



Statement of

Joseph V. Jaroscak
Analyst in Economic Development Policy

Before

Committee on Financial Services
Subcommittee on Housing, Community Development, and Insurance
U.S. House of Representatives

Hearing on

**“Flexible Federal Funding: Examining the
Community Development Block Grant
Program and Its Impact on Addressing Local
Challenges ”**

June 16, 2021

Congressional Research Service

<https://crsreports.congress.gov>

TE10065

Chair Cleaver, Ranking Member Hill, and Members of the subcommittee, thank you for the opportunity to testify before you today. My name is Joe Jaroscak. I am an analyst in economic development policy with the Congressional Research Service (CRS). This CRS statement provides an overview of the Community Development Block Grant (CDBG) program, administered by the U.S. Department of Housing and Urban Development (HUD). In particular, it will focus on describing the program's structure, eligible activities, requirements, funding mechanisms, and potential policy considerations.

CRS's role is to provide objective, nonpartisan research and analysis to Congress. Any arguments presented in my written and oral testimony are for the purposes of informing Congress, not to advocate for a particular policy outcome.

Introduction

The CDBG program is a primary source of flexible federal funding to states, localities, and insular areas for economic and community development, and other related purposes. The program was originally authorized under Title I of the Housing and Community Development Act of 1974, P.L. 93-383, with the primary purpose of establishing and maintaining viable urban communities through the implementation of activities that benefit low- and moderate-income persons.

CDBG is one of approximately 23 authorized federal block grant programs.¹ Block grants are one of three broad categories of federal grant assistance, which are: (1) revenue sharing, (2) categorical grants, and (3) block grants. In general, revenue sharing is characterized as formula-driven with broad discretion given to state and local governments, while categorical grants are narrowly targeted to specific activities, often with more limited discretion, and may be awarded competitively or by formula. Block grants are at the midpoint in this continuum of recipient discretion. According to the now-defunct Advisory Commission on Intergovernmental Relations, a block grant is characterized by five basic traits:

1. it authorizes federal aid for a wide range of activities within a broad functional area;
2. it gives recipient jurisdictions fairly substantial administrative discretion;
3. its administrative, fiscal reporting, planning, and program requirements are geared toward keeping federal administrative intrusiveness to a minimum, while recognizing the need to ensure adequate oversight and that national goals are accomplished;
4. its formula-based distribution provision narrows grantor administrative discretion and provides some sense of fiscal certainty for grantees; and
5. its eligibility provision is fairly specific, relatively restrictive, and tends to favor units of general local government.²

Congress plays a primary role in determining the scope and nature of the federal grant-in-aid system. As a deliberative and legislative body, Congress selects objectives, decides which grant mechanism is best suited to achieve those objectives, and creates legislation to achieve these objectives, which incorporates its chosen grant mechanism.³

¹ See CRS Report R40486, *Block Grants: Perspectives and Controversies*, by Joseph V. Jaroscak, Julie M. Lawhorn, and Robert Jay Dilger.

² Advisory Commission on Intergovernmental Relations, *Improving Urban America: A Challenge to Federalism*, M-107, Washington, DC, September 1976, pp. 90-91.

³ For more information on block grants and a comparison to other forms of federal assistance, see CRS Report R40486, *Block Grants: Perspectives and Controversies*, by Joseph V. Jaroscak, Julie M. Lawhorn, and Robert Jay Dilger.

Congress, in addition to appropriating CDBG funds, has a role in oversight of HUD's administration of the CDBG program. Periodic congressional hearings have been held to examine issues such as potential misuse of CDBG funds⁴ and proposals for modifying the program's allocation methods.⁵ The U.S. Government Accountability Office (GAO) has also examined a range of topics on behalf of Congress, including the quality of HUD program oversight,⁶ grantee compliance,⁷ state and local grant fund distribution methods,⁸ and other issues.

National Objectives and Program Requirements

There is a wide range of potentially eligible CDBG activities. Any CDBG activity, however, must meet one of three statutory national objectives (42 U.S.C. §5301(c)):

1. principally benefit low- and moderate-income (LMI) persons;⁹
2. aid in the prevention or elimination of slums or blight; or
3. meet an urgent need by addressing conditions that pose a serious and immediate threat to the health and safety of residents.¹⁰

The statute governing the program also requires states and entitlement communities to allocate at least 70% of their CDBG allocation to eligible activities principally benefiting low- and moderate-income persons.¹¹ Compliance with this requirement is certified during a one-, two-, or three-year period specified by the grantee.¹² The statute and regulations¹³ governing the CDBG program detail the specific requirements and responsibilities of entitlement communities; states; nonentitlement communities; and HUD, the federal administering agency, including the required documentation for demonstrating an activity's alignment with a given national objective.¹⁴

In order to receive CDBG funds, eligible grantees are required to participate in HUD's Consolidated Plan process, in which grantees assess conditions and needs related to community development and housing to inform the selection of program activities. Under this process, grantees submit 3-5 year consolidated plans as well as annual strategic plans that must be developed with community input and conform to HUD

⁴ U.S. Congress, House Committee on Government Operations, Subcommittee on Employment and Housing, *Misuse of Community Development Block Grant Funds*, 102nd Cong., 1st sess., October 21, 1991.

⁵ U.S. Congress, House Committee on Financial Services, Subcommittee on Housing and Community Opportunity, *Review of the Community Development Block Grant Program*, 107th Cong., 2nd sess., March 14, 2002.

⁶ U.S. Government Accountability Office, *Community Development: HUD Oversight of the Dallas Block Grant Program Needs Improvement*, RCED-92-3, November 1991, <https://www.gao.gov/assets/220/215220.pdf>.

⁷ U.S. Government Accountability Office, *Community Development Block Grants: Reporting on Compliance with Limit on Funds Used for Administration Can be Improved*, GAO-13-247, March 2013, <https://www.gao.gov/assets/660/653192.pdf>.

⁸ U.S. Government Accountability Office, *Community Development Block Grants: Entitlement Communities' and States' Methods of Distributing Funds Reflect Program Flexibility*, GAO-10-1011, September 15, 2010, <https://www.gao.gov/assets/310/309604.pdf>.

⁹ The LMI benefit national objective is required to total 70% of a grantee's projects under the conventional CDBG program, although waivers may be obtained in extenuating circumstances. For information on HUD's definitions for low and moderate income, see <https://www.hudexchange.info/programs/cdbg/cdbg-low-moderate-income-data/>.

¹⁰ 42 U.S.C. §§5301 et seq., as interpreted by HUD at 24 C.F.R. §570.200 and the HUD Guide to National Objectives and Eligible Activities for CDBG Entitlement Communities.

¹¹ 42 U.S.C. §5301(c).

¹² 24 CFR §570.200(a)(3).

¹³ 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>.

¹⁴ 24 C.F.R. §570.506.

specifications. Grantees also report annually on performance against their stated goals for the previous year.¹⁵

Eligible Activities

CDBG's flexibility as a block grant program allows grantees to use their program funds for a broad range of activities. The majority of CDBG program activities generally are grouped into six broad categories: (1) planning and administrative activities; (2) public improvement activities; (3) housing-related activities; (4) public services; (5) economic development; and (6) acquisition, demolition, and disposition of real property. Some activities are constrained by certain expenditure caps or other requirements through statute and regulations.

Funding and Allocations

The CDBG program is funded via discretionary appropriations to the Community Development Fund (CDF) account and CDBG funds constitute the majority of the fund's appropriations. Generally, CDF funding is included in annual Transportation, Housing and Urban Development, and Related Agencies (THUD) appropriations bills.¹⁶ In response to natural disasters and other emergencies, Congress may provide supplemental appropriations via the CDBG program for disaster relief and recovery. These CDBG-DR funds are allocated differently, and subject to different requirements, than the base CDBG program and thus are not the focus of my testimony.

Approximately 70% of CDBG program funds are distributed to entitlement communities, defined as (1) principal cities of Metropolitan Statistical Areas, (2) other metropolitan cities with populations of 50,000 or greater, and (3) urban counties with populations of 200,000 or greater (excluding entitlement city populations).¹⁷ The remaining 30% of funds are allocated to states based on a separate formula allocation process. State CDBG funds are to be distributed by states and Puerto Rico to communities that do not qualify for entitlement funds.¹⁸ Before formula allocations are made to states and localities, \$7 million is statutorily set aside to be distributed among other U.S. territories (insular areas).¹⁹

The formula, developed by HUD, based on direction in the CDBG statute, includes several factors related to population or population growth, poverty, and housing characteristics.²⁰ Both the entitlement and state allocations utilize dual formula methods under which grantees receive a funding amount that is proportional to the greater of two calculations.

¹⁵ U.S. Department of Housing and Urban Development, *Consolidated Plan Process, Grant Programs, and Related HUD Programs*, <https://www.hudexchange.info/programs/consolidated-plan/consolidated-plan-process-grant-programs-and-related-hud-programs/>.

¹⁶ For more information on THUD appropriations, see CRS Report R45487, *Transportation, Housing and Urban Development, and Related Agencies (THUD) Appropriations for FY2019: In Brief*, by Maggie McCarty and David Randall Peterman.

¹⁷ U.S. Department of Housing and Urban Development, *CDBG Entitlement Program Eligibility Requirements*, <https://www.hudexchange.info/programs/cdbg-entitlement/cdbg-entitlement-program-eligibility-requirements/>.

¹⁸ U.S. Department of Housing and Urban Development, *State CDBG Program Eligibility Requirements*, <https://www.hudexchange.info/programs/cdbg-state/state-cdbg-program-eligibility-requirements/>. In 2004 the State of Hawaii opted out of administering funds for nonentitlement communities under the CDBG State program. Instead, HUD directly allocates nonentitlement funds to county governments within the state. For more information on HUD's administration of nonentitlement CDBG funds in Hawaii, see <https://www.hudexchange.info/programs/cdbg-hud-administered/>.

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

²⁰ 42 U.S.C. §5306.

Entitlement Community Formulas

In the case of entitlement community allocations, Formula A allocates funds based on each jurisdiction's weighted share of population (25% weight), poverty (50% weight), and housing overcrowding (25% weight).²¹

For this formula, poverty is indicated by the number of persons measured at or below the federal poverty level.²² Overcrowding is defined as household units with more than 1.01 persons per room.²³

Formula B allocations are determined based on each jurisdiction's weighted share of poverty (30% weight), housing built before 1940 (50% weight), and lag in the population growth rate (20% weight).²⁴

The measure of population growth lag calculates the growth rate of an entitlement jurisdiction between 1960 and the most recent decennial census as compared to all entitlement communities in that time period.²⁵

State Formulas

HUD uses similar formulas to allocate state program funds, which benefit nonentitlement communities. Once allocated, states reserve broad discretion on the process for disbursing funds to eligible units of local government.²⁶

Under Formula A, each state's allocation is based on its percentage of population (25% weight), poverty (50% weight), and overcrowded housing (25% weight) in all nonentitlement areas in the state relative to total population, poverty, and overcrowded housing in all nonentitlement areas in all states.²⁷

Under Formula B, state allocations are based population (20% weight), poverty (30% weight), and housing built before 1940 (50% weight).²⁸

Unlike entitlement communities, which receive formula-based allocations, nonentitlement communities in each state may be eligible for a share of the state's allocation. However, the methods for nonentitlement fund allocation are determined by each participating state.²⁹

²¹ U.S. Department of Housing and Urban Development, *CDBG Formula Targeting to Community Development Need*, 2005, <https://www.huduser.gov/portal/publications/cdbgassess.pdf>.

²² For information on how the federal poverty level is calculated, see U.S. Census Bureau, *How the Census Bureau Measures Poverty*, <https://www.census.gov/topics/income-poverty/poverty/guidance/poverty-measures.html>.

²³ See CRS Report R43520, *Community Development Block Grants and Related Programs: A Primer*, by Joseph V. Jaroscak.

²⁴ U.S. Department of Housing and Urban Development, *CDBG Formula Targeting to Community Development Need*, 2005, <https://www.huduser.gov/portal/publications/cdbgassess.pdf>.

²⁵ See CRS Report R43520, *Community Development Block Grants and Related Programs: A Primer*, by Joseph V. Jaroscak.

²⁶ For the purposes of the CDBG program allocation process, Puerto Rico is treated as a state. The state of Hawaii has elected not to participate in the CDBG state allocation process. HUD distributes Hawaii's funds directly to counties. According to HUD analysis published in 2005, only Puerto Rico receives a state allocation consistent with need based on the CDBG state formula methodology.

²⁷ U.S. Department of Housing and Urban Development, *CDBG Formula Targeting to Community Development Need*, 2005, <https://www.huduser.gov/portal/publications/cdbgassess.pdf>.

²⁸ U.S. Department of Housing and Urban Development, *CDBG Formula Targeting to Community Development Need*, 2005, <https://www.huduser.gov/portal/publications/cdbgassess.pdf>.

²⁹ U.S. Government Accountability Office, *Community Development Block Grants: Entitlement Communities' and States' Methods of Distributing Funds Reflect Program Flexibility*, GAO-10-1011, September 15, 2010, <https://www.gao.gov/assets/310/309604.pdf>.

Program Expenditures

HUD program expenditure data indicate that public improvement activities and housing related activities represent the majority of overall CDBG expenditures, in general. For example in FY2020 37% of overall CDBG program funds were expended for public improvement activities and 23% of funds were expended for housing-related activities. For entitlement communities specifically, during this time, housing activities represented 27% and public improvements represented 26%. The majority of state (64%) and insular area (63%) funds were used for public improvement activities. Within these broad activity categories there are a variety of discrete activities that may be eligible for CDBG program expenditure.³⁰ For instance, public improvement activities could include water and sewer improvements, street improvements, and construction or rehabilitation of various public facilities, among other related projects.

Policy Considerations

Since the program's inception in 1975, the total number of annual CDBG allocations has increased by approximately 50%. In that period total CDBG funding amounts have decreased, approximately \$8.5 billion, when adjusted for inflation.³¹ The CDBG program's authorizing legislation has been expired since 1994.³² Given changes in the national economy and policy priorities for states and local governments, there may be interest in revisiting aspects of the program. In particular, proposals to revise the CDBG program statute to adopt updated formula allocation measures have been offered, including by both the George W. Bush and Barack Obama administrations.

Conclusion

This concludes my prepared remarks. Thank you for the opportunity to testify. I look forward to responding to any questions that you may have. If additional research and analysis related to this issue would be helpful, my CRS colleagues and I are prepared to assist the subcommittee.

Disclaimer

This document was prepared by the Congressional Research Service (CRS). CRS serves as nonpartisan shared staff to congressional committees and Members of Congress. It operates solely at the behest of and under the direction of Congress. Information in a CRS Report should not be relied upon for purposes other than public understanding of information that has been provided by CRS to Members of Congress in connection with CRS's institutional role. CRS Reports, as a work of the United States Government, are not subject to copyright protection in the United States. Any CRS Report may be reproduced and distributed in its entirety without permission from CRS. However, as a CRS Report may include copyrighted images or material from a third party, you may need to obtain the permission of the copyright holder if you wish to copy or otherwise use copyrighted material.

³⁰ U.S. Department of Housing and Urban Development, *CDBG Activity Expenditure Reports*, <https://www.hudexchange.info/programs/cdbg/cdbg-expenditure-reports/>.

³¹ U.S. Department of Housing and Urban Development, *Department of Housing and Urban Development 2022 Congressional Justifications*, 2022, pp. 15-4, https://www.hud.gov/sites/dfiles/CFO/documents/Consolidated_2022CJ.pdf.

³² Congressional Budget Office, *Expired and Expiring Authorizations of Appropriations for Fiscal Year 2021—Information for Legislation Enacted Through December 23, 2020*, January 2021, <https://www.cbo.gov/publication/56959>.

