

# National Association for County Community and Economic Development\*

## Community Development Block Grant Program

### White Paper

The purpose of this White Paper is to discuss the Community Development Block Grant (CDBG) program's history, why it was created by Congress and to highlight its success at preserving and growing America's communities. In its first 25 years, CDBG:

- **Created 2 million jobs**
- **Generated over \$50 billion in personal earnings**
- **Contributed over \$129 billion to the Gross Domestic Product**

(Source: An analysis performed by Professor Stephen Fuller, George Mason University, in 2001)

The systemic success of the CDBG program is evident in its impact on the national economy and stemming the decline of urban areas over the past 30 years.

*“The future welfare of the Nation and the well-being of its citizens depend on the establishment and maintenance of viable urban communities.”*

This statement declared by Congress was the primary finding underlining the need for the CDBG program in the Housing and Community Development Act of 1974. Signed into law by then-President Gerald R. Ford, the CDBG program was enacted as the centerpiece of the '74 Act and the cornerstone of federal urban policy. The Act stated that *sustained* action is necessary by Federal, state *and* local governments to establish and maintain viable urban communities. Congress further described the necessary, sustained action to include eliminating blight, conserving and renewing older urban areas, improving the living environment of low- and moderate-income families through better housing and access to employment opportunities, and developing new centers of population growth and economic activity. In summary, there was one primary objective of the CDBG program as declared in the statute: “the development of viable urban communities, by providing decent housing and a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income.”

### **The CDBG Mechanism Works – Background on Program Structure**

The statute includes three national objectives under which all CDBG-funded activities must fall:

- addressing the needs of low and moderate income persons. The statute specifies that not less than 70 percent of all CDBG funds must benefit low and moderate income persons;
- elimination of slums and blight; and
- addressing urgent needs that pose an immediate threat to the health, safety, and

public welfare of a community.

There are nine categories of eligible activities authorized by the statute:

- eliminate slums and blight;
- conserve and expand the Nation's housing stock;
- energy conservation;
- preserve properties of historic value;
- reduce isolation of income groups within communities;
- revitalize deteriorating neighborhoods;
- improve the provision of community services;
- promote economic development; and
- encourage more rational use of land and natural resources.

Under the statute, CDBG funds are distributed by dual formulae based on factors, including population, poverty, overcrowded housing, aged housing, and population growth lag.

Who receives CDBG funds:

- Seventy percent of the funds go to metropolitan cities and urban counties – currently 1,154 metropolitan cities and urban counties (entitlement grantees).
- Thirty percent to the 49 states. Hawaii does not administer the program.
- Metropolitan cities are generally cities of 50,000 or more in population.
- Urban counties are generally those with populations of 200,000 or more excluding any metropolitan cities therein.
- Nearly 3,800 smaller communities receive funding through urban county CDBG programs.
- It is estimated that more than 5,000 smaller cities and counties receive funding through the programs of their states.

The Urban County Mechanism for Distributing CDBG Funds:

Urban counties have been entitlement communities since the program's inception in recognition of the fact that the problems CDBG is designed to address are regional in nature. Inner-city concerns spill over to inner-ring suburbs and exist in smaller urban centers. Communities at the fringes of urban counties are experiencing explosions in growth, and new centers of economic activity need the community and housing infrastructure in place to anchor economic growth. Through formula and competitive grant processes, urban counties distribute CDBG funds to the communities in the county that need them most. Each urban county serves anywhere from 200,000 to 2.3 million people, and funding decisions are based on regional planning efforts and an open citizen participation process. The urban county construct is truly a model for inter-governmental cooperation, and it embodies the widespread notion that a regional approach to development is the most cost effective, efficient, and equitable.

The 169 urban counties collectively receive in excess of \$600 million annually through CDBG. This is the average percentage of funds that urban counties spend on activities to support regional growth (according to a survey of 41 urban counties conducted by NACCED, 2006):

- 25.76% on developing public works
- 17.77% on infrastructure improvements
- 17.57% on housing rehabilitation
- 11.25% on public services
- 8.76% on acquisition of real property
- 5.63% on assistance to for-profit entities for economic development
- 5.28% on assistance to non-profits for economic development

### **Congress Intended CDBG to Revitalize and Sustain America's Communities**

The CDBG program is about rebuilding and recharging America's communities, ensuring that older communities aren't left behind and newer communities have access to a workforce and affordable communities to house them in. By its statute, CDBG dollars must predominantly serve those below 80% AMI, but CDBG is not a poverty program. CDBG has stemmed the decline of the inner-city in the last 30 years, and America's downtowns have experienced dramatic resurgences. However, in the 21<sup>st</sup> century, the relevance of the CDBG program is nowhere more evident than in our inner-ring suburbs. According to a report published by the Brookings Institution (*One-Fifth of America: A Comprehensive Guide to America's First Suburbs*, 2006), suburbs in decline face "difficulty in attracting attention and investment," face "unique challenges presented by their older infrastructure and housing stock," and "depend heavily on residential taxes to fund basic services." The fact is, suburban communities house much of the nation's working families and don't have the funding they need to manage infrastructure and the cost of rebuilding. The report goes on to say that, "First [inner-ring] suburbs are penalized for not being in severe states of decline, and are unable to receive resources for their infrastructure and communities until it is too late." Urban counties are uniquely positioned to address the decline of inner-ring suburbs with an increase in CDBG dollars.

According to George Mason University's Center for Regional Analysis, the Washington region will add 46,000 jobs in each of the next five years, mostly in the suburbs. High-cost and fast-growing urban counties (some have called them "wealthy communities"), like Fairfax County, VA, focus their CDBG dollars exclusively in low- and moderate-income areas to preserve affordable neighborhoods for their workforce. High-cost counties have extreme income gaps between rich and poor. Workers such as teachers, firefighters, hotel workers and other service personnel – the core people each community needs – can't find affordable housing. Neither can immigrants who are attracted to thriving areas because that's where the jobs are. Nearly 25% of Fairfax County's residents pay more than 30% of their income for rent. The County has a **gap of 30,000 units** that would be affordable to persons paying no more than 30% of their income for rent.

Ninety percent of the urban, suburban, and rural counties surveyed by the National Association of Counties (*Paycheck to Paycheck*, 2004) said the lack of affordable housing for low-and moderate-income families is a serious problem.

Many high-cost areas use CDBG to develop workforce housing, because it's an economic necessity. Not only does this reduce the isolation of income groups and provide access to opportunity, it attracts the service and retail employment base counties need to sustain economic growth. County officials claim that CDBG is one of the best tools to provide low- and moderate- income families good jobs, good homes, and safe neighborhoods. The CDBG statute recognizes that job creation can't happen without the availability of affordable housing and a healthy community infrastructure.

All types of communities should receive their fair share of CDBG tax dollars to address their unique housing and economic development problems. The formula used to distribute CDBG funds directs resources proportionate to each community's need.

### **When Katrina Struck, CDBG Was the Federal Government's Response**

When disaster strikes, Congress invariably turns to the CDBG program to help provide relief as it did in the wake of Hurricanes Katrina, Rita and Wilma. In December 2005, Congress appropriated \$11.5 billion in CDBG funds for the recovery in Louisiana, Mississippi, Alabama, and Texas. It did so as well in 2004 for Florida in the wake of four major hurricanes. CDBG has also been a very effective resource in helping New York City rebuild after the September 11<sup>th</sup> tragedy. HUD has provided New York with \$3.483 billion in CDBG funds to be administered by the Empire State Development Corporation (ESDC) and its subsidiary the Lower Manhattan Development Corporation (LMDC). Of that amount, \$700 million has been committed to ESDC and \$350 million to LMDC for business retention/attraction and economic loss compensation. An additional \$305 million is being used by LMDC for a residential incentive program, training assistance and administrative costs. The process of designating the balance of the funds continues, and CDBG will continue to play a critical role in the City's recovery.

In addition, because of CDBG's ability to replace aging or obsolete infrastructure, such activities have mitigated the impact of future disasters. After the Northridge Earthquake in 1994, Congress approved two appropriations for Los Angeles County totaling \$34 million in supplemental CDBG funding to assist with the recovery efforts and to mitigate the impact of future earthquakes. Los Angeles County utilized a great portion to retrofit existing public facilities so that they could withstand the impact of future earthquakes and be safer for public use. Without this supplemental CDBG funding, the County would not have been able to undertake the degree of retrofit needed to address public facilities and safety concerns.

Nowhere is the capability of CDBG's delivery mechanism more affirmed than in the President's \$11.5 billion supplemental request in CDBG to rebuild New Orleans.

### **What Are The Results Of The CDBG Program?**

CDBG has been achieving results throughout its 30-year history. An analysis performed by Professor Stephen Fuller of George Mason University in 2001 shows that over the first 25 years of the program CDBG-funded projects created **2 million jobs**, generated over

**\$50 billion in personal earnings**, and contributed over **\$129 billion to the Gross Domestic Product (GDP)**.

HUD, OMB and grantees celebrated CDBG's 30<sup>th</sup> anniversary in September 2004 under the theme "Performance Counts." This was entirely appropriate because CDBG has been performing at a high level for more than 30 years, and it continues to produce results. In fact, according to HUD, in one year alone (FY 2006):

- More than **55,957 jobs were created**.
- Grantees provided CDBG-funded loans to businesses located in distressed neighborhoods, with **minority businesses** receiving approximately 25% of the loans. This is an economic development tool that truly has local impact.
- **179,385 households** received housing assistance from CDBG. Of this amount **7,628 became new homeowners**, 19,578 rental housing units were rehabilitated and 129,052 owner occupied homes were rehabilitated.
- Over **13.4 million persons were served by new or reconstructed public facilities and infrastructure**, including new or improved roads, fire stations, libraries, water and sewer systems, and centers for youth, seniors and persons with disabilities.
- More than **11.5 million persons** received assistance from CDBG-funded public services, including **employment training**, child care, **assistance to battered and abused spouses**, transportation services, crime awareness, and services for seniors, the disabled, and youth.

**In FY 2006, grantees leveraged nearly \$3 in private funding for every \$1 of CDBG spent.**

Because CDBG truly impacts local communities, it is popular on both sides of the aisle and with the private sector. Senator George Voinovich (R-OH) said in January 2005 at the U.S. Conference of Mayors Winter Meeting that "CDBG is the finest Federal program ever to impact cities." Mortgage Bankers Association of America Chairman (2004-2005), Michael Petrie, was quoted at the same meeting as stating "we need to work together to preserve funding for HUD programs such as CDBG." Senator Kit Bond, ranking member of the Senate Subcommittee for HUD Appropriations, and someone who has considerable experience with CDBG as a former governor, has on numerous occasions characterized CDBG as a program that's flexible and it works.

### **How Is CDBG Able To Work Over 33 Years After Its Creation?**

- CDBG is flexible,
- CDBG leverages private sector investment by a ratio of 3 to 1,
- CDBG promotes inter-governmental efficiency,
- CDBG distributes funds to those who need them most (80% below AMI),
- CDBG's open citizen participation process is a model for democratic governance,

- CDBG supports balanced community growth through: economic, community, and housing development.

In December 2005, the House Subcommittee on Federalism culminated a year long review of the program undertaken by Chair, Rep. Mike Turner (R-OH), the former Mayor of Dayton. The House Report, *Bringing Communities into the 21<sup>st</sup> Century: A Report on Improving the Community Development Program*, concluded that, “CDBG programmatic success has been effectively linked to the flexibility of the use of funds. Such broad flexibility should be maintained.”

The report also favorably noted the efforts of a Joint Grantee/HUD/OMB Working Group that met in 2005 to create an outcome-based Performance Measurement System to ensure that CDBG is held accountable and to expand the data collected on CDBG funds usage and impact. HUD is committed to the continued improvement and success of the CDBG program and fully implemented the performance measurement system October 1, 2006.

### **CDBG Is Still the Cornerstone of Federal Urban Policy – If CDBG funding levels aren’t restored, the federal government will leave urban communities behind**

Since FY 2001, CDBG *formula* funding has declined from \$4.41 billion to \$3.71 billion in both FY 2006 and FY 2007. This steady decrease in formula funding has been further exacerbated by the addition of approximately 100 new entitlement communities as a result of OMB’s redefinition of the term metropolitan areas. The need for CDBG funds has not declined, yet the President proposes in his FY 2008 budget to cut formula grants by at least 25%. This White Paper demonstrates the past and continued success of the CDBG program; Congress must respond to the President’s proposed cuts and fund CDBG *formula* grants in FY 2008 at a funding level of at least \$4.1 billion.

## **Appendix: Examples of CDBG at Work**

**The following examples are illustrative. They were given awards at HUD's 30<sup>th</sup> Anniversary of the CDBG program celebration in September 2004.**

The City of Jacksonville-Duval County, FL has invested more than \$20 million to revitalize the Royal Terrance neighborhood, one of its oldest and poorest. The improvements included extensive drainage, sewer, paving and curbs and gutter improvements. Since 1998, CDBG, together with HOME funds, has been expended to rehabilitate the homes of 72 low- and moderate-income residents. In addition, CDBG funded-rehabilitation has resulted in 75 homes of low- and moderate-income persons being hooked up to sewer lines. A \$700,000 Section 108 loan guarantee assisted with the rehabilitation of a 200-unit apartment complex where all of the residents receive Section-8 rent subsidies. A private investor contributed \$4.5 million to the rehabilitation. CDBG funds also addressed part of the rehabilitation of vacant buildings in the Royal Terrance neighborhood that have now been converted into commercial facilities that house businesses.

Los Angeles County used CDBG funds to develop its Business Technology Center, the largest high-tech business incubator in California. Opened in 1998, the BTC is a 40,000 square-foot facility in a minority community that was developed with CDBG funds (\$3.5 million) and Economic Development Administration funds (\$2 million). This is a good example of the programs of the two agencies complementing each other. Development of the facility removed a blighted structure, provided an anchor to revitalize a commercial corridor, and used technology to jump-start a disadvantaged community. Today, the BTC serves 39 tenant and affiliate firms with specialties ranging from fuel cells to biometric software to make DNA micro arrays more effective. Over 45% of the BTC firms have received more than \$65 million in equity investment and created more than 475 jobs.

### **More on the House Report on CDBG:**

Drawing widely from the testimony of witness at the three hearings held by the subcommittee the report recommends that ... "Congress should refrain from enacting any legislation [i.e. the Administration's Strengthening America's Communities Initiative] in the 109<sup>th</sup> Congress that would either eliminate the CDBG program or move it from the Department of Housing and Urban Development to the Department of Commerce [as was proposed by the Administration in the FY 2006 budget]." It goes on to say "[s]ustaining funding for the CDBG program should remain a federal priority."

The report discusses the history of CDBG, the formula, eligible uses of funds, the Office of Management and Budget's PART review of CDBG, IDIS, and a performance measures system. The report found that "...OMB's PART analysis [undertaken in 2004], while successful in identifying key opportunities for reform of some programs, may not be an appropriate evaluative tool for the Community Development Block Grant program because of its flexibility. The Administration should consider whether alternative analytical tools exist that could better measure the CDBG program." This same point

was made in a March 4, 2004 letter to President Bush from a number of national organizations criticizing OMB's PART review.

The report spends much of its time discussing the program's dual formulae. It recommends that "...HUD undertake more analysis of alternative data in its needs index, that it should recognize the contributing factor of vacant and abandoned housing stock to community blight in its needs index, that it should determine if data is available to exclude off-campus student populations without also discounting non-elderly, single households living in poverty, and that HUD should undertake further study of the community stresses caused by immigrant population growth to determine if the resulting needs should be addressed by a program other than CDBG." It goes on to say that "Congress should institute a mandatory, periodic review of the CDBG formula, and work with the Government Accountability Office in a study of alternative need index and formula criteria. Any formula grant modifications should respond to two expressed Congressional goals: increasing the effectiveness of CDBG targeting and achieving cost savings and efficiencies.

**\*The National Association for County Community and Economic Development** (NACCED) is a nonprofit national organization primarily composed of county government agencies that administer community development, economic development and affordable housing programs. NACCED was created as an affiliate of the National Association of Counties (NACo) in 1978 (and was separately incorporated in the District of Columbia in 1989) to assist in developing the technical capacity of county agencies to administer programs. NACCED also serves as a voice within NACo to articulate the needs, concerns and interests of these agencies.

## **OUR SERVICES...**

NACCED is driven by the board of director's three-year Strategic Plan, which guides NACCED in its pursuit of advocacy, professional excellence and organizational viability. The following services are at the core of what we do:

- **Advocacy:** NACCED is the only organization representing counties on affordable housing, community development and economic development issues in Washington, DC and at HUD. NACCED provides guidance to and has influence within the National Association of Counties.
- **Information:** Bi-weekly *NACCED Alerts* give members up-to-date analyses of federal legislation, regulations and program and policy developments at HUD; our Web site features association activities and highlights innovative county programs.
- **Education:** NACCED's *CDBG on Demand* is the only online training curriculum for community development practitioners; the Annual Community and Economic Development Conference and Training, held in various locations throughout the country, provides an annual forum for members; and NACCED provides individualized technical assistance, including a direct line to HUD Headquarters.
- **Networking:** NACCED is a repository of materials and personal contacts for members. Peer matching sessions and three board and committee meetings per year give members the opportunity to exchange state-of-the-art practices with colleagues.