



Community Development Block Grants: Funding Issues in the 112th Congress and Recent Funding History

Eugene Boyd

Analyst in Federalism and Economic Development Policy

June 28, 2012

Congressional Research Service

7-5700

www.crs.gov

R41754

CRS Report for Congress

Prepared for Members and Committees of Congress

Summary

The FY2013 budget debate will take place within the context of growing concerns about the need to address federal budget deficits, the national debt, and a sluggish economic recovery following the longest and deepest recession since the Great Depression. The 112th Congress will continue to consider and debate a number of approaches to spur economic activity and job growth, including federal public works and community and economic development programs.

On February 13, 2012, the President released the Administration's proposed federal budget for FY2013. The Administration's budget proposal includes \$3.143 billion for activities funded under the Department of Housing and Urban Development's (HUD's) Community Development Fund (CDF) account. This includes \$2.948 billion for Community Development Block Grant (CDBG) formula grants awarded to states, entitlement communities, and insular areas; and \$60 million for Indian tribes. The Administration is also requesting \$100 million for its Sustainable Communities Initiative (SCI), which did not receive an appropriation for FY2012, and \$35 million for capacity-building grants awarded to three national intermediaries to provide technical assistance to local community development organizations. The President's budget request included \$500 million in CDBG Section 108 loan guarantee authority. On April 19, 2012, the Senate Appropriations Committee reported S. 2322, a bill recommending appropriations for the Departments of Transportation and Housing and Urban Development and Related Agencies for FY2013 (THUD). The bill recommends \$3.210 billion for activities funded under the CDF account, including \$3.100 billion for CDBG formula grants. The House Appropriations Committee reported the THUD Appropriations act on June 20, 2012. The bill recommends \$3.404 billion for activities funded under the CDF account, including \$3.344 billion for CDBG formula grants.

On April 15, 2011, the President signed into law P.L. 112-10, the Department of Defense and Full-Year Continuing Appropriations Act for FY2011. The measure, which passed the House and Senate on April 14, 2011, after months of intense budget negotiations, appropriated \$3.508 billion for activities in the CDF account, including \$3.343 billion for CDBG formula funds. P.L. 112-10 included two provisions that reduced the account's overall appropriations: (1) a 0.2% mandatory across-the-board rescission of all appropriated funds; and (2) a 1% discretionary transfer from designated HUD funds, including CDF activities, to HUD's Transformation Initiative (TI). The mandatory across-the-board rescission reduced the CDF account by \$7 million to \$3.501 billion, while the 1% discretionary transfer moved up to \$35 million from the CDF account to the Department's Transformation Initiative. The act also appropriated \$98 million for the SCI.

Having completed action on the FY2011 appropriations, Congress began consideration of the Obama Administration's FY2012 budget proposals during the spring of 2011. The President's proposed FY2012 budget recommended \$3.804 billion for the CDF account. Unable to enact final FY2012 appropriations before the end of FY2011, Congress enacted a series of continuing resolutions to maintain funding for government activities. On November 1, 2011, the Senate approved S.Amdt. 738 to H.R. 2112, a bill consolidating recommended appropriations of three appropriations subcommittees: Transportation, Housing, and Urban Development; Agriculture; and Commerce, Justice, and Science. A conference report accompanying this "Minibus" was filed on November 14, 2011 (H.Rept. 112-284). The bill was passed by the House and Senate on November 17, 2011, and signed by the President, as P.L. 112-55, on November 18, 2011. P.L. 112-55 included an appropriation of \$3.408 billion for CDF activities, including \$400 million in CDBG disaster relief supplemental funding and \$2.948 billion for CDBG formula grants to states and local governments. This report will be updated as events warrant.

Contents

Recent Developments	1
FY2013 Appropriations	1
The Administration’s Budget Request.....	1
Community Development Block Grants—Formula Grants.....	3
Sustainable Communities Initiatives (SCI)	3
Section 108 Loan Guarantees.....	4
Senate Appropriations Committee Bill (S. 2322).....	5
House Bill (H.R. 5972).....	5
FY2012 Appropriations, P.L. 112-55	6
The President’s FY2012 Budget Request.....	6
Community Development Block Grants—Formula Grants.....	7
Sustainable Communities Initiatives (SCI)	7
Section 108 Loan Guarantees.....	8
Congressional Actions.....	8
House Bill.....	8
Senate Bill	9
Conference Bill (Mini-Bus), P.L. 112-55	9
CDBG Disaster Supplemental Assistance.....	11
FY2011 Appropriations (P.L. 112-10 and H.R. 1).....	12
Passage of H.R. 1473, Full-Year Continuing Appropriations, P.L. 112-10.....	13
H.R. 1	14
Senate Appropriations Committee Amendment to H.R. 1, S.Amdt. 149	16
Impact and Implications of Reduced Funding.....	16
Distribution of CDBG Funds: FY2010 to FY2012	18
Impact of 2010 Census Data on CDBG Allocations.....	20
HUD Study of the Impact of New Data Sources	21
Recent Funding History	22
Formula Grants.....	24
Impact of Inflation on CDBG-Formula Allocations.....	26
CDBG-Linked Set-Asides and Earmarks	26
Earmarks Dominate Set-Aside Activities.....	28
Special Appropriations	29
Proposed Rescission of Neighborhood Stabilization Program Funds.....	30

Figures

Figure 1. CDF Appropriations: FY2000 to FY2011	23
Figure 2. CDBG Funding in Current and Constant Dollars: FY2000-FY2011	26
Figure 3. CDF Set Asides in Current and Constant Dollars: FY2000 to FY2011	27
Figure 4. CDF Earmarks and Set-Asides: FY2000 to FY2011.....	28

Tables

Table 1. CDBG and Related Appropriations: FY2012 Enacted and FY2013 Proposed	2
Table 2. CDBG and Related Appropriations: FY2010 and FY2011 Enacted and FY2012 Proposed and Enacted.....	11
Table 3. CDBG and Related Appropriations: FY2010 Actual and FY2011 Request, Recommended, and Full Year Continuing Appropriations	15
Table 4. Average CDBG Allocation and Percentage Change: 2010 to FY2012	17
Table 5. Actual Allocation of CDBG Formula Grants to States and Entitlement Communities for FY2010, FY2011, FY2012	18
Table 6. CDF Appropriations: FY2000 to FY2011.....	24
Table 7. Number of CDBG Grantees and Average Allocation: FY2000 to FY2011	25
Table A-1. CDF Set-Asides from FY2000 to FY2011.....	31

Appendixes

Appendix. CDF Set-Asides: FY2000 to FY2011	31
--	----

Contacts

Author Contact Information.....	33
Acknowledgments	33

Recent Developments

On April 19, 2012, the Senate Appropriations Committee reported S. 2322, a bill appropriating funds for the Departments of Transportation and Housing and Urban Development and Related Agencies for FY2013 (S.Rept. 112-157). The bill recommends \$3.210 billion for activities funded under the Community Development Fund account. The account includes funding for HUD's Community Development Block Grant Program, Section 108 loan guarantees, the Administration's Sustainable Communities Initiative, and Section 4 capacity-building activities. On February 13, 2012, the President released the Administration's federal budget request for FY2013. The Administration's budget proposal of \$1.3 trillion for discretionary spending for FY2013 includes \$3.143 billion for activities funded under the Department of Housing and Urban Development's Community Development Fund account.

FY2013 Appropriations

The Community Development Block Grant (CDBG) program, administered by the Department of Housing and Urban Development (HUD), is the federal government's largest and most widely available source of financial assistance supporting state and local government-directed neighborhood revitalization, housing rehabilitation, and economic development activities. These formula-based grants are allocated to approximately 1,176 entitlement communities (metropolitan cities with populations of 50,000, principle cities of metropolitan areas, and urban counties); the 50 states; Puerto Rico; and the insular areas of American Samoa, Guam, the Virgin Islands, and the Northern Mariana Islands. Grants are used to implement plans intended to address housing, community development and economic development needs, as determined by local officials.

The Administration's Budget Request

The Obama Administration's budget request for FY2013, released on February 13, 2012, includes \$3.143 billion for activities funded under the Department of Housing and Urban Development's Community Development Fund (CDF) account. The requested amount represents 8.9% of the \$35.347 billion in total discretionary budget authority requested by the agency for FY2013.

The Administration's FY2013 budget proposal would increase total funding for CDF account activities by 4.5% or \$135 million. This increase in funding would be achieved by reinstating funding for the Administration's regional planning initiative (SCI) and by transferring funding for Section 4 capacity building activities from another HUD account. Specifically, the Administration is requesting \$100 million in funding for its Sustainable Communities Initiative, which received no funding in FY2012, but had an appropriation of \$99 million in FY2011. In addition, the Administration's budget request would transfer funding for the Capacity Building for Community Development and Affordable Housing (Section 4) program, which was funded at \$35 million in FY2012, from the Self-Help Housing Assistance account to the CDF account.

Table I. CDBG and Related Appropriations: FY2012 Enacted and FY2013 Proposed
(in millions of dollars)

Program	FY2012 Enacted P.L. 112-55	FY2013		
		Admin. Request	House	Senate Cmte. Conference
CDF, Total^a	3,008.1	3,143.1	3,404.0	3,210.0
CDBG-formula	2,948.1	2,948.1	3,344.0	3,100.0
<i>Entitlement Communities</i>	2,058.8	2,058.8	2,335.9	2,165.1
<i>States</i>	882.3	882.3	1001.1	927.9
<i>CDBG Insular areas</i>	7.0	7.0	7.0	7.0
CDBG Indian Tribes	60.0	60.0	60.0	60.0
Section 107 (technical assistance) ^b	0.0	0.0	0.0	0.0
CDBG Subtotal	3,008.1	3,008.1	3,404.0	3,100.0
Rural Innovation Fund	0.0	0.0	0.0	0.0
University Community Fund ^c	0.0	0.0	0.0	0.0
Capacity Building Sec. 4 Grants	0.0 ^d	35.0 ^e	— ⁱ	— ⁱ
Sustainable Communities	0.0	100.0	0.0 ^l	50.0
<i>Regional Integration Planning Grants</i>	0.0	46.0	0.0	50.0 ⁱ
<i>Community Challenge Grants</i>	0.0	46.0	0.0	0.0
<i>HUD-DOT Integration Research</i>	0.0	8.0 ^f	0.0	0.0
Transfer to the Transformation Initiative	0.0 ^g	0.0 ^h	0.0	0.0
CDBG-related set-asides and earmarks	0.0	135.0	0.0	50.0
Disaster relief supplemental	400.0	0.0	0.0	0.0

Source: Prepared by CRS based on P.L. 112-55 and the Administration's FY2013 budget submission.

- Limits the percentage of funds under the account that may be used to cover planning, management, and administrative expenses to no more than 20% of any grant awarded under this account.
- Funds may be made available under the Department's Transformation Initiative account.
- Program funds could be made available under the Office of University Partnership (OUP) program or under the Department's Transformation Initiative.
- For FY2012, \$35 million was appropriated under a separate Self-Help Housing Assistance Program (SHOP) account.
- Funds are to be awarded to three national intermediaries: Local Initiative Support Corporation, Enterprise Foundation, and Habitat for Humanity with a least \$5 million in such assistance allocated rural capacity building activities.
- Includes \$3 million for the development of energy modeling tool and to provide technical support for energy efficiency and green building goals in HUD-assisted housing portfolio.
- P.L. 112-55 appropriated \$50 million for the Department's Transformation Initiative under a separate stand alone account.

- h. The Administration's budget requested that the Secretary be given the authority to transfer up to 0.5% or no more than \$120 million from selected accounts department-wide to the agency's Transformation Initiative. For the CDF account the Secretary would be allowed to transfer up to \$15.7 million (0.5%) of the proposal's total appropriation under the account to the Department's Transformation Initiative (TI). The Secretary would be granted the authority to use TI funds to carry out activities in four areas: research and evaluation; program demonstration; technical assistance; and information technology.
- i. Senate and House bills recommend appropriating \$35 million under a separate Self-Help and Assisted Homeownership Opportunity Program account.
- j. Senate committee bill recommends that at least \$12.5 million (25%) be set aside for activities in communities with population least than 500,000.
- k. Senate committee bill recommends appropriating \$43 million for Transformation Initiative activities under a separate stand alone account.
- l. House bill recommends \$2.360 million in the Administrative and Management account to cover specific activities related to the closeout and evaluation of previous SCI awards and the cataloging of best practices. No funds are appropriated to make new SCI awards.

Community Development Block Grants—Formula Grants

Under the Administration's FY2013 budget proposal funding for the CDBG formula grants would remain unchanged from the amounts appropriated for FY2012. For FY2013, the Administration has requested \$2.948.1 billion for the CDBG formula component of the CDF account, including

- \$2.059 billion for CDBG entitlement communities;
- \$882 million for CDBG state administered program; and
- \$7 million for insular areas.

The Administration is also requesting \$60 million for Indian tribes. These are approximately the same amounts that were appropriated for FY2012.

Sustainable Communities Initiatives (SCI)

The Administration's FY2013 budget recommends reinstating funding for SCI program activities. These programs did not receive funding in FY2012, but were funded at \$99 million in FY2011. The SCI is a set of planning-oriented grants first proposed by the Obama Administration in its FY2010 budget and funded at \$150 million. For FY2013 the Administration is requesting an appropriation of \$100 million. Funds would support SCI's three components:

- *Regional Integrated Planning Grants.* \$46 million would be competitively awarded to regional organizations in up to 25 metropolitan areas to support efforts to develop effective models that would integrate the planning requirements of various disciplines critical to the development of sustainable communities. This would be done in collaboration with the Department of Transportation (DOT), the Environmental Protection Agency (EPA), and other federal agencies. Grant awards would focus on metropolitan-wide housing, transportation, economic development, energy, and land use planning.
- *Community Challenge Grants.* \$46 million would be competitively awarded to up to 50 communities to reform existing building codes, land use, and zoning ordinances with the goal of promoting sustainable growth and discouraging inefficient land use patterns. These funds are to be awarded to individual

communities to assist them in developing local complement to the larger regional integration planning grants.

- *Housing-Transportation Integration Research.* \$8 million would be set aside for a joint HUD, DOT, and EPA research initiative that would seek to quantify and evaluate the benefits and trade-offs of various efforts. A portion of these funds would be use to evaluate the long-term benefits of Regional Integrated Planning Grants and Community Challenge Grants. In addition, the Administration is requesting that \$3 million be set aside to provide technical support for the development of:
 1. a residential energy modeling system allowing HUD to estimate costs and saving that may be achieved with energy-oriented retrofits of HUD public and assisted housing;
 2. common energy standards that would apply to new construction, substantial or moderate rehabilitation, and energy retrofits; and
 3. sources of utility and other private sources of funds that could be tapped to finance energy efficiency improvements.

Section 108 Loan Guarantees¹

The CDBG Section 108 Loan Guarantee program (Section 108) allows states and entitlement communities to collateralize their annual CDBG allocation in an effort to attract private capital to support economic development activities, housing, public facilities, and infrastructure projects. Communities may borrow up to five times their annual allocation for a term of 20 years through the public issuance of bonds. The proceeds from the bonds must be used to finance activities that support job creation and that meet one of the national goals of the CDBG program. The activity must principally benefit low or moderate income persons, aid in preventing or eliminating slums or blight, or address an urgent threat to residents. Each community's current and future annual CDBG allocation serves as security in case of default. Financing is pegged to yields on U.S. Treasury obligations of similar maturity to the principal amount.

The Administration's budget proposes doubling the program's loan commitment ceiling from \$240 million in FY2012 to \$500 million in FY2013. The Administration's budget justifications noted that, given the continued difficulties in the credit markets, the proposed increase in funding will help local governments finance large-scale job creation activities. In addition to an increase in the loan commitment ceiling, the Administration proposes revamping the program by charging a fee-based assessment to borrowers accessing the program, which would eliminate the need for an appropriated credit subsidy.² This proposal was first made by the Administration in its FY2010 budget, but it was rejected by Congress in favor of maintaining the status quo.

¹ This program is authorized by 42 U.S.C. §5308.

² The Credit Reform Act of 1990 requires federal agencies administering credit programs to estimate a program's subsidy rate and to request an appropriation to cover that cost. A credit subsidy is intended to cover the estimated long-term cost to the federal government of a direct loan or loan guarantee. For loan guarantees, the subsidy cost is the net present value of estimated payments by the government to cover defaults and delinquencies, interest subsidies, or other payments, offset by any payments to the government, including origination and other fees, penalties, and recoveries.

Senate Appropriations Committee Bill (S. 2322)

On April 19, 2012, the Senate Appropriations Committee reported S. 2322, a bill recommending appropriations for the Departments of Transportation and Housing and Urban Development and Related Agencies for FY2013. The bill recommends \$3.210 billion for activities funded under the CDF account, including \$3.100 billion for CDBG formula grants awarded to states, entitlement communities, and insular areas. This is 5% more than the \$2.948 billion appropriated in FY2012 for formula grants, excluding the \$400 million in disaster related supplemental funding for FY2012. S. 2322 supports the Administration's \$60 million funding request Indian tribes.

The bill recommends restoring funding for SCI activities, which was not funded in FY2012. As reported by the committee, the bill recommends an appropriation of \$50 million for SCI activities. This is half the amount requested by the Administration. In addition, the bill would require HUD to allocate \$12.5 million of the amount appropriated to SCI in communities with populations less than of 500,000.

The bill also supports the Administration's budget request calling for the conversion of Section 108 loan guarantees to a fee-based program and increasing the loan guarantee commitment to \$500 million for FY2013 from the \$240 million approved for FY2012. The Senate committee bill recommends continued funding of Section 4 (Capacity Building for Community Development and Affordable Housing) activities at the \$35 million appropriation level, but does not support the Administration's request to transfer the program from its current account, the Self-Help and Homeownership Opportunity account.

House Bill (H.R. 5972)

The House Appropriations Committee reported the Transportation and Housing and Urban Development and Related Agencies Appropriations act on June 20, 2012. The bill, H.R. 5972, recommends \$3.404 billion for activities funded under the CDF account, including \$3.344 billion for CDBG formula grants awarded to states, entitlement communities, and insular areas. This is 13% more than the \$2.948 billion appropriated in FY2012 for formula grants and 8% more than recommended in the Senate bill, S. 2322. Like its Senate counterpart, H.R. 5972 supports the Administration's \$60 million funding request for Indian tribes.

Unlike the Senate committee bill, H.R. 5972 does not include a set-aside of CDBG funds to support a new round of funding for SCI activities. Instead, the bill recommends just over \$2 million in the Management and Administration account for activities related to the closeout and evaluation of previously awarded SCI awards. The report accompanying the bill notes that the program is unauthorized and does not have the support of the committee of jurisdiction, the House Financial Services Committee.

The House bill does not support the Administration's budget request calling for the conversion of Section 108 loan guarantees to a fee-based structure. H.R. 5972 recommends \$6 million in loan subsidies to support a loan guarantee ceiling of \$244 million. Consistent with the provisions included in the Senate bill, H.R. 5972 also recommends continued funding of Section 4 (Capacity Building for Community Development and Affordable Housing) activities at the \$35 million appropriation level. It does not support the Administration's request to transfer the program from its current account, the Self-Help Homeownership Opportunity Program account.

The full House began floor consideration of the bill on June 27, 2012. During floor debate on the bill several amendments were introduced calling for funding reductions or elimination of the CDBG and Section 108 loan guarantee programs. None of them were approved.

- H.Amdt. 1333 proposed reducing funds for salaries and expenses in the Community Planning and Development account by \$3.5 million was defeated by a vote of 178-240;
- H.Amdt. 1341 proposed reducing the House committee recommendation for the CDF by \$396 million to its FY2012 funding level was defeated by a vote of 157-267;
- H.Amdt. 1342 recommended eliminating funding for the CDF was defeated by a vote of 80-342; and
- H.Amdt. 1344 recommended eliminating funding for the Section 108 loan guarantee program was defeated by a vote of 123-300.

A fifth amendment (H.Amdt. 1348) that would have allowed a higher percentage of Neighborhood Stabilization Program funds to be used for demolition activities was challenged on a point of order. The point of order was sustained by the chair, who ruled that the amendment sought to change existing law and thus constituted legislation in an appropriation bill.

FY2012 Appropriations, P.L. 112-55

During the second half of 2011, Congress considered and debated the Administration's budget recommendations for FY2012. The FY2012 budget debate was undertaken with an eye on reducing federal spending in an effort to address the federal deficit. Congress's challenge was to balance concern about controlling and reducing federal spending while focusing on funding federal activities that support private sector job creation in an effort to combat a national unemployment rate that remained high and a U.S. economy that continued to be mired in a so-called "jobless recovery." During consideration of the FY2012 budget, supporters of CDBG touted the program's support of state and local government community economic development and private sector job creation and vowed to continue defending the program against cuts in funding.³

The President's FY2012 Budget Request

On February 14, 2011, the Obama Administration submitted its FY2012 budget recommendations for congressional consideration. The Administration proposed restructuring the CDF account by minimizing, through transfer or termination, activities not directly related by authorizing statute to the CDBG program. The Administration's budget proposed to

- reduce funding for CDBG formula grants;
- eliminate funding for the Neighborhood Initiative (NI) and Economic Development Initiative (EDI) programs;

³ Zach Patton, "The CDBG Mobilization," *Governing*, 2011, pp. 11-12.

- eliminate funding for Section 107 activities;
- transfer its Sustainable Communities Initiative (SCI) to a new stand-alone account; and
- convert Section 108 loan guarantees to a fee-based program.

The Administration's FY2012 budget recommended a total funding level of \$3.804 billion for programs funded under the CDF account. The proposed funding level represented a 14.5% reduction below the account's FY2010 enacted appropriations level, but an 8.6% increase above the \$3.501 billion appropriated for FY2011.

Community Development Block Grants—Formula Grants

For FY2012, the Administration requested an 11.5% increase in funding for the CDBG states and entitlement communities formula components of the CDF account, from \$3.296 billion appropriated in FY2011 to \$3.684 billion (see **Table 2**). It also sought to fund CDBG grants to insular areas and Indian tribes at \$7 million and \$65 million, respectively, as required by the CDBG program's authorizing statute.

In addition, the Administration requested \$25 million for Rural Innovation Grants and \$23 million for Guam beyond the amount it would have received as an insular area grantee. Rural Innovation Funds would have been awarded competitively and targeted to rural areas whose populations do not exceed 20,000 persons to support innovative housing and economic development efforts, while assistance to Guam was intended to address community development needs arising from the relocation of military facilities and personnel to the island.

As in previous years, the Administration's budget did not include funding for Economic Development Initiatives and Neighborhood Initiatives grants, two programs subject to congressional earmarks. The Administration stated that it opposed earmarking NI and EDI funds.

Sustainable Communities Initiatives (SCI)

The Administration's FY2012 budget recommended transferring the SCI programs to a new stand-alone account. For FY2012 the Administration requested an appropriation of \$150 million. Funds would have supported SCI's three components:

- *Regional Integrated Planning Grants*. \$100 million would have been competitively awarded to regional organizations in metropolitan areas to support efforts to develop effective models that would integrate the planning requirements of various disciplines critical to the development of sustainable communities.
- *Community Challenge Grants*. \$40 million would have been competitively awarded to individual communities to reform existing building codes and land use and zoning ordinances as a complement to regional integration planning grants.
- *Housing-Transportation Integration Research*. \$10 million was to be set aside for a joint HUD-DOT, and EPA research initiative that would seek to quantify and evaluate the benefits and trade-offs of various efforts.

Section 108 Loan Guarantees⁴

The Administration's budget proposed doubling the program's loan commitment ceiling from \$250 million in FY2011 to \$500 million in FY2012. The Administration's budget justifications noted that, given the continued difficulties in the credit markets, the proposed increase in funding will help local governments finance large-scale job creation activities. In addition to an increase in the loan commitment ceiling, the Administration proposed revamping the program by charging a fee-based assessment to borrowers accessing the program, which would eliminate the need for an appropriated credit subsidy.⁵ Congress rejected the proposal in favor of maintaining the status quo.

Congressional Actions

House Bill

While the House Appropriations Committee did not formally report a FY2012 Transportation, HUD, and Related Agencies Appropriations bill (THUD), the House Appropriations Subcommittee on THUD approved, by voice vote, and released a draft bill, including an accompanying draft committee report, on September 8, 2011.⁶ The subcommittee draft bill recommended \$3.501 billion for CDF activities, including \$3.466 billion for CDBG formula grants to states, local governments, and insular areas; and \$35 million for Indian tribes. Although the subcommittee-approved draft bill would have maintained overall CDF appropriations at the FY2011 funding level, the accompanying draft report noted that the report accompanying H.Con.Res. 34, the FY2012 Budget Resolution, recommended eliminating the program on the grounds that it was not a core federal government function. While the report accompanying the THUD draft bill did not eliminate funding for the CDBG program, it did note that

states and local communities can and should undertake more of their community development activities using state and local taxes. Such a shift will provide better transparency and accountability of local officials, who use taxpayer dollars on local community development activities.⁷

The draft bill would have shifted CDF funding priorities, including eliminating funding for the Administration's Sustainable Communities Initiative, and reducing funding for CDBG Indian Tribes from \$64 million appropriated in FY2011 to \$35 million (see **Table 2**). The subcommittee draft bill also recommended rejecting the Administration's proposal to restructure Section 108

⁴ This program is authorized by 42 U.S.C. §5308.

⁵ The Credit Reform Act of 1990 requires federal agencies administering credit programs to estimate a program's subsidy rate and to request an appropriation to cover that cost. A credit subsidy is intended to cover the estimated long-term cost to the federal government of a direct loan or loan guarantee. For loan guarantees, the subsidy cost is the net present value of estimated payments by the government to cover defaults and delinquencies, interest subsidies, or other payments, offset by any payments to the government, including origination and other fees, penalties, and recoveries.

⁶ The subcommittee-approved draft bill is available at http://appropriations.house.gov/UploadedFiles/12THUD_xml.pdf. A copy of draft committee report accompanying the unnumbered draft bill is available at http://appropriations.house.gov/UploadedFiles/FY_2012THUDReport.pdf.

⁷ U.S. Congress, House Committee on Appropriations, Subcommittee on Transportation, Housing and Urban Development, and Related Agencies, *Department of Transportation, Housing and Urban Development, and Related Agencies*, draft report to accompany unnumbered draft bill, 112th Cong., 1st sess., 2011, p. 85, at http://appropriations.house.gov/UploadedFiles/FY_2012THUDReport.pdf.

loan guarantees to a fee-based program, noting that instituting a proposed fee would increase capital cost of Section 108 assisted projects while inhibiting state and local governments' ability to attract capital investment for projects in distressed areas. Instead, the bill recommended maintaining the current structure, including appropriating \$6.8 million in credit subsidies to the support \$275 million in Section 108 loan guarantees. In addition, the bill included a provision that recommended lowering the ceiling on the percentage of funds grantees could use to cover CDBG administrative expenses from the current 20% to 10% of the grantee's CDBG allocation.

Senate Bill

On September 21, 2011, the Senate Appropriations Committee reported S.Rept. 112-83, its version of the Transportation, Housing and Urban Development Appropriations Act for FY2012, S. 1596. The bill recommended a substantial reduction in the CDF account. Overall CDF funding would have declined to \$3.0 billion, excluding \$400 million for CDBG supplemental disaster assistance. The proposed \$3 billion appropriations level was \$500 million less than appropriated for FY2011 or the House subcommittee draft bill, and \$280.4 million less than requested by the Administration. The Senate bill recommended \$2.851 billion for CDBG formula funding and would have reduced CDBG formula grant funding by 13.7% (\$473 million) less than the program's FY2011 funding level of \$3.302 billion and 22.3% below the \$3.668 billion requested by the Administration. It also recommended \$90 million for the Sustainable Communities Initiative, which was \$60 million less than the amount requested by the President and \$9 million less than appropriated for FY2011.

On October 13, 2011, Senator Inouye submitted an amendment (S.Amdt. 738) to H.R. 2112, the Agriculture, Farm and Related Agencies Appropriations Act. The amendment, which was approved on October 21, 2011, consolidated the provisions of three appropriations measures into a single appropriations measure, or Minibus.⁸ The so-called "Minibus" was approved by the Senate on November 1, 2011, by a vote of 69 to 30.

Among the amendments approved for inclusion in the bill was S.Amdt. 796. Proposed by Senator Coburn, the amendment would have prohibited the use of grants made available under the bill from being used to repay any other federal loans. This amendment has implications for the CDBG program and its companion Section 108 loan guarantee program. Statutory authority governing the Section 108 loan guarantee program allows CDBG funds to be used as collateral to secure and repay Section 108 loan guarantees in case of default. In order to avoid default on Section 108 loan guarantees, states and communities have used CDBG funds to cover revenue shortfalls associated with the repayment of bonds used to finance Section 108 supported projects.

Conference Bill (Mini-Bus), P.L. 112-55

On November 3, 2011, the House requested a conference on H.R. 2112, to reconcile the differences in House and Senate versions of the bill. House and Senate conferees filed a conference report (H.Rept. 112-284) on November 14, 2011. The conference version of H.R. 2112 was approved by the House and Senate on November 17, 2011, and the act was signed into law by the President as P.L. 112-55 on November 18, 2011. P.L. 112-55 appropriated \$3.308 billion for CDF activities, including \$300 million for CDBG disaster activities. With the

⁸ The three consolidated into a single measure included the Senate version of H.R. 2112, S. 1596, and S. 1572.

exception of CDBG disaster assistance, the act appropriated funds only for core CDBG programs, specifically, \$60 million for Indian Tribes; and \$2.948 billion for formula grants to states, entitlement communities, and insular areas (see **Table 2**). The \$2.948 billion for CDBG formula grants is 10.7% less than appropriated in FY2011, 19.6% less than requested by the President, and 15% less than recommended by the House, but 3.4% more than recommended by the Senate.

Other CDF activities funded in previous years, such as the Administration's Sustainable Communities Initiative, were not directly funded for FY2012. However, the conference report accompanying H.R. 2112 noted that such activities could be carried out with CDBG and the agency's Transformation Initiative funds.⁹ The decline in CDBG funding and the elimination of funding for other programs reflects congressional efforts to reduce federal spending in support of long-term deficit reduction.

P.L. 112-55 did not include

- a provision included in the Senate version of H.R. 2112 which would have prohibited the use of federal grants, such as CDBGs, from being used to repay other federal loans, such as CDBG Section 108 loan guarantees; and
- a provision recommended by the House that would have reduced the percentage of CDBG funds a grantee could use for administrative expenses from 20% to 10%.

The act did include a provision directing the General Accountability Office (GAO) to undertake a study of the effectiveness of the two block grant programs (CDBG and HOME) administered by HUD's Office of Community Planning and Development (CPD). The act required the study be completed and presented to Congress within 180 days (May 2012) following the enactment of P.L. 112-55. The act also directed HUD to submit to Congress, within 120 days (March 2012) following the passage of the act, a progress report on efforts the department has undertaken to improve grantee accountability in the management of programs administered by CPD. In addition, the conference report directed HUD to undertake an analysis of the extent to which CDBG funds are being used to meet the matching fund requirements of other federal programs.

For the third year in a row, the Administration failed to win congressional support for its proposal to convert Section 108 loan guarantees to a fee-based program. P.L. 112-55 maintained the program's current structure while appropriating \$5.952 billion in credit subsidies in support of the \$240 million in Section 108 loan guarantee commitments. The act included an additional provision that prohibited a state from diverting proceeds from the sale of notes backed by Section 108 loan guarantees to any other community other than the local government that initially sought and received the loan guarantee commitment.¹⁰

⁹ U.S. Congress, House Appropriations Conference Committee, *Agriculture, Rural Development, Food and Drug Administration, Related Agencies Programs for the Fiscal Year Ending September 30, 2012, and for Other Purposes*, Report to accompany H.R. 2112, 112th Cong., 1st sess., November 14, 2011, H.Rept. 112-284 (Washington: GPO, 2011), p. 317.

¹⁰ P.L. 112-55, Division C, §221.

CDBG Disaster Supplemental Assistance

In addition to the regular CDBG appropriations for FY2012, P.L. 112-55 included \$400 million in CDBG supplemental disaster assistance. Funds were to be disbursed to states and local governments to manage recovery efforts in areas declared disasters by the President in 2011. These supplemental funds were to be used to assist such states and local governments undertake disaster relief and long term recovery plans, including those related to the restoration of housing, infrastructure, and economic revitalization. Funds could not be used for activities funded by or eligible for reimbursement by the Federal Emergency Management Administration or the Army Corps of Engineers. In order to receive funds eligible states and local governments were required to submit disaster recovery plan detailing the use of funds and how planned activities would contribute to disaster recovery efforts. The act allowed HUD to waive statutory or regulatory provisions governing the use of CDBG funds, except those related to fair housing, nondiscrimination, labor standards, and environmental review. In seeking a waiver of CDBG program requirements, grantees were required to explain why such a waiver was necessary to the grantee's recovery efforts. Of the \$400 million appropriated for disaster relief activities, the act exempted \$100 million of that amount from discretionary spending limits imposed by the Balanced Budget and Emergency Deficit Control Act of 1985, as amended by the Budget Control Act, P.L. 112-25.¹¹

Table 2. CDBG and Related Appropriations: FY2010 and FY2011 Enacted and FY2012 Proposed and Enacted
(in millions of dollars)

Program	FY2010 Enacted	FY2011 Enacted	FY2012			
			Admin. Request	House	Senate	Enacted P.L. 112-55
CDF, Total	4,450.0	3,501.0	3,781.4	3,501.0	3,001.0	3,008.1
CDBG-formula	3,950.1	3,302.9	3,668.5	3,466.0	2,851.0	2,948.1
<i>Entitlement Communities</i>	2,760.2	2,702.2	2,563.1	2,421.3	1,990.8	2,058.8
<i>States</i>	1,183.0	988.8	1,098.4	1,037.7	853.2	882.3
<i>CDBG Insular areas</i>	6.9	6.9	7.0	7.0	7.0	7.0
CDBG Indian Tribes	64.3	64.2	65.0	35.0	60.0	60.0
Section 107 (technical assistance)	0.0	0.0	0.0	0.0	0.0	0.0
CDBG Subtotal	4,014.4	3,367.1	3,733.5	3501.0	2,911.0	3,008.1
Grant to Guam ^a	0.0	0.0	22.9	0.0	0.0	0.0
Rural Innovation Fund ^b	24.8	0.0	25.0	0.0	0.0	0.0
Catalytic Competition Grants	—	0.0	0.0	0.0	0.0	0.0

¹¹ For additional information on the spending caps and exemptions under the Budget Control Act see CRS Report R41965, *The Budget Control Act of 2011*, by Bill Heniff Jr., Elizabeth Rybicki, and Shannon M. Mahan

Program	FY2010 Enacted	FY2011 Enacted	FY2012			
			Admin. Request	House	Senate	Enacted P.L. 112-55
University Community Fund ^c	24.8	0.0	0.0	0.0	0.0	0.0
Sustainable Communities ^d	148.5	98.8	0.0	0.0	90.0	0.0
Regional Integration Planning Grants	99.0	69.2	0.0	0.0	63.0	0.0
Community Challenge Grants	39.6	29.6	0.0	0.0	27.0	0.0
Capacity Building Clearinghouse	—	0.0	0.0	0.0	0.0	0.0
HUD-DOT Integration Research	9.9	0.0	0.0	0.0	0.0	0.0
Neighborhood Initiative	21.9	0.0	0.0	0.0	0.0	0.0
Economic Development Initiative	171.1	0.0	0.0	0.0	0.0	0.0
Transfer to the Transformation Initiative ^e	44.5	35.0	0.0	0.0	0.0	0.0
CDBG-related set-asides and earmarks	435.6	133.8	47.9	0.0	90.0	0.0
Disaster relief supplemental	100.0	0.0	0.0	0.0	400.0	400.0

Source: Prepared by CRS based on Administration's FY2012 budget submission and H.R. 1.

- a. Funds would be transferred from the Defense Department and administered under the CDBG program and would be used to address community development needs resulting from the relocation of various military installations and personnel to Guam.
- b. Before FY2010, the program was funded under a separate account, Rural Housing and Economic Development.
- c. Prior to FY2007, CDBG-linked university activities were included in this account. For FY2009, program funds of \$23 million were appropriated under a separate HUD account, Research and Technology.
- d. For FY2012, the Administration is proposed funding the programs at \$150 million under a separate stand-alone account.
- e. Subtotal for FY2012 Transformation Initiative assumed transfer of 1% of amounts appropriated to programs included in the CDF account.

FY2011 Appropriations (P.L. 112-10 and H.R. 1)

On April 15, 2011, the President signed into law P.L. 112-10, the Department of Defense and Full-Year Continuing Appropriations Act for FY2011. The measure, which passed the House and Senate on April 14, 2011, after months of intense budget negotiations, included a provision appropriating \$3.508 billion for the Community Development Fund (CDF). The act included a mandatory across-the-board rescission of 0.2% and a 1% discretionary transfer to the Department's Transformation Initiative, which granted the Secretary of HUD the authority to reduce the CDF account's total appropriation to \$3.501 billion. This was approximately 16%

below the amount appropriated for FY2010. The CDF, which includes the formula-based Community Development Block Grant program, was one of several accounts targeted for significant budget reductions in an earlier version of a consolidated appropriations bill, H.R. 1, that passed the House, but not the Senate. H.R. 1 would have reduced funding for CDBG activities by 62.5% below the amount appropriated for FY2010.

Funding for HUD's Community Development Fund, which includes the CDBG program, is among the programs that were initially targeted for reduction as part of congressional efforts to reduce the federal budget deficit. On February 19, 2011, the House-passed H.R. 1, a bill providing continuing annual appropriations for FY2011.¹² The House-passed version of H.R. 1 would have reduced total funding for discretionary programs by \$61 billion below the amount requested by the Obama Administration. Included among the programs and accounts targeted for cuts by the House-passed version of the H.R. 1 was the CDF account, which includes the formula-based CDBG program. The bill, as passed by the House, failed to win Senate approval. An alternative measure, S.Amdt. 149, introduced in the Senate, also failed to win Senate approval. This led to renewed negotiations between the Obama Administration and House and Senate leadership to resolve the FY2011 budget impasse.

Passage of H.R. 1473, Full-Year Continuing Appropriations, P.L. 112-10

After weeks of negotiations, on April 15, 2011, President Obama signed into law P.L. 112-10, formerly H.R. 1473, the Department of Defense and Full-Year Continuing Appropriations Act for FY2011. The measure was passed by both the House and the Senate on the eve of the expiration of P.L. 112-8, a week-long temporary spending measure that was signed by the President on April 9, 2011, to allow House and Senate leaders time to negotiate a final FY2011 appropriations agreement that would avoid a government-wide shutdown.¹³

P.L. 112-10 appropriated \$3.508 billion for activities in the CDF account, including \$3.343 billion for CDBG formula funds. The act also includes a 0.2% mandatory across the board rescission of all appropriated funds¹⁴ and a 1% discretionary transfer from designated HUD funds, including CDF activities to HUD's Transformation Initiative.¹⁵ The mandatory across the board cut reduces the CDF account by \$7 million to \$3.501 billion, while the 1% discretionary transfer would move \$35 million from the CDF account and its components to the Department's Transformation Initiative. **Table 3** includes the adjusted appropriations for CDF activities taking into account both the 0.2% rescission and the 1% transfer. **Table 3** also includes the actual distribution of funds appropriated for activities included in the CDF account for FY2010, as well as the Administration's budget request for FY2011 and the projected estimated distribution of funds in

¹² Under §109 of P.L. 111-242, Continuing Appropriations Act for FY2011, a program whose complete distribution of its FY2011 appropriations would have occurred at the beginning of the fiscal year is prohibited from allocating funds or awarding grants. According to §109, the basis for this prohibition is that the complete distribution of program funds would impinge on final funding prerogatives of Congress. Given this directive, in the absence of a full-year appropriation and based on past practices, HUD may not allocate CDBG funds for the current fiscal year until Congress has passed a final appropriations measure for FY2011.

¹³ Included in P.L. 112-8, which funded the federal government through April 15, 2011, was a provision, §303, appropriating \$4.230 billion for the CDF for FY2011. That provision was voided with the passage of P.L. 112-10.

¹⁴ P.L. 112-10, Division B, §1119.

¹⁵ P.L. 112-10, Division B, §2259.

the account based on the language included in H.R. 1 and a Senate committee's amended version of H.R. 1 (S.Amdt. 149).¹⁶

The P.L. 112-10 appropriation of \$3.501 billion for the CDF account is 21.3% less than the \$4.450 billion appropriated for FY2010 CDF activities and 20.1% less than requested by the Administration for FY2011. Conversely, the FY2011 appropriation is 133% higher than recommended by H.R. 1, a measure passed by the House earlier during the first session of the 112th Congress. Included in the CDF account is the CDBG program, which includes the formula-based grants awarded to Puerto Rico; the 50 states; eligible metropolitan area-based cities and counties (entitlement communities); insular areas (Guam, the Virgin Islands, the Northern Mariana Islands; and American Samoa); and Indian tribes. P.L. 112-10 reduced funding for CDBG formula grants by 16.4%. Also included in the account are funds for the Sustainable Communities Initiative (SCI), a competitively awarded grant program intended to support a coordinated approach to regional land use, housing, environmental, and transportation planning activities. P.L. 112-10 reduced funding for SCI activities by 33%.

H.R. 1

On February 19, 2011, the House passed H.R. 1, Full Year Continuing Appropriations Act for FY2011. As passed by the House, H.R. 1 would have reduced the CDF account by 66.3% below the account's FY2010 funding level of \$4.450 billion, and would have prohibited funds from being used for earmarks¹⁷ and the Administration's Sustainable Communities Initiative (SCI). It did not include instructions on how funds were to be allocated among the components of the CDBG program: states and entitlement communities, insular areas, and Indian tribes. The program's governing statute¹⁸ and previous appropriations acts required that 70% of funds be allocated to so-called entitlement communities¹⁹ and 30% to states and Puerto Rico for distribution to nonentitlement communities after specific amounts were set aside for insular areas, Indian tribes, and other programs included in the account. Given the minimal instructions included in the House-passed version of H.R. 1, figures included in **Table 3** assume that funds would have been allocated among the CDBG components based on the same percentage distribution of funds allocated for FY2010, except where noted.

¹⁶ Given the minimal instructions included in the House-passed version of H.R. 1, figures included in **Table 3** assume that funds will be allocated among the CDBG components based on the same percentage distribution of funds allocated for FY2010, except where noted.

¹⁷ In previous years, the CDF account included two earmarked subaccounts: the Economic Development Initiative (EDI) and the Neighborhood Initiative (NI). H.R. 1 explicitly prohibits funds being used for earmarks. See Section 1102 of H.R. 1.

¹⁸ 42 U.S.C. 5301, *et seq.*

¹⁹ Entitlement communities include principle cities of metropolitan areas, cities in metropolitan areas whose population exceeds 49,999 persons, and statutorily defined urban counties. In general, these are metropolitan-based counties whose population meets or exceeds 200,000 persons, excluding the population of entitlement cities within its boundaries.

Table 3. CDBG and Related Appropriations: FY2010 Actual and FY2011 Request, Recommended, and Full Year Continuing Appropriations
(in millions of dollars)

Program	FY2010 Enacted	FY2011			
		Administration Request	H.R. 1 House	H.R. 1 Senate Committee	Enacted P.L. 112-10 ^g
CDF, Total	4,450.0	4,380.1	1,500.0	4,230.0	3,501.0
CDBG-formula	3,943.2	3,943.3	1,478.0	3,943.2	3,294.3
<i>Entitlement Communities</i>	2,760.2	2,760.3	1,034.6	2,760.2	2,306.0
<i>States</i>	1,183.0	1,183.0	443.4	1,183.0	988.3
Insular Areas	6.9	6.9	7.0 ^a	7.0 ^a	6.9 ^a
CDBG Indian Tribes	64.3	64.3	15.0 ^b	40.0	64.9
CDBG Subtotal	4,014.4	4,014.4	1,500.0	3,990.0	3,366.1
Sustainable Communities	148.5	148.5	0.0	148.5	99.8
<i>Regional Integration Planning Grants</i>	99.0	99.0	0.0	0.0	69.9
<i>Community Challenge Grants</i>	39.6	39.6	0.0	0.0	29.9
<i>Capacity Building Clearinghouse</i>	—	—	0.0	0.0	0.0
<i>HUD-DOT Integration Research</i>	9.9	9.9	0.0	0.0	0.0
Catalytic Competition Grants	—	148.5	0.0	0.0	0.0
Rural Innovation Fund ^c	24.8	—	0.0	24.8	0.0
University Community Fund ^c	24.8	24.8	0.0	24.8	0.0
Neighborhood Initiative	21.9	—	0.0	0.0	0.0
Economic Development Initiative	171.1	—	0.0	0.0	0.0
Transfer to the Transformation Initiative ^e	44.5	43.8	0.0	42.3	35.0
Non-CDBG Set- asides and earmarks	435.6	365.6	0.0	240.0	134.8

Source: Prepared by CRS based on Administration's FY2012 budget submission and H.R. 1.

Notes: Totals and subtotals may not correspond to actual amounts due to rounding. Italics indicates entry's amount is a component of the item immediately above it.

- a. 42 U.S.C. 5306(a)(2) requires HUD to set aside \$7 million, as specified by 42 U.S.C. 5307(1)(a), for insular areas before allocating funds to states and entitlement communities.

- b. 42 U.S.C. 5306(a)(1) requires HUD to set aside 1% of the annual amount appropriated for allocation to Indian tribes. Congress has modified this requirement in annual appropriations acts setting aside a specific amount. H.R. 1 does not include a specific amount for Indian tribes. H.R. 1473 assumes an allocation of \$65.0 million for Indian tribes.
- c. Before FY2010, the program was funded under a separate account, Rural Housing and Economic Development.
- d. Prior to FY2007, CDBG-linked university activities were included in this account as authorized under 42 U.S.C. 5307. For FY2009, program funds of \$23 million were appropriated under a separate HUD account, Research and Technology.
- e. Subtotal for the Transformation Initiative assumes transfer of 1% of amounts appropriated from programs included in the CDF account.
- f. The bill targets \$17.5 million of this amount to metropolitan areas with populations not exceeding 500,000 persons.
- g. Table reflects an across-the-board rescission of 0.2% included under Section 1119, of Title I, Division B of P.L. 112-10. It also reflects the transfer of 1% of the amounts appropriated to each program under the CDF account to HUD's Transformation Initiative. Please note the original appropriation for the CDF account was \$3.508 billion, including \$3.343 billion for CDBG formula funds and insular areas, \$65 million for Indian tribes, and \$100 million for the Sustainable Communities Initiative.

Senate Appropriations Committee Amendment to H.R. 1, S.Amdt. 149

On March 9, 2011, Senator Inouye, chairman of the Senate Appropriations Committee, submitted S.Amdt. 149, an amendment to H.R. 1, in the nature of a substitute, for Senate consideration. S.Amdt. 149, which was defeated by a vote of 42 to 58, included a provision that would have appropriated \$4.230 billion for CDF activities. This included \$3.990 billion for the CDBG program. The amendment would have frozen CDBG formula grant funds allocated to states and entitlement communities at the FY2010 appropriation level of \$3.943 billion, while insular areas would have received \$7 million and Indian tribes \$40 million (1% of the amount appropriated as required by statute).²⁰ The Senate bill would have also funded the Rural Innovation Fund, University Community Fund, and SCI programs at their FY2010 funding levels.

Impact and Implications of Reduced Funding

The FY2011 appropriations for the formula-based components of the CDBG program (entitlement communities and states, and excluding insular areas) totaled \$3.296 billion, which was approximately 16.4% (\$647 million) less than the \$3.943 billion appropriated for FY2010.²¹ For FY2012, the CDBG allocations awarded to entitlement communities and states totaled \$2.942 billion. This represented a decline of 10.7% (\$354 million) less than the amount allocated in FY2011. The reductions in funding for formula grant activities from FY2010 to FY2012 have resulted in the average grant amount for entitlement communities declining from \$2.4 million in FY2010 to \$1.7 million in FY2012. This is a 29.1% reduction in the average grant amount awarded to entitlement communities. The decline in average funding is a result of both lower appropriations and an increase in the number of communities qualifying for entitlement status

²⁰ 42 U.S.C. §5306.

²¹ The FY2011 amount assumes an across-the-board rescission of 0.2% and a 1% transfer of funds to the Department's Transformation Initiative. See §1119 and §2259 of P.L. 112-10.

(**Table 4**). The average state allocation declined by 25.4%, from \$23.2 million in FY2010 to \$17.3 million for FY2012.

Although the reductions in CDBG funding represent a decline in resources available to support local community and economic development activities, they are less than the 62.5% reduction proposed in H.R. 1. According to the U.S. Conference of Mayors and other organizations representing state and local governments, the proposed reduction in funding included in H.R. 1 would have significantly impacted the long-term community and economic development plans of the states and local governments, forcing them to postpone or terminate activities that support private sector economic development and job creation efforts, public facilities, and public services.²² The proposed funding reduction included in H.R. 1 also would have undercut the resources of non-profit organizations serving as CDBG sub-grantees. These entities are involved in managing a range of CDBG-funded public services, facilities, and activities, including homeless shelters, public safety activities, and job counseling.

Supporters of the CDBG program contend that the reduction in funding disproportionately affects low and moderate income households given the statutory requirement that communities allocated at least 70% of the program’s funds to activities principally benefitting low and moderate income persons.²³ The FY2012 appropriations for the formula component of the CDBG program are the lowest amount appropriated in more than a decade. (See **Table 6**.) The reduction in funding for entitlement communities will result in entitlement communities delaying some projects and reducing support for others, including activities undertaken by community-based organizations acting as sub-grantees.

Table 4. Average CDBG Allocation and Percentage Change: 2010 to FY2012
(in millions of dollars)

	Number of eligible entities FY2010	FY2010 average allocation	Number of eligible entities FY2011	FY2011 average allocation under P.L. 112-10	Percentage change from FY2010 to FY2011	Number of eligible entities FY2012	FY2012 average allocation	Percentage change from FY2010 to FY2012
Entitlement communities	1,165	\$2.4	1,167	\$1.9	-16.7	1,176	\$1.7	-29.1
States	51	23.2	51	19.4	-16.4	51	17.3	-25.4
Insular areas	4	1.7	4	1.7	0.0	4	1.7	0.0

Source: HUD allocations at data at <http://www.hud.gov/offices/cpd/about/budget/budget10/index.cfm> and CRS, based on information included in **Table 3**.

²² See Housing and Development.Com, “Mayors Lobbying Senate to Restore CDBG Funding,” *Community Development Digest*, February 25, 2010, p. 1; and U.S. Conference of Mayors, “Community Development Block Grants Work for America,” February 2011, <http://www.usmayors.org/cdbg/>. National League of Cities, “NLC ACTION ALERT: Community Development Block Grant Recess Strategy,” press release, February 2011.

²³ The program’s authorizing statute and regulations define low and moderate income persons as those persons whose income do not exceed 80% of the median income of the jurisdiction.

Distribution of CDBG Funds: FY2010 to FY2012

Table 5 identifies the FY2010, FY2011, and FY2012 actual distribution of CDBG formula funds awarded to states and entitlement communities, and insular areas. The table presents information at the state level, but each state total includes actual amounts allocated to the state and entitlement communities within each state. The number of entitlement communities in each state is identified in the last three columns of the table by fiscal year. Calculations for the three fiscal years were generated by HUD. In short, P.L. 112-10, the Department of Defense and Full-Year Continuing Appropriations Act for FY2011, reduced formula allocations to states and entitlement communities by 16.4% below FY2010 allocations, while FY2012 allocations, authorized by P.L. 112-55, the Consolidated Appropriations Act for FY2012, decreased CDBG formula allocations by 25.1% below the amounts allocated to states and entitlement communities for FY2011.

Table 5. Actual Allocation of CDBG Formula Grants to States and Entitlement Communities for FY2010, FY2011, FY2012

State	FY2010 Actual State and Entitlement Communities Allocations: \$3,942,610,534	FY2011 Actual State and Entitlement Communities Allocations: \$3,297,966,786	FY2012 Actual State and Entitlement Communities Allocations: \$2,941,666,022	Number of Formula Recipients in State FY2010	Number of Formula Recipients in State FY2011	Number of Formula Recipients in State FY2012
Alabama	\$53,316,977	\$44,562,795	\$39,246,037	17	17	17
Alaska	5,165,029	4,340,720	3,843,406	2	2	2
Arizona	58,918,034	49,313,983	46,405,177	17	17	17
Arkansas	29,830,047	25,019,765	23,433,880	15	15	15
California	498,630,012	416,405,347	351,573,471	181	181	185
Colorado	40,776,639	34,036,991	32,933,094	22	22	22
Connecticut	45,226,742	37,855,191	34,325,990	23	23	23
Delaware	7,754,022	6,489,675	6,233,818	4	4	4
District of Columbia	19,636,404	16,328,680	13,904,983	1	1	1
Florida	172,387,975	143,959,449	123,354,155	78	77	80
Georgia	88,719,365	74,356,236	72,331,774	25	25	27
Hawaii	16,331,868	13,652,666	12,204,143	4	4	4
Idaho	13,306,473	11,171,762	10,660,286	8	8	8
Illinois	186,636,960	156,500,801	146,421,200	51	51	51
Indiana	75,280,553	62,939,342	59,842,592	25	25	25
Iowa	44,391,171	37,135,076	32,857,042	12	12	12
Kansas	30,264,453	25,325,915	23,399,317	10	10	10
Kentucky	49,407,821	41,383,633	38,294,674	10	10	10
Louisiana	68,563,722	57,131,650	45,354,000	15	15	14
Maine	21363472	17,889,167	16,106,214	7	7	7
Maryland	59,055,404	49,389,644	42,440,741	15	15	15

State	FY2010 Actual State and Entitlement Communities Allocations: \$3,942,610,534	FY2011 Actual State and Entitlement Communities Allocations: \$3,297,966,786	FY2012 Actual State and Entitlement Communities Allocations: \$2,941,666,022	Number of Formula Recipients in State FY2010	Number of Formula Recipients in State FY2011	Number of Formula Recipients in State FY2012
Massachusetts	117,649,272	98,171,023	88,974,486	38	38	38
Michigan	141,260,510	118,346,494	111,620,816	46	46	46
Minnesota	62,071,555	51,888,923	47,038,219	21	21	21
Mississippi	38,270,634	32,081,524	27,513,192	7	7	7
Missouri	71,768,251	60,244,487	56,650,547	17	17	17
Montana	9,933,211	8,325,198	7,347,866	4	4	4
Nebraska	20,683,366	17,196,655	16,398,847	3	4	4
Nevada	21,933,014	18,357,637	17,633,337	8	9	7
New Hampshire	14,303,671	11,979,325	10,831,576	6	6	6
New Jersey	109,303,706	91,446,370	77,708,633	57	58	58
New Mexico	22,830,540	19,146,748	14,165,369	6	6	6
New York	374,236,685	313,082,305	281,664,304	49	49	49
North Carolina	77,770,615	65,281,862	65,385,998	27	27	27
North Dakota	6,851,614	5,739,254	4,925,059	4	4	4
Ohio	174,218,540	145,724,619	135,321,183	45	45	45
Oklahoma	32,629,101	27,348,173	24,942,864	11	11	10
Oregon	39,408,379	32,931,463	28,411,302	15	15	14
Pennsylvania	236,902,677	197,939,554	167,973,973	48	48	48
Rhode Island	18,671,084	15,630,053	14,662,008	7	7	7
South Carolina	41,999,569	35,217,977	32,602,287	17	17	17
South Dakota	8,671,615	7,268,635	6,552,541	3	3	3
Tennessee	54,075,918	45,352,207	44,563,668	17	17	18
Texas	276,687,113	231,949,252	215,435,097	78	78	78
Utah	22,522,762	18,657,954	18,142,062	14	16	17
Vermont	9,014,623	7,555,362	6,837,137	2	2	2
Virginia	65,725,958	54,944,504	48,666,534	30	30	30
Washington	66,000,003	55,094,657	48,830,368	31	31	33
West Virginia	27,027,452	22,624,783	19,137,316	9	9	9
Wisconsin	71,488,467	59,757,871	54,535,888	23	23	23
Wyoming	4,561,267	3,826,802	3,196,119	3	3	2
Puerto Rico	119,176,219	99,666,627	66,983,925	28	28	28
Formula Subtotal	3,942,610,534	3,297,966,786	2,941,666,022	1,216	1,221	1,227
American Samoa	1,121,951	1,133,433	1,158,648	1	1	1
Guam	3,050,365	3,085,838	3,158,206	1	1	1

State	FY2010 Actual State and Entitlement Communities Allocations: \$3,942,610,534	FY2011 Actual State and Entitlement Communities Allocations: \$3,297,966,786	FY2012 Actual State and Entitlement Communities Allocations: \$2,941,666,022	Number of Formula Recipients in State FY2010	Number of Formula Recipients in State FY2011	Number of Formula Recipients in State FY2012
Northern Marianas	880,151	824,363	793,489	1	1	1
Virgin Islands	1,877,526	1,872,506	1,889,657	1	1	1
Insular Area Subtotal^a	6,929,993	6,916,140	7,000,000	4	4	4
Total	3,949,540,527	3,304,882,926	2,948,100,000			
Indian Tribes Subtotal^b	64,350,000	64,200,000	60,000,000			

Source: CRS Analysis based on HUD FY2010, FY2011, FY2012 allocation data available at <http://www.hud.gov/offices/cpd/communitydevelopment/budget/>.

- a. 42 U.S.C. 5306(a)(2) requires HUD to set aside \$7 million, as specified 42 U.S.C. 5307(1)(a), for insular areas before allocating funds to states and entitlement communities.
- b. 42 U.S.C. 5306(a)(1) requires HUD to set aside up to 1% of annual amount appropriated for allocation to Indian tribes. From time to time Congress has modified this requirement in annual appropriations acts to set aside a specific amount.

Impact of 2010 Census Data on CDBG Allocations

Of the amounts appropriated each fiscal year to carry out CDBG eligible activities, 70% is allocated to cities and urban counties meeting required minimum population thresholds. These communities are identified collectively as “entitlement communities.”²⁴ The remaining 30% of funds appropriated for CDBG formula distribution is allocated among the 50 states and Puerto Rico for distribution to small or so-called “nonentitlement communities.”

CDBG funds awarded to eligible entitlement communities and states are allocated using the highest yield from one of two statutorily based formulas.²⁵ For each of the two categories of eligible entitlement communities (metropolitan cities and urban counties), Formula A, the original formula created with the initial passage of the Housing and Community Development Act of 1974, P.L. 93-383, allocates funds based on each metropolitan city and urban county’s share of the following weighted factors:

- population relative to the total population for all metropolitan cities or urban counties (0.25);

²⁴ To qualify for a direct allocation of funds a city must be located in a metropolitan area, have a minimum population of 50,000 or more persons, or be designated by the Office of Management and Budget as the principle (central) city of a metropolitan area, 42 U.S.C. §5302(a)(4). A county may qualify for a direct allocation by meeting the statutory definition of urban county as outlined at 42 U.S.C. §5302(a)(6) and 42 U.S.C. §5306. Cities and urban counties meeting the minimum population thresholds qualifying them as eligible to receive a direct allocation of CDBG funds are collectively labeled “entitlement communities.” For FY2012, the total number of CDBG entitlement communities was 1,176.

²⁵ 42 U.S.C. §5306.

- poverty relative to total person in poverty for all metropolitan cities or urban counties (0.50); and
- overcrowded housing relative to the total number of persons living in overcrowded housing conditions for all metropolitan cities or urban counties (0.25).

The second formula, Formula B, enacted with the passage of the Housing and Community Development Amendments of 1977, P.L. 95-128, allocates funds to metropolitan cities and urban counties using the following weighted factors:

- a population growth lag factor²⁶ intended to measure the extent that a community's population has lagged behind the national average for all metropolitan cities and urban counties since 1960 (0.20);
- each community's share of poverty relative to the total persons living in poverty for all metropolitan cities or urban counties (0.30); and
- housing built before 1940 relative to the total number of housing units built before 1940 for all metropolitan cities or urban counties (0.50).

The distribution of CDBG funds to states is also governed by a two formula system, with Formula A using each state's relative share of population, poverty, and overcrowded housing in nonentitlement areas to allocate funds, and Formula B using each state's relative share of poverty housing built before 1940, and in persons living in poverty in all nonentitlement areas.

HUD Study of the Impact of New Data Sources

The statute governing the administration of the CDBG program requires HUD to use, with respect to each fiscal year, "the most recent data compiled by the United States Bureau of the Census and the latest published reports of the Office of Management and Budget (OMB) available ninety days prior to the beginning of such fiscal year."²⁷ Starting with the FY2012 allocations, HUD will use Census Bureau data from the 2010 Decennial Census and the 2005-2009 American Community Survey (ACS) five-year estimates. The ACS five-year estimates will be updated every year, allowing HUD to annually update data sources used to allocate CDBG funds. This will allow allocations to reflect the most recent demographic changes more accurately.

Prior to the FY2012 allocations HUD used the 2000 Decennial Census as the data source for poverty, overcrowded housing conditions, and pre-1940 housing stock. In the case of the FY2011 allocations, it also used 2009 population estimates and data from the 1960 decennial census to calculate each community and state's relative share of population and extent of population growth lag.

²⁶ This factor is intended to measure the extent to which a metropolitan city or urban county's population growth rate has lagged behind the population growth rate for all metropolitan cities or urban counties between the period 1960 and the most recent date that data is available for all metropolitan cities or urban counties.

²⁷ 42 U.S.C. §5302(b).

In December 2011, HUD released a study on the impacts of the introduction of 2010 Census and ACS data on the allocation of CDBG formula grant funds.²⁸ In order to analyze the effect the new data sources would have on the distribution of program funds, the study assumed that the number of eligible entities and the program's appropriations would be held constant from FY2011 to FY2012. This assumption isolates the impact of the change in data sources on the distribution of funds. The following are selected findings from the HUD study:

- Communities that may be most negatively impacted by the change in data sources are more likely to be located in Puerto Rico, the Mid-Atlantic, and Pacific/Hawaii regions. Entitlement communities in these regions experienced a decline of -22.6%, -4.9%, and -3.1%, respectively, in their CDBG allocations due to changes in data sources.
- Entitlement communities positively impacted by the change in data sources are more likely to be located in the Rocky Mountain, Great Plains, and Midwest regions. Entitlement communities in these regions would experience an increase of 9.5%, 6.8%, and 5.3%, respectively, in their CDBG allocations.²⁹
- The introduction of new data sources results in principal (central) cities of metropolitan areas and urban counties receiving a greater share of funds (0.2% and 1.2%, respectively), while funding allocated to other entitlement (satellite) cities would decline by 3.1%. According to the report, "these changes are driven largely by increasing shares of poverty in urban counties, decreasing shares of overcrowding in satellite cities, and increasing shares of pre-1940 housing in principal (central) cities."³⁰
- Two states, New Mexico and Puerto Rico,³¹ experience the largest decline in funding, 27.4% and 27.3%, respectively, as a result of declines in their relative shares of poverty and overcrowded housing.³²

The report is available at http://www.huduser.org/publications/pdf/cdbg_redis_eff.pdf. Appendix 2 of the report includes a comparison of funding allocations for the 1,166 entitlement communities awarded grants in FY2011.

Recent Funding History

This section of the report is a review of the CDF account's funding history from FY2000 to FY2011. It includes a discussion of the three primary components of the CDF account:

- CDBG formula grants;

²⁸ Paul Joice, Ben Winter, and Heidi Johnson, *Redistribution Effect of Introducing 2010 Census and 2005-2009 ACS Data into the CDBG Formula*, Department of Housing and Urban Development, Office of Policy Development and Research, Washington, DC, December 2011, http://www.huduser.org/publications/pdf/cdbg_redis_eff.pdf. See Appendix 1 of the document for a map of HUD's Administrative Regions.

²⁹ *Ibid.* Table 2.9, *Shifting Shares of CDBG Entitlement Funding by Region*, page 15.

³⁰ *Ibid.* Executive Summary, p. ii.

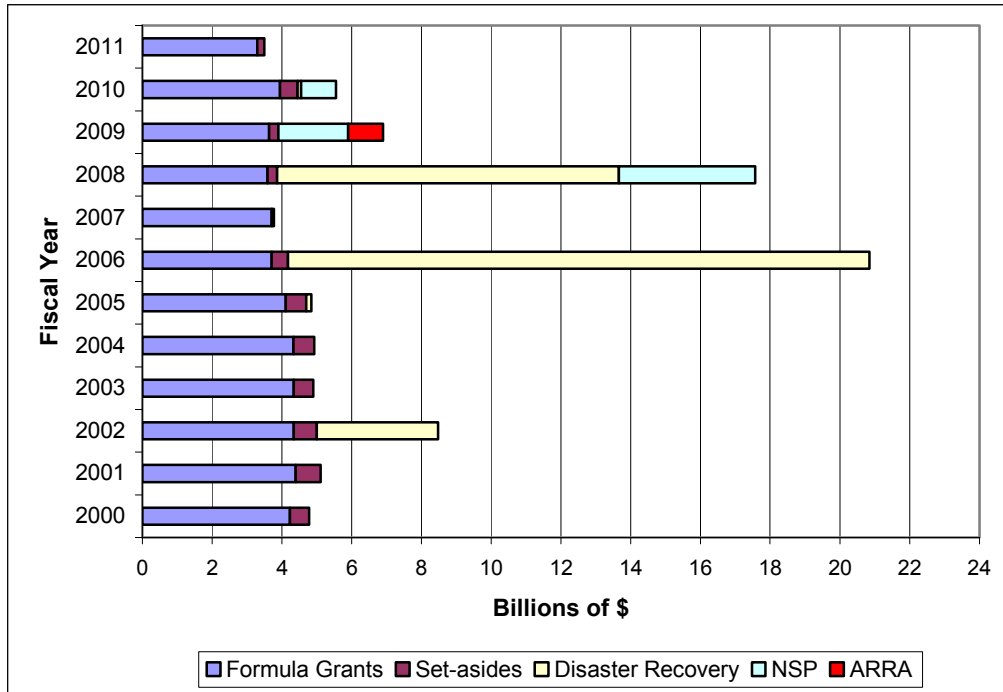
³¹ 42 U.S.C. §5302(a)(2) includes Puerto Rico in the definition of a state for the purposes of the CDBG program.

³² *Ibid.* p. 28.

- CDBG-related set-asides and earmarks; and
- CDBG-linked supplemental or special appropriations.

Figure 1 is a graphic representation of the distribution of the primary components of CDF account since FY2000.

Figure 1. CDF Appropriations: FY2000 to FY2011
(in billions of dollars)



Source: CRS analysis based on Table 6 and HUD Budget Justifications.

From FY2000 to 2010, total appropriations for the CDF account—excluding special and supplemental appropriations for disasters, mortgage foreclosures, and economic recovery—fluctuated between a high of \$5.112 billion for FY2001 and a low of \$3.772 billion for FY2007 (see Table 6). The FY2011 appropriation for CDF activities are the lowest appropriated in more than a decade.

Table 6. CDF Appropriations: FY2000 to FY2011

(in billions of dollars)

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
CDBG Formula Grants	4.235	4.399	4.341	4.340	4.331	4.117	3.711	3.711	3.593	3.642	3.948	3.303
Set-asides	0.545	0.713	0.659	0.565	0.603	0.585	0.467	0.061	0.274	0.258	0.502	0.198
<i>EDI & NI earmarks</i>	<i>0.263^a</i>	<i>0.401</i>	<i>0.336</i>	<i>0.301</i>	<i>0.334</i>	<i>0.300</i>	<i>0.356</i>	<i>0.0</i>	<i>0.206</i>	<i>0.185</i>	<i>0.195</i>	<i>0.0</i>
CDF Total	4.780	5.112	5.000	4.905	4.934	4.702	4.178	3.772	3.867	3.900	4.450	3.501
Disaster Recovery	0.000	0.000	3.480	0.000	0.000	0.150	16.673	0.000	9.800	0.00	0.100	0.000
NSP	—	—	—	—	—	—	—	—	3.900	2.000	1.000	0.000
ARRA	—	—	—	—	—	—	—	—	—	1.000	—	0.000
Supplemental/ Special Funds Subtotal	0.000	0.000	3.480	0.000	0.000	0.150	16.673	0.000	13.700	3.000	1.100	0.000
Total	4.780	5.046	8.480	4.905	4.934	4.852	20.851	3.772	17.566	6.900	5.550	3.501

Source: CRS appropriations reports, HUD Budget Justifications.

- a. Total appropriations were \$256.2 million for EDI, including \$232 million for earmarked projects and \$30 million for NI, including \$23 million for earmarked projects. EDI original appropriation of \$275 million was subject to a rescission of \$18.8 million.

Formula Grants

During recent appropriations cycles the funding level for the CDBG-formula component of the CDF account has been the focus of debate. Supporters of the program have pressed for increased funding, contending that the program’s appropriations have declined in both current and constant dollars. Supporters noted that this decline or near stagnation in funding has been compounded by the increased number of communities gaining entitlement status and thus eligibility for a direct allocation of a share of the 70% of funds dispersed to so-called “entitlement communities.” Entitlement communities have been forced to share an ever-shrinking or stagnant slice of the CDBG formula pie with an ever-increasing number of eligible grant recipients. Critics of the program have argued that increased funding has not been justified based on the program’s PART score³³ and, more recently, the need to reduce domestic discretionary spending as part of a larger effort to reduce federal budget deficit and the national debt.

As noted in **Table 7**, during the period from FY2000 to FY2010, the average grant amount allocated to CDBG entitlement communities declined by 26.7% from a high of \$3 million in

³³ Performance Assessment Rating Tool (PART) “is a questionnaire designed to help assess the management and performance of programs. It is used to evaluate a program’s purpose, design, planning, management, results, and accountability to determine its overall effectiveness.” The latest undertaken for the CDBG program was FY2003. For additional information on PART see <http://www.whitehouse.gov/omb/expectmore/part.html>. For a link to the CDBG entitlement program’s FY2003 PART review see <http://www.whitehouse.gov/omb/expectmore/summary/10001161.2003.html>.

FY2002 to a low of \$2.1 million in FY2008. The total amount appropriated declined annually from FY2001 to FY2008 and has been increasing from FY2009 to FY2010, but the average allocation had been steadily declining. However, since FY2008, the average allocation had increased by 9%, from \$2.2 million to \$2.4 million in FY2010. However, the FY2011 estimated average allocation of \$1.9 million is a reversal of that recent trend. For FY2011, the average allocation is 34.5% less than the amount appropriated in FY2000. The decline in the average grant amount is both a function of fewer dollars appropriated and an increase in the number of entitlement communities as more cities and counties achieve the population threshold necessary to be designated an entitlement community. From FY2000 to FY2011, the number of jurisdictions receiving a direct allocation as CDBG entitlement communities increased by 155, from 1,012 to 1,167 (see **Table 7**).

Table 7. Number of CDBG Grantees and Average Allocation: FY2000 to FY2011
(Fiscal Year Allocations)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 ^a
Total allocated to entitlement communities (in billions of \$)	\$2.964	\$3.079	\$3.039	\$3.038	\$3.032	\$2.882	\$2.593	\$2.598	\$2.510	\$2.549	\$2,760	\$2,325
Number of entitlement communities	1,012	1,018	1,023	1,041	1,111	1,117	1,135	1,140	1,151	1,159	1,165	1,167
Average entitlement allocation (in millions of \$)	\$2.9	\$3.0	\$3.0	\$2.9	\$2.7	\$2.6	\$2.3	\$2.3	\$2.2	\$2.2	\$2.4	1.9
Total allocated to states (in billions of \$)	\$1.271	\$1.320	\$1.302	\$1.302	\$1.299	\$1.235	\$1.111	\$1.113	\$1.076	\$1.093	\$1.183	\$973
Number of states + Puerto Rico	51	51	51	51	51	51	51	51	51	51	51	51
Average state allocation (in millions of \$)	\$24.9	\$25.9	\$25.5	\$25.5	\$25.5	\$24.2	\$21.8	\$21.8	\$21.1	\$21.4	\$23.2	\$19.1

Source: CRS analysis based on data from HUD.

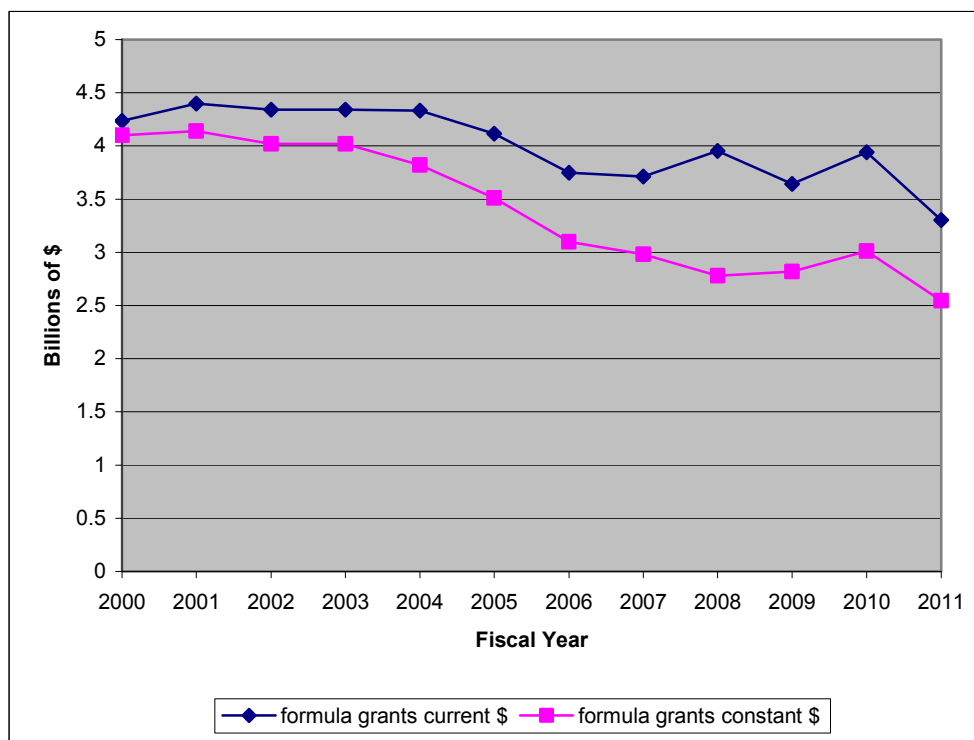
a. Figures for FY2011 are based on preliminary estimates generated by HUD.

The fluctuations in the average annual grant amount awarded to states were less pronounced. In FY2010, \$1.183 billion was allocated among the 50 states and Puerto Rico for distribution to nonentitlement communities. This was 7.4% (\$88 million) less than the \$1.271 billion made available to states in FY2000, but 7.6% (\$90 million) more than allocated to states for FY2009. During this period the average state allocation declined from a high of \$25.5 million in FY2002 to \$21.1 million in FY2008 before rebounding to \$23.2 in FY2010. However, the FY2011 average state allocation of \$19.1 million reverses that upward trend. The FY2011 estimated average allocation is 23.3% less than the FY2000 amount and 17.7% less than the FY2010 average state allocation.

Impact of Inflation on CDBG-Formula Allocations

When measured in inflation-adjusted constant dollars, program funding declined by 40% during this period, from \$4.235 billion in FY2000 to \$2.545 billion in FY2011. As **Figure 2** illustrates, appropriations for CDBG formula grants have fluctuated between \$3.5 billion and \$4.3 billion in current (non-inflation adjusted) dollars during the last decade.

Figure 2. CDBG Funding in Current and Constant Dollars: FY2000-FY2011
(Base Year 2000)



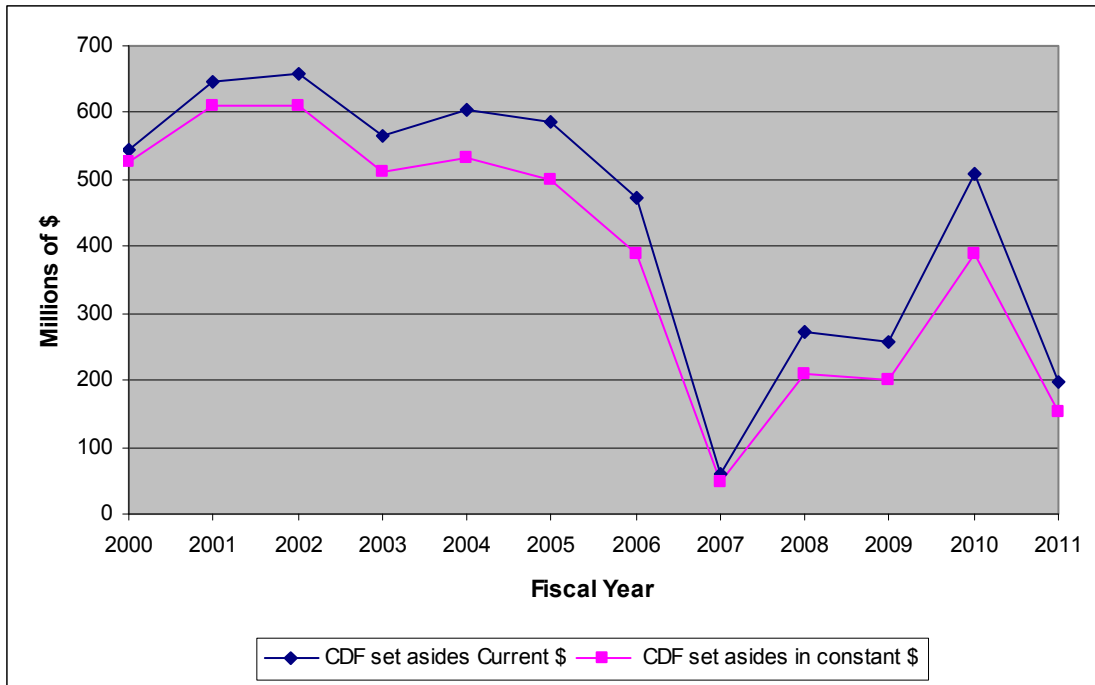
Source: CRS analysis.

CDBG-Linked Set-Asides and Earmarks³⁴

In addition to the CDBG formula program, the CDF is also populated by a number of other programs with smaller appropriation levels, narrower objectives, and fewer direct recipients. Some set-asides included in the account are intended to complement the activities of the larger formula grant program. Others are intended to meet other agency objectives and still others are earmarked for specific activities or projects. Some observers have contended that a number of these programs have been funded at the expense of the larger CDBG formula grant program, particularly those projects funded as earmarks.

³⁴ Set-asides are funds in a larger appropriations measure that is designated to fund a specific program or activity. Under House and Senate rules, “an earmark is a provision in legislation or report language that is included primarily at the request of a Member, and provides, authorizes, or recommends a specific amount to an entity or to a specific state, locality, or congressional district.” For a discussion of disclosure procedures CRS Report R40976, *Earmarks Disclosed by Congress: FY2008-FY2010 Regular Appropriations Bills*, by Carol Hardy Vincent and Jim Monke.

Figure 3. CDF Set Asides in Current and Constant Dollars: FY2000 to FY2011
(in millions of dollars)



Source: CRS analysis.

From FY2000 to FY2011, the number and appropriations for set-aside programs included in the CDF account have fluctuated significantly. In FY2001 Congress appropriated \$647 million for CDF set-asides, but only \$61 million in FY2007. In FY2007, Congress eliminated all earmarks in the CDF account. In FY2010, Congress appropriated \$509 million in CDF set-aside activities, with a significant portion of that amount targeted to the earmark accounts of Economic Development Initiative (EDI) and Neighborhood Initiative (NI). Most recently, for FY2011 Congress eliminated funding for the EDI and NI earmarked accounts. The broad swing in the amounts appropriated for CDF set-asides was a result of Congress's decisions

- to move several categorical grant programs into or out of the CDF account, including deciding to no longer fund a program or to transfer selected programs to another account;
- to reduce funding for specific programs; and
- to fund, and at what amount, two programs that have been the vehicles for congressional earmarks, EDI and NI programs.

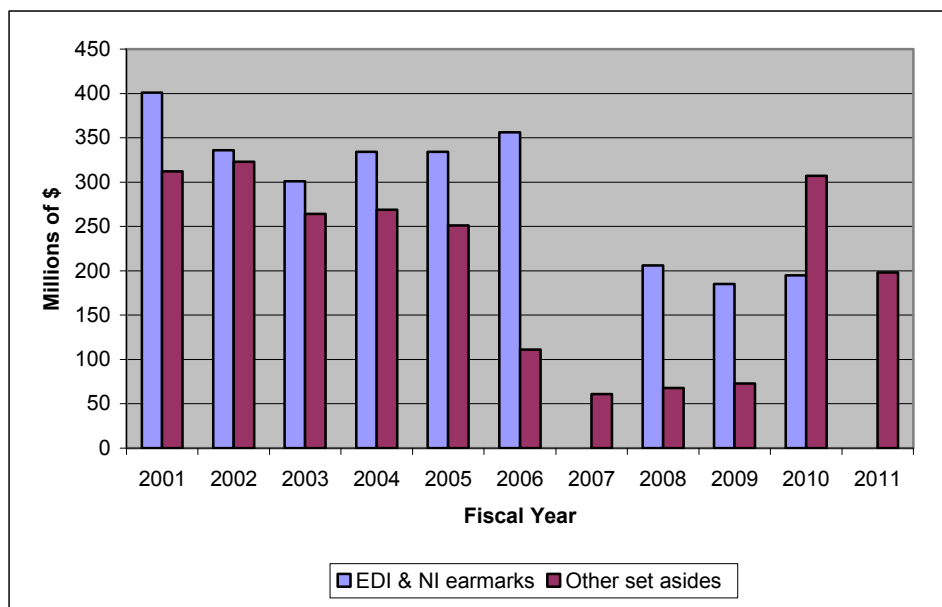
See **Table A-1** in the Appendix for a detailed listing of programs included as set-asides in the CDF account during the period from FY2000 to FY2011. From FY2000 to FY2008, CDBG-related set-asides and earmarks declined by 59.4% when measured in constant FY2000 dollars, but rebounded in FY2009 and FY2010 before declining significantly in FY2011. (See **Figure 3**.)

Earmarks Dominate Set-Aside Activities

With the exception of FY2011 and FY2007 (when there were no earmarks), and FY2010 (when the Obama Administration introduced its Sustainable Communities Initiative), congressional earmarked projects funded by the EDI and NI programs were the dominant elements of CDBG-related set aside appropriations. These two programs are used exclusively for congressionally earmarked projects.

The issue of earmarks has been the source of debate during recent Congresses. During the FY2007 appropriations cycle Congress removed all earmarks from the CDF account. Subsequently both houses of Congress have instituted new rules governing disclosure of earmark requests.³⁵ Since FY2007, EDI and NI earmarks have been included in subsequent legislation appropriating funds for CDF activities. In FY2008 and FY2009, EDI and NI earmarks were the dominant components of CDBG-linked set asides programs. As **Figure 4** illustrates, the combined appropriations for EDI and NI in FY2008 and FY2009 were twice the amount appropriated for other set-aside activities combined. For FY2011 Congress did not fund NI and EDI earmarks.

Figure 4. CDF Earmarks and Set-Asides: FY2000 to FY2011
(in millions of dollars)



Source: CRS analysis.

³⁵ For a discussion of disclosure procedures see CRS Report RL34462, *House and Senate Procedural Rules Concerning Earmark Disclosure*, by Sandy Streeter, and CRS Report R40976, *Earmarks Disclosed by Congress: FY2008-FY2010 Regular Appropriations Bills*, by Carol Hardy Vincent and Jim Monke.

Special Appropriations

When events have warranted, Congress has used the CDBG program's administrative framework and rules to provide supplemental or special appropriations (see **Figure 1**). These supplemental funds have been used to

- support local and state government disaster relief, recovery, and mitigation activities following such events as the terrorist attacks of 9/11 and the Gulf Coast hurricanes of 2005;³⁶
- assist local and state governments in reducing the inventory of abandoned and foreclosed properties (caused by the recent and ongoing mortgage foreclosure crisis) by providing funds to states and selected communities to be used to acquire, rehabilitate, and resell foreclosed properties under the Neighborhood Stabilization Program (NSP),³⁷ and
- assist local and state governments in supporting private sector job creation in response to the economic recession that began in December 2007, as part of a larger federal effort under the American Recovery and Reinvestment Act (ARRA).³⁸

With the exception of CDBG-ARRA funds, which were allocated to all eligible CDBG entitlement communities, disaster relief and NSP funding were allocated only to states or communities meeting specific criteria or eligibility thresholds.³⁹ In the case of CDBG disaster funding, only communities designated as disaster areas by a presidential declaration have received funds, at the discretion of Congress. Each Congress decides if the magnitude of the disaster warrants supplemental CDBG funds beyond funds typically made available by the Federal Emergency Management Administration (FEMA).

In the case of the first and third rounds of the Neighborhood Stabilization Program, known as NSP-1 and NSP-3, funds were allocated to states based on the relative number and percentages of mortgage foreclosures, subprime loans, and mortgage delinquencies and defaults. Congress established a minimum grant amount to be awarded to each state of 0.5% of the amount appropriated. Of the amounts allocated to each state under NSP-1 and NSP-3, Congress required each state to dispense a portion of these funds to local governments experiencing high rates of mortgage foreclosures, subprime loans, and mortgage delinquencies and defaults allowing these communities to directly administer these funds. It further limited the direct allocation of NSP to

³⁶ For additional information on the use of CDBG funds for disaster relief and recovery see CRS Report RL33330, *Community Development Block Grant Funds in Disaster Relief and Recovery*, by Eugene Boyd.

³⁷ For additional information on the use of CDBG funds to address the mortgage foreclosure crisis see CRS Report RS22919, *Community Development Block Grants: Neighborhood Stabilization Program; Assistance to Communities Affected by Foreclosures*, by Eugene Boyd and Oscar R. Gonzales.

³⁸ This was not the first time Congress used the CDBG program framework to create jobs in response to a recession. The Emergency Jobs Appropriations Act of 1983, P.L. 98-8, allocated an additional \$1 billion in CDBG funds to be used for job creation activities in response to a national unemployment rate of 10.7% and what a General Accounting Office (GAO) report characterized as the worst economic recession of the post-World War II era. The report noted that the CDBG program was the most efficient job creation mechanism of the 77 federal programs that received funding under the act. The report, *Emergency Jobs Act of 1983: Funds Spent Slowly, Few Jobs Created*, GAO/HRD 87-1, is available at <http://archive.gao.gov/f0102/132063.pdf>.

³⁹ Congress funded three rounds of NSP activities. These three rounds have been designated as NSP-1, NSP-2, and NSP-3.

communities whose allocation met a minimum threshold of \$2 million for NSP-1 and \$1 million for NSP-3 funds. As a result 309 communities qualified for administration of NSP-1 funds while 268 communities met or exceeded the NSP-3 threshold. NSP-2 funds were awarded competitively to states, local governments, and non-profit organizations. For-profit entities are also allowed to participate as partners with any of the three primary grant recipients of NSP-2 funds.

Proposed Rescission of Neighborhood Stabilization Program Funds

On March 1, 2011, Representative Gary Miller introduced the Neighborhood Stabilization Termination Act, H.R. 861, which would rescind the \$1 billion in NSP-3 funds appropriated under the Wall Street Reform Act. On March 2, 2011, the House Financial Services Committee's Subcommittee on Insurance, Housing, and Community Opportunity conducted a hearing on NSP and three federal foreclosure mitigation programs. On March 9, 2011, the House Financial Services Committee considered, marked up, and ordered reported H.R. 861. During the markup the committee approved by voice vote an amendment requiring HUD to publish a notice of termination of the NSP program on its website. The notice is to be posted within five days following the bill's enactment and is to include language directing citizens to contact their congressional representatives and locally elected officials if they are concerned about the impact of foreclosures on their communities.

During the March 2, 2011, subcommittee hearing and the March 9, 2011, markup session by the House Financial Services Committee, Representative Miller, sponsor of H.R. 861, characterized the program as ineffective and a waste of taxpayers' dollars. He argued that, given the need to address the larger issue of reducing the federal debt and deficit, funding for NSP-3 should be rescinded. In addition, he argued that the program was a giveaway to banks and speculators. Other Members countered that the program has been successful in assisting communities to combat the negative impacts of the mortgage foreclosure crisis on neighborhoods, property values, and local revenues generated by property taxes. During the March 2 hearing, HUD's Assistant Secretary for Community Planning and Development, Mercedes M. Márquez, offered written testimony stating that HUD expects "NSP will impact 100,000 properties in the nation's hardest-hit markets," with 36,000 units already under construction.⁴⁰ In addition, the Assistant Secretary's testimony stated that "based on NSP1 activity budgets, the Department estimates that NSP will support more than 93,000 jobs nationwide."⁴¹ Members also argued that the program helps reduce the supply of abandoned, blighted, and foreclosed housing stock. The measure passed the House on March 16, 2011, by a vote of 242 to 182. A companion bill to H.R. 861 has not been introduced in the Senate.

⁴⁰ U.S. Congress, House Financial Services, Insurance, Housing, and Community Opportunity, "Legislative Proposals to End Taxpayer Funding for Ineffective Foreclosure Mitigation Programs," 112th Cong., 1st sess., March 2, 2011, pp. 4-5. <http://financialservices.house.gov/media/pdf/030211marquez.pdf>.

⁴¹ *Ibid.*, p. 8.

Appendix. CDF Set-Asides: FY2000 to FY2011

Table A-1. CDF Set-Asides from FY2000 to FY2011

(in millions of dollars)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Indian Tribes	67.0	71.0	70.0	70.5	71.6	68.4	59.4	59.4	62.0	65.0	64.3	64.2
Housing Assistance Council	3.0	2.9	3.3	3.3	3.3	3.3	— ^a	—	—	—	—	—
National American Indian Housing Council	2.2	2.6	2.6	2.4	2.5	2.4	—	—	— ^b	—	—	—
National Housing Dev. Corp.	—	10.0	5.0	5.0	5.0	4.8	— ^c	—	—	—	—	—
National Council of LaRaza	—	—	5.0	5.0	5.0	4.8	— ^c	—	—	—	—	—
Sec.107 Grants ^d	41.5	45.4	42.5	48.8	51.7	43.4	0.0		4.0	5.0		
Hawaiian Homelands	—	—	9.6	—	— ^a	—	—	—	—	—	—	—
University Comm. Fund	— ^a	— ^a	— ^a	— ^a	— ^a	— ^a	— ^a	— ^e	—	—	24.8	—
Resident Opportunity Support Services (ROSS)	55.0	55.0	55.0	— ^f	—	—	—	—	—	—	—	—
Working Capital Fund Info. Tech. transfer	—	15.0	13.8	3.4	4.9	3.4	1.6	1.6	1.5	3.2	—	—
Self-help Homeownership Opportunity (SHOP)	20.0	19.9	22.0	25.1	26.8	24.8	— ^c	—	—	—	—	—
Capacity Building	23.8	28.5	29.0	32.3	34.5	34.2	— ^c	—	—	—	—	—
YouthBuild	42.5	60.0	65.0	59.6	64.6	61.5	49.5	0.0 ^g	—	—	—	—
Sustainable Communities	—	—	—	—	—	—	—	—	—	—	148.5	98.8
Rural Innovation Fund	—	—	—	—	—	—	—	—	—	—	24.8 ^h	—
Alaskan Museum ⁱ	—	—	—	—	9.9	—	—	—	—	—	—	—
Special Olympics	4.0	—	—	—	—	1.9	—	—	—	—	—	—
Hudson River Park	—	—	—	—	—	30.7	—	—	—	—	—	—
Salt Lake City Olympic Games Temp. Housing	—	2.0	—	—	—	—	—	—	—	—	—	—

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Wellstone Center for Community Building	—	—	—	8.9	—	—	—	—	—	—	—	—
NI	30.0 ⁱ	43.9	42.0	41.8	43.7	41.4	49.5	—	25.9	19.5	22.1	—
EDI	256.2 ^k	357.3 ^l	294.2	259.3	279.3 ^m	259.9	306.9	—	179.8	165.3	172.8	—
Transformation Initiative	—	—	—	—	—	—	—	—	—	—	144.5 ⁿ	35.0
Total CDF Set-Asides	545.2	713.5	659.0	565.4	603.5	585.0	466.9	61.0	273.2	258.3	502.0	198.0

- a. Funded under Section 107 activities.
- b. Transferred to HUD's Public and Indian Housing account.
- c. Transferred to new Self Help and Assisted Housing account, created with the passage of P.L. 109-148.
- d. Section 107 of the Housing and Community Development Act of 1974, as amended, authorizes the funding of a number of activities including technical assistance; community development demonstration projects; community development work study programs; grants to minority serving institutions of higher education, including Historically Black Colleges and Universities, institutions serving Native Americans, Hispanic-serving institutions, and university-community partnerships.
- e. Prior to FY2007, CDBG-linked university activities were included in Section 107 subaccount. For FY2007, program funds of \$23 million were appropriated under a separate HUD account, Research and Technology.
- f. ROSS appropriations transferred to HUD's Public Housing Capital Fund account.
- g. Program authority transferred to the Department of Labor.
- h. Before FY2010, the program was funded under a separate account, Rural Housing and Economic Development.
- i. Added by P.L. 108-199, Section 165.
- j. FY2000 appropriation includes \$23 million in congressional earmarks and \$7 million in competitive grants. All funds after FY2000 earmarked for projects included in conference reports.
- k. FY2000 appropriation includes \$232 million in congressional earmarks and \$24 million in competitive grants. All funds after FY2000 were earmarked for congressionally designated projects. Does not include \$27.5 million in emergency supplemental appropriations.
- l. Includes amounts appropriated under P.L. 106-377 and P.L. 106-554. All funds were earmarked for specific projects.
- m. Includes \$2.990 million added by P.L. 108-199, Section 167.
- n. Subtotal for Transformation Initiative assumes transfer of 1% of amounts appropriated to programs included in the CDF account.

Author Contact Information

Eugene Boyd
Analyst in Federalism and Economic Development
Policy
eboyd@crs.loc.gov, 7-8689

Acknowledgments

The author would like to acknowledge Julius Jefferson, Information Specialist, KSG-G&F, and Rod Williams, Government and Finance Division intern, for their contributions to the development of this report.