



**Congressional
Research Service**

Informing the legislative debate since 1914

Community Development Block Grants and Related Programs: A Primer

Eugene Boyd

Analyst in Federalism and Economic Development Policy

April 30, 2014

Congressional Research Service

7-5700

www.crs.gov

R43520

Summary

The Community Development Block Grant (CDBG) program, administered by the Department of Housing and Urban Development (HUD), was first authorized by Title I of the Housing and Community Development Act of 1974, P.L. 93-383 (42 U.S.C. 5301, et seq.). The program is one of the largest and longest-standing federal block grants in existence, annually allocating billions of dollars in federal assistance to state and local governments in support of local neighborhood revitalization, housing rehabilitation, and community and economic development efforts. During the program's 40-year existence, Congress has allocated approximately \$145 billion in CDBG formula grants to help state and local governments undertake these activities. The block grant nature of the program provides recipient jurisdictions fairly substantial administrative discretion.

Funds are awarded by formula to so-called "entitlement communities" and states, who act as pass-through agents awarding funds to small communities unable to meet the minimum population threshold for entitlement status. During FY2013, approximately 1,237 entitlement communities and states qualified for a direct allocation of funds. Grant funds may be used to undertake any of 27 categories of eligible activities, including the acquisition, demolition, and sale of real property; the construction of public facilities; the undertaking of public services; historic preservation; energy conservation; and the provision of assistance to for-profit and not-for-profit entities in support of private-sector job creation. Although communities and states are given great discretion and flexibility in the selection of activities to be funded, the program's governing statute requires that all activities meet one of three national objectives. Eligible activities must:

- principally benefit low or moderate income persons;
- aid in preventing or eliminating slums or blight; or
- address an imminent threat to the health and safety of residents.

In addition, the act quantifies the "principally low and moderate income persons" (LMI) benefits national objective by requiring each entitlement community and state to expend in the aggregate, over a one-, two-, or three-year period, at least 70% of its CDBG allocation on activities that principally benefit low and moderate income persons.

Before undertaking program activities, a recipient of funds must develop a consolidated plan assessing its current housing and non-housing community development conditions and it must propose a plan to address the community's housing and community development needs. Grant recipients are also required to submit to HUD an annual performance report detailing progress that has been made in achieving proposed outcomes and identifying the status of activities identified in its annual plan.

In addition to the CDBG formula portion of the program, HUD administers a number of smaller grant and loan guarantee programs intended to support or augment the activities and objectives of the larger CDBG formula grant program. These programs support regional planning, the reclamation of brownfields, rural housing, and the provision of technical assistance to community development corporations and community housing development organizations. Critics have contended that many of these programs duplicate the activities of the CDBG formula grant program.

This report is intended as a primer to acquaint the reader with a basic understanding of CDBG and related programs. In-depth policy discussions and funding history may be found in other CRS products, including CRS Report R43208, *Community Development Block Grants: Funding Issues in the 113th Congress*, and CRS Report R43394, *Community Development Block Grants: Recent Funding History*. This report will be updated as events warrant.

Contents

Introduction.....	1
Block Grant Context of the Program	1
Eligible Entities	2
Entitlement Communities	2
Insular Areas.....	2
States.....	2
Section 107 Special Project Grants	3
Subgrantees.....	3
National Objectives and Program Requirements	4
Income Targeting Requirement	5
Entitlement Communities	5
Citizen Participation Plan.....	6
Housing Assessment.....	6
Community Development Plan	6
Performance Measures	7
States.....	7
Nonentitlement Communities.....	8
Department of Housing and Urban Development	8
Formula Allocation	9
Entitlement Communities.....	9
Formula A.....	9
Formula B.....	9
States.....	10
Formula A.....	10
Formula B.....	10
Eligible Activities	11
Performance Reporting.....	12
Related Programs	12
Indian Community Development Block Grants (ICDBG)	13
Section 108 Loan Guarantees.....	13
Brownfield Economic Development Initiatives (BEDIs).....	14
Neighborhood Stabilization Program	15
CDBG Disaster Recovery Grants (CDBG-DR)	16
Economic Development Initiatives (EDI)	16
Neighborhood Initiative (NI).....	17
University-Based Programs.....	18
Capacity Building for Community Development and Affordable Housing	18
Sustainable Housing and Communities Initiative	19
Rural Innovation Fund.....	19
Concluding Observations.....	20

Tables

Table 1. CDBG Eligible Activities by General Categories 11

Contacts

Author Contact Information..... 20

Introduction

This report is intended as an introduction to the laws and rules governing the Community Development Block Grant (CDBG) and related programs. The CDBG program, administered by the Department of Housing and Urban Development (HUD), was first authorized by Title I of the Housing and Community Development Act (HCDA) of 1974, P.L. 93-383.¹ The program is one of the largest and longest-standing federal block grants in existence, annually allocating billions of dollars in federal assistance to state and local governments in support of community and economic development efforts. During the program's 40-year existence, Congress has appropriated approximately \$145 billion in CDBG-formula grants to help state and local governments undertake housing, economic development, neighborhood revitalization, and other community development activities.² Congress has also appropriated approximately \$50 billion in supplemental CDBG funds to address extraordinary events, including economic recessions, and manmade and natural disasters. In FY2013, the latest data available at this writing, the CDBG program was the largest source of federal assistance to state and local governments for community development activities, and the 20th largest source of grant assistance to states and local governments, ranking behind such programs as Federal Aid to Highways, Transit Assistance, Aid for the Education of the Disadvantaged, School Improvements, Special Education, Medicaid and Medicare, and Temporary Assistance to Children and Families.³

Block Grant Context of the Program

Federal grant assistance to state and local governments falls within three broad categories: (1) revenue sharing, (2) categorical grants, and (3) block grants. Revenue sharing is generally characterized as formula driven with broad discretion given to state and local governments while categorical grants are narrowly targeted to a specific activity or activities and may be awarded competitively or by formula. The third category is block grants. According to the now-defunct Advisory Commission on Intergovernmental Relations, a block grant is characterized by five basic traits:

- it authorizes federal aid for a wide range of activities within a broad functional area;
- it gives recipient jurisdictions fairly substantial administrative discretion;
- its administrative, fiscal reporting, planning, and program requirements are geared to keeping federal administrative intrusiveness to a minimum, while recognizing the need to ensure adequate oversight and that national goals are accomplished;
- its formula-based distribution provision narrows grantor administrative discretion and provides some sense of fiscal certainty for grantees; and

¹ 42 U.S.C. §5301 et seq.

² For a discussion of the program's funding history see CRS Report R43394, *Community Development Block Grants: Recent Funding History*, by Eugene Boyd. For a discussion of current funding and related issues see CRS Report R43208, *Community Development Block Grants: Funding Issues in the 113th Congress*, by Eugene Boyd.

³ See Table 15-2, Fiscal Year 2014 Budget of the United States, Analytical Perspective, available at <http://www.whitehouse.gov/sites/default/files/omb/budget/fy2014/assets/spec.pdf>.

- its eligibility provision is fairly specific, relatively restrictive, and tends to favor units of general local government.⁴

The CDBG program meets all of the above characteristics of a block grant.

Eligible Entities

There are three categories of recipients eligible for direct allocations of CDBG program funds: entitlement communities (including insular areas), states, and Section 107 special project grants.⁵

Entitlement Communities

These are principal (central) cities of metropolitan areas, other metropolitan-based cities (satellite) with populations of 50,000 persons or more, and statutorily defined urban counties whose populations may range from 100,000 to 200,000 persons.⁶ Seventy percent of the funds appropriated for CDBG activities are allocated among these communities after funds are set aside, at the discretion of Congress, for Section 107 grants and other supplemental programs. In FY1975, the program's first operational year, there were 594 entitlement communities⁷ (521 metropolitan cities and 73 urban counties), by FY2014 the number of eligible entitlement communities reached 1,200.⁸ This includes the four insular areas of Guam, American Samoa, the Virgin Islands, and the Northern Mariana Islands.

Insular Areas

Title V of the American Dream Home Downpayment Act, P.L. 108-186, transferred authority for insular areas from Section 107 to Section 106 of the HCDA of 1974, as amended.⁹ Under this arrangement, a specific amount is set aside for distribution to insular areas. Appropriations for insular areas for the most recent fiscal years have averaged approximately \$7 million, which is divided among the four entities based on each entity's relative share of population for all insular areas.

States

States and Puerto Rico receive 30% of the funds appropriated after amounts are set aside for activities funded under Section 107 and other programs. States serve as pass-through agents and

⁴ Richard H. Leach, *Improving Urban America: A Challenge to Federalism*, Advisory Commission on Intergovernmental Relations, M-107, Washington, DC, September 1976, pp. 90-91.

⁵ This refers to Section 107 of the program's authorizing statute, P.L. 93-383, 42 U.S.C. 5307.

⁶ Over the life of the program, Congress has exercised its discretion and included, by legislative fiat, communities that did not meet the minimum population threshold for eligibility.

⁷ United States Department of Housing and Urban Development, *Community Development Block Grants Program*, First Annual Report, Washington, DC, December 1975, p. 6.

⁸ United States Department of Housing and Urban Development, *FY2014 Formula Allocations All Grantees*, Washington, DC, April 2014, http://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/about/budget/budget14.

⁹ 42 U.S.C. §5301(ff) as authorized at 117 Stat. 2697.

are prohibited from directly undertaking community development activities.¹⁰ Instead each state is required to develop the method that will be used to distribute funds to communities that do not meet requirements for entitlement funding.¹¹ Only Hawaii has elected not to administer this segment of the program. Instead, HUD distributes funds directly among the nonentitlement communities in the state of Hawaii.

Section 107 Special Project Grants

Currently eligible uses of Section 107 funds include grants:

- to any state or local government that received an insufficient CDBG formula allocation as a result of a miscalculation of its share of formula grants awarded to eligible entities;
- to minority serving institutions, including historically black colleges and universities, and institutions of higher education serving Hispanic populations and Indian tribes;
- to Indian tribes, states, local governments, and area-wide planning organizations for the provision of technical assistance, knowledge transfer, and capacity building activities;
- to states or local government working jointly with institutions of higher education to carry out eligible CDBG activities; and
- to units of local government in nonentitlement areas to be used to assist these communities in undertaking community adjustment and economic diversification activities in response to proposed or actual base realignment activities (BRAC), cancellation of Department of Defense (DOD) contracts, or the public announcement of a planned reduction in DOD spending that would directly affect the economic base of the communities.

In the past, Section 107 grants also included funds for minority students enrolled in institutions of higher education who were participating in community development work study programs, and prior to FY2006, grants to insular areas.¹² During the last few federal budget cycles Congress elected to fund only grants to Indian tribes.

Subgrantees

In addition to directly allocating funds to entitlement communities and states by formula, the program's authorizing statute allows non-profit organizations and for-profit entities to participate in the program as sub-recipients. Non-profits may be designated as grant administrators. In addition, entities such as community development corporations, social service agencies, and

¹⁰ Congress has granted exceptions to this restriction by including in some CDBG disaster supplemental appropriations acts language that allowed the state to directly administer activities financed with CDBG disaster supplemental funds.

¹¹ States gained the option of directly administering this segment of the program with the passage of the Omnibus Budget Reconciliation Act of 1981 during the Reagan Administration. Forty-nine states voted to directly administer this segment of the program.

¹² Beginning in FY2006 insular area funding was included as a separate set-aside under the section of the law (42 U.S.C. §5306) allocating funds to states, entitlement communities, and Indian tribes.

community development housing organizations may receive a share of an entitlement community's allocation when funds are used to finance economic development, housing, job creation, or public service activities. For-profit entities may also be designated as sub-recipients of CDBG funds when such funds are used to support economic development and job creation activities.

National Objectives and Program Requirements

The primary goal of the CDBG program is “the development of viable urban communities, by providing decent housing and a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income.”¹³

As a condition for receiving funds, the program's authorizing statute requires states and local governments to certify that proposed CDBG activities meet one of the program's three national objectives. Eligible activities must:

- principally benefit low- and moderate-income persons defined as families and individuals whose household incomes do not exceed 80% of a jurisdiction's median income;
- aid in the prevention or elimination of slums or blight; or
- meet an urgent need by addressing conditions that pose a serious and immediate threat to the health and safety of residents.

The statute governing the program also requires states and entitlement communities to allocate at least 70% of their CDBG allocation, during a one-, two-, or three-year period specified by the grantee, to eligible activities principally benefitting low- and moderate-income persons. The statute and regulations¹⁴ governing the CDBG program detail the specific requirements and responsibilities of entitlement communities; states; nonentitlement communities; and HUD, the federal administering agency.

Starting in 1995, HUD revamped the CDBG application and planning requirements as part of a larger reinventing government effort carried out by the Clinton Administration. Most significantly, as part of its reinvention efforts, the Department published new rules governing planning and reporting requirements for CDBG, HOME, Emergency Solution Grants, and Housing Opportunities for Persons with AIDS.¹⁵ The rules consolidated planning and performance reporting requirements for these four programs and required eligible jurisdictions to designate a single starting date for the four grant programs. Consistent with the growing focus on the devolution of authority to lower levels of government, HUD anticipated that the consolidated plan would:

¹³ 42 U.S.C. §5301(c).

¹⁴ Regulations governing the program can be found at 24 C.F.R. Part 570, available at <http://www.gpo.gov/fdsys/pkg/CFR-2012-title24-vol3/pdf/CFR-2012-title24-vol3-part570.pdf>.

¹⁵ Regulations governing Consolidated Plan requirements can be found at 24 C.F.R. Part 91, available at http://www.ecfr.gov/cgi-bin/text-idx?c=ecfr&tpl=/ecfrbrowse/Title24/24cfr91_main_02.tpl.

- encourage communities and states to develop comprehensive, coordinated approaches in the administration of federal housing and community development programs;
- reduce federal paperwork requirements;
- improve program accountability through the use of measurable goals; and
- strengthen citizen participation.¹⁶

When initially issuing these planning and reporting regulations, HUD noted that the consolidated submission replaced the Comprehensive Housing Assistance Strategy (CHAS) of the HOME program, the community development plan required by the CDBG program, Emergency Shelter Grants (now Emergency Solutions Grants) and Housing Opportunities for People with AIDS applications. The rule also consolidated the reporting requirements for these programs, replacing five general performance reports with one performance report. As noted by HUD, the consolidated plan and consolidated report replaced 12 previously required documents.¹⁷

Income Targeting Requirement

In order to receive funds each entitlement community or state must certify that it will target at least 70% of its funds to activities that principally benefit low- and moderate-income persons over a one-, two-, or three-year period established by the entitlement community or state. In addition to the income-targeting provisions, communities and states must certify that they will meet a number of crossing-cutting requirements relating to environmental review of proposed actions; historic preservation; lead-based paint abatement; displacement and relocation assistance; fair labor standards; fair housing; and nondiscrimination in employment.

Entitlement Communities

As a condition of receiving CDBG funds, entitlement communities must submit a consolidated plan in accordance with the provision of 24 C.F.R. 91 at least 45 days before the beginning of its program year. Although each recipient can designate when its program year begins, HUD will not accept a consolidated plan submission earlier than November 15 or later than August 16 of each calendar year. Among the components that must be included in a community's multi-year consolidated plan (ConPlan) are the following:

1. a citizen participation plan;
2. a housing needs assessment; and
3. a community development plan.

¹⁶ Margery Austin Turner, G. Thomas Kingsley, and Monte L. Franke, et al., *Planning to Meet Local Housing Needs: The Role of HUD'S Consolidated Planning Requirements in the 1990s*, The Urban Institute Metropolitan Housing and Communities Policy Center, Submitted to the U.S. Department of Housing and Urban Development, Washington, DC, December 2002, pp. 2-9 - 2-10, http://www.huduser.org/portal/publications/hsgfin/local_housing_needs.html.

¹⁷ Department of Housing and Urban Development, "Consolidated Submissions for Community Development Programs; Final Rule," 60 *Federal Register* 1878, January 5, 1995.

Citizen Participation Plan

As part of the citizen participation process entitlement communities are required to:

- identify strategies that will be employed to minimize the displacement of residents;
- provide citizens, public agencies, and other interested parties with information on the amount of funds available and the range of eligible activities that may be undertaken;
- provide technical assistance to organizations representing low- and moderate-income residents that request assistance in developing proposals that may be eligible for funding;
- outline a process to allow citizens to review and critique the ConPlan; and
- hold at least two public hearings annually in an effort to obtain citizen feedback. These hearing are intended to identify housing and community development needs within the community, consider proposals for funding, and review program performance.

Most CDBG entitlement communities have established community-wide citizen advisory panels in an effort to encourage citizen participation. The roles of these entities vary widely and may include reviewing the jurisdiction's consolidated plan, conducting public hearings, and recommending projects and activities for funding. In addition, the composition of citizen advisory panels also varies widely and includes business and civic leaders and persons from organizations representing the interest of low- and moderate-income persons, including the homeless.

Housing Assessment

A community is also required to conduct housing and homeless needs assessments. The housing assessment must include a five-year estimate of the number and type of families in need of housing assistance, and an estimate of the nature and extent of homelessness. The assessment must also include information on the supply, demand, and condition of special needs housing for persons with disabilities and HIV/AIDS, the number and condition of public housing units, an inventory of facilities and services for the homeless, and an assessment of barriers to affordable housing. Using data from the jurisdiction's housing and homeless needs assessments, each jurisdiction receiving funds must develop and submit a strategic plan that outlines general priorities and specific objectives related to affordable housing, homelessness, and special needs housing, including supportive service needs of the elderly and persons with disabilities.

Community Development Plan

The community development component of the ConPlan must describe the jurisdiction's long- and short-term community and economic development objectives, including strategies that will be used to reduce or eliminate the number of families living at or below the poverty level. The local government must identify private, public, and nonprofit institutions that will be involved in implementing the ConPlan. Further, for each objective identified in the ConPlan, a jurisdiction must:

- submit to HUD an annual action plan that identifies federal and other resources that will be used to address specific objectives described in the annual action plan;
- estimate the number and type of families that will benefit from the proposed activities;
- identify the specific local objectives and priority needs that will be addressed;
- identify projected accomplishments and target date for completion of the activity; and
- describe procedures that the jurisdiction will use in monitoring funded activities.

Performance Measures

In addition to an annual action plan, each jurisdiction annually must submit to HUD a Comprehensive Annual Performance Evaluation Report (CAPER) detailing progress it has made in meeting the goals and objectives outlined in its action plans. A community's CAPER must include information on the resources made available during the year, the use of those resources in addressing program objectives, the geographic distribution of funds, and the income, racial, and ethnic status of persons receiving assistance.

States

States, which act as pass-through agents for the program, do not actually undertake activities, but are charged with three distinct responsibilities. These include

- determining the method or methods to be used to distribute funds to nonentitlement communities, including seeking the input of affected local governments;
- selecting local governments that will receive funds;
- monitoring local government grant recipient project implementation to ensure compliance with rules governing the program, including civil rights laws promoting fair housing and prohibiting discrimination, federal environmental review, anti-displacement, citizen participation and public hearing requirements.¹⁸

States are required to seek the participation of nonentitlement communities when developing the method(s) that will be used to distributed funds. States must provide units of local government sufficient information regarding factors that will be used to select projects allowing nonentitlement communities to prepare responsive application. States are free to design method(s) of distribution free from input from HUD. A state may award all or some of the funds: (1) competitively using a point system; (2) by formula using factors developed by the state; (3) by targeting or dedicating funds for a specific activity (i.e., economic development, infrastructure, public facilities, or housing); or (4) any combination of the preceding three options.

¹⁸ 42 U.S.C. §5306(d).

In addition, each state is required to submit to HUD a ConPlan that includes a five-year housing and homeless needs assessment, a housing market analysis, a strategic plan that includes proposed housing and non-housing community development activities, and a one-year action plan. A state's action plan is expected to include a summary of the objectives and projected outcomes, an evaluation of the grantee's past performance, summaries of the citizen participation process that will be followed, federal and non-federal resources expected to be available for program activities, annual objectives the state expects to address, projected geographic distribution of funds, and outcome measures.

Nonentitlement Communities

Nonentitlement communities that receive CDBG funds are responsible for project implementation. These communities must certify that they will minimize the displacement of low- and moderate-income persons, and that the eligible activity will be conducted in compliance with applicable civil rights, environmental, and labor standards requirements. In addition, a nonentitlement community must certify that the proposed activity meets one of the three national objectives and that it has provided opportunities for citizen input in the development of the proposed project.

Department of Housing and Urban Development

HUD's responsibilities include general oversight and enforcement of noncompliance provisions governing state and entitlement community programs. This includes determining whether states and entitlement communities have carried out required certifications relating to civil rights, national objectives, citizen participation, anti-displacement, labor standards, and environmental review. HUD is also required to review state and entitlement community performance reports and perform audits to determine compliance with applicable performance criteria.

In general, when reviewing a jurisdiction's annual performance, HUD is responsible for assessing the jurisdiction's management of funds, accuracy of its performance report, and compliance with the consolidated plan. If a jurisdiction's program is found to be in noncompliance with program requirements, HUD may take any of the following actions:

- request that the state or entitlement community submit additional information and outline remedial actions that will bring the program into compliance;
- issue a letter of warning;
- in the case of noncompliance by a nonentitlement recipient of state CDBG funds, it may advise the state to suspend a questionable activity or to suspend the local government;
- institute conditions on the use of funds;
- terminate payments to the recipient;
- reduce payment to the recipient;
- limit payments to activities and projects not affected by activities found in noncompliance with statute and regulations governing the program; or

- seek civil action.¹⁹

The program's authorizing statute conveys to the Secretary of HUD the power to waive statutory and regulatory provisions governing the program when responding to presidentially-declared disasters under the Robert T. Stafford Disaster Relief and Emergency Assistance Act.²⁰ However, the statute prohibits HUD from waiving provisions relating to fair housing, non-discrimination, fair labor standards, environmental review, and the 70% low and moderate income (LMI) expenditure requirement even when responding to presidentially declared disasters. Congress has from time to time modified the LMI targeting requirement by reducing the percentage of funds that must be used to benefit LMI households.

Formula Allocation

After amounts specified in an appropriations act are allocated to Section 107 special-purpose activities and other identified activities, 70% of the remaining funds are allocated by formula to entitlement communities, and 30% to the states for distribution to nonentitlement communities. Funds are awarded to entitlement communities based on the higher yield from one of two weighted formulas using population, housing, and poverty data.

Entitlement Communities

Formula A

Formula A is based on each jurisdiction's percentage share of population, poverty, and housing overcrowdedness relative to all entitlement jurisdictions.

Each entitlement community's share = $0.25(\text{pop}/\text{total pop}) + 0.50(\text{pov}/\text{total pov}) + 0.25(\text{overcrowded}/\text{total overcrowded})$.²¹

Formula B

Formula B allocates funds based on each jurisdiction's weighted relative share of poverty, housing built before 1940, and the lag in population growth rate relative to the total for all entitlement communities.

Each entitlement community's = $0.30(\text{pov}/\text{total pov}) + 0.50(\text{age of housing}/\text{total age of housing}) + 0.20(\text{pop lag}/\text{total pop lag})$.²²

¹⁹ 42 U.S.C. §5311.

²⁰ 42 U.S.C. §5170, *et seq.*

²¹ pop = population of an entitlement city/urban county, total pop = total population for all metropolitan areas; pov = number of persons at or below poverty level in the entitlement city/urban county, total pov = number of persons at or below poverty level in all metropolitan areas; overcrowded = number of household units in each entitlement city/urban county with more than 1.01 persons per room, total overcrowded = number of household units with more than 1.01 persons per room in all entitlement communities.

²² total pov = total number of poverty households in all entitlement communities; age of housing = number of housing units in community built before 1940, tot age of housing = total number of housing units in community built before (continued...)

States

Formula A

Similar formulas are used to allocate nonentitlement funds to states. Under formula A, each state's allocation is based on its percentage of population, poverty, and overcrowded housing in all nonentitlement areas in the state relative to total population, poverty, and overcrowded housing in all nonentitlement areas in all states.²³

State's share = $0.25(\text{state pop}/\text{total pop}) + 0.50(\text{state pov}/\text{total pov}) + 0.25(\text{state overcrowded}/\text{total overcrowded})$.²⁴

Formula B

Under formula B, state allocations are based on a similar set of factors; however, the population in each state's nonentitlement areas is substituted of the population growth lag factor. Unlike entitlement communities, which receive formula based allocations, nonentitlement communities in each state compete for a share of the state's allocation.

State share = $0.30(\text{state pov}/\text{total pov}) + 0.50(\text{state age of housing}/\text{total age of housing}) + 0.20(\text{state pop}/\text{total pop})$.²⁵

When determining each year's CDBG allocations to states and entitlement communities, HUD is required to use "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 90 days prior to the beginning of such fiscal year."²⁶ Starting in FY2012, HUD has used two sources of data to calculate CDBG allocations to entitlement communities and states: the 2010 Decennial Census and the 2005-2009 American Community Survey (ACS) five-year estimates. The ACS five-year estimates are updated every year, allowing HUD to annually update data sources used to allocate CDBG funds. This allows allocations to reflect recent projected demographic changes.

(...continued)

1940 in all entitlement communities; pop lag = lag in population growth rate in the entitlement community between 1960 and latest decennial census.

²³ Under 42 U.S.C. 5302(a)(2) Puerto Rico is defined as a state for the purpose of this program.

²⁴ pop = population of an entitlement city/urban county, total pop = total population for all metropolitan areas; pov = number of persons at or below poverty level in the entitlement city/urban county, total pov = number of persons at or below poverty level in all metropolitan areas; overcrowded = number of household units in each entitlement city/urban county with more than 1.01 persons per room, total overcrowded = number of household units with more than 1.01 persons per room in all entitlement communities.

²⁵ total pov = total number of poverty households in all entitlement communities; age of housing = number of housing units in community built before 1940, total age of housing = total number of housing units in community built before 1940 in all entitlement communities; pop lag = lag in population growth rate in the entitlement community between 1960 and latest decennial census.

²⁶ 42 U.S.C. §5302(b)

Eligible Activities

Title I of the HCDA identifies the categories of eligible activities that may be undertaken with CDBG funds. Program activities fall into five general categories: planning and administrative activities; public works and public facilities; housing-related activities; public services; and economic development. **Table 1** is an illustrative list of eligible activities by categories.

Table 1. CDBG Eligible Activities by General Categories

General Categories	Eligible Activities
Planning, Administrative and Technical Assistance	<ul style="list-style-type: none"> • comprehensive planning and related activities; • administrative costs associated with carrying out the requirements of the program, as well as other HUD programs; • provision of technical assistance to public or nonprofit entities; • payment of the non-federal share of other federal grant programs; • development and implementation of energy conservation and use strategies.
Public works and public facilities	<ul style="list-style-type: none"> • acquisition and rehabilitation of real property that may be used for public works, open space acquisition, historic preservation, or other public purposes; • acquisition, construction, reconstruction, or installation of public works, public facilities, neighborhood facilities, senior centers, centers for the handicapped, recreation facilities, and street lights; • removal of architectural barriers to the elderly and handicapped.
Economic Development and Neighborhood Revitalization	<ul style="list-style-type: none"> • payment to for-profit entities in support of economic development; • assistance to neighborhood-based organizations, including community development corporations, in support of economic development, housing assistance; or neighborhood revitalization activities; • assistance, including loans and grants, to non-profit entities in acquiring real property, or acquiring or rehabilitating public facilities, site improvements, utilities, or commercial and industrial facilities and improvements; • micro-lending; • brownfield redevelopment; • creation of revolving loan funds.
Public Services	<ul style="list-style-type: none"> • public services (limited to no more than 15% of an entitlement community or state's annual allocation).

General Categories	Eligible Activities
Housing related activities	<ul style="list-style-type: none">• rehabilitation of housing owned and occupied by low and moderate income persons;• repair of housing units acquired through tax foreclosures;• assistance to facilitate homeownership among low- and moderate-income persons;• housing services, including counseling, in connection with the HOME program;• lead-based paint abatement.
Acquisition, demolition, and disposition of real property	<ul style="list-style-type: none">• Acquisition of real property;• disposal of real property;• code enforcement in deteriorated or blighted areas;• clearance, demolition, and rehabilitation and renovation of privately and publicly owned buildings, including closed public schools.

Source: 42 U.S.C. 5305.

Ineligible activities include the acquisition, construction, or renovation of buildings used for the conduct of general local government; the pirating of jobs and economic activity from another jurisdiction; the construction of new housing; the acquisition of construction equipment; and political activities.

Performance Reporting

Grant recipients are required to submit to HUD annual performance report within 90 days following the end of each recipient's program year. The report is a review of progress made in carrying out the jurisdiction's action and strategic plans, and includes descriptions of resources and investments made during the program year, the geographic distribution of funds, and activities undertaken in the past year.

Related Programs

In addition to authorizing funding of CDBG formula grants, the CDBG authorizing statute also includes language authorizing other programs and activities intended to work in coordination with CDBG formula grant in support of the program's national objectives. This includes set-asides for Indian Tribes and programs that provide loan guarantees in support of large scale economic development projects, programs that support the redevelopment of brownfields, provisions that provide disaster assistance, and provisions that support special projects. In addition, in the wake of the mortgage crisis, Congress has also used the CDBG program's framework to support local and state government efforts to acquire, rehabilitate, and resell abandoned and foreclosed housing. This section provides brief descriptions of those programs.

Indian Community Development Block Grants (ICDBG)

In addition to grants to states and local governments HUD awards funds to Indian tribes, including Alaskan Indian, Aleut, and Eskimos. The ICDBG Program, which is administered by HUD's Office of Native American Programs (ONAP), may award up to 95% of its annual allocation of funds on a competitive basis for single purpose grants. Single purpose grant funds may be used to finance housing, public works, community facilities, and economic development activities. HUD is allowed to award up to 5% of each year's annual allocation to address imminent threats to public health and safety. These funds are allocated on a noncompetitive first come-first serve basis.

Section 108 Loan Guarantees

The Section 108 Loan Guarantee Program (Section 108) refers to the authorizing section of the public law that created the program.²⁷ Section 108 allows an entitlement community or a state, on behalf of nonentitlement communities, to leverage its annual CDBG allocation in support of large scale economic development projects. Eligible activities include

- acquiring and rehabilitating publicly owned real property;
- housing rehabilitation;
- economic development activities, including those carried out by for-profit and nonprofit entities;
- acquisition, construction, reconstruction, and installation of public facilities;
- debt service reserves;
- payment of interest on the guaranteed loan; and
- issuance cost of the public offering.

All eligible activities must meet the one of the three national objectives of the regular CDBG program. Under the program, communities are allowed to float bonds, notes, or debentures worth up to five times their annual CDBG allocation with a repayment period of up to 20 years. Section 108 funds are made available on an ongoing basis allowing communities to apply for funds anytime during the year. It should be noted that Section 108 loan funds are made available to eligible public entities who may re-loan the funds to private participants in a redevelopment project. Applicants are encouraged to meet with HUD staff prior to submitting a formal application.

When submitting a formal application states and communities must include the following: a description of activities to be carried out; financing structure; source of loan repayment; citizen participation plan; anti-displacement strategy; and a pledge of the applicant's CDBG allocation as security for Section 108 guaranteed loan. In general, HUD attempts to review an application within 90 days. HUD field offices are encouraged to complete application within 45 days with HUD headquarters attempting to complete its review within 45 days. Recipients receiving Section 108 funds are required to file an annual performance report with HUD detailing progress made in

²⁷ P.L. 93-383, Title I, Section 108 or 42 U.S.C. §5308.

meeting the objectives of its community development plan, including Section 108 activities. HUD has issued 1,818 loan guarantee commitments totaling \$8.4 billion since the program's inception in 1977.

Brownfield Economic Development Initiatives (BEDIs)

The term brownfield refers to abandoned or underused industrial or commercial development sites the redevelopment or reuse of which may be complicated by the presence of hazardous waste and pollutants. The Brownfield Economic Development Initiative (BEDI) is authorized under the authority of Section 108(q) of Title I of the Housing and Community Development Act of 1974, as amended. BEDI grants were first authorized with the passage of the Departments of Veteran Affairs and Housing and Urban Development, and Independent Agencies Appropriations Act of 1998, P.L. 105-65.²⁸ BEDI grants are subject to the same requirements as other activities eligible for assistance under the CDBG program, including the requirement that BEDI activities must meet one of the three national objectives, and must be incorporated into the recipient's consolidated and annual action plans.

BEDI grants are awarded on a competitive basis only in support of Section 108 loan guarantees, and may be used for such activities as debt service, interest rate write-downs, land write-downs, site remediation costs and loan loss reserves of Section 108 guaranteed loans. Although communities may receive Section 108 loan guarantee assistance without applying for BEDI funds, the awarding of BEDI funds must be accompanied by a Section 108 loan guarantee. The availability of BEDI funds is made public through a Notice of Funds Availability (NOFA) published in the *Federal Register*. BEDI grants are made available to the eligible governmental entity who may re-loan the funds to for-profit or nonprofit entities. Funds can only be used to reclaim existing brownfield sites for immediate redevelopment. Funds may not be used to allow current owners to address contamination problems caused by their own negligence, nor can funds be used to fund projects on sites included on the Environmental Protection Agency's National Priorities List (Superfund).²⁹ In its administration of the program, HUD has worked to integrate the program's activities with those of EPA's brownfield program. In general, HUD brownfield funds are used to support and fund redevelopment activities while EPA funds support cleanup activities. BEDI grants are expected to leverage, at minimum, \$1 in private sector funds for each BEDI dollar invested. The maximum BEDI award should not exceed \$2 million. Approximately 195 BEDI grants have been awarded since 1998 to 138 public entities with the majority going to entitlement communities. The average grant award has been \$1.1 million.³⁰ Critics of the brownfield program have argued that it duplicates the larger CDBG program and that individual projects are often stymied by delays.

²⁸ 111 Stat. 1358.

²⁹ For a discussion of the Superfund program see CRS Report RL33426, *Superfund: Implementation and Selected Issues*, by Jonathan L. Ramseur

³⁰ Department of Housing and Urban Development, *2012 Budget Justifications for Estimates*, February 2011, pp. CC-1, http://portal.hud.gov/hudportal/documents/huddoc?id=Brownfields_2012.pdf.

Neighborhood Stabilization Program³¹

In response to the mortgage foreclosure crisis Congress passed the Housing and Economic Recovery Act of 2008 (HERA), P.L. 110-289. Title III of HERA—the Emergency Assistance for the Redevelopment of Abandoned and Foreclosed Homes—appropriated \$4 billion in supplemental CDBG funding to be used to fund a program (Neighborhood Stabilization Program—NSP) to assist states and local governments address the impacts of deteriorating housing markets: blighted neighborhood, declining property tax revenues, and the downward spiral of home values. The legislation directed HUD to award formula-based grants to states and local governments with the highest number of foreclosed homes, subprime loans, and defaulted or delinquent home mortgages. It restricted the use of fund to specific activities. Funds could only be used to enable states and local governments to:

- create financing instruments that would allow them to finance the purchase and redevelopment of foreclosed homes and residential properties;
- purchase and rehabilitate foreclosed homes and residential properties for sale, rent, or redevelopment;
- establish land banks for foreclosed homes; and
- demolish blighted structures.

The American Recovery and Reinvestment Act of 2009 (ARRA), P.L. 111-5, appropriated an additional \$2 billion for the NSP program and made several modifications to the program. Under ARRA, funds from the NSP were distributed competitively to states, local governments; nonprofit entities and consortia of for-profit and nonprofit entities based on need and project quality. ARRA made several modifications governing the use of NSP funds. Under ARRA, the operation of land banks is included as an eligible activity and a grantee may not use more than 10% of its grant for demolition activities, unless HUD provides a waiver. ARRA also allowed HUD to use up to 10% of NSP funds for capacity building³² and technical assistance. In 2010, with mortgage foreclosures still on the rise, Congress appropriated an additional \$1 billion for NSP activities under the Dodd-Frank Wall Street Reform and Consumer Protection Act, P.L. 111-203. The law required that funds be awarded based on a formula that considered both the number and extent of foreclosures and subprime loans. According to HUD, the \$7 billion in NSP funds will have supported an estimated 88,000 jobs, completed 75,000 units of affordable housing, and demolished 25,000 blighted properties by the time these funds are fully spent.³³ The Obama Administration is looking to expand the program. It included a \$15 billion budget request for Project Rebuild grants in its FY2015 budget request. A portion of the funds (\$10 billion) would be awarded to states and local governments by formula with the other \$5 billion awarded competitively. Funds would be used to undertake NSP eligible activities, including acquiring and reselling abandoned and foreclosed properties, demolition, and land banking activities.

³¹ For additional information on the Neighborhood Stabilization Program see CRS Report RS22919, *Community Development Block Grants: Neighborhood Stabilization Program; Assistance to Communities Affected by Foreclosures*, by Eugene Boyd.

³² These are activities that enhances an organization’s knowledge base and expertise in furtherance of its mission.

³³ United States Department of Housing and Urban Development, *FY2015 Congressional Budget Justifications*, Community Development Fund, Washington, DC, April 2014, pp. P-10, http://portal.hud.gov/hudportal/documents/huddoc?id=fy15cj_comm_dvlpt_fnd.pdf.

CDBG Disaster Recovery Grants (CDBG-DR)³⁴

One of the national objectives of the CDBG program allows communities and states to use program funds to address an urgent threat to the health and safety of residents of the affected communities. When reprogramming regular CDBG funds for disaster relief activities, HUD may expedite grant awards for affected communities in presidentially declared disaster areas, including allowing affected grantees to move up their CDBG program start date. In addition, 42 U.S.C. 5321 of the statute authorizing the program allows HUD to suspend all program requirements in presidentially declared disaster areas except those related to public notice of funding availability, nondiscrimination, fair housing, labor standards, environmental review, and the targeting of assistance to low- and moderate-income persons.

In addition to allowing states and communities to reprogram their annual CDBG funds to respond to disasters, Congress has provided supplemental assistance to areas affected by natural and man-made catastrophes of a significant magnitude. In general, Congress has provided increased flexibility and allocated additional CDBG funds to affected communities and states to undertake short-term disaster relief, such as debris removal, mitigation activities designed to prevent or minimize damage from future incidents, and long-term recovery activities intended to restore and revitalize the impacted areas. These supplemental funds are appropriated at the discretion of Congress. There is no automatic trigger. Since FY1999, Congress has appropriated more than \$35 billion in supplemental CDBG assistance to support disaster relief, mitigation, and recovery activities. The program has, by default, become one of the federal government's principal instruments in support of long-term economic recovery following both natural and man-made disasters.³⁵

Economic Development Initiatives (EDI)

There are two pools of EDI funds: competitive grants and congressionally designated grants (earmarks). The EDI was first authorized as a competitive grant program intended to supplement to the Section 108 loan guarantee program. The statutory authority for the competitive component of the program can be found at 42 U.S.C. 5308(q), and was first authorized by Section 232 of the Multifamily Housing Property Disposition Act of 1994, P.L. 103-233.³⁶ The 1994 amendment directed HUD to establish selection criteria to be used to award grant funds based on the following factors:

- the extent of need for such assistance;
- the level of distress in the community to be served and the jurisdiction applying for assistance;
- the quality of the plan proposed and the capacity or potential capacity of the applicant to successfully carry out the plan; and

³⁴ For additional information on CDBG disaster-related assistance see CRS Report RL33330, *Community Development Block Grant Funds in Disaster Relief and Recovery*, by Eugene Boyd.

³⁵ Congress has appropriated supplemental CDBG assistance in response to the Oklahoma bombing of 1995, the terrorist attacks of September 11, 2001, the Midwest floods of 1993, Gulf Coast hurricanes of 2005, and most recently Hurricane Sandy that made landfall in October 2012.

³⁶ 108 Stat. 366.

- such other factors as the Secretary determines to be appropriate.

As is the case with BEDIs, the program's authorizing statute required HUD to award grants only in conjunction with applications for Section 108 loan guarantees. The competitive component of the program is currently inactive. The last year Congress appropriated funds for this component of the program was 2000. The act also included language that allowed HUD to use recaptured Urban Development Action Grant (UDAG) funds to initially finance the program. According to HUD's 1998 Consolidated Report to Congress, approximately \$350 million in recaptured UDAG funds were used to fund EDI grants in 1995.³⁷

Since FY1998, Congress has set aside some portion of, and most recently all, EDI funding for congressionally designated projects. Only entities and projects identified in annual appropriations conference reports or the *Congressional Record* may apply for these grants. Grantees must:

- submit an application that details the nature of the project and how funds are to be used;
- conduct a review of the environmental impact of the proposed project;
- certify that they will administer the grant in compliance with civil rights, fair housing, disability and age discrimination, environmental, and anti-bribery laws; and
- submit semi-annual progress reports to HUD.

HUD expects the applicant to close out the project within five years of the receipt of funds. Since 1998, Congress has funded more than 8,100 congressionally designated EDI projects. In recent years, as concerns have been raised about the earmarking of funds, Congress has sought to curb or eliminate the earmarking of funds. Since FY2010, Congress has appropriated no funds for the EDI account.

Neighborhood Initiative (NI)

Neighborhood Initiative (NI) funds were first authorized under the Department of Veteran Affairs, Department of Housing and Urban Development, and Independent Agencies Act of 1998, P.L. 105-65.³⁸ The act appropriated \$25 million for a Neighborhood Initiative program intended to test whether housing benefits could be integrated more effectively with welfare reform initiatives embodied in the Temporary Assistance to Needy Families (TANF) program created in 1996.³⁹ According to the conference report⁴⁰ accompanying the bill (H.R. 2157), it encouraged HUD to consider the following factors when awarding NI funds:

³⁷ U.S. Department of Housing and Urban Development. Building Communities and New Markets for the New Century, 1998 Consolidated Report (Washington: January 1999), p. 20; available at <http://www.huduser.org/publications/polleg/newmarket.html>.

³⁸ 111 Stat. 1358.

³⁹ The act earmarked \$15 million of the amount appropriated to the County of San Bernardino, CA, for a demonstration project to assess the potential national application of the combined programs. The remaining \$10 million was awarded competitively by HUD.

⁴⁰ H.Rept. 105-297.

- economic development strategies that use local community-based partnerships between businesses, non-profits and the public sector;
- neighborhood revitalization efforts that integrate sustainable community and building design processes;
- input by residents and other stakeholders;
- creation of homeownership opportunities;
- links between housing programs and welfare reform initiatives in the neighborhood; and
- links between workforce development strategies and economic development strategies.

Since 2001, all program funds have been awarded according to direction included in the conference report appropriating funds for the program. Since 1998, approximately 400 projects have been funded, all congressionally directed.

University-Based Programs

Section 107 includes language that allows HUD to award grants to colleges and universities primarily serving minority populations. These include historically black colleges and universities, Hispanic Serving Institutions, Alaskan and Hawaiian Serving Institutions, Tribal Colleges and Universities, and other institutions of higher education through the Community Outreach Partnership. Funds are awarded competitively and are used by selected institutions, working in concert with local governments, to develop collaborative solutions to community development issues facing their communities.

Capacity Building for Community Development and Affordable Housing

The program was first authorized under Sec. 4 of the Department of Housing and Urban Development Demonstration Act of 1993, P.L. 103-120.⁴¹ Currently, grants are awarded to three national intermediaries to be used to help fund efforts to improve the technical and administrative capacities of neighborhood based community development corporations (CDCs) and community housing development organizations (CHDOs). The program's authorizing legislation identifies the Local Initiative Support Corporation (LISC), Living Cities (formerly the National Community Development Initiative), the Enterprise Foundation, and Habitat for Humanity as direct recipients of funds. These organizations in turn competitively provide technical assistance and seed funds to local CDCs and CHDOs engaged in economic development, neighborhood revitalization, and affordable housing efforts. In general, funds can be used for three types of eligible activities:

- technical assistance including training, education, and advice designed to enhance technical expertise and administrative capacity;

⁴¹ 107 Stat. 1148.

- financial assistance including loans, grants, development assistance to carry out community development and housing activities benefiting low- and moderate-income persons; and
- other activities that support the implementation of other HUD programs, including a community's consolidated plan and its CDBG annual plan.

Activities identified in funded applications must be completed within four years from the date of the signed grant agreement with HUD and applicants must demonstrate that they will provide \$3 in private sector funds for every \$1 in federal assistance. More than 1,000 CDCs and CHDOs have been assisted under the program.

Sustainable Housing and Communities Initiative

In FY2010, Congress appropriated \$150 million to fund an initiative sought by the Obama Administration, the Sustainable Communities Initiative (SCI). This multipronged program is comprised of three components administered by the Office of Sustainable Housing and Community Development.

Sustainable Communities Regional Planning Grants (SCRPG). These funds are 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. This is accomplished by working in collaboration with the Department of Transportation, the Environmental Protection Agency, and other federal agencies. Funds are used to support improvements in, and coordination of, metropolitan-wide housing, transportation, energy, and land use planning activities.

Community Challenge Planning Grants (CCPGs). Funds are competitively awarded to communities to reform existing building codes and zoning ordinances with the goal of promoting sustainable growth and discouraging inefficient land use patterns.

Research and Evaluation. Funds would be used to evaluate SCRPGs and CCPGs as part of a joint HUD-Department of Transportation research initiative that would seek to quantify the benefits and tradeoffs of various efforts. A portion of these funds may be used to improve the technical capacity of regional organizations, local jurisdictions, community-based organizations, developers, and private sector lenders.

Rural Innovation Fund

The Rural Innovation Fund (RIF) is used to assist state housing finance agencies, local rural nonprofit organizations, community development corporations, and state and local economic development agencies address housing and poverty-related issues. A specific amount in RIF's appropriations may be used to capitalize revolving loan funds and provide technical assistance and business planning activities for Indians.

Concluding Observations

August 22, 2014, will mark the 40th anniversary of the enactment of the Housing and Community Development Act of 1974, P.L. 93-383, including Title I of the act which created the CDBG program. This landmark piece of legislation and the program it created, though amended over time, has remained relatively true to the principles of the block grant concept, which stresses local flexibility and discretion in the development and execution of housing and community development plans and activities. Because of its formula-based approach, the program has encouraged communities to undertake long-range, multi-phase redevelopment efforts.

Congress has modified the program over time, including increasing the number of activities eligible for funding, shifting the percentage of funds awarded to entitlement communities, creating a second allocation formula to address concerns that the first formula was regionally biased, and granting state governments direct administrative control of a segment of the program. Congress has also authorized related programs intended to supplement, but not supplant, the CDBG program. Some observers contend that the proliferation of these so-called supplemental programs divert resources from the core program.

Author Contact Information

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