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Statement for the Record

The CDBG Reform Act of 2006

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**U.S. House of Representatives
Committee on Government Reform
Subcommittee on Federalism and the Census**

June 27, 2005

Mr. Chairman and Committee Members:

I appreciate the opportunity to submit for the record this statement about major provisions of the CDBG Reform Act of 2006. This statement does not reflect the views or position of the Academy as an institution. Instead, it reflects in large part the work and experiences of an Academy Panel convened to develop effective performance measures for the U.S. Department of Housing and Urban Development's Community Development Block Grant (CDBG) program. The Panel released two reports connected to this work, "Developing Performance Measures for the Community Development Block Grant Program" and "Integrating Performance Measures into IDIS." I was pleased to serve as a member of this Panel.

In this testimony, I would like to offer an assessment of four major provisions of the Act:

- revised Community Development Block Grant (CDBG) formula
- Community Planning and Development (CPD) performance measurement system
- challenge grants for entitlement communities
- consolidation of Section 108 loan guarantee program, Brownfields Economic Development Initiative (BEDI) and Rural Housing and Economic Development Program (RHEDP) into CDBG

The proposed reform is intended to improve targeting of funds to places that cannot meet their community development needs without federal assistance. The second and third proposed reforms work together to strengthen the program’s focus and provide incentives for communities and states to invest funds strategically to expand opportunity for their low-income residents. The fourth proposed reform builds on the CDBG program’s inherent flexibility by consolidating narrow-purpose programs with the more flexible block grant.

1. Revised CDBG Formula

From Revenue Sharing to Anti-Poverty Program. In reengineering the CDBG grant award formula, the Act replaces the existing “dual formula” for distribution of formula grant funding to entitlement communities and states with a new formula intended to direct most funding to places that cannot meet their own community development needs. In general, at a community level these are places having a higher proportion of low-income population and lacking the local economic base to adequately invest in improved opportunity for this population. The proposed new formula would substantially redirect CDBG funding to those communities. Our review of the current CDBG program formula finds that it has obsolete elements and, in too many instances, directs CDBG funds to jurisdictions that can assume these costs within their own resources, thereby reducing the proportion of funding invested in impoverished places and people. By redirecting funding to those places and people most in need of assistance, the proposed formula reform would necessarily reduce funding to communities with adequate fiscal capacity.

This would be a major improvement over the current CDBG formula, because logic and economics suggest that more affluent communities usually use CDBG funds to replace local resources. In contrast, poorer communities are much more likely to use CDBG funding to increase spending on the needs of their poorer residents. Various formulae options other than this one might improve the allocation of CDBG funding. However, we find that this proposed formula has a solid statistical basis and is relatively straightforward and understandable in its components. Similarly, in establishing a minimum funding threshold for participation in CDBG, the Act concentrates more funding in fewer places with greater needs, thereby increasing the probability that resources will be used to improve the lives of poor people.

Improving Focus and Performance

If the only purpose of CDBG were to increase spending on the needs of low-income communities, then a formula change of this sort might be a sufficient reform. However, CDBG is not just a “revenue sharing” program. Congress intended for these funds to help achieve important national goals. Given the competition for scarce resources and many competing claims on them, CDBG can be and has been fairly criticized for its lack of clear focus, lack of evidence that is contributing to the development of low-income communities, and the weakness of incentives for recipient jurisdictions to use funds strategically and most effectively to achieve the program’s goals. The second and third reforms proposed by the Administration are intended to address these program weaknesses.

2. New CPD Performance Measurement System

New CPD Performance Measurement System. The Act would adopt and use a new performance measurement system for CDBG and other HUD community development programs, the design and implementation of which have been in progress for some time. The new system was developed through the joint efforts of CDBG stakeholder groups and associations, HUD program staff, and staff at the U.S. Office of Management and Budget. In previous testimony before this Committee on May 24, 2005, I applauded all parties for their excellent work on the system and encouraged the Committee to support the work whenever possible. I continue to support this exemplary effort, which would now be codified in the proposed Act. The Act would authorize HUD to use the new performance measures as a framework for assessing progress and holding communities accountable for the results they achieve. This would be focused on achieving progress in improving the lives and opportunities of low-income residents of the recipient communities.

Linking Performance, Planning and Mission. Although the new performance measurement system is a major improvement and is exemplary in the federal system, the proposed Act will require additional work by the Congress and the Administration on two tasks: (1) to clarify the expected results of this spending; and (2) to develop a reliable set of universal measures for communities and states, the Administration, Congress and public to use in assessing their progress as they invest CDBG and other programs and

resources in low-income communities. These additional steps will be needed to change CDBG from a mere revenue sharing program to one that uses its funds strategically to cause communities to develop. This begs for a renewed public debate about the purposes of the federal government's community development programs. Congress could statutorily provide CDBG with a new or clarified mission, vision and purpose in which the new performance measurement system should be imbedded; alternatively, it could provide authority for the executive branch to specify long-term performance goals for CDBG and other programs consistent with the general purposes for which those programs are now authorized. If this clarity of purpose is not accomplished by one means or the other, neither HUD nor states or communities will have clear direction about how to use funds most effectively. The new performance measurement system may not be effective unless it is synchronized and focused by clear expectations about intended goals.

3. Challenge Grants for Entitlement Communities

HUD currently awards CDBG funding by formula without regard to performance, aside from minor compliance requirements under the Housing and Community Development Act of 1974 and subsequent CPD regulations. Consequently, entitlement communities and states need not concentrate their use of grants on targeted neighborhoods or use them strategically to leverage other investment that would lead to permanent gains in economic opportunity or quality of life for low-income residents. Therefore, CDBG resources often have been spread thinly and used to ameliorate rather than solve problems caused by

concentrated poverty. This design weakness is a major reason why the program cannot demonstrate a contribution to lasting improvement in the capacity of low-income communities to address their residents' needs for economic opportunity and improved surroundings. The proposed Act would offer entitlement communities additional funding if they invest in Neighborhood Revitalization Strategy Areas (NRSAs) that meet certain selection criteria and invest CDBG and other funding in the development of those areas. In so doing, CDBG brings to bear not only its own funding, but also other public and private funding in a targeted approach. I support this provision as a good first step to reward improved performance. However, over time, it is important that more direct measures of progress in improving the opportunities and lives of low-income residents be developed and applied when awarding these bonus funds. These and other rewards for using funds effectively to achieve specific outcomes consistent with clarified national goals would over time lead to more effective use of CDBG to bring economic opportunity to the poorest communities.

Consolidation

The Administration has proposed consolidating small, narrowly focused programs into CDBG. The intent of this reform is to provide communities with greater flexibility in the choice of how funds are applied, thereby building on the inherent flexibility of CDBG.

4. Consolidating Section 108, Brownfields and RHEDP

In addition to CDBG, CPD manages three inter-related programs—Section 108, Brownfields and RHEDP. Much of what might be done under these programs could be done under the CDBG umbrella, eliminating the need to separately administer and coordinate community development programs. There are no advantages to maintaining separate programs when one would suffice.

I support this provision of the Act. The proposal to consolidate community development programs raises a fundamental issue with regard to the most effective design of federal grant programs that was first addressed in 1974 when CDBG was created by Congress to provide consolidated, flexible support for local community development by combining narrower “categorical” programs. This flexibility has been widely regarded as a strength of the block grant approach. Flexibility *is* a strength – but only if flexibility with regard to activities and strategic approaches is combined with agreement on the national goals to be achieved, decisions on how progress is to be measured, and the establishment of an incentive system that rewards progress measured in terms of that purpose. Congress should consider the Administration’s CDBG reform proposals in the broader context of how to improve the performance of all federal programs that contribute to the development of low-income communities.

Thank you for this opportunity to share my views on the CDBG Reform Act of 2006.

The Academy looks forward to assisting the Committee in the future in any way we can.

Academy Documents on CDBG

Testimony, Thomas M. Downs, Developing Performance Measures for the CDBG Program, presented to U.S. House of Representatives, Committee on Government Reform, Subcommittee on Federalism and the Census, May 24, 2005.
www.napawash.org/resources/testimony/CDBGtestimony5-24-05.pdf

Statement for the Record, Community Development Block Grant Funding Allocation Formula, presented to U.S. House of Representatives, Committee on Government Reform, Subcommittee on Federalism and the Census, April 26, 2005.
www.napawash.org/resources/testimony/4-26-05CommunityDevelopment.pdf

Staff Report, Integrating CDBG Performance Measures into IDIS, National Academy of Public Administration, February 2005.
<http://71.4.192.38/NAPA/NAPAPubs.nsf/9172a14f9dd0c36685256967006510cd/c5c7bf5c8eab9f0e85256fc70070bfd9?OpenDocument>

Panel Report, Developing Performance Measures for the CDBG Program, National Academy of Public Administration, February 2005.
<http://71.4.192.38/NAPA/NAPAPubs.nsf/9172a14f9dd0c36685256967006510cd/c5c7bf5c8eab9f0e85256fc70070bfd9?OpenDocument>