



**U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**  
Community Planning and Development

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**Special Attention of:**

All CPD Division Directors  
Entitlement CDBG Program Managers

**Notice CPD-14-11**

Issued: June 10, 2014  
Expires: This Notice is effective until it is amended, superseded or rescinded.

Supersedes: Notice CPD-03-03  
Notice CPD-07-01

Cross References: 24 CFR 570.208(a)

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**SUBJECT:** Transition Policy for Low/Moderate Income Summary Data  
Updates during Fiscal Year 2014  
for the Entitlement Grantees and Nonentitlement Hawaiian County Grantees of the  
Community Development Block Grant Program

This Notice describes policy guidance regarding the updated 2014 Low/Moderate Income Summary Data (LMISD). The LMISD support the Community Development Block Grant (CDBG) National Objective of providing benefit to low- and moderate-income persons on an area basis (LMA).<sup>1</sup> The LMISD are derived from special data tabulations provided to HUD by the U.S. Census Bureau. The special tabulations include data on family income, which were based on the Decennial Census in previous years and are now based upon the American Community Survey (ACS).<sup>2</sup> HUD anticipates receiving these special tabulations of ACS data every five years.<sup>3</sup> As always, the LMISD will be slightly revised each year for changes to grantee jurisdictions and Entitlement CDBG program

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<sup>1</sup> The LMA National Objective is described at 24 CFR 570.208(a)(1)(vi). Entitlement grantees have the option of utilizing HUD's LMISD data, or survey data that are methodologically sound, for determination of an activity's LMA compliance.

<sup>2</sup> The U.S. Insular Areas, American Samoa, Guam, Commonwealth of the Northern Mariana Islands, and the U.S. Virgin Islands, are not included in the American Community Survey. HUD will continue to utilize decennial Census 'long form' datasets for these communities, as it has in the past.

<sup>3</sup> The U.S. Census Bureau's processing time following the end of the period of data collection and the provision of the special tabulation to HUD can be about 2 years.

participations.<sup>4</sup> However, the family income data from ACS, upon which the LMISD are based, will only be fully updated upon receipt of the special tabulations every five years.

This Notice will address the publication format of the updated 2014 LMISD and the transition policy for compliance with the LMA national objective of area benefit activities which are beginning or ongoing as of the effective date of the updated dataset.

#### Publication.

Updated LMISD are posted on HUD's website:

[http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/comm\\_planning/systems/census](http://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/systems/census).

#### Distribution.

Each Field Office is responsible for notifying their Entitlement CDBG grantees of this Notice.

#### Effective Date for Updated LMISD.

The Department has established an effective date of **July 1, 2014** for the updated 2014 LMISD referenced in this Notice. As of July 1, 2014, grantees using LMISD to qualify area benefit activities shall use the updated LMISD based upon the ACS, notwithstanding the transition policy below. Grantees will have access to the updated data prior to the effective date for planning purposes. Please see the transition policy for more details.

#### Transition Policy.

Upon July 1, 2014, if the service area of an area benefit activity no longer qualifies per 24 CFR 570.208(a)(1) because the updated LMISD demonstrates a percentage of low- to moderate-income persons that is not at least 51% or the determined level per the exception criteria at 24 CFR 570.208(a)(1)(ii), then starting and/or finishing the activity is to be governed by the following guidance.

#### **The Four Part Test:**

With limited exceptions, grantees may not use the prior LMISD to qualify for area benefit when the CDBG funds are obligated to the activity by the grantee on or after July 1, 2014, regardless of the source year of the funding, and regardless of activity set-up status in the Integrated Disbursement and Information System (IDIS). For the purpose of this Notice, CDBG funds are considered "obligated" when a subaward or a contract is executed with a specific amount of CDBG funds for a specific area benefit activity with a clearly defined service area.<sup>5</sup>

In order for the prior LMISD to remain in use, an activity must meet a four part test which requires:

- an obligation before the effective date,
- a specific activity,
- a specific amount, and
- a clearly defined service area.

Additionally, "CDBG funds," per 24 CFR 570.3, include both grant funds and program income; therefore, grant funds and program income may be interchanged when funding an activity qualified on prior LMISD, provided that the total amount obligated to that activity, prior to July 1, 2014, is not exceeded.

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<sup>4</sup> For more information on how the LMISD are calculated, see [http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/comm\\_planning/systems/census](http://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/systems/census)

<sup>5</sup> Based upon definition of "Obligation" at 24 CFR 85.3.

For example: The City of Springfield obligated \$300,000 to build a recreation center in the Hilltop neighborhood, which qualified under the prior LMISD, but not the updated LMISD. The City included the activity details as well as the area benefit qualification in its annual action plan, and signed the contract with the construction company prior to July 1, 2014. Construction did not begin until after July 1, 2014. In this case, the Hilltop neighborhood would still qualify based on the prior LMISD, and the activity may continue as planned since it passed the four part test.

### **Limited Exceptions and Clarifications to the Four Part Test**

- *Multiple Contracts.* Often, more than one contract is involved in the life of a single activity. To the extent that the contracts are dependent upon one another, the obligation date of such an activity will be the date of execution of the first contract.

For example: Springfield planned on using \$300,000 for a new recreation center in the Hilltop neighborhood which qualified on the prior LMISD, but not the updated LMISD. Springfield was able to close on the \$100,000 property acquisition for the center before July 1<sup>st</sup>. However, the \$200,000 construction contract wasn't signed until after July 1<sup>st</sup>. For this activity, the obligation date would be considered to be prior to July 1, 2014, and the activity would continue to qualify based on the prior LMISD, provided that there is not a change of use of the property (see below).

- *Acquisition of Real Property.* For area benefit activities based on the prior LMISD that include the acquisition of property with CDBG funds, the development of the property may be completed only if CDBG funds were obligated for acquisition prior to July 1, 2014 and the use planned for the property at the time of acquisition does not change. If the planned use changes after the effective date, the new activity must re-qualify based upon the updated LMISD.
- *Pre-award Costs.* For those area benefit activities that involve authorized pre-award costs, CDBG funds may be used to reimburse the costs previously incurred as long as the activity's service area meets the low- and moderate-income qualifying standard based on the LMISD in effect at the time the costs were incurred. Pre-award costs incurred on or after July 1, 2014, are not eligible for area benefit activities that no longer qualify based upon the updated LMISD.
- *Activities Involving Loan or Grant Programs.* Certain activities involving direct financial assistance to individuals or businesses may be designed as area benefit activities. The most common types are loans or grants to businesses that provide goods or services to residents of a neighborhood, where at least 51 percent of the residents are low- and moderate-income. In general, each separate provision of assistance with CDBG funds, including program income, must meet the LMA national objective criterion as of the date the assistance is obligated to the business. Even if the grantee made a subgrant or executed a contract for such an activity before July 1, 2014, each separate provision of assistance must qualify based on the LMISD effective as of the date that the assistance is obligated to each business or individual.

For example: An activity is listed in the Annual Action Plan as "economic development loans to businesses located in and serving the Hilltop neighborhood," which is a qualified low/mod area based on the prior LMISD, and only one loan had

been made prior to July 1, 2014. Because each loan would be considered a separate provision of assistance, subsequent loans made after July 1<sup>st</sup> could only qualify if the Hilltop neighborhood is still eligible based on the updated LMISD or survey data.

- *Cost Overruns.* If there is an unexpected increase in the cost of an area benefit activity which was qualified on prior LMISD data, and there is no change in the scope, purpose, or service area of the activity, grantees may provide additional funding to cover the cost overrun even though it exceeds the amount obligated. This exception is limited to unexpected increases in the cost. If the scope, purpose or service area of the activity changes on or after the effective date, the activity must re-qualify based on the updated LMISD.

For example: Springfield Construction unexpectedly found an underground storage tank at the site of the new Hilltop recreation center. The cost of the activity rose from \$300,000 to \$380,000. Springfield may obligate the additional \$80,000 in CDBG funds to the activity, even if the service area no longer qualifies per the updated LMISD.

Continued funding for an ongoing activity category is not considered a cost overrun:

For example: The Town of Welcome has been budgeting \$20,000 per year to replace sidewalks in the East End neighborhood since 2009. Each year the Town revises the sidewalks activity in IDIS to increase activity funding by another \$20,000. If the East End neighborhood no longer qualifies under the updated LMISD, the Town may not obligate additional funds to the activity starting July 1, 2014, under the LMA national objective.

#### Geographic Format.

The new ACS-based LMISD datasets will be in a slightly different geographic format from the previous datasets based upon the decennial Census. The principal reason for this change is due to lower data confidence interval at the smaller geographies. Prior versions of the LMISD were based on the long form of the decennial Census, which was sent to 1 in 6 households (17%). The American Community Survey is administered continuously, with a target of approximately 1 in 40 households (2.5%) each year. ACS estimates used for the LMISD combine 5 years of surveys, meaning that the effective sample size is 1 in 8 households (12.5%). The fact that the ACS has a smaller sample than the decennial Census long form means that resulting estimates have larger confidence intervals and are less precise, especially for small areas. In 2012, the U.S. Census Bureau provided HUD with a special tabulation of 2005-2009 ACS data only down to the census tract level. Given the numerous programmatic and regulatory references to block groups, HUD requested block group level data for the 2006-2010 ACS special tabulation, which delayed the LMISD data release.

Unfortunately, the smaller “split-block groups” will not be available as they have in the past. The split-block group or Summary level 090 geography is one of the smaller geographic building blocks, which can be utilized to reconstruct other higher level geographies that are otherwise incompatible with one another, such as places and block groups.<sup>6</sup> A dataset with small geographic building blocks meant that grantees could more easily match activity service areas to Census geographies.

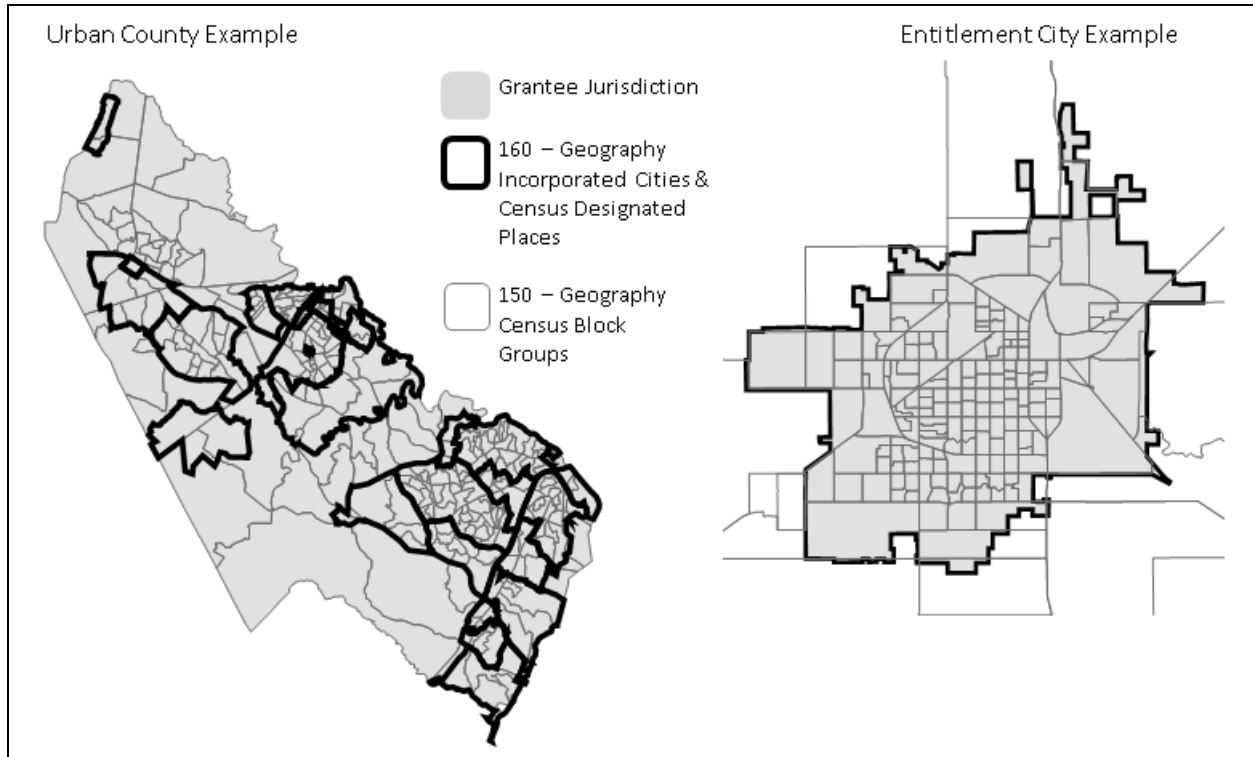
Entitlement grantees had often utilized the Summary level 090 geography to reconstruct block groups or places. Figure 1 below demonstrates how block groups and places can differ in Urban Counties

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<sup>6</sup> For more information about Census geographies, see <http://www.census.gov/geo/>

and Entitlement Cities. In Urban County settings, a grantee could use either block groups or places to represent a particular service area of an LMA activity. However, in Entitlement Cities, the place geography typically reflects the entirety of a grantee's jurisdiction; therefore, block groups may be the most specific geography available to coincide with a service area.

Figure 1

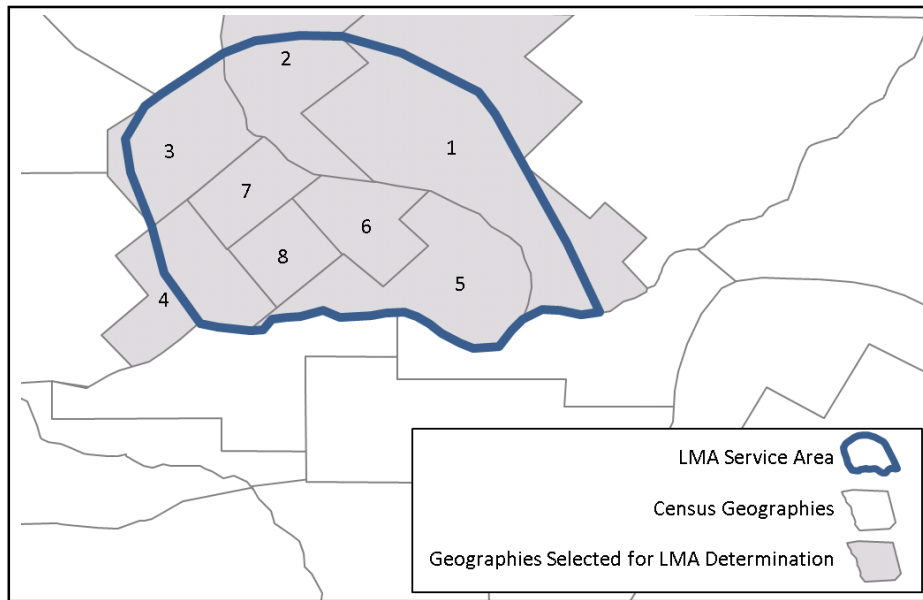


Therefore, in lieu of providing the Summary level 090 geography, HUD will be publishing LMISD datasets at both the Summary level 150 (Block Groups), and at the Summary level 160 (Incorporated Cities and Census-designated Places). Grantees are advised against defining a single service area using a combination of both Summary level 150 data and Summary level 160 data because the geographies may have overlapping areas, thus double counting residents.

Furthermore, grantees are not to prorate the LMISD data when a given service area includes only a portion of a particular geography from either of our published datasets. The LMA determination from LMISD shall be made based on the entirety of the data of the census geography which the service area both completely encloses and partially overlaps.

For example, in Figure 2 below, the LMA service area completely encloses geographies 5, 6, 7 and 8; additionally, geographies 1, 2, 3 and 4 are partially overlain by the service area. The entirety of the data for all geographies 1 through 8 must be included in the determination of LMA compliance in order to use the LMISD.

Figure 2



If the geographies provided do not adequately represent the service area, grantees may consider conducting a survey to determine LMA compliance or reconsider the National Objective and activity.

When using multiple geographies in the determination of LMA compliance of a service area, grantees are reminded that percentages shall not be averaged across multiple geographies. The proper calculation is as follows:

$$LMI \% = \frac{(LMI \text{ Persons Geography A} + LMI \text{ Persons Geography B} + LMI \text{ Persons Geography C...})}{(LMI \text{ Universe Geography A} + LMI \text{ Universe Geography B} + LMI \text{ Universe Geography C...})}$$

For example, a grantee wants to qualify an LMA service area incorporating two Census block groups. Block group 1 is 80% LMI and has a very small population, 8 LMI persons of a universe of 10 total persons. Block group 2 is 49% LMI and has a large population, 490 LMI persons of 1,000 total persons. Correctly performing the percent LMI calculation can mean the difference between this area qualifying or not. If 80% and 49% are averaged, the result is 64.5% LMI, which is incorrect. The correct calculation is 498 persons divided by 1,010 persons, resulting in 49.3% LMI.

HUD will continue to publish the LMISD summary file which is summarized to the geographic level of Entitlement grantee jurisdictions. Grantees that utilize geographic information systems (GIS) to join LMISD data to map layers should download the 2010 versions of the Summary level 150 and 160 geographies from Census, which will continue to update decennially.<sup>7</sup> Future LMISD and ACS datasets will continue to reference the corresponding decennial geography releases. In addition, due to the possibility of annual changes in grantee jurisdictions and grantee participations in the entitlement program, it is recommended that GIS users annually download the updated grantee boundary map layers and corresponding LMISD datasets from HUD.<sup>8</sup>

<sup>7</sup> [www.census.gov/geo](http://www.census.gov/geo)

<sup>8</sup> CDBG Grantee jurisdiction data

[http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/comm\\_planning/systems/mapping/formula](http://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/systems/mapping/formula)

There is an additional item to note for advanced users that choose to reconstruct areas from the Summary level 150 geographies, specifically when those block groups overlay multiple grantee jurisdictions. Previously, the Summary level 090, split-block group, layer allowed HUD to associate a portion of a single block group with one grantee, and another portion of that same block group with a different grantee. However, since the split-block group layer is not provided, HUD now creates the LMISD block group file with duplicate block group records for each block group that overlays one or more grantee jurisdictions, thus associating that block group with each of the grantees who share it. Therefore, when performing analyses on the block group data, it is important to address this by either removing duplicate records for the same block group or establishing one-to-many data relationships, as appropriate.

#### Reporting LMA Benefit in IDIS.

IDIS allows grantees to provide data to demonstrate an activity's compliance with the LMA national objective. Grantees have the option of indicating whether data are derived from Census or survey. Both options prompt the user to enter the Census tract and block group(s) corresponding to the LMA service area. HUD intends to improve IDIS to allow the entry of either place codes or block group codes, as well as to indicate the use of a prior year's LMISD data.

HUD is planning an update to IDIS to provide the updated 2014 LMISD for block groups, as well as the prior LMISD, with an option to choose either. The default selection in IDIS will be the most current year's dataset as of the date the grantee is setting up the activity. The prior LMISD will remain available for qualifying only those LMA activities that meet the four part test or exceptions outlined in this Notice. After July 1, 2014, if a grantee needs to increase the budget of an activity meeting the four part test, the grantee will still be able to select the prior LMISD. If prior year's data set is selected, IDIS will give a pop-up warning message informing the grantee that it has selected prior year's data instead of the current year's data.

It is HUD's intent that a future update to IDIS will allow for Summary level 160 (Place) codes to be entered as well. In the meantime, grantees are advised to indicate when place data have been used by typing "Place Data Used" in the *activity description* field. Since IDIS currently requires a Census tract and block group entry, in the instances when the Summary level 160 geography (places) best describes the area of benefit, grantees shall check the box indicating the use of survey data and enter the single most overlapping or centrally located block group's code, followed by manually entering the population and LMI percentage of the place geography. Again, HUD intends to improve the system to allow the entry of either place codes or block group codes, as well as to indicate the use of prior year's LMISD data for those activities that comply with the policy set forth in this Notice.

#### Questions.

If you have any questions about the guidance provided in this memorandum, HUD field staff should contact the Entitlement Division at (202) 708-1577; grantees should contact their HUD Field Offices.