



## **SPECIAL COSCAR MEMBER UPDATE:**

### **SUMMARY AND OVERVIEW OF HUD CDBG REFORM PROPOSAL**

An overview of the HUD proposal was provided in the May 26<sup>th</sup> National Line. Further information of the HUD CDBG Reform package has now been made available by HUD, including sample calculations of how their proposal would impact the formula allocations for states and entitlements. Tables of the calculations are attached to this COSCAR member update and are explained in detail below at the end of this article.

### **OVERVIEW OF PROPOSAL**

The four major components of HUD's reform package include:

- A revision of the CDBG formula structure;
- New statutory requirements related to the new CPD performance measurement system;
- A "Challenge Grant" fund of \$200 million set for entitlement communities that pursue targeted neighborhood revitalization; and
- Consolidation of the Section 108 loan guarantee program, the Brownfields Economic Development Initiative (BEDI), and the Rural Housing and Economic Development Program into the CDBG Program.

### **FORMULA REVISIONS**

The proposal was touted as an attempt for "fairness" in the distribution of CDBG dollars and was based on "Alternative 4" in the CDBG study released by HUD last year, one of four outlined in the study. According to HUD, if implemented, their proposal will provide communities with the greatest needs with more resources compared to less needy communities.

#### **State/Entitlement Split**

The current formula system has a 70/30 split between entitlements and states. There are currently two formulas, Formula A or B; grantees receive whichever amount is the higher of the two calculations. The states and entitlement Formulas A and B use the same variables except for one, growth lag, which is only used in the entitlement Formula B. Currently 24 states use Formula A and 26 states use Formula B

The HUD proposal would eliminate the current 70/30 split between entitlements and states and replace it with a single formula that targets the distribution of CDBG funds to communities with the greatest need.

### **Formula Factors**

Current variables for state formula allocations are population, poverty, pre-40 housing and overcrowding.

Formula A factors and weights: total population (25 %), number of households living in poverty (50 %) and the number of overcrowded housing units (25 %)

Formula B factors and weights: total population (20 %), number of Households living in poverty (30%), and age of housing- number of units built before 1940 (50%).

The HUD proposal would establish just one formula that would be applied to both states and entitlements.

- The number of households living in poverty, excluding full time college students (50%)
- The number of overcrowded housing units (10 %)
- The number of female-headed households with children under 18 (10%)
- The number of homes 50 years or older occupied by a low income family (30%)

The factors and the weights assigned to them signal the Administration's desire to focus the program more on areas with poverty, with 50 percent assigned to the poverty factor. This could direct funds to areas with high levels of deterioration but could also direct funds away from areas where communities are trying to prevent decline. Changing the factors and weights could also shift the distribution of funds geographically, for example, the age of housing would be changed to a rolling benchmark of units 50 years or older and certainly any change to the age of housing factor will impact the regional distribution of funds, where regions like the Northeast and Midwest tend to have a higher number of older units.

### **Fiscal Capacity**

HUD's proposed formula would also address the so called "wealthy communities" but adjusting allocation amounts downward by the ratio of the per capita income of the Metropolitan Statistical Area (MSA) to the per capita income of the formula grantee's jurisdiction within that MSA. Adjustments limited to 25 percent of the initial grant amount. This provision only applies to entitlement jurisdictions, state allocations would not be adjusted. HUD describes this provision as an effort "to account for the relative fiscal capacity of the jurisdiction" to fund community development activities using local resources.

### **Minimum Threshold for Entitlement Participation**

HUD also recommends a minimum threshold of 0.014% of the annual CDBG appropriation for communities to be eligible for an annual allocation as an entitlement jurisdiction. Based on the FY06 appropriation of \$3.7 billion, the minimum grant threshold would be \$518,000. Using these calculations, 312 jurisdictions would lose their entitlement status, including over 100 that are located in urban counties. In the proposal, there is a range of \$300,000 to \$700,000 for the threshold, so that if there are lower and higher appropriations levels the concept of a threshold of this type would still work and the same places would most likely remain entitlements or non-entitlement communities. Current entitlements that are no longer eligible, that is they would become “de-entitled”, would then be moved to the state program, or if they are located within an urban county, they could opt to go to the county (but not both).

At this point it appears that the mechanics of this approach would mean that a calculation would be done to ascertain if each jurisdiction’s formula allocation meets the threshold. If not, then their allocation would be transferred to the state or urban county but it does not automatically go to them, they must compete with all the other non-entitlement justifications. The total amount of the allocations for the 312 jurisdictions is about \$97 million. During the transition, which appears to be for one year, these entitlements would receive a 50% reduction in their grant amounts.

Eliminating the hard percentage split of 70/30 in favor of one single formula could mean that the cumulative amount for states and rural community development could change from year to year but this would depend on the appropriations level and whether a de-entitled jurisdiction would come over to the state program or to the urban county. According to HUD, the number of entitlements will probably not fluctuate a great deal unless appropriations were to change more than 30 percent in any give year, again, an unlikely scenario despite recent attempts by the Administration to cut the program. If implemented, based on FY06 appropriations, the defacto split between entitlements and states would be 66 percent for entitlements and 34 percent for states if all “de-entitled” communities went over to the state program.

Establishing a grant size threshold for participation as an entitlement would have a major impact on the state CDBG program. Adding more eligible jurisdictions and increasing competition for funds could strain state programs. While states are not obligated to fund the de-entitled jurisdictions, there could be pressure on states to do so over other communities. It could create tension within the state, and could pit more rural areas against less rural areas, particularly if a state has a lot of jurisdictions that are outer-ring suburbs that become de-entitled. However, assuming that the funds that were allocated to those “de-entitled jurisdictions” are made available to states because of the new threshold, this could provide opportunities for states to create regional approaches.

COSFDA will continue to explore the implications of removal of the split and establishment of a new entitlement threshold and will consult with our members for your input on this approach.

## **PERFORMANCE MEASURES**

The proposed legislation includes a provision which codifies performance measures for CPD programs by putting them into the statute. These are virtually identical to the

performance measurement system currently being implemented by HUD which was developed by COSCDA along with other interest groups and OMB. These include:

- ◆ Foster a suitable living environment within the community for families and individuals;
- ◆ Focus on developing decent affordable housing for families and individuals; and
- ◆ Foster and create economic opportunity, economic development, commercial revitalization and job formation.

A "Performance Plan" would be required that would contain the objectives the jurisdiction will seek to achieve. Essentially HUD is directed to review a community's progress toward their stated performance objectives. For those communities that fail to demonstrate performance within 24 months, HUD would have the ability to reduce funding based on lack of progress.

### **CHALLENGE GRANTS**

States are not be eligible for challenge grants but could create their own challenge grant programs for non-entitlement communities. The funds for the challenge grant could come straight off the top of the appropriations for CDBG, a set-aside, if you will. A pool of \$200 million will be available to entitlement communities that would provide bonus funding if those entitlements direct their funds to targeted neighborhood revitalization efforts as a part of a strategy to expand economic opportunities in low and moderate income households. The funds can only be used in Neighborhood Revitalization Strategy Areas (NRSAs), which must be officially designated by the community and HUD. The funds will not be distributed on a competitive basis. Rather, communities would receive the funds if they meet certain eligibility criteria and receive above a certain score on a rating scale that includes factors such as public and leveraged dollars invested and the viability of targeted neighborhoods for redevelopment, economic opportunity and livability. The challenge grants must be used for CDBG eligible activities and may be used to create affordable housing for low and moderate income households when part of an economic development strategy.

### **PROGRAM CONSOLIDATION**

The legislation calls for the elimination of the Section 108 loan guarantee program, the Brownfields Economic Development Initiative (BEDI), and the Rural Housing and Economic Development Program and simply allowing a community to undertake these specific activities with their CDBG dollars rather than appropriating a separate pot of money for these programs, in essence shrinking the total amount of community development dollars available to communities. COSCDA opposes

### **FUTURE FOR HUD PROPOSAL?**

While HUD has released its legislative proposal it is unlikely that the bill will be introduced or passed during this session of Congress. At best it provides a beginning basis for Congress to discuss and deliberate about potential formula changes next year. There will be a hearing in both the House and Senate in June, but not by the authorizing subcommittees which can begin to make it law. Instead, the bill will be the subject of subcommittees which deal with federalism, program reform and efficiency. COSCDA

will testify before the House Subcommittee on Federalism and the Census on June 27<sup>th</sup> to provide a list of concerns regarding how the HUD proposal will impact the state CDBG program and rural community development issues.

For a copy of HUD's proposed CDBG Reform Act go to:  
[www.hud.gov/content/releases/pr06-056act.pdf](http://www.hud.gov/content/releases/pr06-056act.pdf).

For a copy of HUD's Section-by-Section analysis go to:  
[www.hud.gov/content/releases/pr06-056analysis.cfm](http://www.hud.gov/content/releases/pr06-056analysis.cfm)

## **HUD FORMULA ALLOCATION PROJECTIONS**

HUD has provided two sets of projections on how the proposed formula would work for FY 2006 and FY2007 had the proposed formula been in effect. The key to understanding both of these tables is to remember that they are not the absolute or exact picture of what would happen should the HUD proposal be adopted and implemented. Also keep in mind that some of the places noted as state eligible could also choose to apply to an urban county if they are located in one.

**The first, is called Proposed CDBG Formula Legislative Change with FY 2006 Appropriation Held Constant. For the calculations for this table, HUD assumes level funding for CDBG formula grants at the appropriated FY 2006 level of \$3.711 billion**

In this table, HUD's table shows the following for each grantee:

- 1) Population
- 2) Current Formula: FY 2006 formula allocation (in \$000s).
- 3) Proposed Formula pre-minimum: this is the formula allocation amount a grantee would receive under the proposed formula if we stay at the FY 2006 funding level but have no threshold.
- 4) Proposed Formula w/minimum: this is the formula allocation amount a grantee would receive under the proposed formula if we stay at the FY 2006 funding level and have a minimum threshold.
- 5) Dollar Change: this is the dollar amount difference between the grantee's FY 2006 allocation and the allocation it would receive under the proposed formula at the FY 2006 funding level.
- 6) Percent Change: this is the percentage change from the grantee's FY 2006 allocation to its allocation under the proposed formula at the FY 2006 funding level.
- 7) Needs Decile: this is a measure of need from the needs index in HUD's report on the CDBG formula (see [www.coscda.org](http://www.coscda.org) to link to the report).
- 8) Current Per Capita Grant: The grantee's FY 2006 allocation divided by its population.
- 9) Proposed Per Capita Grant pre-minimum: The grantee's per capita grant before application of the minimum grant threshold.

The most important columns to look at are the fourth and fifth ones, which show the allocation your state would have received in FY2006 if the allocation was made with the new formula factors and the new threshold in place.

**The second table is called “Proposed CDBG Formula Legislative Change with FY 2006 and FY 2007 Appropriation”** It provides projected allocations for FY2007 allocations based on differing appropriation levels.

This table HUD provides the following information:

Columns 1, 2 and 3 - the first column provides the grantee's current FY 2006 allocation (using FY2006 appropriation level of \$3.7 billion); the second column provides the figure for what the grantee's FY 2006 allocation would be under the proposed new formula (using FY2006 appropriation level of \$3.7 billion) and the third column provides the grantee's proposed FY2007 allocation based on the new formula and the Administration's proposed FY 2007 funding level, which is \$ 1 billion less than the current funding level ( \$2.7 billion).

Columns 4 and 5 – show the dollar amount changes related to the first three figures

Columns 6 and 7 – show the percentage changes related to the first three figures.

This table is perhaps the most useful for states to review and the most important column to look at to understand the impact of the proposal on your state is column number 2. The appropriations levels will effect the calculations of formula allocations and how many entitlements would not meet the minimum threshold and would become eligible for the state program. As of June 7, 2006 the House Appropriations Committee passed a spending bill for HUD program which would provide \$3.9 billion for CDBG formula grants, higher than any of the assumptions HUD has made in the tables it provided. Therefore, column 3, which proposes the Administration's level of \$2.7 billion, is quite unlikely.

COSCEA will continue to vigorously monitor this issue and advocate for states' interests with respect to the formula, and will communicate its members' input on this and all other proposals.

