

MEMORANDUM

TO: Regional Steering Committee on Homelessness and Housing
FROM: HomeBase
RE: Proposed Changes to CDBG Funding Allocations
DATE: July 7, 2006

In March, HUD announced a proposal to reform the Community Development Block Grant Program (CDBG). CDBG was established in 1974 to provide communities with funding to address a wide range of community development needs. In February 2005 HUD published *CDBG Formula Targeting to Community Development Need*, a report detailing the program'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.

Current CDBG Funding Allocations

Presently CDBG funds are divided between States and entitlement communities. Entitlement communities consist of central cities of Metropolitan Statistical Areas, metropolitan cities of at least 50,000 and urban counties with a population of at least 200,000. States distribute 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 to both entitlements and to states. 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 non-entitlement total rather than the metropolitan or non-metropolitan total.

HUD's Proposed CDBG Reform Act

The proposed reform makes four important changes to the CDBG program: (1) it changes the funding allocation formula, (2) it creates a challenge grant program (3) it establishes performance measures and accountability standards for formula grantees, and (4) it consolidates several programs into the CDBG program.

Funding Allocation Formula

The new funding formula would eliminate the distinction between entitlements and non-entitlements and would create a single formula to be used to allocate funds to all “formula grantees”. “Formula grantees” would be defined as including States, metropolitan cities, urban counties, and the Counties of Hawaii, Kauai and Maui, in the State of Hawaii. Under the proposed legislation, each formula grantee would be entitled to an annual grant not to exceed the amount calculated using a single formula. The proposed new formula variables would be 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. Under the minimum grant provision, a metropolitan city or urban county would not receive a grant if their allocation was less than .014 percent of the total amount allocated. Based on total allocations for fiscal year 2006, the minimum threshold would be \$518,000. Any funds remaining after the initial calculation would be reallocated to the urban county or to the State in which the community is located. If this provision were implemented, 40 entitlements in California that currently receive CDBG funding would lose that funding because they don’t meet the minimum grant requirement.

The legislation provides for a transition period for the minimum grant provision. For the first year after enactment, any metropolitan city or urban county that fails to meet the minimum grant threshold would receive 50 percent of the amount they would have received under the new formula. In addition, the formula grantee would be eligible to receive funds reallocated to the urban county or funds from the State in which the community whose funds were reduced is located. For every year thereafter, any metropolitan city or urban county that fails to meet the minimum grant threshold would not receive a grant but would still be eligible to receive reallocated funds from the urban county or State in which the formula grantee is located.

Attached is a chart detailing the likely changes in community grants that would result from the CDBG Reform Act, using FY 2006 appropriations. Information specific to California begins on page 2 of the chart. The entire chart can be accessed at www.huduser.org/Publications/PDF/cdbgreform.pdf.

Challenge Grant Program

HUD proposes to set aside \$200 million in Challenge Grant funds to create incentives for metropolitan cities and urban counties to target very distressed neighborhoods. The program would

provide additional funds to eligible communities to be used to further improve neighborhood revitalization strategy areas (NRSAs). The funds may be used for any activity eligible under section 105(a) and (c) of the Housing and Community Development Act of 1974, which includes the acquisition of blighted or undeveloped property, code enforcement in deteriorated areas, provision of public services, and assistance to organizations carrying out neighborhood revitalization or economic development. The grant may be used to create affordable housing for low- and moderate- income households if the housing is part of a strategy that expands economic opportunities. Only metropolitan cities and urban counties that meet the following “minimum threshold” would be eligible to receive challenge grants.

- The community must have a minimum poverty rate that is at least half the national poverty rate;
- In the previous program year, the community must have used the equivalent of at least 40 percent of its last CDBG funds for improvements in its NSRAs;
- The community must have used 40 percent of any CDBG funds obligated for 12 months or more and 100 percent of any CDBG funds obligated for 24 months or more; and
- The community must be able to demonstrate success in programs carried out in the NSRAs.

Under the proposed program, challenge grant funds would be distributed to any community that meets the minimum threshold requirements and receives above a certain score on a rating scale established by HUD. States are not eligible to receive challenge grant funds but could establish their own challenge grant programs to serve non-entitlement communities.

Performance Measures and Accountability

The CDBG Reform Act also seeks to codify certain performance measures. Prior to receiving funds a formula grantee must submit a Performance Plan to the Secretary for approval. The Performance Plan would include a statement of the grantee’s community development needs, a projected use of funds, and a list of performance measurement objectives. The focus of the performance measurement objectives would be to measure a project’s ability to:

- Foster a suitable living environment within the community for families and individuals;
- Focus on developing decent and affordable housing; and
- Foster and create economic opportunity, economic development, commercial revitalization and job creation.

Each grantee would also submit an evaluation report to the Secretary that would include information on performance outcomes, reasons for changes in program objectives and an evaluation of how the funds were used to serve low and moderate-income persons. The Secretary would periodically review the grantee’s progress at meeting their performance measurement objectives. A formula grantee’s funding may be reduced if the Secretary determines that the grantee has failed to meet its performance measurement objectives in any 24-month period.

Program Consolidation

HUD’s proposed legislation would eliminate Brownfields Economic Development Initiative, Rural Housing and Economic Development Program, and Section 108 Loan guarantee Assistance Program. These programs would be consolidated into the CDBG program.

Status of the CDBG Reform Act

As of May, HUD was still searching for a sponsor for its proposed legislation. In June, there were hearings on CDBG reform in both the House and the Senate, but not by subcommittees that could begin the process of making the reform law. Instead, the House Subcommittee on Federalism and the Senate Subcommittee on Federal Financial Management, Government Information, and International Security heard the proposed bill.

Questions to Consider:

- Is the proposed reform likely to result in reduced CDBG funds to your community?
- How will the minimum grant threshold provision affect your community?
- Will your community be eligible for a challenge grant?
- What action would you like the RSC to take on this issue?

*For more information, please contact Piper Ehlen, HomeBase Staff Attorney
Phone (415) 788-7961 x304 or piper@homebaseccc.org*