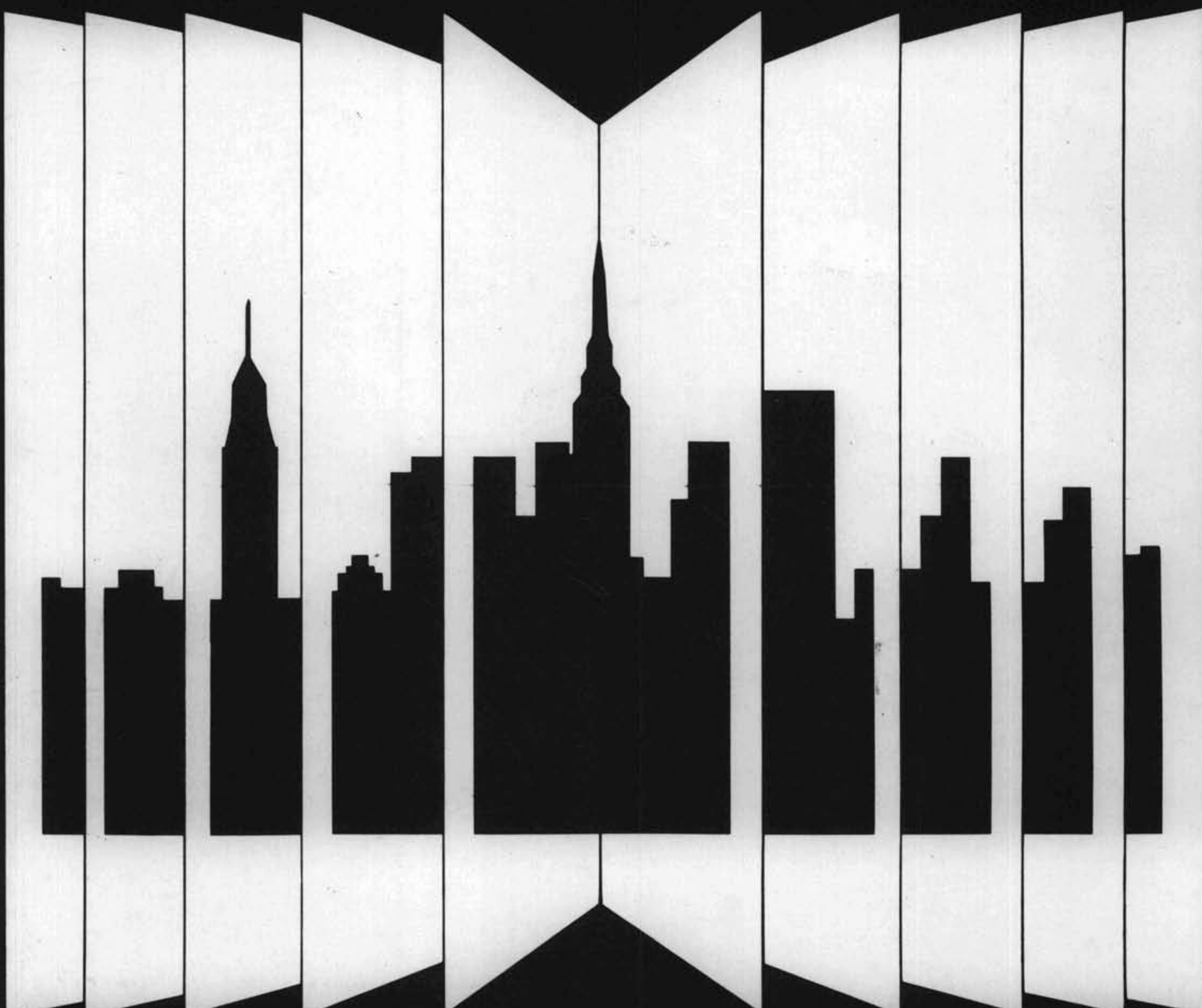
U. S. Department of Housing and Urban Development
Office of Policy Development and Research

Methods of Urban Impact Analysis

4

HUD's Section 312 Program



METHODS OF URBAN IMPACT ANALYSIS

4. HUD'S SECTION 312 PROGRAM

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

OFFICE OF POLICY DEVELOPMENT AND RESEARCH

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FOREWORD

This paper is the fourth in a series of policy research monographs called Methods of Urban Impact Analysis. It reviews the probable urban impacts of a substantial increase in the scale of the Section 312 rehabilitation loan program of the Department of Housing and Urban Development.

It was prepared in September 1978 by two distinguished visiting scholars in HUD's Office of Policy Development and Research, Professors Norman J. Glickman from the University of Pennsylvania and Susan Jacobs from Brooklyn College of the City of New York. This effort follows the format described for urban and community impact analysis by the Office of Management and Budget in Circular A-116.

The paper focuses on the employment, income, population, and fiscal impacts of Section 312 in urban areas. It concludes that the urban impacts of this program are positive, with a strong stimulus to central city construction activity in the short run and enhanced job experience and neighborhood stability in the long run.

The purpose of this series is to explore a variety of methodological approaches to urban impact analysis. Its approach falls between the qualitative analysis of the second paper in the series, Neighborhood Self-Help Development, and the highly quantitative analysis of the third paper, The Program for Better Jobs and Income. It uses input-output analysis along with existing program data to generate quantitative estimates of several urban impacts, but it also relies on qualitative results when data are not available or existing models are inadequate. Thus, this effort represents yet another methodological approach to the problem of urban impact analysis. Like the earlier papers in the series, it was completed in a very brief time period and does not represent a major research effort. Nonetheless, it demonstrates again what can be done by first-rate analysts applying existing knowledge to the evaluation of the urban impacts of a Federal program. I recommend this effort to all readers with an interest in housing rehabilitation and urban affairs.

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Development and Research

Table of Contents

Executive Summary	i
1. The Nature of the Section 312 Loan Program	1
2. General Impacts of the Section 312 Program	16
3. Urban Impacts of Proposed Increments to the 312 Program	28
4. Alternative Programs	47
5. Summary	51

Executive Summary

This report contains an assessment of the urban and community impacts of a proposed funding increase in HUD's Section 312 program. Since its inception in 1966, 312 has provided 55,000 housing rehabilitation loans, primarily to owner-occupied units. Operating in tandem with other HUD programs such as CDBG and urban renewal, 312 has attempted to supplement these programs' efforts at fostering neighborhood development. Although the program's size has been relatively small -- only $85 million in loans were made in FY 1977 -- HUD has proposed an increase in funding to $275 million in FY 1979. The impact of this $190 million increase on several urban indices is discussed in this report. Concentration is on change in employment, income, population, local fiscal condition, and neighborhood condition; particular attention is given to these variables as they pertain to minority and low income populations.

In Section 1, following a general description of 312, the allocation of loans according to region, city, and neighborhood is discussed. The following aspects of the current 312 program are detailed:

- The average size loan under 312 in 1977 was $11,280.
- A large number of cities in all regions of the country were served. However, Northern tier states received 61% of all loans.
- Low and middle income neighborhoods were the primary recipients of 312 loans. Because most loans went to owner-occupiers, little displacement of neighborhood residents has taken place.

Concerning recipients, Section 1 concludes:

- o Low income families receive more funds than non-poor families; close to 70% of 312 loans went to families below the national income median.

- o Minority participation in 312 is high.

Section 2 provides an analysis of the <u>general impacts</u> of 312. There, three issues are discussed: multiplier effects, neighborhood effects, and interneighborhood effects.

Regional multipliers are used to measure the direct, indirect, and induced increases in employment and income throughout the local economy which result from 312 expenditures. That is, initial rehabilitation expenditures are shown to bring forth additional expenditures for building and other supplies and consumer spending from wages. Therefore, total income and employment resulting from 312 is some multiple of original activity. Using <u>input-output</u> models, several conclusions emerge from the multiplier analysis of Section 2:

- o The average 1977 loan of $11,280 led to approximately 19 person-weeks of new work in the construction and related industries. In total, the current 312 program has meant 144 thousand person weeks of employment.

- o 35% of these jobs were in craft and 33% in low-skilled blue collar occupations.

- o Minority workers benefit to the extent of their participation in the construction industry (17.5% nationally as opposed to 11% for all industries) and related industries.

Attention is given externalities and neighborhood effects. As 312 and related programs help to rehabilitate houses, residents may fix up their houses although they are not recipients of 312, as the neighborhood improves. Also, commercial activity may expand to meet enhanced neighborhood demand and there may be increases in community pride.

Section 2 also discusses the effects on neighborhoods not covered by 312 which are near affected neighborhoods. It is argued that there might be some relative decline of non-312 neighborhoods as resources are bid away from them. However, this factor is not likely to be significant.

The urban and community impacts of a $190 million increase in 312 are given in Section 3. The following conclusions about the short-term impacts are significant:

- o Nearly 15,000 new jobs will be created nationally because of the expansion; nearly 2,600 of these will go to minority workers. Most of the new jobs, about 8,900, will be focused in central cities.

- o The expanded 312 will mean at least a $121 million increase in wages and profits in central cities and $51 million in the suburbs; additional, but smaller, amounts will go to non-metropolitan areas. The impact is even larger when the effects on non-construction industry profits are considered.

- o Since there is little change in the size of the housing stock (there will only be changes in its quality), only small effects can be seen in the population size of jurisdictions or neighborhoods.

- o There should be a small improvement in the fiscal conditions of local governments as property, sales, business, and income taxes increase due to 312 related activity. Also to the extent that new workers were formerly unemployed or on welfare, there will be reductions in such social service costs.

- o Since 312 is concentrated in distressed neighborhoods, there may be improvements in such areas as housing stocks improve.
- o Central cities will benefit relative to suburban jurisdictions and metropolitan areas will gain with regard to nonmetropolitan regions.

Long-term impacts are also discussed in Section 3. These include: larger long-term multiplier effects, increases in work experience of construction and related employees (including minorities), inter-neighborhood migration, and neighborhood stability and pride.

Section 4 sets out the possible impacts of two alternatives to 312. First, the conversion of 312 from a loan to a grant program of the current size is considered. Since fewer properties would be reached under this alternative, the income, employment, and other impacts will be less positive. Second, there is an analysis of another alternative: no program for housing rehabilitation. This "free market" alternative is seen to have negative impacts on distressed communities as access to loans will be sharply reduced since the private loan market often does not reach distressed neighborhoods or people.

A brief summary of findings, given in Section 5, completes the study.

1. The Nature of the Section 312 Loan Program

1.0 Introduction

This analysis examines the urban and community impacts of a proposed increase in the level of funding of the Section 312 loan program for housing rehabilitation that is administered by the Department of Housing and Urban Development. The focus of the report is on several issues relating to the operation of the 312 program within the context of the Administration's urban policy.

- o How might an expanded 312 directly or indirectly influence several important indicators of urban health? These variables include population, employment, personal income, fiscal condition of of local governments, and neighborhood condition.
- o Additionally, how would minority and low income families be affected by a larger 312?
- o What are the likely interregional and intrametropolitan differentials in the program's impact? How might metropolitan areas fare relative to nonmetropolitan areas?

Answers to these and related questions are important in analyzing 312 (and other Federal programs) in <u>spatial</u> terms which have not been fully considered in the past. It is only with an understanding of the spatial dimensions of spending and tax programs that the social implications of current and future programs will be appreciated.

This report contains four additional sections. After a description of the operation of the current program[1] in the remainder of Section 1, an assessment of its general effects is presented in Section 2. The urban impacts of the HUD's proposed budget increase are given in detail in Section 3. Section 4 consists of an analysis of 1) changing 312 to a grants program and 2) abandoning 312. Section 5 summarizes the report's conclusions.

1.1 Description of the Program

The Section 312 loan program was established by the Housing Act of 1964, and provides direct loans for rehabilitation of owner and renter occupied, single and multifamily units, and commercial structures. The borrower, applying through a local Housing Authority (which typically administers the program), may obtain a direct loan from HUD in order to bring the property up to local housing and building codes, and for general property improvements. Since the first loans were made in 1966, over 50,000 owner-occupied and multifamily dwelling units have been rehabilitated.[2]

1/ Internal HUD data for this analysis was provided by the Section 312 Information System, Office of Community Planning and Development.

2/ This is small relative to the more than 3 million owner-occupied units needing rehabilitation.

Upper limits of $12,000 per residential dwelling unit and $50,000 per commercial structure were in effect for loans until the 1977 Housing and Community Development Act raised the maximum levels to $27,000 and $100,000 respectively. The loans are made at 3% annual interest for 20 years or for three quarters of the estimated remaining life of the structure, whichever is less. Loans larger than $3,500 are secured by mortgages. As a result of legislative and HUD priorities, the program has emphasized the funding of owner-occupied dwelling units. In FY 1977, 91.7% of the loans, and 75.2% of loan value were made to owner-occupied dwellings. Since the HUD Act of 1969, priority is given to applicants with low or moderate incomes, as described in Section 212(d)(3) of the National Housing Act.

Section 312 funds are distributed to the 10 Federal Regions by a formula which weighs the region's previous year's share of 312 funds by 60%, and the region's share of CDBG funds by 40%. Regional offices allocate the loans within the region in reponse to loan applications from would-be borrowers from eligible areas.

The 312 program operates in tandem with other existing HUD programs that are usually neighborhood specific. The most important tie is with CDBG progams (about 80% of all projects during FY 1977); other programs with which coordination is made are urban renewal, urban homesteading, neighborhood development, and code enforcement.[3/] These programs primarily operate in areas in which there are low and moderate income families who are often not adequately served by private mortgage activity and rehabilitation financing because of redlining and other banking practices, and thus require programs such as 312 in order for rehabilitation to be undertaken.

Allocation of CDBG funds is made according to a dual formula. The first, established by the Housing and Community Development Act of 1974, is determined by population, poverty, and overcrowded housing criteria. For FY 1978, the second part of the CDBG formula was determined to include additional "distress" criteria -- the population growth lag and age of housing; the latter serves as an indicator of the age of the infrastructure, and is a factor in the Brookings Urban Conditions Index (see P. Dommel, et al. Decentralizing Community Development, Brookings Institution, 1978). The percent of pre-1940 housing stock is also highly correlated with other indicators of distress, such as loss in retail sales, loss of tax base, and loss of population.

3/ Loans outside of these designated areas can be made for households attempting to qualify for FAIR insurance.

Both neighborhood targeting criteria imply continued emphasis on low income neighborhoods as the prime recipients of 312 loans. This is documented in Section 1.2.

1.2 Recipients of 312 Loans

1.2.1 Distribution by Region, City, and Neighborhood

As Table 1 indicates, Section 312 loans have been used in a wide variety of cities, both large and small. In FY 1977, 429 cities in all regions of the country were participating in the program. Since 312 began, loans have been made to economically healthy cities and distressed cities alike.

Table 1

Section 312 Loans by Selected Cities
July 1966 - June 1977

	Total Residential and Mixed Use			Owner-Occupied		
	Number of Loans	No. of Dwelling Units	Loan Amount	Number of Loans	No. of Dwelling Units	Loan Amount
Large Cities						
Boston*	1,036	2,652	20,461,943	837	1,822	12,515,393
New York*	150	862	3,704,100	89	228	1,794,000
Philadelphia*	2,291	2,718	14,484,186	2,178	2,284	10,842,286
Baltimore*	780	1,294	8,029,090	591	717	4,205,740
Detroit*	433	564	1,446,402	426	551	1,420,952
Chicago*	470	1,777	11,256,717	365	769	6,184,065
Washington, D. C.*	188	226	2,132,350	164	181	1,725,900
Denver	685	898	4,088,750	583	697	3,513,900
Dallas	198	213	907,100	143	148	638,750
Los Angeles City	85	237	1,168,625	61	103	840,825
Small Cities						
New Haven*	221	509	3,943,689	192	403	3,454,244
Springfield, Mass.*	114	187	548,850	100	156	468,650
Scranton*	17	23	73,300	17	23	73,300
Charlotte	182	219	1,743,464	173	192	1,707,914
Atlanta*	497	743	4,139,752	373	454	2,788,900
Champaign	5	5	24,050	5	5	24,050
Youngstown*	86	96	384,050	74	79	337,550
Albuquerque	141	148	672,550	127	129	616,600
Corpus Christi	332	377	2,055,700	302	331	1,872,100
Long Beach	9	22	295,400	8	20	274,550
Jacksonville	8	13	60,000	7	12	51,250

Source: Section 312 Information System, Community Planning and Development, U.S. Department of Housing and Urban Development.

*Indicates city falls in distressed range of Brookings Urban Conditions Index.

The interregional distribution of 312 loans is given in Table 2 for the FY 1977. During that year, available data for 5,128 loans worth a total of 57.9 million dollars[4/] show an average of $11,280 per loan. These loans, however, were not uniformly distributed interregionally: they were heavily concentrated in Federal Regions 1, 2, 3, and 5 which represent, by and large, the Northern Tier states of the Northeast and North Central parts of the United States. In those four regions, in which 50% of the nation's population live, some 61% of the loans and 56.3% of the loan value were made. Regions IV and VI, the Southern tier, have reported a lack of labor skilled rehabilitation, in their areas.

The size of the average loans differed substantially across regions, varying from $8,200 in Region 5 to $15,380 in Region 10 in which there were a substantial number of multi-family units.

According to HUD regulations and other studies, (see A. Pascal and B. Williams, <u>Appraising HUD Strategies for Economic and Community Development and Analysis of the CDBG, Section 312, and UDAG Programs</u>, Rand/WN-10199-HUD, 1978),most 312 monies flow to poorer neighborhoods. There has been an

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4/ Regional breakdowns are only available for $57.9 million of the $85 million worth of loans for FY 1977.

Table 2

Section 312 Loans by Region FY 1977

Federal Region	Number of Loans	Dwelling Units	Loan Amount (thousands)	Average Loan (thousands)	Percent Distribution
1	419	851	5,792	13.82	8.17
2	348	581	5,035	14.47	6.79
3	781	992	8,779	11.24	15.23
4	588	812	7,498	12.75	11.47
5	1,587	1,891	12,975	8.18	30.94
6	325	359	3,529	10.86	6.33
7	68	77	608	8.94	1.32
8	236	350	2,810	11.91	4.60
9	397	589	5,009	12.62	7.74
10	379	642	5,828	15.38	7.39
U.S. Total	5,128	7,144	57,862	11.28	100.0
Sum of Northern Tier Regions (1,2,3,5)	3,135	4,315	32,581	10.39	
% of these Regions out of U.S. Total	61.13%	60.40	56.3	92.13	

Source: Section 312 Information System. Community Planning and Development, U.S. Department of Housing and Urban Development.

effort to spatially concentrate 312 loans: rehabilitation must be made on a concentrated, rather than "spot" basis, and must be undertaken in conjunction with other HUD poverty-area programs such as urban renewal as mentioned above. There is some evidence that private capital has been attracted to 312 neighborhoods, especially for urban homesteading projects, so that neighborhood development may be enhanced by 312. However, data on this subject are somewhat fragmentary.

Since most of the loans are to owner-occupied families, the program results in relatively little displacement of the population.[5/] That is, if rehabilitation takes place in predominantly rental units, the increased value of the property might result in higher rents which low income people could not afford. Therefore, some renters might be displaced from the neighborhood and might in fact be worse off than they are currently. Since 312 is focused on owner-occupied properties, this displacement factor is insignificant.

5/ Current operating procedure does not allow 312 loans to be used if there is displacement unless (1) it is covered by the Uniform Relocation Act or (2) the locality provides relocation assistance comparable to that under (1).

Overall, the data presented here indicate that there is a wide interregional and intercity dispersal of funds under 312. Due to neighborhood targeting efforts, most funds flow to low and middle income neighborhoods within those regions and cities.

1.2.2 Distribution by Income

Whether low income people, as well as low income neighborhoods, benefit from 312 is a related, yet different, issue. Table 3 shows the relationship between loan characteristics and the family incomes of loan recipients. Several patterns are apparent. First, due to the CDBG (and other) targeting of the program, lower income families receive more loans than upper income families. Of the approximately 55,000 loans[6/] made between 1967 and 1977, 28,190 were to families with incomes with less than $10,500. Second, lower income families have lower average loan values than higher income families. Between 1967 and 1977, the average loan to families with incomes of less than $10,500 was $6,346, compared to $8,708 for families with higher incomes. This reflects two

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6/ There were more loans than shown in Table 3 because some borrowers did not report incomes and were thus omitted from Table 3.

Table 3: Section 312 Loans by Income of Recipient

January 1967 - December 1977

Recipient Incomes	Number of Loans	Loan Amount	Average Loan Amount	Number of Loans	Loan Amount	Average Loan Amount
0-2991	4,912	19,106,009	3,890			
2992-4488	4,508	25,983,941	5,764	28,190	178,898,871	6,346
4489-7480	9,386	66,966,521	7,135			
7481-10472	9,384	66,842,400	7,123			
10473-11968	3,881	28,980,297	7,467			
11969-13464	3,221	24,418,976	7,581			
13465-14960	2,539	19,733,254	7,772			
14961-16456	1,938	15,807,526	8,157			
16457-17952	1,358	12,170,600	8,962	17,186	149,666,620	8,708
17953-19448	1,103	10,064,320	9,124			
19449-22448	1,359	13,566,592	9,983			
22441-29928	1,261	15,738,972	12,481			
29921-74800	458	7,659,296	16,723			
74801-149600	31	548,450	17,692			
149601-299200	19	267,900	14,100			
299201 +	18	709,451	39,414			

Source: Section 312 Information System. Community Planning and Development, U.S. Department of Housing and Urban Development phenomena. One, the difficulty lower income families have in affording debt, and two, that some of the upper income families in the 312 programs were in fact non-poor landlords who were renovating their rental properties.

Close to 70 percent of loans in calendar FY 1977 went to individuals whose income was below the national median. By contrast, according to Mortgage Insurance Companies of America data available for privately funded mortgages for the first quarters of 1977 and 1978, only 39% and 30% respectively of all loans were made to individuals with incomes below the national median. Also, fourteen percent of the 312 loans in calendar year 1977 went to "very low income" individuals, those with incomes less than 50 percent of the local median. Although the proportion of loans is less than this income group's share of the population, it is rare that such low income individuals would be able to receive any loans from the private market. Since a large percentage of the loans are made to owner-occupied properties, this results in an increase in the asset holdings of very low income families and represents one of the few opportunities for them to increase their assets. This has important equity ramifications for the distribution of wealth between the rich and poor.

It should be noted, however, that the low income individuals which 312 serves directly are owners of property. This fact indicates that they are likely to be better off in total assets than other low income individuals who are not owners, and whom Section 312 may only reach indirectly, or not at all. Overall, though, 312 increases the access of low income households to rehabilitation loans.

1.2.3 Distribution by Race

The distribution of recipients of Section 312 activity by race (Table 4) yields the following patterns. Although white families received more loans than black families through 312 (22,232 versus 17,326 in 1977), the average loan value to blacks was slightly higher ($7,624 versus $7,062). Additionally, the proportion of black families receiving loans was much greater than that for whites. It is also clear that white families were better able to obtain outside conventional financing in addition to 312 than black families since their loan patterns show much more private market sharing of loans. This is consistent with most studies of housing markets.

Table 4

Section 312 Loans by Race of Recipient*
(cumulative through 1977)

	White	Black	Other Minority
Total Loans			
Number of Loans	22,232	17,326	2,276
Loan Amount	156,995,117	132,099,829	17,299,442
Average Loan	7,062	7,624	7,600
Loans which also received Private Financing			
Number of Loans	3,017	1,699	298
Loan Amount	28,306,264	16,340,626	2,651,450
Other Financing	8,039,629	6,286,762	740,527
Average Loan Amount	9,382	9,618	8,897
Average Financing	2,664	3,700	2,485

Source: Section 312 Information System. Community Planning and Development. U.S. Department of Housing and Urban Development.

*Note that the sum of these categories will not equal loan totals due to the lack of reporting of race information by some recipients.

1.3 Conclusion

The Section 312 loan program has been run on a relatively small funding level, but has allocated those funds to a wide variety of jurisdictions in all parts of the country. Low income and minority populatons have been served by the program to a greater extent than through the private market. As owner-occupied properties receive the largest share of 312 funds, the program results in relatively little displacement of neighborhoods' low income populations. Since the allocation criteria for determining 312 target areas has changed to attach greater weight to decline indicators, it is possible that cities in distress will receive a greater share of funding in the future.

2. General Impacts of the Section 312 Program

2.0 General Impacts of Section 312

In this section, we consider some general consequences of housing rehabilitation through Section 312. Loans generated through the program will have several direct and indirect effects. Directly, loans will allow homeowners to employ construction workers to fix up their homes.[7/] This, in turn, means not only new employment and construction industry profits, but also the purchase of building materials and the spending of workers' wages on consumer items. These indirect impacts are felt by the community or city at large, and are known as multiplier effects. Additionally, if many homes on a block or neighborhood are rehabilitated, other owners may find it to their advantage to fix up their homes, independent of 312. Such neighborhood effects are also important indirect consequences of 312. Another consideration is the impact of 312 activity in one neighborhood on people and activity in nearby areas. Therefore, it is useful to investigate inter-neighborhood effects of 312. These general considerations are the topic of the remainder of this section.

7/ Either by hiring workers themselves or by employing construction industry contractors.

2.1 Multiplier Effects

The impact of 312 on a city or region is highly complex and is felt beyond the improvement of the housing stock, the direct subsidy to homeowners, and the increased activity in construction-rehabilitation. Industries other than construction in the region realize increases in production because they supply inputs directly to the construction industry. These supplier industries (e.g., producers of building materials), in turn, require increased levels of inputs, some of which will be supplied by industries within the region (known as the "indirect effect"). Additionally, in each industry experiencing increased sales, a change will occur in the earnings paid to workers in the construction and related industries. This increase in income to the region's households leads to an increase in consumption expenditures by these employees. These consumption expenditures, in turn, influence the level of regional activity associated with the production of consumer goods (the "induced effect").

The more the suppliers of the initial industry are concentrated in the region, the larger will be the purchases of construction inputs within the region. The more varied the composition of industry within the region, the larger the percent of successive expenditures that are made within the region. Therefore, the multiplier will be larger for bigger and more diversified regions.

The sum of these expansion effects generated by a Section 312 loan for a given increase in construction within a region may be found by using a "regional multiplier"[8/] such as a multiplier for the construction industry which measures the size of the direct, indirect, and induced effects within the region produced by a one dollar expenditure of Section 312 funding on the output of the construction industry.[9/]

8/ Industry-Specific Gross Output Multipliers for BEA Economic Areas. U.S. Department of Commerce. January 1977. 052-045-000-48-7. Regional output multipliers for the direct and indirect effects have been estimated for all 173 BEA Economic Areas by the Commerce Department for initial activity in each of 56 sectors of the economy.

9/ For example, BEA reports the gross output construction multiplier (including the induced effects of consumption expenditures) for Boston as follows:

Gross output multiplier 3.335 → 1.000 Original increase in output
→ 1.721 Direct effect
→ 1.614 Indirect and induced effects

That is, a one dollar in demand for the construction industry generates $0.72 additional activity in industries within the region which supply the construction industry, which in turn generates $1.61 additional activity for industries within the region which supply inputs to the suppliers of the construction industry and consumption-related expenditures. Thus, the average $19,750 loan for construction in Boston produces $65,175 of output there through the direct and indirect effects. The $20,461,943 in Section 312 loans to the city of Boston from 1966-1977 produced $68,240,579 of output within the Boston region.

Gross output multipliers[10/] for the construction industry for several BEA regions centered around large cities and smaller cities appear in Table 5. Large cities, with their greater diversity of industry, systematically have higher regional multipliers than smaller cities, since in large cities indirect suppliers are more likely to be found locally. Therefore, 312, through the multiplier, should have a larger impact on bigger cities. Multipliers for individual neighborhoods are smaller than those for whole cities, as there are leakages to suppliers outside the neighborhood, and a Section 312 loan should have a smaller impact on a neighborhood than on the region as a whole.

It is also useful to understand how much employment is generated and the industrial categories of jobs which are produced by increases in construction industry activity through Section 312. To do so, input-output tables can be used to generate estimates of output and employment (or income) created by such a program. We outline some of the indirect impacts of 312 here. Note that in what

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10/ The analyst may also be interested in income and employment multipliers as well as output multipliers. The three types are distinguished here. Although values for all three multipliers for all regions are not readily available, they have been estimated for some regions. The three types of multipliers are known to be highly correlated; that is, in regions in which Section 312 generates larger values of output, it will also generate larger increases in income and employment. The output multiplier measures the total value of output increases for industries in the region as a result of the increased final demand for one industry (in this case, construction). The income multiplier measures the impact of a change in final demand for one industry (e.g., construction) on the income of the region. The employment multiplier measures the additional employment in the region generated by additional final demand for one industry (e.g., construction).

Table 5

Regional Gross Output Construction Multipliers for Selected BEA Regions (SIC 15-17)

Large Cities	
Boston	3.3
Chicago	3.6
Dallas	3.2
Denver	2.7
Detroit	3.2
Los Angeles	3.6
New York	3.6
Philadelphia	3.6
St. Louis	3.1
Small Cities	
Albuquerque, N.M.	2.4
Bangor, Me.	2.0
Charlotte, N.C.	2.7
Clarksburg, W. Va.	2.2
Fort Smith Ark.-Ok.	2.3
Paducah, Ky.	2.1
Reading, Calif.	2.0

Source: Industry-Specific Gross Output Multipliers for BEA Economic Areas U.S. Department of Commerce. January 1977. o52-045-000-48-7.

follows, an assumption has been made that 312-related construction activity will have similar multiplier effects to other construction expenditures. In addition, the analysis abstracts from alternative uses (public or private) of 312 funds.

First, we view employment which is related to the program[11/] Table 6, using national input-output coefficients, indicates the estimated number of employee hours created by the average loan in 1977 ($11,280) and by the entire 312 program ($85 million) for each major affected industry. Thus, the average loan leads to 766 hours of work (about 19.2 person-weeks), of which a little less than half (8.6 person weeks) was in construction and the rest in supporting industries.[12/] In total, the 312 program should have produced about 5.8 million person-hours (144,000 weeks) of which 2.6 million were direct (construction) and the rest indirect.

11/ Note that 312 does not have employment creation as its primary goal. However, more jobs (and income) are an important indirect effects of 312.

12/ For each dollar of new construction output, the following amounts were required from the supporting industries:

wholesale and retail	11.6¢
stone and clay products	10.4
heating and plumbing and structural metals	9.8
primary iron and steel	9.4
lumber and wood products	8.3
business services	7.3
transportation and warehousing	

Employment creation will be parallel to these output increases.

Table 6

Estimated Hours Required by An Average 312

	Average Loan	Total Program (Hours in millions)
Total	766	5,771
Construction Industry	345	2.601
On-site	290	2.184
Off-site	55	.417
Other Industries	421	3.170
Manufacturing	229	1.726
Wholesale Trade, Transportation Services	112	.842
Mining and all Other	80	.604

Second, we can see the occupational mix of 312 related employees in Table 7. Of the jobs created by 312, 35% were of the craft and kindred type, 17% were operatives, and 16% were laborers. White collar jobs accounted for a far smaller proportion of direct and indirect employment created by 312.

As noted in Section 1, the impact of programs on the minority population is of serious concern to policymakers. The extent to which the growth of economic activity within a region is shared by the minority population depends on the percentage of employment of minority population in the initial industry and the supplier industries. These shares of employment vary both geographically and by industry. In the construction industry in 1975, for example, minorities comprised 14.9% of employees in New York State, 23.7% in Georgia, 12.9% in Illinois, and 23.1% in California, compared to 17.5% nationally,[13/] although minorities comprise 16% of the national labor force across all industries. Therefore, it is clear that minorities tend to benefit more from construction industry expansion than from most other industries' growth. More detailed analysis would be necessary to ascertain minority participation in the secondary and tertiary supplier industries.

13/ Equal Opportunity Employment Commission, Equal Employment Opportunity Report, 1975 Volume 1, Tables 1 and 2.

Table 7

Percent Distribution of Employment Related to 312 by Occupational Class

Occupation	Percent
Professional and Technical	6%
Managers and Administrators	9
Clerical Workers	11
Sales Workers	11
Craft and Kindred Workers	35
Operatives	17
Service Workers	2
Laborers Except Farm and Mine	16
Farmers and Farm Workers	1

2.2 Externalilties and Neighborhood Effects

A major development issue which Section 312 addresses is the problem of externalities, or neighborhood effects, in the housing market. Davis and Whinston [14/] have demonstrated that when property values depend heavily on neighborhood quality, most individuals will not choose to rehabilitate their properties unless others do likewise. By subsidizing the rehabilitation of some properties, Section 312 loans will induce other property owners to also improve their homes, and the general quality of the neighborhood may improve. This will result in better neighborhoods and improvements beyond the scope of 312. Thus, the uncertainty which prevents a rehabilitation initiative will be removed, and resources will be more efficiently allocated, especially in the long run.

The full effect of a given amount of rehabilitation on unsubsidized individuals' properties to do the same determines the real size of the impact on Section 312 through its effects on private market investment, and the multiplier effects of that investment. In most recipient areas of 312 activity, the threshold percent of subsidized rehabilitation

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14/ Davis, Otto A. and Whinston, Andrew B., The Economics of Urban Renewal, Law and Contemporary Problems, Vol. 26, No. 1, Win. 1961.

necessary to generate substantial private activity may not yet have been reached (although this cannot be measured quantitatively) since the program is so small, thus primarily limiting the benefits of the 312 program to the direct improvement of the housing stock and the multiplier effects of that expenditure. Taken in conjunction with other HUD (and non-HUD) neighborhood-based programs, positive neighborhood effects.

Other neighborhood effects may be identified. An improved housing market due to concentrated rehabilitation may induce increased commercial activity to serve residents, although this is often limited and will occur with considerable time lags. Additionally, there may be an (unmeasurable, but important) increase in neighborhood pride and self-esteem among local residents. This may reduce crime and vandalism in the neighborhood.

2.3 Inter-Neighborhood Effects

If 312 loans are utilized in some neighborhoods within a city and not in others, they may cause neighborhood conditions in non-recipient areas to decline relative (although probably not absolutely) to targeted neighborhoods. This may be true for several reasons. First, resources employed in the rehabilitation activity would be bid up in price since the amount demanded of labor and materials increases. In some cases, these increased costs may make rehabilitation in non-recipient areas less economical. Second, improved neighborhoods which enjoy the subsidy may provide an inducement for the most productive and most easily employable of the low income population to migrate from other neighborhoods to the funded area. Third, the bandwagon effect of private funding for rehabilitation in the subsidized area generated by the 312 subsidy could as well have impacts on other areas. The induced demand for private funds from 312 activity could redirect private funds for rehabilitation from other areas to the funded area, shifting rehabilitation activity rather than generating net additional private funding for rehabilitation. This could create a potential negative impact on non-recipient areas. Given the small size of 312, however, it is unlikely that such negative effects will occur.

2.4 Summary

For a complete evaluation of the impacts of the Section 312 loan program, regional growth should be estimated using output, income, and employment multipliers. Stimulation of complementary private rehabilitation generated by an improved neighborhood quality in the funded area must be assessed, and the possible redirection of investment from other neighborhoods has to be considered. Finally, the relationship between targeted and non-targeted neighborhoods (or larger areas) should be analyzed.

3 Urban Impacts of Proposed Increments to 312 Program

HUD's proposed budget FY 1979 calls for $245 million for Section 312. This, in addition to an estimated $30 million in loan repayments, will yield a total program level of $275 million, an increase of nearly 225 percent ($190 million) above the 1977 level of $85 million.[15/] In this section, the urban impacts of the addition to the Section 312 program will be analyzed, given the general impacts discussed in Section 2. Concentration will be on the change in the short-run absolute levels of employment, income, population, fiscal condition, and neighborhood condition of central cities in Section 3.1. These impacts are identified separately for minorities and low income residents. Special consideration is also given to cities with high unemployment and cities with low per capita income.

Section 3.2 contains an assessment of the impact of the increase in Section 312 funding on the same variables for suburbs. In Section 3.3, the nonmetropolitan impacts are discussed. Section 3.4 contains an assessment of the relative impacts of Section 312, among various jurisdiction types (e.g., central cities versus suburbs). Section 3.5 explores the long run impacts of the expanded 312 program.

15/ Although 312 funding will be increased greatly, the additional costs of running and managing the program will be lower per unit than at the existing funding level, as the fixed administrative costs have already been established.

3.1 Short-Run Absolute Impacts on Central Cities of the Increment to Section 312

3.1.1 Employment

Expenditure of 312 money on residential construction will create jobs in the construction industry and in supplying industries as has been indicated in Section 2. These employment (as well as income) impacts are primarily short-term, as the rehabilitation activity is a one time process (long-term factors are listed in Section 3.5). The number of jobs created in the sectors through the use of 312 funds in central cities may be computed using "manpower factors,"[16/] which are estimates of the number of jobs created in the originating sector and supplying sectors (equivalent to the direct and indirect employment multipliers discussed in Section 2). Estimates are available both by occupational breakdowns, and by industry sectors.

Using the manpower factors for residential construction, an approximation is made of the number of additional jobs created by the expansion of the Section 312 program. A total of 14,668 jobs across the United States will be created by the expenditures on construction activity of an additional $190 million

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16/ BLS, Factbook For Estimating The Manpower Needs of Federal Programs, Bulletin 1832. 029-001-13 88-4, 1975.

of 312 money in the construction and supporting sectors. As minorities comprise approximately 17.5% of the labor force in the construction industry[17/] and blacks, approximately 10.9%, it is expected that approximately 2,567 of those jobs will be held by minorities (1,599 of these blacks).

Not all of those jobs will be generated by channeling the additional funding to central cities. FY 1977 data available by site for the 312 program shows that approximately 61% of the funds were allocated to central cities. If this pattern continues, then $116 million in additional 312 funds will be allocated to central cities under the new program. This will generate aproximately 8,947 jobs in these sectors within the central cities, of which approximately 1,205 will be held by minority laborers. A breakdown of jobs created by race and skill category appears in Table 8.

Additional jobs will be created through the multiplier effects of expenditures by these employees, although data for their estimation is not available. Therefore, the figures given here and in the following sections are minimum estimates. They would be substantially larger if data were readily available to estimate the induced effects.

These employment estimates should also be viewed as minimum estimates because rehabilitation is a more labor intensive process than is new residential construction, and more

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[17/] EEOC 1975, Table 1 op. cit.

Table 8

Employment and Earnings Generated in Central Cities
by $115.9 Million of 312 Loans by Occupational Group for
the Total Population and for Minorities

	Total Population		Minorities	
	Employment	Income (000's)	Employment	Income (000's)
All Occupations	8,947	$107,355	1,205	$9,634
White Collar Workers	2,642	41,997	207	2,208
Professional and Technical	498	8,701	63	821
Managers and Administrators	846	14,931	40	430
Sales Workers	348	4,744	16	164
Clerical Workers	950	9,957	88	744
Blue Collar Workers	6,044	60,899	958	7,612
Craft and Kindred	3,089	36,435	298	2,809
Operatives, excluding Transportation	1,072	9,913	195	1,604
Transportation Operatives	440	4,519	80	720
Non-farm Laborers	1,443	9,508	385	2,193
Service Workers	133	969	28	173
Farm Workers	128	803	12	34

employees will be used per dollar spent on rehabilitation than on new construction. Rehabilitation, as well, is a process which employs a larger proportion of low skilled laborers than does new residential construction. As minority employees in the construction industry are concentrated in these occupational categories (88.10 percent of minority workers in the construction industry are blue collar and service workers[18/] and minority employees represent 21 percent of all workers in these occupations), it is likely that the number of jobs created that would be held by minorities would be even greater than the numerical estimates above.

In examining the employment estimates, as well as the income estimates discussed below, it is necessary to bear in mind that although jobs may be generated at central city locations, they may be held by workers who are not central city residents. That is, many suburban workers will commute to central city jobs which are generated by 312. Although, there is some reverse commuting by central city residents to suburban jobs, the net number of jobs held by central city residents will be less than the number of jobs generated within the central city.

18/ EEOC Report, 1975, Volume 1, Table 1, Ibid.

As annual 312 allocations tied to the CDBG formula become increasingly targeted to distressed cities, and as long as high unemployment cities are distressed cities, relatively more funds will be induced there by 312 than in low unemployment cities. In cities with relatively low unemployment rates, the potential for minority employment is much greater, as job opportunities expand after the more senior members of the labor force become employed. Since most of the funds for 312 to lower income families and more will go to cities with high poverty rates (through the CDBG criteria), it is anticipated that more employment will be generated by 312 activity in cities with high poverty rates than in cities with low poverty rates.[19/]

19/ It is necessary to note that several distressed cities are in fact high per capita income cities (e.g., New York), and that this categorization may be a better indicator of costs, whereas poverty rates may be a better indicator of distress.

3.1.2 Income

The major income impacts from Section 312 funding for central cities will be generated by increased earnings of construction workers and workers in supplying industries, and by the profits generated for construction firms.

Table 8 shows the distribution of earnings among occupational groups for total employment and for minorities. The total income increase generated by central city 312 funding is shown to be $107 million and minority income is about $9.6 million.

As mentioned in the Section 3.1.1, the number of jobs created by rehabilitation is likely to be greater that the estimates, as more blue collar and low skilled labor is substituted for capital goods. The additional employment is likely to be composed of a greater percent of minority workers than are shown in Table 9. Income generated by the additional 312 funding therefore will be higher for both the total workforce and the minority component than the estimates indicate.

As reported by the National Association of Home Builders,[20/] the profit rate including overhead (which is low, as offices are run from small rented quarters or homes) is approximately 12 percent of the

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20/ Economics Department, National Association of Home Builders, Economic News Notes, Vol. XXI, No. 5, May 1975.

price of the construction of a residential dwelling unit. Thus, from the additional Section 312 money, approximately \$14 million will be generated as profits (including overhead) to the construction industry. Profit rates for rehabilitation are somewhat higher than for new construction, as rehabilitation is perceived as a more risky activity, and this estimate of profit may be low.

Thus earned income in the construction and supplying industries plus construction industry profits generated by additional 312 activities in central cities is at least \$121 million. Each dollar of wages created through new spending on rehabilitation due to 312 will generate further impacts through an expenditures multiplier. That is, workers in the construction industry will spend their wages on household goods and other items thereby generating incomes for other firms in the retail sector. We do not have estimates of such induced effects, but they are substantial.

The analysis for income in low income cities, for high unemployment rate cities, and for minorities, is parallel to that concerning employment.

3.1.3 Population

There should be no substantial population change in the short-run for central cities as a result of the 312 program. The size of the housing stock does not change as a result of the program, as existing units are improved, at least in the short-run.

3.1.4 Fiscal Condition

The impact on state and local fiscal conditions will be positive. The reasons for this are twofold. First, there will be an increase in the revenues gained from sales, income, and business taxes. Second, there is the possibility that unemployed workers formerly receiving welfare or unemployment benefits will now be employed in rehabilitation services. Thus, state and local government costs for welfare will go down. This impact is likely to be stronger for high unemployment cities, as there are more unemployed who could participate in rehabilitation employment.

3.1.5 Neighborhood Condition

In the short-run, the construction activity in recipient neighborhoods of the additional Section 312 program is likely to have a modest impact. As the Section 312 program is run in tandem with other HUD programs, it adds the rehabilitation dimension to neighborhoods already in the process of change. In the very short-run, relocation of renters, either temporary or permanent, may take place. As owner occupied housing is given priority for Section 312 funding, relatively little displacement is expected to take place.

3.2 Short-Run Absolute Impacts on the Suburbs of the Increment to Section 312

The impact of Section 312 on suburban areas is in many ways less predictable than for central cities. Funding levels for suburban jurisdictions for the nation as a whole are not readily available, although they are for some metropolitan areas and regions. Of the 39 percent of Section 312 funding during FY 1977 which did not go to central cities, suburbs have received more than half; nonmetropolitan areas received the rest. In Federal Regions 9 and 10, for instance, suburbs received approximately two-thirds of the noncentral city funding. If this proportion is allocated nationally, and the funding pattern continues, suburbs should receive approximately $49 million in additional Section 312 funds.

3.2.1 Employment

As a result of $49 million in additional Section 312 funding, 3,783 jobs are estimated (through construction manpower factors) to be created in the construction and supplying industries. Of these jobs 511 are estimated to be held by minority employees. Table 9 indicates the breakdown by occupation for all employees and for minority employees.[21/]

21/ Again, the qualifications listed for central city estimates apply here. These are underestimates of the labor utilized in actual rehabilitation activity, especially in the low skilled categories. The share of minority employment is likely to be larger due to the emphasis on occupations for which minorities are large participants in the labor force. Although jobs are generated at suburban locations, they may be held by workers who are not suburban residents as there may be some "out-commuting" by central city workers.

Table 9

Employment and Earnings Generated in the Suburbs by $49 Million of 312 Loans by Occupational Group for the Total Population and for Minorities

	Total Population		Minorities	
	Employment	Income (000's)	Employment	Income (000's)
All Occupations	3,783	$45,392	511	$4,085
White Collar Workers	1,118	17,772	88	939
Professional and Technical	211	3,687	27	352
Managers and Administrators	358	6,318	17	183
Sales Workers	147	2,004	7	72
Clerical Workers	402	4,213	37	313
Blue Collar Workers	2,555	25,744	406	3,226
Craft and Kindred	1,306	15,404	126	1,188
Operatives, excluding Transportation	453	4,189	83	683
Transportation Operatives	186	1,910	34	306
Non-farm Laborers	610	4,019	163	928
Service Workers	56	408	12	74
Farm Workers	54	339	5	14

The CDBG criteria may alter the allocation of funds to suburban jurisdictions. Of the many thousands of suburban jurisdictions in the United States, approximately 150 have characteristics which enable them to qualify as CDBG areas, and thus for 312 loans. These suburbs are often older jurisdictions, many of them originally cities themselves, and experience the same symptoms of decline as the older central cities. It is possible that a greater share of 312 funds will be allocated to these older suburbs, increasing the employment generated there, although this increase should be small for suburbs as a class.

3.2.2 Income

Income generated by an additional $49 million in 312 funds for suburbs is estimated in Table 9 for population totals and for minorities. Earned income for the population as a whole is estimated at $45 million. Of that, minorities are expected to earn $4 million. Applying profit estimates to construction as in Section 3.1.2, firms are expected to earn approximately $6 million in profits as a result of Section 312 activity in suburbs. Thus, a minimum estimate of income generated by the additional funding of Section 312 for suburban jurisdictions is $51 million. As jobs created through purchases made by households receiving income from employment in construction and supplying industries and profits in supplying industries have not been included in manpower factors, income generated would be even greater than these estimates.

3.2.3 Population

As for central cities, the impact on population movements will be negligible.

3.2.4 Fiscal Condition

As described in Section 3.1.4 above, the fiscal impact on states will be positive as higher revenues from income, sales, and business taxes will be collected, and expenditures on welfare and unemployment will be curtailed. Suburbs as a class are not expected to gain revenue from income taxes, but are expected to gain sales and business taxes.

3.2.5 Neighborhood

Impacts on suburban recipient neighborhoods will be negligible, as described in Section 3.1.5 above.

3.3 Short-run Absolute Impacts on Nonmetropolitan Areas of the Increment to Section 312

Nonmetropolitan areas will be marginally affected as a result of the increase in Section 312 funding. Approximately $25 million of the additional funding for Section 312 is anticipated to be allocated to nonmetropolitan areas. The employment and income impacts are predicted to be about half the size of the suburban impacts indicated in Section 3.2. These impacts are given in Table 10.

A minimum of 1,929 jobs, of which 260 will be held by minorities will be generated. Earned income generated is estimated to be $23 million, of which $2 million will be earned by minorities. Total earned income for the construction industry (including construction industry profits) is expected to be $28 million.

Impacts on population, fiscal condition, and neighborhood are negligible as discussed above in Sections 3.1 and 3.2.

Table 10

Employment and Earnings Generated in Nonmetropolitan Areas by $25 Million of 312 Loans by Occupational Group for the Total Population and for Minorities

	Total Population		Minorities	
	Employment	Income (000's)	Employment	Income (000's)
All Occupations	1,929	$23,416	260	$2,079
White Collar Workers	569	9,045	45	480
Professional and Technical	106	1,852	14	177
Managers and Administrators	183	3,230	9	93
Sales Workers	75	1,022	3	35
Clerical Workers	205	2,149	19	161
Blue Collar Workers	1,303	13,129	206	1,637
Craft and Kindred	666	7,858	64	605
Operatives, excluding transportation	231	2,136	42	347
Transportation Operatives	95	976	17	156
Non-farm Laborers	311	2,051	83	474
Service Workers	29	211	6	37
Farm Workers	28	176	3	8

3.4 Relative Impacts

3.4.1 Impacts on Central Cities vs. Suburbs

As is apparent from numerical estimates in Sections 3.2 and 3.3, the impacts on employment, income, and fiscal condition are expected to be larger for central cities than for suburbs.

3.4.2 Impacts on Suburbs vs. Nonmetropolitan Areas

Clearly, metropolitan areas--suburban and central city--participated in the program to a greater extent than nonmetropolitan areas.

Additionally, suburban areas receiving 312 funding are more likely to be in large SMSAs rather than small SMSAs. Thus, they are more likely to be in economic regions with a larger amount of economic activity than with smaller economic activity. Nonmetropolitan areas, however, are in small economic regions. Regional multiplier effects, therefore, for suburban (as well as central city) allocations of 312 money are likely to be larger than for nonmetropolitan allocations.

Therefore, not only do nonmetropolitan areas experience smaller direct effects as a result of the smaller funding level, but they have smaller regional share of indirect effects as well.

3.5 Long-Run Impacts

In Sections 3.1 through 3.4, short-run impacts have been analyzed. In this section, long-run impacts will be assessed.

3.5.1 Employment and Income

Although the direct and indirect effects of income and employment generated by additional 312 money take place only in the short-run, the induced effects through the expenditures multiplier work through the economy with time lags. Additional employment and income will be generated through the consumption-oriented industries in the long-run, although this increased demand is itself a one time increase.

As a result of employment in Section 312 rehabilitation projects, workers will gain experience and skills which will make them more valuable and employable members of the labor force. The large increment of Section 312 funding may also work to provide construction contractors (including minority contractors) with more experience in rehabilitation. Successful interactions with HUD offices on a larger scale may reduce the risk involved in rehabilitation activity, thereby reducing its cost (relative to inflation) in the long-run.

This is more likely to be the case for central cities, where there will be more Section 312 activity.

3.5.2 Population

In the long-run, population in central cities should marginally increase (or not decline at as rapid a rate) as a result of the improved housing stock. There should be no significant effect on suburbs and nonmetropolitan areas.

3.5.3 Local Fiscal Impacts

The most prominent (although, still small) of the long-run local fiscal impacts is the slightly increased property tax base as a result of property improvements. For a short time after the initial construction funding, sales tax revenue will still reflect the expenditures multiplier effects.

On the cost side, it is possible that infrastructure maintenance and replacement expenditures may increase if additional pressure is placed on local governments to complement the housing improvements.

3.5.4 Neighborhoods

The most definitive long-run impact from the additional Section 312 funding is the improvement of the housing stock in recipient neighborhoods. Further, the larger funding level of Section 312 is more likely than the existing Section 312 level to encourage complementary housing and commercial rehabilitation in affected neighborhoods, especially if the additional funds are concentrated rather than widely dispersed. Ramifications of the general neighborhood improvements may include better community stability, less vandalism, and a small reduction in crime rates. However, because of the many other negative externalities which occur in poorer neighborhoods, the 312 program will not overcome all of these problems, but, as discussed in Section 2, will aid in the upgrading of funded neighborhoods in general. As described in Section 2, there may be a related decline in non-recipient neighborhoods, although not a substantial decline in any one area.

4. Alternative Programs

4.0 Introduction

Examining the urban impacts of alternatives to the expansion of the 312 program is a valuable exercise to place the proposal in perspective. One can assess the difference between the urban impacts of achieving the goals through other possible programs and the urban impacts of achieving the goals themselves. The alternatives considered here are:

1. The substitution of a rehabilitation grant program, similar to the former Section 115 grants.
2. A withdrawal of HUD funding for rehabilitation loans without substituting another program for rehabilitation.

4.1 A Grants Program

This section examines the impacts of one possible alternative to the 312 program. In this program, HUD would give grants rather than loans to individuals. First, this analysis assumes the same spatial distribution of funds as under the current and expanded 312 programs. Second, since grants use more budgetary authority per property than loans (HUD would not recoup the 3% interest or the principle over time), for a grant program the same size as the loan program, then, over time, significantly fewer properties would be rehabilitated for the same amount of HUD money in the long-run.[22/] The general effects of a grants program, relative to the current program are as follows.

Income: Since the grant program would reach fewer properties, and over time a smaller number of dollars would work through the construction multiplier, the corresponding direct and indirect impacts of a grant program would be less than under the existing program. Thus, there would be a small decrease in income in the aggregate (compared to the level which existed under the loan program) and a small decrease as well in the impact on minorities since fewer people would now benefit from the program. The suburban and rural impacts would be very small since the program will now be reaching very few suburban and rural homes.

Employment: The argument for employment, of course, is parallel to the discussion of income. There would be a smaller increase in employment under a grant program than under a loan program and the effect on minorities in central cities and residents of the suburbs will be similarly smaller.

22/ In the short-run there would be a smaller difference between the existing 312 and the grants alternative.

Population: Since the grants program would affect fewer households than the loan program, only small population changes would be induced by it.

Fiscal Conditions: Given the small size of the program the impact on the fiscal conditions of central cities would be very small, less than the existing loan program. The impact on suburbs would be neutral.

Neighborhood Conditions: The analysis of neighborhood change indicates that there would be a relative decrease in the impact of the program since so few units would be rehabilitated. If fewer units are rehabilitated within a given area, this would reduce the incentive for private lenders to issue both mortgages and rehabilitation loans to other properties within the area, further contributing to the neighborhood.

4.2 No Rehabilitation Program: The Private Market Alternative

The analysis of the effects of no rehabilitation program is based on the following assumptions: (1) HUD money used for 312 would not be spent by HUD at all. (2) Private lenders would continue to avoid investments in poor neighborhoods, to low income individuals, and, to a lesser degree, to central cities. This would be a continuation of past practice. (3) Therefore, there would be less investment in affected neighborhoods than under either the 312 or the "grants only" programs. As a result, there would be less of induced income, employment, and population flows. (4) There would be less of an increase in property values than under either of the foregoing proposals and, therefore, a smaller positive impact on fiscal conditions. The impacts, in comparison to the current 312 program, are as follows.

Income: In comparison with the baseline program there would be a small decline in incomes generated through the construction multiplier in central cities in the aggregate and a small decline for minority groups in central cities.[23/] Since programs such as 312 produce additional incentives for private lending institutions to invest in designated areas, under this private market option these incentives would be removed and suburban towns would receive relatively more money for rehabilitation and other services than under either the 312 or grants situations. Thus there would be an increase in income for the suburbs. Since there are relatively few minorities in suburban towns the effect on suburban minorities will be essentially neutral.

Employment: As per previous discussion, the analysis of employment changes parallels the discussion of income changes.

Population: Since rehabilitation should have relatively little impact on migration flows, central cities would have a slight decline in population and suburban areas would have a slight increase in population as a result of this private market situation.

23/ The impact on minority groups relative to their size would be great. The discussion here is in aggregate terms.

Nonmetropolitan areas, in aggregate, should show no substantial change, although some small increases in private loanable funds might accrue to these areas. Low income and minority population in central cities might show a slight decline compared to the other programs whereas suburban and rural areas would probably show no change vis-à-vis 312.

Fiscal Condition: Compared to current 312 levels, there would be a small decline in the overall fiscal balances of central city local governments. Since fewer houses would be rehabilitated, the property values would not increase very much, and fewer people would be employed in construction trades. The suburbs would show a slight increase.

Neighborhood Condition : There would be a small decline in neighborhood conditions for central cities under this policy for reasons noted above in central cities. Suburban areas would show a slight improvement in neighborhood conditions because relatively more rehabilitation money would flow to the suburbs than under 312.

5. Summary

This section contains a brief summary of the urban and community impacts of the expanded Section 312 program. The summary is presented in accordance with the Office of Management and Budget (Attachment A to Circular number A-116) on the following pages.

URBAN AND COMMUNITY IMPACT ANALYSIS

Summary

A. Background

1. Initiative:

The proposed initiative will increase the Section 312 Rehabilitation Loan Program for FY 1980 to $275 million from $85 million in 1977.

2. Brief Description of Initiative (including extent of Federal control over uses of funds):

Twenty year loans will be made at a 3% interest rate to applicants in CDBG and other HUD targeted areas for rehabilitation of owner occupied and multifamily residential properties, as well as mixed use-commercial properties.

3. Overall Objectives and Likely Benefits:

The objectives of the program are to improve the housing stock, make rehabilitation funds available to low income homeowners in specified neighborhoods, and to supplement other HUD efforts in targeted low and moderate neighborhoods.

4. Costs:

The direct cost of the program during the FY 1980 will be the $275 million of loanable funds.

B. Impacts

1. Impacts on central cities, including those with high unemployment rates and those with low per capita incomes.

a. Absolute Impacts

Cities are predicted to gain a minimum of 8,947 jobs and $107 million in income through construction and supplying industry wages and construction industry profits. Additional jobs income will be generated by the spending of wages through the expenditures multiplier and through profits of supplying industries.

Population will not change significantly as the size of the housing stock does not change. Central cities and state governments will gain small amounts in the short-run in increased revenues from income, sales, business taxes and from property taxes in the long-run. As long as high unemployment and high poverty rate cities receive a larger share of 312 funding through distress criteria in the CDBG formula, more jobs and income will be created there.

b. Relative Impacts

Central cities will receive more loans than suburban and nonmetropolitan places will combined. Thus, central cities will generate more employment and income than will the suburbs.

2. Impacts on suburban communities, including those with high unemployment rates and low per capita incomes.

a. Absolute Impacts

Suburban communities are predicted to gain a minimum of 3,783 jobs and $45 million income. Additional jobs and income will be generated from the expenditures multiplier. Population should remain the same, and property tax revenues should increase by a small amount in the long-run.

b. Relative Impacts

Suburbs are predicted to gain fewer jobs and generate less income than central cities, but more than non-metropolitan areas.

3. Impacts on non-metropolitan communities, including those with high unemployment rates and those with low per capita incomes.

a. Absolute Impacts

Impacts on nonmetropolitan areas will be very small. Nonmetropolitan areas are predicted to receive a small amount of funds, and gain 1,929 jobs and generate at least $28 million in income.

b. Relative Impacts

Nonmetropolitan areas are predicted to gain less than suburbs or central cities. Regional multiplier impacts for non-metropolitan areas will be smaller than those for cities and suburbs, as nonmetropolitan areas must rely on places outside their small economic regions for supplying goods and services.

4. Other (please specify):

Recipient Neighborhood Impacts

a. Absolute Impacts

Recipient neighborhoods will gain an improved housing stock, and for owner occupied loans, an increased asset value among low and moderate income residents. A concentration of 312 program funds may induce additional investment in the neighborhood in both residential and commercial ventures. The general neighborhood quality should be marginally improved, although all neighborhood ills will not be cured.

b. Relative Impacts

Recipient neighborhoods will be improved as compared to non-recipient neighborhoods.

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