



Highlights of [GAO-05-622T](#), a report to House Committee on Government Reform, Subcommittee on Federalism and the Census

Why GAO Did This Study

The subcommittee asked GAO to comment on the Department of Housing and Urban Development's (HUD) 2005 report on the Community Development Block Grant (CDBG), "CDBG Formula Targeting to Community Development Need." The CDBG program distributes funding to communities using two separate formulas that take into account poverty, older housing, community size, and other factors. That study evaluates the program's funding formula from two perspectives: 1) to what extent do communities with similar needs receive similar CDBG funding, and 2) to what extent are program funds directed to communities with greater community development needs. The HUD report is particularly salient in light of the administration's 2006 budget request which criticizes the program for not effectively targeting high-need communities. The subcommittee asked us to provide our views on the HUD study based on our experience and past assistance to various congressional committees on a wide variety of federal formula funding issues.

www.gao.gov/cgi-bin/getrpt?GAO-05-622T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Paul L. Posner, (202) 512-9573, posnerp@gao.gov.

COMMUNITY DEVELOPMENT BLOCK GRANT FORMULA

Targeting Assistance to High-Need Communities Could Be Enhanced

What GAO Found

HUD's report on the CDBG formula provides a thoughtful and sophisticated analysis of those elements of the formula that impede effective and equitable targeting of limited federal resources. Central to HUD's analysis is an index of need that encompasses a wide variety of indicators related to poverty, housing infrastructure, and population growth and decline. While we would question some of the factors in their index, overall we believe it serves as a reasonable basis for evaluating CDBG targeting.

The study identifies a number of causes that explain the poor performance of the current formula.

- The use of two formulas rather than one is an important reason communities with similar needs do not receive similar funding.
- The use of population size as a need indicator significantly reduces the extent to which funding is directed to high-need communities.
- Changing the poverty measure to one based on the poverty status of households rather than individuals would avoid large grants to communities with large student populations.
- An increasing number of communities have attained the minimum population size necessary to be eligible for formula funding and this has also reduced funding to communities with the highest needs.

In addition to presenting formula options that address a number of these problems, HUD's study also presents an option that would include per capita income in the formula. The inclusion of per capita income could be justified on the grounds that it directs more funding to communities with weaker economic capacity to meet needs from local resources. However, some of the effect of this factor is offset by introducing an additional factor – metropolitan per capita income. The metropolitan per capita income factor directs more rather than less funding to communities located in high-income metropolitan areas. This works at cross purposes with the local per capita income factor.

GAO suggests that the subcommittee consider a needs-based criterion to determine eligibility and eliminate the grandfathering of eligibility into the formula before this approach is adopted as a means of improving the targeting performance of the program.