BLOCK GRANTS FOR COMMUNITY DEVELOPMENT

U.S DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410

BLOCK GRANTS

FOR COMMUNITY DEVELOPMENT

BY

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The Brookings Institution

First report on the Brookings Institution Monitoring Study of the Community Development Block Grant Program, Prepared under Contract H-2323R

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Preface

This is the first report on a two-year study of the political and social impacts of the Community Development Block Grant program, which was established by Title I of the Housing and Community Development Act of 1974. It was prepared by Richard P. Nathan, Sarah F. Liebschutz and Milton D. Morris of the Brookings Institution and Paul R. Dommel of the College of the Holy Cross, based on research conducted by them and by thirty-four field research associates across the country, who served as observers of local community development programs.

Funding for the Block Grants was authorized in 1974 for a three-year period terminating in September, 1977. The idea of this study was initiated by the Department early in 1975 in order that the first report would be available by the spring of 1977, in time for Congressional consideration of revisions to and extension of the Community Development Block Grant Program. The Department is particularly pleased with the considerable understanding of the diverse and subtle consequences of this new Federal approach toward urban revitalization and inter-governmental assistance which is demonstrated by this report. And, we are grateful to Dr. Nathan and his associates for completing the Report in time for it to provide an insight into the operation of Community Development Block Grants during legislative consideration of the program's future.

FIELD SITES AND RESEARCH ASSOCIATES

The sixty-two research jurisdictions and the names of the Associates who provided data and supplementary information from each appear below. Jurisdictions are grouped by state and listed alphabetically.

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MASSACHUSETTS	Marlborough Worcester	Paul R. Dommel Associate Professor of Political Science College of the Holy Cross
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Project Director's Foreword

The material presented in this report is the product of a team effort. As described in Chapter 1, Associates provided data for sixty-two sample jurisdictions. Six staff members of the Brookings Institution in Washington, D.C., analyzed program and field data and helped write this report.

Milton D. Morris, a Research Associate at Brookings, prepared the history chapter (Chapter 2) and concentrated on the political effects of the community development block grant program as described in Part IV of this report. Paul R. Dommel, a Consultant to Brookings and Associate Professor of Political Science at the College of the Holy Cross in Worcester, Massachusetts, conducted the research on the distributional effects of the CDBG program and was principally responsible for Part II of this report. Sarah F. Liebschutz, a Research Associate at Brookings, concentrated on Part III on the uses and effects of CDBG funds. Both Dommel and Liebschutz also served as field researchers. Margaret T. Wrightson and Linda C. Berger, Research Assistants at Brookings, processed, coded, and helped to analyze the field research data. The three authors and I met frequently to design and conduct the research and plan and write this report. Colleen L. Copley coordinated the handling of the manuscript; she and Thomas T. Somuah typed it. Chapters 1-7 and 9-11 were edited by Johanna Zacharias.

Officials of the United States Department of Housing and Urban Development, respondents in the sample jurisdictions, and experts on urban development provided invaluable assistance in many phases of this work. Special thanks should be extended to a number of HUD officials, Frederick J. Eggers, John L. Gardner, James R. Broughman, Donald G. Dodge, Robert S. Kenison, Paul E. Burke and Warren H. Butler, and also to two former HUD officials, David P. Lafayette and David O. Meeker, Jr.

The findings and conclusions presented here are solely the responsibility of the authors; they do not reflect the views of the Trustees, officers, or other staff members of the Brookings Institution.

Richard P. Nathan

Washington, D.C.
January 26, 1977

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INTRODUCTION AND BACKGROUND

CHAPTER 1

FOLLOWING A FEDERAL PROGRAM

Over the past four years, an important objective of the Governmental Studies Program of the Brookings Institution has been to develop a methodology for monitoring the implementation of new domestic programs of the federal government. By and large, the social science community has not devoted much effort to these kinds of studies. Longitudinal research on what happens to policies once they are enacted requires not only a major investment of time, but for a nation as large as the United States, a network of researchers equipped to tackle the many aspects of program impact. Once a new law is enacted, the tendency among social scientists had been to turn their attention to the next hot issue, rather than conduct research on how well any given piece of policy is or is not converted into its intended results.

Launching the Monitoring Process

In the belief that research into the implementation of newly enacted policies is both practicable and necessary, the Brookings Institution launched in December of 1972 a study of the five-year, $30.2 billion federal program for general revenue sharing enacted in October of that year. The study has already yielded one book (Monitoring Revenue Sharing, Brookings Institution, 1975), and the second of three planned volumes is to be published in 1977. The Brookings revenue sharing study examines the distributional, fiscal, and political effects of this program. Analysis of the latter two kinds of effects--fiscal and political--is based primarily on field research conducted for sixty-five state and local governments receiving general revenue sharing payments.

The general revenue sharing program, recently renewed for three and three-quarter years, is only part--albeit a major one--of a basic change in the grant-in-aid policies of the federal government. Along with revenue sharing, and reflecting the federal government's aim to shift responsibilities away from Washington and onto state and local jurisdictions, the federal government has been experimenting with so-called block grants. The largest such experiment, and in our view the most important, is the community development block grant (CDBG) program, administered by the United States Department of Housing and Urban Development (HUD).

Familiar with the Brookings research on general revenue sharing, the Office of Policy Development and Research of the Department of Housing and Urban Development contacted the Institution shortly after the enactment of the CDBG program to discuss a possible parallel study of its implementation. The Department's aim was to establish a research project that would get underway immediately and that would yield data in time to be used when major questions involving the next steps for the community development block grant program are up for consideration in Congress. An agreement was reached to initiate such a study, and work began early in the spring of 1975. A national study design was developed, a central staff was recruited, and field research associates were selected for sixty-two jurisdictions--

including fifty-one cities, ten urban counties, and one rural county. Two rounds of field research are to be conducted, each covering one year of experience under the new program and each serving as the basis for a report to HUD.

Block Grants and Their Antecedents

Now entering its third year, the new block grant program for community development was enacted August 22, 1974, as Public Law 93-383. (See Appendix I for a fascimile copy of Title I.) The act authorizes $8.3 billion over three years to be distributed by the Department of Housing and Urban Development in the form of broad, flexible payments made by the federal government to qualifying local governments. The CDBG program took seven previously established federal assistance programs and amalgamated, or folded, them into a single new grant program. The seven "folded-in" grants subsumed under CDBG are urban renewal, model cities, water and sewer facilities, open spaces, neighborhood facilities, rehabilitation loans, and public facility loans.

Two major and closely related aims of the CDBG program are to simplify federal grant-making and at the same time to increase the flexibility of community uses of federal funds. Although CDBG funds are less restrictive in their application than the folded-in grants, there are legislatively established, substantive and procedural requirements. An application is required from each participating city and urban county; each application must contain a three-year community development plan, an annual community development program statement, and what the act calls a housing assistance plan. "National goals" and permissible uses for funds, although quite broad, are outlined in the act. Information to citizens and citizen participation are required. Priority must be given to activities that benefit families with low or moderate incomes.

Within the CDBG framework, the Secretary of Housing and Urban Development may disapprove an application only if the description of the applicant's intended uses are, in the language of the act, "plainly inappropriate" to meet the stated needs and objectives, or if the facts presented or the needs stated in the application are "plainly inconsistent" with the known facts. In order to avoid delays, which under the folded-in grants often held up the awarding of funds, the act specifies that the Secretary of HUD must reject an application within seventy-five days. If the Secretary fails to act within that time, the application is automatically approved under this "veto-only" review process. 1/

In fiscal 1975, 2,484 localities received community development block grants. Some communities, though ineligible for funds under the distribution formula prescribed in the new allocation system, received continuing aid. Seven hundred and forty small cities with populations under 50,000 qualified for CDBG funds on what the act refers to as "hold-harmless" basis, which stipulates that former recipients under the grant programs folded into the new CDBG program are automatically entitled to receive funding, in most instances equal to the average amount which they had received annually between 1968 and 1972. Small cities and counties not entitled to block grants on a hold-harmless basis are eligible for funds distributed at the discretion of the Secretary of HUD. Most important of all, however, are the allocations to larger units, including 365 central cities, 156 other cities with populations of 50,000 or more, and 73 urban counties. All of these jurisdictions automatically qualify for block grants, either on a hold-harmless basis or according to a new distribution formula based on population, overcrowded housing, and poverty. (Part II of this report explains the allocation process in detail.)

Organizing the Field Research

The organization of the field research network was the first step in the research process. In mid-summer 1975, the sample was chosen and a draft report form for the field research was mailed to thirty-five Brookings associates appointed by the President of the Institution. A research conference to review this draft report form was held at Brookings in Washington, D.C., September 11 and 12, 1975. The final version of the report form, reflecting the conference discussion, was sent to the associates for their submission February 15, 1976. (A facsimile of the report form is included at the back of this report as Appendix II.)

Reports from the associates are based on a uniform framework relating to the uses, fiscal effects, geographical and income-group distribution of impact, and political effects of CDBG funds. Responses were based on available governmental data, on budget and program documents, and on extensive interviews conducted by the associates. Each associate determined whom to interview, submitting a list of names of all respondents with his completed report. Reports were returned to Brookings in mid-February, 1976, where they were coded and analyzed.

A second research conference of the associates was held April 21 and 22, 1976, at which a draft report form for the second year of the program was reviewed, put in final form, and later sent to associates for completion by February 15, 1977. While the field research was being designed and put in place, work was begun to study the impact of the CDBG allocation system and to develop alternative formulas.

Characteristics of the Sample

The sixty-two communities under study are a representative sample which includes thirty central cities, twelve satellite cities, and ten urban counties; in addition, the sample includes ten non-metropolitan jurisdictions that received CDBG aid in 1975. For the first year of the program the sample contained 8.2 percent of all central cities, 7.9 percent of satellite cities, 13.7 percent of participating urban counties, and about 1 percent of the non-metropolitan jurisdictions included in the CDBG program. The units selected for monitoring were chosen with the following factors taken into account: (1) type of CDBG recipient,[2/] (2) geographical distribution, (3) population size and density, (4) poverty and income characteristics, and (5) previous categorical grant experience -- that is, pre-1974 involvement in the programs folded into the new block grant system. Altogether the sample units, which include the nation's four largest cities, account for 22.7 percent of the CDBG funds paid out in the first year of the program. Appendix III at the back of this report lists the sample jurisdictions with their major characteristics. As Table 1-1 shows, the regional distribution of the sample jurisdictions is evenly divided.

Table 1-1. Regional Distribution of CDBG Recipient Localities Studied

Region	Number in sample	Percent of sample
Northeast	16	25.8
Midwest	16	25.8
South	16	25.8
West	14	22.6
Total	62	100

Source: From U.S. Census Bureau data.

Table 1-2 shows the sample jurisdictions grouped by population size.

Table 1-2. Population Size of CDBG Recipient Localities Studied*

Population	Number in sample	Percent of sample
1 million and above	12	19.4
500,000-1 million	10	16.1
250,000-500,000	7	11.2
100,000-250,000	7	11.2
50,000-100,000	14	22.6
Under 50,000	12	19.4
Total	62	99.9

Source: From U.S. Census Bureau data.

* For the ten counties in the sample, this table includes the population of the entire county.

Table 1-3 groups the sample units according to their previous experience under the folded-in categorical grants.

Table 1-3. Level of Pre-CDBG Grant Experience* in Sample Jurisdictions, by Community Type

Community type	High previous categorical experience	Moderate previous program experience	Low previous categorical experience	No previous categorical experience
Central Cities	15	12	3	0
Satellite Cities	4	0	7	1
Urban Counties	2	0	6	2
Non-metropolitan areas	6	0	0	4
Total	27	12	16	7

Source: Calculated from U.S. Department of Housing and Urban Development data.

* Based on the ratio for each recipient unit of its per capita amount received under the previous programs to the national per capita mean. "High" is over 150 percent of the national mean of $17.63 per capita (annual average, 1968-72); "moderate" is 50-150 percent of this amount; and "low" is 50 percent or less.

Questions the Research Raised

The research questions raised by the CDBG program fit into essentially the same three categories as those for the general revenue sharing study--political, fiscal and social, and distributional.

The political questions raised by the new block grant program are among the most pressing ones. To begin with, bureaucracies tied to the folded-in grant programs already existed in many communities as well as at the national level prior to 1974. With the introduction of block grants, will local community development bureaucracies continue to operate as in the past--often quite independent of the rest of local government--or will mayors, county executives, local legislatures, and citizens' groups come to influence these programs and activities more heavily? Will HUD officials seek to operate the new program in the old categorical molds? What will be the role of members of the Congress and the various interest groups affected?

The second major area for research concerns the interrelated fiscal and social impacts of the CDBG program. A number of important questions were put forward at the outset. Will capital spending predominate? If so, for what kinds of facilities? What kinds of social service programs, if any, will be incorporated into CDBG applications? How will the uses of these funds differ from those of the antecedent grants? Will their geographical distribution within a community be substantially different? Likewise, will their distribution among income groups be substantially different? Although community development block grant funds must be allocated in a planning process prescribed in law, there is still the perennial bottom line question for the analyst: Are the activities aided "new," or are federal funds merely being used to substitute for local resources to pay for projects that would have been undertaken even in the absence of federal aid?

The third major set of questions raised by the CDBG program involves its national distributional effects. To what extent are resources being shifted away from cities previously involved in urban renewal, model cities, and other HUD programs? Are the gainers newer cities, wealthier cities, suburban cities, urban counties, smaller cities? Why does the formula favor these units? Are important policy issues raised by funding shifts? What kinds of formula alternatives should be considered?

Finally, cutting across the political, fiscal and distributional questions are larger questions that this research can help to answer. What are most serious problems of the nation's cities? What can be done to help these cities? The block grant program for community development provides a basis for considering these questions using statistical data and observations about the priorities and decision processes of the sample jurisdictions. It is our intention, both in this report and the follow-on report (due one year from now), to examine our subject in a way that sheds light on a wide range of issues of urban governance.

The First Report

This report covers the three major areas of research--(1) distributional, (2) fiscal and social and (3) political effects for the first program year--and also includes a history of the origins of the community development block grant program. This introductory chapter and Chapter 2, on the background, passage, and implementation of the program, constitute Part I of the report.

Part II deals with national distributional effects. In Chapter 3, we describe how the formula works and present a set of calculations for an illustrative city, Lancaster, Pennsylvania, and its overlying county. Chapter 4 analyzes the distribution of the folded-in grants and the effects of the CDBG allocation system in the first year of the program. Chapter 5 presents a similar analysis for the sixth year, projecting the allocational effects to fiscal 1980 when, under the schedule contained in present law, the CDBG formula system would be fully implemented. Our conclusion, set forth in Chapter 6, is that basic revisions are needed in the formula allocation system. Such revisions should be considered in conjunction with the extension of the authorization for the CDBG program beyond its third year. Chapter 6 presents nine alternative formulas for distributing CDBG funds and recommends the adoption of an approach that combines the existing system with one that places greater stress on physical development needs.

Part III, comprising Chapters 7, 8, and 9, deals with the uses and effects of CDBG funds. This subject is examined from various perspectives--fiscal effects, the geographical pattern of funding within recipient jurisdictions, and the impact of CDBG funds on different income groups, especially low- and moderate-income groups, required under the law to receive emphasis. Our interest in this section is not just in how funds are used, but, to the extent that we can gauge it at this time, in who benefits. This subject--Who Benefits?--is the title of Chapter 8. Chapter 9 examines the leveraging effects of CDBG funding, that is, how they stimulate other types of support for community development.

Part IV deals with the impact of CDBG funds on the political processes of recipient units, concentrating on the decentralization aims of the new program. In this section, Chapter 10 focuses on the role of generalist officials and program specialists. Chapter 11 deals with a major point of emphasis in the CDBG legislation, citizen participation.

The final section of the report consists of a summary chapter on major findings and conclusions to date. The recommendations in this chapter concentrate on formula issues, which can be most fully considered in the first program year and which in our view require immediate legislative attention.

Preliminary Conclusions

Although our work to date considers only the first year of the program, a number of important findings have emerged, among them:

- The basic idea of the block grant appears to be working to the extent that its proponents sought to combine two principal elements--(1) an emphasis on capital expenditures for community development and (2) features to promote greater flexibility for recipient governments in determining their communities' needs and priorities.
- Capital spending clearly predominated in the first-year allocations of CDBG funds. This involves a combination of new capital spending, in large measure for relatively short-term purposes, and the continuation of pre-existing and

longer-range urban renewal projects.

- The emphasis in the first-year allocations of CDBG funds has been on neighborhood conservation strategies and programs intended to prevent urban blight, and generally focused on housing rehabilitation and related public improvements in transitional or marginal neighborhoods.
- The majority of CDBG first-year allocations were classified by the field research associates as benefitting low and moderate-income persons, with about one-quarter of the funds allocated for community-wide purposes and the rest either classified by the associates as unallocable on this basis or allocated to other income groups.
- In sum, the pattern of benefits indicates a geographical spreading out of activities within jurisdictions (as compared to the folded-in grants), reflected both in the neighborhood conservation uses of CDBG funds and the political processes (including citizen participation) adopted by the recipient jurisdictions.
- Attempts were made by many jurisdictions to use block grant funds to leverage private funds as well as other public funds. The leveraging effects that can be observed, however, are not large and are characterized by implementation delays. Housing rehabilitation is the largest functional area for combined public-private

activities undertaken with CDBG funds.

- Generalist officials, particularly chief executives, have played a prominent role in community development decision-making, both on procedural and substantive matters. Their role tends to be much more important under the block grant program than it was under the pre-existing federal grant programs for community development, which in the case of urban renewal and model cities generally were administered by quasi-autonomous or independent local agencies or authorities.
- Citizen participation, contrary to what some observers anticipated, has been a very significant feature of the program's implementation in the first year, especially in those cases in which local officials demonstrated a strong positive attitude toward these activities.
- The analysis in this report of the distributional effects of the CDBG program demonstrates that in relative terms the allocation system favors small and suburban jurisdictions; it disadvantages older and distressed central cities. We propose specific changes in this allocation system and show how they would affect all major units entitled to CDBG funds. Chapter 6 contains proposals for changing the current formula. The final chapter in this volume goes beyond the existing allocation system and recommends a formula add-on for needy cities; $500 million in supplemental CDBG funds are allocated on this basis.

* * *

As stressed throughout this report, the answer to the question of whether these first-year findings indicate success or failure for the CDBG program depends upon the values and perceptions of the individual reader.

FOOTNOTES TO CHAPTER 1

1/ The "veto-only" review process applies only to "entitlement jurisdictions." As a practical matter, what this involves is that smaller jurisdictions eligible for CDBG grants at the discretion of the Secretary are treated in the usual way -- i.e., HUD can either approve _or_ disapprove their applications.

2/ As explained more fully in later chapters, the sample does not include any discretionary jurisdictions _within_ metropolitan areas.

CHAPTER 2

THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM: BACKGROUND, PASSAGE, AND IMPLEMENTATION

On August 22, 1974, Gerald R. Ford signed into law the Housing and Community Development Act of 1974. Because "the nation's cities, towns and smaller urban communities face critical social, economic and environmental problems...," the act declares, "the future welfare of the nation and well-being of its citizens depend on the establishment of viable urban communities as social, economic and political entities...." The new legislation's stated main objective is "the creation of viable urban communities." Toward this end it provides, in Title I, for block grants for community development and, in Title II, for housing assistance for persons of low and moderate income.[1/] (The full text of Title I, in facsimile, is reproduced as Appendix I of this report.) In the past, community development and housing programs had been enacted as parts of a single legislative program but were administered separately. The 1974 legislation for the first time established a direct link between them. The authors of this report and the associated researchers in the field are interested in this relationship (discussed later in this chapter); our principal focus, however is on Title I--the community development block grant (CDBG) program.

Although the program is new in several important respects, it draws heavily on almost forty years of federal policies for community development. Like most domestic legislation, the CDBG program was the product of long deliberation in which widely varied perceptions and interests helped shape the outcome.

The first section of this chapter reviews the evolution of federal involvement with community development; the second section describes the sequence of events that led up to enactment of the CDBG program; the third focuses on the initial steps in its implementation.

EVOLUTION OF THE FEDERAL ROLE IN COMMUNITY DEVELOPMENT

The Meaning of "Community Development"

Among policymakers, community development is a relatively new term. It appeared in federal legislation for the first time in the Housing Act of 1949, Title I of which was captioned "Slum Clearance and Community Development and Redevelopment." Use of the term in reference to specific domestic programs dates from the mid-1960s when federal agencies began to characterize activities to renovate urban places as "community development efforts." In 1966, a separate community development division was created in the newly established United States Department of Housing and Urban Development (HUD), originally as one of three divisions under an assistant secretary for renewal and housing assistance, and, by 1971, as a separate office headed by an assistant secretary for community development.

In spite of wide use among federal officials and other policy experts, the term "community development" remains unclear. To some, it refers to the historical process by which communities make the transition from what is called a "traditional" state to a "modern" one. To others, it involves political activity aimed at mobilizing and organizing citizens to pursue certain social or political goals.2/ Still others approach community development from the narrower perspective of public policy, using the term to mean the process by which government, through physical development projects and social programs, improves the surroundings and living conditions of the populace. This last usage is the most appropriate one in the context of urban policies and programs of the federal government.

Federal policymakers have generally held back from precisely defining the term "community development," choosing instead to list broad objectives, with the assumption that the fulfillment of these objectives constitutes community development. Lyndon Johnson, for example, conveyed a bold outline of what he believed community development to be when he spoke in 1966 of his determination to "create cities of spacious beauty and lively promise where men are truly free to determine how they will live."3/ One attempt at a definition was offered by Richard M. Nixon in 1971, when he proposed that Congress create a department of community development:

> Community development is the process by which we seek to create and preserve a wholesome living environment for all citizens. Such an environment should provide not only an adequate supply of decent housing accessible to all, balanced community transportation systems and reliable public facilities and services but also effective and responsible institutions of government and opportunities for the participation of private individuals and voluntary organizations in government decisions affecting the community. 4/

Broad assertions of national purpose, though they fall short of providing a working definition, indicate four basic concerns of federal policymaking for community development: (1) physical improvement of the urban environment; (2) improvement of the social aspects of urban conditions; (3) improvement in the performance of local government; and (4) increased participation by local residents in making decisions that affect their own communities.

The evolution of federal involvement in community development activities has been shaped in large measure by changing notions of what the process of community development is, and at the same time by constant efforts to reassess the role of the federal government in state and local affairs. Since the 1950s, community development has been interpreted in Washington as primarily an effort to revitalize the nation's deteriorating urban core areas. The magnitude and complexity of this task, however, became apparent only gradually. The uncertainty with which the federal government became involved in this area resulted initially in the enactment of several narrow programs aimed at specific community needs.

The Federal Government's Role in Community Development

The first indication of the federal government's concern with the problems of cities came in 1892, when Congress appropriated $20,000 for a study of urban slum conditions. Sixteen years later, President Theodore Roosevelt created a commission to survey slum conditions. Neither study resulted in federal action on behalf of cities. In the years around the turn of the century, urban problems--physical decay, overcrowding, racial conflict, inefficient local government--were regarded as responsibilities for state and local authorities, not the federal government. Not until the Great Depression of the 1930s did the federal government directly confront the problems of the nation's cities, in this instance with emergency housing and slum clearance legislation aimed primarily at providing jobs to stimulate economic recovery.[5/]

With the enactment of the first of the Roosevelt Administration's urban rehabilitation programs came the inevitable controversy over the manner and extent to which the federal government ought to involve itself in local community development. At issue was the government's attempt to carry out slum clearance. Such activities in Louisville, Kentucky, prompted a court challenge in 1935, as a result of which a Federal Court of Appeals ruled that direct federal slum clearance was unconstitutional. The court held that providing housing to a small number of individuals could not be construed as action in the national interest, and thus did not justify use of the federal government's power of eminent domain.[6/]

The decision prompted a shift from slum clearance carried out directly under federal auspices to grants-in-aid for the same purpose. Despite the early controversy, New Deal federal ventures into community development established the federal government's role in providing support for such programs.

In the Housing Act of 1949, the federal government for the first time identified as its objective the provision of a decent home and a suitable living environment for <u>all</u> Americans. The preamble to the act declared that

> the general welfare and security of the nation and the health and living standards of its people require housing production and related community development sufficient to remedy the serious housing shortage, the elimination of substandard and other inadequate housing through the clearance of slums and other blighted areas and the realization as soon as feasible of the goal of a decent home and suitable living environment for every American family, thus contributing to the development and redevelopment of communities.... 7/

The 1949 act established the basis for widespread federal support of housing and community development activities; in the following two decades several additional programs were enacted that broadened the federal government's role in this area. By 1968, there were seven major federal grant programs for community development, as shown in Table 2-1. The last listed, the neighborhood development program, was, in effect, a special sub-program of urban renewal involving annualized grants.

Table 2-1. Community Development-related Federal Programs Prior to 1974

Program*	Year begun	Number of projects undertaken	Total grants (in millions of dollars)	Number of localities participating
Urban renewal	1949	2,106	9,519.8	990
Open space land grants	1961	4,585	604.9	...
Public facility loan	1961	1,495	623.7	...
Water and sewer facilities	1965	2,246	986.7	...
Neighborhood facilities	1965	800	254.7	663
Model cities	1966	...	2,270.8	147
Neighborhood development	1968	414	2,189.8	413

Source: Compiled from 1973 HUD Statistical Yearbook, Washington, D.C.
* Identified in full on pages 52-53.

Two programs--urban renewal and model cities--provide the focus for this review because of their magnitude and because they represent major steps leading toward the community development block grant program of 1974.

The Urban Renewal Approach. The urban renewal approach has its origins in Title I of the Housing Act of 1949, which carried over from the New Deal emergency programs an emphasis on physical development in urban areas, principally on slum clearance and new construction.

Initially called the urban redevelopment program, Title I provided $350 million in grants for these activities between 1949 and 1953. From its enactment, the redevelopment program was severely criticized by urban experts as being too limited in scope and haphazardly implemented.[8/] President Dwight D. Eisenhower responded to these criticisms and others by appointing an advisory committee on government housing policy and programs in 1953.[9/] Reflecting the committee's recommendations, the redevelopment program of 1949 was modified, expanded, and renamed "urban renewal" by the Housing Act of 1954.

Much of the criticism of the redevelopment program had focused on procedural matters such as the lack of requirements for adequate planning and for the involvement of community residents. The Housing Act of 1954 responded by including in the urban renewal program a requirement for a "Workable Program for Community Improvement." As a precondition for receiving funds, each participating city had to provide in its "workable program": (1) a comprehensive plan for community development, (2) an analysis of the neighborhoods in the community to identify those with blighted areas, (3) an administrative organization capable of coordinating and administering a community program, (4) assurance that the entire community is informed and given an opportunity to participate in developing and administering the program, (5) financial resources to meet the community's share of the program's cost, (6) housing resources to accommodate persons displaced by urban renewal, and (7) an adequate housing code.

The planning and citizen participation provisions were the most significant procedural components of the "workable program." Local governments were required to assess their needs and to plan urban renewal activities to meet these needs along lines that avoided conflicts or costly overlaps in activities planned by adjoining jurisdictions. To facilitate this effort, section 701 of the 1954 act provided planning funds to towns with populations below 25,000 and to area-wide planning bodies for larger cities. The citizen participation provisions of the "workable program" did not stipulate how they should be implemented. Citizen participation, therefore, tended to be perfunctory; local governments created "blue ribbon" advisory boards to support renewal plans--often without any significant voice in the planning and execution processes. Thus, although the "workable program" for urban renewal introduced the issue of citizen participation into community development, it largely failed to bring about active involvement by citizens, especially members of low-income and minority groups.

The emphasis on physical rehabilitation of the urban renewal program resulted in part from a tendency among policymakers to concentrate on the visible and tangible aspects of urban decay. Harold Wolman, in writing about the politics of federal housing policy, has observed that "much of the concern about easily visible slums was not about the deprivation suffered by their inhabitants but rather about the affront to the aesthetic sensibilities caused by these blights on the urban landscape."[10] Yet the emphasis was not easily shifted. Businesses and trade unions associated with the building industry, because they stood to benefit directly from redevelopment activities, encouraged the stress on physical improvements. In addition, local governments favored this approach in the hope that their tax bases would be improved by having higher income groups move into redeveloped areas. At least partially in response to such pressures, programs enacted between 1961 and 1965 perpetuated the physical orientation of federally aided community development. These were initiated to help provide public facilities, water and sewer systems, and open space in urban areas.

It was not until 1966 that the focus of community development began to change.

The Model Cities Approach. New efforts by federal policymakers to reshape the concept of assistance for community development were prompted by the increasingly apparent limitations of physically oriented programs. The urban unrest that began in the mid-1960s--perceived as a reaction among poor people to the conditions of life in ghettos--[11] added a strong stimulus to re-evaluate existing development programs. The result of these efforts was the Demonstration Cities and Metropolitan Development Act of 1966 which created the model cities program.

Recommended initially by a task force appointed by President Johnson and headed by Professor Robert C. Wood of the Massachusetts Institute of Technology, the proposed program was submitted to Congress by President Johnson in January 1966. It was conceived as an experimental program that would be limited to sixty-six cities with seriously deteriorated areas. The purpose of the experiment was to demonstrate that rapid improvement in deteriorated urban areas could be achieved by combining and augmenting existing federal grant programs in a single effort concentrated on areas designated as "model neighborhoods." In addition, the program sought to give greater discretion to recipient localities and their residents in deciding how federal funds would be used.

The model cities program became law in November 1966, after Congress had increased the number of cities that would be permitted to participate to 150 and reduced substantially the level of funding sought by the Johnson Administration. The new program differed significantly from its predecessors in that it addressed social and economic needs as well as physical improvement; it provided funds for job training, employment opportunities, and a variety of social services, as well as for neighborhood improvements. These changes reflected a recognition by officials that community development must rehabilitate more aspects of citizens' lives than just their surroundings.

Procedurally, the model cities program adopted and elaborated on elements of the urban renewal "workable program" involving planning and citizen participation; it stressed the coordination of related federal grant-in-aid programs. Planning under the model cities program differed from the urban renewal approach in two respects. First, in contrast to the urban renewal emphasis on physical planning on a project-by-project basis, the model cities program required comprehensive planning that combined physical, social, and economic planning for the entire model neighborhood. Second, because of the broader scope of model cities activities, the planning process became more prominent. A planning procedure to be followed by each participating locality was outlined in detail by HUD, and the department provided participants with a full year's funding for planning prior to program start-up.12/

The citizen participation provision of the model cities program differed from that of the urban renewal "workable program" in that it required "extensive participation" by the residents of model neighborhoods rather than an assurance that the entire community had been given an opportunity for participation. Although the model cities program expanded on the citizen participation requirement of the "workable program," it stopped short of the participation requirements of the anti-poverty program enacted two years earlier. The community action program created by the Economic Opportunity Act of 1964 had stirred up widespread criticism of its requirement for "maximum feasible" citizen participation, as well as its detailed administrative directives for local community action agencies. Partly in reaction to this controversy, federal officials refrained from specifying exactly how the citizen participation requirement under the model cities program was to be met; thus, the role of model neighborhood residents in the program varied widely among cities. Clearly, however, citizen participation in the model cities program was to be an important factor in giving a voice to neighborhood residents under this and other federal programs. In 1968, at the direction of HUD Secretary Robert E. Weaver, the administrative guidelines of the urban renewal program were amended to require the creation of "project area committees" as vehicles for citizen participation for all new urban renewal projects involving residential rehabilitation.

The model cities program reflected President Johnson's commitment to utilize the resources of the federal government in what he called a "creative partnership" to improve the quality of urban life. This approach, which emphasized an active, wide-ranging role for the federal government in domestic affairs, Johnson described under the banner "creative federalism." Although by 1966 the federal government's role in providing assistance and guidance to local governments for community development purposes seemed firmly established, the model cities program stimulated considerable debate about what ought to be the nature and extent of the federal government's role not just in community development but in domestic affairs in general.

The program raised fundamental issues about the federal role in local affairs because of the extensive involvement of the federal government in program administration. Initially presented as a means of increasing the freedom of local governments, the program quickly became encumbered with detailed, time-consuming administrative requirements involving a strong HUD presence at the local level. To state and local authorities, federal influence appeared all the more intrusive as officials from Washington began at the same time to require compliance with newly-enacted civil rights legislation.

Concern with the growing involvement of the federal government in what had been traditionally viewed as state and local affairs became a major issue in the presidential campaign of 1968. As the Republican candidate, Richard Nixon advanced a view of the federal system that differed significantly from the position of the Johnson Administration. Furthermore, by this time unrest in the cities, which had preoccupied the Democrats and undoubtedly influenced Johnson's view of the federal government's role in domestic matters, had subsided. Now, the size of the federal bureaucracy, the scope of its activities, and alleged difficulties in achieving efficient and effective implementation of federal programs became prominent political issues. Reflecting these concerns, both party platforms in 1968 committed their candidates for the presidency to management improvements. The Republicans pledged a "complete overhaul and restructuring of the competing and overlapping jumble of federal programs to enable state and local governments to focus on priority objectives."[13/] The Democrats, meanwhile, promised to "give priority to simplifying and streamlining the processes of government, particularly in the management of the great innovative programs enacted in the 1960s."[14/]

Although Nixon offered few specific ideas about the proposed restructuring of federal programs, he argued strongly for a reassessment of the federal role in domestic programs and for a greater reliance on state and local leadership. These views not only reflected the Republicans' long-standing opposition to the expansion of federal authority; they also reflected the attitudes of a growing number of officials at all levels of government, and in addition echoed recommendations made by the United States Advisory Commission on

Intergovernmental Relations.[15]

<u>Problems of Coordination and Review</u>. Understandably, the coordination of federal grant-in-aid programs in urban areas was not a concern when the urban renewal program was enacted. By the mid-1960s, however, because of the sharp increase in the number and scale of urban programs, it became an important issue. The belief became widespread that there was a serious need for coordination, both along geographical lines and on the basis of program function. By supporting area-wide planning, the section 701 under the Housing Act of 1954 promoted coordination along geographic lines, in an effort to foster a broad-based awareness of the impact of local programs. In a similar way, the model cities program was held up by many of its proponents as a major effort to align the various functional areas in which federal grants were provided for community development.

These efforts, especially those focused on regional planning, were buttressed by Title IV of the Intergovernmental Cooperation Act of 1968, which directed the president to establish "rules and regulations governing the formulation, evaluation and review of federal programs and/or projects having a significant impact on area and community development..." Title IV was implemented by the Office of Management and Budget in its Circular A-95. Part I of Circular A-95 established a "Project Notification and Review System," under which state and area-wide clearinghouses (state and areawide planning bodies designated by the Office of Management and Budget) were empowered to review and comment on proposed grant applications to the federal government, with special attention to the consistency between the activities proposed and existing area-wide plans. Until 1974, the impact of Circular A-95 on community development programs, however, was slight because so few programs were covered by its review process. The CDBG program may be seen in part as a response to the need for adequate coordination of federal grant-in-aid programs--both on a geographic and a functional basis.

FORMULATION OF THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

The block grant program of 1974 represents a turning point in the federal government's approach to community development. The Ford Administration, which took office as the program was clearing Congress, was hopeful that the program would help quiet the continuing criticism of federal intervention into state and local affairs. The CDBG program would, in President Ford's words, "...help return power from the banks of the Potomac to the people in their own communities. Decisions will be made at the local level. And responsibility will be put squarely where it belongs--at the local level." [16] Such expectations may have been over-optimistic. Although the act contains important new features, it is not so sharp a break with past approaches to federal community development activities as the Nixon Administration had originally sought. Despite the fact that Nixon resigned from office only two weeks before the CDBG act was signed, the program stands as a legislative achievement of his presidency. Almost as soon as Nixon took office, efforts to formulate a new approach to federal assistance for community development began.

The CDBG program was not solely a creation of the Nixon Administration; it was in reality the result of a long, often intense struggle between the Administration and the Congress. Many of its features reflect efforts to reconcile views held by the executive and by both chambers of Congress.

Toward the CDBG Program: The Nixon Administration's Role

The New Federalism as a Philosophical Guide. Both during his campaign for the presidency in 1968 and after his inauguration, Richard Nixon criticized the rapid growth of the federal government's domestic role and urged steps to shift responsibility away from Washington and onto state and local authorities. Early in Nixon's first term of office, in an effort to achieve decentralization, he proposed the adoption of revenue sharing, along with a number of related changes in existing domestic programs of the federal government. In the initial presentation of his domestic program, televised on August 8, 1969, Nixon set forth his concept of "...a New Federalism in which power, funds, and responsibility will flow from Washington to the States and to the people."[17] The New Federalism looked towards a sorting out of governmental responsibilities, assigning to state and local governments those responsibilities that could, in the Administration's view, best be performed at those levels and retaining at the national level functions most effectively dealt with centrally.

But devising the desired new approaches proved extremely difficult. For about a year after unveiling the New Federalism, the Nixon Administration labored over a wide range of issues related to the redesigning of programs in the area of community development.

The model cities program was one of the first to receive attention. Transition task forces had been considering the future of this program along with other social programs, even before the change in Administration in January, 1969.[18/] In the spring of 1969, the President appointed another task force, headed by Harvard urbanologist Edward R. Banfield, to study the model cities program. In its report to the President in December the task force urged continuation of the program, recommending a substantial reduction in the level of direct federal control. It also urged the eventual adoption of a "revenue sharing approach" to aiding urban areas.[19/]

Other in-house studies of the model cities program were undertaken first by the short-lived Urban Affairs Council, headed by Daniel Patrick Moynihan, and later by the Domestic Council, headed by John D. Ehrlichman. In addition, the Office of Management and Budget and the Department of Housing and Urban Development conducted studies.[20/] Partly in response to these various evaluations, HUD began in 1971 to initiate administrative changes in the model cities program. Reflecting the ideas and objectives of the New Federalism, these changes stressed coordination among existing community development programs and efforts to strengthen elected, general-purpose local governments under the model cities and related federal assistance programs. On the basis of these changes, officials promoted the idea of a reformulated model cities program as an example of the New Federalism approach in action.[21/]

Special Revenue Sharing. Parallel with the efforts to alter the model cities program to reflect the New Federalism, Administration officials continued working to design a new community development program. Late in 1970, the Administration decided that the so-called "special revenue sharing" approach should be applied to community development, as well as five other functional areas.[22/] President Nixon announced this decision in his State of the Union Message on January 22, 1971. On April 9, 1971, in a special message to Congress, he proposed legislation to establish a special revenue sharing program for urban community development.

Meanwhile, administrative revisions of the model cities program were being advanced in this period. On May 18, a modification of the model cities program conforming it to the principles of the New Federalism was announced--the "annual arrangements program." This was to be the first of two experimental programs aimed at achieving some of the goals sought by the special revenue sharing approach, but in this case by administrative action. Also to be carried out under the umbrella of the model cities program was the "planned variations program," launched on July 29. Both plans were described by HUD as the "forerunner of such significant initiatives as Community Development Revenue Sharing."[23/]

Under the annual arrangements program HUD officials met with representatives of participating jurisdictions to negotiate a "package" of community development activities for that particular jurisdiction to be funded by HUD. This differed from past practice under the model cities programs in that it involved a jointly developed annual plan for the activities in the neighborhood(s) to be aided by the federal government and local officials.

Planned variations, the more broad-ranging of the two experiments, contained three elements: (1) a city-wide model cities program; (2) "chief executive review and comment," whereby the local chief executive was given substantial coordinating responsibility, the right to review all related applications for federal assistance to his community and the funds needed to carry out this review; and (3) "minimization of review," a commitment by HUD to curtail its involvement in the review process, delegating the major part of its review powers to the chief executive. Of the twenty cities under the planned variations program beginning in 1971, sixteen participated in all three phases; four participated only through the adoption of a chief executive review and comment system.[24/]

The special revenue sharing approach, being formulated simultaneously with these administrative modifications, represented an important step in the Administration's efforts to translate the New Federalism into concrete terms. There were five main parts to this program: (1) consolidation of the urban renewal, model cities, and neighborhood facilities programs; (2) replacement of categorical grant application procedures with a process by which funds would be allocated to certain types of qualifying communities according to a statutory formula; (3) reduction in the administrative and procedural requirements associated with categorical grants; (4) assignment of all funds and decision-making responsibility to general-purpose local governments instead of, as was often the case under the model cities and urban renewal programs, to special, quasi-autonomous bodies or independent authorities; and (5) elimination of requirements whereby recipients of federal grants must match these grants, up to a certain proportion of the cost of aided projects, with funds from their own sources.

Although congressional sentiment in 1971 appeared favorable to some of the Administration's objectives--in particular, to consolidation of the categorical grants into a single, simplified program, and to placing greater responsibility on general-purpose local governments--there were two major areas of disagreement between the President and Congress. The most important one from a tactical standpoint was the Administration's decision not to include a recommendation for new housing legislation with its community development proposal. The second and more substantive dispute concerned the issue of decentralization. Congress was not prepared to relinquish as much responsibility for defining national objectives for community development as the Administration's proposal implied. For these reasons, as well as others, the Ninety-second Congress (1971-72) did not enact the Nixon Administration's special revenue sharing plan for urban community development.

Seizing the initiative, the housing subcommittees of both chambers of Congress drafted alternative housing and community development bills. The Senate committee version won full Senate approval; but a similar bill drafted in the House of Representatives failed to reach the House floor before the close of the Ninety-second Congress.

<u>The Better Communities Act--Special Revenue Sharing by Another Name</u>. In March, 1973, just after the Ninety-third Congress convened, the Administration submitted a second proposal, which was entitled the "Better Communities Act." Aside from its new name, it differed only slightly from the original special revenue sharing proposal of 1971. The most notable differences between the two proposals were: (1) that the 1972 bill included three other federal grant programs in the consolidation package (open spaces, water and sewer facilities, and the public facilities loan programs); (2) that it stipulated that urban counties, not just cities, would be eligible for community development grants; and (3) that it contained a "hold-harmless" provision to protect communities already receiving federal aid from losing funding under the new program.

The Better Communities Act was, as George Gross, then Counsel to the House Banking and Currency Committee's Subcommittee on Housing, put it, "a warmed over version" of the Administration's 1971 special revenue sharing proposal.[25/] Instead of submitting a compromise proposal that reflected some of the concerns expressed by the Congress, the Administration took a hard bargaining position and prodded the Congress to accept its position. In his budget message for fiscal year 1974 President Nixon announced the suspension of the seven grants folded into the Better Communities Act, as a means of pressuring Congress to act favorably on his plan.

In a radio message broadcast on March 3, 1973, President Nixon appealed for public support for his approach to community development, emphasizing his determination to take local community development decisions out of the hands of federal bureaucrats and assign them instead to elected officials. Four days later, in what the Administration billed as the fifth in a series of mini-State of the Union messages, the President reiterated his appeal.

Shaping the Block Grant Program in Congress

In 1973, the housing subcommittees of both the House of Representatives and the Senate again drafted their own community development bills, both of which differed significantly from the proposed Better Communities Act. In addition, major distinctions between the House and Senate approaches emerged.

Stalemate in the Senate. The Senate took the lead in responding to Nixon's proposal. On May 9, 1973, the chairman of the Senate Committee on Banking, Housing, and Urban Affairs, Senator John J. Sparkman of Alabama, reintroduced the community development section of the bill adopted by the Senate in 1972. Two months later the Senate housing subcommittee, under Sparkman's leadership, added its own housing title to the bill; between July 16 and October 4, 1973, the subcommittee held twenty-six days of hearings on the bills proposed by the Administration and the Senate subcommittee. In mid-February 1974, the full Banking, Housing, and Urban Affairs Committee reported out a bill similar to the one the Senate had passed in 1972 and radically different from the Administration's proposal. The Senate committee sought an omnibus housing and community development bill, reflecting the high priority the Senators and the many witnesses who had testified before them placed on getting new housing legislation. In addition, the Sparkman committee's bill rejected two key elements of the Administration's special revenue sharing approach--the use of a formula to allocate funds and the Administration's strong emphasis on decentralization.

Decentralization remained a persistently aggravating issue throughout the Senate subcommittee's deliberations. Sparkman, in a speech to the Senate in May, complained that "the principle of special revenue sharing...carries with it a transfer of responsibility for meeting national objectives from the federal government to local governments with no built-in means for directing or evaluating how the federal funds are spent other than a post-audit for accounting and auditing purposes."26/ Senator Robert Taft, Jr. of Ohio, a Republican, went further:

> With the advent of general revenue sharing to supplement local tax efforts and improvement in the budget predicament of many localities, there is no reason to create another fund transfer program which simply provides localities with more federal money to use virtually as they see fit... Furthermore the essence of any community development program--housing and physical development and redevelopment--probably deals more fundamentally with the problems of racial integration, which have proved so difficult for localities to tackle even with strong federal directives, than any other federal program. Because of such problems, I feel that community development is one of the least suitable types of program areas for a totally "hands-off" revenue sharing approach. 27/

Senator Joseph R. Biden, the junior senator from Delaware, expressed special concern for how low and moderate-income persons, especially minorities, would fare under the Administration's approach. He suggested that in spite of their good intentions, local politicians would find it difficult to handle such controversial issues as housing for low-income and minority groups.28/

In rejecting the Administration's views on decentralization, the Senate committee bill restricted the freedom of localities in implementing the proposed program in three ways. First, it included a list of national objectives to be pursued under the program. Second, it imposed specific limitations on the use of grant monies. (One such limitation, urged by Edward W. Brooke, Republican junior senator from Massachusetts, was that no more than 20 percent of a jurisdiction's allocation be used for social services--this, in an effort to insure that physical development would be emphasized in the program. A similar restriction, put forward by Senator Taft, required that at least 80 percent of the funds received be spent in such a way as to be of direct benefit to families of low and moderate income or to blighted areas.) The third restriction concerned the question of whether or not there should be an application process. The committee bill required that recipients present an application that outlined the uses of what it referred to as "block grant" funds, and that these proposed uses be consistent with national objectives and all other procedural requirements specified in the act.

Before the senators rejected the Administration's proposed formula method for allocating funds, they deliberated over several alternative formulas, finally reaching the conclusion that none of them distributed funds in proper proportion to need. Instead, they proposed a hold-harmless mechanism for localities already receiving community development funds and a continuation of discretionary funding by HUD for all other eligible localities. This decision represented a major shift in the committee's position from its stance in 1972, when it had recommended the use of a formula for allocating funds. Senator Taft's comments on this decision summed up the committee's viewpoint on this issue:

> I find it difficult to argue in principle against the concept of funds distribution based upon a formula which reflects an "objective" indication of community needs... The case for a formula bears weight in direct proportion to the extent of funding distortions and inequities which have occurred under the present systems, and its ability to rectify them. Unfortunately no formula which was presented to the Committee seemed to match my sense of relative community needs any better than the funding distribution under past programs. 29/

Throughout the Senate's deliberations on community development legislation, the Administration made little effort to advance its cause. When hearings began in the Senate, the Administration, in no mood to compromise, appeared confident that Congress would ultimately accept its proposal.

Housing legislation remained the Senate committee's primary concern. The Administration, however, still had not decided on what kind of housing program, if any, it was willing to support. When asked by the Senate committee about the Administration's housing policy, HUD Secretary James T. Lynn could only refer to a forthcoming presidential message on housing, billed in advance as a major policy statement set for September 19. For the time being, it seemed that no progress could be made on the housing issue.

Spokesmen for the Administration who testified before the Senate committee gave the impression that they would concentrate their efforts in behalf of the Better Communities Act on the House of Representatives. On March 11, 1974, when the Senate passed by a 76-11 vote the version of the Housing and Community Development Act recommended by its Banking, Housing and Urban Affairs Committee the gulf between it and the Administration became even wider than it had been in 1972. Neither side was willing to yield ground.

Concessions in the House. The House of Representatives acted second; it was clearly the more influential of the two chambers in shaping the final legislation. On September 5, 1973, Democrats William A. Barrett of Pennsylvania, the Chairman of the Housing Subcommittee of the House Banking and Currency Committee, and Thomas L. Ashley of Ohio introduced the Housing and Urban Development Act of 1973, which contained virtually all the elements of the 1972 bill that had failed to reach the floor of the House and that the Administration had found unacceptable. On October 5, the Housing Subcommittee began hearings on the Barrett-Ashley bill and on the Better Communities Act. As had been the case in the Senate, the bill met strong opposition. But unlike the situation in the Senate, shortly after the hearings began, key members of the House subcommittee began behind-the-scenes negotiations with Administration officials to arrive at a compromise bill. The main impasse in these negotiations was broken in February, 1974, when House and Administration representatives agreed on terms to resolve their primary source of disagreement--the decentralization issue. The compromise centered around the use of an application process that would permit some federal control, a point on which the subcommittee insisted, while at the same time significantly limiting the role of the federal government. Democratic Representative Richard T. Hanna of California, a relative newcomer to the subcommittee, played a major role in securing this compromise.

The Watergate affair proved to be a factor in producing this first compromise. Key subcommittee members, notably Ashley and Republicans William B. Widnall of New Jersey and Garry Brown of Michigan, recognized that passage of housing and community development legislation might be hindered by the move toward impeachment of President Nixon unless Congress acted quickly. A second element that spurred compromise was that the Administration, now preoccupied with Watergate, delegated to HUD Secretary Lynn responsibility for securing passage of acceptable legislation. Abandoning the Administration's earlier, inflexible posture, Lynn adopted a give-and-take attitude.

Still another factor facilitating compromise and fast action involved organizational support. A number of the groups lobbying for passage--notably the National League of Cities/United States Conference of Mayors--stepped up their pressure on both sides, but especially on the Administration, to urge greater flexibility.

The atmosphere of compromise was enhanced by the Administration's offer, albeit reluctant, of a housing program on September 19, 1973. Like their Senate counterparts, the House subcommittee was determined to have a combined housing and community development bill. When Secretary Lynn appeared before the House subcommittee on October 5, he was commended for the release in September of the housing study produced by his department and for the proposals contained in the President's message on housing. Although many committee members were dissatisfied with the contents of the President's housing message, the fact that it was delivered suggested that the Administration would now accept the idea of an omnibus housing and community development act.

In this new spirit of cooperation, the House subcommittee proceeded to draw up a bill that, it was hoped, would be acceptable both to its own members and to the Administration. Compromises between the House subcommittee and the Administration involved two major issues besides the application procedure. Housing legislation was one of them; the Barrett-Ashley bill included a housing "block grant" program that provided allocations by formula for low-income housing. This proposal contemplated a large-scale modernization and renovation of existing housing; the Barrett-Ashley bill also envisioned the continuation of some housing subsidies for new construction already in effect. The House subcommittee later dropped its housing block grant proposal in favor an Administration proposal for a single new housing program to replace existing housing programs. At the urging of Representative Ashley, the House program linked housing subsidies to community development by including a requirement that a "housing assistance plan" (HAP) be prepared by each applicant for a community development block grant and submitted to HUD as part of the application. (The House, like the Senate, was now using the term "block grant" as opposed to special revenue sharing.)

The other unresolved issue between the Administration and the House subcommittee was the level of funding for the community development program. The Administration proposed a spending ceiling of $2.3 billion for the first year of the program, an amount equal to spending under the folded-in programs. The House bill proposed $2.45 billion in the first year, $2.65 billion in the second year, and $2.95 billion in the third year, plus a transition fund of $100 million annually over the three years. The Administration agreed, though not without misgivings, to a three-year authorization of $8.35 billion.

The compromise House/Administration bill was reported by the Banking and Currency Committee on June 17. It was approved four days later by a vote 351-25. Thus, by mid-June, 1974 when Congress was on the verge of impeachment proceedings, the two chambers had passed with overwhelming majorities very different versions of a housing and community development bill, and each side appeared to be holding firmly to its position. The problem now became reconciling the differences between House and Senate, and it was by no means clear that this could be accomplished in 1974.

The Urban Counties Controversy. A number of interest groups were actively involved in the legislative process regarding community development. These included organizations of state and local officials, such as the Council of State Governments, National League of Cities/United States Conference of Mayors, and the National Association for Counties. Business and professional groups, including the National Association of Real Estate Boards and the National Association of Housing and Redevelopment Officials, also made their desires known, as did various banking and mortgage interests and other influential groups such as the AFL/CIO, the Urban League, and the National Association for the Advancement of Colored People. While all favored a housing and community development program, they lobbied for a variety of specific provisions and to prevent the adoption of features seen as detrimental to their particular interests. The Council of State Governments, for example, lobbied--without success--to secure state participation in the community development program. The National Association of Counties worked hard--and with success--to include urban counties as entitlement jurisdictions. This latter issue is of considerable significance and stirred up wide controversy. The National League of Cities, viewing the inclusion of urban counties as a direct threat to their jurisdictions, sought to have them excluded or at least limited to discretionary grants.

The decision to include urban counties in the block grant program as entitlement jurisdictions (that is, entitled to formula grants) attests to the growing influence in Congress of suburban jurisdictions and of county government in general. As early as 1969, the National Commission on Urban Problems urged a revenue sharing program primarily for cities, in which urban counties would have been eligible to participate.[30/] President Nixon's 1971 special revenue sharing proposal, however, did not recommend the inclusion of urban counties. Early in 1972, as Congress attempted to formulate its own community development program, the National Association of Counties began vigorous lobbying for the inclusion of urban counties. Congress rejected the idea but later that year reversed itself. The

Administration, too, switched sides on this issue. When the President submitted the Better Communities Act in 1973, it provided for participation by urban counties.

The inclusion of urban counties was vigorously debated in Congress. Several representatives from large suburban constituencies championed their cause. William B. Widnall, on behalf of Bergen County, New Jersey, Richard T. Hanna for Orange County, California, and William Moorhead for Allegheny County, Pennsylvania (overlying Pittsburgh), were the strongest spokesmen for urban counties on the House subcommittee. Opposing this position were the National League of Cities and members of Congress whose jurisdictions stood to be adversely affected by the inclusion of urban counties. Senator Brooke from Massachusetts, which does not have any counties that would qualify, led the opposition to this provision on the Senate side.

In considering the inclusion of urban counties, Congress had to contend with two problems. One difficulty was to arrive at a definition of urban counties that would limit the number of units included and ensure that only counties with the legal authority to carry out housing and community development activities were eligible for funds. This matter was resolved by defining an urban county as a county within a metropolitan area, with a population of 200,000 or more (excluding central and other cities with populations over 50,000 within its boundaries); further, an urban county, to be eligible, has to be authorized by its state to carry out community development and housing activities in its unincorporated areas. The other issue was the distribution of funds; it was necessary to allay fears that the inclusion of urban counties would dilute funds for cities. In response to this concern, the committee was assured by HUD and by its own staff that only about seventy-five counties would qualify and not more than ten or twelve would actually participate--an estimate which, in fact, proved highly inaccurate.

The resolution of the urban counties problems made patently clear the increased influence in Congress of suburban jurisdictions. During the hearings, Representative Ashley, originally an opponent of urban county participation, noted that "because of the political realities involved... we are looking forward... to running the Better Communities Act with very limited resources, and we are looking forward to doing so in a way that will accommodate suburban America, so that the legislation will have a chance of passing."[31/] Representative Moorhead made essentially the same point to the National League of Cities: "Unless the bill carries a broad appeal for governments other than metropolitan cities, we don't have a chance of winning on the floor. Reflecting new demographic patterns, more and more Congressmen find themselves representing suburban constituencies."[32/]

Reconciling the House and Senate Positions. In conference committee meetings in the summer of 1974, disagreement centered on two major issues. One was the question of decentralization--how much responsibility should be shifted to state and local governments, and what role should the federal government play? The other major area of dispute was the method of allocating funds. House and Senate conferees began their work late in June. There ensued six weeks of negotiations, which on several occasions appeared on the verge of failure. House conferees entered these negotiations in a stronger position than did their Senate counterparts; their bill had Administration support, the Senate's did not. Not surprisingly, the compromise that emerged more closely resembled the House bill, although the negotiations did yield some important changes to accommodate Senate views.

On the decentralization issue, the House bill came much closer than the Senate's to the Administration's position. The House relied on its application procedure giving HUD "veto-only" (not approval) authority. The Senate was able to augment this with a set of national objectives and certain limitations on the use of community development funds. Both, however, were modified by the conference committee. For example, the conferees added the House's general statement of purpose to the Senate's statement of national objectives and softened the Senate provision that at least 80 percent of the funds be spent to benefit low and moderate-income families or blighted areas. Regarding the latter, the conference bill required instead that localities certify that "the program has been developed so as to give maximum feasible priority to activities which will benefit low or moderate-income families or aid in the prevention or elimination of slums and blight." A similar fate befell the Senate's 20 percent limit on the use of block grant funds for social services. The conference committee removed the percent figure and inserted in its place general language requiring that such services be related to physical development projects undertaken with the block grant funds, and that grants for these services not be available under other federal programs.

On the issue of the allocation of funds, again the House position prevailed. The conferees agreed on the inclusion of a formula method for the allocation of most funds, as the Administration had originally proposed. The Senate's preference for a combined hold-harmless and discretionary funding approach was to an extent accommodated, in that the allocation system provided for a "hold-harmless" period for jurisdictions already receiving federal community development funds, and for discretionary funding for jurisdictions not entitled to funds under the allocation formula.

The conferees also disagreed on the level of funding. The Senate provided for $6.1 billion over two years, the House $8.35 billion over three years. Ultimately, agreement was reached to set the authorization level at $8.45 billion for three years, closer to the House position than to the Senate's.

In the final analysis, the bill that emerged from the conference on August 9, because it more strongly reflected the position of the House and had been developed in collaboration with Administration officials, was accepted only reluctantly by the Senate conferees. A week later, the Housing and Community Development Act of 1974 was approved by votes of 80 to 4 in the Senate and 377 to 21 in the House. On August 22, not two weeks after Richard Nixon's resignation, the bill was signed into law by President Ford.

Major Features of the CDBG Program

The community development block grant program differs in five important respects from previous federal programs for community development. First, it supplants seven existing grants-in-aid, six of which were designed to support circumscribed kinds of activities, with block grant funding to be used for community development (within certain broad purposes and with certain restrictions) at the discretion of the recipient. Second, it introduces a simplified, "veto-only" application procedure, whereby HUD must act on all applications within seventy-five days, after which all applications are automatically approved. Third, it relies on a statutory formula as the basis for allocating community development funds, instead of relying fully on the competitive funding procedures used previously. Fourth, it establishes a direct operational link between community development and housing programs. Fifth, it contains no requirement for matching funds.

Block Funding to Further "National Objectives." By consolidating, or folding in, seven so-called "categorical" grant programs, the CDBG program was designed to broaden the range of possible uses to which recipient localities could put these federal funds. The aim of this concept was to increase the freedom of local governments in setting their own priorities and choosing their own means for meeting the needs of their communities.

The folded-in grants, in relative order of prominence, were:

1. Urban renewal (and the neighborhood development programs) under Title I of the Housing Act of 1949;

2. Model cities under Title I of the Demonstration Cities and Metropolitan Development Act of 1966;

3. Water and sewer facilities grants under Section 702 of the Housing and Development Act of 1965;

4. Neighborhood facilities grants under Section 703 of the Housing and Development Act of 1965;

5. Public facilities loans under Title II of the Housing Amendments of 1955;

6. Open space land grants under Title VI of the Housing Act of 1961; and

7. Rehabilitation loans under Section 312 of the Housing Act of 1964.

The national objectives stated in the CDBG program are:

1. The elimination of slums and blight and the prevention of blighting influences and the deterioration of property and neighborhood and community facilities of importance to the welfare of the community, principally persons of low and moderate income;

2. The elimination of conditions which are detrimental to health, safety, and public welfare, through code enforcement, demolition, interim rehabilitation assistance, and related activities;

3. The conservation and expansion of the Nation's housing stock in order to provide a decent home and a suitable living environment for all persons, but principally those of low and moderate income;

4. The expansion and improvement of the quantity and quality of community services, principally for persons of low and moderate income, which are essential for sound community development and for the development of viable urban communities;

5. A more rational utilization of land and other natural resources and the better arrangement of residential, commercial, industrial, recreational, and other needed activity centers;

6. The reduction of the isolation of income groups within communities and geographical areas and the promotion of an increase in the diversity and vitality of neighborhoods through the spatial deconcentration of housing opportunities for persons of lower income and the revitalization of deteriorating or deteriorated neighborhoods to attract persons of higher income; and

7. The restoration and preservation of properties of special value for historic, architectural, or esthetic reasons.

The Application Procedure. The CDBG application procedure was seen by many in Congress as the major distinction between the Administration's special revenue sharing idea and a block grant in that it permits a degree of federal control over the way local governments carry out community development activities, while at the same time limiting the extent of federal involvement. The CDBG application accomplishes these aims through the following provisions:

A. Jurisdictions submit a single, broad application, which consists of four elements:

1. a three-year community development plan summary;
2. a one-year action program;
3. a housing assistance plan; and
4. a budget.

B. The application must be accompanied by certifications or assurances that, in preparing it, the local government has:

1. given maximum feasible priority to activities which will benefit low and moderate-income families or aid in the prevention or elimination of slums and blight;
2. provided information about the program to citizens, held at least two public hearings, and provided for "adequate" citizen participation;
3. complied with the nondiscrimination provisions of the act and all other applicable federal laws and regulations;
4. complied with the David-Bacon "prevailing-wage" requirement;
5. submitted the application to state and area-wide clearinghouses for review and comment; and
6. assumed responsibility for meeting environmental review requirements under the act and agreed to accept the jurisdiction of federal courts with respect to enforcement of these responsibilities.

C. HUD must process applications from entitlement and hold-harmless jurisdictions within seventy-five days after submission, and applications must be approved, unless:

1. the needs and objectives described in the application are "plainly inconsistent" with available facts and data;
2. the activities that the jurisdiction proposes are "clearly not permissible" under the act; and
3. the planned activities are "plainly inappropriate" to meeting the identified needs or objectives.

Funding. The CDBG program approach to funding seeks to reduce the competition associated with the folded-in programs, which, it was argued, tended to result in the distribution of funds on the basis of a jurisdiction's "grantsmanship" skills, rather than on the basis of objectively judged needs. The larger governments are formula-entitlement recipients, eligible to receive a definite amount of funds during the six-year life of the program. For both the larger governments and those smaller units that had participated in the folded-in programs, CDBG provides a "hold-harmless" period as a transition from the previous programs to the new one. (Part II of this report explains the allocation system under the CDBG program and the hold-harmless provision in greater detail.)

The Housing Assistance-Community Development Link. The housing assistance plan required in the CDBG application process ties together the housing program and community development activities. Representative Ashley, the principal architect of this provision, emphasized its importance: "If there is anything we have learned in the last few years, it is that we cannot have sound community development without a close tie-in with housing assistance and that we cannot have effective housing programs without local governments providing adequate facilities and services and a healthy community environment for housing.[33/] All participating jurisdictions are required as part of the application

1. to survey the conditions of their existing housing stock;
2. to determine the extent and character of present housing needs and estimate the housing needs of those persons "expected to reside" in the jurisdiction; and
3. to establish a realistic annual goal of the amount and kind of housing assistance to be provided.

This final provision, for a housing assistance plan, introduced a new, now widely known, acronym--HAP--in urban affairs, and proved to be far and away the most controversial feature of the CDBG program in the implementation stage.

IMPLEMENTING THE PROGRAM

The CDBG program provided for a January 1, 1975, start-up date, only four months after enactment. Principal administrative responsibility for the program rested with HUD's Office of Community Planning and Development, headed by Assistant Secretary David O. Meeker and Deputy Assistant Secretary Warren E. Butler. Under almost any circumstances, getting started with the implementation of so large a program is a major undertaking. The CDBG program proved especially challenging because of the short lead time between enactment and launch date, because of the unanticipated difficulties posed by the required housing assistance plans, and because of the general lack of clarity about HUD's role in the program.

Starting Up the Program--The Time Problem. All three of the groups that participated in formulating and enacting the CDBG program--the Nixon Administration, the Congress, and the various lobbying organizations--sought a speedy start-up. During the four-month interval, the Administration had suspended the grants folded into the CDBG program, interrupting the flow of community development funds. Furthermore, Administration officials and many members of Congress were eager to demonstrate that the new program was more efficient and less encumbered with red tape than the folded-in programs.

HUD's activities in administering the program for the first year can be divided into two phases. In advance of the January 1 start-up date, administrative regulations had to be prepared, staff had to be trained, hold-harmless entitlement jurisdictions had to be designated, and how much funding they would receive had to be calculated; the same had to be done for formula entitlement jurisdictions. Next came the actual processing of applications.

Gearing Up for Implementation. Preparing the administrative regulations was the most demanding start-up task. This process called for a review of the legislative record for indications of congressional intent as well as consultation with all of the involved government agencies and many affected and interested outside organizations. In order to meet the January 1 start-up date, staff members in the Office of Community Planning and Development began as early as mid-April, 1974 (four months before enactment) to sketch out portions of the administrative regulations based on assumptions about the final legislation. But, because several major disagreements remained unresolved until the conference negotiations ended, the bulk of the work on the regulations had to be done after August 22.

Regulations for the formula-grant portion of the program as it applies to entitlement and hold-harmless jurisdictions were prepared first, followed by those for the discretionary grants and the environmental review process. A draft of the regulations for the formula-grant portion of the program was published in the Federal Register on September 17, 1974, with an invitation for comments. HUD received more than 200 responses on a variety of issues, of which three were the most prominent. One was citizen participation. Several responses reflected displeasure with HUD's treatment of this issue and urged that HUD outline specific procedures for local governments to follow in implementing this requirement. Echoing Secretary Lynn's views, HUD rejected these suggestions on grounds that it was inappropriate to specify how local governments should relate to their citizens.

Other comments challenged the position taken in the draft regulations on urban counties and the A-95 review process. In particular, the Housing subcommittee of the House challenged the draft provision limiting participation to urban counties with prior community development program experience, a decision that would have sharply reduced the number of urban counties qualified for entitlement status. On the A-95 issue, HUD was criticized for using language that seemed to make the submission of CDBG applications for A-95 review a matter of choice rather than a mandatory step as provided in the legislation. On these two issues, HUD reversed its position in the final regulations issued on November 13, 1974.

Another start-up task involved funding. The total appropriation provided had to be divided among several pools of funds, and the amount due each formula entitlement and hold-harmless jurisdiction had to be calculated. Before deciding on the present formula, HUD officials, notably James Broughman of the Office of Community Planning and Development, had worked closely with Congress in testing several alternatives and so had considerable familiarity with the data necessary for making these calculations.

In training sessions held in Washington and in several other cities during the summer of 1974, HUD briefed more than 1,200 agency staff members on the main features of the CDBG program and on their responsibilities under it. In this period, HUD was reorganizing its field staff according to community development and housing functions. Compared to other federal agencies, HUD had assigned substantially more program authority to its local offices, including responsibility for reviewing most applications[34/] and making funding commitments. The agency's thirty-nine area offices consult Washington only about policy issues, which in the case of the CDBG program includes the rejection of the application of an entitlement jurisdiction. The area office recommends the rejection to its regional office, which, in turn, reviews the case and, if it agrees, forwards a recommendation of disapproval to Washington.

Getting the Program Launched

On January 1, HUD began to process applications. The timetable fixed by the legislation required that applications from entitlement jurisdictions be submitted by April 15 (see Table 2-2).

Table 2-2. Cumulative Total of Applications from Entitlement Communities Processed by HUD in the First Eight Months of the CDBG Program *

As of	Number of applications: Received	Number of applications: Approved	Total funding approved by date (millions of dollars)
1/31/75	31	...	...
3/31/75	312	58	140.7
5/31/75	1,324	763	1,149.0
6/30/75	1,324	1,231	1,982.6
8/31/75	1,324	1,321	2,094.7

Source: Compiled from Community Development Block Grant Program First Annual Report (U.S. Department of Housing and Urban Development, Community Planning and Development, Office of Evaluation, December 1975).

* Data do not include urban counties.

A May 15 deadline was set for urban counties and applications for discretionary funds (see Table 2-3). As stated above, the act requires that after the receipt of an application from an entitlement jurisdiction (formula or hold-harmless), a decision must be made within seventy-five days. The department was free to establish its own timetable for processing applications for discretionary grants, however.

Table 2-3. Cumulative Totals of Applications from Non-metropolitan Discretionary Communities Processed by HUD in the First Ten Months of the CDBG Program

	Number of applications				Total funding
As of	Received	Approved	In review	Not funded	approved by date (millions of dollars)
6/31/75	2,281	101	1,998	182	25.2
7/31/75	2,583	851	643	783	144.11
8/31/75	2,673	1,144	128	998	193.5
9/30/75	2,686	1,163	41	1,070	198.3
10/13/75	2,688	1,174	26	1,074	199

Source: Compiled from Community Development Block Grant Program First Annual Report (U.S. Department of Housing and Urban Development, Community Planning and Development, Office of Evaluation, December 1975).

For the participating jurisdictions, especially for the eighty entitlement jurisdictions with no prior experience under the folded-in grants, completing the application by April 15 was a difficult assignment. By comparison, the model cities program had provided a full year for initial planning; in some instances, planning for urban renewal took more than two years.[35/] Many jurisdictions began to prepare for the application process well before January 1, assembling staff, making organizational changes, and designing, or even setting up, their citizen participation procedures.

Discretionary applicants from non-metropolitan areas were required to file "pre-applications" outlining their community development needs, the jurisdiction's plan for meeting these needs, and the amount of money sought. This pre-application stage was the most important hurdle for discretionary applicants as HUD evaluated and ranked the pre-applications and then invited selected jurisdictions to submit formal applications. Between mid-January and mid-March, HUD received more than 5,000 pre-applications;[36/] from these, 2,272 full applications were invited and were received by mid-May. For the first year, applicants for discretionary grants in metropolitan areas were not required to file pre-applications. Because the discretionary funds anticipated for metropolitan areas were depleted by the unexpectedly large number of urban counties that participated, grants to discretionary applicants in metropolitan areas had to wait for a supplemental appropriation which was enacted in June, 1975. By December, 1975, only 357 of 957 applications from metropolitan jurisdictions for discretionary funds had been approved by HUD.

A major part of an agency's responsibility in implementing any new program is providing guidance to local officials. Partly out of conviction, partly in the natural course of events under time pressures, HUD's regulations and guidelines for the CDBG program did not anticipate all the questions that would emerge. Largely as a symbolic gesture of its limited role in the program, HUD decided not to publish a handbook on the CDBG program. The result was a great number of questions from local officials. The most frequent and difficult of these concerned the eligibility of certain kinds of activities, especially social services. The legislation stresses physical development activities, specifying that social service activities may be funded under CDBG only if they are essential to physical development projects, and further, only if the jurisdiction had applied unsuccessfully for funding from other federal sources. Area offices, however, did not necessarily follow the letter of the law and the regulations on this issue. While some area offices discouraged social services altogether, others used as an informal guide the 20 percent ceiling adopted by the Senate but deleted in conference. Frequently, the issue was resolved in Washington. One of the most widely publicized eligibility issues was the plan in Cleveland to use CDBG funds to pay the salaries of police officers who otherwise would have been laid off by the city. In seeking HUD's approval, the city argued--successfully--that the police officers involved would serve on special teams in the CDBG target areas. (Chapter 7 discusses this case more fully, as Cleveland is included in the Brookings sample for this study.)

HUD officials in Washington dealt with these and other policy issues in the start-up period by creating a "special issues committee" headed by deputy assistant secretary Warren Butler and comprising the directors of the six HUD component offices directly involved in the program. The committee issued interpretations on issues referred to it, and often disseminated their decisions by memorandum to HUD field offices. These then became part of the operating procedure, in effect supplementing the regulations.

Implementing the HAP Requirement

By far the most difficult and controversial questions HUD faced in implementing the CDBG program involved the requirement that each participating jurisdiction undertake a housing survey to identify its housing needs and prepare a HAP based on this survey as part of its application. The principal issue for most jurisdictions, it was claimed, was that there was not sufficient time to carry out a housing survey, and in many of these cases no other data were available. The issue was especially serious with respect to the requirement that each jurisdiction assess and plan not only for the needs of its present population but also for the needs of those who might be "expected to reside" there. The phrase, "expected to reside," has been the source of considerable controversy.

The record suggests that, in drafting the HAP requirement, the Congress gave little attention to data on which these calculations could be based. The only guidance on how to estimate who could be "expected to reside" within a given area appears in the House Banking and Currency Committee report:

> Clearly those employed in the community can be expected to reside there. Normally, estimates of those expected to reside in a particular community would be based on employment data generally available to the community and to HUD. However, in many cases, communities should be able to take into account planned employment facilities as well, and their housing assistance plans should reflect the additional housing needs that will result. 37/

The problem, however, was not just statistical. The reluctance of some jurisdictions to pursue this issue and perhaps assemble their own survey data could in some cases also be a reflection of a lack of support for housing programs for low and moderate-income persons; some jurisdictions avoided this aspect of the HAP requirement or complied only perfunctorily. For its part, HUD appeared to be uncertain for a long period about how it expected local governments to meet the expected-to-reside requirement and what criteria it would use in evaluating this portion of their plans. In a few cases the agency did negotiate revisions in the HAP and related provisions of CDBG applications. Of the eighteen entitlement jurisdictions that chose not to participate in the CDBG program, most decided upon this course of action because of the HAP requirement. In three other cases HUD rejected applications because the HAP was deemed inadequate.38/

By and large, however, enforcement of the HAP provision was limited. Faced with the absence of adequate data that could support a consistent implementation strategy for all jurisdictions, HUD, for all practical purposes, postponed serious implementation of the housing assistance provision until the second year of the block grant program.

It did this by a memorandum, dated May 21, 1975, in which area office directors were instructed that when applications were submitted lacking a complete assessment of housing needs, the applicant involved could either adopt estimates provided by HUD, adopt its own estimates, or indicate what steps would be taken to make a more complete HAP presentation in its second year's submission.

HUD's approach to the "expected-to-reside" requirement became the subject of a widely publicized suit filed on August 11, 1975, City of Hartford et al. v. Carla Hills et al.[39/] The plaintiffs sought to enjoin HUD from releasing community development funds to seven towns (all suburbs of Hartford) until their applications complied with the law--especially with the HAP provisions. Specifically, the plaintiffs claimed that HUD had acted illegally in that it had: (a) failed to review properly the applications in question; (b) erroneously found that these applications satisfied the requirements of the law; (c) erroneously found that the projects proposed in the application were appropriate to meet the communities' housing needs; and (d) failed to take action to expand housing opportunities for low-income and minority families throughout the Hartford metropolitan area. In response, HUD argued that no reliable data were available at the time of the approval of the applications to justify their disapproval.[40/]

The court issued a temporary injunction on September 30, 1975, siding with the city and enjoining HUD from releasing funds to the seven towns. In its final ruling, handed down January 28, 1976, the court found that HUD had acted illegally when it approved applications from the seven towns "without requiring the towns to make any assessment whatsoever of the housing needs of low and moderate-income persons who might be 'expected to reside' within their borders." The court added, "When HUD offered the third option presented by the May 21, 1975 Meeker Memorandum to submit no figure at all and they all selected that option, they acted contrary to the clear implication of the Statute..."41/

The Problem of HUD's Uncertain Role

The lack of clarity in the Housing and Community Development Act of 1974 about the federal role, and particularly about HUD's role, in implementing the CDBG program, raises some fundamental questions. This issue had been central in the congressional deliberations; it had, in fact, been the most important source of disagreement between the Nixon Administration and Congress. The Administration had urged that the program serve as a means of strengthening general-purpose local governments by giving them greater discretion and flexibility in identifying their own needs and establishing their own priorities. This was to be achieved both by reducing federal involvement in local community development activities and by investing officials of general-purpose units of local government with primary responsibility for planning and executing federally-aided community development projects. In the past, such decisions often had been made by HUD officials and their counterparts at the local level, the managers and board members of special-purpose authorities for urban renewal and housing and city demonstration agencies under the model cities program. This was in essence a dual shift, a decentralization of responsibility from the federal to the local level and at the same time a centralization to generalist officials of previously dispersed responsibility at the local level.

Opinion in Congress was divided on the extent to which there should be a reduced federal role in assisted community development activities. The Senate strongly resisted the idea; the House accepted it, but with qualifications; the Administration was firmly committed to it. Through the compromises described earlier, these three positions on the federal role were reconciled. But the compromise represented a glossing over of fundamental differences.

On the whole, HUD adopted a minimal-involvement strategy, at least at the outset, in the implementation of the CDBG program. Assistant Secretary Meeker adopted as a slogan, "No second-guessing of local officials and a minimum of red tape." At conferences held shortly after enactment of the program to explain it to local officials, HUD emphasized the limited role it would play and the resulting increase in local discretion. Department officials took essentially the same position in training sessions with field staff. In keeping with this posture, HUD conducted what it called "spartan reviews" of applications. The treatment of the housing assistance plan--and the disputes it raised--reflects this approach.

In the first year of the CDBG program, the focus of attention regarding HUD's role has been on the application process. The legislation also provides for a second, potentially significant role--

annual performance monitoring. Section 104(d) of the act requires that each jurisdiction submit to HUD a performance report on the activities carried out under the program; the report must also evaluate the extent to which these activities relate to the program's national objectives. Furthermore, it provides that

> the Secretary shall, at least on an annual basis, make such reviews and audits as may be necessary or appropriate to determine whether the grantee has carried out a program substantially as described in its application, whether that program conformed to the requirements of this title and other applicable laws, and whether the applicant has a continuing capacity to carry out in a timely manner the approved Community Development Program.

One way to look at HUD's performance-monitoring function is that it gives the department the opportunity to fulfill a responsibility it was unable to fulfill initially in making grants, i.e., scrutinizing the activities proposed and undertaken by localities and judging whether they meet the objectives of the program. In this connection, the House committee stated in its report that

> since Federal application review requirements are being simplified to such a great extent, the post-audit and review requirements will serve as the basic assurance that block grant funds are being used properly to achieve the bill's objectives...the Committee expects the Secretary to exercise his responsibilities in this respect with great diligence. 42/

Litigation resulting from HUD's implementation of the program underscores the importance of performance monitoring. In _Testerman_ v. _Hills et al._ [43/] and in _Ulster Community Action Committee, Inc._ v. _Koenig_, [44/] judges dismissed complaints challenging the substance of both CDBG applications and the procedures followed in their preparation. The dismissals in both cases were based on a finding that possible flaws in the application process or in planned activities, or possible injuries to the plaintiffs inflicted by such flaws, could not be determined until performance monitoring reviews by HUD were completed.

While under other programs, such as model cities and urban renewal, HUD made determinations about a jurisdiction's capability to perform _before_ granting funds, one could describe the CDBG system as stipulating that the department do so _after_ initial funding, at which time it has the authority to reduce or withhold future grants. The CDBG program may, in the end, amount only to a shift in the _timing_ of HUD's involvement, rather than a reduction in its _degree_ of involvement. This outcome of this legislative issue, along with others described in this chapter, are important questions for our research over the two years planned for this study. The rest of this report describes the data and findings of our research for the initial phase and first year of the block grant program.

FOOTNOTES TO CHAPTER 2

1/ The other titles of the Housing and Community Development Act of 1974 are: III. Mortgage Credit Assistance, IV. Comprehensive Planning, V. Rural Housing, VI. Mobile Home Construction and Safety Standards, VII. Consumer Home Mortgage Assistance, VIII. Miscellaneous Provisions.

2/ Ralph Kramer, "The Future of the Participation of the Poor," in Jeffrey K. Hadden and others (eds.), Metropolis in Crisis (Peacock Publishers, 1971), pp. 129-30. For definitions of community development see Irwin T. Sanders, "Theories of Community Development," Rural Sociology, Vol. 23 (March 1958), pp. 1-12.

3/ Lyndon Johnson, "Message from the President to the Congress Transmitting Recommendations for City Demonstration Programs," in Thomas R. Dye (ed.), American Public Policy (Charles E. Merrill Publishing Co., 1969), p. 350.

4/ Papers Relating to the President's Reorganization Program, A Reference Compilation (Government Printing Office, February 1975), p. 46.

5/ These were: the Emergency Relief and Construction Act of 1932, National Industrial Recovery Act of 1934, the National Housing Act of 1934, the Housing Act of 1935, and the Housing Act of 1937.

6/ United States v. Certain Lands in the City of Louisville, Jefferson County, Kentucky, 78 Fed. 2nd 684.

7/ Omnibus Housing Act of 1949, P.L. 171, 81 Cong. 1 sess. (1949), p. 1.

8/ Most of the criticism of the urban renewal program came from experts on urban problems and academic researchers. A major criticism was that large numbers of low-income people were displaced by slum clearance without adequate provision for their relocation; they therefore moved to other areas of the city, creating new areas of overcrowding and decay. This forced relocation affected mostly Blacks, and by 1953 the program was being called "Negro removal," rather than slum removal. The housing built on cleared sites was priced out of the reach of the poor, serving middle and upper-income people instead.

9/ The Advisory Committee on Government Housing Policies and Programs, Government Housing Policies and Programs: A Report (Government Printing Office, 1953).

10/ Harold Wolman, Politics of Federal Housing (Dodd, Mead & Co., 1971), p. 28.

11/ See, for example, Report of the National Advisory Commission on Civil Disorders (Bantam Books, 1966), pp. 411-12.

12/ Department of Housing and Urban Development, The Model Cities Program (Government Printing Office, n.d.), pp. 8-13.

13/ Quoted in James L. Sundquist, Making Federalism Work (Brookings Institution, 1969), p. 17.

14/ Ibid.

15/ Advisory Commission on Intergovernmental Relations, Fiscal Balance in the American Federal System Vol. I (Government Printing Office, 1967), p. xxi.

16/ Weekly Compilation of Presidential Documents, Vol. 10, No. 34, p. 1060.

17/ Ibid., Vol. 5, No. 32, pp. 1103-12.

18/ The Nixon Task Force on Public Welfare reviewed the model cities program along with other federal assistance programs and in January 1969 submitted its report, which urged the new administration to adopt "the model cities program as its accepted instrument for the entire federal government for coordinating on the local level assistance to the poor and the cities." New York Times, January 12, 1969.

19/ The President's Task Force on Model Cities, Model Cities: A Step Toward the New Federalism (Government Printing Office, 1970).

20/ These early efforts are recounted in Bernard J. Frieden and Marshall Kaplan, The Politics of Neglect (Massachusetts Institute of Technology Press, 1967), pp. 87-98.

21/ William Lilley III, "Model Cities Program Faces Uncertain Future Despite Romney Overhaul," National Journal (July 1970), pp. 1467-79.

22/ The other program areas were: rural development, education, manpower, transportation, and law enforcement.

23/ Department of Housing and Urban Development, Planned Variations: First Year Survey (Government Printing Office, 1972), p. iii.

24/ Ibid., pp. 1-7; Raymond A. Anderson, "Annual Arrangements as a Forerunner of Special Revenue Sharing for Community Development," Journal of Housing (May 1973), pp. 241-243.

25/ Quoted in John L. Moore, "Urban Report: Congress Gathers Wide Support for Reshaping Administration's Community Development Bill," National Journal (June 2, 1973), p. 797.

26/ 1973 Housing and Urban Development Legislation, Hearings before the Senate Subcommittee on Housing and Urban Affairs, 93 Cong. 1 sess. (1973), Pt. 1, p. 3.

27/ Housing and Community Development Act of 1974, together with supplemental and additional views, S. Rept. 93-693, p. 176.

28/ 1973 Housing and Urban Development Legislation, Hearings before the Senate Committee on Banking, Housing and Urban Affairs, 93 Cong. 1 sess. (1973), p. 39.

29/ Housing and Community Development Act of 1974, p. 176.

30/ National Commission on Urban Problems, Building the American City (Government Printing Office, 1969), p. 350.

31/ Housing and Community Development Legislation 1973, Hearings before the House Subcommittee on Housing of the Committee on Banking and Currency, 93 Cong. 1 sess. (1973), Pt. 1, p. 416.

32/ Quoted in John L. Moore, "Outlook Improves for Passage of Community Development Bill," National Journal (April 1974), p. 561.

33/ The Housing and Urban Development Act of 1973, Committee Print, House Committee on Banking and Currency, 93 Cong. 1 sess., p. 156.

34/ The exceptions were applications for funds for "Innovative Projects," trust territories and possessions, correcting inequities and for new communities. These decisions were made at the central office.

35/ See Department of Housing and Urban Development, Strengthening HUD Program Management, Urban Renewal Program Phase II -- Documentation (Government Printing Office, September 1969).

36/ Oversight Hearing on the Community Development Block Grant Program, Hearing before the Subcommittee on Housing and Community Development of the Committee on Banking, Currency, and Housing, 94 Cong. 1 sess. (1975), pp. 8-25.

37/ The Housing and Urban Development Act of 1974, H. Rept. 93-1114, 93 Cong. 2 sess. (1974), p. 7.

38/ The jurisdictions whose applications were rejected are: Parma, Ohio; Mapleshade and Bloomfield, New Jersey. In connection with jurisdictions that chose not to participate, see The Housing Assistance Plan: A Non-working Program for Community Improvement? (The Potomac Institute, 1975), pp. 20-21.

39/ Hartford v. Hills, Memorandum of Decision, U.S. Court District of Connecticut, Civil No. H-75-258, p. 28.

40/ The data problem according to HUD had two elements. One was that most jurisdictions did not have current data on the condition of their housing stock or up-to-date census data. The more difficult data problem concerned the "expected to reside" element of the HAP. As Assistant Secretary Meeker explained it:

> ...the only data available to applicants, at present, is the Journey to Work volume published by the Census Bureau. However, there are serious limitations. Journey to work information is published only for SMSAs having populations of 250,000 or more, and only for those suburban cities in these large SMSAs which are 50,000 or more in population. Further, because the New England area has towns instead of cities, there is no information at all for that area.

Oversight Hearing on the Community Development Block Grant Program.

41/ Hartford v. Hills, p. 28.

42/ Housing and Urban Development Act of 1974, p. 10.

43/ 404 F.Supp. 783 (Eastern District of Tennessee, 1975).

44/ 402 F.Supp. 986 (Southern District, New York, 1975).

PART II

DISTRIBUTIONAL EFFECTS

CHAPTER 3

THE ALLOCATION SYSTEM

One of the principal sets of questions to be raised about any change in a grant-in-aid program is: Who gets more and who gets less? How do these shifts occur? What is the pattern of change? Principal analytical concerns of this study of the community development block grant program are the effects of the allocation system on various types of recipients and comparison of this distributional pattern with that of the seven folded-in grants. The four chapters in Part II focus on these distributional effects. The analysis is cast in two parts:

1. A descriptive examination of the distributional patterns under the grants folded into the CDBG program and the consequent reallocation patterns under the block grant formula. Chapters 3 and 4 examine how the CDBG formula works, how the folded-in grants had formerly been allocated among different recipients, and what the distributional patterns have been in the first year of the CDBG program. Chapter 5 analyzes future distributional patterns, projecting the formula allocations to fiscal year 1980, the year in which, under present legislation, the system would be fully implemented.

2. Chapter 6 in this section consists of an evaluative analysis of issues raised by the formula and offers alternative approaches.

It must be stated at the outset that this analysis adopts a particular perspective, i.e., an urban focus. All communities have needs. Under a condition of scarce resources, however, the basic question concerns the allocation of these resources to communities with the greatest needs. Our analysis is based on the general assumption that the most urgent needs are in the distressed areas of central cities; this urban focus is the framework within which allocation alternatives are considered in Chapter 6. At the same time, the analysis presents the data in ways that can be useful for analyses based on other points of view, such as ones that concentrate on the economic development of small cities or the upgrading of transitional residential areas both in suburbs and in central cities. We examine the distribution of folded-in grants-in-aid as well as the new CDBG allocation system. The effects of these two approaches for distributing federal funds for community development purposes are broken down and examined in several ways -- by region, by size of metropolitan area, and by size of community.

Project and Formula Grants

The postwar period saw a rapid rise in the amounts of federal aid to state and local governments, increasing from nearly $2 billion in 1948 to $50 billion in 1975. Accompanying this increase in dollar amounts was the growth in the number of programs created to meet physical development and human resource needs. As noted in Chapter 2, it was during this period that all seven of the grants consolidated under the CDBG program were signed into law.

For the most part, these urban grant-in-aid programs, including all the folded-in grants, were in the form of project grants, designed to provide funds for a specific project such as an urban renewal project or a multipurpose neighborhood center. Project grants have two important characteristics: (1) they are competitive -- communities compete against each other for a limited amount of money; and (2) they permit considerable latitude for decisionmaking at the federal level in judging the merits of project applications.

Besides making project grants, the federal government also makes formula grants, that is, it provides funds to states, and in some cases to local governments, on the basis of certain measurable criteria, such as population and per capita income. Under most formula grants, a fixed amount of money is available annually for a specific jurisdiction, subject to certain eligibility requirements, such as matching funds or federal approval of a plan on how grant money will be spent. Because interstate and intercommunity competition is largely eliminated, allocation by formula gives less discretion to decisionmakers in the federal bureaucracy than does allocation on a project basis. Among the major formula grants of the federal government are those for public assistance, for various educational purposes, and for highways.

The formula grant was the predominant form of federal assistance until the 1960s. During the 1960s, however, the number of project grants grew rapidly. Accompanying this increase was the advent of the "grantsman," a skilled public official or a private consultant who specialized in learning and applying the complex techniques necessary to obtain project grant funds. Also accompanying the rapid rise in categorical grants -- both project and formula -- came the problems of coordination at all levels of government discussed in Chapter 2.

General revenue sharing and block grants were advertised and advocated by their proponents as means for reducing the twin problems of increased reliance on "grantsmanship" and the administrative inefficiencies caused by program duplication and overlap. Excluding welfare assistance, revenue sharing and block grants now represent about one-third of all federal aid to state and local governments.

The business of formula-writing is often at the heart of policymaking. All formulas are designed to give preference -- whether stated or unstated -- to certain kinds of jurisdictions or conditions. State aid formulas for education, for example, are among the most critical questions of a state's policy toward its cities, suburbs, and rural areas. The same issue is raised by the allocation system for the CDBG program.

WHO IS ELIGIBLE AND FOR WHAT: FORMULA, HOLD-HARMLESS, AND DISCRETIONARY FUNDING

Analytically, a distribution formula can be divided into two components: (1) the eligibility element -- who may participate in the program; and (2) the allocation process -- how much money goes to eligible jurisdictions. For the CDBG program, a further element must be considered. Whereas nearly all general-purpose units of state and local government (meaning any city, county, town, township, parish, or village) are eligible to compete for CDBG funds, only a few are actually <u>entitled</u> to funding. There are two forms of entitlement:

1. A <u>formula entitlement</u> is a sum earmarked for a particular community on the basis of the formula criteria: population, overcrowded housing, and poverty (the poverty element is given double weight). This amount is not available to any other community unless the entitlement community does not use the money. Formula entitlements go to all central cities in metropolitan areas, eligible urban counties, towns and townships, and all municipalities other than central cities that have populations of 50,000 or more. The designation of "metropolitan areas," or Standard Metropolitan Statistical

Areas (SMSAs) as they are officially known, as well as their component central cities, is the responsibility of the Office of Management and Budget. (This designation process and its implications for the CDBG program are discussed in Chapter 6.)

2. The second kind of CDBG entitlement is a hold-harmless entitlement, which guarantees communities as much funding during each of the first three years of the new program as the annual average of what they had received under the folded-in grant programs during the five-year period 1968-72. There are two important exceptions to this general rule: communities with neighborhood development programs, and participants in the model cities program. For a community with a neighborhood development program, the hold-harmless credit is based on the actual time in the program rather than an annual average for the five-year base period. For example, if a given city was in the program for a total of twenty-seven months within the 1968-72 period and received grants totaling \$2.7 million, its annual hold-harmless entitlement for the neighborhood development program would be \$1.2 million (\$2.7 million divided by twenty-seven months and multiplied by twelve months) and not \$540,000 (\$2.7 million divided by five years).

The hold-harmless credit for the model cities program is determined in a similar fashion. For this program, however, a community is entitled to the average annual amount for five years in the model cities program. At the end of these five years, the city's hold-harmless credit for the model cities program declines in three yearly steps, to 80, 60 and 40 percent, after which it is treated the same as other hold-harmless funds. This means that in some cases a city's hold-harmless amount under CDBG can begin to decline before the end of the third year of the program. For example, Wilmington, Delaware, had a total hold-harmless credit of $4.49 million for fiscal year 1975; in 1976, this declined to less than $4.15 million because of the phasing down of the model city portion of the hold-harmless credit. Funding to sixty-three model cities began to be phased down in the second year of the CDBG program.

In all situations, the excess of the hold-harmless amount over the formula entitlement is phased out by thirds, assuming the law is extended in its present form. For example, if a particular city has a hold-harmless entitlement of $1 million, but a formula entitlement of only $700,000, in the fourth year of the program the city's entitlement would decline to $900,000 (one-third of the excess over hold-harmless subtracted in year four); in the fifth year, the entitlement for this city would be $800,000 (two-thirds of the excess is eliminated); in year six the entitlement equals the formula amount, $700,000. Thus, by the sixth year, all central cities, metropolitan units with populations over 50,000, and urban counties would receive their actual CDBG formula amounts. All hold-harmless communities not in one of these groups (or which do not become part of a qualifying urban county) would be eligible only for discretionary funds as discussed below.

The breakdown of the 1,342 jurisdictions with formula or hold-harmless entitlements for fiscal year 1975 is shown in Table 3-1.

Table 3-1. First-year Entitlement Jurisdictions for CDBG Funds in Fiscal Year 1975, by Types of Units

Entitlement units*	Number of jurisdictions
Entitlement metropolitan cities:	
Central cities	365
Non-central cities	156
Urban counties	73
Non-entitlement hold-harmless communities:	
Metropolitan	299
Non-metropolitan	449
Total	1,342

Source: U.S. Department of Housing and Urban Development, Community Development Block Grant Program: Directory of Allocations for Fiscal Year 1975, September 1975, p. iii.

*Includes communities that did not apply and those whose applications were disapproved; does not include those communities that waived their 1975 entitlements.

In addition to the formula and hold-harmless funds, the distribution of which is established by law, the act also provides discretionary grants available for distribution to smaller communities (under 50,000 population) within metropolitan areas. These smaller communities compete against others within a given metropolitan area. Discretionary grants are sought by the pre-application, invited-application process, described in Chapter 2. (Communities outside of metropolitan areas have a separate discretionary fund for which they can compete.)

Finally, the Housing and Community Development Act of 1974 also establishes a special "Secretary's discretionary fund," which consists of 2 percent of the annual CDBG appropriation and is managed by the Secretary of HUD. These discretionary funds are to be used for a number of special purposes, including grants to new communities, area-wide projects, innovative projects, and emergency needs; also, to correct inequities resulting from the formula allocation.

In establishing a system of formula or non-competitive entitlements for metropolitan cities and eligible urban counties, and by designating competitive eligibility for other communities, the CDBG system combines features of both the formula and project grant approaches. Examination of the distribution formula in practice shows the shifting of resources among communities under the CDBG program.

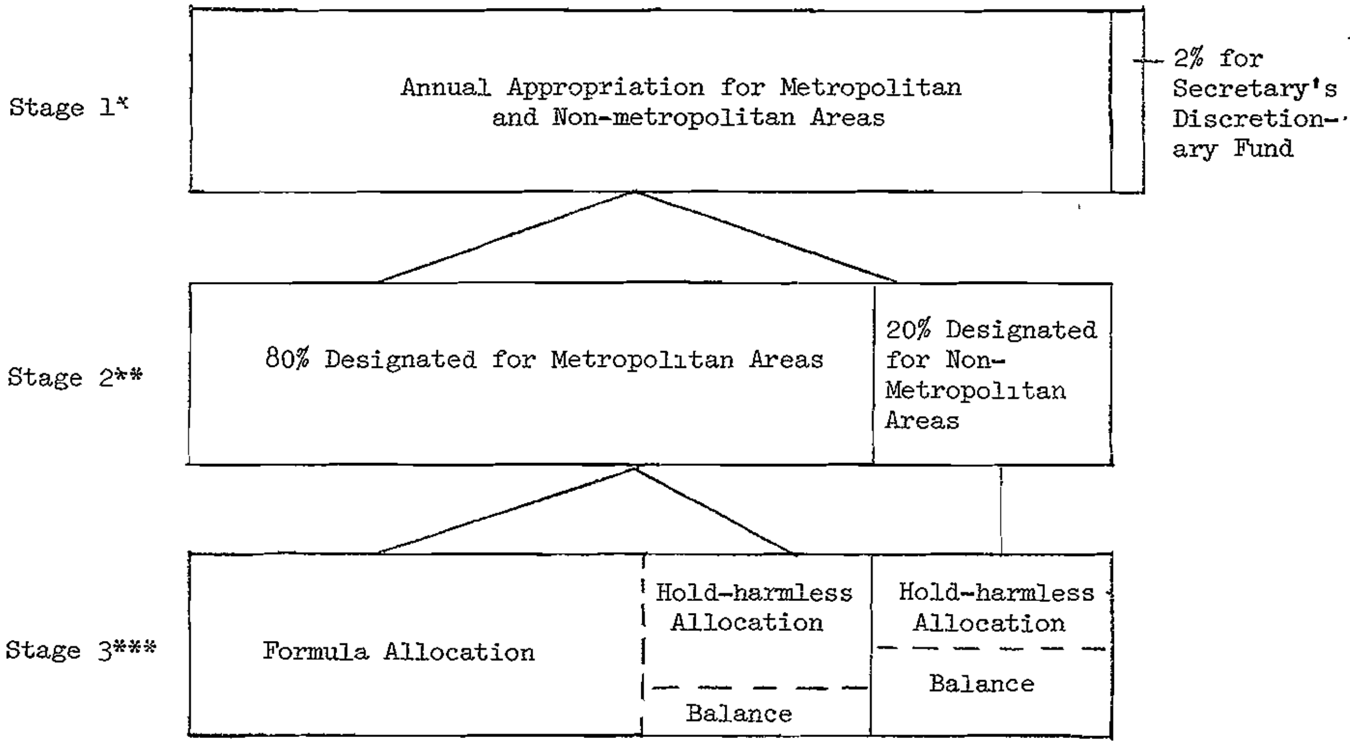
HOW THE FORMULA WORKS

The CDBG allocation process has to be viewed from two time perspectives -- during the five-year hold-harmless period (the total of the three hold-harmless years and the two years of the phasing out), and after the implementation of the full formula allocation in the sixth year of the program.

During the Hold-harmless Period

In the CDBG allocation process for the hold-harmless period, after subtraction of 2 percent of the annual appropriation for the special Secretary's discretionary fund, the legislation provides that 80 percent of the total remaining appropriation be allocated to metropolitan areas, and 20 percent to non-metropolitan communities. Then, after this basic division is made, the funds are further subdivided for formula, hold-harmless, and discretionary allocations. The process is diagrammed in Figure 3-1 and further explained in the following section.

Figure 3-1. Sequence of Fund Allocation Process for Hold-harmless Period 1974-80



Source: Adapted from U.S. Department of Housing and Urban Development diagram.

* At stage 1, 2% of the total annual appropriation is set aside for the special Secretary's discretionary fund.

** At stage 2, the remaining 98% of the total annual appropriation is split in a 4:1 ratio for allocation, respectively, to metropolitan and non-metropolitan areas.

*** At stage 3, the amount allocated for distribution to metropolitan areas is divided, part to be distributed on a formula basis, part on a hold-harmless basis; the remainder (balance) to be distributed on a discretionary basis. The funds designated for allocation to non-metropolitan areas are divided for distribution either on a hold-harmless or on a discretionary basis.

Formula Funds. These funds are allocated only to metropolitan cities (central cities and other cities with populations over 50,000) and to eligible urban counties, on the basis of the formula criteria -- population, overcrowded housing, and poverty (weighted twice). The legislation provides that the first distribution of funds from the metropolitan share is to be used for formula allocations. There are no formula allocations for communities outside of metropolitan areas.

Hold-harmless Funds. There are two separate hold-harmless funds, one for metropolitan areas and one for non-metropolitan communities. All small metropolitan or non-metropolitan communities (i.e., under 50,000 population) are entitled to hold-harmless funding if they have had previous experience in the urban renewal, neighborhood development, model cities, or code enforcement programs. The actual hold-harmless amount is based on all categorical projects funded during the hold-harmless period. Eligible jurisdictions -- all central cities and other SMSA cities with populations above 50,000 -- receive the larger amount as between their formula and hold-harmless entitlements, subject to the phasing provisions. Specifically, the law provides that when an entitlement area's formula allocation exceeds its hold-harmless amount, the amount actually allocated shall not exceed one-third of the formula amount in the first year or the hold-harmless amount (whichever is greater), two-thirds in the second year, and the full formula amount in the third year.

For example, if either a city or an eligible urban county had a hold-harmless entitlement of $150,000 and a formula entitlement of $600,000, funds to it would be allocated on a formula basis. The recipient area would receive $200,000 in year one (one-third of the formula amount); $400,000 in year two (two-thirds of the formula amount) and the full formula amount, $600,000, in year three. If, on the other hand, a city or urban county had a formula entitlement of $300,000 and a $150,000 hold-harmless amount, it would receive $150,000 the first year since its hold-harmless entitlement is more than one-third of its formula amount. In the second year that jurisdiction would receive $200,000, i.e., two-thirds of its formula entitlement and more than the hold-harmless amount; in year three it would receive the full formula allocation of $300,000.

Discretionary Funds. There are also two discretionary funds -- one for metropolitan areas and one for non-metropolitan communities. The SMSA discretionary funds are determined after the allocation of formula and hold-harmless amounts. (Because of the unexpectedly high participation of urban counties in fiscal year 1975, there were no funds remaining after the formula and hold-harmless allocations for SMSA discretionary distribution; Congress subsequently appropriated a special $54.6 million for SMSA discretionary allocations.) The distribution of these discretionary funds among SMSAs is based on the same three criteria as the formula allocations -- population, overcrowded housing, and poverty.

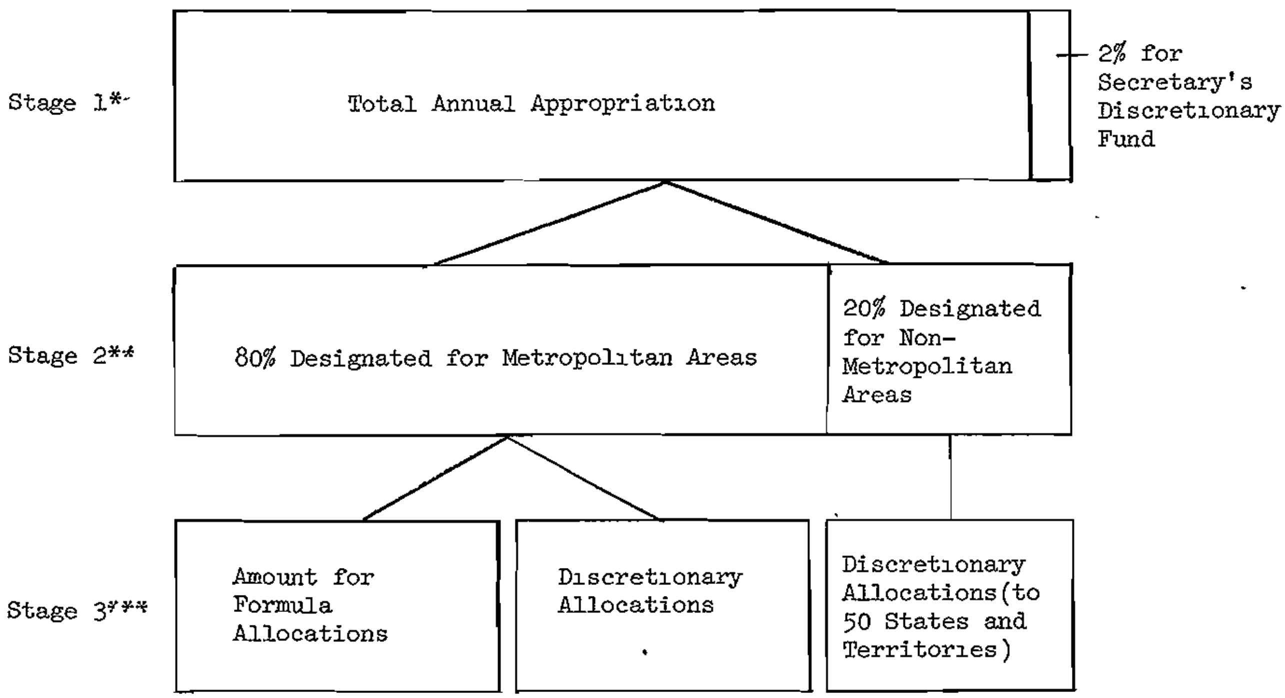
In general, while each SMSA has a discretionary fund available to small communities within that SMSA, there are exceptions. The Bakersfield, California, metropolitan area is an example. Bakersfield, the central city in Kern County, is automatically eligible for a formula entitlement amount. For fiscal year 1975, all of the remaining population of the SMSA is included in Kern, which is an eligible urban county. There is thus no residual population within the SMSA for which a discretionary allocation can be made. During the first year of the program there were five SMSAs without a discretionary allocation for this same reason. 1/ In addition, there were three other SMSAs without a discretionary fund. 2/

Discretionary funds for non-SMSAs are allocated among the states according to the same formula criteria. After hold-harmless funds have been allocated, the remaining non-metropolitan amount is divided among the states; all non-metropolitan general-purpose governments are eligible to apply directly to HUD for these discretionary grants. For example, Florida had five non-metropolitan jurisdictions with hold-harmless entitlements totaling $2.4 million in fiscal 1975. An additional $4.2 million was allocated in fiscal 1975 for discretionary funding of other non-metropolitan jurisdictions in the state.

After Full Implementation

By the end of year six, the allocation pattern changes significantly. The most important point to note in the illustration (Figure 3-2) is the absence of hold-harmless funds. (For purposes of this analysis, it is assumed that the current legislation will be extended for another three years in its present form.)

Figure 3-2. Sequence of Funds Allocation Process Full Formula (Year Six)



Source: Adapted from U.S. Department of Housing and Urban Development diagram.

* At stage 1, 2% of the total annual appropriation is set aside for the special Secretary's discretionary fund.

** At stage 2, the remaining 98% of the total annual appropriation is split in a 4:1 ratio for allocation, respectively, to metropolitan and non-metropolitan areas.

*** At stage 3, the funds allocated for distribution to metropolitan areas is divided, part to be distributed on the formula basis, part on a discretionary basis. The funds designated for distribution to non-metropolitan areas are distributed entirely on a discretionary basis.

Looking back for a moment: each year the amount of funds needed for hold-harmless allocations decreases. In the first three years this reflects only the phasing down of the model cities hold-harmless allocations. In the next three years, however, the phasing down of all hold-harmless funds results in a much steeper decline in the amount earmarked for this purpose. Finally, in the sixth year the hold-harmless amount is zero. All hold-harmless amounts have been reallocated to discretionary funds; only the formula and discretionary funds remain. In the case of non-SMSA allocations, all funds in year six are discretionary.

To summarize, over the six years, the discretionary funds for communities under 50,000 population increase from $254 million in fiscal 1975 to about $1.2 billion in 1980 -- an increase of 470 percent, part of which is attributable to an overall increase in total authorized CDBG funds of about 20 percent. In year six, the discretionary funds, which accounted for about 11 percent of allocated funds in year one, account for 42 percent of total allocations; the share of funds for metropolitan cities and eligible urban counties decreases from 79.5 percent to 54.6 percent.

What the Shift Means

The shift has three important implications. First, eligible discretionary jurisdictions under 50,000 substantially improve their funding position relative to the larger units. Second, these smaller jurisdictions in metropolitan areas do not have to compete with larger cities as was the case prior to the CDBG legislation. Third, a gradually increasing amount of discretionary authority in distributing CDBG funds to smaller jurisdictions will come to rest with HUD.

The relative position of metropolitan communities with populations under 50,000 is likely to be further improved by the urban county provisions of the formula. In most participating counties, it is to be expected that CDBG funds will be spent in smaller communities outside of the larger cities. Thus a significant portion of the formula funds -- namely, that portion allocated to urban counties -- is also likely to be expended in smaller communities comparable in size to those receiving assistance from the discretionary funds. With the projected growth of the urban county allocation from $120 million in fiscal 1975 to $290 million in year six, 3/ the share of formula entitlement funds spent in small metropolitan communities (with populations under 50,000) could get to be as high as 17 percent. If all urban county entitlement money in year six is spent in communities under 50,000, the total share of metropolitan funds (discretionary and entitlement) going to these smaller jurisdictions in that year would be 41 percent; the share of total funds going to smaller communities (metropolitan and non-metropolitan) would be 52 percent.

APPLYING THE FORMULA

As has previously been noted, the formula elements used in determining allocations are population, overcrowded housing, and poverty (weighted twice).

The population element is based on data from the United States Bureau of the Census. For the first two years of the program, the population count from the 1970 census was used. Later allocations are expected to use later population estimates made by the bureau. (See Appendix VI for an analysis of the effects of population updating.)

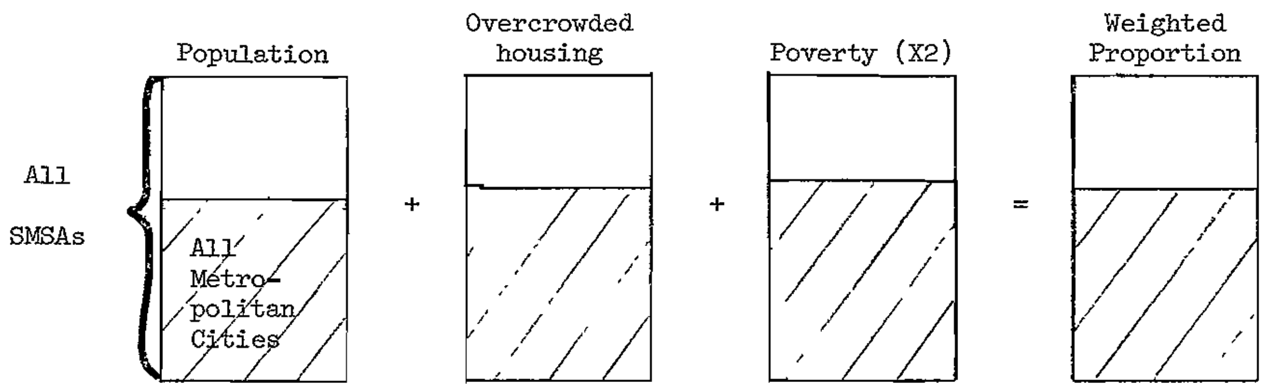
Overcrowded housing refers to the number of housing units with an average of 1.01 or more persons per room; this figure is based on data from the 1970 census.

Poverty is defined as the number of persons whose incomes are below the poverty level based on criteria established by the Office of Management and Budget. The law provides that the Secretary of HUD may make regional or area adjustments in determining poverty levels to account for variations in income and cost of living among regions or areas. (In fact, HUD did not make these adjustments because of the absence of reliable data.)

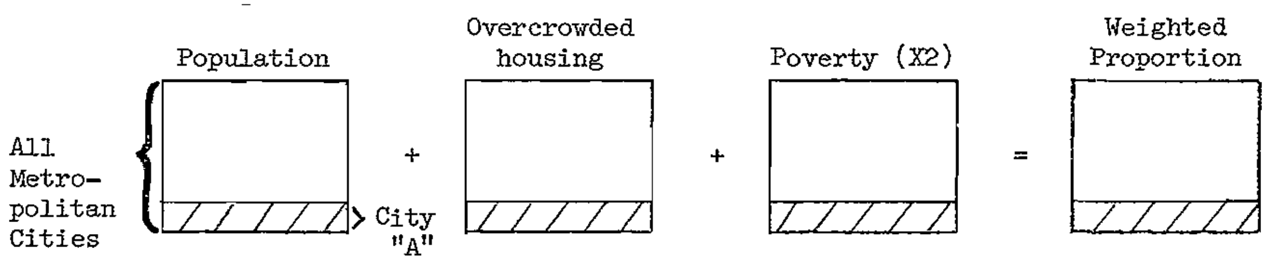
A specific example (shown below for Lancaster, Pennsylvania) illustrates how these formula criteria are applied to determine an individual jurisdiction's formula allocation. After the initial division between the metropolitan share (80 percent) and the non-metropolitan share (20 percent), the basic process, as shown in Figure 3-3 below, is one of sequential steps to determine for each metropolitan city its share of metropolitan population, overcrowded housing, and poverty. That share is then expressed as a factor to be applied against the funds available for all metropolitan cities.

Figure 3-3. Allocating to Metropolitan Cities (SMSA Central Cities and All Other SMSA Cities Over 50,000 Population in 1970)

I. Determine Metropolitan City Proportion of Funds



II. Allocate to Metropolitan Cities



Source: Adapted from material provided by the U.S. Department of Housing and Urban Development.

Table 3-2 presents the basic data elements used to determine the formula allocation for metropolitan cities in 1975. As indicated in the table, the total formula entitlement for metropolitan cities in the first year of the program was more than $1.1 billion. This, however, was below the amount needed to meet both formula and hold-harmless entitlements totaling $1.6 billion, so the larger amount was taken from the 80 percent metropolitan allocation.

A similar procedure on a combined metropolitan city-urban county basis is followed for determining the formula allocation for urban counties.

Table 3-2. Data Used in Determining 1975 Formula Allocation to Metropolitan Cities*

<u>Total national population</u>		205,923,959
Total SMSA population	149,590,609	
Total metropolitan cities population	79,294,566	
Total urban county population	25,453,758	
Total non-SMSA population	56,333,350	
Metropolitan city ratio: $\frac{79,294,566}{149,590,609} = .5300571$		
<u>Total national overcrowded housing</u>		5,397,820
Total SMSA overcrowded housing	3,708,479	
Total metropolitan cities overcrowded housing	2,188,303	
Total urban county overcrowded housing	503,368	
Total non-SMSA overcrowded housing	1,689,341	
Metropolitan city ratio: $\frac{2,188,303}{3,708,479} = .5900810$		
<u>Total national poverty</u>		28,874,863
Total SMSA poverty	17,233,319	
Total metropolitan cities poverty	10,945,258	
Total urban county poverty	1,737,619	
Total non-SMSA poverty	11,641,544	
Metropolitan city ratio: $\frac{10,945,258}{17,233,319} \times 2 = 1.2702436$		

Table 3-2. (continued)

Average metropolitan city ratio is the sum of metropolitan city ratios/4:

$$2.3903817 \div 4 = .5975954$$

Formula allocation to all metropolitan cities:

$$(\$1{,}918{,}000{,}000) \times (.5975954) = \$1{,}146{,}188{,}000$$

Source: Calculated from U.S. Department of Housing and Urban Development data.

* Fiscal year 1975 appropriation allocated to all metropolitan areas equals $1,918,000,000 (80 percent of $2,450 million minus the Secretary's discretionary fund).

The computation of the combined formula allocations to metropolitan cities and urban counties for 1975 was as follows:

Metropolitan city and urban county ratio (population):

$$\frac{104,748,000}{149,590,609} = .7002292$$

Metropolitan city and urban county ratio (overcrowded housing):

$$\frac{2,691,671}{3,708,479} = .7258153$$

Metropolitan city and urban county ratio (poverty):

$$\frac{12,682,877}{17,233,319} \times 2 = 1.4719018$$

$$2.9000091/4 = .7250022$$

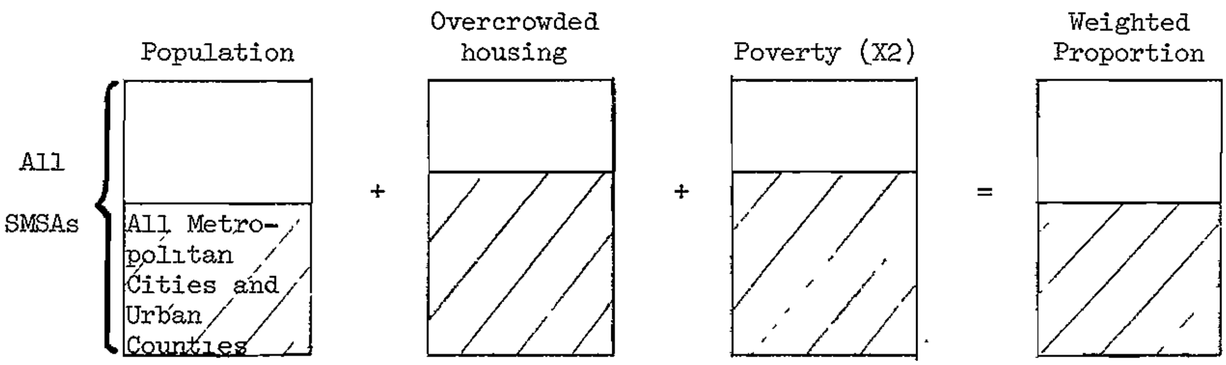
$$(\$1,918,000,000) \times (.7250022) = \$1,390,554,000$$

$$\$1,390,554,000 - \$1,146,188,000 = \$244,266,000$$

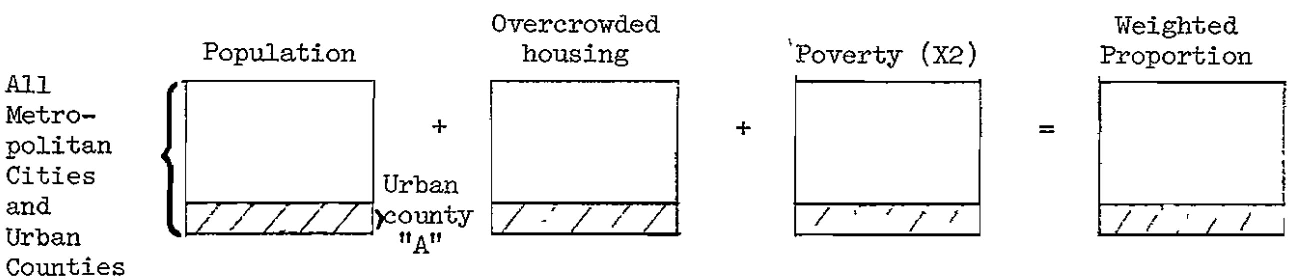
The first year formula total for the seventy-three urban counties designated as eligible jurisdictions was $244 million. Because of non-participation or low participation by many urban counties in the folded-in programs, however, the phase-in provision of the CDBG program became operative. Twenty-three urban counties had a zero hold-harmless amount and others had entitlements well below the amount they would receive under the formula. The result was that many of the urban counties came under the one-third phase-in rule, whereby they would receive only one-third of the formula amount in year one, two-thirds in year two and the full formula entitlement in year three. As a consequence of the operation of the phase-in provision, the actual urban county allocation in fiscal 1975 was just under $120 million, about half of the full formula entitlement amount. The allocation process for urban counties is diagramed in Figure 3-4.

Figure 3-4. Allocating to Eligible Urban Counties

I. Determine Metropolitan City and Urban County Proportion of Funds:



II. Allocate to Urban Counties



Source: Adapted from material provided by the U.S. Department of Housing and Urban Development.

After the calculation of the metropolitan city and urban county amounts nationally, an individual entitlement area's formula allocation can be determined as shown in Table 3-3, using the example of Lancaster, Pennsylvania.

Table 3-3. Allocation of CDBG Funds in 1975 to an Individual Metropolitan City with Hold-harmless and Formula Entitlements (Lancaster, Pennsylvania)

Hold-harmless entitlement			
Urban renewal			$2,108,000
Model cities			1,477,000
Water and sewer			234,000
Rehabilitation			128,000
Open space			61,000
Neighborhood facilities			200,000
Neighborhood development program			--
Public facilities loans			--
	Total		$4,208,000
Formula entitlement (Year 1)			
Population	57,690/79,294,566	= .0007275	
Overcrowded housing	833/ 2,188,303	= .0003806	
Poverty	8,541/10,945,258 x 2	= .0015606	
	Total	.0026687/4 = .0006671	

($1,146,188,000) x (.0006671) = $764,620

Source: Tabulated from U.S. Department of Housing and Urban Development data.

Under the formula the city of Lancaster was entitled to $764,620 in the first year of the program. Because the city's hold-harmless amount was $4,208,000, however, the city was entitled to the larger amount. Lancaster County, on the other hand, although also an eligible jurisdiction as an urban county, encountered the reverse situation. Since the county had no previous categorical grant experience, it was entitled to no hold-harmless funds. Table 3-4 presents the Lancaster County case for year one of the CDBG program.

Table 3-4. Allocation of CDBG Funds in 1975 to an Individual Urban County with Formula Entitlement (Lancaster County, Pennsylvania)

Hold-harmless entitlement			
None		=	.0
Formula entitlement (Year 1)			
Population	226,616/104,748,000	=	.0021634
Overcrowded housing	2,931/ 2,691,671	=	.0010889
Poverty	17,358/ 12,682,877 x 2	=	.0027372
			.0059895/4 = .0014973

($1,390,554,000) x (.0014973) = $2,082,000

Source: Tabulated from U.S. Department of Housing and Urban Development data.

Under the formula, Lancaster County was entitled to more than $2 million in the first year. Since the urban county had zero previous program experience, it came under the phase-in provision described earlier; thus the county received an allocation of $694,000 in the first year, i.e., one-third of the $2,082,000 to which it is to be entitled after full implementation.

These figures on Lancaster city and County merely illustrate the allocation method; they do not provide a basis for judging the overall allocation system under the CDBG program. Toward drawing conclusions, it is necessary to look at the larger patterns of change for major types and sizes of recipient units, within the urban framework of this study. It is necessary also to examine characteristics of recipient governments and how these characteristics reflect important aspects of urban need. These considerations must be viewed at two levels. At the first level -- what did the new program seek to achieve? What kinds of needs does it highlight? How? At the second level, as the internal dynamics and the impact of the allocation system contained in the act become clear, it becomes necessary to consider whether, as it unfolds over six years, this new system fulfills both its explicit and implicit aims. Adjustments in the allocation procedures may be needed, not only to alter the outcome, but to insure that the program reasonably reflects the goals of its designers.

FOOTNOTES TO CHAPTER 3

1/ These were Anaheim/Santa Ana/Garden Grove, Bakersfield, and Fresno, California; Miami, Florida; and New Brunswick/Perth Amboy/Sayreville, New Jersey.

2/ The Meriden, Connecticut, SMSA consists only of the city; Honolulu, Hawaii, is a consolidated city-county SMSA with coterminous boundaries; in the Fayetteville, North Carolina, SMSA, Cumberland County, which makes up the remainder of the SMSA, is a hold-harmless jurisdiction.

3/ The $290 million urban county allocation for fiscal year 1980 is based on a funding assumption of $2.95 billion for that year. (This funding assumption is discussed further in Chapter 5.) If the eleven additional urban counties potentially qualified are included, the projected urban county allocation for fiscal year 1980 is approximately $360 million.

CHAPTER 4

PREVIOUS GRANTS AND FIRST-YEAR CDBG ALLOCATIONS COMPARED

A central question in the analysis of distribution under the CDBG program concerns the relative advantage or disadvantage to communities under the block grant system as compared with the situation in previous years under the folded-in grant-in-aid programs. It is necessary first to examine the patterns of distribution that prevailed under the project grant system. For this portion of the analysis, the first year hold-harmless entitlement amount (generally, 1968-72 average) serves as the measure of previous categorical funding. Unless specifically stated, the analysis is confined to the distribution of funds within the fifty states and the District of Columbia and does not include program allocations to Puerto Rico, Guam, and the Virgin Islands. Metropolitan area data and allocations include the 265 designated SMSAs in the fifty states at the time the first-year allocations were made. (An additional seven metropolitan areas have since been designated SMSAs, but they were not included in the first block grant allocations.)

Among the seven grants folded into CDBG, the urban renewal and model cities programs are considered separately. The water and sewer, housing rehabilitation, open space, neighborhood facilities, and public facilities loans programs are grouped as "other." Collectively, they account for not quite 10 percent of all allocations in the hold-harmless base.

PREVIOUS GRANT ALLOCATIONS

This three-part breakdown of the hold-harmless base is shown below in Table 4-1.

Table 4-1. Total Hold-harmless Allocations in Year One of CDBG Program

Program	Amount (millions of dollars)	Percent of total allocation
Urban renewal	$1,355	64.9
Model cities	530	25.4
Other	203	9.7
Total	$2,088*	100.0

Source: U.S. Department of Housing and Urban Development.

* Does not include approximately $175 million to communities that participated only in the open space and/or the water and sewer programs. To be entitled to hold-harmless funds, a community must have participated in urban renewal, neighborhood development, model cities, and/or code enforcement programs.

Since the combined urban renewal and model cities total is nearly $1.9 billion -- or 90 percent of all CDBG hold-harmless funds -- it is apparent at the outset that cities having extensive experience in both programs are most likely to be disadvantaged under an allocation system that redistributes the funds to a larger number of recipients, and with only a comparatively small increase in the amount being distributed. This was most significant for the New England and Middle Atlantic regions.

Regional Distribution Patterns of Pre-CDBG Funding

Regionally, the New England and Middle Atlantic states were most "advantaged" in the distribution of funds under the folded-in programs. In fact, these two areas were the only ones in which per capita grants under the seven folded-in programs exceeded the national average (Table 4-3). The per capita grant in New England was 70 percent above the national mean; the Pacific region, by contrast, had a per capita grant 16 percent below the national average.[1/] In the case of urban renewal, New England received nearly twice the national per capita amount; this ratio was much higher in some cities. Based on a national average of 100, Boston's urban renewal index number was 508; Hartford's was 764; and New Haven's 1,724. Table 4-2 displays the regional distribution of urban renewal and model cities program funds.

Table 4-2. Regional Distribution of Pre-CDBG Funds for Urban Renewal and Model Cities Indices; Indices Based on Annual Average 1968-72

Region*	Urban renewal per capita index	Model cities per capita index
U.S.	100	100
New England	191	123
Middle Atlantic	129	125
East North Central	70	107
West North Central	105	69
South Atlantic	108	82
East South Central	113	44
West South Central	77	106
Mountain	79	99
Pacific	68	107

Source: Compiled from data provided by the U.S. Department of Housing and Urban Development.

* Regional divisions used by the U.S. Bureau of the Census are: New England - Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut; Middle Atlantic - New York, New Jersey, Pennsylvania; East North Central - Ohio, Indiana, Illinois, Michigan, Wisconsin; West North Central - Minnesota Iowa, Missouri, North Dakota, South Dakota, Nebraska, Kansas; South Atlantic - Delaware, Maryland, the District of Columbia, Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida; East South Central - Kentucky, Tennessee, Alabama, Mississippi; West South Central - Arkansas, Louisiana, Oklahoma, Texas; Mountain - Montana, Idaho, Wyoming, Colorado, New Mexico, Arizona, Utah, Nevada; Pacific - Washington, Oregon, California, Alaska, Hawaii.

Table 4-3 presents the regional distribution of funds in dollar amounts.

Table 4-3. Distribution of Folded-in Grants by Type and by Region; Distributions Generally Based on Annual Average 1968-72

Region*	Urban renewal (millions of dollars)	Percent of total allocation	Model cities (millions of dollars)	Percent of total allocation	Other (millions of dollars)	Percent of total allocation	Total (millions of dollars)	Percent of total allocation	Per capita index
U. S. total	1,355	100	530	100	203	100	2,088	100	100
New England	151	11.2	38	7.1	17	8.5	206	9.9	170
Middle Atlantic	321	23.7	121	22.9	33	16.2	475	22.7	124
East North Central	187	13.8	113	21.2	32	15.9	332	15.9	80
West North Central	114	8.4	29	5.5	18	8.8	161	7.7	96
South Atlantic	222	16.4	65	12.4	27	13.1	314	15.0	99
East South Central	96	7.1	15	2.8	14	7.1	125	6.0	95
West South Central	99	7.3	54	10.1	17	8.7	170	8.2	86
Mountain	44	3.2	21	4.0	10	4.7	75	3.6	88
Pacific	121	8.9	74	14.0	35	17.0	230	11.0	84

Source: Calculated from hold-harmless determinations provided by the U.S. Department of Housing and Urban Development.

* Regional divisions used by the U.S. Bureau of the Census are: New England - Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut; Middle Atlantic - New York, New Jersey, Pennsylvania; East North Central - Ohio, Indiana, Illinois, Michigan, Wisconsin; West North Central - Minnesota, Iowa, Missouri, North Dakota, South Dakota, Nebraska, Kansas; South Atlantic - Delaware, Maryland, the District of Columbia, Virginia, West Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida; East South Central - Kentucky, Tennessee, Alabama, Mississippi; West South Central - Arkansas, Louisiana, Oklahoma, Texas; Mountain - Montana, Idaho, Wyoming, Colorado, New Mexico, Arizona, Utah, Nevada; Pacific - Washington, Oregon, California, Alaska, Hawaii.

Metropolitan Distribution Patterns of Pre-CDBG Funding

The more significant comparative relationships between the block grant distribution and that for grants folded into the CDBG program, however, are at the community level, particularly for the 587 local governments that are CDBG formula entitlement jurisdictions (Puerto Rico is excluded from this analysis). For this portion of the analysis, some additional refinement of terminology is necessary with respect to the main parts of metropolitan areas:

1. The central city or central cities of a metropolitan area or SMSA. Some SMSAs include more than one central city. There were 362 central cities that were formula entitlement areas in 1975 in 265 SMSAs (excluding Puerto Rico).

2. Satellite city, a SMSA entitlement city with a population over 50,000 that is not a central city. There were 152 satellite cities automatically eligible for CDBG funding in 1975. Most of these cities would normally be classified as suburbs. A few, however, such as Kansas City, Kansas, and Camden, New Jersey, while not classified as central cities, cannot be considered suburbs either. In order to avoid this confusion, the term "satellite" city is used.

3. Urban county, a county within a SMSA that (1) is authorized under state law to undertake community development and housing assistance activities in its unincorporated areas (if it has any), and (2) has a total population of 200,000 or more, excluding the population of metropolitan cities within its borders and communities that specifically choose to be excluded from the urban county for CDBG purposes. There were seventy-three participating urban counties in the first year of the CDBG program.

4. <u>Small SMSA communities</u>, communities within a metropolitan area or SMSA that do not qualify for a formula allocation because they are not central cities and do not have populations as large as 50,000. During the initial period of CDBG, 297 small metropolitan communities were designated as entitled to hold-harmless allocations funds.

In addition to these SMSA jurisdictions, there were 436 small cities with populations under 50,000 outside of metropolitan areas entitled to hold-harmless funds in 1975.

During the 1968-72 base year period, the nation's metropolitan areas had received 87.4 percent of the funds distributed under the seven urban grants folded into the CDBG program, as compared with 12.6 percent for non-metropolitan communities. This distribution was to be expected; the grants involved were aimed primarily at urban problems. The relative advantage of metropolitan areas is shown by the 120 per capita index in Table 4-4 for SMSAs, compared with a 46 per capita index for non-metropolitan jurisdictions.

Table 4-4. Distribution of Folded-in Grants to Metropolitan and Non-metropolitan Areas; Annual Average 1968-72

Recipient areas, by type	Urban renewal (millions of dollars)	Model cities (millions of dollars)	Other (millions of dollars)	Total (millions of dollars)	Percent of total	Per capita index
Metropolitan areas						
Central cities	908	454	136	1,498	71.8	221
Satellite cities	65	12	17	94	4.5	78
Urban counties	26	23	18	67	3.2	26
Metropolitan hold-harmless recipients	145	13	8	166	7.9	35
Total to metropolitan recipients	1,144	502	179	1,825	87.4	120
Total to non-metropolitan hold-harmless recipients	211	28	24	263	12.6	46
U.S. total	1,355	530	203	2,088	100	100

Source: Calculated from hold-harmless determinations from the Department of Housing and Urban Development.

Among metropolitan areas, the greatest advantage was found for the thirty-five SMSAs in the 500,000 to one million population category, which have a per capita grant index of 121 (shown in Table 4-5) for the hold-harmless base period, 1968-72. Only one other group, areas with populations between 100,000 and 250,000, received per capita grants above the SMSA mean. Both the largest and smallest SMSAs are below the mean, although the largest SMSAs fell below the mean by only 6 percent, while the smallest metropolitan areas were 24 percent below. Despite the fact that this group of the smallest SMSAs was well below the others in per capita grants in the hold-harmless base period, there is no consistent relationship between SMSA size and the distribution of money under the folded-in grants. Table 4-5 illustrates this point.

Table 4-5. Distribution of Pre-CDBG Assistance Among Metropolitan Areas, by Size of SMSAs; Annual Average 1968-72

SMSA recipient, by population size	Number in SMSA group	Total (millions of dollars)	Percent of total	Per capita index
U.S. total	265	1,825	100	100
3 million and over	6	423	23.2	94
1-3 million	28	556	30.5	96
500,000-1 million	35	360	19.7	121
250,000-500,000	65	248	13.6	92
100,000-250,000	103	216	11.8	107
Under 100,000	28	22	1.2	76

Source: Calculated from hold-harmless determinations provided by the U.S. Department of Housing and Urban Development.

Within metropolitan areas, the principal recipients under the folded-in grants were the central cities; again, this is to be expected under programs focused on reducing urban blight and providing social services. This central city advantage is shown by the fact that central cities received 82 percent of the metropolitan total, resulting in the per capita central city index number of 221 shown in Table 4-4.

The urban county per capita index in Table 4-4 is 26. But this sharply contrasting figure is misleading, since most of these units had not previously been funding recipients until the enactment of the Housing and Community Development Act of 1974 (discussion in Chapter 2).

Also significant is the pattern of non-participation or low participation in the categorical programs by CDBG formula entitlement areas. Out of the total of 587, eighty-eight received no federal grants for community development in the period 1968-72. In addition, there were ninety-one jurisdictions out of this total that had low participation -- less than $100,000 in hold-harmless credit.

The reason for non-participation or low participation could have been either failure to apply or the rejection of applications. As shown below in Table 4-6, non-participation or low participation was particularly great among satellite cities and urban counties.

Table 4-6. Participation of CDBG Formula Entitlement Metropolitan Areas in Folded-in Grants; Annual Average 1968-72

Community type	Number (1)	Number with zero hold-harmless (2)	Number with under $100,000 hold-harmless (3)	Columns 2 and 3 as percent of total (4)
Central cities	362	20	39	16.3
Satellite cities	152	45	39	55.3
Urban counties	73	23	13	49.3
Total	587	88	91	30.5

Source: Calculated from data provided by the U.S. Department of Housing and Urban Development.

It has been suggested that federal community development grant programs discriminated against smaller communities. Examination of the distribution of the folded-in grants among the 587 CDBG entitlement recipients sheds light on this point. At the outset of this portion of the analysis, however, some major qualifications must be stated. The data are applicable only to CDBG entitlement jurisdictions. In all, there are approximately 2,400 jurisdictions within these 587 entitlement areas. This represents about 48 percent of the approximately 5,000 municipal governments within the nation's metropolitan areas. Thus, about half of all small metropolitan jurisdictions (with populations under 50,000) are excluded from this portion of the analysis.

Furthermore, 1,875 of the 2,400 communities are within urban counties and most probably did not receive any categorical grant assistance in the hold-harmless base period. Excluding these 1,875 urban county communities, the data in Table 4-7 therefore represent approximately 10 percent of all municipal governments in metropolitan areas. Nevertheless, among these entitlement communities, small size does not seem to have been a very significant barrier to receiving categorical grant assistance.

Table 4-7. Distribution of Pre-CDBG Assistance to CDBG Entitlement Areas,[a] by Size of Community; Annual Average 1968-72.

Community type by size	Number participating (1)	Number in category (2)	Percent of participation (3)	Grants (millions of dollars) (4)	Percent of total (5)	Per capita index (6)
U.S. total	499	587	85.0	1,659	100	100
1 million and over	8	8	100	307	18.5	78
500,000-1 million	28	28	100	354	21.3	110
250,000-500,000	54	63	85.7	305	18.4	94
100,000-250,000	109	127	85.8	348	21.0	113
50,000-100,000	213	258	82.6	246	14.8	94
Under 50,000[b]	87	103	84.5	99	6.0	191

Source: Calculated from hold-harmless determinations from the Department of Housing and Urban Development.

[a] Central and satellite cities and urban counties.

[b] Category includes only the 103 central city entitlement areas with populations under 50,000 and thus represents only a small percentage of all communities under 50,000 within metropolitan areas.

If size had been a basic determinant of participation, the rate of participation would have declined in direct proportion to community size. As column 3 shows, however, the communities that did not participate are distributed fairly evenly among the community size classifications, excluding localities under 50,000, with only the two largest categories having 100 percent participation. The participation rate for communities under 50,000 was also 84.5 percent, but this category includes only the 103 central city entitlement areas with populations under 50,000, thus representing only a small percentage of all communities under 50,000 within metropolitan areas. If the 87 participating entitlement communities under 50,000 are added to the 297 small hold-harmless SMSA communities, the participation rate for metropolitan communities under 50,000 is approximately 8.5 percent. This is not to say that all communities competed for categorical money with equal chance of success. Nor can it be assumed that all of these small communities sought categorical money. The point that becomes clear is simply that the categorical programs were not exclusionary, benefiting only the very large cities. Given the dominance of the urban renewal and model cities programs among the folded-in grants, the relatively lower rate of small community participation is not surprising.

On a per capita basis, it can be seen that once involved in federal assistance programs for community development, the smallest communities received aid far in excess of the per capita assistance to jurisdictions in the largest size groups. The eight jurisdictions in the largest population group received the least per capita assistance. This largest-population group includes two very populous urban counties (Los Angeles and Cook Counties).

Discounting these two units from the analysis, the per capita index of the six largest cities is 87 -- still well below the per capita index for participating cities in the smallest population group.

Another perspective can be used to study the distribution of categorical grants by size of city. Focusing on the 514 central and satellite cities that were CDBG entitlement jurisdictions in 1975, the twenty-five largest had a per capita grant index for the hold-harmless base period of 105; the index for the twenty-five smallest entitlement cities that received categorical grant money was 126, about 20 percent higher than that received by the largest cities. Among the smallest cities, Texarkana, Arkansas, had a per capita index of 610; for Edinburg, Texas, the per capita index was 1,365. Among the smallest cities, the highest per capita index was that of Poughkeepsie, New York, a city of 32,000 persons. There were thirteen cities that had an index number over 500; of these, the largest was New Haven, Connecticut, with a population of 138,000. The average population of these thirteen cities was 53,207. Thus, once in the door, smaller cities suffered no disadvantages directly related to their size; in fact, quite the opposite was the case.

If one looks at just the 297 metropolitan hold-harmless recipients with populations under 50,000 for 1975, these areas are credited with $166 million in hold-harmless funds, an average of nearly $559,000 per recipient jurisdiction. This was mainly attributable to their renewal programs. To this can be added the $262 million in hold-harmless funds assigned to 436 non-metropolitan communities, an average of $601,000. In total the 836 hold-harmless and formula entitlement jurisdictions with less than 50,000 population (103 small central cities plus the 297 metropolitan and 436 non-metropolitan hold-harmless communities) have a hold-harmless credit of more than $525 million. This is 25 percent of federal community development funds for 1968-72, far greater than their share of population, and an average of $628,000 per recipient community per year.

Summary on the Distribution of Pre-CDBG Funds

It is now possible to summarize the data on the distribution of the grants folded into the CDBG program:

1. The metropolitan areas of the country received a significantly greater proportion of these pre-CDBG grant funds than did non-metropolitan areas. With 72 percent of the population, metropolitan areas received 87.4 percent of the categorical funds. (The metropolitan share is based on the $2,088 million hold-harmless entitlement and does not include the $175 million in categorical funds not eligible for hold-harmless entitlement.)

2. Cities and towns in the New England and Middle Atlantic regions tended to have the greatest relative advantage in the distribution of pre-CDBG grants. This was because of their heavy involvement in the urban renewal and model cities programs which, collectively, accounted for 90 percent of the total for the hold-harmless base period. The heavy use of urban renewal funds by cities in these two regions reflects the fact that they are among the oldest cities in the country and consequently would be expected to face serious problems of physical deterioration.

3. Among SMSAs, medium-sized metropolitan areas (with populations ranging from 100,000 to one million) enjoyed a greater per capita advantage than did the largest SMSAs (over one million) and smallest (under 100,000).

4. Within SMSAs, the central cities received substantially higher absolute and per capita grants than did any other community type.

5. Once communities were involved in federal aid programs, size did not appear to be a principal factor in determining aid flows; small cities received substantial amounts of community development assistance, both in absolute terms and per capita.

In overall terms, the picture that emerges from this analysis shows the distribution of categorical grants from the federal government for community development being disbursed on a basis that, in general, reflects certain common ideas about urban problems in the nation. This overall view, however, is not in sufficiently sharp focus, and the conclusion should not be overstated. Within regional groupings and jurisdiction types (for example, central cities), barometers of urban need have not thus far been correlated with the flow of urban funding.

Under the CDBG allocation system, a significantly different allocation pattern appears. First of all, non-metropolitan communities derive greater benefits from the new program by virtue of the fact that their 12.6 percent share of the categorical money is increased to 20 percent. Second, the jurisdictions most advantaged under the pre-CDBG programs will, in many cases, benefit less; this shift will be most conspicuous in the case of central cities, especially those in the New England and Middle Atlantic regions. These and other changes are less evident in the first year of the CDBG program than they will be in the sixth year, when the hold-harmless provisions of the formula have been phased out (assuming, of course, that the law is not amended in the meantime). In the remainder of this chapter, the first year distribution is considered; Chapter 5 considers the sixth year allocations.

UNDER THE FIRST YEAR OF THE CDBG PROGRAM

In the first year of the program, the distributional changes brought about by the application of the CDBG formula are obscured by the operation of the hold-harmless provision. No communities received less in 1975, on the average, than they had received during the 1968-72 base period.

In this section, the term "gain" refers to the immediate increase over previous community development assistance. These increases are only first-year gains, as opposed to what would happen under full formula funding. In the next chapter, which analyzes projected funding under a full formula allocation system, both gains and losses are analyzed under alternative assumptions as to what would have happened to the level of federal community development funding had the programs folded into CDBG continued.

With these various distinctions in mind, the initial point, displayed in Table 4-8, is that under the first-year allocations there were 256 CDBG recipient metropolitan units (43.6 percent) that gained, mainly because of their zero or low participation in the folded-in project grants. There were no losses in the first year.

Table 4-8. Funding Positions of CDBG Metropolitan Recipient Units in First Year

Funding position	Central cities	Satellite cities	Urban counties	Total
Remain same	272	48	11	331
Gain funds	90	104	62	256
Total	362	152	73	587

Source: Calculated from data provided by the U.S. Department of Housing and Urban Development.

Collectively, as indicated by their hold-harmless allocations, these 256 recipients received $27.2 million per year under the project grants in the period 1968-72, an average of about $106,450 per jurisdiction. In the first year of the CDBG program, these 256 jurisdictions received a total of $118 million, an average of $461,100 per recipient.

The gains registered by these jurisdictions were a result of both the new formula and the 16 percent increase in available funds under the CDBG legislation, compared with the average categorical funding during the hold-harmless base period. Hold-harmless entitlements totaled nearly $2.1 billion. To guarantee these amounts and, in addition, to fund the new formula entitlement recipients at the prescribed levels, the CDBG legislation authorized $2.5 billion for fiscal year 1975. The full $2.5 billion was appropriated and distributed as shown in Table 4-9.

Table 4-9. Allocation of Appropriated CDBG Funds among Entitlement and Non-entitlement Areas, Fiscal Year 1975 [a]

Allocation category	Amount allocated (thousands of dollars)
Total appropriation[b]	$2,500,000
Metropolitan areas:	
Metropolitan cities	1,657,189
Urban counties	119,176
Hold-harmless units	172,565
Discretionary funds[c]	54,642
Non-metropolitan areas:	
Hold-harmless units	269,799
Discretionary funds	199,694
Secretary's fund[d]	26,935

Source: Compiled from data provided by the U.S. Department of Housing and Urban Development, Community Development Block Grant Program: Directory of Allocations for Fiscal Year 1975, September, 1975, p. iii.

[a] Includes Puerto Rico, Guam, and the Virgin Islands.

[b] Not including $50,000 for "Urgent Needs" under Sec. 103 (b).

[c] $54,625,000 was provided in a Supplemental Appropriation in June 1975, designated for the "Discretionary Balance Funds" in SMSAs.

[d] Initially, the Secretary's discretionary fund was $47,908,000; funds were diverted however to cover SMSA entitlements under the "Inequities Provisions" of Section 107 of the Act ($20,956,000 for urban counties and $17,000 for rounding out the SMSA discretionary balance fund. Allocations are to the nearest thousand).

One of the most important effects of the new program even in the first year was the improved position of the non-metropolitan areas as a result of the 20 percent provision plus the 16 percent total increase of funding. These two factors raised the non-metropolitan share from $263 million under the project grants in the hold-harmless base period to $470 million, an increase of nearly 80 percent. On the other hand, the metropolitan gain (for the 50 states plus the District of Columbia) was only 8 percent.

As in the case of the folded-in grants, our analysis begins by looking at the regional distributions of first-year CDBG funds.

Regional Distribution Patterns of CDBG Funding

The earlier summary analysis of the distribution of the folded-in grants suggested that the formula system was most adverse for the New England and Middle Atlantic states because of their high levels of funding under the folded-in grants. The first year's allocations of CDBG funds provide early evidence of this point, as demonstrated in Table 4-10.

Table 4-10. Comparison of Folded-in Grant Allocations with First-year CDBG Allocations, by Region

Region	Folded-in grants (millions of dollars) (1)	Percent of total (2)	First year CDBG (millions of dollars) (3)	Percent of total (4)	Percent change, in dollar amounts (millions of dollars) (5)
U.S. total	2,088	100	2,433	100	16.5
New England	206	9.9	217	8.9	5.2
Middle Atlantic	475	22.7	512	21.0	7.9
East North Central	332	15.9	386	15.9	16.4
West North Central	161	7.7	192	7.9	18.8
South Atlantic	314	15.0	380	15.5	21.1
East South Central	125	6.0	162	6.7	29.0
West South Central	170	8.2	223	9.2	31.0
Mountain	75	3.6	92	3.8	22.4
Pacific	230	11.0	269	11.1	17.4

Source: Folded-in grant allocations and first-year distributions are calculated from data provided by the U.S. Department of Housing and Urban Development.

The first-year increases to the New England and Middle Atlantic regions are far below the overall increase in funds as shown by column 5. The regional shifts in funding were particularly favorable to the three southern regions and the Mountain states. This was in part a result of the increased funding for non-metropolitan areas and in part a result of the formula entitlement system itself.

Metropolitan Distribution Patterns of CDBG Funds

Among SMSAs, the first-year increases tended to be greatest for the smaller metropolitan areas. The overall increase in SMSA funds was 8 percent. For the three largest groups of SMSAs in Table 4-11, only one group (areas with populations ranging between one and three million) had an increase above the national average.

Table 4-11. Comparison of Folded-in Grant Allocations with First-year CDBG Allocations, by Population Size of Metropolitan Area

Population size by SMSA	Folded-in grants (millions of dollars) (1)	Percent of total (2)	First year CDBG (millions of dollars) (3)	Percent of total (4)	Percent change, in dollar amounts (millions of dollars) (5)
U.S. total	1,825	100	1,968	100	8.0
3 million and over	423	23.2	446	22.7	5.4
1-3 million	556	30.5	604	30.7	8.6
500,000-1 million	360	19.7	381	19.4	5.8
250,000-500,000	248	13.6	275	14.0	10.9
100,000-250,000	216	11.8	236	12.0	9.2
Under 100,000	22	1.2	26	1.3	18.2

Source: Folded-in grant allocations and first-year distributions are calculated from data provided by the U.S. Department of Housing and Urban Development.

The very sizable increase, in terms of the percentage of dollar increase (column 5), among the smallest SMSAs (with populations under 100,000) reflects the fact that thirteen (which are located in the three southern regions) of the twenty-eight SMSAs in this group had a substantial overall increase in funding in the first year of the program. These thirteen SMSAs contain fifteen central cities, which, of course, receive formula entitlements. Nine of these cities had either a zero or low level of participation (less than $100,000) in the folded-in programs. Generally speaking, small metropolitan areas also have fewer communities with hold-harmless entitlements, which means that the new money they receive represents a higher proportion of their total CDBG funds than is the case for larger SMSAs.

Within metropolitan areas, the first-year allocations showed the prior advantage of the central cities to be significantly diminished. Table 4-12 demonstrates this change.

Table 4-12. Comparison of Folded-in Grant Allocations with First-year CDBG Allocations within Metropolitan Areas

Recipient metropolitan areas, by type	Folded-in grants (millions of dollars) (1)	Percent of total (2)	First year CDBG (millions of dollars) (3)	Percent of total (4)	Percent change of dollar amounts (5)
U.S. (total SMSAs)	1,825	100	1,968	100	8.0
Central cities	1,498	82.1	1,517	77.1	1.3
Satellite cities	94	5.1	112	5.7	17.0
Urban counties	67	3.7	119	6.0	77.6
Metropolitan hold-harmless jurisdictions	166	9.1	166	8.4	0
Discretionary jurisdictions	NA*	NA	54	2.7	NA

Source: Folded-in grant allocations and first-year distributions are calculated from data provided by the U.S. Department of Housing and Urban Development.

* Not applicable.

While total funding increased by 16 percent and metropolitan area funding increased by 8 percent, central cities had only a 1.3 percent increase (see Table 4-12, column 5). Moreover, 44 percent of these additional funds for central cities were distributed to units in the smaller SMSAs (those with populations under 250,000). At the same time, the increase for satellite cities was 17 percent, and the urban counties' share went up 77.6 percent, although it should be stressed that the combined increase for satellite cities and urban counties was only $70 million. This relatively small dollar increase was the result of the one-third phase-in provision, which applied to many recipients in these two groups; the dollar increase will be significantly larger in future years. The significant point is that the first-year allocations indicate the direction in which formula-allocated funding is headed, i.e., toward satellite cities and urban counties.

Among the 587 formula entitlement recipients, the greatest first-year increases are found among the middle-sized range of communities, as shown by the percentage increases in Table 4-13 (column 5).

Table 4-13. Comparison of Pre-CDBG Grant Allocations with First-year CDBG Allocations, by Population Size of Recipient

Community size	Folded-in grants (millions of dollars) (1)	Percent of total (2)	First year CDBG (millions of dollars) (3)	Percent of total (4)	Percent change of dollar amounts (5)
U.S. total	1,659	100	1,749	100	5.4
1 million and over	307	18.5	310	17.7	1.0
500,000-1 million	354	21.3	362	20.7	2.2
250,000-500,000	305	18.4	334	19.1	9.5
100,000-250,000	348	21.0	371	21.2	6.6
50,000-100,000	246	14.8	269	15.4	9.9
Under 50,000	99	6.0	103	5.9	4.0

Source: Folded-in grant allocations and first-year distributions are calculated from data provided by the U.S. Department of Housing and Urban Development.

The above-average increases for communities in all four groups with populations below 500,000 are primarily the result of new funds going to satellite cities and urban counties. Of the total of 225 satellite cities and urban counties entitled to formula grants in year one (see Table 4-6), 195 fall within the three population groups with above average increases. The small cities, although their funding level rose, collectively received a declining share of the total (columns 2 and 4) amount of funds disbursed.

CDBG Allocations to Small Communities

The advantage gained by small communities (with populations under 50,000) under the CDBG program can be seen by combining the non-metropolitan funds, hold-harmless funds for small metropolitan communities, SMSA discretionary funds, and urban county allocations. (The inclusion of the urban county allocation in this total is based on the assumption that a large portion of these urban county funds will be spent in and by small municipalities or townships.) The gains registered by these small communities are significant, as shown in Table 4-14. Under the folded-in programs, communities under 50,000 received nearly 24 percent of the funds for the hold-harmless base period; under CDBG their share rose in 1975 to 33 percent.

Table 4-14. Comparison in Federal Aid to Small Communities, 1968-72 Base Period to First Year of CDBG Program

Funds received, by type	Total Allocations (millions of dollars)	Total to small communities (millions of dollars)	Percent of total to small communities
Folded-in grants	2,088	496	23.7
First-year CDBG	2,433	804	33.0

Source: Calculated from data provided by the U.S. Department of Housing and Urban Development.

This small-community share is to increase as the formula is fully implemented and the urban county and SMSA discretionary funds become greater. Even if the use of funds in urban counties assumption were altered to allocate only 50 percent of that money to small communities, the small-community share still would have increased to 30.6 percent in the first year. On the other hand, the $103 million allocated to central cities with populations under 50,000 could be included in with small-community allocations. If that is done, the small-community share (here including all urban county funds) increases to 37.3 percent.

SUMMARY

From the analysis of the first-year allocations under the CDBG program, three significant shifts of funds were found to have occurred:

1. A regional redistribution, with the advantages enjoyed in the past by the New England and Middle Atlantic regions under the programs folded into the block grant system shifting to other regions under formula system,

particularly the southern regions.

2. A substantial decrease in the advantage to central cities. Central cities are the largest category of metropolitan area recipients in dollar terms, but their relative share of total metropolitan area funds is reduced significantly from the hold-harmless base period.

3. A concommitant gain by small communities, both metropolitan and non-metropolitan, under the formula system.

All three shifts will be even more marked when the CDBG formula is fully implemented.

Chapter 5 examines the distributional patterns that will emerge if the formula allocation system is fully implemented, which it will be assuming that funding authority for the CDBG program is renewed beyond 1977. Under the phasing provision in the law, this pattern could be seen in the sixth year of the program, fiscal year 1980.

FOOTNOTE TO CHAPTER 4

1/ The national per capita grant to assisted communities was $17.63. For this and subsequent analyses, the per capita allocations are shown as index numbers with the national average equal to 100. The index method is used to show directly the relationship of recipients to the national figure and to each other.

CHAPTER 5

ALLOCATIONS UNDER FULL-FORMULA CDBG FUNDING

It was emphasized in Chapter 4 that the ultimate distributional effects of the block grant formula are obscured initially because of the operation of the hold-harmless provisions. The distributional implications of the CDBG program can be seen in their entirety only by projecting to fiscal year 1980, when the formula would be fully implemented provided the law is extended in its present form beyond 1977. Such projections are necessary to provide the basis for the discussion in Chapter 6 of formula alternatives.

Before proceeding, two points must be stated clearly: one concerns the use of the terms "gain" and "loss" in this chapter; the other is in regard to the assumption of $2.95 billion in funding.

Up to this point, the terms "advantage" and "disadvantage" have been used principally to suggest relative changes in distributional patterns that emerge as the CDBG formula is implemented and hold-harmless entitlement is phased out. Under a full formula allocation system, these advantages and disadvantages may be perceived by recipients as taking on a more permanent "gain" or "loss" character when compared with previous funding from the folded-in programs. These longer-term gains or losses are the consequence of two interrelated factors:

1. The Level of Funds Received under the Folded-in Programs. A jurisdiction that received prior funding significantly above the national level in per capita terms is likely to perceive itself as being disadvantaged by a formula allocation system under which aid decreases.

2. The "Need" Elements in the CDBG Formula. A jurisdiction with a high level of overcrowded housing and poverty will be advantaged by the formula.

Gains and losses are a function of the interrelationship between these two factors. The greatest relative gains accrue to entitlement jurisdictions that have high levels of the formula need criteria and received no or little assistance under the folded-in programs. The greatest perceived losses are in those communities that have relatively low levels of overcrowded housing and poverty and that in the past received significant amounts of funding for community development.

In some cases, it is to be expected that state and local officials will focus their attention on the first factor -- previous funding experience -- and base their gain-loss calculations on the assumption that, had the previous programs been continued, their jurisdictions would have continued to receive in the future the same annual levels of funding as they had received in the past. For some jurisdictions this assumption will be reasonable; for others, however, this continuous-funding assumption distorts what would have happened had the grants folded into the CDBG program continued. It is not possible to identify the jurisdictions for which the continuous-funding assumption would have held true. Later in the analysis in this chapter, alternative assumptions are made, based on different expectations as to how categorical funds would have been distributed if they had been continued.

The second point that needs to be defined in this introductory section involves the assumption for funding in 1980. In this analysis, comparisons are made between funding levels under the folded-in programs, represented by the 1968-72 base period, and a projected 1980 allocation. The projected funding level used for fiscal 1980 is $2.95 billion, the amount authorized in the original legislation for the CDBG program for fiscal years 1976 and 1977. In presenting the previous program and CDBG formula comparisons, gains and losses are based on the assumption of continuous categorical funding at the average annual level of the 1968-72 period.

Comparisons are made both in total dollar terms and on the basis of per capita indices expressed as a percentage of the national mean.

It must be pointed out that dollar amounts of losses and the number of recipients that lose can be reduced by raising the total projected dollar amount for 1980, as is done later on in the chapter. But dollar gains and losses are not the central point of this analysis. Of much greater significance is the relative change in the shares of the total received by region, SMSA group, or type of recipient (such as central cities) under the two distribution systems.

To put it another way, the adverse political impact of dollar losses can be relieved by increasing the total dollar amount for the program, but any change in the distribution of shares requires a change in the formula itself -- or in the definition of the data elements used in the formula. The shares are directly related to these formula factors. Data on the distributional effects of the formula factors are presented as index numbers representing a percentage of the national per capita mean.

Two more points need to be stated about the 1980 projections:

1. For purposes of this analysis, the number and mix of eligible recipients is held constant. In reality, the number is likely to increase slightly. With the addition of new SMSAs, there will be more central cities that have an automatic formula entitlement. Also in the expectation that new population estimates will replace the 1970 census figures in year three of the program, it is likely that some new satellite cities will be added and a few may be dropped. The net change in satellite cities is likely to be small. The number of urban counties could increase; twelve potentially eligible urban counties did not participate at the outset of the program and some of these may be added. At the same time, some counties currently participating may be disqualified as the larger municipalities within them acquire entitlement status as a result of reaching the 50,000 population level. In some cases where this occurs, an urban county may no longer have the necessary population (200,000) to qualify as a CDBG recipient.

2. Finally, no adjustment is made for the effects of inflation. A community may receive a larger grant in 1980, but the real value of the grant may actually be less than it was in 1972 or 1975 because of inflation.

REGIONAL DISTRIBUTION PATTERNS UNDER FULL IMPLEMENTATION

On a regional basis, the most significant full-funding gains are made by the sixteen states of the three southern regions -- South Atlantic, East South Central, and West South Central. The clearest evidence of these gains is seen in the per capita index (column 8) of Table 5-1.

Table 5-1. Folded-in Grant Distribution by Region Compared with Projected Formula Allocation of CDBG Funds in Fiscal 1980, Levels of Overcrowded Housing* and Poverty

Region	Folded-in (millions of dollars) (1)	Percent of total (2)	Formula[a/] (millions of dollars) (3)	Percent of total (4)	Percent change of dollar amounts (5)	Change in share (percent) (6)	Folded-in per capita index (7)	Formula per capita index (8)	Per capita index change (9)	Percent of population (10)	*OVH index (11)	Poverty index (12)
U S total	2,088	100	2,790	100	+ 34	. .	100	100	...	100	100	100
New England	206	9.9	130	4.7	- 37	-5.2	170	80	-90	5.8	84	65
Middle Atlantic	475	22.7	486	17.4	+ 2	-5.3	124	95	-29	18.3	84	77
East North Central	332	15.9	480	17.2	+ 45	+1.3	80	87	+ 7	19.8	88	72
West North Central	161	7.7	188	6.7	+ 17	-1.0	96	84	+12	8.0	92	98
South Atlantic	314	15.0	460	16.5	+ 47	+1.5	99	109	+10	15.1	111	129
East South Central	125	6.0	221	7.9	+ 76	+1.9	95	126	+31	6.3	124	178
West South Central	170	8.2	345	12.4	+203	+4.2	86	130	+44	9.5	135	155
Mountain	75	3.6	110	3.9	+ 47	+ .3	88	96	+ 8	4.1	113	101
Pacific	230	11.0	370	13.3	+ 61	+2.3	84	101	+17	13.1	98	80

Sources: The folded-in grant allocations and the indices were calculated directly from hold-harmless determinations and data elements used by the Department of Housing and Urban Development in making first-year CDBG allocations The fiscal 1980 allocations were computed by applying the first-year data on objective needs to a projected fiscal 1980 appropriation.

[a/] The SMSA discretionary fund allocations, incorporated into the formula amounts, are approximations. They do not take into account the population, poverty, and overcrowded housing of hold-harmless communities that will be added to SMSA discretionary areas. Thus the allocated discretionary amounts may change somewhat. The allocated discretionary dollar figures are based on data balances for year 1-3.

Projecting to fiscal year 1980, these three southern regions are the only ones significantly above the national per capita mean. (The Pacific region, with a 101 index, is just narrowly above the mean.) While these regions are major beneficiaries of the formula allocation system, two of them are close to the per capita mean based on the prior community development grant approach (column 7). The South Atlantic region had an index of 99, while the East South Central had a 95 index. The formula factors that account for most of the gains of the three regions (gains relative to the previous level of funding) are the extent of overcrowded housing and poverty. Comparing columns 4 and 10, the proportion of CDBG funds received by these regions exceeds their share of the national population. It is thus to be expected that, controlling for population, the overcrowded housing and poverty criteria are the significant determinants of the gains to the southern regions.[1/] As shown in columns 11 and 12, the incidence of overcrowded housing and poverty is well above the national mean in these three regions. It is in large measure because of the double weighting of poverty in the formula and the high level of poverty in the southern regions that they are so significantly advantaged by the CDBG formula, increasing their share from 29.2 to 36.8 percent of the total (columns 2 and 4).

Conversely, for the two regions showing the greatest declines — New England and Middle Atlantic — their below average levels of over-crowded housing and poverty result in the reduction in their share from 32.6 percent under the previous grants to 22.1 percent of the CDBG total.

In both regions, the only two regions above the per capita mean for the folded-in grants, the incidence of overcrowded housing and poverty is significantly below the national level (columns 11 and 12). The East North Central region also has relatively low levels of overcrowded housing and poverty. The formula index for this region is 13 below the national mean (column 8); nevertheless, the region has an overall gain (column 9) in relation to its level of previous funding. The East North Central region thus illustrates how gain-loss calculations are dependent upon the interrelationship between previous funding and the effect of the formula factors. That is, a given region or jurisdiction's formula factors may be below the national mean, but the community may still be relatively better off under the formula because of its even lower-than-average levels of funding under the old programs. This is particularly dramatic in terms of the relative gains for some satellite cities, which are relatively well off and which received little or no community development aid in the hold-harmless base period.

It is also necessary to look at the overall distributive or "spreading" effect of the CDBG formula allocation system as compared to that of the folded-in grants. The term "spreading" refers to the effect of the CDBG formula on the range of the per capita allocations, measured as the distance between the highest and lowest per capita allocations. A reduction of the per capita range is to be expected as a consequence of shifting from a "nothing for some" allocation system under the previous funding approach to a "something for all" distributional approach under a formula system. Under the old approach, the per capita index range (column 7 of Table 5-1) was 90 (170 for New England as opposed to 80 for the East North Central); under the formula system, this range is reduced to 50 (130 for the West South Central as opposed to 80 for New England in column 8 of Table 5-1). This reduction in the per capita range reflects the spreading effect in the allocation of urban aid under the CDBG formula approach.

This pattern -- the spreading effect -- can be seen both in the national allocation of funds and in the distribution of CDBG grants within some recipient jurisdictions. The latter is a function of the relatively greater flexibility of use given to CDBG recipient governments, which results in a more even spreading within their jurisdictions of the grant monies -- over both geographical and income-group bases -- than under either the urban renewal or model cities programs. The matter of spreading within recipient units is explored in Chapters 7-9 and 11.

METROPOLITAN ALLOCATION PATTERNS UNDER FULL IMPLEMENTATION

The analysis of the regional distribution of CDBG funds is important for purposes of understanding the overall effect of the formula. As has already been pointed out, however, the most important effects are among and within metropolitan areas.

For metropolitan areas, CDBG funding increases from $1.825 billion under the folded-in programs in the 1968-72 hold-harmless base period to $2.24 billion in 1980. This results entirely from the increase in the total amount of funding provided. In terms of shares, however, the proportion of CDBG funds going to metropolitan areas declines by 7.4

percentage points. The legislation sets the metropolitan share at 80 percent; as Table 4-4 in the preceding chapter shows, SMSAs received 87.4 percent of all folded-in grant funds in the hold-harmless base period. Table 5-2 (on page 144) compares the distribution of previous grants among metropolitan areas (SMSAs) with the projected 1980 allocation of CDBG funds. For purposes of comparison, data on the distribution of funds to entitlement and discretionary communities is presented immediately following, in Table 5-3.

Table 5-2 Folded-in Grant Distributions Compared with Projected 1980 Allocation of CDBG Funds among Metropolitan Areas, by Size, Levels of Overcrowded Housing* and Poverty

SMSAs, by population size	Number	Folded-in (millions of dollars) (1)	Percent of total (2)	Formula[a] (millions of dollars) (3)	Percent of total (4)	Percent change of dollar amounts (5)	Change in share (percent) (6)	Folded-in per capita index (7)	Formula per capita index (8)	Per capita index change (9)	Percent of population (10)	*OVH index (11)	Poverty index (12)
U S. total	265	1,825	100	2,240	100	+23	...	100	100	...	100	100	100
3 million and over	6	423	23.2	549	24.5	+30	+1.3	94	100	+ 6	24.6	108	95
1-3 million	28	556	30.5	644	28.7	+16	-1.8	96	91	- 5	31.7	92	86
500,000-1 million	35	360	19.7	372	16.6	+ 3	-3.1	121	105	-16	16.3	100	103
250,000-500,000	65	248	13.6	352	15.8	+42	+2.2	92	107	+15	14.7	100	114
100,000-250,000	103	216	11.8	281	12.5	+30	+ .7	107	113	+ 6	11.1	103	125
Under 100,000	28	22	1.2	42	1.9	+90	+ .7	76	119	+43	1.6	111	127

Sources. The folded-in grant allocations and the indices were calculated directly from hold-harmless determinations and data elements used by the Department of Housing and Urban Development in making first-year CDBG allocations. The fiscal 1980 allocations were computed by applying the first-year data on objective needs to a projected fiscal 1980 appropriation.

[a] The SMSA discretionary fund allocations, incorporated into the formula amounts, are approximations. They do not take into account the population, poverty, and overcrowded housing of hold-harmless communities that will be added to SMSA discretionary areas. Thus the allocated discretionary amounts may change somewhat. The allocated discretionary figures are based on data balances for years 1-3

Table 5-3. Folded-in Grant Distributions Compared with Projected 1980 Allocation of CDBG Funds among Entitlement and Discretionary Communities of Metropolitan Areas, by Size, Levels of Overcrowded Housing* and Poverty

Metropolitan communities by population size	Number	SMSA Entitlement Areas: Folded-in (millions of dollars) (1)	Percent of total (2)	Formula (millions of dollars) (3)	Percent of total (4)	Change in share (percent) (5)	*OVH index (6)	Poverty index (7)	SMSA Discretionary Areas[a]: Folded-in (millions of dollars) (8)	Percent of total (9)	Formula (millions of dollars) (10)	Percent of total (11)	Change in share (percent) (12)	*OVH index (13)	Poverty index (14)
U S. total	265	1,659	100	1,612	100	...	100	100	166	100	628	100	...	100	100
3 million and over	6	388	23.4	501	31.1	+7 7	107	94	35	21.1	48	7.6	-13.5	85	65
1-3 million	28	498	30.0	492	30.5	+ 5	93	92	58	34 9	153	24.4	-10.5	84	68
500,000-1 million	35	320	19.3	249	15.5	-3.8	99	105	40	24 1	122	19.4	- 4.7	102	103
250,000-500,000	65	227	13.6	202	12.5	-1.1	94	113	21	12.7	150	23.9	+11.2	111	125
100,000-250,000	103	205	12.4	139	8.6	-3.8	95	124	11	6.6	142	22.6	+16.0	117	137
Under 100,000	28	21	1.3	29	1.8	+ .5	104	120	1	6	13	2.1	+ 1.5	128	146

Sources The folded-in grant allocations and the indices were calculated from hold-harmless determinations and data elements used by the Department of Housing and Urban Development in making first-year CDBG allocations. The fiscal 1980 allocations were computed by applying the first-year data on objective needs to a projected fiscal 1980 appropriation.

a/ The discretionary allocations are approximations. They do not take into account the population, poverty, and overcrowded housing of hold-harmless communities that will be added to SMSA discretionary areas The allocated discretionary dollar figures here are based on data balances for years 1-3.

Although metropolitan areas as a whole receive more money in 1980 under the act in its present form, the principal beneficiaries within SMSAs are communities eligible for discretionary funds. Table 5-3 displays the comparative advantage for these communities. The most striking point in the table is that the 587 entitlement areas (central and satellite cities and urban counties) collectively receive less under the formula in 1980 than they had received annually under the folded-in grants in the hold-harmless base period, declining from $1,659 million to $1,612 million (columns 1 and 3). The share of total funds going to the formula-entitlement jurisdictions declines from 79.5 percent to 54.6 percent. At the same time, funds for metropolitan discretionary communities are projected to increase, both absolutely and proportionately, from $166 million (9 percent of metropolitan funds) to $628 million (28 percent of metropolitan funds).

Grouped by SMSA size (returning to Table 5-2), it should be noted that the two largest size groups have approximately the same shares under the two allocation systems. Under the previous approach, the thirty-four SMSAs with one million or more persons received 53.7 percent (column 2) of all funds for metropolitan areas: under the formula, these same SMSAs receive 53.2 percent (column 4). All size groups gain in absolute dollars, but two groups (500,000-1 million and 1-3 million) experience a decline in their share of the metropolitan-area funds (column 6). In the case of the 500,000-1 million group, this decline is especially marked, essentially because of the high categorical funding level of this group, a per capita index of 121 (column 7). The losses of the 1 to 3 million group are a result of their below average incidence of overcrowded housing and poverty.

At the other end of the spectrum of size groupings, the smaller SMSAs (with populations under 500,000) have the greatest gains; for the smallest SMSAs (under 100,000) with the greatest per capita gains, their index number increases from 76 to 119 (Table 5-2, columns 7 and 8). For each of the three size groups below 500,000, the increases are attributable to high levels of overcrowded housing and poverty, particularly the poverty factor. Columns 11 and 12 of Table 5-2 show that overcrowded housing tends to be evenly distributed among the various SMSA size groups, but that the incidence of poverty is closely related to SMSA size; the smaller the SMSA, the greater its incidence of poverty.

It has already been noted that the principal metropolitan-area beneficiaries of the CDBG allocation system are discretionary communities, with a 375 percent increase in available funds compared to the hold-harmless base. While discretionary communities in every SMSA size group receive an increase, the only gains in shares are found among the discretionary communities in the three smallest SMSA groups, those below 500,000 (Table 5-3, column 12). Under the folded-in grants, these communities received over 20 percent or $33 million of the categorical money going to metropolitan areas (Table 5-3, column 8). Under the CDBG system, these communities increase their share to 49 percent or $305 million of all metropolitan-area discretionary funds (Table 5-3, column 11). It is also striking that the smallest SMSAs (under 100,000) move from the lowest per capita index under the previous grants to the highest CDBG per capita index, a result of the high incidence of both overcrowded housing and poverty in these SMSAs (Table 5-2, columns 7 and 8). This reallocation pattern results, in part, from the low previous funding level of these communities under the folded-in programs, and also from their high incidence of overcrowded housing and poverty (Table 5-3, columns 13 and 14). The reallocation pattern also results from the fact that in the larger SMSAs, urban counties account for a significant portion of the population, overcrowded housing, and poverty factors, thus reducing the actual number of these factors for the discretionary jurisdictions.

Another point that stands out in Table 5-3 is that for the SMSA discretionary communities, overcrowded housing and poverty are inversely related to population size; the smaller the SMSA, the higher the incidence of both overcrowded housing and poverty for these units. Among entitlement cities, the pattern is less clear. For the entitlement cities, overcrowded housing is not inversely related to SMSA size (Table 5-3, column 6) although poverty is (Table 5-3, column 7), but less so than for SMSA discretionary communities.

A further point to be noted about the metropolitan area distributional pattern, as in the case of the regional analysis, is the narrowing of the distributive range from 45 (121 less 76) under the folded-in programs to 28 (119 less 91) under the formula system (Table 5-2, columns 7 and 8).

<u>Central City Allocations</u>

In Chapter 4 it was shown that in the first year of the CDBG program the central city share of funds increased far less than did those of other types of recipient units within metropolitan areas. The disadvantages of the formula system for central cities are even more evident in the 1980 projections. As shown in Table 5-4, central cities as a group lose both in absolute and relative terms.

Table 5-4. Folded-in Grant Distributions Compared with Projected 1980 Allocation of CDBG Funds within Metropolitan Areas, Levels of Overcrowded Housing* and Poverty

Recipient metropolitan area, by type	Number	Folded-in (millions of dollars) (1)	Percent of total (2)	Formula (millions of dollars (3)	Percent of total (4)	Percent change of dollar amounts (5)	Change in share (percent) (6)	Folded-in per capita index (7)	Formula per capita index (8)	Per capita index change (9)	Percent of population (10)	*OVH index (11)	Poverty index (12)
Metropolitan areas													
Central cities	362	1,498	71.8	1,182	42.2	- 21	-29.6	221	131	-90	32.3	114	108
Satellite cities	152	94	4.5	140	5.0	+ 49	+ .5	78	88	+10	5.6	84	53
Urban counties	73	67	3.2	290	10.3	+433	+ 7.1	26	85	+59	12.2	80	51
Rest of SMSAs		166	7.9	628	22.5	+378	+14.6	35	100	+65	22.5	91	71
Total to metropolitan recipients		1,825	87.4	2,240	80	+ 23	- 7.4	120	110	-10	72.6	99	83
Total to non-metropolitan recipients		263	12.6	550	20	+209	+ 7.4	46	71	+25	27.4	103	146
U.S. total		2,088	100	2,790	100	+ 34	...	100	100	...	100	100	100

Sources: The folded-in grant allocations and the indices were calculated directly from hold-harmless determinations and data elements used by the Department of Housing and Urban Development in making first-year CDBG allocations. The fiscal 1980 allocations were computed by applying the first-year data on objective needs to a projected fiscal 1980 appropriation.

The projections to 1980 indicate losses in the aggregate of more than $300 million, with the central cities' share of total funds declining from 71.8 percent to 42.2 percent (columns 2 and 4). The central cities are the only jurisdictions within metropolitan areas projected to lose funds under the formula allocation system compared to the hold-harmless base. Conversely, the greatest gains, in both absolute and per capita terms, are registered by urban counties and SMSA discretionary communities. In addition to the fact that central cities are projected to lose, it should be noted that the central city is the only metropolitan-area unit with a per capita index that exceeds the national mean (column 8). This is the result of the formula factors; central cities are the only units within metropolitan areas with average overcrowded housing and poverty indices higher than the national mean (columns 11 and 12). What this means is that the total losses projected for the central cities are a function of their high level of funding under the folded-in grant programs; the central city per capita index of 221 for the hold-harmless base period (column 7) was more than double the national mean.

To this point, the position of the central cities has been presented in aggregate terms. Such analysis tends to obscure important distinctions. As can be seen in Table 5-5, losses are not experienced in all sections of the country.

Table 5-5. Folded-in Grant Distributions Compared with Projected 1980 Allocation of CDBG Funds among Central Cities, by Region; Levels of Overcrowded Housing* and Poverty

Region	Number	Folded-in (millions of dollars) (1)	Percent of total (2)	Formula (millions of dollars) (3)	Percent of total (4)	Percent change of dollar amounts (5)	Change in share (percent) (6)	Folded-in per capita index (7)	Formula per capita index (8)	Per capita index change (9)	Percent of population (10)	*OVH index (11)	Poverty index (12)
U.S. total	362	1,499	100	1,182	100	-21	...	100	100	...	100	100	100
New England	34	159	10.6	53	4.5	-67	-6.1	204	87	-117	5.2	83	82
Middle Atlantic	43	332	22.1	259	21.9	-22	- .2	103	102	- 1	21.4	107	101
East North Central	64	262	17.5	220	18.6	-16	+1.1	87	92	+ 5	20.1	92	89
West North Central	24	106	7.1	64	5.4	-40	-1.7	116	88	- 28	6.1	85	84
South Atlantic	61	227	15.2	160	13.5	-30	-1.7	125	111	- 14	12.1	105	120
East South Central	23	62	4.2	67	5.7	+ 8	+1.5	85	117	+ 32	4.9	106	131
West South Central	53	132	8 8	165	14.0	+25	+5.2	74	117	+ 43	11.9	121	124
Mountain	16	47	3.1	43	3.6	- 9	+ .5	78	90	+ 12	4.0	88	86
Pacific	44	172	11.4	151	12 8	-12	+1.4	80	90	+ 10	14.3	93	83

Sources. The folded-in grant allocations and the indices were calculated directly from hold-harmless determinations and data elements used by the Department of Housing and Urban Development in making first-year CDBG allocations The fiscal 1980 allocations were computed by applying the first-year data on objective needs to a projected fiscal 1980 appropriation.

Collectively, the central cities of only two regions (East and West South Central) gain in absolute dollars (column 5). Five of the nine regions show a per capita gain under the formula system (column 9). The central cities of four regions show a per capita decline (column 9), with the greatest aggregate losses among the central cities being in the New England and West North Central regions. For New England, the decline is particularly sharp, its per capita index dropping from 204 to 87, going from the highest to the lowest per capita allocation. The central cities in the South Atlantic region also experience a loss relative to previous systems of funding, but the central cities of that region, unlike New England's, remain well above the per capita mean under the formula because of their high incidence of overcrowded housing and poverty.

Under the formula, central cities in only four of the nine regions receive a per capita allocation above the national mean (column 8). The three southern regions have the highest; the Middle Atlantic region has just over the national mean. Among the three regions in the northeast quadrant (New England, Middle Atlantic, East North Central), the area that contains many of the nation's oldest and most distressed central cities, only one region -- the Middle Atlantic -- has a central-city formula allocation above the national mean; this is the result of the major gain of New York City under the formula. For central cities of the northeast quadrant (NEQ), their proportion of total central-city funding declines from 50.2 percent (column 2) of the previous allocations to central cities to 45 percent (column 4) of the formula funds for these units. This diminishing share raises some concern when viewed against the needs of the cities in this region.

A study of the hardship differentials between central cities and their suburbs in fifty-five large metropolitan areas showed that the hardship differential is greatest between the oldest central cities and their suburbs. 2/ Of the fourteen central cities with the greatest hardship differentials, twelve are in the northeast quadrant where the oldest cities are found. 3/ The other two are Atlanta and Richmond, not located in the northeast but still among the nation's older cities.

For an analysis of the central cities and their surrounding suburbs in the largest metropolitan areas, a standardized index was developed to measure and rank social and economic disparities between cities and their outlying suburbs. It is often these disparities that create the dynamics of population and economic decline for distressed central cities. As more residents and businesses move to the suburbs, the tax base of the city is driven downward. Property or other tax rates have to be raised to compensate, and this, in turn, forces more people and industries to leave. The picture is a familiar one. The vacuum created by reduced demand for living and working space resulting from these higher costs draws the poor and exploitative industries into the central cities.

According to the standardized index used to compare cities and their suburbs, cities rating 100 have essentially the same socioeconomic conditions as their suburbs; cities over 100 are worse off than their suburbs. Of the fifty-five central cities studied, forty-three have indices greater than 100; two are at 100; ten are below 100. The fourteen cities over 200 on this hardship index are shown in Table 5-6.

Table 5-6. Index of Central City Hardship Relative to Balance of SMSA and Selected Population Data for Central Cities with an Index Rating of Over 200

Primary central city of SMSA	Region	Intra-metropolitan hardship index	SMSA population, 1970 Total (thousands)	SMSA population, 1970 Percent central city	Percent population change 1960-70	Percent land area change 1960-70
Newark, N.J.	NEQ[a]	422	1,857	20.6	- 5.7	...
Cleveland, O.	NEQ	331	2,064	36.4	-14.3	...
Hartford, Conn.	NEQ	317	664	23.8	- 2.6	...
Baltimore, Md.	NEQ	256	2,071	43.7	- 3.5	...
Chicago, Ill.	NEQ	245	6,975	48.2	- 5.1	...
St. Louis, Mo.	NEQ	231	2,363	26.3	-17.0	...
Atlanta, Ga.	S	226	1,390	35.8	2.0	- 3.2
Rochester, N.Y.	NEQ	215	883	33.6	- 7.0	...
Gary, Ind.	NEQ	213	633	27.7	- 1.6	...
Dayton, O.	NEQ	211	850	28.6	- 7.4	12.3
New York, N.Y.	NEQ	211	11,572	68.2	1.5	...
Detroit, Mich.	NEQ	210	4,200	36.0	- 9.4	
Richmond, Va.	S	209	518	48.2	-13.4	60.0
Philadelphia, Pa.	NEQ	205	4,818	40.4	- 2.6	...

Sources: Central city disadvantage index calculated from data in U.S. Bureau of the Census, County and City Data Book, 1972 (Washington, D.C. 1972), Tables 2, 3, and 6; populations from U.S. Bureau of the Census, 1972 Census of Governments, Vol. 1, Governmental Organization (Washington, D.C. 1972), Table 19; pre-1939 housing data from 1970 Census of Housing, Detailed Housing Characteristics, Table 35.

[a] The northeast quadrant (NEQ) includes all states in the northeast, north central, and middle Atlantic regions designated by the U.S. Bureau of Census. Included in the NEQ are Maine, Vermont, New Hampshire, Massachusetts, Rhode Island, Connecticut, New York, New Jersey, Pennsylvania, Ohio, Indiana, Illinois, Michigan, Wisconsin, Missouri, Iowa, Minnesota, North Dakota, South Dakota, Nebraska,

It should be noted that twelve of these fourteen "worst-off" cities are projected to receive CDBG funds in 1980 below their previous levels during the 1968-72 period (Table 5-7).

Table 5-7. Hardship Indices for Fifty-five Major Cities, Relative to Their Gain-Loss Position under the CDBG Program Projection for Fiscal 1980

City	Intra-metropolitan hardship index	Percent population change (1960-70)	Folded-in (thousands of dollars)	Projected CDBG (thousands of dollars)	Percent gain-loss
Newark, N.J.	422	- 5.7	20,513	9,807	- 52.2
Cleveland, O.*	331	- 14.3	16,092	14,250	- 11.4
Hartford, Conn.	317	- 2.6	10,267	3,208	- 68.8
Baltimore, Md.*	256	- 3.5	32,749	18,264	- 44.2
Chicago, Ill.*	245	- 5.1	43,201	62,870	+ 45.5
St. Louis, Ill.*	231	- 17.0	15,194	14,793	- 2.6
Atlanta, Ga.	226	+ 2.0	18,780	11,207	- 40.3
Rochester, N.Y.	215	- 7.0	14,684	4,427	- 69.9
Gary, Ind.	213	- 1.6	6,974	3,708	- 46.8
Dayton, O.	211	- 7.4	6,822	4,134	- 39.4
New York, N.Y.*	211	+ 1.5	102,244	153,850	+ 50.5
Detroit, Mich.*	210	- 9.4	34,187	26,525	- 22.4
Richmond, Va.	209	+ 13.4	10,068	4,839	- 51.9
Philadelphia, Pa.*	205	- 2.6	60,829	33,506	- 44.9
Boston, Mass.*	198	- 8.1	32,108	11,609	- 63.8
Milwaukee, Wis.*	195	- 3.2	13,383	10,939	- 18.3
Buffalo, N.Y.*	189	- 13.1	11,685	7,523	- 35.6
San Jose, Calif.	181	+118.7	6,554	5,931	- 9.5
Youngstown, Pa.	180	- 15.5	3,730	2,306	- 38.2
Columbus, O.	173	+ 14.6	9,194	8,590	- 6.6
Miami, Fla.	172	+ 14.8	3,165	9,712	+306.9
New Orleans, La.*	168	- 5.4	14,808	16,753	+ 13.1
Louisville, Ky.	165	- 7.4	8,639	7,380	- 14.6
Akron, O.	152	- 5.1	10,979	3,990	- 63.7
Kansas City, Mo.*	152	+ 6.7	17,859	8,048	- 54.9
Springfield, Mass.	152	- 6.1	9,096	2,529	- 72.2
Fort Worth, Tex.	149	+ 10.4	1,475	6,950	+471.2
Cincinnati, O.*	148	- 10.2	18,828	9,275	- 50.7
Pittsburgh, Pa.*	146	- 13.9	16,429	8,997	- 45.2
Denver, Colo.*	143	+ 4.2	15,805	8,246	- 47.8
Sacramento, Calif.	135	+ 34.1	3,791	4,379	+ 15.5
Minneapolis, Minn.	131	- 10.0	16,793	6,211	- 63.0
Birmingham, Ala.	131	- 11.7	5,040	7,186	+ 42.6
Jersey City, N.J.	129	- 5.7	6,485	4,874	- 24.8
Oklahoma City, Okla.	128	+ 13.6	8,183	6,198	- 24.3
Indianapolis, Ind.*	124	+ 6.7	13,929	10,767	- 22.7
Providence, R.I.	121	- 13.7	9,110	3,338	- 63.4
Grand Rapids, Mich.	119	+ 11.5	4,815	2,853	- 40.8

Table 5-7. (continued)

City	Intra-metropolitan hardship index	Percent population change (1960-70)	Folded-in (thousands of dollars)	Projected CDBG (thousands of dollars)	Percent gain-loss
Toledo, O.	116	+ 20.5	11,831	5,350	- 54.8
Tampa, Fla.	107	+ 1.0	8,577	5,613	- 34.6
Los Angeles, Calif.*	105	+ 13.3	38,595	49,648	+ 28.6
San Francisco, Calif.*	105	- 3.3	28,798	12,564	- 56.4
Syracuse, N.Y.	103	- 8.7	11,861	3,028	- 74.5
Allentown, Pa.	100	+ 1.4	2,426	1,313	- 45.9
Portland, Ore.	100	+ 2.0	8,760	5,483	- 37.4
Omaha, Nebr.	98	+ 15.0	794	5,060	+637.3
Dallas, Tex.*	97	+ 24.2	2,691	14,784	+549.4
Houston, Tex.*	93	+ 31.4	13,257	22,530	+ 69.9
Phoenix, Ariz.*	85	+ 32.4	1,309	9,512	+726.7
Norfolk, Va.	82	+ 1.0	17,766	5,842	- 67.1
Salt Lake City, Utah	80	- 7.2	4,176	2,939	- 29.6
San Diego, Calif.*	77	+ 21.6	9,148	10,294	+ 12.5
Seattle, Wash.*	67	- 4.7	11,641	6,809	- 41.5
Fort Lauderdale, Fla.	64	+ 66.9	519	2,265	+436.4
Greensboro, N.C.	43	+ 20.5	2,191	2,191	0

Source: Hardship index data from Richard P. Nathan and Charles Adams, "Understanding Central City Hardship," Political Science Quarterly, Vol. 91, No. 1, Spring 1976, Table pp. 51-52.
Other data derived from U.S. Department of Housing and Urban Development data.

* Cities also included in the Urban Institute study.

The projected losses range from -2.6 percent (St. Louis) to -69.9 percent (Rochester). The two gainers are New York (+50.5 percent) and Chicago (+45.5 percent), which are greatly aided by the population criterion of the formula. Extending this further, of the forty-five cities in the study with a hardship index of 100 or higher, thirty-seven (82.2 percent) lose under the formula.

Conversely, for the ten central cities at the "better-off" end of the scale (those with an index below 100, none are in the northeast quadrant), six gain from the CDBG formula, one breaks even, and only three lose. The gains range from 12.5 percent (San Diego) to 726.6 percent (Phoenix).

In sum, what proves to be the case on the basis of this hardship index is that the funds generally are flowing away from the most distressed central cities of the northeast quadrant to the better-off central cities of the South and West.

Another study conducted at the Urban Institute examines urban fiscal pressures in terms of population gains and losses. [4/] This study of twenty-eight cities with populations of 500,000 or more in either 1960 or 1970 found that the cities with declining populations also tend to be the cities with the most difficult fiscal problems and prospects. Twenty-four of these large cities are among those in the hardship index study (marked * on Table 5-7), and there is a significant correlation between the fiscal and hardship index studies.

In total, fourteen of the large cities included in both studies lost population between 1960 and 1970; ten gained population. (New York City gained population between 1960 and 1970 but has since moved into the loss column.) Of the fourteen cities losing population, twelve also lose funds under the CDBG formula. Of the ten cities gaining population, only four are projected to lose funds.

Seven of the twenty-four cities in both studies are in the "worst-off" (above 200 in Table 5-7) category on the Brookings hardship index. Of the seven, six lost population between 1960 and 1970; five of these are projected to lose funds under CDBG. On the other hand, five of the cities in the Urban Institute study are among the ten best-off cities in the hardship index analysis (below 100 in Table 5-7). Of these five, four gained population from 1960 to 1970, and each of these four stands to gain funds under the CDBG formula.

Summarizing these points, the most distressed cities on the Brookings central city hardship index also tend to have experienced recent losses in population; the cities with this combination of characteristics tend to lose funds under the CDBG program. The opposite is generally the case for the better-off cities; they have tended to gain both population and CDBG funds. Taken together, the two studies suggest that the cities with the most severe socioeconomic and fiscal problems tend to receive less funding under the CDBG program than under the folded-in grant programs for community development, while better-off cities with brighter fiscal outlooks tend to gain funds.

Turning next to population size, analysis of the 587 CDBG formula-entitlement jurisdictions shows no consistent pattern of projected gains and losses. Table 5-8 illustrates this point.

Table 5-8. Folded-in Grant Distributions Compared with Projected 1980 Allocation of CDBG Funds to Entitlement Areas by Population Size, Levels of Overcrowded Housing* and Poverty

Entitlement area by population size	Number	Folded-in (millions of dollars) (1)	Percent of total (2)	Formula (millions of dollars) (3)	Percent of total (4)	Percent change of dollar amounts (5)	Change in share (percent) (6)	Folded-in per capita index (7)	Formula per capita index (8)	Per capita index change (9)	Percent of population (10)	*OVH index (11)	Poverty index (12)
U S. total	587	1,659	100	1,612	100	- 3	...	100	100	..	100	100	100
1 million and over	8	307	18.5	389	24.1	+27	+5 6	87	113	+26	21.4	125	114
500,000-1 million	28	354	21.3	295	18.3	-17	-3.0	122	104	-18	17.6	103	108
250,000-500,000	63	305	18.4	311	19.3	+ 2	+ .9	89	93	+ 4	20.6	93	90
100,000-250,000	127	348	21.0	303	18.8	-13	-2.2	107	96	-11	19.6	90	97
50,000-100,000	258	246	14.8	254	15.8	+ 3	-1.0	85	90	+ 5	17.5	86	86
Under 50,000	103	99	6.0	60	3 7	-39	-2.3	178	111	-67	3.3	97	125

Sources The folded-in grant allocations and the indices were calculated directly from hold-harmless determinations and data elements used by the Department of Housing and Urban Development in making first-year CDBG allocations. The fiscal 1980 allocations were computed by applying the first-year data on objective needs to a projected fiscal 1980 appropriation.

In absolute dollar amounts, three of the six groups gain and three lose, alternating gains and losses as they go down the population scale. The same alternation of gains and losses is found when the allocations are measured on a per capita scale (column 9). The net position for each group is determined by the combination of previous grant experience and the effect of the formula factors. For example, the largest recipients (units with populations over 1 million) increase their per capita allocations because of their high incidence of overcrowded housing and poverty (columns 11 and 12). Under the folded-in grants, these largest recipients had allocations below the national mean. On the other hand, the next group (500,000 to 1 million) loses in total dollars and in per capita allocations, but remains above the national per capita mean.

The greatest gain in shares is projected for those recipients with populations of one million or more. As can be seen in columns 2 and 4, the eight recipient units in the largest-area category increase from 18.5 percent of the folded-in grant total to 24.1 percent of the formula total, an increase of 5.6 percentage points. It should be emphasized that this analysis is for population-size groups; there are both winners and losers within each of these groups. For example, within the group of the largest recipients, six jurisdictions gain under the formula; two units are projected to receive less than they had received under the folded-in programs in the hold-harmless base period.

	Funding under folded-in programs (millions of dollars)	Formula funding (millions of dollars)	Percent change
New York, N.Y.	102.2	153.9	+ 50.5
Chicago, Ill.	43.2	62.9	+ 45.5
Los Angeles, Calif.	38.6	49.6	+ 28.6
Philadelphia, Pa.	60.8	33.5	- 44.9
Detroit, Mich.	34.2	26.5	- 21.4
Houston, Tex.	13.3	22.5	+ 69.9
Cook County, Ill.	.1	12.0	+ 12,000.0
Los Angeles County, Calif.	14.5	28.0	+ 93.1

A special point should be made concerning small central cities with populations under 50,000. Collectively, this group of 103 cities has the greatest proportionate loss in both total dollar and per capita allocations. The group's share declines 2.3 percentage points (Table 5-7, column 6). Since this group has the highest incidence of poverty and is only slightly below the national mean for overcrowded housing, its losses are clearly a function of high levels of funding under the folded-in grants. Within this group, previous funding was very unevenly distributed. Some of the highest per capita grants were found in this group. As a consequence of these extremely high levels of previous funding for some small central cities, the total formula allocation for this group of cities declines significantly relative to their previous funding position.

Looking at the spreading pattern for entitlement units grouped by population size, the categorical range of 93 (178 less 85) is narrowed to 23 (113 less 90), again spreading funds more evenly among these large recipient units.

Small Community Allocations

As noted in the previous chapter, small communities in general (those under 50,000) gain significantly under the CDBG program. Aggregating non-metropolitan and metropolitan discretionary community allocations, communities with populations under 50,000 would receive $1.18 billion in fiscal year 1980. This means that 42 percent of CDBG funds in that year would be allocated to these small communities on a discretionary basis. Under the folded-in grants, $496 million, or 22 percent of the funds, went to these small communities. Assuming that essentially all of the $290 million projected to be received by urban counties in 1980 will be spent in small communities, the total allocation for small communities would exceed $1.45 billion, or 52 percent of the total. If the $60 million allocated to small central cities (those under 50,000) is included, the total allocation for small communities increases to $1.53 billion, or nearly 55 percent of the entire appropriation. If one considers a small city to be under 100,000 population, then approximately $1.8 billion or about two-thirds of the total funds are projected to go to small places in fiscal 1980.

	Amount (millions of dollars)	Percent of total
Folded-in grants	496	22
CDBG (without urban counties)	1,178	42
CDBG (with urban counties)	1,468	52
CDBG (with urban counties and small central cities)	1,528	55
CDBG (with urban counties and entitlement cities under 100,000)	1,782	64

GAIN-LOSS ANALYSIS: ALTERNATIVE PERSPECTIVES

It has been emphasized throughout this chapter that the position of any given CDBG recipient unit is a function of (1) its level of previous funding and (2) the working of the formula. Nevertheless, as noted earlier, many entitlement units will judge their gain or loss strictly with reference to the amount of funding they previously received under the folded-in programs. The reference point for this calculation is the average annual funding for the period 1968-72 as reflected in the hold-harmless calculations. The underlying assumption of such calculations is that if the previous programs had continued, a community would have continued to receive in the future the same annual amounts on the average that it had received in the past.

But is this a good assumption? Might there have been a different level or pattern of categorical funding anyway, in which case these presumed gains or losses would be without base? The gain-loss analysis presented in this section considers an alternative perspective as to how funds might have been distributed had the previous programs been continued. There are, of course, still other perspectives; the one presented here serves primarily to make a point about possible declining funding and is not offered as an exact measure of future allocations.

Two contrasting possible assumptions are considered in this context:

1. Constant funding: this approach is based on the assumption that the level of funds received by an entitlement area under the folded-in grants (as measured by the hold-harmless entitlement), would have remained

constant in the future. That is, if a given city received an average of $16 million a year in project grants during the period 1968-72, it would have continued to receive at least the same amount annually in the future.

2. Model cities/declining fund: the underlying assumption of this second approach is that, by 1980, all participants in the model cities program would have experienced a 50 percent decline in their model cities funds. There were 147 model cities in 1972, 118 of which are CDBG entitlement cities. What would have happened to these cities? The history of federal grants suggests that grant programs are rarely terminated. Model cities survived as a separate program until the funding for it and other urban grant programs was folded into the CDBG program. At the same time, it can reasonably be assumed that if the model cities program had been retained, it might have been substantially modified as a result of fiscal pressures. A permanent extension of the program could well have required a wider distribution of available funds. To extend the program to all cities with conditions similar to those that were participating in the hold-harmless base period and still maintain the funding levels for the original model cities would have required an extremely large increase in total program appropriations. It is quite possible that the approximate overall funding level for model cities would have been retained, but the funds would have to have been distributed among a larger number of recipients. Following this line of reasoning, we have assumed for purposes of analysis a 50 percent reduction in model cities funds for all participating cities, which in essence would have involved a wider spreading and modest increase in the funding for this

program.

Another perspective considered but not adopted was a similar declining fund assumption for the urban renewal/neighborhood development programs. Since these programs accounted for nearly 65 percent of the grants consolidated in the CDBG program, any assumption involving a change in the level and distribution of these funds would have a major effect on the gain-loss calculations for CDBG recipient jurisdictions.

The neighborhood development program (NDP) was established in the 1968 housing legislation. Prior to NDP, the "conventional" urban renewal program, established in 1949, used a "reserve" system. That is, at the time an urban renewal project was approved, a sum of money was reserved to complete the project over a specified period of time. Because of increasing costs and project changes, reserved funds often were insufficient and additional funds had to be set aside through frequent project amendments. This funding process limited the number of new projects that could be approved.

The NDP sought to deal with this problem by changing the funding of projects from a reserve system to annual funding. In the case of a large project, NDP funded a portion of the project each year, the amount granted being determined by the funds needed to complete a given amount of renewal work within the year. This annual funding approach was designed to permit more new renewal projects to be initiated, in many cases for smaller communities.

Various expectations about the effects of the NDP on distributional patterns were analyzed, comparing pre-NDP and post-NDP allocations for cities that had received substantially above average funding for urban renewal. Our analysis indicates that big cities (above 500,000) with high urban renewal grants tended to maintain their funding levels after NDP was established. For smaller cities with high urban renewal funding, the analysis showed a less consistent pattern. A large proportion of these smaller cities did show a decline in grants after the establishment of NDP in 1968, but the pattern was not strong enough to make any general estimate of a decline. Thus, while we considered a declining urban renewal alternative, we found it unsuitable as the basis for a differential estimation of future urban renewal funding, assuming that the folded-in programs had continued through 1980.

An example will help to illustrate the significance of the constant funding and model cities/declining fund approaches used in this section. Assume that hypothetical "Mid City" has substantial urban renewal and model cities experience and a hold-harmless entitlement of $14 million. Its grants-in-aid would thus be composed as follows:

Urban renewal	$ 8 million
NDP	2 million
Model cities	3 million
Other	1 million
	$ 14 million

Under the formula entitlement, we assume that Mid City's allocation for the sixth year -- fiscal year 1980 -- is projected at $13 million. With the constant funding assumption, the city's officials would record a loss of $1 million. However, applying the alternative model cities/declining funds approach, because of a projected $1.5 million drop in model cities funding, Mid City's 1980 categorical funding would be $12.5 million. Under this assumption, the city would perceive an increase of $500,000.

As would be expected, the model cities/declining fund approach reduces the number of communities recording losses. This approach does not greatly alter the gain-loss proportions. Only 118 out of the 587 CDBG entitlement jurisdictions (20 percent) had model cities funds, and not all of these have losses under the formula. Thus only a relatively small number of recipients shift from the loss to the gain column as a result of the changed assumption about future funding. It is important to remember that the two assumptions do not change the formula allocations for 1980, only the gain-loss reference point. As shown in Table 5-9, the constant funding approach has 373 entitlement jurisdictions gaining under the formula and 214 declining.

Table 5-9. Gains and Losses among the 587 CDBG Entitlement Areas Using Constant Funding (CF) and Model Cities/ Declining Fund (MC/DF) Assumptions, by Types of Jurisdictions; Projection to Fiscal 1980 with $2.95 Billion Funding Level

Gain-Loss Category	Central cities		Satellite cities		Urban counties		Total	
	CF	MC/DF	CF	MC/DF	CF	MC/DF	CF	MC/DF
Gain 100 percent or more	125	129	114	114	67	68	306	311
Gain 50-100 percent	18	19	3	3	1	0	22	22
Gain 25-50 percent	8	9	3	3	0	1	11	13
Gain 10-25 percent	17	19	4	5	0	0	21	24
Gain To 10 percent	8	12	2	3	3	2	3	16
Gain--subtotal	176	188	126	128	71	71	373	386
Lose Up to 10 percent	13	11	1	1	0	0	14	13
Lose 10-25 percent	27	25	4	3	0	0	31	28
Lose 25-50 percent	53	64	7	9	1	2	61	75
Lose 50 percent or more	93	74	14	11	1	0	108	85

Table 5-9. (continued)

Gain-Loss Category	Central cities		Satellite cities		Urban counties		Total	
	CF	MC/DF	CF	MC/DF	CF	MC/DF	CF	MC/DF
Lose--subtotal	186	174	26	24	2	2	214	201
Total	362	362	152	152	73	73	587	587

Source: Computed from U.S. Department of Housing and Urban Development data for hold-harmless determinations and 1980 projections made for this study.

Applying the model cities/declining fund assumption, the number of declining communities drops to 201, a net change of only thirteen. Of the thirteen, twelve shift from losing to gaining; Salt Lake City goes from being a "loss" unit to the break-even point. The twelve communities that shift from loss to gain are: Detroit, Cleveland, Milwaukee, San Antonio, St. Louis, Columbus, San Jose, Tucson, Tacoma, Des Moines, Berkeley, Covington, Ky.

In addition to these shifts, the model cities/declining fund assumption results in a decline in the extent of loss for a number of jurisdictions. The number of recipients experiencing losses of 50 percent or more goes from 108 to eighty-five after the model cities adjustment.

At the other end of the spectrum, it can be seen from Table 5-9 that, under the formula system, 306 and 311 recipients under the two different approaches have gains in excess of 100 percent of their previous funding levels. These greatest gainers include the 179 communities that had received no categorical funding (88) or had received an annual base period average below $100,000 (91) in the hold-harmless base period. These data need to be read with some care. As an exaggerated example, if a city had received no categorical funding and then was allocated $1 under the formula, it would fall into the category of greatest gains. (The smallest projected allocation in these terms is $146,359 to Colonial Heights, Virginia, a city that had received no categorical funding during the 1968-72 period.)

Breaking down the gains and losses by community type, the central cities have the greatest number of losers. This situation is little affected by the model cities/declining fund assumption. Of the 214 losers under the constant funding assumption, 186 of these (87 percent) are central cities. (By comparison, central cities account for 62 percent of all entitlement jurisdictions.) The proportion of central city losers remains virtually the same under the model cities/declining fund assumption, with central cities accounting for 174 of the 201 losses (86 percent).

What is perhaps even more significant about central city losses is their regional distribution. It was shown earlier that, in dollar terms, the greatest central city losses were experienced by the New England and West North Central regions. When central cities' gains and losses are examined in terms of the number of jurisdictions involved, the New England and Middle Atlantic regions appear as the most adversely affected. The central cities of the West South Central, Mountain, and Pacific regions are the least adversely affected. As shown in Table 5-10, 73.5 percent of the central cities in the New England region are in the loser's category, as are 76.7 percent of central cities in the Middle Atlantic region.

Table 5-10. Gains and Losses among Central Cities, by Region, Using Constant Funding (CF) and Model Cities/Declining Fund (MC/DF) Models

Region	Number of central cities (1)	Losing central cities CF (2)	Percent of losing central cities CF (3)	Losing central cities MC/DF (4)	Percent of losing central cities MC/DF (5)
New England	34	26	76.5	26	79.4
Middle Atlantic	43	33	76.7	33	81.4
East North Central	64	35	54.7	31	48.4
West North Central	24	14	58.3	12	50.0
South Atlantic	61	31	50.8	31	52.5
East South Central	23	10	43.5	9	39.1
West South Central	53	15	28.3	14	26.4
Mountain	16	5	31.3	4	25.0
Pacific	44	17	38.6	14	31.9

Source: Computed from U.S. Department of Housing and Urban Development data for hold-harmless determinations and 1980 projections.

Combining the three regions of the northeast quadrant (New England, Middle Atlantic, and East North Central), ninety-four of the 141 central cities (66.7 percent) fall into the losers category. Under the model cities/declining fund assumption, the number of losses in the northeast quadrant declines to 90, or 63.8 percent, of the central cities. Viewed another way, these three regions include 39 percent of all central cities, but have 50.5 percent of the central cities that are losers under the constant funding assumption and 51.8 percent under the model cities/declining fund alternative. Conversely, the Mountain and Pacific regions with 16 percent of all central cities, have only 11.8 percent of the central city losers under the constant funding and 10.4 percent under model cities/declining fund assumptions.

While the central cities are the main losers, the reverse is true for satellite cities and urban counties. A total of 83 percent of the satellite cities have an increase under the constant funding assumption, rising to 84 percent under the model cities/declining fund alternative. Among the seventy-three urban counties, seventy-one (97.3 percent) gain under both calculations.

It needs to be repeated here that the number of losers and the extent of losses is reduced by increasing the amount of available funding in fiscal 1980. Under our assumption of $2.95 billion for fiscal year 1980, 214 jurisdictions lose in the terms of reference used here. If the 1980 amount is increased by $1 billion to $3.95 billion, the number of losers is reduced to 169, a drop of forty-five (Table 5-11).

Table 5-11. Gains and Losses among the 587 CDBG Entitlement Areas Using Constant Funding Assumption, by Type of Jurisdiction; Fiscal 1980 with $3.95 Billion Funding Level Compared with $2.95 Billion Level

Gain-loss category	Central cities		Satellite cities		Urban counties		Total	
	2.95 (billions of dollars)	3.95 (billions of dollars)	2.95 (billions of dollars)	3.95 (billions of dollars)	2.95 (billions of dollars)	3.95 (billions of dollars)	2.95 (billions of dollars)	3.95 (billions of dollars)
Gain 100 percent and over	125	144	114	117	67	68	306	329
Gain 50-100 percent	18	22	3	7	1	0	22	29
Gain 25-50 percent	8	19	3	3	0	3	11	25
Gain 10-25 percent	17	15	4	0	0	0	21	15
Gain To 10 percent	8	16	2	4	3	0	13	20
Gain--subtotal	176	216	126	131	71	71	373	418
Lose Up to 10 percent	13	8	1	2	0	0	14	10
Lose 10-25 percent	27	27	4	3	0	1	31	31
Lose 25-50 percent	53	58	7	11	1	0	61	69
Lose 50 percent	93	53	14	5	1	1	108	59

Table 5-11. (continued)

Gain-loss category	Central cities		Satellite cities		Urban counties		Total	
	2.95 (billions of dollars)	3.95 (billions of dollars)	2.95 (billions of dollars)	3.95 (billions of dollars)	2.95 (billions of dollars)	3.95 (billions of dollars)	2.95 (billions of dollars)	3.95 (billions of dollars)
Lose--subtotal	186	146	26	21	2	2	214	169
Total	362	362	152	152	73	73	587	587

Source: Computed from U.S. Department of Housing and Urban Development data for hold-harmless determinations and 1980 projections made for this study.

Of these forty-five losers, forty are central cities, and five are satellite cities. With the $3.95 billion projection for 1980, the central cities make up 86.4 percent of all losers. Over one-third of the central cities that continue to lose under the higher-funding assumption have losses exceeding 50 percent on the constant funding basis.

SUMMARY AND CONCLUSIONS

Projected CDBG allocations to 1980 show a general pattern of reducing the advantages of certain regions and types of communities as compared to the pre-existing grant system. To summarize these patterns:

1. On a regional basis, the most important shift is from the New England and Middle Atlantic regions to three southern regions -- South Atlantic, East South Central, and West South Central. The Pacific region also gains substantially under the formula. For the New England region this shift is particularly large, moving that region from the leading per capita grant position under the folded-in grants to the bottom per capita position under the CDBG formula. The distributional advantages gained by the southern regions are the result of their high incidence of overcrowded housing and poverty. In the case of the Pacific region, its improved allocation position is the result of the population factor and entitlements to formerly non-participating communities; its overcrowded housing and poverty factors are below the national mean.

2. At the metropolitan level, the CDBG program increases the dollar amount received, although the share of total funding to metropolitan areas declines -- from 87.4 percent under the folded-in programs to 80 percent under the block grant program. Within metropolitan areas, the principal

gainers under the CDBG program in 1980 are metropolitan discretionary communities and urban counties. The discretionary communities increase from $166 million per annum in the hold-harmless base period to a projected total of $628 million in 1980 under the CDBG program. Their share of metropolitan-area funds more than triples, from 9.1 to 28 percent. Urban counties' allocations increase from $67 million to $290 million, increasing their share of the metropolitan-area funds from 3.7 to 12.9 percent.

3. The principal disadvantages of the formula system within metropolitan areas accrue to central cities. Central cities collectively enjoyed considerable success obtaining federal assistance, receiving 71.8 percent of the total appropriation in the hold-harmless base period. This advantage, as noted earlier, derives largely from the fact that the folded-in programs were primarily directed at problems that are most severe in central cities -- physical deterioration (to which urban renewal was directed) and concentrated human service needs (addressed by model cities). Under the formula system, central cities, while remaining well above the national mean in per capita allocations, have their share of the total funds cut from 71.8 percent to 42.2 percent. Of the 362 central cities, half receive less funding in absolute dollar terms under the formula than they received under the folded-in programs, regardless of which of the two future funding assumptions applied above is used.

4. In terms of SMSA size, the formula is most disadvantageous to the sixty-three SMSAs in the medium size ranges, from 500,000 to 3 million. The declines occur for the 500,000 to 1 million group because

of their previous relatively high levels of funding under the folded-in programs; on the other hand, declines for the 1-3 million group result from their below-average levels of overcrowded housing and poverty. All other SMSA size groups improve their relative funding position, with the smallest SMSAs (those with populations under 100,000) deriving the greatest advantages from the formula allocations.

5. Either among SMSAs or within SMSAs, a general result that appears is the reduction of extremes in per capita allocations among recipients. This spreading or evening-out effect is seen in the compression of the index range between per capita allocations under the folded-in grants and the formula system. In absolute terms, the extremes between the highest and lowest CDBG entitlement jurisdictions are reduced from zero up to $338.13 per capita under the folded-in programs to between $6.84 and $50.93 under the formula system. As was observed toward the beginning of this chapter, this is the result of shifting from a project-grant approach of none for some, to a formula allocation system with some for all.

6. Discretionary jurisdictions (metropolitan and non-metropolitan) gain the most under the new legislation. Despite the formula allocation being the centerpiece of the CDBG program, 42 percent of the money, nearly $1.2 billion, is projected to be available for discretionary allocations in 1980. These funds are earmarked for smaller communities (under 50,000). Under the folded-in programs, communities in this size group collectively received $496 million or 22 percent. If the formula is fully implemented in 1980, this will produce a situation in which central city losses become small community gains.

7. Increasing the amount of money for the program without altering the allocation method changes the gain-loss calculations for individual recipients, of course, but it does not change the proportionate shares received by various recipient groups. An additional $1 billion for fiscal 1980 reduces by forty cities the number of central city losers. Increased funding does not resolve the more basic issue of relative allocation shares.

Leading into the discussion of formula alternatives in the next chapter, it should be stressed that the 587 CDBG formula entitlement communities are projected to receive less funding in the aggregate in 1980 under the formula than they received in the hold-harmless base period under the folded-in programs, declining from $1.66 billion to $1.61 billion. In sum, entitlement jurisdictions experience a 3 percent loss while discretionary communities have a 237 percent gain. The share of funds for the entitlement communities drops from 79.4 to 54.6 percent of the total appropriations.

The corollary to this summary conclusion is that small communities (with populations under 50,000) are the principal beneficiaries of the CDBG system as fully implemented. If one adds the projected urban county allocations to the discretionary funds under the assumption that a substantial portion of these funds will be spent in small communities, then the small-community allocation increases to nearly $1.5 billion, 52 percent of total CDBG funds. This means that all central city losses, plus nearly all of the supplementary funds under the CDBG program, go to small communities.

FOOTNOTES TO CHAPTER 5

1/ For this and subsequent analyses, the need factors are shown as index numbers with the national average equal to 100. The index method shows directly the relationship of the disaggregated need factors to the national figure and between the various groupings of recipients.

2/ Richard P. Nathan and Charles Adams, "Understanding Central City Hardship," Political Science Quarterly, Vol. 91, No. 1, Spring 1976, pp. 47-62.

3/ The hardship index is derived from six factors available from the 1970 census: unemployment (percent of civilian labor force unemployed); dependency (persons under eighteen years of age or over sixty-four as a percent of total population); income level (per capita income); crowded housing (percent occupied housing units with more than one person per room); poverty (percent of families below 125 percent of low income level). From these factors a standardized hardship index was developed. An index figure over 100 means that a central city is disadvantaged in comparison with the balance of its SMSA; the higher the figure, the greater the disadvantage. A figure under 100 denotes that, on balance, the central city is better off than its suburbs in relation to these six measures. The "worst-off" cities are defined as those with an index greater than 200.

4/ George E. Peterson, "Finance," in William Gorham and Nathan Glazer, (eds.), The Urban Predicament (The Urban Institute, 1976), pp. 35-118.

CHAPTER 6

FORMULA ALTERNATIVES

The preceding analysis, with its acknowledged urban focus, demonstrates to the authors of this report that the distribution formula in the CDBG program needs to be revised. This view is shared by others, including officials who have participated in the creation and implementation of this block grant program. Assistant Secretary David Meeker of HUD has expressed the view that changes in the allocation system should be considered.[1/] The Advisory Commission on Intergovernmental Relations has recommended that the allocation system be amended to give more equitable treatment to "older deteriorating cities and small communities in metropolitan areas." [2/] The Congress, perceiving that the initial allocation system might require changes, ordered a study in the law itself of the impact of the formula to be completed by March 31, 1977.[3/]

It is apparent in Chapters 2 and 5 that both the Executive Branch and Congress, in adopting the block grant approach for community development, sought not only to reduce the administrative complexity inherent in the folded-in grant programs, but also to distribute grant funds to a greater number of recipient jurisdictions and on a basis that reduced the funding extremes among recipients. These preconceptions about spreading out federal assistance for community development have important implications for any consideration of alternative formulas. They have been taken into account in our consideration of the range and nature of options set forth in this chapter. While the shares of different classes and types of recipients are in some cases significantly varied, we have concentrated on formula alternatives that need not bring about a significant reduction in the total number of entitlement and discretionary recipients and that are generally consistent with the intent of the framers of the program to avoid extreme differences in per capita allocations to formula-entitlement units.

FORMULA CRITERIA AS MEASURES OF NEED

Two key issues emerge from the application of the CDBG formula. First, how valid are the present formula criteria as measures of community development need? And second, given the high percentage of SMSA discretionary funds remaining after the formula distributions, how well directed is the CDBG allocation system toward solving urban problems?

Answers to these questions involve both conceptual and political judgements. The starting point of this analysis of alternative formulas is the present formula criteria -- population, overcrowded housing, and poverty.

We start off assuming that the population criterion is useful; it can be argued that a population factor is an essential element in an urban focus. On the other hand, it must be recognized that population contributes materially to the spreading or distributive effect of the CDBG program. Even if a satellite city with a population over 50,000 had no overcrowded housing and no poverty (and for some satellite cities this is nearly the case), this city would still receive an entitlement based on population. In one alternative formula presented below, we have omitted the population factor to show the effect on distributions.

Reviewing the second two formula elements, the poverty criterion is more complicated. The CDBG program is not advertised by its proponents primarily as a means to eliminate poverty. The program is, however, aimed at alleviating the conditions of physical blight that accompany poverty. Viewed from the local level, poverty-impacted communities tend to spend a higher proportion of their budgets on services for the poor while deriving relatively fewer tax dollars from this group. In sum, the poverty index can be said to serve as a statistical proxy for both physical and fiscal need.

The overcrowded housing criterion is in our view the most questionable of the three formula factors. The extent of poverty and overcrowded housing are closely associated (a correlation coefficient of .6411). Here the correlation measures the percentage of persons below the poverty line established by the Office of Management and Budget and the percentage of overcrowded housing in entitlement areas. This suggests that overcrowded housing tends to result from a lack of personal income. It might, therefore, be argued that overcrowded housing can be best and most directly remedied through income transfers and social services and is only indirectly related to community development needs. To state the point another way, given the association between overcrowded housing and poverty, the overcrowded housing factor has the effect of further weighting the poverty criterion. If this is the result desired, it might be simpler to accomplish it directly by increasing the weighting of the poverty factor three times, for instance, instead of twice as it now stands in the current CDBG formula.

What is missing from the formula is some specific measures of physical need to serve as an index of the condition of a community's physical environment -- such as streets, curbs, sewers, as well as actual dwellings. For this aspect of community development need, one statistical indicator in the 1970 census that can be used for this purpose is the amount of housing stock built prior to 1939. Not all housing built before 1939 is deteriorated or deteriorating, but the age of housing is, in our view, quite clearly linked to the rehabilitation needs of urban communities and to the physical development purpose of the CDBG program.

The age-of-housing factor is particularly relevant to the needs of central cities, especially the neediest cities of the northeast quadrant (the Northeast and East North Central regions combined.) 4/ The fourteen worst-off central cities on the hardship index discussed in Chapter 5 have an average of 60.9 percent of their housing stock built prior to 1939. At the other end of the index, the ten best-off central cities had a pre-1939 housing average of 27.3 percent. We see this relationship as highly supportive of the inclusion of an age factor in the allocation formula.

There is, furthermore, no significant correlation between the extent of poverty and pre-1939 housing (coefficient of .1249); thus pre-1939 housing measures a factor that we believe is important in terms of physical urban development need and that is clearly different from the poverty factor.

Another possible formula factor that we considered as a measure of physical development need is substandard housing. In the 1960 census, data were collected on housing conditions. Advisors to the Census Bureau, however, considered them too subjective; the classification "sound" or "unsound " was based on the judgment of individual census-takers. As a result, in the 1970 census the concept of housing condition was narrowed to refer specifically to the absence of indoor plumbing. 5/ This is an inadequate indicator of structural condition for purposes of analyzing CDBG formula alternatives. Like overcrowded housing, lack of indoor plumbing is closely associated with poverty (coefficient of .7015) and thus would tend (as in the case of overcrowded housing) to do little more than give further weight to the poverty factor.

In light of this discussion, three approaches emerge for designing possible formula alternatives:

1. Reweight the existing criteria, for example, by assigning equal weight to the three formula elements, eliminating the double weight given to poverty. While this approach marginally adjusts advantages and disadvantages under the present formula, it does not deal with the more basic issue of the validity of the existing formula factors. Another approach, while not strictly a reweighting, is to eliminate one factor, for example, the overcrowded housing factor. A key point to consider about reweighting is that reducing the weight of the poverty factor directly, or indirectly through the elimination of the overcrowded housing factor, gives greater weight to population. Since population is a significant contributor to the distributive effect of the formula, this approach undermines the idea of an urban focus. On the other hand, the reweighting approach can also be used to give greater

emphasis to the poverty factor, by tripling or in some other way increasing its importance.

2. Substitute criteria in the existing formula, for example, by replacing the overcrowded housing factor with a community-age factor measured by the extent of pre-1939 housing. This approach seeks to add a physical element to the measure of need.

3. Combine the reweighting and substitution approaches, for example, into a four-factor formula that incorporates population, poverty, overcrowded housing, and pre-1939 housing stock.

The kinds of formula changes just reviewed produce the three general effects for entitlement areas. Giving greater weight to population primarily benefits satellite cities and urban counties, particularly in the populous northeast quadrant and in California. Giving greater weight to poverty and/or overcrowded housing aids the southern regions and central cities in general. Adding a pre-1939 housing factor significantly shifts allocations toward the northeast quadrant and toward the central cities. These general patterns of effect are suggested by the index data in Table 6-1. The following section looks at the effects of various different formula alternatives in more detail.

Table 6-1. Indices of Overcrowded Housing*, Poverty, and Extent of Pre-1939 Housing, by Region and by Community Type

Region	*OVH index	Poverty index	Pre-1939 housing index
New England	109	89	158
Middle Atlantic	96	96	143
East North Central	92	85	120
West North Central	92	88	107
South Atlantic	103	122	65
East South Central	112	147	74
West South Central	128	137	56
Mountain	95	96	55
Pacific	96	86	68
<u>Community type</u>			
U.S.	100	100	100
Central cities	114	108	122
Satellite cities	84	53	70
Urban counties[a/]	80	51	55

Source: Indices calculated from data used by the U.S. Department of Housing and Urban Development in making first-year allocations. Pre-1939 indices based on data from <u>1970 Census of Housing, Detailed Housing Characteristics</u>, Series HC(1)B, Table 35.

[a/] The pre-1939 housing index for urban counties is based on an imputed number derived by assigning to urban counties by region, the same percentage of pre-1939 housing units outside of central and satellite cities as the urban county percentage of SMSA population outside of central and satellite cities.

EIGHT ALTERNATIVE FORMULAS

Eight alternative formulas are examined in this section. The first five (A through E) involve the reweighting or elimination of factors in the current formula. The other three (F through H) involve different ways of adding the pre-1939 housing factor. We regard these eight alternatives as illustrative and necessary to make certain points. After presenting them, we follow in the next section of this chapter with a ninth alternative, which in our view has the most to recommend it as an approach for revising the current law.

A -- equal weighting of existing criteria -- population, overcrowded housing, and poverty -- eliminating the double weighting of poverty in the existing formula.

B -- population and poverty, equally weighted, with the overcrowded housing factor eliminated.

C -- population and poverty only, weighting poverty five times.

D -- overcrowded housing and poverty, equally weighted, with the population criterion eliminated.

E -- population only.

F -- four criteria -- population, overcrowded housing, poverty, and pre-1939 housing -- equally weighted.

G -- three factors -- population, poverty, and pre-1939 housing -- equally weighted.

H -- three factors -- population, poverty, and pre-1939 housing with the housing-age factor weighted twice.

The regional impact in 1980 of the reweighting alternatives A through E is shown in Table 6-2. The dollar amounts for this table and Table 6-3 are based on a fiscal year 1980 funding level of $2.95 billion. For those who would argue that a higher funding level can be assumed, allocations based on a $3.95 billion assumption can be derived by increasing the dollar amounts by one-third; the shares remain unchanged.

Table 6-2. Projected Distributions to Entitlement Areas and Metropolitan Discretionary Communities under Reweighting Alternative Formulas A-E, by Region, Projected Fiscal Year 1980

Region	CDBG (millions of dollars)	Percent of total	A (millions of dollars)	Percent of total	B (millions of dollars)	Percent of total	C (millions of dollars)	Percent of total	D (millions of dollars)	Percent of total	E (millions of dollars)	Percent of total
U S (SMSAs)												
Entitlement[a/]	1,612	72	1,608	71.9	1,604	71.8	1,613	72 7	1,618	72.6	1,582	70.6
Discretionary[b/]	628	28	629	28.1	629	28.2	606	27.3	611	27.4	658	29.4
Total[c/]	2,240	100	2,237	100	2,233	100	2,219	100	2,229	100	2,240	100
New England												
Entitlement	67	4.2	67	4.2	70	4.4	68	4.2	64	4.0	72	4.5
Discretionary	44	7.0	47	7.4	48	7.6	39	6.3	39	6.3	62	9.5
Total	111	5.0	114	5.1	118	5.3	107	4.8	103	4.6	134	6.0
Middle Atlantic												
Entitlement	348	21.6	349	21 7	349	21.8	346	21.4	347	21.4	352	22.3
Discretionary	104	16.6	107	17.1	116	18.4	98	16.2	90	14 7	142	21.5
Total	452	20.1	456	20.4	465	20.8	444	20.0	437	19.6	494	22 1
East North Central												
Entitlement	295	18.3	301	18.7	299	18.6	284	17.6	291	18 0	318	20.1
Discretionary	114	18.2	121	19.3	116	18.4	98	16.1	110	18.0	143	21.8
Total	409	18.3	422	18.9	415	18.6	382	17.2	401	18 0	461	20.6
West North Central												
Entitlement	84	5.2	84	5.2	85	5.3	82	5.1	82	5 1	88	5 6
Discretionary	36	5.8	38	6.0	25	5.6	31	5 2	36	5.9	41	6 2
Total	120	5.4	122	5.5	120	5.4	113	5.1	118	5.3	129	5 8
South Atlantic												
Entitlement	221	13.7	216	13.4	218	13.6	232	14 4	225	13.9	198	12.5
Discretionary	115	18.3	112	17.8	113	18.0	117	19.3	114	18 7	107	16 2
Total	336	15.0	328	14.6	331	14.8	349	15.8	339	15 2	305	13.6

Table 6-2. (continued)

Region	CDBG (millions of dollars)	Percent of total	A (millions of dollars)	Percent of total	B (millions of dollars)	Percent of total	C (millions of dollars)	Percent of total	D (millions of dollars)	Percent of total	E (millions of dollars)	Percent of total
East South Central												
Entitlement	75	4.6	41	4.4	73	4.5	83	5.2	78	4.8	58	3.7
Discretionary	58	9.1	52	8.3	54	8.6	64	10.6	59	9.7	37	5.6
Total	133	5.9	123	5.5	127	5.7	147	6.6	137	6.1	95	4.2
West South Central												
Entitlement	183	11.3	176	11.0	170	10.6	191	11.8	195	12.0	142	9.0
Discretionary	81	12.9	76	12.0	75	11.9	87	14.4	85	14.0	54	8.3
Total	264	11.8	252	11.2	245	11.0	278	12.5	280	12.6	196	8.7
Mountain												
Entitlement	51	3.2	51	3.2	51	3.2	51	3.2	50	3.1	51	3.2
Discretionary	23	3.6	23	3.7	21	3.4	21	3.5	24	3.9	21	3.2
Total	74	3.3	74	3.3	72	3.2	72	3.3	74	3.3	72	3.2
Pacific												
Entitlement	288	17.9	293	18.2	289	18.0	276	17.1	286	17.7	303	19.1
Discretionary	53	8.5	53	8.4	51	8.1	51	8.4	54	8.8	51	7.7
Total	341	15.2	346	15.5	340	15.2	327	14.7	340	15.3	354	15.8

Source Calculated from data used by the U. S. Department of Housing and Urban Development in making first-year CDBG allocations.

a/ The entitlement area totals differ because of reweighting or substitution of criteria at the same time reallocates discretionary funds.

b/ The discretionary calculations do not take into account the population, poverty, and overcrowded housing of hold-harmless communities that will be added to SMSA discretionary areas Thus, the regional discretionary allocations may change somewhat, the dollar figures here are based on data balances for years 1-3 and thus are only approximations

c/ Metropolitan totals vary because of the effects of reweighting and substitution on the allocations to the four metropolitan areas of Puerto Rico which are not included in the dollar totals but whose population, overcrowded housing, and poverty counts are included in the data elements.

Table 6-3, based on the same overall funding assumption, presents the projected 1980 distribution under the alternative formulas F through H, with the pre-1939 housing factor.

Table 6-3. Projected Distributions to Entitlement Areas and Metropolitan Discretionary Communities with Pre-1939 Housing Alternative Formulas F-H, by Region; Projected Fiscal Year 1980

Region	CDBG (millions of dollars)	Percent of total	F[a] (millions of dollars)	Percent of total	G[a] (millions of dollars)	Percent of total	H[a] (millions of dollars)	Percent of total
U.S. (SMSAs)								
Entitlement[b]	1,612	72	1,666	74.6	1,680	73.3	1,719	76.9
Discretionary[c]	628	28	569	25.4	552	24.7	515	23.1
Total[d]	2,240	100	2,235	100	2,232	100	2,234	100
New England								
Entitlement	67	4.2	82	4.9	89	5.3	100	5.8
Discretionary	44	7.0	52	9.2	55	10.0	57	11.1
Total	111	5.0	134	6.0	144	6.5	157	7.0
Middle Atlantic								
Entitlement	348	21.6	404	24.3	423	25.2	462	26.9
Discretionary	104	16.6	118	20.8	127	23.0	130	25.3
Total	452	20.1	522	23.4	550	24.7	592	26.5
East North Central								
Entitlement	295	18.3	332	19.9	341	20.3	363	21.1
Discretionary	114	18.2	117	20.5	112	20.3	110	21.3
Total	409	18.3	449	20.1	453	20.3	473	21.2
West North Central								
Entitlement	84	5.2	93	5.7	97	5.8	103	6.0
Discretionary	36	5.8	33	5.8	30	5.4	28	5.3
Total	120	5.4	126	5.6	127	5.7	131	5.9
South Atlantic								
Entitlement	221	13.7	202	12.1	198	11.8	187	10.9
Discretionary	115	18.3	87	15.3	81	14.6	66	12.9
Total	336	15.0	289	12.9	279	12.5	253	11.3
East South Central								
Entitlement	75	4.6	67	4.0	66	3.9	62	3.6
Discretionary	58	9.1	42	7.4	40	7.3	34	6.7
Total	133	5.9	109	4.9	106	4.7	96	4.3

Table 6-3 (continued)

Region	CDBG (million of dollars)	Percent of total	F (million of dollars)	Percent of total	G (million of dollars)	Percent of total	H (million of dollars)	Percentage of total
West South Central								
Entitlement	183	11.3	159	9.5	148	8.8	136	7.9
Discretionary	81	12.9	58	10.2	53	9.5	43	8.3
Total	264	11.8	217	9.7	201	9.0	179	8.0
Mountain								
Entitlement	51	3.2	47	2.8	46	2.7	43	2.5
Discretionary	23	3.6	18	3.2	15	2.8	13	2.5
Total	74	3.3	65	2.9	16	2.7	56	2.5
Pacific								
Entitlement	288	17.9	280	16.8	272	16.2	263	15.3
Discretionary	53	8.5	44	7.6	39	7.1	34	6.6
Total	341	15.2	324	14.5	311	13.9	297	13.3

Source: Calculated from data used by the U.S. Department of Housing and Urban Development in making first-year allocations. Data on pre-1939 housing is from _1970 Census of Housing, Detailed Housing Characteristics_, Series HC(1)B, Tables 35, 43, and 62. Township housing data is from _1970 Census of Population and Housing, Census Tracts_, Series PHC(1), Table H-2.

a/ The urban county amounts incorporated into the regional totals are based on an imputed number of pre-1939 housing units.

b/ The entitlement area totals differ because of reweighting or substitution of criteria at the same time reallocates discretionary funds.

c/ The discretionary calculations do not take into account the population, poverty and overcrowded housing of hold harmless communities that will be added to SMSA discretionary areas. Thus, the regional discretionary allocations may change somewhat; the dollar figures here are based on data balances for years 1-3 and thus are only approximations.

d/ Metropolitan totals vary because of the effects of reweighting and substitution on the allocations to the four metropolitan areas of Puerto Rico which are not included in the dollar totals but whose population, overcrowded housing, and poverty counts are included in the data elements. The pre-1939 housing data for Puerto Rico was not included in the data elements for Alternatives F, G, and H.

Reweighting the Criteria

Any alternatives that adjust the weight in favor of population (alternatives A, B, and E) benefit the northeast quadrant and disadvantage the three southern regions. The converse is true when poverty and/or overcrowded housing are weighted more heavily (alternatives C and D). The differential regional effects from adjusting the formula in favor of population or poverty are shown in Table 6-4, which compares the net result from the two most sharply differentiated formulas, alternatives C and E.

Table 6-4. Allocation Changes Comparing the Existing Formula under the Alternative Formulas Most Heavily Biased in Favor of Population and Poverty, Alternatives E and C, by Region; All Entitlement and Metropolitan Discretionary Funds

Region	E (population bias); percent change in allocations	Percent change in shares	C (poverty bias); percent change in allocations	Percent change in shares
New England	+20.7	+ .3	- 3.6	...
Middle Atlantic	+ 9.3	+ .7	- 1.8	- .2
East North Central	+12.7	+1.8	- 6.6	- .7
West North Central	+ 7.5	+ .4	- 5.8	- .1
South Atlantic	- 9.2	-1.2	+ 3.9	+ .7
East South Central	-28.6	- .9	+10.5	+ .6
West South Central	-25.8	- 2.3	+ 5.3	+ .5
Mountain	- 2.7	...	- 2.7	...
Pacific	+ 3.8	+ 1.2	- 4.1	- .8

Source: Calculated from Table 6-1.

Despite the fact that there are shifts among the regions under these two alternatives, their shares are not significantly altered. Altogether, alternative E (population only) results in a 2.8 percent increase in the combined share of the heavily populated northeast quadrant; alternative C (which weights the poverty factor five times) results in only a 1.8 percent increase in the combined share of the three southern regions, where the incidence of poverty is highest.

As can be seen from Table 6-2, alternatives A, B, and D result in even smaller shifts among regions. It must be emphasized, though, that regional reallocations obscure significant changes for individual entitlement areas. Examples of projected allocations for selected cities, varied by region and size, are shown in Table 6-5. (See Appendix IV at the back of this report for a listing of projected allocations for all entitlement jurisdictions under the various alternatives.)

Table 6-5. Examples of Allocations to Twenty-four Selected Cities under Formula Alternatives, by Region; Projected Fiscal Year 1980

City	CDBG	Alternative allocations (in thousands of dollars) A	B	C	D	E	F	G	H
Northeast									
New York, N.Y.	153,850	152,843	138,771	150,000	170,000	122,000	172,000	169,000	185,000
Chicago, Ill.	62,870	62,215	58,285	62,500	67,600	52,100	72,000	72,600	80,200
Detroit, Mich.	26,525	25,500	26,500	28,700	26,500	23,400	29,400	31,500	34,200
Indianapolis, Ind.	10,800	11,100	10,700	9,960	10,800	11,500	11,600	11,500	11,900
Grand Rapids, Mich.	2,850	2,735	3,150	3,200	2,530	3,100	3,370	3,880	4,260
Camden, N.J.	2,260	2,068	2,188	2,630	2,330	1,590	2,320	2,490	2,650
Newton, Mass.	790	851	1,044	748	521	1,410	1,200	1,460	1,690
Lincoln Park, Mich.	648	730	623	465	673	819	661	561	525
South									
Houston, Tex.	22,530	22,330	21,040	22,400	24,100	19,100	19,600	17,800	15,900
Atlanta, Ga.	11,200	10,560	10,300	12,200	12,100	7,690	9,770	9,300	8,730
Jacksonville, Fla.	10,060	9,470	9,980	11,300	10,100	8,180	8,470	8,470	7,630
Richmond, Va.	4,840	4,520	4,790	5,480	4,880	3,860	4,670	4,910	4,970
San Benito, Tex.	744	646	616	905	879	235	551	497	430
Pasadena, Tex.	1,080	1,190	1,090	851	1,070	1,380	966	819	671
Garland, Tex.	844	965	897	606	788	1,260	775	661	530
Miami Beach, Fla.	2,090	2,040	1,756	2,060	2,430	1,350	1,980	1,750	1,740
West									
Los Angeles, Calif.	49,650	49,690	46,450	48,300	52,900	43,400	48,900	46,400	46,200
San Francisco, Calif.	12,560	12,380	12,100	12,800	13,000	11,100	15,700	16,700	19,100
Phoenix, Ariz.	9,510	9,630	9,110	9,110	9,920	8,990	8,170	7,290	6,230
Boise City, Idaho	993	986	1,100	1,040	879	1,160	1,010	1,100	1,100
Provo, Utah	1,070	994	1,050	1,220	1,090	821	892	896	810
Compton, Calif.	2,050	2,060	1,580	1,850	2,540	1,220	1,700	1,230	1,030
San Mateo, Calif.	821	871	972	769	662	1,220	834	892	846
Aurora, Colo.	760	823	890	672	622	1,160	670	663	535

Source: Computed from U.S. Department of Housing and Urban Development data and field research data.

Focusing on CDBG and alternative H (population, poverty, and pre-1939 housing weighted twice), the table shows that significant gains are made by the cities in the Northeast. Seven of the eight example cities in the northeast gain funds under the formula alternatives with the pre-1939 housing factor; New York City gains more than $31 million under alternative H, an increase of 20 percent. But not all northeast entitlement areas gain with the housing-age factor; Lincoln Park, Michigan, a suburb of Detroit, is an example of a satellite city that loses under two of the alternatives with the pre-1939 housing criterion.

The opposite pattern is found under alternative H in the southern regions. Of the eight southern cities listed, seven lose while the eighth, Richmond, Virginia, gains only slightly. A major loser is Houston, Texas, whose allocation decreases by $6.6 million, a drop of 30 percent. Many of the southern cities, such as Houston and Atlanta, are old cities but their major growth has come in recent years and thus their proportion of older housing tends to be low. Atlanta's population grew from 302,000 in 1940 to 497,000 in 1970, an increase of 65 percent. (The national population growth during the same period was 54 percent.) Houston's population grew from 385,000 in 1940 to more than 1.2 million in 1970, an increase of 320 percent. (By contrast, New York City's population increased only 6 percent during this period.)

The western cities in Table 6-5 show a mixed picture, three of the eight cities gaining with a pre-1939 housing factor. The greatest gain is made by San Francisco, an older city with a slow growth rate. San Francisco's population went from 635,000 in 1940 to 716,000 in 1970, an increase of only 13 percent in thirty years. Phoenix, on the other hand, loses about one-third of its funds with the pre-1939 housing factor added, because it is a newer city with a rapid growth rate; its population grew from 65,000 in 1940 to 582,000 in 1970, an increase of nearly 800 percent.

In terms of community type, the impact of the reweighting alternatives upon the central cities is appreciable, as can be seen from Table 6-6.

Table 6-6. Projected Distributions to CDBG Entitlement and Metropolitan Discretionary Areas under Alternative Allocation Formulas A-D, by Community Type; Projected Fiscal Year 1980

Community type (SMSAs)	CDBG (millions of dollars)	Percent of total	A (millions of dollars)	Percent of total	B (millions of dollars)	Percent of total	C (millions of dollars)	Percent of total	D (millions of dollars)	Percent of total	E (millions of dollars)	Percent of total
U.S. total (SMSAs*)	2,240	100	2,237	100	2,233	100	2,219	100	2,229	100	2,240	100
Central cities	1,182	52.8	1,151	51.5	1,146	51.3	1,233	55.6	1,219	54.7	1,018	45.4
Satellite cities	140	6.3	148	6.6	149	6.7	124	5.6	130	5.8	178	7.9
Urban counties	290	12.9	309	13.8	309	13.8	256	11.5	269	12.1	386	17.3
SMSA discretionary	628	28.0	629	28.1	629	28.2	606	27.3	611	27.4	658	29.4

Source Calculated from Table 6-2.

* Metropolitan totals vary because of the effects of reweighting and substitution on the allocations to the four metropolitan areas of Puerto Rico which are not included in the dollar totals but whose population, overcrowded housing, and poverty counts are included in the data elements. The pre-1939 housing data for Puerto Rico was not included in the data elements for alternatives F, G, and H.

Under the population-allocation formula (alternative E),the central-city share declines by more than 7 percent. The reason for this is clear: within metropolitan areas, the populations of central cities have been declining. The distribution of population within SMSAs is particularly important, because HUD will be updating the population criterion beginning in year three of the CDBG program. (This population updating and its effects are discussed in Appendix VI at the back of this report.) As might be expected, the same factors that disadvantage the central cities generally advantage the satellite cities and urban counties.

Central cities are also aided by increasing the same factors that favor the southern regions--overcrowded housing and poverty. Under alternative C (poverty weighted five times), the central city share increases by 2.8 percent.

We are also interested in the shifting proportions of entitlement and SMSA discretionary funds that would result from reweighting the present formula factors. As shown in Table 6-7, reweighting has little effect on the aggregate within-SMSA distribution of entitlement and discretionary shares. The largest change in discretionary funds is 1.4 percent under alternative E--population alone--from 28 percent under CDBG to 29.4 percent.

Table 6-7. Projected Percentage Proportions to Aggregate CDBG Entitlement and Discretionary Areas under Formula Alternatives A-E; Projected Fiscal Year 1980

Areas by type (SMSA total= 100)	CDBG	A	B	C	D	E
Entitlement areas as percent of SMSA total	72	71.9	71.8	72.7	72.6	70.6
Discretionary funds as percent of SMSA total	28	28.1	28.2	27.3	27.4	29.4

Source: Computed from Tables 6-2 and 6-3.

A Substitute Criterion: Pre-1939 Housing

To this point, most of the consideration of alternative formulas has focused on reweighting and/or eliminating certain existing formula factors. The analysis in this section focuses on alternative H, which adds and double weights the pre-1939 housing factor. It should be noted, however, that alternatives F and G also incorporate the pre-1939 housing factor, although under these two alternatives the reallocation effects are less marked than under alternative H, because the housing criterion is given less weight. The projected impact of formula alternative H is shown in Table 6-8.

Table 6-8. Gain/Loss Effects of Formula Alternative H; by Region

Region	Percent change in allocations CDBG formula	Percent change in shares
New England	+41.4	+2.0
Middle Atlantic	+31.0	+6.4
East North Central	+15.6	+2.9
West North Central	+ 9.2	+ .5
South Atlantic	-24.7	-3.7
East South Central	-27.8	-1.6
West South Central	-32.2	-3.8
Mountain	-24.3	- .8
Pacific	-12.9	-1.9

Source: Computed from Table 6-3.

As shown below, the three regions of the northeast quadrant gain by 11.3 percent under alternative H. The three southern regions decline by 9.1 percent. The two "newest" regions (Mountain and Pacific) decline by 2.7 percent. The alternative formulas would yield the following percentage allocations to these areas:

	CDBG	Formula Alternatives A	B	C	D	E	F	G	H
Northeast quadrant	43.4	44.4	44.7	42.0	42.2	48.7	49.5	51.5	54.7
Southern regions	32.7	31.3	31.5	34.9	33.9	26.5	27.5	26.2	23.6
Mountain and Pacific regions	18.5	18.8	18.4	18.0	18.6	19.0	17.4	16.4	15.8

The pre-1939 housing factor also affects the allocations among community types within metropolitan areas (Table 6-9).

Table 6-9. Projected Distributions to CDBG Entitlement and Metropolitan Discretionary Areas under Alternative Allocation Formulas E-H, by Community Type; Projected Fiscal Year 1980

Community type (SMSAs)	CDBG (millions of dollars)	Percent of total	F (millions of dollars)	Percent of total	G (millions of dollars)	Percent of total	H (millions of dollars)	Percent of total
U.S. (total SMSAs[a/])	2,240	100	2,235	100	2,232	100	2,234	100
Central cities	1,182	52.8	1,222	54.7	1,242	55.6	1,291	57.8
Satellite cities	140	6.3	149	6.7	148	6.6	148	6.6
Urban counties	290	12.9	295[b/]	13.2	290[b/]	13.0	280[b/]	12.5
SMSA discretionary	628	28.0	569	25.4	552	24.7	515	23.1

Source: Computed from Tables 6-2 and 6-3.

a/ Metropolitan totals vary because of the effects of reweighting and substitution on the allocations to the four metropolitan areas of Puerto Rico which are not included in the dollar totals but whose population, overcrowded housing, and poverty counts are included in the data elements. The pre-1939 housing data for Puerto Rico was not included in the data elements for alternatives F, G, and H.

b/ The urban county allocations are based on imputed figures to show the relative shift in shares under the various alternatives. The dollar figures and the percentages thus do not represent actual projected dollar amounts or resultant percentages.

Satellite cities gain slightly under the housing-age alternatives. Urban counties increase under two of the three housing-age alternatives, F and G. Central cities have a five percentage point increase in their share (a 9.2 percent increase in dollars) under alternative H. This increase is not at the expense of satellite cities or urban counties. The central city gains come from the metropolitan discretionary funds because of the higher incidence of older housing within entitlement jurisdictions as a whole, compared to the units eligible for SMSA discretionary funds.

It must be emphasized, however, that the central city gains are highly differentiated by region as is shown in Table 6-10, comparing central city allocations regionally under the existing CDBG formula and alternative H.

Table 6-10. Comparison of CDBG Allocations with Alternative H among Central Cities, by Region; Projected Fiscal Year 1980

Region	CDBG (millions of dollars)	Percent of total	H (millions of dollars)	Percent of total	Dollar change (millions of dollars)	Percent change in shares
U. S. total	1,182	100	1,291	100	+109	...
New England	58	4.5	78	6.0	+ 20	+1.5
Middle Atlantic	259	21.9	341	26.4	+ 82	+4.5
East North Central	220	18.6	277	21.5	+ 57	+2.9
West North Central	64	5.4	85	6.6	+ 21	+1.2
South Atlantic	160	13.5	141	10.9	- 19	-2.6
East South Central	67	5.7	55	4.3	- 12	-1.4
West South Central	165	14.0	123	9.5	- 42	-4.5
Mountain	43	3.6	37	2.9	- 6	- .7
Pacific	151	12.8	154	11.9	+ 3	- .9

Source: Computed from Table 6-3 and central city computations.

Central cities of the northeast region gain substantially in the aggregate under alternative H; central cities of the South and West, on the other hand, lose significantly. Boston, for example, gains under alternative H by 47.4 percent, a dollar increase to $17.1 million in contrast to $11.6 million under the present formula. Phoenix, however, has a substantial drop of 23.2 percent, a dollar reduction to $7.3 million from $9.5 million under the present formula.

Noteworthy also is the effect of the housing-age factor on the metropolitan discretionary fund. Under the reweighting alternatives A through E, there is little shift among entitlement and SMSA discretionary shares. There is, though, a significant reallocation among the entitlement and discretionary shares when the pre-1939 housing factor is used. When this criterion is double-weighted, as in alternative H, the metropolitan entitlement share increases from $1,612 million to $1,719 million, an increase of 4.7 percent. Conversely, the metropolitan discretionary fund is reduced from $628 million to approximately $515 million, or a decline from 28 to 23.3 percent of total SMSA funds. Because of the imputed values of pre-1939 housing for urban counties, this could vary, although the variation is likely to be small.

SMSA Discretionary Funding

It has been suggested throughout this analysis of distributional effects and formula issues that the metropolitan discretionary share, projected to be 28 percent of all SMSA funds in fiscal 1980, is too large. It has been shown also that a reweighting and/or omission of certain existing formula factors has relatively little effect on the share of metropolitan discretionary funds. Introducing the pre-1939 housing criterion reduces SMSA discretionary funds, but even when this factor is given a double weight there is only a 4.7 decrease in discretionary funds.

This analysis of discretionary funding is confined to the metropolitan discretionary funds and does not include the 20 percent share of total CDBG funds earmarked for discretionary allocation outside of metropolitan areas. While these non-metropolitan recipients are also under 50,000 in population, there are significant differences in their role and functions.

Small non-metropolitan communities are in many instances the economic, political, and social centers for their surrounding rural areas. On the other hand, a community of similar size in a metropolitan area is usually an adjunct to a central or satellite city of a metropolitan area.

Although we have concentrated so far on the metropolitan discretionary funds, the non-metropolitan share of CDBG funds also raises an important policy issue. Non-metropolitan areas gain substantially under the CDBG program, increasing their share from 12.6 of the funds distributed under the folded-in grants to the 20 percent mandated in current law. In fact, the non-metropolitan areas have a higher incidence of both overcrowded housing and poverty than do the metropolitan areas. If the CDBG funds were divided between the metropolitan and non-metropolitan areas on the basis of the formula criteria, the non-metropolitan share would be 35 percent.

The issue of the proper proportion of discretionary funds within SMSAs involves both its discretionary aspect and its impact on small communities. Although the CDBG system is founded on the formula approach, under this program, as explained earlier, discretionary allocations for metropolitan areas increase in 1980 to a projected $628 million, or 28 percent of all metropolitan-area funds. For those who would not favor this outcome, one solution is to lower the population threshold. For example, make all metropolitan communities with populations of 25,000 eligible as entitlement communities. This would result in less discretionary money remaining after the formula allocations.

Within the urban focus of this study, however, the discretionary-funds issue also raises the question of spreading effects. By lowering the entitlement population threshold, the proportion of discretionary funds is reduced, but nothing is done to provide a greater share of total resources to the largest and most densely populated communities, particularly central cities.

A direct approach to this issue is to limit arbitrarily the amount of funds for discretionary distribution. For example, the discretionary allocation for small metropolitan communities could be set at 15 percent; this would be $336 million in the 1980 projection instead of $628 million as projected under the present system. Such a 15 percent limit on SMSA discretionary funds would still double the amount of funds distributed among CDBG discretionary cities, which under the folded-in grants collectively received an annual average of $166 million in the 1968-72 hold-harmless base period.

Although a 15 percent limit would increase the share of the larger and more densely populated entitlement communities, this approach has an important limitation. While directing more funds to entitlement communities as a whole, it would also add to the allocations of less-needy entitlement areas. Of the $292 million in additional funds that would go to entitlement areas, approximately $135 million (46 percent) would go to satellite cities and urban counties. A possible variation on this approach is to reallocate funds diverted from SMSA discretionary communities to the neediest formula entitlement communities. Such a "supplemental fund" could be distributed on the basis of some appropriate needs formula. Supplemental funding is discussed in Chapter 12.

This discussion of the relative shares of entitlement and discretionary units is necessary background for consideration of the final--and preferred--alternative formula presented in this chapter. Four summary points should be restated before proceeding:

1. The existing formula and any revision of it that further weights a poverty-related criterion aids the southern regions at the expense of the northeast quadrant, at the same time favoring central cities rather than satellite cities and urban counties.

2. The existing allocation system significantly reduces the central cities' share of CDBG funds compared with the categorical distributions; reweighting or elimination of formula elements significantly alters the central cities' share.

3. Of the eight formula alternatives presented above, those that include the housing-age factor appear to work out best in terms of the presumed physical-needs objectives of the CDBG act. The housing-age factor generally favors central cities in the northeast quadrant to the disadvantage of the southern and western regions.

4. The SMSA-discretionary funding under the existing system, as projected to 1980, is very large; it diverts substantial sums of money

away from populous urban communities and toward metropolitan-area jurisdictions under 50,000 population. None of the eight alternatives presented significantly alters the share of SMSA discretionary funds. Only by weighting pre-1939 housing four or five times, or by setting a legislative ceiling, can this objective be achieved under the formula alternatives examined so far.

ALTERNATIVE I:
A TWO-FORMULA ALLOCATION SYSTEM

The ninth alternative--alternative I--deals with the issues summarized above. It addresses both the needs of older communities and those whose urban development needs are not age-related. At the same time, it significantly reduces the amount of metropolitan-area discretionary funds without establishing percentage limits.

The legislative history of the general revenue sharing program suggested this approach. In the final version of that legislation, the House and Senate conferees adopted a judicious solution. Unable to agree on a single compromise formula that accommodated the two fundamentally incompatible versions put forth by the House and Senate, the conferees allocated to each state the greater of the amounts provided under the two bills.6/ The same approach is possible under the CDBG program.

Alternative I retains the present CDBG formula and at the same time, adopts alternative H (population, poverty, and pre-1939 housing weighted double). Each formula entitlement area receives CDBG funds according to whichever formula yields the largest amount in its particular case. Because of this maximizing approach, the total entitlement allocation under the two formulas increases to approximately $1.88 billion.7/ This has an important residual effect. The residual metropolitan discretionary fund is thereby reduced to $360 million, or about 16 percent of the total metropolitan allocation.8/

While the SMSA funds for small discretionary communities are reduced, there are increases for small entitlement communities. There is an increase of almost $40 million for urban counties which goes primarily to small communities. There is also an increase of approximately $10 million to central cities with under 50,000 population. If one includes cities under 100,000 as small communities, there is an additional $54 million for entitlement communities between 50,000 and 100,000 population--both central and satellite cities. Thus, under the dual-formula approach, about $1.3 billion or 46 percent of the total funds are projected to go to communities with fewer than 50,000 population (metropolitan and non-metropolitan). If the definition of small community is raised to those under 100,000 population, the total funds going to small communities would still be $1.6 billion, or 57 percent of the total funds, a decline of seven percentage points from the 1980 projections under the present formula.

The advantage of this dual-formula approach is that it makes it possible to accommodate two different types of urban development need--problems that reflect both poverty and community age, and those that are more poverty-related than age-related. (See Appendix IV for entitlement area allocations.)

The dollar allocations in Table 6-11 (columns 1, 3, 5) show that the entitlement areas in five regions (the three southern ones and the Mountain and Pacific areas) retain the advantage they receive under the existing formula, while those in the three older regions of the northeast quadrant and in the West North Central region gain.

Table 6-11. Comparison of CDBG Formula Allocations with Allocations Using the Two-Formula System (Alternative I), by Region; Projected Fiscal Year 1980

Region	CDBG formula (millions of dollars) (1)	Percent of total (2)	H (millions of dollars) (3)	Percent of total (4)	I (millions of dollars) (5)	Percent of total (6)
U. S. total	1,612	100	1,719	100	1,881	100
New England	67	4.2	100	5.8	100	5.3
Middle Atlantic	348	21.6	462	26.9	462	24.6
East North Central	295	18.3	363	21.1	367	19.5
West North Central	84	5.2	103	6.0	104	5.6
South Atlantic	221	13.7	187	10.9	227	12.1
East South Central	75	4.6	62	3.6	76	4.0
West South Central	183	11.3	136	7.9	183	9.7
Mountain	51	3.2	43	2.5	53	2.8
Pacific	288	17.9	263	15.3	309	16.4

Source: Calculated from Tables 6-2 and 6-3.

This distribution of advantages is also seen in the count of entitlement communities falling under each of the formulas with this two-formula approach. Of 512 central and satellite cities, 241 communities would receive their allocations under the existing formula while 271 would benefit from the alternative age-related formula, H.[9/] Of the 241 CDBG recipients that would continue under the existing formula, 208 are in the southern and western regions, thirty-three are in the three regions of the northeast quadrant plus the west north central region. Conversely, of the 271 communities gaining under alternative formula H, 218 are in the northeast quadrant and the west north central region, representing 80 percent of the entitlement cities in these regions.

Thus, the principal benefits (there are no losses for any entitlement areas) of the dual formula approach accrue to older cities of the northeast. But it is also important to note that fifty-three entitlement cities in the southern and western regions also benefit by adopting the pre-1939 housing criterion. These fifty-three communities represent 20 percent of the formula entitlement cities in these regions.

Two further points to note are:

1. The dual formula approach is not a mechanism simply to reinstate the allocation patterns of the folded-in grants. Under the dual formula approach, there are still 177 entitlement areas projected to receive funds below the level of their previous grants, although the losses will be reduced. Under the existing CDBG system there are 214 projected losers.

2. Use of the pre-1939 housing criterion does not result in an automatic or dramatic gain for every city in the northeast quadrant. Where a city's major problem is poverty, the heavily poverty-weighted CDBG formula may continue to be the more beneficial one. For example, Gary, Indiana, with 14.7 percent of its population below the poverty line, fares better under the present formula than under the housing-age alternative, even though 43.7 percent of Gary's housing was built before 1939. Gary is 27.8 percent above the poverty mean for the entitlement areas, but only 12.6 percent above the mean for pre-1939 housing; thus for Gary the poverty criterion is statistically more powerful. As a result, Gary is projected to receive only $3.1 million under the alternative H, but $3.7 million under the CDBG formula. Under the dual formula approach, Gary would receive the CDBG allocation. In the case of Newark, the pre-1939 formula results in only a .3 percent net benefit, but it remains a substantial loser under either formula. Newark is projected to lose 52.2 percent under the existing formula; this loss would still be 51.9 percent under the pre-1939 housing alternative.

The dual formula approach also results in substantial aggregate gains by the nation's central cities, whose share increases nearly 10 percent ($212 million) from 52.8 percent under the present system to 62.2 percent under alternative I (Table 6-12). Because each entitlement area gets the larger of the two-formula allocations, satellite cities and urban counties as groups of recipients also receive an increase totaling $47 million. (These increases result from the fact that many of the satellite cities and urban counties are in the northeast quadrant and thus, like central cities, they benefit from the pre-1939 housing factor.)

Table 6-12. Comparison of Allocations to Metropolitan Areas Under CDBG Formula with Age-related Formula H and Two-Formula Alternative I, by Community Type; Projected Fiscal Year 1980

Community type	CDBG formula (millions of dollars)	Percent of total	H (millions of dollars)	Percent of total	I (millions of dollars)	Percent of total
U. S. (265 SMSAs)	2,240	100	2,234	100	2,240	100
Central cities	1,182	52.8	1,291	57.8	1,394	62.2
Satellite cities	140	6.3	148	6.6	169	7.5
Urban counties	290	12.9	280	12.5	318	14.3
SMSA discretionary	628	28.0	515	23.1	359	16.0

Source: Calculated from Tables 6-2 and 6-3.

Within metropolitan areas the results for individual cities vary. For example, within the Los Angeles-Long Beach SMSA, Los Angeles would receive the existing CDBG allocation of $49.7 million, while Long Beach would benefit from the pre-1939 housing alternative and increase its allocation from $5.2 million to $5.9 million. Among the satellite cities within that SMSA, seven would receive additional funds under the dual formula approach; the remaining fourteen would receive their allocations under the formula as it now stands.

In sum, we believe the two-formula approach provides a better estimate of urban development needs than does a system that measures such needs by means of a single set of criteria. A single formula tends to oversimplify. This specific two-formula approach is not necessarily the answer (other comparable approaches are possible), but it does have both substantive and practical advantages that suggest a direction for resolving problems built into the current CDBG program.

THE PROBLEM OF NEW SMSAs

While not yet considered a major issue, the use of the standard metropolitan statistical area as the basic allocation unit also presents a problem for both the near and the distant future. Since the Housing and Community Development Act of 1974 states that 80 percent of all CDBG funds go to metropolitan areas, the designation of a new SMSA means an increase in the number of formula entitlement areas, which in turn reduces the amounts available to all other SMSA entitlement units, while increasing the relative share, in overall per capita terms, of small communities in rural areas.

As a basis for designating SMSAs, the Office of Management and Budget relies upon the following rather vague language (with emphasis provided):

> A standard metropolitan statistical area is <u>generally</u> designated on the basis of population statistics reported in a census conducted by the Bureau of the Census. . . .
>
> A standard metropolitan statistical area is <u>sometimes</u> designated on the basis of population <u>estimates</u> published by the Bureau of the Census which have been accepted for use in the distribution of Federal benefits. 10/

Designations are made following a review by an interdepartmental committee, the Federal Advisory Committee on Standard Metropolitan Statistical Areas. This committee meets monthly; designation decisions are made in April and October. The role of the Office of Management and Budget is central not only in the designation process, but also in establishing criteria for designations. As a result of recent downgradings of the population criteria, the number of SMSAs has been increasing.

Until 1959, in order to be designated an SMSA, a unit had to be a central city with a population of at least 50,000 and had to conform to other criteria involving population density and growth, and labor force composition. An SMSA could include more than one central city, but at least one of these had to have a population of 50,000. This population minimum has now been significantly reduced. There have been two major changes. In 1959, the 50,000-population criterion was broadened to include more than one central city as long as the total central-city population was more than 50,000 and as long as one central city had a population of 25,000. In 1973, still another revision was adopted, permitting an SMSA designation if one central city had 25,000 population. These alterations of the population criterion have resulted in the substantial increase in the number of SMSAs.

Since the 1970 census, a total of forty-four new SMSAs have been designated. (This does not include the separation in 1972 of Nassau and Suffolk Counties from the New York City SMSA, which made those two counties a separate SMSA.) Of these forty-four, a total of twelve were designated between 1973 and 1975. Currently, there are 276 SMSAs, including four in Puerto Rico.

The new SMSAs, as could be expected, have tended to be relatively small. Of the forty-four designated since 1970, thirty-four have populations under 100,000; twenty-six have central cities with less than 50,000 persons. None of the twelve SMSAs designated since 1973 have central cities with populations over 50,000. In eight of the twelve, the largest central city has fewer than 40,000 people. In the Pascagoula-Moss Point, Mississippi SMSA, the two central cities have populations of 27,264 and 19,321, respectively.

In year one of the CDBG program, HUD made entitlement and discretionary allocations for 269 SMSAs (including the four in Puerto Rico). Seven new SMSA designations were made in 1975; one, Kankakee, Illinois, qualified for the year-two allocations; the remaining six areas will receive allocations beginning in year three of the program. These six are Greeley and Fort Collins, Colorado; Bloomington, Indiana; Pascagoula-Moss Point, Mississippi; Longview, Texas; and Eau Claire, Wisconsin.

To reiterate, the principal results of adding new SMSAs are: (1) that metropolitan funds must be spread out further; and (2) that such designations reduce the number of communities competing for non-metropolitan discretionary funds. In fiscal year 1977, the first entitlement year for all seven new SMSAs, the total amount of metropolitan and discretionary funds allocated to these areas is about $11 million. This represents only .5 percent of all metropolitan-area funds, yet if new SMSA designations continue to be made, the funds will be spread out still further.

A similar spreading-out results from expanding an existing metropolitan area and adding a new central city. For example, in 1975 the Office of Management and Budget expanded the existing Kingsport-Bristol, Tennessee SMSA, adding three new counties and designating Johnson City as a third central city. This had the effect of creating additional SMSA discretionary units and a new formula entitlement city to be funded from the same 80 percent metropolitan allocation.

The same result occurs by simply expanding the boundaries of an SMSA even if no new central cities are designated. For example, in 1973 the Kalamazoo-Portage, Michigan, SMSA was expanded to include Van Buren County. This meant additional population, numbers of persons in poverty, and overcrowded housing units, with the effect of increasing that SMSA's allocation above what it would have been under the old boundaries. In all such cases, the critical factor is that the number of claimants to the 80 percent metropolitan allocation is increasing but the basic 80-20 division is not altered accordingly.

One solution for this problem is that areas brought into new or expanded SMSAs "bring their money with them." Under this approach, the amount allocated to new or expanded SMSAs would be obtained by reducing the non-metropolitan funds by the same amount. This does no harm to the non-metropolitan areas and, at the same time, it keeps the burden of the new designations off the shoulders of old entitlement areas.

Though it goes beyond the scope of this study, it would be useful to examine more thoroughly the standards for metropolitan area designation and the legislative use of these designations. If the term "SMSA" is to be the basis for large distributions of federal funds, more attention should perhaps be given to the policy issues and processes involved in making these designations.

COST FACTOR ADJUSTMENTS: COST OF LIVING AND CONSTRUCTION COSTS

A final formula issue to be considered in this chapter involves the possibility of adjustments in CDBG allocations to account for regional differences in costs. That is, after application of the formula to the entitlement areas, should consideration be given to adjusting individual unit allocations to compensate for cost differences? As indicated in the previous chapter, the three southern regions gain substantially under the CDBG formula; it can be said further that their gain is enhanced because some costs in the South are below the national average. In other words, gains in the South are compounded because costs tend to be lower there than in other regions.

In this section, two cost factors are examined: cost of living, and construction wage costs. National data are available for both in the form of cost-adjustment factors.

1. Cost of living factor. This factor is developed from the intermediate family budget for thirty-nine metropolitan areas issued by the United States Department of Labor.[11/] The family budget is based on "normal" family purchases, such as food, housing, transportation, and medical care. It is not a measure of the costs to communities of carrying out development activities; nevertheless, it is a means of dealing with regional cost variations. An adjustment made on this basis would have the added advantage of permitting annual revision. Regional indices, based on a national mean of one, appear below:

New England	1.118
Middle Atlantic	1.066
East North Central	1.019
West North Central	.997
South Atlantic	.983
East South Central	.927
West South Central	.906
Mountain	.968
Pacific	1.008

2. Construction wage factor. More directly related to community development cost variations among CDBG recipients is the wage level in the construction industry. Since a large portion of CDBG money is used for construction (see Chapter 7), it can be argued that variations in wage scales in the building trade would be a better basis for adjustment than the family budget approach. Although not official data, an index of construction wage rates for 254 cities in the United States has been developed by the Robert S. Means Co., a construction consulting firm.[12] City wage rates are obtained from labor unions and employer associations; they also take into account the prevailing wage rates established by the federal government under the Davis-Bacon Act. The following regional wage ratios, again based on a national mean of one, were applied using this approach:

New England	1.080
Middle Atlantic	1.117
East North Central	1.061
West North Central	.991
South Atlantic	.875
East South Central	.892
West South Central	.852
Mountain	1.006
Pacific	1.172

A comparison of the cost-of-living index with those based on construction wage rates shows a similar pattern. The three regions of the northeast quadrant, plus the Pacific region, have higher cost factors than the three southern regions and the West North Central region. The Mountain region is below the mean for the cost of living but slightly above for construction wage rates. (See Appendix V for entitlement area allocations adjusted for the two cost factors.)

Using both sets of regional indices, Table 6-13 shows the northeast quadrant to be slightly advantaged by both adjustments.

Table 6-13. Allocations to CDBG Entitlement Areas with Adjustments for Cost of Living and Construction Wage Variations, by Region; Projected Fiscal Year 1980

Region	Allocation under present formula		Allocation adjusted for family budget factor		Allocation adjusted for construction wage factor	
	Amount (millions of dollars)	Percent of total	Amount (millions of dollars)	Percent of total	Amount (millions of dollars)	Percent of total
U. S. total	1,612	100	1,622	100	1,662	100
New England	67	4.2	75	4.6	72	4.3
Middle Atlantic	348	21.6	371	22.9	389	23.4
East North Central	295	18.3	301	18.6	313	18.8
West North Central	84	5.2	83	5.1	83	5.0
South Atlantic	221	13.7	218	13.4	194	11.7
East South Central	75	4.6	70	4.3	67	4.0
West South Central	183	11.3	165	10.2	156	9.4
Mountain	51	3.2	49	3.0	51	3.1
Pacific	288	17.9	290	17.9	337	20.3

Source: Calculated from Table 6-2.

In the case of the family budget factor, the three northeast quadrant regions increase their share by two percentage points; they increase by 2.4 percentage points with the wage adjustment. The Pacific region, while remaining about the same with the budget adjustment, increases its share by 2.4 percentage points taking into account the wage cost variations. With either adjustment, the three southern regions lose funds -- 1.7 percentage points for cost of living variations and 4.5 percentage points with the construction wage adjustment.

It should be noted that under either adjustment, the total amount allocated to the entitlement areas increases and thus diminishes the amount remaining for metropolitan discretionary allocation. The total amount shifted, however, is relatively small -- $10 million under the cost of living adjustment and $50 million under the wage variation. 13/

In terms of SMSA-sized groups, Table 6-14 shows that the principal beneficiaries of these cost adjustments are the six metropolitan areas with populations above 3 million, with their greatest gains made under the construction wage adjustment. These six SMSAs are all in the high-cost northeastern or Pacific regions. All other SMSA population categories receive a declining share under cost adjustment.

Table 6-14. Allocations to CDBG Entitlement Areas with Adjustments for Cost of Living and Construction Wage Variations, by SMSA Size; Projected Fiscal Year 1980

SMSA size	Allocation under present formula		Allocation adjusted for family budget factor		Allocation adjusted for construction wage factor	
	Amount (millions of dollars)	Percent of total	Amount (millions of dollars)	Percent of total	Amount (million of dollars)	Percent of total
U.S. (SMSAs)	1,612	100	1,622	100	1,662	100
3 million and over	501	31.1	519	32.0	560	33.7
1-3 million	492	30.5	490	30.2	494	29.7
500,000-1 million	249	15.5	246	15.2	244	14.7
250,000-500,000	202	12.5	201	12.4	202	12.2
100,000-250,000	139	8.6	138	8.5	135	8.1
Under 100,000	29	1.8	28	1.7	27	1.6

Source: Calculated from Table 5-2.

From Table 6-15, based on community types, it can be seen that these cost adjustments are particularly favorable to satellite cities and urban counties. The amount received by central cities goes up, but their share declines. The reason for the satellite city and urban county gains is clear. The bulk of all satellite cities (126 of 152) and urban counties (53 of 73) are found in the high-cost northeastern and Pacific regions.

Table 6-15. Allocations to CDBG Entitlement Areas with Adjustments for Cost of Living and Construction Wage Variations, by Community Type; Projected Fiscal Year 1980

Community type	Allocation under present formula		Allocation adjusted for family budget factor		Allocation adjusted for construction wage factor	
	Amount (million of dollars)	Percent of total	Amount (millions of dollars)	Percent of total	Amount (million of dollars)	Percent of total
U.S.	1,612	100	1,622	100	1,662	100
Central cities	1,182	73.3	1,186	73.1	1,204	72.4
Satellite cities	140	8.7	143	8.8	151	9.1
Urban counties	290	18.0	293	18.1	307	18.5

Source: Calculated from Table 6-6.

These cost adjustments are presented not in order to make a case for any one approach, but to illustrate the nature of the approaches that might be adopted. It is possible to refine these adjustments; for example, to adjust for both region and size of metropolitan area. In general, the greater the SMSA population, the higher the cost of living and wage rates. Therefore, if an adjustment is made within regions for metropolitan-area size, the allocations will be further altered to favor the entitlement areas within larger SMSAs. For example, within New England the two cost factors vary substantially according to population size. Thus Boston would be adjusted upward and Portland downward even though both are in the same region:

SMSA	Population	Cost of Living Index	Wage Index
Boston	2,900,000	117	107.3
Hartford	721,000	108	102.4
Portland	171,000	103	82.2

Similar patterns are found within other regions. Region itself has greater influence, using these two cost adjustment techniques; thus any adjustment for size should be preceded by the adjustment for region. The importance of the region variable can be seen by examining the two cost indices of three SMSAs of similar size but in different regions. Here we find cost differentials of 27 and 21.7 between the highest (Boston) and lowest (Dallas-Fort Worth), differentials clearly resulting from region, not population size:

SMSA	Population	Cost of Living Index	Wage Index
Boston	2,900,000	117	107.3
St. Louis	2,400,000	97	100.7
Dallas-Fort Worth	2,400,000	90	85.6

SUMMARY AND CONCLUSIONS

This analysis takes the position that the existing CDBG allocation system should be modified because of two fundamental problems. First, the existing formula fails to reflect accurately the two distinctive bases of urban problems -- poverty and age. It makes allocations that do not go far enough to meet the actual needs of physically distressed communities. Second, the current allocation system diverts too large a share of CDBG funds to small jurisdictions, particularly to small communities within metropolitan areas.

These two problems, in our view, require that attention be paid to changes in the CDBG allocation system prior to implementation of full formula funding in fiscal year 1980. These are the study's main recommendations:

1. Consideration should be given to the adoption of some form of a two-formula system. Such an approach does a better job of aligning the formula criteria with what we understand to be the objectives of the CDBG program. It would retain the existing formula to allocate funds to communities with primarily poverty-based development needs; in addition, a second formula incorporating an age-of-housing factor is recommended in order to allocate funds to recipients whose development needs are related to age of community, as well as poverty. As has been noted, each entitlement jurisdiction would receive the greater amount yielded by either formula.[14/]

2. Steps should be taken to reduce and redirect discretionary funding. The two-formula approach reduces metropolitan discretionary

funds and directs the diverted funds toward larger and presumably needier urban communities without the arbitrary step of establishing a percentage or other ceiling on SMSA discretionary funds. It reduces SMSA discretionary funds from 28 to about 16 percent of all metropolitan-area funds.

Two other recommendations -- though less important -- are also made:

3. The system by which the Office of Management and Budget designates SMSAs should be reviewed. Under the current allocation system, the authority of the Office of Management and Budget to create new SMSAs or expand old ones works to the disadvantage of existing metropolitan areas because CDBG metropolitan-area funds are diverted from established entitlement and discretionary communities to new SMSA jurisdictions. This study proposes that the amount of funds going to new SMSAs be deducted from CDBG funds for non-metropolitan areas.

4. Finally, as a formula issue, cost variables should be taken into account in the allocation of CDBG funds. We believe that there is merit to introducing a factor for either cost-of-living or construction-wage variations, preferably the former.

In the distributional chapters of this report we have brought to bear an urban focus, made explicit throughout. This urban focus is not particularly pronounced, but the reader should be reminded that it has influenced the analysis and conclusions of this section of our report. Some observers of the urban scene favor an even stronger urban focus; some take the opposite position. We feel the conclusions reached and proposals advanced represent a balanced and practical approach.

FOOTNOTES TO CHAPTER 6

1/ Housing and Development Reporter (Washington, D.C.: Bureau of National Affairs, Inc.), Vol.3, No.27 (May 31, 1976), p. 1225.

2/ Recommendation 9, Advisory Commission on Intergovernmental Relations, The Intergovernmental Grant System: An Assessment and Proposed Policies (draft report scheduled for publication in fall of 1976).

3/ Sec. 106 (1), P.L. 93-383, Housing and Community Development Act of 1974. (See Appendix I for the text of this provision.)

4/ Richard P. Nathan and Charles Adams, "Understanding Central City Hardship," Political Science Quarterly, Vol. 91, No. 1 (Spring 1976), pp. 47-62.

5/ In the 1960 census, the condition of housing was enumerated under the classification, "South Units with All Plumbing Facilities." The 1970 census classification was redesignated "Occupied Units Lacking Some or All Plumbing Facilities."

6/ This compromise resulted in the total allocations exceeding the total authorizations by $500 million so that each state's allocation was reduced proportionately for 1972.

7/ Unlike the two-formula compromise of general revenue sharing, adoption of two formulas for the CDBG program would not require any proportionate reduction in shares to meet the authorization. Under the CDBG system, the first distribution is made for formula allocations, and what remains is allocated for hold-harmless and discretionary distribution. In fiscal 1980, allocations to the entitlement areas under a two-formula approach, with a $2.95 billion funding assumption, would still leave $360 million for metropolitan discretionary funds. (There would be no hold-harmless funding in fiscal 1980.)

8/ This projected metropolitan discretionary fund would be reduced to approximately $300 million in fiscal 1980 if all potential urban counties are included. If the fiscal 1980 appropriation assumption is increased from $2.95 billion to $3.95 billion, the metropolitan discretionary allocation would be approximately $400 million.

9/ This does not include the seventy-three urban counties, Middletown township, New Jersey, or North Charleston, South Carolina. The pre-1939 housing count for urban counties can be arrived at by use of SMSA census tracts for communities participating in urban counties. A tract assemblage for a pre-1939 housing count was not done for this study. Middletown township is a part of the Long Branch-Asbury Park SMSA established after the 1970 census. Pre-1939 housing counts for townships are organized by SMSA census tracts. Since the SMSA was not created until 1971, there is no tract breakdown for the township. North Charleston was incorporated after 1970 and was not counted separately in the census data.

10/ Office of Management and Budget, Standard Metropolitan Statistical Areas 1975 (Rev. ed., 1975), p. 1.

11/ See: News release, "Autumn 1974 Urban Family Budgets and Comparative Indexes for Selected Urban Areas," U.S. Department of Labor, Bureau of Labor Statistics, April 9, 1975, Table 5. For this analysis, the regional cost-of-living factor is the ratio derived by dividing the mean of sampled metropolitan areas in a region by the mean of the nine regions combined. For example, in the New England region the intermediate family budgets of three metropolitan areas are determined by the Labor Department--Boston, Massachusetts; Hartford, Connecticut; and Portland, Maine. In the autumn of 1974 the mean intermediate budget index for the three SMSAs was 107.3. That is, the intermediate budget for a family of four in these three cities was an average 7.3 percent above the national mean. This regional mean was divided by the mean of all regions combined (95.9), resulting in a New England ratio of 1.118. This ratio was then applied to the projected 1980 allocations for all New England entitlement areas. See Appendix V for individual allocations adjusted for cost of living.

12/ See: 1975 Labor Rates for the Construction Industry: City, State, National (2nd ed., Duxbury, Mass.: Robert Snow Means, Inc., 1975). The Means' indices used for this analysis are wage rates as of January 1, 1975. The index of each of the surveyed cities is in relation to the average of thirty major U.S. cities (30 city index = 100). The Means survey does not cover the major city of each of the 265 metropolitan areas of this analysis. Where the central city (or cities) of a metropolitan area is omitted from the Means' survey, the index of the nearest metropolitan area is used. For example, the survey did not include Williamsport, Pennsylvania, so the wage rate of Wilkes Barre was imputed to Williamsport. A total of forty-five of 265 metropolitan areas were not included in the Means' survey and for each of these a wage rate was imputed. The 265 SMSA wage rates were then aggregated by region and a ratio was developed between the regional and national mean. These regional ratios were then applied to the entitlement allocations.

13/ The cost adjustments would become the formula entitlements; since the formula entitlements are the first distribution, the net cost of the adjustments, $10 million or $50 million, would come from the metropolitan discretionary funds.

14/ A version of the dual formula was included in the Federal budget for fiscal year 1978. The Issues '78 volume of the Budget stated, in part,

> A frequent criticism of the formula has been that it lacks a measure of "physical" need--some indicator of the age and condition of a community's physical plant. Yet, an aging physical structure is believed to be one of the most serious community development problems for many of the Nation's older cities. The extensive use of current block grant funds for rehabilitation activities and repair of capital structures attests to the physical need. To assure that this measure of physical need is reflected in the distribution of block grant funds, the Administration recommends that metropolitan cities be offered the choice of receiving their entitlement amount under either the current formula or a new, alternative formula. The alternative formula would also be composed of three factors: poverty (30 percent), loss of population between 1960-73 (20 percent), and age of housing stock (50 percent).

See Issues '78, Perspectives on Fiscal Year 1978 Budget, Executive Office of the President, Office of Management and Budget, p. 131.

PART III

FISCAL AND SOCIAL EFFECTS

CHAPTER 7

FISCAL EFFECTS

Beyond the broad goals of developing "viable urban communities..., and a suitable living environment..., principally for persons of low and moderate income...," the Housing and Community Development Act of 1974 mandates no single most desirable usage of community development block grant funds; nor does it specify what combination of activities the funds should support. Within the broad parameters of the act, applicants and recipients have latitude to determine and implement their own programs for community development. In this chapter and in Chapters 8 and 9, the varied uses of CDBG funds and the effects of these choices are considered for the sample jurisdictions studied for this report.[1/] The impact of federal funds on recipient governments is a central problem in the analysis of any grant program. Several questions necessarily arise in such an examination. What differences do federal grants make in the expenditure and revenue decisions of recipient jurisdictions? How does federal assistance affect various programs? What is its impact on the economy of recipient communities?

Two Background Issues: "National Objectives" and Social Services

Two policy issues -- one involving the "national objectives" of the CDBG program, and the other concerning the use of these funds for social services -- should be discussed before the field data on the fiscal effects of the CDBG program are presented. As explained in Chapter 2, the legislation establishing the CDBG program represents a compromise between two viewpoints: that local governments should have a generally free hand in determining their communities' needs and how to meet them; and that the federal government has an important role in defining and overseeing the fulfillment of national goals for community development. This compromise is clearly reflected in the act. On the one hand, the law allows applicants considerable flexibility in their choice of the specific programs and projects to be funded and gives the Secretary of HUD only veto power on applications and, even then, only within a specified and short time limit. On the other hand, it includes national objectives for the program and contains specific provisions for the application process.[2/] The national objectives (included in Chapter 2) and permissible uses of the block grant funds are broadly stated and multiple. (These provisions constitute Sections 101[c] and 105[a], respectively. See Appendix I at the back of this report.) Of the thirteen permissible uses of CDBG funds listed in Section 105[a], eight can be categorized as new physical renewal and related activities: acquisition of real property; public works, facilities, and site improvements; code enforcement; clearance and demolition; rehabilitation; payments for loss of rental income; disposition of real property; and relocation payments and assistance. The remaining uses involve completion of urban renewal and neighborhood development projects, human service activities, planning, management, and administration.

National objectives did not as a general rule provide direction for setting local priorities, however. Most field associates reported that the choices of proposed projects in the first year of the CDBG program were justified retrospectively. The development of local priorities came first, after which various national objectives and permissible uses were selected from the language of the act and cited to accommodate local priorities. In Santa Clara, California, for example, the associate reported that "although Santa Clara officials said that they took the national objectives seriously, our findings do not support this contention. Both the staff and city council 'selectively perceived' what the objectives were; they did this on a basis which operated to support projects which were already favored."

The Scottsdale, Arizona, associate reported that "key members of the staff are aware of these objectives and have a strong commitment to some of them. Local elected officials were less certain of and committed to these objectives and referred most often to the act's decentralizing features when asked questions about the national objectives. Their principal argument was that Scottsdale is unique and that the 'New Federalism' was supposed to allow communities to meet their unique development needs....In sum, many of the key officials involved in developing Scottsdale's community development program were aware of the act's major objectives and were most likely to cite and support those objectives that seem most compatible with their own."

In other cases national objectives were not clearly perceived. The associate for Harris County, Texas, reported, for example, "I do not believe the national objectives were seriously considered by members of the local legislature. The new County Judge (executive) presented the program publicly primarily as a 'parks program,' the remaining commissioners appeared to have no discernable views on community development objectives...Observers indicated that the CDBG program was simply thought of as free, no-strings money that the county could make use of as it wished toward locally-perceived development objectives."

Whereas the national objectives were not seen as a constraint in the selection of local community development projects, eleven of the sample jurisdictions appeared to be affected by the perceived limitation on the proportion of block grant funds to be allocated to social services. As was stated in Chapter 2, a limit of 20 percent of a jurisdiction's allocation for social services (reserving the bulk of the grant for physical-development) was contained in the Senate version of the CDBG bill. The bill that emerged from conference, however, contained no specific percentage limit. Instead, the conferees stipulated that social services could be funded with block grant monies only if (1) it were shown that other federal assistance was not available for such programs, and (2) the social services undertaken with the block grant funds supported physical development programs. (This provision constitutes Section 105(a)(8) of the act.)

The official position of HUD on its review of first-year applications,[3/] i.e., that the department should take an essentially "hands-off" approach, appears from our data not to have been applied consistently on the issue of social services spending. In some cases, interpretations by local HUD officials resulted in cuts in allocations for social services. The associate for Harris County and Houston, Texas, for example, reported that the HUD area office in Dallas "strongly discouraged" the use of CDBG funds for social services. Harris County's application was instead translated by the Dallas office "into the vocabulary of bricks and mortar." As a result, CDBG funds were allocated for the construction of multi-purpose social-service centers rather than for the direct provision of services. The Dallas area office also objected to the appropriation by Houston of 20 percent of their block grant for social-services programs previously funded under the model cities program; the area office based its objections on the grounds that these social-services programs were "not in direct support of eligible physical development activities." This objection was eventually over-ridden in Washington after city officials protested directly to the Office of the Secretary. A similar stand on funding for social services is reported by the associate for Lansing and East Lansing, Michigan.

In Seattle, a HUD official on temporary assignment to the city's community development coordinating office referred in an interview with the field associate to the "mandated eighty/twenty split" between capital and social projects as having determined the proportion of funds allocated to social services in the city's CDBG application.

From other localities, associates reported that allocations by local officials for physical development were justified to those who advocated greater spending for social services in terms of the 20 percent limitation in the Senate bill. The associate for Raleigh, North Carolina, for example, indicated that government officials and the citizens' advisory committee, fundamentally in agreement on neighborhood conservation and housing rehabilitation priorities, agreed on a limit of 20 percent of the budget for social services despite requests from citizen groups to increase that proportion.

Looking at these two background issues together, the national objectives and permissible uses, because they are so general, appear not to have constrained recipient jurisdictions. On the other hand, one limitation not stated in the legislation -- namely, the Senate's 20 percent limit on social services spending, transformed into general terms in the final act -- does seem to have influenced local decisions about the uses of CDBG funds.

FIELD RESEARCH ANALYSIS OF THE FISCAL EFFECTS OF BLOCK GRANT FUNDS

In analyzing the fiscal effects of CDBG funds, the associates sought to answer a difficult question: What did CDBG funds enable recipient governments to do that they would not otherwise have done? An important aim of this analysis has been to identify how and to what extent CDBG funds have been used to pay for activities that would have been undertaken and paid for from other revenue sources if there were no CDBG funds. These effects, referred to in our monitoring studies as "substitution effects," occur under all types of fiscal subventions. The associates classified fiscal effects under main headings -- new spending, program maintenance, and substitution effects. The three categories were subdivided and defined as follows:

1. New spending effects

   (a) New capital spending -- spending for capital projects or the purchase of equipment that, without block grant funds, would either not have occurred at all or would have occurred at least one year later; and

   (b) New or expanded operations -- operating expenditures initiated or expanded with block grant funds.

2. Program maintenance effects

(a) Community development program continuation -- the allocation of CDBG funds to ongoing programs formerly funded by grants folded into the CDBG program; and

(b) Continuation of non-community development federally aided programs -- the allocation of CDBG funds to ongoing programs formerly funded by grants not related to community development that, without block grant funds, would now be cut back or eliminated.

(c) Other program maintenance -- the allocation of CDBG funds to ongoing programs formerly not federally assisted that without CDBG funds would now be cut back or eliminated.

3. Substitution effects

(a) Increased fund balances -- allocation of CDBG funds to ongoing programs, with the net effect of increasing fund balances.

(b) Avoidance of borrowing -- substitution of CDBG funds for borrowing that would have been undertaken in the absence of CDBG funds.

(c) Tax stabilization -- the use of CDBG funds to finance existing programs, with the result of avoiding a tax increase that otherwise would have been necessary and approved.

(d) Tax reduction -- the use of block grant funds to finance ongoing programs, with the net result of keeping up the jurisdiction's own resources and thereby permitting a reduction in the tax rate.

CDBG and General Revenue Sharing Compared

Readers familiar with the Brookings Institution study of general revenue sharing will note a similarity in the fiscal-incidence framework used in this study. 4/ However, while both studies examine new spending and substitution uses, program maintenance, included under substitution effects in the general revenue sharing study, is treated separately here. This reflects different expectations about the fiscal effects of the revenue sharing and block grant programs. Substitution effects can be expected to be higher under general revenue sharing because the legislation's purpose is broader; it is not limited to a single functional area of state or local spending. President Nixon, in signing the revenue sharing law in 1972, referred to general revenue sharing as a "new source of revenue for state and local governments." 5/ General revenue sharing was designed and enacted to provide general assistance for state and local governments. There is no application process, and the permitted uses cover almost the entire gamut of state and local governmental activities.

In light of the fact that general revenue sharing funds are seen as "new" money -- that is, not derived from prior federal programs -- local officials are clearly in a position to use them to maintain current program levels while stabilizing or even reducing taxes. Also, because shared revenue is considered new money not related to any pre-existing programs, there is no anticipation of involvement in the allocation decisions by existing local bureaucracies or groups of program specialists.

In contrast, the CDBG program, because it has subsumed seven existing grants, was frequently regarded as "old" money in a new form. In many communities, bureaucracies that had administered the folded-in programs were still in place when the new program was launched in 1975. They could be expected to have, or at least seek, an influential role in the local allocation process. Although the objectives of the program are broad, recipient jurisdictions are clearly directed to use these funds for purposes of community development. There is, in fact, an explicit statement of congressional intent that the ongoing level of local financial support for community development activities not be "substantially" reduced. 6/ Thus, for local officials, whose jurisdictions have had a significant amount of prior experience under folded-in grants, a likely course anticipated under CDBG was to continue existing community development programs and projects. On the other hand, for jurisdictions with limited or no prior program experience, new spending for community development activities was anticipated.

These expectations are borne out by the data. New spending and program maintenance are far more prominent fiscal effects of the block grant program than are substitution effects. For the sample as a whole, more than 53 percent of the first-year allocations were for new spending purposes; almost 32 percent were for program maintenance and 7 percent for substitution effects. New capital spending and community development program continuation are the two largest fiscal effects for all types of recipients. The net fiscal effects in the sample jurisdictions are shown in Table 7-1.

Table 7-1. Net Fiscal Effects of CDBG Allocations in the Sample Jurisdictions, by Type of Recipients;[a] in Mean Percentage Indices[b]

Fiscal effect	Metropolitan Jurisdictions: Central cities	Metropolitan Jurisdictions: Satellite cities	Metropolitan Jurisdictions: Urban counties	Non-metro-politan juris-dictions	All juris-dictions
New spending	49.1	52.9	44.9	74.0	53.3
New capital	34.8	33.3	27.2	57.9	37.1
New or expanded operations	14.3	19.6	17.7	16.1	16.2
Program maintenance	44.0	25.1	17.3	19.3	31.9
Community development program continuation	42.1	11.3	16.3	17.8	27.9
Non-community development federally aided program continuation	1.1	.2	1.0	c/	.7
Other program continuation	.8	13.6	0.0	1.5	3.3
Substitution	3.4	16.7	5.9	4.3	6.6
Increased fund balances	2.4	5.3	2.5	0.0	2.6
Avoidance of borrowing	.7	10.0	3.1	4.2	3.5
Tax stabilization	.3	1.5	.3	.1	.5
Tax reduction	c/	0.0	0.0	0.0	c/
Other	c/	0.0	1.5	0.0	.3
Unallocated	3.5	5.3	30.4	2.4	7.9

Source: Field research data.

Table 7-1. (continued)

a/ For purposes of this chapter, the sample includes twenty-nine central cities, twelve satellite cities, ten urban counties, and nine non-metropolitan jurisdictions. Two jurisdictions in the sample (Florence and Columbia, South Carolina) are not represented in this table because data from them was not available at the time this chapter was prepared.

b/ The mean percentage indices of fiscal effects are unweighted; that is, they are not weighted to reflect different population sizes of sample units.

c/ Mean percent index less than .1.

The fiscal effects framework for the first-year CDBG allocations contains two residual categories. One, "Other Net Effects," is for effects not reportable under the new spending, program maintenance and substitution categories. The second is for amounts "unallocated," that is, the balance of the total block grant which, in the judgment of the associate, net fiscal effects cannot be allocated. Five of the ten urban county governments in the sample directly administered less than the full amount of the block grant funds received for the first year. The "unallocated" category for these jurisdictions represents the proportion of block grant funds passed through to cooperating municipalities for their direct allocation and administration.

These data contrast quite sharply with those found for general revenue sharing. For the fifty-seven local governments in the Brookings general revenue sharing monitoring study, the mean for substitution effects in the initial period of the program (December 1972 through June 1973) was 29.9 percent; in the first year of the CDBG program, it was 6.6 percent. Program maintenance, on the other hand, is much higher for CDBG -- 31.9 percent -- as against 12.6 percent at the beginning of the general revenue sharing program.[7/] For both the general revenue sharing and block grant programs, however, new spending effects are high, in both cases representing more than 50 percent of all fiscal effects.

Expressed in unweighted mean percentages, the fiscal effects data can be interpreted as reflecting different kinds of decisions on the uses of block grant funds. These data are not, however, indices of actual dollar allocations. To illustrate: Evanston, Illinois, with an entitlement allocation of $222,000 was judged by the field associate for that jurisdiction to have allotted 35.1 percent for new capital spending; likewise, Cook County, Illinois, with an entitlement of $3.25 million, was found to have allocated 18 percent to new capital spending. The unweighted mean for the two cases is 26.6 percent. This summary statistic factors out the skewing effect that Cook County's proportionately larger entitlement amount would have if the actual dollar allocations for Evanston and Cook County were directly compared. Data for all of the sample jurisdictions, including their fiscal pressure and level of previous experience under the folded-in grants, are presented on this basis in the Appendix vii-A table at the end of this chapter, highlighting for each unit its major fiscal effects.

When the fiscal effects of CDBG funds for the sample units are computed on the basis of aggregate dollar allocations, rather than unweighted means, the resulting pattern, as would be expected, reflects the domination of the largest units in the sample. Although new spending and program maintenance are the most important fiscal effects, program maintenance effects are higher than when total dollar allocations are used. Readers can note in the Appendix vii-A table that larger central cities tend to have more extensive prior experience and to allocate larger dollar amounts for program maintenance purposes. A summary comparison of the two types of data are shown below:

	Mean percentage for all sample jurisdictions	
Fiscal effect	Unweighted	Aggregate dollars
New spending	53.3	44.9
Program maintenance	31.9	48.5

The interpretation in this chapter on the uses and fiscal effects of CDBG funds relies mainly on unweighted mean data. The net effects are related to several standard variables, including, among others, fiscal condition and the previous program experience of the recipient units under the folded-in grants.

Field associates were asked to gauge the fiscal pressure on the sample units at the time of enactment of the Housing and Community Development Act. The classifications are extreme fiscal pressure, moderate, and little or none. The definitions used were extensively discussed by the associates at the first conference. Nine jurisdictions were classified as being under extreme fiscal pressure, thirty-six as being under moderate pressure, and fifteen as having low or no fiscal pressure. These classifications were carefully reviewed in the coding and questions were raised with associates to help assure consistency of treatment.

The variable "level of previous experience" is expressed in terms of the ratio of the average per capita amount received by each unit under all of the folded-in programs to the national per capita mean. The national per capita mean of $17.63 is the denominator in the previous experience ratio. Jurisdictions were grouped as follows:

Previous experience level	Ratio value
High	Over 150 percent
Moderate	50 to 150 percent
Low	Over 0 to 50 percent
None	0

For the sixty sample jurisdictions whose fiscal effects are analyzed in this chapter, twenty-six units were classified as having a high level of previous experience; eleven, a moderate level; seventeen, a low level; and six, no previous experience. These groupings by type of jurisdiction are shown below:

	Level of previous experience			
	High	Moderate	Low	None
Central cities	15	11	3	...
Satellite cities	4	...	7	1
Urban counties	2	...	7	1
Non-metropolitan	5	...	...	4

New Capital Spending

New capital spending is the largest individual category of net fiscal effects, representing 37.1 percent of all allocations for the entire sample (see Table 7-1) and 70 percent of the combined new spending effects categories. Fifty-five of sixty units in Table 7-1 devoted some of their block grant allocations for new capital purposes.[8/] For seventeen jurisdictions, these new capital uses represent more than half of all their allocations; these units are listed in order of diminishing proportions of new capital spending in Table 7-2. The thirty-eight units in which new capital spending represents less than half of the uses are shown in Table 7-3.

Table 7-2. Sample Jurisdictions with 50 Percent or More New Capital Spending from CDBG Funds, Ranked in Descending Order

Jurisdiction	Population (thousands)	Level of previous program experience[a]	New capital amount (thousands of dollars)	Percent of all allocations
Plainview, Tex.	19.6	N	182.0	91.0
Denver, Colo.	514.7	H	13,772.8	86.8
Pulaski County, Ill.	8.7[b]	N	250.0	83.3
Miami Beach, Fla.	87.1	M	450.0	79.8
DeKalb County, Ga.	415.4	L	644.5	78.1
Casa Grande, Ariz.	10.5	N	175.0	74.5
Mount Vernon, N.Y.	72.8	H	1,919.0	74.1
Roanoke Rapids, N.C.	13.5[c]	N	597.4	73.3
Huntington Beach, Calif.	116.0	L	335.0	72.8
Charlottesville, Va.	38.9	H	695.9	66.2
Durham, N.C.	95.4	M	1,510.6	63.4
East Lansing, Mich.	47.5	M	101.8	62.1
Marlborough, Mass.	27.9	H	625.0	58.5
Pittsburgh, Pa.	520.1	H	9,485.0	57.7
Portland, Me.	65.1	H	2,848.3	54.0
Boston, Mass.	641.0	H	17,227.5	53.6
Raleigh, N.C.	123.8	L	782.5	50.1

Source: Field research data.

[a] H: high previous experience; M: moderate previous experience; L: low previous experience; N: no previous experience.

[b] The five-county consortium's total population is 58,266. The grant amount used in this report is that for the entire consortium.

[c] The four-city consortium's total population is 18,700. The grant amount used in this report is that for the entire consortium.

Table 7-3. Sample Jurisdictions with up to 50 Percent New Capital Spending from Block Grant Funds, Ranked in Descending Order

Jurisdiction	Population (thousands)	Level of previous program experience*	New capital amount (thousands of dollars)	Percent of all allocations
Harris County, Tex.	1,741.9	N	473.7	49.3
Miami, Fla.	434.0	M	1,530.0	48.3
Lansing, Mich.	134.4	H	3,244.6	46.6
Alma, Mich.	9.6	H	234.6	44.5
Atlanta, Ga.	495.5	H	8,351.0	44.5
San Jose, Calif.	459.9	M	2,725.0	41.4
New York, N.Y.	7,895.6	M	34,248.0	37.8
Evanston, Ill.	79.8	L	78.0	35.1
Houston, Tex.	1,232.8	M	4,639.0	35.0
Cambridge, Mass.	100.4	H	1,736.0	33.5
Jacksonville, Fla.	528.9	M	166.0	32.0
Allegheny County, Pa.	1,605.0	H	2,051.0	31.8
Rochester, N.Y.	295.0	H	4,640.0	31.6
Lubbock, Tex.	149.1	H	1,655.0	31.0
St. Louis County, Mo.	735.9	L	618.5	30.4
Scottsdale, Ariz.	67.8	H	520.6	28.4
Seattle, Wash.	530.8	M	3,142.6	27.0
Cleveland Heights, O.	60.8	N	38.0	27.0
Sioux Falls, S.D.	72.5	H	872.5	26.8
Santa Clara, Calif.	86.1	L	95.0	26.6

Table 7-3 (continued)

Jurisdiction	Population (thousands)	Level of previous program experience*	New capital amount (thousands of dollars)	Percent of all allocations
Los Angeles, Calif.	1,862.5	M	8,136.7	21.1
St. Louis, Mo.	662.2	M	3,961.2	26.1
Los Angeles County, Calif.	7,042.0	L	3,645.1	25.2
Minneapolis, Minn.	434.0	H	3,930.8	23.4
Cleveland, O.	750.9	M	3,750.0	23.3
Worcester, Mass.	176.6	H	1,354.2	22.4
Lakewood, Colo.	92.7	L	50.0	22.1
Chicago, Ill.	3,369.3	M	9,450.0	21.9
Phoenix, Ariz.	581.6	L	542.0	21.0
Cook County, Ill.	5,493.7	M	585.0	18.0
Bangor, Me.	33.6	H	187.0	16.0
East Orange, N.J.	75.4	H	378.5	15.0
Newark, N.J.	381.9	H	3,077.9	15.0
Dade County, Fla.	1,267.8	H	3,200.0	14.8
Carbondale, Ill.	22.6	H	414.0	14.1
Orange County, Calif.	1,420.4	L	190.2	14.0
King County, Wash.	1,156.6	L	152.5	10.1
Philadelphia, Pa.	1,949.0	H	5,209.0	8.6

Source: Field research data.

* H: high previous experience; M: moderate previous experience; L: low previous experience; N: no previous experience.

Although fiscal pressure was very important in interpreting the pattern of net fiscal effects for general revenue sharing, it is not as useful as an explanatory variable for the CDBG program. Governments under little or no fiscal pressure were found to have made much more extensive use of general revenue sharing funds for new capital purposes than governments under moderate or extreme fiscal pressure; conversely, governments under greater fiscal pressure were found to have allocated more of their shared revenue for substitution purposes.

For the CDBG study, the relationship between fiscal pressure and net fiscal effects was not as clear-cut. Excluding urban counties which passed on large portions of their CDBG funds to municipalities, governments under little or no fiscal pressure in the CDBG sample allocated larger proportions of their first-year CDBG funds for new capital purposes (41.5 percent) than governments under extreme fiscal pressure (29.9 percent). However, governments under moderate fiscal pressure allocated 44.1 percent to new capital spending, a higher proportion than units under little or no fiscal pressure. Also in striking contrast with the general revenue sharing study is the finding that governments under extreme and moderate fiscal pressure allocated smaller proportions of their CDBG funds for substitution purposes than those under little or no fiscal pressure.

It is possible, of course, that these findings for new capital allocations and fiscal condition will begin to more closely resemble the general revenue sharing pattern in the future. The conclusions to date, however, support the expectation that the legislation would encourage allocations for new capital purposes. This finding is reinforced by data presented in the sections that follow, on new operations and program maintenance uses of CDBG funds. Much of the planning (classified as new operations) under CDBG relates to capital projects; likewise, block grant funds used to continue ongoing urban renewal projects also involve capital expenditures. Such emphases on capital uses appear to be in line with the basic principle of the block grant, i.e., to provide greater flexibility but at the same time have federal funds targeted on the broad functions of community development, primarily for purposes of physical development. This conclusion does not, however, take into account other aims of the CDBG program -- for example, the desire to direct spending toward persons of low and moderate income. (This subject is taken up in Chapter 8.)

In all fifty-five sample units that allocated funds for new capital purposes, spending for public facilities (for example, centers for health, recreation, and community activities) and for housing rehabilitation (both loans and grants) accounted for two-thirds of total new capital allocations. Fifteen percent was devoted to spending for "public improvements" (streets, sidewalks and sewers) and 12 percent for property acquisition. Of the seventeen units allocating more than half of their funds for new capital spending, seven had high levels of previous experience under the folded-in programs, almost exactly the same proportion of high-experience units as for the total sample.

Looking at the new capital spending data in the aggregate, it is necessary to consider whether and to what extent these uses resemble the kinds of capital projects undertaken under the previous programs. Two general observations can be made. First, a focus on conservation and rehabilitation, rather than on land acquisition and new construction, emerges. Second, the location of these new capital uses indicates a distinct shift away from the typically more concentrated geographical pattern of the urban renewal program. These two findings are interrelated. The net result is that new capital spending under the CDBG programs tends to have a geographical spreading effect, particularly evident in plans for so-called "neighborhood conservation programs." This spreading effect is also discussed in Chapter 8 for the income-group incidence of CDBG allocations and in Chapter 9 for the use of these funds to leverage private investment capital for community development purposes.

Illustrative Field Observations

The general findings about new capital uses of CDBG funds become more meaningful with a closer look at information from the field. Presented in this portion of Chapter 7 are capsule descriptions from the field research reports on the new capital uses in six recipient jurisdictions.

New Capital Uses by Central Cities with Hold-harmless Entitlements. The first two recipients profiled are central cities, Boston and Pittsburgh. (See Capsules 7-1 and 7-2 on the following page.) Both had high levels of previous program experience and thus were hold-harmless entitlement jurisdictions. Each allocated more than 50 percent of first-year CDBG funds for new capital purposes. Since this is the first presentation of case data, these capsules go beyond the presentation of the new capital uses per se, to illustrate the kinds of considerations that influenced the block grant allocation process. (Material in quotes in all capsule descriptions in this chapter is taken directly from field associates' reports.)

Capsule 7-1. Boston, Massachusetts

Population: 641,000
Central city with hold-harmless entitlement
Grant amount: $32,108,000 (New capital 53.6 percent)

The focus in Boston of the first year of the CDBG program was on neighborhood stabilization. A city with high unemployment, a high property tax rate, a recently-reduced borrowing rating, and facing a projected loss under the full CDBG formula, Boston allocated a large portion of its grant to capital projects outside the former model cities and urban renewal areas: "There was an explicit desire on the part of the mayor's office to provide some visible artifact in each neighborhood of the allocation of these funds--street lights, parks, sidewalks, community facilities, trees." A spreading effect is reflected not only in spending for public facilities and improvements, which totaled about $6 million, but also for the $7.25 million housing rehabilitation program. Housing rehabilitation was carried out in neighborhoods throughout the city. As discussed in Chapter 11, Boston utilized a citizen participation strategy of eighteen "Little City Halls." The associate reported that in a mayoral election year a spreading effect could have been predicted. Much of Boston's $3.5 million dollar allocation for new operations went to support neighborhood stabilization. More than $2 million was allocated for planning and management, $1 million for policemen to patrol neighborhood and business districts on foot. "The block grant budget presented an opportunity for the mayor to exercise his discretion and to distribute money his way rather than HUD's."

Capsule 7-2. Pittsburgh, Pennsylvania

Population: 520,089
Central city with hold-harmless entitlement
Grant amount: $16,429,000 (New capital 57.7 percent)

Pittsburgh had extensive categorical grant experience, particularly in the urban renewal and model cities programs. Even before the advent of the block grant program, the city was in the process of phasing out its urban renewal and model cities programs, which officials viewed as "too expensive." City leaders, strongly committed to fiscal conservatism and the maintenance of a budgetary surplus, showed "a willingness to undertake only those programs of a capital nature that can be completed within a short period of time, and impose only the minimal and necessary operating cost to the city." The emphasis was on capital improvements rather than new facilities. With CDBG funds, improvements were made to existing recreational centers, playgrounds, swimming pools, and senior citizens' centers. For example, no new recreation facilities that could lead either to a long-term financial commitment or to continuing operating costs were included in the block grant applications. No new operations were undertaken with block grant funds. The underlying concern in the allocation of funds was twofold: (1) to avoid expanding programs beyond what could be accomplished entirely with CDBG funds so that, in the event the grant were suddenly withdrawn, the city would not be burdened with the cost of such programs; and (2) "to prevent the further decline of good residential areas which were excluded under the old categorical grant programs."

New Capital Uses by Discretionary Units. A significant portion of CDBG funds are not allocated by formula under HUD's "veto-only" application process. Chapter 3 points out that 11 percent of these funds in the first year were distributed on a discretionary basis.[9/] What difference does the new program make for these recipient jurisdictions? Although the sample contains only four discretionary recipients (all non-metropolitan), field observations of their experience suggest an answer to this question. For discretionary grant recipients under the CDBG program, the new program appears to make little difference in their relationship to the federal government from what were standard procedures under the folded-in grant programs. All four non-metropolitan discretionary units in the sample used more than 70 percent of their CDBG funds for new capital purposes, reflecting HUD's apparent preference for new capital spending with CDBG funds. The influence of the federal agency and the essentially "categorical" nature of the transaction for these units is shown by the field data Capsule descriptions for two of the four non-metropolitan jurisdictions in the sample, with an emphasis on the intergovernmental relationship involved, are presented here. Capsules 7-3 and 7-4 deal with Pulaski County, Illinois, and Casa Grande, Arizona.

Capsule 7-3. Pulaski County, Illinois

Population: 8,741*
Non-metropolitan discretionary county
Grant amount: $300,000 (New capital 83.3 percent)

Five rural counties in southern Illinois (Alexander, Johnson, Massac, Union, and Pulaski) applied for a discretionary grant, with Pulaski County serving as the lead agency. This area at the extreme southern tip of the state has been characterized in recent years by problems stemming from a decline in agricultural activity and an emigration of population, especially the young. The five counties hoped to use their CDBG funds primarily to improve public facilities (roads and water systems), which would encourage economic development and thereby reduce a "growing incidence of poverty and public dependency." The fiscal problems of these jurisdictions were seen as precluding their undertaking such improvements out of local revenue sources.

"HUD's response to the pre-application indicated very clearly that only two programs--senior citizens and a limited demolition program--had a real chance of funding." The final application reflected HUD's priorities. According to the associate, ". . . in this sense, the discretionary program takes on all of the earmarks of the categorical approach."

Keenly aware of the fiscal situation, with no assurance that federal funds would be forthcoming in the future, county officials were interested in projects that would not involve future commitments of local funds. Of the total grant, over 80 percent was used to acquire and renovate buildings for senior citizen programs to be administered by private non-profit agencies. Another $50,000 of the grant went largely for planning and management of new projects, and for the demolition of vacant houses.

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* The five-county consortium's total population is 58,266. The grant amount used in this report is that for the entire consortium.

Capsule 7-4. Casa Grande, Arizona

Population: 11,000
Non-metropolitan discretionary city
Grant amount: $235,000 (New capital 74.5 percent)

Located midway between Phoenix and Tucson, Casa Grande recently experienced a rapid increase in population; it grew by 5,500 in five years. The town has substantial areas of poverty and a 1971 mean family income 11 percent below that of the state. Mexican-Americans account for 28 percent of Casa Grande's population; Blacks and Indians comprise another 10 percent.

Casa Grande's application for discretionary funds "was tailored to meet HUD area office demands." Although the city had hoped to be awarded aid for property acquisition and parks, the application was modified to include only capital spending for housing rehabilitation, which accounted for three-fourths of the first-year grant. According to the field associate, "For all intents and purposes, the finally approved version of the application was perceived by the local officials to be categorical. The funds were new, to be spent for a limited purpose in accordance with federal directives and regulations. Although forms and procedures may be different, I see no meaningful difference between the process Casa Grande has gone through and any other categorical grant request. I know that it is the way local officials perceived the process." Although local officials would have preferred to share the benefits of this grant with all residents in need of housing assistance, HUD required the selection of a specific target area.

The balance of the first-year grant was allocated to operations to support housing rehabilitation; $33,000 was allocated for code enforcement, $27,000 for planning and management.

<u>New Capital Uses by Urban Counties</u>. It was anticipated that the inclusion of urban counties in the CDBG program would "alter many traditional roles, responsibilities and relationships." 10/ Nine of the ten urban counties in the sample allocated some CDBG funds for new capital purposes,11/ with proportions ranging from just 10 percent (King County, Washington) to more than 75 percent (DeKalb County, Georgia). Although it is early to judge, the data available thus far suggest that the anticipated changes in "roles, responsibilities and relationships" are occurring. As a general rule, direct new capital uses of CDBG funds indicate a willingness on the part of county governments to assume greater responsibility for the provision of urban services.12/

Among the sample urban counties, Harris County, Texas, and DeKalb County allocated the highest proportions (49 percent and 78 percent, respectively) for new capital spending. For both of these county governments, there are two important implications in their new capital uses of CDBG funds. First, such allocations represent special attention to the needs of persons living in the most impoverished areas of the county. Second, the new capital projects funded with first-year CDBG funds in many cases are expected to be a prelude to a larger role for county government in providing human services, in contrast with traditional public works. (For a discussion of county strategy to enlarge its traditional role, see Orange County, California, Capsule 10-3, Chapter 10.) The following capsules (7-5 and 7-6) on DeKalb and Harris Counties illustrate these points.

Capsule 7-5. DeKalb County, Georgia

Population: 344,621
Urban county
Grant amount: $840,000 (New capital 78.1 percent)

DeKalb County, according to the associate, "is regarded as the wealthiest county in the southeast." Rapid population growth from 1950 to 1970, mostly caused by immigration of major companies to the Atlanta area, stimulated county government efforts to provide services for the new areas, generally at the expense of the older sections of the county, populated mostly by Blacks. "So the poor, who once lived in rural areas, found themselves in the middle of an urban county but were still unable to get county services. In many cases, development around the poor areas made life worse for their residents."

County officials, however, working largely in the unincorporated areas, which according to the Atlanta Constitution, "include 21 miles of unpaved streets, 2,275 houses that are dilapidated beyond repair and countless numbers of streets with poor drainage and no sewer lines," allocated most of the block grant funds for road and drainage improvements, and for site acquisition for a multi-purpose social-services center, and three centers for senior citizens. According to the associate, this is the first time since 1890 that funds have been used for capital improvements in the older areas of DeKalb County.

Capsule 7-6. Harris County, Texas

Population: 1,741,900
Urban county
Grant amount: $961,000 (New capital 49.3 percent)

Harris County is a rapidly growing, affluent urban county with no previous involvement in the folded-in programs. "Traditionally, the county has maintained a low profile in human services--a federal court recently mandated improvement of its substandard jail system--and evidenced a general distrust of any involvement in federal programs."

Having qualified as an eligible urban county, Harris officials decided to apply for the CDBG funds, which they viewed as "free money." The Harris County Community Action Agency, one of the few organizations with grant experience and county-wide visibility, was hired to develop the application. To satisfy HUD's emphasis on physical improvement and the local organization's concern for the development of services in the poorer areas of the county, the major use of the allocations was the construction of neighborhood centers offering senior citizen services and educational programs. The development of such centers may, in the associate's view, "be an important first step in systematizing and coordinating the delivery of human services to needier areas of the county."

A further sign of this new interest is the allocation of 26 percent of CDBG funds to such operations as neighborhood clean-up and beautification, including the removal of refuse in the poorer sections of the county.

New or Expanded Operations

Although fifty-nine units (almost the entire sample) made CDBG allocations for new or expanded operations, the average allocation for these purposes was only 16.2 percent -- less than half that for new capital purposes, as shown in Table 7-1. For all but six of the fifty-nine units, these allocations constitute less than one-third of all allocations. For the six with allocations over one-third, our findings for new operations are similar to those for new capital spending, namely, a spreading out of CDBG benefits on a community-wide basis.

As in the case of new capital uses, in jurisdictions with high previous experience in the folded-in grants (notably Cleveland and Atlanta) new operations spending patterns provide evidence of a spreading effect of CDBG funds. The spreading of funds was also found for Houston, which had a large model cities program, but no urban renewal program. For two satellite cities with little categorical experience (Evanston, Illinois, and El Monte, California), new spending reflects the dominance of local considerations in community development decisionmaking. In King County, Washington, uses of CDBG funds indicate an increased commitment to the provision of urban services. For the six jurisdictions allocating more than one-third of first-year CDBG funds to new or expanded operations, a brief description of the types of programs funded is presented in Table 7-4.

Table 7-4. Descriptions of Activities in Units Allocating More than One-third of First-year CDBG Funds to New or Expanded Operations

Jurisdiction	New operations as percent of total block grant	Types of new operations
Cleveland, O.	62.2	Shift from concentrated funding for community development in deteriorated areas; now stress on revival of marginal neighborhoods. Allocated major part of grant funds for environmental health programs, code enforcement, neighborhood clean-up, property clearance, and social services outside the prior-program target areas.
El Monte, Calif.	62.0	New spending focused on planning for housing and parks; also crisis-intervention training for the police. Stress on planning said to result from lack of previous grant experience of local government.
Atlanta, Ga.	43.3	Funds were allocated for senior citizen and youth programs, housing code enforcement, credit counseling and a high-risk mortgage pool in low and moderate-income areas of the city.
Houston, Tex.	39.0	Main new operational uses: maintenance of vacant properties, relocation assistance, and environmental health programs in transitional neighborhoods (i.e., outside the model cities area). Emphasis on housing rehabilitation and improved city services to target neighborhoods.
King County, Wash.	38.7	Allocations to operate community center, health care center and dental care program in the unincorporated areas. These represent major shift in county government attitude toward social-services projects.
Evanston, Ill.	38.0	Code enforcement in target areas and city-wide relocation assistance. With little prior program experience and no ongoing federally funded community development activities, officials funded these programs as components of its ongoing rehabilitation program.

Source: Field research data.

The most important points that emerge from an examination of new operational uses of first-year CDBG funds concern the extent to which they support the act's implicit emphasis on physical development. For all sample units that allocated CDBG funds for new or expanded operations, nearly 60 percent of these allocations went for planning and administrative activities associated with capital projects.

Related to this finding is another important policy conclusion, namely, the lack of emphasis, in contrast to the model cities program, on social service expenditures. Social services accounted for only 12 percent of the total amount of first-year CDBG funds allocated for new operations. The projects affected were primarily recreational and health services for youth and senior citizens. The remainder of new or expanded operations -- 28 percent -- was used for a variety of purposes, including code enforcement and relocation.

Although allocations to initiate or expand social-services programs did not account for a high proportion of new operational spending, the arrangements under which these allocations were administered should be noted. Of the twenty-four jurisdictions which allocated block grant funds for new social services, two-thirds (sixteen units) relied on contracts with local non-profit agencies for program administration. This was found to be a well established approach on the part of the sample units. Under CDBG, the programs contracted for included tenant counseling, child care, health, recreation, child abuse prevention, and various services for the elderly.

Maintenance and Continuation of Community Development Programs

As shown in Table 7-1, program maintenance accounted for slightly less than one-third of all first-year allocations for the sample units. Within the program maintenance group, the use of CDBG funds to continue community development programs previously supported by grants folded into the block grant program was clearly dominant, accounting for 90 percent of all allocations. Thirty-eight of the sample jurisdictions used some funds in this manner. In dollars, this meant that $29.70 of every one hundred dollars for CDBG was allocated for community development program continuation purposes. Nearly 14 percent of that was spent for planning and management.

As would be expected, the higher the level of previous experience, the greater was likely to be the proportion of CDBG funds allocated for community development program continuation. The twenty-six sample units with high previous experience allocated over one-half their funding for this purpose. The mean percentages for community development program continuation according to level of previous experience are as follows:

No previous experience -- zero percent
Low previous experience -- 11.9 percent
Moderate previous experience -- 41.0 percent
High previous experience -- 54.1 percent

This program-continuation effect involves (1) projects that were already in existence when the new program was initiated and that were continued essentially unaltered, and (2) new allocations for the same kinds of activities as those previously funded under the model cities and/or urban renewal programs.

The allocation of first-year block grant funds in Rochester, New York, illustrates the first type of program continuation. In 1975, Rochester's large, ongoing urban renewal program was close to completion with respect to land acquisition and clearance activities; considerable work still remained on planned public improvements. City officials considered the completion of these projects to have high priority. As a consequence, a substantial proportion of Rochester's block grant funds went toward completing existing urban renewal projects. Minneapolis, Minnesota, presents an example of the second kind of program continuation. Officials and citizens there agreed to use block grant funds for certain social services (mainly day care centers and services for the elderly) that had been initiated under Minneapolis' model cities funding.

For sixteen jurisdictions, the continuation of programs previously funded under the folded-in community development grants represented more than half of all allocations. These units are shown in Table 7-5. The remaining twenty-two units, for which this net effect was found but which allocated less than half of their CDBG allocations in this manner, are shown in Table 7-6.

Table 7-5. Sample Jurisdictions with 50 Percent or More Community Development Program Maintenance Effects, Ranked in Descending Order

Jurisdiction	Previous experience in prior programs: Model cities	Previous experience in prior programs: Urban renewal	Hold-harmless amount (thousands of dollars)	Community development program continuation: Amount (thousands of dollars)	Community development program continuation: Percent of all allocations
Sioux City, Ia.		√	3,929	3,761	95.7
Auburn, Me.		√	701	641	91.4
Dade County Fla.	√	√	21,610	17,667	81.8
Newark, N.J.	√	√	20,513	16,219.4	78.9
Bangor, Me.		√	1,172	854	72.9
Minneapolis, Minn.	√	√	16,793	10,781.4	64.2
East Orange, N.J.	√	√	2,519	1,586.7	63.0
Los Angeles, Calif.	√	√	38,595	23,581.5	61.1
Phoenix, Ariz.		√	1,309	1,560	60.7
New York, N.Y.	√	√	102,244	48,931	59.3
Jacksonville, Fla.		√	5,193	2,990	57.6
Sioux Falls, S.D.		√	3,064	1,884.7	56.7
Rochester, N.Y.	√	√	14,684	8,240	56.1
Carbondale, Ill.	√	√	2,930	1,641	56.0
Philadelphia, Pa.	√	√	60,829	33,742	55.5
St. Louis, Mo.	√	√	15,494	7,996	52.6

Source: Field research data.

Table 7-6. Sample Jurisdictions with between 1 and 49 Percent Community Development Program Maintenance Effects, Ranked in Descending Order

Jurisdiction	Previous experience in prior programs: Model cities	Previous experience in prior programs: Urban renewal	Hold-harmless amount (thousands of dollars)	Community development program continuation: Amount (thousands of dollars)	Community development program continuation: Percent of all allocations
Lubbock, Tex.		√	5,328	2,609	48.9
San Jose, Calif.	√	√	6,554	3,143	47.8
Worcester, Mass.	√	√	6,044	2,705.5	44.8
Los Angeles County, Calif.	√	√	14,461	6,383	44.1
Chicago, Ill.	√	√	43,201	18,000	41.7
Miami, Fla.	√		3,165	1,266	40.0
Portland, Me.	√	√	5,272	2,088.5	39.6
Cambridge, Mass.	√	√	4,035	1,546	38.3
Allegheny County, Pa.	√		6,456	2,397	37.1
Seattle, Wash.	√	√	11,641	4,058	34.9
Raleigh, N.C.		√	498	484	31.0*
Lansing, Mich.	√	√	6,967	1,873	26.9
Boston, Mass.	√	√	32,108	8,500	26.5
Mt. Vernon, N.Y.	√	√	2,590	650	25.1
Houston, Tex.	√		13,257	3,320.6	25.0
Alma, Mich.		√	529	130.5	24.7
Durham, N.C.		√	2,384	554.5	23.3
Scottsdale, Ariz.		√	1,832	166.5	9.1
Cleveland, O.	√	√	16,092	1,278	8.0
Pittsburgh, Pa.	√	√	16,429	1,098	7.6
Atlanta, Ga.	√	√	18,780	355	1.9
Denver, Colo.	√	√	15,805	246	1.6

Source: Field research data.

* Raleigh received $520,000 under its formula entitlement and $1.04 million from the Secretary's Inequities Fund--a total of $1.56 million for its first program year.

For all of the units allocating funds for continuation of the folded-in programs, spending for activities associated with urban renewal and related physical development purposes accounted for 52.7 percent of the allocations made. These activities included:

Acquisition, demolition, and clearance	23.9 percent
Housing (under urban renewal)	12.9 percent
Health, recreation, and community facilities	9.5 percent
Streets, sewers, and sidewalks	6.4 percent

Social services under the model cities program accounted for another 20 percent of the allocations for this net effect category and management costs, 13.2 percent. As indicated earlier, the emphasis on capital uses of block grant funds is clearly reflected in these program-continuation allocations.

Associates were also asked whether these allocations for program continuation involved increased, decreased, or maintained levels of activity. For the sixteen sample units in which program continuation represented more than half of all allocations, the level of commitment to these categorical programs remained high. All but two of these units continued or increased prior commitments to urban renewal programs and all but four maintained or increased their prior program level for model cities.

For the sample as a whole, urban renewal projects were more likely to have been continued than model cities programs. Of all units with any program continuation effect for the folded-in grant programs, more than half cut back their model cities program.

Urban renewal continued at the same or higher level* (21 jurisdictions)	Model cities continued at the same or higher level (12 jurisdictions)
60%	44.4%
Urban renewal continued at lower level* (10 jurisdictions)	Model cities continued at lower level (15 jurisdictions)
28.5%	55.5%

* Data not available for four jurisdictions.

Three jurisdictions with prior urban renewal programs -- Santa Clara, California; Marlborough, Massachusetts; and Charlottesville, Virginia -- did not allocate any block grant funds to the community development program continuation category. There were no units with model cities programs that eliminated these programs altogether in the first year of the CDBG program. Mount Vernon, however, very nearly did so. (For a discussion of this point, see Capsule 10-6 in Chapter 10.)

Urban Renewal Program Continuation. Altogether, thirty-two units in the sample were found to have continued urban renewal activities with CDBG funds as shown in Table 7-7. (Sample jurisdictions are listed alphabetically in 7-7, according to whether they increased or decreased their level of spending for urban renewal.) It is important to point out that the data include both the completion of ongoing urban renewal projects and the initiation of new ones. Only Auburn, Carbondale, Portland, Raleigh, San Jose, and Scottsdale were found to have urban renewal programs that were nearly completed as of 1975.

Table 7-7. Sample Jurisdictions with Continued Urban Renewal Activities from CDBG Funds

Increased or maintained urban renewal activities	Percent of hold-harmless amount represented by urban renewal	Decreased urban renewal activities	Percent of hold-harmless amount represented by urban renewal
Alma, Mich.	79.8	Atlanta, Ga.	59.2
Auburn, Me.	86.4	Boston, Mass.	67.8
Bangor, Me.	100.0	Cambridge, Mass.	53.9
Carbondale, Ill.	35.0	Durham, N.C.	82.4
Chicago, Ill.	28.1	Lubbock, Tex.	78.9
Dade County, Fla.	67.0	New York, N.Y.	42.7
East Orange, N.J.	32.6	St. Louis, Mo.	48.5
Jacksonville, Fla.	90.6	Pittsburgh, Pa.	69.3
Los Angeles, Calif.	38.1	Seattle, Wash.	42.7
Los Angeles County, Calif.	31.3	Worcester, Mass.	60.8
Minneapolis, Minn.	60.9		
Mount Vernon, N.Y.	40.2		
Newark, N.J.	71.9		
Philadelphia, Pa.	62.0		
Phoenix, Ariz.	34.3		
Portland, Me.	60.7		
Raleigh, N.C.	64.3		
Rochester, N.Y.	72.3		
San Jose, Calif.	28.0		
Scottsdale, Ariz.	94.4		
Sioux City, Ia.	94.9		
Sioux Falls, S.D.	82.0		

Source: Field research data.

All of these jurisdictions increased their urban renewal expenditures, with Auburn devoting 86.4 percent of its entire grant to this purpose. Eight jurisdictions used all of their CDBG funds which they allocated for urban renewal to continue the same urban renewal activities in the same locations. In Sioux City, for example, almost all of the city's CDBG funds went toward the completion of an ambitious downtown renewal project. Some new buildings had been completed by 1974; other areas contained boarded-up buildings about to be demolished. Facilities and improvements for both the completed and boarded-up areas were underway. In order for the program as a whole to succeed, Sioux City officials believed it was imperative to continue and complete the work in progress.

Most of the jurisdictions in this group continued existing projects and, at the same time, authorized their renewal agencies to initiate new projects. Many of these were in new areas, which contributed to the spreading effect described above for new capital and new operating uses of CDBG funds.

For the ten sample units which continued urban renewal activities, but at a lower level, these allocations as a general rule reflected changed community development priorities. The associate for St. Louis, for example, stated that, although more than half of the first-year block grant was allocated for program continuation, "the only way that the city could use the funds for other purposes was to cut back on its ongoing urban renewal and model cities activities. Under the new program, the city chose to initiate new, neighborhood-oriented activities." Likewise, in Cambridge, CDBG funds were allocated for public improvements in low-income areas that had not been aided under either the model cities or urban renewal programs. Although a spreading effect did occur in this case, it involved the allocation of funds to low-income areas other than those affected by model cities or urban renewal projects. This raises a significant policy issue, namely, that spreading does not necessarily have to involve a redistribution of benefits to better-off areas or individuals. It can, as in Cambridge, reflect the dispersal of funds among low-income areas.

Model Cities Program Continuation. Eleven jurisdictions were classified as continuing model cities programs at the same or higher levels as prior to 1974. As in the case of urban renewal, the definition used here involves the continuation of the same projects in the same area, as well as the initiation of new programs and activities. In contrast to urban renewal, where units which continued or increased their level of activity exceeded those that reduced it by two-to-one, in the case of model cities, the units that cut exceeded those that maintained or expanded model cities programs. Fifteen jurisdictions are classified in Table 7-8 as having decreased the level of model cities activities.

Table 7-8. Sample Jurisdictions with Continued Model Cities Activities from CDBG Funds

Increased or maintained model cities activities	Percent of hold-harmless amount represented by model cities	Decreased model cities activities	Percent of hold-harmless amount represented by model cities
		Allegheny County, Pa.	100.0
Carbondale, Ill.	33.3	Boston, Mass.	34.0
Chicago, Ill.	62.3	Cambridge, Mass.	32.6
Dade County, Fla.	28.3	Cleveland, O.	57.9
East Orange, N.J.	55.3	Denver, Colo.	31.1
Los Angeles, Calif.	58.5	Houston, Tex.	93.1
Los Angeles County, Calif.	52.2	Lansing, Mich.	27.6
Miami, Fla.	15.1	Mount Vernon, N.Y.	32.6
Minneapolis, Minn.	25.3	New York, N.Y.	50.9
Newark, N.J.	24.5	Pittsburgh, Pa.	27.0
Philadelphia, Pa.	30.1	Portland, Me.	31.1
Worcester, Mass.	31.6	Rochester, N.Y.	16.8
		St. Louis, Mo.	45.6
		San Jose, Calif.	47.0
		Seattle, Wash.	38.9

Source: Field research data.

The politics of model cities continuation are of special interest. In Newark, for example, political pressures were so strong that city officials felt compelled to continue consumer, crime prevention, health, and education services provided under the model cities program. For Carbondale, allocations to continue model cities programs were said to reflect the view that since model cities funding was "demonstration" money, the city should select the "best of the programs to continue and, in some cases, expand." For both Newark and Carbondale, decisions to continue model cities programs at present levels may involve some risk -- in the case of Newark because its projected entitlement under full-formula funding is half its first-year CDBG funding, and for Carbondale because it is a hold-harmless community with no guaranteed funding after the third year of the program. Associates for both jurisdictions reported that local officials were aware of the implications of the first-year decision to fund model cities programs at prior levels.

Unchanged priorities at the local level may also be an indicator of strong bureaucratic influences. The associate for Chicago indicated that, on their own, city officials probably would have discontinued their model cities program in the absence of federal funding; with CDBG funds, however, the model cities bureaucracy had enough political clout to secure the program's continuation. For all but three of the sample units that continued model cities programs at their pre-1975 level, the field associates observed a tendency to spread these activities out beyond the original model cities areas. According to the Dade County associate, the continuation of model cities meant that the same needs would be addressed, but with a broader geographic scope, in this case extending model cities crime-prevention, recreation, and day care programs to ten new target areas.

For a number of the fifteen cases in which model cities activities were continued, but at a lower level, the announced intent was eventually to discontinue the model cities program; this was true, for example, of Pittsburgh. Model cities programs are regarded, as the profile above on Pittsburgh (Capsule 7-2) noted, as "too expensive, limiting local discretion and locking Pittsburgh into a program of low priority with the city's administration." The fate of the model cities program in these fifteen jurisdictions in the second year of the block grant is an important research question.

<u>Questions on Program Continuation Without CDBG Funds</u>

For all jurisdictions that continued the folded-in programs in the first year of CDBG, an important question to be raised is what would, or might, have happened had the CDBG program not been enacted. Although a difficult prospect to gauge, associates were asked this question and the subject was discussed at the research conferences. Specifically, associates were asked whether "such programs and administering arrangements would have been adopted if CDBG funds had not been available." The findings, in general, suggest that many community development projects would have been cut out -- or significantly cut down -- if the CDBG program had not been enacted. This was found to be more prevalent for model cities than for urban renewal activities, however.

For five of the ten units that had high (50 percent or more) community development program continuation and that had had both model cities and urban renewal programs, associates reported that both programs would have been terminated. The New York City associate simply stated, "That would have been the end of that. New York could not have continued most of the model cities and urban renewal programs, despite tremendous bureaucratic pressure and influence. The Emergency Fiscal Control Board would most assuredly have cut them back sharply or cut them out altogether."

For the other five units with experience in both programs, all of the associates said that these programs would have been maintained, but at lower levels. For Carbondale, a hold-harmless jurisdiction, the associate said the city "would have found room in the budget for some limited wind-down money for some crucial projects for health and child care and also for the completion of some road and street work in the urban renewal area, but that was all that would be possible."

Of the six units in the high continuation category with only urban renewal experience, the associates for two, Sioux City and Auburn, said they believed that commitments were so firm that these two cities would have used their own revenue to complete these projects. The Auburn associate said, "City officials generally agreed that Auburn had to finish off its urban renewal project and that it would have cost the city more money in the long run not to have done so."

Table 7-9 presents the summary data from sample jurisdictions on the future of urban renewal and model cities programs in the absence of the CDBG program.

Table 7-9. Summary Data on Future of Model Cities and Urban Renewal Programs without CDBG Funding; for Sample Jurisdictions

Projected future	Number of jurisdictions
For model cities:	
Continuation at first-year CDBG level	4
Continuation at lower level	10
Termination	12
Total	26
For urban renewal:	
Continuation at first-year CDBG level	4
Continuation at lower level	23
Termination	7
Total	34

Source: Field research data.

Continuation of Non-community Development Federally Funded Programs

Use of CDBG funds to continue community development projects that had been federally aided under programs not included among those folded into the block grant program was not widespread. For the sample as a whole (shown in Table 7-1), continuation of other federally funded programs accounts for less than 1 percent of total net effects.

Thirteen units were found to have used some CDBG funds in this manner. The amounts involved were under 10 percent for all thirteen. Cleveland, as was mentioned in Chapter 2, stands out in this group. The city allocated $1.1 million of its $16.5 million CDBG entitlement to replace a grant from the United States Law Enforcement Assistance Administration in order to retain 190 city policemen employed under this special project. The city's decision in this case generated both local and national controversy and caused considerable publicity. At the outset, Senator Robert Taft assisted Cleveland Mayor Ralph Perk in negotiating a favorable ruling on the city's application to use CDBG funds in this manner. Congressman Louis Stokes opposed this ruling; he argued that the decision resulted in diverting funds away from distressed inner-city areas. In the final analysis, HUD ruled that only crime-control projects confined to the CDBG target areas were eligible for this use of CDBG funds, causing both sides to claim victory. (For further discussion of this case, see Capsule 11-2, Chapter 11.)

Other Program Maintenance

Only seventeen units in the sample allocated funds to maintain programs formerly funded with state or local revenue. Most of these allocations were under 10 percent. For the sample as a whole, such program maintenance effects account for only 3.3 percent of total allocations (see Table 7-1). For three units (all western satellite cities with populations under 100,000), such program maintenance effects represent more than 30 percent of block grant allocations.

For Lakewood, Colorado, 57 percent of the block grant was categorized as "other program maintenance." Lakewood officials chose to allocate more than one-half of the city's $226,000 entitlement for completion of a street construction project already underway and scheduled for completion. This also included costs for the acquisition of a right-of-way, and for clearance and relocation.

Scottsdale, Arizona, an affluent resort community, was classified by the associate as being under extreme fiscal pressure in 1974. The associate explained that Scottsdale's very heavy reliance on sales tax revenues, which had declined because of the "energy crisis" and sharply decreased tourism, "left Scottsdale with a major revenue shortfall." In this setting, Scottsdale allocated 40.3 percent of its block grant to program maintenance, including $664,000 for the continuation of capital improvements for transportation already underway, and $75,000 to enable the city to retain employees of the city planning department. A Scottsdale official said, "We knew we had to use federal funds wherever we could just to stay in business."

For Santa Clara, California, 32.3 percent of the block grant was allocated to continue programs formerly funded with local resources.

Fifty-thousand dollars was appropriated for installation of traffic signals, another $50,000 for the removal of barriers in order to aid the handicapped, and $18,500 for planning and management.

In all three instances, as was the case with Cleveland's use of CDBG funds for law enforcement, the ultimate effect of these allocations was to offset what otherwise would have been local spending. Although we have discussed program maintenance as a separate effect, it is closely related to substitution uses of CDBG funds, that is, to the extent that ongoing programs and activities would have been continued using other resources in the absence of CDBG funds.

Substitution Effects

For the entire sample, as shown in Table 7-1, the combined substitution categories account for just 6.9 percent of all net effects.[13/] There are only five jurisdictions in the sample for which substitution effects exceeded one-quarter of their first-year allocations. As shown in Table 7-10, Greece, New York, heads the list with 75.5 percent substitution effects.

Table 7-10. Sample Jurisdictions with 25 Percent or More Substitution Effects from CDBG Funds, Ranked in Descending Order

Jurisdiction	Population (thousands)	Level of previous program experience*	Substitution effects: Amount (thousands of dollars)	Substitution effects: Percent of all allocations
Greece, N.Y.	75.1	L	226.5	75.5
Cleveland Heights, O.	60.8	N	52.0	36.9
Cook County, Ill.	5,488.3	L	1,000.0	30.8
Santa Clara, Calif.	87.9	L	110.0	30.8
Harris County, Tex.	1,741.9	N	240.0	25.0

Source: Field research data.

* H: high previous experience; M: moderate previous experience; L: low previous experience; N: no previous experience.

As was pointed out earlier in this chapter, there was some expectation at the outset of the research that many recipient units, particularly hard-pressed local jurisdictions, would devote a significant portion of their CDBG funds to substitution uses. Contrary to what was expected, however, the sample units facing the most adverse fiscal conditions were found in the first year to have the lowest substitution effects. Table 7-11 correlates fiscal pressure in the CDBG sample units with fiscal effects.

Table 7-11. Net Fiscal Effects in Sample Recipient Jurisdictions, by Degree of Fiscal Pressure

Fiscal pressure	Number of recipients	Net fiscal effect in unweighted mean percentages* New spending	Program maintenance	Substitution
Extreme	9	46.7	49.1	2.2
Moderate	36	55.2	39.5	5.2
Little or none	15	52.8	16.5	14.1

Source: Field research data.

* These percentages do not sum to 100 percent because unallocated fiscal effects are not included.

Among the jurisdictions with the largest substitution effects, CDBG funds were used in two cases to substitute for local borrowing; in two, they were used to increase fund balances (i.e., to build up fiscal reserves); and in one, to stabilize taxes. For the two units that used CDBG funds to build up reserves, associates reported this may be a temporary substitution effect -- that is, these jurisdictions may later decide to allocate these funds for new community development projects. Of the five jurisdictions in Table 7-10, only Cook County was categorized as being under fiscal pressure, in its case, moderate fiscal pressure; the other four were classified as being under little or no fiscal pressure. None of the five had what would be considered a high level of prior experience under the folded-in grant programs. Brief descriptions of the five cases where substitution effects exceeded 25 percent are presented in Table 7-12.

Table 7-12. Descriptions of Activities in Units with Substitution Effects of 25 Percent or More of All CDBG Allocations

Jurisdiction	Substitution effects: Percentage of allocation	Substitution effects: Specific effect	Substitution impact of CDBG funds
Greece, N.Y.	75.5	Borrowing avoidance and tax stabilization	Allocated the major portion of its $300,000 entitlement to acquire land for a drainage basin. "These capital and operating costs to alleviate drainage problems were town priorities established prior to awareness of the availability of these federal funds."
Cleveland Heights, O.	36.9	Tax stabilization	CDBG funds allocated for construction of a previously-planned parking lot.
Santa Clara, Calif.	30.8	Increased fund balances	Over the objections of citizen advisory committee members to utilize money for a neighborhood community center and for rehabilitation of low-income housing and conservation, block grant money was allocated for a previously-planned swimming pool resulting in a $110,000 increase in fund balances for the city.
Cook County, Ill.	30.8	Borrowing avoidance	Had previously given high priority to the need for regional service centers involving a county government presence in all suburban districts of Cook County. CDBG enabled the county to reduce the amount of borrowing necessary for this project.

Table 7-12.(continued)

Jurisdiction	Substitution effects: Precentage of allocation	Specific effect	Substitution impact of CDBG funds
Harris County, Tex.	25.0	Increased fund balances	An increase of fund balances resulted from the use of CDBG funds to support and improve the existing county park system, an effort to which the county had already committed itself.

Source: Field research data.

Concluding Comment, Other Issues

In line with the apparent aims of the CDBG program, physically-oriented community development activities received heavy emphasis in the first year. Allocations were concentrated on new spending for these purposes, as well as the completion of ongoing urban renewal projects (also highly capital-intensive activities). While some local officials and groups wanted larger allocations for social services, the legislative history and, in some instances, subsequent program administration by HUD area and regional offices indicate a much stronger emphasis on "bricks and mortar," which is precisely what we found. In comparison to the general revenue sharing program, substitution effects were much smaller under the CDBG program.

This capital development emphasis, however, is only part of the story. Many observers are interested as well in the question, "Who benefits?" In the chapter that follows, we carry the analysis of the uses of CDBG funds another step in an attempt to answer this question in terms of the income level of the persons most affected by the uses of CDBG funds.

FOOTNOTES TO CHAPTER 7

1/ The Brookings sample for the study of the CDBG program consists of sixty-two jurisdictions. The field data on fiscal effects for two jurisdictions, Florence and Columbia, South Carolina, however, were not available at the time of preparation of this analysis. Hence, they are not included in Chapter 7.

2/ The application process for CDBG funds requires the submission of a three-year community development plan, a housing assistance plan, and a one-year program to HUD by the applicant. Applications are subject to review during a seventy-five-day period from the time of submission; if HUD does not act within that time period, applications for entitlement funds are automatically approved. For discretionary applications, HUD must take specific action respecting approval or disapproval.

3/ David O. Meeker, Jr., Review of Community Development Block Grant Applications, U.S. Department of Housing and Urban Development, Memorandum (November 29, 1974).

4/ For a discussion of the findings and methodology of the Brookings monitoring study of the general revenue sharing program, see Richard P. Nathan, Allen D. Manvel, and Susannah E. Calkins, Monitoring Revenue Sharing (Brookings Institution, 1975).

5/ Weekly Compilation of Presidential Documents, VIII, No. 43 (Government Printing Office, 1972), p. 1534. By the time the third general revenue sharing checks were received in April 1973, the perception of general revenue sharing as new money was altered. See Monitoring Revenue Sharing, pp. 18-20 and Paul R. Dommel, Politics of Revenue Sharing (Indiana, 1974), pp. 170-175 for a discussion of presidential initiatives in 1973 to cut back grant-in-aid programs and impound federal funds.

6/ Although the act does contain such a "maintenance of effort" statement, the regulations make no reference to it. See Appendix I, Section 101(c).

7/ See Monitoring Revenue Sharing, Table 8-1, p. 193. To achieve comparability with the substitution categories in this study of the CDBG program, the mean percentage for program maintenance included in this table has been subtracted from total substitution effects.

8/ Of five jurisdictions in the sample not allocating any first-year CDBG funds for new capital uses, three allocated their CDBG funds almost exclusively for program maintenance (Auburn, Maine, and Sioux City, Iowa) or substitution uses (Greece, New York); the fourth, El Monte, California, concentrated its CDBG allocations on new operations; the fifth, Hennepin County, Minnesota, passed on 95 percent of the county's CDBG funds to cooperating municipalities.

9/ This proportion under current law is projected in Chapter 3 to rise to 42 percent of total CDBG funds in the sixth year of the program.

10/ National Association of Counties, Community Development Capabilities Study: An Urban County Report (Washington: National Association of Counties, 1975), p. 1.

11/ Hennepin County did not allocate any funds to new capital purposes.

12/ A special section on urban counties is also included in Chapter 10 on the role of general-purpose local governments and officials under the CDBG program.

13/ Even if the 3.3 percent for "Other Program Maintenance" (discussed above) is added to the 6.6 percent for substitution effects, the total would still be under 10 percent. The case for adding other program maintenance effects is harder to make in light of the findings stated above that in the judgement of the associates many of these programs and activities would have been cut out or cut back in the absence of CDBG funding.

Appendix vii-A. Population, Fiscal Pressure, Level of Experience in Folded-in Grants, and Fiscal Effects Under First Year of CDBG Program; for Sample Jurisdictions, by Type

Jurisdiction	Population. 1970 (thousands)	Fiscal pressure[a/]	Previous grants experience level[b/]	Under CDBG Program			
				First year block grant (thousands of dollars)	Percent new uses	Percent program maintenance	Percent substitution
Central cities:							
Atlanta, Ga.	495.0	M	H	18,780	88	2	...
Auburn, Me.	24.2	M	H	701	9	91	...
Boston, Mass.	641.1	M	H	32,108	64	27	...
Chicago, Ill.	3,369.0	M	M	43,201	45	43	8
Cleveland, O.	750.9	Ex	M	16,092	85	15	...
Denver, Colo.	514.7	M	H	15,805	93	3	2
Durham, N.C.	95.4	M	M	2,384	75	25	...
East Lansing, Mich.	47.5	M	L	164	81	...	19
Houston, Tex.	1,232.8	L	M	13,257	74	25	1
Jacksonville, Fla.	528.9	M	M	5,194	39	61	...
Lansing, Mich.	131.4	M	H	6,967	65	27	8
Los Angeles, Calif.	2,811.8	M	M	38,595	32	66	2

Appendix vii-A. (continued)

Jurisdiction	Population 1970 (thousands)	Fiscal pressure	Previous grants experience level	Under CDBG Program: First year block grant (thousands of dollars)	Percent new uses	Percent program maintenance	Percent substitution
Lubbock, Tex.	149.1	L	H	5,328	32	49	13
Miami, Fla.	335.0	M	M	3,165	54	44	...
Minneapolis, Minn.	434.4	M	H	16,793	34	66	...
Newark, N.J.	381.9	Ex	H	20,513	16	81	3
New York, N.Y.	7,895.6	Ex	M	102,244	38	62	...
Philadelphia, Pa.	1,950.0	Ex	H	60,829	25	62	5
Phoenix, Ariz.	582.5	M	L	2,570	32	66	...
Pittsburgh, Pa.	520.1	M	H	16,429	58	26	9
Portland, Me.	65.1	M	H	5,272	59	40	...
Raleigh, N.C.	123.8	M	L	1,563[c]	69	31	...
Rochester, N.Y.	295.0	Ex	H	14,684	40	56	4

Appendix vii-A. (continued)

Jurisdiction	Population 1970 (thousands)	Fiscal pressure	Previous grants experience level	Under CDBG Program			
				First year block grant (thousands of dollars)	Percent new uses	Percent program maintenance	Percent substitution
St. Louis, Mo.	662.2	Ex	M	15,194	47	53	...
San Jose, Calif.	459.9	M	M	6,554	52	48	...
Seattle, Wash.	530.8	M	M	11,641	38	38	24
Sioux City, Ia.	85.9	M	H	3,929	1	96	...
Sioux Falls, S.D.	72.5	L	H	3,064	34	57	...
Worcester, Mass.	176.6	M	H	6,044	42	47	6
Satellite cities:							
Cambridge, Mass.	100.4	M	H	4,035	50	43	...
Cleveland Heights, O.	60.8	L	N	141	56	...	37
East Orange, N.J.	75.4	Ex	H	2,519	27	64	...
El Monte, Calif.	69.9	M	L	367	62	29	...
Evanston, Ill.	79.8	M	L	222	73	...	25
Greece, N.Y.	75.1	L	L	300	25	...	75
Huntington Beach, Calif.	116.0	M	L	460	85	...	15

Appendix vii-A. (continued)

Jurisdiction	Population 1970 (thousands)	Fiscal pressure	Previous grants experience level	Under CDBG Program: First year block grant (thousands of dollars)	Under CDBG Program: Percent new uses	Under CDBG Program: Percent program maintenance	Under CDBG Program: Percent substitution
Lakewood, Colo.	92.7	L	L	226	43	57	...
Miami Beach, Fla.	87.0	M	L	564	91	...	9
Mount Vernon, N.Y.	72.8	M	H	2,590	74	25	...
Santa Clara, Calif.	87.9	L	L	357	30	33	31
Scottsdale, Ariz.	67.8	Ex	H	1,832	42	49	8
Urban counties:d/							
Allegheny, Pa.	1,605.0	M	H	6,456	60	37	3
Cook, Ill.	5,488.3	M	L	3,246	28	...	31
Dade, Fla.	1,267.8	M	H	21,610	18	82	...
DeKalb, Ga.	415.4	L	L	825	90	10	...
Harris, Tex.	1,741.9	L	N	961	75	...	25
Hennepin, Minn.	960.1	L	L	738	5	...	...
King, Wash.	1,156.6	M	L	1,511	49	...	4
Los Angeles, Calif.	7,036.5	M	L	14,461	50	44	6

Jurisdiction	Population 1970 (thousands)	Fiscal pressure	Previous grants experience level	Under CDBG Program: First year block grant (thousands of dollars)	Percent new uses	Percent program maintenance	Percent substitution
Orange County, Calif.	1,420.4	L	L	1,357	35	...	...
St. Louis County, Mo.	951.4	L	L	2,034	40	...	6
Non-metropolitan:							
Alma, Mich.	9.6	M	H	529	60	25	16
Bangor, Me.	33.2	M	H	1,172	18	73	1
Casa Grande, Ariz.	10.9	M	N	235	100	...	...
Carbondale, Ill.	22.6	M	H	2,930	41	59	...
Charlottesville, Va.	38.9	L	H	1,051	89	10	...
Marlborough, Mass.	27.9	L	H	1,068	71	...	21
Plainview, Tex.	19.6	L	N	200	93	6	2
Pulaski County, Ill.	8.7	Ex	N	300	100	...	...
Roanoke Rapids, N.C.	13.5	M	N	814	95	...	...

Source: Computed from field research data.

a/ Ex: extreme fiscal pressure; M: moderate fiscal pressure; L: little or no fiscal pressure.

b/ H: high previous experience; M: moderate previous experience; L: low previous experience; N: no previous experience.

c/ Raleigh received $520,000 under its formula entitlement plus $1,043,000 from the Secretary's Inequities Fund.

d/ Net effects only for funds directly administered by county governments.

CHAPTER 8

WHO BENEFITS?

One of the most difficult but also one of the most important questions for analysts of government programs is: Who Benefits? Having considered the major uses and fiscal effects of CDBG spending in Chapter 7, we now turn our attention to this difficult question. This chapter presents first-year and clearly tentative data on the impact of the uses of CDBG funds on different income groups within the sample jurisdictions, as assessed by the field research associates. This subject is closely related to that of the next section of our report. In Part IV, on the political effects of the CDBG program, our concern is who governs? To use James Q. Wilson's fitting phrase, this chapter is focused on the related question, "What difference does it make who governs?" 1/

WHO IS SUPPOSED TO BENEFIT?

The block grant title of the Housing and Community Development Act of 1974 is quite explicit about whom it should benefit. Section 104(a)(6)(b)(2) states that the new program should give "maximum feasible priority to activities which will benefit low and moderate-income families or aid in the prevention of slums and blight." This wording, including the qualifying second phrase, is less precise than the provision in the Senate bill, removed in conference, which would have limited to 20 percent the proportion of program expenditures "not intended to be of direct and significant benefits to families of low and moderate income or areas which are blighted or deteriorating." 2/ Despite the language of the act calling for priority to expenditures on lower-income groups, CDBG applications may in fact be approved if the applicant certifies that "other activities (aside from those targeted on low and moderate-income families) are required to meet other community development needs having a particular urgency." 3/

To summarize, there is a general intent of Congress concerning low and moderate-income groups, but in keeping with the flexibility goal of the block grant program, the legislation is neither specific nor mandatory on this point. It is our job to examine the extent to which these two objectives conflict--namely, flexibility and priority for lower-income groups (both of which are significantly qualified in the law).

The issue here is closely related to the idea of a spreading effect, which is a prominent finding and theme of the sections of this report which deal with both the intergovernmental distributional (Part II) and the fiscal effects (Chapter 7) sections of this report. In essence, there are three possible patterns for the spreading effect at the local level:

- A <u>dissipation</u> effect whereby CDBG expenditures are spread so widely as to limit their developmental impact;
- A <u>redistributional</u> effect whereby CDBG benefits are found to shift appreciably from the lower-income groups to upper-income groups;
- A <u>triage</u> effect, to use Anthony Downs' analogy, whereby

CDBG benefits are to an appreciable extent devoted to marginal or transitional areas. 4/

These patterns are not mutually exclusive; moreover, the definitions above are very general. It is possible to have a redistributional effect which is not marked, but does involve a greater emphasis than under past HUD programs on moderate-income areas. Such a pattern at the same time could qualify as a modified triage effect in the terms described above.

This chapter is divided into three sections. The first discusses the methodology for income-incidence analysis. The second section presents and interprets the field data for fifty sample units on their first-year allocations of CDBG funds by major income group. The third section of the chapter generalizes about these data in terms of strategy. Although the term, strategy, is not appropriate in every case, we are interested in this final section in broad patterns of program benefits.

METHODOLOGY FOR INCOME-INCIDENCE ANALYSIS

As already indicated, the methodological problems involved in assessing the income-group incidence of CDBG allocations are considerable. Not only are our data preliminary because they are first-year data, but they also need to be regarded as tentative because this is a first effort to answer the who benefits question. Several important matters of methodology and definition need to be dealt with before proceeding.

In the regulations for the CDBG program, "lower-income families," which includes <u>both</u> the low and moderate-income families, are defined as "families whose incomes do not exceed 80 percent of the median family income of the area." "Area," however, is not defined. Different geographical definitions were used by jurisdictions in our sample. Atlanta identified low and moderate-income areas as those "in which the median income does not exceed 80 percent of the _city_ median family income." Rochester, on the other hand, identified such areas as "those in which median family income does not exceed 80 percent of the median family income of the _metropolitan area_." For both Atlanta and Rochester, the city median family income was lower than the SMSA median in 1970. Hence, a greater proportion of Rochester households were identified as lower income in the first year of CDBG than was the case in Atlanta.

A much more difficult definitional issue involves the question of _direct_ versus _indirect_ benefits for lower-income families. It is possible that CDBG expenditures for community-wide projects to promote economic development would end up benefitting the poor, if over time, for example, an industrial park expands the number of jobs available for lower-income persons and improves the community's tax base. These kinds of uses of CDBG funds can benefit lower-income groups, even though they are physically located in an area of the community with an income level above the median family income.

The research approach of this study involves a quite narrow concept of income-incidence, concentrating on _direct_ and _short-term_ benefits to lower-income persons. There are a number of strictly pragmatic reasons for doing this. Indirect benefits are, to say the least, difficult to gauge. In addition, because this report focuses on the first year of the CDBG program, longer-term benefits are necessarily beyond its scope. We intend to probe further and as fully as we can in this area; but, until we have done so, we do not plan to broaden or revise the concept of income incidence developed at the second field research conference and used in this chapter. In this respect, our approach is similar to that of the Oakland Project, started in 1966 by graduate students and faculty members of University of California, Berkeley. Major differences are that this study of the CDBG program covers a number of jurisdictions and deals with more generalized assessments of income-group impact. The Oakland Project, however, also focuses on "immediate outcomes." According to Frank S. Levy, Arnold J. Meltsner and Aaron Wildavsky, "We look to the most immediate outcomes so as to know which groups get more good outputs and less bad ones. ...we cling to close causation partly because more distant causes are difficult to disentangle." 5/

The approach to income-incidence analysis used in this study was developed in final form after the second field research conference, April 22-23, 1976, in order to take into account the experiences and ideas of the field researchers. As the first step, associates were asked to indicate on maps the geographical location of major CDBG projects and activities. Low-income areas were defined as census tracts, groups of census tracts, or otherwise identifiable neighborhoods in which the median family income was 50 percent or less than the median family income for the metropolitan area in 1970. Moderate-income areas were defined on the same basis as areas where the median family income was between 50 and 80 percent of the SMSA median family income. (In the case of non-metropolitan jurisdictions, where income data by census tract are not available, associates used proxy indicators, such as the condition of housing.)

After presenting this geographical analysis, associates were asked to assign the benefits of CDBG allocations to different income groups. Five categories were used--low-income families and individuals (as above); moderate-income families and individuals (as above); other income groups; community-wide, non-income specific; and a residual category for cases in which the associate could not assign CDBG allocations on an income-incidence basis.

In order to make it clear for the research group, as well as for users of these data, that they often involve difficult judgmental determinations, associates were asked to use five percentage point groupings for these allocations--for example, 55 percent low income, 10 percent moderate income, 25 percent community-wide, and 10 percent unallocable. An additional important decision rule agreed upon at the second field research conference was that associates would assign the total value of a given project or CDBG activity to a single income-incidence category, if in their judgment at least half of the benefits involved go to families and individuals in that particular income group.

Because of the problems involved in identifying beneficiaries for urban counties, complicated by the fact that in four cases urban counties sub-allocated more than half of their block grant funds to participating municipalities, urban counties are excluded from this analysis. While these are the decision rules used, associates in their contacts with the Brookings staff were able to have exceptions made in special cases (for example, on project location), so that their best judgemental analysis of beneficiary groups is reflected in this chapter.

MAJOR FINDINGS FOR THE FIRST YEAR

For the sample cities as a whole, low and moderate-income groups emerged as the beneficiaries of a majority of the first-year CDBG allocations on a unweighted mean basis. Almost 52 percent of all program benefits were assigned to these two groups as shown in Table 8-1.

Table 8-1. Income-group Incidence Data for Fifty Sample Jurisdictions by Unweighted Mean Percentage

Income-group categories	Mean percentage
Low-income families and individuals	28.7
Moderate-income families and individuals	23.2
Other income groups	9.9
Community-wide/Non-income specific	25.4
Not allocable on this basis	12.8
Number of jurisdictions	50*

Source: Field research data.

* Central cities, satellite cities and non-metropolitan jurisdictions only. Urban counties are excluded; income-incidence data were not available for Columbia and Florence, South Carolina when this table was prepared.

Although low and moderate-income groups are the main beneficiaries of first-year allocations, they do not benefit uniformly for all types of jurisdictions. The average proportions of benefits were 60 percent for the low and moderate-income groups in central cities, 53 percent in non-metropolitan units, and 29 percent in satellite cities. Three factors appear to explain these variations: (1) the size of the poverty population, (2) a jurisdiction's experience under the model cities program, and (3) the nature and effectiveness of citizen groups. We conclude generally that:

- The higher the poverty rate of a given jurisdiction, the higher the proportion of program benefits allocated to lower-income persons;
- Jurisdictions with model cities experience allocated higher proportions of program benefits to low and moderate-income groups than those without model cities experience; and
- Where effective citizens' groups are organized around demands relating to low and moderate-income concerns and where public officials are sympathetic to these demands, benefits to them tended to be higher than in communities where this is not the case.

The ways in which these observations apply are shown in the sections which follow on the income-incidence findings for central cities, satellite cities, and non-metropolitan jurisdictions.

Income-Incidence Findings for Central Cities

Twenty-one of the twenty-nine central cities in the sample were found to have allocated over 50 percent of their CDBG funds to benefit low and moderate-income persons, with eleven of the twenty-one allocating over 75 percent for these groups. The eleven, listed in decreasing order of proportions of benefits to these groups, are:

Jurisdiction	Proportion of program benefits to low and moderate-income groups
Phoenix, Ariz.	100.0
Raleigh, N.C.	100.0
Miami, Fla.	89.7
New York, N.Y.	88.5
Durham, N.C.	87.9
Los Angeles, Calif.	83.7
Atlanta, Ga.	83.3
Jacksonville, Fla.	82.6
Rochester, N.Y.	82.5
Minneapolis, Minn.	82.4
Lansing, Mich.	76.0

For all central cities, the distribution of program benefits by income group is shown in Table 8-2.

Table 8-2. Percentage of Benefits for Major Income-group Categories in Twenty-nine Central Cities by Number of Jurisdictions

Income-group incidence categories	Percentage of benefits 0-25	26-50	51-75	76-100	Total number of jurisdictions
Low and moderate-income families and individuals	4	4	10	11	29
Other income groups	27	2	...	...	29
Community-wide/Non-income specific	23	4	1	1	29

Source: Field research data.

Data for the fifty individual jurisdictions included in the analysis in this chapter are presented in Table 8-5. This table shows the poverty percentage for each sample unit in 1970, based on the then current definition of poverty, the level of prior program experience (none, low, moderate, high), the level of previous model cities experience, and the combined benefits for low and moderate-income areas as judged by the associate. Jurisdictions are ranked according to their percentage of poverty population in 1970. To take one illustration of how this table can be used, Miami is listed above as one of the eleven central cities which allocated more than three-fourths of its first-year CDBG funds for the benefit of low and moderate-income groups. Table 8-5 shows further that Miami is one of only four sample jurisdictions with over 20 percent poverty in 1970, that it had a moderate level of previous experience under the folded-in programs, and that the model cities program accounted for over 80 percent of the funds it received under the folded-in programs.

All of the eleven central cities allocating more than three-fourths of their first-year CDBG funds to benefit low and moderate-income persons had experience under the folded-in programs. Except for Phoenix and Raleigh, all had moderate or high levels of prior program experience. Seven of the eleven had model cities experience, with model cities grants comprising over one-half the hold-harmless base for Los Angeles and New York. The "residual" factor from the model cities program that appears to have been most significant was the presence of model cities agencies and citizen groups. Their continuing influence was seen as having affected CDBG allocations for Atlanta, Lansing, Rochester, and New York. In Atlanta, for example, the associate pointed out that "most of the personnel in the department of community and human development, including the commissioner, had been associated with the model cities program." The allocation of over 80 percent of Atlanta's first-year CDBG funds for low and moderate-income areas reflects the ongoing influence of these former model cities officials and the general sympathy of the mayor and other officials for such an allocation. This was despite advocacy by the Director of Budget and Planning and some members of the business community for a broader distribution of funds to neighborhoods outside the poorest areas. In Lansing, Michigan, the associate noted a "wider dispersion of program benefits under the CDBG program to moderate and middle-income neighborhoods surrounding, compared to the model cities program." However, model cities groups were said to have retained "the ability to exercise some influence over CDBG allocations." The inclusion of the model cities director in the "Technical Planning Commission" which advised the city council in developing the CDBG application was viewed as important for the continuation of services to the model cities area which otherwise "very likely would have been phased out more rapidly."

The demands of model cities citizen groups were said to have been important in the distribution of CDBG funds to low and moderate-income groups in Minneapolis and, to a lesser extent, in Miami. Although the model cities planning council was not itself represented on the influential citizen advisory commission for the CDBG program in Minneapolis, several of its members served on the commission. Their advocacy of social services for low and moderate-income persons, supported by other citizen advisory committee members, resulted in that committee "tilting towards neighborhood housing and social services." In the case of Los Angeles, the mayor and council differed on the proportion of CDBG funds which should be concentrated in model cities target areas, as shown in Capsule 8-1. (Material in quotes in all capsule descriptions in this chapter is taken directly from field associates' reports.)

Capsule 8-1. Los Angeles, California

Population: 2,811,800
Percent lower-income area benefits: 83.7 percent
Grant amount: $38,595,000

For Los Angeles model cities funds represented almost 60 percent of its hold-harmless base. In the development of the first-year application under the CDBG program, the city council favored a dispersal of these funds, with allocations for all fifteen council districts. The mayor, on the other hand, advocated the continuation of model cities and urban renewal activities.

Citizen participation had an important impact in the resolution of this issue. "The citizen participation organizations in the model cities areas were disbanded" and replaced by an organization of 150 persons, ten appointed by each of the fifteen city council members. The new group, however, did not give the council members effective leverage, "because of its unwieldly size and the short-time period available for preparing the CDBG application." A technical committee was appointed by the mayor to develop the application, and proved to be an important resource for him. The work of the technical committee, along with the strategy employed by the mayor vis-a-vis the city council resulted in the adoption by the council of an application which reflected many of the mayor's principal concerns. "The strategy of the mayor's office was to look at the priority areas of the city and then work back to find eight votes from the city council. There was active courting by the mayor's office to give some council districts sufficient money to get their votes for his plan."

The focus of the first-year CDBG application was on social services formerly provided under the model cities program and capital projects for neighborhood development and housing rehabilitation, principally in lower-income areas. Some "left-over money" was allocated for new projects in council districts which previously had neither model cities nor neighborhood development programs.

There were four central cities, which, although they did not have a model cities program, were found to have allocated more than three-fourths of their first-year CDBG funds for lower-income groups. For these units, the orientation of local officials and the presence of organizations favoring this kind of an allocational pattern appeared to be the most important factors in the CDBG decision process. In Jacksonville, for example, several years before enactment of the CDBG program, the goal of general neighborhood development for the city's low and moderate-income areas had been institutionalized by the city's "Neighborhood Improvement Mechanism". The purpose of this program is to "help neighborhoods head off blight and decline before they require massive assistance." The Jacksonville case reflects a neighborhood development strategy, which, as discussed in the third section of this chapter, was adopted by many recipient jurisdictions under the CDBG program.

Income-incidence Findings for Satellite Cities

The income-incidence data for the twelve satellite cities in the sample contrast strongly with those for central cities. Only three satellite cities allocated more than 50 percent of first-year CDBG funds for lower-income groups, as compared to almost three-fourths--or twenty-one--of the central cities in the sample. (The three satellite cities in this group are East Orange, New Jersey; Miami Beach, Florida; and Mt. Vernon, New York.) Miami Beach which allocated almost all of its first-year CDBG funds for lower-income persons is the only satellite city to be categorized in the over

75 percent group in Table 8-3.

Table 8-3.—Percentage of Benefits for Major Income-group Categories in Twelve Satellite Cities by Number of Jurisdictions

Income-group incidence categories	Percentage of benefits 0-25	26-50	51-75	76-100	Number of jurisdictions
Low and moderate-income families and individuals.	7	2	2	1	12
Other income groups	9	2	...	1	12
Community-wide/Non-income specific	3	4	3	2	12

Source: Field research data.

In Miami Beach, the combination of well-articulated citizen demands for a housing program for poor elderly persons and the advocacy of this project by a member of the city council led to the allocation of a high proportion of program benefits to "elderly citizens on fixed incomes living in the South Beach target area." (See Chapter 11, Capsule 11-4).

In sharp contrast to Miami Beach, the near absence of an identifiable poverty population and any advocates for these groups in the government explains the allocation by Greece, New York of 76 percent of its program benefits to other income groups. Greece, a large suburb of Rochester, allocated most of its first-year CDBG funds for the alleviation of drainage problems, benefitting middle and upper-income property owners. Greece is a CDBG entitlement city (1970 population of 75,136), which, as Table 8-5 shows, had the lowest poverty percentage of the sample governments (2.8 percent) and low experience under the folded-in grants.

Two satellite cities, Evanston, Illinois, and Scottsdale, Arizona, allocated over 75 percent of program benefits on a community-wide basis. Proportions of persons with incomes below the poverty line in 1970 were very small for both jurisdictions (see Table 8-5); neither had experience under the model cities program. Scottsdale allocated 84 percent of its CDBG funds on a community-wide basis. The city council responded negatively to a request for first-year funds to be used to rehabilitate a low-income cooperative apartment complex on the grounds that "the city should not be involved in housing subsidies." The associate reported that "in general, benefits were spread across the community via the continuation of capital improvements projects and new programs, particularly for senior citizens.

Income-incidence Findings for Non-metropolitan Jurisdictions

Four out of nine non-metropolitan units in this analysis allocated over half of their CDBG funds for low and moderate-income groups. Three of these units--Casa Grande, Arizona; Charlottesville, Virginia; and Plainview, Texas--are in the over 75 percent category in Table 8-4.

Table 8-4. Percentage of Benefits for Major Income-group Categories in Nine Non-metropolitan Jurisdictions by Number of Jurisdictions

Income group incidence categories	Percentage of benefits 0-25	26-50	51-75	76-100	Number of jurisdictions
Low and moderate-income families and individuals	3	2	1	3	9
Other income groups	9	...	...	...	9
Community-wide/Non-income specific	5	1	3	1	9

Source: Field research data.

Casa Grande and Plainview are discretionary CDBG recipients; Charlottesville received first-year CDBG funds because of its hold-harmless status under the urban renewal and open space programs. Two factors common to Casa Grande and Plainview, discretionary status and substantial areas of poverty, explain the allocation of essentially all program benefits to lower-income groups. Both cities had high proportions of persons below the poverty level (see Table 8-5) and were strongly influenced by HUD's response to their pre-application. In both cases, the area office indicated a preference for capital expenditures concentrated in lower-income areas. Citizen groups in these neighborhoods were not active in the application process, although the Plainview associate noted that the Central Plains (Texas) anti-poverty agency serving Plainview was "concerned but not active." He added that neighborhood organizations in poor and minority areas in Plainview "are quite timid." In Casa Grande, the lack of input from poverty neighborhoods and minorities was attributed by the associate to the lack of organized groups.

Charlottesville's use of almost 90 percent of its CDBG funds for lower-income residents was "the outcome of an application process in which both citizens and officials were oriented toward improving the quality of life for low-income residents, with special attention to housing." A community development task force appointed by the city manager provided "greater opportunity for citizen participation than had existed under urban renewal." Both low-income persons and minorities were represented on the task force. Although CDBG funding for housing rehabilitation and related public improvements and social services meant that CDBG funds "were more widely disbursed than under the completed urban renewal program," most funds were expended in low-income areas of the city.

Pulaski County, Illinois, is the only other non-metropolitan jurisdiction which allocated more than 75 percent of its CDBG funds for one income-incidence category, in this case, the community-wide/non-income specific group. Like Casa Grande and Plainview, Pulaski County is a discretionary recipient of CDBG funds, whose application strongly reflected HUD's priorities. (See Chapter 7, Capsule 7-3.) The allocation of 85 percent of first-year CDBG funds was for the acquisition and renovation of facilities for senior citizens in all five rural counties included in the CDBG consortium. According to the associate, "The facilities will be used by people in the entire five-county area; they are not restricted to low and moderate-income people. However, poverty is so widespread (45.4 percent of Pulaski County residents in 1970 had incomes below the poverty line) that poor persons undoubtedly will be the main beneficiaries."

Individual Unit Data

Table 8-5 presents the data, as discussed at a number of points above, for the fifty sample units in this analysis.

Table 8-5. Central Cities, Satellite Cities and Non-metropolitan Units: Poverty Population, Prior Program Experience and Allocations to Benefit Low and Moderate-income Groups

Sample jurisdiction	Poverty as percentage of population* (1970)	Prior program experience	Model cities as percent of hold-harmless	Percentage of allocations to benefit low and moderate-income groups
<u>Over 20 percent poverty</u>:				
Pulaski County, Ill.	45.4	None	...	5.0
Newark, N.J.	22.2	High	24.5	55.3
Casa Grande, Ariz.	21.1	None	...	100.0
Miami, Fla.	20.4	Moderate	80.1	89.7
<u>15-20 percent poverty</u>:				
Atlanta, Ga.	19.9	High	30.4	83.3
St. Louis, Mo.	19.7	Moderate	45.6	70.7
Plainview, Tex.	19.4	None	...	92.5
Durham, N.C.	19.4	Moderate	...	87.9
Miami Beach, Fla.	19.0	Low	...	94.7
Carbondale, Ill.	18.6	High	33.3	72.2
Cleveland, O.	17.1	Moderate	57.9	72.3
Jacksonville, Fla.	16.8	Moderate	...	82.6
Lubbock, Tex.	16.2	High	...	68.5

Table 8-5. (continued)

Sample jurisdiction	Poverty as percentage of population* (1970)	Prior program experience	Model cities as percent of hold-harmless	Percentage of allocations to benefit low and moderate-income groups
Charlottesville, Va.	15.7	High	...	89.9
Roanoke Rapids, N.C.	15.6	None	...	45.0
Boston, Mass.	15.4	High	20.6	38.6
Philadelphia, Pa.	15.1	High	30.1	41.9
Pittsburgh, Pa.	15.0	High	27.0	63.2
<u>10-15 percent poverty</u>				
Bangor, Me.	14.9	High	...	31.7
New York, N.Y.	14.6	Moderate	50.9	88.5
Portland, Me.	14.5	High	31.2	28.9
Chicago, Ill.	14.3	Moderate	69.3	52.9
Houston, Tex.	13.9	Moderate	93.2	67.6
Denver, Colo.	13.5	High	31.2	57.6
El Monte, Calif.	13.4	Low	...	24.2
Los Angeles, Calif.	13.0	Moderate	58.5	83.7
Cambridge, Mass.	12.9	High	34.0	28.7
Raleigh, N.C.	12.9	Low	...	100.0

Table 8-5. (continued)

Sample jurisdiction	Poverty as percentage of population* (1970)	Prior program experience	Model cities as percent of hold-harmless	Percentage of allocations to benefit low and moderate-income groups
Rochester, N.Y.	12.0	High	16.8	82.5
Phoenix, Ariz.	11.6	Low	...	100.0
Minneapolis, Minn.	11.6	High	25.3	82.4
East Orange, N.J.	11.1	High	55.3	66.2
Auburn, Me.	10.9	High	...	9.1
East Lansing, Mich.	10.8	Low	...	42.6
Sioux City, Iowa	10.5	High	...	5.1
Seattle, Wash.	10.0	Moderate	38.9	68.3
Worcester, Mass.	10.0	High	31.7	22.9
<u>5-10 percent poverty</u>:				
Lansing, Mich.	9.9	High	27.7	76.0
Mt. Vernon, N.Y.	9.5	High	43.7	62.5
Sioux Falls, S.D.	9.3	High	...	3.1
Alma, Mich.	8.5	High	...	24.0
San Jose, Calif.	8.4	Moderate	47.1	51.8
Evanston, Ill.	6.4	Low	...	7.5

Table 8-5. (continued)

Sample jurisdiction	Poverty as percentage of population* (1970)	Prior program experience	Model cities as percent of hold-harmless	Percentage of allocations to benefit low and moderate-income groups
Santa Clara, Calif.	6.3	Low	...	17.8
Marlborough, Mass.	6.1	High	...	15.5
Cleveland Heights, Ohio	5.5	None	...	6.0
Huntington Beach, Calif.	5.2	Low	...	36.0
Scottsdale, Ariz.	5.1	High	...	...
Less than 5 percent poverty:				
Lakewood, Colo.	4.6	Low	...	...
Greece, N.Y.	2.8	Low	...	...

Source: Field research data.

* Poverty population is defined as the number of persons whose incomes are below the poverty level established by the Office of Management and Budget.

Additional Summary Data

On the whole, there is a relationship between the poverty rate and the proportion of CDBG funds allocated for lower-income areas, although it does not reflect a consistent descending pattern. Table 8-6 summarizes the data on this basis.

Table 8-6. Income-incidence Data for Fifty Sample Jurisdictions Summarized According to Poverty-rate Groupings

	Mean Percentages		
Poverty as percentage of population (1970)	Benefits to low-income groups	Benefits to moderate-income groups	Benefits to both groups
Over 20 (n=4)	44.5	18.1	62.6
15-20 (n=14)	45.9	25.8	71.7
10-15 (n=19)	24.3	30.7	55.0
5-10 (n=11)	14.0	13.2	27.2
0-5 (n=2)	None	None	None

Source: Field research data.

Support for the proposition that jurisdictions with model cities experience are likely to allocate greater proportions of program benefits to lower-income groups is clearer. The mean percentages of allocations for each income-incidence category, calculated separately for model cities and non-model cities units, are presented in Table 8-7. Model cities units allocated almost 50 percent more benefits to lower-income groups than did non-model cities. Within the model cities group as a whole, the extent of experience under the program is also related to the proportion of benefits to lower-income groups. Jurisdictions in which model cities grant funds represent more than two-thirds of the hold-harmless base allocated 70 percent of program benefits to lower-income groups. In jurisdictions where the model cities grant funds account for less than one-third of the hold-harmless base, and where it is between one-third and two-thirds of the hold-harmless base, the proportions of program benefits to low and moderate-income areas are 59 percent and 66 percent, respectively.

Table 8-7. Income-group Incidence Data in Relation to Model Cities Program Experience

Jurisdictions	Mean Percentages for Income-group Incidence Categories				
	Low income	Moderate income	Other	Community-wide	Not allocable
Model cities (n = 24)	33.5	29.3	9.1	16.0	12.1
Non-model Cities (n = 26)	24.3	17.6	10.7	34.0	13.4

Source: Field research data.

STRATEGIES AND PATTERNS

Putting together the data on uses and net effects with the data in this chapter on income incidence, it is possible to generalize, at least on a preliminary basis, about strategies and patterns in the allocation of CDBG funds.

Far and away the predominate approach to community development under the block grant program in its first year of operation involved a neighborhood conservation and growth strategy designed primarily to prevent urban blight. Several groups of sample units can be identified under this heading. We distinguish in this section between old and new target areas--the former refers to areas which were target areas for the model cities program or urban renewal, the latter to lower-income areas which were not included under the folded-in programs.

Of the fifty cases in this analysis (the full sample minus ten urban counties and two cities for which income-incidence data were not available), there were none which we classified as having a decidedly redistributive pattern in their use of CDBG funds, that is, involving a shift away from lower-income target areas under the folded-in programs to moderate or upper-income areas. As stipulated in the law, the sample units tended to emphasize low and moderate-income groups and areas; main exceptions were community-wide development projects which in many cases were justified in terms of their principal long-term beneficiaries being low and moderate-income persons. In only three cases did recipient jurisdictions use most of their CDBG funds to complete ongoing downtown renewal projects. These cases come the closest to being redistributive. The three cities in this group are Auburn and Bangor, Maine, and Sioux City, Iowa. The case of Auburn is briefly described in Capsule 8-2.

<u>Capsule 8-2. Auburn, Maine</u>

<u>Population</u>: 24,151
Central city with hold-harmless entitlement
<u>Grant amount</u>: $701,000

A city with no model cities experience and a poverty population of 10.9 percent, Auburn allocated 80 percent of its first-year block grant to complete its downtown urban renewal project. A citizen advisory committee indicated interest in a new inner-city development project along with city-wide public improvements. However, the city manager and the city planner decided instead, partly as a result of conversations with the HUD area office, that it was in the city's best interest to complete the Great Falls urban renewal project. Fear of jeopardizing prior city investments and of possible legal complications concerning the payment of urban renewal notes were major factors in reaching this decision. Alternative funding choices initially proposed by the citizen advisory committee for the CDBG program were not explored once the decision to continue the urban renewal project had been made.

Twenty-seven sample cities were classified as having a defined neighborhood conservation and growth strategy, concentrating on identified target areas. In eight of these cases, the bulk of first-year CDBG funds was allocated for old target areas. In twelve cases, new target areas received more than half of the first-year allocations. Seven sample units with very low or no prior program experience are in this group; CDBG allocations for these units were all in new target areas.

St. Louis is one of the cities classified with seven others as having a defined neighborhood conservation and growth strategy in which a majority of CDBG allocations (in this case 52 percent) were made in old target areas. According to the associate, the rest was used in relation to "a new housing strategy to save what could be preserved, revive some areas, and in others eliminate deteriorated housing." Commenting on the distribution of these funds, the associate said, "Considering the money available and the built-in demands for CDBG funds, the city did a good job of using funds in large enough chunks to have an impact in the neighborhoods selected."

Among the twelve cities with a defined neighborhood strategy which allocated more than half of their CDBG funds in the first year for new target areas, two examples are of interest. For Cleveland, the associate specifically mentioned a "triage philosophy" focused on "salvagable" neighborhoods. In Houston, the associate reported that the framers of the first-year application envisioned that CDBG funds for housing rehabilitation would be supplemented in the target neighborhoods by locally-generated funds earmarked for capital improvements that would be applied to related neighborhood public improvements--streets, lighting, and sewerage.

Fourteen cities were classified in the first year as having adopted a generalized, as opposed to a defined, neighborhood approach. Low and moderate-income neighborhoods were stressed, but the definition of the areas involved tended to be less clear. For example, in Denver, it was noted by the associate that all council districts received some CDBG funds. Most funds were spent in the model cities area, "the rest on a concentrated basis in selected neighborhoods throughout the city." Likewise, in Newark, the associate noted "a wider distribution" of funds under CDBG with supportive service programs "geared for city-wide impact." Philadelphia is also in this group. Here the associate reported that CDBG funds were used "city-wide, but on a neighborhood-centered basis." In a similar vein, the associate for Huntington Beach, California, reported that there was a "concentration of projects in low and moderate-income areas," along with projects for public facilities with city-wide benefits.

Six sample units, all of them relatively small, were classified as having used the bulk of their CDBG funds on a city-wide basis. Two are discretionary, non-metropolitan units. The remaining four are satellite cities eligible for formula allocations. In the latter group, for example, Greece, New York, used its CDBG funds for drainage projects. Cleveland Heights, according to the associate, specifically avoided the designation of a target area, believing that "such a designation would result in a negative label being applied to the area involved."

For the sample jurisdictions, then, a strategy focusing on neighborhood conservation and growth, with varying degrees of concentration on target neighborhoods, has been found to predominate. Of the three possible patterns for the spreading effect discussed earlier in this chapter--dissipation, redistributive and triage--the first-year CDBG experience most approximates a modified triage pattern. Little support was found for the dissipation or redistributive patterns.

As these various strategies come into clearer view, they suggest important questions for the second stage of the research. Current plans call for the collection of additional field data on how target areas are defined and selected, as well as who benefits from these selections. There is also the important related question about decisions not to select certain areas, in some cases distressed areas which local officials determine are not feasible or cost-effective as target areas. A recent newspaper editorial on "The Urban Agenda" observed that such decisions are becoming much more widespread nationally. "Now it is becoming acceptable--perhaps even fashionable--to argue that some urban areas of immense pathology may have to be abandoned, or even emptied and cleared, before they drag down the rest of the community." 6/

FOOTNOTES TO CHAPTER 8

1/ James Q. Wilson, "Problems in the Study of Urban Politics," in Edward H. Buehrig (ed.), Essays in Political Science (Bloomington and London: Indiana University Press, 1964), p. 133.

2/ The Housing and Community Development Act of 1974, S. Rept. 693, 93 Cong. 2 sess. (1974), p. 52.

3/ U.S. Department of Housing and Urban Development, Community Development Block Grant Program, First Annual Report (1975), p. 34. The application for CDBG funds contains a list of twelve items to which applicants must certify. In the case of only one item are applicants given the option to certify as to either one of two clauses or both. The two clauses are the "maximum feasible priority" and "urgent local needs" stipulations.

4/ Downs' triage concept was recently summarized in the following terms, "When combat surgeons are faced with far more cases of wounded personnel than they can handle in the time available, they supposedly divide those cases into three categories: people who will probably get well whether the surgeons operate or not, people who are so badly hurt they will probably die whether they are operated on or not, and people for whom what the surgeons do will probably make the difference between life and death. In theory, the surgeons then give pain-killing medicine to the first and second groups, and operate only upon the third group. This allocation technique maximizes the effectiveness of their scarce abilities and time in terms of final outputs, which in the case of medicine is the number of persons who are well." From "Using the Lessons of Experience to Allocate Resources in the Community Development Program," in Recommendations for Community Development Planning, Proceedings of the HUD/RERC Workshops on Local Urban Renewal and Neighborhood Preservation, Real Estate Research Corporation, Chicago, (Processed).

5/ Frank Levy, Arnold J. Meltsner and Aaron Wildavsky, Urban Outcomes (University of California Press, 1974), p. 4.

6/ The Washington Post, November 16, 1976.

CHAPTER 9

THE LEVERAGING EFFECT

"The amount of federal funding available for the entire community development program is totally inadequate for meaningful improvements in even a small fraction of the nation's eligible areas," wrote urban economist Anthony Downs in 1975. Block grant funds, Downs went on, "must be used mainly as leverage to attract much larger amounts of private capital." 1/

The need to enlist resources from the private sector had been stressed by government policymakers as well. Involvement of the private sector in community development was urged during the congressional deliberations that led up to the Housing and Community Development Act of 1974. One spokesman for "leveraging" was Senator Robert Taft of Ohio, who stated:

> I believe it worth experimenting to determine whether a program which utilizes as much private capital as possible for moderate-cost rehabilitation loans to citizens with low and moderate incomes is feasible. 2/

The wording of the act as it was passed reflects this expressed intent of Congress. Section 101(b)(2) states that "the establishment and maintenance of viable urban communities" depends not only on federal aid, but also on "increased private investment in support of community development activities."

The subject of this chapter is the leveraging, or multiplier, effects of community development block grant funds. We begin with a discussion of the leveraging of private capital--where it is to come from, what it is for. In this section, spending by the sample units for housing dominates the analysis, although we also found examples of the use of leveraged capital for commercial and industrial development purposes. Despite the fact that efforts to leverage private capital, especially for housing rehabilitation, were widely attempted in the first year of CDBG, the amounts involved were relatively small, and delays were frequently encountered. This, however, is only part of the story as far as housing is concerned. If other allocations of CDBG funds for housing rehabilitation are also taken into account (i.e., allocations for this purpose where no leveraging was contemplated), the overall importance of housing as a CDBG function is found to be substantial. 3/

In the second major section of Chapter 9, we examine the processes whereby CDBG funds were used to elicit other public funds by using CDBG funds to match federal and state grants-in-aid which were devoted to community development purposes.

Associates were asked to identify leveraging effects and indicate the sources and amount, both of CDBG "seed money" used for this purpose and the additional private and public funds sought to be attracted by these ventures. These leveraging effects are closely related to the issue, previously discussed, of direct versus indirect benefits for lower-income groups. As was pointed out in Chapter 8, community-wide CDBG allocations were frequently justified as a means of stimulating private investment in order to broaden the job market and strengthen the local tax base. We did not attempt to quantify these indirect and longer-range benefits preferring instead to concentrate on the direct and identifiable effects of CDBG allocations on various different income groups. Likewise, in this chapter, we restrict our use of the term "leveraging" to refer to situations in which multiplier effects can be identified and in which it is possible at least to estimate the magnitude of these effects. The reader is reminded that these leveraging effects do not necessarily represent the full extent of such efforts. In short, this chapter is restricted to efforts in which local officials stated publicly that they were directly allocating CDBG funds as part of a plan or project to attract private capital or other public funds for certain identifiable community development purposes.

LEVERAGING PRIVATE FUNDS

Altogether twenty-seven sample jurisdictions were reported by associates to have adopted CDBG programs or projects funded in part with block grant monies and in part with funds from the private sector. Nineteen of these cases involved housing rehabilitation, with the government guaranteeing and/or subsidizing loans made by private lending institutions to persons defined as eligible individuals. Seven sample units allocated first-year CDBG funds to attract private capital to finance mortgages on existing housing or the construction of new housing units. Other sample jurisdictions undertook commercial and industrial development programs involving investments made jointly by the public and private sectors. These cases involve judgements by the associates that additional private investment was being sought through the use of CDBG funds.

Of the twenty-seven units that sought to stimulate private investment in this way, sixteen were characterized as having a high level of experience under the programs folded into the CDBG program and are projected in 1980 (on the assumption that the law is extended in its present form) to be "losers" when the formula is fully implemented. 4/ On the basis of the information provided by associates, it appears that the awareness of projected losses encouraged local governments to seek a role for private capital under the CDBG program. The following statements, about Rochester and Pittsburgh, illustrate this relationship. Planning officials in Pittsburgh contended that because of the national allocation formula, "Big cities like this one are being left behind with insufficient federal funds to meet needs." According to the associate, the major objective of Pittsburgh's community development plan is "to stimulate private investment in the city." Rochester officials, in their initial public statements on the impact of the act and the criteria to be used in selecting projects, observed that "by 1980, Rochester's community development entitlement amount will be reduced dramatically." They proposed that CDBG funds "be used as leverage for dollars from other sources to maximize their impact." Data on leveraging effects in the twenty-seven jurisdictions that were found to have made such efforts are presented in Table 9-1. They are subdivided on the basis of whether they are projected to be "losers" or "gainers" under full-formula funding in 1980, assuming that the existing CDBG formula is extended beyond 1977 in its present form.

As indicated above, projected "losers" significantly outnumber the "gainers", in fact, by two-to-one. (The alternative formula recommended in Chapter 6 of this report would materially alter this pattern of benefits by reducing the number of "losing" jurisdictions, especially among older and densely-populated cities.)

Table 9-1. Efforts in Twenty-seven Sample Jurisdictions to Leverage Private Capital with First-year CDBG Funds, by Projected Gain/Loss* Position in 1980

Jurisdiction	Level of prior experience	Programmatic uses of leveraged capital and CDBG funds	Expected source of private capital
"Losers"			
Allegheny County, Pa.	High	Construction of housing units for low and moderate income persons	Private housing developers
Atlanta, Ga.	High	Housing mortgage pool	Banks
Boston, Mass.	High	Housing rehabilitation	Various private lending institutions
Cambridge, Mass.	High	Housing rehabilitation	Banks
Dade County, Fla.	High	Land acquisition; minority business assistance; housing rehabilitation	Private, non-profit development corporation; other unspecified local sources
Durham, N.C.	Moderate	Housing rehabilitation	Local banks
East Orange, N.J.	High	Housing rehabilitation; business district development	Local merchants and banks
Minneapolis, Minn.	High	Housing rehabilitation	Local banks
Philadelphia, Pa.	High	Municipal mortgage insurance and housing loan guarantees; industrial and commercial development	Private lending institutions; private business (commercial and industrial)

Table 9-1. (continued)

Jurisdiction	Level of prior experience	Programmatic uses of leveraged capital and CDBG funds	Expected source of private capital
Pittsburgh, Pa.	High	Housing rehabilitation	Private lending institutions
Rochester, N.Y.	High	Housing rehabilitation	Local banks and credit unions
Scottsdale, Ariz.	High	Construction of new rental housing for the elderly under Section 8	Private housing developers
Seattle, Wash.	Moderate	Construction of housing units for low and moderate income persons	Private housing developers and lending institutions
Sioux Falls, S.D.	High	Housing rehabilitation; land development	Lending institutions; real estate developers
Worcester, Mass.	High	Housing rehabilitation; assistance to small businesses; development of industrial park	Banks; developers
"Gainers"			
Chicago, Ill.	Moderate	Housing mortgage guarantee pool; housing rehabilitation; industrial projects	Private lending institutions
Evanston, Ill.	Low	Housing rehabilitation	Local lending institutions
Houston, Tex.	Moderate	Housing rehabilitation	Private lending institutions
Los Angeles, Calif.	Moderate	Housing rehabilitation	Private lending institutions

Table 9-1. (continued)

Jurisdiction	Level of prior experience	Programmatic uses of leveraged capital and CDBG funds	Expected source of private capital
Los Angeles County, Calif.	Low	Housing rehabilitation	Private lending institutions
Phoenix, Ariz.	Low	Housing rehabilitation	Urban rehabilitation; task force and local lending institutions
St. Louis County, Mo.	None	Commercial improvements	Local businesses
Santa Clara, Calif.	Low	Housing rehabilitation	Local lending institutions
No change			
St. Louis, Mo.	Moderate	Neighborhood center operation; neighborhood conservation	Neighborhood and community-wide organizations
Non-metropolitan jurisdictions			
Carbondale, Ill.	High	Development of new industrial park	Not specified
Charlottesville, Va.	High	Housing rehabilitation	Local lending institutions
Marlborough, Mass.	High	Housing rehabilitation	Not specified

Source: Field research data.

* The calculation of "losers" and "gainers" under full-formula funding in 1980 is based on U.S. Department of Housing and Urban Development data comparing funding under the folded-in programs, averaged for the 1968-72 period, with that projected for 1980, assuming that the existing CDBG formula is extended beyond 1977 in its present form.

Housing Rehabilitation Programs

Nineteen jurisdictions -- almost one-third of the sample -- allocated an average of 8 percent of their first-year CDBG grant to attract funds from private lending institutions to be used for loans to eligible community residents to rehabilitate their homes. For twelve jurisdictions, associates provided information about the anticipated (and publicly known) level of private funds to be leveraged for this purpose by CDBG "seed money." We did not critique or attempt to assess the reported ratios of public-to-private capital, although we did find that they varied widely. They ranged from 1:1, in one case, to a round number general assessment of 1:25 -- with the median expected ratio being one dollar of CDBG funds to yield about two and one-half dollars of private capital. The nineteen units that engaged in leveraging for housing rehabilitation are shown in Table 9-2; they are listed in order of diminishing proportions of first-year block grant funds devoted to this purpose.

Table 9-2. Proportions and Ratios of First-year CDBG Funds to Leverage Private Capital for Housing Rehabilitation in Nineteen Jurisdictions

Jurisdiction	Amount allocated for leveraging (thousands of dollars)	Percent of first-year grant allocated for leveraging	Approximate ratio of CDBG to anticipated leveraged private capital (CDBG: Private capital)
Evanston, Ill.	40	18.0	1:25
Boston, Mass.	4,675	14.6	1:4
Cambridge, Mass.	550	13.6	NA*
Charlottesville, Va.	140	13.3	NA
Houston, Tex.	1,200	9.1	1:1
Durham, N.C.	202	8.5	1:2.5
Santa Clara, Calif.	30	8.4	NA
Minneapolis, Minn.	1,300	7.7	1:4.2
Marlborough, Mass.	80	7.5	1:4
Rochester, N.Y.	1,100	7.5	1:2.3
Chicago, Ill.	3,000	6.9	1:4
East Orange, N.J.	141	5.6	1:2.6
Sioux Falls, S.D.	150	4.9	1:5
Phoenix, Ariz.	100	3.9	1:1
Dade County, Fla.	850	3.9	NA
Worcester, Mass.	178	2.9	1:1.6
Los Angeles, Calif.	451	1.2	NA
Pittsburgh, Pa.	250	1.5	NA
Los Angeles County, Calif.	150	1.0	NA

Source: Field research data.

* NA= Not available

Eleven central cities account for 58 percent of the sample units that allocated funds to leverage private capital for housing rehabilitation. Mean percentages of such allocations, arrayed according to type of jurisdiction, region, level of previous experience, full formula projection, and size, are shown in Table 9-3.

Table 9-3. Housing Rehabilitation Leveraging of Private Capital; Jurisdictions Grouped by Characteristics

	Number of jurisdictions	Mean percentage of block grant allocated to leverage private capital for housing rehabilitation
Type of jurisdiction		
Central cities	30	2.3
Satellite cities	12	3.8
Urban counties	10	.5
Non-metropolitan	10	2.1
Size of jurisdiction		
Less than 50,000	12	1.8
50,000 to 100,000	14	3.2
100,000 to 250,000	7	3.2
250,000 to 500,000	7	2.2
500,000 to 1,000,000	10	2.0
1,000,000 and over	12	1.7
Level of prior program experience		
None	7	...
Low	16	1.9
Moderate	12	2.0
High	27	3.0
Full formula compared to categorical funding		
Losers	23	3.1
Gainers	25	1.9
Geographical area		
Northeast quadrant	16	3.3
North central region	16	2.0
Southern region	16	2.1
Western region	14	1.2

Source: Calculated from field research data.

The most striking point that emerges is the relatively small amounts of CDBG funds assigned to this purpose, 2.6 percent of total sample funds. These mean percentages in Table 9-3 are shown for whole categories of recipients--for example, the 2.3 percent figure at the top of the right-hand column--is an unweighted mean for all thirty central cities in the sample, not just the eleven with housing rehabilitation programs using both public and private funds. An additional point stressed in the discussion which follows is that many units with jointly-supported public and private housing rehabilitation programs have experienced significant delays in the first year of the CDBG program in getting these projects underway.

For the sample as a whole, the unweighted mean percentages of allocations shown in Table 9-3 are larger for units in the Northeast, satellite cities, jurisdictions between 50,000 and 250,000 in population size, those with high previous experience, and units projected to be "losers." These findings are not unexpected. As Chapter 6 pointed out, it is cities in the Northeast that contain the highest proportions of older housing. Allocations by jurisdictions in this region to attract private capital for housing rehabilitation undoubtedly reflect these physical development needs in addition to the anticipated lower funding levels under the CDBG program in future years.

An Important Caveat. Conclusions about housing rehabilitation as a priority objective of community development programs cannot be based on leveraging data alone. In addition to the nineteen jurisdictions which attempted to leverage private capital for this purpose, thirty-two jurisdictions allocated block grant funds for housing rehabilitation loans and grants with no expectation of private sector involvement. Altogether there was a total of forty-nine units (80 percent of the sample) in the first year that considered housing rehabilitation a high priority for community development. Looked at in this broader context, the mean percentages of block grant funds allocated for housing rehabilitation are substantially higher than those for leveraging effects alone. Twenty-seven central cities and nine satellite cities allocated CDBG funds for housing rehabilitation, accounting for approximately 17 percent of first-year CDBG funds for each group. Seven non-metropolitan units allocated first-year CDBG funds for housing rehabilitation; the mean proportion for all non-metropolitan units was 15.5 percent. Six urban counties allocated CDBG funds for housing rehabilitation, with a mean of 6 percent. These findings for all housing rehabilitation activities show the importance of housing as a functional area under the CDBG program.

Reasons for Leveraging. The reasons given for allocating CDBG funds to leverage private capital for housing rehabilitation varied from jurisdiction to jurisdiction. Three sample units found to have allocated relatively high percentages of their CDBG funds for leveraging were: Evanston, Illinois, a relatively prosperous satellite community with low prior experience; Cambridge, Massachusetts, a hard-pressed satellite community with high prior experience; and Chicago, a very large central city with moderate prior experience. The diverse reasons for adopting joint public-private housing rehabilitation programs with CDBG funds are described for these three cities in the profiles below, which are drawn from the associates' reports. (Quotations in the profiles are from the associates' reports.) Chicago's case is of special interest because of the tie-in to the city's efforts to curb "redlining" i.e., marking off areas in which private lenders will not make loans for residential construction and rehabilitation.

Evanston, Illinois

Allocation for housing rehabilitation leveraging: 18 percent

Among the sample jurisdictions, Evanston allocated the highest proportion of its block grant to leverage private capital for housing rehabilitation. Although Evanston is a relatively affluent community, most of its land is already developed and most of its housing stock is between 50 and 100 years old. The housing rehabilitation program is regarded as "a preventive measure." Reluctance by officials to initiate a program of demolition, plus citizen pressure to use CDBG funds for housing rehabilitation and code compliance, led to the implementation with CDBG funds of a housing rehabilitation program formally established a year earlier. An allocation also was made to hire a rehabilitation specialist to work with the city's Housing Rehabilitation Board.

Cambridge, Massachusetts

Allocation for housing rehabilitation leveraging: 13.6 percent

In Cambridge, a major effort was made to expand a successful housing rehabilitation program run by the model cities agency using CDBG funds. This was regarded as very important in Cambridge, where scarcity and the high cost of land pr[illegible]de substantial new construction--12 percent of all privat[illegible] owned structures are in need of major external rehabilitation, and a[illegible]ditional 44 percent require minor external rehabilitation or repair. "With proportions of owner-occupied units and families in the city decreasing rapidly from 1960 to 1970, the use of block grant funds to leverage bank loans for rehabilitation is a significant element of the city's neighborhood stabilization program."

Chicago, Illinois

Allocation for housing rehabilitation leveraging: 6.9 percent

"Efforts to prevent redlining have been more extensive in Chicago over the last two or three years than perhaps anywhere in the country." As a result, the city passed a depository ordinance requiring financial institutions that serve as depositories for city funds to disclose where they are making their mortgage loans and also to take a pledge not to "redline." (The State of Illinois has also passed anti-redlining and disclosure legislation.) The city has taken a strong position on the need for conventional mortgages and rehabilitation funds in older neighborhoods. Chicago allocated $3 million of its first-year CDBG funds to leverage $12 million in housing rehabilitation loans from lending institutions, particularly savings and loan associations.

Housing rehabilitation programs with CDBG funds in many cases were tied to neighborhood stabilization efforts and in this connection can be linked to the predominance of spreading effects discussed in Chapters 7, 8, and also in Chapter 11 in connection with citizen participation activities under the CDBG program.

Leveraging Devices. Three basic mechanisms were used to leverage private capital for housing rehabilitation--guarantees, tax-free loans, and subsidies. Under guarantees, CDBG funds were used as collateral pledged as first-dollar payments in the event of losses by the lender. This device was used in all of the sample jurisdictions for which specific descriptive information was available. 5/ In some cases, tax-free loans (i.e., under federal tax law) were used to attract private loans at favorable rates. On the other hand, subsidies were used as an incentive for borrowers to participate in housing rehabilitation programs. Subsidies can reduce either the interest rate (the usual approach) or the amount of principal to be repaid.

In a number of the sample units, the specific devices to be used remained to be worked out at the time of the field research; allocations were made for housing rehabilitation on the basis of general plans only. As of the time of the field canvass, the investment incentive mechanisms for leveraging private capital for housing rehabilitation had been planned in both Durham, North Carolina, and Rochester, New York. Durham planned to use all three of the devices described above, Rochester a subsidy only.

Durham, North Carolina

Leveraging local private capital for housing rehabilitation was a central feature of the initial Durham CDBG plan. To stimulate bank participation and citizen interest, Durham officials arranged for a two-stage interest-reduction process. First, local banks were to lend $500,000 to the Housing Authority at a 6 percent interest rate. This is one-half the normal effective interest rate on rehabilitation loans. The incentive for the banks was the fact that income to them from such loans would be tax-free. The Housing Authority, in turn, was to lend money to eligible homeowners at a subsidized 3 percent rate; $100,000 was allocated for these interest subsidies. At the insistence of the banks, Durham agreed to allocate an additional $100,000 as collateral for the $500,000 expected to be lent to the Housing Authority by the banks. Despite this planning, Durham decided not to proceed with this project when it was discovered the housing rehabilitation funds could be obtained from HUD under another program, the federal government's "Section 312" program.

Rochester, New York

The purpose of Rochester's home improvement and loan program (HILP) was to encourage banks and credit unions to lend money to moderate-income homeowners for property improvements. Although a cooperative housing rehabilitation program involving the city government and local banks had been discussed in general terms prior to the CDBG act, no city funds were made available until receipt of the block grant. Arrangements between the city and participating banks and credit unions specified that homeowners meeting income requirements were to apply directly to lending institutions for home improvement loans. Applicants approved by the banks for such loans were to be granted a subsidy relating to the loan principal from the city government after the housing repairs were completed. Subsidies ranged from 5 percent of the loan principal for one-year loans to 35 percent for seven-year loans. The maximum home improvement loan for which a subsidy was available was $5,000, the minimum, $1,000. Rochester allocated $1 million of CDBG funds for loan subsidies under the home improvement loan program arrangement.

Because of the timing of implementation and the delays experienced by many jurisdictions, it is not possible at this time to draw conclusions about the efficacy and effects of attempts to leverage private capital for housing rehabilitation under the CDBG program. However, some trends are developing. In Houston, despite recent state legislation and some assurances from the Texas Attorney General, a state constitutional provision prohibiting the lending or granting of public assets to private individuals has resulted in "legal concerns about the city's involvement in a housing rehabilitation program" and has delayed the implementation of the program.

Other delays concerned the borrowers. A particularly interesting instance of this arose in Evanston. The associate there reported that the demand for housing rehabilitation loans was low because of a "great distrust of city hall among low-income and Black people, who fear that filling out an application for a loan or grant is an invitation to have the inspectors come and find code violations that, in turn, will require them to invest more money in their homes than they have or want to invest." Rochester, similarly, was six months into the program year before it had committed as much as 10 percent of its projected home improvement and loan program subsidy funds (see second profile above). This was said to be due to "smaller demand for the loans by target area residents than anticipated and higher proportions of failures to qualify under bank standards for loans than expected."

Leveraging for Other Housing Purposes

In addition to leveraging for housing rehabilitation, private capital was also sought for other kinds of housing programs. Seven jurisdictions allocated CDBG funds to attract private capital to finance mortgages on existing homes or the construction of new housing units. Atlanta, Chicago, and Philadelphia allocated an average of 1 percent of their block grants to stimulate private, conventional mortgage funds which would facilitate home ownership in older, low and moderate-income neighborhoods. The efforts of Chicago are illustrative. As part of its general strategy to encourage investment in older neighborhoods and help counteract "redlining," Chicago allocated $500,000 in CDBG funds to guarantee a mortgage pool to stimulate $7 million in conventional mortgage funds; these were to be invested in seven low and moderate-income target neighborhoods.

Five jurisdictions--Allegheny County, Pennsylvania; Dade County, Florida; Scottsdale, Arizona; Seattle, Washington; and Worcester, Massachusetts--each allocated small amounts (less than 6 percent of first-year CDBG funds) to encourage residential building activity by private developers. Allegheny County projected an expenditure of $402,000 for a housing development fund to stimulate the construction of eighty-two new housing units for low and moderate-income families. The purpose of the fund was to subsidize developers in the construction stage in order to reduce building costs and thereby allow rents to be held at a level that lower-income persons could afford. An estimated $1 million in developer funds was expected to be attracted to this program. Officials in Scottsdale, looking for ways to encourage private enterprise to provide a "good mix" of housing, allocated $25,000 of CDBG funds to a "Work-with-Developers" program. Under this program, the Scottsdale planning department sought to involve local developers and real estate interests in planning for housing programs using the federal "Section 8" program.[6] According to the associate for Scottsdale, "The most tangible result of this activity was an agreement between HUD and a local developer for private construction of 240 new rental units for the elderly."

Leveraging Private Capital for Commercial and Industrial Development

In addition to leveraging for housing, eight sample jurisdictions were reported to have made efforts to use CDBG funds to leverage private capital for commercial and industrial purposes. In this discussion, we define "commercial" as involving retail sales establishments primarily, and "industrial" as involving manufacturing and distribution. The proportions of total block grant funds allocated to leveraging for commercial development purposes are as follows, in descending order:

	Amount allocated for industrial development (thousands of dollars)	Percent of first-year grant
East Orange, N.J.	427	17.0
St. Louis County, Mo.	50	2.5
Rochester, N.Y.	350	2.4
Philadelphia, Pa.	1,300	2.1
Worcester, Mass.	100	1.7
Dade County, Fla.	42,000	.2

Except for East Orange, which allocated almost one-fifth of its total block grant to its Business Development Authority to attract commercial enterprises to the city, such allocations represent small proportions of total allocations. While the general goal of commercial development was adopted by these jurisdictions, associates reported that specific program details had not been worked out. The Worcester associate, for example, stated that the allocation of $100,000 "was to be used to advise small businesses on how to increase profits through expansion." Dade County appropriated CDBG funds "to attract a local sponsor for a technical assistance program for minority businesses." The Dade County associate added that "targets and programs weren't finalized during the application process."

Four sample units allocated an average of 5 percent of their block grants to attract private capital for <u>industrial development</u>. These jurisdictions, with amounts and proportions allocated for this leveraging purpose, are as follows:

	Amount allocated for industrial development (thousands of dollars)	Percent of first-year grant
Worcester, Mass.	850	14.1
Chicago, Ill.	2,000	4.6
Philadelphia, Pa.	1,000	1.6
Carbondale, Ill.	5	.2

The allocation by Worcester to develop an airport industrial park is intended "ultimately to result in private investment to build small plants and to generate jobs. While the city expects to increase the annual payroll by $16 million for an estimated 2,000 new jobs, at present it has no estimate for plant construction capital." Philadelphia and Worcester are the only sample jurisdictions that allocated CDBG funds to leverage private capital for both commercial and industrial development. Philadelphia's approach to both kinds of leveraging was, in the associate's words, "to use CDBG funds to write down the cost of industrial and commercial land in low and moderate-income areas as a means of attracting private, labor-intensive businesses." True to form, delays in implementing these leveraging efforts led the Philadelphia associate to conclude, "It is difficult to judge their success since they have not yet gotten under way."

THE USE OF BLOCK GRANT ALLOCATIONS TO MATCH OTHER PUBLIC FUNDS

The leveraging potential of CDBG funds extends beyond the private sector. Under the act, block grant funds can be used as "payment of the non-federal share required in connection with a federal grant-in-aid program undertaken as part of the community development program" (Section 105[a][9]). 7/ Likewise, there is no prohibition against local allocations of block grant funds to match state grants-in-aid. A total of twenty-two jurisdictions (more than one-third of the sample) were classified by the associates as having allocated CDBG funds to leverage other grant-in-aid funds, in all cases involving grant programs under which these jurisdictions either had never received funds before or had received much smaller amounts. Eight units matched funds from both federal and state programs; eleven units allocated funds to match federal grants only; three matched state grants only. Thirteen of these twenty-two jurisdictions are central cities. The average proportion of CDBG funds allocated by the twenty-two units to match federal and/or state grants was about 5 percent.

Matching Federal Grants

The federal grants matched with block grant allocations are mainly for social services, parks and recreation, and economic development. Six jurisdictions--Chicago, Cleveland, Durham, Raleigh, St. Louis, and St. Louis County--allocated CDBG funds to match funds for social services under Title XX of the Social Security Amendments of 1974. [8/] The programs for which funding was most frequently sought included child care and various services for the elderly. For example, in Raleigh, North Carolina, $55,043 (3.5 percent of Raleigh's total CDBG budget) was allocated for social services in the community development target area, to be matched by Title XX funds. Most of this allocation was directed toward providing a home-aid specialist for the aged, expanding a "meals-on-wheels" program for the aged, and operating a day-care center. It was the general assessment of associates for these jurisdictions that Title XX funds would not have been sought at all, or at least not to the degree envisioned, if CDBG funds had not been available. The Cleveland associate explained, "In light of Cleveland's financial plight, these Title XX programs would not have been mounted without CDBG funds. Cleveland certainly would not have allocated money for social services from its operating budget, a function for which there was no precedent in the city." The programs for which Raleigh sought Title XX funds were said to have "existed in some form in the community prior to CDBG funding, but not necessarily in the CDBG target area and certainly not at the level that CDBG funding made possible." The associate added, "In no case was CDBG money seen merely as replacement for local matching money; in each case, these CDBG funds were being used to expand an activity and step up its intensity."

Although social services dominated in terms of the number of jurisdictions allocating CDBG funds for matching purposes, block grant funds were also used to match federal grants for other purposes. Five jurisdictions allocated funds to match federal funds from the Department of the Interior for parks and recreational facilities--DeKalb County, Georgia; Marlborough, Massachusetts; Roanoke Rapids, North Carolina; Scottsdale, Arizona; and Sioux Falls, South Dakota. Projects planned with CDBG and Department of the Interior matching funds included the acquisition of recreational land for Marlborough and park land in Sioux Falls. Again, CDBG funds were seen as necessary to leverage these federal funds.

Four jurisdictions--Alma, Michigan; Miami; St. Louis; and Worcester--allocated block grant funds to match funds from the Economic Development Administration (EDA). Alma, Worcester, and St. Louis expected to use the EDA grant for an industrial park; while Miami, applying for technical assistance funds from EDA, sought to develop an "economic development program for community development target areas in the city." The Worcester associate explained that the plan for an airport industrial park project, mentioned above, was first developed in 1967; but funds were not available for the local share to match a grant from the Economic

Development Administration." The flexibility of the CDBG program made it possible to use block grant funds to obtain these federal funds."

Besides these cases, CDBG funds provided the local matching money to leverage funds from other federal agencies, including the Army Corps of Engineers and the Department of Transportation.

The question of whether CDBG funds would be used to knit together other federal grants or in conjunction with them has been of interest since the beginning of our research. 9/ Fiscal linkages between CDBG and Title XX grants for social services stand out so far in this chapter, and are of special interest in relation to the real and perceived limits on the use of CDBG funds for social services. We plan in the second year of the field studies to devote special effort to identifying examples of grants integration, particularly for such new and broader federal grants as general revenue sharing and various other block grants (manpower and law enforcement, as well as social services). Such linkages between CDBG and the manpower block grant, under the Comprehensive Employment and Training Act of 1973 (CETA), are not reflected in this section because there is no matching requirement under the latter. In all, twenty-eight sample units were found, in some manner, to have integrated their community development and manpower block grant programs--ten on a broad basis, and the remaining eighteen for individual projects. Typically, this involved staffing CDBG activities with personnel funded under the CETA block grant.

Matching State Grants

Matching grants from state governments were sought by eleven jurisdictions with allocations of CDBG funds. Of these, five sought state funds for the acquisition or improvement of land for recreational use. The five are: Alma and Lansing, Michigan; Los Angeles; Plainview, Texas, and Worcester. For Lansing, the associate reported that the city allocated $240,000 in CDBG funds to match an equal amount from the Michigan Department of Highways for completion of bike paths. Plainview used $80,000 (40 percent of its total block grant) to match a Texas State Parks and Wildlife Commission grant for "flood plains management and park improvements for Curry Lake, which has presented both overflow and mosquito-breeding problems to nearby residential areas." The use of block grant funds to match state recreational money was noted by the Los Angeles associate as well. She stated that, without the block grant, an application would not have been made for state parks funds, given the "tight financial situation" of the city and the fact that Los Angeles does not build parks with money from its own general funds.

PRELIMINARY SUMMARY OF OBSERVATIONS

On the whole, leveraging effects do not stand out for the first year of the CDBG program; efforts to leverage private capital were less extensive than we had expected, and those pertaining to other public funds, a little larger. Delays in getting these generally complex plans underway and the need for additional field study to probe for these interconnections limit our ability to generalize at this stage of our research.

It should also be emphasized that there are important differences between private and public leveraging effects. Private funds are more likely to be "new money." That is, without having been leveraged by CDBG funds, these private funds might not have been directed toward "public purposes." In contrast, the public funds described as leveraged under the CDBG program would have been spent in the public sector in any event. But the question remains: How much more than its initial face value can a community development block grant be worth? It is still too early to tell.

FOOTNOTES TO CHAPTER 9

1/ Anthony Downs, "Citizen Participation in Community Development: Why Some Changes Are Needed," National Civic Review, Vol. 65 (May 1975), pp. 242-243.

2/ Congressional Record, Vol. 120, 93 Cong. 2 sess. (1974), p. 6161.

3/ This finding is also discussed in Chapter 7 (see pages 260 and 276).

4/ The proportions of high experience jurisdictions and "losers" are much higher for the units which attempted to leverage private capital with CDBG funds than for the sample as a whole. We include in the category of "losers," for the purpose of this calculation, the three non-metropolitan jurisdictions, Carbondale, Illinois; Charlottesville, Virginia; and Marlborough, Massachusetts, since they would all lose their hold-harmless eligibility for CDBG funds if the present formula is fully implemented.

5/ Rochester, New York, did not use the guarantee device in the first year on CDBG, but considered adopting it.

6/ "Section 8" refers to the new federal program enacted as Section II of the Housing and Community Development Act of 1974 to provide subsidies for the construction, rental, and rehabilitation of new and existing housing for low-income persons.

7/ In contrast, the use of general revenue sharing funds to match federal funds is expressly prohibited in the State and Local Fiscal Assistance Act of 1972.

8/ We have included Title XX (of the Social Security Amendments) funds for social services under federal grant programs for purposes of this analysis, even though this program is, in effect, a block grant to states. States or their local jurisdictions must pay the 25 percent in matching funds required under Title XX, except for family planning services for which the matching share is 10 percent.

9/ HUD, the Department of Labor, and the Economic Development Administration are engaged in a special program to facilitate coordinated planning at the local level of three interrelated federal grant programs--CDBG, economic development, and the block grant for manpower under the Comprehensive Employment and Training Act of 1973 (CETA). On September 30, 1976, the three agencies announced special grants to ten cities. The ten cities include three of the Brookings sample jurisdictions for the monitoring study of the CDBG program. The three are Chicago, Philadelphia and Pittsburgh. Since these efforts were begun after the submission of the field data on which this report is based, the field associates involved have not yet had

had an opportunity to observe their effects. See also report by the National Council for Urban Economic Development, "Community, Economic and Manpower Development Linkages" (produced under contract H-2274 for the Office of Policy Development and Research, U.S. Department of Housing and Urban Development, February 1976; processed).

PART IV

POLITICAL EFFECTS

CHAPTER 10

THE ROLE OF GENERAL-PURPOSE LOCAL GOVERNMENTS: WHO DECIDES?

Federal grant programs are more than fund transfers. They are, in varying degrees, transfers of power. While the political consequences of grant programs have long been apparent, they are often not taken into account in designing federal grants-in-aid. In the CDBG program, however, they were explicitly considered. The program was deliberately designed to bring about certain political consequences. These are generally referred to under the heading "decentralization."

As enacted in 1974, the CDBG program reflects the Nixon Administration's aim to expand the role of officials (mostly elected officials) of general-purpose local governments; at the same time, it seeks to limit the powers of the federal bureaucracy and of specialized local authorities and agencies. The principal mean toward these ends is the latitude the CDBG program gives to local governments to establish their own priorities and programs (albeit within the broad framework of the "national objectives" and "permissible uses"). The House Banking and Currency Committee was explicit on this point, stating in its report that "local elected officials should clearly be in charge of managing block grant funds flowing to their communities." 1/

This chapter focuses on the role of general-purpose units of local government under the CDBG program. Our question is: "Who Decides?" First, we examine the role of generalist officials under the CDBG program,2/ with particular attention to the extent and nature of their involvement in supervising the preparation of the CDBG application and setting community development priorities. Under this heading, we describe separately the role of local legislatures as well as that of the local chief executive and other appointed officials directly responsible to the chief executive and having broad, cross-cutting responsibilities. In the second major section of this chapter, we consider the role of specialized agencies and authorities under the block grant program.

In dealing with these issues, the field research associates were asked to assess the roles played by various major types of officials involved in the CDBG decision processes of the sample jurisdictions. Initial responses, based on a series of eight questions, were provided in the first-year field reports. (See Part I of the Field Research Report Form in Appendix II at the back of this report.) After these reports were submitted, the associates met and discussed at length the role of generalist and specialist officials under CDBG. They were then asked to assess the role of generalists and program specialists under CDBG for their jurisdictions, using a common set of definitions based on the discussion at the research conference. 3/ Both sets of results are used in this chapter.

THE ROLE OF GENERALIST OFFICIALS

Local generalist officials have by statute the following four responsibilities in the CDBG application: (1) to authorize their jurisdictions' participation in the program, (2) to determine how the application process for their jurisdiction is to be organized, (3) to establish local priorities for housing and community development and decide how CDBG funds will be used to meet these needs, and (4) to approve the grant application before its submission to HUD. The law does not mandate that generalist officials carry out all of these activities themselves. They may, if they choose, delegate responsibility for preparing the application and for setting priorities. Should they elect to delegate these functions, it may be to existing special-purpose agencies already engaged in community development and/or housing activities, to other local officials, or to an individual or organization outside government. However, generalist officials must in the final analysis take responsibility for the contents of the application.

For fifty-eight of the sixty-two jurisdictions in the study sample, our analysis shows generalist officials to have been actively involved in some aspect of the application process. This is not surprising. The CDBG program involves significant amounts of money -- in the case of Carbondale, Illinois, for example, 20 percent of that city's 1975 budget. The projects undertaken with CDBG funds are conspicuous and of considerable interest to local residents. Furthermore, the program was widely understood by local officials, at least initially, as having relatively few strings. Officials of a number of the sample jurisdictions had lobbied for passage of the block grant program for community development; thus they had a personal stake in demonstrating that the CDBG program was a better approach than categorical funding and that it would strengthen local government.

Four Instances of Minimal Involvement. In four sample jurisdictions -- Harris County, Texas; Pulaski County, Illinois; Hennepin County, Minnesota; and El Monte, California -- our analysis showed that generalist officials took essentially the minimum responsibility required under the act, restricting their participation to authorizing applications and giving them final approval. For these local governments, community development activities are a new concern. Two of the four jurisdictions qualified for their grants as urban counties entitled to formula allocations. In the case of Hennepin County, discussed in greater detail later in this chapter, responsibility for the program was assigned completely to cooperating cities in the county. The experience of Pulaski County, a rural county that received a discretionary grant, (see Capsule 10-1) also illustrates minimal participation by generalist officials. In El Monte, although a consulting firm was assigned the responsibility of preparing the application, generalist officials did provide broad policy guidelines and the assistant city manager served as liaison between the city and the consultants. As was pointed out in Chapter 7, we found that the administration of discretionary CDBG grants most closely followed the intergovernmental patterns set by the folded-in grant programs. In Pulaski County, as for other small recipients of discretionary CDBG grants, the necessary local planning and administrative expertise may simply be lacking, with the result that outside help is needed. (Material in quotes in all capsule descriptions in this chapter is taken directly from field associates' reports.)

Capsule 10-1. Pulaski County, Illinois

Population: 8,741*
Non-metropolitan discretionary county
Grant amount: $300,000

In 1972 Pulaski County joined four other sparsely populated rural counties in southern Illinois to create a regional consortium for the purpose of seeking state and federal funds to support community and economic development activities. Composed of farmers and small-town merchants, the county commissions are "essentially legislative bodies with little capacity or inclination toward executive functions." The county therefore relied on outside consultants and agencies -- i.e., grantsmen -- to provide the necessary expertise to seek state and federal grants.

In the first year of the CDBG program, generalist officials in Pulaski County assigned most program responsibility to a regional planning body -- the Mississippi-Ohio Regional Planning and Development Commission ("MOVER"), recently disbanded. The associate reported that "the elected officials on the county commission allowed MOVER a great deal of discretion and latitude. Their major role seemed to be in agreeing to let Pulaski County 'sign off' on the application as the official applicant once the application was completed."

It was the executive director of MOVER who originated the idea that the consortium, with Pulaski County as its lead agency, should apply for a CDBG discretionary grant. Having convinced the consortium as a whole of the benefits of such a grant, MOVER was then given a contract to carry out this project. After MOVER prepared the application, the Pulaski County Commission held the necessary public hearings and approved the application for submission to HUD.

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* The five-county consortium's total population is 58,266. The grant amount used in this report is that for the entire consortium.

Identifying and Assessing Significant Trends. The decision by Pulaski County to turn to sources outside the government for expertise on federal grant processes, as indicated, does not represent the prevailing pattern. The overall picture shows active involvement by generalist officials, although whether the degree of involvement is a new development -- i.e., a result of the block grant program -- or whether it is a perpetuation of an older, established pattern must be examined.

Based on the conference discussion of this subject in April, 1976, the associates were asked to respond to two statements involving the role of generalist officials in the CDBG program. First, they were asked to indicate whether the following statement was applicable to their jurisdictions: "Primary responsibility for priority-setting for community development programs and activities under CDBG was exercised by generalist officials of local government." The associates indicated that the statement did indeed apply to fifty-six of sixty-two jurisdictions.

In addition, they were asked to indicate whether their assessments of "primary responsibility" reflected a change in the role of generalist officials in the fifty-six jurisdictions. Associates for twenty-three of these fifty-six jurisdictions said that their assessment represented no change in the role and relative influence of generalist officials. In these twenty-three jurisdictions, generalist officials were, in effect, recorded as being in control of community development programs prior to CDBG. Where it did represent a change, we asked associates whether the change was directly attributable to the CDBG program. In eleven cases associates reported that the prominent role occupied by generalist officials was a change resulting from the CDBG program. In twenty-two cases, a process of transition from program control by specialists to control by generalist officials was already underway and was said to have been accelerated by the CDBG program.

Durham, North Carolina, is an example of this "transitional" group. Dissatisfaction on the part of generalist officials with specialist-run redevelopment activities had begun to develop in the late 1960s. In 1974, the year before the CDBG program was launched, the city of Durham employed a management consultant to recommend organizational changes to "increase the city's capability to carry out community development activities." The consultant's report urged the transfer of most community development programs from the redevelopment agency to the general-purpose government. This recommendation was accepted by the city council. Implementation had begun before passage of the CDBG program which, according to the associate for Durham, accelerated the administrative reorganization process. Similarly, in Philadelphia the mayor appointed a close political ally to head the city's redevelopment agency in 1973. In the same year he brought the model cities program closer to the city government by appointing its director to the position of deputy mayor in charge of human resources.

The finding that a move to greater generalist control was in progress prior to 1974 is not surprising. The same concerns and attitudes that shaped the CDBG program in Washington (discussed in Chapter 2) could have been expected to produce parallel and similar influences at the local level.

At the same time that general revenue sharing and block grants were being debated in Washington, local officials could logically be expected to take steps at home to reinforce the decentralization idea by reassigning to generalist officials duties which had traditionally been carried out by specialist agencies and authorities. Furthermore, as was pointed out in Chapter 2, through several administrative changes in the model cities program after 1968 and through the Annual Arrangements and Planned Variations programs, the role of generalist officials in community development programs was being enlarged prior to CDBG.

Urban Counties. Especially wide variation was found in the role of generalist officials in the ten urban counties in the Brookings sample. Since the CDBG program involves a new role for almost all county governments which have participated, it is worthwhile here to briefly describe the program's impact on generalist officials at the county level. Generalist officials of urban counties have tended to adopt one of three different approaches to the CDBG program. In three counties -- DeKalb County, Georgia; Allegheny County, Pennsylvania; and Harris County, Texas -- the government directly administered the program. In Hennepin County, Minnesota, as described in Capsule 10-2 below, CDBG funds were passed on to the participating cities, which left essentially no role for the county government. In the remaining six urban counties in our sample, some CDBG funds were passed on to participating cities and the county used the remainder to operate its own programs.

Capsule 10-2. Hennepin County, Minnesota

Population: 960,080
Urban county
Grant amount: $738,000

Generalist officials of Hennepin County had very limited involvement in CDBG activities. The county government passed on to the twenty-one cooperating cities within its jurisdiction all but 5 percent of the grant; the county government decided, echoing HUD Assistant Secretary Meeker's slogan, that "it would not second-guess the municipalities," but would play only a coordinating and facilitating role.

Each participating city prepared its own application for funds. The county's intergovernmental coordinator merely combined these into a single application and added a statement of needs "based largely on induction from the contents of the separate applications." A similar procedure was used in preparing the HAP. The county offered technical assistance to smaller cities that requested it; no assistance was provided to cities that received more than $15,000. Thus, county activities in the first year provided no opportunities for either a county-wide assessment of community development needs or for county influence on the first-year programs of the participating municipalities.

Altogether, in eight counties, the CDBG program contributed to an increased priority-setting role for generalist officials. In Orange County, California (described below in Capsule 10-3), generalist officials, especially from the county's planning department, were able to contribute to setting priorities for community development throughout the county. The associate for Dade County, Florida, reported that "the role of generalists has vastly increased in Dade County in comparison with the past urban renewal and model cities experience." In St. Louis County, Missouri, which had no experience with urban renewal and model cities programs, the associate reported that the CDBG program "allowed participating municipalities and private interest groups to focus on the county government, specifically the county supervisor, for aid in solving community development problems."

Capsule 10-3. Orange County, California

Population: 1,420,386
Urban county
Grant amount: $1,357,000

In Orange County, where the county administration has in recent years sought a more prominent role in coordinating the development activities of both incorporated cities and unincorporated areas, the CDBG program has contributed to an increased role for county government. The county's administrative staff, especially the planning department, has been increasingly concerned about growth problems and the county's limited opportunities to influence how incorporated cities respond to these problems. In the view of the associate, the CDBG program "for the first time gave county planners the opportunity to have leverage over the cities to force integrated planning and attention to the needs of the county's low and moderate-income population."

Although Orange County qualified as an urban county with only the population of its unincorporated areas, the county government encouraged participation by the incorporated cities in a joint application. Responsibility for negotiating with the cities and preparing the county's application was assigned to the county planning department. A staff team from the department spent many weeks explaining the program to city officials and negotiating for their participation. The associate reported that "initially, many of the cities were reluctant to get involved in an application for federal funds, particularly HUD funds, which connote such things as 'integrated housing' and 'economic mixing.'" Ultimately, however, all seventeen cities with populations under 50,000 joined the county in the first-year application.

For its part, the county promised that in addition to passing on funds to the participating cities, it would undertake its own projects in unincorporated areas adjacent to participating cities. "It provided technical assistance to the cities needing it, and generally encouraged expenditures on activities likely to benefit low and moderate-income groups."

The two urban counties in which generalist officials were not actively involved were Harris County, Texas, and Hennepin County, Minnesota. In Harris County, the county court (the local legislature), taking what turned out to be a unique approach among the sample jurisdictions, contracted out the task of preparing the application to the Community Action Association, a coalition of ten community action agencies in the county. In addition, the county court created a five-member housing authority with responsibility for overall priority-setting for housing and community development.

* * *

A sharper picture of the role of generalist officials under the CDBG program can be obtained by focusing on the activities of the two main component groups under this heading -- local legislatures and chief executives. Of the two groups, chief executives are clearly more dominant, although legislatures in a number of cases exercised significant influence on the process and substance of the CDBG application.

The Role of the Local Legislature

Local legislatures have two formal, non-transferable responsibilities under the CDBG program: to authorize participation in the program, and to approve applications for submission to HUD. Between these two steps there are opportunities for varying degrees of involvement.

In a majority of the sample jurisdictions -- thirty-nine, including all ten urban counties -- the legislature was only minimally involved in the application process; that is, it carried out the two non-transferable responsibilities and in some cases held the two required public hearings, but otherwise, relied on the chief executive. (This and other references in this chapter to the part played by the chief executive should be understood to include the chief executive's staff to whom much of the responsibility for the CDBG program was often delegated. The role of the chief executive as an individual is discussed on pages 386-387.)

In the remaining twenty-three cases in which the legislature was found to have been actively involved in the CDBG application process, their activities went beyond the minimal requirements to include participation in one or more of the following areas: (1) developing the procedure for preparing the CDBG application, (2) providing broad policy direction and/or specific recommendations on the content of the application, and (3) managing or otherwise playing an important role in the citizen participation process in relation to the CDBG application.

Before proceeding with the analysis of the types of involvement by these twenty-three legislatures, it is useful to examine some of the factors that may have influenced the kind of role legislatures played. One such factor is prior experience under the folded-in grants. Jurisdictions with high previous experience were much more likely to have actively involved legislatures than were jurisdictions with low or no previous experience. Eighteen out of the twenty-three active-involvement cases had high prior experience as compared to less than half of the minimal-involvement group. Field data on the extent of the local legislature's involvement in relation to a jurisdiction's degree of experience under the folded-in programs are shown in Table 10-1.

Table 10-1. Involvement of Local Legislature by Level of Prior Experience

Level of legislative involvement	Level of previous experience			Total
	None/Low	Moderate	High	
Active participation	4	1	18	23
Minimal participation	17	4	18	39
Total	21	5	36	62

Source: Field research data.

Another factor that appears to have been related to the level of legislative involvement is type of jurisdiction. The legislatures of central cities were more likely to have been actively involved in the application process than were legislatures in the other three types of jurisdictions in the sample. In none of the urban counties was the legislature prominently involved in the application process. Field data on the involvement of legislatures by type of jurisdiction is shown in Table 10-2.

Table 10-2. Involvement of Local Legislature by Type of Jurisdiction

Type of jurisdiction	Extent of participation by local legislatures: Minimal participation	Active participation
Central cities	14	16
Satellite cities	7	5
Urban counties	10	...
Non-metropolitan jurisdictions	8	2
Total	39	23

Source: Field research data.

Since a larger proportion of central city jurisdictions had high prior experience than any of the other types, this finding may reinforce the earlier observation about the effect of level of prior experience as a factor in the kind of role played by local legislatures. Exceptions to this pattern are the central cities in our sample with populations over one million. Four of them -- New York City, Chicago, Philadelphia, and Los Angeles -- have high prior experience, but their legislatures were only minimally involved in the application process.

Still another factor that appears to have been related to the role legislatures played in the application process was the timing of the preparation of the application. The earlier a jurisdiction began preparing its grant application, the greater was the likelihood that the legislature would be actively involved. Almost half of all jurisdictions starting preparation of their grant applications before September 1, 1974, had actively involved legislatures. The relationship between the time the application process began and the level of legislative involvement is shown in Table 10-3.

Table 10-3. Involvement of Local Legislature by Date Application Process Initiated

Date process initiated	Role of local legislature	
	Minimal	Active
Prior to September 30, 1974	15	13
From October 1 to November 30, 1974	16	6
After November 30, 1974	8	4

Source: Field research data.

Types of Legislative Involvement. Looking more closely at the twenty-three instances of active involvement by local legislatures, we found that all participated in setting priorities and establishing CDBG policies. In eight of the twenty-three cases, the legislature provided broad policy recommendations to guide those preparing the application. The remaining fifteen made specific proposals that were incorporated in the application. These specific policy proposals consisted mainly of responses to citizens' views expressed at public hearings and attempts by individual legislators to secure benefits for their own districts and/or constituencies. The associate for Durham, North Carolina, for example, reported that the city council's decisions to include a clearance project, to eliminate a proposed bicycle path, and to redirect some funds from street improvements to recreational facilities were all attempts "to respond to what it sensed was citizen sentiment as reflected in public hearings before the council." The associate added that the council handed out "little political plums" to some of the groups that requested funds, such as $35,000 for the Durham Exchange Club's sheltered workshop program and $35,000 for an historic preservation project requested by the Junior League.

In several of the cases in which legislatures were actively involved in the CDBG program, most activities were undertaken in committee, usually a community development committee; in a few instances the budget or finance committee served in this capacity. In Durham, the council's finance committee reviewed the draft application, conducted its own public hearings, and recommended changes in the draft application before it was submitted to the full legislature. Later, it reviewed bids on specific projects to be carried out under the program. In Boston, the city council's ways and means committee did most of the detailed work on behalf of the legislature on the city's CDBG application.

<u>Nine Most Involved Legislatures</u>. In nine cases the legislature can be classified as extensively involved in both procedural and substantive aspects of the application process. In eight of these cases, the legislature shared with the executive in developing the procedure for preparing the CDBG application and in one, Minneapolis, the legislature was mainly responsible for this task. In Minneapolis, the president of the city council took the initiative from the outset in establishing the application process, the major components of which were a partially-elected citizens' advisory committee and a technical assistance

committee composed of four heads of agencies. The council later reviewed, modified, and approved the draft application and remained the dominant actor throughout the CDBG decision process.

In Phoenix, Arizona, and Portland, Maine, the legislatures had similarly prominent roles. The Phoenix city council established its own application procedure, invited citizens to a public hearing, and in a memorandum to interested community groups stated, "After the public hearings the city council will consider all the requests and make program decisions. The application for the grant funds will then be submitted." 5/ In Portland, the legislature also had an active role. The associate for Portland reported that,

> The city council was intimately involved in developing the program. Members of the council participated in or were present at each of the seven hearings held in neighborhoods throughout the city. They thus heard firsthand what participants in the hearings had to say about spending priorities. The council established a tentative program on the basis of a listing of alternative priorities for council consideration supplied by the planning department and based on the department director's requests and a tabulation of the comments from the neighborhood hearings. 5/

A description of the interplay between city council and the mayor in Pittsburgh is presented in Capsule 10-4.

Capsule 10-4. Pittsburgh, Pennsylvania

Population: 520,117
Central city with hold-harmless entitlement
Grant amount: $16,429,000

The Pittsburgh city council "took an early and active role in the CDBG program." Their role in the first year was in part an outgrowth of tension between the mayor, "a non-organization Democrat," and the nine-member city council, composed entirely of "organization Democrats." Consistent with its strong interest in community development policy, the council took steps to familiarize itself with the CDBG legislation; three councilmen, members of the council's housing subcommittee, attended a CDBG briefing in Philadelphia sponsored by the National League of Cities.

One of the first steps the council took after the briefing was to develop a strategy for the use of CDBG funds. The council called for a "targeted neighborhood approach for distributing CDBG funds" and for "maintenance of effort" for ongoing community development activities. The mayor, as part of his platform in campaigning for the U.S. Senate, expressed a contrary preference for a city-wide housing rehabilitation loan program. When the council's commitment to targeting was announced, the mayor compromised on his preference for a city-wide approach, settling on a dual approach which included both targeted and city-wide loan programs.

The issue of maintenance of effort, "simmering throughout the early stages of the application process," also emerged as a major point of conflict between the city administration and the council. In response to public demands for increased citizen participation, the council held additional public hearings. At these sessions, there was agreement among council members and neighborhood groups that the mayor's budget for CDBG substituted community development funds for projects "normally and properly" funded in the regular capital budget.

The council's influence in the first-year program is evidenced in the steps it took as a result of this controversy. It cut the mayor's proposed CDBG budget by nearly $1.5 million and shifted funds for capital projects, including a fire station and several street and sewer projects, to the city's regular capital budget, substituting an unspecified "local-option fund" from which the council planned to fund neighborhood community development projects. Control over this fund gave the council a strong voice in determining CDBG priorities.

Role of Individual Legislators. In addition to the formal actions of local legislatures, individual legislators participated in the application process in a number of ways. In three cases, they served on citizens' advisory committees. In Durham, for example, five city council members served on the citizens' advisory committee. In San Jose, California, one member of the city council served on the committee and was elected by its members to serve as chairman. In this capacity she acted as a mediator in conflicts within the committee, and at council hearings she presented the committee's proposals and worked to negotiate compromises on politically sensitive issues. In Evanston, Illinois, four members of the council served with two city planners as the committee to review staff proposals. They also conducted public hearings, made major revisions in staff proposals, and then developed the draft CDBG application for action by the council.

In a few cases, most notably Los Angeles County, and to a lesser extent the city of Los Angeles, legislators served as intermediaries between individual constituents or community groups seeking CDBG funds and the officials responsible for drafting the application. In Los Angeles County, many groups seeking community development funds for their neighborhoods worked through a county supervisor's staff who in turn transmitted those requests with which the supervisor agreed to the appropriate county official.

Informal Relations. The most difficult aspect to assess of the participation by individual legislators in the first year of the CDBG program involves informal relations between members of the legislature and officials engaged in preparing the CDBG application. Mayors and managers in many instances consulted informally with city council members and made concessions to them before submitting the application to the legislature for official approval. The case of East Orange, New Jersey, is illustrative. Here the mayor supervised the application process; there was only limited formal consultation with the city council. A number of council members, however, contacted the mayor to request funds from the city's CDBG contingency fund for improvements in their districts. The mayor granted many of these requests. In the end such allocations were more than double the amount initially set aside for the contingency fund, which thus had to be augmented. Although the East Orange council as a whole had only a minor role in the application process and approved the application submitted by the mayor without significant change, legislators in this instance clearly exerted influence on CDBG program choices.

<u>Conclusions</u>. Viewed as a whole, the role of local legislatures in CDBG in the first year was sometimes prominent but far from dominant. Slightly more than one-third of the legislatures of the sample jurisdictions were found to be actively involved in the CDBG process; this was more likely to be the case for governments with prior experience under the folded-in grants and, among types of jurisdictions, for central cities. The involvement of legislatures tended to be more oriented toward substance than process, although this is a difficult generalization to make. What it involves is more activity in connection with the formulation of program proposals and less in designing the procedure for

preparing the CDBG application. In nine of the twenty-three cases with actively involved legislatures, we found the legislature to be involved in a significant way both in procedural and substantive matters.

Where the legislature's role was limited, in our view this often reflected the fact that most local legislators are part-time officials and lack the time, information, and staff necessary to exercise a strong role in such matters as the CDBG application process. This was found to be especially true for the nineteen sample units that had not previously participated in the urban renewal or model cities programs.

The legislatures that were actively involved in the CDBG application process made their most prominent contributions in four ways: (1) they provided a forum for general public debate and citizen participation; (2) they made minor changes in response to specific constituent demands; (3) they set broad policies to guide the chief executive and his subordinates in preparing the application; and (4) in some cases, they resolved conflicts within the general government and between generalists and program specialists competing for the CDBG funds.

To gauge whether and to what extent the role of local legislatures in community development has changed as a result of the CDBG program requires a before-and-after analysis. In this respect, the picture is unusually clear. According to the associates, in those cases in which a jurisdiction had previous experience under either or both the urban renewal and model cities programs, local legislatures had no history of important participation in any phase of program planning and execution under these programs. They had responsibility only to review and approve or disapprove plans submitted to HUD, and invariably they approved them. Under the CDBG program, legislatures now have a greater opportunity to shape these applications and appear in many cases to be taking advantage of this opportunity.

The Role of the Chief Executive

The political effect of the new block grant program that stands out in our first-year data is the extent to which the program has resulted in the concentration of responsibility for community development and housing activities on local chief executives. By "chief executives" we mean county administrators, mayors in mayor-council or commission cities, and city managers in council-manager cities. The sample contains ten jurisdictions in the first category, eighteen in the second, and thirty-one in the third. In all but a small number of the sample jurisdictions, the local chief executive was the dominent actor in the first-year application process.

In four jurisdictions the chief executive appeared to be only minimally involved in the application process -- El Monte, California; Harris County, Texas; Pulaski County, Illinois; and Lansing, Michigan. By minimally involved we mean that the chief executive did not play a major role (other than to take the formally-required actions) in either the procedural or substantive aspects of the application. In El Monte, a consulting firm hired by the city prepared the application with limited involvement by the city manager, but with some involvement by the city's planning staff and the assistant city manager. In Harris County and Pulaski County, preparation of the application was contracted out to a local community organization and the draft application was considered and approved without changes by the local legislature. In Lansing, a city with a weak mayor-council form of government, primary responsibility for preparing the application was assigned by the city council to a technical planning committee created by the council. An aide to the mayor sat on this committee, but there was no evidence of leadership or direction by the mayor. The commission submitted its draft application to the council for final action.

Several factors account for the prominence of the chief executive in the CDBG program. Unlike most legislators, chief executives and their staffs usually were aware of the CDBG legislation well before passage, and in quite a few cases they lobbied for its enactment.

After enactment, it was usually the chief executive who was briefed on the CDBG program by HUD or organizations such as the National League of Cities/United States Conference of Mayors and the National Association of Counties. Moreover, in contrast to legislators, most chief executives had at their disposal the necessary staff to take the initiative in the CDBG application process.

<u>Procedural Influence</u>. The dominance of the chief executive was most apparent in the organization and management of the application process, which, of course, involves what generally are considered executive functions.

Typically, the local chief executive took the initial steps in a jurisdiction's involvement in the CDBG program: first assembling information on how the program affected his jurisdiction, then transmitting this information to the legislature with a recommendation that the legislature authorize an application. In a few cases, the chief executive arranged briefings for the legislature by individuals on his staff or outside experts. These steps were generally followed by a recommendation to the legislature of a procedure for preparing the application. The chief executive or a designated staff member then supervised the preparation of the application and submitted a completed draft of an application to the legislature for its consideration.

In thirty-nine of the sixty-two sample jurisdictions, the chief executive developed the procedures for preparing the CDBG application. In nine cases, the chief executive, usually with the aid of his staff, personally wrote the application and supervised the overall process. Even when the chief executive shared these responsibilities with the legislature, he or she usually supervised the writing of the application.

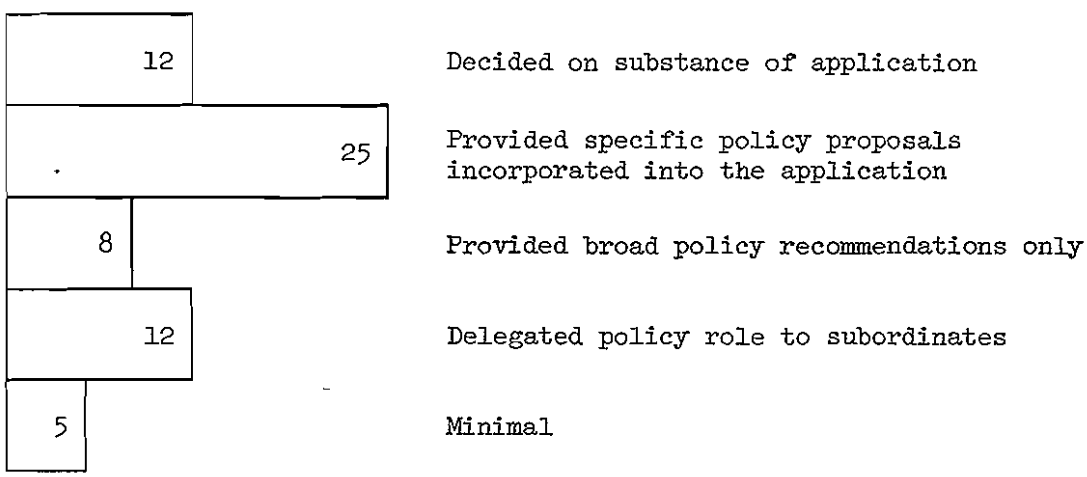
Although domination by chief executives prevailed in the CDBG application process, they were found to have played widely differing roles as individuals. As already indicated, in nine jurisdictions, most of them small suburban and non-metropolitan cities, the chief executive personally wrote, or supervised the preparation of, the CDBG application. The more common practice, however, as occurred in more than two-thirds of the sample units, was to assign this responsibility to a coordinator (usually from the mayor's or city manager's immediate staff), a department head, or, in a few cases, a multi-departmental task force. Some chief executives maintained close contacts with the work of the coordinator or department head, but in a number of cases the chief executive appeared to have been quite removed from the application process.

As might be expected, the chief executives of large cities, especially elected mayors, were less likely to be directly involved in the CDBG program than chief executives from medium and small jurisdictions. In these large cities, the chief executive's role usually involved such decisions as: (1) delegating authority for preparing the application, (2) setting forth broad policy recommendations, (3) resolving conflicts within the general-purpose government or involving special-purpose authorities and executive agencies, and (4) dealing with sensitive political issues. In New York City and Chicago, for example, there was no evidence that the mayors themselves were involved in the CDBG decision process, although several members of their staffs participated in the preparation of the application. In Cleveland the mayor was engaged in an election campaign as a candidate for the U.S. Senate; he did not become involved in the CDBG program until after the election in November of 1974.

Most of the conflicts which chief executives were called upon to mediate grew out of efforts by special-purpose agencies and authorities (the subject of the next section of this chapter) to maintain their existing level of funding and program responsibility. In Worcester, Massachusetts, for example, the urban renewal director worked to head off efforts to reduce the authority's funding below what had been available before the launching of the CDBG program. Soon after the program was enacted, he bypassed the CDBG staff and appealed to the city manager for an allocation of $14 million out of the total of $16 million anticipated by the city for the first three years of the CDBG program. The city manager rejected his appeal and referred the urban renewal director back to the CDBG staff; the director eventually settled for slightly less than $2 million in first-year CDBG funds.

<u>Substantive Influence</u>. The discussion of the role of the chief executive in the CDBG application process has, up to this point, concentrated on the procedure for preparing the application as opposed to the substance of the applications, the subject to which we now turn. Except for five jurisdictions -- El Monte, California; Harris County, Texas; Lansing, Michigan; Portland, Maine; and Pulaski County, Illinois -- chief executives were prominently involved in shaping the substance of applications. They took widely differing approaches to their substantive contributions, ranging from sole responsibility for determining the contents of the applications to delegation of this responsibility to staff subordinates. Figure 10-1 shows the kinds of substantive role played by chief executives in the sample jurisdictions. The case of East Orange, New Jersey, described in Capsule 10-5 below, illustrates a dominant role both procedurally and substantively by the chief executive.

Figure 10-1. Role of Chief Executive in Policymaking and Priority-setting



Capsule 10-5. East Orange, New Jersey

Population: 75,471
Suburban city with hold-harmless entitlement
Grant amount: $2,519,000

In East Orange, New Jersey, a city with a mayor-council form of government, the associate reported that the mayor was "the guiding force in determining the organization and staffing" of the CDBG application process. He delegated responsibility for preparing the application to a close ally, the Director of Planning and Grants Administration. According to the associate, "this arrangement kept the entire application very close to the mayor who has been at the center of decisionmaking in the use of CDBG funds."

The mayor and a few members of his staff made all the major program decisions. In the process they conferred with the city council, mostly to keep it informed about the progress of the application. Individual legislators contacted the mayor and his staff and succeeded in securing CDBG funds for projects in their districts. On the whole, the associate reported that under the program "the mayor has acquired substantially more power than he held before because he has the money to satisfy voter demands and to use it for trade-offs with other politicians in the community."

The mayor's dominant role in the CDBG program came at the expense of the city's housing authority. Claiming that the housing authority "cannot get the job done; a mayor can do things," he moved to take over its responsibilities under the CDBG program. In February 1975, the city council adopted a resolution transferring the housing authority's responsibilities to the mayor. In response to charges by officials of the housing authority that the changes constituted a "power grab," the mayor agreed and declared that "it was a power grab in the interest of the people."

Inevitably, there were cases in the sample in which the distinction between a procedural and substantive role for the chief executive was unclear. Assignment of responsibility to a particular agency or staff person may, in fact, reflect strong substantive influence on the part of the chief executive. Controversy over this question in the case of Atlanta (described in Capsule 10-6), for example, demonstrates how procedural decisions can have important substantive consequences under the CDBG program. There the key decisions appeared to revolve around process (who should prepare the application?) when in actuality the real question involved was a substantive one -- how would the funds be used. The importance of the delegation of the task of preparing the CDBG application is demonstrated also in the case of Santa Clara, California, although not in the usual way. In Santa Clara, the city council assigned responsibility for drafting the application to the citizens' advisory committee assisted by city staff. The committee, in turn, decided to use a special task force drawn mostly from low and moderate-income areas. The move was criticized by the city manager on the ground that such task forces usually made recommendations that were "not representative of the entire community." As it turned out, the manager disagreed with the decisions reflected in their draft application, so he submitted a substantially revised application to the city council, which was approved.

Capsule 10-6. Atlanta, Georgia

Population: 497,024
Central city with hold-harmless entitlement
Grant amount: $18,780,000

In Atlanta the CDBG program produced conflict between two city departments -- community and human development (CHD) and budget and planning (BPD) -- over the responsibility for preparing the CDBG application and administering the program. "The two departments had sharply differing views about how the city's CDBG funds should be used." The department of community and human development, composed largely of former model cities personnel and headed by the former model cities director, advocated a strategy of concentrated development in deteriorated areas and the provision of supportive social services. The budget and planning department, on the other hand, responsible for overall planning, urged a strategy which placed emphasis on revitalizing transitional areas to attract businesses and new residents to the city.

The mayor tried to mediate between the two departments. He proposed that BPD develop the application so that the program would be integrated into Atlanta's long-term development plan and that CHD implement the program, working with the neighborhoods to select the specific projects to be undertaken. However, his recommendation was not adopted. The city council instead passed an ordinance providing that 80 percent of Atlanta's CDBG grant would be spent in low and moderate-income neighborhoods, which, in effect, meant that the position urged by CHD generally prevailed.

The Planners' Expanded Role. Among generalist officials other than the chief executive, one notable effect of the CDBG program has been to increase the role of planners and planning departments. Under the folded-in programs, planners' activities were often confined to technical matters and long-range planning. In the CDBG application process, planning officials were prominently involved in a number of ways. In twelve jurisdictions, associates found that under the block grant program major responsibility for supervising preparation of the application was assigned to planners or planning departments. In several of these jurisdictions they were also responsible for the contents of the application. The associate for Auburn, Maine, reported that "The city planner's role and responsibilities have definitely increased; they have greater authority and a heavier workload." The chief planner for Auburn commented that "because of CDBG, I have a bigger impact and more say about what we do." In the same vein, the associate for East Orange, New Jersey, reported that the city planner's role "has changed from being policy-oriented to being program-oriented; for example, what had been economic development policy now involves a series of specific programs, such as land banking and vest-pocket parks."

In a number of jurisdictions where planning officials were not responsible for supervising the application process, they nevertheless were prominently involved in specific aspects of the process. They were most frequently responsible for preparation of the HAP (discussed further below), having primary responsibility for its preparation in twenty-six jurisdictions. The associate for Durham, North Carolina, reported in this regard that "the role of the planning department in devising that city's housing policies has been substantially enhanced through their role in preparing the HAP. Previously housing policy was the business of the city's housing authority." Similarly, the associate for Allegheny County, Pennsylvania, reported that in that jurisdiction "the initiating role in housing priority-setting has clearly been pre-empted by the Department of Planning and Development as a result of its responsibility to prepare the HAP."

Generalist Officials and the HAP

Up to this point our examination of the role of generalists in the CDBG program has centered on the community development segment of the application. Their role in the HAP was substantially different, however, as legislators and chief executives rarely had more than minimal involvement in the preparation of the HAP. In a few cases, notably Harris County, Texas, generalist officials -- the Commissioner's Court -- debated whether or not they should participate in the program because they were concerned about obligating the jurisdiction to participate in lower-income housing programs.

In most jurisdictions the HAP was treated as a technical task to be handled by specialists, rather than as something requiring major policy decisions. The associate for Cleveland, for example, reported that the city's HAP "was presented as primarily a data collection exercise required to qualify for CDBG funds rather than an important program item." Similarly, the associate for Jacksonville, Florida, reported that in that city "the HAP was treated as a technical exercise to quantify housing conditions in target areas."

Largely because of this perception, most of the people who had the task of preparing the HAP were support staff -- in fifty-seven of our sample units this was the case. In twenty-seven of these cases it was prepared by an interagency staff team, and in twenty-six cases by individuals from a single department. Four jurisdictions had HAPs prepared by a consultant. In nine other cases a consultant served as part of the support staff.

Of the twenty-five jurisdictions where the legislature was found to be actively involved in preparing the CDBG application, nine gave more than minimal attention to the HAP; and four of these cases had some substantive involvement. In Minneapolis, where an interagency staff team prepared the HAP, it was discussed at length by the citizens' advisory commission, at which time the mayor presented his views on the city's housing needs and priorities. Later the city council, according to the associate, "participated in a very enlightening discussion of the HAP submitted to it by the citizens' advisory commission. Thus, at the generalist level a much more comprehensive perspective was brought to bear on housing policy." In Sioux City, Iowa, because the CDBG program was considered as part of a larger community improvement program, preparation of the HAP provided the only opportunity for a separate discussion of CDBG activities. A combined citizen-staff committee prepared the HAP, in the process engaging in an extensive discussion of local housing needs. In Evanston, Illinois, a planner had the task of preparing the city's HAP. His draft was scrutinized by the community development task force which modified it before submitting it to the city council for final action.

In Chicago, the HAP was a highly controversial issue and a major concern to generalist officials. The HAP was developed in the context of a federal court decision, Carla Hills v. Gautreaux, requiring that low-income housing be provided on a non-discriminatory basis. This court order and a mayoral election together strongly influenced preparation of the HAP. The mayor and other city officials opposed the Gautreaux decision and efforts to have it implemented. However, the director of the Chicago area office of HUD informed the city by letter that HUD would evaluate the city's HAP in light of its consistency with the Gautreaux case; without such consistency, the HAP would be unsatisfactory and the community development application would have to be rejected by HUD. Due to HUD's threat of disapproval and the desire of the mayor to keep the issue out of the election, the city undertook a number of steps to produce a HAP that was consistent with the Gautreaux decision, but one that did not commit the city fully to carry out the court's mandate. Officials also sought to hold off discussion of this draft until after the election. When the election was over, officials negotiated with various interested community organizations to obtain what they considered a satisfactory compromise. At this point, the compromise had to be approved by the federal judge monitoring Chicago's compliance with the Gautreaux decision, after which the city council approved it with only a brief review.

In almost all of the other jurisdictions, chief executives and legislatures were only minimally involved in preparing the HAP. Typically, the chief executive assigned the task, briefly reviewed the completed draft, and then submitted it to the local legislature where it received relatively little attention. The associate for Worcester, Massachusetts, reported, for example, that "the city council played no role in the HAP preparation and was uninterested in it when it passed the council. Only one council member seemed interested in the HAP, and her interest did not go beyond the expression of shock at its statistical weakness." A similar situation obtained in Pittsburgh where, the associate reported, "The HAP was largely ignored by the city council."

Associates' reports on the treatment of the HAP suggest at least two reasons for the general lack of interest and attention to the HAP by local legislatures and chief executives. One reason is that in most jurisdictions the HAP reflected neither new data nor new policies but was merely a restatement of existing policies. For example, in Pittsburgh, the associate reported the HAP "merely reflected the city's existing long-range housing program and so was non-controversial." A second reason for the inattention to the HAP was that many officials apparently concluded that the HAP was largely "a paper operation," unlikely to be implemented and not likely to change anything.

Although local legislatures and chief executives were not involved frequently in the preparation of the HAP, their limited involvement in a few cases and their overall responsibility for the HAP resulted in increased influence by these generalist officials. In Houston, for example, the associate concluded that the "HAP process provided the mayor with new resources which he could call upon to develop a policy and position on housing in Houston...It reinforced the priority the mayor had placed on housing in his election campaign, clarified the city's position, and provided a channel for public-private communication and cooperation." Similarly, the associate for Allegheny County, Pennsylvania, reported that the HAP process resulted in "considerable broadening of the role of generalist officials with regard to housing, especially since these decisions involve the allocation of scarce housing assistance resources."

Summary of Chief Executives' Involvement. Our data show that chief executives in the sample jurisdictions dominated the first-year CDBG application process. In all but five jurisdictions the chief executive was prominently involved in determining the procedure for and/or substance of the CDBG application. Chief executives tended to have been more influential in shaping the application procedure than in influencing the substance of the application.

The chief executives in our sample jurisdictions took widely differing approaches to their involvement in the application process. Some chief executives personally supervised preparation of the application and made proposals which became part of the application. In other cases they assigned these responsibilities to "trusted" staff members, becoming directly involved only when there were major controversies or sensitive political issues to be resolved. As might be expected, the chief executives of small jurisdictions were more likely to be directly involved in the application process than those from large cities.

Looking at the role of the staff of general-purpose local governments, we found that planners and planning departments were especially prominent in CDBG activities. In a number of jurisdictions the planning department had the primary responsibility for preparing the application. In the overwhelming majority of cases, planning staffs were responsible for the HAP. This represents a substantial broadening of the responsibilities usually assigned to planners.

The dominance of the chief executive is understandable. The responsibilities conferred on local governments under the CDBG program are most effectively exercised by the executive. Furthermore, in several jurisdictions the role of chief executives in housing and community development was growing prior to the CDBG program; the new program contributed further to this growth.

THE ROLE OF SPECIALISTS AND SPECIAL-PURPOSE AGENCIES

The third major group of actors in the CDBG decision process of the recipient governments is specialist officials and special-purpose agencies. For purposes of this analysis, we include specialized agencies organized as special districts in this section. The legislation for both the urban renewal and model cities programs required that special bodies be created to receive and administer these grants. Under urban renewal, the local public agency (known as the LPA) was required to have the legal authority to acquire and clear land and to carry out renewal activities. Enabling legislation from the state government was generally required to confer these powers on LPAs. Although the term "agency" is used in this chapter, an LPA, as pointed out above, could be a special district with governmental powers of its own or part of the local government. Each LPA was required to have a board of commissioners, the members of which held office for fixed terms and who appointed a director. Local housing authorities were organized on much the same basis; in some cases, the two functions -- urban renewal and housing -- were combined in a single agency or authority.

Most of the funds for these two functions came from federal grants. Thus, these local agencies were closely tied to the appropriate federal agency.

Under the model cities program, although local government was formally responsible for the program, the federal-local relationship often was similar to that for urban renewal. Recipient governments were required to establish a city or county demonstration agency. Although during the Nixon Administration (as discussed in Chapter 2), efforts were made to tie these agencies closer to the chief executives of recipient governments, model cities agencies often had elected governing bodies that appointed their own directors.

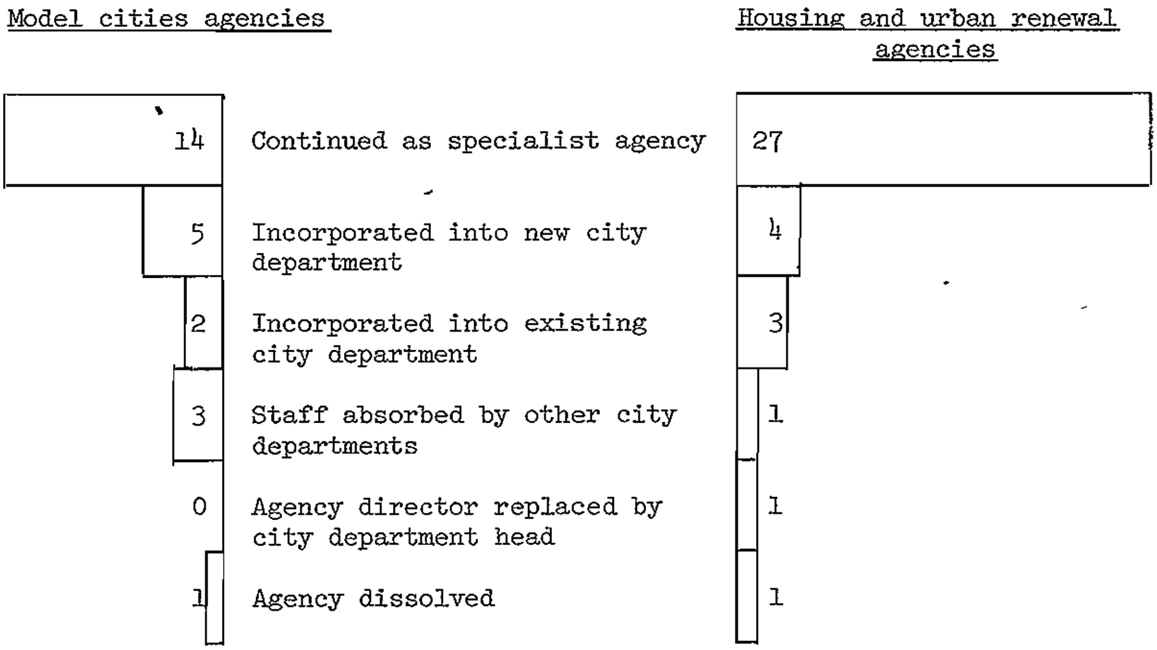
As might be expected, in the first year of the block grant program there was not a sudden closing down of specialist agencies; some, in fact, actually gained influence. The trend, however, was for their role to decline, more so in the case of model cities than urban renewal agencies. This is consistent with the finding in Chapter 7 that continuation funding for model cities activities was more likely to decline in the first year of CDBG than continuation funding for urban renewal.

Three Dimensions of Change

Under the block grant program, three types of changes were found to have taken place in the role of urban renewal and model cities agencies. One is a change in bureaucratic behavior; this kind of change is hardest to gauge as it can be quite subtle. Because these specialist bodies no longer have a direct funding pipeline, their political ties and conduct were in many cases altered to accommodate the changing roles of generalist officials. According to the associates' reports, specialist officials in a number of communities became conspicuously more obliging and took steps to mend their fences or build new relationships with generalist officials.

A second kind of effect of the CDBG program on special-purpose agencies was more formal and structural. Two specialist agencies (one for model cities and one for urban renewal) were dissolved; in eighteen cases, their staffs or their functions were assigned to other city agencies. On the other hand, three-fourths of the preexisting urban renewal agencies and slightly over half of the preexisting model cities agencies continued as separate agencies in the first year of CDBG. Whether this general pattern of retaining the specialist agencies will continue as the program gains momentum is one of the important questions for the second year of this study. For purposes of comparison, Figure 10-2 shows the structural impact of the CDBG program on the twenty-seven model cities and thirty-seven housing and urban renewal agencies represented in the sample.

Figure 10-2. Administrative Effects of CDBG Program on Specialist Agencies*



* In Los Angeles County, the specialists for these programs were already county employees; in Miami, model city programs were administered by Dade County.

The fate of specialist agencies, it should also be noted, could be different within a single jurisdiction. In Mount Vernon, New York, for example, the model cities agency was terminated, while at the same time the renewal agency acquired increased influence and prepared the city's CDBG application with only limited supervision from the mayor. Capsule 10-7 describes the case of Mount Vernon; Capsule 10-8 on San Jose, California, presents a sharply contrasting situation.

Capsule 10-7. Mount Vernon, New York

Population: 72,778
Suburban city with hold-harmless entitlement
Grant amount: $2,590,000

According to the associate, "One can hardly overstate the impression that Mount Vernon's CDBG program was dominated by one official, the director of urban renewal." The city's model cities program, "regarded as orderly and well-administered, with a concerned and able director," was terminated with the advent of CDBG and the role of the renewal agency strengthened.

This outcome was portrayed by the associate as a function of "Mount Vernon's political structure, the administrative styles of both program directors and the visible shortage within the local general government of staff capable of handling the CDBG program." Elected officials expressed little interest in the CDBG program. The mayor and city council delegated primary responsibility for preparing the application to the urban renewal director and were involved only intermittently. Their primary concern was to provide for citizen participation by conducting public hearings. They ultimately approved the application. The mayor, with the aid of the urban renewal director, appointed a citizens' advisory board.

In Mount Vernon's allegedly "small, tightly knit political system," the model cities director maintained a low profile, making no effort to build a base of neighborhood support. Although model-neighborhood residents appeared to be satisfied with the facilities and services provided by the model cities program, few actually associated the services with the program. For example, when the well-regarded code enforcement program was taken away from the model cities staff, few residents were aware of the change. Residents of the model neighborhood appeared to be unaware that their services were threatened; none were present at the public hearings to defend them. Because of a lack of community support and the reluctance of the model cities director to do battle with the urban renewal director, model cities programs disappeared in Mount Vernon "without a whisper."

Capsule 10-8. San Jose, California

Population: 459,913
Central city with hold-harmless entitlement
Grant amount: $6,554,000

Not only did San Jose's redevelopment agency have no role in the first-year CDBG program, the program appears to have provided the opportunity for the city council to dissolve the agency.

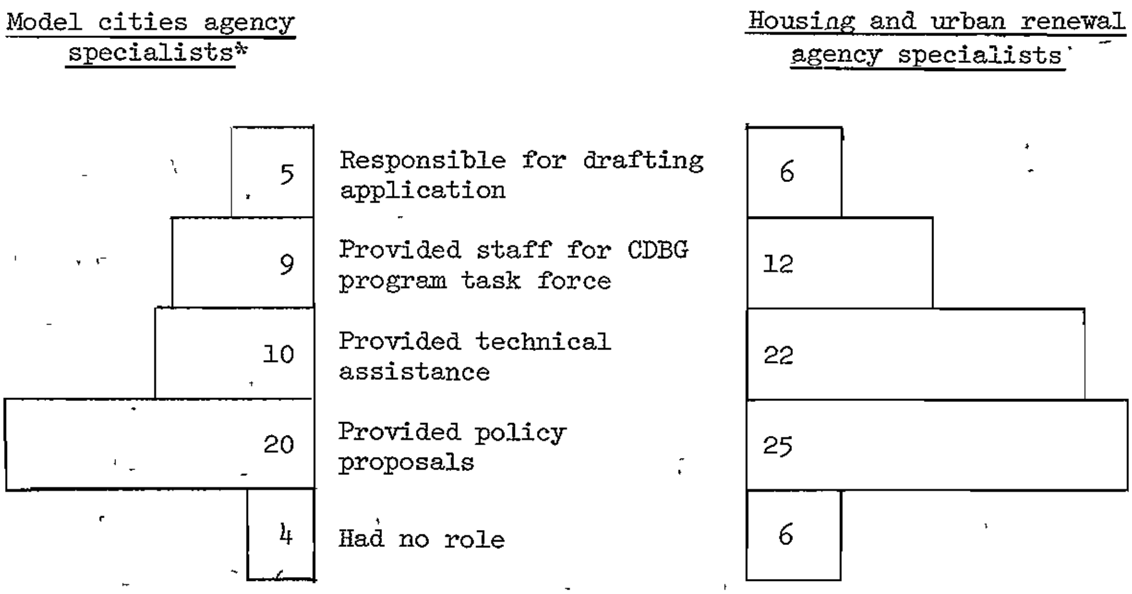
In 1971, the former city manager of San Jose proposed a city takeover. In 1974, the new city manager raised the issue again. He argued that this takeover was not only feasible but logical in view of the funneling of urban renewal monies through the city under the CDBG program. According to the San Jose Mercury News (November 25, 1974), the city manager recommended "the takeover of the Redevelopment Agency to avoid current duplication between planning, development and land-marketing functions of the city staff and redevelopment staff."

The manager urged the council to declare itself the redevelopment agency for the city and to name him executive director. The incumbent director of the redevelopment agency and his thirty-member staff argued strongly against the proposed takeover, suggesting that the city council and city staff had neither the time nor the expertise to carry out development functions. The associate for San Jose noted, however, that their argument was weakened by what many observers felt was a poor record. "The city's fiscal coordinator recalled the redevelopment authority's approval of the construction of a large downtown mall based on a Scandinavian motif -- this in a city with one of the largest concentration of Mexican-Americans in California."

After the debate between the redevelopment agency staff and the city manager, the agency was officially taken over by the city in January 1975. The entire redevelopment agency staff resigned in protest.

The third effect of the CDBG program on specialist agencies involved their staffs. The staffs of ten existing agencies had no role in the first-year application process--four out of twenty-five model cities agencies and six out of thirty-six housing and redevelopment agencies, as shown in Figure 10-3. (The figure reflects the primary responsibilities under CDBG of the staffs of special-purpose agencies, not their exclusive responsibilities; hence, the totals exceed the number of sample units for each group.) The largest category for the role of specialists is providing policy proposals. Since this is such a broad category, it raises an obvious question: How much influence did specialists have where they were involved in the CDBG process?

Figure 10-3. Role of Specialist Officials in the CDBG Application Process



* Miami's model cities program was administered by Dade County.

Level of Specialist Influence

While recognizing that the level of influence question is a difficult one, three categories were used to classify in general terms the role of program specialists under the CDBG program as described by associates in their field reports. The three categories are significant, limited and no influence.

Specialists were considered to have had a limited role in the application process if their involvement was to provide specific information or technical assistance to those preparing the application; the same term was applied to specialists who sought funds only for ongoing activities. Participation was considered to have been significant when the special-purpose agency had responsibility for preparing the grant application, where they shared this responsibility with others, or participated in setting basic priorities. For the twenty-five model cities and the thirty-seven housing and urban redevelopment agencies in the sample, the specialist-influence data break down as follows:

Influence of Model Cities Specialists			Influence of Housing/Urban Renewal Specialists		
None	Limited	Significant	None	Limited	Significant
9	6	10	8	15	13

These data should be interpreted broadly. Overall, the associates indicated that for the sample governments with preexisting specialist agencies, their staffs were more likely to have had a role (either involving limited or significant influence), rather than to be totally excluded from the CDBG process. Approximately two-thirds of the urban renewal and model cities agency personnel were said to have had some degree of influence in the first year of the CDBG program.

Summary on Changed Roles

On the whole, we found that it was essentially local circumstances which determined whether and to what extent program specialists participated in the CDBG program. Several factors appeared to have been especially prominent. One is the way the special-purpose body was perceived by the public and generalist officials. Another was the extent to which the general government possessed the expertise necessary to prepare the application and carry out community development programs. In some jurisdictions, generalists lacked the experience and skill required to prepare the application and as a result were forced to rely on program specialists. In some cases where the general government did assume policy-making responsibility for the new program, it turned to a special-purpose agency to administer it. In Durham, North Carolina, for example, the city council assigned administrative responsibility for most of its CDBG program to the existing urban renewal authority instead of to the deputy mayor for community development, even though the deputy mayor had expressed a desire to play this role.

As could be expected, renewal agencies fared especially well in jurisdictions with large unfinished renewal programs.

It is important to note that the extent to which specialists were involved in the application process was not necessarily related to the continued role and independence of their agency. In fact, the situation was frequently the reverse. In a number of cases, officials of special-purpose bodies that retained their separate status were given only a minor role in the application process. On the other hand, the staffs of agencies that were merged into the general government often were prominently involved under the CDBG program. We noted earlier the case of Atlanta, where a special-purpose agency (in this case for model cities) formed the nucleus of a new city department that significantly influenced the city's block grant program. To sum up, we note a tendency for the specialist staffs that were merged into the general government to have more influence under CDBG than those of specialist agencies retaining their independence. As is the case with much of the data on political effects in the first year, this finding needs to be classified as tentative and subject to further examination and analysis as the CDBG program matures.

SUMMARY OF PRELIMINARY FINDINGS ON POLITICAL IMPACT

To the question, Who Decides?, we offer three preliminary conclusions based on the data presented in this chapter.

First, generalist officials have become more influential in policy-making for community development at the local level than was the case prior to CDBG. Local chief executives and other generalist officials of the executive branch have been the principal actors. This applies both to the procedural and substantive aspects of the CDBG program. There has also been significant involvement by local legislatures in nearly half of the sample units.

Second, the CDBG program has prompted administrative reorganization which in a number of cases has been conducive to more comprehensive planning and policy development at the local level.

Third, by placing general-purpose local government in charge of decisionmaking, the block grant program has stimulated a more competitive policy-making process in many jurisdictions. This increased competition, involving chief executives, legislators, and specialists, becomes even more apparent when we take into account the involvement of various citizens' organizations, as discussed in Chapter 11. In this connection, it needs to be added that benefits which may result from more comprehensive policymaking, point number two above, may be dissipated by the more competitive political process under the block grant program. Chapter 11 at a number of points sheds light on the nature of this trade-off between broader planning and broader participation under the CDBG program.

FOOTNOTES TO CHAPTER 10

1/ The Housing and Urban Development Act of 1974, H. Rept. 93-114, 93 Cong. 2 sess. (1974), pp. 5-6.

2/ The role of generalists for the sixty-two sample jurisdictions is summarized in Appendix x-A at the back of this chapter.

3/ Transcript of Brookings Research Conference on the Community Development Block Grant Program, April 21-22, 1976.

4/ Level of experience as defined in Chapter 7 of this report is the ratio of the average per capita amount received by each unit under all of the folded-in programs to the national per capita mean. In this case high prior experience refers to an amount more than 50 percent above the national mean.

5/ Memorandum on Community Development Block Grants from Councilman H. J. Lewkowitz, Chairman, City Council Subcommittee for Housing and Community Development, October 11, 1974.

Appendix x-A. Role of Generalists in CDBG Application Process, by Type of Jurisdiction in Descending Order of Population

Jurisdiction	Prior program experience[a]	Population, 1970 (thousands)	Pattern of generalist involvement: Legislature	Pattern of generalist involvement: Chief executive	Responsibility for application preparation
Central cities:					
New York, N.Y.	M	7,896	Minimal	Extensive	Chairman of Planning Commission
Chicago, Ill.	M	3,369	Minimal	Extensive	Department of Development, Planning Commissioner and Administrative Assistant to Mayor
Los Angeles, Calif.	M	2,810	Minimal	Extensive	Technical Committee, Mayor's Office of Urban Development chaired by Deputy Mayor
Philadelphia, Pa.	H	1,950	Minimal	Extensive	Deputy Mayor
Houston, Tex.	M	1,233	Minimal	Extensive	Director of Policy Planning Division, Office of the Mayor
Cleveland, O.	M	751	Extensive	Extensive	Director of Community Development
Boston, Mass.	M	641	Extensive	Extensive	Director of Neighborhood Development Commission
St. Louis, Mo.	M	622	Extensive	Extensive	Executive Secretary to Mayor
Phoenix, Ariz.	L	582	Extensive	Extensive	Federal Aid Coordinator

Appendix x-A. (continued)

Jurisdiction	Prior program experience[a/]	Population, 1970 (thousands)	Pattern of generalist involvement: Legislature	Pattern of generalist involvement: Chief executive	Responsibility for application preparation
Seattle, Wash.	M	531	Minimal	Extensive	Mayor's Task Force
Jacksonville, Fla.	M	529	Minimal	Extensive	Director of City HUD
Pittsburgh, Pa.	H	520	Extensive	Extensive	Director of Planning
Denver, Colo.	H	515	Extensive	Extensive	Executive Director of Urban Resources (former Model Cities Director)
Atlanta, Ga.	H	497	Extensive	Extensive	Director of Grants Planning and Management
San Jose, Calif.	M	446	Extensive	Extensive	Coordinator from Community Development Division of Planning Department
Minneapolis, Minn.	H	434	Extensive	Extensive	City Coordinator
Newark, N.J.	H	382	Minimal	Extensive	Chief of Planning in Mayor's Planning and Development Office
Miami, Fla.	M	335	Minimal	Extensive	Assistant City Manager and City Planning Staff
Rochester, N.Y.	H	296	Extensive	Extensive	Assistant City Manager (Director of Program Development)
Worcester, Mass.	H	177	Minimal	Extensive	Director of Planning and Community Development

Appendix x-A. (continued)

Jurisdiction	Prior program experience[a]	Population, 1970 (thousands)	Pattern of generalist involvement: Legislature	Pattern of generalist involvement: Chief executive	Responsibility for application preparation
Lubbock, Tex.	H	149	Minimal	Extensive	Community Development Coordinator
Lansing, Mich.	H	131	Extensive	Minimal	Executive Assistant to Mayor
Raleigh, N.C.	L	124	Extensive	Extensive	Task Force chaired by Director of Housing Authority
Columbia, S.C.	M	114	Minimal	Extensive	City Manager
Durham, N.C.	M	95	Extensive	Extensive	Special Assistant to City Manager for Community Development
Sioux City, Ia.	H	86	Extensive	Extensive	Community Development Director
Sioux Falls, S.D.	H	72	Extensive	Minimal	Executive Director for Community Development
Portland, Me.	H	65	Extensive	Extensive	Planning Director
East Lansing, Mich.	L	48	Minimal	Extensive	Director of Planning
Auburn, Me.	H	24	Extensive	Extensive	City Planner
Satellite cities:					
Huntington Beach, Calif.	L	116	Minimal	Extensive	Planning Program Administrator

Appendix x-A. (continued)

Jurisdiction	Prior program experience[a]	Population, 1970 (thousands)	Pattern of generalist involvement: Legislature	Pattern of generalist involvement: Chief executive	Responsibility for application preparation
Cambridge, Mass.	H	100	Minimal	Extensive	Area HUD staff member on loan to Community Development Department
Lakewood, Colo.	L	93	Minimal	Extensive	Assistant City Administrator
Santa Clara, Calif.	L	88	Minimal	Extensive	Intergovernmental Assistance Director
Miami Beach, Fla.	L	87	Extensive	Extensive	Planning Director
Evanston, Ill.	L	80	Extensive	Extensive	Planner
East Orange, N.J.	H	75	Extensive	Extensive	Director of Planning
Greece, N.Y.	L	75	Minimal	Extensive	Director of Community Development
Mount Vernon, N.Y.	H	73	Extensive	Extensive	Community Development Coordinator (former Urban Renewal Director)
El Monte, Calif.	L	70	Minimal	Minimal	Outside Consultant, Planner and Assistant Administrative Officer
Scottsdale, Ariz.	H	68	Minimal	Extensive	City Manager's Task Force
Cleveland Heights, O.	N	61	Extensive	Extensive	Assistant City Manager

Appendix x-A. (continued)

Jurisdiction	Prior program experience[a]	Population, 1970 (thousands)	Pattern of generalist involvement: Legislature	Pattern of generalist involvement: Chief executive	Responsibility for application preparation
Urban counties:[b]					
Los Angeles County, Calif.	L	1,826	Minimal	Extensive	Program Planning Division, Department of Urban Affairs
Cook County, Ill.	L	1,261	Minimal	Extensive	Special Assistant to County Chief Executive
Dade County, Fla.	H	743	Minimal	Extensive	County Manager's Task Force
St. Louis County, Mo.	L	736	Minimal	Extensive	Community Development Director
King County, Wash.	L	567	Minimal	Extensive	Intercommission team chaired by Community Development Coordinator
Orange County, Calif.	L	502	Minimal	Extensive	Coordinator from Housing Section of Planning Department
DeKalb County, Ga.	L	344	Minimal	Extensive	Intergovernmental Grants Coordinator
Hennepin County, Minn.	L	314	Minimal	Minimal	Intergovernmental Relations Coordinator
Harris County, Tex.	N	243	Minimal	Minimal	Harris County Community Action Association as Consultant
Allegheny County, Pa.	H	192	Minimal	Extensive	Director of Model Cities (Acting Planning Director)

Appendix x-A. (continued)

Jurisdiction	Prior program experience[a]	Population, 1970 (thousands)	Pattern of generalist involvement: Legislature	Pattern of generalist involvement: Chief executive	Responsibility for application preparation
<u>Nonmetropolitan jurisdictions</u>:					
Charlottesville, Va.	H	39	Minimal	Extensive	Community Development Director for Social Programs
Bangor, Me.	H	33	Minimal	Extensive	Director of Community Development
Marlborough, Mass.	H	28	Extensive	Extensive	Director of Planning
Florence, S.C.	H	26	Minimal	Extensive	City Manager
Carbondale, Ill.	H	23	Extensive	Extensive	Assistant to City Manager
Plainview, Tex.	N	19	Minimal	Extensive	City Manager
Roanoke Rapids, N.C.	N	14	Minimal	Extensive	Regional Housing Authority Director
Casa Grande, Ariz.	N	11	Minimal	Extensive	Director of Planning
Alma, Mich.	H	10	Minimal	Extensive	Community Development Director
Pulaski County, Ill.	N	9	Minimal	Minimal	Executive Director of Regional Planning Organization

a/ H: high previous experience; M: moderate previous experience; L: low previous experience; N: no previous experience.

b/ The ranking of urban counties is based on the CDBG allocation population and not Census population data. For CDBG purposes, the population of urban counties excludes metropolitan cities and any other communities which chose to be excluded.

CHAPTER 11

CITIZEN PARTICIPATION

A question that runs throughout this report is: What has been the effect, at the local level, of the flexibility provided in the Housing and Community Development Act of 1974? Again, this question is raised, this time concerning citizen participation. Here, however, it takes two complementary forms. This chapter deals not only with "How has the CDBG program affected citizen participation?" but also with the converse, "How has citizen participation influenced the CDBG program?"

The block grant program for community development offered greater latitude to local governments regarding citizen participation than had the folded-in programs. Although both the model cities and CDBG programs require citizen participation, they differ both in emphasis and approach. In contrast to model cities, the CDBG program does not specify how local governments should go about meeting the citizen participation requirement. The act requires "adequate" citizen participation but leaves it up to local governments to determine what is adequate. The wording of Title I, Section 104(a) is deliberately nonspecific, stipulating only that each applicant for CDBG funds certify that it has:

1. provided citizens with adequate information concerning the amount of funds available for community development activities, the range of activities that may be undertaken, and other important program requirements;

2. held public hearings to obtain the views of citizens on community development needs; and

3. provided citizens an adequate opportunity to participate in the development of the application.

The Department of Housing and Urban Development reported that, in response to its draft regulations, it received several suggestions to "prescribe more fully the procedures, process, and local structure for citizen participation." In the end, the department rejected these suggestions on grounds that it was inappropriate to specify "the manner in which local general-purpose government related to its citizens."1/ It thus preserved for local governments a broad discretionary responsibility for citizen participation.

Besides altering the federal approach with respect to citizen participation, the CDBG program also brought about a basic policy shift in this area. The concept of citizen participation as it emerged under such federal programs as the community action, model cities, and urban renewal programs during the 1960s had essentially three objectives: (1) to win the cooperation of residents of deteriorating areas targeted for redevelopment by giving them a voice in planning and implementing activities; (2) to halt what was perceived as a growing alienation of the poor and minority groups from local government, stemming in part from the belief held by these groups that they were being ignored by local officials; and (3) to enhance the knowledge and self-esteem of residents of the target area in order to improve their ability to seek solutions to community problems.2/ Citizen participation requirements in these programs, therefore, focused on low-income and minority residents of redevelopment areas, emphasizing means to facilitate their involvement in community development decisions.

The citizen participation provision in the CDBG program, however, does not focus particularly on low or moderate-income groups. The Nixon Administration's approach to citizen participation (enunciated by HUD Secretary James Lynn in both House and Senate hearings on the legislation) was based on the view that citizens already participate through such processes as elections, nominations, town meetings, and public hearings. The Administration sought only to ensure that all citizens be informed about the CDBG program and that their views be considered during preparation of the application.[3/] Congress devoted relatively little attention to the issue,[4/] but did strengthen the legislation in this area by adding a requirement that residents of participating jurisdictions be provided with adequate opportunities to participate in decisionmaking under the CDBG program.

This chapter examines citizen participation in the first year of the CDBG program. It describes, first, how local governments approached the requirement and what steps they took to encourage and provide for citizen participation. Next, it examines how much citizen participation actually occurred and what segments of the communities were most prominently involved. Finally, it examines the impact of citizen participation on setting priorities and distributing program expenditures. For this report we define "citizen participation" broadly to include the entire process by which organized groups and individual citizens are informed about the program and/or participate in preparing the grant application.

Data presented in this chapter are based on a series of fourteen questions that elicited descriptive and evaluative information from the field research associates about the role of citizens in the application process. (The questions appear in Part I of the research report form; see Appendix II at the back of this report.) Associates were asked to describe all citizen involvement with the CDBG program, from its enactment through submission of the final application to HUD. They were directed to describe the steps taken by local governments to facilitate citizen participation and to assess the extent to which citizen participation influenced the decisions reflected in the applications. Associates also provided a further summary assessment of the citizen-participation process. All the researchers in this study met again at the second research conference and discussed the subject further; this second step produced a new canvass, using uniform terminology and closed-ended questions.

APPROACHES BY LOCAL GOVERNMENTS

In examining the way officials of local governments approached the citizen participation requirement, we are interested in four main factors: (1) the attitudes of local officials toward the requirement; (2) the procedures or structural arrangements they made; (3) the kinds of opportunities they provided for citizen participation in the application process; and (4) the efforts they made to promote and facilitate citizen participation.

Attitudes Toward Citizen Participation

How local officials felt about the citizen participation requirement and the "seriousness" with which they approached its implementation are important concerns but very difficult to investigate. To elicit this information, associates were asked to evaluate the "seriousness" with which local officials approached this requirement, relying on interviews with local officials and their own observations of how citizen participation was treated in the application process. This strategy, and especially the meaning of the word "seriousness," was discussed at the first research conference in September 1975. We concluded that the aim of the research in this area should be to ascertain whether local officials viewed citizen participation as relatively unimportant and mainly a gesture to fulfill a requirement, or whether they treated it as an occasion to provide important opportunities for citizens to become involved in priority setting for community development. Such evaluations of disinterested expert observers knowledgeable about local conditions and politics may be the most effective means of obtaining this kind of information. We would stress, however, that the data which follow on this question are the best informed judgments of on-the-scene and uninvolved observers, most of whom are social scientists.

When tabulated, the evaluations of the associates showed that officials in the overwhelming majority of the sample jurisdictions (fifty-two of sixty-two) viewed citizen participation as an important part of the application process and not merely a formality. In more than a third of the sample, citizen participation was viewed as "very important." The ten jurisdictions in which local officials were judged to have treated the citizen participation requirement as "not important" are mostly small cities and urban counties with little or no previous experience in federally financed community development activities. Only one in this group of ten jurisdictions (Mount Vernon, New York) had previous experience under the model cities program. Three are urban counties with little or no prior experience, which left up to participating cities the responsibility for citizen participation.

Two sample units (one very small and one very large) typify these ten units. Of Plainview, Texas, the associate reported that "city officials treat community participation requirements as formalities to be gotten through." No major efforts were made by city officials to stimulate citizen participation; the public hearings were sparsely attended and generated relatively little citizen input in decisions about the use of the funds. Similarly, the associate for Cook County, Illinois, said "Local and county officials treated citizen participation in the community development program as pro forma; the required hearings were held, but they were poorly attended and little heeded. The most important decisions were made behind closed doors between local and county officials, and the participation by citizens was limited in importance and scope." A profile of the situation in Cook County is presented in Capsule 11-1. (Quotations in this capsule and others in this chapter are from associates' reports.)

Capsule 11-1. Cook County, Illinois

Population: 5,488,300
Urban county
Grant amount: $3,246,000

Although in Cook County the local government attached little importance to citizen participation, officials responsible for the CDBG program were careful to fulfill the legal requirements.

Cook County created a CDBG advisory council composed primarily of suburban mayors but which also included three representatives from local organizations (the League of Women Voters, the Metropolitan Housing and Planning Council, and the Community and Economic Development Association). After the advisory council had approved a draft application, the county sponsored three county-wide public hearings. These were poorly attended, and the associate reported were "more for the purpose of providing information to citizens than for citizens to provide input on the draft application."

The county also sought assurances from participating municipalities that each had sponsored at least one public hearing. "Before the advisory council would consider any project, one public hearing had to have been held by the municipality which was proposing the project. A transcript of that hearing or certification that it has been held had to be provided."

Despite elaborate formal citizen participation mechanisms, Cook County treated citizen participation perfunctorily. The three local organization representatives were described by the associate as having, overall, very limited influence. Public hearings were not well advertised and were consequently poorly attended. The first-year program was largely the result of informal negotiations between county staff and the suburban mayors. Citizens that did attend hearings were not encouraged to comment on the draft, nor were any of the proposals they made incorporated into the application.

At the other end of the scale, the twenty-three jurisdictions in which local officials took the application process "very seriously" tended to be jurisdictions with high levels of previous experience. Twelve of the twenty-three had model cities program experience. Two were urban counties; none were jurisdictions with populations over one million. Raleigh, North Carolina, and Dade County, Florida, are examples of jurisdictions in this category. Of Raleigh, the associate reported, "Generally speaking, local officials took the community participation elements very seriously and citizens appeared to have responded in kind." The associate for Dade County concluded that "the dedication to citizen participation by key generalist officials at the county level is genuine." He added, "Citizen participation is the most outstanding aspect of the first-year application process."

In several jurisdictions, the support of local officials for citizen participation was not without reservations. Some were concerned that a high level of citizen participation might generate a higher level of expectations than the program would justify. The associate for Cleveland Heights, Ohio, reported, for example, that city officials "approached the citizen participation requirement both seriously and warily. Because Cleveland Heights has had limited experience qualifying for federal funds, especially HUD programs, the city intended to be scrupulously careful in fulfilling eligibility requirements." At the same time, city officials decided that the development of the CDBG application should be "low-key" so as not to arouse unwarranted expectations about CDBG benefits. In Carbondale, Illinois, local officials were also ambivalent about citizen participation but for different reasons. The Carbondale associate reported that city officials took the requirement very seriously. "The city has a long history of active citizen involvement. The city council has made citizen participation a matter of standard policy for a long time. The city manager wanted the participation of citizens, particularly those in low and moderate-income neighborhoods." Yet because the manager believes citizen participation tends to slow up the planning and administration of programs, "he takes the position that citizens have neither the time nor the expertise for a very active role and that they should play an advisory role only, i.e., reacting to and recommending changes in programs and budgets worked out by staff." The associate concluded with the observation that "basically, the city council shares the city manager's views about the character of citizen involvement."

On the whole, the large number of jurisdictions in which local officials were judged to have taken the citizen participation requirement seriously must be viewed as one of the surprising features of the first-year CDBG program. It is especially so in view of what was widely regarded, at best, as a widespread uneasiness among local officials with comparable requirements under previous federal programs. This generally supportive attitude under the CDBG program can be attributed to several factors; the one that appears most frequently in the observations of associates is the fact that the program permits local officials to shape citizen participation to fit their own objectives and preferences, both substantively and procedurally. The associate for Portland, Maine, for example reported that "the citizen participation process appears to have been taken quite seriously by local officials. Previous experience with citizen involvement in the form of the citizens' advisory committee had been notoriously distasteful for the council. Under CDBG, neighborhood meetings and surveys presented an opportunity for city officials to generate broad citizen involvement without creating an ongoing organization with which the council would have to deal." In short, local officials were supportive of citizen participation because they had the opportunity to control it and to use it as they saw fit.

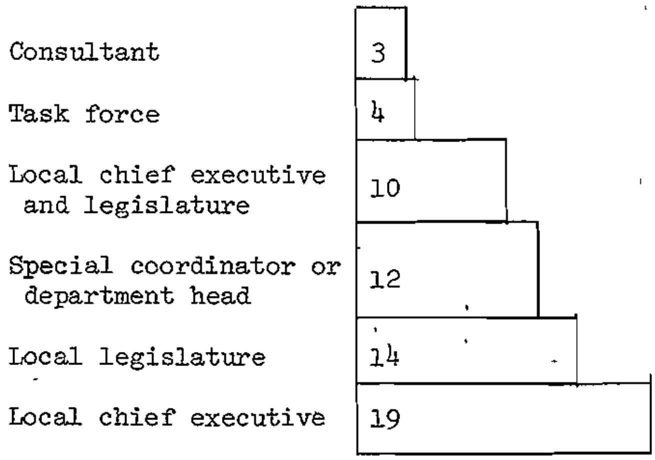
Procedures

One issue related to citizen participation that was examined at length by the Senate Banking, Housing, and Urban Affairs Committee was whether the Housing and Community Development Act of 1974 should prescribe a particular procedure for citizen participation. The Committee concluded that it would be unwise to frame a single model for citizen participation, stating that "program objectives would be better served by relying on local governments to develop acceptable models for citizen participation taking into account the varied traditions and public institutions that have grown up in U.S. communities."[5] The variety of procedures adopted to provide for citizen participation in the first year of the block grant program indeed suggest that this approach is desirable.

In most of the sample jurisdictions, the adoption of citizen participation procedures was noncontroversial and administrative; either the local chief executive or another official responsible for supervising the application devised a procedure. In only a few cases was this a major issue. In Evanston, Illinois, Minneapolis, Minnesota, San Jose, California, and Cambridge, Massachusetts, citizens' organizations offered their own proposals for citizen participation procedures. In Evanston, the League of Women Voters proposed that a number of citizens be appointed to a CDBG task force; in the end this idea was rejected by city officials. In Minneapolis, city officials and local citizens' groups negotiated a mutually acceptable procedure after citizens' groups found the city's initial plan unacceptable. In San Jose, the city accepted the procedure proposed by the local model cities agency. In Cambridge, citizens invited to serve on an advisory committee criticized the approach by the mayor and recommended instead that an elected citizens' advisory board be created; Cambridge's mayor rejected the proposal on grounds that there was not enough time to carry it out.

In general, however, decision-making responsibility for the citizen participation process remained within the local government. The data on who actually made the decisions in the sixty-two sample jurisdictions break down as follows:

Figure 11-1. Decision-making Responsibility for the Citizen Participation Process



Preliminary reports from the field indicate that the procedures established by the governments to permit citizen participation could be grouped into four types: (1) public hearings only; (2) public hearings and neighborhood meetings; (3) public hearings and a citizens' advisory body; and (4) public hearings, a citizens' advisory body, and neighborhood meetings. The data showed that exactly half the study sample fell into the first two categories, the other half into the second two.

Thirteen jurisdictions relied entirely on public hearings to fulfill the CDBG citizen participation requirement. Summary data for these thirteen jurisdictions are provided in Table 11-1 below.

Table 11-1. Jurisdictions Using Public Hearings Only for Citizen Participation; Listed Alphabetically

	Number of public hearings	
Jurisdiction	Pre-draft	Post-draft
Allegheny County, Pa.*	5	1
Alma, Mich.	1	1
Boston, Mass.	18	2
Columbia, S.C.	...	2
Cook County, Ill.*	10	2
East Orange, N.J.	1	1
Evanston, Ill.	1	1
Greece, N.Y.	...	3
Hennepin County, Minn.*	...	...
Lakewood, Colo.	...	2
Philadelphia, Pa.	3	5
Pittsburgh, Pa.	5	2
Pulaski County, Ill.	...	2
Scottsdale, Ariz.	2	1

Source: Field research data.

* Data presented for urban counties include only those public hearings sponsored by the county.

Six of these held only two hearings, the minimum number required under HUD's CDBG regulations, while seven held more. Officials in Boston, for example, used the eighteen "little city halls" throughout the city to conduct hearings in various neighborhoods, after which two public hearings were held by the full city council. Philadelphia held two rounds of city-wide hearings, five prior to preparation of the draft application and three afterwards. Public hearings, however, have on other occasions been shown to have shortcomings as a means of citizen participation. They generally require that participants be knowledgeable in advance about the subject at hand; they provide relatively little opportunity for informal discussion and furthermore are often an intimidating forum in which citizens--especially those of low income--are reluctant to speak freely.

Seventeen jurisdictions supplemented the public hearings with neighborhood meetings conducted by the officials directly responsible for preparing CDBG applications. Summary data for these seventeen jurisdictions are presented in Table 11-2. In several jurisdictions, formal hearings and neighborhood meetings were coordinated to form a single, structured process for citizen participation. The approaches taken by Jacksonville, Florida, and Seattle, Washington, illustrate this. Jacksonville's Department of Housing and Urban Development scheduled eight public meetings in several of the city's legislative districts prior to the start of public hearings by the city council. In advertisements and mailed invitations, citizens were urged to attend these meetings to learn about the program as a basis for participating in the public hearings scheduled for a later date. Officials preparing

Seattle's application conducted twelve neighborhood meetings before preparing a draft application and eight more afterwards--all prior to the city council's public hearings. Not only did these neighborhood meetings serve to educate citizens about the program and provide for informal discussion of local community development needs, they also provided a way to identify prevailing neighborhood needs and focus on specific ones.

Table 11-2. Jurisdictions Using Neighborhood Meetings and Public Hearings for Citizen Participation; Listed Alphabetically

Jurisdiction	Number of neighborhood meetings		Number of public hearings	
	Pre-draft	Post-draft	Pre-draft	Post-draft
Atlanta, Ga.	5	...	6	2
Chicago, Ill.	9	...	...	2
East Lansing, Mich.	5	...	...	2
Harris County, Tex.*	4	...	...	...
Huntington Beach, Calif.	3	...	...	3
King County, Wash.*	38	5	4	...
Lansing, Mich.	1	...	...	1
Los Angeles County, Calif.*	27	35	2	...
Miami, Fla.	2	...	...	2
Miami Beach, Fla.	4	1	...	2
New York, N.Y.	5	...	...	2
Orange County, Calif.*	10	...	...	2
Portland, Me.	7	...	...	2
Rochester, N.Y.	7	...	...	1
Seattle, Wash.	21	...	2	1
Sioux City, Ia.	4	...	...	1
Worcester, Mass.	5	...	...	...

Source: Field research data.

* Data presented for urban counties include only those public hearings and/or neighborhood meetings that were sponsored by the county.

Thirty-one jurisdictions used advisory boards or committees to provide for citizen participation under the CDBG program. Of these, five used one or more existing local bodies instead of creating new bodies for this purpose. Florence, South Carolina, for example, used its existing community relations commission as the citizens' advisory body; Plainview, Texas, used two existing bodies, its city-wide community improvement committee and neighborhood improvement committee, while El Monte, California, used its existing "Image Committee" along with four members of the police department's advisory committee and ten additional citizens.

In the thirty-one sample jurisdictions that relied on citizens' advisory committees, these bodies differed greatly in size, in the way their membership was selected, and in the role they played in the CDBG program. The smallest committee was that of Marlborough, Massachusetts, with five members. The largest was in Los Angeles with 150 members from which a fifteen-member steering committee was selected.

In twenty of the thirty-one jurisdictions, the members of the citizens' advisory committees were appointed in one of the following ways: (1) by the chief executive (nine cases); (2) by the local legislature (eight cases); (3) by both the local legislature and the chief executive (two cases); and by a department head (two cases).

In nine of the thirty-one jurisdictions, the appointment process was more complicated.[6/] In Santa Clara and Cambridge, advisory committees were kept open, that is, instead of having a fixed membership, city officials invited several groups to send representatives to participate; meetings were also open for members of the community to work with the committee. In Durham and

El Monte, the appointment process involved three parties -- the city manager, city council, and existing citizens' advisory committees in Durham and the city manager, city council, and police chief in El Monte. In Raleigh an existing citizens' advisory committee was used.

In the remaining four jurisdictions with citizens' advisory committees, some or all of the members were elected. In Dade County, all committee members were elected in neighborhood meetings; while in the other three cases, Jacksonville, Minneapolis, and San Jose, part of the committee's membership was appointed and the remainder elected in neighborhood meetings. As we reported in Chapter 10, in three jurisdictions (Durham, San Jose, and Roanoke Rapids) legislators served as members of the citizens' advisory committees.

In most of the thirteen jurisdictions that used neighborhood meetings in addition to the citizens' advisory committee, the neighborhood meetings were held by the committee, although in a few cases these were conducted by local officials before the citizens' advisory committee was organized. Summary data on these thirty-one jurisdictions with citizens' advisory committees are presented in Table 11-3.

Table 11-3. Summary Data on the Thirty-one Citizens' Advisory Committees that Participated in the CDBG Application Process; Sample Jurisdictions, Listed Alphabetically

					Type of participation	
Jurisdiction	Status	Number of members on committee	How members were selected	Basis of selection	Advisory role in drafting application	Participated in preparing draft
Auburn, Me.	New	11	Appointed	At large	Yes	No
Bangor, Me.	New	15	Appointed	At large	Yes	No
Cambridge, Mass.	New	a/	Invited and volunteered	Sub-city and at large	Yes	Yes
Carbondale, Ill.	New	31	Appointed	At large	Yes	No
Casa Grande, Ariz.	New	14	Appointed	At large	Yes	Yes
Charlottesville, Va.	New	17	Appointed	Sub-city at large	Yes	Yes
Cleveland, O.	New	14	Appointed	At large	Yes	Yes
Cleveland Heights, O.	New	10	Appointed	Sub-city	Yes	Yes
Dade County, Fla.	New	18	Elected	Sub-county	Yes	Yes
DeKalb County, Ga.	New	9	Appointed	Sub-city and at large	Yes	Yes
Denver, Colo.	New	27	Appointed	Sub-city and at large	Yes	No
Durham, N.C.	New	15	Appointed	At large	Yes	No

Table 11-3. (continued)

Jurisdiction	Status	Number of members on committee	How members were selected	Basis of selection	Type of participation: Advisory role in drafting application	Type of participation: Participated in preparing draft
El Monte, Calif.	Existing[b/]	25	Appointed	At large	Yes	No
Florence, S.C.	Existing	25	Appointed	At large	Yes	No
Houston, Tex.	New	26	Appointed	At large	Yes	No
Jacksonville, Fla.	New	27	Elected and appointed	Sub-city and at large	Yes	Yes
Los Angeles, Calif.	New	150	Appointed	Sub-city	Yes	No
Lubbock, Tex.	New	14	Appointed	Sub-city and at large	Yes	Yes
Marlborough, Mass.	New	5	Appointed	At large	Yes	No
Minneapolis, Minn.	New	47	Elected and appointed	Sub-city and at large	Yes	Yes
Mt. Vernon, N.Y.	New	12	Appointed	At large	Yes	No
Newark, N.J.	New	27	Appointed	At large	Yes	No
Plainview, Tex.	New	10	Appointed	Sub-city and at large	Yes	No
Phoenix, Ariz.	Existing	17	Appointed	At large	Yes	No
Raleigh, N.C.	Existing	18	Appointed and elected	Sub-city	Yes	Yes
Roanoke Rapids, N.C.	New	8	Appointed	At large	Yes	No

Table 11-3. (continued)

Jurisdiction	Status	Number of members on committee	How members were selected	Basis of selection	Type of participation: Advisory role in drafting application	Type of participation: Participated in preparing draft
St. Louis, Mo.	New	39	Appointed	Sub-city	Yes	No
St. Louis County, Mo.	New	20	Appointed	Sub-city	Yes	No
San Jose, Calif.	New	12	Elected and appointed	Sub-city and at large	Yes	Yes
Santa Clara, Calif.	New	7	Appointed	At large	Yes	Yes
Sioux Falls, S.D.	Existing	21	Appointed	At large	Yes	No

Source: Field research data.

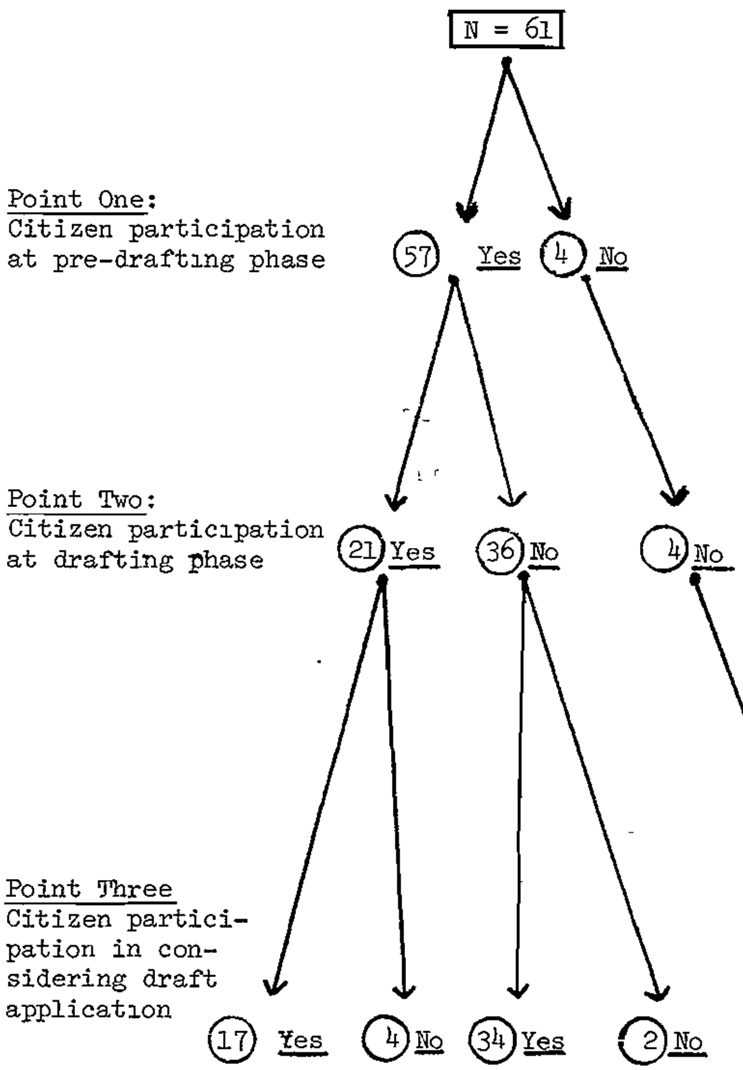
a/ The size of the committee was left open, and citizens were free to join.

b/ Existing committee to which four new members were added from the Spanish-speaking community.

Timing of Participation

A third aspect of the approach local governments took to citizen participation involves the number of stages in the application process at which opportunities for participation were provided. Citizen participation was possible prior to the preparation of a draft application, during the drafting process, and also afterwards in connection with its consideration by the local legislature. In a few jurisdictions, local governments provided opportunity for citizen participation at only one point in the application process; many others provided participation at two points, and a good number at all three points. Figure 11-2 presents a compilation of our data on the timing and frequency of citizen participation.

Figure 11-2. Timing of Opportunities Provided for Citizen Participation in the CDBG Application Process; Points at which Participation Occurred*



Summary:

Participation at three points	17
Participation at two points	38
Participation at one point	6
Total	61

Source: Field research data.

* Does not include Hennepin County, Minnesota, which provided for no citizen participation at the county level.

Typical of the jurisdictions with one opportunity for citizen participation is Greece, New York. There the city council held two public hearings on its CDBG draft application. In addition to the routine public notices announcing the hearings, city officials invited one local group that had been engaged in promoting improved drainage for the city, the project on which city officials had already planned to use most of its CDBG funds. The hearings focused entirely on this issue. Later, when the city's CDBG grant amount proved larger than had been anticipated, a third hearing was held to discuss ways to use the additional money. In four of the six jurisdictions with an opportunity for citizen participation at only one point, the public hearings occurred at the end of the decision-making process, that is, after a draft application had been prepared and submitted to the legislature for consideration. Citizens who participated in these hearings were therefore able only to react to choices already made rather than to participate in determining the choices.

Of the thirty-eight jurisdictions in which local governments provided opportunities for participation at two points in the application process, all but four involved participation before and after the preparation of a draft application. In these jurisdictions, citizens' views were obtained first, a draft application was then prepared, and finally, through public hearings, citizens were again able to comment and sometimes effect changes in the draft. In the remaining four jurisdictions, participation occurred before the draft and during the drafting process. The citizen participation process in these jurisdictions allowed citizens to express their views early enough so that they could be taken into account in preparing the draft application and then gave citizens an opportunity to react to the way those views were treated in the draft.

In fourteen of these thirty-eight jurisdictions, a citizens' advisory committee was used as the principal means of citizen participation; in the remaining jurisdictions either public hearings alone or public hearings and neighborhood meetings in combination were the arrangements used. Typical of the jurisdictions in this category was Scottsdale, Arizona, where the city scheduled three public hearings, the first one on November 4, 1974, to acquaint citizens with the program and to solicit their views on community development needs. Three weeks later a second public hearing on the program was held, this time with a more focused discussion of the kinds of community needs to be addressed in the program. The views expressed in these discussions helped local officials in preparing a draft application, which was presented to the city council on December 17, 1974, the occasion for a third public hearing. Citizen participation in Cleveland, another jurisdiction in the two-point participation group, proceeded less smoothly than in Scottsdale as the description below (Capsule 11-2) shows.

Capsule 11-2. Cleveland, Ohio

Population: 750,879
Central city with hold-harmless entitlement
Grant amount: $16,092,000

In Cleveland, citizen participation occurred through a fourteen-member citizens' advisory committee. Members of the committee were selected in a two-step process. First, the director of community development, in concurrence with the mayor, designated fourteen social service agencies and local groups from which representatives were to be drawn. Each of these groups then selected one representative to the committee. The committee was given the responsibility to advise the city on the use of 20 percent of the CDBG budget earmarked for social-service activities. This arrangement not only gave community groups a voice in planning the program, it also served, the associate reported, to direct "individual pressures away from the CDBG staff."

The public hearings were held before a draft application was prepared, between November 1974 and February 1975. The first series of hearings was designed primarily to inform citizens about the program and to solicit suggestions about how the money should be spent. The second round of hearings occurred after a draft application had been prepared to give citizens an opportunity to comment on the draft.

The public hearings were not well attended. Few substantive comments were made, and those groups that participated were, the associate reported, "only marginally influential." Few changes were made in the city's application as a result of the post-draft hearings. Responding to protests from four neighborhood groups against the exclusion of their neighborhoods from a planned code enforcement program, city officials asserted that "priority areas for receiving low-interest loans for new construction or housing rehabilitation were those where it was determined that the money would go the farthest."

One issue on which citizens worked hard, and ultimately to no avail, was to replace a "Concentrated Crime Patrol" (a program to pay the salaries of nearly 200 police officers, which the city administration favored) with two fire stations, which were to have been constructed in the priority areas. Citizen groups opposed this project on a number of grounds. They argued that the patrol program was an ineligible activity, that the citizen participation requirement had not been met (Cleveland had held two hearings on the day the decision was made to include the patrol program), and that past increases in expenditures for safety forces had not resulted in improved policy performance. Protests by citizens brought no changes. Cleveland submitted its application with this project included to the HUD area office. Neither the HUD area nor regional office would approve this item, however, ruling it an ineligible activity. The city appealed their decisions, and in a May 20, 1975, memorandum to the HUD regional office involved, Assistant Secretary Meeker ruled that the "Concentrated Crime Patrol" was a supportive service and therefore an eligible activity. (A number of political leaders--local and national--were also involved in this controversy as discussed in Chapter 7.)

In addition, the city's model cities program participation organization vigorously criticized the approach taken to the CDBG citizen participation requirement. They were especially critical of the limited advisory role given to citizens and the city's abandonment of the existing model cities citizen participation mechanism. Their protests were largely ignored by the city and their efforts to establish an alternative mechanism failed.

In the seventeen jurisdictions where local governments provided opportunities for participation at all three points in the application process, the key characteristic was continuous citizen involvement, with the most important participation concentrated on sharing in the actual preparation of the grant application. In a few of these jurisdictions citizens played the leading role in the drafting process. In all seventeen cases, a citizens' advisory committee was the instrument for participation. The experience of Minneapolis, described in Capsule 11-3, provides an example of citizen involvement throughout the entire application process.

Capsule 11-3. Minneapolis, Minnesota

Population: 434,000
Central city with hold harmless entitlement
Grant amount: $16,793,000

Shortly after enactment of the CDBG legislation, the mayor of Minneapolis indicated his support for a strong citizens' role in the CDBG program, noting that "a new kind of city government organization is required to provide for considerably more consultation with and participation by the people who live and work in those neighborhoods that are directly affected." This new organization turned out to be a forty-seven member citizens' advisory committee, comprised of one aldermanic appointee from each of thirteen wards, five mayoral appointees, and twenty-nine delegates elected from caucuses in the city's ten planning districts.

The size and method of selection of the committee resulted from extensive negotiations between city officials and several local citizens' organizations. The committee was given two charges by the city council: (1) to assist the city in preparing its first-year block grant application; and (2) to recommend ways in which citizens might be involved in community development activities and in preparing future applications.

The city council also created a technical assistance committee, made up of staff from several departments to work with and assist the citizens' advisory committee in preparing a draft application. On the recommendation of this technical committee, the citizens' committee organized itself into five subcommittees--human relations, physical improvement, housing assistance, affirmative action, and an overall steering committee. These subcommittees held separate meetings, for the most part, to work on specific aspects of the application. The steering committee pulled together the recommendations of the other subcommittees, trimming the proposed expenditures to meet the city's entitlement amount and then submitting its draft application to the community development committee of the city council.

The city council reviewed the draft application, conducted public hearings, and then approved it with only a few modifications. In the draft application the citizens' advisory committee emphasized housing rehabilitation and social service programs. The city council had urged that, in addition to these functions, CDBG funds be used to purchase land for senior citizens' housing and a bicentennial construction project. The citizens' advisory committee considered and rejected both of these items, but nevertheless the council included them. In order to do so, it deleted one of the projects recommended by the committee. According to the associate, "The application as finally adopted was clearly the product of a cooperative citizen-council effort."

Two significant factors appear to have been associated with the number of opportunities local governments provided for citizen participation in preparing the CDBG application. One is the type of structure or procedure utilized for citizen participation. In jurisdictions in which no formal structure for citizen participation existed and public hearings and meetings were relied on exclusively, participation occurred at one or two points in the application process and never during the drafting stage. On the other hand, although existence of a formal structure such as a citizens' advisory body did not ensure participation at all three points in the application process, such a body did indeed exist in all seventeen cases in which participation was provided for at the three points.

The second major factor associated with the number of opportunities provided for citizen participation is the extent of prior experience with federal community development programs and particularly the model cities program. This relationship is shown in Table 11-4, which shows that of thirty-six jurisdictions with high levels of prior experience, only two provided for citizen participation at one point in the application process.

Table 11-4. Prior Program Experience Related to Number of Opportunities for Citizen Participation

Number of opportunities	Level of prior experience		
	High	Moderate	Low or none
Three points in application process	11	1	5
Two points in application process	23	3	12
One point in application process	2	1	3
Total	36	5	20

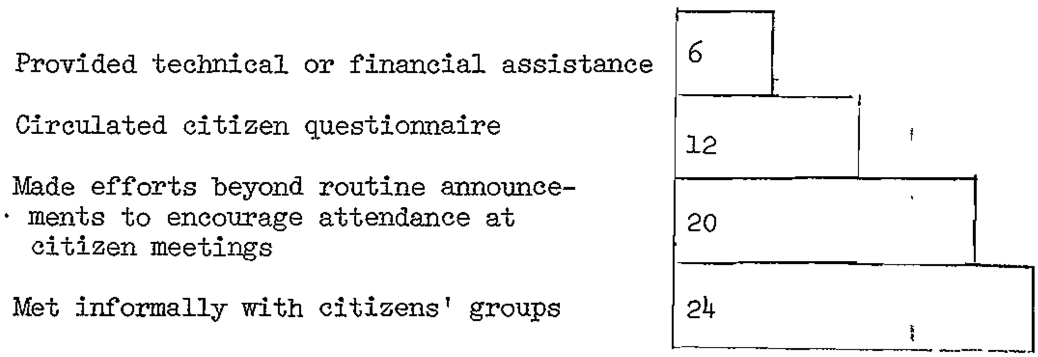
Source: Field research data.

Promoting Participation

The effort of local governments to promote and facilitate citizen participation is the fourth aspect of our consideration of the approach to this requirement. In many instances promotional activities were just as important as procedure and number of opportunities for citizen participation, because they stood to enhance the level and quality of participation.

Promotional efforts primarily involved publicizing the CDBG program and trying to stimulate attendance at meetings and hearings. In some instances, other activities were undertaken to help organizations or individual citizens to participate. Twenty of the sample jurisdictions made no extra efforts to promote or facilitate citizen participation and to disseminate program information. Promotional activities undertaken by the remaining forty-two local governments break down as follows: (It should be noted that a number of jurisdictions undertook more than one kind of activity.)

Figure 11-3. Promotional Activities to Encourage Citizen Participation



As a routine measure, all local governments could be expected to announce their scheduled meetings and public hearings through newspaper advertisements or press releases. Twenty local governments went beyond such standard steps. Among these were Jacksonville, Florida, Carbondale, Illinois, and Lubbock, Texas, which used television and radio programs to inform citizens and promote participation. In other jurisdictions such as Pittsburgh and Philadelphia, mass mailings to community groups were used to stimulate citizen attendance at meetings and hearings.

Six sample jurisdictions allocated funds or provided technical assistance in order to facilitate citizen participation. In some cases, the technical assistance involved providing demographic data; in other cases it involved providing staff assistance to participating groups or individuals. As Capsule 11-3 noted, the city of Minneapolis created a special technical committee composed of staff members of the city government to work with the citizens' advisory committee. Other jurisdictions, including San Jose, Cambridge, and Orange County, California, made staff members available to assist groups and individuals that sought to be active in preparing proposals. City officials in Cambridge appointed a coordinator for citizen participation and provided a multi-lingual staff person to work with Spanish and Portuguese-speaking citizens. Orange County hired a Spanish-speaking staff member to assist Spanish-speaking citizens. Several other jurisdictions made efforts to inform the public by preparing handbooks or newspaper supplements explaining the program. Jacksonville and Santa Clara, California, used a slide presentation explaining the program and provided staff to present it to local groups at their request.

The quantity and quality of the technical assistance provided by local governments were, in some cases, the subject of disagreement between officials and citizens. In San Jose, for example, city officials responsible for the CDBG program claimed that they had made city staff available to groups needing assistance in preparing proposals. The associate for San Jose reported, however, that several citizen groups complained that this assistance was available only in the first weeks of the program and that in the later stages of the application process, requests to city officials for technical assistance went unheeded.

Similarly, in Chicago city officials interviewed by the associate claimed that city staff met with and assisted groups that requested technical aid. The associate for Chicago found, however, that the availability of this assistance was not widely publicized and that "some community organizations sought background information relevant to the community development program and experienced great difficulties and at best long delays in obtaining that information." The associate added, "By releasing information only when they wanted to, local officials in Chicago hindered the citizen participation process."

As a special means of obtaining citizens' views, twelve jurisdictions administered questionnaires. In Columbia, South Carolina, this turned out to be the principal means of obtaining citizens' reactions, since the scheduled public hearings were sparsely attended. In Houston, officials administered questionnaires at neighborhood meetings and used the responses, along with the minutes of the meetings, to determine citizens' views about program priorities. A similar procedure was used in Seattle.

Seattle's use of questionnaires was the most extensive among the sample jurisdictions. On October 30, 1974, city officials published an eight-page newspaper supplement, which explained the program, presented the recommendations of a CDBG task force, and included a questionnaire to obtain the preferences of citizens. From 213,000 copies circulated, 1,450 responses were received. Four months later, after a draft application had been prepared, the city published a second supplement that included the draft and a second questionnaire to solicit citizen responses to the draft. The city received 1,400 responses to this second questionnaire.

The field research report was also designed to elicit information about informal consultation between officials and citizens or local organizations, a process found in twenty-two sample jurisdictions. This frequently was an important means of citizen participation, particularly useful in negotiating the resolution of controversial issues. In addition, for small jurisdictions such as Alma, Michigan, and Cleveland Heights, Ohio, much of the citizen participation occurred through informal consultations with citizen groups. The associate for Alma reported that "the city manager stressed the difficulty in a small town of turning citizens out to attend a formal meeting. Communication is more likely to take place in informal consultation." Of Cleveland Heights, the associate reported that "while the CDBG staff was open to outside opinions, during the early stages of preparation of the application, input into the plan summary and program was solicited indirectly. Members of the citizens' advisory committee met informally with neighborhood groups and residents were encouraged to communicate with representatives from their districts."

In several other cases, among them Rochester, New York, San Jose, and Houston, city officials consulted extensively with existing groups from the model cities program to negotiate major changes in the activities of the model cities agencies. Rochester officials, for example, met with that city's model cities personnel to "arrange for an orderly phase down of the program." San Jose's city manager held several breakfast meetings with model cities groups in order, as the city manager put it, "to massage the transition away from model cities." In Houston, the mayor's consultations with officials of the model cities organization were aimed at assuring them of continued support for the model cities program, though at a lower level than previously, and to urge that less effective programs be cut back or terminated.

* * *

In sum, we found that in most sample jurisdictions, local governments took the citizen participation requirement seriously and made what must be considered substantial efforts to stimulate, and provide opportunities for, citizen participation. We have next to deal with two further questions concerning citizen participation: To what extent did citizens actually participate in the application process? And, who participated?

LEVELS AND PATTERNS OF PARTICIPATION

In order to gauge the extent of citizen participation, we relied on the descriptions provided by associates of attendance and involvement by citizens in public hearings, meetings, and other related activities. In addition, we employed summary assessments from associates of the overall level of participation made after the second field research conference. For information about which organizations and citizens' interest groups participated in the program, we asked associates to identify local organizations that participated in the application process and to indicate which ones were most active.

Level of Citizen Participation

An indication of the level of actual citizen participation in the sample jurisdictions is important in describing this aspect of the first-year experience. Precise determination of the level of participation is difficult because of the widely differing characteristics of jurisdictions and the different approaches they took in providing for citizen participation. For this study a determination of the general level of citizen participation was made on the basis of the characterization provided by associates and evaluation of their descriptions of attendance at public hearings and meetings and the use of questionnaires and other less structured means of participation. Jurisdictions were then grouped according to whether the overall level of citizen participation was low, moderate, or high. Table 11-5 presents the sample jurisdictions grouped by level of citizen participation in the application process.

For twenty-two jurisdictions associates' reports indicated a high level of citizen participation. One of these jurisdictions was Philadelphia, where in the first round of public hearings, 159 presentations were made. A few weeks later, at the second round of hearings, another 132 presentations were made. This much activity, the associate concluded, "was extremely high for Philadelphia and reflected a considerable staying power by participants." A comparably high level of participation was noted in Chicago, where more than 240 presentations were made by citizens at the ten city-wide and area meetings held by the city. In Scottsdale, 150 people attended the city's public hearings, made a total of twenty-one oral presentations, and submitted ninety-two written recommendations.

On the other hand, in sixteen jurisdictions participation was found to be low; few people attended or contributed to the deliberations at public hearings and meetings in these units. Typical of this group were Columbia, South Carolina, where "just a handful of people showed up" for the city's two public hearings, and Casa Grade, Arizona, where one official reported that the average attendance at the public hearings was about three.

Table 11-5. Jurisdictions Grouped by Level of Participation*

Low	Moderate	High
Allegheny County, Pa	Charlottesville, Va.	Atlanta, Ga.
Alma, Mich.	Cleveland, O.	Boston, Mass.
Auburn, Me.	Cleveland Heights, O	Cambridge, Mass.
Bangor, Me.	Columbia, S.C.	Carbondale, Ill.
Casa Grande, Ariz.	DeKalb County, Ga.	Chicago, Ill.
Cook County, Ill.	Durham, N.C.	Dade County, Fla.
East Orange, N.J.	East Lansing, Mich.	Denver, Colo.
El Monte, Calif.	Florence, S.C.	Evanston, Ill.
Greece, N.Y.	King County, Wash.	Houston, Tex.
Harris County, Tex.	Lansing, Mich.	Jacksonville, Fla.
Huntington Beach, Calif.	Los Angeles, Calif.	Lubbock, Tex.
Lakewood, Colo.	Marlborough, Mass.	Miami, Fla.
Los Angeles County, Calif.	Mt. Vernon, N.Y.	Miami Beach, Fla.
Orange County, Calif.	Newark, N.J.	Minneapolis, Minn.
Pulaski County, Ill.	Phoenix, Ariz.	New York, N.Y.
Roanoke Rapids, N.C.	Pittsburgh, Pa.	Philadelphia, Pa.
	Plainview, Tex.	Raleigh, N.C.
	Portland, Me.	St. Louis, Mo.
	Rochester, N.Y.	San Jose, Calif.
	St. Louis County, Mo.	Santa Clara, Calif.
	Sioux City, Ia.	Scottsdale, Ariz.
	Sioux Falls, S.D.	Seattle, Wash.
	Worcester, Mass.	

Source: Field research data.

* One jurisdiction, Hennepin County, sponsored no citizen participation at the county level.

The largest number of jurisdictions, twenty-three, were classified as having a moderate level of citizen participation. Typical of these jurisdictions is Durham, North Carolina, where many, although not all, of the public meetings on the CDBG program were poorly attended. In Allegheny County, Pennsylvania, where participation was also classified as moderate, turn-out was said to be fair; several presentations were made at the public hearings, but most of the participants represented other local government agencies, rather than citizen groups.

Wherever both public hearings and meetings were held, meetings generally received greater attention. In Portland, Maine, local interest and participation in that jurisdiction's seven neighborhood meetings prompted this general observation on their relative importance by the associate, "It is clear that the neighborhood meetings were viewed by those responsible for the preparation of the application as the central element of citizen participation. The two public hearings after the preparation of the tentative program permitted and resulted in only marginal changes in the composition of expenditures specified in the program--the application received final council approval on the same night as the last of the two public hearings." In most jurisdictions that held both hearings and meetings, the meetings preceded the public hearings; they were well publicized in advance and held in various neighborhoods or other sub-units of the jurisdiction. Thus, by the time the hearings were held, some citizens had already had their say to their satisfaction or had become disillusioned by the limited role they would have in decision-making. The associate for Chicago, for example, reported that "there was a great flurry of activity initially until participants began to see the application process as a no-win situation, just business as usual." In Carbondale, although the citizens' advisory committee succeeded in stimulating citizen participation during the drafting process, by the time the final public hearing was held interest tapered off so that "nobody showed up."

In several jurisdictions, associates attributed the low level of citizen participation to a lack of experience in involvement in public affairs or to a tradition of noninvolvement. The associate for Orange County, California, said with respect to low-income, underdeveloped neighborhoods in the county that "although county officials made serious efforts to provide for citizen participation, very little participation was actually achieved. The residents of these neighborhoods have not been specifically invited to participate in county decisionmaking in the past and the mechanisms for participation in the CDBG program were in their infancy." Of Portland, Maine, the associate reported that "historically, citizen participation in Portland government has been low. Voter turn-out for municipal elections is small. Although city council meetings are broadcast over local radio, public participation at the meetings is limited to relatively few persons. The average citizen--especially if he lives in an entirely residential neighborhood--is not active in town affairs." A similar situation was described for Auburn, Maine, where the associate noted that "except for zoning matters, over the years citizens have not taken an active part in local decisionmaking."

Most of the jurisdictions found to have high levels of citizen participation also had high levels of previous experience with federal community development programs. Table 11-6 shows that almost two-thirds of the jurisdictions with urban renewal and/or model cities programs had high levels of citizen participation under the CDBG program; about one-sixth of the jurisdictions without these programs had high levels of citizen participation. When the same question is looked at in terms of type of jurisdiction, central cities emerge as the units with the highest level of participation, followed by suburban cities as shown in Table 11-7. Tables 11-6 and 11-7 are presented together for comparison.

Who Participated?

We noted earlier that unlike the urban renewal and model cities programs, which emphasized participation by residents of designated target areas (most of whom were persons of low income), the CDBG program provides no such emphasis. One important question we sought to answer was whether, without a mandated focus on low or moderate-income individuals, these individuals continued to be the primary participants, or whether and to what extent other segments of local communities became participants. This question about the breadth of citizen participation can be seen as related to the "spreading" issue discussed in Chapters 7 - 9 on the uses and effects of CDBG funds.

The issue of how broad-based citizen participation should be was a major concern of local officials and citizens in a number of the sample jurisdictions. One of the criticisms most frequently made of earlier citizen participation programs was that they included mostly low-income persons. Some local officials saw the CDBG program as an opportunity to change this and to provide for community-wide participation. In this connection, an official in Dade County suggested that the county interpreted citizen participation "as a vehicle for changing the structure of citizen participation away from the disciplined committee

Table 11-6. Overall Level of Citizen Participation in Sample Jurisdictions,* by Prior Program Experience

	Level of participation		
Prior program experience	High	Moderate	Low
Model cities	2	...	1
Model cities and urban renewal	15	6	3
Other folded-in programs	6	14	13

Source: Field research data.

* One jurisdiction, Hennepin County, Minnesota, with no previous experience under folded-in programs, sponsored no citizen participation programs and thus is not represented in this table. Data on one jurisdiction, Sioux Falls, South Dakota, was not available at the time this chapter was written.

Table 11-7. Overall Level of Citizen Participation in Sample Units,* by Type of Jurisdiction

	Level of participation		
Type of jurisdiction	High	Moderate	Low
Central cities	16	11	2
Suburban cities	5	1	6
Non-metropolitan jurisdictions	1	5	4
Urban counties	1	3	5

Source: Field research data.

* One jurisdiction, Hennepin County, Minnesota, with no previous experience under folded-in programs, sponsored no citizen participation at the county level and thus is not included in this table. Data on one jurisdiction Sioux Falls, South Dakota,was not available at the time this chapter was written.

structure associated with the model cities program to a free-form, town-meeting approach, where all citizens have equal access." Similarly, the associate for Scottsdale, Arizona, reported that in that city "staff felt that citizen involvement in earlier categorical programs was too localized and specialized and represented a poor model for the CDBG program. The stated intent was to expand participation across the community."

The same issue surfaced early among members of the citizens' advisory committee in Cambridge; the following excerpt from the minutes of the committee's November 26, 1974, meeting illustrates this point:

> Citizen participant A - I don't see many low and moderate-income people here tonight. What kind of ongoing low and moderate-income input are we going to have? How are we going to go back to the neighborhoods and tell them what kind of participation they will have?
>
> Citizen participant B - All this talk of citizen participation disturbs me. In the law it doesn't say "low and moderate-income people," it says "citizen participation." As a long-time resident of Cambridge, I feel that the many agencies in the city don't represent me. Model cities doesn't represent my interests. Nobody represents my interests. And there are lots of people whose neighborhoods are not represented. I'd like to see some way in which all neighborhoods of Cambridge can say how the money is spent.

A general pattern of broad-based citizen participation, especially compared to that which existed under the model cities and urban renewal programs, was found for most of the sample jurisdictions for the first year of the CDBG program. Several factors appear to have contributed to this change. One is that while previous community development funds were designated at the federal level for specific types of activities in specifically designated sections of the community, the CDBG program was highly publicized as a source of funds to be used at the discretion of the local general government. Local groups, therefore, felt free to compete for the funds for an assortment of projects and facilities ranging from a polo field in Scottsdale and a skating rink in Sioux Falls, to operating a women's center in Carbondale, a girls' club in Marlborough, and a day care center in Raleigh. Other proposed uses included bike trails, swimming pools, senior citizen centers and general-purpose recreation centers. Not all of these requests were granted; but their diversity reflects the extent to which the funds were viewed as money to be pursued for any purpose deemed worthy by someone.

In general, the approach to citizen participation adopted by local officials served to bring new participants into the process. For example, Philadelphia's director of community development sent letters to 360 organizations inviting them to participate in the application process; in Pittsburgh, more than 600 community leaders and organizations were contacted by mail and urged to participate. In several other communities, as was noted earlier, radio and television announcements were used to inform the public and stimulate involvement. The large numbers of "new" participants can be said, in part, to represent the success of local governments in mobilizing interest in the CDBG process.

The composition of citizens' advisory committees provides one indication of the scope of participants in the application process. In almost all of the thirty-two jurisdictions with citizens' advisory committees, these bodies were structured to represent all segments of the community. In some cases, membership consisted of representatives selected from all of the planning or legislative districts within the jurisdiction. For example, in St. Louis the mayor established eighteen planning districts and selected two persons from most of them to serve on the city's citizens' advisory committee. In a few cases, the committees combined representatives from target areas with area-wide representatives; an example of this is DeKalb County, Georgia, where the nine-member committee consisted of one member from each of five target areas and four members of the county's community relations commission. In other cases, committee members were drawn from various community organizations. This was the case in Newark, where the associate reported that the committee consisted of "a wide spectrum of representatives from the Urban League, the NAACP, ethnic organizations, organizations of low-income groups, business and professional organizations, and social-service agencies."

In a few cases, specific steps were taken to emphasize low-income group representation. In Minneapolis, for example, the associate reported that the selection of representatives was "weighted in favor of low-income areas." In Carbondale, the city manager successfully argued against using the city's fifteen-year-old citizens' group for the CDBG program because it was "too much dominated by the upper and middle-class activists from the southwestern part of the city, and he felt that target-area residents needed to be more dominant in the CDBG program since they are most directly affected." The new committee, while still representative of all Carbondale, was heavily weighted toward the city's low-income neighborhoods. On the other hand, in a few cases citizens' advisory committees were weighted against low-income groups. In Auburn, Maine, for example, members "were drawn heavily from existing city boards and commissions concerned with grant-in-aid programs. Most members had close ties with the business community; overall the social shape of the committee was middle to upper-middle class."

In the sample, there were thirteen cases in which citizen participation did not involve organized groups per se; in forty-eight jurisdictions, various local groups and organizations were identified as participants. Table 11-8 lists the eight types of groups that were most frequently identified by associates as participants in the CDBG application process. The table reflects the wide variety of groups that were active in the first-year application process. Following the table, we examine in some detail the involvement of the four types of groups cited as the most active participants.

Table 11-8. Community Group Involvement in the CDBG Application Process for the Forty-eight Sample Jurisdictions with Participating Organizations

Participating groups	Cases where active	Cases where among the most active[a]
Neighborhood groups	36	30
Senior citizen groups	32	12
Model cities groups	22	15
Minority organizations	21	3
Civic organizations	15	2
League of Women Voters	12	4
Housing groups[b]	11	5
Religious groups[b]	6	0

Source: Field research data.

a/ In two jurisdictions no groups were described by associates as "among the most active."

b/ In almost all cases, these groups are city-wide.

Neighborhood Organizations. The type of organization identified most often as both active and among the most influential was neighborhood groups. They were cited in thirty-six jurisdictions as "involved" and in thirty of these were classified as "among the most active" groups. Available data do not permit precise characterization of these groups but they provide some useful insights. These neighborhood organizations differed in several respects. Some were organized in pursuit of a single, specific objective, others to achieve general, longer-range neighborhood improvement; and still others were ethnic and social organizations not primarily concerned with community development but which, nevertheless, sought to influence local priority-setting under the CDBG program.

Most of the neighborhood organizations existed prior to the CDBG program but a number emerged in response to it. Furthermore, while some represented old target-areas (those targeted for improvement under urban renewal and model cities programs), the majority were from areas that were not target areas prior to CDBG and represented a broad range of income groups.

The neighborhood groups from these new areas are especially interesting because most are newcomers to the field of community development. In general they were very successful in securing funds for their areas and appeared to have been invigorated by the citizen participation process under the CDBG program. The cases of Philadelphia, Carbondale, and St. Louis illustrate the variety, character, and effectiveness of these new-area neighborhood organizations.

Philadelphia had one of the strongest representations of neighborhood groups in the application process, most of which were outside of pre-CDBG target areas. The associate reported that "the number and range of neighborhood and social-service groups at the public hearings was incredible--twenty-eight different neighborhood organizations representing almost every major area of the city were represented." To an extent, this strong neighborhood involvement is attributable to the traditional pattern of political practices in Philadelphia. It also reflects the influence of social programs initiated by the federal government in the 1960s, as well as a recent upsurge of interest in neighborhood conservation. These factors, the associate reported, "drew neighborhood groups from all over the city into one hall for the first time to flex their muscles, bargain for their slice of the federal pie, caucus, coalesce, battle, plan, lobby, and all the other acts befitting nascent political actors in a democratic republic."

In Carbondale, neighborhood organizations from four quadrants of the city, including the former urban renewal and model cities target area and the student community, were active participants in the application process. The associate for Carbondale reported that one group, the Northwest Homeowners Association representing a low and moderate-income neighborhood, had recently organized to secure improvements for their area but were concerned that federal funds had dried up just as their efforts were getting underway. CDBG provided a source of funding for which they could compete. Largely as a result of their efforts in the application process, "a good deal of CDBG money has now been devoted to their neighborhood with more to come." The associate concluded that "this organization has been the big, new winner in the CDBG competition."

In St. Louis, moderate and middle-income neighborhood groups from new areas were active, but generally less successful than in Philadelphia and Carbondale. The associate reported that several of these groups came into existence in response to the general revenue sharing program and are now actively pursuing CDBG funds. Because most CDBG funds were earmarked for projects and activities already underway, they received a relatively small part of the total grant. However, their efforts contributed to the spreading of CDBG funds outside of the old target areas and won the mayor's promise of a larger share of future funds.

In sum, in these and other jurisdictions (notably Los Angeles County, Rochester, Raleigh, Durham, and Dade County), neighborhood organizations, outside of pre-CDBG target areas appear to have contributed to the spreading effect reported in Chapters 7 and 8.

Senior Citizens. Senior citizens' organizations were the second most frequently mentioned actors in the application process; they were identified as among the most active groups in twelve jurisdictions. Those twelve are: Scottsdale, Arizona; Huntington Beach and Orange County, California; Lakewood, Colorado; Dade County and Miami Beach, Florida; Pulaski County, Illinois; Worcester, Massachusetts; St. Louis County, Missouri; Allegheny County, Pennsylvania; and Lubbock, Texas.

In a few cases senior citizens appeared at hearings individually to urge the funding of facilities for the elderly; but in most cases, they participated through senior citizens' organizations. In Allegheny County, Pennsylvania, they were identified as one of the most effective community-wide organizations; "senior citizens were present at all the public hearings and pressed their claim for increased services." In Huntington Beach, California, the council on aging was one of only two organized groups to offer proposals for that city's application. Not surprisingly the jurisdiction in which senior citizens appeared to have been most actively involved in the application process is Miami Beach. Capsule 11-4 describes its citizen participation process.

Model Cities Groups as Participants. The extent to which groups associated with model cities programs participated in the application process is an interesting and complex question. Model cities groups were active in all but one of the twenty-seven jurisdictions with model cities programs, and in fifteen jurisdictions they were identified as being among the most active group participants. For twenty-six groups in this category, however, the level of involvement by model cities' agencies and organizations was found to have declined from its pre-CDBG level.

Capsule 11-4. Miami Beach, Florida

Population: 87,072
Suburban city with formula entitlement
Grant amount: $564,000

Miami Beach lies within Dade County and its citizen participation process was substantially influenced by the county's application process. Under the county's citizen participation procedure, a representative was elected from each of eighteen target areas. The target-area representative from Miami Beach was also a member of the Miami Beach city council and a strong advocate of senior citizens' interests. He led the large number of senior citizens in the southern part of the city into a major, successful lobbying effort, prompting the associate for this jurisdiction to conclude that "senior citizens all but dictated to the city council the contents of the first-year application."

Miami Beach provided for two public hearings as the means of citizen participation in the application process and the senior citizens dominated both. These senior citizens had worked together in one target area in the county's citizen participation process and therefore were able to participate more effectively in the city's application process. Although senior citizens' factions in the South Miami Beach area differed over some specific goals, the associate reported that they all "supported two activities for the first-year CDBG program--housing and some form of health and service facility in the South Miami Beach area."

The city sought to address senior citizens' housing demands by proposing a congregate housing facility. Senior citizens opposed this and demanded instead that new noncongregate housing construction be undertaken. It eventually became clear to the advocates for the senior citizens that housing construction could not be undertaken with CDBG funds and so, "the entire thrust of the first-year draft application was changed--the $450,000 earmarked for congregate living facility was shifted to housing rehabilitation to benefit senior citizens."

An exception to this general rule occurred in Denver, where the CDBG program resulted in a shift of responsibility for community development activities from the local model cities and urban renewal organizations to the mayor's office. Nevertheless, the model cities personnel remained in charge of preparing the application. The city's executive director of urban resources, the former director of the model cities program, supervised preparation of the application. A twenty-seven member mayor's advisory council on which model cities residents were well represented provided policy advice, and the existing model cities staff supplemented by personnel from the budget, public works and planning departments provided technical support in preparing the application. The associate noted that "while one would have expected specialists in model cities and urban renewal to have lost influence under CDBG, it must be remembered that structurally the entire CDBG application process followed the pattern of these programs. In sum, the manner in which the application process was structured led to a transfer of model cities and urban renewal officials into the general government with new titles and new guidelines with only minor changes in roles or influence."

It will be recalled that the model cities program required the formation of neighborhood citizens' organizations to have an advisory role in decisionmaking about model cities program activities. Members of this advisory body were elected from the model neighborhood itself and often received $10 in lieu of expenses to attend meetings. Although the strength of these organizations varied greatly, in most cases they were very influential in shaping program activities. In several jurisdictions, these advisory bodies remained in existence at the time of the CDBG application process, but they were not required to play a role in the program, and along with the model cities staff they generally participated on the same basis as other local organizations.

Model cities groups not only lost their legally mandated role in decisionmaking for community development; most of these groups now had to participate in a situation in which they were forced to compete with many new groups for a share of program expenditures. In fifteen jurisdictions, their existence as organized groups and their experience permitted them to play a prominent part in the citizen participation process. Nevertheless, in most cases associates reported that model cities groups were unhappy about their role under the CDBG program; in six cases their level of involvement was said to have been very limited. They are: Worcester, Massachusetts; Rochester and Mt. Vernon, New York; Newark, New Jersey; Lansing, Michigan; and Minneapolis, Minnesota.

The citizen participation process in Cleveland illustrates this situation of decreased influence for model cities groups. (See also Capsule 11-2.) The block grant program in Cleveland resulted in an overall increase of citizen involvement but not for model cities groups. "Model cities representatives seemed frustrated by the citizen participation mechanism. The model cities citizen participation organization had an annual budget of $1.1 million, a large staff, and a history of assertiveness. It expected the CDBG program to function in the same way with an autonomous, funded citizen participation mechanism. The Cleveland city administration and the community development department, on the other hand, had no intention, they said, of continuing the model cities approach to citizen participation." Spokesmen for the model cities organization criticized the citizen participation plan adopted by the city as "illegal" and "a sham"; they attempted to create an alternative structure and finally threatened a lawsuit over the issue, all to no avail.

In Boston, the experience was similar for model cities groups in the citizen participation process. The city, through its eighteen "little city halls," provided opportunities for all of its neighborhoods to recommend priority projects for its CDBG program. At the same time, it was made clear that the participation process was advisory only. The associate reported that "in neighborhoods with extensive urban renewal or model cities experience, the citizen groups were accustomed to participating in allocation decisions in more than an advisory role. Although they took the process seriously (since it was the only game in town), they were very cynical about the impact their priorities were likely to have on the final program. Citizens in neighborhoods less accustomed to receiving federal funds accepted the process for what it was--a mechanism for advising the mayor."

In seven jurisdictions, model cities groups were reported to have been involved in the citizen participation process only to a limited extent, because they were assured at the outset that the program would continue to be funded at a satisfactory level. The associate for Pittsburgh, for instance, reported that "model cities organizations were only moderately active in the citizen participation process, a factor attributable to the preliminary draft, which indicated the city administration's intent to continue several successful programs developed by the model cities agency. This eliminated the fear that the model cities area was being bypassed or short-changed by the CDBG program." Similarly, the model cities organization in Allegheny County was not very active in the county-wide hearings on the CDBG application, largely because of an "early understanding that the proposed county CDBG program would ensure continuation of its programs through the first program year."

On the other hand, model cities organizations were very active in the citizen participation process in certain jurisdictions out of a desire to ensure their own survival. Dade County provides an example of this situation. The associate for that jurisdiction reported that "the increased citizen access provided by the CDBG program put the model cities groups on the defensive." As a result, they were "extremely active on several fronts." One Dade County official is quoted as stating that "model cities groups were protecting their tails, so their involvement was intense and directed toward maintaining existing programs."

In addition to their separate involvement in the citizen participation process, many model cities organizations worked through citizens' advisory committees. Furthermore, some organizations for housing and minority interests, as well as neighborhood groups, represented the same geographic areas as did model cities groups and articulated the same interests in the new CDBG application process. For this reason, the degree of involvement by model cities neighborhoods in the CDBG application process in some cases was actually greater than is reflected in estimates of the activities of model cities organizations alone. On the other side, many model cities communities lost more than their influence on development activities as a result of these changed citizen participation procedures, they also lost an important community organization. One such example is Carbondale's "Northeast Congress" which according to the associate has been "the big loser" under the CDBG approach. "The congress had been funded and had a full-time staff provided by the model cities program. This was eliminated under CDBG." Similarly, the associate for San Jose reported that, with just one exception, model cities organizations there stopped meeting when the model cities program was folded into the block grant program.

Participation by Minorities. A fourth segment of the local population that was frequently involved as participants in the application process is minorities (Table 11-8). In addition to the broad requirement for citizen participation, the Housing and Community Development Act of 1974 explicitly mandated the inclusion of minority groups in all phases of the CDBG program. The regulations for the program state in this regard that in identifying local community development needs, "the applicant shall take into consideration any special needs found to exist in any identifiable group of lower income persons in the community." They specifically cite "Blacks, Indians, and Spanish-surnamed citizens." Furthermore, in administering the program or carrying out any activities using CDBG funds, local governments are required to "take affirmative action to overcome the effects of conditions which would otherwise result in limiting participation by persons of a particular race, color, national origin or sex."

Minorities made up more than 2 percent of the populace in forty-eight of the sixty-two jurisdictions. 7/ For these forty-eight jurisdictions, we examine the steps taken by local governments to provide for minority participation and the extent to which minorities were active in the application process.

In describing minority participation, we focus on those groups that identified themselves as minority groups. However, this encompasses only part of the picture of overall minority involvement in the first-year application process. While a significant number of minority citizens worked through organizations established specifically to represent certain racial or ethnic groups, a large portion of minority participation also occurred through generally representative neighborhood, housing, religious, and model cities organizations. This is especially important in jurisdictions with model cities programs, because with only a few exceptions model neighborhoods contained high concentrations of minority-group members.

In the forty-eight jurisdictions with more than 2 percent minority populations, most local governments took one or both of two broad approaches to the inclusion of minorities in citizen participation: (1) they appointed minority individuals to citizens' advisory committees, or extended invitations to existing minority organizations to participate or send representatives to participate on such committees; and/or (2) they carried out promotional activities directed at minority groups, scheduling meetings specifically aimed at obtaining minority views or taking steps to overcome language barriers. Table 11-9 summarizes the data for these forty-eight sample jurisdictions according to which of these approaches were taken.

Table 11-9. Participation by Minorities in Forty-eight Sample Jurisdictions with Over Two Percent Minority Population

Jurisdictions with citizen advisory committees (Total: 24)		Jurisdictions without citizen advisory committees (Total: 24)	
Appointed to citizens' advisory committees (6)	Appointment to citizens' advisory committees and promotional activities (18)	Promotional activities only (14)	No steps taken (10)
Casa Grande, Ariz.	Cambridge, Mass.	Boston, Mass.	Allegheny County, Pa.
Cleveland Heights, O.	Carbondale, Ill.	Chicago, Ill.	Atlanta, Ga.
Plainview, Tex.	Charlottesville, Va.	East Orange, N.J.	Columbia, S.C.
Raleigh, N.C.	Cleveland, O.	Evanston, Ill.	Cook County, Ill.
Roanoke Rapids, N.C.	Dade County, Fla.	Harris County, Tex.	DeKalb County, Ga.
Newark, N.J.	Denver, Colo.	Lansing, Mich.	East Lansing, Mich.
	Durham, N.C.	Los Angeles County, Calif.	King County, Wash.
	El Monte, Calif.	Miami, Fla.	Mt. Vernon, N.Y.
	Florence, S.C.	Orange County, Calif.	New York, N.Y.
	Houston, Tex.	Philadelphia, Pa.	Pulaski County, Ill.
	Jacksonville, Fla.	Phoenix, Ariz.	
	Los Angeles, Calif.	Pittsburgh, Pa.	
	Lubbock, Tex.	Rochester, N.Y.	
	Minneapolis, Minn.	Worcester, Mass.	
	St. Louis, Mo.		
	St. Louis County, Mo.		
	San Jose, Calif.		
	Santa Clara, Calif.		

Source: Field research data.

Our research also examined the level of minority representation on citizens' advisory committees, which, as it turned out, varied widely. Minority representation ranged from a low of 10 percent of the citizens' advisory committee membership in St. Louis County to 89 percent in Dade County. Although the total minority population appears to have been related to the level of minority representation, this was not always the case. In Dade County, for example, the eighteen-member committee included twelve Blacks and four Spanish-surnamed citizens, while the county's minority population is 24 percent of the total. Denver's twenty-seven-member committee included five Blacks and six Spanish-surnamed members; Carbondale's, with thirty-one members, included seven Blacks. The associate for Raleigh reported that on that city's citizens' advisory committee "several of the more active committee members were Blacks representing essentially Black communities." On the other hand, in Charlottesville, Virginia, city officials initially appointed thirteen persons (all of them white) to the citizens' advisory committee. Later, in response to criticism about the absence of Blacks, four Blacks were added to the committee. Table 11-10 presents the field data on the minority membership of citizens' advisory committees. Of the thirty jurisdictions using citizens' advisory committees, twenty-five had minority populations greater than 2 percent.

Table 11-10. Minority Representation in Citizens' Advisory Committees[a/] for Twenty-seven Sample Jurisdictions, Listed Alphabetically

Jurisdiction	Percentage of local population that are minorities: Percent Black[b/]	Percent Spanish-surnamed[b/]	Members on committee	Number and percentage of minority persons on citizen advisory committee: Black	(Percent)	Spanish-surnamed	(Percent)
Cambridge, Mass.	6	2	c/	c/	c/	c/	c/
Carbondale, Ill.	13	...	31	7	(22.6)	...	...
Casa Grande, Ariz.	2	31	14	2	(14.3)	1	(07.1)
Charlottesville, Va.	15	...	17	4	(23.5)	...	...
Cleveland, O.	39	2	14	6	(42.9)	...	...
Cleveland Heights, O.	12	1	10	2	(20.0)	...	...
Dade County, Fla.	15	24	18	12	(66.7)	4	(22.2)
DeKalb County, Ga.	14	...	13	7	(53.8)	...	...
Denver, Colo.	9	27	27	5	(18.5)	6	(22.2)
Durham, N.C.	39	1	15	9	(60.0)	...	...
El Monte, Calif.	...	25	25	...	...	...	...
Florence, S.C.	39	...	25	4	(16.0)	...	...
Houston, Tex.	26	17	26	10	(38.5)	6	(23.1)
Jacksonville, Fla.	22	1	27	7	(25.9)	...	...

Table 11-10. (continued)

Jurisdiction	Percentage of local population that are minorities: Percent Black[b]	Percentage of local population that are minorities: Percent Spanish-surnamed	Number and percentage of minority persons on citizen advisory committee: Members on committee	Black	(Percent)	Spanish-surnamed	(Percent)
Los Angeles, Calif.	17	25	150	d/	d/	d/	d/
Lubbock, Tex.	9	16	14	1	(07.1)	3	(21.4)
Minneapolis, Minn.	7	...	47	10	(21.3)	...	...
Mount Vernon, N.Y.	36	...	12	3	(25.0)	...	...
Newark, N.J.	54	11	27	d/	d/	d/	d/
Phoenix, Ariz.	5	14	17	3	(17.6)	2	(11.8)
Plainview, Tex.[e]	7	18	33	5	(15.2)	4	(12.1)
			11	...	...	1	(09.1)
Raleigh, N.C.	22	1	18	4	(22.2)	...	...
Roanoke Rapids, N.C.	10	...	8	2	(25.0)	...	...
St. Louis, Mo.	41	1	39	17	(43.6)	...	...
St. Louis County, Mo.	5	...	20	2	(10.0)	...	...
San Jose, Calif.	3	22	12	1	(08.3)	5	(41.7)
Santa Clara, Calif.	11	18	7	...	...	2	(28.6)

Source: Field research data.

a/ Data were not available for American Indian population.
b/ Figures based on latest available census data.
c/ The Cambridge citizens' advisory committee membership fluctuated, it was not possible to tabulate these data.
d/ Data were not available at the time this chapter was written.
e/ Plainview, Texas, had two citizens' advisory committees.

In thirty-three jurisdictions, including the nineteen with minorities represented on the citizens' advisory committee, local governments took promotional or other steps to secure minority participation in the application process. These activities ranged from advertisements in special audience newspapers to convening meetings in minority neighborhoods to solicit recommendations. In Lubbock, Texas, local officials placed advertisements explaining the CDBG program in a Black and a Chicano newspaper in addition to the city's major daily newspaper. These advertisements included questionnaires to be returned by mail. In Dade County, the associate reported that the citizen participation procedure was organized to "guarantee minorities an opportunity to participate...the ethnic make-up of the target areas ensured the inclusion of minorities. In fact, requirements that restricted voting to only those citizens who live or work in the target area, in effect, guaranteed minorities a voice in determining target-area priorities regardless of the number present at any given meeting."

In Evanston, city officials noted the absence of minorities as participants in the application process and solicited a proposal from a community leader in the city's predominantly Black neighborhood. In addition, the Evanston associate reported these officials "held a meeting in a community center in that neighborhood. The chairman of the community development committee, another committee member, and a city planner went there to explain the program. Only ten people attended the meeting and no proposals were submitted as a result of the meeting." In a few cases, notably Chicago, Orange County, California, and Rochester, local officials provided Spanish-speaking staff to work with Hispanic-American communities to ensure their participation.

Several of the ten jurisdictions with more than 2 percent minority populations that did not take specific steps to include minority participation had relatively small minority populations and limited prior experience with federal community development programs. Four were urban counties. In two jurisdictions, however, Atlanta and Cleveland, the minority population is large--over 35 percent of the total population. In these two cities minority groups have a history of active involvement in local government and especially in community development activities. Thus, local officials did not consider it necessary to take measures to ensure minority participation. The associate for Atlanta reported that "city officials did not consider it necessary to take special steps to ensure minority participation. The department charged with responsibility for the program is largely run by Blacks anyway." Similarly, the associate for Cleveland reported that the city "did not take any specific steps to include minority persons in the preparation of the application. Their assumptions were: (1) that Blacks were already included on the various groups and agencies in the 'Local-Share Task Force' (the citizens' advisory committee), and (2) that Black community groups were well organized and would respond during the public hearings." In Cleveland organized minority-group participation emerged only after the city's controversial decision to use CDBG funds to finance a police foot-patrol program.

There were twenty-one jurisdictions in which minority organizations were identified as active participants (see Table 11-8); in several of these, two or more minority organizations were active. In Phoenix, for example, the Urban League, Chicanos por la Causa, and a local group representing American Indians were all involved in the application process; in Rochester, the Urban League and Iberio-American and Puerto Rican community organizations all submitted CDBG proposals.

We were not able to classify the level of actual minority participation in all the jurisdictions where minorities were identified as active. The data suggest that the level varied widely among jurisdictions but, on the whole, was low. As Table 11-8 shows, there were only three jurisdictions (Plainview, Lubbock, and Santa Clara) in which minority organizations were among the most active groups. The associate for Plainview reported that LULAC (League of United Latin American Citizens), a Chicano organization, was "the most active interest group in the city" although the overall level of group activity was low. In Lubbock, although the local chapter of the NAACP was not especially active, the associate reported that "there was an apparent burst of citizen interest, especially in minority group areas. Catholic Church and Black officials in particular encouraged Chicanos and Blacks to attend the sector meetings. Indeed, citizen participation in minority communities was much greater than anticipated and exceeded the rate in other sectors of the city." The associate for Santa Clara reported that the "G. I. Forum," a Mexican-American group, "was as active as any group in the city" and managed to secure the appointment of a Mexican-American as a planner to help manage the application process and to offer proposals for the use of CDBG funds.

In the remaining eighteen jurisdictions, minority organizations were involved but were not very prominent. It may be that in many of these jurisdictions minorities made their views sufficiently clear through local organizations and through minority public officials. Nevertheless, the picture presented by the associate for Evanston of that city's minority community could well have been true for other jurisdictions as well:

> There was very little participation by groups representing the lower-income Black neighborhood, which perhaps needed the resources more than any other area of the city. Evanston's Black community has traditionally had limited participation in the operation of city government, except through their alderman. The alderman was not very active on the CDBG program, except for proposing one project, acquisition of a piece of property in the Church-Dodge area. Evanston's Blacks continued to be inactive in the CDBG program, owing to a combination of factors. First, there has long been a skepticism among Black community residents about city hall and its willingness to be responsive. Second, the Black community in Evanston is not as well organized as are some other neighborhoods. Black community residents are not politically experienced, and they depended on their alderman to represent them in the CDBG process; their representative did not come forward with concrete programs in the community development committee meetings or the public hearings. The net result was that the Black community participated only to a limited extent in the development of the block grant application.

THE IMPACT OF CITIZEN PARTICIPATION

The data and analysis presented up to this point show that most local governments went well beyond the minimum legal requirements in encouraging and providing for citizen participation. The data also indicate that the level of citizen participation was substantial in most sample jurisdictions. The final questions to be posed are whether, and in what way, citizen participation influenced the decisions and policies reflected in applications for CDBG funds. In short, we want to know: Did all that participation make a difference?

Assessment of the impact of citizen participation is very difficult because of the many factors which ordinarily enter into governmental decisionmaking. In the first-year CDBG application process; citizens made their views known in various ways--some of them formal and public and thus available for examination by researchers, but others in an informal setting, making it impossible to identify or evaluate citizens' impact on decisionmaking. Moreover, what occurs in the citizen participation process is not a simple, one-way transmission of ideas from citizens to the appropriate officials, what happens is a much more complex interaction in which local officials can in many ways shape the kinds of demands made by citizens.

With these points in view, we tried to ascertain how and to what extent citizen participation influenced the preparation of CDBG applications. In addition, we examined the impact of specific major participating organizations. To deal with the first issue, we relied on summary assessments by the associates made after the second research conference. This involved asking associates after they had completed their reports on the first-year application process whether the following statement applied: "Citizen participation was influential in terms of the final outcomes contained in the CDBG applications." The associates were instructed to rank their responses according to whether the statement applied in their jurisdictions without qualification, whether it applied to a limited extent, or whether it did not apply. In Table 11-11 the sample jurisdictions are grouped according to the associates' responses to this question. The table shows that in eighteen jurisdictions citizen participation was judged not to have been influential, and in twenty-six jurisdictions it was judged to be influential to a limited extent. In eighteen jurisdictions--less than one-third--associates rated citizen participation as influential.

Table 11-11. Associates' Responses to the Statement, "Citizen Participation Was Influential in Terms of the Final Outcomes Contained in the CDBG Application," Listed Alphabetically by Jurisdiction

Applies	Applies to a limited extent	Does not apply
Atlanta, Ga.	Allegheny County, Pa.	Alma, Mich.
Dade County, Fla.	Auburn, Me.	Boston, Mass.
DeKalb County, Ga.	Bangor, Me.	Cambridge, Mass.
Denver, Colo	Carbondale, Ill.	Casa Grande, Ariz.
Evanston, Ill.	Charlottesville, Va.	Columbia, S.C.
Huntington Beach, Calif.	Chicago, Ill.	Cook County, Ill.
Jacksonville, Fla.	Cleveland, O.	Greece, N.Y.
King County, Wash.	Cleveland Heights, O.	Harris County, Tex.
Los Angeles County, Calif.	Durham, N.C.	Hennepin County, Minn.
Miami, Fla.	East Lansing, Mich.	Lakewood, Colo.
Miami Beach, Fla.	East Orange, N.J.	Mt. Vernon, N.Y.
Minneapolis, Minn.	El Monte, Calif.	Newark, N.J.
Portland, Me.	Florence, S.C.	New York, N.Y.
Rochester, N.Y.	Houston, Tex.	Plainview, Tex.
Scottsdale, Ariz.	Lansing, Mich.	Pulaski County, Ill.
Seattle, Wash.	Los Angeles, Calif.	Roanoke Rapids, N.C.
Sioux City, Ia.	Lubbock, Tex.	San Jose, Calif.
Sioux Falls, S.D.	Marlborough, Mass.	Santa Clara, Calif.
	Orange County, Calif.	
	Philadelphia, Pa.	
	Phoenix, Ariz.	
	Pittsburgh, Pa.	
	Raleigh, N.C.	
	St. Louis, Mo.	
	St. Louis County, Mo.	
	Worcester, Mass.	

Source: Field research data.

For a closer look at the influence of citizen participation in the application process, the research focused on the eight major participating groups identified earlier in Table 11-8. According to the field associates' evaluations, the ranking of these groups according to the extent of their influence on the CDBG applications in the sample jurisdictions breaks down as follows:

Organizations or groups	Number of jurisdictions where rated "among the most influential"
Neighborhood groups	28
Senior citizens' groups	20
Model cities groups	11
Housing groups	5
League of Women Voters	2
Civic organizations	2
Area-wide/city-wide minority organizations	...
Religious groups	...

Three groups stand out by a significant margin as most influential--neighborhood groups, senior citizens, and model cities organizations. The case of senior citizens is particularly interesting in that they were identified as among the most influential in twenty jurisdictions although they were among the most active in only twelve of these jurisdictions.

It is also worth noting that while city-wide/area-wide minority organizations ranked fourth among the most active groups (Table 11-6), with an "active participation" rating in twenty-one jurisdictions, in no jurisdictions were they judged to be among the most influential.

The manner in which citizen participation was influential in the application process differed greatly among jurisdictions. In some cases (such as Minneapolis, described in Capsule 11-3), citizens played the dominant role in preparing the application, and local officials accepted their decisions with relatively minor modifications. In others, such as Miami Beach (described in Capsule 11-4), Raleigh, and Pittsburgh, citizen participation produced major changes in the program choices initially made by local officials. In Raleigh, the associate reported, "Citizen participation was effective in two areas: (1) setting the basic planning process on a course focused on housing and neighborhood renewal instead of water and sewer programs, urban clearance and redevelopment, or other public works activities; and (2) promoting the inclusion of certain social service activities in the plan." The associate for Pittsburgh reported in this connection that "citizen participation had the effect of forcing community development planning officials back to the drawing board, the net result being the elimination of several programs and the substitution of others."

In the majority of jurisdictions where citizen participation was judged to be influential to a limited extent, what was often involved was persuading local officials to make relatively small changes in the draft application. An example of this is Scottsdale, where the associate reported, "It appears from the results of the application process that it was politically and economically feasible to reward many of the groups that were represented, but the rewards were often small. For instance, the item most frequently mentioned at the hearings was bike paths, and advocates for this cause received $25,000 for their efforts. This indicates that the limited influence of citizen participation was confined to peripheral areas of the program and did not extend to its overall direction."

In a number of jurisdictions, local governments restricted the effectiveness of citizen participation by earmarking the bulk of the anticipated funds ahead of time and leaving only a small portion open for citizen influence. In Cleveland, for example, the citizens' advisory committee was given responsibility to advise on the use of the 20 percent of the grant amount set aside for social services; as was noted in Capsule 11-2, citizens were unsuccessful in their opposition to use CDBG funds to pay for police crime patrols. A comparable situation existed in Auburn, Maine, where the city provided for a citizens' advisory committee but then decided that virtually all of Auburn's CDBG funds should be used to complete urban renewal projects already underway or planned.

What appears to have been the most far-reaching effect of having participation on a community-wide basis under CDBG is that it has transformed community development planning into a more competitive process. In a few jurisdictions, this produced a community-wide consensus in favor of a concentrated development effort in geographic or program areas of greatest need. More often, however, it reinforced the strong tendency observed under CDBG to spread funds across a large number of areas or types of activities. To some extent, this outcome appears to have been a result of the high level of activity and influence by neighborhood organizations, most of which were competing for a share of the community development pie for their neighborhoods. Overwhelmingly, where we found neighborhoods participating, we found several or more competing.

One of the original aims of the CDBG legislation was to give local governments freedom to identify the community development needs of their own jurisdictions and to respond to these needs as they saw fit (within the boundaries of the "national objectives" and "permissible uses"). It is clear from our data that citizen participation has been one way for local officials to identify some of these needs. It is also clear that, in responding to the varied demands of citizens, local officials (especially elected officials) gained increased prominence and this, in turn, led to an overall increase in the level of citizen interest and involvement in local affairs. At the same time, the first-year experience suggests that extensive citizen participation may work at cross purposes with the objective of broader, more comprehensive planning for community development. A general pattern that emerges is that the greater the number of citizens or groups participating, the more varied their demands and the more fragmented the effort necessary to satisfy these demands. An analytical look at this pattern is in order.

For jurisdictions in which citizen participation was regarded as influential either to a considerable or at least to a limited extent, we tried to identify some of the contributory factors. Toward this end, associates were asked to identify for their jurisdictions which of the following factors explained or contributed to the influence of citizen participation under the CDBG program: (1) citizens have a history of active participation in local affairs; (2) local governments made a major effort to encourage citizen participation under the CDBG program; and/or (3) local officials did not want to assume full political responsibility for community development decisions under the program.

Of the forty-five cases in which associates found citizen participation to have been influential (Table 11-11, first and second columns), the associates for thirty-two jurisdictions identified the efforts of local governments (item 2 above) as a significant factor contributing to influential citizen participation. Associates in seventeen jurisdictions attributed the influence of citizen participation to a history of participation; and in nine cases they identified local government's desire to share the political responsibility for program decisions as the main factor.

To supplement these assessments, we examined the relationship between the level of citizen participation and the degree of citizen influence. The summary data indicated that, by and large, influence was not a function of amount of participation. Table 11-12 shows the extent of the influence of citizen participation by the level of participation in the application process.

Table 11-12. Level of Citizen Participation in the First-year CDBG Application Process, by Extent of Citizen Influence*

	Level of participation		
Extent of citizen influence	High	Moderate	Low
High	10	7	2
Moderate	7	10	8
Low	6	3	8

Source: Field research data.

*Hennepin County, Minnesota, did not provide for citizen participation at the county level.

The case of Santa Clara (described in Capsule 11-5) illustrates an instance in which the level of citizen participation was high, but the influence of citizens on the application process was said to be low. (Santa Clara is one of the six jurisdictions in the high-participation, low-influence group in Table 11-12 above.) A similar picture emerged in Chicago, where citizen participation was judged to be high and citizen influence on the first-year CDBG application turned out to be low. A capsule description of the situation in Chicago (Capsule 11-6) follows the one on Santa Clara.

Capsule 11-5. Santa Clara, California

Population: 86,118
Suburban city with hold harmless entitlement
Grant amount: $357,000

The first year of the CDBG program in Santa Clara, California, was characterized by substantial citizen participation. Citizens were given the opportunity to draft a program. However, those who took part in this effort labored under the misconception that their role was to be more than advisory; in the end, it proved not to be.

The participation structure used in Santa Clara resulted from a dialogue between the city council and the existing citizens' advisory committee about the broad outline of participation suggested by the intergovernmental assistance director (who had primary responsibility for the program). In the past, when citizens' views were sought in connection with local decisionmaking, the committee had appointed a task force to study the issue. These bodies were often empowered to report their findings directly to the city council. According to the associate, "From the city manager's view, such task forces often presented findings that did not reflect the community at large." His preference was to utilize a large citizens' advisory committee and make sure that the views of more affluent sections of the community would be incorporated into recommendations. This structure, he suggested, would bring better balance, because it would include "the voices of hard-working small businessmen in addition to low-income and unemployed persons and those with political aspirations of their own who generally make up these kinds of committees." The city council accepted the committee's recommendation, however, and the more limited task force structure was adopted.

The task force membership represented primarily low and moderate-income groups. Among its members were several who had disagreed with the city manager in the past over other community development issues. This group, working with one low-ranking planner on the city council's staff, developed a draft program, which they presented to the council.

When the task force submitted its program, the proposal met stiff opposition from the city manager, who voiced a preference for utilizing a substantial portion of the first-year funds for programs in the city's capital improvement program. According to the associate, "The city manager informed the council that the city's capital improvement plan consisted of various federal and state grant funds that would have to be replaced by local funds or increased taxes if the citizen task force package were approved because these grants were now being phased out."

In search of a compromise, the council suggested that the task force review what capital improvements might be included in the first-year program. This was never undertaken, however; within one week of the initial council meeting to discuss the task force draft, the city manager prepared an amended program that included changes in the original draft involving nearly two-thirds of the first year budget. This revised plan, not shown to the task force until the night it was approved, was passed unanimously by the city council over complaints from task force members. The task force protested to the city manager's staff about the lack of citizen review. The intergovernmental assistance director suggested that the pressure to complete the first-year application precluded such a review and he would make no predictions about citizen review in the second year.

The chairman of Santa Clara's citizen task force expressed concern that the bad first-year experience "might decrease citizen participation in the second year--low and moderate-income neighborhood committee representatives were very distressed as a result of their experience." The associate reported that "the frustration experienced by the participants was predictable--given the fact that the city's high-level staff had its own agenda for spending CDBG funds from the outset."

Capsule 11-6. Chicago, Illinois

Population: 3,369,357
Central city with hold-harmless entitlement
Grant amount: $43,201,000

Chicago's citizen participation process included a series of public meedings held in various locations in the city (two of them conducted exclusively in Spanish) prior to preparation of a draft application, and two public hearings after the draft was completed. The major purposes of the meetings were to inform the public about the program and to receive suggestions from citizens about the kinds of activities that should be undertaken with CDBG funds.

After the meetings, all held between November and mid-December, 1975, there was no further opportunity for citizen contribution in the application process until April, when two public hearings were held to consider the draft application. At these hearings citizens were critical of the way the application was prepared as well as of its substance. Representatives for the League of Women Voters, who had sought earlier (and unsuccessfully) to have the city create a citizens' advisory committee to help in drafting the application, expressed the view that "there must be an opportunity for interchange between the public and members of the city's CDBG coordinating committee as well as among members of the public on more than a one-time basis. Such interchange cannot take place in this forum." The Chicago Urban League and the Chicago Leadership Council supported the League of Women Voters' criticism and complained about the inadequacy of the preliminary draft application made available to the public and the long time that had elapsed between the initial meetings and the availability of the draft.

The associate for Chicago reported that "changes in the application as a result of citizen participation were not very significant." Moreover, he reported, "It is doubtful whether the comments of citizens were the primary reason for making the changes." The picture that emerges from Chicago's first-year citizen participation experience is one of a moderate level of citizen involvement but very little opportunity to influence the decisions reflected in the application. The associate comments in this regard that "although there were opportunities for citizens to speak, nothing that was being said by community groups was having any significant influence on the shape of the program."

When we began this study, we expected to find citizen participation more influential in jurisdictions where citizens' advisory committees were used, because they were organized and experienced and had the potential for continued working involvement. Our data, shown in Table 11-13, indicate, however, that this was not the case. The citizen participation format that most often was associated with significant influence was public hearings plus neighborhood meetings. Ten of the nineteen cases in this category (discussed earlier in this chapter) showed influential citizen participation. On the other hand, the lowest incidence of influential participation was among the thirteen jurisdictions with public hearings only. In five of these, citizen participation was influential or moderately influential. A surprise to us was the experience of jurisdictions with citizens' advisory committees and public hearings. Among the seventeen in this category, ten had moderately influential participation and in one case, Minneapolis, participation was judged influential.

Table 11-13. Type of Citizen Participation Structure, by Extent of Citizen Influence*

Type of citizen participation structure	Extent of citizen influence		
	Influential	Moderately influential	Not influential
Public hearings only	2	4	7
Public hearings and neighborhood meetings	10	5	2
Citizens' advisory committees and public hearings	1	11	7
Citizens' advisory committees, public hearings, and neighborhood meetings	5	5	2

Source: Field research data.

* One jurisdiction, Hennepin County, did not offer citizen participation at the county level.

The factor that appeared to have been the strongest determinant of whether citizens effectively contributed to the CDBG application was the amount of importance attached to citizen participation by local officials. Table 11-14 shows that of the twenty-three jurisdictions where public officials were reported to have viewed citizen participation as very important, fifteen had influential citizen participation and in only one of these was it not influential. Table 11-14 shows the associates' assessments of citizens' influence in relation to the importance assigned to citizen participation by local officials.

Table 11-14. Local Officials' Views and the Influence of the Citizen Participation Process; Summary Statements

Importance of citizen participation in CDBG application process; local officials' views	Influence of citizen participation process			
	Not influential	Somewhat influential	Influential	Total
Not important	11	1	...	12
Moderately important	6	17	4	27
Very important	1	7	15	23
Total	18	25	19	62

Source: Field research data.

Analysis of the tables in this final section leads us to the main conclusion that the attitude of local officials, and not so much the procedures set up for citizen participation, was the key factor in determining whether or not citizens' views were significantly reflected in the block grant application. This finding tends to support the view of the program's framers that a prescribed format for participation would not significantly strengthen the citizen participation process under the CDBG program. The second point that stands out is the lack of a clear relationship between the activity-level of citizen participation and its influence. This is a good place (because this finding was, to us, a quite surprising one) to remind the reader that all of the findings in this report are for the first program year. Our conclusions about the political effects of the CDBG program may change in ensuing years.

FOOTNOTES TO CHAPTER 11

1/ Federal Register, Vol. 39, No. 220 (Wednesday, November 13, 1974), p. 40136.

2/ On these points, see Melvin B. Mogulof, Citizen Participation: A Review and Commentary (Washington, D.C.: The Urban Institute, 1969), and Robert C. Seaward, "The Dilemma of Citizen Participation," in Hans Spiegel (ed.), Citizen Participation in Urban Development (Washington, D.C.: National Institute for Applied Behavioral Science, 1968), p. 62.

3/ Statement by James Lynn, Hearings Before the Subcommittee on Housing and Urban Affairs, Committee on Banking, Housing, and Urban Affairs, U.S. Senate,93 Cong. 1 sess. (1973), p. 11.

4/ Most of the congressional deliberations on this issue occurred in the Senate. Its bill included a requirement that local governments involve residents of community development areas in the execution of community development activities and provide adequate resources for their participation, but this was modified by the conference committee.

5/ Housing and Community Development Act of 1974, Report of the Committee on Banking, Housing, and Urban Affairs, Senate, 93 Cong. 2 sess. (February 1974), p. 57.

6/ Data for Florence, South Carolina, was not available at the time this chapter was written.

7/ The thirteen jurisdictions in which minorities were 2 percent or less of the population are: Alma, Michigan; Auburn and Bangor, Maine, Greece, New York; Huntington Beach, California; Lakewood, Colorado; Marlborough and Worcester, Massachusetts; Miami Beach, Florida; Portland, Maine; Scottsdale, Arizona; Sioux City, Iowa; Sioux Falls, South Dakota.

PART V

CONCLUSIONS

CHAPTER 12

MAJOR ISSUES RAISED, POSSIBLE NEXT STEPS

In evaluating any governmental program, the first question that must be asked is: On what bases are success and failure to be judged? The customary approach is to evaluate governmental programs in relation to their *intent*. But this is not as easy as it sounds. Different observers will interpret the history of a given program differently, both in respect to the goals to be achieved and the weights to be assigned to various goals.

It is these kinds of problems, which frequently constrain policy research, that led us to the monitoring approach. Putting it squarely, this approach does not confront the question of program effectiveness. In analyzing both the national distributional and local impacts of the block grant for community development, we see our role as providing uniform and systematic data on the most policy-relevant effects of the program. On this basis readers can decide for themselves whether they think it is a good program--whether it should be continued, expanded, basically reconstituted, or dropped in favor of some other program or no program at all.

Because our findings are less tentative and conclusions firmer at this point for the national distributional effects of the CDBG program, the final chapter of our first report highlights this subject. The conclusions of Part II (Chapters 3-6) of this report are briefly summarized and a proposal is made to institute supplemental

CDBG grants for needy cities. Before discussing these national formula issues, several observations are in order on the first-year effects of the CDBG program at the local level.

LOCAL EFFECTS

Those who view this block grant as primarily a decentralization device are likely to regard the first year as a success. Generalist officials played a much larger role than was the case under the folded-in programs. Citizen participation was a prominent feature of CDBG decisionmaking, although its focus shifted from lower-income persons and target areas under the folded-in programs (especially model cities) to broader, often community-wide, participation. These political changes are closely related to findings for the first year on the uses, income-group, and spreading effects of the CDBG program.

In particular, the spreading effect at the local level has in a significant number of cases resulted in a new emphasis on neighborhood conservation, involving housing rehabilitation and related public improvements in transitional or marginal neighborhoods. Often activities in the most distressed neighborhoods which were aided under the folded-in grants, particularly for model cities, have been continued, but at a lower level, as this spreading effect has taken hold. These first-year findings suggest that the block grant program is a better instrument for aiding transitional neighborhoods and preventing blight than were the folded-in grants, but that it is more limited as an instrument for redeveloping the most seriously deteriorated urban areas. The essential question comes down to the mix among kinds of target areas--the most distressed areas, transitional neighborhoods, industrial and commercial districts.

Our data for the first year also indicate that the CDBG program did not significantly contribute to the legislative objective of encouraging "spatial deconcentration" of housing for lower-income persons. 1/ In almost all of the sample sites, associates reported that local officials did not consider this objective in preparing their applications, and furthermore that the related requirements for a housing assistance plan (HAP), as indicated in this report, were not emphasized or consistently enforced. A similar situation was found to apply to the A-95 requirement for metropolitan planning and coordination, a clearance system closely related (or at least potentially so) to the "spatial deconcentration" objective in the law. Pro forma signoffs predominated under the A-95 requirement.

In addition to these programmatic issues, disagreement was found as to the nature and duration of the allocations made in the start-up year of the CDBG program. Although capital spending predominated, it tended to be for relatively small, short-term undertakings, though there were allocations in some jurisdictions for longer-term renewal and economic development projects. Local officials appeared generally reluctant to undertake longer-term projects which they perceived might create continuing financial obligations after the flow of CDBG funds had been reduced or perhaps terminated. Some critics have complained that there has been too much of an emphasis on short-term projects and have urged that the program be amended to include, or at least facilitate, larger, longer-term projects, akin to conventional urban renewal. 2/ Just as frequently we were told by local officials that large-scale renewal projects--with long delays and often resulting in large vacant tracts--were losing favor prior to CDBG and would have faded from the urban development scene even without the new program.

Similar issues of who should benefit and how benefits should be provided have been raised by those favoring social services as an integral and prominent part of community development programs. It was, in fact, this point of view that led to the adoption in 1966 of the model cities program--the premise being that saving cities involves saving people. Social service spending was found to be low under the CDBG program.

Putting these process and outcome points together, we can identify a social dimension of local impact analysis. As contrasted to some urban renewal projects and most model cities programs, there appears to have been a shift both in the income-incidence of benefits and the people involved in the decision process, away from the poorest people and areas to a more mixed pattern. In many ways, this is the essential question for analysis. The debate was out in the open in a number of communities--the question of the mix between investments in the poorest areas versus what are considered transitional or salvageable neighborhoods. It is in a way reassuring that this same debate has been conducted at the national level and in the academic literature of whether the nation's strategy for dealing with the often poorly-defined "urban crisis" should emphasize the physical and social development of the most seriously distressed urban areas or concentrate instead on neighborhood conservation. In keeping with the decentralization purposes of CDBG, this debate can be said to be shifting from the national to the local level.

All of these observations and issues, it must be remembered, are as of a point in time. There are, as has been noted, a number of forces in place and matters still unresolved, such that the effects of the CDBG program in future years could be different from what we have observed so far. Federal strings could be pulled much tighter by a new administration, perhaps based on the performance-monitoring responsibility assigned to HUD under this program. There is also the possibility that social objectives (especially income redistribution and integration of the suburbs) will be advanced more aggressively under CDBG either by administrative action or as a result of litigation.

The coming to fruition of these various forces and pressures could decidedly affect the strength of the decentralization and social impacts of the block grant program. Final conclusions must await both the accumulation of more data and the passage of more time. On the whole, however, we are surprised by the clarity of the findings for the first year; and, while we may subsequently regret saying so, we would be surprised if the findings of the research shift substantially in the second year of the program. That is to say, we would expect relatively short-term capital spending to continue to predominate, generalist officials to continue to have a strong role along with many citizen organizations, and for benefits to be spread out on a geographic basis within recipient jurisdictions.

NATIONAL DISTRIBUTIONAL EFFECTS

We note in Part II of this report that many observers both in the Congress and the Executive Branch had come to the conclusion that changes are needed in the CDBG allocation system as currently structured. A HUD report to President Ford on October 21, 1976, stated in reference to the program:

> The Department should recommend changes to the formula.... Among the criteria that might make the formula a better measure of need are the age of a city's housing stock and whether it is losing non-poverty population. 3/

We see the existing distribution system as having a spreading effect, just as was observed at the local level, following what might be called a natural law of federal grants, "something for everyone." This distributional pattern is a consequence of formula criteria which base allocations on population and poverty-based need (poverty and overcrowded housing) and the mixed system of formula and discretionary funding. In Chapter 6 we suggest that the formula be revised to include a measure of physical development need.

Our conclusion is that, both practically and substantively, it would be difficult at this stage to devise a single formula to measure the needs of all participating communities. We therefore suggest a dual-formula approach, one formula weighted by poverty measures alone and one oriented also toward community age. This dual-formula approach (alternative I in Chapter 6) retains the existing CDBG formula and adds a second formula to measure community age through the use of a pre-1939 housing criterion. Each formula entitlement area would receive the greater of the amounts provided by the two formulas; no community presently entitled to formula funding would receive a lower allocation (except as discussed in Appendix VI). The community-age formula favors older, declining central cities which tend to be concentrated in (but are not exclusive to) the Northeast and Midwest; the existing population and poverty-weighted formula, on the other hand, tends to favor the southern and western regions.

We see this dual-formula approach as a reasonably feasible and equitable way to deal with the fact that communities have different development needs and that the existing allocation system fails adequately to consider physical need. We do not see the dual-formula approach, or this particular version of it, as representing an "ideal" way to define urban need. Put another way, we have chosen to consider both feasibility and need, rather than starting from scratch to develop an ideal allocation system to replace the current one.

Extension of Hold-harmless Protection

Other observers of the early operation of the CDBG allocation system have advocated that hold-harmless protection be preserved. As discussed in Chapters 3 and 6, hold-harmless protection would begin to be phased out in the fourth year of the CDBG program and would be completely phased out in the sixth year if the act is extended in 1977 on the basis of the distribution system currently in the law.[4/]

One possibility proposed is to hold all jurisdictions harmless against loss indefinitely. (This approach was included in the Senate bill, but not adopted.) It is also possible to guarantee a certain percentage of the hold-harmless base amount. We have examined this latter approach--a partial hold-harmless--at three guarantee levels: 50, 60, and 75 percent. This was done in conjunction with the dual-formula approach; that is, we have analyzed how entitlement communities would fare under a system that gave each community the greatest amount among three alternatives: (1) the existing CDBG formula; (2) the community-age based formula with pre-1939 housing double counted; and (3) a partial hold-harmless guarantee (at 50, 60, or 75 percent).

At the 50 percent guarantee level, seventy-three communities would be better off under hold-harmless than they would under either the existing CDBG formula or the alternative which includes pre-1939 housing. At the 60 percent guarantee level, the number of communities in this position increases to ninety-eight; at the 75 percent guarantee level, this number increases to 135.

There is, of course, a further cost attached to these guarantee levels. At the 50 percent level, the amount of funds going to formula entitlement areas is $69.9 million more than they would receive under the dual-formula approach. (Assuming a $3.0 billion level of funding in the sixth year of the CDBG program, funds going to entitlement communities would be $1.95 billion, compared to $1.88 billion under the dual-formula approach and $1.6 billion under the existing formula. At the 60 and 75 percent guarantee levels, the total amount allocated to entitlement communities, with the dual-formula system, would be $2.01 billion and $2.13 billion, respectively.)

There need not be a net additional cost of this partial hold-harmless approach. The increased cost involved could be offset, as is the case under the dual-formula approach, through reductions in metropolitan discretionary funds or, in the alternative, money could be added to the CDBG program to cover the costs of a partial hold-harmless guarantee.

This guaranteed hold-harmless approach has a certain appeal because the principal beneficiaries tend to be older, declining cities which were also the major participants under the folded-in programs. However, there are problems with the pattern that results. It would in many cases represent a reward for successful grantsmanship under the old programs. If there are to be additional funds for the neediest cities, one can argue that the distribution of these funds should be based on objective measures of need. In recognition of this point, we offer another possible approach.

SUPPLEMENTAL FUNDS FOR NEEDY CITIES

Once a program exists for distributing money for community development on a broad basis, as a practical political matter there would appear to be a much better opportunity than would otherwise be the case (i.e., "starting from square one") to concentrate some amount of additional funds on the cities with the most acute development needs. Again, taking as our base the "urban focus" reflected in this report, we raise the possibility that in 1977, when the CDBG program will need to be acted upon, one option to be considered could be <u>an add-on for the neediest cities</u>. If this were done, it could be done so as to obviate any need to consider a hold-harmless guarantee, because these additional funds could be focused on the communities that, from an urban focus point of view, one would not want to be affected by the hold-harmless phase-out currently in the law. For purposes of illustrating how such supplementary funds might be distributed, we have assumed in this section that an additional $500 million is added to the CDBG program for supplemental funding.

In going this next step, there would also be an opportunity to take into account another important characteristic of urban distress, namely population decline. Chapter 5 showed the importance of this factor in discussing the "hardship index" ratings for fifty-five of the nation's largest central cities. Fourteen of these cities were identified as distressed and ten as well off. (See Tables 5-6 and 5-7 in Chapter 5.) It is significant that the fourteen cities with the highest hardship ratings lost an average of 4.2 percent of their population between 1960 and 1970. Conversely, the ten well-off cities gained an average of 18.5 percent between 1960 and 1970 by natural growth, in-migration, territorial expansion, or some combination of these factors. Only two of the ten--Salt Lake City and Seattle--lost population.

Considering both the fifty-five central cities studied with the "hardship index" in Chapter 5 and 506 CDBG entitlement cities, important relationships can be seen between social and economic conditions and population trends. The two groups are divided between population losers and gainers in Table 12-1.

Table 12-1. Important Characteristics and Rates of Change During Period 1960-70 for Fifty-five Large Cities and for CDBG Cities, Grouped by Population Gains or Losses

Population experience 1960-1970	Number	Percent population change (1)	Average percent Black 1970 (2)	Per capita income 1970 (dollars) (3)	Percentage of income change 1960-1970 (4)	Median house value 1970 (thousands of dollars) (5)	Percentage of value change 1960-1970 (6)
Hardship index cities							
Population losses	29	-7.9	27.3	3,093	55.3	16.3	25.4
Population gains	26	21.3	19.3	3,349	59.5	16.9	36.3
CDBG cities							
Population losses	150	-6.7	17.3	3,062	57.0	15.9	32.5
Population gains	356 a/	20.5 b/	10.2	3,354	61.7	18.8	38.2

Source: Population, income, and housing value data from U.S. Bureau of the Census, County and City Data Book, 1962 and 1972, Table 6.

a/ Does not include urban counties plus eight CDBG entitlement cities that did not exist as incorporated units in 1960.

b/ This is the median value. The calculated mean is 38.0, but this is high because of some extremely high values among a few communities gaining population.

The cities with declining populations tend to have much higher proportions of Blacks and of lower-income persons. The declining cities also have lower median housing values than the growing cities. While these data are significant, they reflect the situation at a given point in time. They represent a still photograph when what is needed is a moving picture. This can be seen by examining rates of change of two important resource factors--income and housing values. Between 1960 and 1970 per capita income increased 5 percent faster in the growing CDBG cities (column 4) than in the declining CDBG cities; home values increased nearly 6 percent faster (column 6) in the growing CDBG cities.

In sum, we see hardship cities as characterized by old age, an increasing concentration of the socially and economically disadvantaged, and population decline. The dual-formula approach covers two of these aspects of distress, poverty and community-age. In this chapter, CDBG supplemental funds are distributed on the basis of all three factors--age (as measured by the proportion of housing units built before 1939), extent of poverty, and rate of population change.

Step One: Constructing an Eligibility Index. The first step in allocating CDBG supplemental funds is the determination of eligibility. We confine eligibility to metropolitan cities; the next question is which metropolitan cities should receive supplemental funding. The equation below is used to scale the needs of metropolitan cities on the basis of the three factors just indicated--poverty, age of housing, and population change from 1960-70. (Although 1960-70 data are used for illustrative purposes, these figures could be updated if desired.)

$$\text{Eligibility Index} = \frac{(\text{Percent of pre-1939 housing}) \times (\text{Percent of poverty})}{100 + \text{rate of population change}}$$

An eligibility index number was computed for all CDBG metropolitan entitlement cities scaled from highest to lowest. The next decision is the determination of how far down the eligibility list to go for participation in supplemental funding. If, for example, it is decided that supplemental funding should be limited to CDBG cities 50 percent or more above the mean on the eligibility index, 123 metropolitan cities would be eligible. If the eligibility threshold is set at the mean, 196 cities qualify. 4/

An analysis of the eligible cities at these two threshold levels is shown in Table 12-2. At either threshold level, the eligible cities have distinctively higher levels of poverty, older housing, and proportionate minority population, as well as lower income and housing values, and relatively slower rates of growth both in income and housing values than the cities below the thresholds.

When the eligibility threshold is set at the mean with 196 cities eligible, 122 of these cities (62 percent) are below 100,000

Table 12-2. Poverty, Age of Housing, Race, Income, and Housing Value Characteristics of CDBG Cities Eligible for Supplemental Funding at Two Threshold Levels, Compared with Characteristics of Non-eligible Cities

Characteristics	50 percent above mean threshold: Supplemental funding cities	50 percent above mean threshold: Other CDBG cities	Mean threshold: Supplemental funding cities	Mean threshold: Other CDBG cities
Percent poverty	17.3	10.8	16.4	10.0
Percent of housing built before 1939	64.8	30.3	58.8	26.2
Percent Black and Spanish-speaking persons	25.0	16.1	24.0	14.8
Per capita income 1970 (dollars)	2,861	3,360	2,937	3,439
Percent change in per capita income change 1960-70	57.4	60.6	58.0	60.9
Median housing value 1970 (thousands of dollars)	14.7	19.4	15.0	20.3
Percent change in housing value 1960-70	32.4	41.6	32.8	43.7

Source: Population, race, income and housing value data from U.S. Bureau of the Census, County and City Data Book 1962 and 1972, Table 6.

population; nineteen are satellite cities. Regionally, the northeast quadrant and West North Central states have 121 participating cities (61.8 percent). It is important that seventy-five southern and western cities are also included--accounting for 38.3 percent of the eligibles.

Calculating Individual Allocations. The next step is calculating individual allocations for the eligibles. We use alternative G from Chapter 6, equally weighting population, poverty, and pre-1939 housing. (For this discussion the mean threshold is used with a supplemental fund of $500 million.)

In calculating formula entitlements for CDBG supplemental funds, a coefficient based on relative shares of population, poverty, and pre-1939 housing units (alternative G) is derived for each of the 196 eligible cities. Before applying this coefficient to the $500 million to determine individual allocations, however, they were further adjusted for population change as described below.

Population Change Adjustment. For the 196 eligible cities, the average population change was -2.1 percent between 1960 and 1970. Assume, for example, that City A and City B had equal counts of population, poverty, and pre-1939 housing units, and thus exactly the same alternative G coefficient. But assume that City A had a population gain of 2 percent between 1960 and 1970, City B a population loss of 10 percent. A population change ratio is calculated as follows:

$$\text{Population Change Ratio} = \frac{100+\text{rate of change for individual city}}{100+\text{mean rate of change for all participating cities}}$$

For City A the change ratio is 1.0418 (102/97.9), while the change ratio for City B is .919 (90/97.9). An allocation coefficient is then used as follows:

<u>City A</u>

$$\text{Allocation Coefficient} = \frac{\text{Alternative G coefficient}}{\text{Population change ratio}} = \frac{.0027831}{1.0418} = .0026714$$

<u>City B</u>

$$\text{Allocation Coefficient} = \frac{\text{Alternative G coefficient}}{\text{Population change ratio}} = \frac{.0027831}{.919} = .0030284$$

If the allocations were based solely on alternative G (i.e., without the population change adjustment), each eligible city would receive $1,391,550 (.0027831 x $500 million). By further adjusting the individual-city coefficients for rate of population change, the city with a 2 percent increase (City A) would receive a supplemental grant of $1,335,700 (.0026714 x $500 million); City B, declining at 10 percent, would receive an additional $178 thousand--$1,514,200 (.003028 x $500 million). Applying this method to the 196 eligible cities, the <u>per capita</u> allocation to the top city, East St. Louis, Illinois, would be $18.25 per capita; the per capita allocation to Seattle, Washington, (the 196th city) would be $10.45.

<u>Scaling Adjustment</u>. To increase the spread between the highest and lowest city for the CDBG supplement and thereby reduce the "notch" problem (i.e., for the 197th city), a final step is introduced to <u>scale</u> allocations. This is done by multiplying the allocation coefficient by an "eligibility coefficient," (see below) which is the ratio of an individual city's index to the mean index of the eligible cities. It produces a steeper curve, based on need, for the allocation of CDBG

supplemental funds and, as noted, reduces the "notch" problem.

$$\text{Eligibility Coefficient} = \frac{\text{Individual city eligibility index}}{\text{Mean eligibility index of eligible cities}}$$

Thus the final allocation is determined

$$\text{Supplemental Allocation} = \text{Allocation Coefficient} \times \text{Eligibility Coefficient} \times \$500 \text{ million}$$

Applying this more redistributive approach to the 196 cities, East St. Louis receives $42.48 per capita; Seattle (the 196th city) $5.64 per capita. Using this approach, Table 12-3 shows the estimated supplemental allocations for the 196 cities above the mean threshold, assuming a $500 million supplemental fund. 6/

Two further points are worth noting. First, if these supplemental amounts are added to the allocations produced under the dual-formula approach, sixty-nine of these 196 cities would still receive less funding than they received under the categorical grants. In many of these cases, this is the result of very successful grantsmanship under the folded-in programs. In others, it could be a basis for urging that there should be a larger supplemental fund (e.g., $750 million) or perhaps a somewhat different approach to its distribution. The last column of Table 12-3 shows the percentage relationship between the combined allocations and hold-harmless funds.

Second, if the dual-formula and supplement are added together, forty of the 196 cities shift from a net "loser" to a net "gainer" position compared with what they would get if the dual-formula alone were adopted. These forty are marked with an asterisk (*) in the last column of Table 12-3.

There are, of course, unlimited variants that could be used to distribute supplemental CDBG funds. One approach would be to extend the supplemental allocation system to all metropolitan cities. A more redistributive outcome could also be achieved by squaring the "eligibility coefficient." Our objective here is not to present a "best" approach, but a framework of movable parts within which supplemental funding based on need can be considered.

Table 12-3. CDBG Cities (196) Eligible for Supplemental Funding Using the Suggested Eligibility Index and Allocation Method, Estimated Supplemental Grants Based on a $500 Million Funding Assumption

Eligible community	Eligibility index (percentage above national mean)	Hold harmless ($000)	1980 CDBG ($000)	Alt. I (Dual formula) ($000)	Supplemental grant ($000)	Alt. I plus supplement as percent of hold harmless (rounded)
E. St. Louis, Ill.	431.86	3,492	2,362	2,362	2,974	150*
San Benito, Tex.	411.79	27	744	744	686	5,300
Augusta, Ga.	372.13	1,042	1,823	1,823	2,099	370
Atlantic City, N.J.	362.34	3,340	1,061	1,485	1,749	90
Wilmington, Del.	360.77	4,490	1,712	2,237	2,603	110*
St. Louis, Mo.	351.92	15,194	14,793	17,604	19,764	240
Harrisburg, Pa.	351.01	2,482	1,321	2,022	2,174	160*
Providence, R.I.	333.96	9,110	3,338	5,218	5,181	110*
Camden, N.J.	333.86	5,554	2,260	2,649	2,812	90
Johnstown, Pa.	321.74	977	729	1,199	1,231	240
Newark, N.J.	321.62	20,513	9,807	9,864	9,502	90
Elmira, N.Y.	319.19	1,610	665	1,115	1,053	130*
Covington, Ky.	307.43	1,507	1,150	1,496	1,342	180*
Chester, Pa.	300.30	2,303	1,183	1,391	1,323	110*
Buffalo, N.Y.	292.84	11,685	7,523	13,026	11,018	200
Williamsport, Pa.	292.33	1,080	619	1,065	866	170*
Asbury Park, N.J.	292.10	297	399	459	390	280
Cleveland, O.	291.73	16,092	14,250	19,456	17,615	230
Trenton, N.J.	288.56	5,097	1,959	2,778	2,283	90
Huntington, W.Va.	280.57	1,518	1,393	1,930	1,648	230

Table 12-3 (continued)

Eligible community	Eligibility index (percentage above national mean)	Hold harmless ($000)	1980 CDBG ($000)	Alt. I (Dual formula) ($000)	Supplemental grant ($000)	Alt. I plus supplement as percent of hold harmless (rounded)
Easton, Pa.	280.34	3,108	486	829	636	40
New Orleans, La.	274.50	14,808	16,753	16,753	12,604	190
Wheeling, W.Va.	260.69	1,547	823	1,296	962	140*
Savannah, Ga.	260.45	7,264	3,055	3,055	2,674	70
Muskegon Hghts., Mich.	260.29	676	387	391	332	110*
Pittsburgh, Pa.	260.06	16,429	8,997	13,532	10,584	140*
Laredo, Tex.	257.91	2,663	3,089	3,089	1,403	160
Boston, Mass.	257.87	32,108	11,609	17,085	12,359	90
Chattanooga, Tenn.	257.51	6,526	2,976	2,976	2,370	80
York, Pa.	255.66	1,234	804	1,413	979	190
Wilkes Barre, Pa.	255.45	8,088	888	1,656	1,125	30
Altoona, Pa.	254.00	1,225	960	1,691	1,193	230
New Haven, Conn.	252.85	18,162	2,600	3,441	2,575	30
Petersburg, Va.	252.11	733	896	896	639	200
Portland, Me.	250.22	5,272	1,102	1,738	1,239	50
Lancaster, Pa.	248.55	4,208	922	1,540	1,036	60
New Bedford, Mass.	246.52	10,138	1,736	2,768	1,753	40
Battle Creek, Mich.	246.35	9	656	992	730	19,150
Poughkeepsie, N.Y.	242.68	10,830	497	869	626	10
Reading, Pa.	242.10	4,186	1,224	2,545	1,666	100*

Table 12-3 (continued)

Eligible community	Eligibility index (percentage above national mean)	Hold harmless ($000)	1980 CDBG ($000)	Alt. I (Dual formula) ($000)	Supplemental grant ($000)	Alt. I plus supplement as percent of hold harmless (rounded)
Charleston, W.Va.	241.52	1,385	1,303	1,699	1,360	220
Anniston, Ala.	236.32	0	868	868	572	-
Troy, N.Y.	235.40	1,414	974	1,632	1,049	180
E. Chicago, Ind.	233.22	2,161	947	1,097	831	80
Fall River, Mass.	232.88	5,442	1,625	2,607	1,573	70
Charleston, S.C.	230.82	897	1,762	1,762	1,088	310
Binghamton, N.Y.	229.99	5,414	909	1,713	1,154	50
Utica, N.Y.	229.91	1,551	1,382	2,388	1,526	250
Paterson, N.J.	228.73	4,036	2,997	3,563	2,177	140*
Jersey City, N.J.	226.62	6,485	4,874	6,764	4,139	160
Cincinnati, O.	226.56	18,828	9,275	10,858	7,521	90
Jackson, Mich.	225.91	1,062	693	1,168	742	170
Baltimore, Md.	224.54	32,749	18,264	20,712	13,670	100*
Holyoke, Mass.	224.54	2,942	871	1,337	805	70
Hartford, Conn.	223.58	10,267	3,208	3,945	2,420	60
Albany, N.Y.	221.54	2,109	1,755	3,024	1,900	230
Youngstown, O.	220.84	3,730	2,306	3,196	2,249	140*
Passaic, N.J.	219.94	163	1,048	1,430	796	1,360
Cambridge, Mass.	219.61	4,035	1,575	2,707	1,588	110*
Birmingham, Ala.	218.30	5,040	7,186	7,186	4,896	230
Philadelphia, Pa	216.18	60,829	33,506	47,118	27,920	120*
St. Joseph, Mo.	215.19	1,715	1,244	1,854	1,123	170

Table 12-3 (continued)

Eligible community	Eligibility index (percentage above national mean)	Hold harmless ($000)	1980 CDBG ($000)	Alt. I (Dual formula) ($000)	Supplemental grant ($000)	Alt. I plus supplement as percent of hold harmless (rounded)
Scranton, Pa.	213.21	7,747	1,444	2,763	1,554	50
Superior, Wis.	212.70	10	486	801	457	12,590
Syracuse, N.Y.	210.04	11,861	3,028	4,871	2,907	60
Galveston, Tex.	209.23	628	1,401	1,401	919	360
Marietta, O.	208.62	0	259	416	227	-
Rochester, N.Y.	205.81	14,684	4,427	7,619	4,225	80
Detroit, Mich.	201.18	34,187	26,525	34,165	20,702	160*
Chicago, Ill.	201.05	43,201	62,870	80,192	45,167	290
Berkeley, Calif.	197.67	2,812	2,171	2,879	1,490	150
Louisville, Ky.	195.95	8,639	7,380	7,907	4,777	140*
Bridgeton, N.J.	194.69	283	351	470	252	250
Lawrence, Mass.	194.04	1,578	1,001	1,761	891	160
Steubenville, O.	193.78	1,418	511	701	391	70
Terre Haute, Ind.	193.30	323	1,140	1,697	882	790
Ashville, N.C.	192.26	3,238	1,484	1,484	897	70
Wilmington, N.C.	190.38	961	1,131	1,131	581	170
Union City, N.J.	190.15	108	1,115	1,557	674	2,060
San Francisco, Calif.	188.77	28,798	12,564	19,112	9,415	90
Saginaw, Mich.	188.44	3,608	1,586	1,997	1,101	80
Alexandria, La.	184.77	92	1,206	1,206	536	1,890
Somerville, Mass.	183.08	247	1,248	2,312	1,092	1,370
New York, N.Y.	180.45	102,244	153,850	184,920	88,482	260
Lynn, Mass.	179.20	3,227	1,295	2,312	1,070	100*
Hazelton, Pa.	177.26	7	393	784	358	16,320
Duluth, Minn.	176.46	3,386	1,435	2,369	1,142	100*

Table 12-3 (continued)

Eligible community	Eligibility index (percentage above national mean)	Hold harmless ($000)	1980 CDBG ($000)	Alt. I (Dual formula) ($000)	Supplemental grant ($000)	Alt. I plus supplement as percent of hold harmless (rounded)
Oakland, Calif.	176.06	12,738	6,887	8,345	4,118	90
Port Arthur, Tex.	175.59	1,324	1,269	1,269	705	140*
Minneapolis, Minn.	174.58	16,793	6,211	10,564	5,213	90
Muskegon, Mich.	172.74	1,108	708	1,035	487	130*
Hopkinsville, Ky.	172.24	0	506	506	224	-
Schenectady, N.Y.	170.98	1,488	979	2,075	898	190
Brownsville, Tex.	170.84	155	2,384	2,384	719	2,000
Springfield, Mass.	170.63	9,096	2,529	3,626	1,758	50
Spartansburg, S.C.	168.77	4,434	1,020	1,020	471	30
Ashland, Ky.	168.15	6	483	632	314	15,770
New London, Conn.	167.50	6,418	461	677	330	20
Pawtucket, R.I.	167.34	5,850	1,146	1,811	821	40
Canton, O.	167.22	1,109	1,669	2,519	1,141	330
Bay City, Mich.	166.11	1,318	707	1,131	523	120*
Lewiston, Me.	164.12	2,936	653	957	403	40
Auburn, Me.	164.02	701	359	570	241	110*
Lowell, Mass.	162.98	3,542	1,418	2,201	902	80
Mcallen Tex.	162.71	116	1,512	1,512	436	1,670
Perth Amboy, N.J.	161.10	1,441	647	884	367	80
Niagara Falls, N.Y.	160.88	1,571	1,254	1,783	918	170
Lynchburg, Va.	159.91	1,537	902	1,124	511	110*
Yakima, Wash.	158.75	256	804	993	427	550
Springfield, O.	158.42	666	1,279	1,781	766	380
Erie, Pa.	158.01	4,485	1,833	2,794	1,249	90
Worcester, Mass.	156.21	6,044	2,381	4,034	1,697	90

Table 12-3 (continued)

Eligible community	Eligibility index (percentage above national mean)	Hold harmless ($000)	1980 CDBG ($000)	Alt. I (Dual formula) ($000)	Supplemental grant ($000)	Alt. I plus supplement as percent of hold harmless (rounded)
Salt Lake City, Utah	155.44	4,176	2,939	3,696	1,723	120*
Washington, D.C.	155.26	42,748	16,147	16,147	7,072	50
Parkersburg, W.Va.	155.25	244	700	969	412	560
Roanoke, Va.	154.95	2,629	1,517	1,895	877	110*
Dayton, Ohio	154.65	6,822	4,134	4,925	2,319	110*
Spokane, Wash.	154.61	577	2,611	3,644	1,650	910
East Orange, N.J.	154.55	2,519	1,105	1,829	732	100*
Greenville, S.C.	153.16	2,205	1,327	1,327	606	80
Gadsden, Ala.	152.85	14	1,128	1,128	533	11,870
Pensacola, Fla.	152.19	162	1,357	1,357	542	1,170
Pharr, Tex.	150.35	110	806	806	201	910
Haverhill, Mass.	147.53	1,976	604	1,136	413	70
Monroe, La.	147.13	1,415	1,651	1,651	535	150
Lima, Ohio	146.56	0	845	1,174	435	-
Sioux City, Ia.	146.42	3,929	1,237	1,879	745	60
New Brunswick, N.J.	145.74	1,399	689	852	329	80
La Crosse, Wis.	144.90	605	742	1,098	397	240
Fitchburg, Mass.	144.68	566	604	1,005	365	240
Muncie, Ind.	143.90	52	1,148	1,369	555	3,700
Kalamazoo, Mich.	143.32	64	1,267	1,713	660	3,700
Elizabeth, N.J.	141.91	146	1,889	2,496	890	2,320
Portland, Ore.	141.76	8,760	5,483	8,611	3,175	130*
Akron, Ohio	139.79	10,979	3,990	5,643	2,264	70
Bridgeport, Conn.	138.81	4,113	2,575	3,308	1,234	110*
Mt. Vernon, N.Y.	138.62	2,590	1,107	1,662	608	80

Table 12-3 (continued)

Eligible community	Eligibility index (percentage above national mean)	Hold harmless ($000)	1980 CDBG ($000)	Alt. I (Dual formula) ($000)	Supplemental grant ($000)	Alt. I plus supplement as percent of hold harmless (rounded)
Richmond, Va.	137.92	10,068	4,839	4,967	1,808	60
Manchester, N.H.	137.81	2,500	1,250	1,931	693	100*
Texarkana, Tex.	137.10	2,812	639	639	248	30
Grand Rapids, Mich.	134.99	4,815	2,853	4,265	1,386	110*
Bayonne, N.J.	134.50	500	997	1,672	576	440
Texarkana, Ark.	134.37	2,372	503	503	165	20
Gary, Ind.	132.76	6,974	3,708	3,708	1,281	70
Bristol, Tenn.	130.56	365	351	402	134	140
Harlingen, Tex.	129.96	183	1,313	1,313	425	950
Daytona Beach, Fla.	129.25	675	1,042	1,042	319	200
Winter Haven, Fla.	128.86	64	354	354	127	750
Hamilton, Ohio	128.68	597	1,075	1,313	498	300
Pine Bluff, Ark.	127.88	2,168	1,515	1,515	377	80
Waco, Tex.	127.79	5,704	2,026	2,026	740	40
Milwaukee, Wis.	127.67	13,383	10,935	14,181	5,137	140
Montgomery, Ala.	126.95	2,484	3,178	3,178	1,042	160
Malden, Mass.	126.36	4,546	681	1,304	417	30
Evansville, Ind.	124.98	2,878	2,254	2,719	967	120*
Rock Island, Ill.	123.16	2,482	709	1,023	350	50
Norwich, Conn.	121.41	1,478	559	887	260	70
Shreveport, La.	121.35	473	4,256	4,256	1,210	1,150
Allentown, Pa.	121.05	2,426	1,313	2,424	739	130*
Kansas City, Mo.	120.58	17,859	8,048	10,428	3,249	70
Denison, Tex.	119.74	179	451	484	154	350
Lakeland, Fla.	119.34	162	798	798	278	660

Table 12-3 (continued)

Eligible community	Eligibility index (percentage above national mean)	Hold harmless ($000)	1980 CDBG ($000)	Alt. I (Dual formula) ($000)	Supplemental grant ($000)	Alt. I plus supplement as percent of hold harmless (rounded)
Edinburg, Tex.	118.31	4,198	713	713	174	20
Atlanta, Ga.	118.01	18,780	11,207	11,207	3,324	70
Waterbury, Conn.	117.61	5,688	1,577	2,218	682	50
Pontiac, Mich.	116.89	3,198	1,523	1,525	505	60
St. Paul, Minn.	116.58	18,835	4,152	6,446	1,985	40
Bloomington, Ill.	116.23	2,169	543	877	239	50
Tacoma, Wash.	115.68	2,459	2,284	3,069	949	160
Irvington, N.J.	114.60	297	748	1,393	394	600
W. Palm Beach, Fla.	113.48	131	1,135	1,135	366	1,140
Council Bluffs, Ia.	113.46	251	986	1,156	336	590
Des Moines, Ia.	113.22	3,692	2,792	3,986	1,263	140
Mobile, Ala.	113.13	2,014	4,600	4,600	1,315	290
Ogden, Utah	112.92	655	1,155	1,256	416	250
Flint, Mich.	112.73	5,881	3,173	3,449	1,153	70
Pueblo, Colo.	112.47	1,016	1,751	1,751	541	220
Portsmouth, Va.	111.14	4,570	2,296	2,296	704	60
Springfield, Ill.	110.49	4,513	1,367	1,945	515	50
Santa Cruz, Calif.	110.43	164	553	666	170	510
Beaumont, Tex.	109.83	25	2,327	2,327	716	12,170
Long Branch, N.J.	109.17	55	535	639	161	1,450
Durham, N.C.	107.28	2,384	2,004	2,004	487	100*
Miami, Fla.	106.08	3,165	9,712	9,712	1,833	360
Denver, Colo.	105.78	15,805	8,246	9,493	2,823	70
South Bend, Ind.	105.14	3,547	1,683	2,388	717	80
Tampa, Fla.	105.10	8,577	5,613	5,613	1,618	80

Table 12-3 (continued)

Eligible community	Eligibility index (percentage above national mean)	Hold harmless ($000)	1980 CDBG ($000)	Alt. I (Dual formula) ($000)	Supplemental grant ($000)	Alt. I plus supplement as percent of hold harmless (rounded)
Norfolk, Va.	104.81	17,766	5,842	5,842	1,695	40
Pasadena, Calif.	104.69	2,584	1,663	2,215	661	110*
Oshkosh, Wis.	104.63	85	661	1,069	251	1,550
Mansfield, O.	103.84	339	800	1,081	266	390
Toledo, O.	101.19	11,831	5,350	7,622	1,742	70
Pittsfield, Mass.	100.53	1,342	654	1,164	303	110
Waterloo, Ia.	100.38	1,182	1,136	1,377	369	140
Jackson, Miss.	100.36	2,253	3,891	3,891	870	210
Seattle, Wash.	100.21	11,641	6,809	10,608	2,996	110

* Cities which shift from a net "loser" to a net "gainer" position relative to their hold-harmless level, compared with what they would receive if the dual formula alone were adopted.

NEXT STEPS FOR THE RESEARCH

Putting together the national distributional and local effects of the CDBG program in its first year of operation, there is a basic issue that cuts across all of the data presented in this report. The essential question involves the development process. If one's view of the development process for economic and efficiency reasons emphasizes growth-potential areas and the prevention of blight, there is more likely to be acceptance of the findings of this study about the impact of the current formula and the spreading and neighborhood conservation effects found at the local level. On the other hand, those who give a higher priority to social and equity goals of economic development would be likely to argue for both a national and local distribution that places greater emphasis on the neediest areas. It is, of course, possible to favor a national distribution of CDBG funds that gives greater emphasis to the needs of distressed core cities, but within that context to support strategies which emphasize growth-potential neighborhoods.

We will explore these and related issues further in the second stage of our research at which time performance-monitoring data, both from HUD and the sample jurisdictions, will provide a basis for considering the first-year uses of CDBG funds in relation to the plans adopted by the sample units. Other new subjects will be covered in the second report, although the current plan is to use the same general framework as for this report. Originally, we had intended to cover some subjects in the first year and some in the second. As it turned out, however, we have been able, largely because of the cooperation received from the associates, to cover a wide range of subjects in this first report. Our second installment as a result essentially will update and expand upon the subjects covered this year. One exception to this rule, which is not covered as systematically as others in this first report, is the intergovernmental effects of the CDBG program. This subject will be treated as a separate chapter in the second report; we plan to examine the role of HUD, the states, and regional bodies under the CDBG program. The plan for the second report also includes chapters in the form of case studies of selected sample jurisdictions authored by the responsible field research associate.

FOOTNOTES TO CHAPTER 12

1/ The term "spatial deconcentration" is included among the purposes of the CDBG program, as discussed in Chapter 2. The sixth purpose enumerated in Section 101 of the act (See Appendix I of this report) is "the reduction of the isolation of income groups within communities and geographical areas and the promotion of an increase in the diversity and vitality of neighborhoods through the spatial deconcentration of housing for persons of lower income." Policies to achieve these objectives are discussed in a recent book by Michael N. Danielson, The Politics of Exclusion (Columbia University Press, 1976). See also Lower-income Housing: Suburban Strategies, by Leonard S. Rubinowitz (Ballinger, 1974). Chapter 12, "Federal Carrot and Stick: HUD," is particularly relevant to this study as it examines many of the programs consolidated into the CDBG program.

2/ See, for example, Alan S. Oser, "Federal Efforts to Rebuild Cities Coming under Study prior to Carter Inauguration," New York Times, November 17, 1976.

3/ U.S. Department of Housing and Urban Development, Interim Report of the President's Committee on Urban Development and Neighborhood Revitalization (October 1976), p. 36.

4/ Under hold-harmless, jurisdictions with experience under the folded-in federal programs (urban renewal, model cities, etc.) receive an amount equal to their average federal grants for these programs over the five-year period, 1968-72. This hold-harmless protection continues for the first three years of the CDBG program, and then phases down by thirds in years four through six of the program under the terms of the original act.

5/ Seventeen townships and North Charleston, South Carolina, were not included in the eligibility listing because of missing data elements.

6/ The eligibility index numbers of Table 12-3 are based on a variation of this formula, standardized to make the mean equal 100.

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