

Edwin

**Annual Report to Congress
on the
Community Development Block Grant
Program**

FY 1989

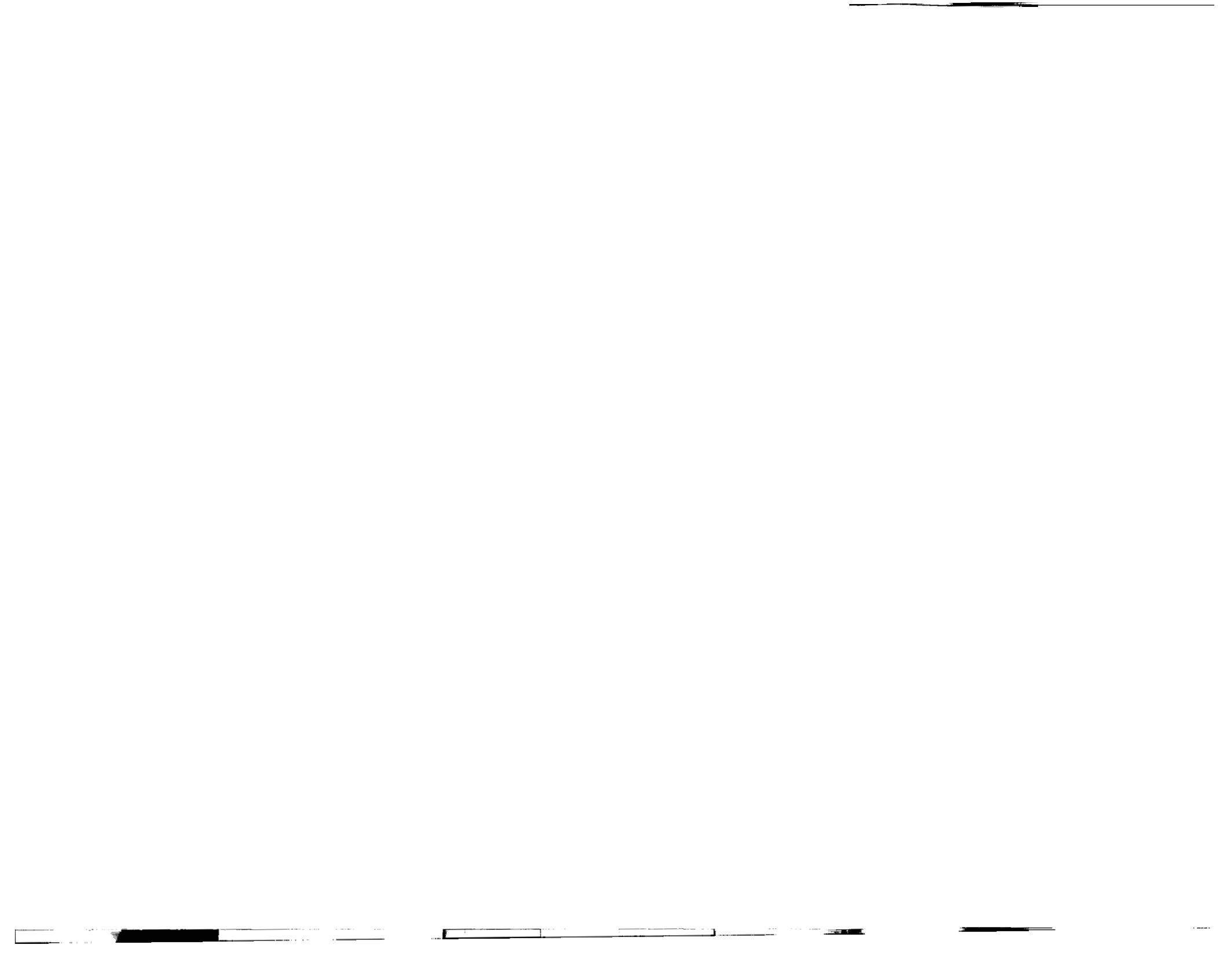
1990

**Assistant Secretary for Community Planning and Development
U. S. Department of Housing and Urban Development
March 1990**

1990 ANNUAL REPORT TO CONGRESS
ON THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

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INTRODUCTION

The Community Development Block Grant Program (CDBG) is HUD's principal vehicle for providing assistance to localities for community revitalization and improvement. Originally authorized by the Housing and Community Development Act of 1974, the provisions of the program have been amended several times since then. In FY 1989 the CDBG Program provided almost \$3 billion to invest in community development.

CDBG is a flexible program that gives cities, urban counties and states discretion to select from a wide variety of activities intended to improve neighborhoods and communities. With CDBG assistance, states and local jurisdictions are provided the resources to fashion their responses to community development problems. While the CDBG Program allows wide latitude to communities in use of the funds for activities specified in the law, a key requirement is that each activity must meet one of the following three national objectives:

- o Benefitting low and moderate income persons;
- o Preventing or eliminating slums and blight; or
- o Addressing urgent local needs.

Under current legislation, 60% of CDBG funds must benefit low and moderate income persons. However, the Department has proposed that this requirement be modified. The following summarizes the changes HUD proposed be made to increase the targeting of the CDBG program:

- o Raise the current minimum overall benefit level from 60% to 75%;
- o Use a more accurate accounting method for calculating a grantee's overall benefit level;
- o Require non-distressed communities to limit all CDBG-funded activities to those meeting the low- and moderate-income benefit national objective; and
- o Require entitlement grantees and States to have a HUD-approved Anti-poverty Strategy.

While the Congress did not pass any of these provisions as part of the HUD Reform Act of 1989, the Department may submit some or all of them for further consideration.

Introduction

The CDBG program is divided into several components. This report reflects those components and is organized as follows:

- o Community Development Block Grant (CDBG) Entitlement;
- o Section 108 Loan Guarantee;
- o State CDBG and HUD-Administered Small Cities; and
- o Secretary's CDBG Discretionary Fund, as authorized prior to the Department of Housing and Urban Development Reform Act of 1989.

COMMUNITY DEVELOPMENT BLOCK GRANT ENTITLEMENT PROGRAM

This chapter describes the progress and accomplishments of the Community Development Block Grant (CDBG) Entitlement program during fiscal year (FY) **1989**.

It begins with a summary of main points. The chapter itself is divided into six sections, giving (1) a background on the program's purpose, (2) a description of program participants, (3) funding available for the year, (4) program management initiatives, (5) community development activities with Block Grant funds, and (6) progress in meeting the program's national objectives.

Program Purpose

Established by the Housing and Community Development Act of **1974**, the CDBG program has the primary objective of developing viable urban communities by providing decent housing and a suitable living environment, and by expanding economic opportunities, principally for low- and moderate-income persons. The program is directed toward neighborhood revitalization, economic development, and the provision of improved community facilities and services.

The CDBG entitlement program, the largest CDBG component, awards grants annually to entitled metropolitan cities and urban counties. The communities develop their own programs and funding priorities, but are limited to carrying out the national objectives of the program. The national objectives are benefiting low- and moderate-income persons, aiding in the prevention or elimination of slums or blight, and meeting other urgent community development needs. The primary emphasis is on benefit to low- and moderate-income persons, since at least 60 percent of the funds must address this objective.

Program Participants

Central cities of metropolitan statistical areas (MSAs), other metropolitan cities with populations of at least 50,000, and qualified urban counties with populations of at least 200,000 (excluding the population of entitled cities) are entitled to receive annual grants. The amount of each grant is determined by a statutory formula which uses several objective measures of community need, including the extent of poverty, population, housing overcrowding, age of housing, and population growth lag in relation to other metropolitan areas.

In FY **1989**, a total of **858** communities (**737** metropolitan cities and 121 urban counties) were eligible for entitlement funds from HUD.

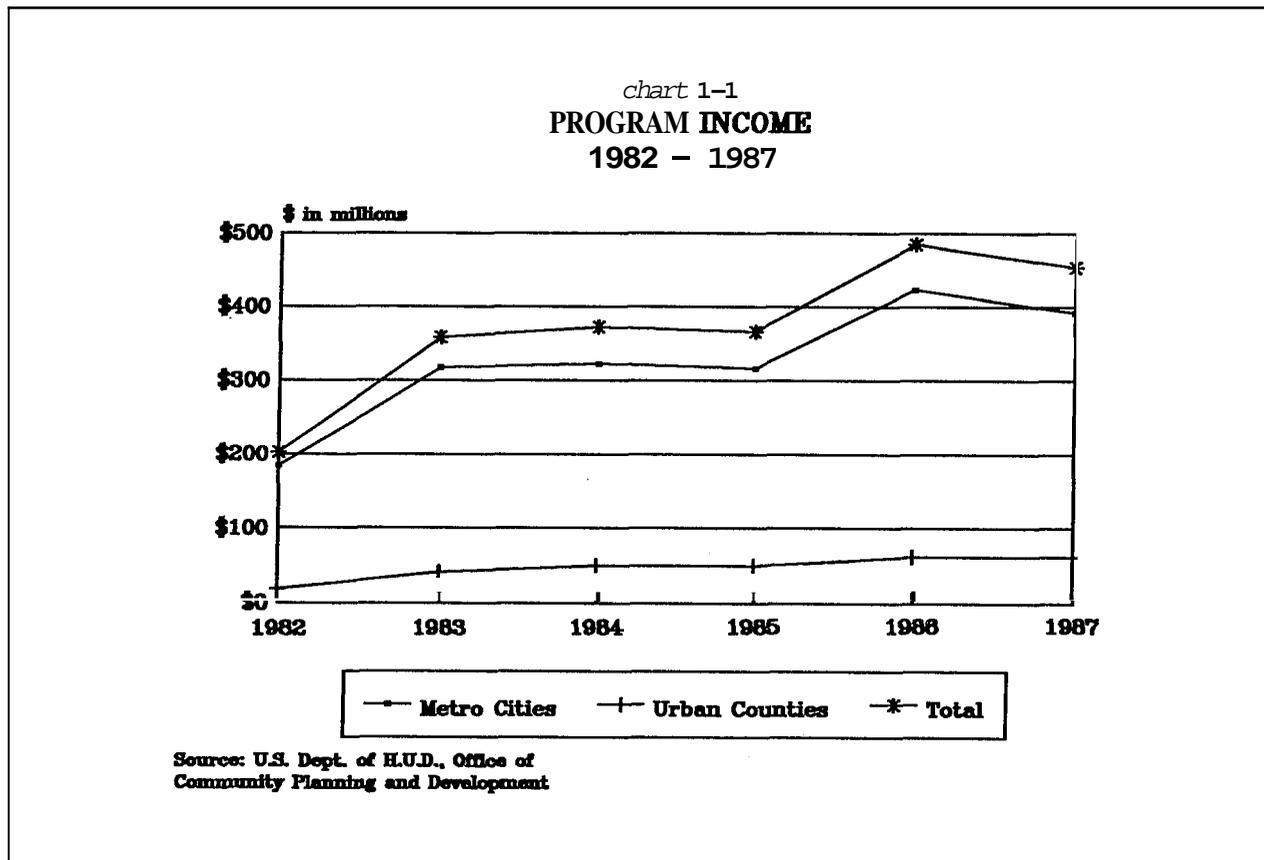
Funds Available for Community Development

The entitlement program is CDBG's largest component, because it receives 70 percent of the Congressional appropriation after deducting allocations to the Secretary's Discretionary Fund, the Public Housing Child Care Demonstration Program, and the Neighborhood Development Demonstration Program. In FY 1989, funds available to entitlement grantees amounted to \$2,053,100,000. While this is substantially less funding than in the late 1970s when the entitlement program was funded at more than \$2.7 billion, it is close to the amount allocated in each of the past four years. In addition to their regular entitlements, many CDBG grantees receive program income from activities they have undertaken with CDBG funds in past years. Program income is money directly generated from the use of CDBG funds, such as repayments of loans made with CDBG funds, proceeds from the use of CDBG-assisted properties which are controlled by grantees and subrecipients, and sales proceeds from properties acquired with CDBG funds.

In FY 1987, the last full year for which information on program income has been reported, entitlement grantees in the aggregate reported that they had received **\$454** million, an amount equal to 22 percent of their allocation from the FY 1987 appropriation. Eighty percent of the grantees reported earning program income. After a pattern of steady increases in the amount of program income reported since 1983 when records of program income were first aggregated, this amount reflects a decrease from 1986.

As in past years, the majority of FY 1987 program income (39%) came from repayments of housing rehabilitation loans. Another large portion (22%) came from businesses repaying economic development loans. The other most significant source of program income was from the sale of properties acquired or improved with CDBG funds (**14%**).

While the program income reported by grantees in FY 1987 is a substantial amount, there is reason to believe that some grantees may be underreporting the amount of program income received and not using the funds in compliance with CDBG regulations. Audits conducted by the HUD Office of Inspector General during FY 1989 found many instances of such failures. Program regulations require grantees to use program income before drawing funds from the Treasury and to spend those funds according to the same rules as the CDBG funds. The Department has taken steps to increase compliance with program income requirements. These steps are described in the next section.



Program Administration Initiatives

In most cases where HUD identifies grantee non-compliance, the grantee quickly takes corrective actions. Most such findings are resolved by having the grantee reimburse the CDBG program using non-federal funds. During FY 1989, for fifteen grantees that failed to comply with applicable program requirements, HUD placed special conditions on their grants pending completion of satisfactory corrective action. Seven grants were conditioned for failure to carry out CDBG-assisted activities in a timely manner and three for inadequate oversight of subrecipient activities and financial management requirements. The other grant conditions resulted from violations of the Uniform Relocation Act(2), conflict of interest requirements(1), and Fair Housing requirements(2). One of the grants conditioned for Fair Housing violations incorporated court-ordered conditions.

To further assist Field Offices in determining where there are significant problems as well as to increase efforts to prevent problems, last year HUD took a number of initiatives. These included the following.

To improve the knowledge of staff administering the CDBG program in HUD's 40 field offices, two types of training were provided. As part of a week-long training course held in Washington, CDBG program staff trained all new field office staff on basic procedures and requirements. In April, May, and June, headquarters program staff conducted fifteen train-

ing sessions in major cities throughout the country. This allowed nearly every HUD field staff person who administers the CDBG entitlement program to be trained on current "problem areas." Field staff were taught improved techniques for recognizing program income when reviewing a grantee's community development program, monitoring the use of real property acquired or improved with CDBG funds, and ensuring that grantees are monitoring any subrecipients who are carrying out CDBG-funded activities for them.

At these training sessions, field staff were also given guidance in economic development so they, in turn, could assist grantees in undertaking "necessary or appropriate" determinations. Such determinations are important to ensure that CDBG funds do not unduly enrich for-profit businesses. Staff were also given tips to share with grantees on how to increase success in benefiting low- and moderate-income persons through job creation/retention activities.

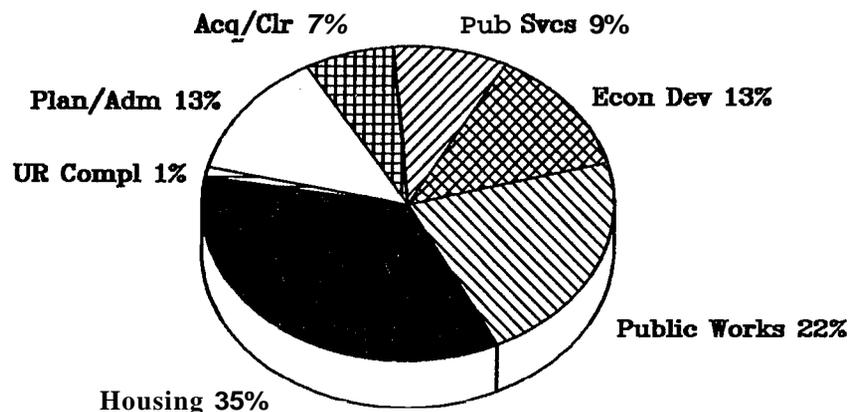
- In addition to staff training, headquarters program staff provided improved written procedures for field staff to use in monitoring grantees. One important document was an updated monitoring handbook with improved guidance on reviewing for compliance with the program's national objectives. Another was a comprehensive guide for reviewing the Grantee Performance Reports (GPRs) grantees submit on their activities. The latter guide was issued as a companion to the new GPR instructions for grantees. Together, these guides should greatly assist field staff in recognizing potential as well as actual problems with grantee performance. In order to improve consistency in field staff administration, field staff were provided a notice on how to determine whether a grantee is carrying out CDBG activities in a timely manner and instructions on the actions to take to resolve a problem of slow spending.
- In an effort to improve productivity in housing rehabilitation, Headquarters issued guidelines, based on a survey of entitlement grantees, for numbers of units assisted with CDBG funds which should be produced for each full-time staff year spent. Special emphasis was placed on improving the performance of grantees whose performance was in the lowest decile. Headquarters also issued an addendum to the GPR to collect performance data from all grantees on housing rehabilitation. This will assist HUD in refining productivity standards for grantees electing to use CDBG funds for rehabilitation, and to improve grantee performance in this area.
- Entitlement grantees also received certain program information directly from Washington. In addition to the instructions for GPRs mentioned above, localities were sent the *Guide to Eligible Activities*. The Guide presents information on eligible activities and national objective compliance in an easily read form and with examples of eligible and ineligible activities. It has proved particularly useful in acquainting new staff members of both HUD field offices and grantees with the CDBG program.

- Of note was information prepared for communities identifying how CDBG activities can assist in addressing Secretary Kemp's priorities. The information deals with the three such priorities most directly involving the CDBG program. First, grantees received a ten page notice on ways CDBG can be used to expand homeownership and affordable housing opportunities. Entitlement communities were also sent a notice on how CDBG funds can be used to assist in making public housing drug free. And, third, information was made available on using CDBG funds to help end the tragedy of homelessness.

Program Activities

In reporting on the use of CDBG entitlement funds, HUD has two principal sources of information: Final Statements and Grantee Performance Reports (GPRs). The Final Statement describes how a grantee proposes to use CDBG funds it expects to receive in the coming program year. GPRs are submitted three months after the start of the new program year and describe how the funds were actually used over the grantee's preceding program year. Often, it takes several months to correct deficiencies and internal inconsistencies so that the report correctly represents a grantee's performance. To provide local governments with flexibility in scheduling the planning and implementation of their CDBG programs, local officials may select a program year start date as early as January 1 or as late as October 1.

chart 1-2
DISTRIBUTION OF ACTIVITIES
ENTITLEMENT CDBG EXPENDITURES 1987



Source: U.S. Dept. of H.U.D., Office of Community Planning and Development

As a result of these timing factors, most of the information in previous annual reports was based on statements rather than GPRs in order to provide fresher information on the use of CDBG funds. However, because of concerns expressed by the GAO that the statement data reflect plans rather than accomplishments, HUD has decided to base this year's report primarily on 1987 GPR data, the most recent year for which complete data are available. Data compiled from statements are still included in the report to allow identification of any likely shift in spending patterns of future GPRs. It should be noted that the Entitlement portion of the report is the only one that highlights 1987 actual expenditures. Since Entitlement communities are not bound to spend their CDBG funds as planned in their Final Statements, but can change their planned usage at any time without HUD approval, the statement data is a less reliable indicator of how funds will be used.

In their 1987 GPRs, local officials reported spending \$2.4 billion during their 1987 program years. These funds were used to undertake a broad range of eligible activities including housing revitalization, public works, economic development and public services, as described below. Chart 2 shows how entitlement communities, in the aggregate, spent their funds among the major activity categories. However, as will be discussed later, metropolitan cities and urban counties differed significantly from each other in this regard.

Housing The highest proportion of expended CDBG entitlement funds, \$850 million in 1987, continues to be for housing-related activities with 35 percent of the funds spent for these activities. The relative proportion for housing activities has remained fairly constant since 1982, fluctuating between 33 and 35 percent of all CDBG entitlement expenditures. This pattern is expected to continue with planned expenditures in 1988 and 1989 statements projected to use 36 and 34 percent of CDBG entitlement funds, respectively. Almost all of these expenditures are devoted to improving grantees' existing stock of housing for low- and moderate-income households. Actual expenditures in 1987 for housing included:

- o Rehabilitation loans and grants for single family dwelling units: \$441 million;
- o Rehabilitation of multifamily and public housing: \$280 million;
- o Special activities such as the construction of new housing, down payments, or mortgage subsidies, where the activities were undertaken for the purpose of neighborhood revitalization: \$30 million;
- o Administrative rehabilitation services such as loan processing, preparation of work specifications, and rehabilitation counseling: \$56 million;
- o Code enforcement: \$33 million; and
- o Weatherization of housing units: \$8 million.

Public Works Spending for public works, \$545 million in 1987, has declined gradually over time dropping from 26 percent of CDBG expenditures in 1982 to 22 percent in 1987. Projected expenditures in 1988 statements dropped below 19 percent but rebounded in

1989 statements back up to 26 percent. Actual expenditures in 1987 for public works included:

- o Street and sidewalk improvements: \$120 million;
- o Construction or renovation of senior centers, facilities for the handicapped, neighborhood facilities, halfway houses, shelters, and other public buildings: \$120 million;
- o Water, sewer, flood control, and drainage systems: \$74 million;
- o Parks and recreation facilities: \$65 million;
- o Special purpose activities, such as the removal of architectural barriers and historic preservation: \$20 million; and
- o Other public facilities and improvements: \$146 million.

Economic Development A substantial amount of CDBG funds, \$311 million, was used for economic development projects in 1987 constituting 13 percent of CDBG expenditures. In 1989 statements, only 10 percent of planned use of funds is for economic development. This potential decline occurs at a time when the availability of UDAG funds for economic development was coming to an end. One factor in this potential decline may be the strengthening of regulatory requirements for using CDBG funds for economic development. Requirements for benefit to persons of low and moderate income through job creation were tightened in July, 1987 and further in October, 1988. Requirements to ensure that a business is not unduly enriched were modified at the same time. Expenditures for economic development in 1987 included:

- o Assistance to for-profit businesses for land acquisition, infrastructure development, construction and/or rehabilitation of buildings: \$74 million;
- o Assistance to for-profit businesses for equipment, working capital and other assistance: \$172 million; and
- o Commercial and industrial improvements by the grantee or a nonprofit in the form of land acquisition, infrastructure improvements, building construction or rehabilitation and other capital improvements: \$65 million.

Public services The proportion of funds expended for public services has gradually increased over time, increasing from 7 percent in 1982 to 9 percent in 1987 perhaps resulting from raising the limitation on use of CDBG funds for public services from 10 to 15 percent in 1983. Projected use of funds continues to show an increase with 10 percent projected for 1988 statements and slightly over 10 percent in statements for 1989. Expenditures for public services in FY 1987 totalled \$223 million and included:

- o Services for the elderly and handicapped: \$30 million;

- o Housing services including fair housing counselling: \$29 million;
- o Day care: \$19 million;
- o Services for youth: \$27 million;
- o Health care services: 21 million;
- o Job training: \$9 million; and
- o Other public services: \$88 million.

Acquisition/Clearance Since 1982, the proportion of funds used for acquisition and clearance of real property has been fluctuating between 6 and 8 percent of all CDBG expenditures. In 1987, \$173 million, constituting 7 percent of CDBG expenditures, was spent on acquisition and clearance related activities including:

- Purchasing property for housing: \$36 million;
- o Purchasing property for other purposes: \$50 million;
- Clearing land: \$37 million; and
- o Disposition and relocation: \$50 million.

Administration/Planning/Other Since 1982, administration and planning activities have remained proportionately stable, accounting for between 13 and 14 percent of CDBG expenditures. In 1987, \$324 million (13%) was spent on planning and administration, which continues to be well below the 20 percent statutory limitation imposed on each grantee for funds used for these purposes. Of this amount, \$275 million was used for administration and \$49 million for planning activities. The balance of expenditures by entitlement communities, \$13 million (less than 1%) was used for repayment of Section 108 guaranteed loans, contingencies and completion of urban renewal programs.

Metropolitan City vs. Urban County Spending

As shown in the Chart 3, metropolitan cities and urban counties differed significantly in the degree to which they funded various activities.

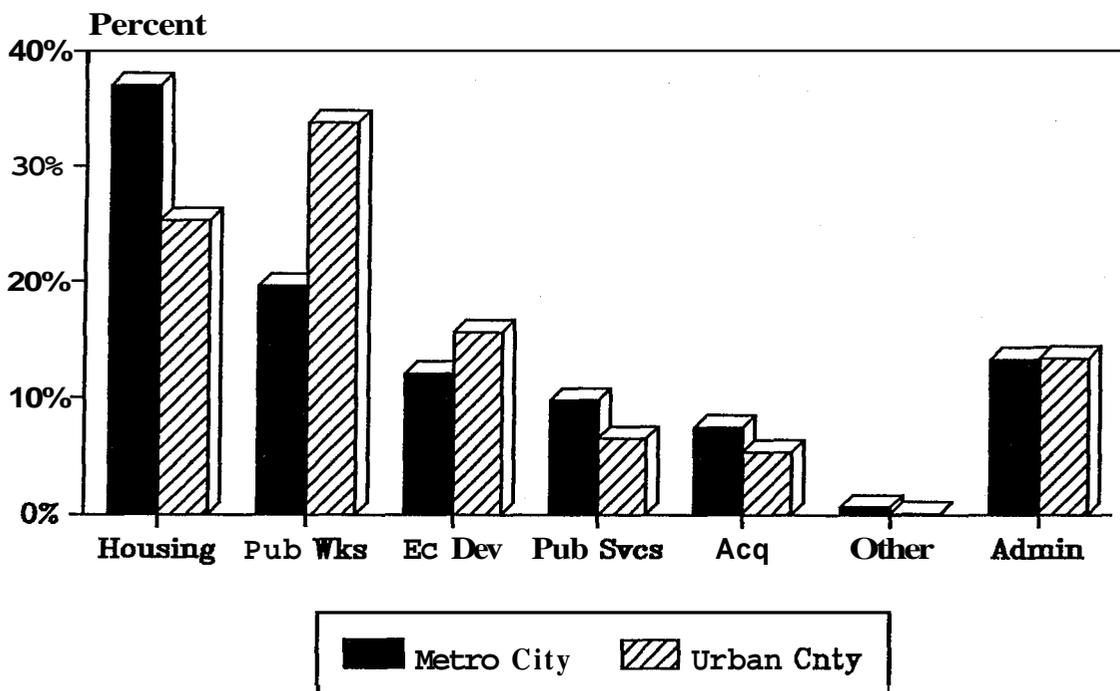
Housing: Metropolitan cities used the largest portion of their CDBG allocation for housing-related activities. Nationally, in 1987, metropolitan cities used 37 percent (\$733 million) of their CDBG funds for housing-related activities compared to 25 percent (\$117 million) used by urban counties for that purpose. Metropolitan cities and urban counties both used 18 percent of their CDBG funds to rehabilitate single family dwelling units.

However, metropolitan cities used a substantially greater proportion of their funds for rehabilitation of multifamily housing and for rehabilitation of public housing than did urban counties.

Public Works: During 1987, metropolitan cities used 20 percent (\$389 million) of their CDBG funds for public works activities while urban counties used a substantially higher portion, 34 percent (\$156 million), for such activities. For both cities and counties, the largest component of those expenditures was for street improvements. Following streets (7.6%), city priorities for public works expenditures were for park improvements (2.6%) and for neighborhood centers (1.4%); county priorities following streets (11%) were for water and sewer improvements (5.9%), flood and drainage improvements (3.3%), senior centers (2.9%) and park improvements (2.8%).

Other Activities: Urban counties spent 16 percent of their CDBG funds in 1987 on economic development activities while metropolitan cities used a lesser proportion, spending about 12 percent on such activities. In public services, the spending was reversed, per-

Chart 1-3
Relative Use of CDBG Funds - FY 1987
Metropolitan Cities v. Urban Counties



Source: U.S. Dept. of H.U.D., Office of Community Planning and Development

haps reflecting the greater concentration of poor persons in metropolitan cities. While urban counties spent 6.5 percent of their CDBG funds for public services, metropolitan cities used 10 percent for public services. Acquisition, clearance, relocation and demolition continues to reflect the smallest expenditure of CDBG funds among the major categories of eligible activities. Metropolitan cities used 7.5 percent of their funds for this purpose, while counties used 5.4 percent for these activities.

Assistance to the Homeless

The CDBG Entitlement program is a major local resource for assisting the homeless. Proportions of CDBG funds communities budgeted for homeless assistance increased to about \$70 million in 1989. Based on information in their 1988 statements, 295 communities proposed to use funds for activities specifically identified as homeless activities. In 1989 statements, 276 communities proposed to use funds for such activities.

Of the \$70 million proposed for homeless assistance in 1989 statements, \$50 million was directed to shelter acquisition and rehabilitation; \$7 million for food and other services; \$12 million for shelter operational costs; and \$1 million for administrative costs. Between FY 1983 and FY 1988, a total of \$202 million in Entitlement funds are estimated to have been allocated for the homeless.

Program Objectives and Progress

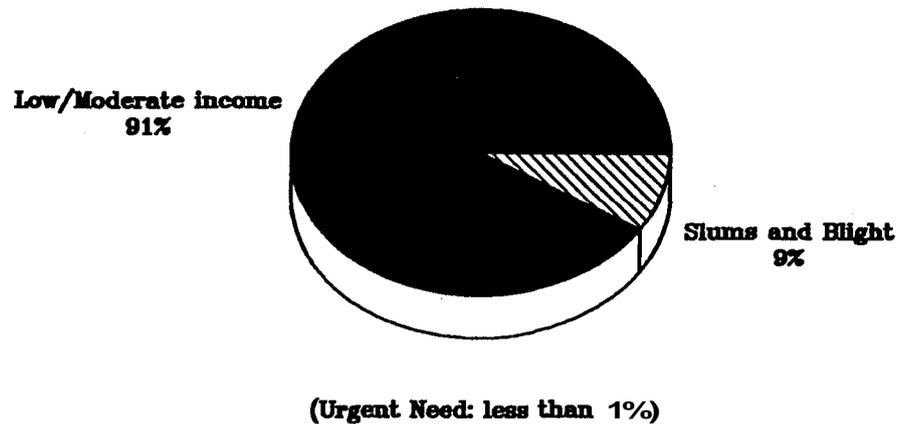
The Housing and Community Development Act of 1974 requires that each activity assisted with CDBG funds meet one of three national objectives:

- o benefit low- and moderate-income persons;
- o prevent or eliminate slums or blight; or
- o meet urgent community development needs.

Low- and Moderate-Income Benefit In 1987, the most recent program year for which actual expenditure data are available, local officials reported spending approximately \$2.115 billion for activities meeting one of the three national objectives. (The balance of funds were used for planning and administration which are presumed to meet the national objectives since they support the overall program of individual activities.) As shown in the following chart, grantees reported that 91 percent of expended funds (\$1.929 billion) went for activities benefiting low- and moderate-income persons, nearly 9 percent went for slum and blight treatment, and less than two-tenths of one percent for urgent community needs.

It should be noted that the 91 percent reported as benefiting low- and moderate-income persons actually overstates the extent to which the CDBG funds benefited such persons. HUD is recommending a statutory change to the way in which benefit to persons of low and moderate income is calculated. The current methodology generally counts 100 percent of the CDBG funds expended on an activity if at least 51 percent of the beneficiaries are of

**Chart 1-4
National Objectives
Percent of 1987 Expenditures**



Source: U.S. Dept. of HUD, Office of Community Planning and Development

low and moderate income. For example, if \$1,000,000 is provided to a business to create 100 jobs, and 51 of the jobs are taken by persons of low and moderate income, the whole \$1 million is counted as benefiting low-and moderate-income persons. HUD is recommending a change to require proportional counting so in this example only 51 percent of the \$1 million would be considered to benefit persons of low and moderate income. This proposal is part of a group of changes HUD has submitted to the Congress for increasing the targeting of the CDBG program.

Low-income persons and minorities, particularly Blacks, make up the majority of beneficiaries of CDBG-funded direct benefit activities. For the 1987 program year, localities identified 69 percent of their direct beneficiaries as low-income, 20 percent as moderate income, and 11 percent as above moderate income. Minorities, particularly Blacks, represent a much larger proportion of beneficiaries of CDBG-funded direct benefit activities than their share in the population of Entitlement communities as a whole. Thirty-four (34) percent of the beneficiaries of direct benefit activities were identified as Black and 13 percent Hispanic compared to the 15 percent Black and 9 percent Hispanic composition of all Entitlement Communities.

Other National Objectives Grantees spent **\$182** million for activities to prevent or eliminate slums and blight. Expenditures for urgent community needs were proportionally very small, less than **four** million dollars.

SECTION 108 LOAN GUARANTEE PROGRAM

Purpose

The Section 108 Loan Guarantee program provides CDBG Entitlement communities with a source of financing for community and economic development projects which are too large to be financed from annual grants or other means. This program also allows communities to leverage their annual grants by financing activities that generate revenue which can be used to repay the guaranteed loan.

Legislation

Section 108 of the Housing and Community Development Act of 1974, as amended.

Program Administration

HUD may guarantee notes issued by local governments receiving annual CDBG grants or by public agencies designated by such recipients. The guaranteed notes may be used to finance the acquisition of real property (including related expenses), the rehabilitation of publicly owned real property (including related expenses), housing rehabilitation and economic development activities. Each activity must benefit low- and moderate-income persons, aid in the elimination or prevention of slums or blight, or meet other community development needs having a particular urgency.

Each local government pledges its current and future CDBG grants for the repayment of its loan under the Section 108 Loan Guarantee program. Additional security may be required if deemed necessary by HUD. The local government is not required to pledge its full faith and credit. The guarantees issued by HUD are backed by the full faith and credit of the United States of America.

The repayment terms under the Section 108 Loan Guarantee program are flexible to meet the needs of each local government, although as a general rule the repayment period is six years. Repayment alternatives include amortization of principal, "bullet" payment (i.e., all principal is repaid at maturity) or deferral of principal payment with amortization thereafter.

The maximum amount of notes that HUD may guarantee for each local government is limited to three times the amount of the local government's annual CDBG grant. The total amount of commitments to guarantee notes is limited each fiscal year by appropriation legislation. The limitation on the amount of commitments to guarantee notes specified for Fiscal Year 1989 was \$144 million.

Loan Financing

Private Market Financing Financing under the Section 108 Loan Guarantee program is provided through the sale of guaranteed notes in periodic underwritten public offerings. The offerings are conducted by an underwriting group selected through a competitive process. The current underwriting group includes:

- o Merrill Lynch Capital Markets
- PaineWebber Incorporated
- Pryor, Govan, Counts & Co., Inc.* , and
- Salomon Brothers Inc.

* Minority owned

A public offering was held on June 29,1989 in which 35 borrowers issued guaranteed notes in the amount of \$72,255,000. This issuance was the third public offering since 1987, for a total amount of \$213,225,000. As of September 30,1989, the outstanding balance of notes held by private investors was \$200.1 million.

Borrowers requiring funds between public offerings may issue notes through an interim lending facility (currently provided by Merrill Lynch Government Securities, Inc.).

Federal Financing Bank Prior to July 1,1986, the guaranteed notes were purchased by the Federal Financing Bank (FFB), an instrumentality of the United States Government operating under the U.S. Department of the Treasury. Although guaranteed notes are no longer sold to the FFB, HUD continues to serve as the collection agent of that agency. As of September 30, 1989, the outstanding balance of notes held by the FFB was \$290.4 million.

Funding History

Table 2-1
Section 108 Loan Commitments
(Dollars in Millions)

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
1978-9	\$31.2	1983	60.6	1987	30.0
1980	156.9	1984	86.9	1988	143.6
1981	156.5	1985	133.5	1989	122.9
1982	179.4	1986	113.3		

Program Participation

In FY 1989, HUD approved 48 applications for loans totaling \$122.9 million. The median amount approved was \$1.65 million. (See Table -1.) One community, Syracuse, NY,

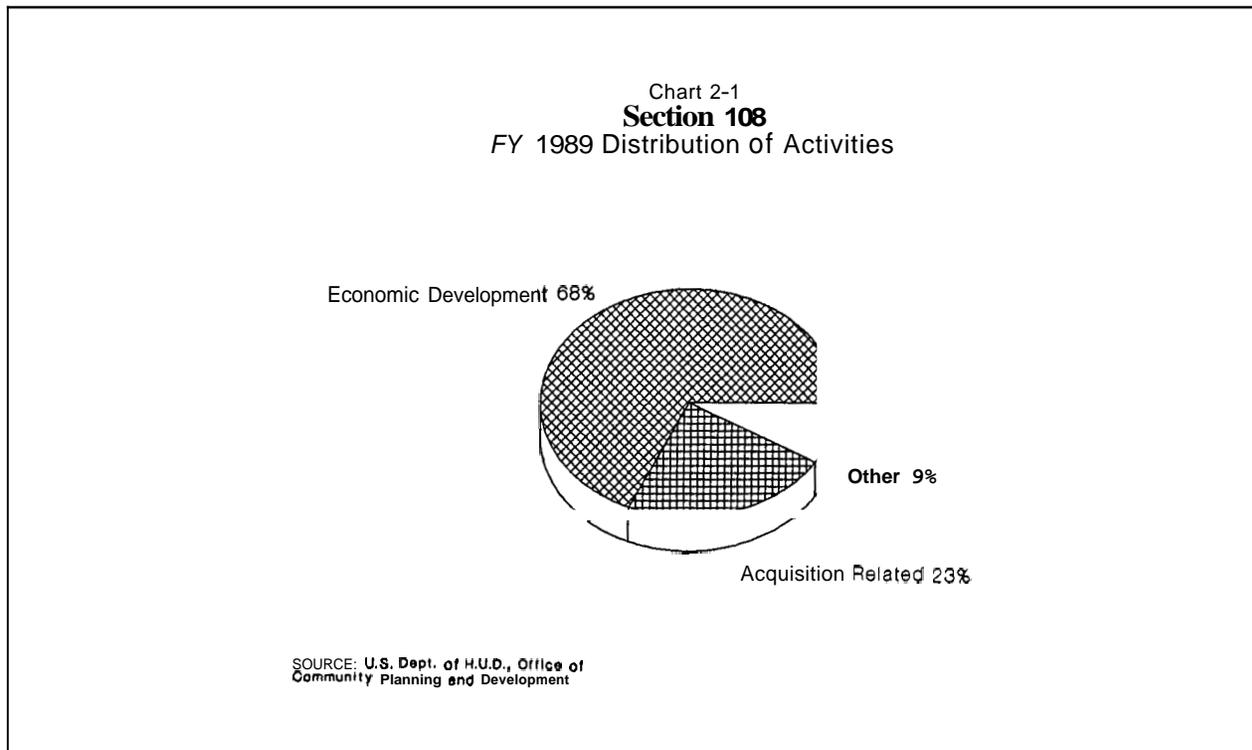
received approval for a loan greater than \$10 million. Several communities received loan guarantee commitments for over \$5 million: Buffalo, NY; Caguas, PR; New Orleans, LA; Detroit, MI; Mayaguez, PR; Somerville, MA; and Carolina, PR. More than one-half of the FY 1989 commitments (total number and total amount) were issued to communities with populations of less than 250,000.

Table 2-2
Distribution of Section 108 Loan Guarantee Commitments
by Population Size (1986 est)

Applicant's Population	Number Approved	Amount (000)
<100,000	16	\$26,320
100,000-250,000	15	44,130
250,000-500,000	8	25,505
> 500,000	9	27,015
	<u>48</u>	<u>\$122,970</u>

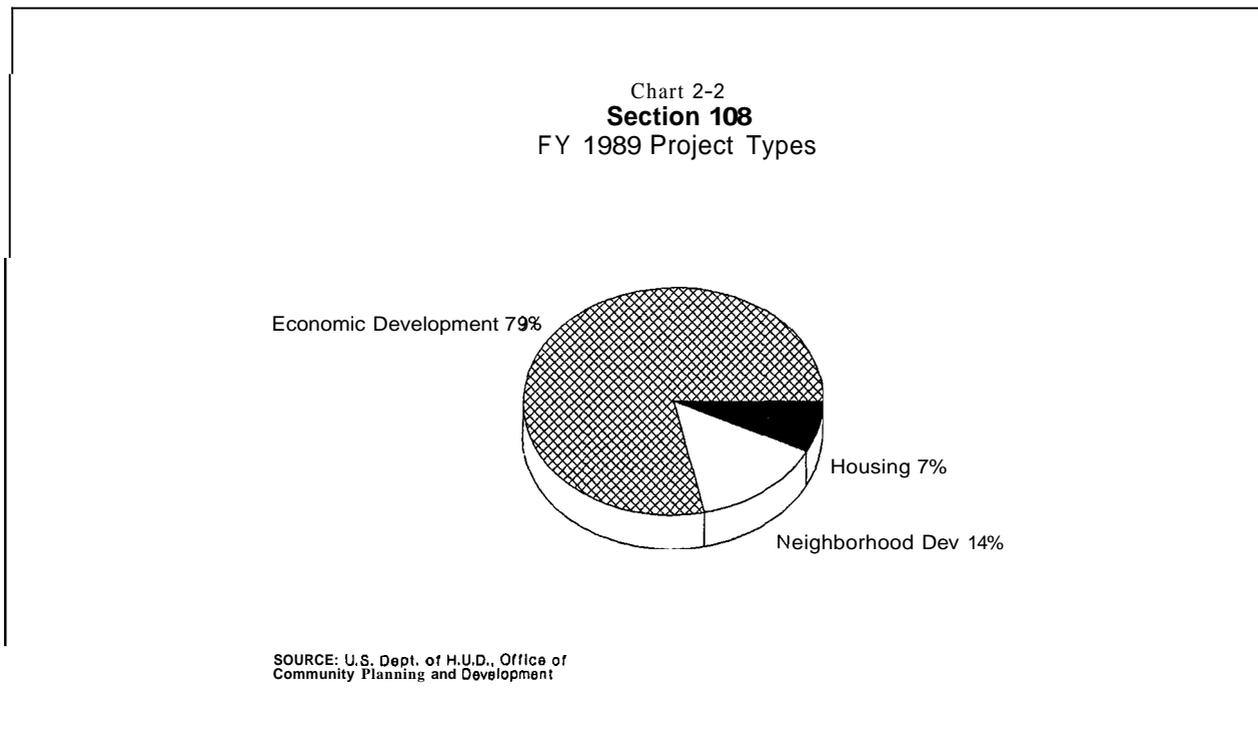
Program Activities

As shown in Chart 2-1, most of the amount approved in FY 1989 was budgeted for economic development activities (approximately 68 percent). The next highest amount (approximately 23 percent of the amount approved) was budgeted for acquisition of real property and related activities (e.g., public improvements).



Types of Projects

Program activities are carried out as components of economic development, neighborhood revitalization or housing projects. Economic development projects accounted for most of the planned spending of guaranteed loan funds. As noted in Chart 2-2, 79 percent of the total amount approved in FY 1989 was budgeted for economic development projects. This includes assistance to for-profit businesses, publicly financed commercial or industrial facilities and acquisition of real property to be used for industrial parks. Other types of projects financed under the Section 108 program include neighborhood revitalization and housing related activities (e.g., rehabilitation).



Selected Activities

Some examples of the types of activities carried out by the Entitlement communities receiving Section 108 guaranteed loans include:

- Augusta, GA - Guaranteed loan funds will be used to partially finance the acquisition and renovation of 51 buildings into 120 rental housing units for low- and moderate-income persons. The project is located on scattered sites in Olde Town in the downtown Augusta area.
- South Bend, IN - Section 108 funds will be used to assist the redevelopment of the West Washington-Chapin Redevelopment Area, including the revitalization of the neighborhood's commercial areas. Such assistance will include the acquisition and

demolition of the area's dilapidated structures and the relocation of existing occupants.

- o Carolina, **PR** - Carolina will divide its **\$9.3** million of guaranteed loan funds among three separate activities - the acquisition of real property, the rehabilitation of publicly-owned property and economic development.
- o San Benito, **TX** - San Benito will use 108 funds to assist a for-profit business in financing a fabrication facility to produce integrated circuits. A majority of the 278 new permanent jobs are to be available to low- and moderate-income persons.

Program Objectives

Applicants budgeted \$111.5 million (91 percent of the amount approved in **FY 1989**) for activities benefiting low- and moderate-income persons. (The percentage budgeted for such activities reflects the current methodology for calculating benefit to low- and moderate-income persons.) The remaining amount, **\$11.4** million, was budgeted for activities aiding in the elimination or prevention of slums or blight.



STATE AND HUD-ADMINISTERED SMALL CITIES PROGRAMS

Introduction and Background

The State and Small Cities program is the second largest component of the CDBG program after the Entitlement portion. The State and Small Cities program aids communities that do not qualify for assistance under the CDBG Entitlement program. It receives 30 percent of all CDBG funds, after amounts for the Secretary's Discretionary Fund, Public Housing Child Care Demonstration, and Neighborhood Development Demonstration programs have been deducted. The other 70 percent is allocated to the Entitlement program.

Each State receives a grant based on the higher of two different needs-based formula calculations. The first formula is based on population, overcrowded housing, and poverty, and the second formula is based on age of housing, poverty, and population. The numbers to be applied to the formulas are based on data for nonentitlement areas of the State.

The 1981 Amendments to the Housing and Community Development Act of 1974 gave each State the option of administering nonentitlement CDBG funds for smaller communities within its jurisdiction. The State CDBG program replaced the HUD-administered Small Cities CDBG program in States that chose to take part. For States electing not to participate, HUD continues to administer the program. During FY 1989 Puerto Rico and all States except for New York and Hawaii administered the State CDBG program.

For a State, implementing the State CDBG program requires submission of a Final Statement that includes community development objectives and a method to distribute the funds among nonentitlement communities. The Department does not participate in the State administrative decisions about the State's recipients.

While States have broad discretion in designing their own community development programs, each activity funded must meet one of the CDBG program's national objectives of benefiting lower income persons, eliminating or preventing slums or blight, or meeting urgent community development needs. The program's targeting goal was strengthened in 1983 with a requirement that 60 percent of each State's program funds must be spent on activities benefiting lower income persons. Each State selects the relevant period for meeting this requirement; however, that period cannot exceed three years.

Performance Evaluation Reports. States must submit Performance Evaluation Reports (PERs) to HUD by September 30 each year. These reports cover the status of all CDBG grants currently being administered by the State. The PER must include such information as which communities received funding, the amount of their grants, the activities being funded, and the national objectives being met by the grant. Much of the information contained in this annual report is derived from the PER documents.

The most recent PERs contain information through June 30, 1989. By that date, States had awarded about 17 percent of their FY 1989 grants, and the most recent data thus cover less

than a fifth of the FY 1989 amount. For this reason, the following tables that report on a single year's grants, report on the FY 1988 year, which is the most recent year with relatively complete information.

Funding History

Table 3-1
Community Development Block Grant
Nonentitlement Funding
(Dollars in Millions)

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
1975	\$254	1980	\$955	1985	\$1,023
1976	346	1981	926	1986	880
1977	434	1982	1,020	1987	883
1978	612	1983	1,020	1988	845
1979	797	1984	1,020	1989	880

Of the \$879.9 million apportioned to the States and Small Cities programs for FY 1988, \$841.4 million went to States in the State CDBG program and \$38.4 million went to the two States in the HUD-Administered Small Cities program.

Meeting National Objectives

States must certify to HUD that in executing their programs they will only fund activities that meet one of the three national objectives of the program. These objectives include benefiting low- and moderate-income families, aiding in the prevention or elimination of slums or blight, and addressing conditions that pose serious and immediate threats to the health or welfare of the community. As part of this certification, a State ensures that not less than 60 percent of its CDBG grant funds are used for activities that will benefit people with low and moderate income over a one-, two-, or three-year period that the State designates.

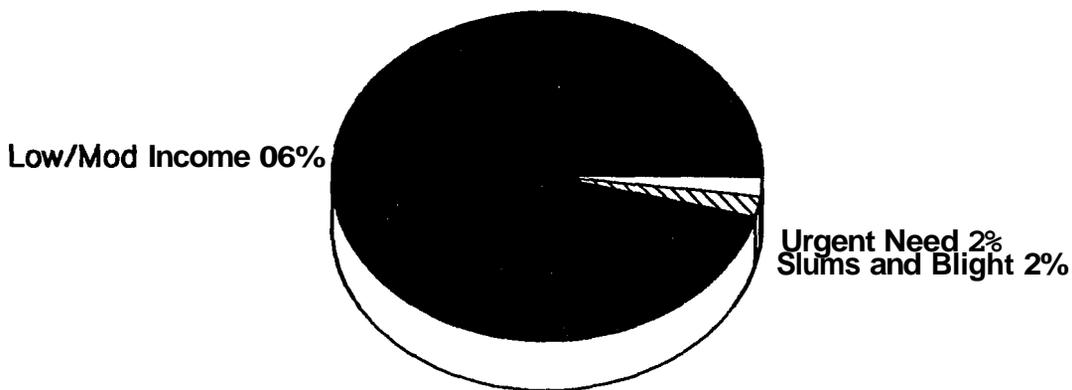
Low- and moderate-income families are defined in the State CDBG program for non-metropolitan areas as those with incomes that are at or below 80 percent of the higher of the median family income of the county in which the activity occurs or the median family income of the non-entitled areas of the State. For metropolitan areas, a low- and moderate-income family is one that is at or below 80 percent of the median family income of the metropolitan area in which the activity occurs.

Currently, the Department uses a procedure for counting low- and moderate-income benefit that, for the most part, is an all-or-nothing method. As long as at least 51 percent of the beneficiaries of an eligible activity have low and moderate incomes, the Department generally counts 100 percent of the funds used for that activity toward meeting the low- and moderate-income national objective. Funds expended for the acquisition, new construc-

tion, or rehabilitation of property for housing count as meeting the low- and moderate-income national objective in proportion to the number of housing units located on that property that are occupied by low- and moderate-income persons.

- o Of all funds awarded to eligible small communities since the State program was begun in FY 1982, 96 percent were to provide low- and moderate-income benefit. About two percent addressed the national objective of eliminating slums and blight. The remaining two percent were for urgent needs.
- o Because of the all-or-nothing counting procedure the Department uses for determining low- and moderate-income benefit, that 96 percent of FY 1988 funds met the low- and moderate-income national objective does not necessarily mean that 96 percent of the persons benefiting from those funds had low and moderate incomes.
- o Of all funds awarded to eligible small communities since the State program was begun in FY 1982, 96 percent were to provide low- and moderate-income benefit. About two percent addressed the national objective of eliminating slums and blight. The remaining two percent were for urgent needs.

Chart 3-1
State CDBG Objectives
Percent of Funding, FY 1982-89



SOURCE: U.S. Dept. of H.U.D., Office of Community Planning and Development

- o States attributed a low- and moderate-income benefit objective to activities accounting for **98 percent** of all **FY 1988** grant funds awarded to recipients as of **June 30, 1989**.
- o Twenty-five States used a one-year period for meeting the low- and moderate-income benefit requirements. Twenty-three States elected to meet those requirements over a three-year period, and one State used a two-year period.
- o There was very little variation in the degree to which the major activity groupings, public facilities, housing, and economic development, were reported to have benefited low- and moderate-income people for **FY 1988** State **CDBG** funds.

Table 3-2

Percent of FY 1988 State CDBG Awards by Purpose of Funds and National Objective[†]
(Dollars in Thousands)

Purpose	National Objective			Amount
	Low/Moderate- Income Benefit	Slums and Blight	Urgent Needs	
Public Facilities	97%	2%	1%	\$373,440
Housing	99	1	*	\$189,799
Economic Development	99	1	0	\$142,577
Planning	97	2	1	\$ 13,795
Public Services	97	2	1	\$5,336
<u>Unspecified</u>				\$3,450
Overall	98%	1%	1%	
Amount	\$712,336	\$9,858	\$4,253	\$728,397

[†] As of June 30, 1989.

* Less than .5 percent.

Source: U.S. Department of Housing and Urban Development,
Office of Community Planning and Development.

Participation

The forty-eight States and the Commonwealth of Puerto Rico administered the State CDBG program in their jurisdictions in FY **1989**. (For purposes of convenience, Puerto Rico will be termed a State for the remainder of the chapter.) Within Federal regulations, these States determine which communities to fund, the number of grants to make, and the types of activities to undertake.

Method of Distribution. Forty-five of the **49** States operating CDBG programs distribute funds to local governments exclusively through competitions. That is, the State determines the funding categories and local governments submit applications for funding within the established categories. The State then ranks the applications and funds those deemed best.

The other three States (Ohio, Pennsylvania, and Puerto Rico) use a combination of formulas and competitions to distribute funds. They distribute a portion of their funds to localities based on characteristics such as locality population or category of locality (e.g., town or county). The other portion of their funds they distribute through a competition similar to how the other **45** States distribute all of their funds.

Types of Communities Funded.

- o As of June 30, 1989, 2,557 State CDBG grants had been awarded by **49** States to communities using FY **1988** allocations.
- o Generally, as the population of a community increases, so does its average grant size, excluding counties (Table **3-3**).
- o Table **3-3** also suggests that across the State CDBG program States are providing community development funding to both counties and other units of local government and to jurisdictions of great diversity in size.
- o While the great majority of both grants and grant funding went to jurisdictions outside metropolitan areas, there was little difference in the average grant award received by the metro and nonmetro categories.

Table 3-3

Characteristics of FY 1988 State CDBG Program Recipients
As of June 30, 1989 †
(Dollars in Thousands)

Type of Community	Grants		Funds		Average Award
	Number	Pct	Dollars	Pct	
Places with populations:					
Less than 2,500	895	39%	\$203,096	31%	\$226
2,500 - 10,000	559	24	177,346	27	317
Greater than 10,000	274	12	107,646	17	393
Counties	576	25	164,674	25	286
<u>No Information*</u>	251		75,636		301
Total	2,557	100%	\$728,396	100%	\$285
Metropolitan Status					
In Metro Area	431	20	\$126,513	21%	\$294
Outside Metro Area	1,739	80	485,782	79	279
<u>No Information*</u>	387		116,099		300
Total	2,557	100%	\$728,396	100%	\$285

† Percentages calculated on known characteristics only.

* Most are first time recipients, whose characteristics HUD had not verified by the time this report was generated.

Source: U.S. Department of Housing and Urban Development, Office of Community Planning and Development.

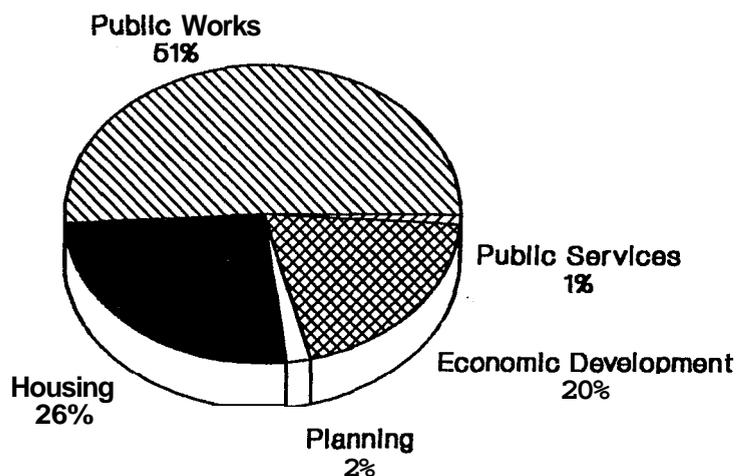
In the eight years that the State CDBG program has been in existence, **48** percent of all communities receiving State CDBG funding have obtained only one grant.

In general, the larger the community, the more likely it is to have received multiple grants. For example, among recipients with populations of less than 2,500, **only** about one percent had received a total of **six** or more grants. In contrast, about 15 percent of recipients with populations of 10,000 or more had received six or more grants (Table 3-4).

- o Forty States used some form of economic development set aside, accounting for approximately \$232 million in FY 1989.
- o Ten States employed housing setasides, nine States used public facilities setasides, and six States used a setaside that combined housing and public facility projects in FY 1989.
- Other frequently used setasides based on the type of project included imminent threat (15 States), planning (10 States), and interim financing (three States). These setasides generally include far less money than those for economic development, public facilities, and housing.
- o Some States designed other setasides for jurisdictions and grant types that were not directly related to the activities to be undertaken. As examples, these included regional setasides (Arizona), rural setasides (New Mexico), and setasides for single-purpose and comprehensive projects (Connecticut).

Purposes of Grants and Activities Funded. As of June 30, 1989, States were able to report awards of FY 1988 funds to communities of about \$728 million, or about 83 percent of FY 1988 grants awarded to the States. In their Performance and Evaluation Reports (PER), States are asked to attribute a general purpose to each activity funded and reported. The purpose categories give a shorthand way to portray what the State and its recipients were

Chart 3-2
Percent of Funding By Purpose
FY 1988



SOURCE: U.S. Dept. of HUD. Office of
Community Planning and Development

Table 3-4

**Number of State CDBG Grants Received by Type of Recipient
FY 1982-FY 1989+**

Number of Grants	Type of Recipient			
	Less than 2,500	Towns with Populations of:		Counties
		2,500 9,999	10,000 or More	
One	62%	34%	24%	41%
Two	25	26	20	24
Three	8	17	14	15
Four	3	11	16	8
Five	1	6	11	5
Six or more	1	6	15	7
Total	100%	100%	100%	100%
# of Communities	4,977	2,224	975	1,908

+As of June 30,1989.

Source: U.S. Department of Housing and Urban Development, Office of Community Planning and Development.

Use of Funds

Just as States have discretion over which communities to fund, they also determine which among the broad of eligible activities to emphasize.

State Setasides. One method that States use to ensure that program distributions reflect the State's perception of need is special setasides. Before making awards to local governments, most States divide their grant amount up into categories based on the activities they want to emphasize. Localities then compete for funds within the categories. For example, a State that wanted to emphasize economic development could put a portion of its grant into an economic development setaside. As long as local governments submitted applications for these funds, this would ensure that an appropriate portion of the State's funds went toward economic development.

States placed about than half of the total State CDBG allocation in FY 1989 into set asides. Only four of the 49 States participating in the program did not use some form of setaside during FY 1989.

Economic development is by far the most frequently used form of setaside, followed by housing and public facilities.

were trying to accomplish with their State CDBG resources.

- o Public facilities and improvements remained by far the largest grouping of State CDBG activity in FY 1988, as it had in each previous year of the program. Infrastructure construction and repair comprised the largest share of that activity.
- o Housing, constituted the second largest purpose category with FY 1988 funds. Housing rehabilitation, with about \$135 million budgeted in FY 1988 was the largest housing-related activity. States planned to rehabilitate almost 14,500 housing units with these funds. In the FY 1989 PER, they reported that 1,647 of these units had been completed.
- o Economic development constituted the third largest concentration of State CDBG-funded activity in FY 1988.

Table 3-5
FY 1988 State CDBG Funding by Purpose of Award
and Principal Activities Funded †
(Dollars in Thousands)

Purpose and Major Activities	Activities		Funds	
	Number	Pct.	Amount	Pct.
Public Facilities	3,597	52%	\$373,440	51%
(Water, sewer, flood)	(1,070)	(15)	(197,051)	(27)
(Streets)	(356)	(5)	(45,876)	(6)
(Other)	(1,119)	(16)	(106,149)	(15)
(Administration)	(1,052)	(15)	(24,364)	(3)
Housing	1,664	24	189,799	26
(Rehabilitation)	(610)	(9)	(135,408)	(19)
(Acquisition related)	(247)	(4)	(10,076)	(1)
(Other)	(350)	(5)	(28,196)	(4)
(Administration)	(457)	(6)	(161,196)	(2)
Economic Development	(981)	14	142,577	20
(Assistance to for-profits)	(317)	(5)	(82,475)	(11)
(Infrastructure related)	(199)	(3)	(35,252)	(5)
(Other)	(169)	(2)	(19,626)	(3)
(Administration)	(296)	(4)	(5,224)	(1)
Planning	487	7	13,795	2
Public Services	93	1	5,336	1
Contingencies and Unspecified Activities	108	2	3,450	*
Total	6,930	100%	\$728,397	100%

† As of June 30, 1989.

* Less than .5 percent.

Source: U.S. Department of Housing and Urban Development, Office of Community Planning and Development.

- o As Table 3-6, suggests, over the life of the program, public facilities have made up half of all State CDBG activity, with housing comprising more than a fourth and economic development more than a fifth of all funding. In the aggregate, public services and planning have consumed very small shares of State CDBG resources.
- o Again, in the aggregate, housing-related activity declined as a proportion of State CDBG funding from FY 1982 to FY 1986 and increased somewhat thereafter. It should be noted that the 1982-3 column was affected by the requirement that states continue to fund HUD approved multi-year grants.

Table 3-6
Purpose of State CDBG Funding
FY 1982 Through FY 1989+
(Dollars in Millions)

Purpose	1982-3	1984-5	1986-7	1988	1989	Total
Public Facilities	48%	52%	51%	51%%	31%	50%
Housing	32	23	22	26	38	27
Economic Devt.	17	23	25	20	13	22
Planning	2	1	1	2	14	1
Public Services	1	1	1	1	3	*
No Data					1	
Total	100%	100%	100%	100%	100%	100%
Amount	\$1,768	\$2,094	\$1,720	\$728	\$149	\$6,459

* Less than .5 percent.

+ Through June 1989. By this date, not all FY 1988 and FY 1989 funds had been obligated by States. FY 1982-87 amounts exceed allocations due to the distribution of program income.

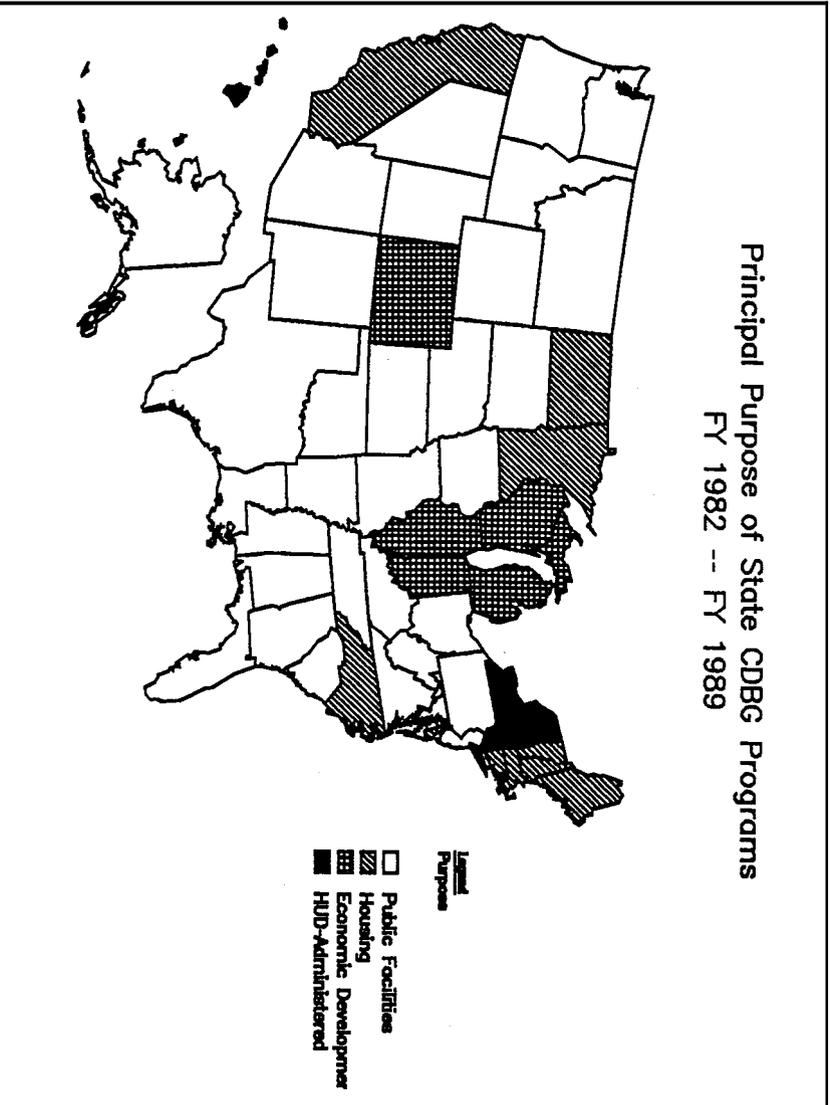
Source: U.S. Department of Housing and Urban Development, Office of Community Planning and Development.

- o Economic development-related activity expanded as a share of funding from FY 1982 to FY 1984 and remained roughly the same thereafter.
- o The FY 1989 proportions noted in Table 3-6 are based on a relatively small part of that year's total allocation. They are subject to variations in State funding cycles and probably do not represent any significant changes in prior funding patterns.

The predominance of public facilities in State CDBG funding manifests itself also in the principal activity groupings for individual States over the program's length. In 34 of 49 State CDBG programs, public facilities-related activity obtained the most funding. Ten States put the most State CDBG resources into housing-related activity, and five States put the most dollars into economic development (Chart 3-3).

The purpose of State CDBG funding varies dramatically by type of recipient. The smallest jurisdictions and counties are much more likely to conduct public facilities-related activity, and larger communities are much more likely to use State CDBG funding for housing rehabilitation and economic development (Table 3-7).

Chart 3-3



Source: U. S. Department of H.U. D.
Office of Community Planning and Development

Table 3-7
 FY 1988 State CDBG Funding by Purpose of Award +
 and Type of Recipient
 (Dollars in Millions)

Purpose	Type of Recipient				
	Less than 2,500	Towns with Populations of: 2,500 10,000 -9.999 or More		Counties	Total
Public Facilities	62%	46%	34%	53%	51%
Housing	21	30	37	21	26
Economic Devt.	14	21	26	23	20
Planning	2	2	2	2	2
Public Services	1	1	1	1	1
Not Reported	*	1	1	2	1
Total	100%	100%	100%	100%	100%
Amts Awarded**	\$203	\$177	\$108	\$165	\$728

+ As of June 30, 1989.

* Less than .5 percent.

** Total includes funding that could not at this time be attributed to types of recipients.

Source: U.S. Department of Housing and Urban Development, Office of Community Planning and Development.

- The amount of housing and economic development-related activity increases steadily from the smallest to largest State CDBG recipients. For example, communities with populations of more than 10,000 are more likely to be awarded grants for economic development activity than any other type of recipient.

Program Management

Monitoring. Monitoring grantee performance and management is the principal way the Department ensures that the State program funds projects that are consistent with Congressional objectives.

When reviewing how States administer the CDBG program, HUD emphasizes eight areas of program management, including: timeliness of funds distribution; consistency of the method of distribution of funds with the Final Statement; monitoring of recipients; financial management; audits management; economic development; the fundability of projects (meets a national objective and is eligible); and grant closeout system. The Department also reviews cross-cutting requirements, including equal opportunity, environment, labor standards, and relocation and acquisition.

Table 3-8
HUD Monitoring of State CDBG Programs,
FY 1989

<u>Monitoring Area</u>	<u>Number of Grantees Monitored</u>	<u>Number of Findings</u>	<u>Number of States with Findings</u>
Audits Management	49	42	15
Monitoring	49	19	11
Grant Closeout System	49	5	4
Timeliness	48	23	8
Distribution	48	17	10
Economic Development	47	39	15
Fundability	47	38	17
Financial Management	38	23	10

SOURCE: U.S. Department of Housing and Urban Development, Office of Community Planning and Development.

HUD Monitored all **49** States administering the CDBG program during FY 1989. During monitoring, HUD Field Staff may "find" instances in which a State is in non-compliance with applicable laws or program regulations. The monitoring areas where the most States were found to be in non-compliance in **FY 1989** included fundability (17 States), audits management (15 States), and economic development (15 States). Similarly, these were the monitoring areas with the most findings. The number of findings exceeds the number of States with findings since there can be more than one finding per State in each area monitored.

When the Department has a monitoring finding, it notifies the State in writing of the exact nature of the noncompliance and asks the State to propose a solution. HUD then either accepts the State's proposed solution and tracks its resolution or, if the proposed solution is unacceptable, requires and tracks specific corrective action. Solutions may include financial remedies.

Timeliness. Section 104(e)(2) of the Housing and Community Development Act of 1974, as amended, requires States to distribute funds to local government recipients in a timely manner. HUD considers funds distributed when they are under contract to local governments and, thus, available for their use.

Table 3-9
Timeliness of State Distribution of CDBG Funds to Recipients,
FYs 1987 and 1988*

Percent of Funds Under Contract	12 Months after HUD Award			
	FY 1987+		FY 1988++	
	States	Pct.	States	Pct.
95 -100%	13	29%	20	42%
90 - 94	6	13	4	8
70 - 89	21	47	19	40
40 - 69	5	11	4	8
0 - 39	0	0	1	2
Total	45	100%	48	100%

Percent of Funds Under Contract	15 Months after HUD Award			
	FY 1987+		FY 1988++	
	States	Pct.	States	Pct.
95 -100%	21	53%	33	70%
90 - 94	7	18	7	15
70 - 89	11	27	5	11
40 - 69	1	2	2	4
0 - 39	0	0	0	0
Total	40	100%	47	100%

+ As of January 5, 1989

++ As of January 25, 1990

* The totals are less than 49 because some Field Offices did not submit reports on time.

Source: U.S. Department of Housing and Urban Development,
Office of Community Planning and Development.

Since early 1986, the Department has implemented a management policy intended to ensure timely distribution of funds by States. That policy instructed Field staff to: (1) notify States that had distributed less than 70 percent of a year's grant award to communities after a 12-month span that their performance was deficient and must be improved; and (2) commend formally States that had placed 95 percent of a year's grant under contract within 12 months of its award. The Department later supplemented that policy with an additional guideline: funds left to be committed after 12 months should be committed as soon as possible but no later than 15 months following grant award.

Although most States are meeting the timeliness standards set by the Department, some have remained below even the minimum thresholds.

- The proportion of States that achieved the standard for exemplary timeliness, 95 percent of funds distributed to recipients after 12 months, increased from 29 percent in FY 1987 to 42 percent in FY 1988.

- o The same number of States, five, remained below the 70 percent threshold of timeliness from FY 1986 to FY 1987.
- One State that had distributed less than 40 percent of its FY 1988 funds within 12 months. By the fifteenth month after receiving its FY 1988 grant, this State had distributed more than 90 percent of its funds.
- o Seventy percent of the States met the 100 percent benchmark of timeliness after 15 months, which represents a substantial increase over the 53 percent that met this standard in FY 1987.

Program Income. In the State CDBG program, program income must be used in accordance with the requirements of the CDBG program. As the duration of State administration of the program has increased, so has the amount of program income. The Department thus has been concerned with ensuring that this source of funds is properly managed.

States have the authority to require any program income produced from State CDBG-funded activity to be returned to the State except when it is used locally to continue the same activity that generated the program income.

In their Final Statements, *six* States reported that recipients may keep all program income and five reported that program income normally must be returned to the State. The remaining **38** States reported allowing local retention under some circumstances and return to the State under others.

Since the initiation of the program in FY 1982, States have reported collecting and redistributing \$27.1 million in program income. Most of that sum has been redistributed during since FY 1986, as earlier loans have come due and as more States have become interested in capturing income produced by the program. Table 3-10 summarizes only program income that States have reported as being returned to them and redistributed. Program income that is held and used at the local level is not reported to HUD.

Table 3-10
 State Distribution of Program Income,
 FY 1982- FY 1989
 (Dollars in Thousands)

<u>Fiscal year</u>	<u>Program Income</u>		Number of States Distributing <u>Program Income</u>
	<u>Amount</u>	Percent	
1982	\$203	1%	3
1983	286	1	4
1984	237	1	6
1985	2,493	9	12
1986	7,768	29	14
1987	8,263	30	14
1988	7,425	27	11
1989	538		3
Total	\$27,213	100%	

SOURCE U.S. Department of Housing and Urban Development,
 Office of Community Planning and Development.

FY 1990 Management Initiatives. In its efforts to continue to improve the administration of the State CDBG program, the Department has been preparing two important documents that should be issued during FY 1990. The first of these is a comprehensive set of regulations on the State program, which will be published as a proposed regulation for public comment. Since its inception in **1982**, the program has operated under a "safe harbor" concept, using the regulations of the CDBG Entitlement program, modified by notices specific to the State program. The regulations will clarify and simplify the current policy.

The other major document is a policy for limited monitoring at the local level. Current policy calls for HUD to rely on a review of State records in monitoring the State CDBG program. The policy under development will provide for HUD to review on-site a limited sample of local projects as part of HUD's review of the State's effort in monitoring the State's recipients.

FY 1989 Policies and Issuances. In its ongoing efforts to improve the management of the State CDBG program, the Department undertook several important initiatives during FY 1989. The following issuances, which were intended to clarify and otherwise improve program policies, were put forth during the year:

- o Operating Instructions for the HUD Field Offices to use in administering the State CDBG program during the Fiscal Year. These instruction emphasized "risk analysis" as a means of identifying recipients and activities to be selected for monitoring.
- o A major update to Chapter 13 of the Community Planning and Development Monitoring Handbook, which is the major document the Field Offices use in monitoring the States at the State level.

- o A Notice (CPD-89-43) that provides guidance for tracking and managing program income at both the State and local levels.
- o A Notice (CPD-89-18) that provides guidance on determining benefit to persons with low and moderate incomes through assistance intended to provide jobs.
- o A Notice (CPD-89-29) identifying the standards to be used in determining that States are distributing their CDBG grants in a timely fashion.
- o A Notice (CPD-89-37) providing guidance on how to prepare the required Performance and Evaluation Reports (PERs).
- o A Notice (CPD-89-54) providing guidance on the rate at which States are expected to expend CDBG funds.

In addition, the Department conducted two training sessions during the year in which 69 staff persons from the States received instruction on the requirements of the program. This training and related materials (printed material and a videotape of the training being developed) will help ensure that State program staff understand the basic requirements of the program.

The HUD-Administered Small Cities Program

Two States, Hawaii and New York, have so far chosen not to assume administrative responsibility for the CDBG program to nonentitled areas within their jurisdictions. For them, HUD through its Field Offices administers the program.

The Department awarded 103 Small Cities grants in FY 1989, adding up to almost \$38.4 million. More than 80 percent of the grants are for single purposes, with housing grants comprising the largest share, both in number and dollars. Comprehensive grants (i.e., those incorporating more than one activity) made up about 19 percent of the grants and received about 29 percent of FY 1989 funds, since the average grant size is larger for comprehensive grants than for single purpose grants.

- o The two Field Offices in New York received 191 applications and funded 100 of them, amounting to \$36 million. Housing was the largest focus of funding in the State.
- o The Honolulu Field Office awarded formula grants to three counties summing to \$2.35 million.

Secretary's Discretionary Fund Appropriations
(Dollars in Thousands)

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
1975	\$26,934	1980	\$70,550	1985	\$60,500
1976	53,000	1981	101,920	1986	57,899
1977	50,963	1982	56,500	1987	56,000
1978	94,500	1983	56,500	1988	56,000
1979	101,550	1984	66,200	1989	60,000

SOURCE: U.S. Department of Housing and Urban Development,
Office of Program Policy Development.

Part One - INDIAN COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

Purpose

The Indian CDBG program assists any eligible Indian tribe, group, band, nation, including Alaskan Indians, Aleuts, or Eskimos, and Alaskan Native Villages to address specific community development needs.

Program Administration

The Indian CDBG program is HUD's principal vehicle to enable Indian Tribes and Alaskan Native Villages to carry out community development activities. Recipients of Indian CDBG awards can use the funds to undertake any of the broad range of activities that are eligible under the CDBG program. (Throughout this section, the words "tribe" or "recipient" are used to designate any of the eligible groups such as tribes, village, bands, nations, groups, and other eligible entities.)

After annual appropriations have been made, HUD issues a Notice of Fund Availability (NOFA) for the Indian CDBG program. Each of the **six HUD** Field Offices that administers the Indian CDBG program (Chicago, Denver, Phoenix, Oklahoma City, Seattle, and Anchorage) receives an allocation of program funds to award to eligible Tribes and Villages within their jurisdiction. HUD assigns each Field Office a base amount of \$500,000 and adds a formula allocation based on the Indian population within the Field Office jurisdiction and the extent of poverty and of housing overcrowding among that population.

tion Assistance Act (25 U.S.C. 450). Tribes set their own priorities and may request funding for any activity eligible under the CDBG program. The HUD NOFA announcing the

In order to compete annually, a Tribe must submit an application that includes a needs description, project and cost summaries, implementation schedule, and certifications of compliance with rules concerning Indian civil rights, environmental protection, labor relations, contracting law, citizen participation and benefit to persons of low and moderate income. The Tribe must also certify that it complies with the Indian preference provisions required in 24 CFR 571.503.

Each of the six HUD Indian Offices distributes its share of funds by competition among Tribes in that Office's jurisdiction. Each Field Office, through the rating and ranking process designed by the Office in consultation with the Indian Tribes, selects the Tribes to receive awards. These selections are made on the basis of applicants' needs, the impact of the proposed project in meeting those needs, and the quality of the proposed project.

In order for the Department to assess recipients' performance, each recipient must submit an annual status report that describes its progress in completing projects, effectiveness in meeting community development needs, and compliance with environmental regulations. HUD reviews each recipient's performance to determine whether the recipient has complied with all pertinent regulations, carried out its activities substantially as described in the application, and has made substantial progress in carrying out its approved program. The Department monitors the recipient's continuing capacity to carry out its program in a timely manner and has the continuing capacity to carry out additional activities. HUD considers all evidence for this assessment including applications, reports, records, results of on-site monitoring visits and audits.

Funding History

Table 4 - 2
INDIAN CDBG PROGRAM FUNDING
 (Dollars in Thousands)

<u>Near</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
1978	\$25,000	1982	\$30,224	1986	\$25,839
1979	28,000	1983	32,760	1987	27,000
1980	31,000	1984	39,700	1989	25,500
1981	34,470	1985	30,000	1989	27,000

SOURCE: U.S. Department of Housing and Urban Development,
 Office of Program Policy Development.

Participation

For FY 1989, 533 tribal organizations were recognized as eligible to participate in the program. Indian CDBG awards were made to 85 recipients in FY 1989.

Program Activities

Tribes that receive Indian CDBG awards can carry out a broad range of eligible activities to meet local community development needs. This section describes the types of projects carried out with Indian CDBG program grants and the average award amounts for different types of projects.

In FY 1989, recipients used Indian CDBG program funds for five types of projects: economic-development; housing rehabilitation and construction; public infrastructure; community facilities; and land acquisition. For FY 1989, the overall average Indian CDBG program grant was \$317,448. Housing activities, including rehabilitation and construction, were predominant. Housing rehabilitation and construction projects together accounted for 28 percent of FY 1989 funds, which were nine percent less than in FY 1988. The proportion of public infrastructure projects increased from 20 percent in FY 1988 to 28 percent in FY 1989. The proportion of Indian CDBG awards made for economic development projects decreased from 22 percent in FY 1988 to 18 percent in FY 1989 awards.

Table 4-3
Indian CDBG Program Activity Funding
By Type Of Project, FY 1989
(Dollars in Thousands)

Activity	<u>Awards</u>		<u>Funding</u>		<u>Average Amount</u>
	<u>Number</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>	
Housing	28	33%	\$7,689	28%	\$274,623
Public Infrastructure	15	18	7,662	28	510,794
Community Facilities	19	22	5,631	21	296,368
Economic Development	18	21	4,832	18	268,418
Land Acquisition	5	6	1,169	4	233,800
Total	85	100%*	\$26,983	100%*	\$317,448

* Percents may not add due to rounding.

SOURCE: U.S. Department of Housing and Urban Development,
Office of Program Policy Development.

The 18 public infrastructure projects had the largest average grant amount of \$510,794. The smallest average grant, \$233,800, was for land acquisition projects. Individual grant amounts ranged from \$17,000 to \$3,637,914.

Part Two - TECHNICAL ASSISTANCE PROGRAM**Purpose**

The Technical Assistance program helps participants carry out programs authorized under Title I of the Housing and Community Development Act of 1974, as amended.

Program Administration

The Section 107 Technical Assistance program makes funds available to States, units of general local government, Indian Tribes, or area-wide planning organizations to improve the delivery of their Title I and Urban Homesteading programs. The program also funds groups that provide technical assistance to governmental units to assist them in carrying out their Title I and Urban Homesteading programs.

The Department uses grants, contracts, and cooperative agreements to make Technical Assistance awards throughout the year. In FY 1989, HUD awarded over 50 percent of Technical Assistance funds as cooperative agreements. The Department makes these awards by conducting nationwide Competitions in accordance with the Secretary's reform policies. In previous years, the Department had also funded unsolicited proposals. A number of those, already in the pipeline at the beginning of Secretary Kemp's term in office, were funded in FY 1989. But overall, in FY 1989, 50 percent of the Technical Assistance funds and 33 percent of the awards were made using a competitive process. As a result of the new reforms, all awards will be made competitively beginning in FY 1990.

Funding History

Table 4-4
Technical Assistance Program Funding
(Dollars in Thousands)

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
1978	\$20,842	1982	\$17,809	1986	\$20,485
1979	18,618	1983	16,990	1987	11,725
1980	15,902	1984	20,450	1988	5,125
1981	21,187	1985	14,700	1989	10,750

SOURCE: U.S. Department of Housing and Urban Development, Office of Program Policy Development.

Participation

In FY 1989, HUD made 46 awards totalling \$6.8 million. These funds include new appropriations and the unobligated balances from prior years. In FY 1989, HUD awarded the largest share of funds, \$3 million or 44 percent, to not-for-profit organizations. The second

largest share of funds, \$1.4 million or 21 percent, was awarded to colleges and universities, primarily for the Historically Black Colleges and Universities program, in which faculty and students help local community development efforts. State and local governments received \$1.3 million or 19 percent. Three percent or \$200,000 was awarded as an Inter-Agency Agreement with the U. S. Department of Health and Human Services.

Table 4-5
Types Of Organizations Receiving
FY 1989 Technical Assistance Awards
(Dollars in Thousands)

<u>Type of Organization</u>	<u>Number of Awards</u>	<u>Amount of Awards</u>	<u>Percent of Funds</u>
Colleges/Universities	16	\$1,497.3	22%
Not-for-profit Organizations	14	2,988.8	44
State and Local Governments	12	1,297.5	19
Private For-profit Firms	3	855.0	13
Inter-Agency Agreements	1	200.0	3
Total	46	\$6,838.7	100%*

* Percents may not add due to rounding.

SOURCE: U.S. Department of Housing and Urban Development,
 Office of Program Policy Development.

Program Activities

The Department funds projects that help States and units of general local government improve the delivery of their Title I and Urban Homesteading programs. These projects must show a clear link to the Title I or Urban Homesteading programs. In FY 1989, 46 technical assistance awards supported a wide variety of projects.

The Department made 13 Technical Assistance awards totaling \$2.6 million for general CDBG activities. These awards included aid to communities for CDBG programs in several southern States, the State of New York, and a northeastern small town; a State CDBG information clearinghouse for state agencies; and for a community development training program.

HUD awarded \$1.4 million or 21 percent of the funds to Historically Black Colleges and Universities (HBCU). Each competitively selected HBCU provides technical assistance to support Title I and Urban Homesteading programs in nearby small communities. Of the remaining funds HUD provided more than \$1.7 million for technical assistance in CDBG housing activities. Local economic development efforts received \$700,000 and \$400,000 was awarded competitively to six communities to plan and develop district heating and cooling systems.

Table 4-6
Types Of FY 1989 Technical Assistance Program Activity
(Dollars in Thousands)

<u>Activity</u>	<u>Number of Awards</u>	<u>Amount of Awards</u>	<u>Percent of Funds</u>
General CDBG Activities	13	\$2,619	38
Housing	6	1,697	25
Historically Black Colleges and Universities	15	1,429	21
Economic Development	6	693	10
<u>Energy</u>	<u>6</u>	<u>400</u>	<u>6</u>
Total	46	\$6,839	100%

SOURCE U.S. Department of Housing and Urban Development,
Office of Program Policy Development,

Program Objectives and Progress

The purpose of the Technical Assistance program is to help State and local officials carry out their Title I and Urban Homesteading programs in a more efficient and effective manner. The program provides tailored assistance to these communities in a variety of forms. Among the most frequent form of aid provided are group training, written materials, on-site assistance, and developing and negotiating projects.

HUD conducts surveys to determine how well the program meets the needs of local officials. The Department requires technical assistance providers to distribute questionnaires to recipients of assistance so they may assess the assistance received. The responses to these questionnaires show a high level of satisfaction with the assistance funded by HUD.

Part Three - INSULAR AREAS COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

Purpose

The Insular Areas CDBG program assists community development efforts of the Insular Areas.

Program Administration

The Insular Areas CDBG program provides grants to seven designated areas: the Territory of Guam; the Territory of the Virgin Islands; the Territory of American Samoa; the Commonwealth of Northern Mariana Islands; the Trust Territory of the Pacific Islands (Palau); and the Federated States of Micronesia and the Republic of the Marshall Islands (both formerly part of the Trust Territory of the Pacific Islands).

American Samoa spent \$100,000 or 10.5 percent of its grant for economic development activities. The Virgin Islands used \$110,000 or 4.9 percent of its funds for creation of a small business revolving loan fund.

Table 4-9
FY 1989 Insular Area CDBG Program Activity
(Dollars in Thousands)

<u>Activity</u>	<u>Housing</u>	<u>Infra- structure</u>	<u>community</u>	<u>Economic Development</u>	<u>Total</u>
Guam	*	\$2,660.0	*	*	\$2,660.0
American Samoa	*	800.0	50.0	100.0	950.0
No. Marianas	*	500.0	*	*	500.0
Palau	*	352.5			353.5
Marshall Islands		50.7	18.0	*	68.5
Micronesia	68.8	53.9	106.1		229.0
Virgin Islands	150.0	1,667.0	313.0	110.0	2,240.0
Total	\$218.8	\$6,084.1	\$487.1	\$210.0	\$ 7,000.0

* less than .5%

SOURCE: U.S. Department of Housing and Urban Development,
Office of Program Policy Development.

Progress Toward Program Objectives

The intent of the Insular Areas CDBG program is to assist projects in which at least 51 percent of the people benefiting are of low and moderate income, to remove slums and blight, and to meet an urgent need. Each project must meet at least one of these objectives.

Part Four - COMMUNITY DEVELOPMENT WORK STUDY PROGRAM

Purposes

The purposes of the Community Development Work Study Program are to attract economically disadvantaged and minority students to careers in community and economic development, community planning and community management and to provide a cadre of well-qualified professionals to **plan**, implement and administer community development programs.

Legislation

Section 502(b)(2) of the Housing and Community Development Act of 1987 amended Section 107 of the Housing and Community Development Act of 1974 to authorize the Community Development Work Study Program.

Program Administration

Grants are awarded on a competitive basis to institutions of higher education, areawide planning organizations, and States for a two year period. The schools are responsible for selecting the students to participate in the program, for monitoring their performance, and for paying back to HUD any grant funds provided to students who do not successfully complete the work study program.

Funding History

The authorizing legislation requires a funding level of \$3 million per year for the Community Development Work Study Program beginning with FY 1989. Earlier versions of the program, from 1969 through 1987, were funded from the Comprehensive Planning Assistance and the Technical Assistance programs. Funding levels during those years ranged between \$1.5 and \$3 million annually.

Program Participation

The FY 1989 funding level was \$3 million. Grants to participating schools or areawide planning organizations ranged from a low of \$79,000 to a high of \$345,000. The grant award varied with the number of student slots requested by each applicant, its rank order in the competition and the number of organizations applying.

For the FY 1989 competition, the Community Development Work Study program awarded grants involving 28 universities, colleges and areawide planning organizations to assist 111 students.

Part Five - SPECIAL PROJECTS PROGRAM

Purpose

The purpose of the Special Projects program was to make awards to States and units of general local governments for Special Projects that address local community development activities eligible under Title I of the Housing and Community Development Act of 1974, as amended prior to the reform amendments of December 1989.

Program Administration

States and units of general local governments were the only entities eligible for assistance through the Special Projects program. Communities seeking Special Projects funds

submitted unsolicited proposals to HUD. Projects were funded at the Secretary's discretion. HUD field offices are responsible for monitoring and closeout of the remaining active grants.

Funding History

Table 4-10
Special Projects Program Funding
(Dollars in Thousands)

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
1981	\$469	1984	\$ 100	1987	\$10,510
1982	0	1985	8,800	1988	14,875
1983	800	1986	5,546	1989	12,250

SOURCE: U.S. Department of Housing and Urban Development, Office of Program Policy Development.

Participation

HUD awarded \$11,780,000 to 22 communities in 15 States and the District of Columbia in FY 1989 through the Special Projects program, compared to \$15 million to 34 communities in 17 States in FY 1988. The smallest Special Project awards were for \$50,000 to South Bend, Indiana to rehabilitate and expand the LaSalle Park Child Care facility and to Jackson, Mississippi to renovate and expand the Power House for homeless young women. The largest award was for \$2,885,000 for acquisition and relocation activities associated with ground subsidence problems in the Roxborough and Logan areas of Philadelphia. Of all projects funded, the largest percentage of funds (51 percent) was used for infrastructure activities. The second largest percentage of funds (16 percent) was used for housing activities. Eleven percent of the funds were used for homeless assistance activities and ten percent of the funds were used for economic development projects.

Program Activities

Special Projects program awards in FY 1989 supported 22 projects in housing, community facilities, infrastructure, economic development and homeless assistance. These projects included:

- o four community facility projects: an open space and beautification project in Johnstown, Pennsylvania; renovation of a child care facility in South Bend, Indiana; acquisition of a 30 acre site for a statewide math and science high school in Oklahoma City, Oklahoma; and modifications to the Columbia County Courthouse in Dayton, Washington to increase accessibility for the handicapped.
- o five infrastructure projects: reconstruction of the Franklin Avenue bridge and up-grading of Downing Avenue in Erie, Pennsylvania; acquisition of blighted property and construction of streets and sidewalks in Knoxville, Tennessee; acquisition and relocation activities

to address ground subsidence problems in the Roxborough and Logan areas of Philadelphia, Pennsylvania; modification and repair of an innovative wastewater treatment facility in Henderson, Nevada; and provision of roads, water, electricity and drainage improvements to homestead lots in the Hawaiian homelands.

- o three economic development projects: provision of financing for Greenville West, a commercial project in Greenville, Michigan expected to create 84 jobs; redevelopment of the Colony Theatre in Washington, D.C. into a mixed use commercial development and senior citizen rental housing; and revitalization of downtown Ada, Oklahoma.
- o six residential projects: a joint effort by the City of Merced, and Stanislaus and Fresno Counties, California to provide housing assistance to low-income families in neighborhoods impacted by Southeast Asian refugees; funding to assist in the operation of tenant managed Northgate Apartments in Burlington, Vermont; development of senior citizen apartments in Santa Barbara County, California; and construction of a residential and acute treatment center for adults in Omaha, Nebraska.
- o four homeless assistance projects: rehabilitation of the Quinn Lane Shelter for the homeless in Honolulu, Hawaii; acquisition of a single-family dwelling as transitional housing for the homeless in Santa Monica, California; renovation and expansion of the Power House for homeless women in Jackson, Mississippi; and renovation of National Mariners Union Building to provide a crisis shelter.

Part Six - MINORITY BUSINESS ENTERPRISE

One of the Department's major goals is to encourage grantees to use minority businesses. The primary indicator of performance is the percent of CPD administered funds that are contracted out to minority businesses by grantees.

CPD directed each Regional Office to encourage grantees to fund minority businesses and to identify grantees that have faced problems in supporting minority businesses. The field staff then used five approaches to help grantees improve minority contracting.

- o training;
- o technical assistance;
- o recognition of successful approaches;
- o distribution of information on successful approaches; and
- o awards to grantees for superior MBE performance.

Since 1982, CPD has assigned MBE goals to the Regions on an annual basis. The MBE goal for 1989 was \$549 million. Overall, \$458 million, or 83 percent, of CPD's minority

Chapter 4 - Secretary's Discretionary Fund

business participation goal was reached in FY **1989**. CPD's grantees awarded minority owned businesses **13** percent of all contract dollars awarded through CPD supported businesses.

The FY **1989** minority contracting dollar level in CPD programs fell below **90** percent for the first time since **1986**. Contributing to the decline was the loss of **UDAG** as a source of minority contracts and a general concern about the effect of the **1988 U.S.** Supreme Court decision concerning minority contracting.

Table 4-11
MBE Participation In CPD Contracts And Subcontracts, FY 1989
 (Dollars in Millions)

<u>HUD Region</u>	<u>Goal</u>	<u>Dollars</u>	<u>Percent of Goal</u>
I	\$21.0	\$16.4	78%
II	163.0	130.0	80
III	33.0	39.8	121
IV	59.0	54.1	92
V	81.0	85.6	106
VI	61.0	45.0	74
VII	17.0	5.9	35
VIII	4.0	8.9	223
IX	100.0	62.2	62
X	10.0	9.7	97
Total	\$549.0	\$458.0	83%

SOURCE: U.S. Department of Housing and Urban Development, Office of Program Policy Development.