the economic development "guidelines" to be established pursuant to the new Section 105(e) of the statute, as added by Section 806(a) of the 1992 Act. HUD does not believe that adding any regulatory requirements to this eligibility category that are not required by statute is warranted. As with any other CDBG activity, however, grantees are free to develop more restrictive local policies as they feel are appropriate to meeting their local needs and objectives. Also, pursuant to §§ 570.200(a)(5) and 570.502 of the CDBG regulations, all costs incurred for CDBG assisted activities must be in conformance with the applicable uniform administrative requirements. This includes the requirement that the costs be necessary and reasonable for the proper and efficient administration of the program. Thus, HUD does not believe it is necessary to include any special language in this regard in § 570.201(o).

Issue. A concern was raised over the fact that no revision to the Section 108 Loan Guarantee regulations at § 570.703 was proposed to reflect the addition of microenterprise assistance as a separate eligibility category. (1 HUD Field staff

person) Response. Activities eligible for assistance under the Section 108 Loan Guarantee program are specifically delineated at Section 108(a) of the Act. While the 1992 Act added the separate microenterprise eligibility category as a new Section 105(a)(23) of the statute, no reference to this new paragraph was added to Section 108(a) of the statute. Thus, this eligibility category is not directly eligible for assistance using Section 108 Loan Guarantees. However, the provision of direct assistance to microenterprises has long been, and continues to be, eligible as a special economic development activity under Section 105(a)(17) of the Act (§ 570.203(b) of the Entitlement regulations). Section 105(a)(17) is included at Section 108(a) among the list of activities eligible for Loan Guarantee assistance under that section. Therefore, grantees may use Section 108 Loan Guarantees to directly assist microenterprises, subject to the statutorily required "appropriateness" determination and coverage under the economic development "guidelines" (established in this final rule as a new § 570.209 of the Entitlement regulations and additions to § 570.482 of the State regulations). These "guidelines" take into account the special needs and limitations arising from the size of such businesses assisted under § 570.203(b) as required by the new Section 105(g)(1) of the statute (as added by Section 807(c)(1) of the 1992 Act).

Issue. One commenter asked whether (or how) certain assistance to in-home day care providers might be eligible under the proposed § 570.201(o) or § 570.203. The commenter noted that day care is often provided by people within their own homes. Improvements to the house may be necessary or beneficial to the provision of day care services. The existing regulations do not provide guidance as to whether improvements to a residence in this case should be classified as rehabilitation or as assistance to a business.

Response. The Department agrees that this issue is not clear in the existing regulations; the addition of the microenterprise assistance eligibility section further muddies the issue, as many home day care providers might also qualify as a microenterprise. Situations in which businesses are operated from a residence are not limited to day care provision. To address this comment, the Department has revised § 570.202 (eligible rehabilitation activities) of the Entitlement regulations. With this revision, certain situations in which physical improvements to a residence are undertaken to benefit a business operated therein may be classified as housing rehabilitation.

Ensuring That Economic Development Projects Minimize Displacement

Issue. Section 907(a) of the National Affordable Housing Act of 1990 amended Section 105(a)(17) of the statute to require, in part, that economic development projects assisted under this provision must minimize, to the extent practicable, displacement of existing businesses and jobs in neighborhoods. The proposed rule implemented this provision by amending § 570.203 of the Entitlement regulations with language on displacement that was identical to that contained in the statute. Six commenters addressed this issue, and several of them recommended that further guidance be provided. However, few specific recommendations were received. (3 national associations, 1 local government agency, 1 private citizen, and 1 HUD Field staff person)

Response. HUD has determined that it is most appropriate to leave the final rule provision as proposed on this issue. Within the parameters of the statutory language, grantees will have flexibility to demonstrate compliance with this requirement as appropriate for their circumstances. One possible way in which a grantee could demonstrate compliance with this requirement is by conducting an analysis for each covered economic development project to

determine that any displacement of existing businesses and jobs that is likely to occur as a result of the economic development project, both in the neighborhood in which the project is located and in other surrounding neighborhoods, is justifiable given an examination of possible alternatives.

Additional Changes to § 570.203, Special Economic Development Activities

Issue. A total of eight commenters addressed the new paragraph (c) that was proposed to be added to § 570.203 of the Entitlement regulations to specifically address items that may be considered activity delivery costs in conjunction with special economic development activities assisted under this section. The Department's principal purpose in proposing the addition of this paragraph was to permit certain job training and placement activities in direct conjunction with otherwise assisted CDBG special economic development activities to be considered part of the "delivery cost" of those special economic development activities. All eight commenters supported this general concept, but five of them requested modification or clarification of the provision. The recommended modifications included: extending this provision to include construction jobs created as part of CDBG projects; extending it to include all "CDBG-eligible" economic development projects rather than just actual "CDBG-assisted" projects; limiting the job training and placement activities permitted under this provision to actual low- and moderate-income persons; and reclassifying the outreach and monitoring portions of this provision as general administrative costs subject to the 20 percent cap. Clarification was also requested as to whether there were any circumstances where the job training activities discussed would still be considered a public service. (3 local government agencies, 3 national associations, and 2 development organizations)

Response. HUD has determined that it is not appropriate to extend the coverage of this provision to include job training for construction jobs created as part of all CDBG projects in general. This new economic development services provision specifically applies only to activities qualifying as special economic development activities under the CDBG program. Costs for training and apprenticeship programs directly related to the construction for these activities can generally be considered to be covered under this provision. Costs of such programs for other types of