

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Office of Community Planning and Development

Community Development Fund

SUMMARY OF RESOURCES

(Dollars in Thousands)

| | Enacted/ Requested | Carry over | Supplemental/ Rescission | Total Resources | Obligations | Net Outlays |
|-------------------------|-----------------------|------------|-----------------------------|--------------------|-------------|-------------|
| 2021 Appropriation | 3,475,000 | 30,935,468 | - | 34,410,468 | 30,658,647 | 6,758,558 |
| 2022 Annualized CR | 3,475,000 | 3,750,891 | 4,994,500 | 12,220,391 | 8,622,708 | 10,768,000 |
| 2023 President's Budget | 3,770,000 | 3,597,683 | - | 7,367,683 | 7,301,482 | 10,942,000 |
| Change from 2022 | 295,000 | (153,208) | (4,994,500) | (4,852,708) | (1,321,226) | 174,000 |

a/ Carryover into 2021 includes \$26 billion of Disaster Assistance, \$3 billion of CARES Act, and \$808 thousand in recaptured funds.

b/ 2022 Supplemental includes \$5 billion of disaster funding enacted in the 2022 Continuing Resolution (P.L. 117-43), net a transfer of \$5.5 million to Salaries and Expenses.

PROGRAM PURPOSE

The Community Development Fund (CDF) is the broadest domestic development assistance program in the U.S. Government portfolio. Its largest program, the Community Development Block Grant (CDBG) program, develops viable urban and rural communities by expanding economic opportunities and improving quality of life principally for low- and moderate-income persons. The program provides annual grants to more than 1,200 recipients, including large cities, urban counties, States, Puerto Rico, and the U.S. Territories. All cities and towns in the United States can potentially receive CDBG funding, either from HUD directly or through their respective State.

BUDGET OVERVIEW

The 2023 President's Budget requests \$3.77 billion for the Community Development Fund, which is \$295 million above the 2022 annualized CR level. The Budget for the CDF includes funding for the following sub-components:

- CDBG Entitlement Program (\$2.5 billion – increase of \$70 million)
- CDBG Non-Entitlement Program (\$1.1 billion – increase of \$30 million)
- CDBG Insular Program (no change)
- Section 8071 Recovery Housing Program (no change)
- Historically Underserved Communities initiative (new initiative – increase of \$195 million)

The Budget will further the Administration's priority of advancing community development in an equitable manner. The Budget requests \$195 million in targeted CDBG funding to be directed toward removing barriers to affordable housing and community development in underserved communities. This funding will forward the Administration's commitment to advancing racial equity and supporting underserved communities through affordable housing, economic recovery, and environmental justice.

JUSTIFICATION

Communities use CDBG funds for projects initiated and developed at the local level based on local needs, priorities, and benefits. There are 26 statutory eligible activities that include public facilities,

infrastructure, housing, economic development, and planning. Each activity must also meet a National Objective of either: 1) benefitting low- and moderate-income persons; 2) eliminating slums or blight; or 3) addressing urgent needs for community health and safety.

CDBG funding is often used in association with other HUD grants for projects that further the Administration's policy priorities of strengthening and broadening the Federal housing safety net for people in need, advancing housing equity by improving housing choices and greater economic opportunity, supporting underserved communities, and advancing sustainable communities by promoting climate resiliency and energy efficiency across the housing sector. In 2021, the program provided funding for:

- Housing-related activities that served nearly 53,000 families, including direct homeownership assistance and rehabilitation of homes;
- More than 20,000 individuals to find permanent employment or to keep the full-time jobs they were at risk of losing;
- Improvements to homeless facilities serving more than 10,000 people; and,
- Public services, including senior services, operating costs of homeless and AIDS patients programs, food banks, services for the disabled, transportation services, and general health or mental health services, nearly 1.4 million people.

The Budget will advance the equity goal of the Administration by helping sustain the continued recovery from the coronavirus pandemic and ensuring that the recovery is equitable across geographic, racial, and socioeconomic demographics. As grantees deplete their supplemental CDBG coronavirus response (CDBG-CV) funds appropriated through the CARES Act, additional CDBG funds will allow grantees to address community needs that existed prior to the pandemic and those vulnerabilities exposed or exacerbated by the pandemic's economic effects. Support for the CDF will enable CDBG grantees to address the broadest risk, as identified in Executive Orders, of failing to adequately support economic recovery from the impacts of the coronavirus and doing so in an equitable manner. An inequitable and incomplete recovery would leave communities without enough resources to serve their residents and make them less resilient in responding to future economic shocks.

Communities predominantly expend CDBG funds for housing-related activities and public improvements. In addition to families served through the housing activities highlighted above, public improvements such as streets, sidewalks, parks, and water and sewer systems served more than 36 million people in 2021. Under the CDBG formula, 70 percent of funding goes to the urban entitlement program, and 30 percent goes to the State program. In the rural and suburban communities in the State CDBG program, the main expenditure is for public improvements. In addition to the State and Entitlement programs, pursuant to the Housing and Community Development Act of 1974, the CDF contains \$7 million for the Insular Areas.

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| FY2021 Expenditures by Activity Category by Entitlements and States | | | | | | |
|---|--|-----------------|----------------------------------|---------------|--|-----|
| Entitlements | | | States | | | |
| 6% | | \$148,618,432 | Acquisition of Real Property | \$28,544,701 | | 3% |
| 16% | | \$388,722,838 | Administration and Planning | \$80,964,582 | | 8% |
| 4% | | \$107,757,302 | Economic Development | \$85,738,451 | | 9% |
| 29% | | \$706,524,172 | Housing | \$130,269,957 | | 13% |
| 25% | | \$617,319,619 | Public Improvements | \$625,247,245 | | 63% |
| 18% | | \$443,788,094 | Public Services | \$39,205,408 | | 4% |
| 0% | | \$6,637,740 | Other | \$5,263,421 | | 1% |
| 2% | | \$56,575,426 | Repayments of Section 108 Loans | \$1,932,549 | | 0% |
| | | \$2,475,943,622 | Total FY2021 Expenditures | \$997,166,312 | | |
| | | | \$3,473,109,935 | | | |

*expenditures include program income *numbers may not total exactly due to rounding*

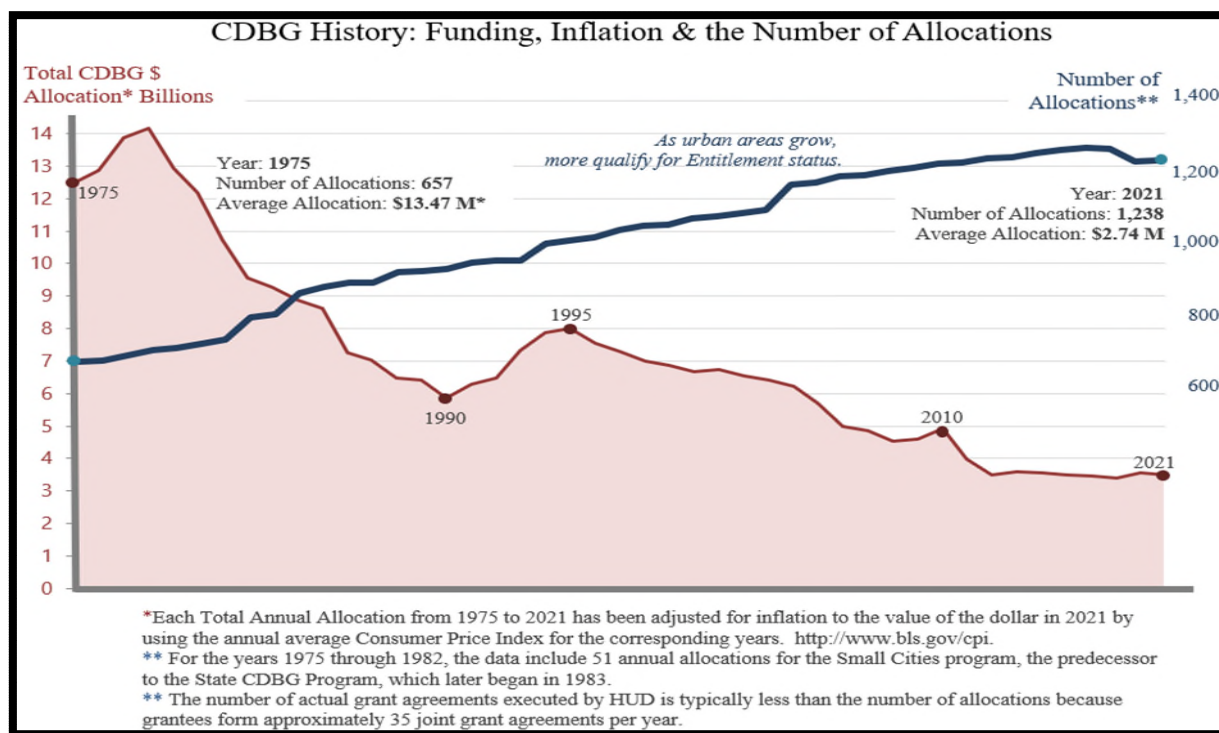
These investments in community development are frequently made in conjunction with other funding. CDBG is often used for gap financing to add the final necessary funds for a project to be successful. HUD requests that grantees report on leveraged funds, as well as public-private partnerships, to demonstrate local investment. CDBG investments reported leveraging an average of \$3.64 for every \$1 of grant funding during 2020, amplifying the CDBG program’s return on investment with \$3.41 billion in other resources.

To encourage local leverage of CDBG funds, pending proposed rulemaking will enhance grantees’ ability to use CDBG funds, particularly for economic development. The proposed rule would establish mandatory financial underwriting requirements for economic development and housing loan activities, expand the regulatory definition of slum and blight to allow grantees greater flexibility in undertaking economic development projects, incorporate several eligibility changes not currently codified in HUD’s CDBG regulations, and modernize various provisions regarding grantee public citizen participation requirements. The rule also proposes to allow funds to be used for targeting emerging markets, revise the criteria for national objectives in mixed-used developments, and modernize and simplify the public benefit standards for economic development activities. The updated regulations seek to strengthen timeliness measures while finding ways to incentivize high performing and entrepreneurial grantees. Lastly, the proposed rule would update definitions and streamline reporting requirements.

The effectiveness of CDBG funding is evident in the accomplishments of the program. The table below demonstrates those accomplishments from 2005 through 2021. In addition, the relative cost of activities and the impacts of funding changes are expressed by the number of beneficiaries served for every \$100 million of CDBG investment in each category.

| Outcomes Associated with CDBG Funding, Fiscal Years 2005 through 2021 | | | |
|--|---|-------------|------------|
| Economic Development | | | |
| Permanent Jobs directly Created or Retained | | 475,269 | Jobs |
| Annual Funding Change Impact: | | | |
| | For every \$100 million of CDBG funding | 11,184 | Jobs |
| Public Improvements | | | |
| Persons Benefitted by these Facilities | | 574,793,263 | Persons |
| Annual Funding Change Impact: | | | |
| | For every \$100 million of CDBG funding | 2,899,176 | Persons |
| Public Services | | | |
| Persons Benefitting from these services | | 943,660,909 | Persons |
| Annual Funding Change Impact: | | | |
| | For every \$100 million of CDBG funding | 21,154,687 | Persons |
| Housing | | | |
| Households Assisted (excluding housing counseling) | | 1,638,194 | Households |
| Annual Funding Change Impact: | | | |
| | For every \$100 million of CDBG funding | 11,295 | Households |

During its 45-year history, the impact of the CDBG program has been strained by increasing numbers of qualifying entitlement grantees and the declining value of CDBG appropriations in real dollars (see graphic below). For example, the 2021 enacted appropriation of \$3.45 billion represents approximately one quarter of the funding level in 1975 when adjusted for inflation, while the number of grantees has doubled.



CDBG Funds for Historically Underserved Communities

The Budget requests \$195 million to target resources to spur equitable development and the removal of barriers to revitalization in up to 100 of the most historically underserved communities in the United States. The Historically Underserved Communities initiative will provide additional grants to CDBG grantees to target these neighborhoods and to identify and address regulatory, structural, and capacity barriers to revitalization. These barriers include deteriorating infrastructure, economic disinvestment, limited or lack of neighborhood amenities, exclusionary zoning, harmful land use policies, outdated building codes, complicated permitting processes, and insufficient capacity for implementation of Federal funding and community development. Such barriers are historically linked to racial segregation, limited labor mobility, disproportionate climate change and environmental contamination effects on communities of color, economic disparities, and the racial wealth gap. Underserved communities often have disproportionate housing needs, deteriorating infrastructure, and fewer neighborhood amenities.

HUD would award grants of equal size to 100 CDBG grantees based on formula criteria that identify eligible neighborhoods within those jurisdictions. In developing the formula, HUD would consider factors such as persons in poverty, persons in poverty in areas with concentrated poverty or concentrated vacancy, and/or evidence of residential displacement of low-income tenants. Grantees would use place-based solutions to address the barriers to revitalization in the identified neighborhoods.

As part of a HUD grantee’s comprehensive community development strategy, jurisdictions are required to submit Consolidated Plans, which must include an assessment of housing needs and explain whether there are regulatory or public policy barriers to developing, maintaining, or improving affordable housing. This initiative would help CDBG grantees with underserved communities focus on and create model approaches for removing those barriers at the neighborhood level.

The criteria for the formula would be based on the goals of the initiative, including: identifying barriers to affordable housing and equitable community development, such as exclusionary zoning, harmful land use policies, and unnecessarily complicated permitting practices; increasing affordable housing supply and neighborhood amenities in underserved communities; reducing residential and commercial vacancy and blight through innovative housing and community development solutions including adaptive reuse, rehabilitation, mixed use development, and conversion to affordable multifamily homeownership units; and improving infrastructure, community resilience, and economic revitalization, to foster thriving communities while retaining and increasing the affordable housing supply. The initiative would not only encourage grantees to address existing barriers but also seed future revitalization and elevate improved models of CDBG-funded community development.

Grantees could use awards for eligible CDBG activities that further the initiative's goals, including real property acquisition, public infrastructure improvements, and environmental remediation. HUD would structure the program to provide incentives for grantees that chose to undertake additional planning activities related to policies and approaches to eliminating barriers that inhibit affordable, fair housing and prevent housing supply production and equitable community development. The incentives would allow those grantees to develop approaches to improve their housing and community development strategies and to incorporate flexibilities into their local regulations and practices to promote equitable development and innovative housing solutions (such as planning to streamline complicated permitting processes). This strategic community-development approach would also prevent displacement from market forces and lead to increased community-led investment in disinvested communities.

Section 8071 Recovery Housing Program

The Pilot Program to Help Individuals In Recovery From a Substance Use Disorder Become Stably Housed (Recovery Housing Program), was authorized under Section 8071 of the Support for Patients and Communities (SUPPORT) Act. The Recovery Housing Program (RHP) allows States and the District of Columbia to provide stable, transitional housing for individuals in recovery from a substance-use disorder. The funding covers a period of not more than two years or until the individual secures permanent housing, whichever is earlier. The Further Consolidated Appropriations Act of 2020 (Public Law 116-94), under the Title II Community Development Fund, allocated \$25 million for the RHP. The Consolidated Appropriations Act, 2021 (Public Law 116-260), under the Title II Community Development Fund, allocated an additional \$25 million for the RHP. The program has allocated funds to 28 grantees whose age-adjusted rate of drug overdose deaths was above the national rate in 2016 (2020 grantees) or 2018 (2021 grantees). The 28 grantees, some of which have received two allocations, include 27 States and the District of Columbia. The President's 2022 Budget requested a third appropriation of \$25 million.

Non-Community Development Funds Roles of the Office of Block Grant Assistance

CDBG also provides a statutory and regulatory structure that can be used by the Federal Government to quickly allocate funds to local communities for a wide range of community development initiatives. For example, Congress has frequently used the existing CDBG infrastructure to respond to long-term disaster recovery needs. Community Planning and Development (CPD) administers the following programs that uses the existing CDBG framework:

- CDBG-CV funds (\$5 billion) to prevent, prepare for, and respond to coronavirus, made available through the Coronavirus Aid, Relief, and Economic Security Act (CARES Act);

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- Supplemental appropriations of CDBG funds (\$47.5 billion during the past five years) for long term recovery to affected communities of major natural disasters that occur within the United States, as CDBG-Disaster Recovery (CDBG-DR) funds; and,
- Emergency assistance of approximately \$7 billion to stabilize communities with high rates of abandoned and foreclosed homes due to the 2008 financial crisis, through the Neighborhood Stabilization Program (NSP).

SUMMARY OF RESOURCES BY PROGRAM

(Dollars in Thousands)

| Budget Activity | 2021 Budget Authority | 2020 Carry over Into 2021 | 2021 Total Resources | 2021 Obligations | 2022 Annualized CR | 2021 Carry over Into 2022 | 2022 Total Resources | 2023 President's Budget |
|---|-----------------------------|---------------------------------|-------------------------|---------------------|--------------------------|---------------------------------|-------------------------|-------------------------------|
| Entitlement/Non-Entitlement | 3,443,000 | 1,337,144 | 4,780,144 | 4,170,439 | 3,443,000 | 604,349 | 4,047,349 | 3,543,000 |
| Insular Area CDBG Program | 7,000 | 7,000 | 14,000 | 5,018 | 7,000 | 8,982 | 15,982 | 7,000 |
| Indian Tribes | - | 930 | 930 | - | - | - | - | - |
| Special Purpose (Section 107) Grants | - | 41 | 41 | - | - | 41 | 41 | - |
| Economic Development Initiative Grants | - | 379 | 379 | - | - | 379 | 379 | - |
| Disaster Assistance | - | 26,328,237 | 26,328,237 | 23,283,510 | 4,994,500 | 3,050,083 | 8,044,583 | - |
| Section 805 Economic Development Training | - | 360 | 360 | 11 | - | 349 | 349 | - |
| Recovery Housing (SUPPORT) | 25,000 | 24,500 | 49,500 | 7,592 | 25,000 | 41,908 | 66,908 | 25,000 |
| Historically Underserved Communities | - | - | - | - | - | - | - | 195,000 |
| CARES Act Program | - | 3,231,877 | 3,231,877 | 3,187,077 | - | 44,800 | 44,800 | - |
| CARES Act Technical Assistance | - | 5,000 | 5,000 | 5,000 | - | - | - | - |
| Total | 3,475,000 | 30,935,468 | 34,410,468 | 30,658,647 | 8,469,500 | 3,750,891 | 12,220,391 | 3,770,000 |

a/ Carryover into 2021 includes \$808 thousand in recaptured funds.

b/ 2022 Supplemental includes \$5 billion of disaster funding enacted in the 2022 Continuing Resolution (P.L. 117-43), net a transfer of \$5.5 million to Salaries and Expenses.

c/ 2021 Carryover into 2022 excludes \$903 thousand in expired funds

LEGISLATIVE PROPOSALS AND GENERAL PROVISIONS

Appropriations Language Changes

The 2023 President's Budget includes the following:

The 2023 Budget proposes a targeted increase for the CDBG program of \$195 million for up to 100 grants to States and local governments for additional activities to identify and remove barriers to revitalization faced by underserved communities in deteriorating or deteriorated neighborhoods. The neighborhoods and places to receive allocations will be established in accordance with a formula based on factors that may include persons in poverty, persons in poverty in areas with concentrated poverty or concentrated vacancy, and other factors. HUD would structure the program to provide incentives for grantees that chose to undertake additional planning activities and would not be subject to the 20 percent limitation for planning and management development and administration. The language requested in the Budget is intentionally broad to allow for flexibility in program design.

General Provisions

The 2023 President's Budget proposes the following new general provision(s):

- **Formula Grant Corrections:** HUD requests authority to correct formula errors for any HUD formula program on a prospective basis by offsetting amounts from any previously overpaid grantee(s)' award(s) in the current fiscal year and distributing those funds to grantees in the current fiscal year that previously received less formula funding than they would have as a result of the error in the prior fiscal year. (2023 President's Budget, Section 235)

The 2023 President's Budget re-proposes the following general provision that was enacted in the 2021 appropriations bill:

- Preventing the termination of a metropolitan city's entitlement community status. (2023 President's Budget, Section 218)

Legislative Proposals

The 2023 Budget supports the following legislative proposal(s) and will seek changes through the authorization process:

- HUD supports a permanent, reliable framework for disaster recovery and authorizing of CDBG-DR. The Department looks forward to discussing CDBG-DR in 2023 with the Congress. Please see the CDBG-DR CJ for more details.
- HUD also proposes to require a State to create compliance standards for its review and audits of recipient units of general local government to ensure that the local government is spending funds in accordance with the State's community development plan, has satisfied its performance criteria, and is carrying out activities in a timely manner. This proposal would also remove a superseded requirement for a unit of general local government to comply with a housing assistance plan.
- HUD proposes to amend section 104 of the Housing and Community Development Act of 1974 (HCD Act) so that if a metropolitan city or urban county does not have capacity to

administer its grant, HUD may permit the State to administer the grant on behalf of the metropolitan city or urban county. This tool would provide an option for a low-capacity entitlement that is not within an urban county to remain in the entitlement program while working to increase its capacity.

- Paired with the proposal on State compliance authority, HUD proposes to amend section 106 to raise the State grantee administration fee cap from 3 percent to 6 percent to provide resources to support greater accountability and technical assistance for non-entitled local governments. This section retains the State matching requirement for the administration of funds. The purpose of this proposed amendment is to support States with maintaining capacity to operate the program and to track local revolving funds and other program income over time. This is an identified area of weakness in the CDBG program, evidenced by major monitoring findings with multimillion-dollar resolutions in several States.

APPROPRIATIONS LANGUAGE

The 2023 President’s Budget includes the appropriation language listed below.

For carrying out the community development block grant program under title I of the Housing and Community Development Act of 1974, as amended (42 U.S.C. 5301 et seq.) (in this heading "the Act"), \$3,770,000,000, to remain available until September 30, 2025, unless otherwise specified: Provided, That unless explicitly provided for under this heading, not to exceed 20 percent of any grant made with funds made available under this heading shall be expended for planning and management development and administration: Provided further, That a metropolitan city, urban county, unit of general local government, or insular area that directly or indirectly receives funds under this heading may not sell, trade, or otherwise transfer all or any portion of such funds to another such entity in exchange for any other funds, credits, or non-Federal considerations, but shall use such funds for activities eligible under title I of the Act: Provided further, That notwithstanding section 105(e)(1) of the Act, no funds made available under this heading may be provided to a for-profit entity for an economic development project under section 105(a)(17) unless such project has been evaluated and selected in accordance with guidelines required under subsection (e)(2) of section 105: Provided further, That of the amount provided under this heading, \$195,000,000 shall be for up to 100 grants to state and local governments for additional activities under such title I for the identification and removal of barriers to revitalization faced by underserved communities in deteriorating or deteriorated neighborhoods with the greatest need, as determined by the Secretary: Provided further, That the Secretary shall establish by notice a formula identifying the neighborhoods eligible for such additional assistance, based on factors that may include the number or relative share of persons in poverty, the number or relative share of persons in poverty in areas with concentrated poverty or concentrated vacancy, and other factors: Provided further, That a state or local government responsible for carrying out title I activities within the eligible neighborhood shall be given the opportunity to apply for such assistance: Provided further, That such funds shall not be subject to the 20 percent limitation for planning and management development and administration: Provided further, That in administering such amounts the Secretary may waive or specify alternative requirements to sections 105 and 106 of the Act (42 U.S.C. 5305 and 5306) except for requirements related to fair housing, nondiscrimination, labor standards, the environment, and requirements that activities benefit persons of low- and moderate-income, upon a finding that such a waiver is necessary to expedite or facilitate the use of such amount: Provided further, That of the amount provided under this heading, \$25,000,000 shall be for activities authorized under section 8071 of the SUPPORT for Patients and Communities Act (Public Law 115–271): Provided further, That the funds allocated pursuant to the preceding proviso shall not adversely affect the amount of any formula assistance received by a State under this heading: Provided further, That the Secretary shall allocate the funds

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for such activities based on the notice establishing the funding formula published in 84 FR 16027 (April 17, 2019).

Note.—A full-year 2022 appropriation for this account was not enacted at the time the budget was prepared; therefore, the budget assumes this account is operating under the Continuing Appropriations Act, 2022 (Division A of P.L. 117-43, as amended). The amounts included for 2022 reflect the annualized level provided by the continuing resolution.