

Written Statement of Pamela H. Patenaude

**Assistant Secretary
Office of Community Planning and Development
U.S. Department of Housing and Urban Development**



**Hearing entitled “Community Development Block Grants:
the Case for Reform”**

Before the

**Subcommittee on Federal Financial Management,
Government Information and International Security**

Committee on Homeland Security and Governmental Affairs

United States Senate

June 29, 2006

Thank you, Mr. Chairman. I am pleased to be here today, on behalf of Secretary Jackson, to discuss the Administration's proposal to reform the Community Development Block Grant program.

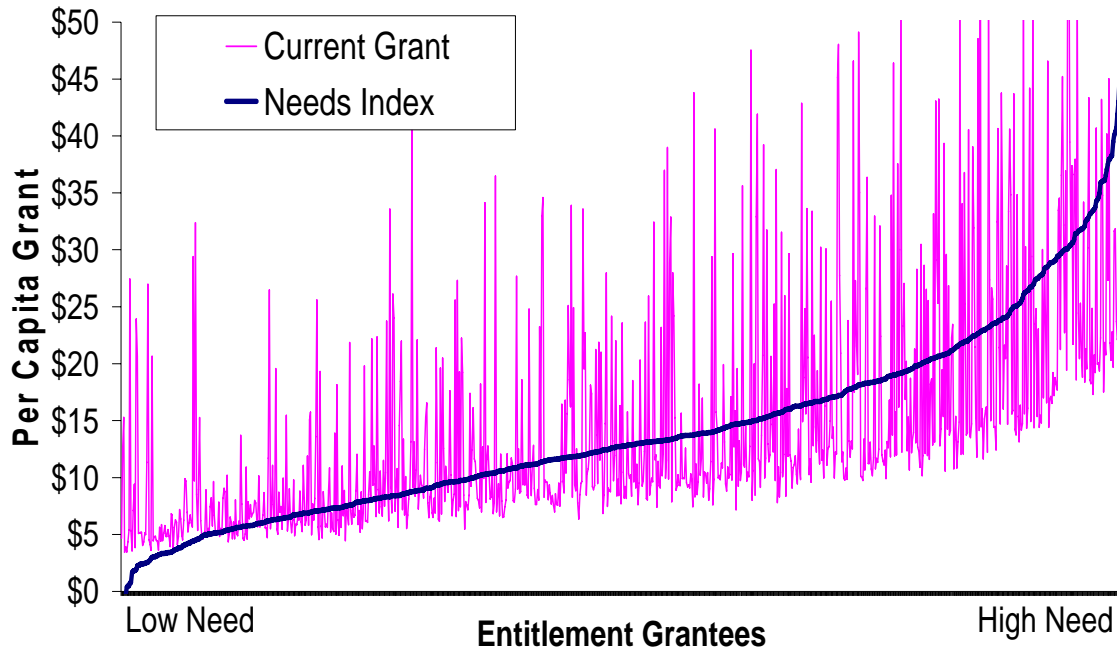
The President's Fiscal Year 2007 Budget retains the CDBG program at HUD. We have proposed the reform because the program's intended impact to the nation's neediest communities has decreased over time. The CDBG formula has been untouched since the 1970's. Since then, we have witnessed steady erosion in the ability of the formula to target funding to cities with the greatest community and economic development needs. Demographic and socio-economic changes, development patterns, and other factors have created significant distortions in the distribution of CDBG funds. In addition to addressing problems with the formula, HUD must be able to hold grantees accountable for performance and provide incentives to maximize the impact of these limited and valuable funds.

To address these issues, the Administration proposes the CDBG Reform Act of 2006. The three main elements of the Act are formula reform, a 200 million dollar Challenge Grant, and enhanced performance measurement requirements.

The chart below illustrates the basic problems with the existing CDBG formula.

Chart One

Current Entitlement Formula – Targeting to the Needs Index



Let me explain what the chart illustrates. The least needy grantees are shown on the left and the most needy on the right. The solid line sloping upward from the lower left to the upper right represents the community development needs index developed by HUD's Office of Policy Development and Research. The index is a measure of needs against which the current formula is evaluated. The jagged line represents the per capita grant of each grantee under the current formula. In the lower left corner, we see low need grantees receiving a high amount of funds relative to the needs index. The right side of the chart shows high need grantees receiving amounts below the amount indicated by the needs index and, in some cases, less than the amounts provided to low need grantees. For example, Newton, Massachusetts, a low-need suburb of Boston, gets the same \$24 per capita as Lawrence, Massachusetts, a high need community.

The biggest problem with the current formula is that grantees with similar needs are receiving significantly different per capita amounts. Based on the needs index, these grantees should be receiving roughly the same per capita amount. For example, St. Louis, Detroit, and Miami are all distressed cities and have similar overall needs according to HUD's needs index. Yet under the current formula, St. Louis receives \$59 per capita; Detroit receives \$43 per capita; and Miami receives \$22 per capita. Over the past three decades, per capita grant amounts to the neediest grantees have been declining.

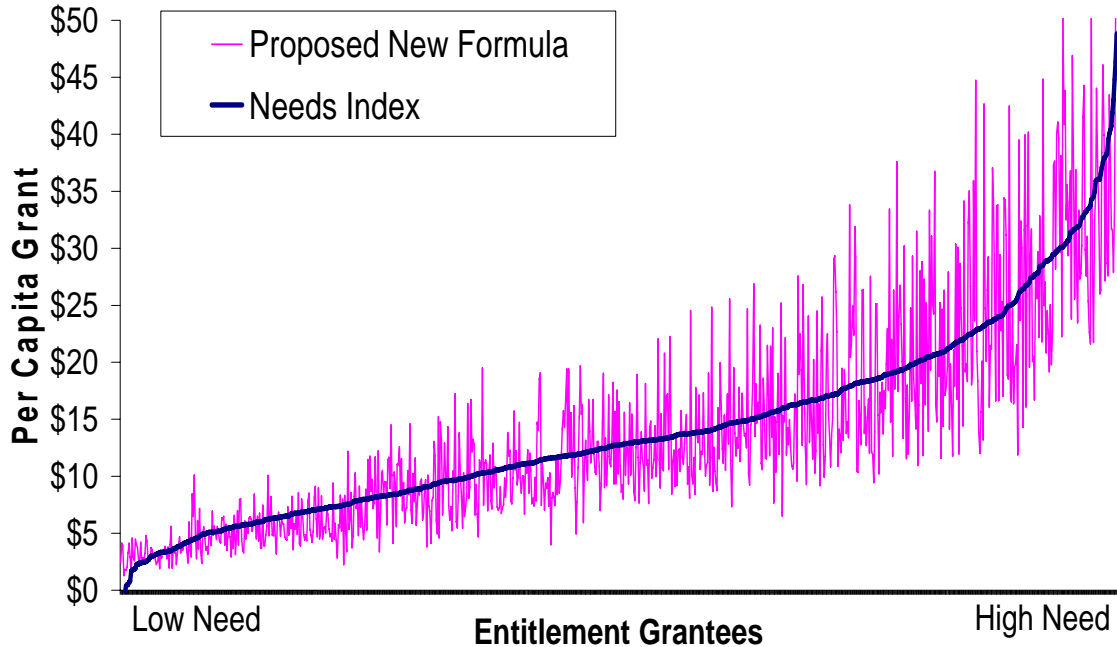
The formula proposed in the CDBG Reform Act is based on Alternative 4 from the HUD study released in February 2005 that was provided to Members of Congress. This single formula approach will apply to all grantees and eliminates the existing structure of dual formulas and the 70/30 split between entitlement and state grantees. A common set of factors that reflects community distress and fiscal capacity will be used. These are:

- Persons in poverty excluding full-time college students,
- Housing units over 50 years old and occupied by a poverty household,
- Female headed households with children under 18,
- Housing overcrowding and
- Fiscal capacity.

The second chart shows a more equitable distribution of CDBG funds under the proposed formula. It demonstrates the ability of the new formula to target funds to grantees with greater community development needs.

Chart Two

CDBG Reform Act Formula Proposal – Targeting to the Needs Index



By comparing charts 1 and 2, you can see the improved targeting that would occur. Low need grantees, shown on the left side of the chart, would no longer receive large per capita amounts. Previously underfunded high need grantees would generally experience increases in their grant amounts. Grantees with similar need profiles would receive more equal per capita grant amounts. The new formula will distribute more funds to the most needy grantees.

The CDBG Reform Act also contains a proposal to establish a minimum grant size. Communities that do not meet the threshold would be eligible to receive funding through a State or urban county program.

The second element of the CDBG Reform Act of 2006 is a 200 million dollar CDBG Challenge Grant. This fund would permit grantees to compete for additional funding to carry out community and economic development revitalization to improve the quality of life in distressed neighborhoods.

In order to be considered for the Challenge Grant, entitlement communities will be required to have both a strategy and a track record of concentrating investment in distressed neighborhoods. Communities will be selected based on objective criteria including the extent to which communities concentrate their assistance to distressed

neighborhoods and expand economic opportunities for lower income households, and the viability of target neighborhoods. This will be reflected in per capita expenditures in distressed areas, improvements in employment, income levels, housing affordability, and homeownership. HUD would award Challenge Grants to communities that achieve the greatest results in their neighborhood revitalization strategies.

The third element enhances performance measurement requirements to improve the effectiveness and viability of the program. HUD is currently implementing its new performance measurement and accountability framework establishing clear, measurable goals, as well as community progress indicators. While implementation of this framework is a significant step forward, HUD must have the tools necessary to hold grantees accountable for achieving their goals. The CDBG Reform Act would give HUD the authority to hold grantees accountable.

Consistent with the Administration's goal of reforming community and economic development programs, first proposed through the Strengthening America's Communities Initiative last year, we have introduced these reforms.

CDBG has helped communities across the nation address a variety of community and economic development needs. Reforms are necessary to ensure the program's continued ability to improve the lives of low- and moderate-income Americans. The CDBG Reform Act of 2006 reaffirms the national objectives of the program. By revising the formula, adding a competitive Challenge Grant, and implementing the performance measurement framework, we will improve the effectiveness of the CDBG program.

Thank you for this opportunity to discuss the Administration's proposal on CDBG reform.