STATEMENT BY

U.S. CONFERENCE OF MAYORS
NATIONAL ASSOCIATION OF COUNTIES
NATIONAL LEAGUE OF CITIES
NATIONAL ASSOCIATION OF LOCAL HOUSING FINANCE AGENCIES
NATIONAL ASSOCIATION FOR COUNTY COMMUNITY AND ECONOMIC DEVELOPMENT
NATIONAL COMMUNITY DEVELOPMENT ASSOCIATION

TO THE

SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT INFORMATION AND INTERNATIONAL SECURITY

SENATE COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS

HEARING ON

THE BUSH ADMINISTRATION'S "COMMUNITY DEVLOPMENT BLOCK GRANT REFORM ACT OF 2006"

JUNE 29, 2006

The U.S. Conference of Mayors (USCM), National Association of Counties (NACo), National League of Cities (NLC), National Association of Local Housing Finance Agencies (NALHFA), National Association for County Community and Economic Development (NACCED), and the National Community Development Association (NCDA) appreciate the opportunity to present this joint Statement to the House Subcommittee on Federalism and the Census regarding the Bush Administration's proposed "Community Development Block Grant Reform Act." We wish to state at the outset that we do not support this proposal.

As we told the Congress during last year's hearings on the Administration's "Strengthening America's Communities Initiative," CDBG is arguably the Federal Government's most successful domestic program. Its success stems from its utility, i.e. providing cities, counties and states with flexibility to address their unique affordable housing, neighborhood revitalization and economic development needs. Based on HUD's most recent data in 2004 alone the CDBG program *assisted over 23 million persons and households.*

CDBG has been performing at a high level for more than 30 years, and it continues to produce results. In fact, according to HUD, more than 78,000 jobs were created or retained by CDBG in FY 2004. In addition, in FY 2004, 159,703 households received housing assistance from CDBG. Of this amount 11,000 became new homeowners, 19,000 rental housing units were rehabilitated and 112,000 owner occupied homes were rehabilitated. In FY 2004, over 9 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 from CDBG funds. In addition, more than 13 million persons received assistance from CDBG-funded public services in FY 2004, including employment training, child care, assistance to battered and abused spouses, transportation services, crime awareness, and services for seniors, the disabled, and youth. In addition, over time grantees provided CDBG-funded loans to businesses located in distressed neighborhoods, with minority businesses receiving approximately 25% of the loans.

CDBG has been achieving results like this throughout its 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 and contributed over $129 billion to the Gross Domestic Product (GDP).

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 21st 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 (2001), 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 a George Mason University economist, the Washington region will add 80,000 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 cities and 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.

In fact, ninety percent of the urban, suburban, and rural counties surveyed by the National Association of Counties (*Paycheck to Paycheck)* 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, and this just makes economic sense. Not only does this reduce the isolation of income groups and provide access to opportunity, it attracts the service and retail employment base cities and 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 this year’s 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 recently provided an additional $5.2 billion. 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 11th 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 quakes 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.

CDBG has already been Reformed

In 2004 a number of the practitioner groups -- NACCED, NALHFA, NAHRO, and NCDA -- devoted substantial resources to a working group that included representatives of the Office of Management and Budget and the Department of Housing and Urban Development with the aim of developing a Performance Outcome Measurement system. What emerged from the efforts of this working group was a *consensus* framework and specific outcome measures to evaluate the performance of the Community Development Block Grant (CDBG) program, the HOME Investment Partnerships Program (HOME), the Housing Opportunities Program for Persons With Aids (HOPWA) program, and the Emergency Shelter Grants (ESG) program. HUD is now in the process of implementing the Performance Measures system. This is the real *reform* of the CDBG program. It will finally provide aggregate national data on the many accomplishments of CDBG and the other three formula grant programs.

In its proposal, HUD maintains that statutory language is needed to enforce the performance measurement system now being implemented. It proposes the following:

- Authorizing the Secretary to establish performance measures and accountability standards for formula grantees;
- Requiring, prior to the receipt of grant funds, that a formula grantee submit a Performance Plan to the Secretary for review and approval, including:

- A statement and a description of the grantee's community development needs and objectives;
- A projected use of funds; and
- A list of performance measurement objectives for each of the projects or activities to be funded prospectively with CDBG funds.

- Requiring a grantee to submit to the Secretary, and make available to the public, a report containing:

    - Information documenting the performance outcomes of activities or projects;
    - The nature of, and reasons for, changes in program objectives;
    - Indications of how the formula grantee would change its programs as a result of its experiences;
    - An evaluation of the extent to which funds were used to serve low- and very low-income persons;
    - A summary of public comments received on specific programs; and
    - Information about the procedures that the formula grantee uses to collect and verify data submitted to the Secretary.

- Directing the Secretary to perform a periodic review of the grantee's progress and provide that if a grantee failed to meet its performance measurement objectives and outcomes in a 24-month period, the Secretary could reduce or limit the grantee's access to CDBG funds; the grantee would be required to submit a plan that outlines steps it would take to improve its future performance.

In a briefing for our organizations, HUD maintained that the purpose of this addition to the statute is to put teeth behind the performance measures system now being implemented. HUD hopes this will encourage grantees that aren't reporting accurate and timely data to begin doing so. HUD staff says establishing a review process and defining "lack of progress" would have to be done very slowly and cautiously. It is doubtful that Congress would give HUD the authority to withhold a grantee's funds.

Is this statutory change necessary? We don't believe so. Our members believe that there is a need for a performance measurement system and have embraced the system that HUD is now implementing. Providing a statutory requirement is, in our view, redundant.

Formula Reform

HUD's legislative proposal call for "reform" of the CDBG formula including the following:

- Eliminating the 70/30 funding split between entitlement cities and counties and states
- Removing the $7 million set-aside for insular areas, instead reserving .19% of the appropriations amount for insular area grantees
- Basing the formula on the following factors:
    - Number of persons living in poverty, excluding unrelated individuals enrolled in college (50%)

    - Number of female-headed households with children under eighteen (10%)
    - Extent of housing overcrowding (10%)
    - Number of housing units 50 years or older and occupied by a household living in poverty (30%)
- Adjusting the formula by the ratio of per capita income of the MSA to the per capita income of the formula grantee, with caps such that no grant is adjusted by more than 25 percent
- Requiring a minimum allocation threshold of .014 percent of the total amount allocated; if any current entitlement does not meet the minimum allocation threshold requirement, this grantee would receive 50 percent of their grant amount for the first year after enactment before being eliminated as an entitlement the following year

HUD maintains that this formula modification is about fairness. HUD also believes that the introduction of a minimum allocation threshold requirement – weeding out smaller metropolitan cities and urban counties with less poverty – would foster a more regional approach to CDBG programs. According to the FY 2006 appropriation, the .014% threshold requirement would be the equivalent of $518,000. There are currently 312 city and urban county entitlements that receive less than this amount, and thus, they would be denied direct funding.

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. Fairness is in the eye of the beholder. For example, under the Administration's proposal applied to the FY 2006 appropriation, 10 communities in Ohio that now receive direct entitlement funding would lose their eligibility and have to compete for funding from the State. Of the remaining entitlements, 23 would see their entitlement grants reduced, some by as much as 65% (Cleveland Heights and Lakewood), while 9 would receive increases, one by as much as 70% (Columbus). Dayton would lose 16% of its grant. In Pennsylvania, 10 communities that are currently receiving direct funding would have to compete for grants from the State under the Administration's proposal. Thirty-one entitlement cities and counties in Pennsylvania would receive smaller grants, one by as much as 53% (Allegheny County) and one by 43% (Pittsburgh), while four entitlement communities would see modest increase of 3-10% (Philadelphia).

If Congress decides to change the CDBG formula, which we do not support, the only way to prevent losers is to appropriate more money. That is highly unlikely given the current fiscal situation.

Bonus Funding Pool

The HUD "reform" proposal also contains a bonus funding pool called "Economic Development and Revitalization Challenge Grants," a $200 million pot of funds for which entitlement and non-entitlement cities and counties would compete. These grants are intended to provide an incentive to communities to demonstrate results in improving the livability of distressed neighborhoods for its citizens through the targeted use of grant funds and other public and private resources. Other features of the proposal include:

- A grantee must have a population with a minimum poverty rate at least half the national poverty rate;
- In the previous year, a grantee must have expended at least 40% of its last grant amount for activities in Neighborhood Strategy Revitalization Areas (NSRAs);
- For any previous challenge grants received, the grantee must have expended at least 40% of its prior year's grant and 100% of the grant received 24 months prior;
- The grantee must have an operational performance measurement system that shows results and achievements from activities carried out in NSRAs;
- Criteria to score eligible grantees include:
    - Concentration of public funds and leveraged private investment in designated NSRAs;
    - Relative improvement in expanding economic opportunities for low-and moderate-income households within its NSRAs in past five years;
    - Indicators that measure the NSRA's viability for redevelopment and the entity's ability to implement effective strategies to improve economic opportunity and livability within the NSRA;

- Funds will be awarded as follows:

    - Grants will be allocated as a percentage of a grantee's formula grant;
    - Grantees with higher scores shall receive a larger percentage of bonus funds than those with lower scores;
    - No grantee shall receive a bonus grant greater than 50% of its formula grant;
- Funds must be used in NSRAs for activities that expand economic opportunity; funds may be used to create affordable housing if this is part of the grantee's strategy to expand economic opportunity.

Grantees would not actually apply for these grants; HUD would analyze eligibility and scoring criteria through data collected in the Integrated Disbursement Information System (IDIS). The theory behind this bonus fund is to incentivize grantees to achieve certain outcomes by rewarding them, but without limiting the kinds of activities that can be undertaken with formula funds.

Unfortunately, the funding for this program comes out of the CDBG formula; it is not a separate program. The proposed FY 2007 appropriation for this bonus fund is $200 million. We are strongly opposed to the diversion of limited formula funds for this purpose.

Program Elimination

The final element of HUD's "reform" proposal is the elimination of three programs: Section 108 Loan Guarantees, the Brownfields Economic Development Initiative (BEDI), and the Rural Housing and Economic Development programs. The rationale for this program elimination is that most of the activities can be carried out with CDBG funds, with the exception, of course, of the tremendous leveraging opportunities that the Section 108 program provides.

Section 108 provides cities and counties with a source of financing for large scale affordable housing, economic development, and public facilities projects. The program allows CDBG grantees to leverage a portion of their CDBG entitlement grants to undertake projects on a scale that can transform neighborhoods. Section 108 funding is often the catalyst to entice private sector funding to distressed neighborhoods in need of revitalization. In 2005, HUD approved 55 Section 108 project applications. Of the $336 million total that was approved, $194.7 million went to economic development projects that created or retained 9,922 jobs, $212.7 million supported housing rehabilitation projects, and $119.2 million went to public facility and improvement projects. This activity would not be possible if communities had to rely solely on their annual entitlement grants.

Section 108 loans are often coupled with Brownfields Economic Development Initiative (BEDI) grants to spur the reclamation of brownfields. BEDI grants can be used to pay predevelopment costs of a Section 108 project, and the can also be used as a loan loss reserve to write down interest rates, or establish a debt service reserve. Both of these programs complement and enhance CDBG; they don't duplicate CDBG. They should not be terminated.

CDBG Funding

Finally, we wish to comment on formula funding for CDBG. We complement the Congress for its leadership in preserving CDBG, at HUD, during the previous session of the 109th Congress. The price paid for this victory was a heavy one, with formula funding cut from the FY 2005 level of $4.1 billion to $3.71 billion. This was on top of the $200 million cut in FY 2005.

Earlier this year, our organizations, along with two others, surveyed our members to quantify the impact of the cuts to the formula grant portion of the program from FY 2004 to FY 2006. Here is what we found:

- 5,064,408 fewer low- and moderate-income persons would be served nationwide as a result of cuts to the CDBG program from FY 2004 to FY 2006.

- 5,588 fewer businesses would be assisted, 14,881 fewer jobs would be created, and 3,345 fewer jobs would be retained.

- 5,843 fewer households would be assisted through homebuyer assistance activities, including a total of 2,533 first-time homebuyers, and 1,828 minority households.

- 255,569 elderly and 391,823 children would fail to receive public services that are routinely funded with CDBG funds, such as meals on wheels, improvements to nursing homes, child care, and after school enrichment programs.

- 253,187 fewer persons with special needs would be served, along with 196,150 fewer homeless persons.

- 1,251 new city and county public improvement projects would be cancelled or delayed, such as street and sidewalk improvements, water and sewer systems, fire stations, public facilities, and the remediation of environmental contamination.

Survey respondents included grantees in 43 states and the Commonwealth of Puerto Rico; representing 30 percent of all CDBG formula grantees, including 68 percent of all state programs and 28 percent of all entitlement cities and counties.

We were very pleased that H.R. 5576 passed by the House earlier this month contains a $200 million increase in CDBG formula grants to $3.9 billion for FY 2007. We thank the members who voted for this important increase. We will continue our efforts in the Senate to achieve a significant increase in formula grants at part of its version of the FY 2007 Transportation, Treasury, and Housing and Urban Development appropriations bill.

Thank you.