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UNITED STATES GENERAL ACCOUNTING OFFICE
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FIFTH AND MAIN STREETS
CINCINNATI, OHIO 45202

OCTOBER 26, 1983

The Honorable John Y. Brown, Jr.
Governor of Kentucky
Frankfort, Kentucky 40601



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Dear Governor Brown:

Subject: Kentucky's Early Implementation of the Small
Cities Community Development Block Grant Program

Enclosed is our final report which describes Kentucky's decisionmaking process in implementing the Small Cities Community Development Block Grant Program as authorized by the Omnibus Budget Reconciliation Act of 1981. It also provides a comparison of 1982 State-funded activities and populations targeted with those of the Department of Housing and Urban Development (HUD) in 1980 and provides local communities' and others' perceptions of the success of Kentucky's program. Kentucky was one of seven States we visited to provide the Congress with up-to-date information on States' progress in implementing their Small Cities Program. We previously sent you a copy of our overall report to the Congress, "States Are Making Good Progress in Implementing the Small Cities Community Development Block Grant Program" (GAO/RCED-83-186, Sept. 8, 1983), which incorporated the results of our work in seven States. The enclosed report details the results of our review in Kentucky.

Essentially, we found that Kentucky's 1982 Small Cities Program differed from the HUD-administered program. HUD last administered the program in 1980; Kentucky administered it in 1981 as part of a HUD demonstration program. HUD devoted a large share of Small Cities Program funds to neighborhood revitalization activities such as property acquisition and clearance, relocation assistance, and housing rehabilitation. Kentucky shifted some funding away from these activities and into economic development projects. Also, under Kentucky's program, grants were supplemented by substantially more funds than under HUD's program--about \$139 million versus about \$13 million, respectively. (See enc. III.)

Furthermore, on the basis of information in the grantee application files, 72 percent of the persons expected to benefit from the 1982 State-approved projects were of low and moderate

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income, while 85 percent of the beneficiaries of HUD's 1980 projects were so classified. As this comparison is based on approved project data from applications from both programs, it reflects planned, not actual benefits to low- and moderate-income persons. Actual benefit data were not available at the time of our review. (See enc. III.)

State and HUD Small Cities Program officials, as well as public interest group officials, generally viewed Kentucky's program as being successful, often citing increased community participation as an indication of the program's achievement. These officials were generally pleased with the State's program and said that the State is responsive to the communities' needs. (See enc. IV.)

Most grantees and unsuccessful applicants perceived Kentucky's Small Cities Program as being adequate or more than adequate in meeting local development needs, providing helpful technical assistance, and having a fair award process. In comparing the State-administered program with the one previously administered by HUD, respondents to our questionnaires viewed Kentucky's program as being equivalent or better than HUD's in a number of areas, including the burden of application procedures, fairness of the award process, and difficulty of eligibility requirements. (See enc. IV.)

The State emphasized the importance of local communities' participation in designing the Small Cities Program. Kentucky conducted several activities to fulfill its public participation certifications which resulted in extensive input from a variety of sources. For example, draft statements of the program objectives were sent to all mayors and county executives for review and comment. In addition, Kentucky held a public hearing on the Statewide public television network. Community leaders were generally pleased with the amount of communications between themselves and the State prior to the program's implementation. (See enc. II.)

On February 25, 1983, we provided a draft of this report to your office and to the Legislative Research Commission for review and comment. On March 4, 1983, we met with members of your office and the Commission and were told the draft report presented a fair and accurate description of the Kentucky Small Cities Community Development Block Grant Program.

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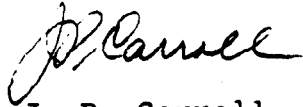
Enclosure V of this report contains detailed information regarding the objectives, scope, and methodology of our review.

Copies of this report are being sent to Kentucky's President of the Senate, Speaker of the House, and U.S. congressional

representatives; the HUD regional administrator responsible for Kentucky; and other interested parties.

Thank you for the cooperation of and time spent by State officials in assisting us during our review. Without their full cooperation and assistance, we most likely could not have provided early input to the March 1983 Community Development Block Grant Program reauthorization hearings.

Sincerely yours,



J. P. Carroll
Regional Manager

Enclosures - 5

C o n t e n t s

		<u>Page</u>
ENCLOSURE		
I	INTRODUCTION	1
	History of the Small Cities Program	1
	Overview of State program	4
II	DESCRIPTION OF STATE AND LOCAL DECISIONMAKING PROCESS	7
	Kentucky designed its program emphasizing public participation	7
	Kentucky adhered to its funding distribution method and selection criteria	11
	Conclusions	15
III	COMPARISON OF HUD- AND STATE-FUNDED ACTIVITIES AND POPULATION TARGETED	16
	Major activities funded under HUD's 1980 program and State's 1982 program	16
	Benefits targeted to low- and moderate- income persons under the 1982 State program versus the 1980 HUD program	21
	Conclusions	23
IV	PERCEPTIONS: COMPARISON OF STATE- AND HUD-ADMINISTERED PROGRAMS	25
	State, HUD, and other views on State and former HUD program	25
	Views of successful and unsuccessful applicants	26
	Conclusions	34
V	OBJECTIVES, SCOPE, AND METHODOLOGY	35
	<u>ABBREVIATIONS</u>	
HUD	Department of Housing and Urban Development	
NAACP	National Association for the Advancement of Colored People	

INTRODUCTION

The Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35) substantially changed the administration of various Federal domestic assistance programs. The act consolidated numerous Federal categorical programs into nine block grants and shifted primary administrative responsibility to the States, with Federal agencies retaining a stewardship role. Of the nine block grants enacted, four related to health services, two to social services, one to low-income energy assistance, one to education and one to community development. Six of the block grants were newly created, and three involved changes to existing ones. Under the provisions of the act, States are provided greater discretion, with certain legislative limits, to determine programmatic needs, set priorities, allocate funds, and establish oversight mechanisms. Since passage of the act, a great deal of interest has been expressed by the Congress, as well as the public and private sectors, on how the States have exercised their additional discretion and on what impact the new approach to block grants is having on services provided to the people.

We are reviewing the Small Cities Community Development Block Grant Program, and the other eight block grant programs, to provide the Congress with detailed information on the States' implementation of the programs. This report provides information on the Small Cities Community Development Block Grant Program in the State of Kentucky. Specifically, it describes the decisionmaking process used to design the State program, including how the State met its public participation certifications; the State's process of selecting local funding recipients in 1982; a comparison of State funding of community development activities in 1982 with Department of Housing and Urban Development (HUD) funding in 1980;¹ and local communities' and others' perceptions of how Kentucky is administering the 1982 program compared with how HUD administered the previous program.

HISTORY OF THE SMALL CITIES PROGRAM

The Small Cities Program had its beginnings with the passage of the Housing and Community Development Act of 1974 (Public Law 93-383). Title I of this act created the Community Development Block Grant Program. It replaced several former categorical grant and loan programs under which communities

¹In Kentucky, State funding data are compared to 1980 HUD data--the last year HUD administered the program. In 1981, Kentucky participated in a HUD demonstration program where the State administered the Small Cities Program.

applied for funds on a case-by-case basis. The primary objective of title I was the development of viable urban communities by providing decent housing and suitable living environments and by expanding economic opportunities, principally for low- and moderate-income persons.

The program allowed communities two types of grants--discretionary and entitlement. Small communities in metropolitan areas and communities in nonmetropolitan areas were eligible to receive annual discretionary grants. These communities were made up largely of cities having populations of under 50,000 that could receive funding only through a competitive process. Funds were awarded at HUD's discretion after it considered applicant proposals. Known initially as the discretionary grant program, the program evolved into the current Small Cities Program. Annual entitlement grants were made to communities with populations of over 50,000, central cities of standard metropolitan statistical areas, and some urban counties with populations of over 200,000.

Subsequent amendments to title I of the act made a number of changes to the program. For example, the Housing and Community Development Act of 1977 (Public Law 95-128) redesignated the discretionary grants portion of the program as the Small Cities Program. This act also authorized HUD to make two types of programs available to small cities--comprehensive and single-purpose grants. Comprehensive grants involve commitments, for periods of up to 3 years, to carry out two or more activities that address a substantial portion of community development needs within a reasonable period of time. Single-purpose grants are for one or more projects that consist of one or a set of activities to meet a specific community development need.

Title III of the Omnibus Budget Reconciliation Act of 1981 resulted in substantial revisions to the Small Cities Program. Although the primary objective of carrying out community development activities that principally benefit low- and moderate-income persons remains unchanged, HUD regulations (24 CFR Part 570) on the State-administered program state that this overall objective is achieved through a program where the projected use of funds has been developed to give maximum feasible priority to activities which will benefit low- and moderate-income families or aid in the prevention or elimination of slums or blight. The projected use of funds may also include activities which the State certifies are designed to meet other community development needs having a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community where other financial resources are not available to meet such needs.

The 1981 act put State and local officials more clearly at the center of the decisionmaking process and reduced the discretionary power that HUD held over program decisions. Title

III gives States the option to assume primary administrative responsibility for the Small Cities Program, including distributing funds under a State-developed program. States are free to develop purposes and procedures for distributing funds as State and local priorities dictate, subject to the objectives and other requirements of the act.

In lieu of preparing a block grant application, the Omnibus Budget Reconciliation Act of 1981 requires each State electing to administer the program to prepare a statement of community development objectives and its projected use of the funds. The projected use of funds shall consist of the method by which the State will distribute funds to units of local government. The act provides that each State must certify, among other things, that the projection of how funds will be used has been developed in a way that gives maximum feasible priority to benefiting low- and moderate-income persons or preventing slums and urban blight. The projected use of funds may include activities that the State certifies have been designed to meet community development needs of particular urgency because existing conditions pose a threat to the health and welfare of the community and other financial resources are not available to meet those needs. The 1981 act also sets forth specific requirements to permit public examination and appraisal of the proposed and final statement of objectives and projected use of the funds, to enhance the public accountability of the States, and to facilitate coordination of activities with different levels of government. Each State is required to certify to HUD that it has met these requirements.

If a State elects not to accept primary responsibility for administering the program or if it fails to submit the required certifications, small communities would continue to be eligible to receive small cities grants from the HUD-administered program.

In fiscal year 1982, 36 States and Puerto Rico elected to assume responsibility for administering the Small Cities Program. As of August 1983, 46 States and Puerto Rico have elected to administer the program for fiscal year 1983. Hawaii, Kansas, and Maryland have decided not to administer the program, while New York needs approval of its legislature before notifying HUD of its intention to administer the program.

As structured under the Omnibus Budget Reconciliation Act of 1981, 30 percent of the funds appropriated to the Community Development Block Grant Program are allocated to the Small Cities Program after deducting funds allocated to the Secretary's Discretionary Fund. After determining the amount of funds available for the Small Cities Program, grants to individual States are calculated on the basis of two formulas that existed under prior law. One formula takes into consideration poverty, population, and overcrowded housing. The other formula considers poverty, population, and age of housing stock. The

allocation to each State is based on whichever formula yields a higher level of funds.

In fiscal year 1982, \$1.019 billion was allocated among the 50 States and Puerto Rico for the Small Cities Program, compared with about \$926 million in fiscal year 1981.

OVERVIEW OF STATE PROGRAM

Before the Omnibus Budget Reconciliation Act of 1981 was passed, two States--Kentucky and Wisconsin--participated in a HUD-authorized demonstration to test States' ability to administer the Small Cities Program. The demonstration was undertaken to determine whether an expanded role for States in the Small Cities Program would increase the effectiveness of the program in meeting the needs of distressed areas and low- and moderate-income people. Kentucky and Wisconsin were selected to participate in the demonstration, primarily because they had the staff and resources to carry it out and had a record of State activities compatible with the objectives of the Small Cities Program. According to HUD, the results of the demonstration indicated that the States had the capacity to administer a Federal community development program and to do so with the cooperation of small communities.

Kentucky began developing a consultative process for designing its community development program during 1980, when it was selected to participate in the demonstration program for fiscal year 1981. Under this program, State officials designed the project selection process, reviewed applications, and recommended awards to HUD. As a condition of the demonstration, the State was required to develop consensus among local officials in support of its selection criteria. Kentucky established two advisory committees to help develop its program:

--A technical review committee, composed of community development professionals from local government and regional planning agencies.

--A policy advisory committee, composed of local elected officials and a few State officials.

The technical review committee was asked to help work out details of the State project selection process, while the policy advisory committee was used to approve the final program design. The State mailed copies of its draft program to all mayors and county executives for comment. After comments were received and summarized, the policy advisory committee approved changes, and HUD approved the selection criteria. The entire process took about 2 months.

Kentucky began preparing its 1982 program in May 1981. State officials held three public meetings in May at which they offered general suggestions for changing the program and solicited comments. These meetings were attended essentially by elected public officials, local community development administrators, and consultants. Although a large number of comments were received, they did not reflect clear preferences for program change.

The Kentucky staff then began working closely with HUD area office officials to draft program guidelines. Both HUD and State representatives told us that frequent informal consultation took place throughout the next several months as the State program evolved. Although much of this was oral, HUD officials at both the area office and at headquarters reviewed and commented on drafts of the State guidelines. Kentucky officials said that their HUD counterparts were supportive of the State's objectives for the program and tried to help the State achieve these objectives.

Kentucky submitted its first proposed program design to its two committees in July and August 1981 and mailed it out for comment to all mayors, county executives, regional planning directors, State legislators, and miscellaneous interested persons. The reaction to this proposal was rather negative; many people commented that the State's guidelines appeared more complicated and burdensome than HUD's. State officials decided to develop a new program design, starting with a statement of goals and objectives. This proposal was less complex than the first.

The new proposal was reviewed by the two committees and again sent out for comment. When the comments revealed general acceptance of the revised guidelines, the Kentucky staff proceeded to write formal regulations and prepare training sessions for applicants.

In March 1982, Kentucky formally requested funds to continue the Small Cities Program, and in April 1982, HUD awarded the State a grant of about \$30.6 million. About \$14.6 million was earmarked to fulfill prior HUD multiyear commitments. The remaining balance was allocated approximately as follows: 35 percent to economic development, 55 percent to housing and public facilities, and 10 percent to special projects. Funds in the housing and public facilities categories, which were separate for competitive purposes, were split on the basis of the number of projects in each category above a given threshold.

The emphasis on economic development reflected an established priority in State government and was intended to complement other State efforts to support projects that would create or retain permanent jobs. Its project-selection criteria were designed to encourage the association of community development grants with other sources of funds. Special emphasis was placed on State and private funding sources for economic development projects, and on Federal sources for public facilities projects. In addition, new multiyear funding was eliminated to give the State more flexibility from year to year and to enable more communities to receive funds.

DESCRIPTION OF STATE AND LOCALDECISIONMAKING PROCESS

Kentucky drew extensively on the expertise of HUD officials in designing its community development program and also made extensive efforts to solicit ideas from local government officials and planners. To meet its public participation certifications to HUD, Kentucky held public meetings, televised a public hearing, and used an open mailing list. Also, citizen input played an important role in determining local community development needs.

Our review of a sample of grantee and unsuccessful applications showed that Kentucky distributed funds in accordance with the procedures outlined in its statement of objectives which was provided to HUD. In addition, it used competitive and noncompetitive methods in selecting individual projects for funding and did so in accordance with the criteria established for that purpose.

KENTUCKY DESIGNED ITS PROGRAM
EMPHASIZING PUBLIC PARTICIPATION

Title III of the Omnibus Budget Reconciliation Act of 1981 requires each State to certify, among other things, that it

- furnished citizens information about the amount of funds available for proposed community development and housing activities, and the range of activities that may be undertaken;
- allowed affected citizens or, as appropriate, units of local government the opportunity to examine and comment on proposed statements of community development objectives and projected use of funds;
- held at least one public hearing to obtain the views of citizens on community development and housing needs; and
- made the final statement available to the public.

How public participation
requirements were met

Kentucky used a variety of methods to meet its public participation certifications. The results of our questionnaire of 1982 applicants confirmed that local officials were involved in the design of the State's program. Table 1 summarizes answers

to the questions of whether communities were asked for suggestions on the design of the program, whether they made any suggestions, whether they were asked to comment on proposed guidelines, and whether they provided any comments.

Table 1

Applicant Participation in Program Design

<u>Type of participation</u>	<u>Grantees</u>	<u>Unsuccessful applicants</u>
	(percent)	
Were asked for suggestions on program design	69	68
Offered suggestions	63	62
Were asked to comment on draft guidelines	84	68
Submitted comments	46	34

We also asked applicants to characterize the extent of communication that took place between the State and local communities during the design of the program. About 93 percent of the grantees and 74 percent of the unsuccessful applicants in our sample said communication was adequate or more than adequate.

We asked representatives of the Kentucky Municipal League, the Kentucky Association of Counties, the Kentucky County Judge/Executives Association, and the National Association for the Advancement of Colored People (NAACP) for their views on the extent of public participation in the design of the community development program. Representatives of the first three groups believed that extensive public participation took place. They said the State vigorously solicited and evaluated comments and mediated differences among divergent groups. Public interest groups actively participated by sitting on advisory boards and commenting at public meetings. The NAACP, however, felt that public participation was inadequate. The NAACP said some public interest groups participated in the design of the program, but the general public and specifically representatives of minority groups were not actively canvassed. State officials told us they would solicit comments from such groups in the future.

Kentucky held a public hearing on the statewide public television network on Sunday, December 13, 1981. Staff members

announced the Small Cities Program and described the activities eligible for funding. A moderator asked the State staff prepared questions for a half hour, and listeners were invited to call a toll-free number with questions or comments during the second half hour.

Kentucky's mailing list to solicit comments on its Small Cities Program includes all mayors and county executives, State legislators, regional planning agencies, local community development directors, and a miscellaneous group made up largely of practicing consultants and organizations such as the Kentucky Municipal League. Aside from two organizations that promote housing in Appalachian Kentucky, the list does not include groups representing the target populations of the community development program. Kentucky officials said this was an oversight which will be corrected. They pointed out that miscellaneous groups are put on their mailing list on request.

Kentucky staff conducted four training workshops across the State for potential applicants during the 1981 demonstration and made more than 40 technical assistance visits at the request of applicants. For its 1982 Small Cities Program, Kentucky held 2-day workshops in Lexington and Owensboro, attended by an estimated 400 people. State staff appeared at several other meetings by invitation to explain the program. Kentucky also relied on the regional planning agencies, known as area development districts, to inform their member jurisdictions about the program.

The results of our questionnaire to 1982 applicants provided evidence of the State's efforts to inform local communities about the Small Cities Program. Ninety-seven percent of both grantees and unsuccessful applicants said they were informed of the State's intention to have a program before receiving information on participation procedures and requirements. Over 94 percent of both also said they had received information on program goals and eligibility requirements. In addition, over 85 percent said they received information on the method of selecting projects. About 89 percent of both grantees and unsuccessful applicants said they had received information by mail, while about 66 percent of the grantees and about 82 percent of the unsuccessful applicants said they had attended meetings. About 28 percent said they had personal contacts with State staff members.

Kentucky officials told us they believe they made a considerable effort to involve local officials in designing both the 1981 and 1982 Small Cities Programs. They believe this generated widespread acceptance of their approach and a recognition of its overall fairness.

How local communities
designed their programs

According to our questionnaire results, 93 percent of the communities receiving grants said that persons outside their community governments helped develop plans for carrying out projects and activities under the Small Cities Program. Grantees most frequently cited the following groups as participating in the development of local plans:

<u>Participants</u>	<u>Grantees</u> (percent)
Individual citizens	45
Consultants or contractors	41
Regional advisory council	38
Citizen groups	35
County officials	31
Council of governments	24

Grantees indicated that individual citizens and citizen groups participated in the development of their community's program plans through the following means:

<u>Means of participation</u>	<u>Grantees</u> (percent)
Public hearings held by community's government	86
Public meetings	62
Individual visits, calls, or letters	41

Kentucky required applicants to hold at least one public hearing before submitting their applications.

Sixty-six percent of the grantees said that they conducted or had conducted a formal needs assessment of their community prior to submitting their funding application. Forty-one percent said the assessment was conducted by the community government, 24 percent by a consultant or contractor, and 21 percent by the county government. In conducting the needs assessments, the following procedures were frequently included:

<u>Procedures</u>	<u>Grantees</u> (percent)
Reviews of community statistical data	55
Visual inspection of community conditions	52
Reviews of U.S. Census data	45
Household surveys	38

Grantees cited the following factors as being important in selecting projects and activities for inclusion in their communities' funding applications under the Small Cities Program:

<u>Factors affecting selections</u>	<u>Grantees</u> (percent)
General knowledge of community officials	89
Needs assessment	79
Individual citizens' comments	76
Potential for attracting funding from other sources	72
State officials' suggestions	59
Citizen groups' comments	55

KENTUCKY ADHERED TO ITS FUNDING DISTRIBUTION
METHOD AND SELECTION CRITERIA

Our review of a statistical sample of grantee and unsuccessful applications showed that Kentucky distributed funds in accordance with the procedures outlined in its statement of objectives. It also selected individual projects, using both competitive and noncompetitive methods, in accordance with the criteria established for that purpose. Kentucky allocated its funds to four areas--35 percent to economic development, 55 percent to housing and public facilities, and 10 percent to special projects--prior to determining specific projects to fund. Applications only competed with similar applications in a program area. Housing and public facilities projects to be funded were selected by a panel using a competitive ranking system. Economic development projects were reviewed by the State staff to determine if they met the State's criteria for economic development assistance and then presented to a panel of experts consisting of State government and private sector officials for final approval. Special project applications which either addressed emergency needs or innovative approaches to community development were approved by State staff. This approval consisted largely of judgmental decisions that emergencies did exist or that approaches were innovative. Because no specific

criteria were established for these projects, we did not review the State's actions for approving them.

Kentucky's procedures for selecting housing and public facility projects

Kentucky adopted a point system for rating housing and public facility applications and established review panels for these two categories composed of two Kentucky staff members and one HUD area office representative. Site visits were made to the 24 top-rated projects in each category. Panel members were permitted to downgrade projects on the basis of the site visits but could not upgrade them.

Kentucky's 1982 criteria for rating housing and public facility projects were as follows:

- Community need (150 points): the number and percentage of the population under the poverty line.
- Project need (300 points): the severity of deterioration, dilapidation, or inadequacy of housing stock or of the deficiency in public facilities.
- Project effectiveness (200 points): the extent to which the proposed activities address and solve identified problems.
- Reasonable costs (150 points): the reasonableness of budgeted costs.
- Financing (200 points): the appropriateness of project financing techniques, considering the income of persons benefiting from the project, and the infusion of other funds.

State staff members who participated in the rating process told us the decisive criteria were project need and financing, since most projects received full credit for project effectiveness and reasonable cost. Our review of the rating results showed 137 out of 176 applications received full credit for effectiveness and 123 out of 176 for reasonable cost. The community need score, which the State computed for each applicant, was decisive for three winning applicants.

Kentucky's procedures for selecting economic development projects

Kentucky made economic development a separate category in 1982 and allocated 35 percent of available funds to this category. The application-filing period for economic development projects was kept open from March 15, 1982, to November 1, 1982, and funds were allocated quarterly from April through December. Rather than rate the applications competitively, the State staff reviewed them for compliance with the State's economic development criteria and then presented them monthly to a panel of economic development experts from State government and the private sector. The panel compared the projects on the basis of the selection criteria and made recommendations for funding. Applicants were often asked to seek other financing sources to complement the Small Cities Program funds. When a suitable package of commitments was in place that met the State's criteria, the selection panel would commit funds to the project.

Kentucky's criteria for economic development projects were as follows:

1. Permanent jobs created or retained:
 - a. The number and nature of jobs.
 - b. The certainty of jobs as supported by letters of commitment from the prospective employers.
 - c. The appropriate ratio of Small Cities Program dollars per job.
2. The stimulation of private capital investment as evidenced by:
 - a. A letter from the involved private parties which provided an assurance of commitment to invest if Small Cities Program dollars were available.
 - b. An indication of the amount and certainty of the private investment.
 - c. The appropriate ratio of committed private dollars to Small Cities Program funds.
3. Maximization of the impact of the Small Cities Program dollars based on:
 - a. The dollars to be recaptured by the grantee through loans, revolving accounts, leaseback arrangements, or

- sale, as opposed to direct grants to a developer or business.
- b. The Small Cities Program funds used in conjunction with other local, State, or Federal funds.
4. A grant will not be awarded until the following is ascertained:
- a. Nature of private/public commitment. The State must be assured that private/public dollars are available.
 - b. Ratio of leveraging. The State will determine that the best possible ratio is obtained between Small Cities Program funds and other funds.
 - c. Success of the project. Applicant must demonstrate that the ultimate objective--jobs--will be achieved.
 - d. Need for Small Cities Program assistance. Small Cities Program assistance is essential and the project will not occur without it.

Kentucky's procedures for selecting special projects

Special project applications, which either addressed emergency situations or represented innovative approaches, were reviewed as received. The State staff largely used a subjective evaluation to decide whether a project was in fact for an emergency need or represented an innovated approach. Because of the subjective nature of the process and the staff's difficulty in making these decisions, Kentucky plans to eliminate the special projects category for 1983.

Kentucky followed its selection criteria in reviewing applications

Kentucky's final statement to HUD contained a description of the project selection process and criteria. We reviewed a sample of winning and losing applications that included economic development, housing, and public facilities funding. We reviewed the procedures used by the respective panels and other steps taken to select projects. Because of the subjectiveness of the decision process for special projects, we did not review the State's actions on those applications.

Our review showed that Kentucky distributed funds and selected projects in accordance with the procedures outlined in its statement of objectives and the criteria established for

that purpose. Also, we found the panel selection committee for economic development projects supported the State staff's recommendations in its final decisions on the projects. In some cases, projects were considered more than once before finally being approved.

Kentucky plans some changes for 1983

Kentucky plans to eliminate the special projects category for 1983 and allocate those funds to housing and public facilities. It also plans to increase grant ceilings from \$500,000 to \$650,000 for housing and public facilities projects, and from \$750,000 to \$1 million for economic development projects. Changes were also being considered in the rating system.

CONCLUSIONS

Kentucky used a consultative process in designing its 1982 Small Cities Program and to meet the public participation certifications required by the Omnibus Budget Reconciliation Act of 1981. The State drew extensively on the expertise of HUD officials and the opinions of local elected officials and planners. When it believed a consensus had been reached, it prepared formal regulations and held training sessions for potential applicants. It also required applicants to hold at least one public meeting before submitting their applications. Grantee and unsuccessful responses to our questionnaire confirmed that public hearings and meetings were an important part of the local project design process.

Our review of a sample of grantee and unsuccessful applications also showed that Kentucky followed its program design in distributing funds, using competitive and noncompetitive processes for selecting individual projects.

COMPARISON OF HUD- AND STATE-FUNDEDACTIVITIES AND POPULATION TARGETED

Kentucky used Small Cities Program funds more extensively in 1982 for economic development projects than HUD did in 1980, which was the last year HUD's Louisville area office selected grantees for the Small Cities Program. HUD, by comparison, had used proportionately more of the funds for housing rehabilitation, property acquisition and clearance, relocation assistance, and grantee administrative and planning costs. These differences reflected the State's objectives and resulted from policy choices involving the allocation of funds to program areas before projects were selected for funding.

Grantee application data also showed that 72 percent of the persons expected to benefit from the 1982 State-approved projects were of low and moderate income, while 85 percent of the expected beneficiaries of HUD's 1980 projects were so classified. As this comparison is based only on approved project data from applications, it reflects planned, not actual, benefits to low- and moderate-income persons.

MAJOR ACTIVITIES FUNDED UNDER HUD'S
1980 PROGRAM AND STATE'S 1982 PROGRAM

Kentucky made no change in the type of activities eligible for support with Small Cities Program funds, but it made significant changes in the way funds were allocated, emphasizing projects that would create or retain permanent jobs. As a result, funding shifted away from housing rehabilitation and other activities associated with neighborhood revitalization to economic development. HUD used a large portion of the Small Cities Program funds for comprehensive neighborhood revitalization projects, which often received multiyear funding for a package of slum clearance, housing rehabilitation, public facility improvement and planning activities. The tables on the following pages show comparisons of those activities Kentucky funded in 1982 with those HUD funded in 1980, and reflect a shift in activities to economic development. The shift is even more pronounced when prior multiyear commitments are considered (column labeled "All Grants").

Table 2Activities Funded by HUD and State
Shown as Percentages of Total Funds

	<u>1980 (HUD)</u>		<u>1982 (State)</u>
	<u>All grants</u>	<u>New grants</u>	<u>New grants^a</u>
	----- (percent) -----		
Housing rehabilitation	28	31	11
Public facilities:	26	37	35 ^b
Water and sewer	17	27	25
Street improvements	6	6	2
Flood drainage	1	2	0.1
Other	2	2	5
Engineering	0	0	2
Economic development:	0	0	35
Property acquisition			6
Facilities and equipment			14
Public facility improvements			12
Inventory loans			1
Other			2
Property acquisition	15	11	3
Clearance	2	1	1
Relocation assistance	11	5	5
Planning	1	1	0.4
Other	17	14	10

^aMultiyear grants continuing from previous years were not considered in 1982 since they were awarded under guidelines existing before Kentucky received its block grant.

^bPercentages of subactivities listed under "public facilities" for 1982 do not total 35 percent due to rounding.

Table 3

Activities Funded by HUD and State
Shown as Dollar Amounts

	<u>1980 (HUD)</u>		<u>1982 (State)</u>
	<u>All grants</u>	<u>New grants</u>	<u>New grants^a</u>
Housing rehabilitation	\$ 7,950,395	\$ 4,269,438	\$ 1,667,668
Public facilities:			
Water and sewer	4,872,856	3,708,218	3,932,982
Street improvements	1,557,562	782,383	345,195
Flood drainage	348,916	348,916	15,000
Other	514,981	272,290	735,306
Engineering	0	0	325,998
Economic development:			
Property acquisition	0	0	880,000
Facilities and equipment	0	0	2,144,277
Public facility improvements	0	0	1,885,392
Inventory loans	0	0	100,000
Other	0	0	369,800
Property acquisition	4,225,165	1,500,533	521,952
Clearance	433,196	84,802	107,422
Relocation assistance	3,230,700	754,800	781,079
Planning	231,400	148,800	63,500
Other	4,666,279	1,858,799	1,576,626
Total funds awarded	<u>\$28,031,450</u>	<u>\$13,728,979</u>	<u>\$15,452,197</u>

^aMultiyear grants continuing from previous years were not considered in 1982 since they were awarded under guidelines existing before Kentucky received its block grant.

Kentucky tried to involve more small communities in the program and improve their chances to receive funding. According to State officials, it succeeded in increasing the number of grantees because of the grant ceilings imposed (\$500,000 for housing rehabilitation and public facilities and \$750,000 for economic development). Moreover, the State's efforts to inform potential grantees (discussed in enc. II) appear to have generated more applications than in previous years. Table 4 shows the number of applicants and winning grantees in 1980, 1981, and 1982. According to the 1980 census, 373 cities and 118 counties were eligible for the Small Cities Program, excluding those which remained in Kentucky's entitlement program.

Table 4

Applicants and Grantees, 1980-82

	1980 (HUD)	1981 (Demonstration)	1982 (Kentucky)
Number of applicants	108	111	189
Number of grantees:	49	43	64
New grantees	31	23	46
Prior commitments	18	20	18

Note: Some communities applied more than once in a year. For the purposes of comparison in this table, these communities have been counted only once as an applicant.

Table 5 (see p. 20) shows that Kentucky awarded smaller grants in 1982 than HUD did in 1980. Most of the grants under both programs fell into the \$250,000 to \$500,000 range.

Table 5Average Grant Awards and Ranges of Grants

	1980 (HUD)		1982
	(All grants)	(New grants)	(Kentucky)
Average first year grant	-	\$442,870	\$335,917
Average of all grants	\$572,070	-	-
Number of grants between:			
\$0 to \$250,000	3	3	19
\$250,001 to \$500,000	27	21	23
\$500,001 to \$750,000	9	7	4
\$750,001 to \$1,000,000	5	0	0
Over \$1,000,000	5	0	0

Kentucky's attempt to improve the chances for small communities was less successful than its attempt to increase the number of grantees, as the following table shows. City grantees selected by Kentucky were larger than those chosen by HUD, while HUD funded more populous counties than Kentucky did. Since counties generally applied on behalf of unincorporated areas, only the population of the unincorporated portions of counties has been counted. The average population of all grantees selected by Kentucky in 1982 was 12,878, compared with 9,859 for HUD's grantees in 1980.

Table 6Population of Grantees in Kentucky
(First year awards only)

	1980 (HUD)	1982 (Kentucky)
Cities:		
Average	3,724	9,369
Median	2,889	4,533
Counties:		
Average	28,409	16,866
Median	23,242	15,388

Kentucky designed its project selection criteria to encourage the association of Small Cities Program grants with other sources of funds. Special emphasis was placed on Federal sources for public facilities projects and on State and private sources for economic development projects. HUD encouraged applicants to make agreements with lending institutions for their participation in housing rehabilitation loans. Table 7 shows the other funding sources identified in application files for 1980 and 1982. Kentucky's success in attracting other funding was largely attributed to the substantial commitments of private capital for economic development projects.

Table 7

Funding Sources Associated with Community
Development Grants

	1980 (HUD)	1982 (Kentucky)
Local	\$ 445,333	\$ 6,087,606
State	380,000	10,532,699
Private	2,906,260	108,831,031
Federal	<u>9,505,910</u>	<u>13,851,986</u>
Total	<u>\$13,237,503^a</u>	<u>\$139,303,322</u>

^aThe actual total of associated funds under HUD's 1980 program may be considerably higher than what is shown. Since HUD did not award rating points for identifying other funding sources associated with comprehensive projects, many applicants did not document other funding sources.

While the table suggests dramatic differences in additional funds that supported HUD- and State-funded projects, it should be kept in mind that most of the private funds shown for 1982 are associated with economic development projects involving private companies. HUD did not award any economic development projects in 1980.

BENEFITS TARGETED TO LOW- AND MODERATE-
INCOME PERSONS UNDER THE 1982 STATE
PROGRAM VERSUS THE 1980 HUD PROGRAM

Kentucky departed from HUD's previous policy of rating applicants partly on the basis of the extent to which their projects were targeted to low- and moderate-income families. Kentucky officials believed that that system limited local flexibility by encouraging applicants to tailor their projects

to concentrations of low-income people. Therefore, the State first considered changing to a threshold requirement that single-purpose projects benefit at least 51 percent of the low- and moderate-income families and comprehensive projects benefit 100 percent of such families. HUD officials advised that such a requirement was not consistent with the law, however, and suggested that Kentucky use the approach that applicants must address one of the three following objectives:

- Benefit low- and moderate-income families.
- Prevent or eliminate slums or blight.
- Address urgent community development needs.

Kentucky agreed with this approach. Applicants who addressed their projects to the benefit of low- and moderate-income families had to maintain documentation that at least 51 percent of the families benefiting were of low or moderate income.

According to information in the application files, 72 percent of the persons expected to benefit from the 1982 State-approved projects were of low or moderate income, while 85 percent of the expected beneficiaries of HUD's 1980 projects were so classified. The 1982 figure may be low, however, because many applicants for economic development projects stated only that "at least" 51 percent of those benefiting would be of low or moderate income. In addition, seven grantees who did not address the low/moderate-income objective provided no information on the income characteristics of beneficiaries. Kentucky officials said they plan to report to HUD on the Small Cities Program. This report will, among other things, compare actual benefit data on low- and moderate-income persons with planned benefit data.

Although Kentucky did not rate applications on the basis of their expected benefit to low- and moderate-income families, the State did continue HUD's practice of awarding points for community need. This was calculated as a relative score that was based on the absolute number and percentage of the population below the poverty line, with cities and counties ranked separately. Community need accounted for 15 percent of the rating score in 1982, but it did not help many applicants win grants. Only 5 of the 20 winning applicants in the housing and public facilities categories ranked among the top 25 in community need. Applicants in the economic development and special projects categories were not rated on the basis of this factor.

We analyzed 1980 census data for the cities and counties funded by HUD in 1980 and by Kentucky in 1982 to determine

whether the State directed funds to more needy communities than did HUD. Table 8 shows the results, separated into city and county grantees and compares statewide averages.

Table 8

Relative Economic Standing of HUD 1980 Grantees
and Kentucky 1982 Grantees Based on 1980 Census

	1980 (HUD)	1982 (Kentucky)
Cities:		
Average per-capita income	\$5,530	\$5,669
Average percent below poverty	21	21
Counties:		
Average per-capita income	\$4,235	\$4,998
Average percent below poverty	32	24
Statewide per-capita income		\$5,978
Percent of statewide population below poverty		18

This analysis shows little difference in the economic condition of small cities funded by HUD and Kentucky, but it does show that HUD funded more impoverished counties than Kentucky. Both HUD and the State funded communities whose per capita income was lower than the State average and where a greater part of the population fell below the poverty line.

CONCLUSIONS

Kentucky differed from HUD in the way it targeted funds to eligible activities. HUD devoted a large proportion of the Small Cities Program funds to neighborhood revitalization activities such as property acquisition and clearance, relocation assistance, and housing rehabilitation. Kentucky shifted a portion of funds away from these activities and into economic development projects. These differences reflected the State's objectives and resulted from policy choices involving the allocation of funds to program areas prior to selection of projects for funding.

Kentucky intended to improve the chances of smaller communities to receive funding under the Small Cities Program. The State did succeed in increasing the number of applicants and grantees in 1982. Our comparison of Kentucky's grantees with those of HUD in 1980, however, showed that Kentucky funded larger cities than HUD had done.

Kentucky emphasized the use of Small Cities Program funds in association with other Federal, State, local and private funds. The State succeeded in this effort, largely by using criteria that made economic development projects more likely to be selected if they involved substantial commitments of other funds.

Kentucky's 1982 projects were expected to benefit largely low- and moderate-income families, but not to the same degree as HUD's 1980 projects. When compared to the previous HUD program, the percentage of low- and moderate-income persons reported on the applications as being expected to benefit from the State program decreased 13 percentage points from 85 to 72. Our comparison of projects from this perspective was hampered by the fact that Kentucky did not require all applicants to estimate the percentage of low- and moderate-income families expected to benefit.

PERCEPTIONS: COMPARISON OF STATE- ANDHUD-ADMINISTERED PROGRAMS

Kentucky and HUD area office officials believe the State's Small Cities Program meets local needs better than the previous HUD-administered program. Most public interest group officials with whom we spoke believed Kentucky's program was more effective than HUD's.

Most grantees and unsuccessful applicants perceived Kentucky's program as being adequate or more than adequate in meeting local needs, providing helpful technical assistance, and having a fair grant award process. In comparing the State-administered program to the one previously administered by HUD, most respondents viewed Kentucky's program as being equivalent to or better than HUD's in a number of areas, including the burden of application procedures, fairness of the award process, difficulty of eligibility requirements, and provision of technical assistance. Only the promptness of the State's reimbursement process was viewed negatively compared with HUD's. Public interest group officials, grantees, and unsuccessful applicants generally viewed the Kentucky program as equivalent to or better than the former HUD program.

STATE, HUD, AND OTHER VIEWS ON
STATE AND FORMER HUD PROGRAM

When Kentucky assumed responsibility for the Small Cities Program, it made substantial changes in both the selection criteria and the allocation of funds to program categories. These changes, described in enclosures II and III, resulted in a considerably different mix of projects from previous years. Kentucky officials believe their program has grown out of an extensive consultation with local community representatives and reflects the needs of local communities better than was the case in the past.

HUD area office officials see a number of advantages in shifting from HUD to State administration in terms of addressing local needs, administrative burden, and public participation. Kentucky's decision to do away with multiyear projects gave it the flexibility to shift program emphasis to what is perceived to be the State's number one priority--economic development. Thus, the State can also react to changing local needs better if funds are not committed on a multiyear basis. HUD officials agree that the State staff has a greater rapport with the small cities and counties than HUD had. They credit the State with publicizing the program more broadly than in the past and soliciting more interest among potential applicants.

We asked representatives of the Kentucky Municipal League, the Kentucky Association of Counties, the Kentucky County Judge/Executive Association, and the NAACP to compare the State program with the past HUD-administered program in terms of soliciting and responding to public input, selecting grantees, types of activities that can be funded, and population targeted. Representatives of the first three groups believe the program is more effective under State administration than it had been under HUD. They believe the State made a greater effort to involve more small communities in the program. Cities and counties that had been inactive under the HUD program now feel they have a chance of getting a grant and are submitting applications.

NAACP representatives said they were not familiar with the State's approach in selecting projects or how it differed from HUD's. They felt, however, that public participation was inadequate. They said some public interest groups participated in the design of the program but the general public and, specifically, representatives of minority groups were not actively canvassed. State officials told us they would solicit comments from such groups in the future.

VIEWS OF SUCCESSFUL AND UNSUCCESSFUL APPLICANTS

Our questionnaire results showed that overall, the 1982 State program was viewed favorably by those participating and, compared with other State- and federally administered programs, had about as many or fewer shortcomings. The majority of the grantees and unsuccessful applicants said that the State program adequately or more than adequately addressed local community development needs. Also, most applicants viewed the State's grant award process as being fair or very fair. In addition, the majority of the grantees who received State assistance in preparing their grant application viewed the State's assistance to be of great or very great help. In comparing Kentucky's program with the one previously administered by HUD, the majority of the respondents viewed the State program as being equivalent or better than HUD's program in all areas about which we inquired, except the promptness of the State's reimbursements or drawdowns.

Strong aspects

About 66 percent of the grantees and 34 percent of the unsuccessful applicants indicated that the State's program had particularly strong aspects with regard to program design, award process, and program regulations. We asked the applicants to list those aspects; some of their comments follow. It should be

noted that these comments are not all-inclusive. Rather, they are presented to show the wide range of strengths perceived by participants in the 1982 program.

1. Program design strengths as viewed by:

Grantees

- More responsive and sensitive to community needs.
- Communication is greatly improved.
- Grant categories are well defined.
- Applicants are given equal consideration.
- Strong willingness on part of State to involve local input.

Unsuccessful applicants

- Meets the needs of the small community.
- High standards built in to ensure greater percentage are served.
- Applications are shorter and easier to complete.

2. Award process strengths as viewed by:

Grantees

- Process is thoroughly explained.
- Point system is a strong point.
- Selection criteria are good.
- Decisions to award are based on merit.

Unsuccessful applicants

- Award process is more than fair.
- Communication between State and local community is good and allows local input.

3. Program regulations strengths as viewed by:

Grantees

- Meets the needs of Kentucky rather than those of the Federal Government.
- Regulations are more understandable.
- Monitoring requirement very constructive. It appears to be a genuine effort to help avoid negative situations.

Unsuccessful applicants

- There are fewer regulations compared with the HUD program.

Overall, the most frequently expressed comment was that the State program is more sensitive to the needs of the local communities. In addition, both grantees and unsuccessful applicants stated that the State's program has, overall, good leadership and staff.

Shortcomings

About 14 percent of the grantees and 47 percent of the unsuccessful applicants stated that they believe the program has significant shortcomings. Some concerns expressed by the applicants are noted below. Once again, these are not all-inclusive.

1. Program design shortcomings as viewed by:

Grantees

- Design oriented to metro areas.
- Comprehensive and innovative approaches are discouraged.

Unsuccessful applicants

- Too much emphasis is on need, not enough on project effectiveness.
- Design penalizes small rural communities.
- There is no priority system built in.

2. Award process shortcomings as viewed by:

Grantees

- Process is inadequate at times.

Unsuccessful applicants

- Grants seem to go to those who have leveraged funds rather than the genuinely poor.
- State needs to provide more information.
- The process is more complicated than before.
- Each community should receive a site visit.

3. Program regulations shortcomings as viewed by:

Grantees

--Regulations are too extensive, complicated, and burdensome for small cities to adequately administer.

Unsuccessful applicants

--Leverage requirements are almost impossible to achieve for small communities.

--Application deadlines are sometimes difficult to meet.

--Program administrative guidelines are somewhat excessive.

State shortcomings compared with shortcomings in other State or Federal programs

As illustrated below, the majority of both respondent groups viewed Kentucky's program as having about as many or fewer shortcomings than other State or Federal programs.

	<u>Grantees</u>	<u>Unsuccessful applicants</u>
	(percent)	
Many more	-	13
More	-	3
About as many	31	37
Fewer	52	26
Many fewer	7	5
No basis to judge	10	16

Adequacy of State program in meeting local community development needs

The following table shows that 93 percent of the grantees and 87 percent of unsuccessful applicants believed that the State program adequately or more than adequately addressed the development needs of their communities.

	<u>Grantees</u>	<u>Unsuccessful applicants</u>
	(percent)	
Much more than adequately	7	5
More than adequately	31	11
Adequately	55	71
Less than adequately	7	11
Much less than adequately	-	2

Extent communities received State assistance in preparing grant applications

About 76 percent of the grantees and 42 percent of the unsuccessful applicants said they received State assistance when preparing their grant applications. Of those, 59 percent of the grantees and 56 percent of the unsuccessful applicants said they requested this assistance. Those receiving assistance rated the State's effort as follows:

	<u>Grantees</u>	<u>Unsuccessful applicants</u>
	(percent)	
Very great help	27	38
Great help	50	25
Moderate help	14	19
Some help	9	6
Little or no help	-	13

As shown above, none of the grantees and few of the unsuccessful applicants viewed the State assistance as providing little or no help in preparing their grant application. The majority of applicants consider the State's assistance to be of great or very great help.

Familiarity with State's award process

The following table shows that about as many grantees as unsuccessful applicants were familiar or very familiar with the State's grant award process.

	<u>Grantees</u>	. <u>Unsuccessful applicants</u>
	(percent)	
Very familiar	38	19
Familiar	48	68
Unfamiliar	14	14

Fairness of State's grant award method

As illustrated below, the majority of grantees and unsuccessful applicants who said they were familiar with the State's method of awarding grants believed the process was fair or very fair. About 21 percent of the unsuccessful applicants viewed the State process as being unfair or very unfair.

	<u>Grantees</u>	Unsuccessful applicants
	(percent)	
Very fair	38	12
Fair	50	52
Neither fair/unfair	13	15
Unfair	-	15
Very unfair	-	6

Applicants' comparison of Kentucky's program with former HUD program

Sixty-nine percent of the grantees and 84 percent of the unsuccessful applicants who responded to our questionnaire said they had participated in the past HUD-administered program. These applicants generally agreed that the State's program is equivalent to or better than the past HUD-administered program in the following areas:

- Application process.
- Method of awarding grants.
- Reporting requirements.
- Eligibility requirements.
- Variety of activities.
- Flexibility in determining population groups to be served.

--Technical assistance.

--State priorities.

Grantees were critical of the State concerning timeliness of payments. Of those with an opinion, two-fifths believed that the State is less prompt in processing payments than HUD was.

Application procedures

As illustrated below, all of the grantees and over 89 percent of the unsuccessful applicants who responded said that the State procedures for applying for Small Cities Program funding were equally or less burdensome than those for the HUD-administered program. None of the grantees believed that the State's procedures were more burdensome, whereas about 11 percent of the unsuccessful applicants believed this to be the case.

	<u>Grantees</u>	<u>Unsuccessful applicants</u>
	(percent)	
Much more burdensome	-	4
More burdensome	-	7
Equally burdensome	40	32
Less burdensome	50	50
Much less burdensome	10	7

Method of awarding grants

As stated earlier, most applicants said they were familiar with the State's award process and, overall, they believe the method used to award grants was fair. Compared with the HUD-administered program, 85 percent of the grantees and 70 percent of the unsuccessful applicants who responded rated the State's award process as being equally fair or fairer. Five percent of the grantees and 23 percent of the unsuccessful applicants who answered rated the process as being less fair, and the remaining respondents said they had no basis to judge.

Reporting requirements

Seventy-five percent of the grantees who responded said that the State's reporting requirements for utilizing Small Cities Program funds are equally or less burdensome than those required by the former HUD-administered program. Twenty-five percent believed the State requirements were more burdensome.

Eligibility requirements

Ninety-five percent of the grantees and about 82 percent of the unsuccessful applicants who responded said that the State's eligibility requirements are equally or less difficult than those for the HUD-administered program. The remaining 5 percent of the grantees and 18 percent of the unsuccessful applicants believed the State's requirements were more difficult.

Variety of activities

Eighty percent of the grantees and about 89 percent of the unsuccessful applicants who responded believed that the State allows about the same or wider variety of activities and/or projects as the HUD program. Ten percent of the grantees viewed the State program as narrowing the variety of activities or projects compared with the HUD program; 10 percent had no basis to judge. Eleven percent of the unsuccessful applicants viewed the State program as narrowing the variety of activities or projects as compared with the past HUD program.

Flexibility in determining population groups

Eighty-five percent of the grantees and 82 percent of the unsuccessful applicants who responded said that the State program is equally or more flexible in determining population groups to be served compared with the past HUD program. Only 5 percent of the grantees and 11 percent of the unsuccessful applicants believed that the State program allows less flexibility than the HUD program. The remaining respondents said they had no basis for comparison.

Technical assistance

Of those grantees who responded, 60 percent stated that the State's technical assistance was more helpful than the technical assistance provided by HUD under the former program, and 20 percent said it was equally helpful. Fifteen percent believed it was less helpful, and 5 percent said they had no basis by which to judge.

State priorities

Eighty-five percent of the grantees and 70 percent of the unsuccessful applicants providing responses said that the emphasis or order of the State's priorities for the Small Cities Program is equally or more consistent with the community's priority of needs than under the HUD-administered program. Five percent of the grantees and 23 percent of the unsuccessful applicants

believed that the State's priorities are less consistent with local priorities than the HUD program. The remaining respondents said they had no basis by which to judge.

State reimbursements or drawdowns

Forty percent of the responding grantees believed the State is less or much less prompt in processing reimbursements, payments, or drawdowns than HUD was. Thirty-five percent said the State is equally or more prompt. Twenty-five percent said they had no basis by which to judge this issue.

CONCLUSIONS

Kentucky and HUD area office officials agreed that the State program is better able to meet local needs than the former HUD-administered program, and most public interest group officials believed the State-administered program is more effective than HUD's. The majority of the grantees and unsuccessful applicants believed Kentucky's program is adequate or more than adequate. Furthermore, most respondents rated the State program as being equivalent to or better than the former HUD Small Cities Program in almost all aspects. However, two-fifths of the grantees believed that the State is less prompt in processing payments than HUD was.

ENCLOSURE V

OBJECTIVES, SCOPE, AND METHODOLOGY

The primary objectives of this work were to provide the Congress an up-to-date report on the States' implementation of the Small Cities Community Development Block Grant Program as authorized by the Omnibus Budget Reconciliation Act of 1981 and to provide input to the 1983 reauthorization process on the block grant legislation. This work is part of our ongoing effort¹ to keep the Congress informed of the progress being made in implementing the block grant aspects of the Omnibus Budget Reconciliation Act of 1981.

When we conducted our fieldwork--December 1, 1982, through January 15, 1983--most States were in the early stages of implementing the Small Cities Program. While essentially all States had selected their 1982 recipients, some States were just completing the grant agreements with the local communities, and only one had started its monitoring work. Accordingly, our work was directed toward reviewing the State decisionmaking process through the selection of recipients, concentrating on the following issues:

- How did States meet their public participation requirements?
- How did States decide to use and distribute Small Cities Program funds, and how did that method compare with what they told HUD in their statement of objectives and projected use of funds?
- What projects and activities did the State fund in 1982, and how did they compare with the 1981 HUD-administered Small Cities Program?
- What were the successful and unsuccessful applicants' perceptions on how well a State-administered program meets local needs compared with a federally administered program?

We reviewed the programs of seven States--Alabama, Delaware, Iowa, Kentucky, Massachusetts, Michigan, and Utah. These seven States were allocated \$150.1 million of fiscal year

¹In August 1982, we provided the Congress an initial look at States' implementation of the 1981 legislation in our report entitled "Early Observations on Block Grant Implementation" (GAO/GGD-82-79). Also, on the basis of preliminary results of this review on March 9, 1983, we provided a statement for the record before the Subcommittee on Housing and Urban Affairs, Senate Committee on Banking, Housing and Urban Affairs, on our views of States' early implementation of the Small Cities Program.

1982 Small Cities Program funding. This represents approximately 15 percent of the fiscal year 1982 funds available for small cities and 20 percent of the total funds allocated to those States that elected to administer the program in 1982.

We selected these States on the basis of the progress they had made in implementing the Small Cities Program. We excluded those States that had not essentially completed their selection of recipients by December 1, 1982. We initially based our selection on the 13 States included in our previous review. (See footnote on p. 35.) However, 6 of those 13 States--California, Colorado, Florida, New York, Texas, and Vermont--chose not to administer the program in fiscal year 1982. Three others--Mississippi, Pennsylvania, and Washington--although electing to administer the program, had not completed their selection process by December 1. Therefore, to obtain additional audit coverage and geographic balance, three States were added--Alabama, Delaware, and Utah.

In Kentucky, we met with the officials responsible for developing, designing, and implementing the Small Cities Program to obtain information and their views on (1) the State's decisionmaking process and (2) the State's administration of the program as opposed to HUD's administration of the program. We reviewed documents concerning the design of the program, public participation efforts, and all grantee applications to obtain detailed data on how local communities were planning to use the Small Cities Program funds.

We took statistical samples of both the grantee and unsuccessful applicant universes in Kentucky to determine if the State distributed funds and selected grantees in accordance with the procedures outlined in its statement of objectives and in accordance with the criteria it set up for that purpose. We reviewed the applications, supporting documentation, and the steps Kentucky took to select the grantees over the unsuccessful applicants.

We also sent two questionnaires to the sample groups--30 of 46 grantees and 40 of 201 unsuccessful applicants--to obtain perceptions from local communities on the State-administered program. In order to provide input in the reauthorization hearings on the Community Development Block Grant Program, we conducted our audit work over a short timeframe. Consequently, we decided to structure our samples to yield the most precise estimates for the total grantees and unsuccessful applicants in the seven States included in our review, thus accepting less precise estimates for grantees and unsuccessful applicants in each individual State. The sampling errors for the total grantee sample and unsuccessful applicant sample are no greater than plus or minus 6 percent and 7 percent, respectively, at the 95-percent confidence level. The sampling errors for the majority of questionnaire data in this report are no greater

than plus or minus 8 percent for the grantee sample and 10 percent for the unsuccessful applicant sample, and the largest sampling errors are 11 percent and 14.3 percent, respectively, all at the 95-percent confidence level. This means the chances are 19 out of 20 that if we had reviewed all of the grantees and unsuccessful applicants in Kentucky, the results of the review would not have differed from our sample by more than the sampling errors reported. The results presented in this report represent responses weighted to reflect the responses of the populations surveyed. For the State of Kentucky, the response rates for the successful and unsuccessful applicants were 97 percent and 95 percent, respectively.

The successful applicant questionnaire was designed to obtain information on local community's input into the State decisionmaking process in designing its program; the way in which the community planned for, applied for, and is using the funding it received; and the community government's views on the way in which Kentucky conducted the program compared with the past HUD-administered program. We asked that the views expressed be those of the highest level government official familiar with the community's experience under the program.

The unsuccessful applicant questionnaire was also designed to obtain information on local community's input into the State decisionmaking process in designing its program, the way in which the community applied for funds, and the community government's views on the way in which Kentucky conducted the program compared with the past HUD-administered program. We also asked unsuccessful applicants questions concerning the State's decision not to fund their projects. As in the successful applicant questionnaire, we asked that the views expressed be those of the highest level government official familiar with the community's experience under the program.

We also met with selected public interest groups and associations to determine their participation in the design of the State program and to obtain their views on the program and its administration.

In addition to visiting the seven States, we conducted our review at HUD headquarters and the HUD regional and area offices that were responsible for administering the 1981 Small Cities Program in the seven States.

At HUD headquarters, we reviewed the Community Development Block Grant Program's legislative history; HUD regulations, handbooks, and notices; and other HUD documents and analysis. We also interviewed office directors and other staff members involved with the Small Cities Program under HUD's Assistant Secretary for Community Planning and Development.

At HUD's Atlanta regional office and the Louisville area office, we interviewed community planning and development officials and reviewed appropriate documents to gather information on HUD's role in assisting Kentucky in designing its Small Cities Program and to obtain views on the advantages and disadvantages of Kentucky administering the Small Cities Program versus HUD. At the area office, we also gathered detailed information from all of the successful applications HUD funded in 1980. We used 1980 data because that was the last year that HUD administered the total program in Kentucky. These data were summarized along with the 1982 successful applicant data and used to show how funds were used under Kentucky's decisionmaking process versus HUD's decisionmaking process.

Our review was made in accordance with generally accepted government auditing standards.