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COMMUNITY DEVELOPMENT BLOCK GRANTS: THE CASE FOR REFORM

HEARING

BEFORE THE

FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT INFORMATION, AND INTERNATIONAL SECURITY SUBCOMMITTEE

OF THE

COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS UNITED STATES SENATE

ONE HUNDRED NINTH CONGRESS

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COMMUNITY DEVELOPMENT BLOCK GRANTS: THE CASE FOR REFORM

THURSDAY, JUNE 29, 2006

U.S. SENATE,
SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT,
GOVERNMENT INFORMATION, AND INTERNATIONAL SECURITY,
OF THE COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 2:30 p.m., in room SD–342, Dirksen Senate Office Building, Hon. Tom Coburn (Chairman of the Subcommittee) presiding.

Present: Senators Coburn, Coleman, Carper, and Akaka.

OPENING STATEMENT OF SENATOR COBURN

Senator COBURN. The hearing will come to order.

This is a hearing on Community Development Block Grants: The Case for Reform. It is not a hearing on the elimination of CDBG, in spite of the buttons I see out there, which leads me to conclude that oftentimes, when somebody wants to distort somebody's position that they may, in fact, have a problem.

When you have a goal of flexibility and consensus, you will have different results than if you have your goal of accountability and efficiency, and when you allow those two separate things, you never get to what we are looking for, which is accountability. And I do not think we are going to have any of the witnesses' testimony today that is going to say they do not want accountability, and I do not think we are going to have any of the witnesses say they do not want transparency. And I am sure we are not going to hear any of the witnesses say we do not have results.

So the purpose of this hearing is to have a frank and open discussion about how do we do the best job with the money that we put in CDBG to make the greatest different in the most number of people's lives who are deserving? That is what it is about. It is not about playing games. It is not about politics. It is about an honest look at: Can we do this better? Can we account for it better? Can we get better results? And can we measure those results?

The Community Development Block Grant program is a multibillion-dollar program that has exceptional flexibility compared to most other grant programs. That is one of the reasons it is liked so well. It operated out of the Department of Housing and Urban Development. It gives local officials broad discretion on the use of funds for housing, economic development activities, social services, and infrastructure. The authorizing legislation requires that the ac-

tivity meet one of the following goals: To principally benefit low and moderate income individuals; to eliminate or prevent slums; or remedy urgent threats to the health or safety of the community. That is what the legislation says.

When the program first began in 1975, HUD advertised that CDBG funds could be used anywhere within a local government's jurisdiction to serve the needs of and provide better living environments for low and moderate income persons. This flexibility continues today, and it helps our communities meet localized needs that change on a case-by-case basis. That is a laudable goal. It is a great goal.

Perhaps the first and most fundamental problem with the program is its lack of sunshine. And I want to redirect you to the accountability poster that this Subcommittee uses. When there is no sunshine, there is great opportunity for mischievous behavior. Transparency is the first and necessary step towards accountability. One of the interesting things our Subcommittee has found that we have asked for months to find out how CDBG funds are used, and no one can tell us. No one has accumulated all that. Nobody knows for total, if we take $3 billion or $4 billion, where did it go? Nobody knows that answer.

HUD does not compile this information, much less make the information available to the public. That lack of transparency is simply unacceptable in the fiscal situation that we find ourselves today. How can supporters make a serious claim that the program as a whole is accomplishing its goals when nobody knows how the money is spent? Nobody is measuring the goals.

Not surprisingly, with no transparency, other performance problems are inevitable. Critics of Community Development Block Grants, and I am not a critic; I am supportive; I just want them to be more effective and more efficient, argue that while flexibility abounds, the program has no standardized outcome indicators, insufficient accountability, and it has ambiguity goals. In the 39 hearings I have chaired in this Subcommittee, I have found that when these factors coalesce within a Federal program, opportunities for waste, fraud, and abuse of tax dollars abound. For example, right here in Washington, DC, it has been reported $100 million in CDBG block grant funds were spent over a decade on revitalization projects, and there is little to nothing to show for it. That is $100 million.

According to the *Washington Post's* assessment, the City's use of this Federal funding is characterized by overspending, cronyism, and conflicts of interest. Another example is CDBG funds were appropriated to help in the September 11 aftermath in New York City. But due to the program's lack of meaningful guidelines and enforcement, some of this desperately needed money went to fund very questionable projects that do not meet those three guidelines.

Illustrating the lack of policy direction and management in the program, the Manhattan Institute reports that CDBG loans referred to as Section 108 loans have a 59 percent default rate. That is three out of every five loans default. Why are we looking at it? If that is the case, why are we not putting the loans into areas that will make a difference and continue to make a difference rather than default and make a short period different? Critics say that

even though HUD has specific guidelines, transparency and oversight for its other lending programs under HUD, it has nothing similar for Section 108 loans. For example, after the 1992 Los Angeles riots, the Los Angeles Community Development Bank was created with CDBG funds. In that came a $6 million loan that nobody would give to this group for any other thing, and in the end of that, they put $24 million into it; lost all of it; and it closed with no effect, no positive long-term effect for the community that it was intended to help.

A key flaw in the program, I believe, is its outdated funding formula. These formulas have not been updated since the mid-seventies, meaning the program has not updated its funding structure to reflect changes in poverty or community realization and need over the last 30 years. The grants are not consistently targeted to communities in need, and as a result, there are numerous funding anomalies. For example, the posters to my right, to your left,[1] shows a great example: Temple, Texas has under $20,000 per year per capita income; receives $15 per capita in CDBG block grant funds. Then, if you look at Oak Park, Illinois, where they have almost double the per capita income, and they have $39 per capita in CDBG block grants.

Now, if we go back to what the program was intended for, to help poor and moderately low-income communities to help an ever present health situation, how do we meet that when you see these kind of funding disparities? You can also see that Newton, Massachusetts, has three times the income of Hopewell, Virginia, but this wealthy community receives three times more CDBG funding per capita than Hopewell. These are just two of hundreds of examples that we have discovered as we have gone through and looked at this program, illustrating that different communities are receiving the exact opposite of funds that you would expect from the requirements of the legislation that authorizes this program.

We all know that the communities that we live in have changed in the past few decades. Some have improved miraculously. Some have declined. There is no way for a community that was needy in the seventies but is now wealthier to graduate out of the program. Once a community is placed on the list, no matter how wealthy the community becomes over time, it is guaranteed a funding of CDBG block grants, no matter what: Even if it has no need, it is still guaranteed. And that means that somebody who has a more legitimate need is denied those funds.

I value the goals of this program. I have several questions, and when we get into full transparency, where anyone can see on a public website how the money is spent; that is called accountability, and anybody who wants this program to survive and grow cannot adequately create a case to oppose sunshine for where the money is spent. When will the program adopt standardized performance measures that have teeth with the ability to compare success from city to city? I think the program is overdue for some reform. I believe the funds must be targeted based on need, which means the formulas need to be revised. I believe there needs to be transparency in enforcement of the planned use of grants under

[1] The charts referred to appears in the Appendix on page 131.

this program, which means that you have to publish a community's proposal and the actual disbursements so that the community, as well as everybody else, can see where the money went.

Potential waste, fraud, and abuse of funds needs to be averted before high risk plans are enacted and undertaken rather than afterwards. Funding must be conditioned also on performance. Performance measures need to be better defined, and grantees that consistently fail to perform need to face real and immediate consequences and maybe intervention, not taking away the money but intervention to show them how to use the money better. The question is not to eliminate CDBG but to make the dollars be more effective in the original intent of the authorizing legislation.

Since 2000, the Administration, to its credit, has identified these program weaknesses and has attempted some reform. But these attempts have been met with open hostility in Congress. I am afraid that many of my colleagues view the program as an entitlement for their home districts. Last month, HUD delivered the latest Community Development Block Grant reform proposal to Congress. I hope that Congress will take our responsibility to Americans seriously and work to make this program for the needy communities it was created to help. As more and more accounts of waste and abuse surface, we simply cannot neglect our duty to the next generation in favor of the next election.

[The prepared statement of Senator Coburn follows:]

PREPARED STATEMENT OF SENATOR COBURN

The Community Development Block Grant (CDBG) program is a multi-billion dollar program that has exceptional flexibility compared to most other grant programs. Operated out of the Department of Housing and Urban Development (HUD), CDBG gives local officials broad discretion on the use of the funds for housing, economic development activities, social services, and infrastructure. The authorizing legislation requires that the activity meet one of the following goals: To principally benefit low- and moderate-income individuals, eliminate or prevent slums, or remedy urgent threats to the health or safety of the community. When the program first began in 1975, HUD advertised that CDBG funds could be used anywhere within a local government's jurisdiction to serve the needs of and provide better living environments for low- and moderate-income persons. This flexibility continues today, and it helps communities meet localized needs that change on a case by case basis.

Perhaps the first and most fundamental problem with the program is the lack of sunshine. Transparency is the first and necessary step towards accountability. We asked for months to fund out how CDBG funds are used and no one knows. HUD does not compile this information, much less make that information public. That lack of transparency is simply unacceptable. How can supporters make a serious claim that the program as a whole is accomplishing its goals when nobody knows how the money is spent.

Without transparency other performance problems are inevitable. Critics of Community Development Block Grants argue that while flexibility abounds, the program has ambiguous goals, insufficient accountability, and lacks standardized outcome indicators. In the 39 hearings I have chaired in this Subcommittee, I have found that when these factors coalesce within a Federal program, opportunities for waste, frauds, and abuse of tax dollars abound. For example, right here in Washington, DC, the *Washington Post* reported in 2002 that more than $100 million in CDBG funds were spent over a decade on revitalization projects—and there is little to show for it. According to the *Post's* assessment, the city's use of this Federal funding is characterized by overspending, cronyism, and conflicts of interest. As another example, CDBG funds were appropriated to rebuild New York City in the aftermath of 9/11, but due to the program's lack of meaningful guidelines and enforcement, some of this desperately needed money went to fund questionable projects like the Tribeca Film Festival.

Illustrating the lack of policy direction and management in the program, the Manhattan Institute reports that CDBG loans, referred to as Section 108 loans, have a

59 percent default rate. Critics say that even though HUD has specific guidelines, transparency and oversight for its other lending program, they have nothing similar for Section 108 loans. For example, after the 1992 Los Angeles riots, the Los Angeles Community Development Bank was created using CDBG funds. This program initially awarded a $6 million loan to an individual who was turned down by every commercial lender he met with due to his extremely risky business plan. Violating its own spending limit, the CDBG funded bank ended up pouring $24 million dollars into this unsound business in a misguided attempt to keep the business afloat. While politicians were congratulating themselves, the business defaulted and was forced to shut down. Two-thirds of the businesses assisted through this loan program failed to create the required number of jobs and only a meager 11 percent created jobs that went to the area's residents.

A key flaw in the program is the outdated funding formula. These formulas haven't been updated since the 70's—meaning the program has not updated its funding structure to reflect changes in poverty over the past 30 years. The grants are not consistently targeted to communities in need, and as a result, there are numerous funding anomalies. For example, Temple, Texas has just under $20,000 per capita income and receives $15 per capita in CDBG funds. But Oak Park, Illinois has almost double the average per capita income of Temple and receives $39 per capita from the program. Newton, Massachusetts has three times the income level of Hopewell, Virginia but this community receives three times more CDBG funding per capita. These are just two of hundreds of examples illustrating that different communities are receiving the exact opposite amount of funds you'd expect.

We all know that the communities we live in have changed in the past few decades—some have improved, some have deteriorated. There's no way for a community that was needy in the 70's but is now wealthy to "graduate" from the program. Once a community is placed on the list, no matter how wealthy the community becomes over time, it is guaranteed a portion of the CDBG funding every year.

Even though I value the goals of the program, I have several questions. When will we get full transparency with a public website where anyone can see how the money is spent? When will the program adopt standardized performance measures to be used in comparing successes from city to city? The program is long overdue for meaningful reform. There are several key points that must be addressed in order for this program to be both effective and accountable.

- Funds must be targeted based on need. This means the formulas need to be updated and wealthy communities need to graduate from eligibility.
- There must be transparency and enforcement of the planned use of grants under this program—publish a community's proposal and actual disbursements on a public website. HUD needs to provide consistent oversight and transparent monitoring of what goes into a plan and how it is carried out. Communities must be able to comment on a grantee's planned use of CDBG funds. Potential waste, fraud, and abuse of funds need to be averted before high-risk plans are enacted.
- Funding must be conditioned on performance. Performance measures need to be better defined, and grantees that consistently fail to perform need to face real and immediate consequences.

Since 2000, the Administration, to its credit, has identified these program weaknesses and attempted reform. But, these attempts have been met with open hostility in Congress. I'm afraid that many of my colleagues view the program as an entitlement for their home districts. Last month, HUD delivered the latest Community Development Block Grant reform proposal to Congress. I hope that Congress will take our responsibility to Americans seriously and finally make this program work for the needy communities it was created to help. As more and more accounts of waste and abuse surface, we simply cannot neglect our duty to the next generation in favor of the next election.

I want to thank all the witnesses for being with us here today. I look forward to hearing your testimony.

Senator COBURN. I want to personally thank all of our witnesses for being here and the efforts that you put into your testimony. I welcome my two companions on the panel, and I will go on the order of first here, first to speak. Senator Coleman, you are recognized.

OPENING STATEMENT OF SENATOR COLEMAN

Senator COLEMAN. Thank you very much, Mr. Chairman. Let me first start by applauding your passion and your focus to deal with fraud and to try to ensure transparency and accountability in government programs. In your time in the Senate, you have been a true champion. As a former prosecutor, and as the Chairman of the Permanent Subcommittee on Investigations, I think if we totaled it up, we would identify about $11 billion in fraud and mismanagement that we have been in the process of correcting, and by the way, even for government, that is a lot of money.

I share a similar passion, and I also am appreciative of what you stated that the goal here is not to eliminate CDBG. I think we all agree on that. But a couple of observations, and I have a fuller statement I will enter into the record. No program is sacrosanct. Clearly, spending government dollars, there needs to be accountability. There needs to be transparency. I would like to commend the efforts of the HUD Inspector General to fight CDBG waste, fraud, and abuse. There are bad characters who fail their communities through criminal acts, and we have to kind of root those out. There is no question about that.

My concern is, and let me just be very blunt here: For those of us who have seen CDBG work, as a former mayor, and I have, and we have seen the incredible positive things that they do in communities, urban communities, rural communities, that without them, we would lose the opportunity for jobs. We would lose the opportunity for economic development. Our communities would be much worse off. This is an important program. And part of the concern as we look at the last year, where the Administration was, for instance, last year, which was essentially to combine CDBG, kind of lump it in with a number of programs, that raises, I think, a degree of cynicism out there as to what the intention is towards this program, which across the board, and I appreciate the Assistant Secretary being with us today; my colleagues have spoken loud and clear. I think we had 65-plus votes last year to oppose the Administration's proposal to essentially eliminate CDBG at least in its present form by combining it with a multitude of other programs and cutting its funding.

So you have a very clear will of the Congress here, which is not inconsistent with anything the Chairman has talked about. Those of us who are passionate about this program and who know its successes are also passionate about it working effectively. And so, the issue becomes how do you do that? How do you get there? One of the challenges that we have that if we make any changes, and I am very sensitive as a former mayor, is you have to look at the impact it has on communities and give people the opportunity to kind of weigh that and to measure it. And if we are going to change it, you have to understand that.

I am a great believer in public-private partnership. I am a great believer in folks working together. We have had cooperation between OMB, HUD, CDBG stakeholders, and they have produced an increased, improved performance system. We have to get about implementing that, that improved performance system, and improved performance measures. But I have serious reservations with HUD's reform plan. I have serious reservations with respect to the for-

mula change. I have serious reservations with respect to the minimum grant threshold proposals. I would hope that we would, as we go about doing the reform that we all agree needs to take place, we want a better system, that we work closely with the shareholders; that we work closely with those who are impacted, and we figure out the right way to do it. We just want to do it the right way here.

[The prepared statement of Senator Coleman follows:]

PREPARED STATEMENT OF SENATOR COLEMAN

Thank you Mr. Chairman. I appreciate the opportunity to be a part of this hearing on a most important program for communities all across this country.

Mr. Chairman, as you know, I have been a strong champion of the Community Development Block Grant (CDBG) program. I come to this afternoon's hearing to tout the vital importance of this program to our communities. CDBG is a community development program that helps State and local governments tackle their most serious community development challenges. CDBG and public-private partnerships like it are the cornerstone for the economic revitalization occurring across the country and in many of our urban and rural communities in recent years.

But just as importantly I also come to this hearing as someone who believes any government program can improve its performance and accountability.

I can personally attest that dollar for dollar there is no better program to help States and localities renew and rebuild their communities and economies than CDBG. For every one CDBG dollar, nearly three dollars are leveraged from the private sector. I know CDBG works because I was the mayor of St. Paul before coming to Washington. During my time as Mayor, over 18,000 jobs were created in St. Paul and CDBG was undoubtedly a part of that success.

CDBG grows jobs; CDBG builds communities. Whenever I talk to the folks back in Minnesota—to city administrators, mayors, or county commissioners, they all tell me the same thing—that CDBG is the lifeblood of their communities.

That said, Mr. Chairman, I share the President's goal of reducing the deficit and exercising strong fiscal accountability in Washington. As a former mayor, I know something about the challenges of crafting fiscally responsible budgets. during my time as mayor I streamlined the city's bureaucracy and helped to turn budget deficits into surpluses—all without raising taxes.

In my view CDBG is a fiscally responsible program that exponentially produces more than it costs and it is a truly conservative initiative enabling local leaders to meet local needs. I believe that government is beholden to the people. That individuals with the help of their local representatives can plan their lives better than bureaucrats in some distant capital. CDBG is a very conservative idea that we should not have command and control programs run out of Washington. Rather, we should help communities meet those needs and priorities through one block grant.

With that in mind, I have respectfully disagreed with the Administration's decision to eliminate the program last year and to effectively starve the program of the funding necessary to undertake its mission. Mr. Chairman, I do find it strange that while the Administration is seeking to undermine this successful program it is at the same turning to this program to provide emergency reconstruction relief to the Gulf Coast in the amount of $16.7 billion or more than five and a half times more than its FY 2007 budget request.

I see that the Assistant Secretary is with us today and I would just like to relate to her that the Administration needs to accept the political reality here that there is overwhelming bipartisan support for this program and that it is unnecessary to fight a battle that it will consistently lose. As I am fond of saying, it is better to measure twice before cutting once.

That said, Mr. Chairman, I also come to this hearing as a strong advocate for reasonable and appropriate reform of CDBG. Despite its past success, I do believe there is room for improvement within CDBG. On that account, I applaud the efforts of HUD, OMB and CDBG friends on developing a new performance measurement system for CDBG. I believe this new performance system is a significant step towards improving the transparency and accountability of CDBG.

I would also like to commend the efforts of the HUD inspector general's efforts against CDBG waste, fraud, and abuse. Unfortunately there are some bad characters who are failing their communities through their criminal acts. As a former prosecutor and Chairman of the Permanent Subcommittee on Investigations, I take very seriously waste, fraud, and abuse of taxpayer's dollars. I have worked with my

colleagues on identifying $11 billion in waste, fraud, and abuse. We must be the best stewards of taxpayer dollars and to the end I appreciate the efforts of HUD's IG.

Now while I am supportive of efforts to improve the performance, I do have serious reservations with HUD's reform plan with respect to the formula change and minimum grant threshold proposals.

According to HUD projections, my State's CDBG program would experience a 31 percent reduction in funding, and entitlement cities such as Minneapolis and St. Paul would respectively experience a 54 and 44 percent reduction in CDBG funding in FY 2007. Furthermore, the proposal would no longer provide guaranteed funding for Bloomington, Eden Prairie, Moorhead and several other smaller communities. These reductions would have a devastating impact on the ability of the State and communities to effectively undertake vital community development programs.

Mr. Chairman, I have heard from the State, many of the affected communities such as Coon Rapids, Duluth, and St. Paul, and the U.S. Conference of Mayors and many other organizations as to the importance of this program. I request these letters be made a part of the record.

Now I do believe that it is important to have a serious discussion regarding the formula. However we should not act in haste given the significant impact such a change would have on communities across this country. It is my understanding that GAO is currently studying this issue and is expected to issue a report within the year.

I would say that since CDBG is a public-private partnership, all stakeholders should be brought together to address difficult issues such as a formula change. We have seen how cooperation between OMB, HUD, and CDBG stakeholders produced an improved performance system. I am optimistic that under a similar model we can also appropriately address the difficult issue of formula change and other reform issues.

Mr. Chairman, I thank you for holding this hearing and I look forward to hearing from the witnesses.

Senator COLEMAN. Mr. Chairman, I have a number of the affected communities in my State, 13 communities plus the State itself have submitted letters in support of the program, and we have a good conservative Governor in Minnesota, and his principal has submitted a letter in support of this program. So I would like to have those entered into the record.[1]

Senator COBURN. Without objection, so ordered.

Senator COLEMAN. And then, again, I want to thank you for holding this hearing. I want to thank you for your diligence is pursing these matters, and I just hope that we can work together in a way that continues to build strong communities, that recognizes that if something works, that is a thing you have got to keep. We have got enough that does not work in the Federal Government. CDBG works. It is working well, and if we need to make it more transparent, more effective, we will do that, but let us do it the right way with the right folks at the table.

Senator COBURN. Thank you, Senator Coleman.

I would make note that the reform proposal that is before us today does not combine CDBG with other grant programs, and I would also make note that if you got CDBG where it was transparent and working well, what you might see is those grant programs would be folded into CDBG rather than the other way.

Senator Akaka.

OPENING STATEMENT OF SENATOR AKAKA

Senator AKAKA. Thank you very much, Mr. Chairman, for holding this hearing, and I want to add my welcome to our witnesses

[1] The letters submitted for the record by Senator Coleman appears in the Appendix on page 100.

as well. As you know, the Community Development Block Grant program provides essential Federal resources to help meet the specific needs of communities, and this is a special program, because it empowers communities in determining their priorities.

In Hawaii, our counties have recently used CDBG resources to help provide affordable housing, assist the homeless, expand day care facilities, provide meals to low-income families, strengthen our medical infrastructure by making physical improvements to our community health centers, and expand opportunities to help individuals with disabilities find employment. As a former director of the Hawaii Office of Economic Opportunity, I care deeply about the success of these programs. I did work in and work on it and did help people in Hawaii over the years.

Today, we face a severe shortage of affordable housing in Hawaii. In addition, increased construction costs have made building houses, apartments, community health centers, and other structures much more costly. Without Federal support, these programs will no longer be possible, as construction costs continue to rise. With CDBG facing cuts, we should be advocating for additional resources to provide our communities to meet their unique needs instead of having a formula fight to divide whatever scarce resources we have. I will continue to work to protect my home State of Hawaii and the CDBG program.

We need to give our communities more resources to meet their needs, not less. As our counties struggle to meet the increased costs of providing housing, ensure that low and moderate income individuals have access to quality health care, and help expand access to economic opportunities, the Federal Government has an obligation to support these programs. Instead of misconceived tax cuts that benefit a small number of wealthy taxpayers, we must find the resources necessary to help our local communities find the solutions to their problems.

It has been mentioned by the Chairman that there are problems and in some cases that reflect mismanagement. These, we need to take care of, but there are these communities that really need the help, and CDBG can help to do it.

Thank you very much, Mr. Chairman.

Senator COBURN. Thank you, Senator Akaka. I appreciate you being here.

I am going to recognize our first two witnesses and introduce them. Your full testimony will be made a part of the record, and I have read your full testimony. I have spent a great deal of time looking at this program, and I recognize its value. Pamela Patenaude became Assistant Secretary for Community Planning and Development at the Department of Housing and Urban Development. Prior to this appointment, she served as HUD's Assistant Deputy Secretary for Field Policy and Management, and before coming to HUD, she served as State Director and Deputy Chief of Staff for U.S. Senator Bob Smith.

Kenneth Donohue is the Inspector General of Housing and Urban Development. Before serving at HUD, he had a distinguished 21-year career with the U.S. Secret Service as a Special Agent, culminating with the Assistant Director assigned to the CIA's Counterterrorism Unit.

Ms. Patenaude, we will recognize you now, and as you finish, we will then recognize Mr. Donohue.

TESTIMONY OF HON. PAMELA H. PATENAUDE,[1] ASSISTANT SECRETARY, COMMUNITY PLANNING AND DEVELOPMENT, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, ACCOMPANIED BY TODD RICHARDSON.

Ms. PATENAUDE. Thank you, Mr. Chairman. Good afternoon, Senator Coburn, Senator Akaka, and Senator Coleman. I am pleased to be here today on behalf of Secretary Jackson to share the Administration's proposal on the CDBG reform. The President's fiscal year 2007 budget retains and consolidates the CDBG program at HUD. We have proposed the reform because the program's intended impact to the Nation's neediest communities has decreased over time. Quite simply, the current formula that allocates billions of dollars is no longer fair.

Over the past three decades, demographic and socioeconomic changes, development patterns, and other factors have created significant distortions in the distribution of CDBG funds. There has been a steady erosion in the ability of the formula to target funding to places with greatest needs. The CDBG formula has remained untouched since the 1970s. Reform is also necessary because HUD must be able to hold grantees accountable for performance and provide incentives to maximize the impact of these limited and valuable funds.

To address these issues, the Administration proposes the CDBG Reform Act of 2006. The three main elements of the Act are formula reform, the introduction of a competitive challenge grant, and enhanced performance measurement requirements. To explain further, Dr. Coburn, I call your attention to the irregular EKG on the chart to my right. [Laughter.]

Senator COBURN. That patient is dead. [Laughter.]

Ms. PATENAUDE. We have three charts here: Chart one, the solid red line on the chart indicates the community index needs. The jagged lines, the irregular lines, represent the more than 1,100 entitlement grantees, and each individual line represents the per capita grant for the entitlements. The Community Development Needs Index was developed as a measuring stick.

On the left hand side of the chart, we have our low need grantees. On the right side, we have our high need grantees, and the numbers on our left are the actual per capita grant amounts. As you can see on the right, under the current formula, many high need grantees are receiving significantly smaller grants relative to the needs index. The biggest problem with the current formula is that grantees with similar needs are receiving widely different grant amounts, and that is where you see the swings.

Chart two shows a more equitable distribution of the Community Development Block Grants under the new formula or the proposed formula. It demonstrates the ability of the new formula to more fairly target funds to communities with greatest needs.

And finally, the lightly shaded area represents the current formula, and the dark vertical jagged lines represent the entitlement

[1] The prepared statement of Ms. Patenaude appears in the Appendix on page 39.

grantees under the proposed formula. As you can see, there is significantly better targeting to communities with the greatest need. Grantees with similar need profiles will receive a more equitable amount per capita, and most importantly, the proposed formula will ensure more funding to the most needy communities.

The second element of the CDBG Reform Act is the introduction of a $200 million competitive challenge grant. This fund would give communities the opportunity to compete for additional funding to carry out economic development and revitalization for distressed neighborhoods. In order to be considered for the challenge grant, distressed entitlement communities are required to have both a strategy and a track record of concentrating investment in distressed neighborhoods. Communities are selected based on objective criteria, including the extent to which they target assistance to distressed neighborhoods. HUD will award the challenge grants to communities that achieve the greatest results in their neighborhood revitalization strategies.

And finally, the third element of CDBG reform strengthens the performance measurement requirements to improve the effectiveness and the viability of the program. HUD is currently implementing this new framework that clearly establishes measurable goals. The CDBG Reform Act of 2006 reaffirms the national objectives of the program and preserves local flexibility. By revising the formula, adding a challenge fund, and implementing performance measurement frameworks, we will improve the effectiveness of the program.

Thank you, Mr. Chairman, for this opportunity to present the Administration's proposal.

Senator COBURN. Madam Secretary, thank you very much. Mr. Donohue.

TESTIMONY OF HON. KENNETH M. DONOHUE,[1] INSPECTOR GENERAL, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. DONOHUE. Senator Coburn, Senator Coleman, and Senator Akaka, thank you for inviting me to testify today on this important topic. Through our audits and investigative efforts, the OIG hopes to strengthen HUD programs such as CDBG grants into a more targeted, unified program that sets accountability standards in exchange for the flexible use of the funds. The CDBG program provides annual grants to 1,180 general units of local governments and States, and results reflect each community's ideas of a good use for the money that will, at least in the design, result in the elimination of slum and blight and foster economic development.

Some community projects, however, do not always match the intent of their paper submission. We continue year after year to identify the same problems in our audit investigative efforts for the program and CPD activities in general. HUD OIG audit reports show that repeated problems fall into the following six categories: The improper use of funds; the lack of capacity; requirements are not followed, a lack of adequate management; national objectives not met; and a lack of monitoring and reviews.

[1] The prepared statement of Mr. Donohue appears in the Appendix on page 44.

Over the past 2½ years, we have issued over 35 audit reports. We have among other things identified $100 million in questionable costs and funds that could be put to a better use. We have indicted 159 individuals, pursued administrative actions against 143 individuals, and made over $120 million in recoveries.

An example of the lack of policy or adequate management is a community association in Kansas City, Missouri, that squandered CDBG funds to include company picnics, Christmas tree lighting ceremonies, luncheons, gifts, and bonuses. You see by the first chart, the poor recordkeeping, and that was one example of the office recordkeeping.

An example of the entity now following HUD requirements is a nonprofit corporation in San Juan, Puerto Rico, which could not demonstrate that activities met at least one of the three block grant national objectives: That it directly benefits low and moderate income persons, that it aid in the elimination and prevention of slums or blight, and that it met other community needs that have a particular urgency.

In another review, the Department repeatedly warned Utica, New York, that construction of a boat marina and ski chalet were not eligible activities. The city incurred $903,000 in ineligible costs and $214,000 in questionable costs for the marina. The city is still trying to establish that $255,000 of the ski chalet was an eligible activity; as you see in the right, a picture of the ski chalet.

In reference to the lack of monitoring reviews, we found that CPD has management controls to minimize the risks that grantees and some grantees lacking capacity receive funding; however, unverified assumptions, incomplete and outdated guides, and limited ongoing monitoring undermine these controls. I have seen the success of active monitoring efforts with monitors used by the Lower Manhattan Development Corporation in preventing waste and fraud in post-September 11 rebuilding activities, and I have testified previously to this effective concept for use in disaster relief efforts in the Gulf States.

Our investigative activities show there are five major fraudulent types of schemes affecting the program: False claims, soliciting bribes and kickbacks, procurement and contracting, theft or embezzlement, and public corruption. The City of Springfield, Massachusetts, was especially hard hit by the public corruption. In the past several years, a number of officials, including the public housing authority director and the directors of at least two CDBG-funded nonprofits or public agencies have been indicted and/or convicted of crimes that run the gamut, including conspiracy to defraud the United States, obstruction of justice, extortion, false statements, perjury, criminal contempt, and witness tampering.

We endorse efforts to improve performance and accountability within the CDBG program and support some of the proposed changes by the Assistant Secretary. For example, I believe it is a worthy endeavor to give policy makers the opportunity to weigh new proposals to more fairly distribute the funds to address inequities that have arisen as demographics have changed. This said, I must say that we are concerned that what appears to be language designed to insert objective performance criteria into grant language by the Administration will be undermined by the implemen-

tation of vague criteria and a failure to improve deficient enforcement tools.

These criteria may not be adaptable to quantitative measurement. CPD has not always established a consistent history in performance monitoring, specifically between its headquarters staff and field sites. I am concerned that this may set standards that are simply achievable rather than accountable. In some instances, CPD refused to pursue any type of sanctions against grantees on the ground that they should not be held responsible for the lack of success of the proposed activities as long as those activities are consistent with the statutory objective of the grant. In addition, if a grantee has not performed for 2 years, then, HUD should be required to intervene. Moreover, this legislation also appears to lack adequate enhancement to improve CPD enforcement tools under 42 U.S.C. Section 5311.

In regards to 42 U.S.C. Section 5311, we also believe it needs to be amended to eliminate the requirement for a formal hearing. In my view, without the authority to take prompt enforcement action, grantee noncompliance will not be deterred, and performance will not be encouraged. Alternatively, the CDBG program should retain the process of giving notice to the community of a grant and allow the community to comment on proposals. This check and balance and transparency appears to have been deleted in the proposed amendment, 42 U.S.C. Section 5304 (e).

That concludes my testimony. I thank the Subcommittee for holding this important hearing. I look forward to answering any questions you may have.

Senator COBURN. Thank you, Mr. Donohue.

I want to welcome my co-chairman, Senator Carper from Delaware. I know he has a lot of experience with this program. We have already established that this is not a hearing about eliminating CDBG block grants, and we did that from the outset. And if you would care to say something, Ms. Patenaude, you are welcome to.

OPENING STATEMENT OF SENATOR CARPER

Senator CARPER. First, let me say that I am delighted to hear that. The second thing I want to say is welcome to our witnesses. I apologize for having missed all of your testimony and part of yours, Mr. Douglas.

Senator Coburn and I were part of a discussion that went well into the night last night trying to figure out what we can do to rein in our very large Federal budget deficits, and I think in the end, we have to look at everything and figure out what is working well and what is not, and programs I support as much as CDBG, we need to look at these programs, too, and figure out what we can do better. And so, we approach it with that spirit.

I have a statement for the record, and I just look forward to the opportunity to question our witnesses and to maybe hear from some others. Thank you.

Senator COBURN. Thank you.

Madam Secretary, can you give me some examples of wealthy communities receiving larger CDBG grants than those given to poorer communities with much higher needs?

Ms. PATENAUDE. Yes, I can. Thank you, Mr. Chairman. As a native New Englander, I think a very obvious example is Newton, Massachusetts, and Lawrence, Massachusetts, which is a declining community, an old mill town. Newton, Massachusetts is a wealthy community, a suburb of Boston, and under the proposed formula, it would be corrected, and we would restore equity.

Senator COBURN. Do you think the resistance to restoring equity is that there are going to be some losers in terms of total dollars to communities? Is that the resistance that you are hearing as you talk about your reform plans?

Ms. PATENAUDE. The most difficult part of the CDBG reform proposal is that some communities with high needs will lose, but it is relative to the needs index, and until 2 days ago, we had not received any formal feedback from our stakeholders, but we are in receipt of that now.

Senator COBURN. So if a community, based on your minimum grant criteria, did not have enough to get the minimum grant, what happens to that money that they did not get? Where does it go?

Ms. PATENAUDE. As you know, we have proposed a minimum threshold, which is a percentage of the appropriation, so that we will not have entitlement communities coming in and out of the program and that based on 2006 appropriations is approximately $500,000. So communities that do not meet the minimum threshold will be eligible to participate either through the State program or join an urban county. The demographics is not going to be a one-for-one, but the money should be redistributed based on that population and the poverty of the entitlement community.

Senator COBURN. But the State does not really lose the money.

Ms. PATENAUDE. No, I do not believe they do.

Senator COBURN. The State still gets the money; the money just gets redirected in a priority that the State then makes a decision; is that correct?

Ms. PATENAUDE. That is correct, Mr. Chairman.

Senator COBURN. So even though you have a very wealthy community, and they fall out of this direct block grant does not mean they are not going to get money, correct? Because if the State decides to take that money through their State allocation, the State could very well still give it to them.

Ms. PATENAUDE. That is correct.

Senator COBURN. OK; when my staff attempted to obtain grantee-level spending data, it became evident that there is no consistent data collection process. Some cities have their reports online, while others have them only in paper format. Some even had them in the form that what we saw from Mr. Donohue, which is not in any format at all. Each city had a different process for sharing information. Furthermore, the data was not collected in a central location at your headquarters but rather stored all around the country. Most of the time, it was not computerized, even though it may have been computerized originally.

Why does HUD not have a consistent reporting requirement for the grants today?

Ms. PATENAUDE. Senator, I believe we do. All grantees are required to enter data into the IDIS system, and that system is cur-

rently going through a reengineering to make it more user-friendly. We are moving to a web-based platform. But all grantees are required, with the new performance measurement framework that we are currently implementing, and we are training all of our grantees this summer in 10 locations throughout the country, we will obviously be requiring grantees to enter additional data under the performance measurement framework.

Senator COBURN. What about Mr. Donohue's idea that the language that you all have floated before the Congress is that you may intercede when there are vague criteria, lax enforcement, or problems versus should or shall? Why did you choose the option of could? Why should you not intercede? Why should you not intervene if somebody is failing? And why should the language not be that you have to intercede?

Ms. PATENAUDE. The proposed legislation does give the Secretary the authority to take——

Senator COBURN. But it does not say they have to.

Ms. PATENAUDE. It does say he may, but I do believe that Secretary Jackson was instrumental in the development of this legislation, and I believe that we interpret that the Secretary will take action when appropriate.

Senator COBURN. Well, I certainly do not read it that way. I read it that it is an out. You do not have to enforce it if you do not want to. And I think it should be if you are going to have that type of program, you certainly ought to have that.

Mr. Donohue, are there outstanding recommendations for increased accountability that your office has made to HUD which could be immediately enacted by Congress, by action from Congress, that would result in improvements in both the fraud, the lax enforcement, the vague criteria, and other things? Have you all made recommendations that we could act on? Rather than a reform, could we do something that would help us get more bang for the buck

Mr. DONOHUE. Senator, we submit proposed legislation to the Hill annually, and two of the issues that we have spoken to is the ones that Madam Secretary has spoken about. One is the formal hearing requirement. I would submit to you that the Secretary should, as you indicated, should have the right to weigh in on programs that are ineffective and misspent funds and whatever. And I think that as the request indicated that if there were going to be hearings required and an appeal, I think that could take place, and there is ample room to go back and address those matters that might come back up.

The other matter is the national objectives. The way it is designed right now is the applicant applies for a national objective, and then, what we found in some cases were they either did not meet that objective, or at the time of our audit or thereof, the objectives were reapplied. One of the other objectives was reflected. And we feel as though that if these objectives are part of the application process that at least the grantee should go back and submit a change at some appropriate time for HUD's approval to go forward on the applied grant that they have now changed to.

Senator COBURN. Senator Carper.

Senator CARPER. Thanks, Mr. Chairman. I hate to mispronounce the names of our witnesses, and I pronounce your last name Donohue.

Mr. DONOHUE. That is right, sir.

Senator CARPER. I have no idea how to pronounce your last name. Would you just say it for me? Is it Patenaude?

Ms. PATENAUDE. Patenaude.

Senator CARPER. OK; good. I missed your testimony, as I said earlier. And would you just take the a minute and just give me my take-aways? If we remember nothing else from what you have had to say today, what are the couple of things that you would have us remember?

Ms. PATENAUDE. The three elements of the CDBG reform: The proposed formula revision, the introduction of a competitive challenge grant, and the performance measurement requirements.

Senator CARPER. OK; take a few more seconds and maybe another minute and talk about the three elements.

Ms. PATENAUDE. Under the proposed formula revision, we believe it would restore equity. The current formula, as you can see from the chart, if we could put Chart One back up, that demonstrates the lack of targeting under the proposed formula.

Senator CARPER. And how does it do so?

Ms. PATENAUDE. The solid red line is a community needs index that was developed as a measuring stick. The light or the pink vertical jagged lines represent each entitlement community, more than 1,100 communities are laid out on this chart.

Senator CARPER. Somewhere on that continuum, one of those spikes, probably right along the solid line, is Delaware?

Ms. PATENAUDE. Todd, can you point out Delaware? [Laughter.]

Senator CARPER. That is OK, Todd. I think she was kidding.

Ms. PATENAUDE. Well, we could. It is in the 30—right there.

Senator CARPER. Above average?

Mr. RICHARDSON. It is above the line.

Senator CARPER. That is pretty impressive. [Laughter.]

Senator CARPER. OK; what else would you have me know about what you had to say?

Ms. PATENAUDE. That HUD needs the ability to hold grantees accountable with this new performance measurement framework and also that the performance measurement framework was not developed in a vacuum. It was a 2-year process working with stakeholders and the Office of Management and Budget, and it was very much a consensus document. And because the program has such flexibility, it was obviously a very difficult framework to come up with.

Senator CARPER. Does the new formula take into account the cost of housing and services in the local areas?

Ms. PATENAUDE. Under the proposed formula, we have a fiscal capacity adjustment, and I believe that the fiscal capacity adjustment——

Senator CARPER. When we say fiscal capacity adjustment, can you just kind of translate that for me?

Ms. PATENAUDE. I am going to attempt to.

Senator CARPER. And you are welcome to bring somebody up to the desk who can translate it for me as well, just in layman's language.

Ms. PATENAUDE. That is the most complicated part of the formula, but we have the variables that play into the formula. And at the end, a fiscal capacity adjustment is applied so that communities with high per capita incomes we believe would have high cost of services, there is an adjustment made but no more than 25 percent based on the per capita income.

Senator CARPER. OK; I will have Senator Coburn explain it further to me later. [Laughter.]

Senator COBURN. Does that mean there is a minimal penalty for the lower needs but yet higher income communities?

Ms. PATENAUDE. Can you clarify what you mean by penalty?

Senator COBURN. Well, the adjustment, it is limited to 25 percent, right?

Ms. PATENAUDE. Todd, do you want to address that, please?

Senator CARPER. And you may want to identify yourself, sir.

Mr. RICHARDSON. My name is Todd Richardson. I am an analyst at HUD.

The per capita adjustment essentially says that if you are a community whose per capita incomes are higher than the per capita incomes of the metro area, your grant is adjusted downwards, and if you are a community where your per capita incomes are lower than the metro area, your grant is adjusted upward. So if you are a particularly poor community—think about Camden, New Jersey, in the Philadelphia metro area—your grant, there is a base grant that is provided, and that grant gets adjusted upward, because your average per capita incomes are lower than the metro area.

Whereas, if you were a wealthy suburb, for example, your grant would be reduced to reflect having higher per capita incomes relative to the metro area.

Senator CARPER. My first reaction to that is that seems to make sense. What do you all think?

Ms. PATENAUDE. Todd is the author of the formula study, so I think he would agree. [Laughter.]

Senator CARPER. All right. Todd, who is your boss? [Laughter.]

Ms. PATENAUDE. It is actually another Assistant Secretary. I am not his boss.

Senator CARPER. Just checking. [Laughter.]

Senator CARPER. Sort of a follow-up, because I want to make sure I got this right. So somebody in Delaware at the median income has to pay more relative to housing costs both to buy and to rent a home from someone in Oklahoma, for example? Delaware loses money, and Oklahoma gains? I am told by my staff that this gap could be even more pronounced in places like Hawaii, with very high housing costs. And I would just ask if that is true, and also, might it make more sense to consider the purchasing power of the grants, not just the absolute amounts of the grants themselves?

Ms. PATENAUDE. I am looking at the numbers for Delaware and Oklahoma, and again, it is relative to the community needs index, so if a community was receiving a higher per capita grant under

the current formula, they will lose under the proposed formula so that it is closer to the community needs index.

Senator CARPER. Does the formula take into account other things that a State may try to do to address poverty, such as what we spend on education, on our schools, what we are spending on health care, Medicaid, and other things or spending on housing itself? And if so, how?

Ms. PATENAUDE. Well, the formula is based on persons in poverty, excluding college students, female-headed households with children under 18, housing overcrowding, and housing 50 years or older occupied by a poverty household. And then, the fiscal capacity adjustment is applied. So I do not believe that the items that you listed would come into plan in the proposed formula. Perhaps they are recognized in the 17 variables that are used for the community needs index.

Senator CARPER. OK; thanks very much. Thanks, Mr. Chairman.

Senator COBURN. Senator Coleman.

Senator COLEMAN. Thank you, Mr. Chairman.

First, I have to ask you a question, Mr. Donohue: Are you aware of a GAO review of CDBG?

Mr. DONOHUE. I believe I am, sir, and I looked over it a bit as well.

Senator COLEMAN. And I read somewhere that there was an OMB PART evaluation. Do you know what that is?

Mr. DONOHUE. I do know what that is.

Senator COLEMAN. And are you familiar with that regarding CDBG?

Mr. DONOHUE. I cannot recall, sir.

Senator COLEMAN. Can you just tell me briefly what an OMB PART evaluation is?

Mr. DONOHUE. I am going to have to bring one of my staff up to explain that if I can, sir.

Senator COBURN. Can I answer that?

Senator COLEMAN. Yes.

Senator COBURN. It is a Program Assessment Rating Tool, and this program has a 17 score out of 100, 100 being running the program grant based on performance measurements—27 out of 100; I am sorry, not 17—which means this, in terms of measurement tools, we do not have measurement there. And that is part of the management, trying to get measurement to see if we are effective in how we are spending money.

Senator COLEMAN. Assistant Secretary Patenaude; is that——

Ms. PATENAUDE. That is correct.

Senator COLEMAN. When you are talking about the change in the program, one of the changes is in the amount of funding for CDBG under the Administration's request. Was CDBG appropriated $3.7 billion last year?

Ms. PATENAUDE. This fiscal year, 2006, that is correct.

Senator COLEMAN. And that the Reform Act of 2006 posits a $200 million set aside, so if you take that, so we put the challenge grants aside, then, you have $2.7 billion. You talk about one of the concerns, you are starting out with a 25 percent cut.

Ms. PATENAUDE. Well, they are separate issues. The President's fiscal year 2007 budget does propose a cut for the CDBG program.

Senator COLEMAN. Is it about 25 percent? Are the numbers I have given you——

Ms. PATENAUDE. They are correct, sir.

Senator COLEMAN. And so, and I am one who measure twice, cut once. [Laughter.]

Measure before you do your cuts. And I think that is part of the issue here. I think the work being done by the Inspector General in terms of performance measures, formal hearings, giving the Secretary a chance to be involved when there are problems, I do not think anyone is going to argue with that. So when you kind of look at the hallmarks of this, it is not just fairness in the program. One of the hallmarks of it is a substantial cut in the program before we even begin. That raises a level of concern.

I think there is also a level of concern, at least I read it. I have had a chance to review the National Association of Housing and Redevelopment Officials' document which is now part of the record.[1] I cannot tell you whether it is gospel or not, but they give figures here in terms of the impact of these cuts that are pretty substantial. And in fact, every grantee in Minnesota, which sees its allocation decline by at least 18 percent; all three of Delaware's entitlement communities would lose at least one-third of their funding.

Senator COBURN. Do we lose any money?

Senator COLEMAN. Norman, Oklahoma would experience a 35 percent reduction in CDBG grant. One of the concerns here, and I say this as a former mayor, is these kind of ups and downs. You cannot plan a city's future, you cannot do long-term development unless you have a process by which you look at these and you measure the impact. That is why the GAO has a study. And the GAO report, as I understand it, is working with stakeholders. I think it may be a good model. Did you work with the Conference of Mayors when you proposed the Reform Act of 2006?

Ms. PATENAUDE. The performance measurement framework that was——

Senator COLEMAN. No, the funding of the other formula. You are talking about getting fairness. Let me say that one of my concerns is that mayors who deal with this thing—I have to tell you, they have not been knocking on my door about lack of fairness. And so, you have the folks who are most directly impacted, who are your stakeholders, and I think the GAO is working with them; I think it is a good model, and I am just not sure whether HUD has had that same kind of consultation, discussion. Can you help me on that?

Ms. PATENAUDE. Sure; I do not believe that HUD consulted with the stakeholders on the actual funding proposed in the President's budget, but we did have consultations over a 2-year process developing the performance measurement framework.

Senator COLEMAN. One of the other issues, and it goes to this question of why there are concerns. I think there are concerns about the real impact. One of the great sins in Congress is the law of unintended consequences. We say we are going to do something,

[1] The prepared statement of the National Association of Housing and Redevelopment Officials appears in the Appendix on page 120.

and then, we get an impact and then try correcting it afterwards. Again, I am just relating to this report. They cite your testimony before the Subcommittee on Housing and Community Opportunity held on the House side, Financial Services Committee, Housing and Community Opportunity, in which you indicated you gave an example of two cities, Santa Monica and Santa Maria. And this is your quote: "Under the current formula, they receive about $1.3 million. In terms of need, they are very different. Santa Monica, large per capita income; Santa Maria, low per capita income. Under the formula the Administration will propose, Santa Maria's grant would increase to $1.6 million, while Santa Monica's would fall to $750,000." That sounds reasonable.

Their analysis says Santa Monica received a CDBG formula grant in the amount of $1.382 million for fiscal year 2006; Santa Maria received $1.307 million. If Congress were to adopt the Administration's proposal exactly as written, Santa Monica's grant would in fact fall to $558,000, while Santa Maria's grant would fall to $1.180 million.

So in other words, what you have there is a 60 percent cut for Santa Monica, and you have a 10 percent cut for Santa Maria.

Ms. PATENAUDE. I believe they are using two fiscal years, though. They are not using level appropriations for 2006. They are comparing 2006 to proposed 2007.

Senator COLEMAN. Right; so they are looking at your 2007 budget. And your 2007 budget, this community that has great need, they are going to also get a cut. And I have trouble with that. And so, I think we agree on the goals, but we are looking at communities that have need that are going to be cut, and I have trouble explaining that.

And so, I think as we go forward in this, let's bring in the mayors. Let's bring in the folks who are supposedly impacted by the lack of fairness and other local officials and have them talk about this and see if we get where the Chairman and the Ranking Member want us to go, because that is where I want to go: Transparency and accountability. But I do not want to see cuts if something is working. And that is my trouble: If it is working, if it is actually growing jobs and doing the housing things and growing our communities, cut somewhere else where it is not working.

But this program and this proposal cuts, using your own example, you are going to see a cut in a program that you are touting perhaps as something that has the need. And I just find that problematic.

Ms. PATENAUDE. Senator, if I may, we do have an increase in other areas in CPD. There was an increase in the proposed 2007 budget for the homeless and for the Home Program.

Senator COLEMAN. I am just saying I know this program, and I have seen the impact in communities across Minnesota, rural as well as urban, and my deep concern is—again, I spend my time fighting fraud and abuse. But if I have something that is working, and my mayor is telling me they are getting something out of this, I want to be real careful about what we cut.

Senator COBURN. I want us to go back and clarify. The Administration proposes a budget, and that does not mean we are going to do it. And you know we are not going to probably do it on CDBG

grants. So I want us to clarify what the reform proposal is outside of what that is. Because if we get caught up in what the Administration is proposing in terms of their total budget, which they get the right to recommend; we get the right to legislate what it will be. If we get caught up in that, we take our eye off the ball. The problem is you cannot measure whether this program is effective. You can on an anecdotal basis, and that is the whole point of trying to get some measurement data to see if what we are accomplishing is worth the value of what we are putting into it. And I think that is important.

The other thing, the point I would make is one of the reasons that the Administration comes by and cuts this is because of what the IG says in terms of fraud, what the GAO says, what the PART analysis says, says that it is not working. There is no measurement goal. So the whole purpose for thinking about reform—and I will tell you right now, I do not think this reform proposal as it is written is probably not going to go anywhere in Congress, but that does not mean that we do not need to have some reform in terms of measurements and refinements and how do we measure outcomes, and how do our grandchildren, since we are borrowing this money from them, get the best value for their dollar?

And so, I would hope that what we would do from the basis of this hearing is establish a way to—how do we measure fairness? How do we measure the effectiveness of the program? There is no measurement. That is one of the reasons we are having this hearing is we need to find out. We have less than 9 years before this program is really going to get crunched. I mean, everybody can deny that is all they want, but we are on a path to where discretionary spending is going to get squeezed. And the way to protect CDBG is to put in a system that shows how effective it is so it will be able to compete for the dollars that should be there to help these very communities.

And so, I hope we will keep our focus on measuring—maybe we do not need to reform it at all until we have measured it. Maybe what our reform needs is let us put in good measurement criteria, performance criteria, reporting criteria, and sunshine criteria so we can really find out what we are doing.

Senator Carper, your turn.

Senator CARPER. Mr. Donohue, I think you may have mentioned before I came in something about a project in Utica, New York, that may have involved a chalet. And would you just go back and just tell me again what you were talking about?

Mr. DONOHUE. Well, sir, this was a program funded in Utica. It was, I believe, a CDBG program, and the money turned up based on our audit. We did, as was mentioned, about 1,180 grants that were awarded in the past year, we have done 35 audits over the past 2½ years, which is very few, actually. One is this Utica. What we found in the case was this was a sampling and a photograph, we found the ski chalet and a marina being built and completed on that same money. That was not its intended purpose as designed and did not fit into the application in any way whatsoever.

Senator CARPER. The project did not marry up with the application?

Mr. DONOHUE. That is correct, sir.

Senator CARPER. And is there no way under current laws or regulation that could have been caught?

Mr. DONOHUE. Well, that is the whole question, sir, is that what happens is when we go back and take a look at these, and we have just got into this about 2½ years ago on the CPD program, the ones we have seen is—really, the concern that I have is at the subgrantee level, and their application process, what they are asking to do, it seems to change at times.

And when we look at these audits, we find more times than not that it is used for criminal activity often the case. We have had a host of indictments. But we also find that there is a lack of capacity in many of these audits as well.

Senator CARPER. I am sorry; lack of——

Mr. DONOHUE. Lack of capacity; lack of being able to deliver on what their intended purpose was, particularly on the subgrants.

Senator CARPER. So, it seems to me that you have a jurisdiction; they applied for a grant for a particular purpose. Somebody, presumably HUD, reviews that grant application and decides whether or not it has merit and comes up with a dollar value. Later on, once the project is underway or completed, who has responsibility to make sure that what is being done with the money is what was initially proposed?

Mr. DONOHUE. Well, that really gets to the heart of my point today, sir, is that what I believe, one of the things I found, a classic example was the Lower Manhattan Development Corporation. We went in there and took a proactive approach to the expenditures of about $2.5 billion, and one of the things we came away with was the need and the success of monitors. I truly believe that if I leave anything with you today, it is the idea that I believe that in the disbursement of these funds, the administrative funds or some of these funds of those grants need to include a monitor or monitors that will literally look at these programs, development utilization of the funds, and report back to us in this case to let us know it is being effectively applied.

It has been a success, I believe, in the Lower Manhattan Development Corporation, and it is one of the things I am trying to spearhead in the Gulf States region.

Senator CARPER. Ms. Patenaude, would you respond to that recommendation, please?

Ms. PATENAUDE. Thank you, Senator Carper. Under the current statute, if an activity is eligible, the grantee can change the activity as long as it still meets one of the three national objectives. And if I could comment on the ski chalet, the creation of jobs that benefit low and moderate income, that is eligible under the statute, so we would have to respectfully disagree that we do not have the authority to tell a grantee they cannot do something if it is an eligible activity.

Senator CARPER. Whose job is it to catch it if it is not?

Ms. PATENAUDE. We have very effective monitoring in place. We monitor more than one-third of the 1,100-plus grantees a year. We do front-end risk assessments to identify activities that could be high-risk, and we have more than 600 employees located in 45 field offices that conduct these. And if I may comment on the application, grantees are required to submit a consolidated plan. And

then, we look at the reports at the end of the year to compare them, and there is a requirement to hold a public hearing.

Senator CARPER. Mr. Donohue, would you respond to that?

Mr. DONOHUE. Yes, I would, sir. I have looked at my audit report. It states the fact that the grantee in a case with regard to the ski chalet used the CDBG funds to help finance the renovation of a ski chalet in spite of a warning by HUD that the activity may not have been a national objective of the CDBG program. And that was not its intended purpose, and yet, it went ahead and built it anyway.

Senator CARPER. Last word, Ms. Patenaude.

Ms. PATENAUDE. I think we have a wonderful partnership, and we cooperate fully with the IG. We have, since Labor Day, been working with the IG on the appropriations. Now, there are the two supplementals for the Gulf Coast. We do follow up. We take their audits very seriously, and oftentimes, there is some disagreement at the end whether or not an activity was eligible.

Senator CARPER. All right. My colleagues, Mr. Chairman and Senator Coleman, sounds like we have a difference of opinion here.

Senator COBURN. We have a vote on. What we are going to do is give you an opportunity, if you like.

Senator COLEMAN. I just wanted to put a couple of things in the record. I know the Chairman raised a concern about Section 108. I went back; I used Section 108. I thought it was a pretty good program, and I am going to have to check the record on this, but your figure was pretty substantial before. At least in Minnesota, I do not have any default rate. I have got to go back and find any; so there is a huge——

Senator COBURN. That is why you are from Minnesota. [Laughter.]

Senator COLEMAN. That is why I do not want to kill the program.

Senator COBURN. Again, there is no intention to kill programs here. And that is the problem. And there is a real structural problem. You get accused that you want to eliminate a program if you want to make it efficient. And that is a political bushwhack that belies what we need to do for our kids. The fact is if we spend $10 million on something we should not be spending, that is $10 million that did not go to help somebody accomplish something better and give jobs. But it is also lost opportunity to do it right, get it right, and make it meet one of the three goals.

Senator COLEMAN. Just for the record, the two other things, because I have a copy of the OMB program evaluation. And on the question has the program taken meaningful steps to correct its strategic planning deficiencies? The answer is yes. And they are saying that HUD is actually in the process of correcting these. Are all funds, Federal and partners, obligated in a timely manner and spent for the intended purpose? And the answer to that is yes.

There are challenges in this. And we are in fundamental agreement on the need to fix this program. My big concern, Assistant Secretary, is the process. My big concern is moving forward with a significant budget cut in a program that universally among cities and throughout this country, urban and rural, I think it is making a big difference. It is growing jobs; which, by the way, HUD says that in its own—I think I have the 2004 highlight accomplishments

of fiscal year 2004 CDBG, "this is a HUD document, approximately 95 percent of the funds expended by entitlement grantees and 96 percent of State CDBG funds were expended for activities that principally benefited low and moderate income persons; overall, a full half of persons directly benefitted from CDBG assisted activities, minorities, including African-American, Hispanic, Asian-Americans, or American Indians."

This is a program that is making a difference. And so, I think we have a shared interest. I am going to work with the Chairman to make sure that we put in place, make sure there are strong performance measures; make sure that we can root out the specific instances of abuse. But I am also going to urge the agency to work with your shareholders. If you are going to talk about redistributing funds that are going to have a significant impacts on the communities of all of us, and make it very difficult to plan long-term to meet the economic and housing needs in those communities, you have got to work with them.

And I do not think that has been done to date, and I think that is the need that changed. And then, we do that and work with the GAO, then, I think we can agree, Mr. Chairman, on some changes that need to be made.

Senator COBURN. One comment I would make is there is no way HUD can make that statement, because they do not have the performance criteria or measurements as stated by PART, as stated by IG, as stated by GAO. So there is no way that they know that, for sure, that 95 percent of the funds were spent in the way that they were intended, and that is the whole purpose of the hearing is let us put the measurement—and much like you said, measure twice, cut once—and let us put the measurement functions in in terms of reforming so that we can know what we are getting and then move from there.

It is important to know, I think we need to reform the program. In declining dollars, we are going to have to redirect some of the funds to the poorer communities. We have to have some change in the funding formula if, in fact, we are going to accomplish the purposes of this program, which means the wealthier communities may have to take a little bit less so that those who are most dependent can have more, and we can really create more opportunity.

I am going to ask, if we could, if both of you could have someone stick around for our second panel; we will empanel the second group when we come back from the vote, and we will recess until that time. Thank you.

[Recess.]

Senator COBURN. The hearing will reconvene.

For the record, I want to make sure we clarify that the information submitted for the record by Senator Coleman on the cuts for the cities reflected, the cuts in the Administration's requests for total CDBG and they were not necessarily reflective of the cuts from the reform bill before us.

Eileen Norcross is a Research Fellow at the Mercatus Center at George Mason University, where she works on the Government Accountability Project. Before coming to the Mercatus Center, she was a fellow in journalism at the Competitive Enterprise Institute,

a consultant with KPMG, and a research analyst with Thompson Financial Securities Data.

Cardell Cooper is the Executive Director of the National Community Development Association. He is the former mayor of East Orange, New Jersey, and served as the Assistant Secretary for Community Planning and Development at the Department of Housing and Urban Development in the Clinton Administration.

Ms. Norcross, you are recognized. Your complete testimony has been made a part of the record.

TESTIMONY OF EILEEN NORCROSS, M.A.,[1] SENIOR RESEARCH FELLOW FOR THE GOVERNMENT ACCOUNTABILITY PROJECT, THE MERCATUS CENTER AT GEORGE MASON UNIVERSITY

Ms. NORCROSS. Thank you, Senator Coburn, Senator Carper, and Members of the Subcommittee for inviting me to testify on the Community Development Block Grant case for reform. I am currently engaged in a study to determine whether Federal economic development programs are able to meet their intended goals. Our research does not reflect an official opinion of George Mason University.

According to its statute, CDBG was created to increase the viability of urban communities by addressing housing needs and creating healthy living environments by expanding economic opportunity, primarily for low and moderate income persons. The activities grantees engage in must principally benefit low and moderate income people, eliminate or prevent slums, and remedy urgent threats to the health or safety of the community.

CDBG faces several barriers to assessing its impact. First, it is difficult to obtain data. For now, only aggregate data is available on HUD's website. Grantee-level data is available from local HUD offices. We tried to get this information for 71 cities and could obtain most reports online or through the mail, though 15 cities did not return our calls, and several cities could not mail or upload the report due to the size of the document exceeding 1,000 to 2,000 pages in some cases.

Providing grantee-level data in a more easily accessible format allows citizens to better understand how the program operates in their community as well as throughout the Nation. It permits enhanced monitoring of how funds are used, and it improves oversight, and it also permits researchers to analyze the program's effects.

Second, outcome measures will better enable data collection. HUD has developed and is beginning to use more measures, though many are still output-oriented, and must also show that grantee-reported outputs serve the program's goals.

I applaud HUD's efforts but caution that a simple count of jobs or businesses assisted is not enough. We need to know if the creation of jobs or businesses led to economic revitalization that would not have occurred in the absence of CDBG dollars in order to truly assess the program's effectiveness.

[1] The prepared statement of Ms. Norcross appears in the Appendix on page 53.

And third, determining the effects of CDBG rests not only on the quality and consistency of the data but also on the difficulty of establishing what would have happened in the absence of funding. We can use econometric studies or case studies. These should rely on good economic theory. If done correctly, empirical studies that involve field work, interviews, and surveys can be valuable and complement statistical inference. Case studies are not anecdotes. The hazard with anecdotes is that the experience of one community is offered as evidence for what all communities are accomplishing nationwide. Depending on their quality, they may not tell the full story.

The following is not a case study but an example of how CDBG dollars are spent in Madison, Wisconsin, highlighting the need to dig deeper behind the current measures in order to get a picture of its effects. In 2005, Madison, Wisconsin spent over $1.4 million of its CDBG funds on economic development, claiming the creation of 99 jobs, including jobs for two coffeehouses, a bakery, restaurant, several biotech firms, and information technology companies.

Madison, Wisconsin is a college town. Fifty-nine percent of its students are classified as living in poverty, and the current formula does not exclude them. Eight percent of Madison's residents are actually in poverty. According to the CDBG statute, these loans in Madison are legitimate uses of CDBG funds, and these 99 jobs went towards HUD's 2005 total of 91,237 jobs created.

The deeper question is was CDBG created to create coffeehouse jobs for college students in relatively wealthy communities? Did the biotech firms create jobs for truly low to moderate income people as envisioned by the statute's intent or for graduate students? Did taxpayers subsidize private businesses to do something they would have done anyway?

Are these negative outcomes? It depends on whether you consider this an effective use of CDBG dollars. Could these funds have been used to help with disaster relief in the Gulf, an area in urgent need of revitalization?

Madison, Wisconsin, was legitimately awarded funds according to the current formula to legitimately fund economic development activities to serve the objective of job creation. Congress must determine if this is the outcome they are seeking to achieve with this program.

CDBG was created with a particular outcome in mind: Alleviate slums and blight to revitalize communities and generate economic opportunity for residents. However, it has drifted from its original mission. I believe Congress should change the formula recommended by HUD, improve transparency, and make grantee-level data publicly available; require the measures designed by HUD; and consider what aims Congress is trying to accomplish when it created this program to determine if current activities are serving that aim.

Further empirical testing of this program is needed to know its effects. This is only possible with better data collection. The measures offered by HUD will facilitate this. HUD is to be commended for identifying structural and management deficiencies in the CDBG program. Better targeting of funds, data collection, and empirical evaluation of this program will help HUD and the public

identify what activities are best serving the communities this program was designed to help. Thank you.

Senator COBURN. Thank you, Ms. Norcross.

Mr. Cooper, welcome. We are glad you are here. You obviously have a great deal of experience with this, and we look forward to your testimony.

TESTIMONY OF CARDELL COOPER,[1] EXECUTIVE DIRECTOR, NATIONAL COMMUNITY DEVELOPMENT ASSOCIATION

Mr. COOPER. Thank you very much, Chairman Coburn. It is an honor to be before the Subcommittee today, to Senator Coleman; I always affectionately called him mayor. We served together as colleagues during my tenure as mayor. It is good to see you, and certainly, Senator Carper hopefully will be back for the rest of the hearing.

As the Executive Director of the National Community Development Association, I am pleased to appear before you today. I have served previously, as you know, as an Assistant Secretary of Community Planning and Development at U.S. Department of Housing and Urban Development. And it is sort of interesting: You are seeing the person who has to do it now and the person who was there. I have spent time in various hearings, and we tend to have a need to change things and fix things, and clearly, when they are broken, they ought to be fixed. There is no question. I commend the Assistant Secretary for her presentation. However, I do not necessarily agree that the answer is that CDBG is in need of reform.

I believe, Senator, that you made a very cogent point, as other Members did. There is no one who can disagree with that accountability chart, and agreeing with the accountability chart, if there was enforcement and monitoring is done correctly, we can achieve that goal. Back in January 2001, the GAO submitted a report to the Congress specifically about HUD being on the high-risk list as an agency within the Federal Government. At the same time, during that report, it submitted that CPD programs, in particular CDBG, had made significant strides and improvements that warranted it to be taken off of the high-risk list.

That was done with a combination of partners, both mayors and practitioners as well as the Department, to come up with a better tool of how we measure and monitor those programs. I commend the U.S. Department of Housing and Urban Development for working on performance measures. That was a time where partnership did exist. The Conference of Mayors, the NCDA, a number of other national organizations were all involved in having a candid discussion about how do you best measure a program for the 30 years that it has been in existence, has proven results, but at the same time, the data collection to support that and back that up needed to be improved? And that is what the performance measures under their proposal would do.

That does not require reform. That was a partnership. It is being implemented. They are starting, as we speak, to train the various communities how to access that system, how to use it, how to report the very data, Mr. Chairman, that you talked about. And I be-

[1] The prepared statement of Mr. Cooper appears in the Appendix on page 79.

lieve that if we give that an opportunity to work, then, some of the underlying questions automatically get answered.

Let me for the record also state I heard the IG talk about the anecdotal stories of people who have done some things that quite frankly, if they do not meet the smell test and are against the laws of this land, there is enforcement capability in that Department, and I know Senator Coleman as a former prosecutor would agree. When people violate the law, and it is proven that they have violated the law, there are measures that can be taken to deal with that.

Unfortunately, when we use anecdotal stories on the negative side, it gives the general appearance of waste, fraud, and abuse. The issue of waste, fraud, and abuse for any community, if it is monitored correctly on the front end and enforced on the back end, I think you could limit that problem, and over the years, that has been the tool that has been used and constructively. I also want to add that as we talk about CDBG and its flexibility, over the 30 years of being a practitioner as a mayor and one who had to govern in a very difficult community under deep financial constraints and as a former Assistant Secretary who has traveled around the country in both urban and rural areas, large cities and small cities, for the majority of people who are involved in this program, they are doing the job, and they are doing it well.

And what is being produced is lifting people who are low-income and moderate income people to a level where they can sustain themselves. We are talking about families where two parents are working. CDBG was not designed as a poverty program only, and I think sometimes, we get caught up in that side of it. And the reality is that we have lifted people up and moved them to a point where they are contributing to society. They are paying taxes. The neighborhoods are improving. And I think that it is important for us as we make these efforts to enforce the accountability issue that we not lose sight that we do not need to reinvent the wheel and reform something that works. We need to enforce that which is working, and we need to hold those who are accountable for the things that they do that are not within the construct of what CDBG was designed for.

We also recognize that CDBG is flexible because the answer to Hurricane Katrina was let's use CDBG because of its flexibility on the grounds to help those who were devastated by this major disaster in our Nation. In New York City, when September 11 happened, CDBG was one of the answers. The point I want to make, though, in New York City, because it was labeled a disaster, as many of these other issues are, the Department has the authority to grant waivers, and when they grant those waivers, it changes how those regulations are employed, and I think they need to be very honest about when that occurs, whether a waiver was granted that allowed them to do an activity that may be out of the general scope under those rules.

I do believe that if we talk about winners and losers, the American people lose when we make disinvestment. We have finally gotten to a point where you have the business community and bankers and developers who are willing to step deep into the pool because of the Federal investment in neighborhoods and communities

around this country. They have been our partners; they continue to be our partners; the money is spent wisely; it helps produce jobs; it changes the face of neighborhoods.

The losers in this deal, quite frankly, are all of America. We look at the various States. I will give you an example: In Alaska, 16 percent decrease; Ohio, 10 percent; Utah, 13 percent; Michigan, 6 percent; Hawaii, 19 percent; Minnesota, 26 percent; New Jersey, 11 percent. I could go down the list. And where we are making what appears to be increases, at the same time, we are reducing the budget on the other side; it is going to have some devastating consequences.

So I ask you and implore you on behalf of the people who are the practitioners to ask HUD, in fact, if we work together so well on the performance measures, and we all agree that is a proper way to go, then, they need to sit down and talk to the practitioners and those who are responsible on the ground and come up with a workable way to deal with this formula issue. And the answer is not in this reform package. There are so many things that are going on right now. The GAO has a study. Congressman Turner has a study. The Department is rolling out reform. The Department rolled out reform and had not had one conversation, as my dear friend Assistant Secretary Patenaude said, and not that that makes them bad people; it is just that if that dialogue had taken place, we might be here talking about how we get to the accountability pieces without going through a reform track but simply enforcing and holding people accountable for their responsibility, because after all, the Federal dollars belong to the American people, and we should be good stewards of the public trust.

Let me conclude by saying that our partners stand ready, as we always have, to work closely with the Department, but there are many mixed signals that are being sent. And I appreciate the fact this Subcommittee has this hearing today, but then, again we do not always have to reinvent something in order to correct it. I do believe that the rules and the tools are in the Department to correct the very things that the Secretary and the Department are trying to cure.

Having sat in that seat, I know it is easier said than done. But the independent remarks of GAO over the last few years of where we are headed make sense, and the GAO, to their credit, called in all of the stakeholders most recently, all of the stakeholders, spent an entire morning with them——

Senator COBURN. Could you summarize, if you would?

Mr. COOPER. I will summarize by saying that if we want to get to the heart of the issue and to use the public funds in the way they were designed, to continue the most flexible program in the Federal portfolio that was created out of a Republican Administration and enacted by a Democratic Congress in a bipartisan spirit, delivering services to America and improving these communities, then, CDBG reform is not the answer. It is a matter of working together collectively on the accountability issues.

Thank you, Mr. Chairman.

Senator COBURN. I am a little bit confused because of your written statement that says, "holding grantees accountable for perform-

ance is redundant, and you oppose the accountability provisions in the reform package."

Mr. COOPER. No, I said it is redundant in the sense that the Secretary needs a special provision to enforce that which they have already enacted. That is the point. The performance measures were part of the Department of Housing and Urban Development and the list of organizations who helped develop those standards. And they are now training people to put those standards into place. To say that now, in addition to that, there should be another review by the Secretary, give the standards that they have put into place that OMB agrees with an opportunity to work.

Senator COBURN. One of the things, and it is important, and I tried to define this with Senator Coleman a little bit, and the last part of your testimony, not just the most recent but before, confused a declining request for CDBG funds with reform. My goal would be that we could measure performance and that measurement—accountability without teeth, accountability without the ability to change things is not accountability. If, in fact, you have to report, but there is no problem if you are not reporting accurately or the fact that, which is my greatest worry, is there is great flexibility in this program, and it does accomplish a great deal of good.

In a declining budget, and everybody here in this room; you can kid yourself, but 10 years from now, there is not going to be a $5.2 billion CDBG supplemental, and there is not going to be a $3.7 billion CDBG appropriation, because the money is not going to be there. So the way to assure that it is more likely that the money is going to be there is to design a measurement and management assessment program that assures that this money is well spent. And I do not think anybody would disagree with that, and I do not think your testimony disagrees with that.

Mr. COOPER. My testimony does not disagree with that at all.

Senator COBURN. You do not oppose outcome measures.

Mr. COOPER. I am a firm believer in outcome measures. I think during my tenure as the Assistant Secretary, of all reports submitted by GAO and OMB that yes, indeed, we do support that. What I am saying is that you have the ability within the Department, as they have stated, and we support, we were part of developing these outcome measures. So, yes, we are on the same page.

Senator COBURN. And you would not oppose online data collection for the materials associated with the CDBG block grants so that what is out there is easily accessible not only by HUD but by the members of the community that know where their tax dollars are going?

Mr. COOPER. What I am saying to you is that they have to have a system to do that. The IDIS system has been that four-letter word that has plagued everyone on the Hill and in the Department for so many years as a corrective system and the data that is entered into the system; the data which is public information ought to be able to be made available.

Senator COBURN. OK.

Mr. COOPER. The question that I think the Assistant Secretary, if she was here, would agree, any sensitive data as it relates to individual people and that kind of thing ought not be there.

Senator COBURN. We are not talking about that. I want to get a yes or no answer. Your group and you do not oppose online data collection for CDBG grants, protecting privacy information——

Mr. COOPER. As long as it protects privacy information. That information is public information.

Senator COBURN. You would support that.

Mr. COOPER. That is public information.

Senator COBURN. And you all would support that.

Mr. COOPER. I have no objections to it.

Senator COBURN. Would you also, and Ms. Norcross, comment, if you have outcome measures, and there is no consequences to the outcome measures, what good are the outcome measures theoretically?

Mr. COOPER. It is not a theoretical question. It is a very honest question. The Department has within its ability that when people are not meeting the standards that are set by the Department, there are certain actions the Department can take. The question that I would have is why not on the enforcement end through the Department? If the issue is capacity, and I heard that argument, then, we have in the past, you work with those communities to give them assistance in capacity-building.

Senator COBURN. OK; but the Department can. My question is should the Department? And that is the difference between the authority they have now versus what I would like to see is I would like to mandate that the Department help those people be compliant. I would like to mandate if their outcome is not good that there is a consequence to it.

Mr. COOPER. I always believed, at least in my tenure, that was the case, and that is what they did. I do not know why they believe they cannot do it.

Senator COBURN. They did not testify they could not do it. That was not their testimony. What I am saying is something very different, and that is having oversight to where they have to so that we can hold the Department accountable of doing the best management techniques. They can do it, and I agree. I am saying they should do it.

Mr. COOPER. I believe in many cases, they do, but perhaps they need to document for this Subcommittee where they have enforced those things, and I think you will find that for the most part, they can. And if you are suggesting that language is placed there that says they shall or they must, I would think that should apply to every Department in this country.

Senator COBURN. Don't worry. I am getting to all of them.

Mr. COOPER. I figured you would be.

Senator COBURN. This Subcommittee is getting to all of them.

Under the current formula, East Orange, New Jersey, is a very distressed community with high needs and currently receives about $25 per capita. Bloomfield, New Jersey, on the other hand, according to HUD's need index, is not as needy. I am not saying they are not needy; I am just saying they are not as needy, about half as needy as East Orange by their index. The City of Bloomfield receives the same amount per capita as East Orange.

As the former mayor, do you really think that meets the intent of what was intended when this legislation was originally put into

effect, that somebody who has less need gets the same amount of money as somebody who has more need?

Mr. COOPER. It all depends on how you identify need, Senator. Bloomfield, New Jersey is located directly next to East Orange, New Jersey. I represented both East Orange and Bloomfield in the county legislature. There are pockets of poverty in very wealthy communities, and those pockets of poverty that are in those communities are just as entitled, the low and moderate income people in those communities, to benefit from this program as any other community.

Senator COBURN. So therefore, the assumption would then be that every community ought to get the exact same amount per capita.

Mr. COOPER. No, that is not what I am saying, Senator. If we want to get to the heart of the issue, I think if appropriate funding was made, we could eliminate this debate because——

Senator COBURN. That is not going to happen.

Mr. COOPER. Whether it happens or not is not my call. I can only express to you how I see it. If we address the accountability issues, get the data that is required, that everyone wants to see and let the performance measures work once they implement them, and to say that—you mentioned that in 10 years, the program will not be here unless people can defend it, well, let's do the first part right first.

Senator COBURN. That is not the question I am asking. The question I am asking you: Is it fair or is it appropriate, let me ask it that way, is it appropriate; take fairness out that if we have a community that gets $45 per capita, that has twice the per capita income as the community over here that gets $22 and has one-half the per capita income, is that an appropriate response for the needs in terms of CDBG block grants?

Mr. COOPER. If you talk about low and moderate income people.

Senator COBURN. I am talking about low and moderate——

Mr. COOPER. No, because——

Senator COBURN. So you are saying that it is an appropriate response?

Mr. COOPER. They are targeting down, and we are turning the issue to having CDBG no longer as a low and moderate income program but a program that will address the poverty in the Nation. It was not created as a poverty program, and perhaps we need to look at what we are doing to tackle poverty overall in the Nation. But if that is the case, low and moderate income is the standard in which CDBG——

Senator COBURN. So the answer is either yes, it is appropriate, or no, it is appropriate.

Mr. COOPER. I believe that it is the will of the people in those communities to provide for the people under current law, and that is the law, so I do not support the HUD Reform Act as defined——

Senator COBURN. I am not talking about the Reform Act. I am just asking you is it appropriate? Do you believe it is appropriate?

Mr. COOPER. Senator, I have answered your question. For the record, I believe that people at the local community under the rules of this program have the right to deal with low and moderate in-

come people in their community who are in need. That is the answer, and that is what the program has done for 30 years.

Senator COBURN. So it is appropriate, and we will let the record show that.

Mr. COOPER. In your words.

Senator COBURN. Senator Coleman.

Senator COLEMAN. Thank you, Mr. Chairman. First, a general statement. I think we are in agreement about 90 percent of things here. I think we are in agreement about transparency; I think we are in agreement about performance standards. I think we are in agreement about outcome measures. I think we are in agreement about accountability. It is how you get there.

My frustration has been how we have gotten there. As the Secretary said, there has not been a conversation with the stakeholders.

Mr. COOPER. No, there has not.

Senator COLEMAN. GAO is doing it, but there has not been that.

And as I look at the bottom line, not philosophical discussions about East Orange versus somewhere else. If you took the change in this Department that was recommended, Anoka County, Minnesota, 34 percent reduction; Dakota County, 41 percent; Duluth, 57 percent; Hennepin County, 45 percent; Minneapolis, 54 percent; Webster County, 42 percent, in all of these, there are some communities that are strong, and there are some that are very weak.

Senator COBURN. Senator Coleman, is that relationship to the formula?

Senator COLEMAN. To the formula.

Senator COBURN. Or the reduction plus the formula?

Senator COLEMAN. It is proposed 2007 appropriation based on the formula that is there.

Senator COBURN. But that is based on a decreased funding. I will make that real clear in the record.

Senator COLEMAN. A decrease overall of 25 percent; in many cases, almost double that. And these are communities, every one of them have—and I do not want to debate; just to say that you look at that, well, we have agreement on these things. How do we get there?

And the other issue I want to talk about, I think there is agreement, and Ms. Norcross, I was going over your recommendations, which actually, as I kind of went through them, I am for changing the formula, but I want to have a discussion about how you get there. I do not want to impose upon communities massive reductions, 54 percent, when they have not been part of the conversation. I think it is the arrogance of Washington. I think it is the arrogance of the Federal Government to come in and to tell communities this is what we are doing without having them at the table.

I agree with your recommendations, but I have one, Ms. Norcross, I want to ask you about: Improved transparency; require performance measures; we can reconsider what the mission is, take a look at that; the question about infrastructure, I do want to stress that. I have a community, Brewster, Minnesota; got a half million dollar CDBG grant for infrastructure. As a result of that grant, they were able to accommodate a soybean oil processing plant

about, I do not know, about $30 million worth of new investment and jobs in a small rural community.

Ms. Norcross, the one thing I have to ask about your testimony is, at least in your testimony, you talk about San Jose State economist Benjamin Powell summarizes the misguided idea behind the government directly financing job creation. What I want to understand, does that mean 7(a) loans, small business loans? Is that directly financing job creation?

Ms. NORCROSS. That is correct; if you are subsidizing job creation in that way, by handing a loan to business rather than the——

Senator COLEMAN. So you would think that is misguided.

Ms. NORCROSS. I think that first, you would want to identify there is a market failure.

Senator COLEMAN. We may have a disagreement.

Ms. NORCROSS. I respect that.

Senator COLEMAN. And again, I think there are a number of things government does, and government does not grow jobs. The private sector grows jobs. We shape an environment. We do infrastructure; that is pretty clear. But there are other things we do to support, I think, the entrepreneurs. And you look at some companies, I mean, they start in a garage because they got a 7(a) loan or something like that. They are producing a lot. So we may just have a philosophical disagreement about that.

I hope where we go from here, Mr. Chairman, is that we take a look at these things upon which we agree and that we engage the communities that are impacted, that we make sure that we do not impose drastic cuts on folks without having them part of the conversation. And I want to work with the GAO, work with some others, and I think we can have a better program. But I do think it is one in which job creation is part of it, and that is where we disagree.

Mr. Cooper.

Mr. COOPER. Senator Coleman and Senator Coburn, perhaps some of the contentions that you see is because as part of a major reform without having had a meeting with the stakeholders and the providers, it leads to a bit of distrust, whether it is imaginary or not. There are those who believe that when the Department was scheduled to—and I know this meeting is not for that, but when it was scheduled to go to Commerce, there was almost a closing out of CDBG; then, the cuts. And people began to think that it is being bled to death quietly. And then, when you have this massive reform that is introduced without the dialogue without any partners involved, it does send very bad signals.

Senator COBURN. That is an absolutely legitimate criticism.

Mr. COOPER. And I think your point you made earlier to the Secretary that if, in fact, the kind of dialogue that has taken place, we might really be here getting to the accountability questions that you want to get to. Because I think in that kind of meeting with mayors who are practitioners and community activists and other people, they would absolutely agree that there are priorities here that need to be corrected. So again, just for the record, I just want to state that if in fact we are talking about accountability, let us wrestle with the accountability issue and come up with the kind of

accountability that we all know is required, but at the same time, you cannot do that if your partner is not dialoguing at all.

So you have some people who are feeling pretty blue about this these days, because for the last 3 years, there has been this consistent sort of slicing away, bleeding, if you will, of a program.

Senator COLEMAN. And if I could say just one more thing for the record, Mr. Chairman, as I sit here and defend this program, I was a mayor for 8 years. I did not raise taxes in 8 years; cut my economic development agency at least by a third. And I was a conservative mayor. I merged, consolidated units of government. I was a conservative mayor, and those principles work. But as a conservative mayor, one of the things that I saw, and this was where we simply philosophically disagree: I think there are things that we do, infrastructure being part of it, some others that CDBG does, housing for first-time employees; you cannot grow jobs unless folks have a place to live that in the end made my community much stronger, much less reliant in the end.

I tell people I may have Senator in front of my name. I still have mayor stitched in my underwear. You do not forget where you come from. And I think CDBG is a conservative program that allows—and my concern is I think there is an arrogance in the way this proposal was laid out there, that the Federal Government telling people here is what we are going to do; major shift in a program without being part of the conversation. And I think that has to change.

Senator COBURN. Thank you. First of all, Mr. Cooper, you have a legitimate complaint.

Mr. COOPER. It is just an observation.

Senator COBURN. No, it is a legitimate criticism. And the fact is that is what is wrong with the Federal Government. Just to clarify for the record, the SBA 7(a) program has never been measured effectively. How it is measured is how many dollars it has loaned, not how many jobs it has created. So we are trying to do that. We are trying to get how do you measure the effectiveness? Because the problem is with the 7(a) loan, we know that we have got $70 billion on the hook for loans, but nobody has ever actually done the matrix to make the measurements is did those loans create those jobs?

We ought to know whether or not that did that. So the whole purpose of this hearing is not to endorse or not endorse a reform movement. The purpose of this hearing is not to say we want CDBG to go away. The real purpose of this hearing is like in every other hearing is how do we put measurements on so we know how to make the best decisions with the limited dollars that are going to be coming forward?

And I believe that Senator Coleman has hit it right, and I think everybody agrees: The question is what are the parameters that we measure? What are the teeth that we put into those so that if somebody is not working, not appropriately responding, that we can measure, can we send the money somewhere where it will? In other words, the whole goal, if this is a legitimate function of the Federal Government, and I believe it to be, if it is, how do we make it the best it can be, and how do we assume to move to that point?

And I think Senator Coleman and I agree, and I think Senator Carper would agree, and we are looking forward and how do we put the type of parameters and measures on. I am not convinced that the performance measures that they have now have any teeth with them. And I also am not convinced that they create the proper expectation from the grantees to comply. What I would like to see is not create a burden on them but make it easy, make it streamlined and easy for them to do it and have a program that has some teeth.

Because what happens is when you change expectations that you are going to be accountable in a program, people become accountable, because there is a consequence to it. If there is no consequence to it, and you are not accountable, then they will not be. And so, the goal is not to micromanage but is to set out some parameters and make sure that we get some—and I agree with you that once we get the measurements, then we can know what to do, and then we have to work with the agencies to do that.

There are some good ideas in this program of reform. I am not saying there are not some. I think the idea, if we increased CDBG block grants $200 million so we could create this challenge, there are things you could have done in East Orange, New Jersey, where you were doing better, and you could have gotten some extra money for that to make it even better. So that idea is not necessarily a bad one. It is a bad one because you are taking it away from the shrinking pool. Would you agree with that?

Mr. COOPER. Well, there were other incentives that we granted to communities who were doing well, and just for the record, and I think it is good work of the Senate as well as the House some years ago; remember the issue years ago was that people were not spending their money out at a certain rate. We could not figure out why, and we got together with all of the partners involved, and we did the analysis. We found out that there were certain communities who had phase one, two, and three of projects that, for example, in land acquisition, they purchased the land, so they got that part done, and they went to develop, and they found out they had environmental problems, and then they got a lawsuit.

So those things are real problems that communities have, and it should not be viewed that we cannot fix those things. There is enforcement, and I agree with you: If you really think about this whole accountability issue, and I know you have, I do not think there is an argument anywhere against that. I would just like us to be able to get to those measurement tools so when OMB raises the question of how can we account for the number of jobs developed, and how do we know the impact of this, that we have a series of accountability tools to get there, and I just do believe that there are enough wheels on the wagon, quite frankly, right now to do that, and let us get that part fixed first, and then, we can determine where we go from there, because right now, we are sort of chasing budget fights and reforms and hearings——

Senator COBURN. We do not want to confuse the two.

Mr. COOPER. Exactly, and I think the safest way not to do that, and you could attach, I believe that you can have the accountability discussion, but if you get into the reform discussion, particularly if you look at how the dollars are going to be generated in and out

in any given community; politically, it may be a difficult job for the Congress and the Senate to deal with, but in reality, it is even a greater difficulty for mayors on the ground to deal with, because if you are losing money, and you still have people who are in need of services, and if you are gaining money, people go where the services are provided, Senator. And we have seen that.

Senator COBURN. A couple of final questions for Ms. Norcross.

Ms. Norcross, in your testimony, you make the important point that jobs do not create economic growth but rather the exact opposite: Economic growth creates jobs. Besides the number of jobs created, what performance measures do you think would best gauge whether or not the use of CDBG funds is stimulating economic development in communities?

Ms. NORCROSS. I would like to see if unaided capital investment came into that community; what were the overall economic effects, the macroeconomic effects; what does employment look like; the number of people on public assistance. And I am glad that HUD is going down the road of establishing these outcome measures, jobs created, businesses assisted but want us to go further and show that these measures are having overall macroeconomic effects in a community, and I think that is the way they need to go.

Senator COBURN. And you do not disfavor the Federal Government having a role in that. What you are saying is you ought to measure it to make sure the dollars go to the best place to get the greatest impact?

Ms. NORCROSS. That is correct; I think there is disagreement among economists as to whether job creation should be a goal, but that is for Congress to decide. If that is to be a goal, then, let us try to tease out whether CDBG dollars are having larger economic effects. Are they leading to increased prosperity in that community? And that would be HUD's role to take the grantee data that is being reported on jobs created and try to demonstrate if that is having a larger impact, economic impact, on that community.

Senator COBURN. Are there ways a grantee could game a new performance measurement system and appear to be meeting goals when, in fact, they are not?

Ms. NORCROSS. I do not know if I would use the word game. When I looked more closely at Madison, Wisconsin, what I saw was here, we have HUD reporting it created 91,000 jobs last year. I looked a little deeper at Madison, Wisconsin, and I inferred that these jobs were going to potentially college students in that town. Here is a case where, looking at the macro number, we get the impression that HUD is creating jobs for low to moderate income people. When you look a little more deeply behind the numbers, is that necessarily the case?

So I think with a job creation figure, you want to be certain that you go a little deeper, make sure that these jobs are actually going to low to moderate income people as envisioned by the program's intent. Are these temporary jobs?

Senator COBURN. How do you differentiate a job created by a CDBG program versus a job created by somebody coming in at the same time with capital and then assessing, either rightly or wrongly, that came from the CDBG money? As an economist, can you have metrics or statistics where you can ferret that out?

Ms. NORCROSS. I think it would be fairly difficult to establish the counterfactual, but I think there are ways around that, and certainly, that was one of my motivations in trying to get HUD data. So I think there are methods, econometrics you can use.

Senator COBURN. I want to thank all our witnesses for being here today. We will be submitting questions to each of you that I would very much appreciate that you would answer, questions that I would like to ask but we do not have the time here today to do it.

Mr. Cooper, thank you for your experience. Thank you for your service in the Clinton Administration and serving our country, and thank you for serving the people that you represent today. We appreciate it very much.

Mr. COOPER. Thank you very much, Senator.

[Whereupon, at 4:36 p.m., the Subcommittee adjourned.]

A P P E N D I X

Written Statement of Pamela H. Patenaude

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

Hearing entitled "Community Development Block Grants: the Case for Reform"

Before the

Subcommittee on Federal Financial Management, Government Information and International Security

Committee on Homeland Security and Governmental Affairs

United States Senate

June 29, 2006

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

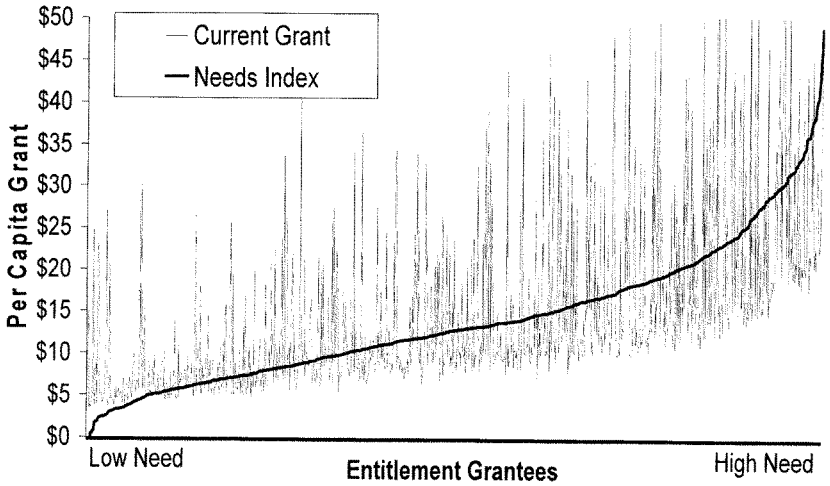
The President's Fiscal Year 2007 Budget retains the CDBG program at HUD. We have proposed the reform because the program's intended impact to the nation's neediest communities has decreased over time. The CDBG formula has been untouched since the 1970's. Since then, we have witnessed steady erosion in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

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

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

Chart One

Current Entitlement Formula – Targeting to the Needs Index



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

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

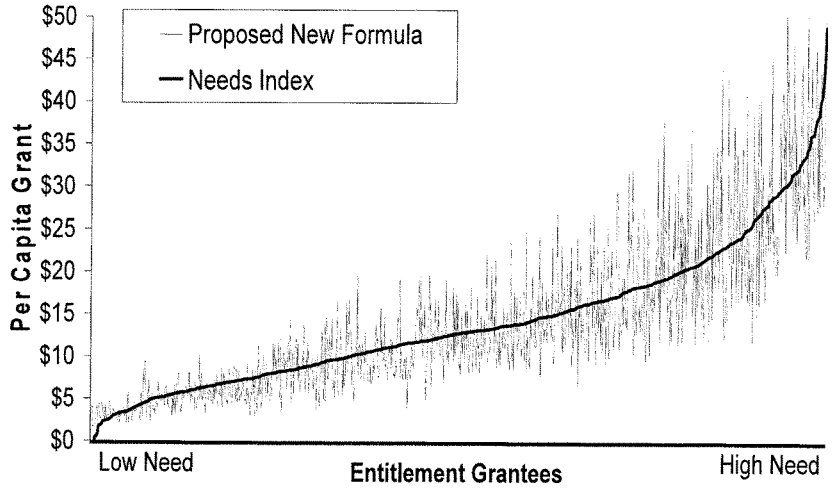
The formula proposed in the CDBG Reform Act is based on Alternative 4 from the HUD study released in February 2005 that was provided to Members of Congress. This single formula approach will apply to all grantees and eliminates the existing structure of dual formulas and the 70/30 split between entitlement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

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

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

Chart Two

CDBG Reform Act Formula Proposal – Targeting to the Needs Index



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

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

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

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

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

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

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

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

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

STATEMENT OF KENNETH M. DONOHUE
INSPECTOR GENERAL
DEPARTMENT OF HOUSING
AND URBAN DEVELOPMENT

BEFORE THE
COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS
SUBCOMMITTEE ON FEDERAL FINANCIAL
MANAGEMENT, GOVERNMENT INFORMATION,
AND INTERNATIONAL SECURITY
UNITED STATES SENATE

JUNE 29, 2006

Statement of Kenneth M. Donohue, Inspector General
Department of Housing and Urban Development
Before the Senate Committee on Homeland Security and Governmental Affairs,
Subcommittee on Federal Financial Management, Government Information
and International Security

Chairman Coburn, Ranking Member Carper, members of the Subcommittee; thank you for inviting me to testify today on this important topic.

Background:

The U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG) is one of the original 12 Offices of Inspector General established by the Inspector General Act of 1978. The OIG provides independent oversight of HUD's programs and operations. While organizationally located within the Department, it maintains independence to initiate and carry out audits and investigations. The OIG strives to make a difference in HUD's performance and accountability. The OIG is committed to its statutory mission of detecting and preventing waste, fraud, and abuse and of promoting the effectiveness and efficiency of government operations.

The Department's primary challenge is to find ways to improve housing and to expand opportunities for families seeking to better their quality of life. HUD does this through a variety of housing and community development programs aimed at helping Americans throughout the nation. These programs are funded through HUD's $30+ billion annual budget. For FY 2006, HUD received $4.2 billion for its community development activities.

Each year in accordance with the Reports Consolidated Act of 2000, HUD OIG is required to submit a statement to the Secretary with a summary assessment of the most serious challenges facing the Department. The OIG submitted an assessment on October 18, 2005 and is updating that assessment for the 2007 fiscal year. The Department's management challenges include the Community Planning and Development (CPD) and specifically the Community Development Block Grant (CDBG) program. Through our audit and investigative efforts, the OIG hopes to strengthen HUD programs, such as CDBG grants, into a more targeted, unified program that sets accountability standards in exchange for flexible use of the funds. Because HUD has to oversee a vast number of partners in hundreds of cities, the task is a daunting one for HUD, as well as for the OIG.

While HUD maintains a departmental staff, it still relies on the performance and integrity of a large group of entities to administer its many diverse programs. Among HUD fund administrators are hundreds of cities that manage CDBG funds, many State entities that receive the CDBG funds, thousands of Public Housing Authorities and Multifamily Housing projects that provide HUD assistance, and thousands of HUD-approved lenders that originate FHA insured loans.

The annual CDBG appropriation is allocated between States and local jurisdictions called "non-entitlement" and "entitlement" communities respectively. Entitlement communities are comprised of central cities of Metropolitan Statistical Areas (MSAs); metropolitan cities with populations of at least 50,000; and qualified urban counties with a population of 200,000 or more (excluding the populations of entitlement cities). States distribute CDBG funds to non-entitlement localities not qualified as entitlement communities.

HUD determines the amount of each grant by using a formula comprised of several measures of community need, including the extent of poverty, population, housing overcrowding, age of housing, and population growth lag in relationship to other metropolitan areas.

The HUD CDBG program, begun in 1974, is one of the longest continuously run programs at HUD. The CDBG program provides annual grants to 1180 general units of local government and States. Relying on the proposals and projects developed at the community level, the resulting finished works cover a range of activities. Housing, historic villages, museums, street lights -- there are any number of projects that CDBG funds have been used for, each reflecting the community's idea of a good use for the money that will, at least in the design, result in the elimination of slums and blight or foster economic development.

Communities of 50,000 people or more, especially those in what used to be called the "Rust Belt" northeastern United States, look upon CDBG as an important part of their annual budget. Making use of what can sometimes be an industry of CDBG consultants or municipal development staffs, communities draw up project ideas that are at least designed on paper to meet HUD's eligibility criteria. Some communities' projects do not always match the intent of their paper submission as described in their initial application.

We continue year after year to identify the same problems in our audit and investigative efforts with the CDBG program and CPD's activities in general.

Weaknesses of the CDBG Program:

Shortcomings in the program are usually the result of misfeasance, nonfeasance and, when it is willful, malfeasance -- all of which could have been avoided with the right direction and with the right motives.

These failures in performance result from grantee actions, departmental actions or both. HUD OIG audit reports over the years show that repeated problems fall into the following six categories:

1) The improper use of funds;

2) A lack of capacity (internal controls, accounting systems, processing deficiencies, etc);

3) The requirements are not followed;

4) A lack of policy direction or adequate management;

5) Goals or national objectives not met; and

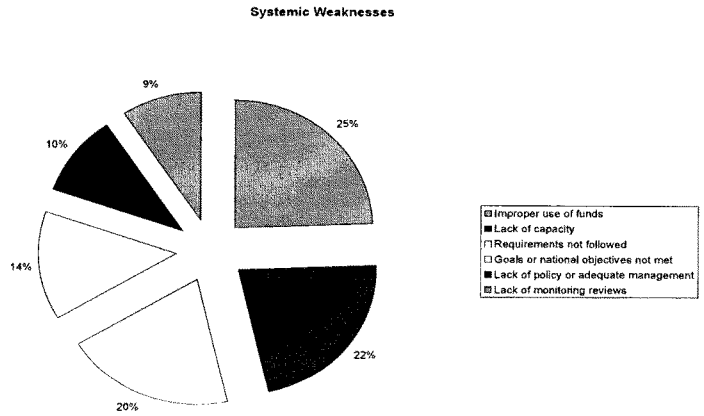
6) A lack of monitoring reviews.

In addition, the HUD OIG has assessed the Economic Development Initiative (EDI) program through its audits and investigations. Though not the focus of the hearing, but a focus in discussions with your committee staff, our work is replete with instances of inherent programmatic weaknesses in this CPD program as well and we have included instances in this testimony from our portfolio of audit and investigative work.

Vulnerabilities Uncovered During Audits:

The OIG selected CDBG programs for review to ensure that the flexibility afforded to these communities does not negatively affect the accountability standards. Over the past 2 ½ years, HUD OIG has issued over 35 audit reports that deal with the CDBG area. These CDBG-related reports identified over $100 million in questioned costs and funds that could be put to better use. During the same time period, the HUD OIG indicted 159 individuals, caused administrative actions against 143 individuals, had 5 civil actions, 39 personnel actions, and over $120 million in recoveries and funds put to better.

A distribution of the OIG's concerns discussed in audit reports regarding systemic weaknesses in the program are highlighted in the chart below:



A. Improper use of funds

"Improper use of funds" is the largest repeat audit finding in our CDBG reviews, with nearly one-quarter being classified as such. For example, in response to a congressional request, we reviewed the Los Angeles Community Development Bank's Economic Development Initiative/Section 108 Loan Guarantee Program and found the LACDB incurred related management fees of more than $2.6 million that provided minimal benefit, and used funds totaling at least $44,650 for unnecessary or unreasonable expenses due to requirements not being followed and improper use of funds. Further, the LACDB did not meet the national objective standard of 51% for creating or retaining jobs for low- and moderate-income persons. Similarly, the LACDB had not met the EDI Agreements' requirement of creating jobs predominantly for Empowerment Zone target area residents.

B. Lack of capacity

A grantee organization's "lack of capacity" is the second largest category of repeat audit findings. A grantee that cannot allocate its resources in people, training and material to administer grant money will encounter problems. For example, the City of Hartford, Connecticut, established an Emergency Demolition and Repairs Program using CDBG funds but failed to devote people with the proper training to monitor the program. By the time HUD OIG auditors initiated a review in response to a citizen's complaint, over $1 million had been granted for ineligible activities that then had to be repaid.

C. Requirements not followed

A prime example of this category is actions by the City of San Juan, Puerto Rico, which used a non-profit corporation to administer a development program funded with CDBG funds. The Corporacion para el Fomento Economico del Ciudad Capital retained more than $1.48 million in interest revenue from its CDBG revolving account and allowed the use of $463,618 for ineligible activities due to requirements not being followed and improper use of funds. Further, the Corporacion could not demonstrate that activities relating to four loans met at least one of the three block grant national objectives -- 1) it directly benefited low- and moderate-income persons; 2) it aided in the elimination or prevention of slums or blight; or 3) it met other community needs that had a particular urgency.

D. Lack of policy or adequate management

Since 2000, HUD OIG has questioned the policy and effectiveness of the Housing and Economic Development Financial Corporation (HEDFC) of Kansas City, Missouri. In a joint review, with the City Auditor, we found that the Kansas City system for managing housing program funds provided little assurance that payments to vendors and contractors met its housing needs. The HEFDC spent $900,000 more in program income than authorized on a project in Beacon Hill and failed to repay $600,000 owed on a Section 108 loan for a business park due to lack of policy or adequate management. Lastly, the

HEFDC's operational deficiencies contributed to overall poor performance as it did not meet its housing production goals for the year ending May 31, 2003.

Regarding a CDBG loan made by the City of New Orleans to the Jazzland Theme park, the City paid $1.3 million in ineligible funds and $6.4 million in unsupported costs due to a lack of policy or adequate management and the improper use of funds. Jazzland eventually defaulted on the City's loan and the City was required to repay HUD from the rents it received from the new owners of the amusement park and from its general fund.

In another example, the City of Atlanta and its sub-recipient, the Atlanta Development Authority (ADA), did not adequately manage and control the Historic Westside Village project due to a lack of capacity, lack of policy or adequate management, and improper use of funds. Among the things uncovered by our audit, the City did not adequately monitor the performance of sub-recipients to ensure compliance with HUD program requirements. ADA, acting for the City, did not competitively procure and execute a contract for vendor services. As a result, $1.35 million was improperly paid. Further, they lost ownership and control of project land acquired with HUD funds that eliminated, or greatly reduced, program income as was pledged to HUD as part of their loan repayment. With the loss of control of this land parcel, the City lost the opportunity to collect at least $1.7 million.

Exhibiting a major lack of policy, adequate management, as well as the improper use of funds, the East Meyer Community Association of Kansas City, Missouri, squandered nearly $800,000 of its CDBG money on company picnics, Christmas Tree lighting ceremonies, luncheons, gifts and bonuses. East Myer improperly spent $726,850 of its Neighborhood Initiative Grant, and incurred $57,464 of unsupported expenses charged to its Neighborhood Initiative Grant, and charged $65,379 of unsupported expenses to its Community Development Block Grant.

E. Goals or national objectives not met

As stated previously, CDBG national objectives are, in general, the elimination of slums and blight as well as economic development. The Department repeatedly warned Utica, New York, that construction of a boat marina and a ski chalet were not eligible activities for CDBG money. Our review of two development projects, a marina project and a parkway recreation center (which includes the ski chalet), found that the projects did not meet CDBG goals or national objectives. Accordingly, the City incurred $903,000 in ineligible costs and $214,000 in questioned costs for the marina. The city is still trying to establish that $255,000 for the parkway recreation center was an eligible activity.

F. Lack of monitoring reviews

In response to a congressional inquiry, we reviewed how CPD ensures grantees and sub-grantees have sufficient capacity to successfully participate in its programs. We found that CPD has management controls to minimize the risk that grantees and sub-grantees lacking capacity receive funding; however, unverified assumptions, incomplete and

outdated guidance, and limited on-site monitoring undermine these controls. Therefore, management controls are not sufficient to provide reasonable assurance that grantees have the capacity to participate in CPD's programs.

I have seen the success of active monitoring efforts with "monitors" used by the Lower Manhattan Development Corporation in preventing waste and fraud in post-9/11 rebuilding activities and I have testified previously to this effective concept for use in disaster relief efforts in the Gulf States.

Common Fraud Schemes in the CDBG Program:

A review of HUD OIG investigative activities show that there are, in general, five major fraudulent types of schemes affecting the CDBG program: making false claims for funds; soliciting/receiving bribes or kickbacks; procurement or contracting rigging; theft or embezzlement; and public corruption. The following cases are examples of each:

A. False Claims. A former employee embezzled nearly $160,000 from the East Saint Louis Community Development, a non-profit organization funded by CDBG. False vendor numbers and invoices were created to receive checks for services and materials never provided. The employee, utilizing her personal checking account, deposited and spent the fictitious vendor payments.

B. Soliciting Bribes/Kickbacks. Two former City of Rochester, New York rehabilitation specialists were sentenced for bribery. They had solicited "kickbacks" from contractors in exchange for City of Rochester rehabilitation contracts funded by CDBG.

In another case, the Mayor of Chicopee, Massachusetts, extorted campaign contributions from a developer with the promise he would intercede on the developer's behalf in a planned economic development project, while promising the developer that his towing company would continue to have city contracts.

C. Procurement and Contracting. Two senior civic leaders of Springfield, Massachusetts, together with a real estate developer, and a builder were convicted for steering CDBG funds to renovate bars owned by the civic leaders.

In another case, a wrecking company admitted using another wrecking company as a "front company" to satisfy the HUD-funded St. Louis Community Development Authority's (CDA) regulations relating to minority business participation in the renovation of old St. Louis City Hospital. The wrecking company funneled payroll checks through the second one to make it appear as if a minority contractor was involved in the St. Louis City Hospital project, as certified to CDA.

D. Theft or Embezzlement. A New York Rabbi was charged in federal court with misappropriating $700,000 in federal grant money. The Rabbi, president and director of a Jewish day school in Brooklyn, received an EDI grant from HUD. He misrepresented

to HUD that the entire grant amount would be used to pay off a mortgage on a building to house educational and therapeutic programs for disabled preschool children. In addition to the $700,000 grant, the school received over $2.7 million in other EDI grants from HUD for FYs 1999, 2001, and 2002.

The criminal complaint stated that the Rabbi diverted funds to several individuals and entities that were not entitled to the funds. For example, $300,000 was diverted to a corporation in which the Rabbi's son-in-law was an officer and $80,000 was diverted to a variety of other Rabbis and schools and organizations in Brooklyn. Another $78,000 in checks were made payable to the Rabbi.

Another example is where a federal employee fraudulently obtained Lower Manhattan Development Corp (LMDC) grant funds after sub-letting and relocating from a LMDC qualified apartment. LMDC, a HUD-funded non-profit, was created to assist in the revitalization of lower Manhattan after the September 2001 terrorist attacks.

In a further example, the president and chief executive officer of Save Our Children Community Project (SOCC), a HUD-funded non-profit corporation, transferred federal grant money from SOCC to his personal account, wrote checks from his personal account to another individual who was the former Program Administrator for HIV Services in the Arkansas Department of Health, and fabricated invoices and other documents to hide the money transfers and personal checks to the other individual.

E. Public Corruption. Every year HUD OIG develops successful cases against elected officials who use their offices for personal or political gain. The former Mayor and Director of the East Cleveland, Ohio, Department of Community Development (ECDCD), a HUD funded organization, was convicted for, among other things, soliciting and receiving bribes, kickbacks and secret payoffs through intermediaries using HUD funds as a "carrot" for contractor bribes.

The City of Springfield, Massachusetts, was especially hard hit by public corruption. In the past several years, a number of officials including the Public Housing Authority director, and the directors of at least two CDBG funded non-profit or public agencies, have been indicted and/or convicted of crimes that run the gamut, including conspiracy to defraud the U.S. Government, obstruction of justice, extortion, mail fraud, theft of honest services, false statements, perjury, criminal contempt, filing false federal income tax returns, and witness tampering.

CDBG Reform/Proposed Legislation:

We strongly endorse efforts to improve performance and accountability within the CDBG program and applaud proposed changes by the Assistant Secretary, but we are concerned that what appears to be language designed to insert objective performance criteria into grant administration will be undermined by the implementation of vague criteria and a failure to improve deficient enforcement tools.

The legislation provided to us by your committee staff (proposed 42 USC 5304(e)) says that the Performance Plan—which will be the objective performance criteria against which grantee's will be evaluated—must include objectives measuring the extent to which funded activities "foster a suitable living environment," "focus on developing decent affordable housing" and "foster and create economic opportunity."

These criteria may not be adaptable to quantitative measurement. Further, since it will develop the evaluation measure, HUD could choose to implement the proposal in such a way that performance standards are always met and yet conditions never improve. CPD has not always established a consistent history in performance monitoring specifically between its headquarters staff and field sites, and, thus, allowing it to decide what performance measures should be, fosters the human tendency to make the standards achievable rather than accountable.

Moreover, even with the modest performance standards of the past, the CPD problem has been that OIG points out that a grantee committed, for example, to create 100 jobs -- and 5 years and $20 million dollars later the grantee created 30 jobs. CPD responds to findings of this sort by refusing to pursue any type of sanctions on the grounds that a grantee should not be held responsible for the success of its proposed activities as long as those activities are consistent with the statutory objectives of the grant.

The proposed legislation does nothing to modify this mind set (indeed, it encourages it: 42 USC 5304(e)(4)(A) provides that in the event that HUD determines that a grantee "has substantially failed to meet its performance objectives" for 24 months, HUD "may" take action; if a grantee has not performed for 2 years, then HUD should be required to intervene;) and, even if it did, it does nothing to improve CPD's enforcement tools under 42 USC 5311. It has been held that HUD must give grantees reasonable notice and an opportunity for a hearing, under section 111(a), before conditioning, reducing or terminating their current grants as a sanction for past noncompliance.

We propose that 42 USC 5311 needs to be amended to eliminate the requirement for a formal hearing before an Administrative Law Judge as a precondition of reducing or terminating current grants as a sanction for past noncompliance. We believe that, without the authority to take prompt enforcement action, grantee noncompliance will not be deterred and performance will not be encouraged.

Additionally, the whole theory of these sorts of grants is that the local officials know better than federal authorities what the locality needs. One check/balance that the existing law includes—to ensure that local officials cater to local needs—is notice to the community and the ability of the community to comment on proposals. This check/balance appears to have been deleted in the proposed amendment of 42 USC 5304(e). There is a provision for community input on the annual performance and evaluation report (i.e., report of what has been accomplished), but there is no such provision for the Performance Plan (i.e., what does the grantee propose to accomplish; what needs to be done). We believe that community input regarding what activities the grant will fund is vitally important and should not be cast aside.

Conclusion:

That concludes my testimony and I thank the Committee for holding this important hearing and I look forward to answering questions that members may have.

MERCATUS CENTER
GEORGE MASON UNIVERSITY

Testimony of

Eileen Norcross, M.A.
Senior Research Fellow for the Government Accountability Project
The Mercatus Center at George Mason University

Before the
Subcommittee on Federal Financial Management, Government Information and International Security of the Senate Subcommittee on Homeland Security and Government Affairs

June 29, 2006

Mr. Chairman and Members of the Subcommittee:

Thank you Senator Coburn, Senator Carper and Members of the Subcommittee for inviting me to testifying on "Community Development Block Grants; The Case for Reform," We are currently engaged in a study of this and similar economic development programs across the federal government. Our research considers whether such programs are able to meet their intended goals.

Our research does not reflect an official opinion of George Mason University.

I. Background

The Community Development Block Grant (CDBG) program was authorized under Title I of the Housing and Community Development Act of 1974, P.L. 93-393, as amended (42 USC 5301). The program was created by combining seven smaller direct grant programs originating with the Johnson Administration's War on Poverty: the Urban Renewal Program, the Model Cities

program, open space acquisition, and beautification grants, neighborhood facilities grants, and water and sewer facilities grants.

These seven programs focused on "restoring urban neighborhoods through acquiring land, clearing blight, and encouraging private development; providing physical development, and human services; providing health, welfare, social and recreational services; and improving existing and developing new low and moderate income housing."[1]

The belief was that such urban aid programs could, "stimulate local economies, finance social services that could restore the sense of community evaporating from inner-city neighborhoods as poverty demoralized its residents. In the 1960s Sargent Shriver, head of the Office of Economic Opportunity, predicted that with this approach the federal government could all but eliminate poverty in a decade."[2]

The mission of CDBG under Title I of the Community Development Act is to "increase the viability of urban communities by addressing housing needs and creating healthy living environments by expanding economic opportunity primarily for low- and moderate-income persons."

Since its inception, CDBG has awarded over $100 billion to state and local governments to fund various housing, community development, neighborhood revitalization, economic development and public service provision projects. According to its statute, such projects must serve at least one of three requirements. They must:

1) Principally benefit low-and-moderate income people

[1] U.S. Department of Housing and Urban Development, Federal Funds, local choices: An evaluation of the Community Development Block Grant Program (1995).
[2] Steven Malanga, "America's Worst Urban Program." City Journal, Spring 2005 p. 1

2) Eliminate or prevent slums
3) Remedy urgent threats to the health or safety of the community

At least 70 percent of CDBG funds distributed to the states and local governments must principally benefit low-and moderate-income persons.

CDBG-funded activities must satisfy a two-part eligibility test. First they must align with one of 25 eligible uses. Each of these uses must satisfy one of the above three requirements of the program.

The full list of eligible activities is included in Appendix I[3]. Briefly, these activities range from the acquisition and disposition of properties, to housing construction, removal of lead-based paint, assisting with rental income and providing loans to for-profit business to create jobs in the community.

In FY 2005, 57 percent of total CDBG funds were spent on housing and public improvement projects. Appendix II[4] shows the breakdown for how total CDBG funds were expended in FY 2005.

The question this hearing seeks to answer is: Can CDBG successfully meet its goals given its current structure? Our research indicates that the program faces several barriers to successfully delivering on its mission.

- The formula is worsening in its ability to target high need communities resulting in grants going to relatively wealthy communities and college towns.

[3] Appendix I – Eligible Activities available at http://www.mercatus.org/CDBG_Testimony
[4] Appendix II – Copy of All CDBG Disbursements available at http://www.mercatus.org/CDBG_Testimony

- Lack of transparency in the collection and display of grantee level data.
- The inherent difficulties of assessing economic development outcomes.

II. The Current Formula

The formula grant has worsened in its ability to effectively target grantees. In 2005 a HUD report indicated that,

"...the current formula continues to target to need: the top 10 percent of communities with the greatest need receive four times as much as the 10 percent of communities with the lowest need. The study shows that the current formula's ability to target community development need has substantially declined over the past 30 years. A growing number of communities with similar needs receive substantially different grants. Further, the per capita grants awarded to the neediest of communities have decreased while the per capita grants awarded to the least needy of communities have increased."[5]

This is due a few reasons, one primarily being the variables used to calculate the size of grants awarded to communities. The study found four of the five variables: population, poverty, pre-1940s housing and growth lag all produce anomalies in how grantee awards are calculated.

In particular, the poverty rate variable is problematic. Though poverty rate is a good indicator of community need, "the current formula allows for relatively low-need college towns to receive relatively large per capita grants because off-campus college students are recorded as being in poverty, when many are receiving

[5] See, Todd Richardson, Office of Policy Development and Research, Department of Housing and Urban Development, CDBG Formula Targeting to Community Development Need. p. x (2005)

unrecorded support from their families. It is better to measure the poverty rate for the non-college student population."[6]

We should also note also that even the students who are not receiving "unrecorded support" have made a decision to temporarily survive on a low standard of living (by economizing on food and sharing housing with other students) as an investment because the returns to a college education are high. The poor households the federal programs are intended to help, on the other hand, have not chosen temporary poverty to make an investment in their earning potential.

The Administration's Reform proposal, "The Community Development Block Grant Reform Act of 2006" recommends adopting an alternative formula designed by HUD to rectify this, among other problems. The new formula would fix the poverty rate variable in particular by excluding individuals enrolled in college.[7]

HUD should be commended for identifying and working to solve this problem that will result in funds being allocated more fairly to communities with greater need.

III. Transparency in reporting data

Where CDBG funds are effectively targeted to high-need communities the question is, can CDBG deliver on its mission to, "increase the viability of urban communities by addressing housing needs and creating healthy living environments by expanding economic opportunity primarily for low- and moderate-income persons"?

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[6] See. Op. Cit p. 46

[7] See, The Community Development Block Grant Reform Act of 2006, p. 2.

The answer is: no one knows. The reasons for this are broadly speaking due to data inadequacies, and theoretical. I will return to the theoretical problems in the fifth section. For now I will discuss the data problems.

In order to find out how CDBG dollars affect communities, we need good data. Reporting on CDBG over the decades has not lent itself to either statistical or empirical testing or general transparency to the public. I do not believe this was intentional, but a function of reliance on an outmoded data collection system and the inherent difficulties in gathering consistent data from grantees.

How does HUD currently collect data on grantee activities?

Grantees must submit a Consolidated Plan (ConPlan) indicating how they will spend CDBG funds. This report serves to verify that funds are to be spent in accordance with the statute, rather than to approve of projects at the outset.

A second report, called the Consolidated Annual Performance Evaluation Report (CAPER) contains a narrative describing how CDBG funds were expended in the community, while describing (in varying levels of detail) the public benefits achieved.

Individual grantee level data is sometimes appended to the CAPER reports. The CDBG Activity Summary reports, also known as the GPR describe the dollar amount of the grant, the details of the project, and in some cases, output and outcome information such as the number of persons assisted or the number of jobs created as a result of the grant. In some communities these GPR reports exceed 1000 pages. The grantee level data is submitted to and managed by the Integrated Disbursement and Information System (IDIS), HUD's internal database.

IDIS provides the most comprehensive and specific source of data on how grantees spend dollars. For now, IDIS remains an internal tool and is not readily accessible to researchers or the public. Upgrades to IDIS are underway and HUD has consulted with the National Academy of Public Administration to improve the system.

Obtaining CDBG grantee spending data

In seeking to understand the effects of CDBG dollars, we sought to obtain grantee level spending data for the most recent fiscal year available for a sample of 71 cities.

On its website, HUD offers aggregated data, or disbursement reports, on how funds are expended on the local, state, and national level. But it does not make accessible the more specific data.[8]

Per HUD's advice we contacted the local HUD offices to obtain their CAPER reports with IDIS data, either online or via mail.

Of the 71 cities in our sample, we found that 8.5 percent had their reports with IDIS data on their websites[9].

The most transparent city in our study[10] was Washington, DC, which not only contained the CAPER report with information on individual grantee projects but issued a press release the day it was published and made copies available to the local public library and local community-based organizations.[11]

49 cities offered to mail the report. We have received 40 to date.

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[8] See, http://www.hud.gov/offices/cpd/communitydevelopment/budget/disbursementreports/
[9] 21 cities had the CAPER on their website, but only 6 of those included IDIS data.
[10] Other cities may have similarly transparent practices. We only reviewed the practices of 71.
[11] See, http://www.dhcd.dc.gov/dhcd/cwp/view,a,11,q,634644,dhcdNav_GID,1577.asp

Seven cities noted that they were unable to send the report with IDIS data due to the sheer volume of the document, in some cases between 1000 to 2000 pages. These offices noted that the unwieldy size made it difficult to upload the documents to their websites, and also too expensive to mail. A few offices offered to send us the report for a fee.

Fifteen cities were unreachable[12], but nearly all of the offices we spoke with in our study were helpful and courteous.

We encourage HUD to continue upgrading the IDIS system and hope they will consider making the database accessible to the public. We understand that one concern of HUD is that some of the information they collect is private, such as addresses. While respecting the privacy of grantees, we hope HUD will consider displaying at least some of the grantee level information. We believe interested citizens should be able to query how CDBG funds were spent on the individual grantee level with relative ease.

This kind of reporting facilitates a few things:

- Local citizens are able to better understand the effects of CDBG dollars.

- There is enhanced monitoring to verify that funds are being expended appropriately, minimizing the potential for waste, fraud, and abuse. It is a low-cost way to improve oversight.

- We agree with local offices that the current display of data is unwieldy, making it difficult to publish and disseminate. We hope part of the IDIS upgrade effort is to make the presentation of this data more streamlined and amenable to

[12] These cities either had an out-of-service number listed on the HUD website or did not return phone calls after multiple attempts.

electronic display, and analysis. We believe it should be possible for a citizen to query such a database to retrieve, for example, "all lead-based paint removal projects in a geographic region over a given number of years." In an information age, this is not an impossible task.

In addition to providing general transparency to the public, there is another good reason for HUD to continue working on upgrading both data collection and display.

- It will permit social scientists to empirically test of the effects of this program.

Indeed, empirical and statistical testing of this program and similar programs has been hampered by a general lack of data. The only recent independent empirical study I am aware of was conducted by the Urban Institute in October 2002, at the request of HUD.[13]

The purpose of the study was to help the agency develop meaningful performance measures in order to gauge the effectiveness of CDBG dollars in communities.

The study noted that it was relatively difficult to construct a dataset for its sample of 17 cities (chosen because they had enough data), over a long-enough period of time to have measurable effects. The study encouraged HUD to continue upgrading the IDIS system in order that more testing of the data could be performed in the future and over longer periods of time, "Performance measurement activities going forward stand to gain from the accumulation of CDBG expenditure information for periods after the three-year period covered in this analysis."[14]

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[13] See, Christopher Walker, et. al " The Impact of CDBG Spending on Urban Neighborhoods." The Urban Institute, October 2002, http://www.dhcd.dc.gov/dhcd/cwp/view,a,11,q,634644,dhcdNav_GID,1577.asp
[14] See, Op. Cit p. 76.

They further noted that HUD's IDIS system was already much better than data collection systems in place in similar programs, such as the Community Services Block Grant program in the Department of Health and Human Services.[15]

The fact that CDBG can be considered a leader in data collection for community development programs at the federal level indicates the absolute need for good data collection from the *outset* of a program's creation. Former Federal Reserve Chair Alan Greenspan noted in 2003, "The relative paucity of data and research on community development programs has limited the ability to fully demonstrate their impact and credibly differentiate those that are successful from those that are ineffective."[16]

CDBG has been awarding money for over 30 years, and has its roots in the War on Poverty urban-aid grants of the mid-1960s. Poor data collection in the past is one reason why we are not able to reliably measure the effectiveness of this approach to community and economic development outcomes.

Requiring good information is essential. One way to require good data collection is to require outcome measures of program performance.

IV. The Importance of Outcome Measures

Transparency encourages good practices and minimizes on waste. Good data collection may facilitate statistical testing. Outcome measures allow us to try to monitor the management and progress of programs, ultimately helping us to answer the questions, "Does

[15] See. Op. Cit. p. 76.
[16] See, Alan Greenspan, "Sustainable Community Development: What Works, What Doesn't, and Why?" remarks delivered at Federal Reserve System conference on Community Affairs Research, March 28, 2003. http://www.federalreserve.gov/boarddocs/speeches/2003/20030328/default.htm

CDBG work? Can it meet its statutory objectives?" "How is this program compared to similar programs in the federal government?"

The good news is HUD has developed and is beginning to use more outcome-oriented measures. The Joint Grantee/HUD/OMB Outcome Measurement Working Group published 18 new measures in the Federal Register on June 10, 2005.[17] These measures are included in Appendix III[18].

The program objectives contained in the new Outcome Measurement System are also contained in the Administration's reform package.

These objectives are:

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

Grantees will decide if their activities serve one of these three aims and report accordingly.

Separate from this performance measurement system, HUD states that, "it would like to be able to demonstrate potential outcomes such as higher homeownership rates and property valuations, lower unemployment rates and improved education levels, increased

[17] See, Federal Register, Department of Housing and Urban Development, Notice of Outcome Performance Measurement System for Community Planning and Development Formula Grant Programs. Vol. 71, No 44, March 7, 2006.
[18] Appendix III – Federal Register available at http://www.mercatus.org/CDBG_Testimony

commercial and private investments, and additional assisted businesses that remain operational for at least three years."[19]

These performance indicators should help HUD identify whether the activities undertaken by grantees are having some effects in the communities being served by CDBG dollars.

In this system, grantees must determine which of the objectives the activity is serving: suitable living environment, decent housing, or creating economic opportunity. Once the objective for the activity is selected, the grantee must choose one of three outcome categories reflecting what they are trying to achieve with the project: availability, affordability and sustainability. Each outcome category is connected to one of the three objectives resulting in a total of nine groups of outcome/objective statements where grantees report the activity to document the results of their activities. These are:

1) Accessibility for the purpose of creating suitable living environments
2) Accessibility for the purpose of providing decent housing.
3) Accessibility for the purpose of creation economic opportunities
4) Affordability for the purpose of creating suitable living environments
5) Affordability for the purpose of providing decent affordable housing
6) Affordability for the purpose of creating economic opportunities
7) Sustainability for the purpose of creating suitable living environments
8) Sustainability for the purpose of providing decent affordable housing

[19]See, Op. Cit. p. 11470.

9) Sustainability for the purpose of creating economic opportunity

Based on these statements, IDIS selects the specific outcome indicator for each activity. These 18 "outcome indicators" are included in Appendix II[20].

Most of these indicators are still mainly output-oriented. The next step is for HUD to demonstrate that these activities being reported by grantees are delivering on the mission of increasing the viability of urban communities by addressing housing needs and creating healthy living environments by expanding economic opportunity primarily for low- and moderate-income persons.

Indeed as noted earlier, HUD has expressed interest in developing more outcome-oriented indicators such as lower unemployment, increased education and increased private investment in order to demonstrate the impact of CDBG funds.

Grantees have expressed anxiety that outcome measures will compromise the flexibility of the program on the local level and that underperformance according to narrow outcome measures will result in the sanctioning of funds.

We believe that any system of performance measurement is only one piece of information in making funding decisions. Certainly in a program such as CDBG grant amounts vary widely from community to community. We should not expect its effects to be the same in every locality. The types of activities undertaken are highly variable. This means that some outcome measures may not be appropriate for some activities. And as we shall see in the next

[20] Appendix II – Copy of All CDBG Disbursements available at http://www.mercatus.org/CDBG_Testimony

section the problem of measuring the impact of economic development programs is a very complex one.

But, the program must still demonstrate that it is meeting its overall mission as stated in its statute. Local flexibility does not preclude program-wide accountability. This is a locally administered program, but it is also a federally-funded one.

V. A Challenge for HUD and Congress: Does CDBG work?

The job HUD faces: demonstrating the economic and community effects of CDBG dollars is fraught with difficulty. In this section I would like to consider how we might evaluate how CDBG performs in terms of its third objective: "Foster and create economic opportunity, economic development, commercial revitalization and job formation."

This objective is reflected in HUD's outcome indicator 4.2.1.7 "Neighborhoods with substantial levels of CDBG investment will show improvements in dimensions such as household income, employment, business activity, homeownership and housing environment."[21]

There are three kinds of information we can use to assess whether CDBG can deliver on this objective: statistical, other forms of empirical evidence such as case studies, and theoretical.

a) Statistical

As mentioned earlier, the most recent and comprehensive study of the effects of CDBG dollars was performed by the Urban Institute. The purpose their study was to help HUD design reliable

[21] See, The Department of Housing and Urban Development Annual Performance Report, FY 2005, p. 16.

performance indicators that would measure the effects of CDBG dollars as they relate to community and economic development outcomes.

The study concluded that, "larger CDBG investments are linked to improvements in neighborhood quality in 17 cities."[22] Two indicators: median loan amount and number of businesses created are good proxy measures for some (but not all) dimensions of neighborhood quality.[23]

They found an overall relationship between CDBG spending and neighborhood quality improvements. But the study was not broad enough to conclusively prove that CDBG investments are positively correlated with specified measurable results.[24]

Among its limitations given the state of the data:

- The study did not reflect a nationally representative sample of jurisdictions.
- It could not account for other public investments, including earlier CDBG investments.
- And it could only test the years 1994-1996, a relatively short period of time.

The study tried to get a sense of whether these two potential outcome measures, median loan amount and number of businesses created, reflect what grantees believe to be CDBG's main effects, based on their experiences with the program. That is, are these measures reasonable where grantees are concerned?

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[22] See, Walker et. al, p. iii.
[23] See, op. cit
[24] See, op. cit.

The researchers found that, "... performance measures based on the median loan amount are more likely to conform to the views of local practitioners than the performance measures that use the number of businesses in a tract."[25]

In other words, from the local grantees' perspective, the "median loan amount" indicator does a better job overall of capturing the impact of the program than does the "number of businesses" indicator.

Grantees expressed additional concern that any performance measurement system, if misapplied, could result in the sanctioning of funds for poor performance.[26] These findings indicate, "...the kinds of challenges HUD is likely to encounter in implementation of a performance measurement system."[27]

This concern of performance measurement is not unique to CDBG grantees. Rigorous evaluations of the effects of local, state and federal economic development programs are rarely undertaken, as economist Timothy Bartik writes,

"Program administrators fear the political consequences of a negative evaluation. If a program is not evaluated, one can claim success. A process evaluation or survey evaluation is subjective enough that it may be easier to manipulate the evaluation process or reinterpret the results to make the program look better. But if a study shows that firms participating in the economic development program, compared to a truly comparable group, show no difference in performance, then it is difficult to argue that the program works."[28]

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[25] See, op. cit p. 66.
[26] See, op. cit. p. 74.
[27] See, op. cit. p. 63.
[28] See, Timothy J. Bartik, "Can Economic Development Programs Be Evaluated?" Upjohn Institute Staff Working Paper 95-29. p.20.

The Urban Institute concluded that improved data collection is crucial to developing meaningful performance indicators. It noted the difficulty of being unable to account for other forms of federal spending, in order to isolate the effects of CDBG dollars, and of applying these two performance measures to all communities, where dollars may be spent to achieve variable aims.

b) Case-Studies

Many claims of CDBG's effectiveness rest on local examples of how CDBG dollars have been spent. One often cited accomplishment is CDBG's role in the creation of a high-tech business incubator in Los Angeles County, which created 475 jobs. If done correctly and of sufficient scope, empirical studies that involve field work, interviews, and surveys can be very valuable and can compliment statistical inference. They can provide evidence when after exhausting econometric methods, statistics fail to show significance.

The most useful and effective type of case study is one that takes into account other factors that might have influenced the results. If the case is supposed to be used to help evaluate a program, the researcher should also present evidence that the particular case is more likely to represent "typical" results, rather than a special situation.

However, this should not be confused with anecdotal evidence which can be abused. The hazard with anecdotes is that the experience of one person or one community is offered as evidence for what the program is accomplishing nationwide. Further, depending on the quality of the evidence, they may not tell the full story.

We wanted to better understand the job-creation activities undertaken by the CDBG program. With the evidence provided by

the CAPER reports we were able to get a sense of what kinds of jobs are being created as a result of the program.

One of the eligible activities under the CDBG statute is economic development.[29] This takes three specific forms. HUD categorizes these activities under the following Matrix Codes in the IDIS database.

a) 18A) ED Direct Financial Assistance to for-profit businesses
b) 18B) ED Direct Technical Assistance
c) 18C) Micro-Enterprise Assistance

In FY 2005, of the $4,848,113,239 disbursed by CDBG nationwide, 8.77 percent or $425,217,999 of funds were spent on these three activities.

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[29] See, "The Housing and Community Development Act of 1974 Section 5303 a. http://www.hud.gov/offices/cpd/communitydevelopment/rulesandregs/laws/sec5305.cfm

> "**(17)** provision of assistance to private, for-profit entities, when the assistance is appropriate to carry out an economic development project (that shall minimize, to the extent practicable, displacement of existing businesses and jobs in neighborhoods) that--
>
> > **(A)** creates or retains jobs for low- and moderate-income persons;
> >
> > **(B)** prevents or eliminates slums and blight;
> >
> > **(C)** meets urgent needs;
> >
> > **(D)** creates or retains businesses owned by community residents;
> >
> > **(E)** assists businesses that provide goods or services needed by, and affordable to, low- and moderate-income residents; or
> >
> > **(F)** provides technical assistance to promote any of the activities under subparagraphs (A) through (E);

One of the outcome indicators associated with this activity is the total number of jobs created. In FY 2005, HUD states that 91,237 jobs were created nationwide as a result of these activities.

Some localities elect to spend none of their funds on this activity. Others elect to spend a significant portion of their funds on providing assistance to businesses.

We examined how one locality: Madison, Wisconsin spent its CDBG funds in FY 2005. Madison expended 32 percent or $1,462,123 of its CDBG funds in FY 2005 on Direct Financial Assistance to for-profit businesses and on Micro-enterprise Assistance. We include as Appendix IV[30] Madison, Wisconsin's disbursement report for 2005. Included as Appendix V is the relevant portion of Madison, Wisconsin's CAPER report.

According to its CAPER report, CDBG funds are managed by the Madison Development Corporation, which is described as "one of the more successful community-wide development corporations in the country."[31] It indicates that as a result of its lending activity to local area businesses, in 2005 it was responsible for creating 99.24 full time jobs filled by 110 low-to–moderate–income individuals.[32]

What sorts of jobs were created by these loans? A closer look reveals that these businesses include two coffee houses, a bakery, restaurant, several biotechnology firms and information technology companies.[33]

Madison, Wisconsin is a college town. Fifty nine percent of its college students are classified as living in poverty because they do

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[30] Appendix IV – Madison Disbursement available at http://www.mercatus.org/CDBG_Testimony

[31] See, City of Madison, Wisconsin, Consolidated Annual Performance and Evaluation Report (CAPER) on Community and Neighborhood Development for the Period January 1, 2005 to December 31, 2005. pp. 29-30.

[32] See, op. cit included as Appendix V of this report. http://www.mercatus.org/CDBG_Testimony

[33] See, Appendix V of this report. http://www.mercatus.org/CDBG_Testimony

not report unearned support from their parents. And the current CDBG formula does not exclude them. The percent of non-college students living in poverty is eight percent. The average per capita income of Madison, Wisconsin is $23,498. The average per capita grant is $11.

As a comparison, San Marcos, Texas has an *actual* poverty rate of 28.5 percent and an average per capita income is $13,468. It receives a per capita grant of $14.86.

According to CDBG's statute, these business loans in Madison, Wisconsin are *legitimate uses* of CDBG funds for the following reasons:

- These activities satisfy the first requirement of the statute: to principally benefit low-and-moderate income people.

- These activities address one of the statutorily defined eligible activities: economic development as defined by the provision of assistance to profit-motivated businesses to carry out economic development and job creation/retention activities.

- These activities serve objective three of the program's performance indicators: foster and create economic opportunity, economic development, commercial revitalization and job formation.

The 99 jobs created in Madison, Wisconsin in 2005 helped HUD reach its actual target of 91,237 jobs nationwide.

The deeper questions behind Madison, Wisconsin's job formation successes are: Was CDBG created to generate coffee house jobs for college students in relatively wealthy communities? Did these local biotech firms create jobs for truly low-to-moderate income

individuals as envisioned by the program's intent, or for graduate students? Were these jobs actually created because of CDBG, or would some of the jobs have been created anyway? Did taxpayers subsidize private businesses to do something they would have done without a subsidy?

Are these negative outcomes? It depends on what Congress is attempting to achieve with this program. Certainly these are not negative outcomes for the businesses or the individuals who got those jobs. But, is this an effective use of CDBG dollars? There are several programs in the federal government that focus exclusively on awarding loans to small businesses such as the Small Business Administration's Basic 7(a) Loan program. Is CDBG effectively placed to award small business loans to middle and upper-middle class communities?

Congress needs to decide what policy aim it is trying to achieve with CDBG. Then it must decide if the program is able to meet that aim. The creators of CDBG imagined this program would address the policy aim of eliminating or preventing urban blight and decay. But the program has morphed into something else, due to the broad nature of its mission, its local flexibility and its varying purposes and applications.

Both grantees and those who evaluate and study the program are frustrated. It is difficult to define measures and ultimately understand what this program's actual effects are. Some argue that's the reason why it should be immune to evaluation.

Indeed, grantees have expressed frustration specifically with the "ineffective" assessment the program received as a result of the Office of Management and Budget's Program Assessment Rating Tool. [34] In a hearing on the Strengthening America's Communities

[34] See, http://www.whitehouse.gov/omb/expectmore/detail.10001161.2005.html

Initiative, before the House Committee on Government Reform on March 1, 2005, Don Plusquellic, President of the U.S. Council of Mayors testified, "PART infers that somehow we're doing something with these monies other than what was intended, and that we're not meeting some performance standard."[35]

This comment is very important because it reveals that the program has drifted from what its authors intended. Its current implementation does not match the policy outcomes that the federal government had in mind when it was created. Madison, Wisconsin was *legitimately* awarded funds under the current formula. And it used them *legitimately* to fund economic development activity to serve the performance objective of job creation.

In our example, we examined one of CDBG's activities: job creation. What is the outcome? Is the community now more prosperous than they would have been without those CDBG-generated jobs? Would those jobs have existed without the CDBG funds? Simply because money was received and spent in accordance with the statute, does not mean that the purpose of the program is being met. Congress must know whether these activities are resulting in less blighted communities, or are they subsidizing activities that would have occurred anyway.

c) Theoretical

Can CDBG meet its objectives of stimulating economic development?

In considering the effects of economic development programs, the economic literature is vast and also inconclusive. Even with decent

[35] See, U.S. House of Representatives, 109th Congress, Second Session,, "Bringing Communities into the 21st Century: A Report on Improving the Community Development Block Grant Program" Fifth Report by the Committee on Government Reform, 109-365, p. 34.

data, economists face problems in fully capturing the effects of a particular program. The main difficulty is establishing what would have happened in the absence of the program. The literature refers to this as the "but for question" or the difficulty of establishing the counterfactual.

For example,

- Did some of the 'created' jobs represent 'relocated' jobs?
- Would the firm have created the job in the absence of the funding?
- How would the resources used to create those jobs have been used in the absence of CDBG? That is, could these dollars have been spent to achieve a more effective outcome by stimulating more economic growth through other means?

Establishing a comparison between CDBG entitlement communities and those that do not receive CDBG funds might seem to solve this problem. However, one must still locate matching groups and control for confounding factors. This is difficult considering the variable nature of how CDBG funds operate in different communities and the multiple ends these funds serve.

Aside from the methodological issues associated with evaluating the effects of job creation as a result of CDBG funds, we might want to consider the role job creation plays in economic development.

It's tempting to think that creating jobs or encouraging companies to hire new employees leads to economic growth. The idea is that these new employees will have income and will spend it, increasing the demand for goods and services, and thus labor.

Job creation is the result of sustainable economic growth, not its cause. The emphasis should not be on employing as many people as possible, but rather on using society's resources (land, labor, capital and time) in the most efficient and productive way possible.

This can be summed up as: Economic growth creates jobs. Jobs do not create economic growth. The goal of policy should be to encourage an institutional environment (the right legal, regulatory and tax structure) to promote entrepreneurial discovery. Economic development is about helping individuals and businesses to produce, as efficiently as possible, the goods and services that society demands. Prosperity is the result of market exchange. Market exchange is the result of entrepreneurship. And entrepreneurship depends on the institutional framework established by government.[36]

San Jose State economist, Benjamin Powell summarizes the misguided idea behind the government directly financing job creation, "If creating more jobs were the goal of economic development, then it would be quite easy to achieve. The state could tax citizens and use the revenue to hire people to dig holes and fill them up again. It doesn't generate any new services, or goods, but it creates jobs."[37] Indeed, this was a Keynesian-inspired suggestion during the Great Depression.

There are those here who might disagree with this analysis based on their experience with this kind of program. In that case, if job creation remains a policy goal of CDBG, as economist Paul Courant recommends, this goal should be measured closely to find out who gets the jobs and the incomes from such interventions, and

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[36] See, Israel Kirzner and Frederic Sautet, "The Nature and Role of Entrepreneurship in Markets: Implications for Policy." Mercatus Policy Series, Policy Primer No. 4, June 2006.
[37] See, Benjamin Powell, "Promoting Economic Development: Government Programs or Economic Freedom." Global Prosperity Initiative Working Paper 17, Mercatus Center at George Mason University, 2004.

that this is in accordance with the intent of the program.[38] A simple count of number of jobs created does not tell us the whole story.

V. Recommendations

The Community Development Block Grant program was established with a particular policy outcome in mind: alleviate slums and blight in urban areas to generate economic opportunities for residents. However, it has drifted from its original aim for two reasons: the formula grant is worsening in its ability to target high-need communities, and this kind of program is not well-suited to delivering its third stated objective of *directly* creating economic growth through job creation.

We believe Congress should:

1) Change the formula as recommended by the Department of Housing and Urban Development.

2) Improve transparency: Require that grantee level data be made publicly available in a searchable database.

3) Require the performance measures designed by HUD. This will serve to minimize on waste, as well as provide researchers with the ability to empirically evaluate the program.

4) Re-consider what mission Congress was trying to accomplish when it created this program in the light of more recent economic thinking. We believe this program is not well-suited to deliver direct economic benefits, namely objective three: "Foster and create economic opportunity, economic development, commercial revitalization and job formation." This program needs to develop a more realistic, targeted,

[38] See, Paul Courant, "How Would You Know a Good Economic Development Policy If You Tripped Over One. Hint: Don't Count Jobs." National Tax Journal, December 1994, p. 877

mission .CDBG's provision of loans to small businesses overlaps with several current lending programs in the federal government such as the Small Business Administration's 7(a) Loan program.

5) Refocus the program on meeting infrastructure and housing needs in low-income communities, the program is better placed to potentially achieve the aim of helping revitalize distressed communities. Communities should still be able to identify what specific projects best serve this aim of general community development. But local flexibility should not preclude good data reporting practices, enhanced transparency, and frequent assessment of the outcomes served by these activities.

6) As the Urban Institute discovered, grantees in their study suspect that business creation would not be a reliable measure of how CDBG funds affect their community. Economists widely suspect that such programs are not likely to have significant or meaningful effects on economic outcomes. This is a case where individual experience and theoretical insight seem to agree. Further empirical studies, may shed light on whether this program can have the *direct* economic effects intended by its creators. But, we should remember that this is a program that has spent $100 *billion* over 30 years. With such a dramatic expenditure of funds, we would expect to see at least a few profound examples of community and economic revitalization as a result of this program. Together empirical, theoretical, and experiential evidence should support the belief that this program can help revitalize communities.

7) HUD is to be commended for identifying structural and management deficiencies in the Community Development Block Grant program. We believe that better targeting of funds, a more realistic mission with achievable outcome measures may better serve some of the goals this program is trying to meet.

STATEMENT BY

U.S. CONFERENCE OF MAYORS
NATIONAL ASSOCIATION OF COUNTIES
NATIONAL LEAGUE OF CITIES
NATIONAL ASSOCIATION OF LOCAL HOUSING FINANCE AGENCIES
NATIONAL ASSOCIATION FOR COUNTY COMMUNITY AND ECONOMIC DEVELOPMENT
NATIONAL COMMUNITY DEVELOPMENT ASSOCIATION

TO THE

SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT INFORMATION AND INTERNATIONAL SECURITY

SENATE COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS

HEARING ON

THE BUSH ADMINISTRATION'S "COMMUNITY DEVLOPMENT BLOCK GRANT REFORM ACT OF 2006"

JUNE 29, 2006

Written Statement of Cardell Cooper

The U.S. Conference of Mayors (USCM), National Association of Counties (NACo), National League of Cities (NLC), National Association of Local Housing Finance Agencies (NALHFA), National Association for County Community and Economic Development (NACCED), and the National Community Development Association (NCDA) appreciate the opportunity to present this joint Statement to the House Subcommittee on Federalism and the Census regarding the Bush Administration's proposed "Community Development Block Grant Reform Act." We wish to state at the outset that we do not support this proposal.

As we told the Congress during last year's hearings on the Administration's "Strengthening America's Communities Initiative," CDBG is arguably the Federal Government's most successful domestic program. Its success stems from its utility, i.e. providing cities, counties and states with flexibility to address their unique affordable housing, neighborhood revitalization and economic development needs. Based on HUD's most recent data in 2004 alone the CDBG program *assisted over 23 million persons and households.*

CDBG has been performing at a high level for more than 30 years, and it continues to produce results. In fact, according to HUD, more than 78,000 jobs were created or retained by CDBG in FY 2004. In addition, in FY 2004, 159,703 households received housing assistance from CDBG. Of this amount 11,000 became new homeowners, 19,000 rental housing units were rehabilitated and 112,000 owner occupied homes were rehabilitated. In FY 2004, over 9 million persons were served by new or reconstructed public facilities and infrastructure, including new or improved roads, fire stations, libraries, water and sewer systems, and centers for youth, seniors and persons with disabilities from CDBG funds. In addition, more than 13 million persons received assistance from CDBG-funded public services in FY 2004, including employment training, child care, assistance to battered and abused spouses, transportation services, crime awareness, and services for seniors, the disabled, and youth. In addition, over time grantees provided CDBG-funded loans to businesses located in distressed neighborhoods, with minority businesses receiving approximately 25% of the loans.

CDBG has been achieving results like this throughout its history. An analysis performed by Professor Stephen Fuller of George Mason University in 2001 shows that over the first 25 years of the program CDBG-funded projects created 2 million jobs and contributed over $129 billion to the Gross Domestic Product (GDP).

Congress Intended CDBG to Revitalize and Sustain America's Communities

The CDBG program is about rebuilding and recharging America's communities, ensuring that older communities aren't left behind and newer communities have access to a workforce and affordable communities to house them in. By its statute, CDBG dollars must predominantly serve those below 80% AMI, but CDBG is not a poverty program. CDBG has stemmed the decline of the inner-city in the last 30 years, and America's downtowns have experienced dramatic resurgences. However, in the 21st century, the relevance of the CDBG program is nowhere more evident than in our inner-ring suburbs.

According to a report published by the Brookings Institution (2001), suburbs in decline face "difficulty in attracting attention and investment," face "unique challenges presented by their older infrastructure and housing stock," and "depend heavily on residential taxes to fund basic services." The fact is, suburban communities house much of the nation's working families and don't have the funding they need to manage infrastructure and the cost of rebuilding. The report goes on to say that, "First [inner-ring] suburbs are penalized for not being in severe states of decline, and are unable to receive resources for their infrastructure and communities until it is too late." Urban counties are uniquely positioned to address the decline of inner-ring suburbs with an increase in CDBG dollars.

According to a George Mason University economist, the Washington region will add 80,000 jobs in each of the next five years, mostly in the suburbs. High-cost and fast-growing urban counties (some have called them "wealthy communities"), like Fairfax County, VA, focus their CDBG dollars exclusively in low- and moderate-income areas to preserve affordable neighborhoods for their workforce. High-cost cities and counties have extreme income gaps between rich and poor. Workers such as teachers, firefighters, hotel workers and other service personnel – the core people each community needs – can't find affordable housing. Neither can immigrants who are attracted to thriving areas because that's where the jobs are. Nearly 25% of Fairfax County's residents pay more than 30% of their income for rent. The County has **a gap of 30,000 units** that would be affordable to persons paying no more than 30% of their income for rent.

In fact, ninety percent of the urban, suburban, and rural counties surveyed by the National Association of Counties (*Paycheck to Paycheck)* said the lack of affordable housing for low-and moderate-income families is a serious problem.

Many high-cost areas use CDBG to develop workforce housing, and this just makes economic sense. Not only does this reduce the isolation of income groups and provide access to opportunity, it attracts the service and retail employment base cities and counties need to sustain economic growth. County officials claim that CDBG is one of the best tools to provide low- and moderate- income families good jobs, good homes, and safe neighborhoods. The CDBG statute recognizes that job creation can't happen without the availability of affordable housing and a healthy community infrastructure.

All types of communities should receive their fair share of CDBG tax dollars to address their unique housing and economic development problems. The formula used to distribute CDBG funds directs resources proportionate to each community's need.

When Katrina Struck, CDBG Was the Federal Government's Response

When disaster strikes, Congress invariably turns to the CDBG program to help provide relief as it did in the wake of this year's Hurricanes Katrina, Rita and Wilma. In December 2005, Congress appropriated $11.5 billion in CDBG funds for the recovery in Louisiana, Mississippi, Alabama, and Texas. It recently provided an additional $5.2 billion. It did so as well in 2004 for Florida in the wake of four major hurricanes. CDBG has also been a very effective resource in helping New York City rebuild after the

September 11th tragedy. HUD has provided New York with $3.483 billion in CDBG funds to be administered by the Empire State Development Corporation (ESDC) and its subsidiary the Lower Manhattan Development Corporation (LMDC). Of that amount, $700 million has been committed to ESDC and $350 million to LMDC for business retention/attraction and economic loss compensation. An additional $305 million is being used by LMDC for a residential incentive program, training assistance and administrative costs. The process of designating the balance of the funds continues, and CDBG will continue to play a critical role in the City's recovery.

In addition, because of CDBG's ability to replace aging or obsolete infrastructure, such activities have mitigated the impact of future disasters. After the Northridge Earthquake in 1994, Congress approved two appropriations for Los Angeles County totaling $34 million in supplemental CDBG funding to assist with the recovery efforts and to mitigate the impact of future earthquakes. Los Angeles County utilized a great portion to retrofit existing public facilities so that they could withstand the impact of future quakes and be safer for public use. Without this supplemental CDBG funding, the County would not have been able to undertake the degree of retrofit needed to address public facilities and safety concerns.

Nowhere is the capability of CDBG's delivery mechanism more affirmed than in the President's $11.5 billion supplemental request in CDBG to rebuild New Orleans.

CDBG has already been Reformed

In 2004 a number of the practitioner groups -- NACCED, NALHFA, NAHRO, and NCDA -- devoted substantial resources to a working group that included representatives of the Office of Management and Budget and the Department of Housing and Urban Development with the aim of developing a Performance Outcome Measurement system. What emerged from the efforts of this working group was a *consensus* framework and specific outcome measures to evaluate the performance of the Community Development Block Grant (CDBG) program, the HOME Investment Partnerships Program (HOME), the Housing Opportunities Program for Persons With Aids (HOPWA) program, and the Emergency Shelter Grants (ESG) program. HUD is now in the process of implementing the Performance Measures system. This is the real *reform* of the CDBG program. It will finally provide aggregate national data on the many accomplishments of CDBG and the other three formula grant programs.

In its proposal, HUD maintains that statutory language is needed to enforce the performance measurement system now being implemented. It proposes the following:

- Authorizing the Secretary to establish performance measures and accountability standards for formula grantees;
- Requiring, prior to the receipt of grant funds, that a formula grantee submit a Performance Plan to the Secretary for review and approval, including:

- A statement and a description of the grantee's community development needs and objectives;
- A projected use of funds; and
- A list of performance measurement objectives for each of the projects or activities to be funded prospectively with CDBG funds.

- Requiring a grantee to submit to the Secretary, and make available to the public, a report containing:

  - Information documenting the performance outcomes of activities or projects;
  - The nature of, and reasons for, changes in program objectives;
  - Indications of how the formula grantee would change its programs as a result of its experiences;
  - An evaluation of the extent to which funds were used to serve low- and very low-income persons;
  - A summary of public comments received on specific programs; and
  - Information about the procedures that the formula grantee uses to collect and verify data submitted to the Secretary.

- Directing the Secretary to perform a periodic review of the grantee's progress and provide that if a grantee failed to meet its performance measurement objectives and outcomes in a 24-month period, the Secretary could reduce or limit the grantee's access to CDBG funds; the grantee would be required to submit a plan that outlines steps it would take to improve its future performance.

In a briefing for our organizations, HUD maintained that the purpose of this addition to the statute is to put teeth behind the performance measures system now being implemented. HUD hopes this will encourage grantees that aren't reporting accurate and timely data to begin doing so. HUD staff says establishing a review process and defining "lack of progress" would have to be done very slowly and cautiously. It is doubtful that Congress would give HUD the authority to withhold a grantee's funds.

Is this statutory change necessary? We don't believe so. Our members believe that there is a need for a performance measurement system and have embraced the system that HUD is now implementing. Providing a statutory requirement is, in our view, redundant.

Formula Reform

HUD's legislative proposal call for "reform" of the CDBG formula including the following:

- Eliminating the 70/30 funding split between entitlement cities and counties and states
- Removing the $7 million set-aside for insular areas, instead reserving .19% of the appropriations amount for insular area grantees
- Basing the formula on the following factors:
  - Number of persons living in poverty, excluding unrelated individuals enrolled in college (50%)

  - Number of female-headed households with children under eighteen (10%)
  - Extent of housing overcrowding (10%)
  - Number of housing units 50 years or older and occupied by a household living in poverty (30%)
- Adjusting the formula by the ratio of per capita income of the MSA to the per capita income of the formula grantee, with caps such that no grant is adjusted by more than 25 percent
- Requiring a minimum allocation threshold of .014 percent of the total amount allocated; if any current entitlement does not meet the minimum allocation threshold requirement, this grantee would receive 50 percent of their grant amount for the first year after enactment before being eliminated as an entitlement the following year

HUD maintains that this formula modification is about fairness. HUD also believes that the introduction of a minimum allocation threshold requirement – weeding out smaller metropolitan cities and urban counties with less poverty – would foster a more regional approach to CDBG programs. According to the FY 2006 appropriation, the .014% threshold requirement would be the equivalent of $518,000. There are currently 312 city and urban county entitlements that receive less than this amount, and thus, they would be denied direct funding.

It's no surprise that the CDBG formula has not changed since 1977. The difficulty of making a change is finding a new formula that can garner enough votes to pass the House and Senate. Fairness is in the eye of the beholder. For example, under the Administration's proposal applied to the FY 2006 appropriation, 10 communities in Ohio that now receive direct entitlement funding would lose their eligibility and have to compete for funding from the State. Of the remaining entitlements, 23 would see their entitlement grants reduced, some by as much as 65% (Cleveland Heights and Lakewood), while 9 would receive increases, one by as much as 70% (Columbus). Dayton would lose 16% of its grant. In Pennsylvania, 10 communities that are currently receiving direct funding would have to compete for grants from the State under the Administration's proposal. Thirty-one entitlement cities and counties in Pennsylvania would receive smaller grants, one by as much as 53% (Allegheny County) and one by 43% (Pittsburgh), while four entitlement communities would see modest increase of 3-10% (Philadelphia).

If Congress decides to change the CDBG formula, which we do not support, the only way to prevent losers is to appropriate more money. That is highly unlikely given the current fiscal situation.

Bonus Funding Pool

The HUD "reform" proposal also contains a bonus funding pool called "Economic Development and Revitalization Challenge Grants," a $200 million pot of funds for which entitlement and non-entitlement cities and counties would compete. These grants are intended to provide an incentive to communities to demonstrate results in improving the livability of distressed neighborhoods for its citizens through the targeted use of grant funds and other public and private resources. Other features of the proposal include:

- A grantee must have a population with a minimum poverty rate at least half the national poverty rate;
- In the previous year, a grantee must have expended at least 40% of its last grant amount for activities in Neighborhood Strategy Revitalization Areas (NSRAs);
- For any previous challenge grants received, the grantee must have expended at least 40% of its prior year's grant and 100% of the grant received 24 months prior;
- The grantee must have an operational performance measurement system that shows results and achievements from activities carried out in NSRAs;
- Criteria to score eligible grantees include:
    - Concentration of public funds and leveraged private investment in designated NSRAs;
    - Relative improvement in expanding economic opportunities for low-and moderate-income households within its NSRAs in past five years;
    - Indicators that measure the NSRA's viability for redevelopment and the entity's ability to implement effective strategies to improve economic opportunity and livability within the NSRA;

- Funds will be awarded as follows:

    - Grants will be allocated as a percentage of a grantee's formula grant;
    - Grantees with higher scores shall receive a larger percentage of bonus funds than those with lower scores;
    - No grantee shall receive a bonus grant greater than 50% of its formula grant;
- Funds must be used in NSRAs for activities that expand economic opportunity; funds may be used to create affordable housing if this is part of the grantee's strategy to expand economic opportunity.

Grantees would not actually apply for these grants; HUD would analyze eligibility and scoring criteria through data collected in the Integrated Disbursement Information System (IDIS). The theory behind this bonus fund is to incentivize grantees to achieve certain outcomes by rewarding them, but without limiting the kinds of activities that can be undertaken with formula funds.

Unfortunately, the funding for this program comes out of the CDBG formula; it is not a separate program. The proposed FY 2007 appropriation for this bonus fund is $200 million. We are strongly opposed to the diversion of limited formula funds for this purpose.

Program Elimination

The final element of HUD's "reform" proposal is the elimination of three programs: Section 108 Loan Guarantees, the Brownfields Economic Development Initiative (BEDI), and the Rural Housing and Economic Development programs. The rationale for this program elimination is that most of the activities can be carried out with CDBG funds, with the exception, of course, of the tremendous leveraging opportunities that the Section 108 program provides.

Section 108 provides cities and counties with a source of financing for large scale affordable housing, economic development, and public facilities projects. The program allows CDBG grantees to leverage a portion of their CDBG entitlement grants to undertake projects on a scale that can transform neighborhoods. Section 108 funding is often the catalyst to entice private sector funding to distressed neighborhoods in need of revitalization. In 2005, HUD approved 55 Section 108 project applications. Of the $336 million total that was approved, $194.7 million went to economic development projects that created or retained 9,922 jobs, $212.7 million supported housing rehabilitation projects, and $119.2 million went to public facility and improvement projects. This activity would not be possible if communities had to rely solely on their annual entitlement grants.

Section 108 loans are often coupled with Brownfields Economic Development Initiative (BEDI) grants to spur the reclamation of brownfields. BEDI grants can be used to pay predevelopment costs of a Section 108 project, and the can also be used as a loan loss reserve to write down interest rates, or establish a debt service reserve. Both of these programs complement and enhance CDBG; they don't duplicate CDBG. They should not be terminated.

CDBG Funding

Finally, we wish to comment on formula funding for CDBG. We complement the Congress for its leadership in preserving CDBG, at HUD, during the previous session of the 109th Congress. The price paid for this victory was a heavy one, with formula funding cut from the FY 2005 level of $4.1 billion to $3.71 billion. This was on top of the $200 million cut in FY 2005.

Earlier this year, our organizations, along with two others, surveyed our members to quantify the impact of the cuts to the formula grant portion of the program from FY 2004 to FY 2006. Here is what we found:

- 5,064,408 fewer low- and moderate-income persons would be served nationwide as a result of cuts to the CDBG program from FY 2004 to FY 2006.

- 5,588 fewer businesses would be assisted, 14,881 fewer jobs would be created, and 3,345 fewer jobs would be retained.

- 5,843 fewer households would be assisted through homebuyer assistance activities, including a total of 2,533 first-time homebuyers, and 1,828 minority households.

- 255,569 elderly and 391,823 children would fail to receive public services that are routinely funded with CDBG funds, such as meals on wheels, improvements to nursing homes, child care, and after school enrichment programs.

- 253,187 fewer persons with special needs would be served, along with 196,150 fewer homeless persons.

- 1,251 new city and county public improvement projects would be cancelled or delayed, such as street and sidewalk improvements, water and sewer systems, fire stations, public facilities, and the remediation of environmental contamination.

Survey respondents included grantees in 43 states and the Commonwealth of Puerto Rico; representing 30 percent of all CDBG formula grantees, including 68 percent of all state programs and 28 percent of all entitlement cities and counties.

We were very pleased that H.R. 5576 passed by the House earlier this month contains a $200 million increase in CDBG formula grants to $3.9 billion for FY 2007. We thank the members who voted for this important increase. We will continue our efforts in the Senate to achieve a significant increase in formula grants at part of its version of the FY 2007 Transportation, Treasury, and Housing and Urban Development appropriations bill.

Thank you.

Dr. Coburn's Questions for the Record from June 29, 2006

Pam Patenaude:

1. *QUESTION:* One of the elements of the proposed CDBG formula reform is fiscal capacity. Could you please explain how the fiscal capacity adjustment works?

ANSWER: To understand how the fiscal capacity adjustment works, we think it is helpful to describe the exact mechanics of the total proposed formula.

The proposed formula is calculated in three steps. The first step is to allocate the funds based on each community's proportional share of the four variables representing community distress. That is, 50 percent of the appropriated funds would be distributed to grantees based on each grantee's proportional share of the national population in poverty; 30 percent to grantees based on each grantee's proportional share of housing 50 years or older and occupied by a poverty household; 10 percent on female headed households with minor children; and 10 percent on overcrowded housing units. The second step is to increase or decrease the resulting "base" grant using the ratio of a metropolitan area's per capita income relative to an entitlement community's per capita income[1]. The third step is to apply a pro-rata adjustment if the resulting grants are more or less than total appropriations.

Take Dayton, Ohio for example:

Step 1:

Chart 1

	Dayton	Nation	Dayton's Share	National Appropriation	Dayton's Grant ($000)
Poverty (excluding college students)	33,632	33,499,048	0.001004	0.5 * $3.704 billion	$1,859
50-year old housing with poverty householder	6,579	3,294,018	0.001997	0.3 * $3.704 billion	$2,219
Female headed households with minor children	8,299	7,449,179	0.001114	0.1 * $3.704 billion	$413
Overcrowding	1,720	6,252,299	0.000275	0.1 * $3.704 billion	$102
"Base" Grant Total					$4,593

[1] The Per Capita Income adjustment is capped such that it cannot be larger than 1.25 or less than 0.75. This "cap" is intended to prevent the adjustment from creating serious anomalies in allocations relative to similarly needy places. In the current formula, the "Growth Lag" variable was developed to allocate large shares of money to the most needy places. However, since Growth Lag has no cap, it has created serious anomalies between similarly needy places.

Step 2 - per capita income adjustment:

Chart 2

	Dayton	Dayton Metropolitan Area	Ratio (metro area pci/local area pci)	Base Grant ($000)	Adjusted Grant ($000)
Per Capita Income	$15,547	$21,799	1.40 (capped at 1.25)	$4,593	$5,742

Step 3 - pro-rata adjustment:

The total dollar amount for all adjusted grants is $3.877 billion but appropriations are only $3.704 billion. As a result, every community's grant gets reduced by the ratio of $3.704 billion / $3.877 billion or 0.9554583.

Dayton's final allocation is: $5,742,000 * 0.9554583 = $5,486,000.

Your question is specifically interested in why we would make the adjustments of steps 2 and 3[2]. By adjusting the base grant (Step 1) by the per capita income of a metropolitan area divided by the per capita income of a jurisdiction, three things are accomplished:

- It addresses a community's relative ability to address its needs itself, that is fiscal capacity;
- It adjusts for differences in cost of living from one area of the country to another (see answer to Question 5); and
- It provides more to the most needy grantees relative to the least needy.

2. *QUESTION:* In his testimony, Mr. Cooper stated that HUD had not met with the stakeholders and the providers prior to introduction of the CDBG Reform legislation. The CDBG formula study was made available to the Congress and the public in February 2005. Since the proposed CDBG formula proposal is a variant of option four of that study, could you please describe what efforts the Department took to brief and engage stakeholders and the Congress on the CDBG formula study and the

ANSWER: On February 18, 2005, HUD made the CDBG formula study entitled "CDBG Formula Targeting to Community Development Need" available to the public. Public interest groups, including Mr. Cooper's NCDA, representing the CDBG grantee community were aware of its preparation beginning in 2003. Upon release of the study, HUD representatives repeatedly referenced it, its findings and potential impacts in multiple forums hosted by these organizations and attended by hundreds of grantees. In

[2] Without the per capita income adjustment, Step 3 would be unnecessary.

each case, HUD officials urged grantees to become familiar with the formula alternatives presented in the study and to examine the impact of each alternative upon their community.

Examples of meetings where HUD officials discussed the formula study prior to release of the CDBG Reform Act include annual meetings and legislative conferences of our stakeholder public interest groups. In fact, the primary author of the formula study, Todd Richardson of HUD Office of Policy Development and Research, attended the National Community Development Association (NCDA) annual meeting in Austin, Texas in June 2005 and gave a presentation on the study. It should be noted that HUD never received any written comments or questions as a result of the formula study discussions at these meetings.

The House Government Reform Committee's Subcommittee on Federalism and the Census held a hearing on CDBG formula reform on April 26, 2005. Witnesses at that hearing included Mr. Saul Ramirez, Executive Director of the National Association of Housing and Redevelopment Officials (NAHRO), who offered a statement on behalf of NAHRO, NCDA, the National League of Cities, the National Association of Counties, the Council of State Community Development Agencies, the National Association of County Community and Economic Development and several other organizations. While the basic thrust of his statement was cautionary with regard to any changes, Mr. Ramirez did address several specific issues with regard to the proposed alternatives. HUD considered these comments and, in fact, altered the definition of persons in poverty to address the concern raised by Mr. Ramirez.

The President's FY 2007 budget proposal was released in February 2006 and was very clear in stating that CDBG formula reform legislation would be offered this year. Shortly after the budget was released it became known to stakeholder interest groups that HUD would utilize Alternative 4 from the formula study as the basis for a legislative proposal. Again, HUD did not receive any substantive comments from stakeholder interest groups with regard to the impending formula reform proposal.

3. *QUESTION:* OMB evaluated the CDBG program which was then rated under its Program Assessment Rating Tool (PART) review process. The CDBG program received a PART score of 27 out of 100 for results and accountability. Could you explain what factors contributed to that score?

ANSWER: First, for the record, CDBG received an OMB PART Score of 28. Some of the factors that contributed to the CDBG PART score are the design and structure of the PART review and factors that are inherent in the nature of the CDBG program legislation.

The PART template is composed of four separately weighted sections: Program Purpose and Design, 20 percent; Strategic Planning 10 percent; Program Management, 20 percent; and Program Results and Accountability, 50 percent. Each section is designed to build upon prior sections with scores in subsequent sections impacted by scores in prior sections. The PART review appears to best measure programs that address single

purposes, are of narrow scope, and are not influenced by external variables. The CDBG program's statutory purpose of "the development of viable urban communities, by providing decent housing and a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income" was scored in section 1. as vague and ambiguous. The "vague purpose" contributed to no or low scores throughout the PART review. The PART review found: "CDBG is not designed to address a clearly defined problem, interest, or need. The program has minimum requirements and is extremely flexible." The PART review also found problems with the current formula's targeting, questioned whether defining 80 percent of median as the cut-off for defining low and moderate income as sufficiently targeted, and questioned the effectiveness of the flexibility of locally designed programs.

The CDBG program also does not score well under PART because CDBG was designed to address the symptoms of urban decline and not the underlying causes. However there is little or no consensus on what those underlying causes are and to the extent we can identify a few underlying causes, they are regionally different and appear to be constantly changing.

The Administration's proposed CDBG Reform legislation addresses some of these issues. The proposal will better target funds to the neediest communities and emphasize performance measurement and results. Short of turning the CDBG program into a categorical anti-poverty program with a narrow scope, many of the CDBG program's strengths, e.g. formula allocation and block granting, a wide degree of local discretion in program design, and a wide-range of eligible activities will not likely garner high scores under the PART review.

4. *QUESTION: The* Department currently posts CDBG summary information of grantee performance on the Internet. What impediments do you see to providing greater detail for the public about each grantee's program, even down to the activity and transaction level?

ANSWER: CDBG will soon begin posting greater detail about each grantee's program on its website displaying annual performance profiles that will include information on the extent to which each grantee serves extremely low, low, and moderate income persons, the amount of funds devoted to Neighborhood Revitalization Strategy Areas, and the timeliness of expenditures. These profiles will also summarize grantee expenditures and accomplishments and will provide a comprehensive overview of each grantee's annual performance on a one-stop, easy-to-read web page with graphics.

The Department currently collects CDBG information through IDIS down to the individual activity level that includes eligibility, national objectives, expenditures and beneficiary data (where applicable). However, there are a number of issues that impact public dissemination, including the Privacy Act, resources, hardware and Internet capacity. In addition, posting of "raw data" also poses issues of clarity and format. To go to deeper levels of information collection beyond the activity level not only involves

the above issues but additional data collection is inconsistent with the requirements of the Paperwork Reduction Act.

5. *QUESTION:* In developing the proposed CDBG formula, did you take housing costs into account?

ANSWER: Yes, the per capita income adjustment factor favors distressed communities in areas with high housing costs over distressed communities in areas with low housing costs.

Among grantees with poverty rates over 15 percent[3], the average PCI ratio adjustment for jurisdictions with a Fair Market Rent less than the national Fair Market Rent is 1.05 while for those with higher than average rents, the PCI ratio is 1.15. That is, among places with relatively high poverty rates, the PCI ratio adjustment is higher in places where the rents are higher.

The explanation for why the PCI ratio adjusts for cost-of-living disparities among communities with otherwise similar numbers of poor persons is that poor communities in high cost areas with very high per capita income have a greater disparity in income than poor communities in low cost of areas, resulting in a larger upward adjustment.

The advantage of using the Per Capita Income adjustment factor to adjust for high housing costs instead of a variable that specifically addresses high housing costs is that it does not benefit well-off communities in high-cost areas. In addition to the per capita income adjustment factor, overcrowding, weighted at 10 percent in the formula, is more prevalent in areas with high housing costs.

6. *QUESTION:* In the testimony of Mr. Donohue, it was stated that vague criteria and deficient enforcement will likely undermine performance measurement. How specifically have these measurements been defined? For example, does the Department of HUD have a definition of "job creation" that does not count temporary jobs, jobs created for non-residents of the area, or job transfers versus brand new jobs?

ANSWER: In reviewing Mr. Donohue's written testimony, these comments appear to relate to performance and accountability provisions of HUD's proposed CDBG Reform Act of 2006. He takes issue with CPD's utilization of the CDBG program's statutorily defined purposes (see 42 USC 5301(c)) to frame the performance measurement discussion. CPD and its stakeholders also elected to utilize this approach in establishing the performance measurement framework that CPD is currently implementing.

The performance measurement notice published in the Federal Register on March 7, 2006 (71 FR 11470), defines these objectives as well as the outcomes associated with them. Beyond these criteria, the notice also defines seventeen specific outcome indicators that

[3] We want to compare generally needy jurisdictions against one another. This analysis also is limited only to grantees with over 100,000 population.

will provide greater insight into the impact that CDBG funds are having in the nation's communities.

With regard to job creation, HUD has always maintained that jobs created or retained as a result of CDBG assistance must be permanent jobs based upon full time equivalents, FTEs. For example, HUD does not permit grantees to count temporary construction jobs as a basis for compliance with the CDBG national objective of benefit to low- and moderate-income persons. HUD does, however, allow grantees to utilize the FTE approach to aggregate permanent, part-time positions and present them as full-time equivalents.

HUD's regulations at 24 CFR 570.208(a)(4) provide significant detail with regard to how job creation and retention activities can meet the national objective of providing benefit to low- and moderate-income persons. However, there is no requirement that jobs be solely taken by or made available to residents of the grantee providing CDBG funds for the job creation activity although it is a reasonable assumption that most jobs assisted through CDBG funds are taken or occupied by individuals living within that jurisdiction or within a reasonable commuting distance.

CDBG assistance may not be used for "job pirating" activities that are likely to result in significant job loss. This statutory prohibition (42 USC 5305(h)) has been in place since 1998 and HUD recently issued both interim and final rules that fully implement this provision (see 70 FR 76362 and 71 FR 30026). However, CDBG assistance may be used in some cases to enable businesses to relocate. In these instances, HUD does not permit relocated jobs to be counted toward meeting the national objective unless such relocation can be demonstrated to be necessary in order for the business to remain operational.

7. *QUESTION:* For communities that consistently fail to perform, your reform package says there "may" be administrative action, and before any reduction of funding occurs as a result of poor performance, the requirement for a hearing before an Administrative Law Judge would still be required. Why wouldn't there be guaranteed and immediate Administrative action taken by HUD for consistent misuse of funds? Doesn't delayed and discretionary enforcement encourage noncompliance by grantees?

ANSWER: HUD would draw a distinction between performance issues and misuse or noncompliance issues. HUD must preserve a level of discretion in applying sanctions against grantees for performance issues. For example, if certain grantees in Florida or along the Gulf Coast had performance issues prior to the 2005 hurricane season, HUD could be in a position of having to take action against these communities as they are attempting to rebuild from the devastating impact of these storms. A second example would be the case of a valuable project that becomes the subject of litigation that delays execution of the project. Situations inevitably arise that require a degree of flexibility and discretion and the provision included in proposed CDBG Reform Act would preserve those options.

HUD's purpose in including this provision in the proposed CDBG Reform Act is to establish a more explicit requirement for holding grantees accountable for meeting their programmatic goals. This would complement the performance measurement framework that CPD is currently implementing and, as grantees begin to report accomplishments over the next few years, would provide a valuable tool to ensure grantees focus on achieving their goals.

Issues involving noncompliance and misuse of funds can be dealt with through existing statutory and regulatory mechanisms. While the process does not necessarily lend itself to speedy resolution of these matters, the process has been proven to work and it must be pointed out that the CDBG authorizing legislation provides for a "due process" approach. The key to making it work is a strong administrative record that details a grantee's actions and the steps HUD took to require compliance. Further, through the issuance of a revised monitoring handbook in September 2005 for our staff, CPD has taken a significant step to assure that we will have that administrative record going forward.

8. *QUESTION:* The National Community Development Association claims that the CDBG Reform Act will "eliminate" Section 108 loans, the Brownfield Economic Development Initiative, and the Rural Housing and Economic Development programs. Is this accurate? And why should these programs operate with the new needs based formula established by your reform proposal?

ANSWER: HUD's proposed CDBG Reform Act of 2006 does not eliminate the Section 108 loan guarantee, the Brownfields Economic Development Initiative (BEDI), or the Rural Housing and Economic Development (RHED) programs. The Administration's FY 2007 budget proposal calls for zero funding for these programs, thereby effectively consolidating them in CDBG. HUD does not propose to strike or otherwise delete the Section 108 authorizing provisions as they will be required for administration of outstanding commitments and loans. The Administration's decision not to request continued funding for these programs is based on the view that they are duplicative of eligible activities that can be carried out through the CDBG program.

9. *QUESTION* It is reported that 114 communities are receiving CDBG funding despite the fact they do not meet the statutory definition of an entitlement community. Why haven't these communities been removed from the entitlement communities list? Is it within HUD's authority to do this or will it take Congressional action? Does the CDBG Reform Act address this?

ANSWER: HUD is statutorily required to grandfather and provide CDBG entitlement funding to any grantee that once qualified as a metropolitan city or urban county for at least two consecutive years. These provisions are located at 42 USC 5302(a)(4) for metropolitan cities and at 42 USC 5302(a)(6)(B) for urban counties and would have to be amended or deleted in order for HUD to have the authority to deny CDBG entitlement funding to these "grandfathered" grantees. The proposed CDBG Reform Act does not address these grandfathered grantees but does include a minimum grant threshold

provision that effectively would deny entitlement funding to approximately 312 communities of which 60 are part of the 114 grandfathered grantee universe.

10. *QUESTION:* As I noted in my opening statement, section 108 loans have an extraordinarily high default rate. In the case of the Los Angeles Community Development Bank, this CDBG funded program awarded a high-risk applicant a $6 million business loan. After pouring a total of $24 million into this business—a violation of the spending limit—the business still defaulted. Why doesn't HUD offer more guidance and accountability measures to this program in order to preempt this waste of funds? And why doesn't HUD make details of these loans available on your website similar to what you do for other HUD loan programs?

ANSWER: First with regard to the example of the Los Angeles Community Development Bank and the particular business loan cited, there is no CDBG or section 108 Loan Guarantee program funding limit for any particular project. HUD recognizes economic development activities as high risk activities and HUD provides more oversight for those activities than lower risk activities. HUD did provide substantial oversight over the Los Angeles Community Development Bank and assistance to the City and County of Los Angeles. HUD has limited oversight in disapproving grantee's choices for economic development activities before they are carried out.

HUD's role in economic development activity choices was defined by the Housing and Community Development Act of 1992 that addressed these issues in Conference when the conferees rejected required underwriting criteria proposed by the House in favor of deference to local decision-making and responsibility proposed by the Senate, which favored public benefit standards over mandatory underwriting standards. Section 806 of the 1992 amendments, amended section 105 of the CDBG statute to add a new paragraph (e). Paragraph (e) directed HUD to establish underwriting guideline for economic development but also limited HUD's oversight by stating: "The Secretary shall not base a determination of eligibility of the use of funds under this title for such assistance solely on the basis that the recipient fails to achieve one or more of the guidelines' objectives as stated in paragraph (2)." [referring to the underwriting guidelines].

The payment default rate on Section 108 loans is 0 percent. In fact, since the inception of the program in 1978, HUD has never been required to pay a single default claim to a holder of a loan guaranteed under Section 108. The reference to the high default rate is probably based on an article published in the *City Journal* which uses, on a selective basis, data contained in the Urban Institute's study, entitled "Public-Sector Loans to Private-Sector Businesses: An Assessment of HUD-Supported Local Economic Development Lending Activities." As noted in the report, third party loan funding over the period covered by the Urban Institute study constituted only 18 percent of funding for all Section 108 activities. Further, the Section 108 data are skewed by the results in one-community with an above average proportion of Section 108 funds and below average performance. When that community is removed from the sample, the non-performing rate (i.e., the amount of loans that are in default or severely delinquent) for Section 108 funded, third party loans is reduced from 23 percent to 13 percent. The actual losses will

be significantly less because most of the third party loans are collaterally secured (e.g., by real estate). Although the non-performing rate is not out of line with the kinds of higher risk loans that communities have made, HUD believes performance in this area can be improved. Accordingly, HUD is providing technical assistance to communities that are using, or are considering using, Section 108. Three training sessions have been conducted across the country during the past three months. The focus of this training is on improving the underwriting of projects that are financed under Section 108. Information on Section 108 loans is available on our website, including the Urban Institute study cited above.

11. *QUESTION:* The Department of HUD claims that the CDBG program is not at high risk for erroneous overpayments or underpayments—and that the program has nothing to report according to the requirements of the Improper Payment Information Act. However, given what we now know regarding the lack of transparency and accountability in the program, can anyone claim with certainty that there are no improper payments with Community Development Block Grants?

ANSWER: It would be unfortunate if any negative conclusions regarding transparency and accountability in the CDBG program were solely based on the HUD Office of Inspector General's recent testimony before your committee. Of the 36 audits presented as CDBG audits by the HUD OIG for FYs 2004 through 2006, only 19 of the audits actually covered the CDBG program. The remaining 17 audits were for other CPD programs, including Congressional set-asides. For the 19 CDBG audits, there were $23 million of questioned costs, $19.3 million of total disallowed costs and $68 million of Funds Put to Better Use. For the vaguely defined Funds Put to Better Use category, a sum of $52 million was from one audit. The $19.3 million in disallowed costs represents approximately 0.16 percent of the approximately $12.1 billion in total CDBG formula funding for those years.

With regard to improper payments, CPD is in the process of reviewing the CDBG program for fiscal years 2002-2005 for improper payments through our monitoring efforts based upon CPD's Grants Management Process (GMP). GMP is a risk-based monitoring approach that utilizes CPD field office staff and the CPD program Monitoring handbook, generally and specifically as it pertains to financial management, cost allowability, and procurement. Our assessment to date has uncovered total improper payments per year below the $10 million threshold, and less than 2.5% of the expended amount per FY.

The CDBG program provides grantees the flexibility to pursue opportunities within the community. HUD does hold these grantees accountable for the funds provided to their communities. CDBG grantees are required, by regulation, to comply with the requirements and standards of OMB Circulars governing cost principles and uniform administrative requirements (e.g., 24 CFR 570.502), the Single Audit Act requirements of OMB Circular A-133, and are responsible for ensuring that CDBG funds sub awarded to other entities are carried out for eligible activities (see 24 CFR 570.501). Historically, HUD has not found it necessary to use the enforcement provisions of section 111 of the CDBG law. Instead, grantees advised of non-compliance with program requirements make voluntary repayments to their CDBG program accounts with local funds.

QUESTIONS AND RESPONSES FOR THE RECORD FROM EILEEN NORCROSS

1) **What role do economic inhibitors—such as excessive regulation and taxes—have in cities that consistently failed to exhibit economic growth despite decades of CDBG funding?**

In many of our cities, high taxes and onerous regulations prevent urban residents from entering into business, constructing low-income housing, and improving their cities. To give one example, a 1997 study by economists Steven Craig and D. Andrew Austin[1] estimated that New York City's tax burden cost the city as many as one million lost jobs. At the time of the study, New Yorkers paid $2,467 per person in city taxes (with state and federal they estimated the total at $6,682 per capita.) The most taxed city in their study was Washington D.C. at $4,405 per resident. But most of the revenue in New York City was not going to basic services, but to low-income assistance and debt service. While residents are taxed at excruciatingly high levels, they do not realize significant benefits. The ultimate result: residents leave, businesses leave, employment goes down, while basic services suffer. In 1965, New York City was home to half of Fortune 500 companies[2], today there are 37.

Regulations exact a similar burden. A recent article by Shika Dalmia contrasts Detroit's persistent malaise with Bangalore India's meteoric rise to global technology capital[3]. Among the barriers facing Detroit that Dalmia highlights:

- Detroit imposes licensing fees on 265 different types of businesses from day care centers to street vendors.
- A home-based business needs 70 or more building permits to get started.
- The taxi-industry is 'virtually non-existent' in Detroit. Restrictions make it impossible for new entrants. And if they can enter, they must pay $10,000 to purchase a license.

And Detroit's taxation is also onerous: five percent on utilities, 2.5 percent on income, 1.25 percent on those who work in Detroit, and one percent on corporate income. On top of that Detroit charges tremendous taxes on sold property, leading some homeowners to abandon or even burn down their property rather than sell it.

The solution to these problems is often to offer targeted tax breaks to big companies, particular industries, or only a few neighborhoods within in a city. However, it is better to create a taxation structure that treats all residents and businesses equally. That is, rather than offer breaks to individual businesses, activities, or only certain residents, cities should seek to unlock the hidden potential that it constrains with unfair and burdensome taxes and regulations. A general, fair system of taxation, minimal regulation, and well-defined and enforced laws, minimizing on crime and eliminating corruption, will

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[1] Steven G. Craig, and D. Andrew Austin, "New York's Million Missing Jobs," City Journal, Autumn 1997 http://www.heartland.org/Article.cfm?artId=1226.
[2] Steven Hayward, "Broken Cities: Liberalism's Urban Legacy," Policy Review, April 1998.
[3] Shikha Dalmia, "What Detroit Can Learn from Bangalore," Reason Magazine, June 2006. http://www.reason.com/0606/fe.sd.what.shtml

encourage residents to start businesses, to buy and maintain homes, and to participate in the life and rebuilding of their communities.

a. **Should Congress require communities to reform anti-growth regulations and tax burdens before they are eligible for federal grants—much like we require from foreign countries with some of our foreign aid programs?**

Grant monies, such as those that CDBG provides can only address the consequences and not the causes of urban decay. If Congress continues to award such funds, grantee cities should also promise to remove the barriers that prevent economic growth: such as high taxation, and burdensome regulations.

2) **How can HUD improve its data collection?**

I am pleased to see HUD is attempting improvements of its IDIS data collection system. I believe it can do a few things to make it easier for the public and researchers to use it. Put the data in a form that permits transparency to the public and also analysis by researchers.

Transparency: One should be able to query in a public database, how funds were used specifically, on the level of individual grantee (after taking privacy concerns into account), name of project, and how funds were spent.

Analysis: One should be able to extract data in a form that allows statistical analysis and aggregation (such as Excel): over a number of years, describing how grants were used (business loans, home construction, community improvements, infrastructure), the amount, the city or region.

In other words, data should be specific enough to allow users to view how individual grants were spent. But such a system should also permit researchers to aggregate and code data into a meaningful format to permit statistical analysis.

3) **In your opinion, what would you say Congress is trying to achieve with this program?**

CDBG was created in response to the urban decay that plagued many U.S. cities in the late 1960s and early 1970s. It was believed infusions of federal dollars would help cities cope with the economic decline and social problems that were devastating urban areas. However, due to its broad mission, and the nature of the formula grant, over time, CDBG funds were awarded to a growing number of cities, and with a weakening ability to target based on need. But as funds drifted, so did the program's original mission. It is now a general source of extra revenue for all receive it. There is no evidence to support that CDBG has had the kind of dramatic, large-scale effect its creators imagined.

If the original intent of CDBG remains the same: the revitalization our most distressed urban areas, I believe Congress should review and adjust the current formula. Further, I believe Congress should reconsider, in the light of what we have learned about the key to unlocking economic prosperity, what outcome they are hoping to achieve with this program. A clearer, more precise mission will assist both the agency and the grantees in ensuring that funds are being put to their best possible use.

Answers to Dr. Coburn's QFRs for Cardell Cooper

Provided to Liz Scranton on July 28, 2006

Answers

Question 1: I assumed the position of Executive Director for the National Community Development Association (NCDA) on March 1, 2006. I don't know what meetings occurred between HUD and NCDA or any of the other stakeholders prior to that date on the formula study.

Question 2: I support the CDBG program. It is a program that provides flexibility to communities nationwide to help their low- and moderate-income citizens. In fact, according to HUD, over 95% of the FY 2004 CDBG funds were allocated by States and local governments to persons at or below 80% of area median income. HUD is responsible for monitoring all CDBG grantees to ensure there is no waste, fraud, or abuse in the program.

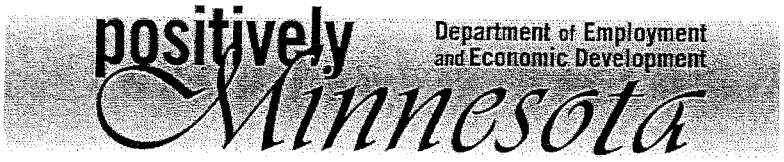
Question 3: Yes, the Challenge Grant would be a diversion of limited formula funds.

Question 4: Poor people reside in wealthy communities. Without programs like CDBG, these citizens are not guaranteed assistance. The federal government cannot require any community to use their own resources to supplant this – or any federal – program. Some would argue that to try to do so is forcing "unfunded mandates" on local governments.

Question 5: Making the performance measurement system statutory would be "redundant" because the system is already in place through regulation. I do not support waste, fraud, and abuse in any federal program and if such occurs, the person committing such acts should be punished to the fullest extent of the law. HUD has the power to ensure that grantees comply with the performance measurement system. NCDA is wholeheartedly supportive of this system and, in fact, participated with HUD and OMB in the creation of the system.

Question 6: This is a question you should address to HUD, the federal agency responsible for collecting data on CDBG.

Question 7: The study was developed at the request of NAHRO. You can obtain a copy of the study through them.



June 28, 2006

The Honorable Norm Coleman
United States Senate
320 Hart Senate Office Building
Washington, D.C. 20510

Dear Senator Coleman:

I am writing to express our interest and support of the Community Development Block Grant program (CDBG). The Minnesota Department of Employment and Economic Development administers the majority of the CDBG allocation to the State for economic development needs in non-entitlement communities.

The CDBG funds have a major impact in rural communities in Minnesota. It is the only source of community development funding for most rural communities. The funding is a flexible tool for community needs, providing funding for vital needs such as safe sewer and water, housing rehabilitation, economic development activities, disaster recovery and construction. The CDBG grants awarded to communities also leverage other sources of funds that well exceed our state's yearly allocation. A reduction in CBDG funding will have a devastating effect on the vitality and health of rural communities.

The need to maintain the current level of funding for the CDBG program is critical. In Minnesota, requests for CDBG funds exceed our current amount each year. If funding is reduced, the need for CDBG funds will grow, and unfortunately, the people who will suffer most, are the lower income population and economically struggling communities in rural Minnesota.

Thank you for your support regarding the continually funding of the CDBG program. Minnesota appreciates your hard work on behalf of our State.

Please do not hesitate to contact me at 651-297-4339 if I can answer any questions regarding this important matter.

Sincerely,

Ward Einess

Ward Einess
Acting Commissioner

Department of Employment and Economic Development
1st National Bank Building, 332 Minnesota Street; Suite E200• Saint Paul, MN 55101-1351 • USA
651-297-1291 • 800-657-3858 • Fax: 651-296-4772 • TTY/TDD: 651-282-5909 • www.deed.state.mn.us

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CITY OF
BLOOMINGTON
MINNESOTA

June 26, 2006

The Honorable Senator Norm Coleman
2550 University Ave W, Suite 100N
St. Paul, MN 55114

RE: Community Development Block Grant Program

Dear Senator Coleman:

On behalf of the City Council and the citizens of Bloomington, I would like to thank you for your ongoing support of the CDBG Program. Your efforts have help to preserve an important program for all communities, including the City of Bloomington.

The CDBG Program has been an important resource to Bloomington in many areas, including the preservation of housing, senior services and providing homeownership opportunities.

For example, in the last year, the City was able to assist 39 low and moderate-income homeowners with rehabilitation loans. These loans totaled $799,436 and were used to maintain their homes. The funds help preserve the overall housing stock of the City. The program provided deferred loans for necessary repairs such as roof and furnace replacement.

In the past three years CDBG funds have been used to build shelter beds for battered women and acquire property for a 50 unit affordable rental building for physically disabled seniors.

However, the City is very concerned about proposed legislation which would reduce funding and transfer local control to another public body. These changes will dramatically hinder the City's efforts to preserve or create new affordable housing opportunities.

We hope you will continue your strong support for the CDBG Program by opposing these changes.

Sincerely,

Honorable Gene Winstead, Mayor
City of Bloomington

MAYOR AND CITY MANAGER
1800 W. OLD SHAKOPEE ROAD, BLOOMINGTON MN 55431-3027
PH 952-563-8780 FAX 952-563-8754 TTY 952-563-8740

AN AFFIRMATIVE ACTION/EQUAL OPPORTUNITIES EMPLOYER

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City of Coon Rapids
11155 Robinson Drive
Coon Rapids, MN 55433-3761
(763) 755-2880 • FAX (763) 767-6491
www.ci.coon-rapids.mn.us

June 26, 2006

The Honorable Norm Coleman
U.S. Senate
320 Senate Hart Office Building
Washington, DC 20510

Dear Senator Coleman:

The City of Coon Rapids supports your efforts in restoring fiscal year 2007 funding for the Community Development Block Grant (CDBG) Program.

The CDBG program has served communities for more than 30 years as a resource to help cities, counties and states meet their community development, affordable housing and economic development needs. The City of Coon Rapids has used CDBG funding for economic development, housing rehabilitation and public services projects. Since 2001, CDBG has assisted more than 70 low- and moderate-income homeowners with housing maintenance and rehabilitation needs. We have witnessed the revitalization of neighborhoods that these projects have encouraged. With the proposed reduction and changes in funding allocations that the fiscal year 2007 budget calls for, the City of Coon Rapids entitlement would fall below the proposed minimum threshold. We would no longer be able to fund these programs and the more than 200 homeowners on our waiting list for funding will not be assisted.

The Administration's fiscal year 2007 budget proposes a 25 percent cut in formula funding for CDBG to $2.7 billion and is on top of cuts totaling 15 percent since fiscal year 2004. We urge you to fight on our behalf and ask for your continued support of a fiscal year 2007 funding level of no less than $4.3 billion in formula funding. This would fund the program at its fiscal year 2004 level and restore the unwarranted cuts made to the program.

Thank you for this opportunity to comment. Please feel free to contact me if you need any additional information.

Sincerely,

Tammi A. Fredrickson
Acting City Manager

OFFICE OF THE CITY MANAGER | June 26, 2006

OFC 952 949 8300
FAX 952 949 8390
TDD 952 949 8399

8080 Mitchell Rd
Eden Prairie, MN
55344-4485

edenprairie.org

The Honorable Senator Norm Coleman
320 Hart Senate Office Building
Washington, DC 20510

Dear Senator Coleman:

I write today to express my concern to you regarding proposed changes to the Community Development Block Grant program which will, if enacted, cause my community to lose its "entitlement city" status. The loss of this status will cause a direct financial loss of over $300,000 in direct CDBG revenue to Eden Prairie.

The CDBG program changes being proposed by HUD change both the formula for distribution of CDBG among the states and would also create a new minimum grant threshold for entitlement cities. The change in the distribution formula will reduce CDBG funding for Minnesota, while the new minimum grant threshold will eliminate Eden Prairie's status as an entitlement community.

CDBG is not just an important revenue source for my city. It is also a lifeline to the many projects and programs that help support a decent standard of living in our community. When we combine the resources of CDBG with the resources of our community, we strike a partnership that is good for the residents of Eden Prairie. The proposed changes to CDBG would not only shutter that federal-state-local partnership, but would also have a direct negative impact on the most vulnerable residents in my community.

I ask for your help in supporting and sustaining the current program requirements of the CDBG program.

Sincerely,

Scott H. Neal

Scott H. Neal,
City Manager

City of
minnetonka
14600 Minnetonka Boulevard Minnetonka, MN 55345 952-939-8200 Fax 952-939-8244

June 26, 2006

Senator Norm Coleman
320 Senate Hart Office Building
Washington, DC 20510

Re: Community Development Block Grant funding

Dear Senator Coleman:

As you are aware, there is a proposal to change the formula for CDBG funding and to create a minimum threshold amount for entitlement communities. Under this proposal, the City of Minnetonka will no longer be eligible for an annual allocation of CDBG funds as an entitlement city. If this proposal is passed, it will significantly impact the programs that are currently funded by CDBG funds in the city of Minnetonka.

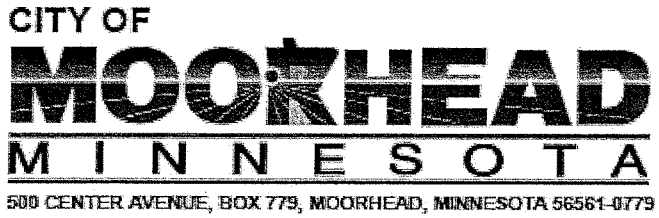
Since 1974, the City of Minnetonka has received an annual allocation of CDBG funds first through Hennepin County, and now directly through the U.S. Department of Housing and Urban Development. These CDBG funds have been used to support a number of different programs throughout the years. Each year the city allocates 15 percent of its CDBG funding to public service programs. These programs provide services, ranging from affordable daycare to a senior homemaker and maintenance program and many other programs, to low- and moderate-income residents of Minnetonka. Additionally, the city has used CDBG funds to support the construction or rehabilitation of several affordable family, senior, and special needs rental properties. The majority of CDBG funds over the past 31 years have been used in our single-family housing rehabilitation program, which has greatly improved the city's housing stock. Over the 31 years the city's housing rehabilitation program has been in place, $3.3 million in CDBG funds have been used to rehabilitate 440 homes owned by low and moderate income households.

Over the years, as CDBG funding has been reduced, the city has been asked to do more with less money. The new funding proposal and minimum threshold amount will now eliminate the City of Minnetonka from receiving a direct allocation of CDBG funds. While the City of Minnetonka's allocation may seem minor compared to other larger cities, the allocation the city receives is important to the programs that it funds and the residents that the programs serve.

Thank you for the opportunity to comment and we appreciate your support of the CDBG program.

Sincerely,

Janis A. Callison
Mayor



June 26, 2006

The Honorable Norm Coleman
United States Senate
320 Hart Senate Office Bldg.
Washington DC 20510

Dear Senator Coleman:

The City of Moorhead is eager to express our support for continued federal assistance to our community through the Community Development Block Grant (CDBG), and we appreciate your recognition of how vital CDBG is to our community and other communities in Minnesota. ***There is no more important resource in our community for housing and neighborhood issues directly affecting low income residents.***

For more than 30 years, Moorhead's CDBG resources have been invested fundamentally in preserving and creating affordable housing. The benefit of a block grant has been the community's flexibility to adapt to the local housing needs of our lowest income residents.

- Moorhead offers a **housing rehabilitation** program that preserves aging, affordable housing and assists low income occupant households. *As CDBG funding has been cut, Moorhead has voluntarily lowered the income eligibility criteria to less than permissible by HUD requirements, from 80% median family income down to 60% MFI.*
- Moorhead is addressing barriers to homeownership by funding **homebuyer education** through CDBG that leverages state-funded down payment assistance. *CDBG has also been used to fund down payment loan discounts when no mortgage corporations would do so, allowing lower income Moorhead residents to access homeownership.*
- Moorhead uses CDBG to leverage state and foundation funding for **multifamily construction** under the Low Income Housing Tax Credit Program. *These resources leverage other funding at a minimum 3:1 basis—at times the leverage is as great as 20:1.*

- The leverage CDBG provides has enabled the City to require a developer to build four-bedroom **rental homes for large families.** *This is identified as a significant need in the community that the private market does not address.*
- Moorhead uses CDBG to **demolish dilapidated, obsolete structures** in existing neighborhoods. *Vacant lots are donated to Habitat for Humanity for affordable housing construction.*
- There are countless other examples of the community benefit and individual household impact CDBG is having in Moorhead.

CDBG has suffered a steady and dramatic decline in funding for the past five years. **Moorhead is now at its lowest CDBG funding level since 1992**. The decline has been difficult, and Moorhead has struggled to continue to address the many community needs with fewer resources. Yet even more disturbing is the threat that CDBG may be permanently discontinued with the proposed minimum threshold grant limitation.

The revised CDBG allocation formula is proposed to better target funding based on need, indeed, Moorhead's funding would increase by 14%. However, the minimum threshold proposal would actually eliminate Moorhead from its present entitlement grantee status.

While it is true that the City of Moorhead would be eligible for funding under the state program, this funding delivery mechanism would significantly limit our ability to be responsive to community-specific and changing needs based upon Moorhead's status as part of an urban metropolitan area. **I can assure HUD that CDBG's impact is not diffuse, but critical and prominent in addressing decent housing and a suitable living environment in Moorhead, Minnesota. I urge Congress to adequately fund CDBG and to eliminate the proposal for a minimum grant threshold being considered.**

Respectfully yours,

Mark Voxland
Mayor

MV/bj:062706NC

c: Bruce A. Messelt, City Manager
Scott Hutchins, Community Services Director
Lisa Vatnsdal, Neighborhood Services Manager

June 26, 2006

The Honorable Norm Coleman
Senator
320 Hart Senate Office Building
Washington, DC 20510

Dear Senator Coleman:

I am writing to express concerns about the proposed changes to the Community Development Block Grant Program (CDBG). The Department of Housing and Urban Development is proposing two significant changes to the CDBG program that would significantly reduce the City of Plymouth's ability to address affordable housing and other community needs.

The first change is the formula change that would reduce funding even further for Plymouth as well as Minnesota. We have already experienced large reductions in our allocation. Over the past three years we have gone from a high of $324,000 in 2003 to $272,208 in 2006. The additional proposed funding cuts will further reduce our ability to provide a wide range of housing options in our community.

The second change relating to the increased minimum grant threshold would eliminate the City of Plymouth, along with most current entitlement cities in Minnesota, from administering the CDBG program at the local level. The local level administration of the CDBG program is critical to meeting the needs of our community. At this level we are the closest to the needs of our residents and have the ability to react as the community needs change.

We would greatly appreciate your support in rejecting HUD's proposed changes. The Community Development Block Grant Program has been a highly successful program for Plymouth and I hope through partnerships like ours we can continue to bring needed resources to communities like Plymouth and around the state.

Sincerely,

Judy A. Johnson

Judy A. Johnson, Mayor
City of Plymouth

Senator, Norm Coleman
2550 University Ave W, Suite 100N
St. Paul, MN 55114

Dear Senator Coleman:

Thank you so much for the concern and assistance you provided to the Community Development Block Grant program by saving the program during the 2006 budget process. There would not be a CDBG program today if you had not stepped in and changed the proposal that would have ended the CDBG Program. The formula redistribution and threshold criteria being proposed by the Adminstration, if passed will once again end the CDBG program in St. Cloud, Minnesota and we call on you again to help stop this proposition.

If the new formula and threshold criteria is passed, the City of St. Cloud will not receive any new Entitlement CDBG funding after 2006.

In 2001, the City of St. Cloud CDBG Entitlement funding was $716,000. In 2006 the City received $490,904. The new formula without the threshold concern is projected to lower the St. Cloud CDBG funding to $425,000. Anything that you can do to assist us in keeping the CDBG program would be appreciated. Thank you for assisting us with this disastrous proposition. Attached is a copy of a 30 year report for the St. Cloud MN CDBG program that shows how the CDBG program has been investing it's CDBG funds and the substantial accomplishments that have resulted.

Sincerely,

Leslie Henson, Community Development Block Grant Administrator for the City of St. Cloud, MN.

Enclosure,

1225 West St. Germain Street • St. Cloud, MN 56301
Phone: (320) 252-0680 • *Fax:* (320) 252-0869
www.stcloudhra.com
Equal Opportunity Housing & Equal Opportunity Employment

DULUTH

CITY OF DULUTH
OFFICE OF THE MAYOR
411 West First Street, Room 403
Duluth, Minnesota 55802-1199

218/730-5230 218/730-5904 FAX
hbergson@ci.duluth.mn.us

HERB W. BERGSON
Mayor

June 26, 2006

The Hon. Norm Coleman
United States Senate
320 Senate Hart Office Building
Washington, DC 20510

Dear Senator Coleman:

I am writing to express the City of Duluth's support for your efforts to preserve Community Development Block Grant (CDBG) funding.

Since 2002, the City of Duluth has already experienced real cuts of approximately twenty percent in our CDBG allocation with no corresponding reduction in need for our citizens. President Bush's proposed 2007 allocation would cut our already reduced allocation by an amazing 43 percent. Clearly, the neediest people in Duluth will not benefit from such draconian cuts.

In 2005, 13 percent of the City's CDBG allocation ($475,111) went toward CDBG Public Services. Of that money, 41 percent went toward housing projects. If we are to assist the needy in our community in obtaining that most basic of human rights - a good place to live - steep cuts in the CDBG program are not helpful.

Of course, numerous other worthy programs such as the Churches United in Ministry (CHUM) Drop-In Center, Lake Superior Community Health Center, Boys and Girls Club, Veterans' Outreach North, Salvation Army Transitional Housing and the Duluth Life House would also feel the pinch in a new, and I believe unfair, way.

Therefore I am happy to express our support with my best wishes for your success, on behalf of Duluthians who need the services CDBG helps provide. You have been a true champion on this issue in the past and I commend you for your dedication to this vitally important program.

Sincerely,

Herb W. Bergson
MAYOR

Citizens and Government working together to provide an environment in which our community can enhance its quality of life and continue to prosper

Hennepin County Department of Housing, Community Works & Transit

417 North Fifth Street, Suite 320
Minneapolis, Minnesota 55401-1362

612-348-9260, Phone
612-348-9710, Fax
612-596-6985, TDD/TYY
www.co.hennepin.mn.us

Honorable Senator Norman Coleman
320 Hart Senate Office Building
Washington DC, 20510

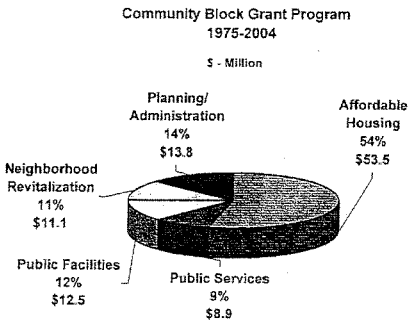
June 27, 2006

Dear Senator Coleman:

As you know, the primary objective of the CDBG program is to develop viable communities by providing decent housing, suitable living environments and expanding economic opportunities for low and moderate-income persons. Under the current formula these national objectives are being met in suburban Hennepin County. The formula, as used to determine our funding, is not based on "needs of urban America." Rather, it is based on needs of people in poverty and over-crowded housing, regardless of geographic areas. Over its history, the CDBG program has been a model for allocating federal funds that allow diverse communities to identify and address local housing and community/economic development needs that meet national objectives and priorities.

Since the beginning of the CDBG program Hennepin county has worked in partnership with suburban communities to meet local housing and community development needs within a clear framework of goals and priorities. The CDBG Program is unique as it was purposely designed to allow considerable flexibility to communities to carry out a broad range of activities tailored to their unique affordable housing and community development needs. Throughout its more than 30-year history, the CDBG Program has enabled us to develop valuable partnerships across all levels of government and private sector to carry out activities designed to improve the lives and neighborhoods of low and moderate-income persons.

Since the mid-1990's, until FY2004, the County annually received approx. $3.4 million in CDBG funding. Since then the effect of declining CDBG appropriations has reduced the County's funding approx. 20% to $2.7, resulting in a loss of $700,000. Since 1975, under the current formula, the County has received over $100 million. As shown in the chart below CDBG has been targeted to housing and services exclusively benefiting low & moderate income residents. The vast majority of this investment has enabled people to achieve or maintain self-sufficiency, and support stable, affordable housing.



The impact of the proposed formula at the 2006 appropriation level would be significant. Based on the 2006 funding level the County's grant would be reduced 26% or nearly $700,000. This is on top of the nearly 20% our grant has been reduced over the last two years.

The impact of the proposed formula at the proposed 2007 appropriation level would be devastating. The combined effect of a new formula and reduced FY2007 appropriation would result in a 45% reduction to our grant or nearly $1.1 million. Again, this is on top of reductions over the last two years.

Under both scenarios above, all four (4) CDBG entitlement cities (Bloomington, Eden Prairie, Minnetonka & Plymouth) that make-up the Hennepin County Consortium would fall below the minimum grant threshold estimated to be $518,000 and would no longer receive funding.

By way of example of how well the current formula works, since 1995 CDBG funds invested in suburban Hennepin County have:

- Assisted development of over 1,000 new affordable rental units for families, seniors and persons with special needs. The majority of units are for households with income below 50 percent of area median family income
- Rehabilitated over 2,200 single families homes occupied by households with income below 50 percent of area median family income.
- Provided homeownership opportunities to nearly 100 lower-income households.
- Provided a range of services to over 84,000 seniors to foster and maintain their well-being and independence.
- Provided a range of services to over 35,000 families to foster healthy, stable, self-sufficient families
- Provided range of services to over 6,000 runaway, homeless or at-risk youth in lower-income families
- Facilitated neighborhood revitalization, increased economic opportunity and public facility improvement in more than 120 projects.
- **Leveraged approx. $14.00 of non-HUD funds for every $1 of CDBG and HOME funds.**

Despite the explanation given for the need to change the formula, we firmly believe the current formula works exactly as it was intended, can work extremely well in higher-income jurisdictions like suburban Hennepin County, and it is critical to providing affordable housing and other opportunities for people outside of areas of concentrated poverty. This would not happen under the proposed formula.

We are routinely monitored by HUD and no issues of significance have been identified.

We appreciate your speaking to your colleagues on our behalf about this important issue.

Sincerely,

Chuck Ballentine, Director
Housing, Community Works & Transit

C: Hennepin County Board of Commissioners

TONY BENNETT
CHAIR
BOARD OF RAMSEY COUNTY COMMISSIONERS
DISTRICT 1

JOE MURPHY
ASSISTANT TO COMMISSIONER
Joe.Murphy@Co.Ramsey.MN.US

220 COURT HOUSE
SAINT PAUL, MINNESOTA 55102
TEL (651) 266-8362 FAX (651) 266-8370
Tony.Bennett@Co.Ramsey.MN.US

June 27, 2006

Senator Norm Coleman
320 Senate Hart Office Building
Washington, DC 20510

Dear Senator Coleman:

This letter is to show the strong support of Ramsey County for the Community Development Block Grant program and its current structure and funding formula. CDBG is the one comprehensive program that allows local governments to address long-range physical, social, housing and economic development needs in communities.

CDBG is a successful program because of its reliance on local community leaders to identify key revitalization priorities, its ability to initiate activities at the local level based on a local needs, priorities, and benefits to the community, and its flexibility to adapt to changing economic environments and demographics (i.e. increasingly diverse and low income populations which are not indicated in census data.)

The proposed formula funding restructuring would result in the loss of an estimated $234,000 to suburban Ramsey County alone. This would require the reduction or elimination of programs currently helping low income homeowners and renters, and programs that help create housing, jobs, and clean up contaminated sites – critical in a fully developed county with little room for growth.

Nationwide, the proposed funding restructuring would result in many communities losing their CDBG funds entirely. So, communities with very significant low income populations would have to compete for state CDBG funds, a much smaller pool, and in general, metropolitan areas do no compete well against rural areas in the state. Other communities and counties will lose close to 50% of their funds. If Congress decides to change the CDBG formula, which we do not support, the only way to prevent losers is to appropriate more money. That is highly unlikely given the current fiscal situation.

In suburban Ramsey County, CDBG is also used to:

- rehabilitate homes, helping low income homeowners reduce their housing costs while at the same time preserving the housing stock and maintaining future tax base. (Over 1,000 homeowners have been assisted to date.)

- provide business loan funding (CDBG has leveraged 13 million dollars in private equity and created nearly 250 head of household jobs for suburban Ramsey County residents).
- help acquire land for creation of new supportive, affordable senior and family housing (Van Dyke Street Townhomes, Falcon Heights Senior Housing)
- rehabilitate affordable rental and keep it from becoming market rate (Vadnais Highlands apartments)
- rebuild failing infrastructure, remediate contaminated sites, and remove physical barriers preventing the disabled from ready access to public facilities

Ramsey County appreciates the leadership you have shown in the effort to maintain funding for the CDBG and keep it within the Department of Housing and Urban Development, and asks you to continue this leadership by supporting the current formula funding structure.

Sincerely,

Tony Bennett

Tony Bennet
Chair
Ramsey County Board of Commissioners

Mayor Ardell F. Brede
201 4th Street SE – Room 281
Rochester, MN 55904-3782
Phone: (507) 285-8080 Fax: (507) 287-7979

June 27, 2006

Senator Norm Coleman
320 Senate Hart Office Building
Washington, D.C. 20510

Dear Senator Coleman

I am writing on behalf of the citizens of the City of Rochester to seek your support to prevent program and formula changes to the CDBG program under the CDBG Reform Act. As you are no doubt aware, the CDBG program has been very beneficial to the citizens of our community over the years.

The proposed funding formula change and minimum grant threshold may have a detrimental impact to the City of Rochester. We have utilized CDBG funding as a source for urban revitalization efforts to remove blight conditions and help maintain a healthy and vibrant community. As an example, over the years, the City of Rochester has used CDBG funding to assist hundreds of low income homeowners renovate and rehabilitate their homes within our urban core neighborhoods, which in turn helps our community curb neighborhood blighting, assists in our crime prevention efforts and helps maintain the quality of life that we are able to enjoy in the community.

The City also uses CDBG funding to fill programmatic gaps not covered by various federal, state and local programs to support a variety of community service organizations whose programs assist the most vulnerable citizens in our community. Examples include funding to our local Senior Citizens Center, Boys & Girls Club, Southeastern Minnesota Center for Independent Living, Child Care Resources and Referral and others. These organizations serve thousands of our citizens on a daily basis.

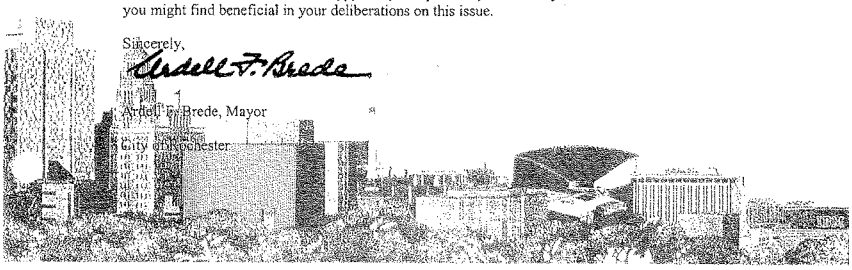
Admittedly, the annual CDBG allocation that the City of Rochester receives is not a huge sum of money, but yet it is vital to those citizens in our community that rely on the various programs and services that the CDBG program supports. The CDBG program has proven itself over the years as a sound program that assists communities in providing affordable housing, community development, and service needs of low and moderate income households and neighborhoods.

We urge your opposition to the formula and minimum grant threshold being proposed under the CDBG Reform Act. I would be happy to try and provide you with any additional information that you might find beneficial in your deliberations on this issue.

Sincerely,

Ardell F. Brede

Ardell F. Brede, Mayor
City of Rochester



Saint Louis County

Planning Department • 100 Missabe Building, 227 West First Street • Duluth, MN 55802
Phone: (218) 725-5000 • Fax: (218) 725-5029 • www.co.st-louis.mn.us
Toll Free in Minnesota: 1-800-450-9777

Barbara Hayden
Director

June 27, 2006

The Honorable Norm Coleman
United States Senate
Washington, DC 20510

VIA FAX 202-224-1152

Dear Senator Coleman:

On behalf of St. Louis County, I am writing to confirm our strong opposition to the Bush Administration's proposed "Community Development Block Grant (CDBG) Reform Act of 2006." This proposal would cut approximately $1.2 million from the St. Louis County allocation, a 50 percent reduction.

CDBG is one of the federal government's most successful domestic programs. It provides St. Louis County the ability to address affordable housing, neighborhood revitalization and economic development.

CDBG is the glue that holds together other public and private resources to make communities better places to live and to raise families. In St. Louis County, for every $1 of CDBG funding another $5 of other funding is leveraged to improve our communities.

The proposed reform act would result in 40 families not being able to access or maintain affordable housing and 50 families not receiving energy assistance in winter months. It would devastate the county programs to improve aging infrastructure, create jobs, provide public services for homeless persons and low-income families.

We very much appreciate your support of the current CDBG program. Thank you for your continued leadership on behalf of the residents of St. Louis County.

Sincerely,

Barbara Hayden

Barbara Hayden
Planning Director

cc: County Commissioners
Dana Frey, County Administrator

CITY OF SAINT PAUL
Christopher B. Coleman, Mayor

390 City Hall
15 West Kellogg Boulevard
Saint Paul, MN 55102

Telephone: 651-266-8510
Facsimile: 651-266-8513

June 27, 2006

The Honorable
Norm Coleman
United States Senate
320 Senate Hart Office Building
Washington, DC 20510

Dear Senator Coleman:

We are very concerned about proposed changes to the formula by which Community Development Block Grants are allocated to local communities—changes that would result in a significant reduction for the City of Saint Paul.

Having been Saint Paul's mayor, you know, first hand, that CDBG supports homeownership, housing rehabilitation, public improvements, public services, and economic development projects in our city and in communities across the nation. CDBG also finances community based organizations and the vital work they do in rebuilding neighborhoods. It is a critically important source of funding at a time when our most fragile neighborhoods are struggling with the early indications of market disinvestment: an increase in the number of mortgage foreclosures, deferred maintenance and rising commercial vacancy rates. Since every CDBG dollar effectively leverages $3 of private investment, the impact of a reduction is much more significant than a simple formula spreadsheet might suggest.

CDBG is the centerpiece of the federal government's compact with states and cities in our common efforts to meet the needs of low-income communities. It is one of the most effective federal domestic programs to revitalize communities with proven results. According to HUD, over 95 percent of FY 05 CDBG funding went to activities principally benefiting low- and moderate-income persons. In addition, CDBG housing projects assisted 166,992 households in FY 05, including financial assistance to new homeowners and rehabilitation assistance to the elderly and other existing homeowners.

Thank you for your on-going support of CDBG and for your willingness to tell its powerful story of renewal and reinvestment to your Congressional colleagues.

Sincerely,

Christopher B. Coleman
Mayor

651.296.5738 • 800.657.3769
400 Sibley Street, Suite 300
St. Paul, MN 55101-1998
fax 651.296.8139
tdd 651.297.2361
www.mhfa.state.mn.us

June 28, 2006

Senator Norm Coleman
United States Senate
320 Senate Hart Office Building
Washington, DC 20510

RE: Community Development Block Grant Program

Dear Senator Coleman:

I am writing today in support of the Community Development Block Grant program (CDBG). Minnesota Housing does not administer the program; but because 55% of CDBG funds in Minnesota are used for housing purposes, we naturally have an interest in the program's continuation and funding.

At a funding level equal to 2006, restructuring the CDBG formula and establishing a minimum funding level would result in a $15,211,000 reduction (26%) in total funding in Minnesota, with the amount for housing being reduced by $8.4 million. Reduced appropriations would result in even more draconian reductions.

Minnesota Housing supports continuation of the current CDBG funding formula, and level or increased appropriations. But, maintaining appropriation levels for CDBG should not come at the expense of other HUD housing programs such as HOME, Section 8, Public Housing, and McKinney-Vento programs that are so critical to providing the housing needs of so many of our less fortunate citizens.

If you have any questions about these comments, please feel free to contact Jim Cegla of our office at 651-297-3126 or via e-mail at jim.cegla@state.mn.us.

Sincerely,

Tim Marx

Timothy E. Marx
Commissioner

June 28, 2006

Senator Norman Coleman
320 Senate Hart Office Building
Washington, DC 20510

Dear Senator Coleman:

We are writing to comment on the recently released U.S. Department of Housing and Urban Development's "Community Development Block Grant Reform Act", which will be the subject of a hearing before the Subcommittee on Federal Financial Management, Government Information, and International Security of the Subcommittee on Homeland Security and Governmental Affairs, chaired by Senator Tom Coburn on June 29. We are opposed to the Administration's CDBG proposal. We would instead encourage the Senate to significantly increase CDBG formula grants in FY 2007.

After 31 years, CDBG continues to admirably serve all levels of government, the business community, and the nonprofit sector to carry out activities that improve the lives and neighborhoods of low- and moderate-income families. According to FY 2004 data from HUD, CDBG funded housing assistance to 159, 703 households, created or retained 78,000 jobs principally for low- and moderate-income persons, and provided public services to 13 million low- and moderate-income persons.

As for the CDBG reform package, we believe that it is unnecessary to pass legislation as has been proposed on the performance outcome measurement system which is currently being implemented by HUD. The system is the result of the work of the practitioners groups (NACCED, NALHFA, NAHRO, and NCDA) along with HUD and the Office of Management and Budget. Not only are we oppose to opening up a process which is well underway, but we strongly believe that the performance measure system itself significantly reforms the CDBG program.

The proposal also calls for "reform" of the CDBG formula. Without doubt, this is the most troubling provision. For example, under the Administration's proposal applied to the FY2006 appropriation, 7 communities in Minnesota that now receive direct entitlement funding would lose their eligibility and have to compete from funding from the State. Moreover, Minneapolis would lose 38 % of its grant, while St. Paul's grant would be reduced by 25%. In addition, the counties of Hennepin, Ramsey, and Washington would lose 26%, 22 %, and 33%, respectively. This pattern is repeated in state after state. Needless to say, we do not support this proposal.

The Administration's reform package also includes bonus funding pool called "Economic Development and Revitalization Challenge Grants." Communities would have to compete for a $200 million pot of funds. The major problem with this program is

that it would take funds out of the CDBG formula which is already limited. We are strongly opposed.

We are also opposed to the reform proposal's elimination of Section 108 Loan Guarantees, the Brownfields Economic Development Initiative (BEDI), and the Rural Housing and Economic Development programs. The Administration contends that these programs can be eliminated and the activities carried out with CDBG funds. We contend, that in reality, each of the programs complement and enhance CDBG, without duplication.

We appreciate your continued leadership and support of CDBG, and thank-you once again for your amendment, along with Senator Rick Santorum this year on the budget resolution to increase formula funding for the program. We look forward to working with you to achieve a significant increase in the CDBG formula grants in the FY2007 Transportation, Treasury, and Housing and Urban Development appropriations bill.

Sincerely,

U.S. Conference of Mayors
National Association of Counties
National Association of Local Housing
Finance Agencies
National Association For County Community
And Economic Development
National Community Development Association

National Association of Housing and Redevelopment Officials
630 Eye Street NW, Washington DC 20001-3736
(202) 289-3500 Toll Free 1 (877) 866-2476 Fax (202) 289-4961

Statement of the National Association of Housing and Redevelopment Officials

Before the Senate Homeland Security and Government Affairs Subcommittee on Federal Financial Management, Government Information, and International Security

June 29, 2006

Donald J Cameron, SPHM, President; **Renée Rooker,** SPHM, Senior Vice President; **Bill Jacobs,** PHM, Vice President-Professional Development; **Montez C. Martin, Jr.,** Vice President-Community Revitalization & Development; **Maggie Lamont,** Vice President-Member Services; **Carlos A. Sanchez,** Vice President-Housing; **Richard S. Lujan,** Vice President-Commissioners; **Akinola Popoola,** PHM, Vice President-International; **Saul N. Ramirez, Jr.,** Executive Director

E-mail: nahro@nahro.org Web Site: www.nahro.org

The National Association of Housing and Redevelopment Officials (NAHRO) wishes to share its thoughts regarding the U.S. Department of Housing and Urban Development's (HUD's) recently released legislative proposal to reform the Community Development Block Grant (CDBG) program.

In testimony presented at an April 2005 House Government Reform Subcommittee on Federalism and the Census hearing on HUD's CDBG formula study, NAHRO took the position that it would oppose any proposal to alter the CDBG formula structure that would result in an immediate and radical redistribution of funds. That is still our position, and we believe HUD's CDBG Reform Act of 2006 fails to meet that test.

We of course remain supportive of the notion of an equitable distribution of CDBG dollars. If Congress feels change is indeed necessary, it remains our hope that change could happen in a way that mitigates uncertainty and avoids sudden and substantial losses in funding for all existing CDBG grantees. Again, it is our opinion that HUD's proposal falls short in that regard. In fact, under the minimum threshold provision of the CDBG Reform Act of 2006, 312 existing entitlement communities would lose 100% of their current CDBG allocation within two years of implementation.

This statement is not intended as a comprehensive review of the Administration's proposal. Instead, NAHRO sees this statement as an opportunity to review a handful of components within the proposal that are of particular concern to our membership and to the broader community of CDBG grantees.

NAHRO believes that a careful examination of the Department's public statements is needed to discern the Administration's true intent regarding CDBG program reform. HUD Secretary Alphonso Jackson has argued that "communities with the greatest needs deserve more funding compared to relatively less needy places."[1] This is quite different than arguing that needy communities deserve increased allocations relative to their own most recent awards. In reality, the Department's proposed legislation reveals quite clearly a belief that very few communities actually deserve a larger CDBG formula grant than they currently receive.

The True Fiscal Impact of the CDBG Reform Act of 2006

NAHRO is concerned that the Department's public statements do not match the reality of its legislative proposal. The most obvious example is related to the Administration's proposal to slash block grant formula funding by approximately 25 percent for Fiscal Year (FY) 2007.

[1] U.S. Department of Housing and Urban Development, "HUD Offers Proposal to Reform Community Development Block Grant Program," News Release, May 25, 2006, http://www.hud.gov/news/release.cfm?content=pr06-056.cfm.

By way of background, both the Administration's FY 2007 budget proposal and the proposed CDBG Reform Act of 2006 posit $2.975 billion in total funding for the CDBG program for FY 2007. After accounting for a $200 million set-aside for competitive "challenge grants" as proposed by HUD, just $2.775 billion would be available for CDBG formula grants, a 25 percent reduction over the FY 2006 appropriated level of $3.711 billion. The relevant text of the CDBG Reform Act of 2006 reads as follows:

> **SEC. 7. AUTHORIZATION OF APPROPRIATIONS.**
> "(a) IN GENERAL.—There are authorized to be appropriated to carry out Title I of the Housing and Community Development Act of 1974 (42 U.S.C. 5301 et seq.), $2,974,580,000, for fiscal year 2007 and such sums as may be necessary for each fiscal year thereafter.
> "(b) CHALLENGE GRANTS.—Of the amount specified in subsection (a), up to $200,000,000 shall be for fiscal year 2007 and such sums as may be necessary for each fiscal year thereafter."[2]

Because the Administration's proposal to cut formula funding by 25 percent is enshrined in the text of the CDBG Reform Act of 2006, the decision not to support the proposal at this time is an easy one. This dramatic funding reduction, in combination with formula change, would substantially reduce CDBG allocations for states and communities across the nation.

Of interest to members of this subcommittee, and according to HUD's own data:[3]

- Every grantee in the State of Minnesota would see its allocation decline by at least 18 percent under this scenario.
- Funding for the Alaska non-entitlement program would decline by 31 percent.
- Norman, Oklahoma, would experience a 35 percent reduction in its CDBG grant.
- Six of Rhode Island's seven grantees, including the state program, would see their grants decline by at least 23 percent.
- Salt Lake City's allocation would fall by 48 percent.
- All New Mexico grantees would lose funding, even though some of these grantees are "winners" under the proposed formula revision.
- Twenty six of Virginia's 29 existing entitlements would lose funding.
- All three of Delaware's existing entitlement communities would lose at least one third of their funding.

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[2] U.S. Department of Housing and Urban Development, "The CDBG Reform Act of 2006," http://www.hud.gov/content/releases/pr06-056act.pdf.

[3] HUD has provided interest groups with two tables demonstrating the impact of its legislative proposal on CDBG grantees. The first table, "Proposed CDBG Formula Legislative Change with FY 2006 Appropriation Held Constant," assumes adoption of the Department's proposed formula revisions with funding for formula grants held constant at the FY 2006 appropriated level. The second table, "Proposed CDBG Formula Legislative Change with FY 2006 and FY 2007 Appropriation," shows grantee's projected FY 2007 allocations assuming adoption of HUD's formula change proposal, with overall program funding set at the level proposed in the administration's FY 2007 budget request. In an email to interest groups, a HUD official wrote that the second table "illustrate(s) the full effect of the CDBG reform combined with the FY 2007 funding request."

- Seventeen of Michigan's entitlement communities would lose 100 percent of their funding.
- The Hawaii nonentitlement program would experience a 43 percent reduction in funding.
- Eighteen of New Jersey's entitlement communities would lose 100 percent of their funding.

Recent comments by Secretary Jackson are revealing with respect to the true impact of the proposal on CDBG grantees. Secretary Jackson, testifying before the House Appropriations Subcommittee on Transportation, Treasury, HUD, the Judiciary and the District of Columbia on March 14, 2006, offered the following argument in favor of formula change:

> "But there are certain cities that clearly in our mind do not need community development block grant programs. They can fund many of these programs themselves.
>
> I always like to use the city that I'm from, because I don't like to use somebody else's city, Dallas, Texas. Dallas, Texas, has been funding housing inspections by their city workers for the last 20 years out of block grants. I don't think that's appropriate. I think block grant is to create infrastructure, to work with cities to build economic development so that the cities will be better off.
>
> There are cities that are very, very devastated that I think really need the money, and not necessarily the cities of Dallas or Palm Beach, for those purposes.
> But I think the key, as I said to the chairman a few minutes ago, is for us to go and reexamine the way we're allocating block grant funds at this point.
>
> We're not doing it based on need; we're doing it based on a formula that was set up in 1974. And that formula today -- it's not specific as it was then.
>
> Because -- you know, maybe the best example I can give you may be Palm Beach wasn't as rich as it was in 1974. Today, it is extremely rich. But it receives block grant funds.
>
> But Akron, Ohio, is suffering tremendously. And they're getting less than we perceive that they would need to bring the industry back, to bring the economic development back.
>
> So I think that if we are going to use our money wisely, we should zero in on those cities that are hard hit and say, "Let's try to bring them back. Let's try to bring the economy back. Let's bring the job market back there and give them incentives for doing it."[4]

[4] "House Appropriations Subcommittee on Transportation, Treasury, HUD, the Judiciary and the District of Columbia Holds Hearing on FY 2007 Appropriations," Congressional Transcripts, CQ Transcriptions, March 14, 2006.

It is instructive to compare the Secretary's remarks to the reality of HUD's legislative proposal. Let us first examine a scenario in which HUD's proposed formula revision is adopted while overall funding for the CDBG formula program remains constant at the FY 2006 appropriated level. Under this scenario, and according to HUD's own data, Akron's allocation would in fact *decline* by 16 percent, from $6.990 million to $5.842 million. Meanwhile, Dallas's allocation would *increase* by 21 percent, from $17.983 million to $21.687 million.

Consider a second scenario in which HUD's proposed formula revision is adopted and CDBG formula grants are funded at $2.775 billion, the level proposed by Administration in its FY 2007 budget as well as the funding level at which the CDBG Reform Act of 2006 seeks to authorize formula funding for FY 2007. Under this scenario, in which HUD achieves both the proposed formula revision and a 25 percent cut to overall formula funding, Akron's allocation would decline by a total of 38 percent compared to FY 2006, falling from $6.990 million to $4.365 million. Importantly, Dallas, supposedly a "winner" under HUD's proposal, would see its allocation fall 10 percent from $17.983 million to $16.204 million.

Secretary Jackson's testimony notwithstanding, HUD's internal analyses consider both Akron and Dallas to be high-need communities. HUD categorizes Akron as an 8 and Dallas as a 9 (out of a maximum need score of 10) using its Needs Decile, a rating factor based on the community development needs index developed by the Department for its February 2005 report on CDBG formula targeting. As previously mentioned, if the CDBG Reform Act of 2006 were to be enacted exactly as presented by the Department, then both of these high-need communities would experience a net loss in CDBG formula funding. Their plight would be shared by a number of communities categorized by HUD as high-need.

Assuming level funding for CDBG formula grants, 83 of the 284 grantees rated as 8, 9, or 10 on HUD's Needs Decile would see their formula allocations decrease under HUD's proposed formula revision. For example, Cleveland, Ohio, with a rating of 10 on the Needs Index, would see its CDBG formula allocation decline by 12 percent.

Even more illuminating is an examination of the consequences for America's neediest grantees (as defined by HUD) that assumes adoption of the proposed formula change in combination with a 25 percent cut to overall formula funding. In other words, what would happen to the grantees HUD considers America's neediest if the Administration were to get everything it wants?

Under this scenario, 203 of the 284 grantees with HUD Needs Decile scores of 8, 9, or 10 experience a net loss in formula funding as compared to their FY 2006 grant. Another 15 of the neediest grantees (8, 9, or 10 on the Needs Decile) would lose their entitlement status altogether under the minimum threshold provision of HUD's proposal. Only 61 of the nation's neediest grantees gain enough under the formula revision to achieve a net gain in funding after the application of a 25 percent cut to overall formula funding.

In the State of Ohio, for example, all eleven existing entitlement communities scored 8, 9, or 10 would experience a net loss in funding were HUD's legislative proposal to be implemented exactly as written.

Impact of CDBG Reform Act of 2006 on Neediest Ohio Grantees

Grantee	Needs Decile*	FY 2006 Grant ($000)**	FY 2007 Grant ($000) *(Proposed)***	Change (%)**
Akron	8	$6,990	$4,365	-38%
Cincinnati	9	$13,745	$7,912	-42%
Cleveland	10	$24,573	$16,072	-35%
Dayton	9	$6,505	$4,099	-37%
Lima	9	$1,256	$1,030	-18%
Lorain	8	$1,295	$1,136	-12%
Springfield	8	$2,040	$1,193	-42%
Steubenville	9	$768	$0	-100%
Toledo	8	$8,109	$5,995	-26%
Warren	9	$1,347	$874	-35%
Youngstown	10	$4,144	$2,332	-44%

*Needs Decile from "Proposed CDBG Formula Legislative Change with FY 2006 Appropriation Held Constant" (HUD)
**Grant information from "Proposed CDBG Formula Legislative Change with FY 2006 and FY 2007 Appropriation" (HUD). Assumes $2.775 billion for the CDBG formula grant program.

A similar phenomenon holds for the State of Michigan, where 10 of the 11 existing entitlement communities scored 8, 9, or 10 would experience a net loss in funding were HUD's legislative proposal to be implemented exactly as written.

Impact of CDBG Reform Act of 2006 on Neediest Michigan Grantees

Grantee	Needs Decile*	FY 2006 Grant ($000)**	FY 2007 Grant ($000) *(Proposed)***	Change (%)**
Benton Harbor	10	$485	$491	+1%
Detroit	10	$38,893	$29,602	-45%
Flint	10	$4,422	$3,409	-23%
Grand Rapids	8	$4,080	$3,307	-19%
Jackson	9	$1,424	$1896	-37%
Kalamazoo	9	$1,872	$1,340	-28%
Muskegon	9	$1,020	$815	-20%
Muskegon Heights	10	$480	$455	-5%
Pontiac	10	$1,586	$1,472	-7%
Port Huron	8	$880	$620	-29%
Saginaw	10	$2,559	$1,953	-24%

*Needs Decile from "Proposed CDBG Formula Legislative Change with FY 2006 Appropriation Held Constant" (HUD)
**Grant information from "Proposed CDBG Formula Legislative Change with FY 2006 and FY 2007 Appropriation" (HUD). Assumes $2.775 billion for the CDBG formula grant program.

It is admittedly true that a number of grantees would receive larger allocations under HUD's revised formula if the Congress were to provide level funding for the CDBG formula program. Once again, however, it is necessary in our opinion to consider the totality of HUD's legislative proposal. As previously discussed, the reality of the proposal is that across the nation, a considerable number of those grantees that "win" under HUD's proposed formula revision would in fact lose funding were the Congress to enact the Administration's preferred funding level for CDBG formula grants.

As a final example, consider the following excerpt from written testimony provided by HUD Assistant Secretary Pamela H. Patenaude during a House Financial Services Subcommittee on Housing and Community Opportunity held April 12, 2006, in Los Angeles, CA:

> "For example, here in California, the cities of Santa Monica and Santa Maria have approximately the same population. Under the current formula, they both receive about 1.3 million dollars. However, in terms of need, they are very different. Santa Monica, with a per capita income of $43,000, has a relatively low level of distress while Santa Maria, with a per capita income of only $14,000 has significantly more distress and thus has greater community development needs. Under the formula the Administration will propose, Santa Maria's grant would increase to $1.6 million while Santa Monica's grant would fall to $750,000.
>
> I think we can all agree it is critical to restore equity to the distribution of funds to improve targeting and preserve the fairness of the CDBG program."[5]

Santa Monica received a CDBG formula grant in the amount of $1.382 million for FY 2006, while Santa Maria received $1.307 million. If Congress were to adopt the Administration's proposal exactly as written, Santa Monica's grant would in fact fall to $558,000, while Santa Maria's grant would fall to $1.180 million. In order to "restore equity to the distribution of funds," the Administration's preferred solution is to reduce Santa Monica's grant by 60 percent while cutting Santa Maria's grant by 10 percent.

Eliminating Section 108, BEDI, and RHED

The Department's press release announcing its proposal stated that

> "The CDBG Reform Act...seeks to consolidate several programs that duplicate the broad program goals of CDBG. Those programs include: Brownfields Economic Development Initiative (BEDI); Rural Housing and Economic Development (RHED) Program; and, Section 108 Loan Guarantee Assistance Program."[6]

In reality, HUD's proposed legislation does not specifically reference the Section 108, BEDI, and RHED programs, all of which received no funding under the President's proposed FY 2007 budget. Although the administration has proposed eliminating these programs for a number of years, the FY 2007 budget proposal creatively portrays their elimination as a consolidation of the programs within CDBG. The administration has

[5] "Written Statement of Assistant Secretary Pamela H. Patenaude, U.S Department of Housing and Urban Development," April 12, 2006, http://financialservices.house.gov/media/pdf/041206php.pdf.
[6] U.S. Department of Housing and Urban Development, "HUD Offers Proposal to Reform Community Development Block Grant Program," News Release, May 25, 2006, http://www.hud.gov/news/release.cfm?content=pr06-056.cfm.

argued these programs "duplicate the broad program goals" of the CDBG program and are therefore unnecessary. NAHRO disagrees.

Consider the Section 108 program, which allows an entitlement community to borrow up to five times the amount of its most recent CDBG formula allocation. In HUD's own words, Section 108 "provides communities with a source of financing for economic development, housing rehabilitation, public facilities, and large-scale physical development projects," making the program "one of the most potent and important public investment tools that HUD offers to local governments."[7] HUD describes Section 108 as a program that allows grantees to "transform a small portion of their CDBG funds into federally guaranteed loans large enough to pursue physical and economic revitalization projects that can renew entire neighborhoods."[8]

During the May 25 interest group briefing HUD officials conceded that even with the adoption of the administration's legislative proposal, the CDBG program would be unable to duplicate the leveraging potential created through the Section 108 program. As an alternative, HUD officials suggested that local governments could turn to the proposed "Challenge Grant Fund" as an alternative source of funding for large-scale projects in the absence of Section 108 loans. However, with challenge grants awarded competitively and capped at 50 percent of a grantee's annual formula allocation, even under the best of conditions it would take a grantee a minimum of ten years to secure challenge grant funding equivalent to a maxed-out Section 108 loan.

Targeting Poverty with Greater Precision

HUD's February 2005 report on the CDBG formula included strategies for addressing the so-called "college town phenomenon," a reference to the fact that many college and university towns benefit under the current formula structure due to resident college students being counted as persons living in poverty, even though the parents of many of these students support them financially.

To correct for this "college town phenomenon," HUD in its report proposed using the number of persons in poverty living in a family or elderly household instead of the broader measure of the total number of persons in poverty. In our April 2005 testimony, we referenced a conversation with Dr. Steve Barton, the Director of Housing for Berkeley, California. Dr. Barton had pointed out that the measure proposed by HUD discounts single non-elderly non-student persons living in poverty, especially homeless persons and persons living with disabilities. To their credit, HUD has since conceded that criticism of this proposed variable was valid.

The CDBG Reform Act of 2006 attempts anew to rein in the so-called "college town phenomenon." We are encouraged that HUD has chosen to respond to constructive

[7] U.S. Department of Housing and Urban Development, "Section 108 Loan Guarantee Program," http://www.hud.gov/offices/cpd/communitydevelopment/programs/108/index.cfm.
[8] Ibid.

criticism in a constructive manner. However, the Department's legislative language does not appear to target college students with the precision suggested by the Department's press release, excerpted here:

> "CDBG's formula currently rewards towns with large college student populations by including the incomes of these full-time dependent students in calculating poverty. As a result, the poverty rates in these college and university towns appear high. By excluding the incomes of full-time dependent students who are financially supported by their parents, the poverty rate in these college towns drops to a level which is much more reflective of that community's actual need."[9]

Meanwhile, the relevant formula variable in the legislation is described as the ratio between:

> "...the extent of poverty, excluding unrelated individuals enrolled in college, in that formula grantee and the extent of poverty, excluding unrelated individuals enrolled in college, in all formula grantees;"[10]

HUD's intent notwithstanding, the legislative language does not appear to draw a distinction between full-time students and part-time students, nor does it distinguish students who are dependents from those who are not.

Performance Measures and Accountability

On March 12, 2006, HUD published the long-awaited Federal Register final notice on a new performance measurement framework for the Office of Community Planning and Development's (CPD's) formula programs, including CDBG, the Home Investment Partnerships (HOME) Program, Emergency Shelter Grants, and Housing Opportunities for Persons with AIDS. This outcome-based performance measurement system was developed by HUD in partnership with national housing and community development interest groups, including NAHRO, as well as the Office of Management and Budget (OMB). All involved parties unanimously endorsed the framework in November 2004. Implementation of the framework is now underway

In HUD's own words, this new system was developed in part to address the program's perceived "inability to clearly demonstrate program results at the national level, which is the standard required by OMB's program assessment process."[11] HUD's 2003 Program Assessment Rating Tool (PART) evaluation of the CDBG formula program concluded that the program formerly did not have "a limited number of specific long-term

[9] U.S. Department of Housing and Urban Development, "HUD Offers Proposal to Reform Community Development Block Grant Program," News Release, May 25, 2006, http://www.hud.gov/news/release.cfm?content=pr06-056.cfm.
[10] U.S. Department of Housing and Urban Development, "The CDBG Reform Act of 2006," http://www.hud.gov/content/releases/pr06-056act.pdf.
[11] U.S. Department of Housing and Urban Development, "Performance Measurement," http://www.hud.gov/offices/cpd/about/performance/.

performance measures that focus on outcomes and meaningfully reflect the purpose of the program." However, OMB has taken notice of HUD's implementation of the new performance measurement framework. OMB has listed implementation of the system on ExpectMore.gov as an action that is being taken to improve the program, and has expressed its belief that "the system should measure results and ensure accountability."[12]

Some have asserted that the CDBG program suffers from waste, fraud, and abuse. NAHRO works aggressively to eliminate waste, fraud, and abuse in the administration of federal programs by state and local authorities. NAHRO members pledge to adhere to a Code of Professional Conduct[13] that requires them to "perform work responsibilities with the highest degree of integrity and professionalism in order to merit the respect of the beneficiaries of programs, elected officials and the general public."

If HUD or others uncover instances of waste, fraud, and abuse within the program, it is our hope that bad actors will be pursued and punished appropriately. It should be noted, however, that OMB's PART evaluation of the CDBG formula program concluded that the program has strong financial management practices in place. The evaluation also found that CDBG funds are "obligated in a timely manner and spent for the intended purpose."[14]

Final Thoughts

As Congress considers CDBG formula change, it should endeavor to employ a process that reduces ambiguity and provides some measure of confidence for communities as they consider future Consolidated Planning. A rush to implement the Administration's proposal would be imprudent in NAHRO's opinion.

The introduction of a proposed formula revision in concert with a proposal to slash formula funding by 25 percent creates the potential for enormous uncertainty within those state and local agencies that administer the CDBG program. This uncertainty is exacerbated by the looming introduction of 2010 Census data as well as the tenuous status of the American Community Survey. Instead of being able to rely upon a reliable and consistent future funding stream, for many CDBG grantees the contemplation of future allocations has in recent years become fraught with confusion and pessimism.

NAHRO is encouraged by the efforts of the Government Accountability Office (GAO) to seek out the counsel of public interest groups that represent CDBG grantees and community development practitioners as it works toward completing a report on the current CDBG formula structure's efficacy. If these efforts continue in earnest, then the

[12] Office of Management and Budget, Program Assessment, Community Development Block Grant (Formula), http://www.whitehouse.gov/omb/expectmore/detail.10001161.2005.html.
[13] NAHRO Code of Professional Conduct. http://www.nahro.org/about/code.cfm
[14] Office of Management and Budget, Program Assessment, Community Development Block Grant (Formula), http://www.whitehouse.gov/omb/expectmore/detail.10001161.2005.html.

GAO report could form the foundation for further Congressional examination of the process by which CDBG formula grants are allocated.

Since the final report is expected no earlier than the summer of 2007, NAHRO encourages Congress to refrain from taking any action on the formula until it has had the opportunity to examine the GAO's findings. As always, NAHRO believes any effort to alter the existing CDBG formula structure must originate within the appropriate House and Senate committees of jurisdiction.

Although we have strong objections to many of the provisions contained within the CDBG Reform Act of 2006, NAHRO appreciates very much the manner in which the Department's Office of Community Planning and Development (CPD) has provided information related to the proposal. Beginning with the March 25 briefing, the willingness of CPD (led by Assistant Secretary Patenaude) to ensure that interest groups are fully informed has been a model of transparency and forthrightness.

Finally, we acknowledge the continuing efforts of our partners within the coalition of organizations dedicated to preserving funding for the CDBG program. Many of these organizations have come together to submit their own statement for today's hearing, and we wish to express our agreement with many of the sentiments they have expressed. Indeed, NAHRO has served by their side in the development of CPD's important new performance measurement framework, the implementation of which we believe represents true and meaningful programmatic reform. As this new system begins to generate data specific to CDBG, we believe it will strengthen program accountability, confirm that the program is efficiently administered, and prove that the program continues to produce real results for American communities, just as it has for the past 30 years.

Thank you for the opportunity to share some of our thoughts on the CDBG Reform Act of 2006. As you move forward, NAHRO encourages you to continue to employ a fully deliberative process that includes ongoing participation and input from local and state governments, public interest groups, and community development professionals. If NAHRO can be of assistance to this subcommittee in the future, please do not hesitate to call upon us.

2006 CDBG Funding Is Not Targeted

HIGH NEED AREA	Temple, TX • $19,360 per capita income • $15 per capita CDBG	Hopewell, VA • $16,338 per capita income • $10 per capita CDBG
LOW NEED AREA	Oak Park, IL • $36,340 per capita income • $39 per capita CDBG	Newton, MA • $45,708 per capita income • $28 per capita CDBG

2006 data from Department of HUD and US Census Bureau
National Per Capita Income = $21,587

CDBG Reform Act Targets Needy Communities

City	Per Capita income	Current per capita CDBG	Reformed per capita CDBG
Newton, MA	$45,708	$24	$4
Lawrence, MA	$13,360	$24	$38
Berkeley, CA	$30,477	$33	$17
Inglewood, CA	$14,776	$20	$30
Royal Oak, MI	$30,990	$24	$5
Pontiac, MI	$15,842	$24	$29

2000 data from Department of HUD and US Census Bureau
National Per Capita Income = $21,587

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