

Chairman's Statement
Sen. Tom Coburn, M.D. (R-OK)
"Community Development Block Grants: the Case for Reform"
June 29, 2006

The Community Development Block Grant (CDBG) program is a multi-billion dollar program that has exceptional flexibility compared to most other grant programs. Operated out of the Department of Housing and Urban Development (HUD), CDBG gives local officials broad discretion on the use of the funds for housing, economic development activities, social services, and infrastructure. The authorizing legislation requires that the activity meet one of the following goals: to principally benefit low- and moderate-income individuals, eliminate or prevent slums, or remedy urgent threats to the health or safety of the community. When the program first began in 1975, HUD advertised that CDBG funds could be used anywhere within a local government's jurisdiction to serve the needs of and provide better living environments for low- and moderate-income persons. This flexibility continues today, and it helps communities meet localized needs that change on a case by case basis.

Perhaps the first and most fundamental problem with the program is the lack of sunshine. Transparency is the first and necessary step towards accountability. We asked for months to find out how CDBG funds are used and no one knows. HUD does not compile this information, much less make that information public. That lack of transparency is simply unacceptable. How can supporters make a serious claim that the program as a whole is accomplishing its goals when nobody knows how the money is spent?

Without transparency other performance problems are inevitable. Critics of Community Development Block Grants argue that while flexibility abounds, the program has ambiguous goals, insufficient accountability, and lacks standardized outcome indicators. In the 39 hearings I have chaired in this subcommittee, I have found that when these factors coalesce within a federal program, opportunities for waste, fraud, and abuse of tax dollars abound. For example, right here in Washington, D.C., the *Washington Post* reported in 2002 that more than \$100 million in CDBG funds were spent over a decade on revitalization projects—and there is little to show for it. According to the *Post's* assessment, the city's use of this federal funding is characterized by overspending, cronyism, and conflicts of interest. As another example, CDBG funds were appropriated to rebuild New York City in the aftermath of 9/11, but due to the program's lack of meaningful guidelines and enforcement, some of this desperately needed money went to fund questionable projects like the Tribeca Film Festival.

Illustrating the lack of policy direction and management in the program, the Manhattan Institute reports that CDBG loans, referred to as Section 108 loans, have a 59% default rate. Critics say that even though HUD has specific guidelines, transparency and oversight for its other lending programs, they have nothing similar for Section 108 loans. For example, after the 1992 Los Angeles riots, the Los Angeles Community Development Bank was created using CDBG funds. This program initially awarded a \$6 million loan to an individual who was turned down by every commercial lender he met

with due to his extremely risky business plan. Violating its own spending limit, the CDBG funded bank ended up pouring \$24 million dollars into this unsound business in a misguided attempt to keep the business afloat. While politicians were congratulating themselves, the business defaulted and was forced to shut down. Two-thirds of the businesses assisted through this loan program failed to create the required number of jobs and only a meager 11% created jobs that went to the area's residents.

A key flaw in the program is the outdated funding formula. These formulas haven't been updated since the 70's—meaning the program has not updated its funding structure to reflect changes in poverty over the past thirty years. The grants are not consistently targeted to communities in need, and as a result, there are numerous funding anomalies. For example, Temple, Texas has just under \$20,000 per capita income and receives \$15 per capita in CDBG funds. But Oak Park, Illinois has almost double the average per capita income of Temple and receives \$39 per capita from the program. Newton, Massachusetts has three times the income level of Hopewell, Virginia but this community receives three times more CDBG funding per capita. These are just two of hundreds of examples illustrating that different communities are receiving the exact opposite amount of funds you'd expect.

We all know that the communities we live in have changed in the past few decades – some have improved, some have deteriorated. There's no way for a community that was needy in the 70's but is now wealthy to “graduate” from the program. Once a community is placed on the list, no matter how wealthy the community becomes over time, it is guaranteed a portion of the CDBG funding every year.

Even though I value the goals of the program, I have several questions—
When will we get full transparency with a public website where anyone can see how the money is spent? When will the program adopt standardized performance measures to be used in comparing successes from city to city? The program is long overdue for meaningful reform. There are several key points that must be addressed in order for this program to be both effective and accountable

- Funds must be targeted based on need. This means the formulas need to be updated and wealthy communities need to graduate from eligibility.
- There must be transparency and enforcement of the planned use of grants under this program—publish a community's proposal and actual disbursements on a public website. HUD needs to provide consistent oversight and transparent monitoring of what goes into a plan and how it is carried out. Communities must be able to comment on a grantee's planned use of CDBG funds. Potential waste, fraud, and abuse of funds need to be averted before high-risk plans are enacted.
- Funding must be conditioned on performance. Performance measures need to be better defined, and grantees that consistently fail to perform need to face real and immediate consequences.

Since 2000, the Administration, to its credit, has identified these program weaknesses and attempted reform. But, these attempts have been met with open hostility in Congress. I'm afraid that many of my colleagues view the program as an entitlement for their home districts. Last month, HUD delivered the latest Community Development Block Grant reform proposal to Congress. I hope that Congress will take our responsibility to Americans seriously and finally make this program work for the needy communities it was created to help.. As more and more accounts of waste and abuse surface, we simply cannot neglect our duty to the next generation in favor of the next election.

I want to thank all the witnesses for being with us here today. I look forward to hearing your testimony.

coburn.senate.gov/ffm