

Memorandum

To: Regional Steering Committee on Housing and Homelessness

From: HomeBase

Date: January 15, 2010

Re: HEARTH and Need Determination Formula

History

At the July 2009 RSC meeting, RSC reviewed in depth the changes to the Continuum of Care Homeless Assistance grants proposed in the Homeless Emergency Assistance and Rapid Transition to Housing Act of 2009 (“HEARTH”) legislation which President Obama signed on May 20, 2009. At that meeting we set forth certain topics to revisit and discuss at future meetings, one of those topics was the need determination formula proposed in the text of HEARTH. We have discussed the need determination formula in other contexts at past RSC meetings, including the July 2006 meeting where the RSC discussed the CDBG Reform Act of 2006 and in 2001 when the RSC developed an Issues Brief on this issue.

In prior discussion about the proper allocation formula, RSC members have expressed concern about lack of attention to housing costs and availability of affordable housing in the formula. RSC members have also raised concerns that changing the formula will create “winner” and “loser” states.

HEARTH Proposal

Currently, HUD uses the Community Development Block Grant Program (CDBG) formula to determine Initial Pro Rata Need of communities, or the base amount of Homeless Assistance grants for which each community is eligible to apply. HEARTH requires the HUD secretary to devise a new formula for allocation of Continuum of Care funds by regulation within two years, that is, not later than May 20, 2011. HEARTH states that the formula should be “based upon factors that are appropriate to allocate funds to meet the goals and objectives of [HEARTH].” [§427(b)(2)(B)(i)]

HEARTH also states that “The Secretary may adjust the formula ... as necessary ---

- (1) to ensure that each collaborative applicant has sufficient funding to renew all qualified projects for at least one year, and
- (2) to ensure that collaborative applicants are not discouraged from replacing renewal projects with new projects that the collaborative applicant determines will better be able to meet the purposes of this Act.” [§427(c)]

Current CDBG Formula

The CDBG program was established in 1974 to provide communities with funding to address a wide range of community development needs. Presently CDBG funds are divided between states and entitlement communities, with states distributing CDBG funds to local non-entitlement communities. CDBG appropriations are split so that 70 percent is allocated to entitlements and 30 percent is allocated to states. HUD uses two formulas, Formula A and Formula B, to allocate the funds. Funding for each jurisdiction is calculated using both formulas and the jurisdiction is awarded the larger of the two grants. For entitlement communities under the current system, Formula A allocates funds based on the community's metropolitan shares of: (1) population, weighted at 25 percent; (2) poverty, weighted at 50 percent; and (3) overcrowding, weighted at 25 percent, times appropriations. Formula B allocates funds to a community based on: (1) its share of growth lag, weighted at 20 percent; and its metropolitan shares of (2) poverty, weighted at 30 percent and (3) pre-1940 housing weighted at 50 percent, times appropriation. The formulas used for the non-entitled areas of States operates like the entitlement formulas but with two key differences: (1) Formula B uses population instead of growth lag and (2) a jurisdiction's share is based on the state nonentitlement total rather than the metropolitan or non-metropolitan total.

Changing the Formula

Any change to the CDBG formula creates winners and losers, and the stakes could be very high. As examples, see **Attachment A** which shows what the effects of the proposed CDBG Reform Act formula would have been on CDBG allocations and **Attachment B** which was circulated by the National Policy and Advocacy Council on Homelessness (NPACH) to demonstrate the possible impact of formula changes when this section was first added to HEARTH. NPACH applied a few different formulas to current allocations and used it to advocate for additional public debate and discussion.

When HUD proposed the CDBG Reform Act in 2006, it failed to attract any congressional sponsorship. The U.S. Conference of Mayors opposed the CDBG Reform Act and an article they released in 2006 states the key issues:

Several national organizations, including the U.S. Conference of Mayors submitted testimony to both the House and Senate Subcommittees. ...The national groups stated from the outset their opposition to the proposal. The national groups' testimony said: "It's no surprise that the CDBG formula has not changed since 1977. The difficulty of making a change is finding a new formula that can garner enough votes to pass the House and Senate." Under the HUD proposal applied to the FY2006 appropriation, **more than 300 communities that now receive direct entitlement funding would lose their eligibility** and have to compete for funding from the State government, which has to submit a plan showing how cities under 50,000 would participate. As for the other entitlement communities, while some would receive increase funding, other communities would be severely reduced.¹

¹ House Approves \$162 Million Increase for CDBG, Senate Action Needed

Through the years, various formulas have been proposed and tested to see how communities will fare under the various proposals. The differences are stark.

The HEARTH proposal does not attempt to change the CDBG allocation, just the Continuum of Care allocation. By delegating the task to HUD, HEARTH also takes the situation out of the political Congressional arena. The change will happen, the question is how.

Possible Factors

HEARTH asks HUD to develop a formula using “factors that are appropriate to allocate funds to meet the goals and objectives of [HEARTH].” The factors chosen will be key to who receives additional funding and whose funding is reduced. Ideally, the factors would reflect the actual need in all of the communities.

A. Possible Factors- CDBG Reform Act of 2006

In February 2005 HUD published *CDBG Formula Targeting to Community Development Need*, a report detailing CDBG’s success at meeting the community development needs of urban America. The study used data on **poverty, fiscal distress, economic decline, crime, unemployment, and housing problems** to measure the actual need in an area. HUD found that there were many communities that were being under-funded based on their actual need while there were also communities that were being over-funded. HUD drafted the CDBG Reform Act of 2006 as a response to this report. The proposed formula variables in the Act would have been the average of the ratios between:

- The number of households living in **poverty, excluding full-time dependent college students**, weighted at 50 percent;
- The number of **overcrowded housing units**, weighted at 10 percent;
- The number of **female head of households with minor children**, weighted at 10 percent; and
- The number of **homes 40 years or older occupied by a low-income family**, weighted at 30 percent.

The average of the ratios would then be adjusted by the ratio of the **per capita income of the metropolitan area to the per capita income of the community**, with caps to limit the adjustment to no more than 25 percent. In addition to changes to the formula used to allocate grants, the proposed reform would create a minimum grant threshold for metropolitan cities or urban counties to be eligible for an annual grant.

B. Possible Factors- HEARTH Legislative Discussion

Earlier versions of HEARTH were more prescriptive about the formula than the version of the legislation that passed. One version specified that:

By Eugene T. Lowe, US Conference of Mayors
July 3, 2006

The formula must use the **best currently available data** that targets such need amount to **actual rates of homelessness and the risk of homelessness** in the geographic area represented by the collaborative applicant.

The Secretary was required to give:

- Significant consideration to data
 - Providing **accurate counts of the current number** of homeless individuals in the geographic area represented by the collaborative applicant;
 - **Shortages of affordable housing** in the geographic area represented by the collaborative applicant; and
 - The **severe housing problems extremely low-income households** in the geographic area represented by the collaborative applicant; and
- Particular attention to variables measuring
 - **Housing available to extremely low- income renters** in the geographic area represented by the collaborative applicant;
 - The **number of extremely low-income households** in the geographic area represented by the collaborative applicant who experience **severe cost burden**, live in **substandard housing**, or have **crowding** problems; and
 - The **poverty rate** in the geographic area represented by the collaborative applicant.

C. Possible Factors- RSC Thoughts

In 2001, RSC developed an Issues Brief about the “Need” Formula for Continuums of Care in response to the misallocation of federal resources. Some of the key factors the RSC suggested at that point included:

- Account for **availability of affordable housing and housing costs**: It is critical that the formula factor the cost of housing in a jurisdiction to account for affordable housing unavailability and thereby correct the current misallocation of federal funds intended to respond to homelessness. .
- **Update the housing stock factor**: A current factor that has caused serious misallocation is that which gives weight to housing stock built before 1940. Many of the major cities in America today were much smaller in 1940, and with the rapid rate at which Americans relocate and their businesses expand, the size of the housing stock over 60 years ago provides no insight into the rate of homelessness today.
- Factors that relate to the causes of homelessness: Ideally, we would have a new formula with factors that relate more closely to the incidence and causes of homelessness.
- Permit Comment: Publish proposed formula amendments in the Federal Register in time to permit public analysis and comment on local impacts.

D. List of Possible Factors

Many factors have been proposed to measure homeless services need in one community versus another. This memorandum referred to some, which have been compiled with other proposed factors, into one list below for discussion purposes.

What Factors Would Be Accurate To Show Need? Which Ones Would Not?	How Would You Measure the Factor?
<i>Amount</i>	
Community population	Census
Homeless population	Homeless count
Number of female head of households with minor children	
Number of chronically homeless	
Number of homeless children	
Number of Low-income families	
Number of Veterans	
<i>Rates</i>	
Homelessness Rate	
Poverty Rate (possibly excluding full-time dependent college students)	
Other Poverty Data/Poverty of Certain Populations	
Growth Lag	
Unemployment Rate	
Crime Rate	
Economic Decline	
Fiscal Distress	
Per Capita Income (or per capita income of the metropolitan area to the per capita income of the community)	
Income range	
Health of population	
Education	
Other relevant rates?	
<i>Housing</i>	
Pre-1940 housing/ older housing	
Homes 40 years or older occupied by a low-income family	
Shortages of affordable housing	
Severe housing problems experienced by extremely low-income households	
Housing available to extremely low- income renters	

The number of extremely low-income households who experience severe cost burden, live in substandard housing, or have crowding problems	
Housing costs	
Overcrowding	
Vacancy Rate	
Other housing factors?	
<i>Services</i>	
Health care needs	
Treatment availability	
Food stamp utilization	
Food stamp eligibility	
Other services factors?	

Discussion Questions:

1. Of the list above, or others you suggest, what are “factors that are appropriate to allocate funds to meet the goals and objectives of [HEARTH]”? What factors show your community’s need for homeless services?
2. Data about homelessness is often disputed. What factors have reliable measurements?
3. Should RSC advise HUD about the best method to determine homeless assistance need?

If you have questions, please contact Bridget Kurtt DeJong, Staff Lawyer at 415 788 7961 x 314 or bridget@homebaseccc.org.