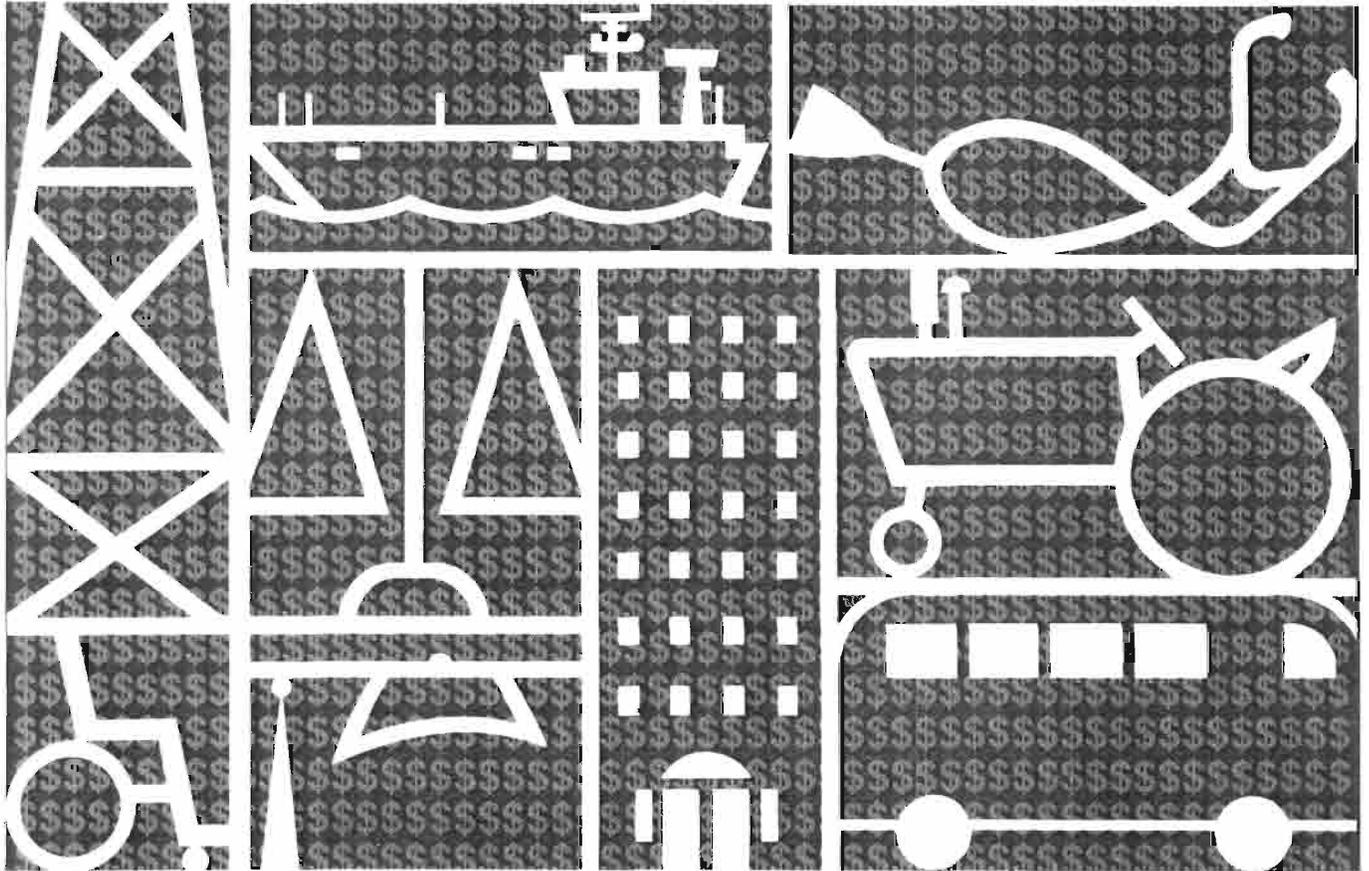


Budget Issue
Paper for
Fiscal Year 1981

Community Development Block Grants: Reauthorization Issues

April
1980



**COMMUNITY DEVELOPMENT BLOCK GRANTS:
REAUTHORIZATION ISSUES**

April 1980

**The Congress of the United States
Congressional Budget Office**

Unless otherwise indicated, references
to dates denote fiscal years.

ERRATA
COMMUNITY DEVELOPMENT BLOCK GRANTS:
REAUTHORIZATION ISSUES

p. xi: Option I in the Summary Table should read,

"I. Administration's January Budget Proposal"

p.3: The second sentence of the third paragraph should read,

"About 80 percent of the total funding³ is distributed by formula among the entitlement jurisdictions, which are central cities of SMSAs, other noncentral cities with populations over 50,000, and urban counties (those having the power to undertake community development projects with or on behalf of their component localities and containing either at least 200,000 persons, or, for those counties with no incorporated places, at least 100,000 persons)."

p.19: The title of Table 3 should read,

"PERCENT CHANGE IN PER CAPITA CDBG ALLOCATIONS DETERMINED BY ALTERNATIVE INTERACTIVE FORMULAS: 15 MOST NEEDY AND 15 LEAST NEEDY ENTITLEMENT CITIES OVER 250,000 IN POPULATION, IN ORDER OF NEED"

p. 25: The title of Table 7 should read,

"TOTAL PER CAPITA CDBG FUNDING TO CITIES 25,000 TO 50,000 IN POPULATION RECEIVING GRANTS IN FISCAL YEARS 1975 THROUGH 1978, BY FORMULA ELEMENTS AND GRANT TYPE: IN DOLLARS"

p. 44: TABLE 13. SELECTED CHARACTERISTICS OF 480 CITIES WITH CDBG ENTITLEMENT FUNDING STATUS, BY REGION: 1975

Region ^a	Total Number of Cities ^b	Total 1975 Population (in Millions)	Percent of All Persons Below Poverty	Percent of all Overcrowded Housing	Percent Population Change (1960-1975)
Northeast	132	25.5	33	35	-6
North Central	96	19.0	21	22	-2
South	139	20.6	30	27	+19
West	113	16.9	16	17	+31

SOURCE: U.S. Department of Commerce, Bureau of the Census, County and City Data Book and CBO calculations.

a. Regional definitions are those used by the U.S. Bureau of the Census (See County and City Data Book, 1977).

b. Number of cities used in each computation varies because of missing data.

PREFACE

At the request of the Senate Committee on Banking, Housing, and Urban Affairs, the Congressional Budget Office prepared this Budget Issue Paper to examine reauthorization issues surrounding the Community Development Block Grant program. First authorized in 1974, this program provides loosely restricted development assistance to a large and diverse number of urban and rural communities.

This study was written by Sophie Korczyk of CBO's Human Resources and Community Development Division under the supervision of David S. Mundel and Nancy M. Gordon. Scott Thompson compiled the data bases, programmed the tabulations, and contributed valuable parts of the analysis. Several persons at the Department of Housing and Urban Development, including Robert Brever, Robert Goldberg, Marshall Kaplan, and Christopher Wye provided technical information and useful comments on the report. The author also wishes to thank Paul Dommel, Daniel Forbes, Allen Kraus, Martin Levine, Robert Malakoff, Richard Nathan, Pearl Richardson, Frank Shafroth, Cynthia Simon, Raymond Struyk, Kenneth Thorpe, and Thomas Buchberger. Johanna Zacharias edited the manuscript. Mary Braxton skillfully typed the drafts of the paper and prepared it for publication.

In keeping with CBO's mandate to provide objective analysis, this study offers no recommendations.

Alice M. Rivlin
Director

April 1980

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SUMMARY

Authorization for the Community Development Block Grant (CDBG) program, administered by the Department of Housing and Urban Development (HUD), expires at the end of fiscal year 1980. The Congress has the opportunity to reconsider the program's operation and appropriate level of funding. Launched in 1974 to take the place of seven "categorical" urban assistance programs, the CDBG program grants \$3.9 billion a year to large and small cities and large counties for a variety of community development activities. This sum accounts for half of all federal spending for community and regional development. The Administration has proposed that the program be reauthorized substantially in its present form.

Funding is based on selected community characteristics, which serve as indicators of need for community development assistance. Cities in Standard Metropolitan Statistical Areas (SMSAs) that are over 50,000 in population, central cities of SMSAs, and areas designated as "urban counties" receive entitlement grants. Entitlement grants, which are distributed on the basis of formulas made up of need indicators, account for nearly 80 percent of all CDBG funding. The remaining 20 percent goes to cities not in SMSAs and below 50,000 in population; these nonentitlement jurisdictions must compete for funding.

Major changes in program funding and design that may be considered as the Congress debates the reauthorization of the program include changes in:

- o The number of entitlement jurisdictions, either to expand eligibility, or to eliminate some jurisdictions;
- o The overall funding level;
- o The criteria used to distribute funds; and
- o The regulations governing local targeting either to reach more poor persons or to focus spending on a smaller number of the most physically blighted neighborhoods that contain a higher proportion of needy people.

LEGISLATIVE BACKGROUND AND PROGRAM OPERATION

Two issues of program design have dominated the legislative and political history of the CDBG program: the methods of allocating funds and the degree of discretion to be allowed grantees in determining spending priorities. These same two issues are likely to dominate this year's Congressional review.

Funding Distribution. When the program was first authorized, funding for entitlement jurisdictions was determined using two mechanisms: a formula and a system of "hold-harmless" grants to ease former recipients of categorical grants into the new program. The original formula was based on measures of overcrowded housing, numbers of persons in poverty, and population. In 1977, a second formula was added in response to findings that certain large and troubled jurisdictions would experience large declines in funding when the hold-harmless grants were phased out. The second formula is based on the number of housing units built before 1940, lag in population growth relative to the national urban growth rate, and population in poverty. A separate subsection of the program directed at aiding small cities not in SMSAs allocates grants on a competitive basis from funds distributed to states according to two similar formulas.

Studies of funding patterns among entitlement jurisdictions suggest that the second formula has effectively directed more CDBG money to regions inadequately served by the original formula, although some incidental funding to a few relatively prosperous communities has also occurred.

Local Discretion. The excessive red tape and limits on both local and federal actions that characterized the old categorical programs gave impetus to efforts to increase the freedom of recipient localities to determine their own needs and spending priorities. This concern is reflected in the wide variety of activities eligible for CDBG funding, which range from upgrading housing to providing social services.

At the same time, the regulations governing the program have been designed to retain enough federal control to assure both that a substantial amount of spending is done in neighborhoods with high concentrations of poor persons and that activities are designed to meet the needs of poor persons.

At present, about two-thirds of local CDBG-financed spending does occur in neighborhoods with a majority of poor persons. But poor households are often so dispersed that many may not be affected by CDBG spending.

FUNDING AND REAUTHORIZATION OPTIONS

The Congress may consider four major options for funding and reauthorizing the CDBG program. In deciding on an overall level of funding, questions of how grants are allocated to particular jurisdictions may arise, as well as how program regulations can affect local targeting of funds. The table below summarizes the projected levels of funding these four options would require. The text that follows summarizes the four options for reauthorization.

SUMMARY TABLE. PROJECTED COSTS OF CDBG PROGRAM REAUTHORIZATION UNDER VARIOUS FUNDING OPTIONS: TO FISCAL YEAR 1983, IN BILLIONS OF DOLLARS

Option	1980	1981	1982	1983
I. Administration's January 1981 Budget Proposal	3.95	3.95	4.10	4.25
Administration's March Budget Revisions	3.70	3.85	a	a
II. Maintain Fiscal Year 1980 Level of Assistance	3.90	4.25	4.66	5.13
III. Entitle All Cities Over 25,000 in Population	4.10	4.15	4.31	4.46
IV. Eliminate Some Less Needy Entitlement Jurisdictions	3.41	3.45	3.58	3.72

SOURCE: See text, Chapter IV.

a. Not available.

Funding Levels and their Allocation

- o Option I. The Administration's original budgetary proposal for fiscal year 1981 would have funded the program at a level about \$300 million below the amount needed to maintain the current level of aid, under projected inflation rates. The March Budget Revisions proposed further cuts below the original proposal. If the funding status of eligible jurisdictions remains unchanged, all recipients will experience a cut in the purchasing power of their grants.
- o Option II. One alternative to the Administration's proposal would be to fund the program at the level necessary to maintain fiscal year 1980 assistance levels in the face of anticipated inflation. This option would require annual increases of approximately 10 percent.
- o Option III. Entitlement funding could be extended to all cities over 25,000 and under 50,000 in population, rather than only to SMSA central cities of this size. Spokesmen for these cities have argued for assured funding in the past. Their drive for such funding is likely to become stronger, since preliminary analyses of population shifts since the 1970 census, on which CDBG funding has been based up to now, indicate that more cities will fall into this size range. Such an expansion of eligibility status could be combined with new funds, that is, a higher authorization or with reduced funding for other jurisdictions.
- o Option IV. An alternative approach would be to reduce the number of jurisdictions receiving funding on an entitlement basis. As an illustration, if one-third of the entitlement jurisdictions deemed least needy were cut from the program, about \$500 million could be saved in fiscal year 1981. An index of need according to which a certain number of jurisdictions would be disqualified would have to be devised.

Changes in Local Targeting and Spending Patterns

Local targeting requirements could be changed to focus more narrowly either on poor persons or on blighted neighborhoods. Targeting to poor households could be sharpened by explicitly designating a large number of census tracts for funding while at

the same time imposing stricter controls on the types of activities undertaken with CDBG funds. Alternatively, targeting to physically blighted neighborhoods could be increased by requiring that, to be eligible, a high proportion--say, three-fourths--of the households in the tracts must be needy.

Possible changes in the number of entitlement jurisdictions would probably also change the amount of spending focused on needy households and the types of activities undertaken by grantees. However, since the size and characteristics of cities do not seem to influence the composition of local CDBG-funded spending, the direction of such a change is difficult to predict.



CHAPTER I. THE CDBG PROGRAM: LEGISLATIVE HISTORY AND PROSPECTS

The authorization for the Community Development Block Grant (CDBG) program expires at the end of fiscal year 1980. Administered by the U.S. Department of Housing and Urban Development (HUD), the CDBG program gives aid to cities and large counties for a wide variety of community development activities. At present, the CDBG program provides \$3.9 billion in grants and accounts for nearly half of all federal spending for community and regional development activities.¹

In debating the reauthorization of the CDBG program, the Congress is likely to face two major questions that are examined in this study:

- o How does the distribution of funds among eligible local governments correspond to the incidence of the problems the program was designed to address?
- o How is local CDBG-funded spending distributed among activities and income groups by recipient governments?

The remainder of this chapter reviews the history and allocation methods of the program and the issues that are likely to emerge in the reauthorization discussion. Chapter II analyzes evidence on the effects of alternative allocation formulas on recipient funding patterns. The chapter also compares the need levels of various types of localities, as measured by the entitlement formula elements. Chapter III examines how cities spend their funds. Analysis of the local impact of CDBG spending is based on evidence from program evaluations as well as from HUD data on a sample of CDBG grantees. (Data sources are discussed at some length in the Appendix.) Chapter IV sets forth several policy options.

1. Major programs making up the remainder of this budget function include Indian aid programs, programs of the Economic Development Administration, and Federal Emergency Management Assistance.

LEGISLATIVE HISTORY

The CDBG program was established in 1974 as a consolidation of seven "categorical" grant programs for community development that were administered by HUD. These programs included the urban renewal, neighborhood development, Model Cities, water and sewer facilities, neighborhood facilities, public facilities, and urban beautification programs.

The categorical programs were criticized as ineffective and difficult to run. Applying for funding was administratively burdensome, making local "grantsmanship"--that is, skill in framing applications--rather than each city's problems, a major determinant of the sums received. The purposes of the programs were narrowly defined, giving little latitude to localities in their use of the funds. The categorical programs also limited the federal government's ability to weigh one city's request against another's, since the legislation did not generally require this kind of evaluation. Finally, the categorical grant programs were not thought to be particularly effective instruments for urban redevelopment. Changing the administrative structure of urban aid, it was hoped, would enhance the effectiveness of such federal efforts.

Before establishing the CDBG program, several attempts were made to simplify the categorical grant programs² by increasing local discretion over the use of funds, simplifying applications, and shortening delays in project approval and program implementation. These measures were only partially successful. The categorical grant structure still limited the ability of both the grantor (HUD) and the grantees to respond to the variety of local circumstances.

THE PROGRAM'S ALLOCATION MECHANISMS

Problems encountered in the categorical programs influenced both the design of the CDBG program and its subsequent legislative development. Thus, several features of the CDBG program distinguish it from the categorical programs that preceded it.

2. The Neighborhood Development programs, the Planned Variations demonstration within the Model Cities program, and the Annual Arrangement for coordinating programs were instituted between 1968 and 1972.

Eligible activities and spending on behalf of low- and moderate-income persons. Activities eligible for CDBG funding include any of those allowed under the categorical programs, as well as direct spending for economic development activities, which was not allowed under the old programs. Applicants are required to show that low- and moderate-income households will be the primary beneficiaries of funded activities and that housing plans for the poor meet their needs, although the definition of "needs" is often controversial. Only the old Model Cities program had a low-income focus; the other categorical programs did not.

Funds are distributed using formulas that attempt to measure certain dimensions of local need. Thus, all cities are considered together when funding decisions are made, making it possible to scale funding according to these measures of need.

Distribution. How a city or county is funded in the CDBG program depends on its size and on whether or not it is located in a Standard Metropolitan Statistical Area (SMSA). About 80 percent of total funding³ is distributed by formula among the entitlement jurisdictions, which are central cities of SMSAs, other noncentral cities with populations over 50,000, and urban counties (those over 200,000 in population and having the power to undertake community development projects with or on behalf of their component localities). These areas must only meet application requirements to receive their allotments. A sum of \$275 million is set aside out of the entitlement fund for distribution on a competitive basis to small metropolitan cities (those with populations under 50,000 and located in SMSAs). The competition is on a state-by-state basis, with the amount available for distribution within each state determined by formulas. The Administration has proposed increasing the total sum to \$285 million. These small cities can also choose to receive funding through their urban counties.

The remaining 20 percent is used for grants to small non-metropolitan governments; that is, those below 50,000 in population that are not located in SMSAs. The amount available for distribution in this "Small Cities" program to small

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3. Three percent of the total authorization is allocated to the Secretary's Discretionary Fund before the entitlement and Small Cities funds are determined.

nonmetropolitan recipients in each state is also determined according to formulas. As is the case for metropolitan small cities, nonmetropolitan small cities are not assured of funding; they compete with other small nonmetropolitan cities in the same state.

Under the categorical grants, both large and small cities competed for funding--none were assured of receiving any.

Application Materials. A CDBG grant application consists of three elements:

- o A three-year community development plan, which shows where development is planned and who is expected to benefit;
- o An activity program showing how the above plan will be implemented; and
- o A Housing Assistance Plan (HAP), which identifies local housing needs and details a strategy for meeting these needs.

All recipients must submit these materials. However, if a small city is applying for a single-purpose grant rather than a comprehensive or three-year grant, it is allowed to submit modified community development and housing assistance plans. Comprehensive planning of this type was not required under the categorical grant programs.

The Secretary of HUD is required to act on CDBG entitlement applications within 75 days of their receipt, or the applications are automatically approved. No such time limits existed in the categorical programs.

CDBG DESIGN ISSUES

Both the degree of spending discretion allowed localities and the distribution of funds among grantees have been sources of controversy throughout the program's history.

Local Discretion

The original impetus behind the CDBG program was the hope that less federal red tape and greater local discretion would improve community development efforts. Indeed, in 1971, the CDBG concept was first proposed by President Nixon as "special revenue sharing" for cities, implying that the federal government would leave most spending decisions to recipients.

This emphasis on local autonomy partly gave way to a simultaneous concern with the advancement of "national objectives," particularly regarding the distribution of funds among income groups. In its final wording, the legislation gives equal priority to "benefits to low- and moderate-income households," to the "elimination or prevention of slums and blight," and to meeting "urgent needs." While the legislative language seems clear enough, its implementation is not, and the issue of federal goals has been a matter of continuing controversy. From one perspective, the dominating principle of the legislation appears to be the provision of benefits to low- and moderate-income persons (these designations are defined in Chapter III). Even though the other goals have equal priority in the legislation, grantee spending proposals must principally benefit low- and moderate-income individuals or face more stringent HUD review. At the same time, however, the "principal benefits" clause has never been quantified, leaving grantees a certain amount of latitude in designing spending plans.

The most recent attempt to clarify legislative priorities was made during the Congressional debate over the 1978 Housing and Community Development Act amendments⁴, when HUD proposed regulations requiring that 75 percent of spending specifically benefit low- and moderate-income persons. In response, the House proposed the establishment of a one-house legislative veto over HUD program regulations to assure that such requirements could not be imposed without Congressional scrutiny. While the final legislation placed considerably weaker restraints on HUD than had the House version, it established a precedent for constraining HUD in its administration of the program. In the absence of a specific standard in the regulations, the distribution of spending among income groups depends on the stance taken by HUD. Since 1976, the regulations have been interpreted to

4. Public Law 95-557.

mean that applications not showing 75 percent of spending to benefit low-income households must pass further HUD review.

Targeting

Controversy over the distribution of funds among grantees has centered around two elements of program design:

- o The indicators to measure need and their weighting in the distribution formulas; and
- o The designation of jurisdictions that are automatically eligible to receive entitlement funds, as opposed to those that must compete, and the division of program authorizations between the two categories of jurisdictions.

The 1974 legislation used one three-element formula to allocate the entitlement share of the total funding: population in poverty (50 percent, since this element is counted twice), number of overcrowded housing units (25 percent), and population (25 percent).⁵ In addition, through fiscal year 1979, many large and small communities with prior categorical grants received "hold-harmless" allocations to ease their transition into formula funding.⁶ Small cities not receiving hold-harmless or entitlement grants competed for the remainder of program funding, much as all cities had under the categorical grants.

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5. A locality's score on each element is the ratio of its count, say, of overcrowded housing units to the number of overcrowded units in all SMSAs (entitlement program) or nonmetropolitan areas (Small Cities program). These scores, after the application of the formula percentages, are summed and multiplied by the total authorization to arrive at funding allocations.
 6. "Hold-harmless" grants, to which most recipients of funds under the terminated categorical programs were entitled during the first five years of the CDBG program, were designed to phase in the otherwise sizable changes in funding these communities would have experienced.

Several studies conducted in the first three years of the program found that under the 1974 legislation, both with and without hold-harmless grants, funds were not being directed to older Northeastern and Midwestern cities, which were facing different problems from those in other regions. In 1977, a second funding formula was added for entitlement jurisdictions to make funding responsive to the problems of both the older, declining areas--those losing population and resources--and low-income areas. The second formula allocates funds on the basis of the number of housing units built before 1940 (50 percent), population growth relative to that in all entitlement jurisdictions (20 percent), and population in poverty (30 percent). Entitlement cities and urban counties now choose the larger of the amounts available under one of the two formulas, and all grants are then prorated downward if necessary so that, altogether, they do not exceed the total appropriation of \$3.9 billion.

This dual formula method, with modifications, was also extended to determine the state-level allocations for the Small Cities portion of the program. Thus, there are now, in effect, four allocation formulas in use. The sensitivity of existing and alternative formulas to various measures of need is discussed in Chapter II.

The funding status of jurisdictions determines how much funding they receive and whether they receive funding on an entitlement or a competitive basis. Throughout the history of the program, small cities, particularly those between 25,000 and 50,000 in population, have pressed for assured, or entitlement, funding. Entitlement assures a recipient of continuous funding for its community development projects. This drive is expected to become stronger, because the 1980 Census is expected to reveal large demographic shifts favoring smaller, particularly rural, communities.⁷ The cost of such an expansion in entitlement status would have to be funded in one of two ways: either the authorization for the entire program would have to be increased or funding for other grantees would have to be reduced. Because many small cities currently receive funding through the urban county in which they are located, this change would also require a change in urban county funding.

7. Neal R. Peirce and Jerry Hagstrom, "New Migrants Mean Opportunities--and Problems--for Rural America," National Journal, March 29, 1980, p. 508-512.



CHAPTER II. FORMULA DESIGN AND THE DISTRIBUTION OF FUNDS

Funding issues differ considerably between the entitlement and Small Cities portions of the CDBG program. In the entitlement portion, the major issues are the choice of indicators of need to be included in the formulas and the relative importance assigned to these indicators. Though the allocation formula items have caused some concern in the Small Cities program, the major Small Cities issue has been what size of community should be eligible for entitlement funding. Central cities are eligible for entitlement funding regardless of population. Since some of these cities are well under 50,000 in population, spokesmen for cities over 25,000 in population but under 50,000 have argued that their communities should likewise be eligible for entitlement grants. A related Small Cities issue is the amount--at present, a total of \$275 million out of the entitlement fund--that should be set aside solely for grants to small cities in SMSAs that do not choose to associate themselves with their urban counties in seeking funding.

This chapter examines the major formula and funding issues concerning the entitlement and Small Cities parts of the CDBG program:

- o The impact of selected formula alternatives on the distribution of entitlement funds; and
- o The funding of cities with populations of 25,000 to 50,000.

FORMULAS AND FUNDING--CURRENT LEGISLATION AND ALTERNATIVES

The CDBG program uses four different formulas to allocate aid to recipients: two each for entitlement and Small Cities grantees. Entitlement jurisdictions receive the greater of the amounts available under the two formulas outlined in Chapter I. Roughly speaking, the original entitlement formula (based on population, overcrowding, and below-poverty population) has directed funds to low-income cities. The second (incorporating pre-War housing and population change) has aided cities with declining populations and economic bases.

The Small Cities formulas determine the state-level totals for which smaller cities compete. These formulas differ from the entitlement formulas only in that population rather than population change appears in the second formula. This distinction was necessary because population growth figures were not available for the appropriate time period for cities under 25,000 in population.

The largest cities--those over 500,000 in population--received an increasing proportion of CDBG funds between 1975 and 1978. At the same time, small cities (all those below 50,000 in population) received a smaller direct share of total funds (see Table 1). Two factors accounted for these changes: the phase-out of hold-harmless funding based on the categorical grants and the addition in 1977 of the second entitlement formula. As hold-harmless allocations came to an end, funding for many individual smaller cities decreased. This alone increased the total share of funds going to large cities as a whole. In addition, the size of entitlement grants to many large cities was increased somewhat when the second formula, favoring older and larger cities, was added.

TABLE 1. DISTRIBUTION OF CDBG FUNDS TO JURISDICTIONS OF VARIOUS POPULATIONS: FISCAL YEARS 1975-1978, IN PERCENTS

City Population	1975	1976	1977	1978
Less than 50,000	33	32	30	28
50,000 to 99,000	12	12	13	13
100,000 to 249,000	15	14	14	13
250,000 to 499,000	14	14	14	13
500,000 and over	27	28	30	34

SOURCE: HUD, Fourth Annual Community Development Block Grant Report (September 1979).

NOTE: Funding for small cities in urban counties is tabulated in the counties' population category.

Current Formula Elements

The CDBG legislation lists eight means by which the program aims to improve communities and aid their residents:

- o Eliminating slums and physical blight;
- o Eliminating detrimental conditions;
- o Conserving and expanding housing stock;
- o Improving community services;
- o Encouraging more rational land utilization;
- o Reducing isolation of income groups;
- o Encouraging historic preservation; and
- o Alleviating physical and economic distress.¹

The formula elements chosen to distribute aid were intended to reflect both the physical and social dimensions of urban problems, and to respond to the problems of both low-income and declining communities.

Many proposals to alter the existing formula elements or change their role in the funding formulas have been put forth. The following section examines current formula elements, discusses several possible changes in them, and analyzes their effects.²

Poverty. The size of an applicant area's population in poverty is the single most important formula element in determining the amount of entitlement funding. Overall, that element accounted for nearly 30.8 percent of fiscal year 1980 entitlement grants (see Table 2). The size of a city's population in poverty is an indication both of the social service and community needs of its population and of the city's ability to satisfy

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1. Title I of the Housing and Community Development Act of 1974 (Public Law 95-128), as amended, Section 101c.
 2. This section draws extensively on Harold L. Bunce and Robert L. Goldberg, City Need and Community Development Funding, HUD, January, 1979.

those needs from its own resources. A large poor population requires public expenditures on goods (such as housing) that better-off households would be able to purchase on their own. At the same time, the larger a city's poverty population, the smaller the tax base on which it can draw to meet its population's needs.³

TABLE 2. PERCENTAGE OF ENTITLEMENT FUNDING DETERMINED BY CDBG FORMULA ELEMENTS^a: FISCAL YEAR 1980

Formula Element	Percent of Funds
Poverty	30.8
Pre-1940 Housing	28.4
Population Growth Lag	19.9
Population	10.6
Overcrowded Housing	10.3

SOURCE: Bunce and Goldberg, City Need and Community Development Funding.

- a. These totals are determined by adding up the formula variables by which each city is funded. Since cities choose the formula most favorable to them, these totals cannot automatically be predicted from formula weights and may vary from year to year.

3. The income level used to define poverty in the CDBG formula and in numerous other grant programs is the Census measure. To compute the Census measure, the Bureau of Labor Statistics (BLS) "thrifty" food budget (the sparsest of four hypothetical household spending patterns) for various types of families is multiplied by three. The resulting income levels define poverty for each family type. These income levels are adjusted annually for changes in the Consumer Price Index. However, the number of persons living in poverty is only updated for local boundary changes between decennial censuses.

Numerous objections have been raised to the use of poverty rates to allocate aid. Foremost among them is that the measure does not account for differences in living costs from city to city. Critics argue that persons classified as poor in some cities can maintain higher living standards than those classified as poor elsewhere. Since more expensive cities are generally in the Northeast, this issue has become a matter of interregional contention.

One possible refinement of the poverty measure would be to adjust it to local costs of living, using indexes computed by the Bureau of Labor Statistics (BLS). Poverty counts in high-cost cities would then be shown to increase and those in lower-cost cities to decrease. However, the BLS indicators would be impossible to use in the CDBG program, since they are available for only 40 SMSAs and are not available separately for central cities and suburbs in SMSAs. As an alternative adjustment, the poverty measure used as a formula element could be changed to some figure such as 125 percent, rather than 100 percent, of the national poverty income level. This could ultimately increase the funding channeled to larger Northeastern cities and decrease the amount flowing to the South and Southwest.

Another problem both with the poverty measure and with the measures of housing condition is that they are based on 1970 Census data, and they are only updated between censuses to the extent that local boundaries change because of annexation. In future, poverty counts could be updated using measures of change in per capita income. Aid allocations would then reflect demographic changes occurring between censuses.

Pre-1940 Housing. This element is intended to represent the age and condition of a city's public sector infrastructure--such as streets, sewers, and other public facilities--as well as other community development needs associated with an aging housing stock. Although there is little evidence to support this connection, many older cities are indeed losing population and tax bases, which makes it more difficult for them to fund needed construction or rehabilitation of such facilities from their own resources. Further, a majority of the areas this formula element was designed to assist do have a high incidence of other problems such as poverty. However, HUD data show some shift of funds to a small number of older but nevertheless wealthy communities. Even if their infrastructure is deteriorating, it can be argued that such communities have adequate tax bases to finance their own community development needs.

Proposals for refining this measure have been of two types: those that would refine it as a measure of housing condition, and those that would improve its performance as a proxy for other physical needs such as public infrastructure and facilities. One proposal of the first type is to count only aged rental housing units, which are believed to be in worse condition than are owner-occupied units. Since poor persons are less likely to own homes, this change would increase the share of aid going to communities with both aged rental housing units and poor persons. However, communities with deteriorating infrastructure would not necessarily benefit from such a change. A proposal of the second type, then, is to make two formula elements interdependent to increase funding to communities with both aged housing and large numbers of poor people. This approach could be particularly helpful to communities with deteriorating public sector infrastructure and low tax bases.

Population Growth Lag. The population growth lag formula element compensates a city for the difference between its growth rate in the period 1960-1975 and the growth rate in all entitlement jurisdictions (approximately 11 percent). In the CDBG formula, it is meant to offset the effects of a city's dwindling tax base. An area losing population is assumed to be losing employment and tax revenues while not experiencing a commensurate decline in demands on its public funds. Persons choosing to migrate out of a declining area are generally those with the greatest personal resources, and those remaining are more likely to be disadvantaged and more dependent on public resources.

A number of the cities with a high incidence of social and community problems are growing slowly (experiencing growth lag) or losing population (declining), but nevertheless, have high average levels of income. On the other hand, many cities growing faster than the average rate have low income levels. One proposal dealing with the population growth lag element that would make the CDBG formula responsive to this dilemma would be to incorporate a measure of income growth into the formula, either as a separate funding element or as an adjustment to the population growth lag factor.

Population. The use of numerical population data to determine CDBG grants assures every recipient a minimum amount of funding per capita. It also continuously directs more funds over time to areas with growing populations. This is the only

formula measure not intended as a proxy for social or community development need. Proposals for changes in this element have primarily consisted of reducing its importance in the formula.

Overcrowded Housing Units. The number of overcrowded housing units--that is, units with more than one person per room--was included in the allocation formula as a measure of the intensity of use of the housing stock. Overcrowding can either be seen as a problem that leads to deterioration of housing stock, or as a cause of other social problems. In any event, while other measures of social problems (such as the number of persons living in poverty) have remained fairly stable over time between 1969 and 1976, overcrowding declined from 8.2 percent to 4.9 percent in central city units.⁴ As a result, the importance of this element in allocating funding is diminishing over time. Proposals for changes in this element would adjust it to channel more funds to areas with both poor persons and overcrowded housing.

Possible New Formula Elements

Two other elements have been proposed for inclusion in the CDBG formulas: unemployment rates and average household income.

Unemployment varies closely with other measures of city need such as dependent population. However, it represents a cyclical hardship not measured by such indicators as the incidence of poverty. Unemployment rates are used to distribute funds in a number of federal programs and are controversial because they are not reliable for some jurisdictions. Reasonably reliable data are available for states, labor market areas (which usually cover several urban areas), and many large cities, but not for some formula-funded entitlement cities. Thus, introducing unemployment rates into a formula would base funding on an item of uneven quality across grantees. In addition, there may be regional differences in the proportion of the unemployed that are included in official statistics.

Using household income, either as an independent formula element or to adjust other elements, has also been proposed. Higher-income areas would receive less than low-income areas.

4. Bunce and Goldberg, City Need and Community Development Funding, p. 106.

As an independent formula element, the inclusion of income would have the same effect as increasing the weight given to the poverty element but would use more recent data. Household income figures are available at the county level on a quarterly basis and thus could be used in the entitlement formula, though accurate data would not be available for the distribution of Small Cities funds. Used in tandem with population growth lag, the inclusion of income would reduce the flow of funding to older, declining cities with high income levels.

Possible Changes in Formula Structure

Two major formula changes have in the past been considered by the Congress: changes in the weights given to the elements in the existing formulas, and changes in formula structure that would reflect the severity of particular problems in recipient communities.

Changes in formula weights. Simple additive formulas such as those currently in use give each grantee the same amount of aid per affected person, or deficient housing unit, as every other grantee selecting the same formula. However, because the incidence of the problems represented in the formula elements varies among grantees, all are allocated different total amounts according to each element. Even if the same formula elements continue to be used, changes in the weights attached to each would cause significant redistribution of funds, particularly if changes in the weights also changed the relative attractiveness of the two formulas to grantees.

Changes in formula structure. The existing formulas distribute aid according to an area's absolute level of a given problem. Interactive formulas--sometimes called "impaction" formulas--would distribute aid according to the proportion of persons or housing units affected, while the current formulas distribute aid according to the number of persons affected. Thus, a city of 20,000 with 10,000 persons living below poverty levels would receive more per poor person than a city of 50,000 with 10,000 poor persons.

Two types of interactive adjustments have been proposed: those that would weight a formula element according to its own degree of severity compared with other jurisdictions, and those that would adjust one formula element according to the incidence of another problem. The first type of interactive adjustment

multiplies an applicant's absolute score on a particular variable (for example, the number of poor households) by its incidence relative to that in entitlement jurisdictions as a whole. Thus, if the average incidence of poverty in entitlement areas were 10 percent, St. Louis, with 14.4 percent of its population below poverty would have its poverty score multiplied by 1.44, while that of San Jose, with 6.3 percent poverty, would be multiplied by 0.63. The amount each city would receive based on the poverty element would increase in proportion to the percentage, not just the number, of poor persons in the city.

The second type of adjustment would be to multiply a city's absolute score on a particular formula element by the incidence of some other problem in that jurisdiction. For example, if the number of aged housing units were to be adjusted by the incidence of poverty, using the above poverty figures, the number of aged housing units would be multiplied by 1.44 in St. Louis and by 0.63 in San Jose.

Although a large number of interactive formulas could be designed, the basic principles governing such formulas make it possible to predict the targeting effects of most such choices. The most basic of these principles is that if two variables are used in an interaction adjustment, more aid will flow to communities with a high incidence of both problems. Whether this will increase aid to the communities deemed neediest would depend on the measure being used to define "need."

Another basic principle governing interactive formulas is that both the pairing of elements and the role of each in the formula determines the effect on targeting. Thus, if poverty were to be adjusted by the incidence of overcrowding, or overcrowding by its own incidence, the importance of other formula elements in allocating funds, such as poverty and the number of aged housing units, would be reduced and that of overcrowding increased.

Results of interactive formula simulations published by HUD illustrate these general principles. The HUD study examined the effect of the existing formulas and alternatives on per capita allocations in cities ranked on a measure of city need designed

by HUD researchers.⁵ When the aged housing element alone was adjusted for its intensity or incidence, with limits on the amount a city could gain from this change, funds were directed away from many of the cities that were judged "neediest" by the HUD index, such as New Orleans, Atlanta, and Birmingham. (Table 3 displays examples of the effects of using various interactive formulas). Increased targeting according to the HUD index, was obtained by a formula that used a measure of the incidence of poverty, since many of the neediest cities, such as Baltimore and Boston, gained funds, and many of the least needy, such as Honolulu and San Jose, lost them. Greatest targeting according to the HUD index was obtained by using a formula that distributed aid on the basis of the incidence of housing problems and poverty combined. This formula directed additional funds to cities with both deficient housing and a high incidence of poverty and took funds away from cities with housing problems but less poverty. The per capita allocation in Newark, the neediest city on the HUD index, increased nearly 30 percent, while nearly all the 15 least needy cities lost funds.

It should be noted that almost any degree of targeting by any definition of need could be achieved by using some combination of formula elements. The resulting dollar allocations can only be considered "best" if the need index against which the allocations are measured is considered optimal. In the absence of such a judgment, formula changes can only be judged by how resulting allocations differ from the current ones.

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5. See Bunce and Goldberg, City Need and Community Development Funding. Need was measured by scores on the HUD community development need index, a composite of 20 city need indicators including the numbers of overcrowded and aged housing units, the number of persons below poverty, and change in population. These indicators were aggregated into three elements of city need--poverty, city age and economic decline, and density--using factor analysis. Each city's scores on these three aspects were then combined into one need score, using weights arbitrarily assigned on the basis of a judgment on the importance of each problem in the CDBG program--40 percent for poverty, 35 percent for city age and economic decline, and 25 percent for density. Although only limited tests of the validity of this index have been conducted, several researchers outside of HUD have used it as one measure of urban condition.

TABLE 3. PERCENT CHANGE IN PER CAPITA CDBG ALLOCATIONS DETERMINED BY ALTERNATIVE INTERACTIVE FORMULAS: 15 MOST NEEDY AND 15 LEAST NEEDY ENTITLEMENT CITIES, IN ORDER OF NEED

City	Interaction of Formula Elements		
	Aged Housing Adjusted for Degree	Aged Housing and Poverty, Both Adjusted for Degree	Aged Housing and Overcrowded Housing Adjusted by the Degree of Poverty
Most Needy			
Newark	6.6	13.2	28.5
New Orleans	-2.3	8.2	26.8
St. Louis	5.4	8.7	19.1
Cleveland	5.7	8.3	11.6
Birmingham	-8.1	-0.1	18.5
Baltimore	8.2	14.8	17.5
Washington	-2.7	2.4	10.8
Detroit	6.2	6.2	4.5
Atlanta	-10.5	0.3	13.2
Boston	12.4	13.5	11.1
Cincinnati	6.7	10.6	12.4
Oakland	4.3	7.8	11.7
Chicago	9.8	9.5	5.4
Buffalo	8.8	8.2	6.7
New York	12.8	13.7	8.1
<hr/>			
Least Needy			
Charlotte	-10.5	-6.5	-1.6
Jacksonville	-10.5	9.5	4.3
Houston	-10.5	-4.8	0.5
Wichita	-10.5	-14.6	-6.5
Albuquerque	-10.5	-4.4	-0.3
Omaha	-4.4	-10.8	-7.7
Austin	-10.5	3.9	3.0
Tucson	-10.5	-5.3	0.3
Honolulu	-10.5	-21.2	-16.8
San Diego	-10.5	-15.7	-5.8
Tulsa	-10.5	-11.9	-4.1
Nashville	-10.5	-7.1	-1.8
Phoenix	-10.5	-13.8	-4.9
Indianapolis	-10.5	-20.6	-9.6
San Jose	-10.5	-23.6	-11.3

SOURCE: Bunce and Goldberg, City Need and Community Development Funding.

NOTES: Percent change is expressed as a difference from the current amount (100 percent) allocated according to the dual formula system. Minus figures signify a net reduction below present grant amount.

SMALL CITIES--NEED AND FUNDING

This section compares the characteristics of metropolitan and nonmetropolitan cities of different sizes and examines the relationship of current funding to these characteristics for cities between 25,000 and 50,000 in population. The major funding issues concerning small cities are:

- o Should the minimum size threshold for entitlement funding be changed? and
- o How much funding should be set aside for grants to small metropolitan cities?

During the history of the CDBG program, the question of entitlement status for cities with populations between 25,000 and 50,000 has emerged several times. One reason is that some cities in this size range do receive entitlement grants because they are central cities of SMSAs. Of the 514 cities with 1976 populations between 25,000 and 50,000, all 83 central cities of SMSAs receive entitlement grants. In addition, 107 metropolitan small cities and 133 "nonmetropolitan" cities, or cities outside of SMSAs, received either Small Cities or hold-harmless grants at least once between 1975 and 1978. The remaining 191 small cities, or 37 percent of the total number, either were not funded at all or received funding through the counties of which they are a part (see Table 4).

The question of entitlement funding for cities in this size range is closely bound up with the issue of funding for urban counties, which currently receive about 11 percent of total CDBG funds. If cities between 25,000 and 50,000 were to receive entitlement funding independently, many of the 84 urban counties now entitled to funding would fall below the required population size threshold since they could no longer count the populations of these cities in their county totals. Since urban counties perform certain development-related functions for small communities within their boundaries, the funding mechanism for communities under 25,000 would need also to be restructured.

TABLE 4. CDBG FUNDING OF CITIES BETWEEN 25,000 AND 50,000 IN POPULATION, BY TYPE OF CITY: FISCAL YEARS 1975-1978

Type of City	Total Number of Cities	Number Funded Independently of Urban Counties at Least Once, 1975-1978	Amount of Funding Received in 1978 (in Millions of Dollars)
Metropolitan			
Central City ^a	83	83	87
Noncentral City	274	107	232 ^b
Nonmetropolitan	<u>157</u>	<u>133</u>	
Total	514	323	319

SOURCE: HUD data, calculations performed by CBO.

- a. Some entitlement cities also received hold-harmless or Small Cities grants.
- b. Figure includes funding for both cities within and outside of SMSAs; breakdown not available.

Need Levels. The major difference in need among cities of different sizes is between the cities over and under 25,000 in population. Communities under 25,000 in population are worst off on all the formula elements but population change, for which data are not available over the relevant time period (see Table 5). Cities between 25,000 and 50,000 in population appear to have grown somewhat faster in recent years than larger cities, but closely resemble the larger cities in terms of the other formula elements.

TABLE 5. PERCENT OF CITIES OF DIFFERENT SIZES WITH PARTICULAR LEVELS OF COMMUNITY PROBLEMS, BY FORMULA ELEMENTS: 1975 AND 1976

Formula Element ^a	Population		
	Under 25,000	25,000 to 50,000	50,000 and Over
Poverty			
30 percent or less	89	92	97
Over 30 percent	11	8	3
Overcrowded Housing			
20 percent or less	88	100	99
Over 20 percent	12	0	1
Population Change (1960-1975)			
Fast growth (11 percent or more)		61	56
Slow growth (0-11 percent)	b	18	13
Decline		21	31
Pre-1940 Housing			
50 percent or less	50	74	72
Over 50 percent	50	26	28

SOURCE: Columns 1 and 3, Paul R. Dommel and others, Report on the Allocation of Community Development Funds to Small Cities, HUD (November 1978); Column 2, HUD program data and CBO calculations. Column 1 is based on a sample of cities drawn for the Dommel study.

NOTE: Cities are included in this table regardless of whether or not they were funded.

a. Number of cities in each need category varies slightly due to missing data. City need categories are taken from Dommel, Report on the Allocation of Community Development Funds to Small Cities.

b. Not available.

More significant differences emerged between metropolitan and nonmetropolitan cities in the 25,000 to 50,000 population range. More nonmetropolitan cities had a high incidence of all the problems included in the CDBG formula except overcrowded housing than did cities within SMSAs (see Table 6, Columns 1 and 4).⁶

TABLE 6. BREAKDOWN OF ELIGIBLE AND FUNDED CITIES WITH POPULATIONS BETWEEN 25,000 AND 50,000, BY FORMULA ELEMENTS: IN PERCENTS, FISCAL YEARS 1975-1978

Formula Element ^a	Metropolitan			Nonmetropolitan	
	All Cities	Central Cities ^b	Percent of Noncentral Cities Funded	All Cities	Percent of Those Funded
Poverty					
15 percent or less	86	67	84	58	56
15 to 30 percent	13	31	14	38	40
Over 30 percent	1	1	2	4	4
Overcrowded Housing					
10 percent or less	83	90	83	83	82
Over 10 percent	17	10	17	17	18
Population Change (1960-1975)					
Fast growth (11 percent or more)	66	57	52	49	51
Slow growth (0-11 percent)	14	11	21	28	24
Decline	20	32	27	23	25
Pre-1940 Housing					
Less than 25 percent	2	24	37	15	15
25 to 50 percent	25	31	30	46	45
More than 50 percent	22	45	33	39	40

SOURCE: Funding data and some city characteristics supplied by HUD; U.S. Bureau of the Census, County and City Data Book, 1977; calculations performed by CBO.

a. Number of cities in each need category varies because of missing values for indicators.

b. All central cities receive entitlement grants.

6. Similar differences exist among cities below 25,000 in population; see Dommel, Report on the Allocation of Community Development Funds to Small Cities.

In particular, nonmetropolitan cities are much more likely to have a high incidence of aged housing than are metropolitan cities. Central cities appeared likewise worse off than the other metropolitan cities in this size range. Nearly one-third of central cities, but 14 percent of all metropolitan cities, had more than 15 percent population in poverty. Similarly, 45 percent of the central cities, but 22 percent of all metropolitan cities, had more than 50 percent aged housing units.

Funding Patterns. Since most small cities (those with less than 50,000 population) are funded on a competitive basis, measures of need determine funding indirectly through the HUD selection process, rather than directly as in the entitlement program. Cities compete for shares of the state-level Small Cities allocations--themselves determined by formulas--but the shares do not have to sum in order to allow all eligible cities to receive funds. Thus, whether a city is funded, and the amount it receives, may be determined as much by local skill in applying for funds as by measures of need.

The likelihood that a city will be funded does appear to be related to need as measured by formula items, but the relationship does not hold for all the formula items. Among the small cities in metropolitan areas, cities with declining populations and with a high percentage of aged housing were more likely to be funded than were less troubled communities. Nonmetropolitan communities were about equally likely to be funded regardless of their characteristics.

Another measure of the responsiveness of funding allocations to need as quantified in the CDBG formulas is levels of funding per person.⁷ Per capita grants for entitlement and

7. To arrive at these figures, funds received by each city in fiscal years 1975 through 1978 were summed and then reduced to per capita terms. This procedure treats Small Cities and hold-harmless grants alike, even though they have been distributed on different criteria. However, because the number of cities in the 25,000 to 50,000 population range is relatively small, this procedure avoids creating many categories for only a few cities.

hold-harmless jurisdictions were not always higher for cities showing high levels of need on the CDBG formula elements (see Table 7). Cities with high levels of poverty and those with high levels of overcrowded housing tended to receive less per capita than did better-off cities, but very few cities fell into this group. Small Cities grants bore little relationship to need, but since many Small Cities grant recipients also received entitlement or hold-harmless grants, overall funding levels were responsive to need.

TABLE 7. TOTAL PER CAPITA CDBG FUNDING TO CITIES 25,000 TO 50,000 IN POPULATION RECEIVING GRANTS IN FISCAL YEARS 1975 THROUGH 1978, BY FORMULA ELEMENTS AND GRANT TYPE: IN PERCENTS AND DOLLARS

Formula Element ^a	Entitlement Grants	Hold-Harmless Grants	Small Cities Grants
Poverty			
15 percent or less	115	84	20
15 to 30 percent	127	113	24
Over 30 percent	95	74	28
Overcrowded Housing			
10 percent or less	120	94	21
Over 10 percent	101	83	21
Population Change (1960-1975)			
Fast growth			
(11 percent or more)	80	91	25
Slow growth (0-11 percent)			
	140	79	23
Decline			
	184	103	19
Pre-1940 Housing			
25 percent or less	69	63	17
25 to 50 percent	106	89	23
Over 50 percent	154	111	22

SOURCE: Funding data and some city characteristics supplied by HUD; U.S. Bureau of the Census, County and City Data Book, 1977; calculations performed by CBO.

a. Number of cities in each need category varies because of missing values for indicators.

Implications for Program Design

Because certain data on the funding and characteristics of cities located in urban counties are unavailable, a definitive picture of small cities funding is difficult to construct. Those metropolitan cities with populations between 25,000 and 50,000 that did not receive direct funding may have received adequate funding through their urban counties. At the same time, many of these cities may be receiving less through their counties than they might independently; but they may lack the grantsmanship necessary to compete successfully for a share of the limited supply of Small Cities funds.

Despite this problem, several conclusions can be drawn. First, funding for these cities bears some correspondence to differences in need as measured by the CDBG formula items, though probably not in so systematic a fashion as would a purely formula-based mechanism. Second, metropolitan cities in general are better off than their nonmetropolitan counterparts. Metropolitan cities would be the major beneficiaries if the bottom population limit for entitlement funding were lowered to 25,000. Since the Administration has already proposed that the fund for metropolitan small cities be increased from \$275 to \$285 million, the additional move of extending entitlement status to all cities over 25,000 in population would contribute to spreading funds to less needy cities.

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CHAPTER III. RECIPIENT SPENDING--WHERE AND FOR WHAT?

Two major, and often contradictory, goals have influenced the local operation of the CDBG program:

- o Ensuring that funds are spent in behalf of the neediest people in recipient localities; and
- o Allowing recipient localities the greatest possible freedom to respond to local problems in setting priorities for spending.

This chapter examines three questions concerning the achievement of these goals:

- o How effective is the program in directing aid to the targeted households?
- o Do local spending patterns reflect differences in city characteristics? and
- o What have been the problems and progress in implementing local spending plans?

The CDBG program's effect on recipient communities is examined here in terms of the activities the program funds directly, rather than in terms of impact on the composition and distribution of all spending undertaken by grantees. The program does carry restrictions to assure that grantees do not shift spending out of their own resources away from neighborhoods and activities targeted by the legislation. Nevertheless, the program's net impact on grantee spending is impossible to measure, because both the CDBG program and its predecessors have been in existence for so long that what local spending patterns would have been without such aid is impossible to reconstruct.

BENEFITS TO THE NEEDY

CDBG grantees are required to show that low- and moderate-income households--that is, those with incomes 80 percent or less of SMSA median income--will be the major beneficiaries of

funded activities.¹ One indicator of who receives the benefits is the location of proposed spending--targeted households are presumed to benefit from activities located in census tracts where poor households predominate. Entitlement cities spend roughly two-thirds of their grants in these neighborhoods or on activities directed at low- and moderate-income households.² This translates into a four-year (1975 through 1978) total of \$6.6 billion in appropriations and, because of delays in program spending, \$3.9 billion in actual local disbursements. Over the same period, \$12 billion has been appropriated for the program as a whole, of which only \$7.0 billion has actually been spent.

The proportion of spending directed at low- and moderate-income households has risen slightly since the program began, as a result of changes in legislative and regulatory language and in HUD's management of the program. However, evidence on local targeting is still of necessity based on 1970 census data which, except for total population, are only updated to reflect local boundary changes. Thus, such a trend is difficult to interpret in the light of the limitations imposed by now ten-year-old data. These limitations become particularly severe in communities experiencing rapid demographic change.

Cities are allowed to spend funds in neighborhoods other than needy ones, but if more than 25 percent of a city's grant funds is planned for spending on activities not directed at low- and moderate-income households, HUD subjects the application to more stringent review. In this process, HUD considers whether the needs the proposed activities will serve are more urgent than would be activities benefiting needy persons.

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1. Low-income households have incomes below 50 percent of the SMSA median; moderate-income are those above 50 and below 80 percent of the SMSA median.
 2. HUD, Community Development Block Grants: Fourth Annual Report, also Paul Dommel and others, Targeting Community Development, HUD, 1979. The exact figure depends on the year considered, the sample of cities studied, and, to a certain extent, the procedure used to determine benefit and service areas of funded projects. Because this procedure involves numerous value judgments, it is open to question. Furthermore, only the Brookings evaluation studied any urban counties. See Appendix for a discussion of methodologies, assumptions, and samples used to evaluate program benefits.

Defining Need: Neighborhoods and Households

The CDBG requirements that funded activities be directed at needy persons do not make it clear whether the determination of needy applies to persons or neighborhoods. That poor persons are of major concern is clear both from the CDBG legislation and from the regulations. However, physical development is also a concern of the program, evidenced by the emphasis on projects that will rehabilitate particular neighborhoods.

If the CDBG program were aimed entirely at people, regardless of location, it could be a transfer or a social services program. In fact, however, with the wide variety of activities eligible for funding (discussed later in this chapter), it is often difficult to determine whether households in low- and moderate-income neighborhoods benefit directly even from spending--such as sewer upgrading--done solely in targeted areas.³ Alternatively, low-income households could benefit from spending that occurs in adjacent, higher-income neighborhoods. Even if poor households were concentrated in particular census tracts, which is not always the case, aiding these households by means of community development activities would not be a simple task. Where poor persons are dispersed among a number of tracts--as is often the case--a policy that attempts to target funds to particular neighborhoods may benefit a number of wealthier households and fail to reach some needy ones.

The remainder of this chapter attempts to assess the feasibility of targeting both to needy neighborhoods and to needy persons. Needy neighborhoods are defined as census tracts in which half or more of the households have incomes below 80 percent of SMSA median income. Needy households are defined in one of two ways: either in relation to SMSA median income, which is the definition used in the CDBG regulations, or by means of the Census poverty measure (see Chapter II). By defining needy persons in relation to SMSA median income, the CDBG criterion adjusts for differences in living costs among cities. Since there is little information about city-to-city differences in living costs or real income, it is impossible to achieve reliable adjustments any other way. By defining need in relation to each city's own cost-of-living standard, the CDBG

3. Difficulties in distinguishing between the distribution of spending and the benefits derived from this spending are discussed further in the Appendix.

criterion establishes a different real-income need measure for each city. In contrast, the Census poverty measure (discussed in Chapter II) defines a need level that does not reflect city-to-city differences in living costs or real income.

Population Characteristics in Low- and Moderate-Income Tracts

Needy census tracts contain the highest concentration of needy households. Tracts with 80 percent or more households with incomes below SMSA median income have the largest concentrations of poor households, regardless of whether the the Census or CDBG measure is chosen to define poverty. Of the families in these tracts, 19 percent have incomes below the poverty level, contrasted with 6 percent of families in middle- and high-income tracts (see Table 8). Similarly, more than one-third of families in low- and moderate-income tracts have incomes below 50 percent of the SMSA median, and nearly two-thirds--rather than the required half--have incomes below 80 percent of the SMSA median.

TABLE 8. PERCENT INCIDENCE OF POVERTY AMONG TYPES OF CENSUS TRACTS: 1970

Type of Tract	All Tracts	All Families	Families Below Poverty	Families Below 50 Percent SMSA Median Income	Families Below 80 Percent SMSA Median Income ^a
Low- and Moderate-Income	39.1	32.5	19.0	38.6	63.5
Middle- and High-Income ^b	60.9	67.5	5.6	15.1	31.5

SOURCE: HUD evaluation sample; based on 1970 Census data; calculations performed by CBO.

- a. Tracts include families with incomes under 50 percent of SMSA median.
- b. Middle-income tracts have a median income over 80 percent and under 120 percent of SMSA median, while high-income tracts have a median income 120 percent of SMSA median or over. This definition differs from that used by HUD in that it includes thinly populated tracts and those comprising central business districts.

Despite the high incidence of poverty in targeted tracts, needy households appear to be somewhat dispersed throughout cities; almost as many poor households live in higher-income tracts. More than one-third of all families below the Census poverty level live in middle- and high-income tracts. Similarly, about 45 percent of all families with incomes below 50 percent of SMSA median, and about 50 percent of all families with incomes below 80 percent of SMSA median, live in higher-income tracts (see Table 9). Some poor families living in better-off tracts may still benefit from CDBG spending.

TABLE 9. PERCENT DISTRIBUTION OF POOR FAMILIES AMONG TYPES OF CENSUS TRACTS: 1970

Type of Tract	Families Below Poverty	Families with Incomes Below 50 Percent of SMSA Median	Families with Incomes Below 80 Percent of SMSA Median ^a
Low- and Moderate-Income	62.1	55.1	49.3
Middle- and High Income	<u>37.9</u>	<u>44.9</u>	<u>50.7</u>
Total	100.0	100.0	100.0

SOURCE: HUD evaluation sample; calculations performed by CBO.

a. Includes families below 50 percent of SMSA median Income.

Thus, even though the CDBG program directs aid to neighborhoods with high concentrations of poor households, substantial numbers of poor persons by any definition live outside of these neighborhoods. Furthermore, the effects of CDBG spending on persons both inside and outside of funded tracts are difficult to determine. The program could be altered to reach more of the needy households, thereby perhaps diluting its neighborhood focus. Alternatively, rules could be written to require some spending in a more narrowly defined group of the most blighted tracts, thereby sharpening the focus on neighborhood development (see Chapter IV).

PROGRAM SPENDING AND LOCAL NEEDS

While provisions directing funding to needy households have been strengthened, grantees have been free to choose particular projects from a fairly large number of eligible activities. This section reviews the major types of activities undertaken by grantees and the relationship of spending patterns to city need levels as measured by the CDBG formula elements.

Major Activities and City Need

The majority of activities undertaken by grantees can be grouped loosely into three general types: housing and related spending, public works, and social services (see Table 10). A fourth category, economic development, has been growing in importance in recent years but remains very small. In addition, many localities have spent part of their grants on the completion of urban renewal and other projects initiated with the categorical grants that preceded the CDBG program (see Chapter I). In the sample of grantees monitored by HUD, spending for the

TABLE 10. PERCENT OF CDBG FUNDS ALLOCATED TO SELECTED LOCAL ACTIVITIES BY HUD, BROOKINGS, AND NAHRO^a SAMPLE RECIPIENTS: SELECTED FISCAL YEARS

Activity	HUD		BROOKINGS		NAHRO	
	1975	1978	1975	1978	1975	1977
Housing	16	22	21	33	12	14
Public Works	34	33	21	23	22	29
Social Services	12	12	16	11	5	9
Other	38	33	42	33	61	48

SOURCE: Data drawn from HUD and Brookings sources referred to in Footnote 2 of this chapter and William Witte, "Community Development's Third Year: A Report on Trends and Findings of NAHRO's Community Development Monitoring Project," Journal of Housing, February, 1978.

a. National Association of Housing and Rehabilitation Officials.

continuation of categorical grant projects declined from 14 percent of total funds in 1975 to 3 percent in 1979 as these programs were gradually completed.

Information on local spending patterns is obtained from three sources: HUD, the Brookings Institution, and the National Association of Housing and Rehabilitation Officials (NAHRO). None of the studies uses statistically representative samples, and all tend to report their findings on local spending using different definitions of activities. This chapter relies heavily on CBO tabulations of HUD data (shown in Table 11) because the HUD evaluation sample is the largest. The Appendix discusses these sources in some detail.

Housing. Over the four years for which data are available (1975 through 1978), roughly one-quarter of the funds granted to all types of recipients was spent on the preservation, restoration, and rehabilitation of housing (see Table 11). A major and increasing portion of housing-related spending has been directed at aiding rehabilitation. This increase reflects both an increase in the number of jurisdictions undertaking these activities and an increase in spending within jurisdictions.⁴ Housing rehabilitation appears to be the funded activity most likely to have been initiated since the inception of the CDBG.⁵

The proportion of CDBG funds devoted to housing-related efforts appears to bear some relationship to recipient cities' housing conditions, but that relationship depends on the measure of housing condition being examined. Between 1975 and 1978, the proportion of grant funds spent on housing increased by 40 percent in cities with a high proportion of pre-1940 housing, rising from 16 to over 22 percent (see Table 11). In contrast, cities with a high proportion of overcrowded housing spent a smaller percentage of their funds for housing-related activities than did cities with a small proportion of such housing.

4. Both Brookings and HUD evaluators found such increases between the first and fourth program years. Brookings found that the major increase in activity occurred in central cities and urban counties, while suburban cities decreased their total spending for housing rehabilitation since the first program year.

5. Witte, "Community Development's Third Year."

Public Works and Improvements. An average of one-third of spending has been devoted to public works and improvements.⁶ A four-year decline in spending on city-wide improvements appears to have been matched by an increase in spending on neighborhood conservation projects.⁷ Since the latter are targeted toward neighborhoods with a majority of poor persons, overall program targeting may indeed have become more focused.

No matter how cities are sorted according to CDBG formula characteristics, some increase in the proportion of spending related to public works occurred over the four years considered. However, the increase was not systematically related to city characteristics. In particular, cities with a high proportion of aged housing spent a smaller proportion of their grants on public works than did other cities, even though the proportion of aged housing was included in the formula as a proxy for public infrastructure needs. This could mean that such cities, even if they had deteriorating infrastructure, had other, more pressing needs.

Social Services. Throughout the program's history, the proportion of CDBG funds spent on social services has been a point of controversy, because it is closely related to the struggle over mandated spending on behalf of low- and moderate-income households. Since the old Model Cities program was the major social services program consolidated into the CDBG, it is not surprising that both the number of jurisdictions undertaking social services spending and the amount of CDBG funds allocated for this purpose are related to prior experience in the Model Cities program.⁸ Even though the regulations place restrictions on social services spending, requiring that it occur only in conjunction with neighborhood redevelopment projects, the proportion of spending devoted to social services has declined only slightly.

Services and related facilities (such as senior citizens' centers and clinics) were considerably more important in the spending plans of high-poverty than low-poverty cities, though only in 1978 did any category of cities spend more than one-fifth of their grants for this purpose. Since service-related

7. Dommel, Targeting Community Development.

8. Ibid.

TABLE 11. PERCENT OF CDBG GRANTS SPENT FOR SELECTED ACTIVITIES BY CITY CHARACTERISTICS: FISCAL YEARS 1975 AND 1978

City Characteristic ^a	1975				1978			
	Housing and Code Enforcement	Public Works ^b	Services and Related Facilities	Economic Development ^c	Housing and Code Enforcement	Public Works ^b	Services and Related Facilities	Economic Develop- ment ^c
Percent Persons Below Poverty								
Low (1.0-7.2)	16.6	23.3	8.7	0.6	21.0	27.4	9.7	0.0
Medium (7.3-10.6)	14.4	19.2	17.3	0.9	24.6	26.3	16.2	0.9
High (10.7 and over)	11.4	24.0	17.2	0.9	17.7	33.1	13.5	1.3
Percent Pre-1939 Housing Units								
Low (0-22.4)	11.4	35.1	8.3	0.0	16.9	33.9	12.9	0.0
Medium (22.8-48.3)	10.2	22.2	17.0	0.7	20.2	30.2	13.4	0.9
High (48.4 or more)	16.9	19.1	16.0	1.1	22.6	27.6	14.4	1.0
Percent Population Growth (1960-1975)								
Fast (11 or more)	11.4	29.6	11.6	0.0	20.4	36.3	8.5	0.3
Slow (0-11)	11.1	17.9	22.2	2.0	17.9	21.2	24.0	1.0
Decline	15.1	17.0	16.4	1.0	22.1	28.0	13.6	1.7
Percent Overcrowded Housing Units								
Low (0-5.5)	17.3	23.0	14.0	0.1	27.8	29.8	11.0	0.2
Medium (5.6-8.0)	14.8	25.2	11.0	0.5	20.0	29.6	11.6	1.1
High (8.1 or more)	10.3	19.2	20.3	1.5	18.2	29.1	16.6	1.1
City Population								
Less than 50,000	9.2	27.9	12.0	0.0	16.8	32.1	12.5	0.2
50,000 to 100,000	14.3	27.9	18.2	0.7	22.6	38.7	10.5	0.8
100,000 to 500,000	14.9	20.9	13.3	0.9	22.2	26.5	11.7	1.0
Over 500,000	11.0	14.1	26.4	1.9	18.1	26.4	23.6	0.9

SOURCE: HUD evaluation sample; calculations performed by CBO.

NOTE: Percents do not add to 100 because spending on clearance and demolition and program administration is not tabulated.

- a. Not all cities are represented in each project category because values for some city characteristics are lacking. Cutoff points for city characteristics (except population growth) were chosen so that one-third of the sample would fall into each category.
- b. Includes water, sewer, and neighborhood facilities.
- c. Does not include related publicly financed infrastructure improvements.

activities generally have eligibility requirements targeting them on poor households, it is not surprising that cities with a high incidence of poverty spend a greater proportion of their funds for this purpose. Similarly, larger cities, which are more likely to be distressed, spent nearly twice the proportion of their grants on services and related facilities in both years as did smaller cities.

Economic Development. Less than 10 percent of all CDBG funds were spent on economic development in all types of grantee communities, even with related spending on public infrastructure included in the computation.⁹ But these activities are likely to increase in the future. The 1977 amendments elevated economic development to the status of a program objective and significantly expanded the number and type of economic development activities eligible for funding. Economic development represents such a small proportion of spending, however, that it is difficult to discern any pronounced trends over time or difference among cities.

Trends in Funded Activities

Changes in the allocation of funds among areas, and relaxation of legislative and regulatory restrictions on allowable uses of funds, all appear to have had little impact on the composition of spending during the first four years of program activity surveyed in this chapter. As stated earlier, the addition of a second formula in 1977 increased funds flowing to older, declining cities and could have been expected to change the proportion of funds devoted to public works and improvement of facilities, particularly since the aged housing factor was intended to channel funds to cities with deteriorating infrastructure. However, little change in that direction could be observed in spending plans for the first year of operation under the new formula. One reason for this could be that only some cities experienced very large gains or losses in funding when the second formula was added, since that formula was added expressly to prevent large changes in funding after the termination of hold-harmless grants.

9. HUD Fourth Annual Report.

Similarly, little change in funded activities can be discerned as a result of changes in benefits requirements and eligible activities, particularly the increased emphasis on economic development activities. More changes may emerge as evidence from the fifth and sixth program years becomes available, because greater familiarity with the new requirements may cause some localities to increase economic development spending.

There are likewise few systematic differences in the types of projects funded by cities of different need levels as measured by the CDBG formula elements. Those differences that do emerge suggest that city characteristics do influence spending plans in the expected direction. In particular, the poorer the housing conditions and the higher the incidence of poverty, the more localities will spend on housing and social services (see Table 11).

PROGRAM PROGRESS AND IMPLEMENTATION

Data on local spending patterns provide only a rough guide to the CDBG program's effects on localities. Since such information comes from grant applications, assessments of actual impacts on localities will depend on the rates at which various program components are completed. In the first four program years, grantees spent a total of 58 percent of appropriated funds and 59 percent of obligated funds. There is preliminary evidence, however, that the local spending rate has risen in recent years.

Concerns about CDBG program implementation have revolved around two major issues:

- o The speed of local spending, and
- o The possibility of "reprogramming," or substitution, of other activities for those proposed in grantee applications.

Cities with slow local spending rates are a matter of concern for two reasons. Some observers have argued that if cities are not spending their grants they may not need the money. Others conclude that slow rates of spending may reflect serious problems in program design or management. For example, obtaining loan commitments in New York City's CDBG-financed Participation Loan Program for housing rehabilitation has taken from four

months to two years.¹⁰ Such delays most likely discourage program use even though an underlying need may exist.

The speed of CDBG project implementation partly reflects project characteristics.¹¹ Housing and projects related to economic development appear most likely to be delayed. Administrative problems, legal difficulties and other setbacks tend to hamper these projects. In addition, these and other capital-related projects are slow to consume funds, because construction, and hence capital spending, is by nature slow. In contrast, public service projects and public works rehabilitation projects, which do not require capital outlays, are fairly easy to execute and can be completed quickly. Also, whatever the project, recipients with prior categorical program experience are better able to implement their plans than are those without experienced administrative structure in place.

No clear conclusion about reprogramming of CDBG funds can be drawn, because existing data are too incomplete.¹² There are indications, however, that there is some cause for concern. In some cases, planned projects have been abandoned in the face of execution problems, and funds have been diverted to other uses. In at least one such city, Phoenix, Arizona¹³ the new use was

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10. Community Service Society of New York, "Reforming the Community Development Program: The Key to Housing Rehabilitation," August, 1979.
 11. The major sources of information are two small samples of very different composition. For its annual report, HUD obtained detailed project-level progress data from 25 entitlement cities, and the Brookings Institution, under a contract with HUD, surveyed 20 cities and four urban counties. For further discussion, see Appendix.
 12. U.S. General Accounting Office, "Management and Evaluation of the Community Development Block Grant Program Need to be Strengthened," August 30, 1978. Although some of the management problems identified in this report have been remedied, the new procedures have so far yielded no information.
 13. Michael J. Rich, "Program Execution Under the Community Development Block Grant: An Explanatory Analysis," HUD, April 27, 1979.

use was for the same type of project as the old, and only the specific project was given up. In such a case, reprogramming does not jeopardize the program's intent; but other funding shifts could do so. At the same time, citizen participation in some cities may be effective enough that local planning officials would not be able to execute a major reprogramming move even if they wished to do so.

All conclusions concerning program progress must be taken as tentative at best. More data are needed before it is possible to determine whether there is, in fact, any widespread problem with program implementation.

CONCLUSIONS

Local spending under the CDBG program appears to reflect some measures of need but not others. The majority of funds is targeted at poor households, but it is difficult to determine the nature of the benefits these households may derive from the program. In addition, tracts with a majority of poor households do not account for all, or even most, of the poor households in grantee cities. However, poor households living in better-off tracts probably face a different, although perhaps not so severe, set of problems from those faced by households living in blighted tracts.

Trends in the types of activities funded over time have reflected changes in the objectives of urban planning, particularly in the adoption of plans oriented more toward rehabilitation and conservation than toward demolition and new construction. For at least one limited sample of grantees, however, there were few clear relationships between measures of city need levels and the proportion of funds spent on different types of projects. This lack of correspondence does not mean that grantees are spending funds inappropriately. It does suggest that the needs to which local officials are responding in setting program priorities may differ from the needs--as represented by the CDBG formula items--to which federal policy responds in distributing CDBG funds. One reason for this difference could be that formula items, which indicate overall city conditions, are simply not useful to local officials in examining differences among neighborhoods.

CHAPTER IV. FUNDING AND DESIGN OPTIONS FOR THE CDBG PROGRAM

Several program amendments and funding changes may be considered during the Congressional deliberations on reauthorization of the CDBG program. These possible adjustments include:

- o Changing formula elements or their relative importance in the formulas;
- o Changing the number of entitlement jurisdictions and the number of applicants competing for Small Cities funds;
- o Reducing overall funding to entitlement jurisdictions by differing percentages depending on their characteristics;
- o Authorizing the program at the level necessary to maintain the current level of aid; and
- o Changing local targeting within jurisdictions.

The overall future cost of the CDBG program can vary considerably, depending on Congressional action. The Administration, in its initial budgetary proposal for fiscal year 1981, put forth a plan that would leave the overall authorization largely unchanged, thus effectively lowering the real value of the funds to be granted.¹ One possible response to this decline would be to cut or eliminate funding for some grantees in such a way as to maintain a constant real level of funding for others. Other approaches and their effects are described on the following pages. These effects and those of the Administration's proposal are summarized in Table 12.

1. In its March, 1980 budget revisions, the Administration proposed a rescission of \$0.2 billion in budget authority in fiscal year 1980 and a cut of \$0.1 billion in budget authority for fiscal year 1981. The effect of such a cut on the budget would depend in part on local spending rates, which have been slow but are increasing.

TABLE 12. FUNDING OPTIONS FOR REAUTHORIZATION OF THE CDBG PROGRAM: FISCAL YEARS 1980 TO 1983, BUDGET AUTHORITY IN BILLIONS OF DOLLARS

Option	1980	1981	1982	1983
Administration's January Budget Proposal	3.90	3.95	4.10	4.25
Administration's March Budget Revisions	3.70	3.85	d	d
Maintain 1980 Assistance Level ^a	3.90	4.25	4.66	5.13
Entitle All Cities Over 25,000 in Population ^b	4.10	4.15	4.31	4.46
Eliminate Some Less Needy Entitlement Jurisdictions ^c	3.41	3.45	3.58	3.72

SOURCE: CBO estimates.

NOTE: Funding required for changes in entitlement status is measured from the Administration's January proposal and does not incorporate inflation adjustments.

- a. Assumes an inflation rate that is a weighted composite of the GNP deflator, the private nonresidential construction deflator, and the state and local purchases deflator.
- b. Estimate based on fiscal year 1978 funding levels for cities 25,000 to 50,000 in population receiving independent funding. Incorporates no change in funding for urban counties, because such a change cannot be estimated.
- c. Based on dual formula allocations for 210 least needy entitlement jurisdictions on the Brookings Urban Conditions Index (see Paul Dommel and others, Decentralizing Community Development, HUD, 1978). These savings are only suggestive of the savings possible from such a change. They cannot be updated because distress index scores are not available for cities currently entitled to funding.
- d. Not available.

CHANGING FORMULA ELEMENTS AND WEIGHTS

Changes in the elements or structure of the CDBG formulas have been proposed for two reasons. One is that a formula item devised to respond to the needs of a certain type of recipient community may also channel funds to a few areas that are able to meet their development needs from their own resources. The second is a particular formula item may not be effective in identifying the problem that the program was designed to help alleviate.

Any formula changes designed to dampen or enhance the effect of particular formula elements will have different effects on particular regions of the country because of the sizeable demographic differences among them (see Table 13). Furthermore, because the 1977 legislation established the principle that CDBG funding should be responsive both to the problems caused by low levels of income and to those caused by population and economic decline, any such changes are likely to be proposed in combinations that could have offsetting regional effects.

For example, diminishing the impact of poverty in allocating funds would increase the relative flow of funds to Northeastern and North Central entitlement jurisdictions. In contrast, any lessening of the importance of population decline would increase the relative flow of funds to the South and the West, because these regions are growing rapidly. A possible proposal, therefore, would be to raise the poverty threshold to 125 percent of the Census poverty level, and also to moderate the population growth lag factor by a measure of absolute income. Since population in the South is growing rapidly, but income levels in that region remain below those in the Northeast, changing the population growth lag factor would compensate for some of the funding that would be lost to the South and West if the poverty threshold were raised.

CHANGING THE NUMBER OF ENTITLEMENT JURISDICTIONS

Increases and decreases in the number of entitlement jurisdictions have both been proposed.

TABLE 13. SELECTED CHARACTERISTICS OF 528 CITIES WITH ENTITLEMENT FUNDING STATUS, BY REGION: 1975

Region ^a	Total Number of Cities ^b	Total 1975 Population (in Millions)	Percent of All Persons Below Poverty	Percent of All Overcrowded Housing	Percent Population Change (1960-1975)
Northeast	141	76.1	23	24	-1
North Central	107	77.3	22	24	+7
South	155	82.4	41	35	+7
West	125	51.3	15	18	+8

SOURCE: U.S. Department of Commerce, Bureau of the Census, County and City Data Book and CBO calculations.

- a. Regional definitions are those used by the U.S. Bureau of the Census (See County and City Data Book, 1977).
- b. Number of cities used in computation varies because of missing data.

Expanding Eligibility for Entitlement Funds

Another proposed change in the entitlement portion of the program is to give assured funding to all cities over 25,000 in population. In fiscal year 1978, cities between 25,000 and 50,000 in population that received funding independently of their urban counties received \$319 million, or 8 percent of all CDBG appropriations for that year. Entitling all cities of 25,000 or more population would mean increasing the number entitled to grants by more than 60 percent. If all newly entitled cities were funded at the average rate of present grantees, either total CDBG authorizations would have to be increased, or funding for other jurisdictions cut by \$188 million.

Independent funding of all jurisdictions between 25,000 and 50,000 in population would put a number of urban counties below the required population threshold of 200,000, since these counties could not count the independently funded jurisdictions

within their boundaries. This, in turn, would mean that the entire mechanism for funding small metropolitan cities would have to be restructured. Thus, the full funding consequences of expanding entitlement eligibility are difficult to project.

Restricting Eligibility for Entitlement Funds

Eliminating entitlement status for some jurisdictions would be one alternative to cutting the real level of CDBG funding for all recipients. This option could have substantial budget-cutting effects. For example, if funding for the one-third least needy entitlement jurisdictions were eliminated, cost savings could exceed \$500 million by fiscal year 1983 in comparison with the Administration's first fiscal year 1981 budget proposal. Alternatively, total funding could be maintained at current levels, and some jurisdictions could be cut from the program in order to maintain or increase real funding levels for others. Both a criterion and a cut-off point for eliminating jurisdictions would, of course, have to be agreed upon.

In addition, if some smaller jurisdictions were also disqualified from competing for Small Cities funding, the savings could be even greater. The amount to be saved is impossible to estimate, however, because many small cities are currently funded through urban counties, some of which could be eliminated if jurisdictions judged less needy were ruled out of the competition.

REDUCING OVERALL FUNDING

Either in conjunction with the above two options or separately, an across-the-board funding cut could be implemented and then prorated to the city level on the basis of specific measures of city need. For example, if funding for the whole program were to be cut by 10 percent, the cities scoring highest on some index of well-being could be cut by 15 percent, cities in the middle by 10 percent, and cities at the bottom by 5 percent. This option would require choosing some acceptable composite measure of need, as would several of the others discussed above. Such a scaled funding cut would result in considerably more targeting relative to the CDBG formula elements than currently exists.

FUNDING TO MAINTAIN CURRENT LEVELS OF AID

The Administration's January budgetary proposal would fund the program at \$300 million below the amount necessary to maintain a constant level of assistance in fiscal year 1981. Such an across-the-board cut in real funding does not single out any particular category of grantees for reductions, but it does not have an equal effect. Recipients needing funds to support ongoing projects could experience more budgetary dislocation than those seeking funds for new projects; new projects can be scaled to lowered levels of funding, while ongoing projects represent standing commitments.

LOCAL TARGETING--PEOPLE VERSUS PLACES

Existing legislative and regulatory provisions attempt to direct a major part of CDBG spending to those neighborhoods in grantee areas with the highest concentrations of poor people, as well as to activities for these persons. But because needy households can be found throughout most cities (as discussed in Chapter III), program spending does not necessarily reach a majority of poor households. The legislation itself does not mandate that a majority of all the poor in grantee jurisdictions benefit; in fact, the history of the program has seen a series of compromises between the goals of helping the poorest people versus helping the most blighted places. The program could, however, be altered to sharpen its effects either on poor persons or on deteriorating neighborhoods.

Increasing Targeting to Poor Households. One option for increasing the proportion of poor households that program spending reaches would be to target funds explicitly on the basis of the characteristics of census tracts. Although the program does not currently require tract-level targeting, such an approach would be consistent with the emphasis on concentrated redevelopment that emerged from the 1978 regulations about designation of neighborhood strategy areas (NSAs). Preliminary evidence suggests that new guidelines on the designation of NSAs led to a decline in the number of such areas designated by grantees and hence increased concentration of local development activities.²

2. HUD, Fourth Annual Report.

Census tracts could be made eligible for funding if at least 25 percent of their households have incomes below 80 percent of the SMSA median income. This would include about four-fifths of all tracts, which is probably more than the number of tracts currently receiving spending. These tracts contain 80 percent of all families, but over 94 percent of all families below poverty and over 91 percent of all families below 80 percent of SMSA median income (see Table 14). To avoid spreading funding too thinly, eligible activities could then be restricted to those that have a direct effect on poor persons, such as housing, or projects that improve the delivery of city services to these neighborhoods.

Increasing Targeting to Physically Blighted or Deteriorating Neighborhoods. Increasing targeting to poor households by designating a large number of eligible tracts could extend funding to a number of census tracts that are not physically blighted or deteriorated. To avoid this, it would be possible to focus targeting even more narrowly to tracts with high concentrations of poor persons. Although this approach would further limit the discretion allowed localities in allocating their funds, it would concentrate spending on the neighborhoods with both poor persons and physical blight, since many types of physical blight tend to occur in neighborhoods with high concentrations of poor persons.

Targeting to blighted neighborhoods could be increased by requiring that some percentage of funding go to tracts with 75 percent of their households below 80 percent of SMSA median income. The tracts with 75 percent or more needy families contain 12 percent of the households below 50 percent of median income and 10 percent of households below 80 percent of median income, but only 5 percent of all households. Since the program's regulations do not require that funds be divided proportionately between low-income (less than 50 percent of SMSA median income) and moderate-income families, such a device could target more aid to low-income families in blighted areas than they now receive. At the same time, care would have to be taken to avoid requiring that some grantees spend the majority of their grants in the one or two tracts that might meet the criterion.

TABLE 14. POPULATION CHARACTERISTICS IN CENSUS TRACTS HAVING 25 PERCENT, 50 PERCENT, AND 75 PERCENT HOUSEHOLDS WITH INCOMES BELOW 80 PERCENT OF SMSA MEDIAN: 1970

Population Characteristics	Percent of Needy Families in Tracts		
	25 or More	50 or More	75 or More
Percent of Tracts	82	39	8
Percent of Families	80	33	5
Percent of All Families Below Poverty	94	62	18
Percent of All Families Below 80 Percent of SMSA Median Income	91	49	10
Percent of All Families Below 50 Percent of SMSA Median Income	93	55	12

SOURCE: HUD evaluation sample; calculations performed by CBO.

NOTE: These figures probably overstate the proportion of poor households in any group of tracts. The income distribution within census tracts was computed using grouped household income data. For purposes of computation, families were assigned to the income level defining the low end of each range. This procedure probably overstates both the proportion of tracts with a particular income distribution and the proportion of each city's low- and moderate-income households residing in these tracts and thus potentially benefiting from targeted spending.

CONCLUSION

Funding and design options for the CDBG program are closely interdependent; any changes in formula design, eligibility for entitlement grants, and possibly even local targeting would carry some implications for the level of funding needed to meet the goals of the program. While funding levels for the CDBG program have been declining in real terms for several years and are projected to decline even further, there are two possible ways of distributing the effects of this reduction in services. This loss can either be spread among all grant recipients, as it would be if eligibility and funding criteria were to remain unchanged; or it can be concentrated among a smaller number of grant recipients, by means of changes in eligibility or funding criteria.

APPENDIX. CDBG PROGRAM EVALUATIONS

Various evaluations of the CDBG program have catalogued the activities planned by samples of entitlement jurisdictions and have traced the distribution of the benefits from such activities. In addition, some attempt has been made to weigh the political effects of decentralizing community development decision making. These efforts, particularly the HUD evaluations, served as CBO's source for much of the data presented and analyzed in this paper.

Two studies gather data on a continuing basis on CDBG recipients' spending plans: HUD annual reports, which are required by law, and monitoring studies conducted by the Brookings Institution under contract to HUD. During the program's first three years, 1975 through 1977, the National Association of Housing and Rehabilitation Officials (NAHRO) also undertook evaluation studies. These three evaluations primarily use spending plans as data sources; not enough information is yet available to evaluate the program's impact in terms of projects completed. For its evaluation of fifth- and sixth-year program operation, Brookings plans a detailed analysis of project progress and possible reprogramming in its sample of cities. However, this effort, since it is of necessity retrospective, will be hampered by differences among cities in financial reporting and accounting for program spending, as well as by the fact that cities do not generally maintain spending records specifically concerning CDBG grant monies.

To supplement the studies cited above, HUD has recently contracted with the University of Pennsylvania and Abt Associates for an intensive four-year investigation of the effects on residential neighborhoods of CDBG-funded activities. Nine entitlement cities will be studied closely to determine the advantages of alternative strategies for federal assistance to neighborhoods. This study will also examine activities funded solely with CDBG money in an additional 15 to 20 cities. The Pennsylvania study deals with a much smaller sample than the other three, but it will provide much more thorough data.

INCOMPATIBILITY OF THE STUDIES

All three of the studies mentioned have certain limitations. Their findings are not only difficult to generalize, but they also do not lend themselves to comparison. In the first year of program operation, HUD selected a sample of 151 entitlement cities stratified by grant size. Some of the cities sampled were small cities receiving hold-harmless grants (see Chapter I), whose grant amounts were based on previous experience under the categorical grants being phased out. The HUD sample has therefore become less representative over time of the larger cities entitled to CDBG funds. However, to have selected samples by city size would have meant that, as long as some hold-harmless allocations were being granted, the sample would not have represented all funding categories in their proper proportion.

The Brookings study, on the other hand, makes no claim to being statistically representative. Since Brookings compiles monitoring studies of 63 jurisdictions, its approach necessitates close and steady local involvement of the researcher observing a particular recipient locality. As a result, the Brookings study provides detailed but not a broad spectrum of information on spending and the political processes associated with the CDBG program. But it is not a source of conclusions that can be generalized to the universe of grantees.

The NAHRO study has the drawback that the samples used for the second- and third-year studies differ from the 94-city sample used for the first year.

Major Grant-Funded Activities

Until 1979, applicants submitted narrative descriptions of their spending plans to HUD. Therefore, even before information on a group of cities could be tabulated, judgments had to be made both about the categories into which intended activities would be grouped, and about the particular category into which any one activity would fall. Since Brookings, HUD, and NAHRO developed different coding categories and systems, only some categories of local activities are comparable, most notably housing-related spending and spending on community and social services.

PROBLEMS CONCERNING PROGRAM SPENDING AND BENEFICIARIES

Two factors have made the distribution of program spending among income groups persistently controversial. The tension among the major goals of the program has led to frequent changes and refinements in requirements concerning this issue, as well as to some ambiguity. In addition, the difficulties of measuring the benefits, if any, to low- and moderate-income households from program spending, as well as HUD's freedom to waive such requirements, have made specific distribution requirements difficult to enforce.

Problems of both measurement and concept complicate the determination of benefits from program spending.

Outdated data. The regulations identify targeted income groups using income data from the 1970 decennial census. In some cities, several forces--the shortage and price rises of energy, the general decline in family size, and changing tastes in living styles--have combined to cause significant migration of higher-income families into central cities. Thus, to assume that lower- and moderate-income individuals still predominate in the same census tracts as in 1970 biases benefit determinations upward by a large and not easily determined amount. The fact that the data from the 1980 census will not be available at least until 1982 or 1983 complicates neighborhood targeting requirements and projections even further.¹

Problems in Defining Benefits. The second difficulty in computing benefits stems more from conceptual than statistical limitations. Program evaluations conducted by HUD, Brookings, and NAHRO generally--though not exclusively--impute benefits to a given tract primarily as long as a particular expenditure is located in that tract.² However, this approach has at least

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1. Brookings research associates in the field are directed to identify census tracts where significant demographic change has occurred since the 1970 census, but the method of reporting is left to the discretion of each associate.
 2. Additional procedures have been devised by HUD for assigning spending to categories of tracts if locational data are missing on the application or if a project is assumed to benefit all income groups in a city.

three shortcomings. First, it places on an equal footing expenditures that directly affect people (such as services) and expenditures that improve places (infrastructure). Although both types of spending have a role in community development, they are not equivalent or interchangeable in terms of effect. Second, it relies extensively on local assessments of who will be served by a project. If the planned expenditure is a parking lot, for example, any such assessment will be open to question. Third, the omission from the calculations of indirect effects, both positive and negative, encourages grantees to devise projects with immediate impacts lest they risk HUD's rejection of their plans.

While the results of overestimating direct impacts and underestimating indirect ones may offset each other, the effect of encouraging grantees to think mainly of short-term results is impossible to compute.

Evidence on the Distribution of Program Spending
Among Income Groups

Spending in behalf of low- and moderate-income census tracts has increased slightly since the CDBG program began operation. Over the four program years for which data are available, an average of two-thirds of program spending was done in or in behalf of low- and moderate-income census tracts. The largest increase emerged in the Brookings sample, in which targeted spending appeared to have increased from 59 percent in 1975 to 64 percent in 1978. The four-year increase appearing in the HUD sample was smaller--64 to 66 percent--but targeted spending in the HUD grantee sample tended to fluctuate in the intervening years.

