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House Subcommittee on Transportation-Treasury-HUD Completes the Mark-Up of its FY 2007 Spending Bill; CDBG Increased

Although the FY 2007 Budget Resolution has not been approved by Congress, the House Appropriations Committee made its 302(b) allocations to its subcommittees earlier this month. Using \$873 billion (the figure proposed by President Bush in his FY 2007 Budget) as the cap, the Committee divided this amount among its various subcommittees. With the 302(b) allocations in place, the House moved forward in marking up its various spending bills. The House Subcommittee on Transportation-Treasury-HUD marked-up its spending bill on May 25. Despite a very tight budget, the Subcommittee agreed to provide \$4.2 billion to the Community Development Fund, with \$3.9 billion going to CDBG formula grants. This is an increase of \$190 million from last year.

The bill funds the Department of Housing and Urban Development at \$35.3 billion, \$10.2 billion below last year's level and \$1.2 billion above the President's request. Besides providing an increase to CDBG, the measure provides \$1.9 billion for the HOME program, an increase of \$159 million above last year's level. The bill funds the Section 202 program at \$735 million and provides \$237 million for the Section 811 program. Like CDBG, both of these programs

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were placed on the Administration's chopping block. The Subcommittee funded Section 8 tenant-based vouchers at \$15.8 billion, \$358 million above last year's level, while Section 8 project-based assistance is funded at \$5.5 billion, \$438 million above last year's level. The bill has not been officially released yet.

The bill folds Section 108, BEDI, and HUD's Rural Housing and Economic Development Program into CDBG. Essentially, it eliminates these programs, though the House prefers to call it "consolidation." No additional funds are made available for these programs. We will continue to advocate to Congress to keep these programs separate and fund them at their FY 2004 level.

The House remains on track to complete all of its 11 spending bills by the July 4 recess. While the House remains on schedule, the Senate has not yet made its 302(b) allocations and its appropriation subcommittees cannot move forward on any spending bills until they are given the allocations. Since the budget resolution has not been approved, the Senate will try to use the FY 2006 emergency supplemental spending measure (HR 4939) to approve a \$873 discretionary budget cap. With the cap in place, Senate appropriators can make their 302(b) allocations and begin moving their spending bills. They hope to do this when they return from their Memorial Day recess the week of June 5. We have heard the HUD bill may not be marked-up in the Senate until July.

Supplemental Spending Bill

Conferees have yet to reach agreement on the FY 2006 emergency supplemental spending measure (HR 4939) that would provide emergency war funding for Iraq and Afghanistan and disaster recovery funds to the gulf coast. The most contentious issue faced by conferees is

the \$17 billion difference in the House and Senate versions. The House approved \$94.5 billion, while the Senate increased the measure substantially to fund various health and human service programs. The President has vowed to veto the measure if it exceeds \$94.5 billion. Conferees will continue to work on the bill when they return from their Memorial Day recess. The measure contains \$5.2 billion in CDBG funding for the gulf coast area.

NCDA Continues Efforts to Restore Funding to CDBG

NCDA continues to meet with key congressional members in an effort to restore funding for CDBG. In early May, NCDA and the U.S. Conference of Mayors met with staff from the office of Senator Santorum (R-PA) and Senator Coleman (R-MN) to follow-up on their budget amendment to support CDBG. Both senators sponsored an amendment during debate on the Senate budget resolution to increase CDBG to \$4.3 billion. The amendment was approved on a bipartisan vote of 60-38. During his introduction of the amendment, Senator Santorum told the Senate, "What this amendment does is set priorities. Congress and the Senate believe [the block grant program] needs more robust funding. I think we could spend less money other places and put the money here."

In the meeting, we asked their staff to continue to fight for increased funding for the program during the appropriations process. All agreed a "Dear Colleague" letter from Santorum and Coleman to their Senate counterparts would be a way to keep focus on CDBG and gain support for increased funding for the program. In addition to Santorum and Coleman, Senators Stabenow (D-MI) and Menendez (D-NJ) agreed to co-sponsor the letter in a bipartisan

effort to show support for the program. In all 59 senators endorsed the letter, which urged the Senate appropriations leadership to fund CDBG at \$4.3 billion in FY 2007. The mix of senators supporting the letter included conservatives, moderates, and liberal members of the Senate, so it certainly reflected a wide swath of support for the program. The letter was sent to the Senate appropriations leadership on May 19. The Senate Subcommittee on Transportation-Treasury-HUD is expected to mark-up its FY 2007 spending bill in July, so this letter will help increase support for the program. In the meantime, please continue to contact your Senators to urge funding of at least \$4.3 billion for the program. We need to keep the pressure on them. You can obtain a copy of the letter at NCDA's website at <http://www.ncdaonline.org> under the section "Efforts to Increase Funding for CDBG in 2006."

In addition to this letter, NCDA and other members of the CDBG Coalition sent a letter to the Senate appropriations leadership on May 17 seeking \$4.5 billion in CDBG funding. The Coalition agreed earlier this year to advocate for this level of funding in FY 2007. The letter is also available on our website.

NCDA has held meetings with various other members of Congress to gain support for the program.

Legislation Introduced in Congress to Reform Disaster Housing Assistance

Bills have been introduced in both the House and Senate to transform the way in which housing assistance is provided to disaster victims. After Hurricane Katrina left thousands of people in the gulf coast region homeless, combined with FEMA's failed attempts to adequately provide housing assistance to the

region, Congress decided a change was in order. Senator David Vitter (R-LA) introduced S. 2771 – The Disaster Housing Flexibility Act of 2006 – on May 9, while Rep. Richard Baker (R-LA) and Rep. Barney Frank (D-MA) introduced a companion measure in the House, H.R. 5393 – The Natural Disaster Housing Reform Act of 2006 – on May 16. H.R. 5393 would shift housing responsibilities from FEMA to HUD for long-term housing in major disaster areas. An area would be deemed to have long-term housing needs if residents are displaced for longer than 30 days. HUD could provide temporary, transitional and permanent housing and assist in the repair and rebuilding of housing units and other forms of assistance deemed necessary.

H.R. 5393 would also amend Section 408 of the Stafford Act to allow FEMA funds to be used for security deposits, utility costs, and for the repair of damaged rental units. The bill would also amend the Act to authorize FEMA to purchase manufactured housing units and allow these units to be placed in flood-plain areas, if necessary. The Senate measure contains similar language as that of H.R. 5393. Both measures have been referred to their respective authorizing committees. With enough momentum, a comprehensive disaster housing assistance measure may be enacted this session.

GAO Meets with Interest Groups on CDBG Formula

The U.S. General Accountability Office (GAO) met with NCDA and other national interest groups on May 17 to discuss the development of a report on the CDBG formula. The report was requested by Rep. Mike Turner (R-OH) who asked GAO to conduct the report during a hearing on CDBG last year. According to GAO, the purpose of the report is to conduct a technical review of the existing CDBG formula,

focusing primarily on two areas: (1) need and (2) capacity (the ability of a grantee to address their own community development needs with their own resources).

Once a draft report has been developed, the GAO will call upon the National Academy of Sciences to review and comment on the draft. The report is expected to be completed in the next year or so.

Like HUD's legislation, the study will look at the following aspects of the formula:

- Ÿ Develop more refined indices of need
- Ÿ Develop formula options based on need and capacity
- Ÿ Focus on poverty as a criterion
- Ÿ Evaluate the 70/30 share

The report will not make recommendations on changes to the formula. Instead, it will come up with a set of formula options for Congress to consider. The first step in the process will be to solicit formula indicators from interested parties as well as take into consideration the indicators developed by HUD.

In terms of statistical analysis, GAO staff will focus on the correlation between the indicators and how well they measure need. They will also examine the indicators proposed by HUD in its 2005 formula study to see if they truly correlate to need and will also examine the existing Formula A and Formula B indicators. Most importantly, they will see if these indicators can be properly measured. If they can't, then GAO won't consider them. GAO will then use factor analysis to collapse the indicators into one index in order to get an indices of need. Finally, they will provide various options on which to weight the factors. We will keep you posted on the progress of this report.

HUD NEWS

HUD Releases Legislation to Change CDBG Formula

After weeks of speculation, HUD finally released legislation to change the CDBG formula and implement its performance measurement system. NCDA and other national interest groups were invited to a briefing on the legislation just an hour or so before its unveiling to the press and Congress. Needless to say, the interest groups did not have any input in the development of the bill.

HUD's CDBG Reform Act of 2006 would create a single formula for distributing CDBG grants, thereby, eliminating the current Formula A and Formula B. The proposed legislation would also eliminate the 70/30 split, allowing all grantees – States, cities, and counties – to receive funds from the total allocation based on a single formula. HUD's legislation creates a new formula comprised of the average ratio of the following variables:

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- Ÿ the number of persons living in poverty, excluding unrelated individuals enrolled in college, in that formula grantee and the number of persons living in poverty, excluding unrelated individuals enrolled in college, in all formula grantees (weighted 50%);
- Ÿ the number of female-headed households with children under 18 in that formula grantee and the number of female-headed households with children under 18 in all formula grantees (weighted 10%);
- Ÿ the extent of housing overcrowding in that formula grantee and the extent of housing overcrowding in all formula grantees (weighted 10%); and
- Ÿ the number of housing units 50 years or older and occupied by a household living in poverty in that formula grantee and the number of housing units 50 years or older and occupied by a household living in poverty in all formula grantees (weight 30%)

The average of the ratios would then be adjusted by the ratio of per capita income of the MSA to the per capita income of the formula grantee within the MSA. This adjustment provision reallocates funds to the neediest communities, so it is designed to account for the relative fiscal capacity of the jurisdiction. This provision puts in place the Administration's plan to reallocate funds from wealthier CDBG grantees to what they consider to be more needy areas.

The legislation would establish a minimum allocation threshold based on 0.014 percent of the overall CDBG formula allocation. Based on the FY 2006 allocation, this figure amounts to approximately \$518,000. If a grantee's

allocation falls below this level, they will not receive a direct allocation. Instead, their allocation will be reallocated to the State or to the Urban County in which they're located. These grantees can apply to the Urban County or State for funding, based on their application process for CDBG funding.

According to HUD, approximately 312 grantees will lose their CDBG grants due to this minimum threshold allocation. The minimum threshold is fluid and will change annually based on the overall formula allocation. The threshold is capped at \$700,000 in any one year; so, according to HUD, if the program funding is robust enough to provide an allocation above this level to all grantees, then the grantees slated to lose funding will receive a direct allocation.

HUD provided NCDA with a copy of their estimates for grantee allocations under their legislative proposal. Again, they based their estimates on the FY 2006 CDBG formula allocation. Please e-mail Vicki Watson at vicki@ncdaonline.org if you would like the estimated allocation for your jurisdiction. They are in the process of preparing an estimate of allocations based on the President's FY 2007 request, which sharply reduces the program funding. We can expect a larger number of grantees to lose their funding under this scenario.

HUD released the legislation to Congress on May 25. No one has introduced the legislation. Clearly, we have a very short legislative calendar, so we will likely not see any movement on the bill this year. Rep. Mike Turner (R-OH), Chairman of the House Subcommittee on Federalism and the Census, will hold a hearing on the legislation on June 27. His staff told NCDA that the hearing will focus on critiquing the legislation and in no means will it be an endorsement of the bill.

Please remember that the rhetoric to change the formula is being generated by the Office of Management and Budget (OMB) via HUD. There is no mention of changing the formula in Congress. At the end of the day, Congress holds the ultimate authority to change the program and they have not acted to do so. Politically, the legislation is a non-starter because so many communities would lose funding.

In any event, HUD plans to hold briefings for House and Senate staff on the legislation in the next week or so.

ATTACHMENTS:

*Access the files below at NCDAonline
(<http://ncdaonline.org>).*

Memo on Proposed By-Laws Changes
Memo on Recommended Slate of Officers