

**COMMUNITY PLANNING AND DEVELOPMENT
COMMUNITY DEVELOPMENT FUND
2013 Summary Statement and Initiatives
(Dollars in Thousands)**

COMMUNITY DEVELOPMENT FUND	Enacted/ Request	Carryover	Supplemental/ Rescission	Total Resources	Obligations	Outlays
2011 Appropriation	\$3,508,000	\$2,001,198	-\$7,016	\$5,502,182 ^a	\$4,425,237	\$7,037,472 ^b
2012 Appropriation/Request	3,408,090	1,040,226 ^c	...	4,448,316	4,347,565	7,946,000 ^b
2013 Request	<u>3,143,090^d</u>	<u>100,750^e</u>	...	<u>3,243,840</u>	<u>3,227,000</u>	<u>5,704,000^b</u>
Program Improvements/Offsets	-265,000	-939,476	...	-1,204,476	-1,120,565	-2,242,000

a/ Includes \$35 million that was transferred to the Department's Transformation Initiative. This amount is excluded from obligations and outlays.

b/ Includes outlays from the CDBG funds provided in the Recovery Act and excludes outlays for the Neighborhood Stabilization Program.

c/ Includes \$750 thousand of transfers from DOT and EPA.

d/ Includes an estimated Transformation Initiative (TI) transfer of \$15.72 million in fiscal year 2013; the TI transfer may be up to 0.5 percent of Budget Authority.

e/ 2013 Carryover reflects \$100 million of disaster funding.

Section 108 Loan Guarantees

Commitment levels (Dollars in Thousands)

	Enacted/ Request	Carryover	Supplemental/ Rescission	Total Resources	Obligations	Outlays
2011 Enacted Loan Level	\$275,000	\$107,206	...	\$382,206	\$277,558	2,802
2012 Appropriation/Request	240,000	124,593	...	364,593	364,593	17,000
2013 Request	<u>500,000^{a/}</u>	...	...	<u>500,000</u>	<u>500,000</u>	<u>5,000</u>
Program Improvements/Offsets	+260,000	...-124,593	...	+135,407	+135,407	-12,000

a/ The fiscal year 2013 Budget proposes a fee-based structure for Section 108.

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1. What is this request?

In fiscal year 2013, HUD is requesting \$3.143 billion for the Community Development Fund (CDF), which is an overall reduction of \$165 million compared to the fiscal year 2012 appropriated level of \$3.3 billion. While the difference reflects changes in funding levels for set-asides, including appropriations for CDBG disaster recovery, the amount dedicated to the Community Development Block Grant (CDBG) formula allocation remains \$2.948 billion, the same as fiscal year 2012. The CDBG program is a critical tool in creating job opportunities and catalyzing economic development activities in some of the most distressed communities. Further, the CDF includes funding for the Sustainable Communities Initiative (\$100 million), Indian Community Development Block Grants (\$60 million), and Section 4 Capacity Building Program (\$35 million).

The CDBG program supports municipalities and states to design and implement programs which best meet their unique, local needs. In fiscal year 2011 alone, local governments used this funding to directly create and retain 21,482 jobs; assist 96,615 households to maintain or gain access to safe, decent, and affordable housing; provide public service activities to 10.1 million people; and benefit approximately 4.1 million persons through public improvement investments. This request will support community development needs and enhance economic competitiveness in approximately 1,137 metropolitan cities and urban counties, 49 states, Puerto Rico, and 4 Insular Areas.

This \$2.948 billion request will continue to enable CDBG grantees to leverage outside funds, making it possible to implement large-scale and long-term solutions to their most pressing community and economic development challenges. In addition, the CDBG request is a critical job creation tool for communities; it is a job-creating, economic development tool that the country cannot afford to lose.

Outcomes Associated with FY 2013 CDBG funding:

- 1) Create jobs:
 - Grantees provide financial assistance to businesses in the forms of loans and grants, and the recipients use the CDBG assistance to expand economic opportunities and create permanent jobs, primarily for low- and moderate-income Americans. Between fiscal years 2007 and 2011 CDBG helped over 174,000 businesses expand economic opportunities for our country's most vulnerable citizens.
 - Over the last decade, CDBG economic development activities have directly created or retained more than 334,000 permanent jobs and sustained an additional 861,000 jobs. Jobs sustained by the program include construction workers responsible for the rehabilitation of public facilities, infrastructure, and housing, and the state and local agency and non-profit administrators responsible for carrying out local CDBG programs. The fiscal year 2013 CDBG formula resources are estimated to create and support 50,367 jobs over time.
- 2) Provide public facilities and public services to areas that need them the most:

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- CDBG has improved public facilities in areas that serve 189.4 million people between fiscal years 2001 and 2011. This includes providing child day care centers to ensure families have a safe place to leave their children when they are at work, group homes for persons with disabilities, shelters for victims of domestic violence and for homeless individuals and families, and health clinics providing vaccinations and dental care to children.
 - Over 294.7 million Americans live in areas with access to public service programs that have received CDBG support during the past decade. These include transportation services to and from doctors' appointments for the elderly, meals on wheels for persons in need, supportive services for veterans, and programs to assist persons in their recovery from substance abuse. For low- and moderate-income families, these are life-changing services.
- 3) Improve housing conditions for our neediest families:
- CDBG programs have rehabilitated more than 1.426 million homes for low- and moderate-income homeowners and renters in the last decade.
 - Approximately 25 percent of CDBG funds are annually expended for housing activities, with the most significant activity being owner-occupied rehabilitation.
 - In fiscal year 2011, more than 96,000 households received housing assistance, ranging from minor emergency housing repairs enabling elderly and infirm residents to remain in their own homes, to weatherization improvements that result in more affordable energy bills.
- 4) Improve the physical environment where low- and moderate-income families live:
- With approximately 32 percent of CDBG funds used annually for public improvements, CDBG-funded infrastructure projects have affected the lives of more than 49.8 million Americans – by providing a suitable physical environment that includes sanitary water and sewer systems, safe streets and transit-ways, improved drainage systems, and other improvements that support our communities and help grow local economies.

Section 108 Loan Guarantee Program

Often, the annual CDBG allocation alone is not sufficient to complete crucial economic development projects that communities desperately need. In those instances, the Section 108 Loan Guarantee Program enables CDBG grantees to borrow up to 5 times their current CDBG allocation to finance economic development, public facilities and housing activities consistent with program requirements.

In fiscal year 2013, HUD again requests increasing the loan guarantee authority level for Section 108 to \$500 million. Section 108 assisted projects approved in 2010 and 2011 are projected to create more than 11,300 jobs based on \$443 million in commitments. Section 108's utility as a job generating tool is magnified by the absence of financing for community and economic development projects in many economically distressed localities. Both Entitlement communities and local governments participating through the State CDBG program have the ability to access financing through this program.

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HUD does not request an appropriation for a credit subsidy to support the Section 108 Loan Guarantee program, but instead, continues to propose statutory changes that would enable HUD to charge borrowers a fee to make Section 108 a zero credit subsidy program. For fiscal year 2012, Congress provided a loan guarantee authority level of approximately \$240 million based on a credit subsidy appropriation of \$6 million and a credit subsidy rate of 2.48 percent. To subsidize this increase in loan guarantee level, HUD would only have to charge borrowers a 2.46 percent onetime upfront fee. This fee would allow the Section 108 program proposed in the fiscal year 2013 Budget to increase its role as a highly valuable financing tool for large-scale community and economic development activities being carried out by local governments. The priority of the requested expansion in the budget request is particularly important as local governments continue to struggle with financing development needs as the nation recovers from the economic downturn.

Project Rebuild

Project Rebuild is an American Jobs Act proposal that builds on the success of the Neighborhood Stabilization Program and is designed to assist those communities hit hardest in foreclosure crisis. If enacted by Congress at the \$15 billion level, Project Rebuild will support nearly 200,000 jobs while renewing America's neighborhoods and rebuilding our economy by improving property values and producing affordable housing. Project Rebuild will help stabilize neighborhoods, put the construction industry back to work, and provide affordable housing to families across the country. The Department stands ready to implement this program.

Section 4 Capacity Building

The fiscal year 2013 Budget proposes that \$35 million of the CDF request be used to provide funding for the Capacity Building for Community Development and Affordable Housing program authorized under section 4(a) of the HUD Demonstration Act of 1993 (42 U.S.C. 9816 note). This includes at least \$5,000,000 to be made available for rural capacity building activities. The program is a competitive grant program among the eligible intermediaries with funding for these organizations to develop the capacity and ability of community development corporations and community housing development organizations at the local level. This allows these organizations to undertake community development and affordable housing projects and programs for low-income families. Funds will require a 3-to-1 match from private sources.

Indian Community Development Block Grants

The fiscal year 2013 Budget proposes \$60 million for Community Development Block Grants for Indian Tribes. These grants are used by Federally recognized Indian Tribes and Alaska Native Villages for a wide variety of needs, including improving housing stock, providing community facilities, improving infrastructure, and expanding job opportunities in Indian country.

Sustainable Communities

An explanation of the Sustainable Communities program request for fiscal year 2013 is included in a separate justification.

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Transformation Initiative

In fiscal year 2013, the Department renews its request for the Transformation Initiative, which provides the Secretary with the flexibility to undertake an integrated and balanced effort to improve program performance and test innovative ideas. Up to 0.5 percent of the funds appropriated for the account may be transferred to the Transformation Initiative Fund account for the following purposes: research, evaluations, and program metrics; program demonstrations; technical assistance and capacity building; and information technology. Departmentwide, no more than \$120 million is estimated to be transferred to the Transformation Initiative Fund account in fiscal year 2013 although transfers could potentially total up to \$214.8 million. More details on the overall Transformation Initiative and these projects are provided in the justification for the Transformation Initiative Fund account.

2. What is this program?

Community Development Block Grants (CDBG)

The CDBG program's primary objective is to develop viable urban and rural communities, by expanding economic opportunities and improving quality of life, principally for persons of low- and moderate-income. Authorized by Title I of the Housing and Community Development (HCD) Act of 1974 (42 USC 5301 et. seq.), CDBG provides grants to units of general local government and states for the purpose of supporting efforts to create locally-driven solutions to community and economic development challenges. On average, grantees devote more than 94 percent of CDBG funds to activities that provide benefit to low-moderate income families.

CDBG is the only Federal program of its kind, and since 1974 it has invested \$135 billion in communities nationwide. The program has assisted states and localities to achieve the kinds of infrastructure investment, job creation, and poverty elimination our communities so desperately need. In addition to job creation, CDBG is an important catalyst for economic growth – helping mayors around the country leverage funds for essential water and sewer improvement projects, forge innovative partnerships to meet increasing public service needs, and revitalize their economies.

Every year, an estimated 7,250 local governments across the nation have access to CDBG funding for everything from municipal infrastructure projects in remote, rural areas to health clinics providing vaccinations and dental care to children. The CDBG program provides a critical stream of funding to establish the foundation for local development efforts – and enables communities to leverage Federal funds to stimulate private investment. In fiscal year 2011, 56 percent of CDBG funds allocated to states have assisted essential infrastructure and public improvements projects in rural communities, strengthening both local and regional economies.

Eligibility

Eligible CDBG grant recipients include states, units of general local government (cities, counties, towns, townships, parishes, villages or other general purpose political subdivisions determined to be eligible for assistance by the Secretary), the District of Columbia, Puerto Rico, Guam, the Virgin Islands, American Samoa, and the Commonwealth of the Northern Marianas. While states receive CDBG funds, they must distribute the funds to local governments for activities to be carried out at the local level as states do not

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have authority to directly implement activities with CDBG funds. In fiscal year 2011, of the 1,240 grantees receiving a Community Development and Planning (CPD) formula allocation, which includes the HOME program, the Emergency Solutions Grant (ESG) program, and Housing Opportunities for Persons with AIDS (HOPWA) program, over 46 percent of these grantees only received CDBG and no other formula grant.

CDBG recipients are able to fund 25 different eligible activities, with the major categories being public improvements, public services, economic development, acquisition/clearance, housing activities primarily focused on owner-occupied rehabilitation and homeownership assistance, as well as administration and planning costs (HCD Act, Section 105). New housing construction under the CDBG program is very limited and may only be carried through Community-Based Development Organizations (CBDOs) or to construct "last resort" housing under the Uniform Relocation Act. With the exception of administration and planning activities, which are capped at 20 percent per authorities in appropriation acts, all CDBG-funded activities must meet one of three national objectives:

- 1) Providing benefit to low- and moderate-income persons;
- 2) Eliminating slums or blighting conditions; or
- 3) Addressing urgent needs to community health and safety.

The primary national objective for CDBG, as identified under program guidance, is to benefit low- and moderate-income persons: at least 70 percent of all CDBG funds expended over a period of up to 3 years must go toward activities that primarily benefit this population.

How Funds are Allocated

After deducting a designated amount (\$7 million by statute) for the Insular Areas CDBG program, 70 percent of remaining formula funds are allocated to entitlement communities and 30 percent are allocated to states for distribution to non-entitlement communities.

- 1) Entitlement Recipients

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The HCD Act provides for the distribution of CDBG funds to eligible entitlement recipients for community development purposes utilizing the higher amount produced by one of two formulas, as shown:

Formula A		Formula B	
Factor	Percentage	Factor	Percentage
Poverty	50	Poverty	30
Population	25	Population Growth Lag (1960 – 2010) ¹	20
Overcrowded Housing	25	Age of Housing Stock ²	50

Metropolitan cities are statutorily defined as principal cities of metropolitan statistical areas (MSAs), cities with populations of 50,000 or more, and cities that retain metropolitan city status as a result of previously meeting the criteria as metropolitan cities. MSAs are entitled to funding on the basis of one of the formulas described above. For fiscal year 2012, 1000 cities received CDBG allocations. Of these, 34 have currently elected to enter into joint grant agreements with their urban counties.

The statute also entitles urban counties with populations of 200,000 or more (excluding population within metropolitan cities) to formula grants. In fiscal year 2012, 183 urban counties received a CDBG formula allocation. These urban counties include over 3,000 cooperating local incorporated units of government receiving funding under the program. The urban county has to have authority to undertake essential community development and housing assistance activities in its participating incorporated communities either under state law or through cooperative agreements. These agreements have to express the intention of the urban county and its incorporated jurisdictions to cooperate in essential community development and housing assistance activities, specifically urban renewal and publicly assisted housing. Participation by any included unit of government is voluntary, and an urban county's qualification is valid for a 3-year period.

2) Non-entitlement Recipients

Non-entitlement funds are allocated among the states for the state administered CDBG program according to a dual formula, with the allocation being the higher of amounts determined under state formula A or state formula B. The state formulas are identical to the entitlement formulas with the exception that population is substituted for growth lag in formula B. Under the HCD Act, any State that elected to administer the State CDBG program in fiscal year 1985 or thereafter was considered to have assumed this responsibility permanently. The State of Hawaii is the only state that permanently elected not to

¹ "Population growth lag" means the extent to which the current population of a metropolitan city or urban county is less than the population it would have been if its population growth rate between 1960 and the date of the most recent population count had been equal to the growth rate of all metropolitan cities over the same period.

² "Age of housing stock" means the number of existing year-round housing units constructed before 1940, based on Census data.

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administer the State CDBG program and HUD, therefore, administers CDBG grants for the three non-entitlement units of government in Hawaii.

Section 108 Loan Guarantee Program

Particularly in today's economic climate, finding private investment sources for economically distressed areas is a difficult charge. However, such private investment is critical, and Section 108 of the Housing and Community Development Act enables communities to leverage their CDBG funds into federally guaranteed loans large enough to pursue physical and economic revitalization projects. These projects create jobs, renew entire neighborhoods, and provide critical affordable housing to low- and moderate-income families.

The Section 108 program offers variable and fixed rate financing for up to 20 years to finance economic development projects, public facilities and improvements, housing rehabilitation, land acquisition, and related activities. Enhanced economic development data for consolidated planning, described below, will help grantees understand how this financing can be used most efficiently. Entitlement communities are eligible to apply for Section 108 loan guarantees equal to five times their most recent CDBG award, and communities in non-entitlement areas may receive loan guarantees equal to five times the state's grant under the CDBG program.

Since 1977, HUD has issued 1,852 commitments totaling over \$8.7 billion. The total outstanding guaranteed loan balance as of July 2011 is approximately \$2.3 billion, which is backed by the recipients' current and future CDBG grants as security. When HUD guarantees a Section 108 loan, it provides a full faith and credit guarantee to the lender thereby ensuring timely payment of principal and interest and favorable interest rates. HUD has never paid a claim from a holder of a guaranteed obligation as a result of a default, due in part to the availability of CDBG funds for repayment if planned repayment sources are insufficient.

Neighborhood Stabilization Program (NSP)

CDBG provides the underpinning for the Neighborhood Stabilization Program (NSP) initiatives and the proposed Project Rebuild. The Housing and Economic Recovery Act of 2008 (HERA) appropriated \$3.92 billion in CDBG-like funding for states and local governments to invest in locally designed strategies to address abandoned and foreclosed properties. Given the urgency of the situation, HERA directed HUD to establish a program, the NSP, and allocate the funding within 60 days. By the "rule of construction" under HERA, HUD was to treat NSP funds as if they were CDBG funds under the Housing and Community Development Act except as modified by HERA or by an alternative HUD requirement established to expedite the NSP investment. HUD allocated NSP 1 funding to 307 grantees comprised of local governments, states and the insular areas and, as of January 30, 2012, 106.3³ percent of these funds were obligated and 84.3 percent have been expended by grantees on NSP eligible activities.

Building on the original NSP investment, the American Recovery and Reinvestment Act of 2009 (Recovery Act) appropriated an additional \$2 billion in discretionary funds for NSP activities. The Recovery Act directed HUD to allocate the 2009 NSP 2 funding by

³ Obligations over 100 percent result from the allocation of program income funds in excess of original grantee allocations.

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competition among units of local government, states, non-profit organizations, and consortia of nonprofit organizations, any of which may partner with for-profit entities. This funding promotes the coordination of public, private, and philanthropic sectors to make transformative investments that simultaneously address immediate needs and lay the foundations for future prosperity. These funds were awarded in January 2010 to 56 recipients. As of January 3, 2012, 71.6 percent of these funds have been obligated and 48.5 percent have been expended by grantees.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (signed into law July 21, 2010) provided an additional \$1 billion in mandatory NSP funding to be allocated pursuant to the NSP 1 formula. HUD allocated NSP 3 funding to 270 grantees comprised of local governments, states and the insular areas. As of January 3, 2012, 24.5 percent of these funds have been obligated and 6.0 percent have been expended by grantees.

In total, the three rounds of HUD's Neighborhood Stabilization Program has awarded \$7 billion in funding in three separate rounds to provide direct aid to state and local governments to assist them in addressing the negative effects of abandoned and foreclosed housing. This \$7 billion will have supported an estimated 88,000 jobs, completed 50,000 units of affordable housing, and demolished 25,000 blighted properties by the time these funds are fully spent. Project Rebuild will build on the success of this program and further assist struggling state and local governments in dealing with foreclosure and blight. Two-thirds of the funds (\$10 billion) will provide formula funding for all 50 states and entitlement communities. There will also be \$5 billion of competitive funds for states, local governments, for-profits entities, and non-profit entities. Project Rebuild will create 200,000 jobs in the construction industry in the hardest hit communities. In addition, HUD has developed a strong system of accountability to go along with these funds, monitoring grantee performance, preventing fraud and abuse, and moving funds from underperforming grantees to those areas with greatest need.

Project Rebuild

Project Rebuild, part of the Administration's proposed American Jobs Act of 2011, includes several improvements to the Neighborhood Stabilization Program model that will help make it even more effective. It will include broader eligibility standards, allowing for vacant commercial properties to be renovated, encouraging mixed-use communities. It will create jobs maintaining eligible properties, and better directs funds to those areas with highest rates of foreclosure. These funds will be leveraged with local and private dollars to stabilize home prices, create jobs in the hardest-hit neighborhoods, and transform communities devastated by the collapse of the housing market.

The American Jobs Act includes a full legislative proposal for Project Rebuild.

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Section 4 Capacity Building

The Section 4 Capacity Building for Community Development and Affordable Housing program provides grants to three national intermediaries, Local Initiatives Support Corporation (LISC), Enterprise Community Partners, Inc., and Habitat for Humanity International, to develop and enhance the technical and administrative capabilities of community development corporations (CDCs) and community housing development organizations (CHDOs) to carry out community development and affordable housing activities. Capacity building activities include such activities as the development of core skills to organize, manage, implement and get access to capital to carry out community development and affordable housing projects.

Indian Community Development Block Grants

In 1977, the Housing and Community Development Act of 1974 was amended to provide a special funding set-aside within the Community Development Block Grants program for Indian Tribes. Just like entitlement and small city CDBGs, these grants have been crucial to many Indian Tribes, giving them a source of flexible funds used to serve their development priorities, improve neighborhoods, and meet urgent community development needs. Eligible uses of these funds include acquisition of property, rehabilitation of housing, installation of safe drinking water and waste water disposal systems, construction of Headstart and other childcare facilities, health clinics, removal of lead-based paint and mold, and improvement of public services and facilities. Funds can also be used to address imminent threats to health and safety. These grants cannot be used for construction or improvement of government facilities, government operations, income payments, or new housing construction, except in certain situations. All projects funded through these grants must primarily benefit low and moderate income persons, defined as 80 percent of the median income in the area. These funds are distributed through an annual competition to eligible federally recognized Indian Tribes and Alaska Native Villages. The Office of Native American Programs (ONAP) within the Office of Public and Indian Housing administers this program.

Staffing

FTE	2011 Actual	2012 Estimate	2013 Estimate
Headquarters	149	148	158
Field	<u>162</u>	<u>158</u>	<u>168</u>
Total	311	306	326

The Office of Block Grant Assistance (OBGA) within the Office of Community Planning and Development (CPD) is responsible for administration of the CDBG program, the Section 108 loan guarantee program, the CDBG disaster recovery programs and the Neighborhood Stabilization Program (NSP). Beginning with fiscal year 2008, more than \$33 billion has been appropriated for the various programs administered by OBGA.

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OBGA is primarily responsible for addressing policy development and implementation issues for the various components of the CDBG program: Entitlement CDBG program; State CDBG program: Insular Areas CDBG program; Section 108 loan guarantee program; CDBG disaster recovery programs; Neighborhood Stabilization Programs (NSP1, NSP2 and NSP3). In some instances, OBGA staff does directly administer aspects of certain programs. For the Section 108 loan guarantee program, Headquarters staff handle final approval of loan commitment, arranges financing, and address loan repayment issues. The DRSI staff directly manage large, high risk CDBG disaster recovery (CDBG DR) grants, such as those in New York (\$3.5 billion for Lower Manhattan 9/11 recovery), Louisiana and Mississippi (\$13 billion and \$5 billion, respectively, for Hurricane Katrina recovery), Texas, (\$3 billion for Hurricane Ike recovery) and Iowa (\$800 million for 2008 flood recovery). NSP staffs in Headquarters manage four large NSP2 competitive grants made to non-profit organizations.

Key workload drivers for each program area are highlighted below:

Entitlement and State CDBG Divisions – These divisions manage the basic CDBG formula-based grant program that has almost 1,200 grantees nationwide.

Financial Management Division – Primary responsibility is management of Section 108 loan guarantee program with more than \$2.3 billion in loan guarantees currently outstanding in conjunction with an additional \$240 million in commitment authority appropriated in fiscal year 2012.

Disaster Recovery and Special Issues Division – The DRSI Division manages the more than \$30 billion in CDBG DR funding appropriated since September 11, 2001. These grants, while based on the basic CDBG program, provide extensive waiver and alternative requirement authorities and are thus far more flexible than regular CDBG funds.

NSP Team - The NSP Team provides policy guidance and manages technical assistance for all three funding rounds of the Neighborhood Stabilization Program (NSP). Approximately \$7 billion was appropriated for NSP between July 2008 and July 2010 and OBGA, in accordance with statutory directive, established NSP on CDBG program framework. While more than \$3.267 billion of NSP1 funds and \$855 million in NSP 2 funds have been expended as of January 2012, almost \$2 billion remains to be expended by March 2013 with an additional \$1 billion to be expended by March 2014. The NSP team is engaged with CPD field staff in managing 307 grantees under NSP1, 56 grantees under NSP2 and 271 grantees under NSP3. The NSP Team is supplemented by approximately 35 term employees, primarily in CPD field offices, that are funded under various administrative funds provided to HUD to support NSP and which will be available through fiscal year 2013.

CPD staffs in field offices are integral to the effective implementation of OBGA programs as they are, in most cases, the primary contact with the grantee and provide a range of services from policy guidance, to monitoring reviews to technical assistance. The CPD field staff is responsible for the execution of CDBG grant agreements, and undertakes the critical process of performing risk analysis to determine the monitoring schedule of grantees. The field is also responsible for reviewing the local consolidated plans

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and annual reviews, and other duties for all of CPD formula and competitive programs, including the Special Needs Assistance (Homeless) programs.

Various aspects of OBGA's workload profoundly impact Secretarial priorities as expressed by the Agency Priority Goals (APGs). Given the flexible nature of CDBG, grantees can use CDBG funds to pursue a wide range of activities that support the APGs. Beyond the APGs, OBGA and its programs form the basis of the Department's response to Strategic Goal 4, Building Inclusive and Sustainable Communities Free of Discrimination.

The CPD staff has been decreasing, resulting in an ever increasing challenge in the face of increased workload due to growth in the number of grants as well as its increased duties of the Recovery Act programs, NSP, and CDBG disaster recovery responsibilities. Accordingly, CPD is requesting an increase of 20 FTE for fiscal year 2013 for additional staff to improve CDBG program monitoring efforts in the field office.

3. Why this program is necessary and what will we get for the funds?

Programs funded through CDBG help address unmet needs

In a climate of increasing fiscal distress at the state and local government level, it is essential that the programs and projects funded by CDBG, which primarily serve low- and moderate-income populations, continue to be funded. Too many communities are plagued by budget shortfalls, along with inadequate public services, insufficient economic opportunities, and physically distressed infrastructure. Moreover, high unemployment rates; lack of safe, affordable housing; and a growing population of senior citizens are increasing the service needs among the nation's low- and moderate-income population. As local governments face unprecedented budget shortfalls, critical community development and public service programs are at risk of falling by the wayside, allowing communities to slip further into financial distress and families that live in these communities to slip further away from economic self-sufficiency.

For families across the country, the impacts of CDBG are very real. In 2011 alone:

- Over 28,000 Americans found new permanent jobs or were able to retain their jobs at businesses supported by CDBG and Section 108 funded economic development activities, and an estimated 80,000 additional jobs were supported for the year through CDBG funded construction and services;
- Over 96,600 housing units received some level of housing rehabilitation assistance;
- More than 7,250 local governments participated in CDBG through the entitlement, urban county, or state programs; and
- More than 10 million people live in areas which benefited from CDBG-funded public service activities and more than 4 million live in areas which benefited from CDBG-financed public improvements.

The communities where these families live are often in severe economic distress, and without CDBG, would be unable to support the jobs and safe and equitable living environments their residents so desperately need. More than 120 million Americans exist on low

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or moderate incomes. Most are from hard working families struggling to make ends meet; some are homeless individuals or families who want to become productive members of society once again. In fiscal year 2011, 95.4 percent of CDBG funds were invested to primarily benefit low- and moderate-income Americans.

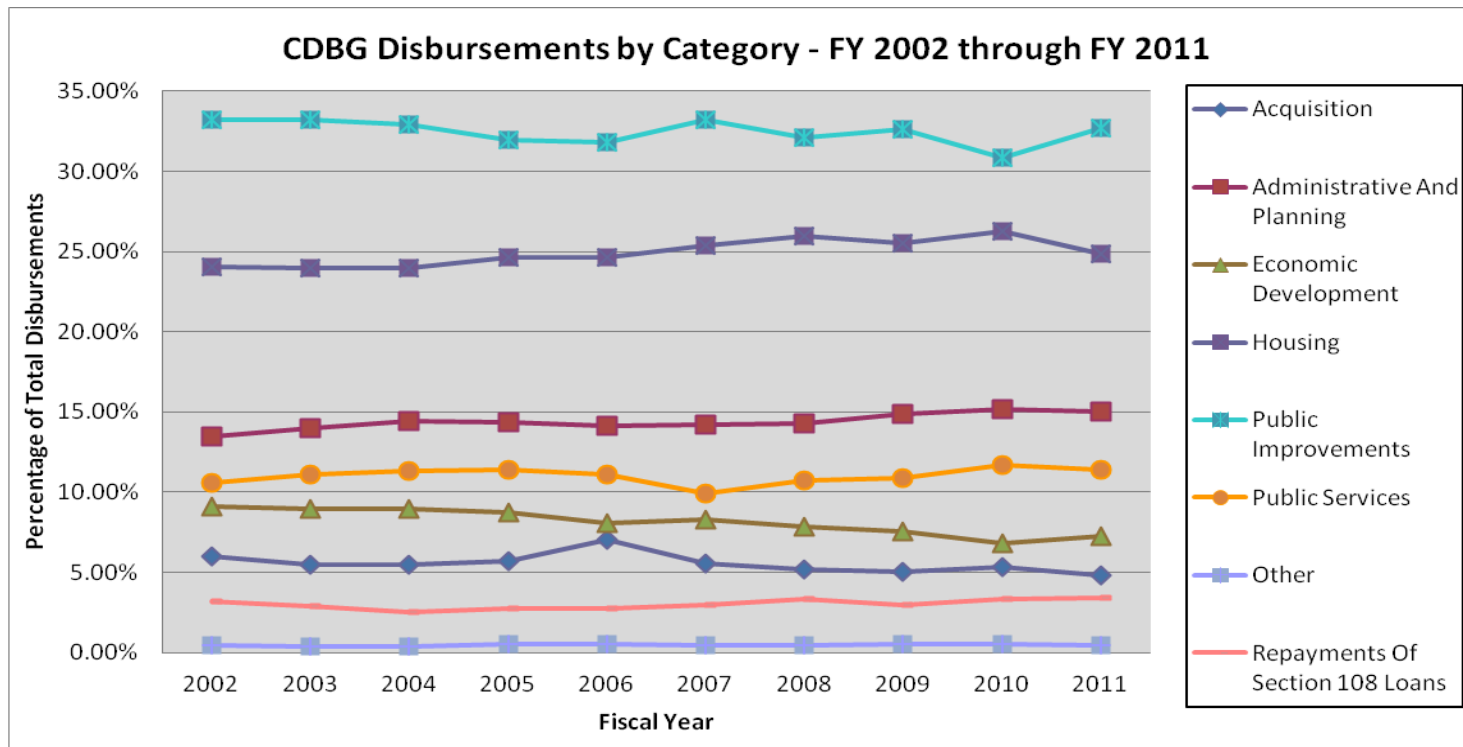
CDBG is a crucial leveraging source for economic development projects at the local level

Facing local government budget shortfalls, CDBG funding remains a crucial source of funding that enables counties and municipalities to leverage funds for key infrastructure and economic development projects. The CDBG program helps these communities gain the financial leverage to bridge these critical economic development needs. Although grantees are not required to report on leveraging of CDBG funds, HUD requested that grantees self-report on leveraged funds in the Integrated Disbursement Information System. Between fiscal year 2009 and August 1, 2011, more than 23,800 activities reported that CDBG funds were leveraged with other public and private sources of capital. According to self-reported data extracted from IDIS, these activities, totaling \$4.076 billion in CDBG funding, have leveraged \$14.458 billion in other resources, resulting in an additional \$3.55 leveraged for every CDBG dollar budgeted on activities where leveraging was reported. This data illustrates that CDBG funds often serve as the backbone of state and local development efforts, and increasingly it is one of the few resources available to support housing rehabilitation, public improvements and economic development assistance. Without CDBG funding, these projects are in danger of being eliminated or delayed, as many local governments will have no choice but to remove them from their budgets.

From the local perspective, CDBG is an invaluable source of financial leverage, enabling communities to match local knowledge of needs with necessary resources. As the Federal Government's largest, most significant program focused on achieving a broad set of community development objectives, CDBG has invested \$135 billion in community development at the local level since 1974. In rural areas, CDBG funding can be a critical resource in supporting infrastructure investments and job growth. In fiscal year 2011, the State CDBG program provided rural areas with approximately \$656 million to support the creation of over 15,000 direct jobs through key local and regional economic development investments designed to help stabilize and reinvigorate communities.

Underpinning CDBG is the fundamental philosophy that local decision makers are best positioned to identify and prioritize local needs and to effectively allocate funding to address those needs. This approach encourages the use of program funds to help address key national priorities, which have remained relatively constant over the last decade. As shown in Figure 1 on the on the following page, CDBG recipients primarily use funds for activities related to public improvements, public services, economic development, acquisition/clearance, housing (owner-occupied and rental housing rehabilitation, homeownership assistance, and Community-Based Development Organization housing construction and rehabilitation associated with a neighborhood revitalization or economic development project), and administration and planning.

Figure 1



A preliminary report issued March 16, 2011 by IHS Global Insight for the US Conference of Mayors assessed the economic impact of CDBG expenditures in ten communities throughout the country. The report, which analyzed annual expenditure and performance data provided by the communities between 2003 and 2008, calculated total average annual CDBG expenditures at \$300 million for the ten grantees. According to the grantee-provided data, CDBG leveraged other sources of public and private funding in excess of \$353 million annually, which generated a total annual increase in gross metropolitan product of \$811 million in the municipalities studied. The study estimates the direct and indirect results of CDBG funding in these communities produced an estimated 9,080 jobs annually. Without the infusion of CDBG in these communities, the local governments would have been unable to fund these important job-creating projects. On top of the job losses, a lack of CDBG resources would cause delays in critical projects that repair

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physically distressed infrastructure, restore homes to safe habitable living conditions, provide basic public services, and increase economic opportunities for low and moderate income people throughout the country.

Congress has chosen on multiple occasions to use the CDBG program structure as a conduit to deliver extensive funding to states and local governments in response to special situations and conditions. The two primary examples are the use of CDBG to deliver long-term disaster recovery assistance to communities and jurisdictions hard hit by natural and human-caused disasters and the use of CDBG as the framework to expedite the establishment of the Neighborhood Stabilization Program (NSP), a response to the growing problem of housing foreclosure and abandonment in the wake of the recent economic slowdown. In both instances, Congress provided extensive funding and a directive to use the well-established and broadly familiar CDBG program framework as the vehicle to ensure the rapid allocation and use of Federal funds to these specific problems. Termination or significant reductions in the basic CDBG formula program will curtail community development spending at the local level. Further funding reductions would weaken the capacity and the ability of state and local governments to effectively use Federal funds to rebuild in the wake of natural disasters such as Hurricane Katrina and to respond to emergency economic conditions such as those presented by the recent housing foreclosure crisis.

CDBG reductions also have consequences for the Section 108 loan guarantee program. Numerous grantees that have borrowed through Section 108 are using CDBG funds as a primary repayment source for the loan. If CDBG is terminated or funded at significantly lower levels, HUD may need to invoke contractual provisions to seize CDBG funds available in grantee lines of credit to address outstanding Section 108 loan balances. If these funds are not sufficient to fully address the outstanding amounts due under the Section 108 loans, HUD may have to act along several different avenues such as requiring grantees to act upon alternative collateral pledges, applying credit subsidy funds available in the Section 108 financing account established pursuant to the Federal Credit Reform Act, and potentially invoking the Department's "full faith and credit" guarantee that accompanies every Section 108 promissory note purchased by investors.

The median CDBG grant size in fiscal year 2011 was just over \$900,000. However, one out of every nine CDBG grantees received an allocation of less than \$300,000 per year. Given the very limited amount of money they can use for planning and administrative costs (\$60,000 for a \$300,000 grant); HUD is concerned about the ability of grantees to effectively sustain small-dollar-amount programs. Although grantees have historically expended less than 15 percent of their grants on administrative and planning activities, there is an expectation that the amount budgeted for these activities will increase if allocations continue to decline, which will further limit the benefits realized by communities. During a time of severe local budget constraints, local governments are challenged by limited administrative resources.

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CDBG Allocation Levels			
<i>Annual CDBG Allocation</i>	<i>FY 2010 CDBG Entitlement Communities</i>	<i>FY 2011 CDBG Entitlement Communities</i>	<i>FY 2013 CDBG Entitlement Communities (Projected)⁴</i>
Less than \$300,000	82	131	166
\$300,000 to \$500,000	155	181	201
\$500,000 to \$750,000	176	187	193
\$750,000 to \$1,000,000	133	135	151

It is unknown exactly how grantees might restructure local programs in response to further CDBG funding reductions and how it might skew future outputs and outcomes. As an example, grantees may choose to devote fewer funds to job-creating economic development activities in favor of maximizing expenditures for public service and administrative expenses. Alternatively, they may choose to abandon housing rehabilitation activities, which tend to have high transaction costs, in favor of a limited number of public improvement activities. Given the options that grantees have in using their CDBG funds, program realignments are to be expected at the local level in response to funding reductions thereby making it difficult to predict or gauge exact impacts in the future. Several statutorily mandated funding caps are tied to CDBG grant amounts, and decreasing the overall appropriation will have ripple effects on staffing, program capacity, and other critical public services. Nonprofit and governmental social services providers may have to terminate programs and lay off staff that delivers those services – many programs like meals on wheels, supportive services for veterans, and substance abuse recovery will be in danger of termination as CDBG resources decline. For example, in Allentown, Pennsylvania, CDBG-funded programs like Daybreak, a drop-in center for people with mental illness or substance abuse problems, and St. Luke’s Neighborhood Center, a childcare center for low-income and homeless children, have faced both staff and program cutbacks from having their share of the grant cut drastically in recent years.⁵

Reductions to CDBG allocations also have the effect of reducing the ability of CDBG grantees to borrow through the Section 108 loan guarantee program. Since a grantee’s Section 108 borrowing capacity is equal to five times its most current CDBG allocation, any reduction to CDBG allocations will have a corresponding downward effect upon Section 108 borrowing capacity. Numerous grantees, including Cleveland, OH, are unable to finance additional economic development activities through Section 108 as they are now at their cap.

⁴ Based on estimated FY 2012 grantee allocations

⁵ Cooper, Michael. “Cities Struggle as U.S. Slashes Block Grant Program.” The New York Times. 21 December 2011.

Strategic Plan Performance

CDBG contributes to each of HUD's strategic plan goals in substantive ways through activities such as public services, code enforcement, economic development, and single and multifamily housing rehabilitation. The value of CDBG can be seen in CDBG-funded investments that encourage economic growth and support existing communities. The prior section outlines the involvement of OBGA-based programs in the Department's overall Strategic Plan effort.

More specifically, CDBG serves as the central program in accomplishing HUD's goal of catalyzing economic development and job creation, while also serving to enhance and preserve community assets. The CDBG program is unique amongst HUD's programs in its capacity to support local investments in infrastructure activities that incentivize job-creating economic development projects. CDBG also serves as a key mechanism for filling gaps in essential public services, helping to expand economic opportunities and promote a higher quality of life for low-income populations. Moreover, the CDBG program serves as the framework for HUD's facilitation of disaster recovery and resiliency through its Disaster Recovery division.

Project Rebuild

While CDBG funds are crucial for local governments in dealing with the fallout of the foreclosure crisis, in most communities the size of the problems far outstrips the resources available. With the funds proposed to be provided by Project Rebuild, local communities can leverage private capital and public-private capital to take on the collapse of their neighborhoods. They can buy and rehabilitate abandoned properties, encourage entrepreneurship, stop the collapse of home prices, and encourage people to live in these neighborhoods. This \$15 billion of mandatory funds as proposed in the American Jobs Act are a way to assist struggling cities to rebuild their neighborhoods.

Section 4 Capacity Building

Unlike most grant programs, Section 4 Capacity Building requires a 3:1 match from private sources, meaning that the private sector is not only integrally involved in the community development work of CDCs and CHDOs, but actually funds 75% of the total program. This is really a public-private partnership that is community and place-based. Funding for assistance to non-profit CDCs and CHDOs will develop core skills of line staff and management so that they can be partners with the Administration as they implement key initiatives such as Choice Neighborhoods and Sustainable Communities, and work to restore the economic vitality of their communities. The 2011 award will result in approximately 8,000 housing units newly constructed, renovated, or preserved, 1000 training opportunities, and over \$1 billion in total development costs channeled to low income communities in more than 250 communities nationwide. From 2007-2010, 30,757 newly constructed, renovated or preserved homes, nearly 2400 training opportunities for CDCs and CHDOs, and \$5.4 billion in total development costs can be attributed to the Section 4 program. Currently, this program is working in 48 states and 565 cities assisting over 1,000 CDCs and CHDOs develop capacity to carry out community development and affordable housing projects benefiting low income families.

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For 2013, HUD is requesting that Capacity Building be included with the CDF appropriation, as HUD and its Capacity Building partners are working to better align priorities within the CDBG program and the communities assisted by Capacity Building. Integrating these programs will help leverage CDBG dollars through better-performing local non-profits and align HUD funds with national priorities.

Indian Community Development Block Grant

Housing and infrastructure needs in Indian Country are severe and widespread, and far exceed the funding currently provided to tribes. Access to financing and credit to develop affordable housing in Indian Country has traditionally been difficult to obtain. Data published by the U.S. Census shows American Indians and Alaska Natives disproportionately suffer from poverty and severe housing needs.

According to the 2010 U.S. Census:

- 5,220,579 Americans identified themselves as American Indian or Alaska Native (Race Alone or in Combination with One or More Other Races). This was 1.7 percent of the total, national population of 308.7 million. (2.9 million reported AI/AN Alone, or "single-race.")
- An 18 percent growth in the American Indian and Alaska Native alone population occurred between 2000 and 2010, from 2.5 to 2.9 million).

According to the U.S. Census, American Community Survey for 2005-2009:

- 25.9 percent of American Indians and Alaska Natives live below the poverty level, compared to 10.8 percent of Whites and 13.4 percent of the national population.
- 8 percent of American Indian/Alaska Native households are overcrowded; 1.1 percent of White households are overcrowded; 3 percent of national households are overcrowded.
- The average per capita income for American Indians/Alaska Natives was \$16,716; \$31,599 for Whites; \$27,041 for the national population.
- The median household income for American Indians/Alaska Natives was \$36,520; \$54,535 for Whites; and \$51,425 for the national population.

These Community Development Block Grants in Indian Country provide a vital source of revenue for tribes, allowing them to undertake necessary development, housing, and infrastructure projects. ICDBG funds, due to their flexible nature, are often vital to enabling development projects to proceed to completion. Each year, in response to its Notice of Funding Availability, ONAP receives at least twice as many viable applications as it can fund. In 2011, ONAP funded 84 grants with a median value of \$605 thousand. ICDBG grants may be used to supplement Indian Housing Block Grant funds to enable grantees to complete larger, more comprehensive projects. The flexibility of ICDBG makes it a critical resource for improving tribal economies.

4. How do we know this program works?

Unique Role and Long-Term Success of the CDBG Program

CDBG represents the Federal Government's primary community development program and the true successes of the program are observed at the local level on a daily basis. More than 35 years ago, the CDBG program was developed on the premise that local communities understand their needs better than the Federal Government and that the Federal Government must support and respect the local decision making process. CDBG continues to accomplish the original intent of the program by serving as the backbone and primary catalyst to community and economic development activities in communities across America.

Since program inception, CDBG has invested more than \$135 billion in the nation's communities, with the primary goal of benefitting low- and moderate-income persons. These funds were expended on strategic investments that support housing rehabilitation, public services, economic development, public facilities, and infrastructural improvements in communities across the country. Although CDBG accomplishment data has historically been difficult to aggregate from the local level, recent information technology improvements have greatly improved CPD's ability to aggregate data and provide a comprehensive snapshot of the program's achievements. In fiscal year 2011 alone, program funding directly created and retained 21,482 jobs, assisted 96,615 households maintain or gain access to safe, decent, and affordable housing, assisted 10.1 million people through public service activities, and benefitted approximately 4.1 million persons through public improvements.

As noted earlier, CDBG grantees are reporting an impressive leverage ratio of \$3.55 of other funding to every dollar of CDBG funding. CDBG funding is used to leverage resources from private, non-profit, state and local government sources. Moreover, CDBG is unique in its ability to serve as local matching funds to other Federal programs. Further, grantees use CDBG to support numerous other initiatives by providing funds for operating costs of homeless service and AIDS response programs, funding housing rehabilitation administrative costs, and contributing to various administrative and operating costs associated with the HOME program. Overall, CDBG grantees expend approximately 4 percent of funds annually as matching funds.

Over the past several years, CDBG funds have an enviable record of providing extensive benefit to the public and, most specifically, to low- and moderate-income individuals across the nation. The following tables provide certain key beneficiary data for fiscal years 2008-2011.

Community Development Fund

CDBG Job Creation/Retention, 2008-2011				
	<i>FY 2008</i>	<i>FY 2009</i>	<i>FY 2010</i>	<i>FY 2011</i>
Total Formula Expenditures (Billions)	\$4.4	\$4.0	\$3.9	\$3.9
<i>Eligible Activity</i>	<i>Number of Jobs</i>			
Public Facilities and Improvements	2,948	1,026	2,050	1,811
Commercial/Industrial Infrastructure Development	6,847	5,317	4,602	5,737
Economic Development Loans to Businesses	14,014	10,653	8,239	10,021
Economics Development Technical Assistance	3,278	2,308	2,499	1,619
Micro-Enterprise Assistance	1,776	1,074	1,166	1,475
Other Direct Job Creation/Retention Activities	2,860	1,585	737	819
Total Jobs:	31,723	21,963	19,293	21,482

CDBG Public Improvement Activities, 2008-2011				
	<i>FY 2008</i>	<i>FY 2009</i>	<i>FY 2010</i>	<i>FY 2011</i>
Total Formula Expenditures (Billions)	\$4.4	\$4.0	\$3.9	\$3.9
<i>Eligible Activity</i>	<i>Number of Persons Benefitting</i>			
Public Facilities and Improvements (General)	1,163,989	2,625,755	1,761,866	2,650,459
Senior Centers	170,364	494,604	325,465	173,871
Homeless Facilities (not operating costs)	165,881	85,919	142,498	76,906
Neighborhood Facilities	223,904	693,286	1,017,175	596,029
Parks, Recreational Facilities	173,138	345,643	234,665	167,852
Street Improvements	150,688	61,444	59,545	206,985
Sidewalks	359,029	477,423	287,365	9,810
Health Facilities	126,491	154,701	195,452	130,564
Other Public Improvement Activities	181,273	259,223	151,052	81,512
Total Persons:	2,714,757	5,197,998	4,175,083	4,093,988

Community Development Fund

CDBG Public Service Activities, 2008-2011				
	<i>FY 2008</i>	<i>FY 2009</i>	<i>FY 2010</i>	<i>FY 2011</i>
Total Formula Expenditures (Billions)	\$4.4	\$4.0	\$3.9	\$3.9
<i>Eligible Activity</i>	<i>Number Persons Benefitting</i>			
Operating Costs of Homeless/AIDS Patients Programs	460,344	503,465	534,792	411,222
Public Services (General)	7,745,942	6,493,630	6,544,687	5,490,419
Senior Services	1,300,572	992,622	704,485	914,111
Services for The Disabled	116,459	145,854	115,498	148,827
Youth Services	1,233,661	844,426	774,784	970,843
Transportation Services	1,246,349	116,882	141,122	130,801
Battered and Abused Spouses	128,212	163,355	130,829	142,941
Employment Training	145,328	164,513	161,023	307,316
Crime Awareness/Prevention	43,316	126,666	145,311	64,939
Health Services	600,308	660,969	723,618	577,798
Other Public Service Activities	468,140	396,973	391,417	940,128
Total Persons:	13,488,631	10,609,355	10,367,566	10,099,345

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CDBG Housing Activities, 2008-2011				
	<i>FY 2008</i>	<i>FY 2009</i>	<i>FY 2010</i>	<i>FY 2011</i>
Total Formula Expenditures (Billions)	\$4.4	\$4.0	\$3.9	\$3.9
<i>Eligible Activity</i>	<i>Number of Households Assisted</i>			
Construction of Housing	2,157	1,878	1,122	1,698
Direct Homeownership Assistance	4,009	2,340	4,683	2,328
Rehabilitation: Single-Unit Residential	109,965	76,477	66,162	64,551
Rehabilitation: Multi-Unit Residential	15,081	10,925	11,483	10,914
Public Housing Modernization	4,313	2,937	7,728	4,712
Energy Efficiency Improvements	2,745	1,153	2,391	2,653
Acquisition for Rehabilitation	1,853	838	2,739	273
Rehabilitation Administration	7,943	5,454	7,948	6,126
Lead-based Paint/lead Hazard Test/Abatement	N/A	2,222	3,656	1,531
Other Housing Activities	1,188	1,156	1,135	1,829
Total Households:	149,254	105,380	109,047	96,615

Planning and Performance Evaluation

In order for grantees to participate in the CDBG program, they are required to submit a Consolidated Plan to HUD every 3-5 years, describing their strategic community development and affordable housing goals for the term of the Plan. They must also submit Annual Action Plans describing how each year’s grant allocations will be spent according to the strategy laid out in the Consolidated Plan. Performance and program outcomes are reported to HUD annually. The Consolidated Plan meets the statutory and regulatory planning and submission requirements for the Community Development Block Grants (CDBG), HOME Investment Partnerships, Emergency Solutions Grant and Housing Opportunities for Persons With AIDS formula block grants.

HUD is designing improvements to the Consolidated Plan to enhance the effectiveness of these four formula block grants by providing our grantees with expanded data and a web-based mapping tool and planning template to improve up-front production and back-end performance reporting. These updates will provide grantees with better tools for decision-making and allow them to leverage resources and maximize program outcomes.

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Specifically, availability of data describing economic conditions will help communities make efficient use of the CDBG and Section 108 programs. HUD is working with other Federal agencies to provide planning and activity data that will help state and rural grantees understand infrastructure needs, such as FEMA flood plain maps to assist with planning for disaster resiliency.

By automating the paper Consolidated Plan, Annual Action Plan, and performance reporting forms, duplicative grantee data entry and manual processing will be reduced by at least 65,000 grantee hours, based on estimated paperwork burden hours associated with the current forms.

Consolidated Plan enhancements are anticipated to be complete by April of 2012. HUD is currently designing the planning template, which will be incorporated into the Integrated Disbursement and Information System (IDIS), the grants management and reporting system for Consolidated Plan grants. The mapping tool and expanded planning database are also in development.

HUD Oversight and Enforcement

HUD takes its role as steward of taxpayers' money seriously, and oversight of the CDBG program is no exception. While the CDBG program allows local governments to determine the use of program funds based on local priorities, CDBG staff oversees all state, entitlement, and insular programs through both on-sight program monitoring and through the Integrated Disbursement & Information System (IDIS), a grantee performance monitoring system.

The CDBG program is an established and stable program with well-known requirements, so grantees are familiar with the program. As a result, grantees have the appropriate capacity and knowledge to implement and monitor their CDBG grant allocations in an efficient and compliant manner, minimizing the fraud, waste, and abuse. Moreover, as a result of CDBG's established programmatic structure, HUD staff also has a thorough understanding of program requirements to the extent that they can provide appropriate technical assistance to grantees that may have had staff turnover, as well as grant monitoring and program oversight in order to prevent the misuse of funds.

OneCPD Technical Assistance/Capacity Building

The 'Transformation Initiative' emphasizes a place-based approach to the delivery of technical and capacity building assistance to entities receiving CPD funding. Under the Transformation Initiative umbrella and beginning with the 2010 awards, OneCPD established a new cross-program, assessment-based approach to the delivery of technical and capacity building assistance to grantees. By providing needs assessments, direct TA and training, tool and product development, and self-directed and group learning sessions, OneCPD helps grantees assess their local market conditions; design housing, community, and economic development programs best suited to meet local market demands; leverage resources; and improve their understanding of and compliance with statutory and regulatory requirements.

- HUD allocated technical assistance investments based on situation assessments that allow the Department to work with grantees on underlying issues not symptoms.

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- For intensive TA engagements, an Memorandum Of Agreement detailing the responsibilities and specific outcomes of all participants (grantee, HUD, TA provider) will be signed to ensure accountability.
- OneCPD will be centrally managed at HUD Headquarters, but with the focus on place-based approaches to problem-solving, a single point of contact at each field office is assigned to coordinate assistance across all CPD programs.

HUD will also continue to provide program specific technical assistance to both grantees and HUD field offices in order to achieve the highest level of performance and results from grant allocations and programs. These activities will continue to address CDBG program basic program information as well as specific priorities and can include written products, development of materials and training, and delivery of training, workshops, and conferences. In addition, CPD offers other, more targeted trainings on an ongoing basis – training topics include use of IDIS, financial management, revolving loan funds, and economic development.

CPD selects OneCPD technical assistance providers through a competitive process. Successful applicants receiving grant funds from OneCPD serve as the primary delivery mechanism of technical assistance and capacity building. Eligible applicants receiving grant funds serve as the primary delivery mechanism of technical assistance and capacity building. CPD targets TA to the communities whose programs can benefit most from the support and who are willing to work with the Department to improve outcomes of their community development and housing programs. Overall, OneCPD will fundamentally improve the way HUD does business by providing our partners with the support and assistance necessary to address their community and development needs.

Plans for Program Improvement

In 2011, the CDBG program requested Transformation Initiative (TI) funds for system improvements to IDIS. These requests, which resulted from recommendations from an October 31, 2011 HUD Inspector General internal audit of the CDBG program, include a mechanism which will alert CPD Field Offices when a grantee has long standing open activities that require in-person attention and a mechanism to prevent cancelation of projects that have expended funds. Multiple new reports will be generated by the IDIS system to strengthen HUD staff's ability to oversee grantee transactions, identify potential activity problems, and track open activities. CDBG staffs are also developing an updated, consolidated program guide to improve grantee and field office access to CDBG policies and procedures to supplement current training materials, as well as clarify corrective actions/guidance on sanctions in cases of program non-compliance.

In addition, HUD will develop and submit to Congress a report on actions necessary to improve data quality, data management, and grantee oversight with respect to CPD programs and activities. This report is mandated by section 232 of the HUD General Provisions in the Consolidated and Further Continuing Appropriations Act of 2012, and will be submitted by mid-March 2012.

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Risk Assessment and Monitoring by Field Offices

HUD is taking steps to improve its on-site and remote monitoring ability and, consequently, its oversight of CDBG grantees. These steps, which have been accelerated as the result of the internal audit mentioned above, include a stricter risk management assessment, improved comprehensive monitoring exhibits and clear procedures for field offices to provide oversight of CPD's programs.

Each year, HUD field offices conduct a risk assessment of all formula and competitive grantees based on several factors, including size of formula grant, complexity of activities undertaken, management capacity, and length of time since last monitoring visit. Based on the risk assessment results, field offices target staff resources to monitor grantees that pose greatest risk of fraud, waste, abuse and mismanagement. This monitoring includes a grantee review to assess policies and procedures governing sub-recipient management, financial management, eligible activities, allowable costs, written agreements, match requirements, and reporting beneficiary data. It also includes a review of specific project files and on-site inspection of selected sample project(s).

In the last 3 fiscal years (2009-11), field offices carried out 871 monitoring reviews of CDBG grantees nationally and identified 1,109 findings and 1,362 concerns related to compliance and/or performance. These CPD field staffs are responsible for monitoring all CPD programs, including other major programs such as HOME and Special Needs Assistance programs, and must balance competing demands for monitoring efforts.

Additionally, the field offices also conduct an annual risk assessment of the supplemental Neighborhood Stabilization and CDBG Disaster Recovery program based on similar risk factors. In the CDBG Disaster Recovery program, grantees identified as high risk are monitored directly by HUD Headquarters staff.

Reporting

HUD requires reliable, comprehensive information regarding program performance in order to comply with various Federal reporting requirements. In order to track and monitor the use of grant funds and program income and collect data on program performance, the CDBG program uses the IDIS. In use since 1995, IDIS is the management information system used for all four CPD formula programs. The system is accessed through the HUD website and is secured by HUD-issued IDs and passwords. IDIS enables grantees to draw down CDBG funds and second, IDIS is a data collection and reporting tool that grantees use to record the results of CDBG-funded activities. IDIS is where all the data that is collected on CDBG activities is reported to HUD, including the CPD Performance Measurement data elements.

As mentioned above, HUD is planning additional enhancements to its reporting CDBG system to enable improved, real-time reporting on the progress of grantee projects. Further, HUD is reviewing CDBG data currently collected in IDIS for utility with the possibility of restructuring certain elements within IDIS to improve the value of CDBG data.

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Limited Carryover

The CDBG program has minimal carryover each year in the formula program and is virtually eliminated in the first quarter of each fiscal year. This carryover results from approximately 15 percent of CDBG grantees electing to receive their allocation on October 1 in concert with the beginning of the local fiscal year, rather than with the federal fiscal year. Thus, these grantees receive their fiscal year annual allocations on the October 1 following the end of the federal program fiscal year. Therefore, depending on the timeline of HUD's approval process for the grantees' Action and Consolidated Plans, funds may not be obligated until late October. Additionally, a minimum amount of carryover is also associated with a handful of grantees facing litigation relating to serious compliance issues that prohibit HUD from providing a CDBG grant agreement to the grantee. Current examples involve fair housing litigation and settlement issues in jurisdictions such as Westchester County, NY and Joliet, IL.

The budget projects that \$100 million of Louisiana Road Home funds will carry over into fiscal year 2013. These funds are available on an as needed basis, pursuant to P.L. 110-116.

Untimely Expenditure of Funds

Since 2001, HUD CPD has been successfully implemented policies and procedures to reduce the backlog of unspent CDBG funds. HUD closely monitors CDBG grantees for the timely expenditure of funds and sends monthly updates to each of the field offices and grantees with this information. Under the provisions of 24 CFR 570.902 of the CDBG regulations, a grantee is considered to be timely, if 60 days prior to the end of the grantee's program year, the balance in its line-of-credit does not exceed 1.5 times the annual grant. If a grantee fails to meet the timely expenditure requirement of the program, the HUD CPD Deputy Assistant Secretary has the ability to impose future grants reductions for the next 2 fiscal years.

Section 4 Capacity Building

The Section 4 Capacity Building Program has been the subject of a number of independent evaluations and audits. This included a GAO study in 2003 and an OMB Performance Rating Assessment Tool review also in 2003. In both studies, the program was found to be effective. Each of these studies found that the program mobilized private sector involvement, leveraging private resources at a 10:1 ratio, greatly exceeding its three to one match requirement. Recently, it was the subject of an independent evaluation by Social Compact, which has been made public.⁶ The conclusions reached in this evaluation were that CDCs assisted with Section 4 had greater capacity to carry out programs and projects. CDCs and CHDOs receiving Section 4 assistance from the intermediaries showed a dramatic increase in their ability to carry out HUD and other Federal programs. Over two thirds were participating in the HOME program, as well as the CDBG program between 2006 and 2009. This was an increase over the previous 5 years.

Indian Community Development Block Grant

⁶ Available at: <http://www.lisc.org/content/publications/detail/19970/>

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The primary indicators of performance that HUD has traditionally recognized for ICDBG grantees are the number of affordable housing units rehabilitated each year and the number of community buildings built. These development activities tend to be long-term and require confidence in a steady stream of funding—otherwise, recipients tend to use scarce funds to maintain existing inventory.

In fiscal year 2010, 331 affordable units were rehabilitated with ICDBG funds. In fiscal year 2011, 409 units were rehabilitated.

In fiscal year 2010, 41 community buildings were built with ICDBG funds. In fiscal year 2011, 30 buildings were built.

In 2006, independent evaluators (Econometrica, Inc.) found that, “with few exceptions, ICDBG-funded structures supported the delivery of services that either were either previously unavailable or inadequate. ICDBG investment in social viability established a platform from which economic development could take off, perhaps with other sources of direct investment... Grantees contended that the ICDBG program mitigates the lack of access to private capital because it serves as seed money that can attract private investment, thereby reducing the risk perceived by potential funding partners.”

5. Notes to Justification

Disaster Recovery

CDBG serves as one the Federal Government’s vehicles for catastrophic long-term disaster recovery assistance to states and local governments following large-scale or catastrophic disasters. For example, Congress appropriated \$19.7 billion in supplemental disaster assistance to aid the comprehensive recovery of Alabama, Florida, Louisiana, Mississippi, and Texas following the devastation of Hurricanes Katrina, Rita, and Wilma in 2005.

Furthermore, during fiscal year 2008, Congress appropriated \$300 million in supplemental CDBG disaster recovery funding to address a range of Presidentially declared major disasters occurring in the late spring of 2008 and an additional \$6.5 billion in supplemental CDBG disaster recovery funding as part of the fiscal year 2009 continuing resolution to promote recovery from Presidentially declared major disasters that occurred during calendar year 2008, most notably the widespread flooding in the Midwest and Hurricanes Gustav and Ike. A supplemental appropriation of \$100 million was enacted in July 2010 to address disasters that occurred in the spring and summer of 2010 and up to \$400 million was included in the fiscal year 2012 HUD appropriation for recovery from disaster occurring in 2011. The Department announced allocation of the fiscal year 2012 funds in January 2012.

In addition to the emergency appropriations following catastrophic disasters, HUD allows communities to amend their Consolidated Plans to reallocate CDBG funding to address new community needs resulting from the impacts of disasters that do not receive additional Congressional appropriations. The CDBG program allows local communities to use their existing formula allocations more flexibly, which helps them respond to their own needs as they see fit - whether it's rebuilding affordable housing stock damaged by the storms or pumping resources into community facilities that can serve as anchors for revitalization.

**COMMUNITY PLANNING AND DEVELOPMENT
COMMUNITY DEVELOPMENT FUND
Appropriations Language**

The fiscal 2013 President's Budget includes proposed changes in the appropriation language listed and explained below. New language is italicized and underlined, and language proposed for deletion is bracketed.

For assistance to units of State and local government, and to other entities, for economic and community development activities, and for other purposes, [~~\$3,308,090,000~~] \$3,143,090,000, to remain available until September 30, [2014] 2015, unless otherwise specified: Provided, That of the total amount provided, [not less than] \$2,948,090,000 is for carrying out the community development block grant program under title I of the Housing and Community Development Act of 1974, as amended (the "Act" herein) (42 U.S.C. 5301 et seq.): Provided further, That unless explicitly provided for under this heading, not to exceed 20 percent of any grant made with funds appropriated under this heading shall be expended for planning and management development and administration: Provided further, That \$60,000,000 shall be for grants to Indian tribes notwithstanding section 106(a)(1) of such Act, of which, notwithstanding any other provision of law (including section 204 of this Act), up to \$3,960,000 may be used for emergencies that constitute imminent threats to health and safety[: Provided further, That none of the funds made available under this heading may be used for grants for the Economic Development Initiative ("EDI") or Neighborhood Initiatives activities, Rural Innovation Fund, or for grants pursuant to section 107 of the Housing and Community Development Act of 1974 (42 U.S.C. 5307): Provided further, That the Department shall notify grantees of their formula allocation within 60 days of enactment of this Act]. *Of the amounts made available under this heading, \$100,000,000 shall be made available for a Sustainable Housing and Communities Initiative to improve planning efforts that integrate housing and transportation decisions, and increase the capacity to align economic development, infrastructure planning and land use practices: Provided, That \$46,000,000 shall be for Regional Integrated Planning Grants to support the linking of transportation and land use planning: Provided further, That \$46,000,000 shall be for Community Challenge Planning Grants to foster reform and reduce barriers to achieve affordable, economically vital, and sustainable communities: Provided further, That the Secretary will consult with the Secretary of Transportation in evaluating grant proposals awarded under this paragraph: Provided further, That \$8,000,000 shall be for a joint Department of Housing and Urban Development and Department of Transportation research effort that shall include a rigorous evaluation of the Regional Integrated Planning Grants and Community Challenge Planning Grants programs, as well as to provide funding for a clearinghouse and capacity building efforts: Provided further, That of the amount provided in the previous proviso, up to \$3,000,000 is available to develop an energy modeling tool for the Department and provide additional technical support to achieve energy efficiency and green building goals in the HUD-assisted portfolio.* *Of the amounts made available under this heading, \$35,000,000 shall be made available for the second, third and fourth capacity building activities authorized under section 4(a) of the HUD Demonstration Act of 1993 (42 USC 9816 note), of which not less than \$5,000,000 may be made available for rural capacity building activities. (Department of Housing and Urban Development Appropriations Act, 2012.)*

Community Development Fund

The changes are the addition of the Sustainable Housing program in the amount of \$100 million and the addition of Capacity Building in the amount of \$35 million.

Below is the italicized appropriations language for the Section 108 Community Development Loan Guarantee program.

[For the cost of guaranteed loans, \$5,952,000, to remain available until September 30, 2013, as authorized by section 108 of the Housing and Community Development Act of 1974 (42 U.S.C. 5308): Provided, That such costs, including the cost of modifying such loans, shall be as defined in section 502 of the Congressional Budget Act of 1974: Provided further, That these funds are available to subsidize total loan principal, any part of which is to be guaranteed, not to exceed \$240,000,000, notwithstanding any aggregate limitation on outstanding obligations guaranteed in section 108(k) of the Housing and Community Development Act of 1974, as amended] *Subject to section 502 of the Congressional Budget Act of 1974, during fiscal year 2013 commitments to guarantee loans under section 108 of the Housing and Community Development Act of 1974, any part of which is guaranteed, shall not exceed a total principal amount of \$500,000,000, notwithstanding any aggregate limitation on outstanding obligations guaranteed in subsection (k) of such section 108: Provided, That the Secretary shall collect fees from borrowers, notwithstanding subsection (m) of such section 108, to result in a credit subsidy cost of zero, and such fees such be collected in accordance with section 502(7) of the Congressional Budget Act of 1974. (Department of Housing and Urban Development Appropriations Act, 2012.)*

Changes from 2012 Appropriations

The change is that the proposal is to change the program to a fee based program instead of an appropriation for the credit subsidy.

Community Development Fund

**COMMUNITY PLANNING AND DEVELOPMENT
COMMUNITY DEVELOPMENT FUND
SUMMARY OF RESOURCES BY PROGRAM
(Dollars in Thousands)**

<u>Budget Activity</u>	<u>2011 Budget Authority</u>	<u>2010 Carryover Into 2011</u>	<u>2011 Total Resources</u>	<u>2011 obligations</u>	<u>2012 Budget Authority/ Request</u>	<u>2011 Carryover Into 2012</u>	<u>2012 Total Resources</u>	<u>2013 Request</u>
Entitlement/Non-Entitlement	\$3,296,035	\$626,745	\$3,922,780	\$3,204,126	\$2,941,090	\$719,191	\$3,660,281	\$2,941,090
Insular Area CDBG Program	6,916	6,930	13,846	6,930	7,000	5,783	12,783	7,000
Sustainable Communities	98,802	148,434	247,236	147,608	...	100,378	100,378	100,000
Indian Tribes	64,221	66,603	130,824	130,820	60,000	5	60,005	60,000
Rural Innovation Fund .....	...	24,750	24,750	22,751	...	1,999	1,999	...
University Community Fund .....	...	4,324	4,324	4,050	...	274	274	...
Section 107 Grants .....	...	2,627	2,627	1,596	...	766	766	...
Administration, Operations, and Management .....	...	2,985	2,985	687	...	2,339	2,339	...
Economic Development Initiative Grants .....	...	181,280	181,280	171,670	...	7,614	7,614	...
Neighborhood Initiative Demonstration .....	...	22,043	22,043	20,052	...	1,753	1,753	...
Disaster Assistance .....	...	914,423	914,423	714,947	400,000	200,073	600,073	...
Section 805 Economic Development training .....	...	54	54	...	...	51	51	...
Neighborhood Stabilization Program (Rounds 1 and 3)	[1,000,000]	...	[1,000,000]	[968,616]	...	[31,384]	[31,384]	...
Project Rebuild .....	...	...	...	...	[15,000,000]	...	[15,000,000]	...
Transformation Initiative	35,010	...	35,010	...	...	...	...	...
Capacity Building .....	...	...	...	...	...	...	...	35,000
Total	3,500,984	2,001,198	5,502,182	4,425,237	3,408,090	1,040,226	4,448,316	3,143,090

NOTE 1: The Neighborhood Stabilization Program in fiscal year 2011 was funded through a mandatory appropriation (P.L. 111-293).

NOTE 2: The Sustainable Communities carryover into 2012 includes \$750 thousand of transfers from DOT and EPA.