE RURAL DEMONSTRATION

<u>Strategy</u>	<u>Number of States Using</u>
Target group meetings	10
Press releases	5
Mailings, NOFAs, and brochures	10
Training sessions and workshops	3
Advertisements and brochures	4
Referrals from other programs	3

Source: "Individual Reports of Participant Focus Groups for HUD's Rural Rental Rehabilitation Demonstration Program," November 1, 1990, prepared by Westat, Inc.

VI. THE COST OF THE PROGRAM

The costs of the Demonstration include both the project development costs and the costs of administering the program. Both types of costs might be expected to be different in rural areas when compared with urban areas. For example, travel costs associated with remote rural areas might mean both higher development and administrative costs because qualified contractors and government administrators need to travel greater distances to get to the projects. In fact, project development costs appear slightly lower in Demonstration projects than in projects completed in the regular State RRP. There is some indication that the Demonstration may have higher administrative costs.

Development Costs

Project costs incurred in the Demonstration were well within RRP cost requirements. The per unit program subsidy of \$4,677 and the investment of \$1.27 in private funds for every RRP dollar invested in a unit both indicate that the Demonstration met the basic cost requirements of the program (Table 14).

Costs in the Demonstration differed slightly from the comparison group of projects completed in the regular State RRP during a similar period of time. The rehabilitation and total development (including acquisition and refinancing) costs were lower in the Demonstration. Although the RRP subsidy per unit was also lower in the Demonstration, the lower overall cost meant that the RRP subsidy made up a greater portion of the total financing. This is reflected in the lower leverage amount of \$1.27 in the Demonstration as compared with the \$1.55 achieved in the regular State RRP.

The lower per unit costs in the Demonstration are magnified by the fact that the units tend to be in projects with somewhat fewer units (See Table 8). One would suppose that the economies of scale associated with multi-family projects would reduce costs. On the other hand, the Demonstration properties were more likely to be occupied prior to rehabilitation, and this may suggest that less comprehensive rehabilitation was needed on those units.

Table 14

**PROJECT DEVELOPMENT COST
AND FINANCING CHARACTERISTICS**

<u>Financial Characteristic</u>	<u>State RRP</u>	<u>Demonstration</u>
Per Completed Unit:		
- Rehabilitation Cost	\$12,672	\$11,802
- Total Development Cost	12,932	12,177
- RRP Subsidy Funds	4,820	4,677
- Private Funds	6,925	6,321
- Other Public Funds	1,144	1,171
Private Funds per:		
- RRP Dollar	\$1.55	\$1.27
- Public Dollar	\$1.32	\$1.23
<hr/>		
Total Units	16,136	3,944

SOURCE: RRP Cash and Management Information System, projects started and completed between October 1, 1988 and September 30, 1992.

Administrative Costs

The C/MI data base does not include information that enables a comparison of the costs of administering the regular RRP and the Demonstration. Thus, unlike project costs, there is no available source of good data on this component of the program. Nine of the 19 Demonstration administering State officials interviewed offered their opinions about the relative costs of the Demonstration and the regular State RRP. This information, which is summarized in Table 15, suggests that administrative costs may be somewhat higher in rural areas.

Table 15

ADMINISTRATIVE COSTS

<u>Administrative Costs Are:</u>	<u>State Officials' Responses</u>
Higher in Demonstration	5
Same	2
Higher in State RRP	2
No Opinion	10
-----	-----
Totals	19

SOURCE: "Individual Reports of Participant Focus Groups for HUD's Rural Rental Rehabilitation Demonstration Program," November 1, 1990, prepared by Westat, Inc.

On the other hand, the same State officials were asked whether they viewed the cost effectiveness of the Demonstration as a strength or weakness. As Table 16 shows, most said that it was a strength. If administrative costs are somewhat higher in the Demonstration, the program is nonetheless considered to be cost effective by its administrators.

Table 16

COST EFFECTIVENESS OF THE DEMONSTRATION

<u>Cost Effectiveness in the Demonstration is:</u>	<u>State Officials' Responses</u>
A Strength	13
Neutral	2
A Weakness	4
-----	-----
Totals	19

SOURCE: "Individual Reports of Participant Focus Groups for HUD's Rural Rental Rehabilitation Demonstration Program," November 1, 1990, prepared by Westat, Inc.

VII. STRENGTHS AND WEAKNESSES

The State RRP officials interviewed were asked to say what they regarded as the particular strengths and weaknesses of the Rural Demonstration. Their responses are summarized in Table 17.

Their response on cost effectiveness has already been discussed above. The Demonstration is well rated in this regard. It is less well rated on the response of rental property owners to the program with equal numbers (7) giving a low rating as a high rating. One factor causing low assessments is the difficulty that property owners have dealing with local governments, especially the part-time governments involved in the Rural Demonstration.

The largely negative response on the topic of relative freedom from regulatory burden involves in part a feeling that some of the regulations are less relevant in smaller communities than in large cities. But more it reflects a reaction to a number of government-wide regulations rather than any specific to RRP or the Demonstration.

The strongest theme throughout the interviews was the feeling of State RRP officials that the Demonstration allowed them to reach a housing need that no other program reached. This conviction controlled their strong positive assessment of the Demonstration as a whole.

Table 17

STATE RRP OFFICIALS' PERCEPTIONS OF THE RURAL DEMONSTRATION'S STRENGTHS AND WEAKNESSES

<u>Category</u>	<u>Strength</u>	<u>Neutral</u>	<u>Weakness</u>
Cost effectiveness	13	2	4
Demand from property owners	7	5	7
Freedom from regulatory burden	5	8	6
Meeting previously unmet needs	17	1	1

Source: "Individual Reports of Participant Focus Groups for HUD's Rural Rental Rehabilitation Demonstration Program," November 1, 1990, prepared by Westat, Inc.

APPENDICES



APPENDIX A

PUBLISHED REPORTS ON THE RENTAL REHABILITATION PROGRAM (RRP)

The general RRP has been the subject of three evaluative efforts. For further exposition of the subjects illustrated in this study, the reader is advised to consult the following reports:

- o "Evaluation of the Rental Rehabilitation Program," HUD-1107-PDR, July, 1987;
- o "Rental Rehabilitation Program Review," HUD-PDR, July 23, 1990; and
- o "Eighth Annual Report to Congress on the Rental Rehabilitation Program," HUD-CPD, September, 1991.



APPENDIX B

CASH AND MANAGEMENT INFORMATION SYSTEM (C/MI) DATA BASE

The Cash and Management Information (C/MI) System is the automated system HUD uses to disburse RRP funds that have been approved by State and local governments. It is the principal source of program information used in this evaluation, since it covers the entire history of the program and provides a number of critical characteristics of each project and its tenants.

In addition to cash management information on the status of amounts awarded to grantees, the C/MI contains detailed information on project financing and on characteristics of tenants, both before and after rehabilitation. Prior to rehabilitating a building, grantees send HUD a form indicating the amount of funds needed for the project and the characteristics of the tenants who may be living there. Within 30 days of completing the building (or when the project is 90 percent occupied, whichever is later), the grantee sends HUD a form that details the actual cost of the work, the source of the financing, and the characteristics of the tenants then in occupancy.

The principal drawback of the C/MI is that it is impossible to link up tenant data before and after rehabilitation. Instead of telling the characteristics of the tenants of Unit 101 before rehabilitation and afterwards, the data base tells us just that a tenant with certain characteristics lived in the building before rehabilitation and that a tenant with those characteristics lived in the building afterwards. Thus we cannot precisely track unit rents, nor can we with certainty determine which tenants moved and which stayed.

The C/MI system is a large data base with the data being submitted by hundreds of grantees. It therefore contains some errors and omissions. For example, previous analyses have shown that rents are not always reported consistently, and the extent to which tenants receive rent assistance seems to be under-reported.

The analysis here compares Demonstration projects with projects started and completed in the regular State RRP between October 1, 1988 and September 30, 1992. It uses only those 33 States that participated in the Demonstration. All tables, unless otherwise specified, are based on the C/MI data base and represent the actual counts of the universe of relevant projects and units. Any variations in the numbers (Ns) reported reflect the actual incompleteness in the underlying data base.

APPENDIX C

SAMPLING STRATEGY FOR INTERVIEWS

To obtain more qualitative information about the Demonstration and how States viewed it, interviews were conducted with RRP officials in a sample of 28 States by Westat, Inc. during October, 1990 under contract to HUD. To understand both how States were administering the Demonstration as well as why States chose not to participate, both participants and non-participants were sampled.

The initial sampling frame for the interviews was based on the HUD program office designation of how the participating States organized their programs. Twelve of these States appeared to operate "centralized" programs, and 17 seem to have "decentralized" programs. In the other four States, there appears to have been a change from a centralized form of administration for the existing State program to a decentralized method for the Rural Demonstration. In brief, the difference between these forms of organization is that the State selects and manages projects in a centralized system; in a decentralized system, the State funds local governments, which in turn select and manage specific projects. These differences might be important for the performance in the Demonstration, particularly with regard to the cost and marketing issues in which Congress had indicated interest.

For the purposes of the study, four different cells were considered for sampling:

- 1) RRP States not participating in the Demonstration (13);
- 2) RRP States participating with a centralized program (12);
- 3) RRP States participating with a decentralized program (17); and
- 4) States which centralize their RRP program but decentralized their Rural Demonstration program (4).

The sampling plan adopted provided for randomly selecting:

- nine of the 15 non-participating States;
- eight of the 12 centralized participating States;
- eight of the 16 decentralized participating States; and
- all four of the participating States which centralized their already existing program but decentralized their Rural Demonstration program.

One of the States in the last category was no longer in the program and was dropped from the sample, reducing the total number of State interviews to 19.

Although the sample design assumed the correctness of the centralization or decentralization labels provided by HUD program office reporting, the State RRP officials interviewed indicated that only four of the eight "centralized" Rural Demonstration programs were consistently centralized. The other four centralized the cash management and decentralized the rest of their activities. Moreover, one of the eight "decentralized" Demonstration programs was, in fact, consistently centralized. All the Rural Demonstration programs were run with similar degrees of centralization or decentralization as the same State's regular existing RRP activities, rather than varying as expected in the three States in that sample category.

As it worked out in practice, the sampling frame overrated the accuracy of the decentralization-centralization distinction. Nevertheless, nearly three-fifths of both the participating states (19 of 33) and three-quarters of the non-participating States (9 of 12) were randomly selected for interviews.

Table C-1 shows the universe of States (including Puerto Rico) by whether they participated in the Demonstration and whether they administer the regular State RRP. In sampling, we chose to include only those States that were administering the regular State RRP. This left us with an effective universe of 45 States.

Table C-1

NUMBER OF STATES PARTICIPATING

<u>State RRP Administered by:</u>	<u>Participation in Demonstration?</u>		<u>Total</u>
	<u>Yes</u>	<u>No</u>	
State	33	12	45
HUD	1	5	6
-----	-----	-----	-----
Total	34	17	51

SOURCE: U.S. Department of Housing and Urban Development, Office of Urban Rehabilitation.

APPENDIX D
FOCUS GROUP QUESTIONS
PARTICIPANT STATES

1. I'd like to begin by asking what factors led your state to decide to take part in the Demo.

Administration

2. I'd like to ask a question about the administration of your regular program. In particular, I'm interested in knowing whether the regular program can be categorized as either centralized (at the state level) or decentralized (at the local government level). I realize that your answer may depend on whether we're talking about cash management, marketing, or operational functions like qualifying and processing applicants. So let's talk about one area at a time.
3. Now I'd like to turn to the administration of the Demo. Compared to the regular program, were there any differences in how the Demo was administered?
4. Did the administration of the Demo place any additional demands on the skills of the staff at the state or local level?
5. Did you have any difficulty in obligating the funds committed to the Demo?
6. Let's compare the administrative cost for the Demo versus the administration of the regular program. Did the Demo spend a higher percentage of its funds on administration, a lower percentage, or was it about the same?

Implementation (design and marketing)

7. Compared to your regular program, were there any changes in the design of the Demo at the state or local level in order to serve the rural market? By design, I mean things like the definition of the target population, type of subsidy, qualification requirements, procedures for approval, and followup activities.
8. What efforts were made to reach potential participants in the Demo? For example, did you send out materials, advertise in the paper, radio, or TV, or hold meetings?
9. Was the marketing strategy for the Demo at the state or local level any different from the marketing strategy for the regular program?
10. How would you rate the response to the Demo? In particular, compared to the regular program, to what extent did demand outstrip the supply of funds?

Effectiveness

11. In your opinion, how effective was the Demo in meeting the needs for rehabilitation of rental housing in the areas served by the Demo?
12. If the present rural rental rehabilitation program continues, what do you see as its strengths and weaknesses?
13. If the rural rehabilitation program became permanent, are there any changes that you'd like to see made to the program?
14. Are there any other comments or suggestions that any of you would like to make about the Demo?

APPENDIX E
FOCUS GROUP QUESTIONS
NON-PARTICIPANT STATES

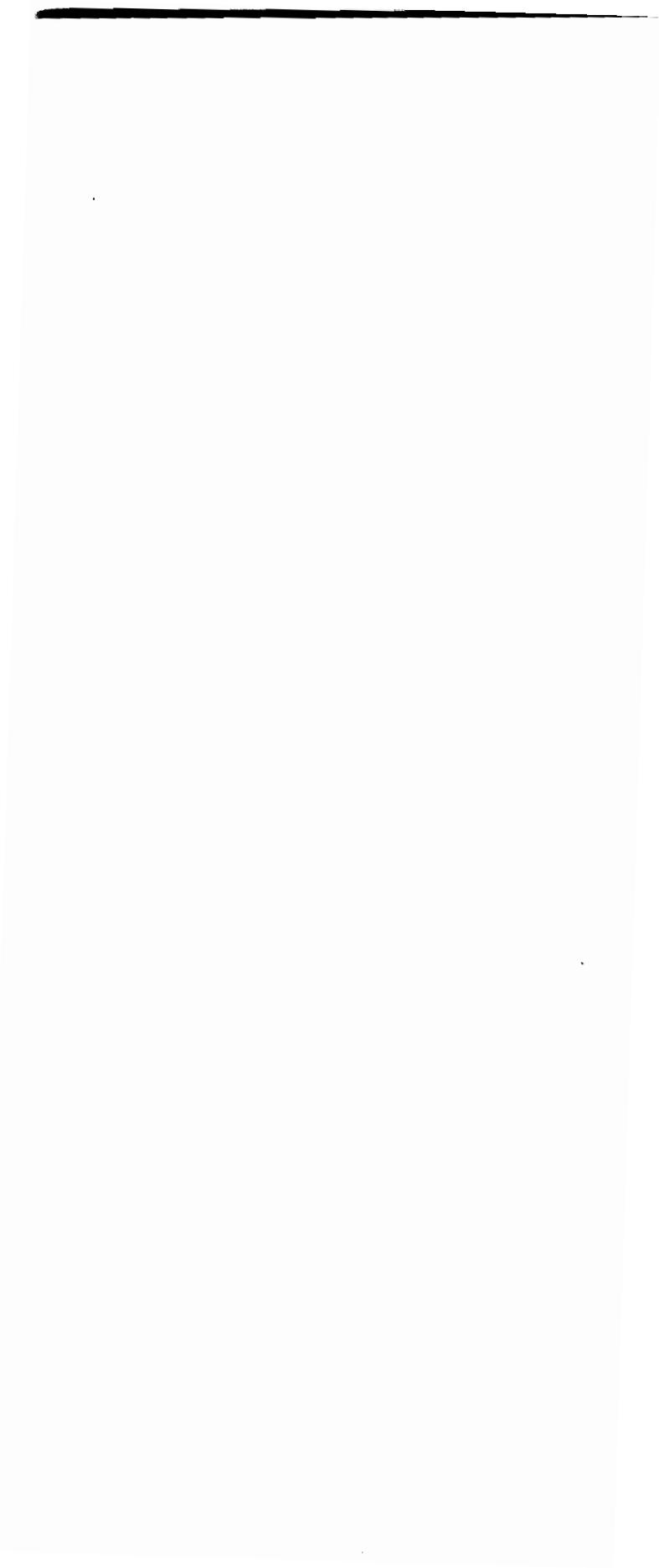
Hello, My name is _____. I'm calling on behalf of HUD.

1. You should have already received a letter from David Cohen, the Director of the Office of Urban Rehabilitation, dated September 21. Did you receive that letter?

(If no, explain purpose; advise that another copy of the letter will be sent; ask willingness to answer a few questions - if not willing, say "Well then let me wait until you've had a chance to receive Mr. Cohen's letter and I'll check back with you.")

2. I'm aware that your state decided not to participate in the Rural Rental Rehabilitation Program Demonstration. Is this correct?
3. I just have a few quick questions to ask you so that we can better understand the reason that your state decided not to participate in the Demonstration. Do you have a few minutes?
4. It would help to get a little background on you and the role you play in administering the regular Rental Rehabilitation Program. (Probe for title and role.)

-
5. Are there any special factors that led your state to decide not to take part in the Demonstration? (No funds available. Not enough funding to justify the efforts. Pressure of other tasks. Not enough demand in rural areas. Other.)
 6. In retrospect, do you feel that your state could have benefitted from participation in the Demonstration?
 7. From what you know about the Demonstration, are there any changes that you would recommend?
 8. Are there any other comments or suggestions that you would like to make about the Demo as you understand it?



APPENDIX F

METHODOLOGY FOR MEASURING "RURALNESS"

The comparisons in Table 6 categorize counties where RRP projects were located into three groups based on total population and population density. Each county in the United States was ranked on each of the two criteria. Starting with the smallest counties in terms of total population, their populations were then added up until they totalled 10 percent of the total U.S. population. The county that put the county over 10 percent had a population of 30,407, and that and all smaller counties were put into the first category.

The second category was similarly developed by adding county populations up until they totalled 20 percent of the U.S. population. The county that put the count over 20 percent had a population of 61,335, and that county and all others with populations over 30,407 and less than 61,336 were put into this second category.

The remaining counties thus contain 80 percent of the U.S. population. They were grouped into the third category.

The same procedure was used for developing the categories with regard to population density.

The second part to the analysis involved identifying the county in which each RRP project is located. Since the C/MI does not identify the county location of the project, it was necessary to identify the county from the project address provided in the C/MI system. The process, called geocoding, rarely is 100 percent successful. It was possible to identify the county location of about 85 percent of the projects in the analysis.



APPENDIX G

CENTRALIZATION / DECENTRALIZATION OF STATE RENTAL REHABILITATION PROGRAMS

State-administered RRP programs (including the Demonstration) may be divided into two groups based on whether they are "centralized" or "decentralized" programs. In centralized programs, the State selects and directly provides assistance to property owners. In decentralized programs, the State makes awards to units of local government, which select and assist property owners. Especially when operating in rural areas with governments which are less experienced with comparable housing programs, this difference may be very important to a program's performance. In administering the Rural Demonstration, one possible response of RRP managers could have been to structure the program differently from the existing State RRP to accommodate the differences in the rural projects.

All the States interviewed (19) reported having the same administrative style for the Demonstration and the regular RRP. However, some states (7) reported taking a more active role in the Demonstration. The main reason given for increased involvement at the State level was the lack of administrative resources and "sophistication" at the local level.

The degree of centralization or decentralization in a given Rural Demonstration depended on allocation of its three principal administrative activities: cash management; marketing; and operations. Cash management included the allocation of funds to grantees, doing the financial reporting through the C/MI system, and controlling disbursements. Marketing involved the outreach to owners of rental housing and local government participants, publicizing the Demonstration, and identifying possible projects. Operations included qualifying and processing participants, technical assistance, and project monitoring.

In the 19 States sampled in interviews: five States centralized all the administrative functions; eight States decentralized all the administrative functions; five States centralized cash management but decentralized marketing and operations; and one State had mixed elements of centralization and decentralization for all administrative functions. These patterns are illustrated in Table G-1.



TABLE G-1

CENTRALIZATION AND DECENTRALIZATION OF RURAL
DEMONSTRATION ADMINISTRATION

<u>Category</u>	<u>Cash Management</u>	<u>Marketing</u>	<u>Operations</u>	<u>Overall</u>
Centralized	10	5	5	5
Decentralized	8	13	13	8
Mixed	1	1	1	6

Source: "Individual Reports of Participant Focus Groups for HUD's Rural Rental Rehabilitation Demonstration Program," November 1, 1990, prepared by Westat, Inc.

Examination of the degree of decentralization reveals significant dimensions of the administration of the RRP Rural Demonstration. Cash management is separable from the other activities, while marketing and other operations are organized in parallel manner in all the States studied. Three distinct types of administration were used depending on the State agency's existing relationship with local governments and their estimate of local resources and program sophistication.

Further analysis yielded few consistent differences that were related to how the administrative tasks were organized. For both State RRP and Rural Demonstration projects, more units were in the decentralized category than the other two. Both programs had similar patterns, but there were fewer and less marked variations in the Demonstration projects. Centralized projects had lower proportions of single family projects (1 to 4 units), single RRP project owners, white tenants, tenants with Section 8 assistance, units occupied prior to rehab, but more two bedroom units. The decentralized units had lower rates of Section 8 assistance and higher proportions of white households. The mixed administration units were low in share of single family units and prior occupancy, but were high in share owned by partnerships and owners with a single RRP project.

