CDBG and HOME Funding Issues

Developed by the

National Community Development Association

March 2004

CDBG and HOME Funding

The Issue: The Community Development Block Grant (CDBG) and the HOME Investment Partnerships (HOME) Program provide valuable financial resources to communities across the country to assist low- and moderate-income families, but these resources have increased very little since the programs began. **We are seeking $5.0 billion in *formula funding* for CDBG in FY 2005 and $2.25 billion in *formula funding* for the HOME program in FY 2005.**

Over the next five years, the President's budget proposes to gradually slice away at domestic discretionary funding, with the exception of homeland security. By 2009, the overall funding for domestic discretionary programs, except homeland security would be $47 billion – or 10.9 percent – below the level needed to keep up with inflation. The Administration plans to do this by enacting discretionary spending caps for the next five years that would literally "cap" the amount of funding that Congress can allocate to discretionary programs in any one year. If the caps are exceeded by appropriators, the President's budget calls for across-the-board spending cuts to keep the level of spending down to the amount required by the cap.

For too long, programs like CDBG and HOME, and other domestic discretionary programs, have suffered at the hands of budget hawks with the use of caps, across-the-board spending cuts, and other budget reducing mechanisms. Probably the most serious crippling of the resources for these programs in the past few years has been the sharp increase in appropriations for the Department of Defense, the Department of Homeland Security, and the need for supplemental appropriations. While we strongly support funding for anti-terrorism efforts, we also realize that our communities are suffering too and, therefore, ask Congress to strike a balance between funding for non-defense domestic discretionary programs and defense programs. Even prior to the events of September 11, 2001, the funding provided to the formula allocation for CDBG and HOME was negligible. Even though overall funding for the two programs has increased over the years, the *formula funding* (the actual amount allocated to States, cities, and counties) has increased very little. This is due, in part, to the set-asides that Congress carves out of the programs every year. These carve outs have been particularly devastating for CDBG. Beginning in FY 2004, a total of 71 new CDBG entitlement grantees will further erode the formula funding provided to the program. Another 66 grantees will begin to receive funds in FY 2005. This increase in entitlement communities will only continue and existing CDBG grantees are already starting to feel the pinch, with smaller allocations to address their community needs.

CDBG and HOME are the pillars upon which communities across the country can re-build deteriorating neighborhoods, provide services for citizens both young and old, create jobs, improve the physical appearance of neighborhoods through infrastructure improvements, construction and rehabilitation, create new businesses, neighborhood parks and green spaces. This year we are seeking $5.0 billion in formula funding for CDBG and $2.25 billion in formula funding for the HOME program. Both are small increases to the program considering the need for community development and affordable housing across the country, and the fact that the two programs have never been adjusted for inflation.

Community Development Block Grant (CDBG)

The Community Development Block Grant (CDBG) provides annual formula grants to cities, counties, and States to enable them to carry out a wide range of community development activities directed toward neighborhood revitalization, economic development, and the provision of improved community facilities and public services. While communities develop their own program and funding priorities, they are limited to activities that address one or more of the CDBG program's three national objectives: benefit to low- and moderate-income persons, aiding in the prevention or elimination of slums or blight, and meeting other urgent community development needs.

CDBG funds are provided to 1,160 grantees in 944 cities, 165 counties and 50 states, plus Puerto Rico, Guam, the Northern Mariana Islands, and the Virgin Islands. The annual appropriation for CDBG is split between States and local jurisdictions called "entitlement communities." Entitlement communities are central cities of Metropolitan Statistical Areas (MSAs); other metropolitan cities of at least 50,000; and qualified urban counties with populations of at least 200,000 (excluding the population of entitled cities located within these counties). States distribute the funds to localities who do not qualify as entitlement communities. HUD determines the amount of each grant by a formula which uses several objective measures of community need, including the extent of poverty, population, housing overcrowding, age of housing and population growth lag in relationship to other metropolitan areas.

The following are some impressive statistics on the Performance of the CDBG Program for FY 2003[1]

- In FY 2003, 94.8% of the CDBG funds allocated to entitlement communities went to activities principally benefitting low- and moderate-income persons and 96.7% of the CDBG funds allocated to States went to activities principally benefitting low- and moderate-income persons.

- A total of 184,611 households were assisted through the program in FY 2003.

- CDBG created or retained an astounding 108,700 jobs. For every one dollar of CDBG funding another $2.79 in private funding and $0.77 in public funding was leveraged in FY 2003.

- CDBG has a good track record in business retention, with over 80% of the businesses assisted through the program still in operation after three years.

- Only 44 CDBG grantees (4%) out of 1,160 are considered "untimely," meaning they have at least 1.5 years of their current allocation remaining to be spent. This number is down markedly from 330 grantees in 1999.

- In FY 2003, $951 million in CDBG funds was provided for housing activities, such as construction, rehabilitation, homebuyer assistance, lead-based paint testing and abatement, and code enforcement.

- In FY 2003 CDBG funds in the amount of $828 million were spent on public improvements, such

[1] FY 2003 Annual Performance Report, Office of Community Planning and Development, U.S. Department of Housing and Urban Development.

as the development and improvements of public facilities, street and sidewalk improvements, water and sewer improvements, senior centers and child care facilities, and the development of parks and recreational facilities.

- In FY 2003 CDBG funds in the amount of $513 million were spent on public services, such as general public services, services for senior and youth projects, health services, operating costs for homeless/AIDS programs, transportation services, employment training, services for abused and neglected children, services for the disabled, and fair housing activities.

- In FY 2003 CDBG funds in the amount of $237 million was spent on economic development activities such as direct financial assistance to businesses, commercial and industrial improvements, and technical assistance.

Even though the program has performed well, and grantees have markedly improved their spend-out rates, the annual formula allocation for CDBG has remained relatively static over the last decade, even decreasing slightly in the past two years, both in FY 2003 ($2 million decrease) and in FY 2004 ($9 million decrease). The program has never been adjusted for inflation, since its enactment in 1974. The 2000 Census added 71 new entitlement communities to the program, all of which will begin to receive allocations in FY 2004. With the existing cuts to the program, continued set-asides , inflation, and more entitlement communities receiving funds, the formula allocation is decreasing nationwide for cities and counties that administer the program. In the last two years, an across-the-board reduction in Federal programs has reduced the program even further. We are seeking at least $5.0 billion in formula funding for CDBG in FY 2005. This represents an increase of $644 million over the amount recommended by Congress for FY 2004. We also support a cap of 10% of the total CDBG allocation for set-asides, including congressional earmarks, within the program in FY 2005.

Set-Asides Continue to be a Problem; We Support a Cap of 10% on Set-Asides

The President's FY 2005 budget requests $4.618 billion for the CDBG program. This is a decrease of 6.2% from last year's funding level of $4.921 billion. The President's budget does keep the formula allocation for the program at $4.331 billion, the same level as last year. However, it provides $287 million for set-asides within the program, and zeroes out the Economic Development Initiative earmarks, which Congress added back as a set-aside within CDBG in the amount of $278 million last year. The President's budget also proposed elimination of the EDI earmarks within CDBG in FY03, but Congress added $259 million in EDI earmarks to the program, thereby reducing the formula allocation. In FY 1998, Congress began carving out EDI set-asides from the overall CDBG funding. The following table charts the growth in the EDI set-asides since they were first added to the program in 1998:

EDI Set-Asides in the CDBG Program

FY 1998	$138 million
FY 1999	$225 million
FY 2000	$275 million
FY 2001	$292 million
FY 2002	$294.2 million
FY 2003	$261 million
FY 2004	$278 million

These numbers don't reflect across-the-board cuts that may have been imposed in any particular fiscal year.

The National Community Development Association (NCDA) would like to see all set-asides within the program capped at 10% of the program's funding level, as long as the formula allocation is not reduced from the previous year's funding level. For example, if Congress provides $5.0 billion for the CDBG program in FY 2005, no more than $500 million can be used for set-asides, thereby leaving $4.5 billion in formula funds. However, since the formula allocation for the program was funded at $4.331 billion in FY 2004 and if Congress only approves $4.618 billion for the program in FY 2005, then only $287 million should be made available for *all* set-asides within the program, to ensure that the $4.331 billion formula allocation remains the same.

New Entitlement Communities Diminish the Formula Funding

In FY 2004, 71 new entitlement communities became eligible to receive CDBG funding, while the amount of formula funds available for distribution to eligible grantees actually decreased by $9 million, from $4.340 billion in FY 2003 to $4.331 billion in FY 2004. In FY 2005, another 66 new entitlement communities will become eligible to receive CDBG funds, even though the President's budget does not recommend an increase for the formula allocation and the funding level is still down by $9 million from FY 2003. Furthermore, the program *has never* been increased for inflation, since its enactment in 1974. Moreover, with the increased number of new entitlement communities coming into the program every year, it begs the question, *"Shouldn't local entitlements receive a larger share of the funding?"* Currently, local entitlement communities receive 70% of the funds, while States receive 30% of the overall funding. The new local entitlement communities coming into the program were once assisted by the State share of the funds, but because they have achieved entitlement status, they now receive funds from the local share. So, the States are having to use less of their money and the local governments are having to share their funds with 71 new communities this year and another 66 new communities next year. We ask Congress to take a serious look at changing the ratio of funds provided to local entitlements from 70% of the formula allocation to at least 75% of the formula allocation, leaving States with 25% of the formula funding. Another possible remedy may be to establish a minimum allocation threshold for new entitlement communities coming into the program. We are working with our members to come up with some recommendations to provide to Congress on this issue.

President's FY 2005 Budget Zeroes Out Funding for Section 108 and Brownfields

We are seeking continued funding for the Section 108 loan guarantee program. The Administration's FY 2005 zeroes out funding for this program. We are seeking at least $7.325 million in credit subsidies/administrative costs, the same level approved by Congress in FY 2004, which will support a commitment level of $275 million for loan guarantees. The Section 108 program provides communities with a source of financing for economic development, housing rehabilitation, public facilities, and large-scale physical development projects. By pledging a portion of their future allocations as collateral, CDBG grantees obtain federally guaranteed loans that are large enough to pursue economic revitalization projects that can transform and renew entire neighborhoods. Such public investment is often needed to inspire private economic development, providing the initial resources or simply the confidence that private firms and individuals may need to invest in distressed areas. Since 1978, over $6.5 billion in Section 108 lending has helped to finance approximately 1,500 total deals and stimulated over $19.5 billion in private sector investment. These results have occurred at a cost of only around $150 million to the federal government. The only actual budget outlays associated with the program are credit subsidy and administrative expenses, which represent just 2.3% of the total amount of loan guarantees authorized. There has *never* been a call on this federal guarantee. In FY 2003 alone, the program created or retained 11,700 jobs. For each dollar of Section 108 funding an additional $1.54 in private funding is leveraged. The survival rate of businesses assisted through CDBG and Section 108 is good; with 80% of the businesses still in operation after 3 years.

Along these same lines, we are seeking $50 million for the Brownfields Economic Development Initiative (BEDI), which has been targeted for elimination in FY 2005. We thank Congress for providing $25 million for the program in FY 2004. We support de-coupling the BEDI program from the Section 108 loan guarantee program so that communities can compete for BEDI funds without having to first secure a Section 108 loan guarantee. It is vitally important that HUD stay in the brownfields redevelopment business. The Environmental Protection Agency's brownfields program is an important new source of funds (especially for States) for site assessment and remediation, but the EPA's brownfields programs are neither designed nor authorized to aid local governments in the economic redevelopment of brownfields.

HOME Investment Partnerships (HOME) Program

HOME is the largest Federal block grant to State and local governments designed to create affordable housing for low-income households. HOME provides formula grants to States and localities that communities use to fund a wide range of activities to build, buy, and/or rehabilitate affordable housing for rent or homeownership or provide direct rental assistance to low-income people. Program funds are allocated to participating jurisdictions on the basis of a formula that considers the relative inadequacy of each jurisdictioin's housing supply, its incidence of poverty, its fiscal distress, and other factors.

Since 1992, the HOME program has allocated $17.7 billion in funds State and local participating jurisdictions. The program leverages $3.01 in private and other funding for every one dollar of HOME funds.

The following are some impressive HOME statistics[2]

- To date, the HOME program has committed funds to 781,790 units of housing.
- The program is deeply targeted, with a majority of the funds distributed to projects that assist households at or below 50% of area median income.
- Since the beginning of the program, 87.2% of the funds provided for rental housing, including tenant-based rental assistance, has been targeted to families at or below 50% of area median income, while 68.8% of the funds available for owner-occupied rehabilitation has been made available to homeowners at or below 50% of area median income.
- Homebuyer assistance has been more widely targeted, with 52.5% of the funds provided to families at or below 60% of area median income, and the remaining 47.5% provided to families at 61-80% of area median income.

In order to expand efforts to meet the enormous need for affordable housing in this country, more resources must be appropriated for programs such as HOME. Like CDBG, funding for the HOME program has increased very little since it first began in 1992. The amount allocated under the program in 1992 was $1.460 billion. The amount appropriated for the program in FY 2004 was $2.017 billion, indicating very little increase since the program was created twelve years ago. Since its establishment, the HOME program has lost five percent of its value when adjusted for *general* inflation. The loss of

[2] February 2004 Monthly Production Report, HOME Program, Office of Affordable Housing Assistance Programs, U.S. Department of Housing and Urban Development.

value is greater if the funding is adjusted for inflation in *housing costs.*[3]

We are seeking $2.25 billion in formula funding for the HOME program in FY 2005. We are grateful that Congress has increased the funding for the HOME Investment Partnerships (HOME) Program in the past few years. Funding for the program increased from $1.987 billion in FY 2003 to $2.005 billion in FY 2004. The President's budget recommends a $79 million increase for the program in FY 2005, from $2.005 billion in FY 2004 to $2.084 billion in FY 2005. We hope that this increase will remain intact and ask that Congress does not add the Housing Counseling Program as a set-aside under the HOME program this year. The President's budget recommends that the Housing Counseling Program be funded separately and we support this recommendation. We ask that if the set-aside is added back under the program that Congress provide at least $2.25 billion in formula funding for the program in FY 2005.

Increase the Administrative Fee of the HOME Program to 20%

Housing related projects are paperwork and time intensive, often requiring many staff to administer and monitor the projects. Rental projects assisted with HOME funds bear a greater administrative burden because participating jurisdictions must monitor the projects during the required affordability period, which can range from 5 to 20 years. Even after the required HUD affordability period has expired, the monitoring of these projects continue. Up to 10 percent of a participating jurisdiction's annual allocation may be used for program planning and administration. This percentage has proven to be inadequate compared to the activities required of each participating jurisdiction in administering the program. The HOME program provides funding for four activities: rental housing, homebuyer assistance, homeowner-occupied rehabilitation, and tenant-based rental assistance. Among these four activities, a participating jurisdiction may fund a whole host of activities which involves a great amount of staff time. The following provides you with a list of administrative activities related to the HOME program:

- ***Compliance Monitoring*** involves two layers of administrative work on the part of the participating jurisdiction: (1) monitoring their own programs and projects to ensure adherence to the HOME regulations; and (2) monitoring sub-recipients to ensure adherence to the HOME regulations. As stated previously, participating jurisdictions must monitor all rental projects assisted with HOME funds for a certain affordability period that can continue for as long as 20 years. This includes *annual* on-site inspections for rental projects with 26 or more units.

- ***CHDOs*** **–** At least 15% of a participating jurisdiction's HOME funds must be allocated to CHDOs. Some jurisdictions do not have organizations that qualify as a CHDO, so they have to spend time and money recruiting organizations and building their capacity to qualify as a CHDO and providing technical assistance on an ongoing basis.

- ***Ongoing Administration*****:** outreach and marketing, participant screening, loan origination and processing, underwriting of loans, working with private lenders, refinancing existing debt, providing

[3] Answers to questions raised during Assistant HUD Secretary Liu's Housing Voucher Block Grant Testimony, Housing and Community Opportunity Subcommittee of the House Financial Services Committee, May 22, 2003.

rehabilitation estimates, bidding of work, housing counseling, etc.

- ***Other Federal Requirements*:** environmental review, Davis-Bacon, Section 3, lead-based paint, and relocation – to name a few – add a lot of administrative burden to the HOME program.

- ***Combining HOME funds with other resources***, such as the Low-Income Housing Tax Credit can add to the administrative burden of having to meet two separate, but stringent program rules.

Many jurisdictions are having to use other funding sources to pay for administrative expenses for their HOME projects. Moreover, HOME participating jurisdictions have been given administration of the new American Dream Downpayment Program with no administrative funds attached to the program. This is a whole new program that brings with it additional responsibilities. This is another reason for increasing the HOME administrative fee to 20% – or providing a separate fee of at least 10 percent to administer this program. We urge Congress to increase the formula funding of the HOME program to $2.25 billion in FY 2005 and increase the administrative fee to 20%.

Conclusion:

Our communities are suffering because of the lack of funds in programs like CDBG and HOME that are needed to stabilize and sustain neighborhoods. These two outstanding programs are the pillars to community development and affordable housing in our communities and must be properly funded in FY 2005. Besides inadequate funding, a number of other factors continue to affect funding for the programs, such as the inclusion of the EDI set-asides in the CDBG program and their escalating cost, the number of new communities which have achieved entitlement status in the CDBG program, and the lack of adjustment to the two programs for inflation. Because of these factors, we are seeking $5.0 billion in *formula funding* for CDBG in FY 2005 (our motto is “Five in 05") and $2.25 billion in *formula funding* for the HOME program in FY 2005. To alleviate the erosion of the existing formula funds, we ask Congress to establish a cap of 10% on all set-asides within the CDBG program and increase the ratio of funds provided to entitlement communities from 70% to 75%.

The HOME program suffers from an inadequate administrative fee which leaves grantees in the position of having to take funds from other sources to pay for staff to administer the program. It is an extremely administratively burdensome program to operate and, now, HOME participating jurisdictions have been handed the administration of the American Dream Downpayment Program with *no administrative funds for the program.* We implore Congress to increase the administrative fee for the HOME program from 10% to 20% in FY 2005 to ease the administrative costs of the HOME program and to compensate for the lack of administrative funds in the American Dream Downpayment Program.

We ask for your help this year in these areas in FY 2005.