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# Federal Funds, Local Choices: An Evaluation of the Community Development Block Grant Program

## Volume I

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Prepared for:
U.S. Department of Housing and Urban Development
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Prepared by:
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## FOREWORD

For more than 20 years, the Community Development Block Grant (CDBG) program has provided a flexible source of federal funds for local investment in community development and revitalization. When it was established in 1974, the CDBG program represented a radical change from traditional categorical programs which required federal review and approval of individual community development projects. Today, as we undertake the bold reinvention of HUD's programs and management, the CDBG program offers valuable lessons about the effectiveness of a flexible, formula-driven block grant that supports local initiatives and permits substantial local discretion.

This study, *Federal Dollars, Local Choices*, is the first comprehensive evaluation of the CDBG program in more than a decade. It was conducted by the Urban Institute, and draws upon information from existing management information systems, mail and telephone surveys, and field research in 61 cities. The study assess the activities the program has supported, the people who have benefited, and the impacts on community health and vitality.

Cities across the country face very different housing and community development needs. CDBG empowers local decision-makers to address these needs by providing broad discretion over the mix of program expenditures and coordination of activities. The study concludes that cities take advantage of this flexibility, documenting systematic differences in both spending patterns and geographic targeting between cities with different needs. Moreover, local programs exhibit considerable change over time, in response to changes in development needs or shifts in local priorities.

While allowing substantial local flexibility, the CDBG program advances the national objectives established for it by Congress. Most programs principally benefit low- and moderate-income people and neighborhoods. Over the years, Congress has increased the percentage of spending that must benefit low- and moderate-income households. This study finds that the CDBG program has consistently exceeded these requirements.

The CDBG program has played a critical role in local housing and community development efforts, and has had measurable impacts on cities and neighborhoods. The study concludes that block grant funding has mobilized resources from other sources to support local housing investments, public facilities and services, and business assistance programs that probably would not have occurred in the absence of the CDBG program. Moreover, this study presents convincing evidence that CDBG-funded investments have been successful in stabilizing and revitalizing urban neighborhoods, given sustained and targeted spending at significant levels over time.

Without question, the CDBG program has made significant contributions to the quality of life in American cities, with its benefits targeted to low- and moderate-income people and neighborhoods. Thus the program provides a model for the bold reinvention of other housing and community development programs, demonstrating the effectiveness of predictable and flexible block grant funding, in support of critical national objectives.

Michael A. Stegman
Assistant Secretary for
Policy Development and Research

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Conclusions and opinions expressed in this report are those of the authors, and do not necessarily reflect those of the Urban Institute or the U.S. Department of Housing and Urban Development.

## FEDERAL DOLLARS, LOCAL CHOICES
## AN EVALUATION OF THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

### EXECUTIVE SUMMARY

In 1974, the U.S. Congress revolutionized federal support for local community development by creating the Community Development Block Grant (CDBG) Program. Between 1949 and 1974, the federal government reviewed, approved, and financed proposals submitted by local governments for Urban Renewal, Model Cities, water and sewer, parks and recreation and other projects designed to improve downtowns and revitalize distressed urban neighborhoods. The CDBG program departed from this model by "entitling" cities and urban counties to a block of community development funds, to be spent at local option, but within broad guidelines established by the Congress.

In its early years, the CDBG program received considerable study: the most prominent effort--the Brookings Institution's series of reports in the late 1970s and early 1980s--documented how communities responded to this decentralization of decisionmaking authority. Since that time, and despite annual appropriations averaging about $3.3 billion per year throughout the 1980s, little systematic research on the program has been conducted. To fill this analytic gap, in early 1992 the U.S. Department of Housing and Urban Development contracted with the Urban Institute to undertake a comprehensive analysis of the program. This report is the result of that assessment.

This research took two and one-half years to complete, and included field research in 61 U.S. cities, more than a thousand mail and telephone surveys, and extensive use of HUD's automated program budget and expenditure data. These efforts were intended to answer a series of questions on the characteristics of CDBG-funded programs, benefits to income and ethnic groups and neighborhoods, the nature of CDBG decisionmaking and program management, and what impacts the program may have had over its 20-year lifespan.

The study concludes that the program has made an important contribution to city community development, including demonstrated successes in achieving local neighborhood stabilization and revitalization objectives. It is fair to say that in almost every city, neighborhoods would have been worse off had the program never existed, and certainly, cities would not have embarked on the housing and redevelopment programs that now comprise a core function of municipal government. Further, CDBG-funded programs clearly benefit those for whom the program was intended--low- and moderate-income persons and neighborhoods--and does so by a substantially greater degree than the minimum required under law. Of course there is room for improvement: interventions in neighborhoods tend to be *ad hoc* rather than in the context of an overall strategy, and local program coordination is not a particularly strong point of the program. Nevertheless, a number of U.S. cities have adopted new, participatory, planning efforts that hold out much promise for stabilization and revitalization of deteriorated central city neighborhoods.

**Funding History and Characteristics of Recipient Communities**

The CDBG program--the federal government's largest community and regional development program--has been marked by funding increases and declines, over its 20-year history. As intended, the national funds allocation formula distributes the largest share of the annual appropriation to large central cities, and has done so consistently over time. The program represents only a small part of total revenues available to cities, but for certain categories of communities, it constitutes a major source of intergovernmental aid. Specific findings from Chapter 2 include:

- Although program appropriations increased to $3.4 billion in 1992 from a 1980's low of $2.9 billion in 1988, the program lost 50 percent of its purchasing power between 1975 and 1992 after adjusting for inflation.

- At the same time as purchasing power declined, city need grew. Between 1969 and 1989, and for a sample of CDBG grantees that accounted for 80 percent of funds allocated in 1989, poverty rates increased from 14.1 percent to 17.8 percent, and the percentage of city population living in poverty areas (20 percent poverty or more) increased from 18.6 percent to 28.7 percent.

- In 1992, the program represented 4.5 percent of federal intergovernmental aid for state and local capital expenditures, but 68.1 percent of federal aid for community and regional development.

- In 1980, the CDBG program amounted to 30.6 percent of the HUD budget, but reflecting large increases in HUD rent subsidies, the CDBG program was only 12.6 percent of HUD appropriations in 1992.

- As intended, the program aids needy cities to a greater degree than less needy cities: The most distressed cities in the nation (those in the top quintile of HUD's recently developed needs indicator) receive 50 percent of program dollars; the least distressed cities receive only 5 percent of funds.

- The average annual CDBG grant is small, amounting to $1.2 million for the average city in 1992, but larger cities receive larger amounts: the 13 cities with populations over 1 million in 1990 received 26 percent of national program dollars, averaging $45.1 million per city.

- Typically, the program is a small part of city revenues; for the median city, CDBG is 1.5 percent of total general revenue, 8.4 percent of all intergovernmental aid, and 20 percent of federal grants-in-aid.

- The program makes more substantial contributions in low-revenue, high-distress cities: CDBG allocations are 18.1 percent of all inter-governmental aid, 12.7 percent of own-source tax revenues; corresponding figures for high-revenue, low-distress cities are 3.4 percent and 1.3 percent, respectively.

**Patterns of Program Delivery and Characteristics of Funded Programs**

Community Development is multi-faceted; it can include housing, economic development, social services, infrastructure, property acquisition and clearance, and other activities, which, in combination, can help stabilize or revitalize neighborhoods. Therefore, the national CDBG "program" is an aggregation of multiple local programs, each with its own administering agency, program objectives, funding guidelines, and intended beneficiaries. In contrast to the specialized redevelopment authorities that managed the Urban Renewal Program, generalist city agencies are the primary funds managers under the CDBG program. These agencies in turn rely on delegate agencies--other city departments, nonprofit agencies, independent authorities--to deliver a portion of program-funded activities. The analysis in Chapter 3 concludes that:

- Cities commonly adopt a "hybrid" management structure, with lead agencies responsible for program accountability, but some or all of program delivery responsibility delegated to other entities.

- More than half of lead agencies delegate at least a portion of program management to other agencies; this is particularly common in public services, with over half of lead agencies (54.8 percent) delegating *all* services spending to other agencies.

- Lead agencies delegate 55 percent of public services funds, 43 percent of economic development funds, and 26 percent of all housing dollars to other (public and nonprofit) agencies.

- Nonprofits managed programs that accounted for 16.9 percent of all CDBG funds in 1989, including 43 percent of public services spending, 23 percent of economic development dollars, and 14 percent of housing funding.

- Most (62 percent) of nonprofit funding is channeled through agencies that operate citywide, not exclusively within particular neighborhoods.

Programs funded from CDBG tend to be bricks-and-mortar programs. Nationwide, the programs funded from CDBG tend to emphasize small-scale activities: housing rehabilitation subsidies support renovation at relatively modest levels; business assistance overwhelmingly supports small businesses with minority-owned businesses assisted more often than their share of the total population would suggest.

- Nationwide, 77 percent of all CDBG funds (including those for planning and administration) are budgeted for physical development activities.

- In 1990, housing activities comprised 38 percent of all spending, public facilities--22 percent, economic development--12 percent, public services--9 percent, and acquisition and clearance--6 percent.

*Housing Programs.* From the earliest years of the CDBG program, local decisionmakers have opted to pursue housing stock preservation through CDBG support for rehabilitation, and housing programs have consistently taken the largest share of CDBG expenditures.

- The CDBG program is the largest source of non-tax federal assistance for construction or rehabilitation of privately-owned housing, amounting to $839 million in 1990, comparable to amounts allocated to cities and urban counties from the new HOME program.

- Funds are concentrated in rehabilitation (81 percent of housing funds), and support renovation of an estimated 132,000 units per year, based on sample data weighted to produce national estimates.

- By design, programs favor light- to moderate-rehabilitation, rather than substantial rehabilitation. The average program maximum per-unit loan and grant is $14,236 and $8,854, respectively, and the average CDBG investment per unit amounts to only $6,341.

- These funds, however, are leveraged: the average program leverages $2.31 for every CDBG dollar, higher for rental programs ($8.44) and for those managed by nonprofits ($3.66).

- Nationwide, and excluding the very large outlays by the City of New York for city-owned rental housing, 64 percent of all program funds are invested in owner-occupied units, 36 percent in rental units.

- As *program managers*, nonprofits are particularly active in homeowner programs; owner-occupied rehabilitation accounts for 51 percent of CDBG funds that pass through nonprofits as delegate agencies (8.9 percent of all funds), but nonprofits are also important as rental housing *project sponsors*: accounting for 29 percent of rental housing dollars.

*Public Facilities*. The program's support for community public facilities investments is intended to meet the investment needs of fiscally distressed cities with aging infrastructure, and new investment needs in underdeveloped areas.

- Cities emphasize traditional public works: 35 percent of an estimated 1992 aggregate budget of $467 million was allocated by cities to transportation-related spending (streets, sidewalks, bridges, etc.) and another 9 percent was allotted to water, sewer, and drainage facilities.

- Community facilities constituted about 25 percent of total public facilities spending, including parks and recreation (10 percent) and facilities for the provision of community services (15 percent).

*Economic Development.* CDBG-support for economic development emphasizes assistance to small and minority business. Findings from the national survey of business program managers and assisted businesses include:

- Most CDBG assistance comes in the form of direct loans and grants to private business, or 78 percent of an estimated 1992 economic development total of $251 million.

- The CDBG program is overwhelmingly a small business program: 99 percent of assisted businesses reported revenues in 1993 of under $6 million; more than half (52 percent) of all CDBG-assisted businesses employed five persons or fewer.

- Minority-owned businesses appeared in the pool of CDBG-assisted businesses at about three times the rate expected based on their national share of all businesses; minority-owned firms constitute 37 percent of CDBG-assisted businesses, but only 12 percent of firms, nationwide.

- The overall "termination" rate of CDBG-assisted firms was 27 percent after four years, which compares favorably with the SBA five-year rate of 50 percent; minority business terminations were 36 percent, compared with the SBA's national rate of 58 percent.

- Eighty percent of CDBG-assisted businesses report that their projects would not have happened at all, or would have happened on a smaller scale, had it not been for CDBG assistance, compared with the UDAG program figure of 77 percent.

- Jobs supported by CDBG assistance met basic tests of job quality; 89 percent of created positions remained after 4 years, 96 percent were full-time, 90 percent paid more than minimum wage.

- Neighborhood residents held 32 percent of jobs created by assisted businesses.

- Minority-owned businesses were more likely to create jobs held by low-income persons than majority firms (75 v. 29 percent), but these jobs suffer higher attrition rates: 63 percent of jobs created by minority-owned businesses remained after four years. However, minorities hold 38 percent of all CDBG-supported jobs, but hold 83 percent of jobs created by minority-owned businesses.

*Public Services.* Although the CDBG Program is primarily a "bricks-and-mortar" program, cities opt to fund public services with a portion of program funds (up to the 15 percent limit allowable). Findings from a national survey of CDBG-assisted public services providers include:

- By design, services are directed toward a very low-income clientele, emphasizing meals provision (30 percent of programs) and homeless shelter services (20 percent). Other commonly-funded services include counseling (29 percent), youth programs (26 percent) and programs for senior citizens (21 percent); less commonly funded are those that require highly specialized services; e.g., medical services.

- Most services appear to have a neighborhood emphasis but this emphasis varies with the type of delivery organization: 80 percent of neighborhood-based nonprofits reported that "most" of their clients came from the immediate neighborhood, compared with 25 percent for citywide nonprofits, 58 percent for city agencies.

A small share of national spending ($119 million, or 6 percent), acquisition and clearance includes both the demolition of blighted structures with no re-use in mind and development activities tied to housing or economic development projects. Administration and planning expenses, capped at 20 percent of total grant allocations, account for 13 percent of total spending.

**Patterns of Program Expenditure**

The distinguishing feature of the CDBG program is its flexibility, on the recognition that cities face very different community development needs and should be accorded the freedom to design programs to meet these needs. Although national allocation of program funds among activity categories (housing, economic development, etc.) changes little from year to year, there is considerable "churn" at the local level. Specific findings from Chapter 4 include:

- The clearest budgetary tradeoff is between housing and public facilities spending: The simple correlation between housing and public facilities budget shares is -.76, meaning that more than half (.76 squared) of the variation across cities in the budget share for housing is "explained" by variation in the public facilities share.

- Central cities on average budget higher percentages of funds for housing than do suburban cities (41.5 versus 36.5 percent) and less on public facilities (23.6 versus 30.2 percent).

- Cities funded under Formula A (a poverty formula typically used by western and southern cities) are more likely to allocate funds to public facilities than cities funded under Formula B (housing age and population decline and typically used by northeastern and midwestern cities).

- Local budgets show considerable year-to-year changes; e.g., in any given year between 1982 and 1992, major increases in allocations to housing were made by 30 percent of cities; on average, major decreases were made by 24 percent of cities. Swings are particularly marked in economic development and acquisition and clearance, probably driven by seizure of developmental opportunities.

- There was no dominant pattern of shifts into or out of particular types of activities, but in 11 of the 17 cities visited by field researchers and that reported major priority shifts during the 1980s, these were attributed to changes in developmental needs as defined by local political leaders.

- In more recent years (1990-1993), changes in the level of intergovernmental aid, including recent increases in the size of the CDBG budget, produced major shifts in spending priorities.

Despite the absence of geographic targeting requirements, the program continues to be primarily a "neighborhoods" program:

- Cities allocated more than half of their 1992 funds (54 percent) on average, to one or more neighborhood strategies (redevelopment, conservation, or growth), as opposed to citywide (34 percent) or other (13 percent) strategies.

- Central cities, highly distressed cities, and those with spatially concentrated poverty populations are most likely to pursue neighborhood versus citywide strategies.

- Most cities pursue a mix of development strategies. One third of cities have no single strategy that accounts for more than one half of funds; 27 percent of cities spend more than half of their resources on neighborhood redevelopment (improvements to distressed areas); 11 percent spend more than half of their resources on neighborhood conservation (preservation of stable areas); and 25 percent spend more than half of their resources on a citywide strategy.

- Community development administrators were most likely to report spatial concentration of infrastructure spending (85 percent). For other activities, percentages of cities that reported concentration of funds in neighborhoods or a central business district are: economic development--65 percent, housing--56 percent, public services--41 percent.

- The strongest influence on whether cities concentrate funds in particular neighborhoods is the degree to which their poverty populations are spatially concentrated: cities with poverty populations that are broadly distributed throughout the city, will face powerful pressures to spread funds widely, regardless of distress.

- More distressed cities and cities with a more uneven distribution of poverty spend a greater share of resources on redevelopment of distressed areas than do other cities.

**National Objectives and Program Benefits**

Each CDBG program expenditure must be qualified according to one of three National Objectives: (1) benefit to low- and moderate-income persons, (2) prevention or elimination of slums and blight, and (3) meeting an urgent community need. Although the Congress has continued to increase the required low- and moderate-income benefit percentage (now 70 percent), the program has sustained benefit levels substantially in excess of the minimum requirement established by law. Chapter 5 findings include:

- Overall low- and moderate-income benefit levels are high, amounting to 89 percent in 1990. This percentage varies little by region, central city status, distress, or population size.

- Across activities, however, low-mod benefit percentages range from a low of 67 percent for acquisition and clearance to 100 percent for public services.

- Changes in levels up or down are frequent at the community level, primarily due to shifts in local activity mixes: In any given year between 1982 and 1990, an average 15 percent of cities increased their low-mod benefit percentage by 10 percent or more, and another 15 percent decreased their low-mod benefit by the same margin.

- Field research found that in only 2 of 61 communities did the city's share of low- and moderate-income benefit occasion major local controversy, either within the city or between the city and HUD.

- One-third of city households are low-income (below 50 percent of median) but 58 percent of city direct-benefit funds in 1989 aided this group; just under one-half of city households are moderate-income or below, but 82 percent of city direct-benefit funds aided this group by CDBG counting rules (which credit 100 percent of funds as benefitting low-mod persons if more than 50 percent of persons are low-mod).

- Using a proportionate counting method, in which funds are credited as benefitting low- and moderate-income persons only in the share they represent of all persons benefitting, approximately three-quarters (75.2 percent) of 1989 low-mod activity spending benefitted low- and moderate-income persons.

- Across all activities, funds spent through nonprofit subrecipients (delegate agencies) are more likely to benefit low-income persons than city-supported activities; 71 percent of nonprofit spending and 50 percent of city agency spending benefitted those with incomes below 50 percent of area median.

- Poverty households represent 21 percent of city households, but 41 percent of CDBG direct benefit spending is estimated to assist this group.

- Black households are 26 percent of all city low- and moderate-income households, but are 45 percent of direct beneficiaries; Hispanics are 12 percent of low-mod households, but 14 percent of direct beneficiaries.

- The distribution of area benefit expenditures by race and ethnicity is roughly equal to each groups share of persons living in low- and moderate-income tracts.

- In 1989, about 80 percent of area benefit public facilities spending occurred in low- and moderate-income census tracts, a 55 percent increase over levels in 1980; 37.9 percent of spending is in low-income tracts, 41.9 percent in moderate income tracts.

- One third of area benefit spending occurs in extreme-poverty tracts (more than 40 percent poverty), another 47 percent in tracts with poverty rates between 20 and 40 percent.

**Community Decisionmaking and Management**

The CDBG program's outcomes and performance are the product of local decisions, themselves the outcome of a decisionmaking process that can include local elected officials, citizens, agency administrators and staff, neighborhood nonprofit organizations, and other actors. Findings from Chapter 6 include:

- In 22 of 61 cities (36 percent) visited by field researchers, executives clearly dominated the local decisionmaking process, and in another 15 cities (25 percent) influence was shared between executives and legislators. In only 18 percent of cities did legislator influence exceed that of local executives.

- Field researchers judged citizens to be very or extremely influential (through a variety of mechanisms) in decisions over program allocations in 29 percent of cities visited on-site; influence appeared to be dampened in "strong-executive" systems.

- In almost all cases in which cities embarked on dramatic new program departures, strong executive or combined strong executive-strong legislator systems were in place. Legislator-dominant systems rarely effect such changes.

- The CDBG rules require little of cities in terms of public participation, but most cities appear to go beyond these minimum requirements; about half (51 percent) of all cities have formal citizen advisory panels, and citizens appear more influential in cities with such panels than in cities that lack them.

- City officials find participation devices such as citizen councils and neighborhood meetings useful, but not the required public hearings.

- Citizens advisory committees, whether citywide or neighborhood based, appear to help guarantee basic documentary adequacy of funding proposals and ensure a degree of openness and fairness in the funds allocation process.

- Although about one-half (48 percent) of cities claim to have a strategic planning process, in about 39 percent of these cases, this process is the same as their Comprehensive Housing Affordability Strategy, and thus likely to be confined only to housing activities.

- Both coordination and strategic planning appear to take place in *ad hoc* ways, but can be effective when tied to specific neighborhoods, particularly where community nonprofits act as the integrating devices for programs funded from multiple agencies.

- In a number of cities visited on-site, elected executives and agency administrators have embarked on new strategic initiatives to improve neighborhoods; these are formal and informal efforts to improve inter-agency cooperation and consultation, citizen participation, neighborhood planning, and corporate involvement.

*Administration.* As the Brookings Institution found over a decade ago, this research confirms that controversies between localities and HUD turn mostly on issues of procedure, not substance. But apart from occasional lapses, most cities generally managed their program well.

- The issues on which HUD and localities differ most frequently (in more than 20 percent of cities visited) include: monitoring of subrecipients, economic development documentary requirements, housing program eligibility issues, overall record-keeping, and compliance with environmental requirements.

- Both mail survey and on-site research found considerable dissatisfaction with the level of "red-tape" in the program, but between 74 to 93 percent of respondents to the mail survey believed that HUD monitoring of their programs was "about right."

- Despite continuing efforts by HUD to improve grantee performance in this area, subrecipient monitoring remains a concern, especially regarding nonprofit ability to comply with program management requirements.

- Field researchers judged most local cities' monitoring of subrecipients and contractors as "adequate" (65 percent) or "effective" (19 percent) as opposed to "inadequate" (8 percent).

- Collection of service quality and program evaluation information is not a prominent feature of city programs, and cities infrequently conduct evaluations of whether programs achieve the objectives set for them, or deliver services effectively or efficiently.

**Program Impacts**

This research concludes that CDBG investments clearly have made important contributions to local capacity to undertake community development programs, both at the city agency level, and within neighborhoods. Specific findings from Chapter 7 include:

- Formal community development planning efforts are rare, and in retrospect, the CDBG program probably has had much less of an impact in this area than its predecessor programs that required, and paid for, *project-based* planning efforts. Some successes can be reported, however.

- Block grant funds have helped cities mobilize resources to undertake community development. Very clearly, cities would not pursue housing activities at anywhere near current levels without CDBG.

- Confirming evidence was obtained from program agencies: respondents claimed that 75 percent of public facilities and services, 62 percent of owner-occupied rehab, 54 percent of rental housing, and 56 percent of business assistance programs were started-up as a result of CDBG funds.

- *Project* leverage of other public and private funds in housing and business assistance projects is common: for example, housing programs average $2.31 for every CDBG dollar invested. *Program* leverage--pre-packaged commitments from private and public funds--appear less frequently.

- The program provides an important source of support for the community development delivery system: although few organizations report depending solely on CDBG funds, community development agencies and CDBG-funded citywide nonprofit organizations "critically" depend on CDBG funds.

The ultimate impact of the CDBG program is its contribution to the revitalization and stabilization of neighborhoods. The research concludes that CDBG-funded investments, in certain types of neighborhoods and under the right circumstances, appear to have produced real results in neighborhood stabilization and revitalization.

- About one-third of CDBG-funded census tracts showed increasing poverty rates between 1980 and 1990, about one-half were stable, and only 16 percent improved.

- There is a clear relationship between CDBG "level-of-effort" and improvement or stability in tract poverty rates: improved tracts received $1,247 per capita, stable tracts, $844 per capita, and declining tracts, $737 per capita.

- Among non-poverty tracts (below 20 percent) that remained stable over the 1980s, field researchers concluded that CDBG investments were important to neighborhood preservation, even though these investments were not accompanied by major public spending from other sources, or major private sector development projects.

- Among poverty neighborhoods (those between 20 and 40 percent poverty) improvement occurred in one of two ways: in-migration of those with higher incomes, out-migration of those with lower incomes. In only a few instances (tied to start-up of major industrial facilities) could improvement be attributed to rising incomes of existing residents.

- Of poverty neighborhoods that remained stable (showed no improvement or decline) CDBG investments, where significant, were offset by broad social or economic trends.

- Poverty tracts that improved did so as a result of CDBG assistance; those that remained stable typically received less CDBG attention, or major investments were offset by other factors. Very few extreme-poverty tracts improved.

- Researchers examining neighborhoods, in-depth, in 16 cities concluded that almost all of the neighborhoods that remained stable or improved contained a mix of income groups, whether of long-standing or as the result of investments that encourage in-migration of moderate- and upper-income residents.

- Land use appears to matter: in quite a few instances in the census tract sample, and in several neighborhoods in the 16 cities studied intensively by field associates, either strong neighborhood commercial strips represented developmental assets, or weak commercial areas acted as a brake on neighborhood renewal.

- Block Grant-funded investments in neighborhood redevelopment have resulted in dramatic and highly-visible improvements in some cities. In all cases where improvement was registered as a result of CDBG spending, sustained investment over time appeared important, although this was not always the result of explicit city policy.

- Local political arrangements matter greatly: in several cities, executive dominance of the decisionmaking process was critical to sustaining a consistently-pursued neighborhood renewal strategy over time.

In sum, the CDBG program has made positive contributions to the capacity of cities--both governments and community institutions--to respond to community needs. The program also has played a vital role in neighborhood stabilization and revitalization in a number of U.S. cities. Very clearly, some cities could use the program to better effect if they built on the best community practice: concentrated investments, linked housing, economic development, and social services spending, and citizen participation in neighborhood planning efforts. These results cannot be mandated--sweeping program changes are not needed--but they can be encouraged through highly-targeted program incentives, supplemental funding for neighborhood-based planning, and technical assistance that focuses on substantive program strategies and institution-building.

# CHAPTER 1
# INTRODUCTION

## A New Approach Built Upon Previous Programs

Established by the Housing and Community Development Act of 1974, the Community Development Block Grant Program (CDBG) is the federal government's primary means to support local efforts in regeneration and stabilization of neighborhoods. Although the program will celebrate its 20th anniversary in 1994, and thus has established a long history by federal program standards, many of the current issues in the program can only be understood by reference to its programmatic ancestry in the War on Poverty and the Model Cities Program, and before that, in the Urban Renewal Program. This chapter introduces the CDBG program and the Urban Institute's evaluation of it. This chapter begins with a review of the policy principles that underlie the program, and their historical origin. It then examines how program policy has evolved over the last 20 years, and discusses other, complementary, program and policy developments. It concludes with a description of the chapters to follow, and notes the sources of information used in the study.

Why is development of urban neighborhoods a national issue? There are those who argue it is not, holding that changing fortunes of urban communities are part of the normal course of events, that each neighborhood reflects a dynamic of rise, decline, and regeneration that public policy is powerless to affect, or that in any case, local development is not a legitimate federal policy concern. Others argue that the decline of central city neighborhoods poses unacceptable economic and social costs: diminished economic returns on previous public investments in education and infrastructure, diminished individual opportunities because of the corrosive effects of neighborhood decay on the residents. The CDBG program's policy foundations rest on the latter belief. But these beliefs are not new to the program; they were carried forward from a previous generation of urban revitalization efforts.

In the aftermath of the Second World War, national attention returned to the deferred social agenda of the 1930s, including the concerns of the urban poor, as well as the new problems of a burgeoning population and major internal migrations. Poor quality housing and deterioration of under-utilized commercial and industrial buildings bred both public health problems and deterred urban investment. To combat these problems, the Housing Act of 1949 created the Urban Redevelopment Program,[1] which authorized federal expenditures

[1]The title was changed to the Urban Renewal Program in 1954, to reflect a new emphasis on neighborhood improvement and housing rehabilitation.

through local, quasi-independent authorities, to acquire land, clear blighted structures, and make these parcels available for private sector redevelopment. Despite successes in many American cities in spurring new capital investment, the Urban Renewal program encountered criticism that too little low-income housing was constructed to replace that demolished under the program, and that once-residential neighborhoods had been converted to commercial use.[2] In short, too little "community" and too much "development."

By the mid-1960's, social as well as physical problems in city neighborhoods attracted national policy attention, and critics of existing federal programs pointed to a host of federal aid programs that were fragmented, in conflict, and too cumbersome to allow a sustained and coordinated attack on the problems of ghetto neighborhoods. To foster better integration of physical development and human services programs, and to promote comprehensive solutions to inner city neighborhood problems, the Demonstration Cities and Metropolitan Development Act of 1966 created the Model Cities Program. Operated through units of general local government (unlike Urban Renewal), Model Cities was to offer project-based assistance from specially-appropriated funds, and through a variety of federal programs that earmarked funds for Model Cities neighborhoods or accorded these neighborhoods special preference in discretionary funding decisions.[3] In practice, the federal inter-agency coordinating mechanism, intended to ease local access to funds and resolve regulatory conflicts among programs, never worked as intended. Instead, federal departments and their congressional authorizing committees successfully resisted, for the most part, HUD efforts to encourage agencies to change application and approval requirements to favor Model Cities applicants. Further, the federal overlay of project planning, management and evaluation requirements occupied ever-larger amounts of local implementation energy as the program evolved, unrewarded by large new flows of funds.[4]

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[2]Not all studies agreed--HUD's 1971 figures showed net creation of 100,000 units--but early criticism was fueled by resident displacement coupled with extended development periods during which cleared land stood idle. One study found that the program's basic weakness was its attempt to "correct a broadly-based extremely complex social condition with a relatively narrow set of tools and policies focused on physical and economic development." (Real Estate Research Corporation, 1974)

[3] For example, $53 million in Department of Health, Education, and Welfare funds were earmarked for Model Cities in 1970. Charles M. Haar. Between the Idea and the Reality. A Study in the Origin, Fate and Legacy of the Model Cities Program. (Boston: Little, Brown and Company, 1975) p. 167.

[4] Charles M. Haar. Between the Idea and the Reality A Study in the Origin, Fate and Legacy of the Model Cities Program (Boston: Little, Brown and Company. 1975). Bernard J. Frieden and Marshall Kaplan. The Politics of Neglect (Cambridge, Massachusetts: MIT Press, 1975).

Through the remainder of the 1960s and into the early 1970s, the federal government created more "categorical" programs to meet the needs of inner city neighborhoods: open-space funding, water and sewer grants, and other programs. Like Urban Renewal, these programs typically provided funding for special purpose agencies (e.g., water and sewer authorities) for which individual grant applications to federal agencies were required, and for which separate accounting and reporting systems had to be implemented. Programs proliferated government-wide, each with its own implementation requirements. This in turn drew a backlash among local administrators and policy-makers, and fueled Nixon's New Federalism initiatives of the early 1970s.

The "categoricals" had multiplied because community development problems are multi-dimensional. Each problem taken in isolation generated an isolated response from Congressional authorizing committees. For example, substandard housing occupied by various groups of city residents (renters, owners, elderly persons) prompted eventual creation of multiple housing development programs for each group. Inadequate recreational facilities in central city neighborhoods resulted in programs to expand urban parkland. Two problems resulted from this categorical approach: ineffectiveness and inefficiency. In the first place, community efforts were driven by funding availability. If program funds were available for housing, housing got renovated; if for parks, parks were created. But if the two activities were conducted jointly, it was an accident of the funding cycle, the competitive skill of local applicants, and the uncertain correspondence of interests between a local agency funded to build housing and an agency responsible for parks. In the second place, funds were allocated regardless of need: if parks funding were available, parks were created, whether they were a local development priority or not. Further, administration of multiple small programs imposed administrative costs out of line with the total direct program funding available.

A prime candidate for reform of the intergovernmental aid stream, community development block grants were one of the first to be combined into a modified version of the Nixon Administration's proposed "special revenue sharing" grants.[5] While the fully decentralized Nixon proposal was not adopted, the Housing and Community Development Act of 1974 merged seven categorical programs--including the Urban Renewal and Model Cities programs--into the CDBG program. The program allocated funds for community development programs by a funding formula to cities and urban counties. This block grant offered an unprecedented degree of local control over allocating funds to programs and activities, offering city and county officials broad discretion to fund housing, economic development activities, social services, and infrastructure, at their option. Mayors also welcomed the Block Grant as a means to gain control over community development funds from the special-

[5] The Comprehensive Employment and Training Act (CETA) was the first of Nixon's special revenue sharing proposals. CETA was passed in 1973 and CDBG in 1974.

purpose agencies that administered the urban renewal and other federal categorical aid programs.

Departing from earlier federal attempts to support local community development though an ad hoc mix of categorical aid programs--each with presumed benefit in terms of neighborhood renewal--the federal government essentially abandoned attempts to define community development. Whatever local governing bodies defined as "community development" would constitute valid objectives for CDBG spending. Legislation did specify the "national objectives" to be pursued under the program, but these were extremely general. As amended, the CDBG program national objectives are: (a) elimination of slums and blight, (b) elimination of conditions that are detrimental to health, safety, and welfare, (c) conservation and expansion of the nation's housing stock, (d) improvement of the quantity and quality of community services, (e) more rational utilization of land, (f) reduction of the isolation of income groups, (g) restoration and preservation of historic properties, (h) alleviation of physical and economic distress, and (i) conservation of scarce energy resources. Hardly any local development priority could not meet one or more of these objectives.

**Conflicts and Tensions in CDBG**

Although creation of CDBG resolved some long-standing problems associated with categoricals, the combination of earlier programs pursuing diverse purposes introduced tensions in the program. In particular, the strong redevelopment bias of the Urban Renewal Program conflicted with the more social services and community participation bias of the Model Cities Program. Further, creation of a program that was expected to meet national objectives, but accorded local governments decisionmaking authority, produced a push-and-pull between federal and local governments that continues to the present. As a result, local decision-makers can sometimes pursue their own priorities that conflict with national priorities as interpreted by federal administrators of the Department of Housing and Urban Development (HUD). In its monitoring of local grants, the Department often finds minor, and occasionally, major instances when program activities are ineligible, despite local administrators' arguments to the contrary. Other times, national legislative priorities and objectives conflict, leading to confusion among federal and local administrators, alike. The CDBG program has changed over the years, depending on how different federal and local administrations interpreted program goals.

Even as Congress drafted the initial legislation, lawmakers differed over CDBG's priorities. The Nixon administration and the House of Representatives sought to maximize local flexibility and decisionmaking authority. The Senate sought to ensure that poor areas were the primary beneficiaries of the program. The Senate, therefore, proposed that 80 percent of the funds be directed to either low- and moderate-income persons or slums and blighted areas. The Senate-House conference compromised among these competing aims by stipulating in Section 104(b)(2) that:

- "maximum feasible priority" be given to activities which "benefit low- and moderate-income families or aid in the prevention or elimination of slums or blight"
- The Secretary of HUD may also approve an application from a locality that specifies that "other community development needs" have a particular urgency.

These three program "priorities" (subsequently labelled "National Objectives")--low- and moderate-income benefit, prevention or elimination of slums or blight, and urgent community needs--retained their co-equal status until 1981.[6]

The Senate-House conference did not resolve the tension between broad discretion to localities and mandates to principally benefit low- and moderate-income individuals and neighborhoods. Legislative ambiguity created an opportunity for the executive branch to assert leadership in establishing priorities among the conflicting goals of the CDBG program. For example, the Ford administration emphasized granting autonomy to local governments.[7] The administration did not scrutinize local programs to ascertain the extent to which benefits flowed to low- and moderate-income households and neighborhoods. Partly as a result, about the same level of benefits reached middle- and upper-income census tracts as low- and moderate-income tracts in the first few years of the program, according to a National Association of Housing and Redevelopment Officials' report.[8] As late as 1980, the Congressional Budget Office (CBO) observed that the statutory language caused confusion over whether the CDBG program was aimed at assisting poor persons or poor neighborhoods (CBO, 1980).

Early on, some cities and counties pursued broad fiscal purposes through major redevelopment of blighted areas to attract private investment, an objective consistent with the intent, and practice, of urban renewal. Grantees hoped that this redevelopment would

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[6]For reasons unique to the CDBG program, these "program priorities" became widely referred to as "national objectives" even though technically, the national objectives are those listed in the preceding section. The later, conventional use is adopted throughout this report.

[7] Michael J. Rich, Federal Policymaking and the Poor: National Goals, Local Choices and Distributional Outcomes (Princeton: Princeton University Press, 1993), Ch. 2, pp.34-51.

[8]Robert L. Ginsberg, Mary K. Nenno, and Deena R. Sosson (1976) *A Summary of the Major Findings of NAHRO's Community Development Monitoring Project* (National Association of Housing and Redevelopment Officials, Washington, D.C.). This study estimated that 51 percent of CDBG funds went to low- and moderate-income tracts, although this result was produced in part by city spending to complete urban renewal projects.

broaden, and strengthen, the community tax base. Another objective was to persuade the working and middle classes to remain in neighborhoods, confronting incipient decay by using CDBG funds to repair and rehabilitate residential or commercial property.[9] Cities and counties were not thought to be in violation of program requirements if they protected their middle class tax base with CDBG subsidies in this way.

After reviewing the program expenditures of the first few years, the Carter administration, which took office in 1977, increased HUD monitoring and oversight in order to ensure that low- and moderate-income households received most of the assistance. To prod communities toward investment in low- and moderate-income areas, HUD proposed rules that would have required grantees to spend at least 75 percent of funds for low- and moderate-income benefit activities. The House of Representatives blocked HUD from disapproving an application on this basis. In response, HUD decreed that applications for CDBG funds would be scrutinized more thoroughly if a locality did not expend 75 percent of its funds to benefit low- and moderate-income households and communities. Even though this regulation was not a firm mandate, it did result in an increased percentage of funds reaching poor households and areas.[10]

The Carter administration also was concerned about the tendency of local officials to spread benefits across their jurisdictions. Once the program was transferred to "generalist" city agencies under the control of local executives, instead of through the specialized urban renewal and model cities agencies, the targeting of community development spending to redevelopment areas weakened considerably.[11] City officials found it difficult to resist political pressure from neighborhoods across the city for a share of the program benefits and subsidies. Again, although not a firm mandate (political support for decentralization remained strong), the Carter administration encouraged cities and counties to designate Neighborhood Strategy Areas (NSAs): in essence a model cities approach without model cities requirements. These NSAs were intended to be small enough, and vital enough, for comprehensive community development investments, if strategically made, to have a realistic chance to effect neighborhood renewal. However, cities' only incentive to designate areas, apart from persuasion by local HUD officials, was a HUD policy that social services could be funded only if they were delivered inside NSAs. In addition to NSAs, the Carter Administration also expanded and refined the Section 108 Loan Guarantee Program, under

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[9] Paul E. Peterson, Barry G. Rabe, and Kenneth K. Wong, When Federalism Works (Washington DC: The Brookings Institution, 1986) pp.87-93.

[10] Rich, op cit. pp.38-40

[11] The 1976 NAHRO study found that only one-quarter of sampled communities targeted CDBG activity on 20 percent or fewer of their total tracts.

which local recipients of CDBG funds can borrow from the federal treasury, pledging, in effect their future CDBG entitlements as collateral. The program was created to allow cities to carry out long range, large scale, projects--such as major land acquisition for economic development projects--not possible with smaller annual funding allocations.[12]

The Carter approach to national program policy--encourage more low-income targeting and "strategic" interventions in neighborhoods--implied closer HUD oversight of city spending decisions. Oversight did tighten, but given the program's basic structure of local decisionmaking autonomy, increased federal involvement never had much practical effect. In any case, this attempt to influence local choices proved short-lived. If the Carter administration inched closer towards federal requirements, the Reagan administration retreated wholesale from central control. Upon assuming office in 1981, the new administration revoked the 75 percent goal for directing benefits to low- and moderate-income households and neighborhoods, and eliminated the NSA program.[13]

In 1981, Congress responded to the administration's deregulatory policy by eliminating the requirement that communities make formal application for funds, and substituting what amounted to automatic annual funding, requiring only that an entitled community submit a Final Statement of its intended spending plan. Thus after six years of the program, HUD was required to shift its scrutiny of local programs from program budgets to program expenditures. However, Congress continued to raise concerns about the low- and moderate-income performance of the program, and took several subsequent steps to ensure minimum benefit levels. Legislative amendments in 1983 established a 51 percent low- and moderate-income floor. The 1987 re-authorization of CDBG mandated that 60 percent of the benefits reach low- and moderate-income households and communities; this floor was increased once again to 70 percent in 1990. While Congress insisted upon directing the great majority of benefits to low- and moderate-income households, it did not pressure program administrators to target benefits towards selected neighborhoods; nor did Congress establish any other provision that encouraged or mandated geographic targeting. As it now stands, the CDBG program seems to have achieved its goals of both decentralizing power and aiding the poor. Over the decade of the 1980s, almost all communities in any year exceeded by a wide margin the low- and moderate-income benefit requirements established by law. And although Congress mandated that the majority of program benefits reach the poor, jurisdictions retain broad flexibility over how to do so.

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[12]In 1992, the annual ceiling for such loans was set at $225 million. The Congress raised this ceiling to $2 billion for FY 1994.

[13]Evidence is that whatever gains in funding concentration as a result of NSAs did not outlast the requirement. See Stuart S. Hershey (1983). "The CDBG Program: Shifting Directions Since 1974." *Journal of Housing*.

**Related Policy and Program Developments**

The CDBG program does not operate in isolation. Multiple programs contribute to community development, either explicitly as defined by legislative purpose, or implicitly, because they support investments (e.g., housing rehabilitation) that are constituent parts of local community development programs. The type and scale of these programs has influenced, over the years, both the resources available to support CDBG-funded investments, and local programming of CDBG funds. This section discusses major related program developments.

After the Housing Act of 1937, which established public housing, the federal government has created a variety of housing and economic development programs. Prior to CDBG, most of the programs were categorical, restricting the range of activities that could be subsidized with program funding. Initially, to accommodate the burgeoning population in our nation's cities, housing programs were supply-side in nature, adding units so that the housing stock could keep pace with population growth. Programs such as public housing, Section 221, Section 235, Section 236, and Section 202, offered loans or subsidies for new construction of units for low-income families, individuals, and elderly and handicapped households. In the mid-1970s, the federal focus began a long-term shift from supply-side housing programs to demand-side rental subsidy programs. With population and job opportunities decreasing in cities, urban families and individuals could now find housing units but were encountering difficulties paying the rent. Thus, in 1974, HUD responded by creating the Section 8 existing housing programs, which offered rental certificates to poor households to cover the difference between 30 percent of income and the monthly rent. At the same time, the Section 8 Moderate and Substantial Rehabilitation and New Construction Programs continued support for housing construction and rehabilitation.

Although HUD housing assistance moved increasingly toward rental assistance payments, investments in housing rehabilitation (and thus, indirectly, in community development) through categorical programs did not end. At various points in the 1970s and 1980s, Congress established such programs as the Rental Rehabilitation Program, the Urban Homesteading Program, and others. Various studies in the late 1970s and throughout the 1980s, showed that CDBG funds, as local-option community development resources, were often blended with these other funds, both in individual projects and in supplementary investments in project neighborhoods.

Since the end of the Urban Renewal Program had eliminated the only source of investment for major development projects, in 1977, Congress created the Urban Development Action Grant (UDAG) program to support local job creation projects. About half of UDAG program dollars awarded to urban areas supported commercial and mixed-use projects in central business districts.[14] The remainder of funds were invested in neighborhood commercial and housing projects, and in industrial facilities. Between 1978 and 1987, the program nationwide averaged about $10.5 million in total investment per project. Although in theory, CDBG dollars could be used for large commercial and industrial projects, and some communities did so use them, in practice, CDBG funds tended to be used to support on-going housing and public facilities programs, and investments in smaller projects built to neighborhood scale. Even so, CDBG funds supplemented UDAG investments in commercial, industrial, and neighborhood development projects, and income from the repayment of UDAG loans was used to support CDBG-funded activities.

Funding for both the UDAG program and federal housing rehabilitation programs either ended or declined substantially in the 1980s. However, over the decade, state funding for housing, community, and economic development increased, primarily through mortgage revenue bond authority for industrial and housing investment, and less frequently through direct grants to projects. Local governments also expanded their non-federally assisted activity during the 1980s through wider use of tax-exempt bonds, public-private partnerships, and low-income housing trust funds. In addition, federal tax reform in 1986, although substantially reducing the economic attractiveness of housing investment, generally, created a low-income tax credit program for low-income housing. Further, the federal McKinney Act created new funding streams for local homeless shelter projects, as homelessness became a disturbing part of the social landscape. Once again, local investments of flexible CDBG funds supplemented investment from these other sources.

In the early 1990s, the programmatic landscape once again changed, in three major ways. First, the 1990 National Affordable Housing Act created the HOME Investment Partnerships Program--a housing block grant to be spent at local option for affordable housing projects and programs. Funds allocated for the first program year, 1992, approximately equalled the estimated total funding allocated to housing from state and local CDBG program resources. Because housing spending is such a prominent feature of the CDBG program, analysts anticipated that at least some communities would substantially redirect block grant dollars as a result of HOME funds receipt. Second, Congress created the Empowerment Zones/Enterprise Communities program to encourage economic development in low-income neighborhoods. To encourage strategic investment in targeted neighborhoods, the program offers tax breaks for business investment, and in Empowerment Zones,

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[14] Between 1978 and 1987, 69 percent of UDAG funds awarded to metropolitan area governments supported commercial or mixed-use (housing and commercial) projects: in turn, 70 percent of these funds supported downtown projects. Calculations based on Consolidated Annual Report to Congress on Community Development Programs (Washington, D.C.: U.S. Department of Housing and Urban Development, Office of Community Planning and Development, 1988, (p. 57- 58) and 1986, (p.85)).

substantial new inflows of social services dollars, to be blended with other local resources for community renewal. Practically speaking, CDBG and HOME funds are now the only federal discretionary physical development resources locally available to support the new program.

Finally, a number of national and local foundations have initiated a new generation of community revitalization efforts. These have in common the goals of comprehensiveness, participation, and strategic investment in poverty neighborhoods. These initiatives typically are led by neighborhood-based community development corporations, which have received extensive support from national and local foundations since the mid-1980s, and which also are prominent actors in delivery of CDBG-funded community development programs. These initiatives typically involve an extensive process of resident participation in neighborhood priority-setting, collaborative arrangements among public and private sector agencies to coordinate neighborhood investments, and strategic planning for neighborhood change, complete with targets for improvement in neighborhood physical and social indicators. Although the reach of these initiatives extends across city agencies, and to programs supported by local general funds as well as federal aid, once again, CDBG dollars are likely to play a large financial role in these efforts.

Throughout the changing programmatic environment, CDBG has remained the only predictable, and flexible, source of support for local community development. Locally, these funds perform a dual role: they are primary sources of ongoing housing program support in most communities (primarily rehab); and they are the chief source of "opportunity" funds to meet either project match requirements from other programs or emerging developmental needs. Part of the price of this flexibility, as noted by earlier reports on the program, is incredible local stress on CDBG program resources. As programs appear and disappear, CDBG funds often are the only source of match or replacement dollars--a pressure toward programmatic fragmentation. As need in central city neighborhoods broadens, and deepens, more neighborhoods stake legitimate claims on program funds--a pressure toward geographic dispersal.

**Research Questions - What We Know and Need to Find Out**

This report summarizes the most comprehensive assessment of CDBG in over a decade. The last series of national-level reports was the Brookings Institution studies for HUD completed in 1983. The Brookings reports indicated that after the first few years, the CDBG program became institutionalized.[15] In other words, mayors, city executive agencies,

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[15] Brookings Institution, Implementing Community Development: A Study of the Community Development Block Grant Program, prepared for the Department of Housing and Urban Development, Contract H-2323R.

legislatures and citizen groups had established their relative levels of influence over decision-making. As a result, spending patterns, programs, and strategies had become stable.

In the decade since the Brookings study, economic and political changes have profoundly altered the fiscal and socioeconomic conditions of our nation's cities and metropolitan areas. During the 1980s many cities have experienced population loss, increasing poverty levels and concentration of poverty, and a dramatic surge in homelessness.[16] Some suburban counties prospered economically, benefiting from the migration of middle-income residents from the cities. Other counties, in contrast, shared the economic distress of central cities. As cities and counties experienced dramatic economic and demographic changes, federal funding levels for CDBG declined during most of the 1980s and other programs (e.g., Section 8 Moderate Rehabilitation, UDAG) have disappeared altogether. Finally, new initiatives in recent years may influence, yet again, the direction of local CDBG spending.

This report represents the first major effort in over a decade to describe how CDBG funds are used in U.S. cities, and to examine selected dimensions of the program's performance. In addition to examining local programs, priorities, benefits and decision-making, this report will detail the impact of CDBG funding on individuals and neighborhoods. After nearly two decades of operation and $53 billion in federal expenditures, has the program made a difference?

To begin giving an answer, Chapter 2 provides descriptive background on the 757 cities and 125 urban counties receiving "entitlement" or formula-allocated CDBG funding. It documents the average funding levels received by the different types of communities including central cities, urban counties, and suburban cities. A jurisdictional comparison of poverty and distress levels is also presented. Finally, the chapter assesses CDBG's contribution to the fiscal health and economic development of entitlement communities. This is important, since, as a federal program averaging $2 billion annually in allocated funds, CDBG represents 20 percent of total federal assistance for a typical city over 50,000 in population.

Every year, HUD publishes a report on the CDBG program. Each report contains data on CDBG dollar allocations, nationally, to housing, economic development, public services, and other program activities. However, little is known about the characteristics of these programs; all are designed locally, with few federal standards to guide this process. Which

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[16] For a discussion of the growth in homelessness over the 1980s, see Martha R. Burt, Over The Edge The Growth of Homelessness in the 1980s (New York: The Russel Sage Foundation with The Urban Institute Press, Washington D.C., 1992), pp. 129-140.

agencies are responsible for allocating funds? What is the role of nonprofit organizations in program delivery? What types of housing, businesses, and services, are supported with CDBG program investments? Chapter 3 answers these questions.

The earlier Brookings reports concluded that local programs had become institutionalized, giving as the reason that local roles in decisionmaking had become clearly defined. And indeed, HUD's annual reports on the program show that national aggregate dollar allocations among program activities--housing, economic development, and other activities--change little from year to year. Yet local flexibility should result in very different program priorities across communities, and programs that respond to changes in these priorities. Chapter 4 examines the patterns of program spending at the sub-national level, and ties these patterns to community characteristics. It also examines year-to-year variation in program spending and examines the reasons for these changes. Further, CDBG, by programmatic ancestry, is a spatial development program and early program debates focused on the degree to which CDBG funding should be targeted in a comprehensive effort to restore selected areas. The Brookings reports detected a powerful trend toward "spreading" of CDBG dollars across urban neighborhoods. Chapter 4, therefore, also examines whether, and to what extent, CDBG funds are spent in particular neighborhoods, and what types of neighborhoods these are.

As noted earlier in this introduction, the CDBG program from the beginning was marked by conflict over the relative national priority accorded to low- and moderate-income persons. At several points over the last decade or so, the Congress has established low- and moderate-income benefit thresholds on the belief that national requirements are needed to ensure that those in need benefit from the program. Chapter 5 discusses the program's performance in this regard, in terms of the income levels of individuals, households, and neighborhoods where spending takes place. It also examines the distribution of benefits by racial and ethnic group.

Since the program represents a significant source of federal assistance, mayors and executive agencies are likely to rigorously guard their decision-making powers over CDBG-funded activities. In the early years of the program, mayors and executive agencies dominated the decision-making process in most cities, according to the Brookings studies. The studies also detected an increasing role played by legislative actors and citizen groups. One study finds that in cities with ward-based or district-based legislatures, city council members have successfully fought for a share of benefits to all eligible neighborhoods, and all low-income persons throughout the city.[17] As a result, benefits tend to be spread citywide rather than concentrated in a few neighborhoods.

Even though the CDBG program requires local jurisdictions to develop "citizen participation plans", observers note that citizen influence over decisions has been minimal in the majority of cases. In some localities, however, neighborhood civic associations or ethnically based organizations have won increased benefits for their communities. As a result, CDBG spending in those localities has become more targeted to selected neighborhoods. Chapter 6 examines various aspects of local decisionmaking. What programmatic patterns are explained by differences in relative influence? Are community decisions about community development investment "strategic" in any meaningful sense? Are local programs managed in ways that contribute to informed decision-making?

Chapter 7 focuses on the most important question: What has the impact of the program been? Previously published studies and government reports have not attempted to answer this question, and indeed, a host of conceptual and methodological difficulties plague attempts to do so. This study does not attempt to isolate the impact of CDBG-funded activities, nor does it rely heavily on quantitative data on neighborhood change and public sector investments. However, it does make use of a nationally representative sample of census tracts, and a purposive sample of target areas in 16 U.S. cities, to make informed judgements about where the program made some difference, and why.

**Research Methods**

To inform the various analyses described in the preceding section, this research drew on a number of data sources. In addition to reliance on previous research on the program, particularly the Brookings Institution studies of the late 1970s and early 1980s, this study relied on a number of previously-existing or newly-collected data sources:

1. HUD's automated budget and spending data for a longitudinal sample of 220 CDBG entitlement cities. Budget data (through 1992) are drawn from Final Statements of Projected Use of funds that cities submit to HUD prior to each program year. Spending data (through 1989) are drawn from Grantee Performance Reports that detail each year's outlays. These data are supplemented by U.S. census and other federal data on neighborhood and community characteristics. These data are the primary source of information used to examine program expenditure patterns in Chapter 4 and benefit levels in Chapter 5.

[17] Rich, op cit.

2. A mail census of CDBG program administrators to collect information on local program decisionmaking and management issues. These data are analyzed at various points throughout this report, but are heavily used to support the discussion of program management issues in Chapter 6.

3. Mail surveys with a nationally representative sample of 400 public services and 400 "subrecipient" program managers, to obtain information on program characteristics, management, and program clientele. (Subrecipients are "delegate" agencies to local "lead" agencies; see discussion in Chapter 3.)

4. Telephone surveys with a nationally representative sample of 400 recipients of CDBG-funded business assistance (referred to as the "business assistance" survey in this report), and staff of the public agencies that extended this assistance. Results of this survey are discussed in Chapter 3, primarily.

5. On-site interviews and quantitative data collection for a nationally representative sample of 250 housing activities and CDBG-funded neighborhoods (census tracts). These data are used to describe local programs in Chapter 3, and support insights on local program effects in neighborhoods where spending takes place (Chapter 7).

6. Field research in a national sample 61 entitlement cities, including interviews with local program managers, political leaders, executives of neighborhood organizations, and other informed observers, and quantitative data collection on program characteristics and expenditures. These data are used to examine local decisionmaking and program management (Chapter 6) and explore the potential contribution of the program to neighborhood change (Chapter 7).

7. Special reports from local urban scholars ("Field Associates") on target neighborhoods in 16 U.S. cities. These reports inform discussion of the impacts of the CDBG program, and are used to explore the limits and potential of public sector intervention in urban neighborhoods, discussed in Chapter 7.

A more detailed discussion of information sources precedes data analysis in the appropriate chapters. A Methodogical Appendix that fully describes the conduct of this research, and the information sources used, accompanies this report.

## CHAPTER 2
## CDBG FUNDING HISTORY
## AND CHARACTERISTICS OF RECIPIENT COMMUNITIES

The myth persists that government programs grow larger but never smaller, but in fact the Community Development Block Grant program (CDBG) has experienced significant periods of both expansion and contraction during its 20-year history. CDBG grew quickly in the several years following its creation in 1974 before enduring a reversal of fortune in the mid-1980s when program funding declined. Then, in the early 1990s, program funding began to rise again. While current CDBG expenditures are only one-half of their earlier levels after adjusting for inflation, CDBG still accounts for the largest single portion of the federal government's spending for community development. At the same time, CDBG funds make up only a small share of the total revenues from all sources received by local governments, and funding levels have not kept pace with increasing poverty rates and poverty concentrations. The purpose of this chapter is to examine the funding history of CDBG in some detail; to describe how CDBG funds are allocated to communities (entitlement cities and urban counties); and to discuss the importance of federal CDBG support in the budgets of local governments, and in relation to community development need.

### Funding History

As indicated above, federal spending on CDBG rose in the early years of the program in the late 1970s, before declining through much of the 1980s and climbing again in the early 1990s. As shown in more detail in Table 2.1, CDBG's initial appropriation of $2.6 billion in FY 1975 increased to $3.8 billion in FY 1980 before falling to a low of $2.9 billion in FY 1988.[1] By FY 1992, CDBG's appropriation had increased back to $3.4 billion. In nominal dollar terms, FY 1992 CDBG appropriations were more than one-third higher than the initial FY 1975 level. After adjusting for inflation, however, FY 1992 CDBG appropriations were almost 50 percent below FY 1975 levels.

"Appropriations" are the amounts Congress and the President set aside for program spending. "Outlays" are the amounts actually disbursed by the U.S. Treasury. As in many other programs, not all monies appropriated to CDBG are actually spent (i.e., outlayed) by the federal government in the same year they are appropriated and allocated to entitlement communities. As Table 2.1 indicates, CDBG outlays increased to a high of $4.0 billion in FY 1981 before falling to a low of $2.8 billion in FY 1990. In inflation-adjusted terms, program

[1] In FY 1983, CDBG received a total appropriation of $4.45 billion but this included a one-time increase of $1 billion in response to the recession of 1981-82.

outlays declined by 55 percent from their high to low point. As shown in Table 2.2, the lag between appropriations and outlays was greatest at the start of the CDBG program but has declined since. By FY 1992, cumulative program outlays were almost 90 percent of cumulative appropriations. The shortened time lag is attributable to community experience with the program. As program implementation progressed, recipient communities spent their funds more quickly.

**TABLE 2.1**
**Annual CDBG Appropriations and Outlays, FY 1975-1992**
**Current and Constant Dollars**
**(dollars in millions)**

| | Current Dollars | | Constant FY 1987 Dollars | |
|---|---|---|---|---|
| Fiscal Year | Appropriations | Outlays | Appropriations | Outlays |
| 1975 | 2,550 | 38 | 5,359 | 80 |
| 1976 | 2,802 | 983 | 5,468 | 1,918 |
| 1977 | 3,248 | 2,089 | 5,865 | 3,772 |
| 1978 | 3,600 | 2,464 | 6,043 | 4,136 |
| 1979 | 3,750 | 3,161 | 5,792 | 4,883 |
| 1980 | 3,752 | 3,902 | 5,316 | 5,528 |
| 1981 | 3,695 | 4,042 | 4,751 | 5,198 |
| 1982 | 3,456 | 3,792 | 4,136 | 4,539 |
| 1983 | 4,456 | 3,554 | 5,121 | 4,084 |
| 1984 | 3,468 | 3,819 | 3,817 | 4,204 |
| 1985 | 3,472 | 3,817 | 3,681 | 4,047 |
| 1986 | 2,990 | 3,326 | 3,079 | 3,425 |
| 1987 | 3,000 | 2,967 | 3,000 | 2,967 |
| 1988 | 2,880 | 3,050 | 2,779 | 2,943 |
| 1989 | 3,000 | 2,948 | 2,770 | 2,722 |
| 1990 | 2,915 | 2,818 | 2,581 | 2,495 |
| 1991 | 3,207 | 2,976 | 2,725 | 2,528 |
| 1992 | 3,419 | 3,090 | 2,819 | 2,548 |

Source: Department of Housing and Urban Development, Office of Budget, "Annotated Tables for the 1994 Budget Process" mimeographed.

**TABLE 2.2**
**Cumulative CDBG Appropriations and Outlays, FY 1975-1992**
**(dollars in millions)**

| Fiscal Year | Cumulative Appropriations | Cumulative Outlays | Cumulative Outlays as a Percentage of Cumulative Appropriations |
|---|---|---|---|
| 1975 | $2,550 | $38 | 1.5 % |
| 1976 | $5,352 | $1,021 | 19.1 |
| 1977 | $8,600 | $3,110 | 36.2 |
| 1978 | $12,200 | $5,574 | 45.7 |
| 1979 | $15,950 | $8,735 | 54.8 |
| 1980 | $19,702 | $12,637 | 64.1 |
| 1981 | $23,397 | $16,679 | 71.3 |
| 1982 | $26,853 | $20,471 | 76.2 |
| 1983 | $31,309 | $24,025 | 76.7 |
| 1984 | $34,777 | $27,844 | 80.1 |
| 1985 | $38,249 | $31,661 | 82.8 |
| 1986 | $41,239 | $34,987 | 84.8 |
| 1987 | $44,239 | $37,954 | 85.8 |
| 1988 | $47,119 | $41,004 | 87.0 |
| 1989 | $50,119 | $43,952 | 87.7 |
| 1990 | $53,034 | $46,770 | 88.2 |
| 1991 | $56,242 | $49,746 | 88.5 |
| 1992 | $59,661 | $52,836 | 88.6 |

Source: Department of Housing and Urban Development, Office of Budget, "Annotated Tables for the 1994 Budget Process," mimeographed

The changes in fortune of CDBG over its history mirror changes in presidential administration. CDBG appropriations grew by an annual rate of 11.4 percent in FY 1975-77 during the Ford administration; increased by 3.3 percent per year in FY 1977-81 during the Carter presidency; fell by 2.6 percent per year in FY 1981-89 in the Reagan years; and rose by 4.5 percent annually during the Bush presidency (Table 2.3). Over the entire 17 years, FY 1975-92, CDBG appropriations grew by an average of 1.7 percent annually as measured in current dollars, but fell by 3.7 percent per year in inflation-adjusted, constant dollar terms.

**TABLE 2.3**
**Average Annual Growth Rate of CDBG Appropriations and Outlays by Presidential Administration**
**Current and Constant Dollars**

| | Current Dollars | | Constant FY 1987 Dollars | |
|---|---|---|---|---|
| Fiscal Year | Appropriations | Outlays | Appropriations | Outlays |
| 1975-77 | 11.4 % | 493.5 % | 4.1 % | 454.8 % |
| 1977-81 | 3.3 | 17.9 | -5.1 | 8.3 |
| 1981-89 | -2.6 | -3.9 | -6.5 | -7.8 |
| 1989-92 | 4.5 | 1.6 | 0.6 | -2.2 |
| 1975-92 | 1.7 | 29.0 | -3.7 | 22.2 |

Source: Department of Housing and Urban Development, Office of Budget, "Annotated Tables for the 1994 Budget Process," mimeographed.

In its early years, as shown in Table 2.4, CDBG outlays represented approximately one-third of total HUD spending. However, since the late 1970s, CDBG has shrunk relative to other HUD programs, so that by FY 1992 CDBG accounted for only 13 percent of overall HUD expenditures. During the same period, Section 8 and other housing-related income support programs expanded as a portion of HUD's total budget.

Although never more than a tiny share of the overall federal budget, CDBG is the largest federal program in the area of community and regional development.[2] In FY 1992, CDBG made up more than 90 percent of HUD's community and regional development outlays and more than two-thirds of all federal community and regional development spending (Table 2.4).

At its peak in the early 1980s, CDBG comprised 4.3 percent of total federal grant outlays, as indicated in Table 2.4. Included in the federal grant outlays are federal expenditures that constitute income to state and local governments to help finance their services and their income transfers (i.e., payments for individuals) to the public. During the 1980s federal grant outlays for health increased sharply, and by FY 1992 CDBG comprised only 1.7 percent of total federal grant outlays. After excluding the portion of federal grants classified as "payments to individuals"--which includes Medicaid, family support payments (AFDC), and housing assistance--CDBG made up 4.5 percent of the remaining grant outlays

[2] "Community and regional development" is one of 18 broad functional areas into which the federal budget is divided. In the budget, community and regional development is referred to as function 450. In addition to CDBG, function 450 also includes disaster relief provided through the Federal Emergency Management Agency (FEMA), Bureau of Indian Affairs programs, Department of Agriculture rural development activities, Department of Commerce economic development assistance, and other related programs.

for capital investment and other purposes in FY 1992. In sum, while CDBG remains a key component of federal community and regional development efforts, other HUD and federal grant programs have grown much more rapidly than CDBG over the last decade or more. If the share of the federal budget devoted to CDBG and other community and regional development programs is taken as an indicator of the national priority accorded to community development, this priority has declined over the last decade.

**TABLE 2.4**
**CDBG Outlays as a Percentage of HUD, Federal Community Development, and Total Federal Outlays, FY 1975-1992**

| | CDBG Outlays as a Percentage of: | | | |
|---|---|---|---|---|
| Fiscal Year | Total HUD Outlays | Total Community and Regional Development Outlays | Total Federal Grant Outlays | Federal Grant Outlays Excluding Payments to Individuals |
| 1975 | 0.5 % | 1.3 % | 0.1 % | 0.1 % |
| 1976 | 14.0 | 28.5 | 1.7 | 2.5 |
| 1977 | 36.0 | 46.5 | 3.1 | 4.6 |
| 1978 | 32.2 | 34.8 | 3.2 | 4.6 |
| 1979 | 34.3 | 47.6 | 3.8 | 5.7 |
| 1980 | 30.6 | 60.2 | 4.3 | 6.6 |
| 1981 | 27.2 | 66.0 | 4.3 | 7.1 |
| 1982 | 24.9 | 70.5 | 4.3 | 7.7 |
| 1983 | 22.5 | 71.6 | 3.8 | 7.1 |
| 1984 | 22.9 | 74.1 | 3.9 | 7.3 |
| 1985 | 13.3 | 73.1 | 3.6 | 6.7 |
| 1986 | 23.5 | 68.4 | 3.0 | 5.7 |
| 1987 | 19.2 | 70.1 | 2.7 | 5.8 |
| 1988 | 16.1 | 71.5 | 2.6 | 5.7 |
| 1989 | 15.0 | 72.4 | 2.4 | 5.3 |
| 1990 | 14.0 | 56.8 | 2.1 | 4.7 |
| 1991 | 13.1 | 69.6 | 1.9 | 4.7 |
| 1992 | 12.6 | 68.1 | 1.7 | 4.5 |

Source: See Table 2.1 and U.S. Office of Management and Budget, Budget of the United States Government: Historical Tables, Fiscal Year 1995 (Washington, DC: Government Printing Office, 1994).

**Allocation of Funding**

How are CDBG funds distributed among communities? This section describes the distribution method and explains the meaning of some terminology used in the remainder of this report.

**Types of Entitlement Communities.** After setting aside a relatively small portion of CDBG funds for Indian and other small programs, 70 percent of the remaining CDBG funds flow to "**entitlement**" jurisdictions and 30 percent to "**nonentitlement**" areas.[3] Entitlement communities include "**central cities**" of metropolitan statistical areas; "**suburban cities**," which are other cities with populations of at least 50,000; and qualified "**urban counties**," which have populations of at least 200,000 excluding the population of entitled cities. Nonentitlement areas are areas other than central cities, suburban cities, and urban counties. Entitlement communities receive CDBG funds automatically; nonentitlement jurisdictions must apply for aid through CDBG's State and Small Cities program, a block grant to State governments.[4]

This report concerns only CDBG-supported activities in entitlement central cities and suburban cities. Table 2.5 shows the number of entitlement communities (including urban counties) and the allocations they received over the period FY 1975-92.

As indicated in Table 2.6, in FY 1992 central cities constituted more than half, 514 out of 888 (58 percent), of entitlement communities and received 72 percent of FY 1992 CDBG funds. Urban counties were 15 percent of entitlement communities and received 20 percent of CDBG funds. Suburban cities made up the remaining 26 percent of sites but received only 8 percent of funds.

More entitlement communities were in the South (29 percent) than in either the West (24 percent), Midwest (23 percent), or Northeast (23 percent). Entitlement central cities were located most often in the South and Midwest, while entitlement suburban cities were in the West and Northeast, and urban counties were in the South.

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[3] For example, FY 1994 these set-asides totalled $109 million, or 2.5 percent of the $4.4 billion appropriated for Community Development Grants. Set-asides included $44 million for Indian tribes, $45 million for "special purpose grants," $15 million for an early childhood development program, and $5 million for the neighborhood development program. See: Budget of the United States Government, Appendix. Fiscal Year 1995.(Washington, D.C.: United States Government Printing Office, 1994).

[4] As of Fiscal Year 1995, the Department of Housing and Urban Development directly administers the non-entitlement portion of the program for the states of New York and Hawaii.

**TABLE 2.5**
**Number of CDBG Entitlement Communities, and Annual Allocations, FY 1975-1992**

| Fiscal Year | Number of Eligible Entitlement Communities | Entitlement Allocation (millions) |
|---|---|---|
| 1975 | 594 | 2,219 |
| 1976 | 593 | 2,353 |
| 1977 | 597 | 2,663 |
| 1978 | 559 | 2,794 |
| 1979 | 646 | 2,752 |
| 1980 | 663 | 2,175 |
| 1981 | 669 | 2,667 |
| 1982 | 732 | 2,380 |
| 1983 | 735 | 2,380 |
| 1984 | 795 | 2,380 |
| 1985 | 814 | 2,388 |
| 1986 | 827 | 2,053 |
| 1987 | 827 | 2,059 |
| 1988 | 857 | 1,973 |
| 1989 | 858 | 2,053 |
| 1990 | 866 | 1,972 |
| 1991 | 882 | 2,203 |
| 1992 | 889 | 2,341 |

Source: U.S. Department of Housing and Urban Development, Annual Report to Congress on the Community Development Block Grant Program: 1992 (March 1992); U.S. Department of Housing and Urban Development, Community Development Block Grant Program: Directory of Allocations for Fiscal Years 1985-1992; U.S Department of Housing and Urban Development, Second Annual Community Development Block Grant Report (December 1976), Third Annual Community Development Block Grant Report (March 1978), Fourth Annual Community Development Block Grant Report (September 1979).

Urban counties were, on average, the largest type of entitlement community, with a mean 1990 population of 404,000. Central cities were about one-third as large and suburban cities about one-fifth as large on average.

**Formulas and Measures of Community Distress.** Central cities receive a larger share of CDBG funds in part because the formulas for allocating CDBG funds target needy communities, and central cities are the most distressed jurisdictions. The size of the grants that communities receive under CDBG is determined by the use of two formulas, referred to as "**formula A**" and "**formula B**." The dual formula approach was adopted in 1977 to direct a disproportionate share of CDBG funds to older, declining communities of the northeast and midwest. The original formula, formula A, was giving a larger share to the less-needy and growing cities of the south and west. As adopted in 1974, formula A weights poverty at 50 percent, population at 25 percent, and overcrowded housing at 25 percent.[5] Formula B, added in 1977, weights the percentage of housing units built before 1940 at 50 percent, poverty at 30 percent, and population growth lag at 20 percent. Recipient communities receive funds through whichever formula yields them the higher allocation.[6]

**TABLE 2.6**
**Population, Region, and CDBG Funding of Entitlement Communities by Jurisdiction Type, FY 1992**

| | Central Cities | Suburban Cities | Urban Counties | Total[a] |
|---|---|---|---|---|
| Number | 514 | 230 | 131 | 875 |
| (Percent) | (58%) | (26%) | (15%) | (100%) |
| Total FY 1992 CDBG Allocation | $1,634.9 m | $190.9 m | $454.1 m | $2,279.9 m |
| (percent) | (72%) | (8%) | (20%) | (100%) |
| Mean 1990 Population | 152,000 | 75,000 | 404,000 | 170,000 |
| Region | | | | |
| Northeast | 100 | 68 | 33 | 201 |
| South | 186 | 29 | 41 | 256 |
| Midwest | 134 | 44 | 27 | 205 |
| West | 94 | 89 | 30 | 213 |

Source: CDBG Evaluation Database.
See Methodological Appendix.
a. Excludes 13 communities for which data were unavailable.

In FY 1992, 57 percent of entitlement jurisdictions used formula A, and 42 percent used formula B (Table 2.7). However, while formula A recipients were larger in number, formula B communities received a larger percentage, 59 percent versus 41 percent, of FY 1992 program dollars. As shown in table 2.7, formula A jurisdictions were primarily in the South and West where poverty rates were higher; formula B jurisdictions were in the Northeast and Midwest where the housing stock was older and population growth lagged.

[5]Growth lag is the number of persons in excess of the current population if the population growth rate had matched that of all U.S. metropolitan areas.

[6]For a discussion of the adoption of the dual formula approach, see Michael J. Rich, Federal Policymaking and the Poor: National Goals, Local Choices, and Distributional Outcomes (Princeton: Princeton University Press, 1993), pp. 59-103.

**TABLE 2.7**
**Region and CDBG Funding of Entitlement Communities, by Formula Type, FY 1992**

| | Formula Type | |
|---|---|---|
| | A | B |
| Number | 502 | 373 |
| (Percent) | (57%) | (42%) |
| Total FY 1992 | | |
| CDBG Allocation | $935.0 m | $1344.9 m |
| (percent) | (41%) | (59%) |
| Region | | |
| Northeast | 29 | 172 |
| South | 205 | 51 |
| Midwest | 78 | 127 |
| West | 190 | 23 |

Source: CDBG Evaluation Database.
See Methodological Appendix.

Formula A and formula B use somewhat different indicators of need in targeting CDBG funds. As is evident in their respective weighting schemes, formula A gives the most emphasis to poverty, and formula B gives the greatest importance to age of housing. Various other measures of community need or "distress" have also been developed. An important 1979 HUD study, City Need and Community Development Funding, for example, devised a measure of community need that grouped 18 variables into three "factors" related to poverty, decline, and density. The study's summary distress indicator weighted the poverty factor at 40 percent, the age of housing and economic decline factor at 35 percent, and the density factor at 25 percent.[7] Recently HUD updated and revised the earlier study and computed 1990 distress scores for CDBG entitlement cities.[8] Using the 1990 distress scores, cities were divided into five equal categories, or quintiles, with distress quintile 1 containing the least distressed one-fifth of cities and distress quintile 5 containing the most distressed one-fifth of cities.

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[7]Harold L. Bunce and Robert L. Goldberg, City Need and Community Development Funding, U.S. Department of Housing and Urban Development, Office of Policy Development and Research, January 1979.

[8]See discussion of CDBG 1990 distress scores and their derivation in appendix.

As intended, distressed cities receive a larger amount of CDBG funds. As shown in Table 2.8, in FY 1992, the most distressed 20 percent of central and suburban cities (i.e., in 1990 distress quintile 5) received 50 percent of CDBG funds, while the 20 percent of cities that were least distressed (i.e., in 1990 distress quintile 1) received 5 percent of CDBG funds. Urban counties were not included in this analysis of distressed areas.[9]

Central cities were more distressed than suburban cities (Table 2.8). Moreover, cities in the Northeast had the highest distress levels, followed by cities in the South, Midwest, and West. Cities using formula B as a basis for their CDBG allocation were more distressed than cities using formula A. Finally, cities in the most distressed quintile were on average more than twice as large, as measured by their 1990 population, as cities in the least distressed quintile (Table 2.8).

**Population.** From a somewhat different perspective, Table 2.9 shows the concentration of federal CDBG support on the largest cities, namely the 13 places with populations greater than 1 million people. These cities, which were only 2 percent of entitlement communities, received more than 25 percent of CDBG funds in FY 1992. In contrast, communities with populations of less than 100,000 made up 62 percent of entitlement communities but received only 21 percent of CDBG funds.

**Recency of Entry.** Communities become eligible for entitlement grants when they meet the criteria given above; that is, when they become a central city of a metropolitan area, a suburban city of 50,000 or more population, or an urban county which has a population of 200,000 or more. Once eligible, cities and counties can retain their entitlement status even if they experience population declines that put them below the qualifying criteria. From FY 1986 through FY 1992, an average of 11 communities became newly entitled each year. By FY 1992, 61 communities had become entitled in FY 1987-92, 151 had become entitled in FY 1982-86, and 69 had become newly entitled in the first six years of the program. More than 90 percent of FY 1992 CDBG funds were allocated to the original 594 communities (those added in the earliest period, FY 1975-81). More recent entries tended to be less-distressed, suburban cities, with smaller 1990 populations, and located in the Western region.

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[9] Earlier studies, including those conducted by HUD, found a larger share of funds allocated to communities in the least distressed quintile because they included all entitlement communities, not just cities.

**TABLE 2.8**
**Jurisdiction Type, Formula Type and Region of Entitlement Cities by 1990 Distress Quintile, FY 1992**

| | Number of Communities Distress Quintile | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | least distressed | | | | | | | | most distressed | | | |
| | 1 | | 2 | | 3 | | 4 | | 5 | | TOTAL | |
| Jurisdiction Type | | | | | | | | | | | | |
| Central City | 47 | (10%) | 89 | (19%) | 110 | (23%) | 117 | (25%) | 110 | (23%) | 473 | (100%) |
| Suburban City | 79 | (49%) | 39 | (24%) | 17 | (11%) | 10 | (6%) | 16 | (10%) | 161 | (100%) |
| Formula Type | | | | | | | | | | | | |
| A | 106 | (31%) | 80 | (23%) | 76 | (22%) | 54 | (16%) | 26 | (8%) | 342 | (100%) |
| B | 20 | (7%) | 48 | (16%) | 51 | (18%) | 73 | (25%) | 100 | (34%) | 292 | (100%) |
| Total FY 1992 | | $91.3 m | | $190.6 m | | $249.2 m | | $351.1 m | | $881.1 m | | $1,763.3 m |
| CDBG Allocation | | (5%) | | (11%) | | (14%) | | (20%) | | (50%) | | (100%) |
| Region | | | | | | | | | | | | |
| Northeast | 8 | (7%) | 20 | (18%) | 16 | (14%) | 25 | (22%) | 44 | (39%) | 113 | (100%) |
| South | 25 | (13%) | 24 | (13%) | 48 | (26%) | 55 | (29%) | 35 | (19%) | 187 | (100%) |
| Midwest | 30 | (18%) | 35 | (21%) | 37 | (23%) | 26 | (16%) | 36 | (22%) | 164 | (100%) |
| West | 63 | (37%) | 49 | (29%) | 26 | (15%) | 21 | (12%) | 11 | (7%) | 170 | (100%) |
| Mean 1990 Population | 94,000 | | 127,000 | | 123,000 | | 143,000 | | 223,000 | | 128,000 | |

Source: CDBG Evaluation Database.
Note: Table excludes Urban Counties

**TABLE 2.9**
**CDBG Allocations to Entitlement Communities, by Population Size, FY 1992**

| Population | Number of Communities | Mean FY 1992 CDBG Allocation | Total FY 1992 CDBG Allocation to Category |
|---|---|---|---|
| 1,000,000+ | 13<br>(2%) | $45.1 m | $586.1 m<br>(26%) |
| 500,000 - 999,999 | 40<br>(5%) | $9.0 m | $361.1 m<br>(16%) |
| 250,000 - 499,999 | 101<br>(12%) | $4.6 m | $469.5 m<br>(21%) |
| 100,000 - 249,999 | 175<br>(20%) | $2.2 m | $376.7 m<br>(17%) |
| 0 - 99,999 | 543<br>(62%) | $0.9 m | $485.6 m<br>(21%) |

Source: CDBG Evaluation Database.

**Exception Communities.** Communities may use CDBG funds to support activities that meet any one of three national objectives: benefiting low- and moderate-income persons; preventing or eliminating slums or blight; or addressing other urgent community needs. In turn, activities that qualify under the first objective as benefiting low- and moderate-income persons may fall into any one of four categories: (1) "area benefit activities," which benefit all residents in a particular area where at least 51 percent of the residents are low- and moderate-income persons; (2) "limited clientele activities," of whom at least 51 percent must be low- or moderate-income persons or part of a "presumed benefit" group--e.g., the elderly; (3) "housing activities," which provide or improve permanent residential structures that will be occupied by low- and moderate-income households; or (4) "job creation or retention activities," which create or retain jobs such that at least 51 percent of the jobs involve the employment of low- and moderate-income persons.

In trying to fund qualified "area benefit activities," some more affluent entitlement communities may be hard-pressed to find neighborhoods where at least 51 percent of the residents are low- and moderate-income persons. For such places, CDBG regulations describe a detailed procedure that begins with the ranking of census block groups in a community, from the block group of highest proportion of low- and moderate-income persons to the block group with the lowest proportion. The proportion of low- and moderate-income persons in the last census block in the highest--or poorest--quartile is then identified.

Program regulations allow for service areas that have a proportion of low- and moderate-income persons at or above this level to count as qualified areas for CDBG spending. "**Exception communities**" are communities in which the lowest census block in the poorest quartile contains less than 51 percent low- and moderate-income persons. Exception communities are thereby permitted to fund activities that are somewhat less targeted on low- and moderate-income persons than are the CDBG-supported activities in nonexception communities.

In FY 1992, more than one-third of communities were exception communities, including 70 percent of suburban cities and 84 percent of urban counties. In contrast, only 12 percent of central cities were exception communities. Exception communities received 22 percent of CDBG funds in FY 1992.[10]

**CDBG and Local Government Budgets and Needs**

Against the backdrop of this top-down discussion of the history of federal funding of CDBG and the formulas by which the federal government distributes CDBG funds to entitlement communities, the discussion now shifts to the bottom-up perspective of local governments, especially entitlement cities. (Comparable budget data for urban counties were not available for this analysis.) How important are CDBG monies as a source of support for local governments? What are trends in poverty rates and concentrations of poverty, two measures of urban need?

**Local Government Budgets.** The beginning of an answer to this question can be obtained by combining data on CDBG from the Urban Institute's CDBG Evaluation Database with data on city government finance and federal spending in local areas collected by the Bureau of the Census.[11] The analysis that follows, which is based on these data sources, refers to "medians" rather than "means" in order to minimize the influence of extreme values. Since all relevant data were not available for all cities, the number of cities included in different parts of the analysis varies.

For the typical city, CDBG funds make up only a small portion of overall revenues. As shown in Table 2.10, CDBG funds accounted for 1.5 percent of the total general revenues

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[10] On exception communities, see also Michael J. Rich, Federal Policymaking and the Poor: National Goals, Local Choices, and Distributional Outcomes (Princeton: Princeton University Press, 1993), pp. 306-307.

[11] Data from the U.S. Bureau of the Census, Consolidated Federal Funds Report and Survey of Governments: Finance Statistics, reported in Courtenay M. Slater and George E. Hall, eds., 1993 County and City Extra: Annual Metro, City and County Data Book (Lanham, MD: Bernan Press, 1993).

for the median city in FY 1990. A city government's "general revenue" includes all revenue except that from utilities, liquor stores, and employee retirement and other insurance trusts.

**TABLE 2.10**
**CDBG Funds as a Percentage of**
**City Government Revenues from Various Sources**

| CDBG Funds as a Percentage of | Percentage[a] |
|---|---|
| City Government's Total General Revenues, FY 1990 | 1.5 (n=609) % |
| City Government's Intergovernmental Revenues, FY 1990 | 8.4 (n=610) |
| City Government's Own-Source Tax Revenues, FY 1990 | 3.6 (n=610) |
| Total Federal Grants Flowing to City, FY 1991 | 19.7 (n=546) |
| Federal Grants for Housing to City, FY 1991 | 74.3 (n=429) |
| City Government's Expenditures for Housing and Community Development, FY 1990 | 17.2 (n=417) |

Source: CDBG Evaluation Database.
a. All percentages are for the median city.
See Methodological Appendix.
Note: Excludes Urban Counties

CDBG funds accounted for a somewhat larger portion (8.4 percent in FY 1990) of the intergovernmental revenues from other governments--mainly federal and state--that flow to the median city. City governments receive intergovernmental revenues from other governments as fiscal aid in the form of shared revenues and grants-in-aid, as reimbursements for services provided to the paying government, or in lieu of taxes. In FY 1990, CDBG support equalled 3.6 percent of locally generated tax revenues for the median city.

CDBG funds are a more important component of the federal grant monies flowing into cities. In particular, CDBG dollars constituted nearly 20 percent of selected federal grant funds flowing into the median city in FY 1991.[12] In the field of housing alone prior to the introduction of the HOME Program, CDBG accounted for almost three-quarters of federal grant dollars to the median city in FY 1991, excluding amounts allocated directly to Public Housing Authorities (Table 2.10). Included in federal housing grant programs in this computation were CDBG, housing demonstration programs, rental housing rehabilitation, and other housing programs.

As described in more detail in other chapters, CDBG funds can be spent on a variety of activities, including housing revitalization, public works, economic development, public services, and other related purposes. As shown in Table 2.10, CDBG expenditures for housing activities made up 17 percent of spending by city governments for housing and community development in the median city in FY 1990.[13] In cities with lower general revenues, CDBG expenditures for housing made up a larger portion of city government spending for housing and community development. This can be seen in Table 2.11, which arranges cities by general revenue amount into quartiles, from lowest to highest. For the lowest quartile, CDBG funds represented 23 percent of city government housing and community development expenditures in 1990. In the cities in the highest revenue quartile, CDBG represented 15 percent of such spending.

Not surprisingly, CDBG funds are a more important source of revenue for small and distressed cities than for large and thriving cities. For the median city in the bottom 25 percent (quartile) in general revenues, CDBG funds represented 12.5 percent of intergovernmental revenues (Table 2.11). For the median city in the top quartile, CDBG funds made up 5.6 percent of intergovernmental revenues.

For cities in the lowest general revenue quartile and the highest distress quartile, CDBG funds accounted for 18 percent of intergovernmental revenues, compared to 3 percent for cities in highest revenue quartile and lowest distress quintile (Table 2.12). CDBG monies

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[12] Included among "selected federal grants" are many federal grants in the areas of health and family welfare, energy and environment, education, housing and community development, and other fields. Excluded are a large number of grant programs, such as the school lunch program, that cannot be tracked to the city level by the available data sources. Cities that are state capitals were excluded from this analysis. The amount of federal funds reported as flowing to capital cities is an inflated figure because it includes funds that are subsequently passed-through to other areas in the state. For more information on the data, see Courtenay M. Slater and George E. Hall, 1993 County and City Extra: Annual Metro, City and County Data Book, 2d ed. (Lanham, MD: Bernan Press, 1993).

[13] "Housing and community development" includes city housing and redevelopment projects and the regulation, promotion, and support of private housing and redevelopment activities. All the cities in six states that generally have municipal housing authorities are excluded from these data. Housing authorities for cities in other states are usually classified as independent governments, and data for them are not included in these data on city governments.

represented 13 percent of own-source tax revenues for small distressed cities and 1 percent of own-source tax revenues for large, well-off cities. For the more distressed cities with limited ability to raise new revenues, CDBG funds often represent the largest, and sometimes the only, source of revenues for discretionary spending.

**TABLE 2.11**
**CDBG Funds as a Percent of City Revenues and CD Expenditures by Amount of City General Revenues, FY 1990[a]**

| | Amount of City General Revenues Quartile | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | lowest revenue | | | | | | highest revenue | |
| CDBG Funds as a Percentage of: | 1 | | 2 | | 3 | | 4 | |
| City Government's Intergovernmental Revenues, FY 1990 (n=609) | 12.5 | % | 8.5 | % | 7.4 | % | 5.6 | % |
| City Government's Expenditures for Housing and Community Development, FY 1990[b] (n=417) | 22.9 | % | 17.7 | % | 10.4 | % | 14.6 | % |

Source: CDBG Evaluation Database and U.S. Census, Survey of Governments; Finance Statistics.
a. All percentages are for the median city.
b. Excludes cities in six states with municipal housing authorities.

**Local Poverty Rates and Poverty Concentrations**. The first table in this chapter showed that after adjusting for inflation, the 1992 CDBG appropriation was almost 50 percent less than the initial FY 1975 appropriation. At the same time, community development needs in large cities appear to have increased. By two measures of need--poverty rate and poverty concentration for a subset of U.S. cities--urban needs have increased between 1970 and 1990, while program purchasing power has declined.

**TABLE 2.12**
**CDBG Funds as a Percent of City Revenues[a], by Amount of City General Revenues and Distress Level, FY 1990**

| CDBG Funds as a Percentage of: | Lowest Revenue and Most Distressed Cities[b] | Highest Revenue and Least Distressed Cities[c] |
|---|---|---|
| City Intergovernmental Revenues, FY 1990 | 18.1 % (n=31) | 3.4 % (n=22) |
| City Own-Source Tax Revenues, FY 1990 | 12.7 % (n=31) | 1.3 % (n=22) |

Source: CDBG Evaluation Database and U.S. Census, Survey of Governments: Finance Statistics.
a. All percentages are for the median city.
b. Cities in lowest quartile of general revenues and highest quintile of distress.
c. Cities in highest quartile of general revenues and lowest quintile of distress.

Table 2.13 shows poverty rates and poverty concentration as calculated from the U.S. Censuses of 1970, 1980, and 1990, for a subset of 203 U.S. cities. (These cities are drawn from a national longitudinal sample of 220 entitlement cities, which accounted for about 80 percent of CDBG funds allocated in FY 1989.)[14] The table shows total population in the 203 cities, total poverty population, the resulting percentage of persons in poverty, and the simple average of each city's poverty rate, to adjust for the presence of very large cities in the subset, which differentially effect the national figures. The same figures are shown for the population and poverty population residing in census tracts with more than 40 percent poverty, and in tracts with poverty rates between 20 and 40 percent.

The table shows that the total poverty population and poverty rates increased in the two decades between 1969 and 1989 in the 203 cities; poverty population increased from 8.2 million to 10.7 million, and the poverty rate from 14.1 percent to 17.8 percent. The city average percent of persons in poverty showed a similar increase, from 12.6 percent to 15.9 percent; i.e., in 1989, in the average city in the 203-city subset, 15.9 percent of the population had incomes below the poverty level.

[14] The characteristics of the 220-city sample are discussed in the Methodological Appendix. Suffice it to note here that these cities are larger, more often central cities, and more highly distressed, than population of all entitlement cities. They do represent, however, the bulk of program dollars.

**TABLE 2.13**
**Poverty Population and Poverty Concentrations in Entitlement Cities, 1969, 1979, 1989 (N=203 Cities)**

| | Year | | |
|---|---|---|---|
| | 1969 | 1979 | 1989 |
| Total Population | 58,477,857 | 57,432,662 | 60,194,375 |
| Total Poverty Population | 8,227,410 | 9,335,514 | 10,695,084 |
| Total Percent in Poverty | 14.1 % | 16.3 % | 17.8 % |
| City Average Percent in Poverty | 12.6 % | 13.9 % | 15.9 % |
| Population in Census Tracts with: | | | |
| Poverty Rates More Than 40% | 2,372,274 | 4,038,500 | 5,545,902 |
| Percent of Total Population | 4.1 % | 7.0 % | 9.2 % |
| City Average Percent | 3.1 % | 4.7 % | 7.0 % |
| Poverty Rates From 20-40% | 11,288,365 | 13,085,363 | 14,790,119 |
| Percent of Total Population | 19.3 % | 22.8 % | 24.6 % |
| City Average Percent | 15.5 % | 18.8 % | 21.7 % |
| Poverty Population in Census Tracts with: | | 2,020,171 | 2,801,416 |
| Poverty Rates More Than 40% | 1,156,596 | 21.6 % | 26.2 % |
| Percent of Total Population | 14.1 % | 11.9 % | 16.3 % |
| City Average Percent | 8.2 % | | |
| Poverty Rates From 20-40% | 3,158,440 | 3,712,705 | 4,234,420 |
| Percent of Total Population | 38.4 % | 39.8 % | 39.6 % |
| City Average Percent | 28.2 % | 31.5 % | 32.9 % |

Source: The Urban Institute's Underclass Database, U.S. Census, various years
Note: Data are for the 203 Cities in the 220 City Sample that have complete Census Tract Data for 1970-90. For characteristics of 220 City Sample, See Methodological Appendix.

At the same time, the percentage of total city population living in poverty neighborhoods (census tracts in which 20-to-40 percent of tract population have incomes below the national poverty level) and *extreme* poverty neighborhoods (tracts with more than 40 percent poverty), and the percentage of the poverty population living in these neighborhoods have increased. In other words, not only has the proportion of city population in poverty increased, but the share of population that lives in neighborhoods most likely to have community development needs that are eligible for CDBG spending has increased, as well. The middle panel of Table 2.13 shows that in 1969, 2.4 million persons in the 203 cities lived in extreme poverty census tracts. By 1989, this figure had more than doubled, to 5.5 million persons, or 9.2 percent of city population. The city average percentages living in extreme poverty neighborhoods increased proportionately. The table also shows an increased population living in poverty neighborhoods that were not extreme poverty neighborhoods. In 1969, 11.3 million persons lived in census tracts with poverty rates between 20 and 40 percent, or 19.3 percent of city population; corresponding figures for 1989 were 14.8 million persons and 24.6 percent of city population. Taken together, the population in poverty and extreme poverty neighborhoods represented 23.4 percent of city population in 1969, 33.8 percent in 1989.

Finally, the bottom panel of Table 2.13 shows the poverty population and percentages of the poverty population residing in poverty and extreme poverty tracts. Combining the figures shown for poverty tracts and extreme poverty tracts, 4.3 million persons in poverty resided in poverty and extreme poverty tracts in 1969, or 52.5 percent of city poverty population. By 1989, a combined 7.0 million poverty population resided in these tracts, accounting for 65.8 percent of the poverty population in the 203 cities.

**Summary**

Like many other programs that grow rapidly in their early years before leveling off or declining as they mature, CDBG expanded quickly in the several years following its creation in 1974 before experiencing a decline in funding in the 1980s. In the 1990s, CDBG funding has increased again. While CDBG remains the most important component of HUD and overall federal efforts in the area of community development, the entire community development function has shrunk compared to the rest of the federal budget. This includes CDBG, whose funding in real terms shrank by 50 percent between FY 1975 and FY 1992. In contrast, health and income support programs, including section 8 and other housing assistance programs, have increased considerably as a share of the federal budget over the last decade or more.

CDBG funds flow automatically to entitlement central and suburban cities and urban counties and by application through the State and Small Cities program to nonentitlement jurisdictions. They are distributed by formulae that target funds to the most needy communities. In FY 1992, for example, 50 percent of CDBG monies were devoted to the 20 percent of communities that were the most distressed entitlement cities, compared to only 5 percent of program funds to communities that were in the least distressed quintile.

Federal CDBG assistance constitutes only a very small portion of overall city government revenues but is a more important source of income for small, distressed cities than for large, well-off cities. However, purchasing power of CDBG dollars, as adjusted for inflation, has declined between 1975 and 1992, but city needs have increased. For example, in 1969, 23.4 percent of the city population in a subset of U.S. cities (accounting for 80 percent of CDBG allocations) resided in census tracts with poverty rates of 20 percent or higher. That percentage rose to 33.8 percent in 1989.

# CHAPTER 3
# PATTERNS OF PROGRAM DELIVERY AND CHARACTERISTICS OF FUNDED PROGRAMS

In many respects, the Community Development Block Grant Program is a "program" in name only. As implemented locally, CDBG consists of multiple programs or activities, pursued by a variety of delivery organizations, intended to benefit various persons and places. No federal requirements dictate which activities or organizations must be funded; few requirements restrict the range of activities that communities may pursue. National legislation establishes only a small number of objectives that expenditures must meet: benefit to low- and moderate-income persons, removal of slums and blight, address urgent community needs.[1] On the one hand, this extreme flexibility allows communities to devise programs that meet local needs, rather easily combine CDBG funds with local public and private dollars, and shift priorities as local circumstances dictate. On the other hand, the program nationally is difficult to characterize, consisting as it does of diverse city efforts. Further, within cities, the risk of fragmentation is high: community development efforts can splinter as multiple organizations pursue multiple objectives in disparate neighborhoods.

This chapter presents the basic CDBG landscape: What agencies are responsible for delivery of community development programs? What kinds of programs are these? The next chapter will examine patterns in CDBG spending, and link these patterns to city-level characteristics and community development strategies. The implications of CDBG administrative arrangements for policy development and program management, including coordination of activities across agencies, will be discussed in Chapter 6. In this chapter and those following, the report covers only entitlement cities--central cities and suburban cities.

This chapter has two parts. The first describes the administrative arrangements cities make to deliver CDBG-funded community development programs, including selection of "lead" agencies, use of "delegate" agencies to deliver programs, and in particular, the use of nonprofit organizations as delivery agents. (In this and subsequent chapters, nonprofit delivery will be shown to affect the types of programs delivered and the benefit levels they reach.) The analysis shows that more than a quarter (28 percent) of all CDBG funds are under management of organizations that are not the direct recipient of funds, and 17 percent of all dollars are passed through nonprofit organizations. The second part of the chapter examines the types of programs that CDBG supports. Particular attention is paid to housing, business assistance, and public services and facilities programs, for which little

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[1] Program performance in meeting these national objectives is the subject of Chapter 5.

systematically collected information has previously been available. Also addressed is the financial viability and types of employment created by CDBG-assisted businesses. Finally, the section briefly discusses acquisition and clearance expenditures, and administration and planning outlays.

**Program Delivery**

Ultimate accountability to the federal government for the expenditure of CDBG funds is lodged in the executive authority of each CDBG grantee. But each executive authority--whether a mayor, city manager, or commission--typically appoints an agency or executive office as the "lead" agency for purposes of overall program management. Lead agency responsibility can range from simple program accounting and reporting (with all direct operational responsibility devolved to other agencies, including those outside of city government) to full responsibility for all accounting, reporting and program delivery functions. In practice, most cities adopt a hybrid form of management, with some tasks handled by a lead city agency and others devolved to other city agencies, quasi-independent agencies, or nonprofit organizations.

The structure of program delivery is important for three reasons. First, assignment of agency responsibility can overlap with other decisions on geographic targeting and delivery of benefits to a target clientele. Particularly important is the role of neighborhood-based nonprofits in the planning and delivery of community development programs to particular geographic areas. Second, CDBG funds rarely are the only resource for community development spending in neighborhoods. Allocation of funds to delegate agencies commonly results in the commingling (or leveraging) of CDBG funds with other city dollars, intergovernmental aid, and private sector sources of support. Finally, and perhaps most obvious, is the degree to which administrative complexity introduces accountability problems. Use of delegate agencies, or "subrecipients," has long been a command and control problem in the program. Devolution of program-decision making and record-keeping responsibility to delegate agencies (and in some instances, subdelegate agencies) complicates the lead agency task of ensuring compliance with federal requirements.[2]

This analysis cannot address all three issues equally well, but all are touched on in this chapter and elsewhere. The implications of delegate agency use for area-targeting are discussed in this chapter at various points; the effect of delegate agency use on the types of

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[2] "Subrecipient" and "delegate agency" have slightly different meanings, but by and large, all delegate agencies--responsible for direct program delivery and most management functions--are subrecipient agencies. Subrecipient agencies, by CDBG program terminology, include delegate agencies and also recipients of CDBG grants and loans (except for-profit business). Nonprofit housing developers, therefore, are "subrecipients" by this definition but contractors are not.

persons who benefit from CDBG programs is discussed in Chapter 5--national objectives and program benefits. The leverage opportunities that delegate-agency use creates are discussed in this chapter, and in Chapter 7--program impacts. Problems of subrecipient management are examined in Chapter 6--program decision-making and management.

**Community Development Lead Agencies.** CDBG represented a major departure from past federally funded urban and community development efforts. Unlike the Urban Renewal program, Community Development Block Grants were allocated to local governments, rather than specialized redevelopment or Model Cities (Demonstration) agencies. Transfer of programmatic responsibility for neighborhood revitalization programs to local government resulted in creation of a number of "generalist" community development agencies, departments, or offices within local government.[3] Nevertheless, the assignment of lead agency responsibility did not end the program role played by specialist agencies, or agencies with a neighborhood focus. Some redevelopment agencies continued to manage portions of CDBG-funded programs, particularly in housing and acquisition and clearance activities. Most Model Cities administrative arrangements disappeared with their primary funding source, but neighborhood-based program delivery continued under the management of community-based nonprofit organizations.

The continued prominence of generalist city agencies in CDBG program delivery is shown in Table 3.1 and those following. The first table shows the number of agencies of each type and amounts of CDBG allocations that passed through these agencies in 1992, as reported on the mail census of community development administrators. Two-thirds (65.3 percent) of lead agencies funded by CDBG are community development agencies--"stand-alone" agencies responsible primarily for community development funds programming and delivery. Taken together, community development agencies, "staff" departments (such as planning and budgeting departments--16.4 percent of agencies), and "line" agency departments (e.g. within public works--6 percent of agencies) have lead responsibility for CDBG funds management in 87.7 percent of cities. Very few are quasi-independent authorities--redevelopment agencies, housing authorities, or other agencies outside of city general government. Funding channeled through agencies of various types matches this overall pattern of lead agency assignment. Worth remark, however, is the one-third of funds (32.1 percent) that pass through city agencies normally thought of as "policy" departments--budget and planning offices, primarily--which typically are lodged in the office of the chief executive.

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[3]This re-orientation of administrative responsibility was documented in Paul Dommel et al. Decentralizing Community Development (Washington, D.C.: U.S. Department of Housing and Urban Development, 1978) and U.S. Department of Housing and Community Development Community Development Block Grant Program: Provisional Report (Washington, D.C.: U.S. Department of Housing and Urban Development, 1975).

**TABLE 3.1**
**Allocation of CDBG Dollars By City Lead Agency Type, 1992**
**(Dollars in thousands)**

| Lead Agency Type | Cities Number | Percent | | Dollars Total | Percent | | Mean Dollars |
|---|---|---|---|---|---|---|---|
| Community Development Agency | 350 | 65.3 | % | $749,609 | 52.3 | % | $2,148 |
| Staff Department | 88 | 16.4 | | 459,792 | 32.1 | | |
| Line Agency Department | 32 | 6.0 | | 92,203 | 6.4 | | 5,225 |
| Independent Authorities | 17 | 3.2 | | 24,366 | 1.7 | | 2,881 |
| Other | 49 | 9.1 | | 107,148 | 7.5 | | 1,433 |
| | | | | | | | 2,280 |
| TOTAL | 536 | 100 | % | $1,433,118 | 100 | % | $2,674 |

Source: Compiled by The Urban Institute from the Community Development Administrators' Survey. See Methodological Appendix.

**Public and Nonprofit Delegate Agencies.** Regardless of which agency has been assigned lead responsibility for CDBG funds management, most cities use multiple "agents" to deliver community development programs. Table 3.2 shows, for broad categories of CDBG funds expenditure, the percentage of total outlays "retained" or directly managed by the CDBG lead agency.[4] The last column shows the percentage of cities in which the lead agency "retains" 100 percent of the funds in each category. In three of the four categories listed--housing, economic development, and public services--fewer than 50 percent of cities assign the lead agency *all* of the funds in the category; for example, the lead agency retains control over all CDBG housing funds in 43 percent of entitled cities. Put another way, more often than not, CDBG-funded housing, economic development, and public services programs are managed by one or more agencies other than, or in addition to, the agency held directly accountable for CDBG funds use.

[4]The four categories shown in the table comprise most of CDBG spending. These categories were used in the mail census of community development administrators because their constituent activities were likely to be readily understood by mail survey respondents. Most other discussion in this chapter and the remainder of this report refer to five categories of expenditure created from automated budget line data.

**TABLE 3.2**
**Percent of CDBG Outlays Retained by Lead Agencies By Lead Agency Type, 1992**

| | Percent of Outlays Retained by Lead Agency | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Housing | 0 | % | 1-30 | % | 31-60 | % | 61-99 | % | 100 | % |
| Community Development | 6.7 | | 8.9 | | 10.2 | | 28.8 | | 45.4 | |
| Staff Department (n=84) | 20.2 | | 9.5 | | 10.7 | | 17.9 | | 41.7 | |
| Line Agency Department (n=30) | 23.3 | | 0.0 | | 6.7 | | 36.7 | | 33.3 | |
| Independent Authorities (n=17) | 5.9 | | 5.9 | | 5.9 | | 41.2 | | 41.2 | |
| Other (n=40) | 17.5 | | 2.5 | | 10.0 | | 35.0 | | 35.0 | |
| TOTAL | 11.0 | | 7.9 | | 9.9 | | 28.3 | | 43.0 | |
| Economic Development | | | | | | | | | | |
| Community Development Agency (n=166) | 31.3 | % | 6.6 | % | 7.2 | % | 9.0 | % | 45.8 | % |
| Staff Department (n=36) | 50.0 | | 2.8 | | 2.8 | | 13.9 | | 30.6 | |
| Line Agency Department (n=13) | 30.8 | | 0.0 | | 15.4 | | 15.4 | | 38.5 | |
| Independent Authorities (n=9) | 22.2 | | 0.0 | | 0.0 | | 11.1 | | 66.7 | |
| Other (n=18) | 22.2 | | 5.6 | | 22.2 | | 16.7 | | 33.3 | |
| TOTAL | 33.1 | | 5.4 | | 7.9 | | 10.7 | | 43.0 | |
| Public Works | | | | | | | | | | |
| Community Development Agency (n=266) | 11.7 | % | 9.0 | % | 5.6 | % | 9.4 | % | 64.3 | % |
| Staff Department (n=66) | 13.6 | | 3.0 | | 7.6 | | 6.1 | | 69.7 | |
| Line Agency Department (n=22) | 9.1 | | 4.5 | | 13.6 | | 22.7 | | 50.0 | |
| Independent Authorities (n=15) | 13.3 | | 0.0 | | 6.7 | | 6.7 | | 73.3 | |
| Other (n=36) | 19.4 | | 11.1 | | 13.9 | | 8.3 | | 47.2 | |
| TOTAL | 12.6 | | 7.7 | | 7.2 | | 9.4 | | 63.2 | |
| Public Services | | | | | | | | | | |
| Community Development Agency (n=286) | 52.4 | % | 18.2 | % | 10.1 | % | 8.7 | % | 10.5 | % |
| Staff Department (n=74) | 60.8 | | 16.2 | | 9.5 | | 5.4 | | 8.1 | |
| Line Agency Department (n=27) | 55.6 | | 22.2 | | 7.4 | | 3.7 | | 11.1 | |
| Independent Authorities (n=12) | 58.3 | | 41.7 | | 0.0 | | 0.0 | | 0.0 | |
| Other (n=39) | 61.5 | | 17.9 | | 7.7 | | 5.1 | | 7.7 | |
| TOTAL | 54.8 | | 18.7 | | 9.4 | | 7.3 | | 9.6 | |

Source: Compiled by The Urban Institute from the Community Development Administrator's Survey
See Methodological Appendix.

Across program categories, public services programs are most likely to be delivered by multiple agencies (all but 9.6 percent of cities). It is also the category in which cities are most likely to assign to the lead agency *none* of the expenditures in the category. In the cities that responded to the mail survey, over half (54.8 percent), for example, delegate all public services spending to other agencies. Although less frequently than for public services, economic development spending also is quite likely to be fully delegated. Among cities that expend CDBG funds for economic development purposes, one-third completely devolve program responsibility to some agency other than the lead CDBG agency. Note that a fairly large portion of CDBG funds allocated to public works is retained by the lead agency, even though few of these agencies are public works departments. In this case, and in some of the other categories as well, funds identified as "retained" by the lead agency by city staff ultimately will be channelled through contracts with other city agencies.

The expectation was that some types of agencies would be more likely than others to devolve a portion of CDBG funded programs. In particular, it was expected that cities with lead agencies that were staff departments (i.e., assigned primary responsibility for budgeting and planning) would devolve funds more frequently. This turned out not to be the case. Housing, is the only programmatic area in which the relationship is at all clear, with staff and line agency departments both more likely to retain *none* of the CDBG funds so allocated.

Although more than half of cities delegate some or all of housing, economic development and public services dollars, and about one-third (36.8 percent) so treat their public works dollars, only about 28 percent of total CDBG funds are passed through to subrecipients; i.e., delegate agencies and nonprofits that receive loans or grants from public agencies. Table 3.3 shows the estimated amounts of CDBG funds expended in each of five activity categories nationwide, and the shares of each that are passed through to subrecipients. This table is based on 1989 data from HUD's 220-city longitudinal sample, and thus the activity categories do not correspond to those used on the preceding table; see footnote 4. Consistent with the pattern noted in the preceding tables, comparatively high proportions of public services (55.3 percent) and economic development (42.8 percent) funds are transferred to subrecipients. Lesser shares of public facilities (13.3 percent), acquisition and clearance (17.2 percent), and housing funds (26.1 percent) are so handled.

Nonprofit organizations have been an important part of CDBG service delivery since the beginning of the block grant program. In part, this reflects the merger into CDBG of the Model Cities program, which relied extensively on nonprofit organizations for delivery of social services. In CDBG entitlement communities with Model Cities programs, many of these organizations received continuation funds under the new block grant and became a built-in part of the social service delivery system. In part it reflects the fact that the former War on Poverty programs similarly relied on nonprofits, which saw the block grant as a source of replacement funds to support continuation of their activities. Thus, in a large number of CDBG entitlement cities there existed a network, sometimes quite extensive, of federally funded nonprofit organizations that quickly became a part of a block grant-funded social services delivery system.

**TABLE 3.3**
**Subrecipient Share of CDBG Expenditures By Nonprofit Status and Activity Group, 1989**
**(Dollars in thousands)**

| | | Percent of Expenditures by | | | |
|---|---|---|---|---|---|
| | Total Expenditure | All Subrecipient | Nonprofits | Other Agencies | Undetermined |
| Acquisition and Clearance | $187,125 | 17.2 % | 10.1 % | 7.1 % | 0.0 % |
| Economic Development | 165,201 | 42.8 | 22.6 | 15.8 | 4.3 |
| Housing Rehab | 713,297 | 26.1 | 13.9 | 11.2 | 0.9 |
| Public Facilities | 326,547 | 13.3 | 6.3 | 6.2 | 0.8 |
| Public Services | 225,697 | 55.3 | 43.5 | 9.0 | 2.7 |
| TOTAL | $1,617,867 | 28.2 % | 16.9 % | 9.9 % | 1.4 % |

Source: Compiled by The Urban Institute from HUD GPR data for 60-City Sample. See Methodological Appendix.
Note: "Undetermined" is percentage of expenditures for which subrecipient status could not be ascertained from GPR data as corrected by city agencies.

During the 1980s there also emerged a set of nonprofit organizations oriented toward physical development activities, most notably housing development and rehabilitation. In some areas these community development corporations (CDCs) already existed and the block grant became a potential source of substantial new funding. In others new CDCs were created to access CDBG funds and older nonprofits (oriented toward social services) added new physical development activities, primarily housing, and sometimes economic development activities as well. As the CDC network emerged and gained implementation experience, it became an integral part of housing development programs in many communities, funded wholly or in part by the block grant. Consequently, as the block grant program entered the 1990s, a significant number of entitlement jurisdictions had become partially reliant on nonprofit organizations to implement a wide range of social service and physical development activities.

Table 3.3 indicates the nonprofit share of subrecipient dollars in the CDBG program. Program-wide, 16.9 percent of all CDBG funds are expended through nonprofit organizations. Of CDBG funds spent through subrecipient agencies, nonprofits account for at least 60 percent. In total dollars (not shown on the table), nonprofits are estimated to have delivered at least $273 million in CDBG-funded programs in 1989. This figure is likely understated because some subrecipients of lead city agencies in turn fund *their* subrecipients and this study did not collect information on these "sub-subrecipients." Table 3.3 also shows the nonprofit status of delegate agency expenditures by activity group. Forty-four percent of all public services dollars are expended through nonprofits; twenty-three percent of economic development spending; fourteen percent of housing spending.

Table 3.2 showed that no particular type of lead agency assignment resulted in greater or lesser likelihood that funding would be passed through to other city or nonprofit agencies. Another possible effect on subrecipient (including delegate agency) use is city size. Larger cities, which tend to have more complex administrative arrangements generally, may also be particularly likely to allocate community development funds among multiple types of agency.

This expectation is also not borne out by the data (see table 3.4). Subrecipient use generally bears little relationship to city size, except for the very smallest cities (under 100,000), which are particularly *unlikely* to channel funds through subrecipients to deliver housing or economic development programs. For particular expenditure categories, only in public services is there a clear relationship: subrecipient funding shares increase as population size declines. This probably has to do with organizational economies of scale. Social service agencies that can act as subrecipients to city government can be small in terms of staff size and budget. Organizations that sponsor housing or economic development activities tend to need larger staff and more substantial work flow, which are less likely to be supportable in smaller cities. Generally, nonprofit shares of funding tracks use of subrecipients. Larger cities do not channel higher percentages of funds through nonprofits than do smaller cities; nor do nonprofits capture a larger share of total subrecipient spending in these cities.

**TABLE 3.4**

**Subrecipient Share of CDBG Expenditures by Nonprofit Status, Population and Activity Group (Dollars in Thousands)**

| | Total Expenditure | All Subrecipient | Nonprofits | Other Agencies | Un-determined |
|---|---|---|---|---|---|
| | | Percent of Expenditures By | | | |
| Acquisition and Clearance | $ 187,125 | 17.2 % | 10.1 % | 7.1 % | 0.0 % |
| 1,000,000 and above | 47,762 | 19.4 | 16.9 | 2.4 | 0.1 |
| 500,000 -999,999 | 36,947 | 4.0 | 1.8 | 2.2 | 0.0 |
| 250,000 - 499,999 | 32,267 | 18.2 | 5.9 | 12.2 | 0.0 |
| 100,000 - 249,999 | 17,412 | 43.5 | 1.2 | 42.4 | 0.0 |
| 0 - 99,999 | 52,737 | 15.3 | 15.3 | 0.0 | 0.0 |
| Economic Development | $ 165,201 | 42.8 % | 22.6 % | 15.8 % | 4.3 % |
| 1,000,000 and above | 43,305 | 41.9 | 18.0 | 7.5 | 16.5 |
| 500,000 -999,999 | 28,149 | 55.1 | 46.6 | 8.5 | 0.0 |
| 250,000 - 499,999 | 26,463 | 68.7 | 31.0 | 37.8 | 0.0 |
| 100,000 - 249,999 | 25,484 | 65.0 | 23.6 | 41.3 | 0.0 |
| 0 - 99,999 | 41,800 | 5.3 | 53.3 | 0.0 | 0.0 |
| Housing Rehab | $ 713,297 | 26.1 % | 13.9 % | 11.2 % | 0.9 % |
| 1,000,000 and above | 218,867 | 31.7 | 16.1 | 13.2 | 2.4 |
| 500,000 -999,999 | 116,065 | 34.9 | 26.9 | 6.9 | 1.1 |
| 250,000 - 499,999 | 101,130 | 34.8 | 11.5 | 23.3 | 0.0 |
| 100,000 - 249,999 | 79,839 | 43.7 | 20.5 | 23.2 | 0.0 |
| 0 - 99,999 | 197,395 | 3.0 | 2.5 | 0.5 | 0.0 |
| Public Facilities | $ 326,547 | 13.3 % | 6.3 % | 6.2 % | 0.8 % |
| 1,000,000 and above | 96,942 | 7.5 | 5.1 | 1.0 | 1.5 |
| 500,000 -999,999 | 72,783 | 34.2 | 11.6 | 22.7 | 0.0 |
| 250,000 - 499,999 | 44,401 | 14.9 | 9.0 | 6.0 | 0.0 |
| 100,000 - 249,999 | 32,116 | 6.7 | 6.7 | 0.0 | 0.0 |
| 0 - 99,999 | 80,265 | 3.0 | 1.4 | 0.0 | 0.0 |
| Public Services | $ 225,697 | 55.3 % | 43.5 % | 9.0 % | 2.7 % |
| 1,000,000 and above | 84,026 | 42.4 | 34.3 | 3.4 | 4.6 |
| 500,000 -999,999 | 50,367 | 46.7 | 44.2 | 2.5 | 0.0 |
| 250,000 - 499,999 | 37,077 | 61.6 | 45.9 | 15.8 | 0.0 |
| 100,000 - 249,999 | 14,374 | 88.5 | 78.4 | 10.1 | 0.0 |
| 0 - 99,999 | 39,813 | 75.5 | 47.4 | 22.4 | 5.8 |

Source: Compiled by The Urban Institute from HUD GPR data for 60-City Sample.
See Methodological Appendix.

Historical data on the share of funds expended through subrecipient organizations are not of good quality, nor do they distinguish between public and nonprofit subrecipients.[5] Nevertheless, the share of funds going to one category of subrecipient--nonprofits--appears to have remained relatively stable over the five-year period 1987-92, according to the Urban Institute surveys. In the field research sample of 61 cities there had been no significant change in the share of block grant funds going to nonprofits in 68 percent of the communities. The comparable figure for the mail census of all community development administrators was 75.6 percent. This relative stability in shares translates into relative stability in funded nonprofit organizations. Data from the field research sample showed that in 75 percent of the communities, the annual turnover of organizations receiving funding was less than 25 percent, and the same organizations continued to be funded year-after-year. Once inside the funding net, the odds are good you will stay there.[6]

The extensive use of nonprofits for service delivery is reflected in a generally supportive attitude by local CDBG officials toward funding of nonprofits. According to the field research sample, 62 percent of local CDBG officials were supportive of such funding, with an additional 21 percent at least neutral and only about 17 percent opposed. One Southwestern city, which is very supportive of nonprofits, perceives them as mechanisms for empowerment of neighborhood-based groups. A similar view was held in an eastern seaboard city, where nonprofit funding is being increasingly shifted from citywide organizations (tending to be dominated by white leadership) to neighborhood-based groups. This city would like to change the mix further. In another large Eastern city, officials see nonprofits as having the expertise for project execution, although they see more problems of compliance with regulations and guidelines than with other types of agency.

**Characteristics of Subrecipient Organizations**. Because subrecipients involve a large component of program expenditures, this CDBG evaluation conducted a separate survey of activities conducted by subrecipients, gathering information on organizations, activities, beneficiaries and monitoring practices. A random sample of subrecipient-managed activities in 1989 was drawn from all subrecipient activities listed on Grantee Performance Reports (GPRs) submitted by 60 of the cities in the field research sample.[7]

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[5]The research team made extensive efforts to verify data reported on the 1989 GPRs, the last year of HUD automated data available at the beginning of this analysis. No such effort was made for years prior to 1989.

[6] Some of the implications of the nonprofit role in program delivery for CDBG decisionmaking of will be discussed in Chapter 6.

[7]The original field research sample consisted of 60 cities; one city was added subsequently. Activities conducted by the original 60 cities are the basis for the subrecipient survey, and other specialized survey including the business assistance, public services, housing, and census tract

The types of subrecipients that deliver CDBG-funded activities are listed in Table 3.5. Individual "activities" are those listed as line-items of expenditure on GPRs, and can consist of programs, individual projects, or even parts of projects. They are, in essence, CDBG accounting items. The table shows a national estimate of some 5,445 individual activities sponsored by subrecipients, totalling $542.8 million.[8] Of particular interest are the relative shares of nonprofit expenditures: of the 39 percent of subrecipient funds channeled through nonprofits, the largest share (24 percent) is contributed by nonprofit organizations that operate citywide; another 11 percent of all funding is channeled through neighborhood-based nonprofits. Observers of nonprofit community development tend to think of the sector as "community-based" or devoted to improvement of particular neighborhoods. As the figures show, substantially larger shares of CDBG funds expended through nonprofits are spent through citywide rather than through neighborhood-based organizations.

**TABLE 3.5**
**Allocation of CDBG Funds through Subrecipients by Subrecipient Organization Type**

| Organization Type | Number of Activities | Percent of Activities | Amount of CDBG Funds | Percent of CDBG Funds |
|---|---|---|---|---|
| Community Development Agency | 333 | 6 % | $ 144,390,905 | 27 % |
| Other Public Agency | 856 | 16 | 158,689,226 | 29 |
| Citywide Nonprofit | 2,085 | 38 | 131,099,087 | 24 |
| Neighborhood Nonprofit | 1,706 | 24 | 57,378,473 | 11 |
| Other Nonprofit | 532 | 10 | 24,786,534 | 4 |
| Other | 324 | 6 | 26,485,879 | 5 |
| TOTAL | 5,445 | 100 | $ 542,830,104 | 100 |

Source: Compiled by the Urban Institute from the Subrecipient Survey.

Further, the individual activities nonprofits take on tend to be smaller than those managed by their public sector counterparts. Fully 72 percent of subrecipient activities are sponsored by private nonprofits: 38 percent through citywide groups, 24 percent through neighborhood-based organizations, and 10 percent through agencies that fit neither category. But private nonprofits spend only 39 percent of funds directed through subrecipients. Public agencies, including both community development agencies and other branches of local

samples. See the methodological appendix for details.

[8] This sample estimate compares to an estimated subrecipient dollar volume of $456 million from GPR data. This difference probably is attributable to the difference between expenditures as reported on GPRs and budget authority as reported by surveyed program managers.

government, account for 22 percent of activities, but 56 percent of spending. (The management implications of this pattern will be discussed in Chapter 5.)

Subrecipients can perform two functions in the CDBG delivery system. They can act as delivery points for multiple CDBG-funded activities, and they can combine non-CDBG funds with CDBG dollars to undertake community development efforts. Table 3.6 shows the percentage of CDBG-funded organizations that perform CDBG-funded activities in each category. (Note that community development agencies, most often lead agencies, also can act as subrecipients, e.g., to city planning offices). Most subrecipients carry out multiple activities. For example, of neighborhood nonprofits, 35 percent carry out owner-occupied housing activities, a little over half (55 percent) conduct social services programs, and somewhat under half (44 percent) support "community planning" efforts. (Community planning can mean anything from an informal needs assessment that precedes a CDBG funding application, to more formal planning that results in a written strategy document.) The percentages of subrecipients that conduct social services activities is particularly high. One point worth noting (which will be discussed more fully below) is that higher percentages of nonprofit subrecipients (both neighborhood and citywide) conduct owner-occupied than rental housing activities.

**TABLE 3.6**
**CDBG-Funded Subrecipient Activities By Subrecipient Organization Type**

| | Percent of Organizations Funded to Undertake or Provide: | | | | |
|---|---|---|---|---|---|
| Organization Type | Owner Occupied Housing | Rental Housing | Business Assistance | Social Services | Community Planning |
| Community Development Agency | 39 % | 10 % | 29 % | 47 % | 37 % |
| Other Public Agency | 24 | 9 | 6 | 66 | 18 |
| Citywide Nonprofit | 23 | 10 | 15 | 69 | 16 |
| Neighborhood Nonprofit | 35 | 25 | 10 | 55 | 44 |
| Other Nonprofit | 12 | 2 | 0 | 95 | 10 |
| Other | 22 | 6 | 0 | 49 | 13 |

Source: Compiled by the Urban Institute from the Subrecipient Survey.

Table 3.7 shows the extent to which subrecipients combine CDBG funding with funding from other sources. For most types of organizations, CDBG funding is not their only source of support. Most notable is the prevalence of state funding as a source of organizational support received by the majority of agencies in all categories but one and by 91 percent of "other" nonprofits. Slightly under half of the "other public agencies" received state funds, most often tapping other federal (non-CDBG) funds; e.g., Job Training Partnership Act or Community Services Block Grant funds. Least likely to use federal funds are community development agencies and neighborhood nonprofits. Citywide and "other" nonprofits are most likely to tap local sources, neighborhood nonprofits least likely to do so. To the extent that there is a pattern, public agencies that are *not* community development agencies, and citywide nonprofits, are most likely to draw support from the full range of funding sources.

**TABLE 3.7**
**Funding Sources of Subrecipient Organizations By Subrecipient Organization Type**

| | Percent of Organizations Receiving | | |
|---|---|---|---|
| Organization Type | Federal $ | State $ | Local $ |
| Community Development Agencies | 30 % | 72 % | 50 % |
| Other Public Agencies | 69 | 49 | 48 |
| Citywide Nonprofits | 50 | 60 | 68 |
| Neighborhood Nonprofits | 30 | 61 | 24 |
| Other Nonprofits | 52 | 91 | 76 |
| Other | 53 | 52 | 49 |

Source: Compiled by the Urban Institute from the Subrecipient Survey.

In terms of beneficiaries, particular subrecipient characteristics are linked to both spatial distribution of funds and distribution by income level. Aspects of spatial targeting will be discussed in this chapter, and in Chapter 4. Income (or social) targeting will be discussed in Chapter 5.

**Characteristics of CDBG-Funded Programs**

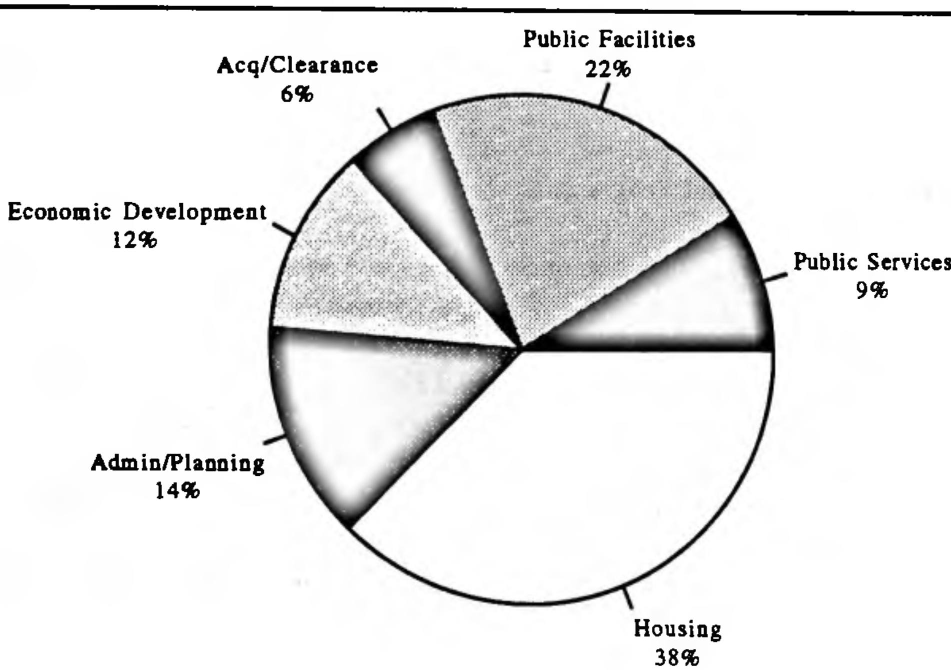
Community development, as noted, encompasses a wide range of activities intended to support regeneration or stabilization of neighborhoods. Investments in housing construction and rehabilitation help preserve the community stock of adequate-quality dwellings. Spending on public facilities--transportation, centers for the provision of social services, parks and recreation--can improve or maintain the quality of the built infrastructure and support neighborhood amenities. Economic development spending can promote neighborhood job creation and contribute to the vitality of community retail districts. Funding for public services can help meet the social services needs of neighborhood residents. The decisionmaking flexibility accorded local communities in the programming of

CDBG funds should, in theory, help ensure that the whole range of interventions will be pursued.

This section discusses the patterns of CDBG expenditures for these and other activities in entitlement cities. It begins by discussing national spending in 1990, describing the composition of aggregate outlays by broad functional category. It then details the types of activities in each category, relying heavily on the specialized surveys conducted for this study. Discussion and explanation of the variations among communities in the shares they allocate to each functional category are discussed in the next chapter, along with changes in budget shares over time at the national and city level.

**Overview.** CDBG is primarily a "bricks-and-mortar" program. Even if overhead expenditures--administration and planning--are included in the total CDBG expenditure mix, spending for activities that resulted in physical improvements to the built environment amounted to 77 percent of total funds expended in 1990; 90 percent if administration and planning expenses are excluded. As shown in Figure 3.1, 1990 expenditures on housing and public facilities were the two largest categories of spending, accounting for 38 percent and 22 percent of total funds, respectively. Spending for economic development accounted for 12 percent. Property acquisition and clearance, which can support future expenditures in housing, economic development or public facilities, accounted for 6 percent. Public services, which consist primarily of social services, amounted to only 9 percent of all CDBG funds budgeted.

FIGURE 3.1
Activities Funded by CDBG Program Outlays - 1990






Total = $2.2 Billion
Source: Urban Institute From HUD GPR Data

**CDBG Housing Programs**. Excluding federal tax subsidies for homeownership and rental housing development, the $839 million of CDBG housing funds spent in 1990 constitutes the single-largest federally-supported housing investment program to support rehabilitation of privately-owned housing in the nation's urban areas, even after congressional enactment of the HOME Investment Partnership Program, which provides flexible grants to states and localities to support housing program activities.[9] Total CDBG housing spending for entitlement jurisdictions amounted to $1.2 billion in fiscal year 1990. Fiscal year 1992 program allocations to the new HOME program--which can support *both* housing construction and renovation and "income support" programs (first-time homebuyer assistance and tenant rental assistance)--amounted to $900 million. (The Congress allocated the remainder of the HOME program's $1.4 billion appropriation to States, a small share of which was also spent in urban areas.) The potential effects of HOME funds receipt on local CDBG allocations to housing will be discussed in the next chapter.

Housing rehabilitation (whether to improve substandard housing or maintain the quality of existing housing) and new housing construction are both eligible activities under the CDBG program. Rehabilitation is a much larger expenditure category than new construction, however (Figure 3.2.). Taken together, rehabilitation of privately owned residential property (52 percent of housing outlays) and renovation of property owned by city governments, public housing authorities, and other local agencies (29 percent) amounted to 81 percent of total 1992 housing expenditures of $839 million. New construction (constrained by program rules that require cities to fund this activity entirely through nonprofit subrecipients) amounts to only 4 percent of housing outlays.

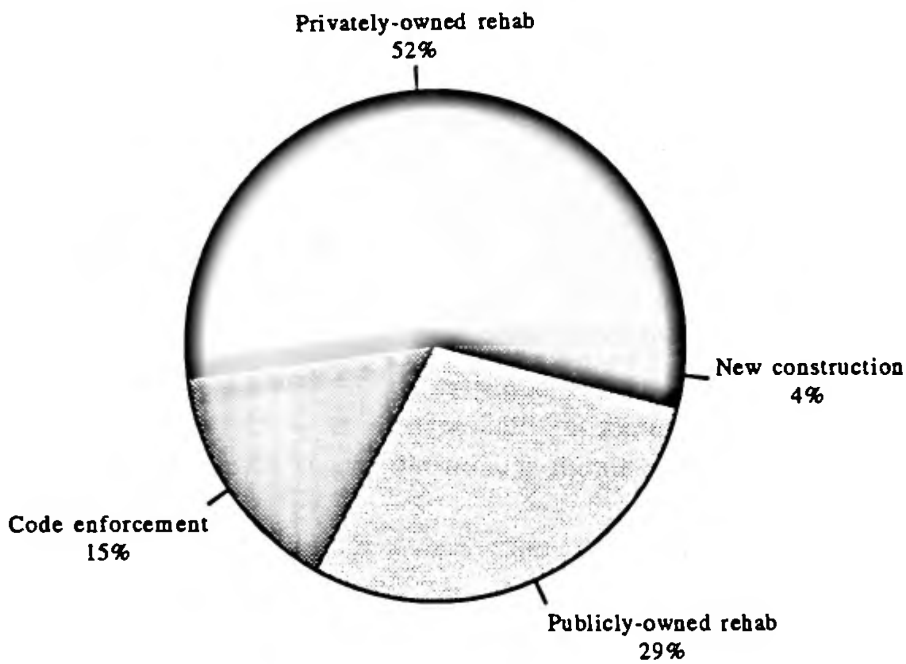
Enforcement of local building codes, accounting for 15 percent of outlays, does not directly produce new or upgraded housing units; rather, these expenditures typically pay for salaries and direct costs of building inspection and other code compliance staff. Code enforcement, however, does indirectly support housing stock preservation through sanctions on property owners that fail to maintain properties to adequate standards of occupancy.

Although the rehabilitation of publicly owned properties accounts for a significant share of total spending (29 percent or $243.3 million), about 70 percent of this total is contributed by New York City, alone. In 1990, New York City reported spending $170 million of CDBG funds on emergency repair or rehabilitation of the city's *in rem* housing, buildings acquired through tax foreclosure and which are owned and managed by the city's Housing Preservation Department. If New York's expenditures are excluded from Figure 3.2, rehabilitation of publicly-owned housing accounts for 10.9 percent of total CDBG spending

[9] Federal modernization spending for *public* housing amounted to $2.2 billion in FY 1992.

for housing. No other city accounts for such a substantial portion of spending within the remaining categories. The predominance of housing rehabilitation as a CDBG activity is not a recent phenomenon. Housing rehabilitation has taken the largest single share of CDBG funds, nationwide since 1979. The rest of this section examines the characteristics of CDBG housing rehabilitation programs. Who delivers these programs? What kinds of units do they assist, and with what form of assistance? What other funds for housing investment and at what ratio are blended with CDBG funding? What are per-unit costs in the program?[10]

FIGURE 3.2
Activities Funded By CDBG Housing Outlays - 1990




Total = $839 million
Source: Urban Institute From HUD GPR Data

Data in this section are drawn from a sample of 250 housing "activities" in the 60 cities originally selected for on-site analysis, weighted to represent all housing activities that

[10] Other factors of interest in the examination of program performance--principally, housing quality and location--are beyond the scope of this research. Housing program beneficiaries are discussed in Chapter 5.

involve physical improvements to structures, as reported on the 1989 Grantee Performance Report. The analysis captures $569.9 million (85 percent) of an estimated 1989 total entitlement city expenditure of $670.5 million. Missing data thus amount to 15 percent of estimated total spending. Initial inspection of missing data and associated weights indicates little bias in the share of dollars represented. Program refers to activities that continue year-to-year as well as one-time only projects.

Table 3.8 shows the agencies that deliver CDBG housing rehabilitation programs; that is, take on management responsibility for program funding decisions and management of outlays and monitoring of contractor performance.[11] (Program delivery is distinct from "sponsorship" of housing developments, which implies legal responsibility for the actual construction or rehabilitation of specific projects, and typically, ownership of the completed projects as well.) Most of the organizations that manage CDBG-funded housing programs, both in numbers of programs and amounts of funds, are public-sector agencies. City line departments--community or economic development agencies and housing departments of city governments--administer almost 80 percent housing programs (including stand-alone housing projects) and account for 68.7 percent of housing outlays.

**TABLE 3.8**
**Allocation of CDBG Dollars to Housing Programs**
**By Administering Ageny Type, 1989**
**(Dollars in Thousands)**

| | Programs | | Dollars | | |
|---|---|---|---|---|---|
| Agency | Number | Percent | Total | Percent | Mean Dollars |
| Total | 959 | 100% | $504,148 | 100% | $526 |
| City Line Department | 750 | 78.2 | 346,350 | 68.7 | 144 |
| Independent Authority | 25 | 2.6 | 55,960 | 11.1 | 699 |
| City Staff Department | 53 | 5.5 | 56,969 | 11.3 | 336 |
| Nonprofit Agency | 131 | 13.6 | 44,869 | 8.9 | 107 |

Source: CDBG Housing Program Sample
Note: Table Excludes NYC In Rem Housing Program

Housing program designers must make basic choices on the types of housing to be supported (owner-occupied v. rental) and the forms of assistance (loans v. grants) that will be made available. Early on, the CDBG was apparently directed primarily toward homeowner rehabilitation programs, a sometime point of contention between city officials and advocates

[11] The table excludes $65.4 million of sampled New York City *in rem* housing expenditures.

for rental housing development. However, analyses in the 1980s noted the frequent blending of CDBG dollars with other federal programs to support rental housing rehabilitation, such as the Section 312 and Rental Rehabilitation Programs.[12] And recent evidence points to the importance of CDBG assistance in nonprofit-sponsored rental housing rehabilitation.[13] This study collected no longitudinal data to determine whether, in fact, CDBG spending has shifted toward support for rental housing. However, if the large outlays of New York's in rem program are excluded rental housing captures just over one-third of CDBG housing resources.

Table 3.9 reports the number of programs and dollars that assist renters and owners and the form of assistance. Note that cities can operate multiple programs, and that the percentages in the tables are for *programs*, not *cities*. Cities administer programs for renters more frequently than those for owners (62.7 v. 32.4 percent), with some programs available to both types of occupant (4.8 percent). In the latter case, cities typically publish a request for proposals that do not limit applications to owners or renters. In terms of total dollar outlays, however, rental housing accounts for a lesser portion of CDBG-funded housing assistance, 34.6 percent in 1989, if New York's in rem program is excluded. About $7 million of the $68.4 million shown for "both" renters and owners was spent on rental housing. Adding the $7 million included in the "both" category brings the total rental housing share of CDBG housing outlays to 36 percent.

About 45.5 percent of dollars are allocated through programs restricted to grants, about 21 percent through programs restricted to loans. About one-third (31.3 percent) of dollars are allocated through programs that offer both grants and loans, usually based on the income of the applicant (for homeowner programs) or the requirements of individual financing packages (for rental housing). It's worth noting that the loan figures include those loans that are grants, in effect; i.e., forgivable deferred-payment loans that may never be repaid so long as certain conditions are met (e.g., continued low-income occupancy). This study did not collect detailed information on the loan terms for each assisted property.

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[12] See Annual Report to Congress of the Section 312 Rehabilitation Loan Program. (Washington, DC: The U.S. Department of Housing and Urban Development,Office of Community Planning and Development, 1980), and Kathleen G. Heintz, Thomas G. Kingsley, Barbara J. Lipman, Ted R. Miller, Ann B. Schnare and Margery A. Turner. Evaluation of Rental Rehabilitation Program - Final Report. (Washington, DC: The Urban Institute, 1987).

[13] See Avis C. Vidal. Rebuilding Communities: A National Study of Urban Community Development Corporations. (New York: Community Development Research Center, Graduate School of management and Urban Policy, 1992), and Chris Baron, Scott Hebert, Kathleen Heintz, Nancy Kay and James E. Wallace. Nonprofit Housing: Costs and Funding - Final Report (Abt Associates, Inc. with Aspen Systems, Inc., 1993).

**TABLE 3.9**
**Allocation of CDBG Dollars to Housing Program**
**By Tenure Type and Form of Assistance, 1989**
**(Dollars in Thousands)**

| | Programs | | | All Dollars | | | Dollars Excluding New York City In Rem Housing | | |
|---|---|---|---|---|---|---|---|---|---|
| Tenure | Number | Percent | | Total | Percent | | Total | Percent | |
| Total | 928 | 100 | % | $569.591 | 100 | % | $504.148 | 100 | % |
| Owner | 301 | 32.4 | | 258.025 | 45.3 | | 258.025 | 51.2 | |
| Renters | 582 | 62.7 | | 239.798 | 42.1 | | 174.355 | 34.6 | |
| Both | 45 | 4.8 | | 68.351 | 12.0 | | 68.351 | 13.6 | |
| Form of Assistance | | | | | | | | | |
| Grants | 719 | 77.5 | | 295.048 | 51.8 | | 229.605 | 45.5 | |
| Loans | 108 | 11.6 | | 116.766 | 20.5 | | 116.766 | 23.2 | |
| Both | 101 | 10.9 | | 157.777 | 27.7 | | 157.777 | 31.3 | |

Source: CDBG Housing Program Sample

The allocation of funds to renters or owners is not related to type of delivery organization, as shown in Table 3.10. In Table 3.10, the nonprofit organizations listed can be either direct sponsors of projects or managers of programs that assist homeowners or housing developers. These include subrecipient and delegate agencies that deliver housing programs or sponsor housing projects (but which are not sub-subrecipients). Public organizations can, and do, allocate dollars for direct nonprofit development. These will not be reflected in the table because they go to sub-subrecipients (i.e., sub-grantees).

The proportion of housing funding allocated to owners versus renters is about the same for nonprofit delivery organizations as for public sector agencies, 51 percent of housing dollars delivered by nonprofits assist homeowners, as does 51.6 percent of public agency dollars. However, the figures presented in Table 3.10 do not capture, as noted, the amounts of funds that are allocated to nonprofits from sub-recipient agencies. As will be shown in Table 3.15, about $53 million of CDBG housing dollars in 1989 supported rental projects owned by nonprofits. Taken together, the $45 million in program dollars delivered through nonprofits, and the $53 million in nonprofit-owned projects (which includes the $13 million shown on Table 3.10), total $98 million, or 19.4 percent of the total $504 million shown on Table 3.10. The table also shows that public agencies and nonprofits do not differ materially in the types of assistance they provide.

**TABLE 3.10**
**Housing Program Tenure Type and Forms of Assistance By Nonprofit Status of Program Delivery Organization (Dollars in Thousands)**

| | Public | | Nonprofit | |
|---|---|---|---|---|
| Tenure | Dollars | Percent | Dollars | Percent |
| Total | $459,279 | 100 % | $44,869 | 100 % |
| Owners | 236,988 | 51.6 | 22,883 | 51.0 |
| Renters | 162,125 | 35.3 | 13,102 | 29.2 |
| Both | 60,166 | 13.1 | 8,884 | 19.8 |
| Form of Assistance | | | | |
| Grants | 212,646 | 46.3 % | 16,691 | 37.2 % |
| Loans | 101,960 | 22.2 | 14,134 | 31.5 |
| Both | 142,836 | 31.1 | 14,089 | 31.4 |

Source: CDBG Housing Program Sample
Note: Table Excludes New York City in Rem Housing

Nonprofits are somewhat more likely to deliver loans-only programs. But the largest dollar category for both public and nonprofit assistance is grant assistance. As shown in Table 3.11 this is true for both rental and homeowner assistance; 56.7 percent of rental dollars are in the form of grants, as is 46.7 percent of owner-occupied dollars.

Loan assistance offered through all types of programs appears to be at deeply discounted rates. Table 3.12 shows the terms of assistance provided through CDBG-funded housing programs. The average program offers minimum and maximum loan rates ranging from 2.45 to 3.09 percent; i.e., regardless of relative program size, an average program will offer a minimum loan rate of 2.45 percent; a maximum rate of 3.09 percent. However, if the amount of funds are considered, and averages are calculated based on the total outlay of program dollars, the average CDBG housing program dollar is lent at rates between 1.01 and 1.07 percent; i.e., larger programs tend to make loans at lower rates, thereby driving down the "dollar-weighted" average rate. (Not shown on the table, 47 percent of all programs offer loans at 0 percent interest; 45 percent of programs offer loans that are deferred, and forgivable, usually if income or occupancy criteria are met for a stipulated period.)

**TABLE 3.11**
**Housing Program Tenure Type By Form of Assistance**
**By Tenure Type, 1989**
**(Dollars in Thousands)**

| | Tenure Type | | | | | |
|---|---|---|---|---|---|---|
| | Owners | | Renters | | Both | |
| Form of Assistance | Dollars | Percent | Dollars | Percent | Dollars | Percent |
| Total | $258,025 | 100 % | $174,355 | 100 % | $68,351 | 100 % |
| Grants | 120,498 | 46.7 | 98,859 | 56.7 | 7,587 | 11.1 |
| Loans | 6,120 | 23.3 | 36,789 | 21.1 | 21,599 | 31.6 |
| Both | 77,408 | 30.0 | 38,532 | 22.1 | 39,165 | 57.3 |

Source: CDBG Housing Program Sample
Note: Excludes New York City In Rem Program

Table 3.12 further shows that while the average program offers per-unit subsidies that allow for at least moderate levels of rehabilitation (up to $30,000 per unit), most dollars are allocated through programs designed to support fairly modest levels of housing upgrade. The unweighted maximum loan amount came to $20,686, the average maximum grant amount to $35,887. If the amounts of dollars channeled through each program is considered (the "dollar-weighted" minima and maxima), the average CDBG loan dollar is provided through a program with a loan maximum of $14,236; the grant maximum, $8,854. However, these represent only the CDBG dollars invested; i.e., they do not include other public or private funds that are "leveraged" to fund all project costs. The table further shows that half of all programs leverage other funds with CDBG dollars, averaging $2.31 in other funds per CDBG dollar. Again, if program dollars are averaged, each CDBG program dollar is matched by another $1.07 from other sources. (This study did not collect information to determine whether these leveraged dollars were the result of explicit program match requirements.)

Table 3.13 provides more detail on leveraging performance. Rental housing and nonprofit-sponsored programs leverage funds more frequently, and at higher rates, than owner-occupied programs; nonprofits leverage funds more often than public sector agencies, but at lower rates. Over three-quarters (78.4 percent) of rental programs blend CDBG funds with other dollars, leveraging $8.44 on average for every $1 of CDBG funds. Owner programs, in contrast, usually invest only CDBG dollars in rehabilitation activities (29.9 percent of programs) and when they do leverage, do so at lower rates than rental programs; $1.61 for every $1 of CDBG funds on average. Sources of leverage are quite different as well. Rental programs typically leverage more federal dollars (Low-Income Tax Credit proceeds, primarily) than owner-occupied programs and larger amounts of "other"--principally private--

funds. Nonprofit programs also leverage at higher rates than public sector programs--$3.66 versus $1.74 for every $1 of CDBG assistance. Relative shares of funding from each source do not differ substantially by agency sponsor.

**TABLE 3.12**
**Selected CDBG Housing Program Financial Characteristics, 1989**

| Financial Characteristic | Program Average | Dollar-weighted Average |
|---|---|---|
| Minimum Loan Rate | 2.45 % | 1.01 % |
| Maximum Loan Rate | 3.09 | 1.07 |
| Maximum Loan Amount | $20,686 | $14,236 |
| Maximum Grant Amount | $35,887 | $8,854 |
| Percent of Programs | | |
| Leveraging non-CDBG Funds | 49.7 % | 50.4 % |
| Ratio: Other Funds/CDBG | 2.31 | 1.07 |

Source: CDBG Housing Program Sample
Note: Program average is simple average across all programs.
Dollars-weighted average is average across all dollars spent.

**TABLE 3.13**
**CDBG Housing Program Leveraging by Source of Funds and Tenure, Nonprofit Status of Program Delivery Organization, 1989**

| Program Characteristic | Owners | Renters | Public | Nonprofit |
|---|---|---|---|---|
| Percent of Programs | | | | |
| That Leverage | 29.9 % | 78.4 % | 42.4 % | 65.3 % |
| Mean Ratio | 1.61 | 8.44 | 1.74 | 3.66 |
| Mean Ratio of | | | | |
| Federal | 0.07 | 2.66 | 0.19 | 0.54 |
| State | 0.16 | 0.28 | 0.18 | 0.20 |
| Local | * | 0.07 | 0.04 | * |
| Other | 1.38 | 5.43 | 1.33 | 2.92 |

Source: CDBG Housing Program Sample

All told, the $504.1 million of CDBG entitlement city housing assistance in 1989 supported upgrade of 79,506 units, an average of $6,341 per unit (See Table 3.14). This figure includes only the hard costs of property rehabilitation, and does not account for program delivery costs, which under CDBG accounting rules, are charged against program expenses, not administration. About 9.5 percent of this total--7,530 units--were supported under programs managed by nonprofit organizations. The mean expenditures per unit for each type of delivery organization are also presented in the table. Although these per unit CDBG costs vary by organization type, they do not by themselves indicate the level of rehabilitation undertaken--other funds contribute to total unit upgrade costs. The total per-unit development costs will be discussed in the next table, although this analysis could not compare leveraging performance across all types of delivery organization, but only the difference between nonprofit- and for-profit-owned rental properties.

**TABLE 3.14**
**CDBG Housing Unit Production and Per-Unit CDBG Dollars by Administering Agency, 1989**
**(Dollars in Thousands)**

| | Dollars | | Units | | |
|---|---|---|---|---|---|
| Agency | Total | Percent | Total | Percent | Dollars/Unit |
| Total | $504,148 | 100 % | 79,506 | 100 % | $6,341 |
| City Line Department | 346,350 | 68.7 | 58,851 | 74.0 | 5,885 |
| Independent Authority | 55,960 | 11.1 | 8,382 | 10.5 | 6,676 |
| City Staff Department | 56,969 | 11.3 | 5,656 | 7.1 | 10,073 |
| Nonprofit Agency | 44,869 | 8.9 | 7,530 | 9.5 | 5,959 |

Source: CDBG Housing Program Sample
Note: Unit estimates are per unit average applied to total dollars

To compare total per-unit development costs, including CDBG and other funds, Table 3.15 presents projects, units, total costs, and costs per unit for rental housing rehabilitation funded by CDBG, presented separately for rental units owned by private landlords and nonprofit organizations. (As noted above, nonprofit projects can be assisted by programs operated by public sector agencies; therefore, the nonprofit unit and leverage figures presented in this table are not comparable to those presented in preceding sections.)

Nonprofits developed 40.3 percent of rental housing units assisted with CDBG funds, totalling 12,203 units in 1989; the remainder (59.7 percent of all units) were developed by for-profit owners. The table also shows that privately-owned projects are slightly smaller, on average, than nonprofit projects, averaging 16.5 units per project compared to 22.5 units per project for nonprofits in 1989. Further, privately-owned projects tend to be more highly leveraged, and invest more total dollars per unit, than nonprofit-owned projects. The $31,906 per unit average for for-profits constitutes substantial rehabilitation, and is far in excess of the nonprofit sector average of $12,851 per unit, a modest level of upgrade. Further, nonprofit projects invest fewer CDBG dollars per unit than private projects ($4,327

v. $7,165). Public CDBG assistance to for-profit units, then, tends to be directed to smaller properties (16.5 units/project) and is somewhat more highly leveraged; assistance to nonprofits tends to support larger properties (22.5 units/project), and is less highly leveraged.

**TABLE 3.15**
**Characteristics of CDBG Rental Projects**
**by Ownership Type**
**(Dollars in Thousands)**

| Program Characteristic | For-Profit Total | For-Profit Percent | Nonprofit Total | Nonprofit Percent | Total |
|---|---|---|---|---|---|
| Total Projects | 1,093 | 66.8 % | 542 | 33.2 % | 1,636 |
| Total Units | 18,042 | 59.7 | 12,203 | 40.3 | 30,245 |
| Units/Project | 16.5 | | 22.5 | | 18.5 |
| CDBG Dollars | $129,271 | 71.0 % | $52,801 | 29.0 % | $182,072 |
| Total Dollars | 575,644 | 78.6 | 156,818 | 21.4 | 732,462 |
| CDBG Dollars/Unit | $7,165 | | $4,327 | | $6,662 |
| Total Dollars/Unit | 31,906 | | 12,851 | | 24,218 |

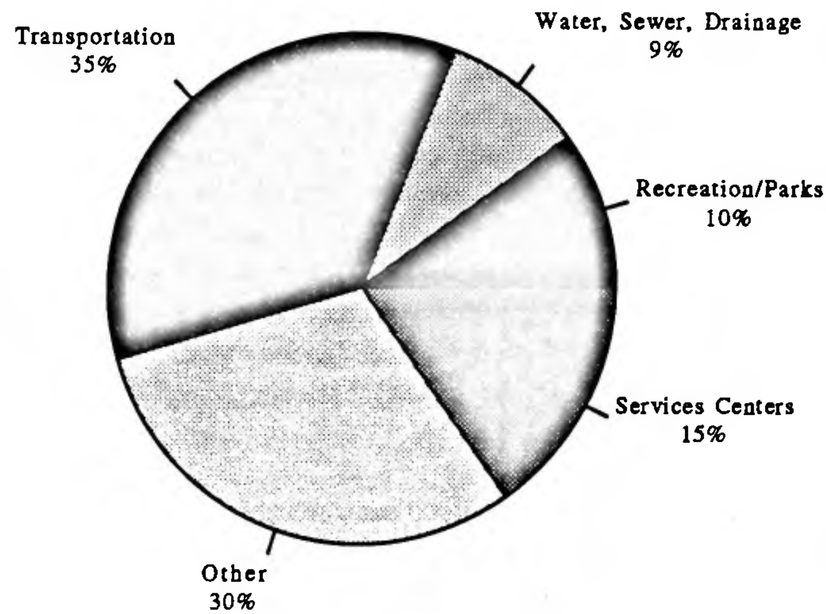
Source: CDBG Housing Program Sample

**CDBG Public Facilities Expenditures.** Public facilities' funding accounts for the next largest share of national CDBG spending after housing. As defined in this report, public facilities consist of a variety of non-housing activities that support improvements to the public capital stock. Broadly, these activities fall into two groups: public works (roads, sidewalks, parking facilities, water and sewer/drainage systems); and community facilities (parks and recreation facilities and facilities for the provision of community services to neighborhood residents). These types of activities historically have constituted a significant portion of city general fund expenditures.

Their eligibility for community development outlays *per se* result from two types of city development need. First is the aging of city infrastructure and consequent deterioration in quality which, combined with population loss and other sources of fiscal stress, undermines the capacity of city governments to maintain adequate public services. Second is the limited ability of cities to support new public facilities investments in under-developed areas, whether because of citywide fiscal limitations or because low-income neighborhoods lack the capacity to "self-finance" public improvements.

As shown in Figure 3.3, investments in transportation facilities accounted for the single largest share of public facilities investment; 35 percent of total 1990 spending of $467 million. Most of these investments were directed toward street rehabilitation, but also included sidewalk improvements, parking facilities, and other transportation-related spending. Water, sewer and drainage improvements accounted for an additional 9 percent. Together, these two categories of public works spending accounted for 44 percent of total CDBG-funded public facilities investments.

FIGURE 3.3
Activities Funded by CDBG Public Facilities Outlays - 1990




Total = $467 million
Source: Urban Institute From HUD GPR Data

Community facilities accounted for another 25 percent, including parks and recreation facilities (10 percent) and community facilities (15 percent). The latter category included such facilities as senior centers, neighborhood services centers, primary care clinics, job training facilities, and other buildings for the provision of social services.

Clearly, CDBG-supported investments represent a minor contribution to total national spending for public works. Federal spending, through the Department of Transportation alone, and including only amounts earmarked for urban areas came to about $ 3.2 billion in 1990. This does not include state and local match funding or the 16 percent of total revenues state and local governments expend on public infrastructure, estimated to add another $8 billion. However, unlike all other federally supported public works outlays, CDBG-funded infrastructure is required to benefit low- and moderate-income neighborhoods, contribute to the elimination of slums and blight, or meet urgent needs that cannot be met through local resources alone.

**CDBG Outlays for Economic Development.** CDBG-funded economic development outlays are intended to create or retain low-income jobs, stabilize or renew neighborhood commercial areas, encourage new business formations, or otherwise promote private sector business investment. Economic development related activities were always eligible under CDBG, but over time Congress and the Department increasingly encouraged the use of CDBG funds for these activities. The 1977 Amendments to the Housing and Community Development Act of 1974 signaled federal encouragement to use CDBG to promote economic development, by adding it as a national objective of the program:

> . . . provision of more standard, liveable housing in more attractive urban neighborhoods will not be enough: residents of these neighborhoods need jobs which result in incomes adequate to support that housing and the related public infrastructure.[14]

The Amendment also added new eligible activities, including improvements to commercial and industrial property, and assistance to local development corporations. Prior to amendments in 1983 that liberalized rules for direct support to for-profit business, city efforts centered on investments in commercial and industrial facilities that indirectly supported new job generation; e.g. industrial park creation or expansion, commercial facade rehabilitation programs, and other physical improvement efforts. Assistance provided directly to businesses in the form of loans and grants for other than physical improvements could be channeled only through "special subrecipients"--primarily nonprofit local development corporations created under the Small Business Administration's Section 503(c) program. With program liberalization, substantial amounts of CDBG economic development dollars were allocated directly by city governments to private sector business.[15] In 1980, about 39

[14] Title 1, Section 104(b)(2), of the Housing and Community Development Act of 1974, as amended.

[15] See, for example, the 6th Annual Report to Congress on the Community Development Block Grant Program, Chapter 5, which reported some $19.4 million in commercial and industrial improvements within the Economic Development category, and $59.5 million to local development corporations, of

percent of CDBG economic development spending could plausibly have supported for-profit business, including amounts spent though local development corporations or for commercial and industrial improvements. The remainder was spent for public facilities, public works, property acquisition, and other publicly-owned projects. In 1990, about 78 percent of CDBG spending was directed to for-profit business.

CDBG support for economic development is a subject of continuing debate because of the tension between the desire to encourage private business investment and the need to ensure compliance with public purposes. In 1987, HUD published guidelines for assistance to for-profit business that established record-keeping, underwriting, and jobholder household income standards that city economic development program managers regarded as administratively burdensome and a deterrent to private sector participation. This compliance requires public sector regulation and monitoring, as well as mandated record keeping and reporting, activities often at variance with normal business practice. In 1992, congressional hearings focused on the characteristics of assisted business, and in particular, charged that CDBG assistance to for-profit business was especially liable to fraud and abuse. In addition, the HUD Inspector General has found managerial problems in several major business loan programs operated by cities. But the General Accounting Office (GAO) recently found that problems in CDBG-funded business assistance programs are not widespread.[16]

This study did not seek to examine patterns and potential problems of program management in the for-profit business sector. Rather, because so little is known about CDBG-funded for-profit business assistance, this research focused on collection of basic descriptive and evaluative information on the types of businesses assisted by CDBG, their owners, the jobs they create, and the funds leveraged.

The following subsection reviews the results of this research. To obtain basic information on for-profit business, this research included a special survey of CDBG-assisted for-profit businesses. A random sample of 400 assisted businesses activities was selected based on the Job Creation Narratives required as part of the Grantee Performance Report. Two business survey instruments were administered.[17] The first, a "screener," was conducted with the administering agency to gather background information and program specifics. The second survey, and primary source of information for this analysis, was conducted with the

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which a large part were for direct assistance to for-profit business.

[16] See U.S. General Accounting Office, *Community Development: Block Grant Economic Development Activities Reflect Local Priorities*. Report to Congressional Committees, February, 1994.

[17] For a detailed description of sampling methodology and instrument examples, see Methodological Appendix.

assisted business owner and included a comprehensive review of the business' characteristics, performance, jobs, and monitoring. Data gleaned from the Assisted Business survey represents "survivor businesses," or those that were in operation and could be located four years after assistance was received.

Completed administering agency surveys for 309 of the 400 originally-assisted businesses were received, a completion rate of 77 percent. Of these 309, business "terminations" and "survivors" are known for 292 businesses, or 73 percent of the original sample. (Business "terminations" include those that closed their doors, for whatever reason.) No attempt was made to contact the owners of terminated businesses, which totalled 58 of the 292, or 19.9 percent. Assuming that the business termination rate of the overall sample of 400 businesses is 19.9 percent, the remaining pool of assisted business for which a survey could be completed, in theory, is 320. Complete information for these "survivor" businesses was received for 144 businesses, a completion rate of 45 percent. Because "proxy" questions were asked of agency administrators in the event a business owner survey could not be completed, or because the business had closed its doors, response rates for some of the variables presented in the following tables vary, depending on whether a proxy interview could be completed.[18]

*Characteristics of Business Assistance Programs.* In 1992, assistance to private for-profit business dominated local CDBG spending for economic development. As shown in Figure 3.4, business assistance either provided by local public agencies (68 percent of funds) or channeled through special subrecipients (10 percent) totalled 78 percent of total spending for the category. Commercial and industrial improvements amounted to 22 percent of this spending.

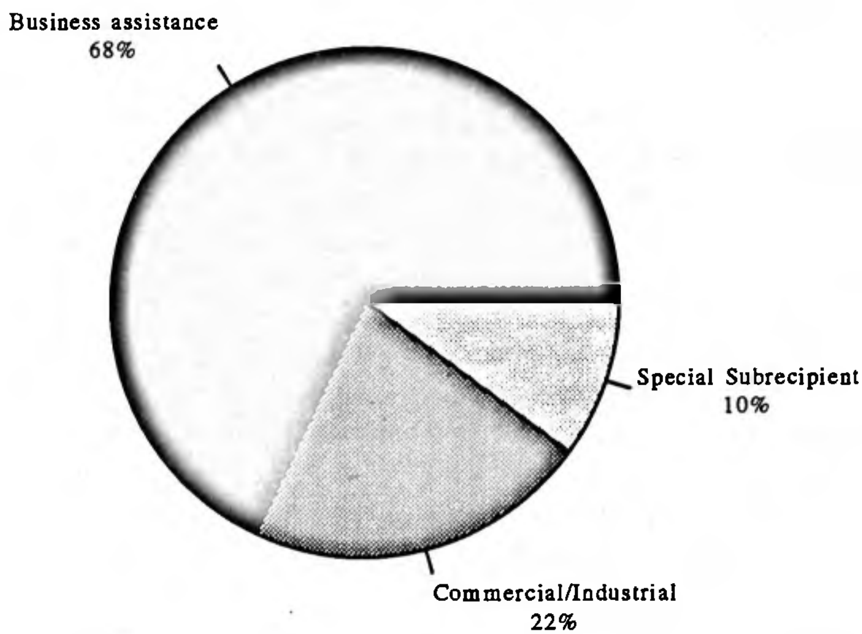
Cities must make several basic decisions about the character of business assistance. First, is it to be provided on an ongoing basis, signalling continuing city commitment to job creation, or is it primarily extended in response to individual opportunities? Second, is it intended to further overall city job generation objectives, or is it limited primarily to neighborhoods, small business, or disadvantaged business? Third, is the form of assistance repayable loans or grants?

Most (65 percent) of this business assistance is provided through ongoing business loan programs, that is, economic development programs that typically receive "routine" budget allocations from year-to-year, or receive continuing funding through repayments of previous loans, or both. Stand-alone projects, the remaining 35 percent of assisted business,

[18] The sample was re-weighted to adjust for missing cases.

are undertaken outside of an established economic development program (although they must meet all CDBG eligibility criteria). These projects reflect explicit city decisions to fund a particular development activity, as opposed to a sustained commitment over time.[19]

FIGURE 3.4
Activities Funded by Economic Development Outlays - 1990




Total = $251 million
Source: Urban Institute From HUD GPR Data

There is no necessary link between targeted assistance to particular types of private business and city efforts to support neighborhood revitalization *per se*. There are examples in many cities of CDBG funds used to support major business investment by large

[19] This distinction between on-going and stand-alone (opportunity-driven) programs and projects may help explain the high year-to-year variation in economic development budget shares, locally. This variation is explored in the third section of this chapter.

corporations, with a view toward expanding overall city employment.[20] But many programs are designed to reach smaller businesses or those owned by traditionally disadvantaged groups. This targeting may be explicit (e.g., by limiting participation to businesses of a certain size or a certain geographic area) or implicit (e.g., by limiting loan or grant sizes to small amounts). Our evidence suggests that cities engage primarily in targeted efforts. Program administrators report that 87 percent of CDBG programs "target" small business while 49 percent target minority-owned business. Geographic targeting includes neighborhood commercial area and central business districts; neighborhood areas appear to be the primary choice.

Assistance may include loans (both repayable and forgivable), grants, and technical assistance. The most common type of assistance is repayable loans. Fifty-three percent of businesses received assistance of this form while 31 percent received grants and 14 percent forgivable loans. Only 4 percent of assisted businesses reported receiving technical assistance.

*Characteristics of Assisted Business.* In theory, cities have two choices: They can choose to increase employment directly, by targeting large employers likely to make a measurable difference, either to total city employment, or to employment in particular neighborhoods. They also may opt to target small businesses or those owned by traditionally disadvantaged persons, on the expectation that these businesses offer future job growth for low-income, disadvantaged persons or neighborhood residents.

The Small Business Administration (SBA) defines *small business* by receipts or employee size based on a business' Standard Industrial Classification (SIC) code. SBA qualifies most special trade businesses (including plumbing, painting, and masonry) as "small" if receipts are fewer than $7 million. A manufacturing business (including makers of such items as ice cream, dog food, or malt beverages) is small if it employed less than 500 persons.[21] Consistent with city claims, almost all CDBG-assisted businesses are small by the Small Business Administration's definition. The average business assisted with CDBG funds had median revenues of only $345,000 prior to CDBG assistance and an average of 18 pre-

[20] For example, the early 1980s, the city of Detroit used the proceeds of a multi-million dollar Section 108 loan to fund infrastructure improvements in support of the General Motors Corporation's new Poletown plant in East Detroit.

[21] 13 CFR Ch. 1 (1-1-92 Edition) section 121.601 Small Business Administration. p. 355.

assistance employees.[22] Nearly one-third of the assisted businesses employed two or fewer persons, and 52 percent of assisted businesses employed 5 or fewer persons prior to CDBG assistance.[23] Less than 1 percent of all businesses assisted by CDBG had 1989 revenues of $6 million or more. The largest firm in the business assistance sample, in terms of revenue, was a trucking business that employed 180 persons.

Of the types of businesses receiving CDBG funds in 1989, regardless of whether they survived over the period, retail is the largest single group, at 33 percent of the sample[24] (Figure 3.5). Although this category often is grouped within the service industry, it has been placed in a separate category for this analysis to differentiate between businesses that sell 88 a product (retail) and businesses that sell a service (service). Retail activities include food, clothing, and drug stores while service sector examples include hotels, parking lots, and beauty shops. The large "other" category in Figure 3.5 contains economic development activities such as funds to business incubators, strip malls, and other activities that included more than one business as the ultimate employment provider.[25] Rounding out the varied pool of assisted businesses are enterprises in the manufacturing field, including those producing clothing, glass, and specialty items, accounting for 15 percent of the whole.

This sectoral composition of CDBG-assisted business differs from that of U.S. business generally. Figure 3.6 compares CDBG business types assisted in 1989 to overall business types in the U.S. in 1989. (Excluded are "other" business activities not easily classified by sector; these are assumed to match the sector composition of those for which a line of business could be identified.) As can be seen, retail and manufacturing sector businesses are assisted by CDBG at a higher rate than the overall presence of these sectors in the national economy, and service sector businesses at a lower rate than the national average.

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[22] These businesses represent only those that "survived" to answer questions four years after assistance began. It is quite likely that businesses that "terminated" had smaller revenues and fewer employees, on average, than those that survived. The fact that a relatively large share of businesses that terminated were "start-up" business supports this speculation.

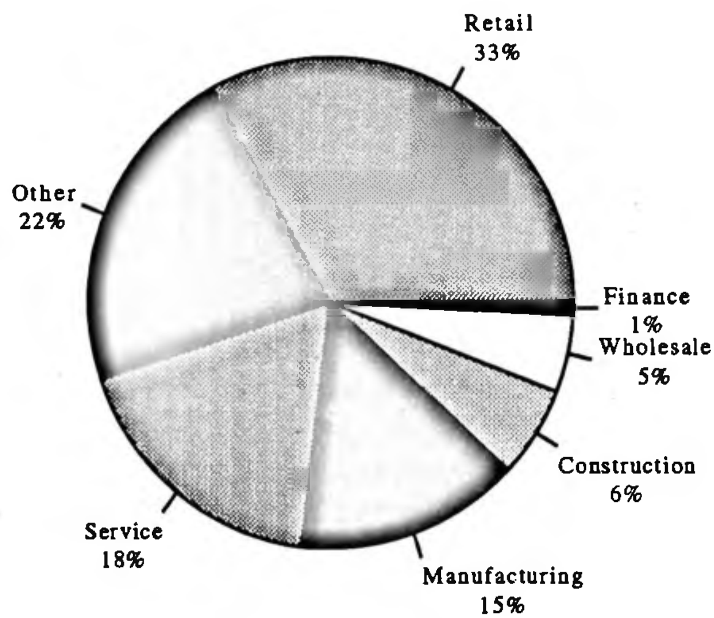
[23] Although previously eligible to be assisted, microenterprises were added by the Housing Community Development Act of 1992 as a new separate eligible activity. The statute defines a microenterprise as a business of five or fewer employees, one of whom must be the owner.

[24] This figure is based on 292 businesses covered by the administering agency survey (73 percent of the original 400-business sample), and thus includes terminations after 1989.

[25] These are not necessarily "speculative" investments, insofar as cities may fund such developments contingent on anchor leases or other indicators of ultimate occupancy. This study made no attempt to contact individual tenants to determine sector, numbers of jobs created, or other business characteristics, even though they may have been parties to original city agreements that to create low-income jobs.

This may reflect the sectoral composition of urban and particularly, central city business, and also the "neighborhood" service area of a portion of CDBG-assisted businesses (see below).

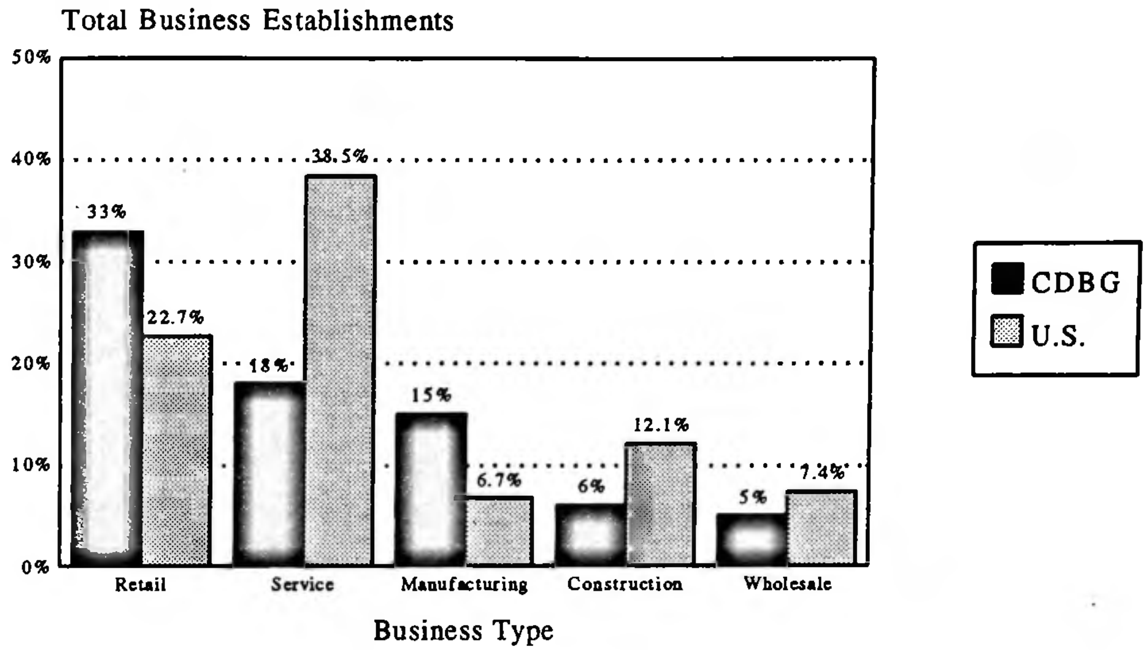
FIGURE 3.5
Sector of CDBG-Funded Businesses, 1989
(n = 294)




Source: Compiled by the Urban Institute from the Administering Agency Business Survey.

The classic economic development literature cites large businesses (typically with citywide or export markets) as providing the largest contribution to development and employment. However, neighborhood retail enterprises contribute more directly to economic renewal of neighborhood business services. Both types of development can support neighborhood revitalization objectives; businesses located in low-income neighborhoods, but which serve citywide markets, represent, in effect, neighborhood "export" business. Although this research does not definitively link CDBG-funded business location with types of business markets, the findings from the survey are suggestive of a relatively large share of neighborhood "export business" in the pool of all CDBG-assisted businesses.

## FIGURE 3.6
## Sector of CDBG Assisted Businesses and All U.S. Businesses




Sources: CDBG data compiled by Urban Institute from the Administering Agency Business Survey. Universe data compiled by U.S. Department of Commerce, Bureau of the Census, Special Tabulations for the U.S. Small Business Administration, Office of Advocacy, January 1993.

Over half of CDBG-assisted businesses reported that their customers come from all over the city. Thirty-one percent consider neighborhood residents their primary clientele, 51 percent serve clients citywide, and 18 percent serve customers outside the city (see Table 3.16). Table 3.16 shows service areas by minority and non-minority ownership status. Minority businesses are much more likely than non-minority businesses to define service areas in terms of neighborhood; 50 percent, and 34 percent, respectively.[26] Conversely, non-minority businesses are more likely to serve customers from outside the city where the business is located; 41 percent of non-minority businesses report serving customers from outside the city, only 4 percent of minority businesses do so.

[26] The overall rates are calculated based on 196 responses to the business survey. Minority ownership status and service area figures, presented in Table 3.16, are known for 134 businesses, and somewhat undercount the share that serve citywide customers.

**TABLE 3.16**
**Service Area, Activity Type and Use of Funds By CDBG Assisted Businesses By Minority Ownership Type**
**(n=134)**

| | Ownership Type | | | | | |
|---|---|---|---|---|---|---|
| | Minority | | Non-Minority | | Overall | |
| Service Area | | | | | | |
| Neighborhood | 50 | % | 34 | % | 31 | % |
| Citywide | 46 | | 45 | | 51 | |
| Beyond City | 4 | | 21 | | 18 | |
| Activity Type | | | | | | |
| Start Up | 30 | % | 19 | % | 23 | % |
| Relocate | 32 | | 30 | | 31 | |
| Expansion | 51 | | 62 | | 57 | |
| Improvement | 77 | | 77 | | 78 | |
| Specific Activity | | | | | | |
| Renovate/Construct | 67 | % | 68 | % | 68 | % |
| Equipment Acquisition | 61 | | 39 | | 47 | |
| Operating Capital | 36 | | 10 | | 21 | |
| Demolition | 7 | | 7 | | 8 | |
| Other | 10 | | 14 | | 12 | |

Source: Compiled by The Urban Institute from the Assisted Business Survey.

The pace of new establishment creation has been shown to be a primary contributor to overall growth or decline in the number of city businesses and employment (as opposed to "survivor" rates of existing business).[27] Recent years have also witnessed an upsurge in attention to the role of entrepreneurship in wealth creation in low-income communities. This research looked at CDBG's role in both new business creation and entrepreneurial support.

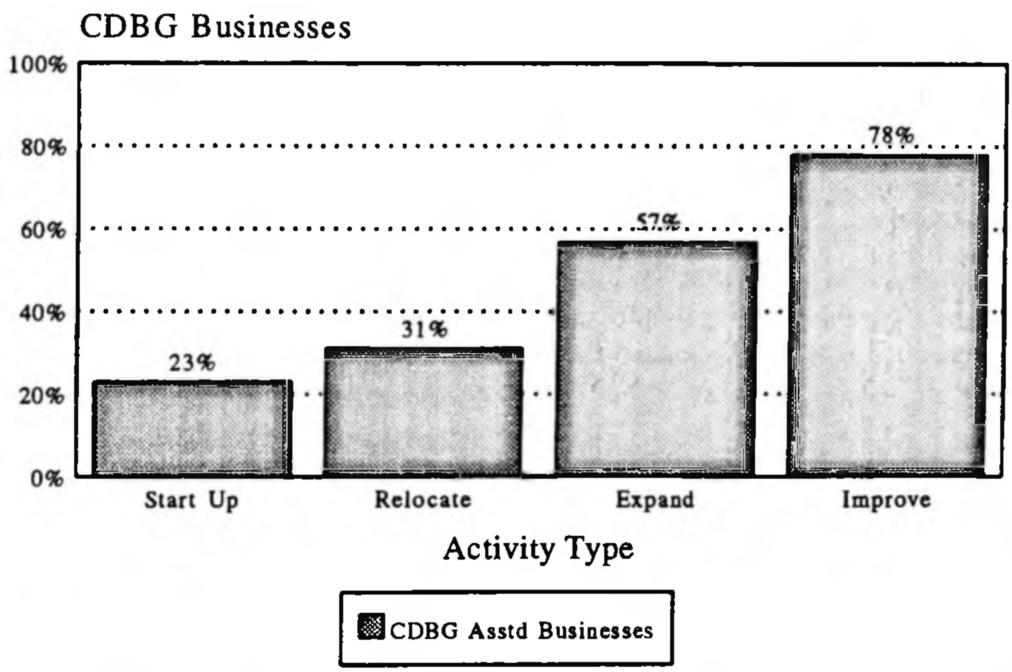
The Assisted Business survey asked business owners whether CDBG assistance was used to: 1) start up, 2) relocate, 3) expand, or 4) improve facilities.[28] These are not mutually exclusive categories and most businesses used the funds to perform activities of more than one type. Figure 3.7 shows the results of the survey. Twenty-three percent of the assisted business reported using CDBG funds for start-up purposes. Of those using funds for some

[27] See Larry Ledebur, Chris Walker, and Ted Miller, For-Profit Enterprise in Community Economic Development, prepared for the Standard Oil Foundation, 1985.

[28] The survey did not include a separate category for "retained" business. Business retention was included under the headings listed above.

type of existing business activity, by far the most common type was improvements to existing facilities. Over three-quarters (78 percent) reported using CDBG funds for this purpose. (And this is a conservative estimate since, as noted, relocations and expansions can also include "improvements" to existing structures or equipment.) Somewhat over half (57 percent) reported using such funds for expansion. About one-third reported using them to relocate.

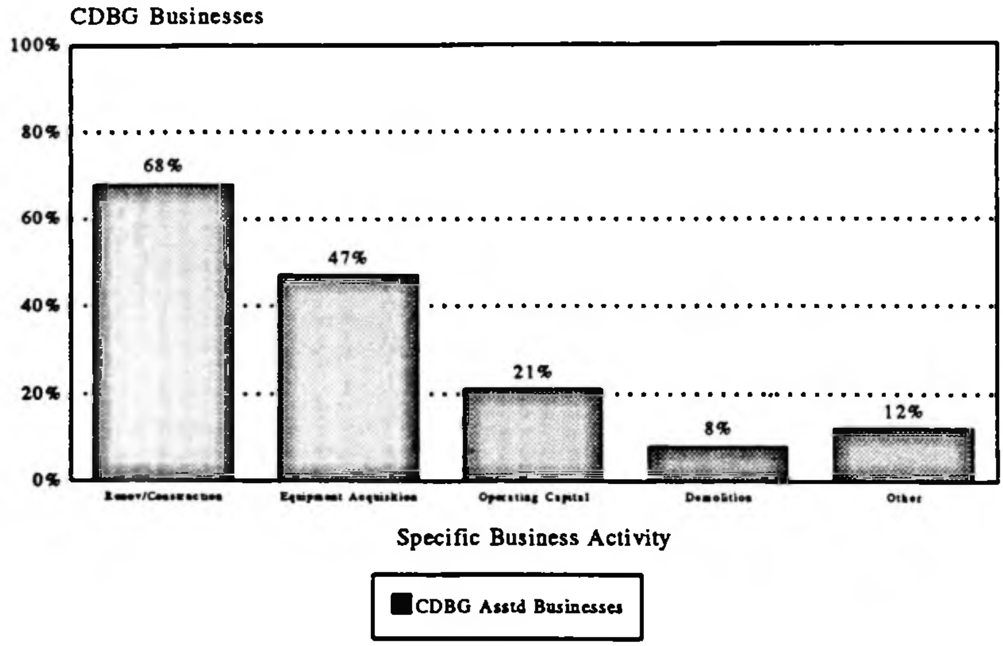
## FIGURE 3.7
Type of Business Activity
(n=144)




Source: Compiled by the Urban Institute from the Assisted Business Survey.
See Methodological Appendix

Program rules do not limit the types of assistance that can be provided to for-profit business. (Prior to 1983 CDBG support was limited to renovation of physical plant.) Figure 3.8 shows that physical improvements continue to be the most frequent type of activity supported by CDBG funds with 68 percent of business reported using CDBG funds for improvements or construction of structures. Nevertheless, substantial proportions of businesses used CDBG assistance for activities that were ineligible a decade ago (except as provided through special subrecipients). Almost half (47 percent) of business used CDBG funds for equipment acquisition; 21 percent used funds for operating capital. As seen below, these shares are affected by type of business ownership.

FIGURE 3.8
CDBG Assisted Specific Business Activity
(n=144)




Source: Compiled by the Urban Institute from the Assisted Business Survey. See Methodological Appendix.

*Type of Business Ownership.* The comparatively low-rates of business ownership among minorities (except Asians) has been well-documented.[29] Some analysts have attempted to link low ownership rates with other problems that afflict the minority community: restricted job opportunities, lack of access to capitol markets, low average household wealth, and inadequate retail services in minority communities, among others. For a number of years, federal policy has supported efforts to increase minority business

[29] See for example, Timothy Bates and Constance Dunham. "Facilitating Upward Mobility Through Small Business Ownership" in Urban Labor Markets and Job Opportunity. George Peterson and Wayne Vroman, eds. (Washington, DC: Urban Institute Press, 1992). p.239, and almost any report on the subject report issued by the Small Business Administration and the Minority Business Development Agency.

prospects; e.g., SBA loan guarantee programs and affirmative purchasing by federal agencies. Further, HUD each year establishes non-binding minority contracting goals for CDBG entitlement communities as a means to support minority business.

Another form of support for minority business opportunities is the use of CDBG funds to directly assist minority firms. Because cities say they "target" funds to this and most CDBG dollars in fact flow through central cities that contain minority residents at rates higher than the national average,[30] one expectation is that minority businesses will be well-represented among CDBG-assisted business. This expectation is confirmed. Minority-owned businesses appear in the pool of CDBG-assisted businesses at about three times the rate expected given their share of the total U.S. business population (37 percent versus 12 percent of U.S. business according to SBA calculations based on Census Bureau figures).[31] Women-owned businesses, in contrast, are CDBG-assisted at rates comparable to their share of all U.S. business.[32]

Ownership type is linked to a number of other business characteristics: minority businesses are smaller, more often start-ups, more likely to be supplied with operating capital, and more likely to have neighborhood customer bases than other types of CDBG-assisted business. Median revenues for minority-owned businesses were $250,000, compared to median revenues for all assisted business of $345,000; median revenues for CDBG women-owned businesses were even smaller, $165,437. Minority businesses were almost twice as likely to use CDBG funds to start a business as were majority-owned firms. In addition, minority-owned businesses make use of CDBG for operating capital more often than other businesses (36 percent compared to 10 percent). This is an important result, insofar as many previous analyses have documented lack of operating capital as the primary reason for business failure among new firms.[33] Finally, minority-owned businesses were

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[30] The "CDBG dollar-weighted" minority share of entitlement city population is about 45 percent: i.e., the average program dollar is spent in a city with a 45 percent minority population. See the discussion in Chapter 5.

[31] SBA (1992) from U.S. Bureau of the Census, *1987 Characteristics of Business Owners.* Sample signs do not permit an analysis of assisted business by central city location, nor are their national figures on minority business location. The State of Small Business. A Report to the President 1992. U.S. Government Printing Office, Washington, DC, 1992. p.131.

[32] *The State of Small Business*: A Report of the President (together with the annual report on small business and competition and the annual report of federal procurement preference goals of the U.S. Small Business Administration) U.S. Government Printing Office, Washington D.C., 1993, Table D.2, p.340.

[33] The State of Small Business. A Report to the President 1992. U.S. Government Printing Office, Washington, DC, 1992. p.131.

more likely to serve customers that reside in the neighborhood surrounding the business. Minority and non-minority businesses were equally likely to serve customers citywide, but one-fourth of non-minority-owned businesses reported that their customer base extended beyond the city limits compared to only 4 percent of minority-owned businesses.

*Business Terminations, Substitution, and Leverage.* Unlike HUD's only previous program of assistance for business--the Urban Development Action Grant (UDAG) program--CDBG business assistance rules do not stipulate minimum leveraging requirements; nor are businesses required to legally certify that "but-for" public assistance a project would not proceed, as further tested by consistently applied federal underwriting standards. The program does require that assistance provided by public agencies be *necessary or appropriate*, which implies both that assistance be needed and that subsidies are appropriately "sized." However, this is an obligation imposed by Congress on local public agencies, not on the individual businesses involved.

This section applies several evaluative tests to CDBG-funded business assistance. First, do businesses survive? Assistance given to businesses that subsequently fail produces an obviously limited public payoff. But analysis of failure must take into account businesses that need public sector assistance or operate in low-income neighborhoods, may well be more fragile than businesses, generally. Moreover, even if a CDBG-assisted business fails, and CDBG loans are unpaid, if employment opportunities are created, for whatever duration, the assistance was not entirely without merit. Second, does CDBG assistance substitute for private or other forms of public assistance? Indirectly, is the assistance "necessary?" Because city underwriting standards and staff expertise vary considerably, "substitution" rates may be expected to be high compared to UDAG-program activities which operated under explicitly stricter standards. Third, does CDBG assistance represent all or a part of project investment? In essence, funds leveraging reduces the risk to which the CDBG funds are exposed by sharing it with other funders.

This section examines each of these issues in turn, using information the Administering Agency Screener collected on the operating status of CDBG-assisted businesses; i.e., whether they survived the four years between CDBG funding and the time of the survey, or whether they "terminated." The SBA describes business termination as a business closing its doors and ceasing to operate. It defines business "failure" as a business termination involving bankruptcy or loss to a creditor. SBA estimates that only one-tenth of business terminations are technical business failures.[34] The Agency Screener survey did not collect financial information on businesses that are no longer operating, thus no information

[34] The State of Small Business. A Report of the President 1993. U.S. Government Printing Office, Washington, DC, 1993, pp. 39-41.

on bankruptcy or credit loss is available. Consequentially, this analysis examines rates of business termination, not technical failure, although from a program standpoint, a business termination could be counted as a "program" failure, whether they declared bankruptcy or defaulted on loans, or both. "Termination" is used to maintain consistency with the SBA definition.

The overall termination rate over four years for CDBG-assisted businesses was 27.5 percent (see Table 3.17), a figure well below that represented by the SBA five-year termination rate of 50 percent (1982-1987).[35] Although the CDBG-assisted businesses were contacted four years after initial receipt of assistance, one year less than the basis for the SBA estimate, the entire difference cannot be attributed to this lag, as business termination rates fall rapidly after the first several years of operation.[36] Table 3.17 also presents termination rates for businesses where minority or women-owned status was known. The overall termination rate for these businesses was 24 percent, with 36.5 percent of minority-owned firms and 20.9 percent of women-owned firms terminating over four years.

**TABLE 3.17**
**CDBG Four Year Termination Rates By Minority and Women Ownership Type**

| | CDBG 4-year Termination Rate | SBA 5-year Dissolution Rate |
|---|---|---|
| Total Sample (n=292) | 27.5 % | 50 % |
| Sample Where Minority/Women Status Known (n=214) | | |
| Minority/Women Sample Overall | 24.0 % | |
| Minority Owned | 36.5 % | |
| Woman Owned | 20.9 % | |

Sources: CDBG figures compiled by the Urban Institute from the Administering Agency Business Survey.
SBA figures reported in The State of Small Business: Report of the President.
1993. U.S. Government Printing Office, Washington, DC, 1993. Table A.21, p.215.

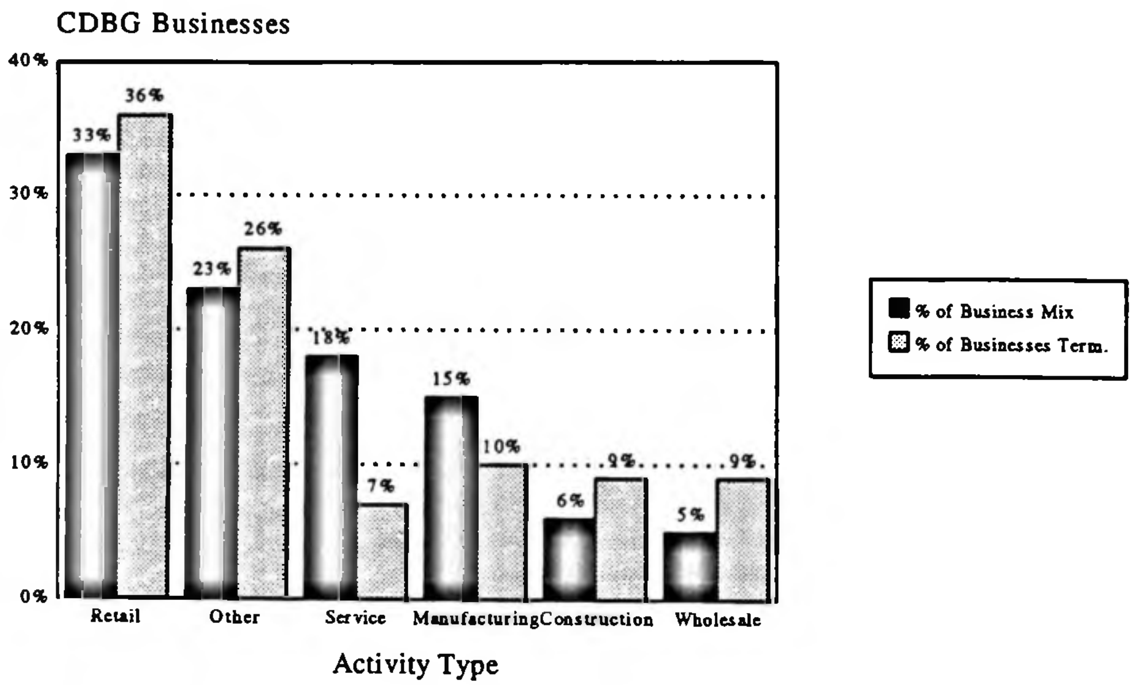
Figure 3.9 separates terminated businesses by business sector. Business types terminated at rates similar to their proportions in the original sample. The single major exception is the service sector, which terminated at less than half the rate expected from its representation in the original sample. Figure 3.10 presents the activity type of terminated

[35] This termination rate appears not to be influenced by missing data. It is based on the 73 percent of businesses for which operating status is known, or 95 percent of all completed surveys. The remaining 27 percent of non-responses for the original sample are largely from cities that did not respond for *any* of their assisted businesses, whether terminated or not.

[36] David L. Birch. The Job Generation Process. (Cambridge, Massachusetts: MIT Program on Neighborhood and Regional Change, 1979).

businesses compared to the original sample. Start-up businesses are the exception here. With the tenuous nature of start up businesses, it is not surprising that they were twice as likely to terminate as their percentage of the original sample would suggest.

FIGURE 3.9
Comparison of CDBG Assisted Business Type Mix with Type Percent Terminated



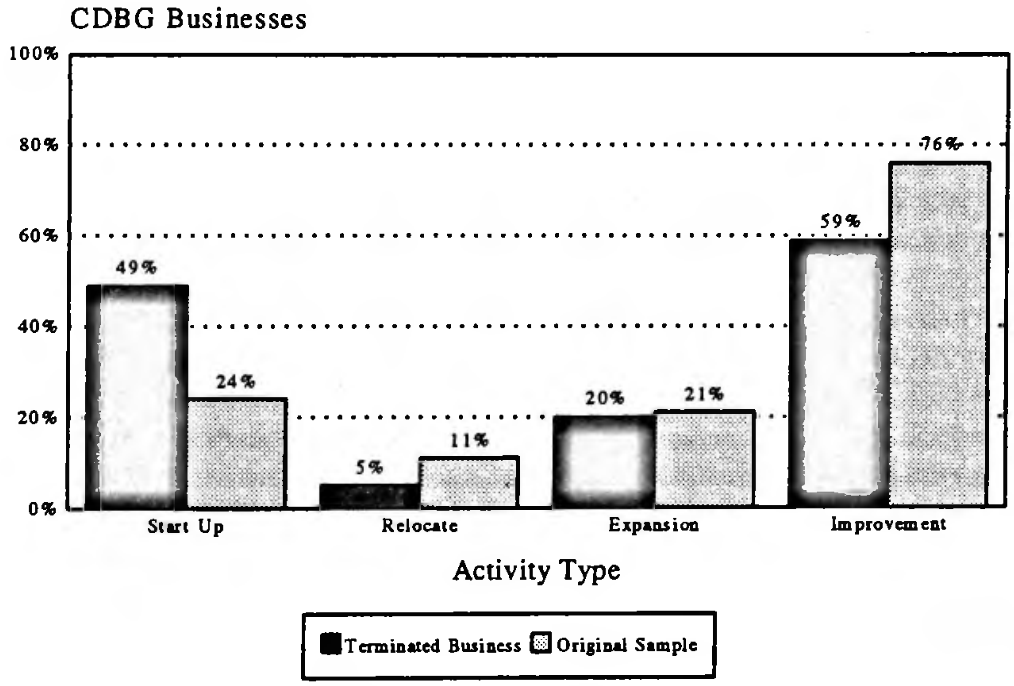

Source: Compiled by the Urban Institute from the Administering Agency Business Survey. See Methodological Appendix.

A field memorandum from HUD's Office of Community Planning and Development issued in 1987 (two years prior to assistance granted to businesses in this research sample) established basic criteria for HUD field staff review of local economic development programs.[37] To implement the "necessary and appropriate" criterion of the legislation, HUD in effect, instructed city program managers to conduct basic underwriting tests to ensure that assisted businesses were in need of public aid. This analysis did not look directly at the appropriateness of funds allocated to businesses under the CDBG program, but it did investigate possible funds substitution. Substitution means that federal funds pay for some

[37] See Memorandum from Jack Stokvis to field administrators, May 19, 1987.

portion of an activity that the private sector or other public entities would have paid for in the absence of CDBG dollars.

## FIGURE 3.10
## Activity Type of Terminated Businesses and the Original Sample




Source: Compiled by the Urban Institute from the Administering Agency Business Survey. See Methodological Appendix.

For this research, assisted businesses were asked to recount how projects would have proceeded, if at all, without CDBG assistance--an indirect test of substitution. Although rates were self reported, given the relatively relaxed program standards (of which business respondents are likely to be unaware) and the assurance of confidentiality there is little reason to expect bias. They responded to the question:

*"Which of the following best describes the role of CDBG in funding this activity? Would you say the activity...*

- Would not have happened without CDBG,
- Would have happened without CDBG, but on a smaller scale,

- Would have happened without CDBG, on the same scale, or,
- Some other outcome would have occurred?

In 50 percent of cases, businesses reported that no project would have been undertaken without CDBG; an additional 30 percent reported that the project would have proceeded on a smaller scale (see Table 3.18). Thus, 80 percent of assisted cases would not have existed at their current level without CDBG funds. These rates compare reasonably well with those reported for the UDAG program, under which all applications for assistance were underwritten at HUD's central office, according to a consistently applied set of financial guidelines. As the table shows, the corresponding UDAG percentages of no or partial substitution amount to 79 percent. These CDBG substitution rates did not vary substantially by ownership type (minority or female) or service area (not shown on the table). Interestingly, the two largest businesses in the sample report that they would not have completed their projects or would have done so on a smaller scale, without CDBG funds.

*Business Employment.* All businesses in the research sample were expected to create low- and moderate-income jobs as a condition of assistance. At the time these businesses received assistance--1989--program rules specified that a majority of all jobs created with CDBG assistance be held by persons who come from low- and moderate-income households, and that these be "permanent" jobs (e.g., employment only for the renovation of businesses premises does not count toward meeting program requirements).

**TABLE 3.18**
**Comparative Substitution Rates for CDBG and Urban Development Action Grant Program (CDBG Sample n=1280)**

| | Program | |
|---|---|---|
| Substitution | CDBG | UDAG |
| None | 50 % | 64 % |
| Partial | 30 | 13 |
| Full | 17 | 8 |
| Other | 3 | 15 |

Sources: CDBG rates compiled by the Urban Institute from the Assisted Business Survey. UDAG figures: U.S. Department of Housing and Urban Development, An Impact Evaluation of the Urban Development Action Grant Program, January 1982, p. 26.

A number of benefits accrue, in theory, to those who hold such jobs--income from work, and opportunities for mobility, whether through accumulation of work history or job skills. In recent years, analysts concerned about the changing nature of U.S. employment generally, have turned attention to job "quality" as a way of thinking about these potential benefits. Although job quality has multiple dimensions, at least a minimum test is whether the jobs are full-time, and whether they pay above the federal minimum wage. Benefits also accrue to communities where jobs are created, if community residents are job holders. Federal Section 3 requirements, which mandate efforts to employ residents of neighborhoods on projects supported with federal funds, is intended to leverage these kinds of community benefits through federal spending.

This research examines whether, after four years of business operation, the jobs originally "created" by the program still existed and the quality of those jobs. The data collected directly from businesses include job permanency, full-time status, wage level, and the income and ethnicity of job-holders. Table 3.19 shows the results of this analysis.[38]

**TABLE 3.19**
**CDBG Job Creation and Percent of Workforce from Neighborhood For Firms that Last Four Years by Minority Ownership Type (n=76)***

| | | Ownership Type | |
|---|---|---|---|
| | All Business | Minority | Non-Minority |
| Jobs Existing after 4 years | 89 % | 63 % | 98 % |
| Jobs Held by "low-income"** | 38 | 75 | 29 |
| Full Time Jobs | 96 | 87 | 99 |
| Jobs at minimum wage or below | 10 | 6 | 12 |
| Total workforce from neighborhood | 32 % | 33 % | 23 % |

* Valid n is weighted n of observations for percentage calculations.
** Businesses were not supplied a definition of "low-income."
Source: Compiled by the Urban Institute from the Assisted Business Survey.

Of the businesses that survived four years, most jobs created in these businesses remained after four years and met the basic test of job quality. Among these businesses, 89 percent of initially created positions remain after four years,[39] 96 percent are full time and 90 percent earn above minimum wage. Further, one-third (32 percent) of jobs are held by residents who live in the "immediate neighborhood" of the business. These calculations are based on CDBG job slots created at the time of assistance and does not include possible

[38] The number of observations in the table includes only those for which both minority status and number of jobs remaining is known. This percentage does not differ materially from that based on the larger sample of all assisted business.

[39] This figure excludes those jobs lost through business terminations.

expansion of employment during the four years after assistance was initially given. The table also shows that 38 percent of jobs were held by "low-income" persons. Although no definition of "low-income" was supplied to the respondent business, rendering this result is of little programmatic relevance, the question is useful for comparative purposes, as noted below.

Business performance on these indicators varies across minority-owned and non-minority-owned businesses, however, and across businesses with neighborhood versus citywide customer areas. Minority-owned businesses are more likely than majority-owned firms to hire "low-income" job-holders (75 percent v. 29 percent). But these jobs also suffer higher attrition rates than those created by non-minority owned business; 63 percent of jobs remain after four years, compared with 98 percent of non-minority owned business jobs. Neighborhood businesses create low-income jobs at higher rates than all business, and are much more likely to hire neighborhood residents, but a substantially higher share of jobs they create are minimum-wage and less than full-time.

The average CDBG cost per job created is $2,718. At first glance, this figure is substantially lower than costs per job for other economic development programs. The UDAG program, for example, which typically funded large scale developments, averaged about $10,000 per planned job in the early 1980s. However, there are a number of qualifications that attach to this comparison. First, the UDAG program was not a job creation program, *per se*, but rather an economic development program more broadly understood. At least in the early years of the program, a number of UDAG projects included large public investment in infrastructure facilities (e.g., parking garages) intended to support commercial activity beyond that directly tied to the project. Second, neither the UDAG cost-per-job estimates or the CDBG job estimates presented here netted-out failures; i.e. jobs created but subsequently lost, or in the UDAG case, jobs planned but not ultimately created. Third, the cost-per-job figures include only the program cost per job created, and do not include other funds, both public and private. The quality of the CDBG total project cost data obtained in the business survey could not support better estimates of total job creation costs. Nevertheless, the magnitude of the difference reported in Table 3.20 probably points to a genuine difference in per-job costs, but the reasons for this difference are not at all clear. Table 3.20 also shows cost per job by ownership and service area. On average, jobs created by minority-owned firms cost the CDBG program $1,147 more than those created by non-minority-owned firms.

**TABLE 3.20**
**CDBG Cost Per Job By Minority Ownership Type**
**(n=73)**

| Ownership Type | Cost Per Job |
|---|---|
| Overall | $2,718 |
| Minority | $3,556 |
| Non-Minority | $2,409 |

Source: Compiled by The Urban Institute from the Assisted Business Survey.

It is worth noting that a few firms reported being *required* to set aside jobs for neighborhood residents (8.4 percent) and only slightly more were required to make "special efforts" to hire neighborhood residents (11 percent) (Table 3.21). Much more common were requirements that assisted business accept referrals from their local Private Industry Council (26 percent) or accept referrals from local jobs services or unemployment offices.

**TABLE 3.21**
**Hiring Requirements Placed on CDBG-Assisted Businesses**
**(n=623)**

| | Percent required |
|---|---|
| To set aside jobs for neighborhood residents | 8.4 % |
| Make special efforts to hire neighborhood residents | 11 |
| Advertise positions with community organizations | 15 |
| Advertise positions at local jobs service or unemployment office | 23 |
| Accept referrals from local private industry council | 26 |

Source: Compiled by the Urban Institute from the Assisted Business Survey. See Methodological Appendix.

**CDBG Outlays for Public Service Activities.** Social services to the public ("public services" in CDBG terminology) consist of a variety of activities intended to directly contribute to the well-being of individuals with particular needs--senior citizens, disadvantaged youth, homeless families and other special populations.[40] CDBG was intended to be a physical development program concentrating on physical improvements such as housing rehabilitation and infrastructure development. However, Congress also recognized that unmet social service needs can destabilize other efforts to improve neighborhoods. As early as 1976, $40 million of CDBG funds were going into public services. With the introduction of Neighborhood Strategy Areas in 1977, a direct link was made to complement physical improvement activities with public services. In 1981, public service eligibility rules were loosened in the Housing and Community Development Act of 1981 to allow CDBG to be more readily used for public service provision.

Capped in 1981 at 10 percent of a city's annual program allocation, the cap was raised to 15 percent in 1983, and starting in 1990, cities were permitted to include program income in the basis against which the cap was calculated.[41] Particular communities may expend larger portions of their budget on public services, exempted either by "grandfather" provisions tied to the amount or share of a community's public services spending in 1982 or 1983, or by special legislation to accommodate severe local needs. Primarily because of the caps, public services represent a relatively small share of total program outlays, 9 percent in 1992.

To be eligible for CDBG dollars, public services must provide a community with a new service or a quantifiable increase in level of service. Eligible activities include staff salaries and other direct costs of service provision, including the cost of operating and maintaining that portion of a facility in which the service is located. Examples of eligible public service activities include childcare, health care, job training, education programs, drug abuse counseling and treatment, and fair housing activities. Services may focus on a particular clientele such as seniors, homeless, youth or women. Services may also include initiatives for the general public welfare such as public safety services (police, fire), and energy conservation counseling and testing.

A special data collection effort--the Public Service and Facility Screener and survey--was designed to provide information on public services at the program level. Data include program status, structure, beneficiaries, and monitoring. A sample of 400 public service programs were selected from 1989 Grantee Performance Reports from the original 60 sites selected as field visit locations. The Public Service and Facility Screener was conducted by

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[40] Conventional usage defines public services as the whole range of municipal government activities, including police and fire protection, solid waste removal, and so on. In the CDBG lexicon, public services refer almost exclusively to social services.

[41] Program income is money directly generated from the use of CDBG funds, proceeds from the use of CDBG-assisted properties which are controlled by grantees and subrecipients, and sales proceeds from properties acquired or improved with CDBG funds.

telephone with administering agencies for initial information on the status of the program. The Screener collected 338 responses for a response rate of 85 percent. Agencies were told they would receive a mail questionnaire requesting additional information on the program. The follow-up Public Service and Facility survey obtained 162 responses, a rate of 41 percent. A significant portion of the missing data is accounted for within the ten communities that did not provide information on any of the public services selected from their area as part of the study sample. These data are missing by city, not by type of service or provider, and thus are unlikely to affect the figures presented here.

CDBG-funded public service programs are offered by a variety of providers. Over half of CDBG funded public services are provided by the nonprofit community with an additional fourth furnished by local government (see Table 3.22). Nonprofit service providers are broken into two groups; citywide and neighborhood. These distinctions refer to a group's primary service area. Quasi- public/independent agencies such as local Housing or Redevelopment authorities, make up 19 percent of sampled public service agencies.

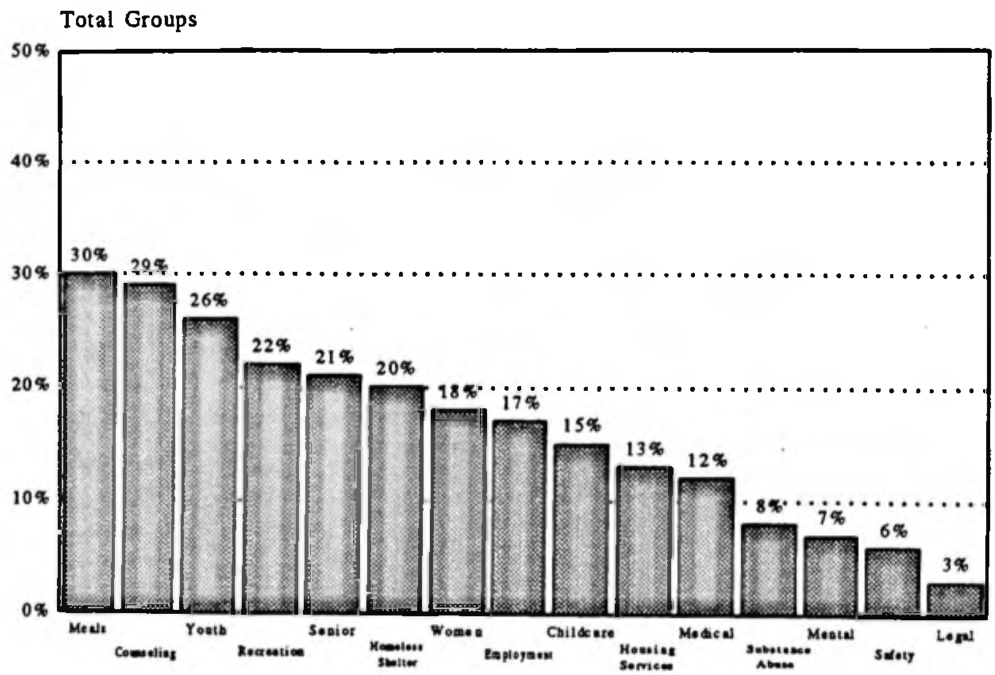
**TABLE 3.22**
**Public Service Organization Types:**
**Number of Groups and Percent of Total**

| Organization Type | # of Groups | % of Total |
|---|---|---|
| Department or Agency of Local Government | 1,496 | 25 % |
| Quasi-Public/Independent Agency | 116 | 19 |
| Citywide Nonprofit Organization | 2,212 | 37 |
| Neighborhood Nonprofit | 1,022 | 17 |
| Other | 1,161 | 2 |
| TOTAL | 6,007 | 100 % |

Source: Compiled by the Urban Institute from the Public Service Survey.

Figure 3.11 displays the types of services performed by groups receiving CDBG funds. An organization may perform many different types of services, and serve different kinds of clientele; both are shown in the figure. The most commonly cited activity is meal provision, which many groups do in conjunction with other services. Categories of service overlap, contain multiple responses, and combine services and clientele. Services such as legal, mental health, and public safety made up the least often cited activities, reflecting the specialty nature of this type of service. Clientele type activities, such as youth and senior services, are offered by approximately one-fourth of CDBG funded public service agencies.

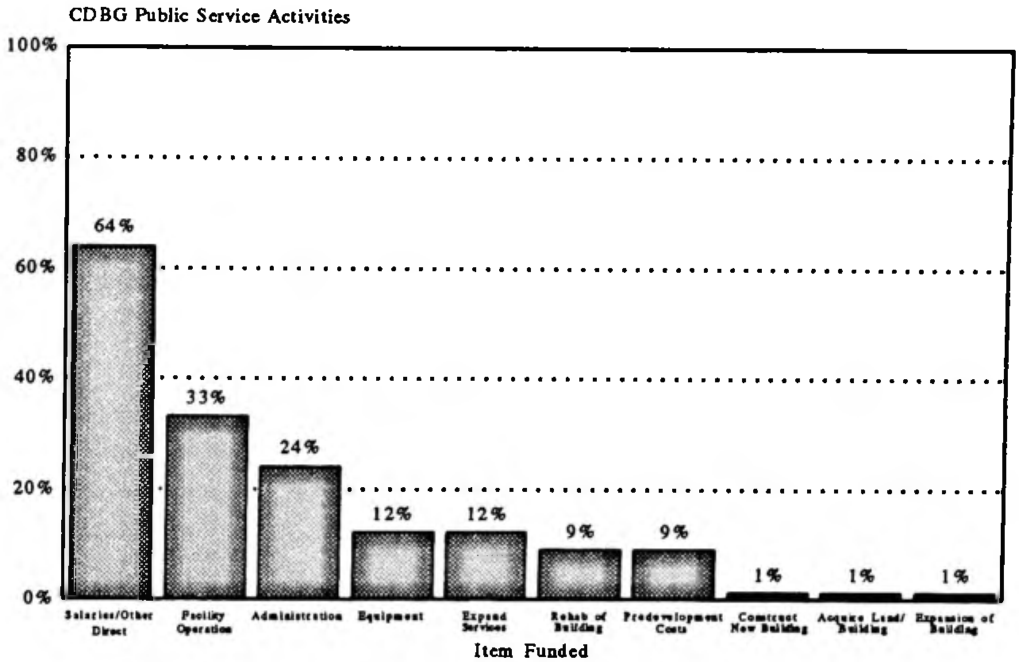
## FIGURE 3.11
### Services Provided with CDBG Funds
(n=162)




Source: Compiled by the Urban Institute from the Public Service Agency Survey.

Most organizations use a portion of their CDBG funds for personnel salaries and other direct costs (see Figure 3.12). Other areas funded regularly with CDBG include facility operation and administration. Table 3.23 shows how different types of agencies use their CDBG monies. The most common use for most agency types is expenditures on personnel and other direct costs. All quasi-public agencies sampled, 67 percent of citywide nonprofits and 88 percent of neighborhood nonprofits reported expending CDBG funds in this category. Local governments, on the other hand, were much less likely to use CDBG funds for salaries and other direct costs, but more likely to use funds for facilities rehabilitation or new construction; e.g., 39 percent of local governments reported using CDBG services dollars for new construction or building expansion. However, quasi-public agencies and citywide nonprofits do use CDBG for facilities operation.

## FIGURE 3.12
Public Service Agency Use of CDBG Funds
(n=162)




Source: Compiled by the Urban Institute from the Public Service Agency Survey.

Over half of public service organizations have a neighborhood service requirement where they must primarily benefit neighborhood residents. Table 3.24 presents neighborhood requirements by organization type. Even 31 percent of *citywide* organizations have a *neighborhood* requirement. Fifty-seven percent of local government public service agencies are neighborhood-based, with 38 percent of local agencies reporting that neighborhood persons are their clientele. Quasi-public agencies are very neighborhood focused, with 69 percent of groups reporting a service requirement and 84 percent primarily serving neighborhood residents. However, different services have different rates of neighborhood assistance. Services most likely to draw the majority of their clientele from the neighborhood include safety, childcare, youth, and employment activities (Table 3.25). Those services with a wider geographic range of clientele encompass housing, mental health, and homeless shelter activities.

**TABLE 3.23**
**Fund Use by Public Service Organization Type***
**(percent of organizations using funds for specific activities)**

| | Local Government | Quasi-Public Agency | City-Wide Nonprofit | Neighborhood Nonprofit |
|---|---|---|---|---|
| Personnel Salaries and Other Direct Costs | 38 % | 100 % | 67 % | 88 % |
| Facility Operation and Administration | 26 | 76 | 53 | 16 |
| Service Expansion | 10 | 46 | 11 | 21 |
| Equipment Purchase | 18 | 85 | 12 | 4 |
| Rehab Existing Building | 20 | 0 | 10 | 9 |
| New Construction or Building Expansion** | 39 | 7 | 1 | 0 |

Source: Compiled by the Urban Institute from the Public Service Agency Survey.

The average CDBG funding amount for public service agencies was $130,958. Most organizations received other funds as well. State governments contribute significantly to public service provision groups with public service groups receiving an average of $116,028. Local governments contributed an average of $46,825 to public service agencies. Sixty-six groups received additional federal dollars from organizations, such as the U.S. Department of Health and Human Services, at an average of $83,429 per organization.

**TABLE 3.24**
**Percent of Public Service Organizations with Neighborhood Service Requirement and Majority of Clientele from Neighborhood by Organization Type**
**(n=151)**

| Organization Type | Neighborhood Service Requirement | Most People Served Live in Neighborhood |
|---|---|---|
| Local Government | 57 % | 58 % |
| Quasi-Public Agency | 69 | 84 |
| City-Wide Nonprofit | 31 | 25 |
| Neighborhood Nonprofit | 95 | 80 |
| Other | 37 | 34 |

Source: Compiled by the Urban Institute from the Public Service Agency Survey.

**CDBG Outlays for Acquisition and Clearance.** Local government acquisition of property, relocation of current residents and businesses, clearance of unwanted structures, and subsequent disposition for other uses long was a staple of local urban renewal programs. Such activities constitute a rather small share of total CDBG spending--$119 million of a total $2.2 billion in entitlement cities (or 6 percent of total expenditures). Nevertheless, as will be noted in several places throughout this report, use of CDBG funds for acquisition and clearance remains important in particular entitlement cities. For example, the City of Detroit expends about one-quarter of its annual CDBG allocation for acquisition and demolition of blighted residential properties.

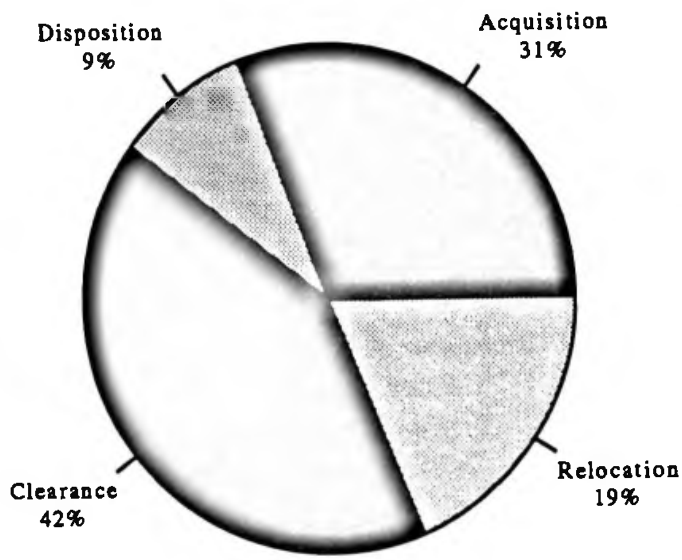
**TABLE 3.25**
**Types of Public Services by Number of Groups, Neighborhood Focus, and Dependence on CDBG**

| Service | Number of Groups | Clients from Neighborhood | Not Happen w/o CDBG |
|---|---|---|---|
| Safety | 13 | 69 % | 77 % |
| Childcare | 21 | 62 | 67 |
| Youth | 44 | 61 | 59 |
| Employment | 30 | 61 | 60 |
| Recreational | 39 | 60 | 56 |
| Meals | 40 | 50 | 53 |
| Medical | 22 | 50 | 45 |
| Senior | 41 | 49 | 59 |
| Counseling | 57 | 47 | 58 |
| Women | 30 | 45 | 57 |
| Legal | 8 | 38 | 25 |
| Substance Abuse | 14 | 36 | 43 |
| Homeless Shelter | 19 | 33 | 53 |
| Mental Health | 17 | 24 | 59 |
| Housing Services | 19 | 21 | 42 |

Source: Compiled by the Urban Institute from the Public Service Agency Survey.

Activities tied to the purchase and disposal of real property account for the bulk of expenditures in this category (Figure 3.13). Taken together, acquisition outlays (31 percent), clearance (42 percent) and property disposition (9 percent) comprise 82 percent of category expenditures. Relocation expenses (19 percent of total category spending) comprise a relatively small share; CDBG acquisition typically is small scale and governed by restrictive rules on compensation paid to residents and businesses, thereby deterring activities likely to result in relocation.

FIGURE 3.13
Activities Funded By Acquisition/Clearance Outlays - 1990




Total = $119 million
Source: Urban Institute From HUD GPR Data

**CDBG Outlays for Administration and Planning**. Administration and Planning expenses are limited by statute to 20 percent of a community's annual program resources. Administration expenses, in effect, are "overhead" charges that communities incur for the administration of CDBG programs. It is important to remember that costs incurred to directly deliver programs are *not* considered as administrative expenses. For example under CDBG, staff costs for inspection of city-rehabilitated residential properties are program delivery costs, not general administrative costs. In addition to general administrative costs, planning costs fall within the 20 percent cost limit. These expenses include those incurred to prepare federally required plans--the Comprehensive Housing Affordability Strategy for example--as well as comprehensive, target area, neighborhood or a wide variety of other plans devised and adopted at local levels.

**Summary**

The discussion in this chapter is basically descriptive. As noted in its introduction, at the local level, CDBG is not a "program" so much as a collection of individual programs that *must* share only a few common objectives: they must conform to national rules that require benefit to low- and moderate-income persons, neighborhoods, removal of slums and blight or address urgent community needs. The flexibility afforded to local communities produces an extreme variety of local administrative arrangements and types of programs.

CDBG program administration is extremely complex, in terms of the variety of organizations that deliver CDBG-funded community development programs. Continuing a pattern established very early in the CDBG program, most "lead" local agencies are "generalist" agencies, directly accountable to city chief executives. As will be shown in a subsequent chapter, this control by executives allows locally funded programs to adjust to changing local circumstances. However, the program tends to be administratively segmented, particularly in the management of public services and economic development funds. This introduces a degree of management complexity that has produced, over the years, continuing issues of funds accountability. (Program management issues will be discussed in Chapter 6.) Nevertheless, the use of subrecipient agencies, including nonprofit organizations, allows programs to leverage other resources, and produces, indirectly, targeting of funds to neighborhoods (discussed further in Chapters 4 and 6).

The dominant role of "generalist" city agencies in the delivery of community development programs means that lead agencies in the CDBG program, unlike Urban Renewal, are directly accountable to local elected executives and legislators. In theory, this allows local decisionmakers to exercise consistent direction over community development policy, even though the programs that result from these policies are administered by multiple agents. Urban Renewal agencies--typically independent redevelopment authorities--managed development activities without this kind of direction. However, renewal agencies usually managed complex redevelopment efforts through internal operating divisions that reported to a single executive and governing board. Together with pursuit of limited objectives tied to specific development projects, these agencies probably effected closer coordination across activities--land purchase, relocation, development, property leasing and management--than is typical of the more diverse set of activities and organizations involved in neighborhood community development.

Again, to anticipate findings from Chapter 6, coordination among the multiple delivery organizations characteristic of local CDBG-funded programs is not a strong point in the program. Field researchers reported that agencies often pursued community revitalization programs in relative isolation from one another--e.d., housing rehabilitation and business assistance activities--and local community development administrators expressed a desire to achieve better coordination among activities. However, one of the more important developments in the program is the emergent use of new neighborhood targeting and citizen participation strategies, often involving nonprofit delivery organizations, that promises to improve local delivery of community development programs. Further, although local administrators believe that nonprofit organizations more often encounter difficulties in compliance with administrative requirements than do city agencies, and program management issues continue to be a source of controversy between localities and HUD, evidence points to improvements in local program management in recent years, particularly including management of subrecipient agencies.

Nonprofit organizations are important parts of the CDBG program delivery system. These organizations account for almost $1 of every $5 spent and a sizeable share of social services spending (43 percent of all CDBG social services dollars). Although city use of nonprofits to deliver CDBG programs varies with the type of activity, nonprofits participate in program delivery in all sizes of community. Nonprofit participation appears to have stabilized in recent years, and most cities re-fund their nonprofit providers from year to year. As will be discussed in Chapter 5, this nonprofit participation in the program has important effects on program benefit levels. As will be discussed in Chapter 6, CDBG-funded nonprofits represent an important vehicle of citizen participation in local programs. Finally, Chapter 7 will examine the role of CDBG funds in the support of organizations that carry out community development activities. Suffice it to note here that CDBG funds appear not to substitute for or replace funds that would otherwise come form other sources.

The CDBG program continues to be primarily a bricks-and-mortar program; housing, economic development, public facilities, and acquisition and clearance activities account for 77 percent of program spending; social services for only 9 percent. Particularly important are CDBG-funded housing programs, which account for 38 percent of CDBG funds expended (1990), supported about 80,000 housing units (in 1989), and represent the largest source of federal non-tax support for housing investment in U.S. urban areas (excluding assistance to public housing authorities). The program supports both homeowner housing and rental housing (64 percent and 36 percent of funds, respectively). Nationally, the program can best be described as a stock-preservation program rather than a housing production program. Maximum per-unit loan amounts come to a dollar-weighted average of $14,236; grant amounts to only $8,854. Program-wide, each $1 of CDBG funds for housing leverages $1.07 in other funding. Approximately 40.3 percent of all rental units (12,203 units), were developed by nonprofits in 1989, but these accounted for only 29 percent of CDBG rental housing funds.

Public facilities investments constitute about 22 percent of funds expended in 1990, the largest single share of which is transportation-related funding--streets, sidewalks, parking facilities and other investments. Water, sewer and drainage facilities account for another 9 percent of funding. Although important in some low-income neighborhoods, public works expenditures amount to rather small share of federally supported and locally generated funding for infrastructure. About one-quarter of funds consist of community facilities; e.g., neighborhood and senior citizen centers.

Economic development spending, accounting for 12 percent of funds spent in 1990, primarily supports job creation by for-profit business. The program primarily assists small businesses. Minority-owned businesses are assisted by CDBG funds at about three times the rate expected given their share in the national economy. These businesses tend to be smaller, to use funds for operating capital, and create higher proportions of low-income and neighborhood jobs than do other types of business. However, these businesses also fail at higher rates, create more part-time, rather than full-time jobs, and experience higher "attrition" of jobs after initial creation. Overall, the program does not experience higher "substitution" rates than other economic development programs, and assisted businesses fail at rates lower than expected given small business patterns, generally.

Public (or social) services spending amounted to only 9 percent of 1990 funds spent, in part due to legislated limits on the share of public services spending. This is in keeping with the primary purpose of the program to support physical community investments. A wide variety of services programs are funded, more than half of which are delivered by nonprofit organizations. By and large, services are tied to particular neighborhoods. Finally, acquisition and clearance spending continues, on a small scale, activities that typified those of the earlier Urban Renewal program. Administration and planning activities, nationally, accounted for 14 percent of budgeted funds, well below the legislatively-established 20 percent cap.

## CHAPTER 4
## PATTERNS OF PROGRAM EXPENDITURE

The preceding chapter examined the various features of CDBG-funded activities--housing, economic development, public services, and others--without regard to differences in priorities among cities. Since program flexibility should produce considerable differences in expenditure patterns at the local level, this chapter explores variations among cities.[1] Further, Chapter 3 discussed each program without attention to spatial distribution of funds. However, the CDBG program, at least in terms of its programmatic ancestry in Urban Renewal and Model Cities, is a *neighborhoods* program. This chapter also explores the types of development "strategies" cities pursue, i.e., how they combine different activities to effect change in neighborhoods, and the extent to which different cities concentrate CDBG funds in particular neighborhoods rather than citywide.

The chapter has two major sections. The first section links community characteristics to overall community expenditure patterns and changes in those patterns over time. Although national program spending patterns show little change from year-to-year, cities differ in how they allocate CDBG funds and these allocations also change frequently, reflecting development need and political leadership and changes in those factors over time. The second section examines "strategies" that emerge from program expenditure data by activity type and spatial concentration of funds. Cities vary in the degree to which implicit strategies for community development are pursued, and neighborhood-oriented spending continues to be a prominent feature of the program.

### Effects of Community Characteristics on CDBG Budget Allocations

A major characteristic of the federal CDBG program design is its hands-off policy with respect to community spending choices. This design rests on the assumptions that: local community development needs vary widely; and no federally imposed or federally sanctioned programmatic mix is appropriate in light of diverse needs. With the exception of federally imposed limits on the percentage of total resources in any given year that may be spent on public services (15 percent) and administration and planning (20 percent), no constraints are placed on city discretion to fund one or more types of CDBG-covered activities, so long as they are eligible under law.

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[1] To correspond to the analysis in Chapter 3 on expenditures in the field sample of cities, this analysis is based on data gleaned from all *city* Grantee Performance Reports and Final Statements of Projected Use of Funds.

This section examines the variation among entitlement cities in the shares of local budgets allocated to the broad activity categories described in the preceding chapter. Do communities differ in the spending mixes they adopt? Are these differences tied in any way to city characteristics? Community size, distress, and other attributes influence CDBG budget allocations, although most of the variation in city budget choices cannot be explained by the community characteristics examined in this statistical analysis.

Information analyzed in this section is drawn primarily from community expenditure data as reported on city Grantee Performance Reports and budget data from city Final Statements of Projected Use of Funds. Both documents are required by HUD to be submitted annually, and data from each year's submissions are coded by the Department for congressional reporting purposes. The discussion of changes in city budget shares over time relies on interview data collected as part of the Urban Institute's field research in 61 U.S. cities, supplemented by a national mail survey of CDBG administrators. It uses data from special surveys of a national sample of housing activities, public facilities and services activities, and assisted businesses. (For a description and analysis of the quality of these information sources, see the Methodological Appendix).

**Community Characteristics and CDBG Budget Allocations.** Unlike the figures presented in the preceding chapter, which showed national aggregate spending for various activities, the following tables show average budget allocations of total program resources--the annual allocation and that year's available program income--by different categories of communities. Two points should be made about these data. First, they do not account for differences in total CDBG allocations by city; they are simple arithmetic means of communities' percentages of funds allocated to particular budget categories. Second, these are *budget*, not expenditure, shares. Thus, they reflect explicit policy decisions made at a single point in time, as reflected by the Final Statement of Projected Use of Funds provided to HUD prior to the beginning of the local program year. Because not all funds budgeted in any year are expended in that year, expenditure shares reflect both current and previous policy choices. Although it may be argued that budget re-allocations after the submission of a community's Final Statement may occur that in fact change the policy priorities previously established, our field research strongly suggests that local officials infrequently re-program substantial amounts of funds once they are budgeted in any program year.

Table 4.1 shows the percentage allocation of entitlement city federal fiscal year 1992 dollars and local CDBG program income to each of five program activity categories, by various community characteristics.[2] (In this and the following tables, allocations to administration

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[2] Because not all cities adopt the same fiscal year, local budget periods for programming federal fiscal year 1992 dollars vary.

and planning activities are excluded. Therefore, percentages for each category do not add to 100 percent.) The purpose of the table primarily is to show how program choices vary among different groups of cities.

**TABLE 4.1**
**Average Share of Budget Allocated for Different Activity Categories by City Type, Formula Type, City Level Distress, and Population, 1992**

| | N | Housing | | Economic Development | | Public Facilities | | Public Services | | Acquisition Clearance | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| City Type | | | | | | | | | | | |
| Central | 514 | 41.5 | %** | 3.2 | % | 23.6 | %** | 9.9 | % | 4.2 | ** |
| Suburban | 230 | 36.5 | | 2.8 | | 30.2 | | 11.0 | | 1.8 | |
| Total | 744 | | | | | | | | | | |
| Formula Type | | | | | | | | | | | |
| A | 399 | 39.9 | | 2.4 | ** | 28.5 | ** | 9.3 | ** | 2.9 | |
| B | 345 | 40.1 | | 3.9 | | 22.5 | | 11.2 | | 4.0 | |
| Total | 744 | | | | | | | | | | |
| Distress Quintile | | | | | | | | | | | |
| Least Distressed | 126 | 41.0 | | 1.7 | ** | 28.1 | ** | 11.7 | ** | 2.1 | ** |
| Quintile 2 | 128 | 40.0 | | 3.0 | | 22.9 | | 12.9 | | 3.4 | |
| Quintile 3 | 127 | 43.4 | | 2.4 | | 22.1 | | 9.9 | | 3.0 | |
| Quintile 4 | 127 | 39.8 | | 4.1 | | 28.8 | | 8.0 | | 3.2 | |
| Most Distressed | 126 | 40.0 | | 3.4 | | 21.0 | | 11.0 | | 5.5 | |
| Total | 634 | | | | | | | | | | |
| Population | | | | | | | | | | | |
| 1,000,000 and Over | 8 | 48.1 | | 5.0 | ** | 13.2 | ** | 15.4 | * | 4.7 | |
| 500-999,999 | 17 | 38.6 | | 10.4 | | 16.3 | | 14.2 | | 3.9 | |
| 250-499,999 | 41 | 47.6 | | 2.5 | | 15.7 | | 9.9 | | 4.6 | |
| 100-249,999 | 133 | 42.2 | | 3.8 | | 22.0 | | 10.4 | | 3.2 | |
| 0-99,999 | 545 | 38.8 | | 2.8 | | 27.7 | | 10.0 | | 3.4 | |
| Total | 744 | | | | | | | | | | |

Source: CDBG Evaluation Database.
Notes: ** (0.01) * (0.05) significance levels for rejection of hypothesis of joint equality of the mean.

Central cities budget higher proportions of their annual program funds for housing and acquisition/clearance activities and lower shares for public facilities, although in no case are the differences dramatic. Central cities allocate a mean share of 41.5 percent of CDBG funds for housing, compared with 36.5 percent by suburban communities. Conversely, suburban communities allot 30.2 percent of their budgets for public facilities, compared to 23.6 percent by central cities. Formula B communities (primarily northeastern and midwestern cities) budget a smaller proportion of dollars to public facilities than Formula A communities, and, on average, allocate a greater share of funds for economic development and public services.

Less clear are the effects of city distress level and population.[3] Only for acquisition and clearance are the most-distressed cities particularly likely to allocate higher budget shares compared with all other distress categories; other categories of distress display no particular pattern and there is no systematic pattern with respect to population size.

As a first step in disentangling the factors driving budget allocations, Table 4.2 presents simple pearsonian correlation coefficients between all possible pairs of activity categories. These coefficients indicate the strength of the relationship between increases in budget share for one activity and corresponding declines in others. As the table shows, housing and public facilities show the strongest relationship, an inverse one, of any of the two-way comparisons in the table. In effect, the change in the housing budget share from one community to another "explains" about half (53 percent) of the change in the public facilities share (i.e., -.73 squared, or .53). Housing and public facilities expenditures both are significantly correlated with economic development expenditures, and housing is significantly related to public services and acquisition/clearance expenditures, too. As is discussed in more detail in a subsequent section, local spending decisions regarding public facilities and housing investments are highly likely to drive spending on other activity categories.

**TABLE 4.2**
**Correlations Between Share of Budget Allocated for Different Activity Categories, 1992**

| Activity | Economic Development | Public Facilities | Public Services | Acquisition/ Clearance |
|---|---|---|---|---|
| Housing | -0.15 ** | -0.73 ** | -0.22 ** | -0.14 ** |
| Economic Development | | -0.15 ** | -0.09 | -0.04 |
| Public Facilities | | | -0.02 | -0.19 |
| Pubic Services | | | | -0.08 |

Notes: * (0.01) ** (0.001) significance levels.

**Community-Level Predictors by Activity Category.** The following discussion examines the community characteristics that affect budget choices for each of the three major activity categories--housing, public facilities, and economic development. (Because the public services spending cap constrains variation in spending across communities, this category is not included in the following analyses.) To do this we use weighted ordinary least-squared regressions in which the dependent variable is the mean share of funds allocated for a particular activity category for fiscal years 1982 through 1992. The regressions are not intended as causal models of local spending choices. Rather, the intent is to show the

[3] City "distress" is a composite indicator of community development need, which loosely corresponds to the funding formula used to allocate CDBG funds. See Chapter 2 for a description of this measure.

statistical relationship among variables by estimating the "independent" effects of any given community characteristic when the effects of all others are controlled.

Table 4.3 defines the independent variables used in the analysis. As the preceding tables suggest, community type (central city or suburban city) and formula type appear related to budget allocations in several spending categories. To take more refined account of regional variation than is reflected by formula type, the analysis uses a dummy variable that takes on a value of '1' if a city is located in the Northeast and Midwest. The city-level distress index ranges from -2.2 to 2.9, with negative values indicating greater distress. Fiscal variables tap local dependence on intergovernmental aid, fiscal stress and characteristics of capital (broadly developmental) spending. Local industrial structure variables include the 1987 unemployment rate, percent change in per capita income between 1982 and 1987, the percent of total 1987 employment in craft and precision occupations and the percent change in manufacturing employment between 1982 and 1987. (The Methodological Appendix details these variables in full.)

The reported coefficients in Tables 4.4 through 4.6 show the influence of independent variables on the share of funds allocated to housing, public facilities and economic development activities. The statistical significance of individual coefficients is measured by T-statistics based on the t distribution (similar to the standard normal distribution). This distribution shows the probability that a randomly selected observation will be greater or less than some critical value. By convention, analysts often select critical values so that the likelihood that a variable will be outside the range is 5 percent or less. In a large enough sample (such as those analyzed here), when a T-statistic has an absolute value greater than 1.96 we can say that the coefficient is significantly different from 0 with 95 percent level of confidence. As noted below, using this standard many of our coefficients are *not* statistically significantly different from zero.

**TABLE 4.3**
**Variable Definitions for Budget Allocation Regressions**

| Variable | Definition |
|---|---|
| NE & Mid-West | Dummy variable indicating location in NE or Midwest Census Region. |
| Central City | Dummy variable indicating central city. |
| Population | Population, 1990. |
| Population Density | Persons per square mile, 1990. |
| Poverty Population | Percent persons below poverty, 1990. |
| City Distress | Composite 1990 distress index from equal-weighted factor analysis scores for three dimensions: poverty, density, and age and decline. |
| Intergovernmental Aid | Percent of total revenue from local sources. |
| Tax Burden | Per capita local tax revenue/per capita income, 1985 |
| Debt | Per capita debt outstanding, 1985. |
| Capital Spending | Capital spending as part of total outlays, 1985. |
| Highway Spending | Highway spending as percent of general expenditures, 1985. |
| Sewage Spending | Sewage and sanitation spending as percent of general expenditures, 1985. |
| Park Spending | Parks and recreation spending as percent of general expenditures, 1985. |
| Income Change | Percent Change in Per Capita Income, 1982-87 |
| Unemployment | Unemployment Rate, 1987 |
| Manufacturing | Percent change in manufacturing employment, 1982-87. |
| Precision & Craft | Percent of total employment in craft and precision occupations, 1987. |

Tables 4.4 through 4.6 also report a frequently used measure of the overall explanatory power of the regressions, the adjusted R-squared. The R-squared value shows the portion of the variation in the dependent variable that is "explained" by the independent variables included in the regression model. The remaining or "unexplained" variation can be either random error or may reflect an incomplete model that has excluded one or more important explanatory factors. As Tables 4.4 through 4.6 show, our regressions explain only a small portion of the variation in the share of funds allocated for different activity categories. The public facilities model performs best explaining almost 17 percent of total variance. The housing and economic development models both explain less than 4 percent of the total variation in allocation shares for these categories.

**TABLE 4.4**
**Regression of Selected City Characteristics on Average Share of Funds Allocated for Housing, FY 1982-92**

| | Share of Funds Allocated for Housing | |
|---|---|---|
| | Coefficients | T-stats |
| Independent Variables | | |
| Intercept | 0.352 | 11.163 |
| NE & Mid-West | -0.014 | -1.146 |
| Population (000) | 0.00004 | 3.303 |
| Central city | 0.013 | 0.699 |
| City distress index | -0.039 | -2.071 |
| Population Density (000) | -0.008 | -1.546 |
| Poverty Population | 0.001 | 0.679 |
| Regression Statistics | | |
| Adj R-sq | 0.038 | |
| F value for regression | 4.932 | |
| Mean of dependent variable | 0.366 | |
| Observations (cities) | 602 | |

Source: Urban Institute tabulations of GPR data.
See Methodological Appendix.
Note: Weighted Ordinary Least Squares regression on mean share of city funds allocated to housing FY1982-92.
Weight is number of years city allocated funds for housing FY1982-90.

Table 4.4 shows the results of the regression of community characteristics on the share of program resources allocated for housing-related activities. The regression model is based on the following expectations. In theory, housing investments should respond to housing needs, particularly housing needs tied to stock quality. The distress index as noted earlier, is a composite of density, poverty, and age/population decline factors, and incorporates variables that measure housing need among low-income renters generally, and renters who occupy older structures. In addition to variations in distress across all communities, larger cities and central cities--regardless of distress--can by hypothesized to allocate higher budget portions for housing than their smaller and suburban counterparts. This is because larger and central cities by comparison to surrounding jurisdictions are more likely to have older housing, and higher proportions of low-income renters and owners. Finally, both density and poverty variables may have an independent effect apart from their inclusion in the overall distress indicator.

As the table indicates, controlling for all other factors, only city distress and population have a statistically significant effect on what share of funding is allocated to housing. The negative coefficient on the city distress index confirms our expectation that more distressed cities allocate a larger share of funds for housing. The coefficient on city population is positive, indicating that as population size increases so does the share of funds allocated to housing. However, this coefficient is very small--a population increase of 100,000 would increase the share of funds allocated to housing by only 0.04 percentage points.

Because public facilities spending traditionally has been a core function of local government, there have always been concerns that this type of CDBG investment may in some communities substitute for locally-funded investment that would have been made in the absence of the program. That is, CDBG funds free up city funds that would have been spent on facilities investments in low- and moderate-income neighborhoods for efforts elsewhere in the city. In the past, anecdotal evidence, and some systematically collected data from the Brookings Institution study, pointed toward some substitution in this spending category. This issue defies attempts to reach more than suggestive conclusions, because it is impossible to establish the counter-factual. That is, public facilities spending in poor neighborhoods may well not have taken place without the program, even though city governments fund such facilities routinely in other neighborhoods. And some types of communities tend in any case to rely on special tax districts to fund infrastructure improvements, not the city general fund.

Possible "substitution" should be related, in theory, to city fiscal variables. We would expect use of CDBG instead of general fund dollars for infrastructure and community facilities to increase, hypothetically, with: (a) a greater reliance on own-source revenues, (b) a higher local tax burden, (c) a greater share of local resources for capital improvements, and (d) a higher local debt burden (another indicator of capital outlays). In other words, we would expect cities to allocate a larger share of their CDBG resources for public facilities if they commit a comparatively high share of local outlays to meet capital needs, and have a smaller capacity to secure additional own-source revenues.

We would expect other factors to have an effect but the direction of these effects is unclear. For example, while higher levels of distress should produce pressures to spend CDBG funds for infrastructure (backlog public facilities need as a function of poverty, age, and decline), less distressed communities may be expected to have higher developmental infrastructure needs as a result of population increase, although these tend to be growing cities with expanding tax bases to support new development needs. The same could be true for central city versus suburban communities, and northeastern and midwestern cities versus southern and western cities.

As Table 4.5 shows, cities with smaller populations, that are suburban, and located in the south and west, all other things held constant, spend higher proportions of CDBG dollars on public facilities than larger, central city, and northeastern and midwestern cities. The coefficients for these variables are small, however. Holding other variables constant, the share of funds allocated for public facilities is only 0.059 percentage points higher in the South and West than in the Northeast and Midwest, and 0.05 percentage points higher in suburban cities than in central cities.

Fiscal variables are also significantly related to shares of CDBG budgets allocated to public facilities, but not all in the predicted directions (Table 4.5). Independent of other factors, higher debt per capita is significantly and positively related to the share of funds allocated to public facilities, as predicted. A $1,000 increase in debt per capita translates into a 0.033 percentage point increase in public facilities expenditures. However, lower tax burdens characterize communities that spend higher shares on this category. Furthermore, while an increased share of CDBG funding for public facilities is tied, significantly, to lower shares of total outlays for capital spending and lower shares of general expenditures for parks and recreation, it is tied to *higher* shares of general revenues spent on highways. Arguably, total capital outlays and parks and recreation expenditures have more localized benefits in specific neighborhoods than highway spending. Taken together, these relationships suggest that high proportionate allocations for public facilities may reflect local decisions to fund activities with CDBG rather than incur local expenses. Sometimes jurisdictions may *reduce* locally funded investments in favor of CDBG.

Factors affecting economic development spending decisions are difficult to isolate because such spending serves more than one policy objective. Most local executives probably think about this activity first in terms of overall job creation and only secondarily in terms of neighborhood commercial strip renewal and other development objectives that are not necessarily tied directly to job creation. But the factors that predict job need--high distress, low labor force participation, growth lag or decline in job creation--are likely to affect the health of neighborhood commercial corridors, as well.

Consistent with expectations, a negative coefficient on the city distress index confirms that more distressed cities allocate a larger share of funds for economic development (Table 4.6). Population is significantly, and inversely related to allocation of funds for economic development, but again this coefficient is very small. Coefficients for the fiscal variables are significant and positive indicating that as reliance on own-source revenues and the ratio of local per capita tax to per capita income increase, so does the share of CDBG budgeted for economic development. Controlling for other factors, a 1 percent decrease in the share of local revenue coming from intergovernmental aid increases the share of funds allocated to economic development by more than 1.5 percentage points.

**TABLE 4.5**
**Regression of Selected City Characteristics on Average Share of Funds Allocated for Public Facilities, FY1982-92**

| | Share of Funds Allocated for Public Facilities | |
|---|---|---|
| | Coefficients | T-stats |
| Independent Variables | | |
| Intercept | 0.425 | 12.604 |
| NE & Mid-West | -0.059 | -4.205 |
| Population (000) | -0.0001 | -3.228 |
| Central city | -0.050 | -2.615 |
| City distress index | 0.009 | 0.639 |
| Population Density (000) | -0.009 | -1.671 |
| Intergovernmental Aid | 1.323 | 1.828 |
| Tax Burden | -1.036 | -2.281 |
| Capital Spending | -0.001 | -3.663 |
| Highway Spending | 0.032 | 2.574 |
| Sewage Spending | -0.007 | -0.809 |
| Park Spending | -0.062 | -4.545 |
| Debt (000) | 0.033 | 2.920 |
| Regression Statistics | | |
| Adj R-sq | 0.167 | |
| F value for regression | 10.707 | |
| Mean of dependent variable | 0.263 | |
| Observations (cities) | 581 | |

Source: Urban Institute tabulations of GPR data.
See Methodological Appendix.
Note: Weighted Ordinary Least Squares regression on mean share of city funds allocated to public facilities, FY1982-92.
Weight is number of years city allocated funds for public facilities, FY1982-92.

In addition to the community size, fiscal and distress variables used in the preceding regressions, other factors are incorporated into the economic development regression. The equation includes unemployment rate, with a positive relationship expected. The equation also contains a variable that indicates the change in the percentage of total jobs that are in manufacturing, and precision and craft employees as a percentage of total employees, to capture communities strong in traditional manufacturing sectors. Our expectation is that job and income stagnation or loss coupled with dependence on industries in traditional manufacturing will contribute to local decisions to invest in new job generation.

As Table 4.6 shows, none of these additional variables produced a significant coefficient in our regression, and, overall, the model explained less than 4 percent of the total variance in allocation for economic development. Despite the weak performance of our model, though, we can speculate that if federal policy encouraged economic development spending in the CDBG program (or additional dollars were made available for this purpose), more-distressed, fiscally-burdened cities may increase economic development spending.

**TABLE 4.6**
**Regression of Selected City Characteristics on Average Share of Funds Allocated for Economic Development, FY1982-92**

| | Share of Funds Allocated for Economic Development | |
|---|---|---|
| | Coefficients | T-stats |
| Independent Variables | | |
| Intercept | 0.068 | 1.897 |
| NE & Mid-West | -0.001 | -0.080 |
| Population (000) | -0.00001 | -2.176 |
| Central city | 0.023 | 1.619 |
| Unemployment | 0.001 | 0.797 |
| Poverty Population | 0.0002 | 0.857 |
| City distress index | -0.031 | -1.969 |
| Intergovernmental Aid | 1.547 | 2.275 |
| Tax Burden | 0.562 | 2.438 |
| Manufacturing | 0.0001 | 0.973 |
| Precision and Craft | 0.002 | 1.143 |
| Regression Statistics | | |
| Adj R-sq | 0.037 | |
| F value for regression | 2.500 | |
| Mean of dependent variable | 0.134 | |
| Observations (cities) | 388 | |

Source: Urban Institute tabulations of GPR data.
See Methodological Appendix.
Note: Weighted Ordinary Least Squares regression on mean share of city funds allocated to economic development, FY1982-92.
Weight is number of years city allocated funds for economic development, FY1982-92.

## CDBG Budget Allocation Trends and Year-to-Year Variability

National CDBG spending by activity category has remained fairly stable since the early 1980's. In 1982, housing expenditures amounted to about 35 percent of national entitlement city spending, increasing to about 42 percent in 1990 (after a one-year decline in 1989). Public facilities spending declined modestly over the period, from 25 percent of spending in 1982 to about 20 percent in 1990. Spending for administration and planning, public services, and acquisition and clearance, never exceeded 15 percent of total spending in any year, with little change over the period 1982-1990. Economic development exceeded 15 percent of spending, but showed a slight bulge in the mid-1980s and a decline from 1988 to 1990.

In sharp contrast to the national picture, at the individual community level there is considerable year-to-year fluctuation in the share of funds allocated to each activity type. Table 4.7 shows the average percent of cities that shifted spending shares more than 20 percent up or down in any given year between 1982 and 1992 for each activity category. On average, 30.1 percent of communities increased the share of CDBG funds allocated to housing by more than 20 percent of the previous year's share. Conversely, about a quarter of communities (24.2 percent) on average decreased their allocation by more than 20 percent; and, in any given year an average 45.7 percent of communities allocated a share that changed by less than 20 percent of the previous year's share.

**TABLE 4.7**
**Average Annual Percent of Cities With a Shift in Budget Share for Different Activity Categories, 1982-92**

| | Average Annual Share of Cities With: | | |
|---|---|---|---|
| Activity Category | An Increased Budget Share (GT +20%) | A Stable Budget Share (+20% to -20%) | A Decreased Budget Share (GT -20%) |
| Housing | 30.1 % | 45.7 % | 24.2 % |
| Public Services | 36.0 | 37.0 | 27.1 |
| Public Facilities | 34.6 | 29.7 | 35.7 |
| Economic Development | 38.1 | 18.2 | 43.5 |
| Acquisition/Clearance | 41.3 | 15.4 | 43.3 |

Source: CDBG Evaluation Database.

Housing and public services spending are the most stable budget categories, with the average share of communities holding to a stable budget share in any given year equalling or exceeding the percentage that deviate in any one direction. The three remaining categories show substantially less stability. Swings of budget shares to and from economic development and acquisition and clearance activities are particularly marked. Shares to these two budget categories may be thought of as particularly driven by developmental opportunities, requiring episodic, one-time, outlays to support major development projects.

Year-to-year variation in budget shares generally does not involve long-term shifts from one category to another. Rather, cities shift funds to and from activity categories in a series of short-term budget trend reversals. Table 4.8 indicates the share of cities that registered a different number of budget trend reversals between 1982 and 1992--a reversal is defined here as a shift from a period with at least one year of greater than 20 percent budget share increase to a period with at least one year of greater than 20 percent decrease, or vice-versa[4]. The majority of cities registered budget trend reversals, in fact the share of cities with *no* budget trend reversals did not exceed 13.2 percent (acquisition/clearance). More than one-half of cities reversed the share they allocated for acquisition/clearance, economic development and public facilities four or more times. This translates into a reversal at least once every three years. Table 4.8 also shows the average number of budget trend reversals by activity category. Again, housing and public service allocations display the most stability with an average 3.0 and 3.1 reversals, respectively.

**TABLE 4.8**
**Share of Cities with Budget Trend Reversals and Average Number of Reversals for Different Activity Categories, 1982-92**

| | Percent of Cities by No. of Reversals in Budget Trends | | | |
|---|---|---|---|---|
| Activity Category | Zero | 1-3 | 4-9 | Mean No. of Reversals |
| Housing | 8.7 | 52.5 | 38.9 | 3.0 |
| Public Services | 12.3 | 44.7 | 42.9 | 3.1 |
| Public Facilities | 5.0 | 36.6 | 58.4 | 3.8 |
| Economic Development | 6.8 | 43.4 | 49.9 | 3.5 |
| Acquisition/Clearance | 13.2 | 32.4 | 54.3 | 3.6 |

Source: CDBG Evaluation Database.

We might expect that percent changes in allocation to an activity would be higher if small initial shares were allocated; e.g., a one percentage point change from 3 percent to 4

[4] According to this definition, cities could make budget trend reversals a maximum of nine times during the analysis period: change in allocation 1982-83 is used as a baseline, with nine subsequent changes in allocation (1983-84, 1984-85, etc.). This analysis was conducted for HUD's 220-city sample--the only cities for which complete allocation data were available.

percent would constitute a 33 percent increase in budget share, but a similar percentage point change from an initial share of 40 percent would amount to only a 3 percent increase. Table 4.9 shows the average percent allocation to an activity in one year by the magnitude of change in the following year. Initial percentages for stable allocations and declines of more than 20 percent exceed by a substantial margin in all activity categories those for increases. There is no straightforward interpretation of this overall pattern. But the finding that large declines are registered when initial allocations are large is consistent with a episodic hypothesis--that cuts are made in years following "abnormal" hikes in budget allocations to a particular category.

**TABLE 4.9**
**Average Percent Allocation in the Year Prior to a Shift in Budget Share for Different Activity Categories, 1982-92**

| | Average Allocation in Year Prior to: | | |
|---|---|---|---|
| Activity Category | An Increased Budget Share (GT +20%) | A Stable Budget Share (+20% to -20%) | A Decreased Budget Share (GT -20%) |
| Housing | 24.0 % | 38.3 % | 38.0 % |
| Public Services | 5.9 | 13.9 | 11.8 |
| Public Facilities | 16.3 | 35.1 | 29.6 |
| Economic Development | 6.1 | 14.6 | 16.6 |
| Acquisition/Clearance | 3.1 | 8.9 | 11.1 |

Source: CDBG Evaluation Database

These changes may be tied, as well, to the actual dollar outlay in the preceding year. We would expect that larger initial dollar allocations would tend to be more stable over time than smaller allocations, in part because smaller dollar allocations probably reflect smaller overall grants and in part because smaller allocations reflect comparatively weak past commitments to the activity funded (as implied by the smaller budget shares in the preceding table). In fact, this expectation is borne out in three of the five budget categories (see Table 4.10). Consistent with these findings, but not shown on the table, smaller communities--those with smaller annual grants--are disproportionately represented among those with high percent increases or declines in any activity category, although by no means all major changes in allocation shares are produced by smaller communities.

Field research in the 61 cities visited for this analysis devoted some attention to shifts in the activity mix, using a somewhat more restricted measure of a major shift. Analysts asked local staff whether significant shifts between program categories (defined as more than a 15 *percentage point* change in any category) occurred over the decade of the 1980s, and for the 1990-1993 period[5]. Exhibit 4.1 summarizes the field researcher assessments of changes in activity funding over the decade of the 1980s, and the reasons for these changes.

**TABLE 4.10**
**Average Dollar Allocation in the Year Prior to a Shift in Budget Share for Different Activity Categories, 1982-92**

| | Average $ Allocation in Year Prior to: | | |
|---|---|---|---|
| Activity Category | An Increased Budget Share (GT +20%) | A Stable Budget Share (+20% to -20%) | A Decreased Budget Share (GT -20%) |
| Housing | $1,591 | $3,129 | $1,823 |
| Public Services | 411 | 1,413 | 830 |
| Public Facilities | 625 | 1,244 | 1,294 |
| Economic Development | 473 | 1,518 | 869 |
| Acquisition/Clearance | 243 | 761 | 710 |

Source: CDBG Evaluation Database.

Findings from the field research confirm the basic pattern of variability in program allocations shown in the budget data analysis, above. Seventeen (28 percent) of the 61 communities in the CDBG field sample reported "significant" changes in shares over the 1980s. No dominant pattern of changes from one type of activity into another emerges, although the cities listed on the matrix most often shifted funds into housing (9 cities) and public services activities (9 cities), and on occasion, into both at once. Cities most frequently shifted funds out of public facilities and/or acquisition and clearance (10 cities). These findings are consistent with changes in the overall national aggregate spending patterns reported earlier in this chapter.

[5] The measure field researchers used to define "significant" allocation shifts (15 percentage points) is therefore much stricter than the standard employed in the preceding discussion of allocation shifts (20 percent). For example, an initial activity category allocation of 40 percent would have to shift up to 55 percent or down to 25 percent to qualify as a significant shift for field researchers; for the preceding analysis the same initial allocation would have to shift up to 48 percent or down to 32 percent to qualify as an "increase" or "decrease."

**EXHIBIT 4.1**
**Significant Shifts in Allocation Between Activity Categories, 1982-89**

| Community | From What? | To What? | Why? |
|---|---|---|---|
| Wichita | Public Facilities | Housing & Public Services | (1) Decline in Federal Funds<br>Reductions came out of Public Facilities, other categories remained constant |
| Waterford (MI) | Public Facilities | Housing | (1) Decline in Federal Funds<br>Plus substantial allocations to several major housing development projects |
| Tampa | Public Facilities<br>Acquisition/Clearance | Housing | (1) Political Changes<br>Mayoral re-casting of program toward housing; belief that public works should be general fund-supported<br>(2) Federal Regulations<br>Desire to avoid Davis-Bacon |
| St. Louis | Public Facilities<br>Housing | Public Services<br>Economic Dev't | (1) Fiscal Needs<br>Dwindling general revenues prompted CDBG shift to services and ED.<br>Dollars coming from "hard" housing. |
| Seattle | Housing | Public Services | (1) Decline in Federal Funds<br>Housing reductions in response to grant decline--desire to maintain social services level of effort |
| San Diego | Housing | Economic Dev't<br>Public Facilities | (1) Political Changes<br>Frequent turnover on dominant city council--no consistent articulation of priorities |
| Portland, OR | Public Facilities | Housing | (1) Changing Development Needs<br>Completion of essential improvements in underdeveloped areas; shifting governmental attention to social v. physical needs. |
| Ponce | Acquisition/Clearance | Public Facilities<br>Economic Dev't | (1) Other<br>Project phasing--early land acquisition followed by public facilities and major economic development outlays |
| Phoenix | Economic Dev't<br>Public Facilities | Housing<br>Public Services | (1) Change in Development Needs<br>Completion of major downtown projects, increase in obvious social problems<br>(2) Political Changes<br>Pressure from Council and CDCs for distressed neighborhood improvements |

**EXHIBIT 4.1**
**Significant Shifts in Allocation Between Activity Categories, 1982-89**

| Community | From What? | To What? | Why? |
|---|---|---|---|
| New York | Housing | Public Facilities<br>Public Services | (1) Change in Development Needs<br>Increased pressure on city-funded services--Facilities were homeless and day care centers, with CDBG-funded follow-on operating support |
| New Orleans | Public Facilities<br>Economic Dev't | Housing<br>Public Services | (1) Political Changes<br>Change in Mayor and heightened public attention to social problems attendent to increases in poverty |
| Newark | Housing | Acquisition/Clearance<br>Public Services | (1) Political Changes<br>Change in Mayor produced attention center-city/downtown urban renewal for middle-class attraction, economic development |
| Nashville | Public Facilities | Acquisition/Clearance<br>Economic Dev't | (1) Changes in Federal Funds<br>Section 108 funding used for major land acquisition/clearance projects near downtown. |
| Louisville | Economic Dev't | Housing<br>Public Facilities | (1) Political Changes<br>Change in Mayor shifted priority to housing and targeted area redevelopment; ED sustained by CDBG-capitalized loan pool. |
| Joplin | Public Facilities | Economic Dev't | (1) Change in Development Needs<br>Stagnation in local job market prompted shift to job creation<br>(2) Political Changes<br>New City Manager w/ED background |
| Jackson (MI) | Economic Dev't | Housing | (1) Change in Development Needs<br>Major industrial plant closings and decreased earnings--produced energy assistance and emergency repair need |
| E. Hartford | Economic Dev't | Housing<br>Public Facilities | (1) Regulations<br>HUD disallowed substantial amounts of CBD ED spending--shift to assure low-mod benefit |

Field researchers were asked to supply the reasons for these shifts based on their interviews, and were given the choice of "political" changes, changes in development need, decline in federal funds, fiscal needs, changes in law and HUD regulations and "other" factors. Attribution of major activity shifts to political as opposed to development needs is somewhat artificial, insofar as definitions of need and decisions to shift spending priorities are arrived at politically. Field researchers most often attributed these changes to local political and/or development needs (11 of 17 cities). In a number of the cities shown, mayoral change and attendant changes in development priorities produced changes in CDBG allocations. (As will be discussed in Chapter 6, the dominance of local executives in decision-making makes possible these major shifts in response to changing political definition of need.)

In only one city did a field researcher cite changes in law or regulation as a reason for major shifts in program activities throughout the 1980s. Of course, during the 1980s, no major changes in law or regulation likely to affect basic program allocations were introduced, with the possible exception of the promulgation of more stringent business assistance regulations in 1987, as described above. Although many community development officials in our field sample complained about these requirements (discussed in Chapter 6), they did not cite this change as important to overall funds programming decisions. In three locations, a decline in the annual grant produced a shift in relative budget shares among activities. Forced to reduce outlays, these communities chose not to adopt pro-rata reductions across the board, but rather, to hold the line on particular spending categories and allocate cuts to the remaining activities.

Community shifts among activity categories as a result of changes in the level of intergovernmental aid, including CDBG formula allocations, were much more prevalent in the 1990-1993 period. Field researchers attributed a major shift in activity category shares to changes in the level of aid in 5 of the 16 communities for which major shifts during this period were reported (see Exhibit 4.2). In most cases, *increases* in the CDBG formula allocation produced shifts in the local activity mix as a result of local decisions to allocate the increase to particular activities. In one instance, the decline of a state-funded economic development program, which required a local match (supplied from federal CDBG funds) reduced local CDBG allocations to economic development. It is worth noting, however, that field researchers attributed shifts in the more recent period to a wider variety of causes than was true for the 1980s. Most likely, the definition of a "significant" shift for the most recent period, for which memories are fresh, was more relaxed than for the 1980s. This suggests that major "system shifts" are the result of fundamental needs and political changes and less dramatic changes the product of a wider range of often idiosyncratic factors.

**EXHIBIT 4.2**
**Community Shifts Between Activity Categories, 1990-93**

| Community | From What? | To What? | Why? |
|---|---|---|---|
| Wichita | Housing | Public Facilities | (1) Change in Federal Funds<br>Increases in CDBG grants + replacement of CDBG with new HOME dollars |
| Waterford MI | Don't Know | Acquisition/Clearance | (1) Other<br>Demolition of major blighted structure will absorb large portion of relatively small grant |
| Seattle | Public Facilities | Public Services<br>Housing | (1) Political Changes<br>New mayor's emphasis on "client-based" policies--service-enriched housing and neighborhood services |
| San Diego | Housing<br>Economic Dev't | Public Services | (1) Demographic Changes<br>Increased pressure from latino/asian immigrants<br>(2) Political Changes<br>In addition to the above, mayor and council turnover |
| Ponce | Economic Dev't<br>Acquisition/Clearance | Public Facilities | (1) Other<br>Completion of major parcel acquisitions for economic development |
| Minneapolis | Economic Dev't | Don't Know | (1) Other<br>End of state Urban Revitalization Action Program (URAP) and local match requirement reduced stimulus for ED spending |
| Jersey City | Economic Dev't | Housing | (1) Regulations<br>HUD shut-down of Urban Redevelopment Authority programs and EDA business loan program |

**EXHIBIT 4.2**
**Community Shifts Between Activity Categories, 1990-93**

| Community | From What? | To What? | Why? |
|---|---|---|---|
| Houston | Economic Dev't | Housing | (1) Other<br>End of troubled real estate incentive program. |
| Hamilton | Economic Dev't | Don't Know | (1) Development Needs<br>Local consensus on priority to jobs and business development--new city manager with ED focus |
| Guaynabo | Public Facilities | Housing<br>Acquisition/Clearance | (1) Other<br>Section 108-funded major investments in new housing development |
| Fort Worth | Social Services | Don't Know | (1) Development Needs<br>Increasing volume of funding requests from social service agencies--response to increased gang, drugs, violence problems |
| Frederick | Housing | Public Facilities | (1) Political Changes<br>Mayoral shift to community facilities to serve local homeless population |
| Fort Lauderdale | Housing | Public Facilities | (1) Change in Federal Funds<br>HOME program allowed CDBG funds shift to "more visible" public improvements in neighborhoods |
| Chicago | Social Services | Housing<br>Economic Dev't | (1) Change in Federal Funds<br>Amounts from increased CDBG allocated to Housing & ED/ Social Services dollar level capped. |
| Los Angeles | Housing | Public Services | (1) Change in Federal Funds<br>Amounts from increased CDBG used for social services--Section 108 will keep housing at constant share temporarily.<br>(2) Change in Development Need<br>LA civil disorder increased pressure for youth/recreational/treatment programs. |

**EXHIBIT 4.2**
**Community Shifts Between Activity Categories, 1990-93**

| Community | From What? | To What? | Why? |
|---|---|---|---|
| Albany | Housing | Public Services | (1) Change in Federal Funds Amounts from HOME allowed shift of CDBG dollars to services<br>(2) Changing Development Need Increased applications from social service providers |

In two of the 16 cities, an increase in housing dollars as a result of new HOME formula allocations produced a "significant" shift of CDBG dollars out of the housing activity category. Field researchers reported that receipt of HOME funds "freed up" CDBG dollars from housing for allocation to other activities in a total of 9 of 61 cities visited on site, but the researchers did not classify the "re-allocation" of funds as "significant" shifts in all cases. There was no pattern to the types of activities that benefitted from this "re-allocation:" cities shifted funds into public works, economic development and public services at about equal rates.[6]

Table 4.11 shows the percentages of entitlement cities that allocated CDBG and HOME funds to various categories of housing activities, as reflected in the Community Development Director Survey. Nearly all communities (95.5 percent) use CDBG funds to support owner-occupied housing rehabilitation, with fewer using funds for rental rehabilitation (50.8 percent) and homebuyer assistance (31.5 percent). (The percentage of communities allocating HOME funds to these same activities is also shown.) In addition, the survey asked whether CDBG funds increased, declined, or remained the same *as a result of* the receipt of HOME dollars.[7] As the table indicates (lending further support to the findings above), substantial majorities of city officials report no change in CDBG funds allocated to categories of spending: this share ranges from 76.4 percent for owner-occupied programs to 86.2 percent for homebuyer assistance programs.[8] *Decreases* in CDBG allocations were most frequent for

[6] This finding is broadly consistent with the results of the first round analysis of the HOME Program which found that 28 percent of cities, overall, had redirected CDBG funds to non-housing activities. See Christopher Walker, et al, Implementing Block Grants for Housing: An Evaluation of the First Year of HOME (Washington, D.C.: Urban Institute Project Report to the U.S. Department for Housing and Urban Development, October 1994.)

[7] This is the language used in the mail survey. The intent was to limit 'yes' answers to only HOME-induced changes, rather than "normal" changes in amounts allocated to various activities.

[8] Technically, rent subsidies are not an eligible expense under the CDBG program; responses in this category may represent local labelling of programs as "rent-subsidy" even though they are not; for example, a rent reduction achieved by a capital subsidy for rental development.

owner-occupied programs (17.9 percent), nearly twice the percentage of cities reporting decreases in the next largest category.

**TABLE 4.11**
**HOME Funding and CDBG Housing Allocations by Type of Housing Activity**
**(Percent of Cities)**
**(n=443)**

| | Owner-Occupied | Rental Rehab | Homebuyer Assistance | Rent Subsidies |
|---|---|---|---|---|
| CDBG Funded | 95.5% | 50.8% | 31.5% | 3.8% |
| HOME Funded | 58.1 | 54.3 | 45.2 | 14.4 |
| CDBG Change | | | | |
| Increase | 5.7% | 7.5% | 7.0% | --% |
| Decrease | 17.9 | 9.0 | 6.8 | -- |
| No Change | 76.4 | 83.5 | 86.2 | 100.0 |

Note: Table includes local HOME participating jurisdictions only.
Source: Compiled by the Urban Institute from the CDA Survey.

While the effect of HOME on CDBG allocations to housing activities would appear modest, although certainly not negligible, city officials interviewed did not predict that this pattern would necessarily continue. Two primary reasons were given in field interviews to explain the continuance of CDBG-funded housing despite the influx of new housing resources, and potential pressures from non-housing city agencies, sub-grantees, and local political actors to re-allocate CDBG funds. First, city administrators in a number of communities successfully argued to local political leaders that "maintenance of effort" was an implied national expectation, even though such provisions were not included in the legislation. Second, city administrators successfully argued, where necessary, that HOME program continuation beyond the first several years was by no means assured. In that case, redirection of CDBG resources in response to short-run housing funding increases could result in seriously under-funded housing efforts in a few years' time.

### Community Development Strategies

The discussion in the first part of this chapter concluded that programmatic choices differ across communities, primarily with respect to different emphases on housing versus public facilities expenditures, and across time, as cities frequently shift budget allocations from and to major activity categories. In isolation, these budget allocations imply little about the broader purposes for which funds are spent; that is, what cities intend to accomplish with their activities. Community decisions about which *activities* and *neighborhoods* to fund together constitute a community's development strategy. A particular program mix and the broader purposes for which funds are spent; that is, what cities intend to accomplish with their activities. Community decisions about which *activities* and *neighborhoods* to fund together constitute a community's development strategy. A particular program mix and spatial orientation implies a particular approach to development. While some communities make expenditure decisions based on an explicit development strategy, others have no clear development strategy, and most fall somewhere in between.

Current legislation does not mandate particular combinations of activities or even particular results communities are expected to achieve (beyond general statements of national objectives). In response to early evidence of "spreading" of community development monies after the transition from categorical programs, the Carter Administration in 1977 sponsored legislation to create within CDBG a Neighborhood Strategy Areas (NSAs) Program, which attempted to encourage communities to define areas for strategic investment. These were expected to be areas where concentration of public resources would produce a demonstrable difference over a "reasonable" period of time. By implication, NSAs were to be areas that were neither too well-off to need CDBG assistance, nor too badly off that investments in the physical environment would make little impact. Neither were they to be so large as to dissipate the effects of public outlays. To provide incentives for cities to designate such areas, legislation authorized CDBG expenditures for public services inside NSAs. The program had formerly prohibited public service activities, and they remained ineligible outside NSAs.

Seen as overly directive and inconsistent with the philosophy of block grant devolution of program decision-making, the NSA program was dropped early in the Reagan administration as part of the general deregulation of CDBG. Over its short life, the NSA program's results were not particularly encouraging. While some cities designated areas that were small enough to be manageable, many others declared NSAs that covered broad swaths of their low- and moderate-income neighborhoods. Further, with no new *funding* to capture the attention of local decision-makers, investments in most cities were neither more concentrated nor more strategically placed than they would have been otherwise. Finally, in a program with such diffuse purposes as CDBG, little federal leverage as to programmatic mix or ultimate objectives was possible.

Nevertheless, despite the absence of federal requirements, support or encouragement, community decision-makers do arrive at certain objectives, whether explicitly stated or implicit, ad hoc, and in essence *de facto* strategies for community renewal. This section examines the strategies communities pursue, in terms of community purposes and areas of funding concentration.

**Types of Community Development Strategies.** Community development strategies can be characterized by their geographic orientation and developmental focus. Communities can use CDBG to address development needs on a neighborhood or community-wide basis. Neighborhood-oriented strategies respond to development needs which are locally interrelated, and strive for overall improvement to an area--through improved public facilities, upgraded housing, widened access to social services, and other community investments. This analysis divides neighborhood strategies in three categories--redevelopment, conservation and growth--related to neighborhood conditions and the types of activity funded:[9]

- *Neighborhood redevelopment* strategies focus on long-term improvements to distressed areas. Specific activities might include land acquisition and clearance for major residential and/or economic developments.

- *Neighborhood conservation* strategies involve improvements in stable, viable neighborhoods to prevent or arrest decay and deterioration. Activities might emphasize targeted housing rehabilitation, code enforcement, neighborhood commercial assistance, and general improvements to neighborhood infrastructure or public facilities. As a stop-gap measure, neighborhood conservation might be pursued to prevent further deterioration in a distressed neighborhood.

- *Neighborhood growth* strategies involve improvements in underdeveloped or stable areas related to problems of growth as opposed to distress or decline. Specific activities might include first-time installation of water and sewer facilities, drainage works, sidewalks and other public infrastructure.

By contrast, *community-wide* strategies address development needs that do not focus on particular neighborhoods, an approach that can be applied to any type of expenditure. For instance, a city might focus its efforts on income-tested housing rehabilitation to address citywide housing adequacy problems, or it might emphasize economic development activities in an attempt to improve overall employment opportunities for the low- and moderate-income population. Most often, though, a community-wide strategy means that general development activities are spread throughout the community to meet unrelated and competing demands for resources.

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[9] These categories correspond closely to those used before in the Brookings Institution reports and HUD annual reports to Congress. See, for example, Paul R. Dommel, Michael J. Rich, Leonard S. Rubinowitz, and Associates, Deregulating Community Development, (Washington, D.C.: U.S. Department of Housing and Urban Development, 1983), pp.104-108, and, U.S. Department of Housing and Urban Development, Fourth Annual Community Development Block Grant Report (Washington, D.C.: U.S. Department of Housing and Urban Development, Office of Community Planning and Development, 1979), Chapter III.

**Variation in Community Development Strategies.** By and large, city-reported emphases on neighborhood rather than citywide strategies appear linked to the character of development need.[10] Central cities, more distressed cities, and cities with highly concentrated poverty populations, tend more often to pursue neighborhood-oriented strategies than cities that are suburban, less distressed, and with relatively scattered poverty populations. This pattern is not universal, however. Highly distressed cities with a widespread poverty distribution will face powerful pressures to disperse funds broadly, and less distressed cities with a highly concentrated poverty distribution are more likely to pursue neighborhood-oriented strategies.

The mail survey of city community development administrators and field analyses in 61 cities both attempted to assign FY 1992 funding shares to the different strategic purposes described above. Mail survey responses represented self-assignments of funding shares. Responses to the 61-city survey represented field researchers' assignment of city spending to strategy categories based on review of city budget and expenditure data and extensive interviews with local program participants. Apart from basic geographic and activity criteria, respondents were not asked to apply any particular standard as to which activities fit a particular strategy.[11] Although this introduces a substantial element of individual judgment into the data, the results show an overall consistency of approach by different types of communities.

According to both mail survey responses and field researcher estimates, the largest shares of funds are allocated to neighborhood-oriented strategies of one kind or another, as opposed to citywide development approaches (Table 4.12).[12] On average, over one-half (54 percent) of funds supported neighborhood strategies, according to the CDA survey responses, while about one-third (34 percent) of funds were allocated for improvements distributed throughout the community--i.e. citywide development. Field researchers reported a similar split between neighborhood-oriented and citywide approaches with, on average, 56 and 35 percent of funds assigned to these strategies, respectively.

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[10] Chapter 6 will further discuss the relationship between community development strategy and local political characteristics--e.g. ward based councils.

[11] In this respect, the current study applies a much less restrictive methodology than did earlier Brookings studies, which required, for example, demonstrated coordination of activities for expenditures to qualify as neighborhood revitalization.

[12] For comparison purposes, "community-wide need" on the 61-city form is matched with "general development" on the CDA survey, "community growth" on the 61-city form is matched with "neighborhood growth" on the CDA survey, and allocations to a "fiscal" strategy on the 61-city report form are folded in with the "other" category. On average, "fiscal" strategies accounted for only 3 percent of allocations in 61-city communities.

**TABLE 4.12**
**Average Budget Allocation Share for Different Community Development Strategies (1)**
**(Unweighted Means)**

| | Number of Cities | Neigh. Redevt.+ | Neigh. Conserv.+ | Neigh. Growth= | Neigh. Subtotal | Citywide Devt. | "Other" Strategy |
|---|---|---|---|---|---|---|---|
| CDA Survey | 491 | 31% | 18% | 5% | 54% | 34% | 13% |
| 61-City Survey | 52 | 17% | 35% | 4% | 56% | 35% | 9% |

Source: Compiled by the Urban Institute from the CDA and 61-City Surveys.
Note: (1) Row percentages may not sum to 100 due to rounding.

The general correspondence between city officials and field researchers in terms of allocations to neighborhood versus citywide strategies lends confidence to the validity of this distinction in the mail survey responses. However, it is noteworthy that among neighborhood strategies, results from the mail survey and field researcher estimates are not consistent.[13] Cities reported allocating the largest share of funds for redevelopment (31 percent) and the next largest for conservation (18 percent). Neighborhood growth strategies accounted for only 5 percent. In contrast, on-site researchers found 35 percent of funds allocated to neighborhood conservation, on average, versus 17 percent for neighborhood development.

Overall allocation of resources to neighborhood-oriented strategies is largely driven by opportunity and demand. For this reason, cities with a concentrated distribution of needs would be expected to spend higher proportions of their CDBG resources pursuant to a neighborhood strategy. Conversely, an even distribution of needs across different areas of a city should produce strong local pressures to spread resources.

To examine this relationship, we calculated a poverty dissimilarity index using a measure widely employed in ethnic/racial segregation research.[14] Our dissimilarity index measures evenness in the distribution of a city's poverty population, or the spatial concentration of need as indicated by poverty. If the poverty rate is the same in all of a city's sub-areas (we used 1990 census tract boundaries and data), then need is evenly distributed. Conversely, if a city's poor and non-poor population is completely segregated then need as measured by poverty is spatially concentrated. Conceptually, the index represents the share

[13] There are two likely reasons for the variation in responses: 1) the potential for considerable overlap between strategies, especially if on-site researchers and CDA survey respondents applied different standards to classify allocations under one strategy or another; and, 2) differences in the characteristics of the universe of metro cities and the 61-city sample--e.g. Chapter 2 showed that 61-city communities are on average more distressed and more often central cities compared to the universe of metro cities.

[14] For a full discussion of dissimilarity indexes see Douglas S. Massey and Nancy A. Denton, "The Dimensions of Racial Segregation," (Social Forces, 67(2): 281-315, 1988.)

of a city's poverty population that would have to move to a different sub-area to achieve an even distribution. It varies from 0 to 1, with a value of 0 indicating an even distribution, and higher values indicating an increasingly uneven distribution. For analytic purposes we divided cities into quintiles based on their poverty dissimilarity score.[15] Cities in the first dissimilarity quintile have the most even distribution of poverty, and cities in the fifth quintile the most uneven distribution.

Our expectations are confirmed by the evidence in this case. We find that cities with the most spatially concentrated poverty populations allocate a larger share of funds to neighborhood-oriented development strategies than do cities with a more even poverty distribution. As Table 4.13 shows, those cities in the fifth dissimilarity quintile on average allocated 69 percent of funds for neighborhood strategies versus 49 percent for cities in the first quintile.[16]

The overall share of funds allocated to neighborhood strategies also is related to the opportunity for cities to pursue "other" development strategies. Less distressed communities--especially suburban cities--have fewer overall development needs, and therefore more opportunity to tailor unique development strategies to meet unique local demands. As Table 4.13 shows, least distressed cities allocate 17 percent of funds to "other" strategies whereas most distressed cities allocate only 9 percent.

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[15] We calculated a poverty dissimilarity index for HUD's longitudinal 220-city sample.

[16] The variation in affect of city characteristics reported in Table 4.13 is *not* a result of performing the analyses on different cities. A supplementary investigation shows that performing the analyses only on cities for which we have all independent variables does not change our findings.

**TABLE 4.13**
**Average Budget Allocation Share for Different Community Development Strategies (1)**
**By City Type, City-Level Distress and Poverty Dissimilarity**
**(Unweighted Means)**

| | Number of Cities | Neigh. Redevt.+ | Neigh. Conserv.+ | Neigh. Growth= | Neigh. Subtotal | Citywide Devt. | "Other" Strategy |
|---|---|---|---|---|---|---|---|
| All Cities | 491 | 31% | 18% | 5% | 54% | 34% | 13% |
| By City Type: | | | | | | | |
| Central Cities | 358 | 36% | 16% | 5% | 57% | 33% | 11% |
| Suburban Cities | 133 | 19 | 22 | 6 | 47 | 35 | 17 |
| By City-Level Distress Quintile: | | | | | | | |
| 1st (least distressed) | 69 | 21% | 18% | 6% | 45% | 38% | 17% |
| 2nd | 93 | 27 | 23 | 4 | 54 | 33 | 14 |
| 3rd | 87 | 36 | 17 | 5 | 58 | 29 | 13 |
| 4th | 92 | 43 | 15 | 4 | 62 | 30 | 9 |
| 5th (most distressed) | 74 | 34 | 18 | 6 | 58 | 34 | 9 |
| By Poverty Dissimilarity Quintile: | | | | | | | |
| 1st (even distribution) | 25 | 14% | 26% | 9% | 49% | 39% | 13% |
| 2nd | 30 | 24 | 15 | 6 | 45 | 41 | 15 |
| 3rd | 31 | 31 | 20 | 4 | 55 | 32 | 13 |
| 4th | 33 | 30 | 15 | 9 | 54 | 32 | 14 |
| 5th (uneven distribution) | 25 | 50 | 17 | 2 | 69 | 22 | 10 |

Source: Compiled by the Urban Institute from the CDA Survey.
Note: (1) Row percentages may not sum to 100 due to rounding.

With respect to the choice *among* neighborhood-oriented strategies, we would expect more distressed cities--especially central cities[17]--to emphasize redevelopment over conservation. These cities are more likely to have distressed neighborhoods which favor or demand a redevelopment strategy, compared to less distressed, suburban communities. Table 4.13 shows that central cities allocate a smaller share of funds to neighborhood conservation than do suburban cities, favoring neighborhood redevelopment instead. In fact, central cities allocate more than twice as much for redevelopment (36 percent) as conservation (16 percent), while suburban cities allocate roughly equivalent shares to the two strategies (19 and 22 percent, respectively).

The opportunity to pursue a neighborhood redevelopment strategy is also a function of how evenly development needs are spread across a city. Regardless of city-level distress, there are strong local pressures for a city to allocate fewer resources to a redevelopment

[17] Chapter 2 showed central cities generally have greater city-level distress than do suburban cities.

strategy if all neighborhoods are equally "deserving."[18] By contrast, a city with development needs concentrated in a smaller share of neighborhoods is likely to allocate a greater share of resources to neighborhood redevelopment. This expectation is also borne out by the CDA survey. Table 4.13 indicates that cities with the most unevenly distributed poverty population (in the fifth poverty dissimilarity quintile) allocate 50 percent of funds to neighborhood redevelopment, while cities with the most evenly distributed poverty population (in the first quintile) allocate only 14 percent of funds to pursue this strategy.

Interview data from the 61-city field research sample confirm the relationship between pursuit of a neighborhood redevelopment strategy and poverty distribution and city-level distress. Officials in cities with the largest share of funds going for neighborhood redevelopment cited development needs--especially poverty population and housing conditions--as the major driving force behind their strategy. Baltimore, for example, uses CDBG primarily to fund housing activities in distressed neighborhoods. Areas of concentrated poverty such as the Sandtown-Winchester neighborhood are the beneficiaries of this redevelopment strategy.

Regardless of the differing emphases among communities by distress level, type of jurisdiction, or unevenness of the distribution of the poverty population, most cities pursue multiple development strategies: two-thirds of the 61-city sites allocated funds to three or more strategies in 1992. To examine this pattern, we calculated what share of cities adopt "dominant" strategies--defined here as any single strategy accounting for at least 50 percent of a city's funds. For both the CDA and 61-city surveys, Table 4.14 shows the largest single share of cities have *no* dominant strategy--30 and 35 percent, respectively. One-quarter of CDA survey respondents reported a dominant citywide development strategy, and a similar share (27 percent) reported neighborhood redevelopment as their dominant approach (Table 4.14). Fewer city officials reported dominant allocations for other development strategies. Analysis of 61-city data shows similar results, though, as with distribution of funds described above, field researchers found neighborhood conservation to be more important than neighborhood redevelopment.

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[18] Analysis in support of this discussion shows no relationship between overall city distress levels and poverty dissimilarity. Poverty dissimilarity measures the evenness of poverty population distribution across a jurisdiction, and can vary regardless of city-wide poverty rate.

**TABLE 4.14**
**Share of Cities with a "Dominant" Budget Allocation for Different Community Development Strategies (1)**

| | Number of Cities | Neigh. Redevt.+ | Neigh. Conserv.+ | Neigh. Growth= | Neigh. Subtotal | Citywide Devt. | "Other" Strategy | No Strategy Dominant |
|---|---|---|---|---|---|---|---|---|
| CDA Survey | 491 | 27% | 11% | 2% | 40% | 25% | 5% | 30% |
| 61-City Survey | 52 | 10% | 29% | 0% | 39% | 23% | 4% | 35% |

Source: Compiled by the Urban Institute from the CDA and 61-City Surveys.
Note: (1) Row percentages may not sum to 100 due to rounding.

Allocation according to a neighborhood versus citywide strategy is a decision driven by city policy, primarily, but overlaps with decisions on how to deliver community development programs. In particular, the decision to fund nonprofit organizations to deliver programs can be the result of a decision to concentrate funds in particular neighborhoods within which nonprofits are active and thus the logical repository of program responsibility.[19] As Table 4.15 indicates, while CDBG subrecipients generally report a citywide service area, neighborhood-based nonprofit organizations for the most part report a neighborhood service area. This is not as tautological as it might seem because one-third of neighborhood-based organizations (32 percent) claim to serve a *citywide* clientele. However, while neighborhood-based nonprofits can be an important vehicle for implementing a neighborhood-oriented strategy, only a small part of neighborhood targeting is explainable by the character of the delivery system. The share of funds channeled through neighborhood-based nonprofits (Chapter 3 reports 11 percent of CDBG subrecipient funding) falls well below the average share of funds cities report as part of a neighborhood-oriented strategy (54 percent--see Table 4.13).

## Spatial Targeting

Because communities with greater city-level distress and more uneven distribution of poverty have a greater propensity to fund neighborhood-oriented strategies, we might expect these same types of cities to be more likely to concentrate funds, geographically. This section examines whether the propensity for particular kinds of cities to pursue neighborhood development strategies is confirmed by the spatial distribution of expenditures. The analysis confirms, for the most part, the relationship between increased distress and poverty concentration and concentration of funds detected in city officials' ratings of their overall neighborhood versus citywide strategy orientation. The only exception among activity categories is spending on infrastructure, which tends to be more concentrated as distress

[19] Alternatively, the decision to fund nonprofits can be a by-product of successful nonprofit efforts to obtain funds through a competitive process.

levels decline, a result most likely produced by federal rules on area-benefit spending. To arrive at these conclusions, we analyzed: 1) city-reported information about the spatial concentration of resources from the CDA mail survey, and 2) information about the spatial distribution of FY 1989 public facilities expenditures from HUD's automated Grantee Performance Report data.

**TABLE 4.15**
**Share of CDBG Subrecipients by Type of Service Area**
**(n=7288)**

| Organization Type | Neighborhood | Service Area Citywide | Outside City |
|---|---|---|---|
| Community Development Agency | 36 % | 57 % | 7 % |
| Other Public Agency | 10 | 90 | 0 |
| Citywide Nonprofit | 10 | 86 | 4 |
| Neighborhood Nonprofit | 66 | 32 | 2 |
| Other Nonprofit | 15 | 74 | 11 |
| Other | 12 | 84 | 4 |
| TOTAL | 26 | 71 | 3 |

Source: Compiled by the Urban Institute from the Subrecipient Survey.

**City-Attested Concentration of Resources.** The CDA survey asked city officials to characterize the spatial distribution of their expenditures in four different activity categories--housing, economic development, public services and infrastructure. For each activity category, respondents were asked which of the following statements best applied:

1) "CDBG funds tend to be concentrated in a central business district,"

2) "CDBG funds tend to be concentrated in a few neighborhoods,"

3) "Some funds are concentrated in particular areas, other funds are spent community-wide," or

4) "CDBG funds are spent throughout the community without focusing on particular neighborhoods."

Given that almost all cities pursue multiple development strategies, it is not surprising that we find almost all respondents indicate some concentration of expenditures. Over 90 percent of cities reported resource concentration (as indicated by the first three spatial characterizations) in at least one of the four activity categories. However small a share of total allocations, we would expect that part of a city's program that consists of a neighborhood strategy to involve spatial concentration of resources.

As Table 4.16 shows, infrastructure activities are most frequently concentrated with 85 percent of cities reporting spatial concentration of expenditures. The table further shows that the percentage of cities reporting spatial concentration of funds decreases across categories of economic development (65 percent), housing (56 percent) and public services (41 percent).

**TABLE 4.16**
**Share of Cities Reporting a Spatial Concentration of Expenditures in Different Activity Categories (1)**

| | Number of Cities | "Funds Conc. in a CBD"+ | "Funds Conc. in a Few Neighs"+ | "Some Funds Conc., Some Citywide"= | Cities With Funds Conc. (Subtotal) | "Funds Spent Throughout Community" |
|---|---|---|---|---|---|---|
| Infrastructure | 449 | 2% | 61% | 22% | 85% | 15% |
| Economic Development | 290 | 21 | 14 | 30 | 65 | 34 |
| Housing | 68 | 1 | 0 | 55 | 56 | 45 |
| Public Services | 486 | 0 | 15 | 26 | 41 | 58 |

Source: Compiled by the Urban Institute from the CDA Survey.
Note: (1) Row percentages may not sum to 100 due to rounding.

Cities ordinarily qualify infrastructure activities under low- and moderate-income, area-benefit, regulations that restrict activities to a subset of city areas. Because a relatively small share of neighborhoods in the least distressed cities meet area benefit criteria, these communities should be more likely to concentrate their infrastructure resources than more-distressed communities. This expectation is confirmed. Table 4.17 shows that although more-distressed cities are more likely to report "some funds concentrated, some city-wide", the reverse is true for "funds concentrated in a few neighborhoods." Among least distressed cities, 71 percent have neighborhood-concentrated infrastructure expenditures. Only 45 percent of cities in the most distressed quintile do so. Regardless of distress, however, cities with an uneven distribution of poverty are more likely to concentrate resources, just as they are more likely to pursue a neighborhood strategy.

A smaller share of cities concentrate housing or public service activities than activities related to infrastructure. But, the propensity for cities to spatially concentrate housing and public service expenditures is highest for the same category of communities most likely to pursue a neighborhood-oriented strategy. As Tables 4.18 and 4.19 show, overall concentration of these expenditures increases with increased city-level distress and more concentrated poverty distributions.

**TABLE 4.17**
**Share of Cities Reporting a Spatial Concentration of Infrastructure Expenditures (1)**
**By City-Level Distress and Poverty Dissimilarity**

| | Number of Cities | "Funds Conc. in a CBD"+ | "Funds Conc. in a Few Neighs"+ | "Some Funds Conc., Some Citywide"= | Cities With Funds Conc. (Subtotal) | "Funds Spent Throughout Community" |
|---|---|---|---|---|---|---|
| All Cities | 449 | 2% | 61% | 22% | 85% | 15% |
| By City-Level Distress Quintile: | | | | | | |
| 1st (least distressed) | 56 | 0% | 71% | 16% | 87% | 13% |
| 2nd | 87 | 3 | 62 | 21 | 86 | 14 |
| 3rd | 82 | 2 | 71 | 16 | 89 | 11 |
| 4th | 85 | 1 | 58 | 25 | 84 | 16 |
| 5th (most distressed) | 74 | 3 | 45 | 30 | 78 | 23 |
| By Poverty Dissimilarity Quintile: | | | | | | |
| 1st (even distribution) | 23 | 4% | 52% | 22% | 78% | 22% |
| 2nd | 27 | 4 | 37 | 33 | 74 | 26 |
| 3rd | 15 | 0 | 44 | 37 | 81 | 19 |
| 4th | 17 | 0 | 43 | 47 | 90 | 10 |
| 5th (uneven distribution) | 24 | 0 | 63 | 25 | 88 | 13 |

Source: Compiled by the Urban Institute from the CDA Survey.
Note: (1) Row percentages may not sum to 100 due to rounding.

It is noteworthy, however, that for housing activities the relationship between city characteristics that favor pursuit of neighborhood-oriented strategies does not hold completely for reported concentration of resources "in a few neighborhoods." In fact, though most cities reported geographically concentrating housing resources, *no* city reports housing "funds concentrated in a few neighborhoods" (Table 4.18). Almost all respondents reported at least some housing expenditures occur citywide. The large share of cities that report "some funds concentrated, some citywide" points to the almost universal pursuit of more than one development strategy.

Spatial concentration of economic development expenditures is second only to infrastructure, but this definition of concentration includes the 21 percent of cities with "funds concentrated in a central business district." Economic development activities are generally a more important part of citywide employment strategies or specific "other" strategies tied to local development needs, and the concentration of economic development generally increases, like the propensity to pursue citywide and "other" development strategies, with decreased distress. To the extent that cities fund economic development activities as part of a neighborhood-oriented strategy, though, the reported concentration of resources varies, like the allocation of funds to neighborhood strategies, by a city's distribution of poverty. Cities with a more uneven distribution of poverty are more likely to report economic development "funds concentrated in a few neighborhoods" (Table 4.20).

**TABLE 4.18**
**Share of Cities Reporting a Spatial Concentration of Housing Expenditures (1)**
**By City-Level Distress and Poverty Dissimilarity**

| | Number of Cities | "Funds Conc. in a CBD"+ | "Funds Conc. in a Few Neighs"+ | "Some Funds Conc., Some Citywide"= | Cities With Funds Conc. (Subtotal) | "Funds Spent Throughout Community" |
|---|---|---|---|---|---|---|
| All Cities | 387 | 1% | 0% | 55% | 56% | 45% |
| By City-Level Distress Quintile: | | | | | | |
| 1st (least distressed) | 55 | 2% | 0% | 35% | 37% | 64% |
| 2nd | 80 | 0 | 0 | 56 | 56 | 44 |
| 3rd | 63 | 2 | 0 | 62 | 64 | 37 |
| 4th | 68 | 0 | 0 | 69 | 69 | 31 |
| 5th (most distressed) | 61 | 0 | 0 | 62 | 62 | 38 |
| By Poverty Dissimilarity Quintile: | | | | | | |
| 1st (even distribution) | 25 | 0% | 0% | 44% | 44% | 56% |
| 2nd | 25 | 0 | 0 | 40 | 40 | 60 |
| 3rd | 24 | 0 | 0 | 58 | 58 | 42 |
| 4th | 28 | 0 | 0 | 82 | 82 | 18 |
| 5th (uneven distribution) | 20 | 0 | 0 | 90 | 90 | 10 |

Source: Compiled by the Urban Institute from the CDA Survey.
Note: (1) Row percentages may not sum to 100 due to rounding.

**Spatial Expenditure Patterns.** To test the validity of findings based on self-reported data, we extended this analysis of spatial targeting to Grantee Performance Report data on public facilities expenditures. These expenditures most closely match the infrastructure category used for discussion of city-attested concentration of resources above. The analysis both confirms and contradicts the results from the preceding discussion. In terms of the share of eligible census tracts covered, more distressed cities broadly distribute public facilities spending, less distressed cities do not; cities with widely distributed poverty populations spread public facilities funds widely, cities with spatially concentrated poverty do not. Moreover, cities with unevenly distributed poverty populations and more distressed cities spend a *disproportionate* share of public facilities funds in underclass and high-poverty tracts.

**TABLE 4.19**
**Share of Cities Reporting a Spatial Concentration of Public Service Expenditures (1) By City-Level Distress and Poverty Dissimilarity**

| | Number of Cities | "Funds Conc. in a CBD"+ | "Funds Conc. in a Few Neighs"+ | "Some Funds Conc., Some Citywide"= | Cities With Funds Conc. (Subtotal) | "Funds Spent Throughout Community" |
|---|---|---|---|---|---|---|
| All Cities | 486 | 0% | 15% | 26% | 41% | 58% |
| By City-Level Distress Quintile: | | | | | | |
| 1st (least distressed) | 71 | 0% | 14% | 11% | 25% | 75% |
| 2nd | 94 | 0 | 13 | 24 | 37 | 63 |
| 3rd | 90 | 0 | 13 | 28 | 41 | 59 |
| 4th | 94 | 1 | 21 | 27 | 49 | 51 |
| 5th (most distressed) | 78 | 0 | 14 | 37 | 51 | 49 |
| By Poverty Dissimilarity Quintile: | | | | | | |
| 1st (even distribution) | 25 | 0% | 0% | 32% | 32% | 68% |
| 2nd | 31 | 0 | 3 | 26 | 29 | 71 |
| 3rd | 28 | 0 | 4 | 36 | 40 | 61 |
| 4th | 35 | 0 | 14 | 34 | 48 | 51 |
| 5th (uneven distribution) | 27 | 0 | 11 | 48 | 59 | 41 |

Source: Compiled by the Urban Institute from the CDA Survey.
Note: (1) Row percentages may not sum to 100 due to rounding.

Cities report the census tract location of low and moderate income area-benefit expenditures on the Grantee Performance Report.[20] This analysis uses data from FY 1989 (the last year for which HUD automated expenditure location information), and is limited to area benefit expenditures. Expenditures here are project cumulative outlays, rather than period outlays. Because public facilities generally involve long spend-outs, cumulative expenditure data offer a more complete picture of the geographic scope of expenditures than do data for just one year. To reiterate, our analysis is limited to area-benefit expenditures in the public facilities category, and does not speak to the location of housing, public service

[20] Our analysis would have produced a more accurate portrayal of expenditure distribution if we had used U.S. Census block groups instead of tracts, but expenditure data were not universally available at the block group level.

or economic development activities, nor public facilities activities qualified on a direct, income-tested basis.[21]

**TABLE 4.20**
**Share of Cities Reporting a Spatial Concentration of Economic Development Expenditures (1)**
**By City-Level Distress and Poverty Dissimilarity**

| | Number of Cities | "Funds Conc. in a CBD"+ | "Concentrated Conc. in a Few Neighs"+ | "Some Funds Conc., Some Citywide"= | Cities With Funds Conc. (Subtotal) | "Funds Spent Throughout Community" |
|---|---|---|---|---|---|---|
| All Cities | 290 | 21% | 14% | 30% | 65% | 34% |
| By City-Level Distress Quintile: | | | | | | |
| 1st (least distressed) | 23 | 26% | 13% | 22% | 61% | 39% |
| 2nd | 51 | 22 | 20 | 20 | 62 | 39 |
| 3rd | 62 | 26 | 18 | 29 | 73 | 27 |
| 4th | 63 | 21 | 13 | 37 | 71 | 30 |
| 5th (most distressed) | 64 | 11 | 11 | 36 | 58 | 42 |
| By Poverty Dissimilarity Quintile: | | | | | | |
| 1st (even distribution) | 19 | 16% | 5% | 47% | 68% | 32% |
| 2nd | 16 | 13 | 13 | 56 | 82 | 19 |
| 3rd | 17 | 18 | 12 | 29 | 59 | 41 |
| 4th | 29 | 10 | 31 | 34 | 75 | 24 |
| 5th (uneven distribution) | 26 | 12 | 35 | 35 | 82 | 19 |

Source: Compiled by the Urban Institute from the CDA Survey.
Note: (1) Row percentages may not sum to 100 due to rounding.

One measure of spending concentration is the share of tracts funded--a city which funds a relatively small share of its tracts has a more concentrated expenditure pattern. According to this measure, GPR data match the pattern found with city-attested infrastructure concentration: i.e. increased distress and an even poverty distribution both reduce concentration of public facilities expenditures.[22] As Table 4.21 shows, with increased

[21] We restricted our analysis to public facilities expenditures because this is the only category for which we could link spatial expenditure data from 1989 with earlier grant years--Chapter 5 uses spatial expenditure data to make comparisons across years. It is also worth noting that: 1) public facilities is the only activity category for which expenditures are predominantly qualified as low and moderate area benefit (i.e. those for which we have location information); and, 2) this category accounts for the largest single share of area-benefit expenditures--in 1989, public facilities accounted for 50 percent of area benefit expenditures in the 220-city sample.

[22] Regardless of city size categories, the same distress effect holds. This pattern is not a function of the variation in number of tracts different cities have.

distress cities fund a larger share of tracts, and therefore concentrate their resources *less*. Cities in the most distressed quintile on average fund public facilities activities in 36 percent of tracts citywide, and 52 percent of low- and moderate-income tracts; by contrast, cities in the least distressed quintile on average fund public facilities activities in 9 percent of all city tracts and 13 percent of low- and moderate-income tracts.[23] Table 4.21 also indicates that cities on average fund a larger share of tracts--i.e. concentrate their resources less--the more even their distribution of poverty.

**TABLE 4.21**
**Average Share of Census Tracts Funded, 1989**
**By City-Level Distress & Poverty Dissimilarity**
**(Unweighted Means)**

| | Share of All City Tracts Funded | Share of Low/Mod Tracts Funded |
|---|---|---|
| All Cities | 26% | 46% |
| By City-Level Distress Quintile: | | |
| 1st (Least Distressed) | 9% | 13% |
| 2nd | 23 | 40 |
| 3rd | 22 | 42 |
| 4th | 22 | 40 |
| 5th (Most Distressed) | 36 | 52 |
| By Poverty Dissimilarity Quintile: | | |
| 1st (Least Concentrated Poverty) | 38% | 63% |
| 2nd | 28 | 56 |
| 3rd | 21 | 41 |
| 4th | 24 | 40 |
| 5th (Most Concentrated Poverty) | 20 | 37 |

Source: Compiled by the Urban Institute from HUD's GPR database.

GPR expenditure data can also show whether cities discriminate in terms of the *kinds* of tracts they fund. As noted above, more distressed cities and cities with an uneven distribution of poverty reported allocating a greater share of funds to redevelopment of distressed areas than other cities. To test this relationship, the following analysis estimates the extent to which different cities fund public facilities activities in worse-off tracts, and how cities differ in terms of the ratio between actual funding levels for worse-off tracts and the funding level we would "expect" based on the distribution of population.

[23] Low- and moderate-income tracts are defined as tracts with a median 1990 family income at or below 80 percent of the HUD-adjusted median family income (HAMFI)--see Methodological Appendix.

To classify census tract condition we use two recognized measures of area distress, underclass status (a measure of geographic concentration of multiple social characteristics which restrict labor force attachment) and poverty concentration (census tracts with greater than 40 percent poverty rate are classified as concentrated poverty tracts).[24]

To measure "expected" level of census tract funding we use the low- and moderate-income population eligible for area-benefit expenditures--that is, the low- and moderate-income population living in census tracts or census blocks with at least 51 percent low- and moderate-income population.[25] Our measure of concentration is a ratio which equals expenditure share as a percent of eligible low and moderate income population share. A concentration ratio of 1 means that share of expenditures matches share of eligible low and moderate-income population in a particular tract (or group of tracts). A value greater than one indicates expenditure share surpasses population share, and a value less than one indicates the opposite. The higher the concentration ratio, the more concentrated expenditures are on average.

With respect to underclass status, our analysis shows that more distressed cities and cities with a more uneven distribution of poverty spend a greater share of public facilities funds in distressed tracts, confirming the relationship of these city characteristics to pursuit of a neighborhood redevelopment strategy. As Table 4.22 indicates, cities in the most distressed quintile on average spend 13.3 percent of their public facilities funds in underclass tracts. All other cities spend a considerably smaller share of resources in underclass tracts (from 0 to 7.6 percent), though moderately-distressed cities (in the third and fourth quintiles) have a higher concentration ratio than cities in the most distressed quintile. In other words, the share of resources spent by moderately distressed cities in underclass tracts out-strips the share of eligible population in those tracts by a wider margin than is the case for the most distressed cities.

The relationship between underclass tract expenditure and poverty dissimilarity follows a similar pattern. Cities in the two quintiles with the most uneven poverty

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[24] An underclass census tract is one with above national average proportions of men not attached to the labor force, teenagers who are high school drop outs, families headed by women with children, and households dependent on welfare. See Ronald B. Mincy and Susan J. Wiener, The Under Class in the 1980s: Changing Concept, Constant Reality (Washington, D.C.: Urban Institute Under Class Research Project Working Paper prepared for the Rockefeller Foundation, July 1993.) A concentrated poverty tract is one with at least a 40 percent poverty rate. See Paul A. Jargowsky and Mary Jo Bane, "Ghetto Poverty: Basic Questions," in Laurence E. Lynn, Jr. and Michael G.H. McGeary (Eds), Inner-City Poverty in the United States (Washington, D.C.: National Academy Press, 1990.) See Methodological Appendix for full details.

[25] For exception communities we used the low- and moderate-income population percentage in the last block of the first quartile instead. Low- and moderate-income population is for 1990 as reported on special Census Bureau tabulations for HUD. See Methodological Appendix.

distribution spend proportionately more on public facilities in underclass tracts than do other cities (Table 4.22). Also, cities with a more uneven distribution of poverty on average *concentrate* their public facilities resources more in underclass tracts. Cities in the top two dissimilarity quintiles spend over 1.51 times the eligible population share in underclass tracts. Other cities spend a smaller share of funds than the share of eligible population in these tracts.

**TABLE 4.22**
**Average Share of 1989 Expenditures and Eligible Low/Mod Population in "Underclass" Census Tracts By City-Level Distress and Poverty Dissimilarity**
**(Unweighted Means)**

| | Number of Cities | (a) Share of Expenditures | (b) Share of Eligible LM Pop | Spatial Concentration Ratio--(a)/(b) |
|---|---|---|---|---|
| All Cities | 121 | 6.7% | 5.8% | 1.15 |
| By City-Level Distress Quintile: | | | | |
| 1st (least distressed) | 3 | 0.0% | 0.0% | 1.00 |
| 2nd | 17 | 0.2 | 1.9 | 0.11 |
| 3rd | 29 | 7.6 | 4.2 | 1.81 |
| 4th | 22 | 6.0 | 4.9 | 1.22 |
| 5th (most distressed) | 34 | 13.3 | 13.1 | 1.02 |
| By Poverty Dissimilarity Quintile: | | | | |
| 1st (even distribution) | 19 | 0.5% | 4.0% | 0.13 |
| 2nd | 25 | 2.1 | 3.9 | 0.54 |
| 3rd | 24 | 3.9 | 4.1 | 0.95 |
| 4th | 27 | 12.1 | 8.0 | 1.51 |
| 5th (uneven distribution) | 19 | 17.2 | 11.4 | 1.51 |

Source: Compiled by the Urban Institute from HUD's GPR database.

Our classification of expenditures by poverty concentration splits census tracts into nine categories, according to their score on two dimensions. The first dimension indicates the tract's poverty rate in 1990--greater than 40 percent (concentrated poverty tracts), 20 to 40 percent, or under 20 percent; and the second indicates the change in tract poverty rate between 1980 and 1990--declining (plus 5 percentage points or more), stable (within plus or minus 5 percentage points), and improving (minus 5 percentage points or more).[26]

This analysis also confirms that more distressed cities and cities with a more uneven distribution of poverty spend a greater share of resources in worse-off tracts. As Table 4.23

[26] To match up the tract 1980 and 1990 poverty rate we used the Underclass Database's capacity to reconfigure data from one census to another taking account of tract boundary changes.

shows, cities above median distress spent a total of 27 percent of funds on public facilities activities in concentrated poverty tracts while cities with below median distress spent only 10.7 percent.[27] In contrast, less distressed cities expend almost half (48.1 percent) of funds in tracts with poverty rates below 20 percent, whereas more distressed cities expend 28.4 percent of funds in this tract poverty category. Similar patterns hold for expenditures by tract poverty rate change. Cities with above-median distress levels expend almost half (45.9 percent) of all funds in declining tracts--i.e. those with poverty rate increases of more than 5 percentage points between 1980 and 1990; cities with below-median distress expend about a quarter (26.2 percent) of funds in such tracts. Conversely, more distressed cities expend 38.9 percent of funds in stable tracts; less distressed cities expend 68.9 percent of funds in such tracts.

In large measure, this distribution pattern reflects differences in the opportunity to fund different tract categories in different kinds of cities. More distressed cities spend greater shares of public facilities funds in concentrated poverty and declining tracts than do other communities, but, as Table 4.23 shows, a greater share of the eligible low- and moderate-income population is located in concentrated poverty tracts in these cities, too. In less distressed cities, the eligible population is predominantly found in tracts with less than 20 percent poverty and stable tracts.

It is noteworthy, however, that given the option to fund other tracts, more distressed cities choose to *concentrate* resources in worse-off tracts while other cities on average do not. Distressed cities spend a greater share of resources in worse-off tracts than their share of eligible population would dictate, whereas less distressed cities spend a smaller share of public facilities funds than their share of eligible population in these tracts (see Table 4.23).

[27] Table 4.23 categorizes cities as being above and below median distress (instead of using the distress quintiles employed in other tables) to keep the individual cell N values at an acceptable level. As with distress quintiles, median distress is assessed using all cities for which we have a 1990 distress score, i.e. not only those communities included for the current analysis. Table 4.24 similarly presents data for cities classified as above or below median poverty dissimilarity.

**TABLE 4.23**
**Average Share of 1989 Expenditures and Eligible Low/Mod Population in Census Tracts Categorized by Poverty Rate (1990) and Change in Poverty Rate (1980-90). By City Level Distress (Unweighted Means)**

| Tract Poverty Rate, 1990 | Declining (+5%) | Stable (+/-5%) | Improving (-5%) | Total |
|---|---|---|---|---|
| Above Median Distress (n=73) | | | | |
| Over 40% Poverty | | | | |
| Share of Expenditures | 18.9% | 5.4% | 2.7% | 27.0% |
| Share of Eligible LM Pop | 18.3 | 4.0 | 0.9 | 23.2 |
| (Spatial Concentration Ratio) (1) | (1.03) | (1.35) | (3.00) | (1.16) |
| 20-40% Poverty | | | | |
| Share of Expenditures | 23.4% | 16.1% | 5.1% | 44.6% |
| Share of Eligible LM Pop | 29.5 | 19.6 | 4.5 | 53.6 |
| (Spatial Concentration Ratio) | (0.79) | (0.82) | (1.13) | (0.83) |
| Under 20% Poverty | | | | |
| Share of Expenditures | 3.6% | 17.4% | 7.4% | 28.4% |
| Share of Eligible LM Pop | 5.2 | 14.1 | 3.8 | 23.1 |
| (Spatial Concentration Ratio) | (0.69) | (1.23) | (1.95) | (1.23) |
| Total | | | | |
| Share of Expenditures | 45.9% | 38.9% | 15.2% | |
| Share of Eligible LM Pop | 53.0 | 37.7 | 9.2 | |
| (Spatial Concentration Ratio) | (0.87) | (1.03) | (1.65) | |
| Below Median Distress (n=41) | | | | |
| Over 40% Poverty | | | | |
| Share of Expenditures | 7.0% | 3.2% | 0.5% | 10.7% |
| Share of Eligible LM Pop | 9.5 | 4.1 | 0.2 | 13.8 |
| (Spatial Concentration Ratio) | (0.74) | (0.78) | (2.50) | (0.78) |
| 20-40% Poverty | | | | |
| Share of Expenditures | 17.8% | 20.0% | 3.5% | 41.3% |
| Share of Eligible LM Pop | 21.1 | 10.3 | 1.0 | 32.4 |
| (Spatial Concentration Ratio) | (0.84) | (1.94) | (3.50) | (1.27) |
| Under 20% Poverty | | | | |
| Share of Expenditures | 1.4% | 45.7% | 1.0% | 48.1% |
| Share of Eligible LM Pop | 9.2 | 42.1 | 2.5 | 53.8 |
| (Spatial Concentration Ratio) | (0.15) | (1.09) | (0.40) | (0.89) |
| Total | | | | |
| Share of Expenditures | 26.2% | 68.9% | 5.0% | |
| Share of Eligible LM Pop | 39.8 | 56.5 | 3.7 | |
| (Spatial Concentration Ratio) | (0.66) | (1.22) | (1.35) | |

Source: Compiled by the Urban Institute from HUD's GPR database.
Note: (1) Spatial Concentration Ratio equals Share of Expenditures/Share of Eligible LM Population.

These same overall patterns hold true for cities categorized as above- and below-median on the poverty dissimilarity index. Cities with above median poverty dissimilarity--that is, cities with a more uneven distribution of poverty--spent 30.9 percent of public facilities funds in concentrated poverty tracts, whereas cities with below median dissimilarity spent a total of 9.1 percent of funds in the same kinds of tracts (Table 4.24). Furthermore, the share of expenditures in concentrated poverty tracts surpasses the share of eligible population in those tracts for cities with above median dissimilarity, while cities below median dissimilarity spend less than the share of eligible population in concentrated poverty tracts. Overall, cities with above median dissimilarity have a concentration ratio of 1.12 for concentrated poverty tracts, and other cities a ratio of 0.94.

The distribution of public facilities funds among different kinds of tracts reflects pursuit of multiple development strategies. Although more distressed cities and cities with a more uneven poverty distribution spend a greater share of public facilities funds in worse-off tracts than the share of eligible population in those tracts, they do the same in better-off tracts, too. As Tables 4.23 and 4.24 show, the overall concentration ratio for expenditures in tracts with less than 20 percent poverty is 1.23 for more-distressed cities and 1.11 for cities above median dissimilarity. In theory, we can link expenditures in better-off tracts with a reported community-wide or neighborhood conservation strategy, and expenditures in the worst off-tracts with neighborhood redevelopment.

**Summary**

Entitlement cities differ in the spending mixes they adopt, and to a certain extent these differences are tied to identifiable city characteristics. This chapter explored the relationship between various city characteristics and the share of funds budgeted for different activities. Most of the variation in city budget choices cannot be explained by the community characteristics examined in this analysis, but the analysis did reveal some statistically significant relationships.

**TABLE 4.24**

**Average Share of 1989 Expenditures and Eligible Low/Mod Population in Census Tracts Categorized by Poverty Rate (1990) and Change in Poverty Rate (1980-90). By Poverty Dissimilarity (Unweighted Means)**

| | Tract Poverty Rate Change 1980-90 | | | |
|---|---|---|---|---|
| Tract Poverty Rate. 1990 | Declining (+5%) | Stable (+/-5%) | Improving (-5%) | Total |
| Above Median Dissimilarity (n=59) | | | | |
| Over 40% Poverty | | | | |
| Share of Expenditures | 21.8% | 5.6% | 3.5% | 30.9% |
| Share of Eligible LM Pop | 20.9 | 5.9 | 0.8 | 27.6 |
| (Spatial Concentration Ratio) (1) | (1.04) | (0.95) | (4.38) | (1.12) |
| 20-40% Poverty | | | | |
| Share of Expenditures | 18.3% | 18.6% | 6.0% | 42.9% |
| Share of Eligible LM Pop | 28.5 | 16.9 | 3.5 | 48.9 |
| (Spatial Concentration Ratio) | (0.64) | (1.10) | (1.71) | (0.88) |
| Under 20% Poverty | | | | |
| Share of Expenditures | 3.0% | 16.2% | 6.9% | 26.1% |
| Share of Eligible LM Pop | 6.1 | 14.3 | 3.1 | 23.5 |
| (Spatial Concentration Ratio) | (0.49) | (1.13) | (2.23) | (1.11) |
| Total | | | | |
| Share of Expenditures | 43.1% | 40.4% | 16.4% | |
| Share of Eligible LM Pop | 55.5 | 37.1 | 7.4 | |
| (Spatial Concentration Ratio) | (0.78) | (1.09) | (2.22) | |
| Below Median Dissimilarity (n=55) | | | | |
| Over 40% Poverty | | | | |
| Share of Expenditures | 6.0% | 3.0% | 0.1% | 9.1% |
| Share of Eligible LM Pop | 7.8 | 1.4 | 0.5 | 9.7 |
| (Spatial Concentration Ratio) | (0.77) | (2.14) | (0.20) | (0.94) |
| 20-40% Poverty | | | | |
| Share of Expenditures | 26.1% | 13.2% | 2.4% | 41.7% |
| Share of Eligible LM Pop | 26.4 | 14.4 | 2.8 | 43.6 |
| (Spatial Concentration Ratio) | (0.99) | (0.92) | (0.86) | (0.96) |
| Under 20% Poverty | | | | |
| Share of Expenditures | 5.9% | 40.2% | 3.0% | 49.1% |
| Share of Eligible LM Pop | 6.8 | 35.7 | 4.2 | 46.7 |
| (Spatial Concentration Ratio) | (0.87) | (1.13) | (0.71) | (1.05) |
| Total | | | | |
| Share of Expenditures | 38.0% | 56.4% | 5.5% | |
| Share of Eligible LM Pop | 41 | 51.5 | 7.5 | |
| (Spatial Concentration Ratio) | (0.93) | (1.10) | (0.73) | |

Source: Compiled by the Urban Institute from HUD's GPR database.

Note: (1) Spatial Concentration Ratio equals Share of Expenditures/Share of Eligible LM Population.

City-level distress, a composite indicator of community development need, is a significant predictor of the share of funds allocated to both housing and economic development. As expected, more distressed cities are likely to allocate a larger portion of funds to these activities. All other things being equal, cities with larger populations allocate a greater share of funds for housing, and cities with a smaller population a greater share of funds for public facilities. Cities that are located in the south and west allocate greater budget shares to public facilities, as do communities that rely more heavily on local revenues and have made high capital outlays. Communities that rely more heavily on local revenues also make proportionately greater budget allocations for economic development. This suggests that allocation of a greater budget share for public facilities or economic development may reflect local decisions to fund activities with CDBG rather than incur local expenses. Sometimes jurisdictions may *reduce* locally funded investments in favor of CDBG.

In terms of how allocation changes occur over time, our analysis found considerable year-to-year variation in the share of funds budgeted to different activity categories at the local level, even though national program spending patterns vary little year-to-year. Local spending patterns for the most part involve short-term redistribution of resources to and from different activity categories as opposed to long-term shifts from one category to another. This pattern is especially noticeable for economic development and acquisition/clearance activities which are often driven by development opportunities requiring one-time, episodic outlays. In any given year, over 80 percent of cities shift their budget share for economic development and acquisition/clearance activities up or down by 20 percent over the previous year's allocation. Housing and public service allocations tend to be the most stable categories, with an average 54.3 and 63.1 percent of cities each year making a 20 percent budget shift, respectively, over the period 1982 to 1992.

Field researchers confirmed the basic pattern of variability in program allocations at the local level and supplied a number of explanations for those shifts. Significant shifts in expenditure patterns between 1982 and 1989 were most often attributed to political changes or changes in local development need (11 of 17 cities with "significant" allocation shifts). In a number cities, a change in mayor (and the resulting changes in development priorities) brought about shifts in CDBG allocations. In only one case did a field researcher cite changes in law or regulation as a reason for major shifts in program activities. Researchers attributed major shifts in allocations since 1989 most often to changes in intergovernmental aid. Of sixteen cities with major budget share re-allocations during this period, three attributed the change to increases in the CDBG formula grant amount, and two credited the influx of HOME funds.

The chapter also examined the extent to which decisions about which *activities* and *neighborhoods* to fund constitute a community development "strategy"--whether explicitly stated or implicit. We found that neighborhood-oriented spending continues to be a prominent feature of the program, with, on average, over one half (54 percent) of funds allocated for activities which fit neighborhood redevelopment, neighborhood growth, or neighborhood conservation strategies. By contrast, citywide development strategies account for 34 percent and "other" strategies 13 percent of expenditures. Central cities, more distressed cities, and cities with uneven poverty population distributions are more likely to pursue a neighborhood-oriented strategy than less distressed, suburban cities with a more even poverty distribution. This pattern is not universal, though: less distressed cities with highly concentrated poverty will pursue neighborhood-oriented strategies, and highly distressed cities with widespread poverty areas will face powerful pressures to distribute funds citywide.

The spatial distribution of expenditures confirms these relationships between community development strategy, city distress, and distribution of need (poverty). The only exception is spending on infrastructure (public facilities) which tends to be more concentrated as distress levels decline. Most likely this results from federal regulations on area benefit spending--less distressed cities will tend to have a proportionately smaller area in which public facilities expenditures can meet program requirements. GPR expenditure data show that cities in the least distressed quintile fund public facilities activities in 9 percent of all city tracts, on average; cities in the most distressed quintile fund activities in 36 percent of all tracts.

GPR expenditure data also show how cities discriminate in terms of the *kinds* of census tracts they fund. More distressed cities and cities with the more uneven distribution of poverty spend a greater share of resources on redevelopment of distressed areas than do other cities. Also, if the share of eligible low and moderate income population is used as an indicator of "expected" level of expenditures, the same cities spend a *disproportionate* share of funds in distressed areas. Given the option to fund other tracts, more distressed cities and cities with a more uneven distribution of poverty choose to concentrate resources in worse-off tracts while other cities on average do not.

## CHAPTER 5
## NATIONAL OBJECTIVES, NEEDS, AND BENEFITS

### Introduction

The Housing and Community Development Act of 1974 requires that each activity assisted with CDBG funds meet one of three national objectives: benefit low- and moderate-income persons; aid in the prevention or elimination of slums and blight; or meet other urgent community development needs. Communities receiving block grant funds must ensure that each activity assisted with CDBG funds meets one of these national objectives. Any activity which fails to meet the applicable test is considered not to comply with federal law.

As noted in Chapter 1, the relative priority among these three objectives--in particular, the performance of local programs in benefiting low- and moderate-income persons (social targeting)--has been an issue from the earliest years of the program. The CDBG program incorporated both Model Cities and Urban Renewal and, with them, two conflicting emphases. The Model Cities program had stringent rules on social targeting, reflecting its intent to achieve comprehensive revitalization in poverty neighborhoods for the purposes of social and economic uplift (in current terms, "empowerment"). In contrast, the Urban Renewal program focused on slum clearance and physical redevelopment, often in central business districts, to contribute to citywide redevelopment but not necessarily to benefit low-income persons directly.

The initial CDBG authorizing legislation required cities to "give maximum feasible priority to activities which will benefit low- or moderate-income families or aid in the prevention of slums and blight [or] meet other community development needs having a particular urgency."[1] This language established no precedence among these three "program priorities," but another section of the law mandates that local spending benefit "principally persons of low- and moderate-income."[2] The latter prescription is one ground for early debates on income targeting (and HUD's role in overseeing that performance).

Early regulations did not define the terms "maximum feasible priority" or "principal benefit" for the purpose of reviewing community applications or the results of local program spending. Therefore, HUD's oversight of city social targeting performance varied considerably

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[1] Housing and Community Development Act of 1974, Title I, Section 104.

[2] Housing and Community Development Act of 1974, Section 101 (c).

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according to the posture of national and local HUD staff. Although HUD officials challenged some communities' spending because of low levels of benefit to low-and moderate-income persons, this was not effective enough to forestall early analyses showing that low-income benefit levels overall were not high compared to the Model Cities Program, and in fact declined over the program's first several years.[3] In a number of communities around the country, local advocacy groups contested city CDBG spending on facilities that clearly did not benefit low-income households; e.g., public works or parks located in non-low-income neighborhoods.

The change in 1977 to a new administration inclined toward income targeting and congressional amendments to the program that year resulted in increased HUD oversight over low- and moderate-income benefit levels. Legislation granted HUD authority to reject local applications based on failure to benefit low- *and* moderate-income persons, eliminate slums and blight, or meet urgent community needs. The change from low- "or" moderate-income to "and" moderate-income resulted from the Senate's desire to ensure that benefit to moderate income persons was not seen as an alternative to benefit to low-income persons. However, in the name of local flexibility, the House successfully resisted Senate pressure to establish the primacy of income targeting--the three national objectives retained their co-equal status. But despite this uncertain congressional backing for a more socially targeted program, HUD established administratively a dual standard of review, in which community applications that did not commit to spending 75 percent of funds for low- and moderate-income benefit would undergo additional scrutiny before approval.[4]

Consistent with the deregulatory thrust of the new Reagan administration, HUD revoked the 75 percent review threshold in 1981[5] but in 1983, Congress established a minimum threshold for low- and moderate-income benefit--51 percent of any year's expenditures--thus legislating for the first time a quantitative standard of "principal benefit".[6] Under continuing pressure from low-income advocates, and to deflect criticism that the program represented a form of general revenue sharing for which no national interest could be shown, Congress in 1987 increased the threshold to 60 percent, to be applied to spending over one to three years, depending on local option.[7] In 1990, Congress once again ratcheted

[3] See National Association of Housing and Redevelopment Officials (citation).

[4] Federal Register, vol 43, no. 41, March 1, 1978.

[5] HUD Notice May 15, 1981.

[6] Housing and Urban-Rural Recovery Act, P.L. 98-181, November 1983.

[7] Housing and Community Development Act of 1987, P.L. 100-242.

upward the benefit threshold, stipulating that 70 percent of grantee expenditures must benefit low- and moderate-income persons.

Because benefit to low- and moderate-income persons has been much debated throughout the life of the program, previous analyses have devoted considerable attention to city performance in this regard.[8] To shed further light on the issue, this chapter examines the national objectives under which funds are qualified, looks at who benefits from CDBG assistance, and assesses the overall benefit the program provides to low- and moderate-income persons.

The first section reviews the statutory requirements for meeting each of the three national objectives. It then examines community expenditure patterns by national objective during the 1980s for metropolitan cities. A series of tables show how the share of funds qualified as low-mod benefit varies over time, by activity type, and across communities. The section concludes with an analysis of the overall benefit to low- and moderate-income persons, as calculated by program rules specific to the CDBG program. The second section of the chapter considers the beneficiaries of CDBG assistance. Direct beneficiaries and residents of areas benefiting from CDBG funds are examined separately. In both cases, the analysis looks at the relationship between the income levels of beneficiaries and the income levels of all residents of the jurisdiction. The chapter concludes with a summary of the program's benefit to low- and moderate-income persons.

Much of the analysis in this chapter relies on data from grantee performance reports (GPR) completed by jurisdictions receiving CDBG funds. Most of the data are from the activity summary and the direct benefit sections of the GPR. The activity summary section provides data on the types of activities performed, the national objectives under which the expenditures were qualified, and in some cases indicates the location of area benefit activities. The direct benefit form provides more detail on the direct beneficiaries of CDBG assistance. Grantees report the share of beneficiaries who are in the low or low to moderate income range, the share who belong to different racial and ethnic groups, and the share of direct benefit expenditures assisting single female-headed families. Additional supporting data were obtained from in-person interviews conducted the 61-city field research sample. A more detailed discussion of data sources is found in the Methodological Appendix.

By necessity, this analysis of program benefits relies on data reported by cities, rather than data independently collected and verified by research staff (with exceptions to be

[8] See for example, NAHRO, HUD (various years).

discussed below).[9] However, we judge these data to be of acceptable quality for several reasons. First, they form the basis for HUD monitoring of individual grantees, which for most cities, takes place at least annually. Local HUD staff familiarity with the programs operated by cities supplies an initial check on city ability to report benefit levels that are plainly inconsistent with HUD staff understandings of the areas or clientele served. Second, HUD monitors check the documentary support for benefits claimed on GPRs on a spot basis (and more systematically for "at-risk" programs or programs with past problems). Although HUD does not review all programs this way, city staff recognize that any program is liable to inspection. Third, communities have rather little incentive to misreport, given the relatively easy test the HUD-approved benefit standards represent (more on this below). Finally, Institute field researchers found little local conflict over benefit levels, generally, and no instances in which benefits were deliberately misreported in GPRs.

**National Objectives**

This section first outlines the criteria established for meeting the three national objectives and then compares the share of funds qualified under each across different types of jurisdictions during the 1980s.

**Program Rules.** Four types of activities qualify as meeting the *Low- and Moderate-Income Benefit* national objective (hereafter, low-mod national objective): area benefit activities, "limited clientele" activities (defined below), housing activities, and job creation or retention activities. In all cases, at least 51 percent of the beneficiaries must be classified as low- or moderate-income for an activity to qualify as meeting the national objective, and thus contribute toward meeting the 70 percent low- and moderate-income benefit requirement.

Costs of planning and program administration, funds deducted by HUD for repayment of urban renewal temporary loans, and funds expended for repayment of loans guaranteed under the Section 108 program are excluded from the calculation of low-mod benefit. Planning and program administration activities are assumed to benefit low- and moderate-income persons in the same proportion as other CDBG expenditures (and are capped at 20 percent of total program resources). Urban renewal loans are excepted because the grantee has no discretion over how these funds are spent. Repayment of Section 108 loans are excluded because the expenditure of loan proceeds are already counted elsewhere.

[9] The database of cities, expenditures, and beneficiaries contains thousands of observations for each program year; for any given year, these data could be assembled and independently verified only at enormous cost.

The so-called "counting rule" that HUD uses to determine grantee compliance with the 70 percent low-mod benefit requirement merits discussion before turning to each of the constituent low-mod benefit activities. If a majority of persons that benefit from an activity have incomes below 80 percent of median income, 100 percent of expenditures on that activity can qualify under the low-mod benefit objective. Only for housing construction and rehabilitation activities are expenditures allocated pro-rata across income levels. Thus, in the case of housing, although all expenditures on a housing *activity* for which 60 percent of the beneficiaries are of low- and moderate-income qualify as meeting the low-mod national objective, only 60 percent of the expenditures are counted toward meeting the 70 percent requirement.[10] This odd way of accounting for funds is the product of the original congressional intent, which was not to ensure that all *beneficiaries* of CDBG programs were of low- and moderate-income, only that activities funded principally benefitted them (rather than qualify as slums and blight elimination or prevention, for example). For a number of activities--a neighborhood park, for example--improvements to provide recreational opportunities for low-income children would unavoidably benefit higher-income children, as well, if they chose to play there. Moreover, the intent was not to create benefit-accounting requirements that would prove unduly burdensome or costly.

Broadly, the types of activities that meet the low-mod benefit test can be distinguished as direct benefit or area benefit activities. Area benefit activities are those that meet the identified needs of low-mod income persons residing in an area where at least 51 percent of the residents are low-mod income persons.[11] Only activities in areas that are primarily residential in character may qualify under the area benefit criteria. Direct benefit activities consist of those for which benefit can be attributed to specific individuals or households; e.g., the occupant of a CDBG-rehabilitated housing unit. Program rules further distinguish direct benefit activities according to whether they are (1) limited clientele, (2) housing, or (3) job creation or retention activities. These are discussed in turn:

Limited clientele activities are those which benefit a specific group of people (rather than all the residents in a particular area), at least 51 percent of whom are low-mod persons. Activities must meet one of the following tests to qualify:

[10] This example is accurate only if CDBG funds the entire project. If in the above example, CDBG funds paid for 60 percent of the costs, *all* CDBG funds count toward meeting the 70 percent requirement.

[11] When less than 25 percent of the populated block groups in a jurisdiction are low-mod, then an exception criterion applies. In this case, activities carried out in the 25 percent of block groups with the highest concentrations of low-mod persons are considered to meet the area benefit criteria.

- Benefit a clientele who are generally *presumed* to be principally low-mod income persons;[12] or

- Require information on family size and income so that it is evident that at least 51 percent of the clientele are low-mod; or

- Have income eligibility requirements which limit the activity exclusively to low-mod income persons; or

- Be of such a nature and location that it may be concluded that the activity's clientele will primarily be low-mod income persons.

Limited clientele activities also include special projects directed to removal of material and architectural barriers which restrict elderly or handicapped access. These special projects may involve publicly owned and privately owned non-residential buildings and the common areas of residential structures containing more than one dwelling unit.

Low-mod housing activities are those which add or improve permanent, residential structures which will be occupied by low-mod income households upon completion. The housing can consist of either owner or renter occupied units in either one family or multi-family structures. Rental units occupied by low-mod income persons must be occupied at affordable rents and the grantee must have criteria which it has made public for determining affordable rents for this purpose.

A low-mod job creation or retention activity is one which creates or retains permanent jobs, at least 51 percent of which are either taken by low-mod persons or considered to be available to low-mod income persons.

The national objective of *Elimination or Prevention of Slums or Blight* can be addressed (1) on an area basis, (2) on a spot basis, or (3) in an urban renewal area.

To be considered as addressing slums or blight on an area basis, and activity must meet the following criteria:

- The area must be designated by the grantee and must meet a definition of a slum, blighted, deteriorated, or deteriorating area under state or local law;

[12] According to HUD rules, the following groups are presumed to meet this criterion: abused children, elderly persons, battered spouses, homeless persons, handicapped persons, illiterate persons, and migrant farm workers.

- There must be a substantial number of deteriorated or deteriorating buildings or public improvements throughout the area[13];

- Documentation must be maintained by the grantee on the boundaries of the area and the condition which qualified the area at the time of its designation; and

- The activity must address one or more of the conditions which contributed to the deterioration of the area.

To comply with the national objective of elimination or prevention of slums or blight outside a slum or blighted area, an activity must meet two main criteria. First, the activity must be designed to eliminate specific conditions of blight or physical decay on a spot basis not located in a slum or blighted area. Second, eligible activities are limited to acquisition, clearance, relocation, historic preservation, and rehabilitation of buildings, but only to the extent necessary to eliminate specific conditions detrimental to public health and safety.

To qualify under the national objective of addressing slums or blight on the basis of urban renewal completion, an activity must be located in an urban renewal project area or Neighborhood Development Program action area and be necessary to complete the urban renewal plan, as then in effect, including initial land redevelopment permitted by the plan.

To comply with the national objective of meeting *Urgent Community Development Needs*, an activity must be designed to alleviate existing conditions which the grantee certifies:

- Pose a serious and immediate threat to the health or welfare of the community;

- Are of recent origin or recently became urgent;

- Cannot be financed by the grantee on its own; and

- For which other resources are not available.

A condition will generally be considered to be of recent origin if it developed or became critical within 18 months preceding the grantee's certification.

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[13] As a "safe harbor," HUD will consider this criterion to have been met if either of the following conditions prevail in the area:

- If State law does not specifically indicate the percentage of deteriorated or deteriorating buildings required to qualify the area, then at least one quarter of all the buildings in the area must be in a state of deterioration; or

- Public improvements throughout the area are in a general state of deterioration.

**CDBG Spending by National Objective.** Although debates over the *requirement* that cities achieve a certain percentage of low-mod benefit spending may imply policy concern that city benefit levels are inadequate, *achieved levels* of self-reported (or "city-attested") low-mod benefit have remained high. During the 1980s, jurisdictions qualified nearly all of their expenditures under the low- and moderate-income benefit national objective. Moreover, as Table 5.1 shows, the program has done so consistently.[14] Excluding funds for planning and administration (which by regulation are presumed to meet the national objectives in the same ratio as "direct" program spending), around 87 to 90 percent of metropolitan city expenditures each year were qualified as benefiting low- and moderate-income persons. (This same generally high levels of low- and moderate-income benefit were found in the late 1970s; e.g., cities in 1979 certified a 94 percent low-mod benefit level.)[15]

**TABLE 5.1**
**Annual Entitlement City CDBG Expenditures Shares by National Objective, FY 1982-1990**

| | National Objective | | |
|---|---|---|---|
| Fiscal Year | Low-Mod | Slum/ Blight | Urgent Need |
| 1982 | 89.1% | 10.1% | 0.8% |
| 1983 | 88.6% | 10.8% | 0.6% |
| 1984 | 89.3% | 10.4% | 0.3% |
| 1985 | 87.0% | 12.1% | 0.9% |
| 1986 | 86.8% | 13.1% | 0.1% |
| 1987 | 90.3% | 9.6% | 0.1% |
| 1988 | 88.7% | 11.3% | 0.1% |
| 1989 | 89.8% | 10.2% | 0.0% |
| 1990 | 90.4% | 9.6% | 0.0% |

Source: Urban Institute tabulations of GPR data. Percentages reflect all expenditures classifiable by national objective. See Methodological Appendix.

High self-reported low-mod benefit levels hold across all types of cities. As Table 5.2 shows, few differences in city characteristics resulted in statistically significant differences in the share of funds qualified under the low-mod national objective. Virtually no differences were distinguishable by region, city distress, or city population size class. In six of nine years examined, the mean share of expenditure qualified as low-mod benefit showed statistically significant differences by city expenditure category, however. Cities spending large amounts

[14] An unweighted comparison of those cities and urban counties for which data are available for every year from 1983 through 1990 confirms the pattern found in Table 5.1. For more detail on the data used in the tables in this chapter, see the Methodological Appendix.

[15] See HUD (1980), p. III-4.

tended to qualify a smaller share as low-mod benefit. In four of the nine years, central cities reported lower shares of funds qualified under the low-mod objective than did suburban cities. This result is "explainable" by the different activity mixes pursued in central cities and suburbs. As the discussion in Chapter 4 showed, central cities and larger cities are more likely to expend funds on acquisition and clearance and economic development activities, which are more likely to be qualified on the basis of slums and blight (See Table 5.3).

As was true for overall expenditures, well over half of expenditures in all activity categories were qualified under the low-mod national objective (Table 5.3). (Because aggregate national shares change little from year to year, the average percentages for 1982 through 1990 are shown in the table.) The share of expenditures designated as meeting the low- and moderate-income objective was highest for public services (nearly 100 percent) and lowest for acquisition and clearance activities (67 percent).

Since the urgent needs category is small in any year, the slum and blight shares tend to be the "inverse" of the low-mod benefit shares. Acquisition and clearance, the category with the smallest low-mod benefit share, was the activity type most frequently qualified as preventing or eliminating slums and blight. About one-third of city acquisition and clearance expenditures were qualified under the slum and blight criterion, an expected result given the "urban renewal" character of much of the acquisition and clearance spending. In contrast, almost no public services expenditures were qualified as slum and blight. Consistent with the findings for all expenditures, the urgent needs qualification was used for at most 1 percent of any activity.

Despite overall stability in low-mod benefit shares and stability in the shares of communities in each benefit group, however, low-mod benefit shares do change from year to year in individual communities. Table 4.7 in Chapter 4 presented the annual average percentage of cities that increased or decreased CDBG budget allocations to each activity group by more than 20 percent, and showed the considerable fluctuation in budget allocations from year to year. Table 5.4 shows a similar annual fluctuation in the percent of cities that increased or decreased the share of funds qualified as low-mod benefit by more than 10 percent (top panel of table). The bottom panel of Table 5.4 shows the annual average percentage of cities that increased or decreased the share of funds qualified as low-mod benefit within each activity group.

**TABLE 5.2**
**Share of Expenditures Qualified under the Low-Mod Benefit National Objective**
**By Selected City Characteristics**
**(Percentages for Metropolitan Cities)**

| | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 |
|---|---|---|---|---|---|---|---|---|---|
| Overall | 90.4% | 91.0% | 90.2% | 90.5% | 89.9% | 91.2% | 91.5% | 92.4% | 93.7% |
| Region | | | | | | | | | |
| Northeast | 89.6 | 90.2 | 89.5 | 89.6 | 89.6 | 89.2 | 92.0 | 92.3 | 93.2 |
| Midwest | 91.2 | 90.5 | 89.9 | 89.7 | 85.7 | 88.5 | 88.4 | 88.9 * | 91.1 * |
| South | 90.8 | 91.1 | 89.9 | 91.3 | 92.3 | 92.6 | 91.8 | 93.6 | 94.5 |
| West | 90.2 | 94.1 | 94.1 | 92.0 | 91.6 | 94.8 | 94.9 | 95.4 * | 96.7 * |
| 1990 Distress Quintile | | | | | | | | | |
| 1st (least) | 94.6 | 91.9 | 91.3 | 95.1 | 96.0 | 94.6 | 95.5 | 95.2 | 95.5 |
| 2nd | 92.3 | 94.0 | 86.4 | 90.3 | 88.6 | 89.1 | 91.7 | 93.5 | 94.2 |
| 3rd | 91.8 | 91.4 | 90.0 | 91.8 | 90.0 | 91.8 | 90.4 | 92.3 | 94.1 |
| 4th | 84.0 | 88.3 | 89.3 | 87.7 | 87.7 | 91.3 | 89.3 | 89.7 | 92.1 |
| 5th (most) | 90.4 | 88.1 | 90.2 | 89.2 | 87.7 | 89.3 | 89.3 | 91.0 | 89.8 |
| Type of City | | | | | | | | | |
| Central cities | 89.8 | 90.1 * | 89.9 | 90.1 | 89.1 | 90.6 | 90.4 * | 91.6 * | 92.8 * |
| Suburban cities | 92.6 | 94.5 * | 91.4 | 92.2 | 93.3 | 93.7 | 94.3 * | 94.3 * | 95.7 * |
| 1992 City Grant Size | | | | | | | | | |
| Over $7.3 million | 89.6 | 88.9 a | 90.4 | 88.9 | 89.9 | 88.8 | 84.2 a+ | 86.4 a+ | 87.8 a |
| 2.0-7.3 million | 88.2 | 88.7 a* | 90.5 | 90.1 | 89.5 | 92.2 | 90.1 a | 91.2 a | 91.1 a |
| Less than $2 million | 91.9 | 93.1 a* | 89.9 | 91.3 | 90.1 | 91.5 | 92.4 a | 93.1 a | 94.6 a+ |
| 1990 Population category | | | | | | | | | |
| Above 1 million | 90.3 | 85.6 | 93.1 | 86.6 | 90.3 | 89.2 | 85.0 | 89.2 | 90.3 a |
| 500,000 to 1 million | 86.4 | 91.3 | 90.3 | 91.2 | 89.7 | 88.3 | 84.2 | 87.3 | 87.8 a |
| 250,000 to 500,000 | 91.1 | 86.7 | 87.5 | 88.7 | 90.1 | 90.8 | 91.5 | 90.9 | 89.5 a |
| 100,000 to 250,000 | 88.6 | 90.2 | 90.7 | 90.8 | 89.3 | 91.1 | 91.3 | 91.4 | 93.6 a |
| Less than 100,000 | 91.7 | 93.2 | 90.6 | 91.1 | 90.1 | 92.0 | 91.9 | 93.0 | 94.2 a |
| City Expenditure | | | | | | | | | |
| Over $7.3 million | 88.7 a | 87.9 a | 88.5 | 86.7 a | 88.9 | 88.9 | 83.1 a* | 87.0 a+ | 85.4 a* |
| 2.0-7.3 million | 86.8 a | 89.5 a | 90.1 | 88.8 a | 88.9 | 91.7 | 89.4 a* | 91.7 a | 90.7 a* |
| Less than $2 million | 93.9 a+ | 93.3 a+ | 90.9 | 93.1 a+ | 90.8 | 91.5 | 92.5 a* | 92.9 a | 94.8 a* |

*Difference in pair of means is significant at the 95% level of confidence; +Mean for this category is significantly different from the means for the other categories;
a Reject the joint equality of the means at the 95% confidence level.
Source: Urban Institute tabulations of GPR data. See Methodological Appendix.

**TABLE 5.3**
**CDBG Expenditure Shares By National Objective and Activity Type**
**(Average percentage for FY 1982-1990)**

| | Low-Mod Benefit Share | Slum-Blight Benefit Share | Urgent Needs Share |
|---|---|---|---|
| Acquisition/Clearance | 66.7% | 32.5% | 0.8% |
| Economic Development | 81.8% | 17.9% | 0.3% |
| Housing Related | 93.3% | 6.7% | 0.0% |
| Public Facilities/Improvements | 88.8% | 10.5% | 0.7% |
| Public Services | 99.5% | 0.5% | 0.0% |

Source: Urban Institute tabulations of GPR data.
See Methodological Appendix.

From 1983 through 1990, 15 percent of cities on average reported a decrease of more than 10 percent in the shares of funds qualified under the low-mod benefit provision, 15 percent reported an increase of more than 10 percent, and the remaining 70 percent reported less than a 10 percent change from the preceding year (Table 5.4). These changes in low-mod benefit shares for all expenditures appear to be driven by changes in jurisdictions' activity mix. Those with higher shares of acquisition and clearance and economic development spending have lower low-mod shares (discussed above), and also greater year-to-year variation in the low-mod benefit share. The bottom panel of Table 5.4 shows the 1983-1990 average percentage of cities that reported changes of more than 10 percent in any year in the share of each activity group's spending qualified as low-mod benefit. The highest stable percentages were reported for public services (90 percent); the lowest for acquisition and clearance activities (41 percent).

**TABLE 5.4**
**Percentage of Cities Increasing or Decreasing Low-Mod Benefit Shares**
**By Year and Activity Type**

| | Percentage of Cities with Low-Mod: | | |
|---|---|---|---|
| **All Expenditures** | | | |
| Year | Decrease* | Stability | Increase* |
| 1982-1983 | 10.8 % | 70.6 % | 18.6 % |
| 1984 | 15.2 | 70.2 | 14.6 |
| 1985 | 13.0 | 69.0 | 18.1 |
| 1986 | 14.4 | 72.6 | 13.0 |
| 1987 | 13.4 | 73.6 | 13.0 |
| 1988 | 21.7 | 64.6 | 13.7 |
| 1989 | 17.2 | 68.7 | 14.1 |
| 1989-1990 | 14.5 | 74.0 | 11.5 |
| Average | 15.0 % | 70.4 % | 14.6 % |
| **By Activity Type (Average for 1983-1990)** | | | |
| | Decrease* | Stability | Increase* |
| Acquisition/Clear. | 39.8 % | 41.2 % | 19.0 % |
| Economic Develop. | 31.7 | 53.4 | 14.9 |
| Housing Related | 10.0 | 82.5 | 7.5 |
| Public Facilities | 18.5 | 66.8 | 14.7 |
| Public Services | 8.4 | 89.9 | 1.7 |

*Change of more than 10 percent in Low-Mod Benefit Share
Source: Urban Institute tabulations of HUD GPR data. See Methodological Appendix.

**Overall Benefit to Low- and Moderate-Income Persons.** As noted in the introduction to this chapter, grantees are required to certify that at least 70 percent of CDBG funds are for activities which benefit low- and moderate-income persons.[16] Tables in this section show that the program as a whole has consistently exceeded this requirement by a substantial margin, as do most cities.

For the purpose of meeting the 70 percent test, benefit is calculated according to the CDBG Program-specific "counting rule" discussed above. To recap, if 51 percent of expenditures for any activity can be attributed to low- and moderate-income persons, 100 percent of funds are counted for the purpose of meeting the 70 percent test. The only

[16] The 70 percent requirement became effective for fiscal year 1991. For the most recent period analyzed here, the applicable percentage was 60 percent.

exception to this rule is expenditures for housing rehabilitation, for which CDBG funds are counted as benefitting low- and moderate-income persons according to the ratio of low- and moderate-income occupants to all project occupants. (However, if CDBG funds fund only a share of project costs, and the ratio of low- and moderate income residents to all residents is greater than or equal to this share, all funds are considered to benefit low- and moderate-income persons.) Therefore, the low-mod benefit percentages presented in this section differ from those presented in the section immediately preceding. That is, a certain amount of funds may be *qualified* as meeting the low- and moderate-income objective, but not all of these funds may *benefit* low- and moderate-income persons by the counting rule just described.

The overall benefit to low- and moderate-income persons, as reported by cities on their GPRs, and as calculated according to CDBG counting rules, amounted to 89 percent of expenditures in 1990, a share that has remained relatively constant over the period from 1982 to 1990 (Table 5.5). As the table illustrates, the average of city low- and moderate-income benefit shares reached a low of 83 percent in 1988 and a high of 89 percent in 1983 and 1990. Benefit shares varied relatively little by region, distress, central city status, grant size, population size, or expenditure amount.

**TABLE 5.5**

**Annual Overall Benefit Shares to Low and Moderate Income Persons by Selected City Characteristics, FY 1982-1990**

**(Average annual share across metropolitan cities)**

| | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 |
|---|---|---|---|---|---|---|---|---|---|
| Overall | 88.5 | 89.2 | 88.0 | 88.1 | 88.7 | 85.0 | 82.7 | 88.0 | 89.0 |
| Region | | | | | | | | | |
| Northeast | 87.1 | 88.1 | 86.5 | 85.4 | 87.0 | 83.6 | 85.7 a* | 85.4 * | 86.6 |
| Midwest | 90.0 | 89.7 | 88.3 | 88.2 | 84.9 | 84.4 | 84.6 a+ | 85.4 + | 88.5 |
| South | 90.2 | 90.0 | 87.3 | 89.3 | 91.6 | 80.9 | 82.5 a | 88.8 | 88.4 |
| West | 85.9 | 89.8 | 92.8 | 89.7 | 90.5 | 91.9 | 78.2 a*+ | 92.7 *+ | 92.6 |
| 1990 Distress Quintile | | | | | | | | | |
| 1st (least) | 87.4 | 84.9 | 88.6 | 93.9 | 93.3 | 88.5 | 80.7 | 91.5 | 92.1 |
| 2nd | 90.6 | 91.4 | 83.8 | 87.4 | 86.4 | 87.5 | 83.6 | 90.6 | 89.3 |
| 3rd | 90.4 | 89.0 | 86.8 | 88.2 | 89.8 | 83.2 | 82.5 | 85.5 | 91.0 |
| 4th | 83.9 | 86.9 | 87.7 | 85.7 | 86.2 | 83.3 | 84.2 | 85.8 | 88.6 |
| 5th (most) | 88.0 | 88.0 | 87.7 | 86.1 | 86.6 | 84.7 | 82.7 | 85.6 | 81.6 |
| Type of City | | | | | | | | | |
| Central Cities | 88.4 | 89.0 | 87.6 | 87.3 | 88.0 | 84.6 | 84.3 | 87.8 | 87.9 * |
| Suburban Cities | 89.0 | 90.1 | 89.6 | 91.1 | 91.5 | 85.3 | 80.8 | 88.6 | 91.5 * |
| City Grant Size | | | | | | | | | |
| Over $7.3 million | 87.8 | 87.1 | 87.1 | 84.4 * | 88.0 | 84.4 | 78.8 | 80.2 ab | 72.5 ab |
| $2.0-7.3 million | 86.6 | 88.4 | 88.7 | 87.3 | 88.8 | 88.1 | 83.7 | 87.0 a | 85.1 ab |
| Less than $2 million | 89.9 | 90.4 | 87.9 | 90.0 * | 88.8 | 84.1 | 83.5 | 88.8 a | 91.1 ab |
| 1990 Population Category | | | | | | | | | |
| Above 1 million | 84.0 | 85.8 | 91.6 | 87.4 | 91.3 | 80.9 | 65.9 | 77.9 | 58.4 ab |
| 500,000 to 1 million | 85.8 | 87.3 | 86.1 | 86.4 | 85.5 | 85.7 | 82.7 | 79.6 | 82.5 a |
| 250,000 to 500,000 | 89.9 | 84.9 | 84.9 | 83.0 | 89.5 | 88.0 | 85.7 | 87.7 | 81.2 a |
| 100,000 to 250,000 | 87.7 | 89.5 | 88.7 | 88.0 | 88.4 | 86.6 | 81.0 | 87.9 | 88.7 a |
| Less than 100,000 | 89.2 | 91.0 | 88.7 | 90.2 | 88.9 | 84.1 | 84.0 | 88.5 | 90.4 a |
| City Expenditure | | | | | | | | | |
| Over $7.3 million | 87.5 a | 86.6 | 85.1 | 81.9 ab | 87.5 | 86.1 | 84.4 | 86.8 | 87.3 |
| $2.0 - 7.3 million | 85.5 a* | 88.3 | 88.2 | 87.3 ab | 88.0 | 87.6 | 87.3 * | 88.2 | 89.9 |
| Less than $2 million | 91.9 a* | 91.1 | 89.3 | 91.9 ab | 89.7 | 84.2 | 81.3 * | 88.0 | 88.8 |

* or + Difference in pair of means is significant at the 95% level of confidence; a Reject the joint equality of the means at the 95% confidence level; b Mean for this category is significantly different from the means of other categories.

Source: Urban Institute tabulations of GPR data. See Methodological Appendix.

Not all cities approach this average, however. Table 5.6 shows the distribution of cities by low-mod benefit percentages. Since 1983, a rather small percentage of communities in any given year reported low-mod benefit levels below the 70 percent standard established by the 1990 legislation. And, because communities reporting low-mod benefit levels below 70 percent tend to be recipients of smaller grants, in most years the share of national expenditures made by such communities is even less. From year to year, the percentage of communities and dollars in each of the other low-mod benefit groupings remains relatively stable.

The low- and moderate-income benefit shares for the 61 sample sites are not significantly different from the overall averages reported in the GPR data base (Table 5.7). About one-third of jurisdictions visited indicated that their low-mod benefit shares had changed by more than 15 percentage points between 1987 and 1990 and less than 20 percent indicated a large change between 1991 and 1992 (not shown). The reasons most often cited for large reported changes in benefit shares were changes in development priorities, HUD regulations, and city-specific issues. No interviewees said that changes during these periods were due to changes in local demographics or political changes. In a number of cases, the reported low- and moderate-income benefit changed due to reclassification of expenditures, greater awareness of the low-mod benefit rule by city staff, or shifts in funding sources (without a change in policy). Some cities discounted earlier data, believing that more recent records were more accurate. In two jurisdictions, large projects that were not classified as low-mod benefit shifted the reported benefit shares downward for a few years.

Relatively few jurisdictions indicated that the level of low- and moderate-income benefit had been an issue for them in the past two or five years. In these few cases the issues were related to the normal "mechanics" of program compliance or episodic and idiosyncratic events. For example, two grantees noted that HUD had challenged the computation of low-mod benefit or had questioned the classification of some activities. Another interviewee noted that the allocation of a large share of funds to slum and blight prevention activities had reduced their low-mod benefit level and forced them to put some projects on hold until the low-mod benefit level increased. Another respondent cited disagreements between the mayor and his political opponents concerning a shift in strategy from neighborhood development to city-wide economic development.

**TABLE 5.6**
**Annual Percent of Communities and Funds by Categories of Percent Low-Mod Benefit, FY 1982-1990**
**(Dollars in millions)**

| | | Low-Mod Benefit Percentage | | | |
|---|---|---|---|---|---|
| Year | Number/Amount | 90-100 % | 80-89 % | 70-79% | 0-70 % |
| 1982 | | | | | |
| Cities | 204 | 63 % | 17 % | 8 % | 11 % |
| Dollars | $2,414 | 52 | 31 | 9 | 8 |
| 1983 | | | | | |
| Cities | 214 | 64 | 17 | 9 | 9 |
| Dollars | 2254 | 45 | 34 | 11 | 10 |
| 1984 | | | | | |
| Cities | 216 | 63 | 13 | 12 | 13 |
| Dollars | 2363 | 47 | 30 | 10 | 13 |
| 1985 | | | | | |
| Cities | 215 | 60 | 17 | 13 | 11 |
| Dollars | 2407 | 42 | 31 | 14 | 13 |
| 1986 | | | | | |
| Cities | 216 | 61 | 17 | 10 | 12 |
| Dollars | 2008 | 48 | 26 | 7 | 18 |
| 1987 | | | | | |
| Cities | 693 | 60 | 17 | 9 | 14 |
| Dollars | 2269 | 54 | 22 | 15 | 9 |
| 1988 | | | | | |
| Cities | 720 | 60 | 15 | 8 | 18 |
| Dollars | 1932 | 53 | 22 | 13 | 12 |
| 1989 | | | | | |
| Cities | 716 | 65 | 15 | 9 | 11 |
| Dollars | 2030 | 53 | 25 | 13 | 9 |
| 1990 | | | | | |
| Cities | 720 | 71 | 14 | 6 | 9 |
| Dollars | 1893 | 66 | 14 | 15 | 6 |

Source: Compiled by The Urban Institute from HUD GPR data.
See Methodological Appendix.
Note: Percentages may not sum to 100 due to rounding

**TABLE 5.7**
**Average Low-Mod Benefit Shares for Site Visit Jurisdictions (Annual averages from GPR data, 1987-1990)**

| | Average Low-Mod Benefit Share | |
|---|---|---|
| Year | Site Visit Cities | All Cities |
| 1987 | 87.1 % | 85.0 % |
| 1988 | 83.9 | 82.7 |
| 1989 | 83.8 | 88.0 |
| 1990 | 80.6 | 89.0 |

Source: Urban Institute tabulations of HUD GPR data.

Only a few respondents remarked that they had any special problems in meeting the low-mod benefit level. Again, most of these problems were due to city-specific circumstances. Three grantees from higher income jurisdictions noted that they sometimes faced difficulties in finding eligible low-mod households or areas or that high market prices and limited available land constrained their ability to assist low- and moderate-income housing. Officials in two places noted conflict between the goals of community development and benefit to low- and moderate-income persons. Some people in these cities said that it is important to retain and attract the middle class. In one of these places, a group wants greater focus on the lowest income households. CDBG officials in the other city are concerned with meeting the 70 percent low-mod requirement. Other instances of difficulty in meeting the low-mod benefit level include conflict with HUD about assumed low-income benefit for city-owned housing, and plans for a large development project that will reduce the city's overall level of low- and moderate-income benefit.

## Social and Geographic Targeting: Benefits to Income and Ethnic Groups

Hitherto, the discussion has used city-attested low- and moderate-income benefit figures that record low-mod benefit percentages according to CDBG counting rules. As noted earlier, except for housing activities, shares of spending for low- and moderate-income households are not pro-rated across income levels; i.e. if 51 percent of households benefiting from an activity are below 80 percent of median income, *all* of the expenditures for that activity are considered to qualify under the low-mod national objective. The remainder of this chapter also relies on city-reported data, but estimates the proportionate shares of direct spending that actually benefit various income groups, and the income levels of neighborhoods in which spending takes place. This section also examines the ethnic composition of the beneficiary population and other special needs groups.

**Direct vs. area benefit activities.** Communities may orient their CDBG programs toward activities which chiefly provide direct assistance to individuals or to activities that benefit everyone living in the neighborhood. The concept of "area benefit" understood as "area improvement" (that is, not limited to the technical definition for qualifying expenditures) was prominent in the early years of the program. As discussed in Chapter 4, public facilities and acquisition and clearance expenditures--activities for which it is more difficult to assign benefits to specific individuals or households--constituted higher shares of CDBG funding in the early years of the program than has been true more recently. Further, program applications identified the geographic location of *each* activity, regardless of whether it was a "direct" or "area" benefit activity by the technical definitions now in use.[17] In other words, direct benefit expenditures were viewed as contributors to area-wide stabilization or revitalization, and reporting requirements reflected this. Finally, explicit national policy encouraged geographic targeting through local designation of Neighborhood Strategy Areas discussed in Chapter 4.

Because not all neighborhoods are uniformly low- and moderate-income, even though they may qualify as such for purposes of program compliance, early debates on program benefit levels, and the analyses that informed these debates, concentrated on the characteristics of neighborhoods (or census tracts) in which spending took place. This approach answered the following question: If the precise location of CDBG-funded facilities, and the income mix in neighborhoods were fully accounted for, what was the "real" benefit levels in communities, as opposed to reported (or "self-attested") benefits?[18]

However, because direct benefits constitute a substantially higher share of total low-mod benefit spending than do area benefits, and this share has increased substantially over time, the salience of measuring real benefit levels in communities has declined. Field researchers judged that 65 percent of jurisdictions visited displayed a direct benefit orientation, 20 percent an area benefit orientation, and the remainder a joint orientation to both. These evaluations were based on the share of benefits qualified under the area benefit criteria as well as the way local officials planned and thought about program expenditures. Data from the GPRs support the local view of programs as predominantly oriented to direct benefits. Between 1988 and 1990, area benefits accounted for 31 percent of city

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[17] Based on experience in on-site data collection, field researchers concluded that currently, very few communities readily could produce information on the geographic location of any but area benefit expenditures.

[18] For example, a feature of the Brookings methodology for assessing benefit levels called for field researchers to, in effect, second-guess city benefit claims by making their own benefit assignments.

expenditures under the low-mod national objective (Table 5.8).[19] Direct benefits (limited clientele, housing, or job creation activities) account for the remainder. The evidence, although limited to three years, suggests a decreasing emphasis on area benefits.

**TABLE 5.8**
**Share of Low-Mod Expenditures Qualified as Area Benefit By Activity Category, FY 1988-1990**

| | Year | | |
|---|---|---|---|
| | 1988 | 1989 | 1990 |
| Activity Category | | | |
| Acquisition/Clearance | 49.5 | 46.8 % | 61.4 % |
| Economic Development | 36.9 | 27.3 | 29.4 |
| Housing Related | 6.4 | 7.7 | 4.6 |
| Public Facilities | 81.4 | 73.0 | 79.8 |
| Public Services | 20.7 | 16.1 | 17.1 |
| Average | 33.4 % | 30.8 % | 29.0 % |

Source: Urban Institute tabulations of HUD GPR data. See Methodological Appendix.

Within the generally high proportions going for direct benefit, communities differ somewhat by type. Suburban cities and more highly distressed cities tend to qualify a larger share of expenditures as area benefit than other types of cities. Because public facilities activities are more oriented to area benefit, this is consistent with the findings in Chapter 4: suburban cities spend a larger share of funds on public facilities activities than central cities; more distressed cities are more likely to spend funds on public facilities than are less distressed cities. As Table 5.9 illustrates, between 1988 and 1990 suburban cities qualified 35 to 41 percent of expenditures as area benefit compared to 29 to 33 percent for central cities. Because cities with higher distress (the 4th and 5th quintiles of the distribution) generally contain more low- and moderate-income census tracts, it is not surprising that a larger share of expenditures in these cities were qualified as area benefit. Regional differences in the share of expenditures classified as area benefit are statistically significant for 1990 only. Cities in the Midwest and West tended to spend a smaller fraction of funds on area benefit activities than did cities in the Northeast and South. The share of funds spent on area benefits did not differ significantly by city grant size or city population.

[19] Data for shown for 1988 through 1990 because a consistent definition of area benefit was available only for these years.

**TABLE 5.9**
**Share of Low-Mod National Objective Expenditures Qualified as Area Benefit By Selected City Characteristics, FY 1988-1990**
**(Average annual share across metropolitan cities)**

| | 1988 | | 1989 | | 1990 | |
|---|---|---|---|---|---|---|
| Overall | 36.0% | | 34.1% | | 30.5% | |
| Region | | | | | | |
| Northeast | 37.4 | | 35.3 | | 32.4 | a |
| Midwest | 32.7 | | 31.8 | | 27.5 | ab |
| South | 38.5 | | 36.8 | | 37.3 | a |
| West | 35.1 | | 30.1 | | 24.3 | ab |
| 1990 Distress Quintile | | | | | | |
| 1st (least) | 33.4 | a | 27.8 | a | 22.1 | a |
| 2nd | 29.3 | a | 28.6 | a | 26.6 | a |
| 3rd | 31.7 | a | 29.4 | a | 25.5 | a |
| 4th | 37.3 | a | 36.3 | ab | 34.7 | ab |
| 5th (most) | 45.4 | ab | 40.4 | ab | 35.9 | ab |
| Type of City | | | | | | |
| Central Cities | 33.3 | * | 31.2 | * | 28.8 | * |
| Suburban Cities | 41.2 | * | 38.8 | * | 34.6 | * |
| City Grant Size | | | | | | |
| Over $7.3 million | 29.5 | | 27.5 | | 25.2 | |
| $2.0-7.3 million | 37.0 | | 33.3 | | 33.2 | |
| Less than $2 million | 35.7 | | 33.7 | | 30.2 | |
| 1990 Population Category | | | | | | |
| Above 1 million | 30.9 | | 26.2 | | 23.6 | |
| 500,000 to 1 million | 25.3 | | 26.3 | | 21.2 | |
| 250,000 to 500,000 | 28.8 | | 25.5 | | 23.7 | |
| 100,000 to 250,000 | 35.2 | | 33.0 | | 29.4 | |
| Less than 100,000 | 36.6 | | 34.4 | | 31.6 | |

* Difference in pair of means is significant at the 95% level of confidence.
a Reject the joint equality of the means at the 95% confidence level.
b Mean significantly different from the means of other categories.

Source: Urban Institute tabulations of GPR data. See Methodological Appendix.

**Direct Benefit Spending.** To better understand how the benefits of CDBG assistance are distributed, this section examines the characteristics of individuals and households assisted by direct benefit activities. Particular attention is paid to the distribution of benefits to low-income (below 50 percent of area median income) versus moderate-income (between 50 and 80 percent of median) individuals or households. The primary data source is the direct benefit form from the GPRs. The direct benefit form is intended to collect data on all direct beneficiaries.[20] Although some activities may not be completed at the time the form is prepared, this analysis assumes that the reported distribution of benefits closely approximates the actual distribution.[21]

*Income Levels of Direct Beneficiaries.* As expected, low- and moderate-income households do receive a substantial share of CDBG direct benefits. Their share also substantially exceeds the minima possible under program counting rules. In theory, the percentage of direct beneficiaries who are of low- and moderate-income could be as low as 51 percent, even though 100 percent of the expenditures would qualify under the low-mod national objective.[22] However, as Figure 5.1 shows, about one-third of the households in CDBG cities were classified as low-income in 1990 and they accounted for 58 percent of 1989 direct benefit expenditures.[23] Just under half of households had incomes up to 80 percent of the adjusted median; they received 82 percent of the direct benefit expenditures.[24]

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[20] Expenditures qualified as direct benefit under the presumed benefit criterion are included in these analyses because there is no systematic means for identifying such cases from the automated direct benefits data. We cannot definitively say how much such activities contribute to: a) total direct benefit expenditures, or b) direct benefit expenditures accruing to low and moderate income versus low income beneficiaries. As noted above, special populations qualify as low and moderate income persons regardless of income. In some jurisdictions, especially those with a good deal of activity focused on an elderly population, qualification of activities under the presumed benefit criterion may inflate benefit levels upward. See, for example, Michael J. Rich, Federal Policymaking and the Poor: National Goals, Local Choices and Distributional Outcomes (Princeton: Princeton University, 1993), pp. 301-303.

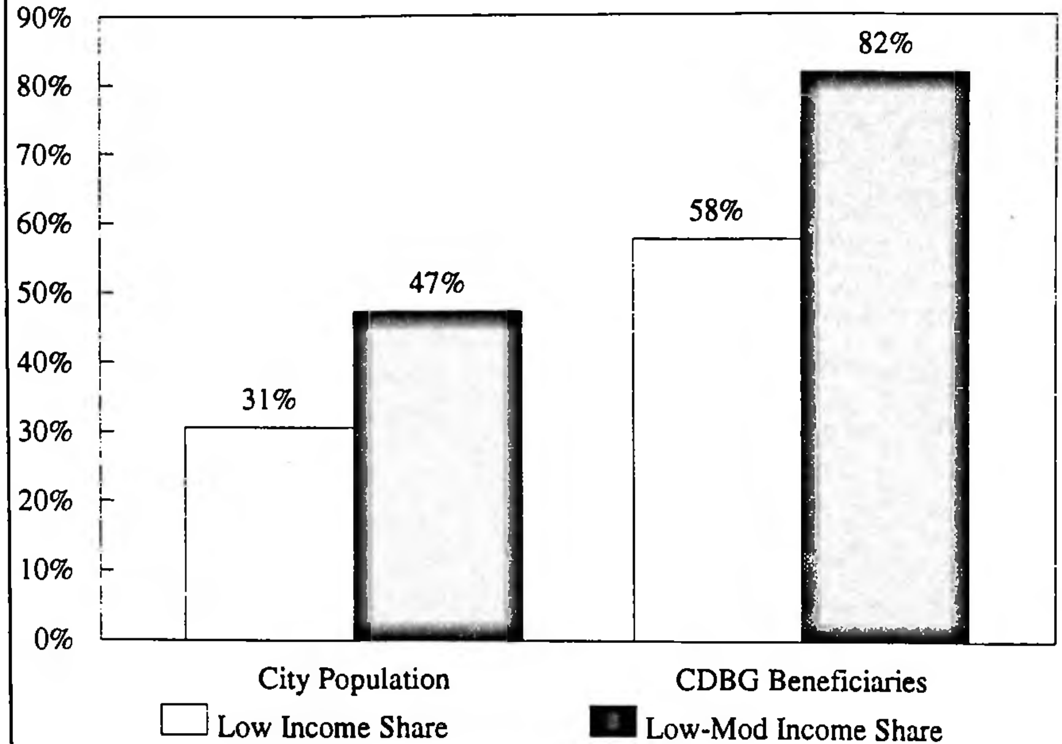
[21] In 1990, expenditures reported on the direct benefit form represented 45 percent of expenditures qualified as limited clientele, housing or job creation under the low-mod national objective.

[22] In practice, this percentage probably would be higher for cities that expend funds for housing--these expenditures are prorated across low-mod and non-low-mod beneficiaries-- and in that instance, city efforts to meet the 70 percent rule could push the benefit shares above the 51 percent minimum.

[23] To provide a comparison with expenditure shares, the city characteristics reported in Figure 5.1 are weighted by each city's direct benefit expenditures for 1989. The average (unweighted) share of low income households is 26 percent and of low-mod households is 43 percent.

[24] Close to half of households in the CDBG cities fall below 80 percent of these area medians for several reasons: First, medians are established for metropolitan areas, but only data for cities are reported here. Second, HUD-adjusted median family incomes are adjusted for factors other than family size. One of these adjustments raises the thresholds in areas where housing costs are high relative to incomes.

**Figure 5.1**
**City Population and Direct Beneficiaries by Income Levels, 1989**




1990 city characteristics weighted by 1989 direct benefit expenditures.

These proportionate allocations are considerably higher than estimates made in the early years of the program. The Brookings Institution reported that low-mod benefit levels in 1975 were an estimated 59 percent, for example, rising to 64 percent in 1978.[25] HUD's early estimates ranged from 61 percent (1977) to 66 percent (1978).[26]

The share of direct benefit expenditures assisting *low-income* beneficiaries varied by region but otherwise did not differ significantly by distress, central city status, grant size, population size, or expenditure level (Table 5.10). The share of benefits assisting those with low incomes was significantly lower in the Northeast than in other regions in all years. In

[25] See Dommel et al. (1980), p.163, Table 6-2.

[26] See HUD (1979) p. II-7, Table II-1.

1988 through 1990, cities in the Midwest also reported significantly lower shares of low income benefit.

There is also little time trend in the share of direct benefit expenditures indicated as assisting *low- or moderate-income* individuals and households. In most years, 64 to 68 percent of expenditures aided low-income persons or households and 91 to 94 percent of expenditures benefitted low- and moderate-income persons or households. Although there appears to be a slight decline in the share benefitting those classified as low- and moderate-income, when the benefit percentages for the same set of cities were compared in 1983 and 1990 the differences between the low and low-mod shares in the two years were not statistically significant.[27]

Each city's low- and moderate-income benefit performance is assessed based on an area-specific standard; i.e., 80 percent of the median income of the MSA of which the city is a part, including both central cities and suburbs.[28] This is not a very good yardstick, however, for two reasons. First, because suburbs in almost every MSA contain residents with higher average incomes than do central cities, MSA median incomes are much higher than those of constituent central cities. As an example, in Washington D.C., 80 percent of the HUD-adjusted median family income for a family of four in the MSA was $34,000 in 1989, or 94 percent of the Washington D.C. *city* median income of $36,256.[29] Second, the eligibility cut-off in areas where incomes are high, generally, will exceed, sometimes by a substantial margin, the cut-off where incomes are low. As an alternative measure of the social targeting performance of CDBG grantees, this analysis examines the share of expenditures attributable to individuals or households at various income groups using a single national standard--poverty-level income.

[27] For the longitudinal analysis, we compared only those cities in the sample in every year from 1983 through 1990.

[28] This is usually, but not always, the case. The HUD-adjusted median family income (HAMFI) departs from the census income estimates by adjusting for the level of state nonmetropolitan area median income, metropolitan area housing costs, national median family income levels, and a few statutory exceptions. All low- and moderate-income benefit shares reported in this chapter are based on the HAMFI. See the Methodological Appendix for details.

[29] Note that city median income includes all families containing two or more persons. The comparable figure for the MSA in 1989 was $54,540. Data from HUD and the 1990 Census of Population and Housing.

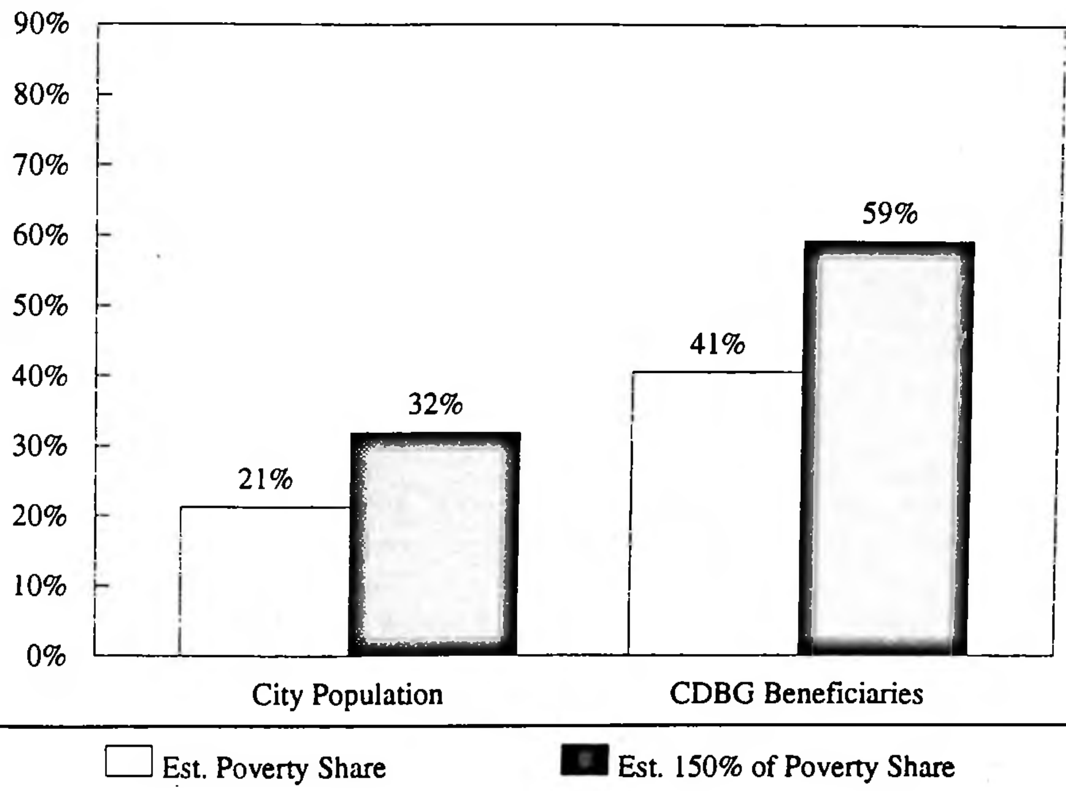
**TABLE 5.10**
**Share of Direct Benefit Expenditures Assisting Low Income Beneficiaries**
**By Selected Characteristics, FY 1983-1990**
**(Average annual share across metropolitan cities)**

| | 1983 | | 1984 | | 1985 | | 1986 | | 1987 | | 1988 | | 1989 | | 1990 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Overall | 62.5 | % | 63.8 | % | 66.0 | % | 67.7 | % | 70.7 | % | 62.8 | % | 61.5 | % | 61.3 | % |
| Region | | | | | | | | | | | | | | | | |
| Northeast | 51.0 | ab | 52.7 | ab | 53.5 | ab | 58.0 | a*+ | 60.1 | ab | 58.4 | ab | 54.9 | ab | 54.3 | ab |
| Midwest | 68.3 | a | 68.1 | a | 67.9 | a | 68.4 | a* | 73.8 | a | 56.9 | ab | 56.0 | ab | 56.6 | ab |
| South | 66.9 | a | 68.8 | a | 74.5 | a | 74.7 | a+ | 75.5 | a | 71.1 | a | 67.5 | a | 69.4 | a |
| West | 63.4 | a | 64.4 | a | 66.1 | a | 67.7 | a | 71.9 | a | 65.2 | a | 67.7 | a | 66.0 | a |
| 1990 Distress Quintile | | | | | | | | | | | | | | | | |
| 1st (least) | 66.9 | | 65.0 | | 63.2 | | 77.9 | | 80.3 | | 62.1 | | 62.1 | | 62.3 | |
| 2nd | 59.1 | | 66.2 | | 67.4 | | 64.1 | | 72.7 | | 65.0 | | 61.4 | | 60.6 | |
| 3rd | 64.8 | | 65.3 | | 59.6 | | 67.0 | | 71.8 | | 65.2 | | 64.9 | | 65.5 | |
| 4th | 60.6 | | 63.0 | | 71.7 | | 71.7 | | 70.8 | | 60.0 | | 57.7 | | 60.2 | |
| 5th (most) | 61.6 | | 60.0 | | 63.9 | | 65.2 | | 67.2 | | 59.1 | | 58.5 | | 58.4 | |
| Type of City | | | | | | | | | | | | | | | | |
| Central Cities | 62.8 | | 64.7 | | 86.9 | | 68.3 | | 71.5 | | 63.5 | | 60.7 | | 61.9 | |
| Suburban Cities | 61.1 | | 60.0 | | 62.2 | | 64.9 | | 67.3 | | 61.0 | | 63.7 | | 59.7 | |
| City Grant Size | | | | | | | | | | | | | | | | |
| Over $7.3 million | 61.1 | | 63.1 | | 65.9 | | 65.8 | | 70.2 | | 64.9 | | 63.8 | | 64.3 | |
| $2.0-7.3 million | 61.4 | | 52.8 | | 68.8 | | 69.9 | | 71.8 | | 59.2 | | 56.7 | | 60.0 | |
| Less than $2 million | 63.7 | | 64.8 | | 64.6 | | 67.1 | | 70.4 | | 63.4 | | 62.4 | | 61.3 | |
| 1990 Population Category | | | | | | | | | | | | | | | | |
| Above 1 million | 67.4 | | 63.1 | | 67.4 | | 71.8 | | 70.9 | | 74.9 | | 68.0 | | 70.8 | |
| 500,000 to 1 million | 60.8 | | 65.2 | | 69.5 | | 67.5 | | 75.4 | | 63.6 | | 69.7 | | 69.4 | |
| 250,000 to 500,000 | 64.6 | | 68.3 | | 71.4 | | 70.4 | | 73.6 | | 67.9 | | 60.5 | | 57.4 | |
| 100,000 to 250,000 | 63.9 | | 66.7 | | 71.8 | | 70.7 | | 70.8 | | 66.3 | | 64.6 | | 66.2 | |
| Less than 100,000 | 61.0 | | 60.5 | | 60.6 | | 64.9 | | 68.8 | | 61.3 | | 60.3 | | 59.9 | |
| City Expenditure | | | | | | | | | | | | | | | | |
| Over $7.3 million | 68.2 | | 67.7 | | 68.8 | | 62.7 | | 68.6 | | 50.7 | | 57.3 | | 68.3 | |
| $2.0 - 7.3 million | 61.0 | | 61.3 | | 68.8 | | 67.7 | | 70.5 | | 66.3 | | 64.4 | | 63.5 | |
| Less than $2 million | 62.5 | | 64.2 | | 65.3 | | 68.1 | | 71.0 | | 62.7 | | 61.4 | | 61.0 | |

* or + Difference in pair of means is significant at the 95% level of confidence; a Reject the joint equality of the means at the 95% confidence level; b Mean significantly different from the means of other categories at the 95% confidence level. Source: Urban Institute tabulations of GPR data. See Methodological Appendix.

By this alternative measure, poor and "near poor" households also receive a larger share of direct benefit expenditures. For 1989 we estimated the share of benefits going to those in poverty and those whose incomes were below 150 percent of the poverty threshold.[30] As Figure 5.2 shows, the ratio of the benefit share to the household share is approximately two to one. About 21 percent of households are poor and they received about 41 percent of direct benefit expenditures. Households below 150 percent of the poverty line accounted for one-third of households and received almost 60 percent of direct benefit expenditures.

**Figure 5.2**
**City Population and Direct Beneficiaries by Poverty Status, 1989**



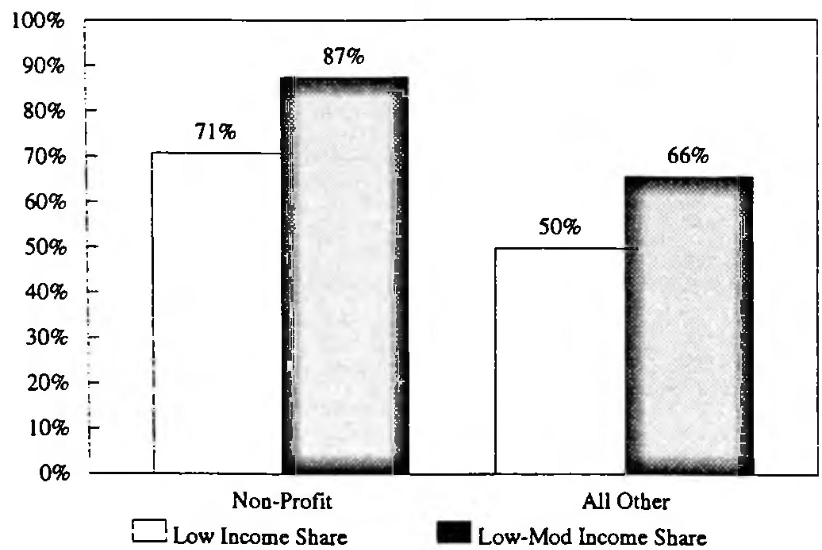

1990 city characteristics weighted by 1989 direct benefit expenditures.

[30] To perform these calculations we had to assume an even distribution of income below the 50 percent of median threshold and between the 50 and 80 percent of median thresholds. Poverty shares were interpolated based on the ratio of poverty threshold to the 50 percent and 80 percent of median threshold for the city for a family of 4 in 1989. The poverty threshold for a family of 4 was $12,674 in 1989 and 150 percent of the threshold was $19,011.

In nearly all (620 of 629) cities, the poverty threshold was below the 50 percent of median threshold for family of 4 and for the average city, the poverty line was 35 percent of median. In about one third (213) of the cities, the 150 percent of the poverty line was also below the 50 percent of median thresholds and in most of the remaining two thirds the 150 percent of poverty threshold was between the 50 and 80 percent of median threshold.

Supporters of the nonprofit sector often point to nonprofit organizations' presumed commitment to benefiting low-income persons or households as one advantage of their participation in community development program delivery. Chapter 3 presents a discussion of delivery organizations for CDBG program spending, including the role of nonprofits. Analysis of direct benefit expenditures made through non-profit subrecipients shows that they do indeed tend to assist a greater share of low- and moderate-income households than do direct benefit expenditures made by city agencies. Figure 5.3 compares the income levels

**Figure 5.3**
**Direct Benefit Expenditure Shares by Income Level and Non-Profit Sponsorship, 1989**




Source: Urban Institute tabulations of GPR data.
Note: Based on 39 cities with complete nonprofit sponsorship data

of those assisted through non-profit subrecipients with the incomes of those assisted through other direct benefit expenditures. In a 39-city sample of 1989 expenditures, 87 percent of nonprofit funds assisted low- and moderate-income persons compared to 66 percent of all other direct benefit expenditures. Non-profit subrecipients also assisted a greater share of low-income households--71 percent compared to 50 percent for other direct benefit expenditures. This differential performance is unaffected by the different activity mix of nonprofit versus city agency programs.[31]

*Racial/Ethnic Composition of Direct Beneficiaries.* Among the program issues most of interest to observers of community development, and urban politics generally, is the distribution of benefits by racial and ethnic group. Historically excluded from city politics, and from the benefits of citywide development, racial minorities were a target population for early community action programs, and later, the Model Cities program. Once decision-making devolved to local elected officials, one feared result was the re-allocation of benefits to non-minority populations, who at the time constituted majorities in most central cities. Early Brookings and HUD analyses showed that in fact, estimated benefits to minority populations *increased* over the early years of the program. The data analyzed in this section show that the program continues to show sustained high levels of (direct) benefit to minority populations. Our discussion starts with an overview of the CDBG benefits that accrue to racial and ethnic minorities, and then considers the impact various city-level characteristics have on benefit shares.

Racial and ethnic minorities receive a substantial share of CDBG direct benefit expenditures. As Table 5.11 shows, on average, about 45 percent of city expenditures assisted Black[32] individuals or households, 38 percent benefitted Whites, and 14 percent assisted Hispanic individuals or households. These expenditure shares remained fairly constant between 1983 and 1990.

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[31] Not shown in Figure 5.3, but shown by supplemental data runs conducted for this analysis.

[32] For these comparisons, four racial/ethnic categories are identified: Black non-Hispanic, White non-Hispanic, other non-Hispanic, and Hispanic (of all races). Unless otherwise indicated, the terms Black and White to refer to non-Hispanic individuals or households only.

**TABLE 5.11**
**Share of Direct Benefit Expenditures by Race/Ethnicity**
**FY 1983-1990**
**(Based on expenditures reported on the direct benefit form)**

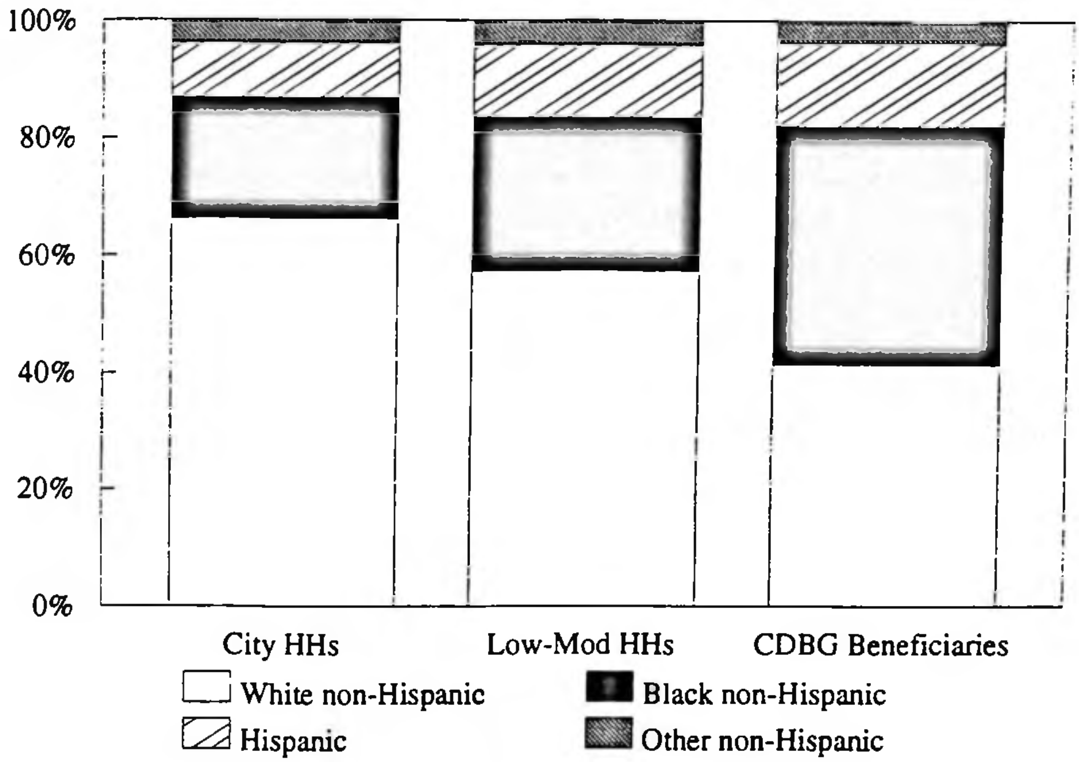
| | Race/Ethnicity | | | |
|---|---|---|---|---|
| Year | White | Black | Hispanic | Other |
| 1983 | 39.0 % | 45.4 % | 13.5 % | 2.1 % |
| 1984 | 36.1 | 46.3 | 13.9 | 3.7 |
| 1985 | 36.9 | 43.8 | 16.0 | 3.3 |
| 1986 | 38.0 | 43.9 | 13.9 | 4.2 |
| 1987 | 34.8 | 46.6 | 16.0 | 3.0 |
| 1988 | 36.8 | 46.8 | 13.4 | 3.7 |
| 1989 | 40.8 | 41.4 | 14.0 | 3.8 |
| 1990 | 38.1 | 44.4 | 13.7 | |
| Average | 37.6 % | 44.8 % | 14.3 % | 3.3 % |

Source: Urban Institute tabulations of GPR data.
See Methodological Appendix.

Minority households as a group receive direct benefit expenditures that exceed their share of total households. Within the minority population, the share received by Blacks exceeds their share of low- and moderate-income households; the share received by Hispanics and others approximates their share of low- and moderate-income households. Figure 5.4 compares the racial and ethnic composition of different income groups in CDBG cities (in 1990) with the share of direct benefit expenditures received in 1989. Because minority households constitute a larger share of low- and moderate-income households than of total households, they constitute a larger share of the beneficiary population than of the total population. In 1989, 21 percent of households and 26 percent of low- and moderate-income households in CDBG cities were Black; they received 41 percent of direct benefit expenditures. Hispanics, accounted for 9 percent of households, and 12 percent of low- and moderate-income households and received 14 percent of direct benefit expenditures. By contrast, whites made up 66 percent of households and 57 percent of low- and moderate-income households, and received 41 percent of direct benefit expenditures.[33]

[33] In the text and the exhibits, reported city characteristics are weighted by each city's direct benefit expenditures for 1989 to provide a comparison with expenditure shares. Average (unweighted) shares of households by race/ethnicity are: Black, 12 percent; White, 77 percent; Hispanic, 8 percent; and all others, 3 percent.

Figure 5.4
City Population and Direct Beneficiaries by Race/Ethnicity, 1989




1990 city characteristics weighted by 1989 direct benefit expenditures.

In order to compare the share of direct benefit expenditures assisting Black and Hispanic families in different types of cities, expenditure data were compared with city characteristics from the 1990 Census in descriptive regressions. The dependent variables are the weighted mean shares of direct benefit expenditures in each city assisting the different racial/ethnic groups for 1983 through 1990. The independent variables include the mean share of low- and moderate-income households who are Black, Hispanic, or White for the same years; an index measuring city distress; city grant size in 1992; and dummy variables for central cities and regions other than the northeast. In all three regressions the base case for comparison is a suburban city in the Northeast. The city distress indicator ranges from -2.2 to 2.9, with negative values indicating greater distress.

The reported coefficients in Table 5.12 show the influence of each of the listed independent variables on the share of direct benefit expenditures assisting each racial or ethnic group. For example, the coefficient of 1.25 for Black non-Hispanic households' share of low-mod households means that, all else equal, an increase of 1 percentage point in the Black non-Hispanic share of low-mod households increases the Black share of direct benefit

**TABLE 5.11**
**Share of Direct Benefit Expenditures by Race/Ethnicity**
**FY 1983-1990**
**(Based on expenditures reported on the direct benefit form)**

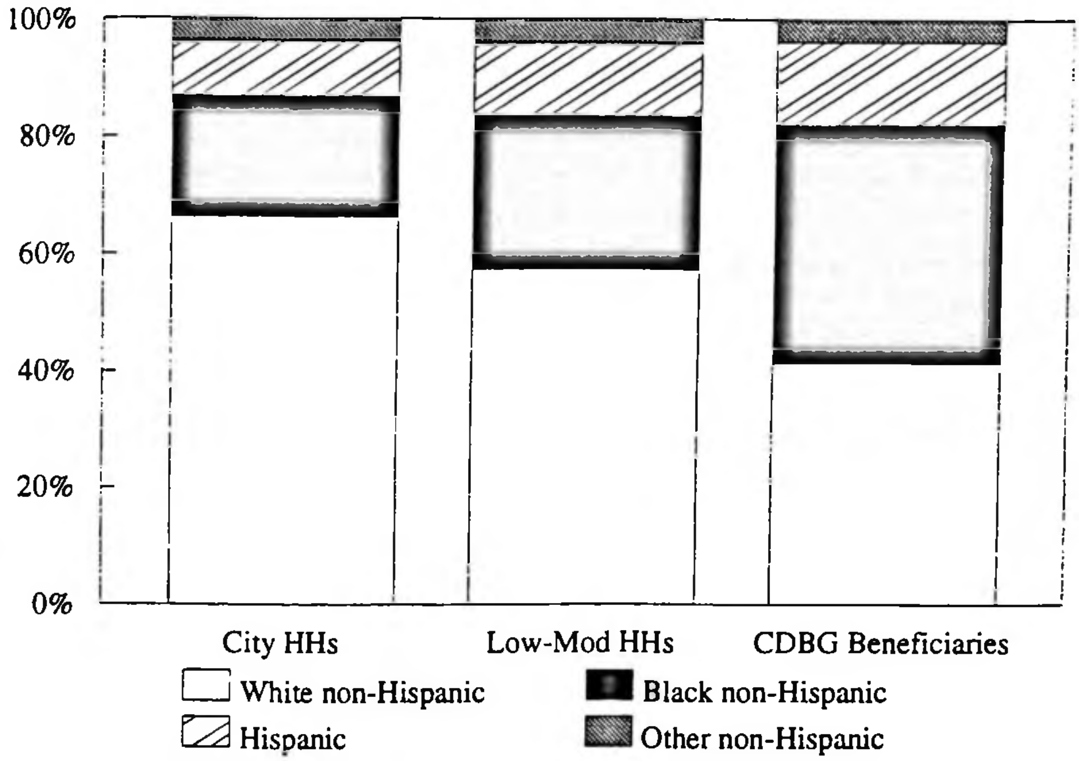
| | Race/Ethnicity | | | |
|---|---|---|---|---|
| Year | White | Black | Hispanic | Other |
| 1983 | 39.0 % | 45.4 % | 13.5 % | 2.1 % |
| 1984 | 36.1 | 46.3 | 13.9 | 3.7 |
| 1985 | 36.9 | 43.8 | 16.0 | 3.3 |
| 1986 | 38.0 | 43.9 | 13.9 | 4.2 |
| 1987 | 34.8 | 46.6 | 16.0 | 3.0 |
| 1988 | 36.8 | 46.8 | 13.4 | 3.7 |
| 1989 | 40.8 | 41.4 | 14.0 | 3.8 |
| 1990 | 38.1 | 44.4 | 13.7 | |
| Average | 37.6 % | 44.8 % | 14.3 % | 3.3 % |

Source: Urban Institute tabulations of GPR data.
See Methodological Appendix.

Minority households as a group receive direct benefit expenditures that exceed their share of total households. Within the minority population, the share received by Blacks exceeds their share of low- and moderate-income households; the share received by Hispanics and others approximates their share of low- and moderate-income households. Figure 5.4 compares the racial and ethnic composition of different income groups in CDBG cities (in 1990) with the share of direct benefit expenditures received in 1989. Because minority households constitute a larger share of low- and moderate-income households than of total households, they constitute a larger share of the beneficiary population than of the total population. In 1989, 21 percent of households and 26 percent of low- and moderate-income households in CDBG cities were Black; they received 41 percent of direct benefit expenditures. Hispanics, accounted for 9 percent of households, and 12 percent of low- and moderate-income households and received 14 percent of direct benefit expenditures. By contrast, whites made up 66 percent of households and 57 percent of low- and moderate-income households, and received 41 percent of direct benefit expenditures.[33]

[33] In the text and the exhibits, reported city characteristics are weighted by each city's direct benefit expenditures for 1989 to provide a comparison with expenditure shares. Average (unweighted) shares of households by race/ethnicity are: Black, 12 percent; White, 77 percent; Hispanic, 8 percent; and all others, 3 percent.

**Figure 5.4**
**City Population and Direct Beneficiaries by Race/Ethnicity, 1989**




1990 city characteristics weighted by 1989 direct benefit expenditures.

In order to compare the share of direct benefit expenditures assisting Black and Hispanic families in different types of cities, expenditure data were compared with city characteristics from the 1990 Census in descriptive regressions. The dependent variables are the weighted mean shares of direct benefit expenditures in each city assisting the different racial/ethnic groups for 1983 through 1990. The independent variables include the mean share of low- and moderate-income households who are Black, Hispanic, or White for the same years; an index measuring city distress; city grant size in 1992; and dummy variables for central cities and regions other than the northeast. In all three regressions the base case for comparison is a suburban city in the Northeast. The city distress indicator ranges from -2.2 to 2.9, with negative values indicating greater distress.

The reported coefficients in Table 5.12 show the influence of each of the listed independent variables on the share of direct benefit expenditures assisting each racial or ethnic group. For example, the coefficient of 1.25 for Black non-Hispanic households' share of low-mod households means that, all else equal, an increase of 1 percentage point in the Black non-Hispanic share of low-mod households increases the Black share of direct benefit expenditures by 1.25 percentage points. For variables like central city and the three regions, the coefficient shows how a change from suburb to central city or from Northeast to one of the other regions affects the share of benefit going to each group. As another example, in the Hispanic regression, holding other variables constant, the share of direct benefit expenditures received by Hispanic households is 5 percentage points lower in the South or West than in the Northeast and about 2.5 percentage points lower in the Midwest than in the Northeast.

A frequently used measure of the explanatory power of a regression is the adjusted R-squared. The R-squared value shows the portion of the variation in the dependent variable(s) that is "explained" by the independent variables included in the regression model. The remaining or "unexplained" variation can be either random error or may reflect an incomplete model that has excluded one or more important explanatory factors. As Table 5.12 shows, these regressions explain a good deal of the variation in the share of direct benefit expenditures assisting Black, Hispanic, and White persons.

The statistical significance of individual coefficients is measured by T-statistics. The T-statistics are based on the t distribution (similar to the standard normal distribution). This distribution shows the probability that a randomly selected observation will be greater or less than some critical value. By convention, analysts often select critical values so that the likelihood that a variable will be outside the range is 5 percent. In a large enough sample (such as those analyzed here), when a T-statistic has an absolute value greater than 1.96 we can say that the coefficient is significantly different from 0 with 95 percent level of confidence. Using this criteria, nearly all the coefficients in Table 5.12 are statistically significantly different from zero.

Regression results show that Blacks tend to receive a greater share of direct benefit expenditures in central cities, in midwestern and southern cities, and in cities where Blacks account for a larger fraction of low-mod households. The coefficient on the variable for the Black share of the city's low-mod households is significant and is greater than 1. This means that a one percent increase in the Black share of low-mod households raises the share of beneficiaries who are Black by more than one percent, all else equal. The central city dummy variable is positive and significant, indicating that the share of Black beneficiaries is about 9 percent higher in central cities than in suburbs. The region dummies for the midwest and south are also positive, indicating that Blacks receive a higher share of benefits in these regions. The negative coefficient on the city distress index indicates that Blacks receive a larger share of funds in more distressed cities.

**TABLE 5.12**
**Regression of Selected City Characteristics on Average Share of Direct Benefit Expenditures by Race/Ethnicity**
**FY 1983-1990**

| | Dependent Variables (Average share of direct ben. expend. assisting each group across years) | | | | | |
|---|---|---|---|---|---|---|
| | Black non-Hispanic Ben. | | Hispanic Beneficiaries | | White non-Hispanic Ben. | |
| | Coefficients | T-stats | Coefficients | T-stats | Coefficients | T-stats |
| Independent Variables | | | | | | |
| Intercept | -1.55 | -0.85 | -1.40 | -1.23 | -9.03 | -2.90 |
| Average of group's share of city's low-mod hhs across years | 1.25 | 31.39 | 1.07 | 42.06 | 1.14 | 30.86 |
| City distress index (1990) | -5.44 | -4.12 | -5.40 | -7.12 | 6.97 | 4.91 |
| City grant size (in thousands, 1992) | 0.000043 | 1.05 | 0.000032 | 1.26 | -0.000092 | -2.05 |
| Central city | 8.68 | 5.30 | 5.56 | 5.47 | -14.31 | -8.80 |
| Midwest | 5.05 | 3.25 | -2.34 | -2.27 | -2.91 | -1.84 |
| South | 11.38 | 7.11 | -4.62 | -4.41 | -9.04 | -5.31 |
| West | -0.02 | -0.01 | -4.91 | -4.41 | 6.77 | 3.44 |
| Regression Statistics | | | | | | |
| Adj R-sq | 0.80 | | 0.80 | | 0.78 | |
| F value for regression | 337.9 | | 297 | | 297.132 | |
| Mean of dependent variable | 33.3 | | 14.8 | | 54.0 | |
| Observations (cities) | 580 | | 529 | | 602 | |

Source: Urban Institute tabulations of GPR data. See Methodological Appendix.
Note: Regression is Weighted Ordinary Least Squares of mean of each group's share of city low-mod hhs FY 1983-90 and stock city characteristics on mean share of direct benefit expenditure assisting each group FY 1983-90. Weight is number of years city appears in fy 1983-90. (denominator is mean calculations).

The results for Hispanics are similar to those for Blacks, with the exception of the coefficients on the regional variables. The coefficient on the Hispanic share of low-mod households exceeds 1, although it is smaller than the analogous coefficient in the regression for Blacks. The coefficients on the region dummies are all negative, indicating that the Hispanic share of direct benefit expenditures is highest in the Northeast, all else equal. The coefficient on central city status is positive, indicating a higher share of benefits for Hispanics in central cities than in suburbs.

Whites receive higher shares of benefits in suburbs, in less distressed communities, in cities receiving smaller grants and in the West and in cities where they account for a larger share of low-mod households. As was true for Blacks and Hispanics, the share of benefits assisting Whites is positively related to their share of low- and moderate-income households. Unlike the other regressions, however, the share of benefits received by Whites is negatively related to grant size and central city status and positively related to the distress index. This benefits pattern may well result from limits on the access minority populations have been able to achieve in smaller, less-distressed, suburban cities.[34]

Direct benefit expenditures made through non-profit subrecipients assist close to the same share of minority households as do other direct benefit expenditures, but tend to serve greater shares of Hispanics and "other" minorities than other groups. Figure 5.5 compares the racial and ethnic characteristics of those assisted through non-profit subrecipients with the characteristics of those assisted through other direct benefit expenditures. In 1989, of direct benefit expenditures, 77 percent of funds spent by non-profits benefitted minorities compared to 73 percent of funds spent by other entities.[35] Hispanics received a larger share of expenditures made through non-profit subrecipients, 29 percent, than through other entities, 16 percent. Non-profits spent a smaller share of direct benefit funds to assist Blacks, 41 percent, than did other entities, 55 percent.

*Special Subpopulations.* Although communities may use their CDBG funds for a variety of special needs groups, systematic GPR data on special needs populations is only available for expenditures for single female-headed households and homeless persons. Even though identification of expenditures for single female-headed households appears on the direct benefit form and expenditures for the homeless on the activity summary form, preventing a rigorous comparison, looking at the proportions going to the two groups is instructive.

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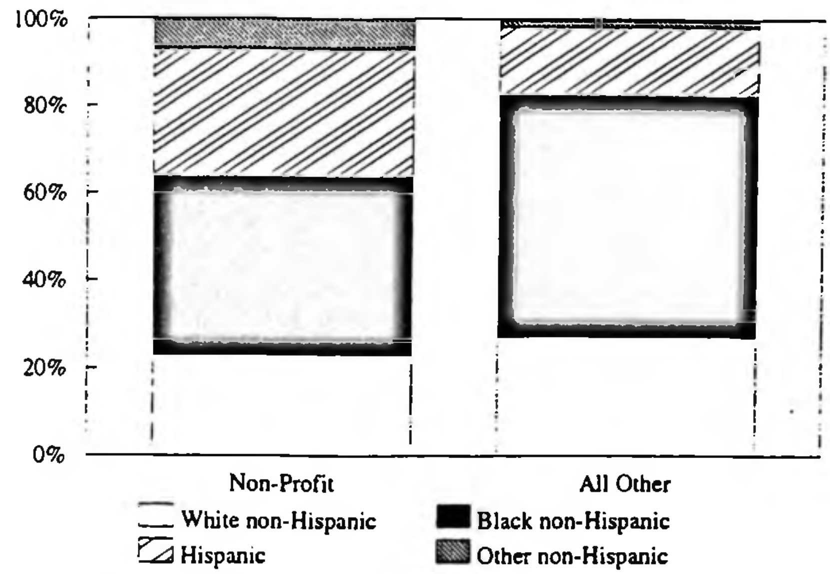
[34] See Chapter 6 for field researchers's assessment of minority participation in the CDBG decision-making process in the 61-city sample.

[35] It is important to note that non-profit expenditures in Los Angeles account for 45 percent of the non-profit expenditures reported. Although the same cities are compared in both bars in the graph, any tendency to spend different shares of funds through non-profit subrecipients will affect these results.

**Figure 5.5**
**Direct Benefit Expenditure Shares by Race/Ethnicity and Nonprofit Sponsorship, 1989**




Source: Urban Institute tabulations of GPR data.
Note: Based on 39 Cities with complete nonprofit sponsorship data.

A relatively large share of direct benefit expenditures assisted single female headed households. Overall, 47 percent of direct benefit expenditures assisted single female-headed households (Table 5.13), of which three-quarters went to housing-related activities. The share benefiting single female-headed families was also highest for housing activities, averaging 51 percent. Assistance to these families accounted for smaller average shares of expenditure for other activities, ranging from 17 percent for economic development to 45 percent for public services.

**TABLE 5.13**
**Amount and Share of Direct Benefit Expenditures for Single Female Headed Households**
**By Activity Type, FY 1986-1990**

Amount of Direct Benefit Expenditure

| Year | Acq/ Clearance | Economic Develop. | Housing Related | Public Facilities | Public Services | Total |
|---|---|---|---|---|---|---|
| 1983 | 9,867 | 2,010 | 206,272 | 6,393 | 40,180 | 264,722 |
| 1984 | 12,768 | 1,403 | 203,567 | 3,784 | 56,382 | 277,904 |
| 1985 | 11,644 | 2,622 | 209,839 | 5,556 | 56,186 | 285,847 |
| 1986 | 8,468 | 2,751 | 210,688 | 3,975 | 44,487 | 270,369 |
| 1987 | 8,125 | 5,170 | 223,870 | 6,681 | 52,835 | 296,681 |
| 1988 | 8,770 | 4,477 | 167,776 | 4,162 | 46,630 | 231,815 |
| 1989 | 9,029 | 7,449 | 196,917 | 5,787 | 39,580 | 258,762 |
| 1990 | 3,515 | 7,809 | 173,517 | 8,565 | 46,637 | 240,043 |
| Avg. Distrib. | 3.4 % | 1.6 % | 74.8 % | 2.1 % | 18.0 % | 100.0 % |

Share of Direct Benefit Expenditure

| Year | Acq/ Clearance | Economic Develop. | Housing Related | Public Facilities | Public Services | Total |
|---|---|---|---|---|---|---|
| 1983 | 38.3 % | 26.9 % | 49.6 % | 26.3 % | 51.1 % | 48.0 |
| 1984 | 39.4 | 11.7 | 49.6 | 38.6 | 46.6 | 47.5 |
| 1985 | 41.4 | 16.5 | 51.6 | 30.6 | 42.9 | 47.7 |
| 1986 | 34.9 | 14.6 | 53.1 | 30.1 | 48.5 | 49.6 |
| 1987 | 43.9 | 24.9 | 54.0 | 41.4 | 44.4 | 50.4 |
| 1988 | 46.9 | 13.0 | 50.6 | 30.3 | 43.0 | 45.7 |
| 1989 | 42.4 | 10.0 | 47.4 | 30.1 | 41.5 | 41.4 |
| 1990 | 38.9 | 17.8 | 49.7 | 29.8 | 41.6 | 44.2 % |
| Average* | 40.8 % | 16.9 % | 50.7 % | 32.1 % | 45.0 % | 46.8 % |

*Averaged by year, not by total expenditure
Source: Urban Institute tabulations of GPR data. See Methodological Appendix.

Homeless activities received widely varying shares of CDBG assistance. On average, cities spent about 7 percent of their CDBG funds on homeless activities between 1986 and 1990, varying from less than 1 percent (1986) to 21 percent (1987).[36] (Table 5.14) This large single-year increase is not readily explainable, but the introduction of McKinney Act

[36] It is not clear why the reported homeless expenditure shares varied so widely. However, it is not the case that one or two cities account for a substantial share of expenditures in any year.

programs in that year may have stimulated increased local-option funding, in the form of CDBG, to expand emergency shelter systems and other forms of homeless housing. The activity categories under which the bulk of homeless activities were reported also varied. In 1987 and 1990, housing related expenditures accounted for the largest share of homeless activities, but in the other years public facilities and public services accounted for a greater proportion of spending.

**TABLE 5.14**
**Amount and Share of Expenditures for Homeless Projects By Activity Type**
**FY 1986-1990**

Amount of Direct Benefit Expenditure

| | Activity Category | | | | | |
|---|---|---|---|---|---|---|
| Year | Acq/ Clearance | Economic Develop. | Housing Related | Public Facilities | Public Services | Total |
| 1986 | 0 | 0 | 0 | 2,411 | 6,822 | 9,233 |
| 1987 | 19,083 | 60,547 | 154,066 | 65,995 | 52,696 | 352,387 |
| 1988 | 3,192 | 1,932 | 3,499 | 7,557 | 10,480 | 26,660 |
| 1989 | 3,524 | 699 | 1,421 | 59,028 | 24,631 | 89,303 |
| 1990 | 311 | 432 | 47,680 | 6,916 | 23,098 | 78,437 |

Homeless Expenditures as a Share of Total

| Year | Acq/ Clearance | Economic Develop. | Housing Related | Public Facilities | Public Services | Total |
|---|---|---|---|---|---|---|
| 1986 | 0.0 % | 0.0 % | 0.0 % | 0.6 % | 4.7 % | 0.5 |
| 1987 | 12.9 | 25.2 | 21.0 | 16.3 | 27.3 | 20.5 |
| 1988 | 1.9 | 0.8 | 0.5 | 2.2 | 5.9 | 1.6 |
| 1989 | 2.2 | 0.3 | 0.2 | 15.1 | 11.6 | 5.4 |
| 1990 | 0.3 | 0.2 | 6.2 | 2.0 | 13.5 | 4.9 |

Source: Urban Institute tabulations of GPR data. See Methodological Appendix.

**Area Benefit Activities.** This section examines the distribution of benefits by analyzing the census tract location area benefit activities. The primary data source is the Grantee Performance Report for 1980, and 1989. Most of the analysis focuses on the 1989 data.[37] These data are cumulative area benefit expenditures as reported on the 1989 GPR, representing program decisions up to and including 1989. Earlier data on public facilities

[37] As noted in Chapter 4, our analysis would have produced a more accurate portrayal of expenditure distribution if we had used: 1) U.S. Census block groups instead of tracts, but expenditure data were not universally available at the block group level; and, 2) expenditure data for additional years, but GPR data on the location of area benefit activities are available in automated form only for selected years.

expenditures from 1979 and 1980 grants, as reported on the 1980 GPR, are included for comparison. Our analysis is limited to area benefit expenditures in the public facilities category. Although public facilities activities accounted for approximately one half of all area benefit expenditures in 1989, strictly speaking our analysis does not include benefits that accrue from housing, acquisition/clearance, economic development, or public service expenditures qualified under low-mod area benefit criteria.[38]

Previous analyses of the income characteristics of CDBG-funded census tracts included all types of expenditures; those now classified as "area-benefit" as well as direct benefit spending--limited clientele, housing, and job creation activities. It was on the basis of this kind of geographic analysis that earlier research concluded that low-mod benefit levels in the program, overall, ranged from 62 percent (1976) to 66 percent (1978).[39] Since grantees no longer must report the census tract location of direct benefit activities (except for multi-family housing rehabilitation), the analysis in this section is limited to area benefit activities to ensure comparability between earlier and more current expenditure data.

*Spending in Low- and Moderate-Income Tracts.* As expected, a preponderate share of area benefit, public facilities expenditures occurs in low- and moderate-income tracts: 80.4 percent of 1989 area benefit spending. This share was substantially (55 percent) higher than in 1980.[40] (Funds spent in non-low-mod tracts, at least in 1989, most likely qualified as "low-mod eligible" based on income levels of block groups within these tracts.) The share going to moderate income tracts (41.9 percent) was relatively close to the share expended in low-income tracts (37.9 percent) (See Table 5.15.). If city area benefit expenditure shares are averaged so each city is given equal weight (not shown), low- and moderate-income tracts together account for 74 percent of expenditures and low income tracts alone account for 31 percent of spending. This implies, of course, that cities with smaller area benefit outlays spend a smaller share of their funds in low-income tracts.

---

[38] We restricted our analysis to public facilities expenditures to permit comparison across years. In 1989, 50 percent of area benefit expenditures in the 220-city sample were for public facilities activities; 15 percent each for housing and acquisition/clearance; 14 percent for economic development; and 6 percent for public services. It is also noteworthy that public facilities is the only activity category for which a majority of expenditures are qualified under area benefit criteria--see Table 5.8 above.

[39] See HUD (1979), page II-9, Table II-3.

[40] HUD (1981)) p. 53, and Figure 3-9.

**TABLE 5.15**
**Share of Area Benefit Expenditures by Tract Income Category and Selected City Characteristics (Percentages based on total expenditures for metropolitan cities)**

| | Number of Cities | Zero Pop Tracts (%) | Low Income Tracts (%) | Moderate Income Tracts (%) | Above Moderate Income Tracts (%) | Total (%) |
|---|---|---|---|---|---|---|
| Overall | 114 | 0.6% | 37.9% | 41.9% | 19.6% | 100% |
| 1990 Distress Quintile | | | | | | |
| 1st (least) | 3 | 0.0 | 0.0 | 23.6 | 76.4 | 100 |
| 2nd | 17 | 2.2 | 39.6 | 31.7 | 26.6 | 100 |
| 3rd | 29 | 0.0 | 36.6 | 45.8 | 17.6 | 100 |
| 4th | 22 | 0.8 | 36.5 | 53.0 | 9.7 | 100 |
| 5th (most) | 34 | 0.0 | 41.0 | 35.4 | 23.5 | 100 |
| 1989 Allocation Category | | | | | | |
| Five largest cities | 5 | 0.0 | 44.0 | 33.6 | 22.4 | 100 |
| Others > $7.3 million | 23 | 1.1 | 41.6 | 40.1 | 17.1 | 100 |
| 2.0-7.3 million | 29 | 0.1 | 45.4 | 43.8 | 10.8 | 100 |
| Less than $2 million | 57 | 0.0 | 13.9 | 52.1 | 34.0 | 100 |
| 1990 Population category | | | | | | |
| Above 1 million | 7 | 1.9 | 50.9 | 34.1 | 13.2 | 100 |
| 500,000 to 1 million | 11 | 0.0 | 26.5 | 49.4 | 24.0 | 100 |
| 250,000 to 500,000 | 21 | 0.0 | 46.9 | 37.3 | 15.8 | 100 |
| 100,000 to 250,000 | 21 | 0.1 | 37.5 | 48.2 | 14.2 | 100 |
| Less than 100,000 | 54 | 0.0 | 22.8 | 45.1 | 32.0 | 100 |

Source: Urban Institute tabulations of GPR data. See Methodological Appendix.

As also shown in Table 5.15, the share of area benefit, public facilities expenditures occurring in low-income tracts is highest, 41 percent, for the most distressed communities and lowest for those least distressed (no expenditures)--a result that is driven by the composition of these communities. A greater share of tracts tend to be low-income in high-distress communities leading to an expected greater share of expenditures would go to such tracts.

The relation between the share of low-income tract expenditures for public facilities and city size or allocation category varies over the distribution, but the largest and smallest places show distinctly different patterns. Cities with populations of 1 million or more spent just over half of their area benefit, public facilities funds in low-income tracts, compared to less than one-quarter for cities with population below 100,000. Similarly, cities allocated less than $2 million reported that 14 percent of their area benefit expenditures occurred in low-income tracts compared to 44 percent for the five largest city grant recipients.

Although low-income tracts received a smaller share of area benefit, public facilities expenditures than did moderate income tracts, low-income tracts also contained a smaller share of the low- and moderate-income population, as shown in Table 5.16. Restricting the sample to low- and moderate-income tracts (that is, the areas most likely to be eligible for area benefit activities), we find that low-income tracts contained 30 percent of the low-mod population and received an average of 39 percent of expenditures (Table 5.16).[41]

Consistent with the pattern observed in 1989, a disproportionate share of expenditure, 30 percent, occurred in low-income tracts in 1980. A comparison of these results with earlier data shows that in 1979-1980 a lower share of public facilities expenditure occurred in low- than in moderate-income tracts (Table 5.17). In the earlier period, low-income tracts included a smaller share of the low-mod population residing in low- or moderate-income areas (25 percent compared to 31 percent in 1989).

City performance under the low- and moderate-income standard compares reasonably well to our alternative definition based on shares of poverty households. Table 5.18 compares the percent of area-benefit, public facilities expenditures and percent of poverty population for each of extreme poverty (above 40 percent), poverty (20-40 percent) and non-poverty tracts in 114 CDBG entitlement cities in 1989. About thirty-one percent of expenditures occur in tracts with poverty rates exceeding 40 percent and an additional 47 percent in tracts with poverty rates of 20 to 40 percent.[42] About 22.2 percent of spending took place in tracts with poverty rates below 20 percent. These expenditures show a very rough correspondence to the distribution of poverty population. The most obvious difference is the share of poverty population that lives in "low-poverty" tracts, where CDBG expenditures are less likely to occur; 22.2 percent of expenditures and 30.9 percent of poverty population. As a point of comparison, its worth noting that the distribution of city population (regardless of poverty

[41] These data are averages showing the location of the low-mod population living in low-mod areas in cities that reported area-benefit expenditure, provided tract locations for this spending, and spent funds in low-mod tracts. We selected only low-mod tracts in order to compare expenditures in a particular type of tract with some gauge of the expected share of low- and moderate-income benefits. This allows us to compare population and expenditure shares for eligible areas.

[42] The 40 percent standard has been used by Bane and Jargowsky and others to indicate "ghetto" areas. These researchers found that the 40 percent threshold matched less rigorous, perceptual, benchmarks of highly impacted ghettos. See Paul A. Jargowsky and Mary Jo Bane, "Ghetto Poverty: Basic Questions," in *Inner-City Poverty in the United States*, National Academy Press, Washington, DC, 1990, p. 20.

status) is 10.8 percent in above 40-percent poverty tracts, 27.1 percent in 20-40 percent poverty tracts, and 62.1 percent in below-20 percent poverty tracts.

**TABLE 5.16**
**Share of Low-Mod Population and Area Benefit Expenditures in Low vs. Moderate Income Areas By Selected City Characteristics (Averages across cities)**

| | | Distribution of Low-Mod Pop. Living in Low-Mod Areas* | | Distribution of Area Benefit Expenditures* | |
|---|---|---|---|---|---|
| | Number of Cities | % in Low Inc Tracts | % in Moderate Inc Tracts | % in Low Inc Tracts | % in Moderate Inc Tracts |
| Overall | 100 | 29.6% | 70.4% | 38.7% | 61.3% |
| 1990 Distress Quintile | | | | | |
| 1st (least) | 1 | 5.8 | 94.2 | 0.0 | 100.0 |
| 2nd | 11 | 33.2 | 66.8 | 34.9 | 65.1 |
| 3rd | 27 | 21.4 | 78.6 | 34.3 | 65.7 |
| 4th | 22 | 29.6 | 70.4 | 38.6 | 61.4 |
| 5th (most) | 33 | 39.7 | 60.3 | 48.1 | 51.9 |
| 1989 Allocation | | | | | |
| Category | 5 | 47.1 | 52.9 | 57.6 | 42.4 |
| Five largest cities | 23 | 41.3 | 58.7 | 53.8 | 46.2 |
| Others > $7.3 million | 28 | 30.6 | 69.4 | 42.2 | 57.8 |
| 2.0-7.3 million | 44 | 21.0 | 79.0 | 26.3 | 73.7 |
| Less than $2 million | | | | | |
| 1990 Population | | | | | |
| category | 7 | 45.9 | 54.1 | 58.6 | 41.4 |
| Above 1 million | 11 | 37.6 | 62.4 | 42.9 | 57.1 |
| 500,000 to 1 million | 21 | 38.3 | 61.7 | 53.6 | 46.4 |
| 250,000 to 500,000 | 19 | 28.0 | 72.0 | 30.3 | 69.7 |
| 100,000 to 250,000 | 42 | 21.3 | 78.7 | 30.5 | 69.5 |
| Less than 100,000 | | | | | |

*The share in low and moderate income tracts sums to 100%.
This table includes only those cities with low-mod tracts
Source: Urban Institute tabulations of GPR data. See Methodological Appendix.
Note: Distress Quintile known for 94 cities

**TABLE 5.17**
**Share of Low-Mod Population and Area Benefit Expenditures in Low vs. Moderate Income Tracts, FY 1979-1980, 1989**
**(Averages across cities, FY 1979-1980 and 1989)**

| | 1979-1980 | | 1989 | |
|---|---|---|---|---|
| Distribution of Low-Mod Pop. Living in Low-Mod Tracts* | | | | |
| Share in low income tracts | 24.7 | % | 29.6 | % |
| Share in moderate income tracts | 75.3 | | 70.4 | |
| Distribution of Area Benefit Expenditures* | | | | |
| Share in low income tracts | 30.3 | % | 38.7 | % |
| Share in moderate income tracts | 69.7 | | 61.3 | |
| Ratio of Expenditures to Population in Low-Income Tracts | | | | |
| Number of cities in sample | 1.23 | % | 1.31 | % |
| | 158 | | 100 | |

*The share in low and moderate income tracts sums to 100%.
Source: Urban Institute tabulations of GPR data. See Methodological Appendix.

Table 5.18 also shows the relationship between city spending in poverty neighborhoods and city distress and population. As city distress increases, so too does the share of city area benefit, public facilities spending in extreme-poverty neighborhoods (above 40 percent). As well, larger cities spend larger shares of area-benefit funds in extreme-poverty neighborhoods. The same is true for concentration of poverty population; extreme-poverty neighborhoods contain a higher share of poverty population in more distressed cities, and those with larger populations, than those that are less distressed, or have smaller populations. Further, the table shows that larger cities, and more distressed cities, spend higher shares of area-benefit dollars in extreme-poverty tracts than the share of poverty population in those tracts; the reverse is true for cities with lower populations and those that are less-distressed.

**TABLE 5.18**
**Share of Area Benefit Expenditures and City Population by Tract Poverty Status and Selected City Characteristics (Percentages based on total expenditures for metropolitan cities)**

| | Number of Cities | Above 40% Poverty Tracts | | 20% to 40% Poverty Tracts | | Below 20% Poverty Tracts | |
|---|---|---|---|---|---|---|---|
| | | Expend. | Poverty Pop. | Expend. | Poverty Pop. | Expend. | Poverty Pop. |
| Overall | 114 | 30.5 % | 28.7 % | 47.3 % | 40.3 % | 22.2 % | 30.9 % |
| 1990 Distress Quintile | | | | | | | |
| 1st (least) | 3 | 0.0 | 0.0 | 0.0 | 15.8 | 100.0 | 84.2 |
| 2nd | 17 | 16.3 | 20.6 | 58.0 | 31.5 | | 47.9 |
| 3d | 29 | 13.7 | 17.6 | 48.3 | 39.9 | 25.7 | 42.6 |
| 4th | 22 | 37.1 | 20.7 | 47.9 | 48.0 | 28.0 | 31.3 |
| 5th (most) | 34 | 41.7 | 35.9 | 42.3 | 38.8 | 15.0 | 25.2 |
| | | | | | | 16.0 | |
| 1990 Population Category | | | | | | | |
| Five largest cities | 5 | 42.1 | 32.1 | 35.4 | 39.9 | 22.5 | 28.0 |
| Others > $7.3 million | 23 | 37.8 | 28.5 | 48.4 | 42.2 | 13.8 | 29.3 |
| 2.0-7.3 million | 29 | 21.0 | 23.6 | 58.0 | 39.4 | 20.9 | 37.0 |
| Less than $2 million | 57 | 9.3 | 19.9 | 42.0 | 35.8 | 48.7 | 44.3 |

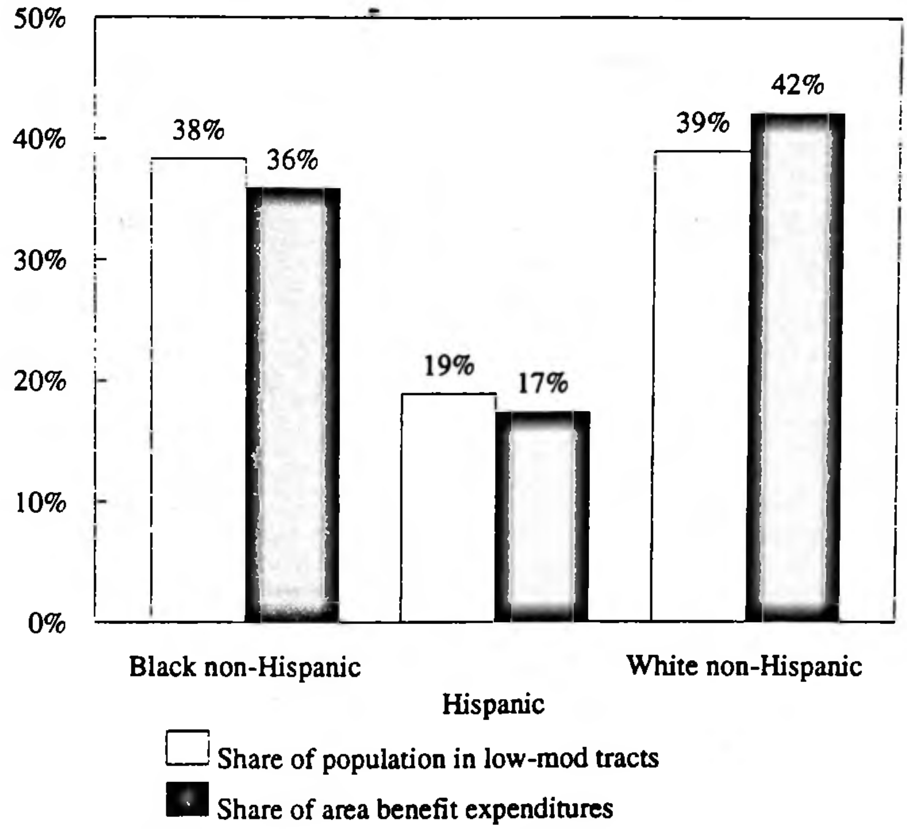
Source: Urban Institute tabulations of GPR data. See Methodological Appendix.

*Racial/Ethnic Composition of the Area Beneficiary Population.* The distribution of area benefit, public facilities expenditures by race and ethnicity is roughly equal to each group's share of persons living in low- and moderate-income tracts. In 1989, an average of 42 percent of area benefit expenditures assisted Whites, 36 percent assisted Blacks and 17 percent assisted Hispanics (Figure 5.6). The first two bars of the exhibit show that Black non-Hispanic households account for 38 percent of the population of low- and moderate-income census tracts, and are estimated to receive about 36 percent of area-benefit, public facilities expenditures.[43] Hispanics comprise 19 percent of the population of low- and moderate-income tracts, and receive an estimated 17 percent of area-benefit expenditures. Non-hispanic Whites constitute 39 percent of low-mod tract population, and receive 42 percent of area-benefit expenditures.

In order to compare the share of area benefit, public facilities expenditures assisting Black and Hispanic families in different types of cities, 1989 expenditures were compared with city characteristics from the 1990 census in descriptive regressions similar to those presented in Table 5.12. The only independent variables with significant coefficients were racial/ethnic group shares of population in low-mod Census tracts. These coefficients were positive, but less than one, indicating that the share of area benefit, public facilities expenditures assisting each racial/ethnic group increased with, but somewhat less than proportionately to, the group's share of population.

[43] The 36 percent figure is computed as the amount of CDBG dollars expended in each tract times of the fraction of the population in each tract that is black, summed across all low-mod tracts. The share of all area-benefit expenditures that benefit blacks is simply the total expenditure that benefits blacks divided by total area benefit expenditures.

**Figure 5.6**
**Share of Low-Mod Population and Area Benefit Expenditures by Race/Ethnicity, 1989**




Source: Urban Institute tabulations of GPR data. See methodological appendix.

**Proportionate Estimate of Low-Mod Benefits.** To conclude the discussion of CDBG program performance in benefitting low- and moderate-income persons, this section assesses overall low-mod benefits using a proportionate counting method. As noted earlier, this method estimates benefits by prorating expenditures, whereas CDBG rules, except those for housing, count 100 percent of low-mod benefit spending as low- and moderate-income benefit so long as more than 50 percent of beneficiaries have low- or moderate-incomes. Proportionate counting therefore results in a lower, and some would argue more accurate, low-mod benefit share than CDBG counting rules. This discrepancy is likely to be larger for cities with a greater reliance on area-benefit expenditures, especially "exception" communities where low-mod percentages in eligible census block groups often are well below 50 percent.[44]

[44] As discussed in Chapter 2, in "exception" communities the lowest census block in the poorest quartile contains less than 51 percent low- and moderate-income persons. Exception communities are permitted to fund area benefit activities in census blocks making up the poorest quartile regardless of low- and moderate-income population share.

To examine this issue, proportionate low- and moderate-income benefit was calculated using FY 1989 Grantee Performance Report data. This method was employed for analysis of direct benefit expenditures above (see Figure 5.1), and as applied here includes area benefit activities, too.[45] Area benefit spending is prorated according to the low- and moderate-income share of population in the area served (defined here as the census tract in which an activity is located). By this method, for instance, an expenditure of $100,000 in a census tract with a 67 percent low-mod population translates into a proportional low-mod benefit of only $67,000. Our analysis would have been more accurate if we could have assigned benefit based on the census *block group* location instead, but, as noted elsewhere in this report, expenditure data were not universally available at the block group level. As a result, our calculation of proportionate benefit from area benefit activities probably represents a low-end estimate.[46]

Our analysis includes a subset of 132 cities from HUD's 220-city sample, specifically those having automated census tract location information for area benefit activities. Expenditure data are weighted to represent national spending, producing a total $659.7 million low- and moderate-income expenditures for which we could assess proportional benefit (see Table 5.19). This figure represents 32.5 percent of total low- and moderate-income benefit expenditure for all metropolitan cities in 1989 ($2,030 million, see Table 5.6). The remainder of weighted spending occurred in 220-city sample communities excluded from this analysis, or corresponds to individual activities with insufficient census tract location and direct benefit income data to allow assessment of proportionate benefit.[47]

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[45] This analysis differs from the geographic spending analysis presented above: it includes area benefit activities from all activity categories, i.e. is *not* limited to public facilities activities; and uses FY 1989 period expenditures instead of cumulative activity spending.

[46] Our analysis includes area benefit activities originally qualified by cities on the basis of low-mod population share at the block group level. Our analysis produces a low-end estimate of proportionate benefit in these instances because low-mod population share is most likely less at the census tract level than at the block group level.

[47] A comparison of Table 5.19 with Methodological Appendix Table A.7 lends confidence to the accuracy of weighted expenditures presented here. The distribution of weighted spending by selected city characteristics presented here roughly matches the distribution of FY 1989 funds to the universe of entitlement cities cut by the same characteristics.

**TABLE 5.19**
**Proportionate Assessment of Low- and Moderate-Income Benefit, 1989**
**By Selected City Characteristics**
**(Dollars in Millions) (1)**

| | | Direct Benefit Activities | | | Area Benefit Activities | | | All Low-Mod Activities | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | No. of Cities | Total Expend. | Low-Mod Benefit | Low-Mod Share | Total Expend. | Low-Mod Benefit | Low-Mod Share | Total Expend. | Low-Mod Benefit | Low-Mod Share |
| All Cases | 132 | $420.3 | $341.5 | 81.2% | $239.4 | $154.9 | 64.7% | $659.7 | $496.4 | 75.2% |
| City Grant Size | | | | | | | | | | |
| Over $10 million | 23 | 205.8 | 144.9 | 70.4 | 99.5 | 66.9 | 67.2 | 305.4 | 211.7 | 69.3 |
| $4-10 million | 21 | 51.2 | 41.9 | 81.9 | 32.8 | 23.2 | 70.8 | 84.0 | 65.1 | 77.5 |
| $2-4 million | 25 | 54.3 | 51.5 | 94.9 | 27.5 | 18.0 | 65.5 | 81.8 | 69.6 | 85.0 |
| $1-2 million | 27 | 46.2 | 43.1 | 93.3 | 39.3 | 21.6 | 55.0 | 85.6 | 64.8 | 75.7 |
| Less than $1 million | 36 | 62.7 | 60.0 | 95.6 | 40.2 | 25.1 | 62.5 | 102.9 | 85.2 | 82.7 |
| Formula Type | | | | | | | | | | |
| A | 60 | 167.6 | 158.7 | 94.6 | 89.5 | 58.9 | 65.8 | 257.1 | 217.5 | 84.6 |
| B | 72 | 252.7 | 182.8 | 72.4 | 149.9 | 96.0 | 64.1 | 402.6 | 278.9 | 69.3 |
| Type of City | | | | | | | | | | |
| Central Cities | 107 | 386.7 | 309.0 | 79.9 | 214.1 | 142.0 | 66.3 | 600.8 | 451.0 | 75.1 |
| Suburban Cities | 25 | 33.7 | 32.5 | 96.6 | 25.2 | 12.8 | 50.8 | 58.9 | 45.4 | 77.0 |
| Exception City | | | | | | | | | | |
| Status | 115 | 395.8 | 318.0 | 80.3 | 222.1 | 148.2 | 66.7 | 617.9 | 466.1 | 75.4 |
| No | 17 | 24.6 | 23.5 | 95.7 | 17.2 | 6.7 | 39.0 | 41.8 | 30.2 | 72.3 |
| Yes | | | | | | | | | | |

Source: Urban Institute tabulations from GPR data. See Methodological Appendix.
Notes: (1) Dollars are weighted to represent national expenditures.

As Table 5.19 shows, approximately three-quarters (75.2 percent) of 1989 low-mod activity expenditures benefitted low- and moderate-income persons by a proportionate counting method. This rate of proportionate benefit from low-mod activities means that an estimated two-thirds (66 percent) of *all* 1989 metropolitan city expenditures benefited low-mod persons (75.2 percent times the share of total expenditures qualified under the low-mod national objective, 88 percent). This is a conservative estimate because it assumes no low-mod benefit accrued from activities qualified under slum-blight or urgent need national objectives, nonetheless it exceeds the 60 percent statutory minimum in effect when the expenditures occurred.

As expected, Table 5.19 indicates direct benefit activities have a considerably higher benefit rate than area benefit activities, with 81.2 and 64.7 percent of funds assisting low- and moderate-income persons, respectively.[48] This demonstrates the link between overall proportionate benefit and pursuit of area benefit instead of direct benefit activities. A comparison of our figures to HUD's analysis of proportionate benefits for FY 1990 also illustrates this linkage.[49] Our proportionate benefit rates for direct and area benefit activities roughly match HUD's figures, however, the benefit rate reported by HUD for *all* low-mod activities is about 10 percentage points higher than our estimate. This disparity is explained by the smaller share of low-mod spending made up by area benefit activities in 1990 (see Table 5.9). With decreased emphasis on area benefit activities, cities achieved a higher proportionate level of low- and moderate income benefit.

Table 5.19 also indicates differences in the proportionate low- and moderate-income benefit by selected city characteristics. For low-mod activities as a whole, the most conspicuous variation in proportionate benefit is between Formula A and Formula B cities. Our analysis shows that 84.5 percent of low-mod expenditures made by Formula A cities benefitted low- and moderate-income persons, compared to only 69.3 percent for Formula B cities. This pattern is largely driven by a difference in proportionate benefit from direct as opposed to area benefit activities. In fact, Formula A and B cities report almost equivalent proportionate benefit from area benefit activities (65.8 and 64.1 percent, respectively), but display a wide disparity in proportionate benefit from direct benefit activities. This pattern echoes analysis of proportionate *low-income* benefits reported earlier in this Chapter. Formula A cities tend to be located in the south and west, and, as Table 5.10 shows, cities

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[48] The current estimate of overall low- and moderate-income benefit for direct benefit activities differs only marginally from the share reported in Figure 5.1. A difference of less than 1 percentage point in these two rates lends additional confidence to the reliability of figures reported here.

[49] See, Annual Report to Congress on the Community Development Block Grant Program, 1993, (Washington: U.S. Department of Housing and Urban Development, Office of Community Planning and Development, March 1993), pp.1-8 - 1-9.

in the south and west spend a significantly larger share of direct benefit funds assisting low-income persons than cities in the northeast and midwest.

Contrary to our expectations, Table 5.19 shows that exception communities have roughly the same *overall* proportionate benefit as non-exception communities, with 72.3 and 75.4 percent benefit, respectively. Having said that, exception and non-exception communities differ in terms of proportionate benefit from *area* versus *direct* benefit activities. While the share of area benefit expenditures assisting a low and moderate income population is considerably lower for exception communities, those same communities display a comparatively high proportionate benefit share from direct benefit spending. Exception communities may not perform as well in terms proportionate benefit from area benefit activities, but this difference is offset by a greater reliance on direct benefit expenditures and a higher rate of proportionate benefit for direct benefit spending.

**Chapter Summary**

Well over half of the benefits of CDBG expenditures are going to low- and moderate-income households. All measures of low- and moderate-income benefit examined in this chapter support this conclusion. Although CDBG only requires that 70 percent of expenditures benefit those with low- and moderate-incomes, the overall program benefit to low- and moderate-income persons, as reported on the grantee performance reports, averaged much higher percentages (between 83 and 89 percent). In addition, in most years, over 90 percent of all expenditures *qualified* under the low- and moderate-income benefit national objective. Approximately 58 percent of reported direct benefit expenditures assisted those classified as low-income and another 24 percent assisted those classified as moderate-income. An average of 74 percent of area benefit funds were spent in census tracts with median incomes below their metropolitan area's moderate-income threshold. Using a proportionate counting method, approximately three-quarters (75.2 percent) of 1989 low-mod activity expenditures benefitted low- and moderate-income persons.

The level of low- and moderate-income benefits has not been an issue in most jurisdictions in recent years. Less than 10 percent of the jurisdictions that received a site visit indicated that there had been any concerns about the level of low- and moderate-income benefits. In these few exceptions, the concerns related to the normal "mechanics" of program compliance or episodic and idiosyncratic events.

The share of CDBG benefits assisting racial and ethnic minorities exceeds their representation in the population, although some minority groups receive larger shares than others. Non-Hispanic Black households constitute 26 percent[50] of low- and moderate-income households in CDBG cities and receive 41 percent of direct benefit expenditures and 36 percent of area benefit expenditures. About 12 percent of low-mod households in CDBG cities are Hispanic; they receive 14 percent of direct benefit expenditures and 17 percent of area benefit expenditures. The distribution of area benefit public facilities expenditures by race and ethnicity is roughly equal to each group's share of persons living in low- and moderate-income tracts.

Although jurisdictions generally go well beyond the CDBG guidelines in directing assistance to low- and moderate-income households, the guidelines are not particularly strict when compared with other programs primarily intended to benefit low- and moderate-income persons. Current rules require that 70 percent of expenditures benefit those below 80 percent of the HUD-adjusted family median income for the metropolitan area. HUD housing programs, such as HOME, Section 8 rental assistance and the low income housing tax credit, require that all beneficiaries have income below 80 percent of median. Some of these programs further require that most or all recipients have income below 50 percent of median. In most entitlement cities, the income targeting requirements are comparatively easy to comply with, since close to half of households in CDBG entitlement cities had incomes below 80 percent of their metropolitan area's adjusted median income. In addition, the moderate-income threshold is high in most places when compared with the poverty threshold. In CDBG entitlement cities, for example, the moderate-income threshold ranges from a low of 102 percent of the poverty level to a high of 272 percent of poverty.

[50] This share is weighted to reflect the level of direct benefit expenditures. As noted earlier in the chapter, when each CDBG entitlement city is given equal weight, the Black and Hispanic shares are much lower.

## CHAPTER 6
## COMMUNITY DECISIONMAKING AND MANAGEMENT

### Introduction

Chapter 5 examined the distribution of CDBG benefits to various income groups, finding that the program as a whole benefits low-income and poverty households in ratios larger than their share of the eligible population, and similarly funds neighborhoods in ratios larger than their share of citywide low-income and poverty households would indicate. Increases in the shares of CDBG-spending that benefit poverty households and poverty areas relative to their share of the program-eligible population also are a function of city distress and poverty concentration.

In most of the preceding discussion, particularly the discussion of program "strategies" in Chapter 4, patterns of expenditure have not been tied to local decisions *per se* or the mechanics of implementation. The expenditure patterns with respect to the types of development activity pursued and the spatial concentration of funds may or may not reflect conscious "strategies" for the conservation or renewal of neighborhoods. Further, even if local administrators articulate a "strategy" or at least some general set of purposes or objectives, these goals may or may not be translated into concrete funding decisions. Finally, although the program does well in terms of the distribution of benefits to low-income and poverty households, and this performance is tied to community level characteristics, the decisional mechanisms that produce that result have not been explored.

This chapter turns to an examination of community development decisionmaking and management. Who are influential decisionmakers and how does this influence translate into program outcomes in terms of social and spatial targeting? On the assumption that deliberate strategies for neighborhood intervention imply consistent pursuit of a formal or informal plan and coordination of the efforts of multiple agencies, does this happen? Finally, regardless of how well thought out community strategies for change are, community development programs need to be effectively delivered if they are to achieve their goals: how well do communities comply with administrative requirements? Do communities accumulate and use information on program management and outcomes to inform program decisionmakers?

The first section of the chapter examines the process of community decision- making and the role of various program participants, with particular emphasis on citizen involvement. It concludes that local community development decisionmaking continues to be dominated by chief executives and agency staff, as opposed to legislators and citizens as they act through formal participation mechanisms. This finding confirms those from the earlier Brookings studies. Very likely, this pattern makes possible the kind of programmatic shifts identified in Chapter 4. Where citizens do appear influential, it is partly through formal citizen advisory bodies but increasingly through nonprofit organizations that participate in service delivery. Their influence contributes to the program's delivery of benefits to poor households and its focus on poor neighborhoods.

The second section examines strategic planning and coordination of funds as indicators of the degree to which community development strategies are pursued and have some practical import. It finds that planning of various kinds takes place frequently, but that the documents that result from most comprehensive planning efforts are largely formalistic and without much practical effect compared to episodic and often ad hoc planning efforts tied to particular neighborhoods or program areas. Coordination among agencies does not appear particularly strong, and most community development administrators believed that coordination among agencies, and levels of government, could stand improvement. However, a number of communities have embarked on new, neighborhood-focused, strategic planning initiatives that embrace new forms of interagency cooperation and citizen participation.

The third section reviews aspects of program management and delivery. It finds that although program administrators complain about congressional and HUD administrative requirements, rarely do these requirements affect substantive program decisions. Most cities manage their programs well, and although our field researchers found some cities with significant program management problems, it appears as if the conduct of such management tasks as subrecipient monitoring have improved overall in recent years. The section also presents findings and recommendations concerning the improvement of various aspects of program management.

**Local Decision-Systems and Citizen Participation**

This section examines local decisionmaking as it relates to CDBG outcomes. First, who among local actors--executives, legislatures, agency staff, citizens--are most influential? Second, how well do various decisional mechanisms--in particular, planning and participation--work and what are their effects on community development priorities and strategies? Third, given the interagency context for the delivery of CDBG-funded programs, and the role of other non-public actors in community development investments, how well are their various activities coordinated? This section relies heavily on the results of on-site interviews conducted in the 61-city field research sample.

**Political Systems and Program Choices.** A central objective of CDBG when it was created in 1974 was to shift programmatic decisions from the federal to local levels; that is, programmatic decentralization. The Brookings studies concluded that this decentralization objective had been substantially achieved in the first few years of the program.[1] During the administration of President Carter (1977-81), HUD took a more active role in seeking to achieve certain preferred programmatic objectives--primarily social and geographic targeting--although the local level remained the dominant point for substantive program decisions.

The Brookings studies "mapped" five primary participants in local CDBG decisionmaking--the chief executive, the community development administrators, other public agencies, legislators, and citizens. While each participated in CDBG decisionmaking, they did not have equal influence on key decisions, most notably basic development strategies, annual allocations to activities, and intended beneficiaries. These studies concluded that, as of the early 1980s, executive participants (chief executive and community development staff) dominated the decision process. From this observed pattern of influence, they concluded that the local decision system had become institutionalized--that is, the relative influence of the different participants had stabilized and changes were likely to be only marginal--and that, as a result, the basic strategies and program priorities would show considerable continuity.[2]

This conclusion may have been premature. With the coming of the Reagan administration in 1981, major legislative and administrative changes led to significant deregulation of the program. This gave local decisionmakers greater discretion in choosing their development strategies and making spending choices. In addition, the 1981 deregulation appeared to be opening up new opportunities for increased citizen and legislative influence. Observers also expected citizen groups to become more active in response to reduced federal funding of the program, becoming more aggressive as they sought to protect their funding. Since the Brookings studies had found that legislative and citizen participants were prone to spread CDBG funds across a wider geographic area of the community (while executive actors tended to prefer a more targeted approach to achieve a greater programmatic impact), any increased citizen or legislative influence within a context of increased local discretion might increase geographic spreading of funds.

**Local Decision Systems.** The term decision system refers to the interaction among

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[1] See Paul Dommel, et al. Decentralizing Community Development (Washington, D.C.: U.S. Government Printing Office, 1978), Dommel, et al. Targeting Community Development (Washington, D.C.: U.S. Government Printing Office, 1980), and Brookings Institution Implementing Community Development: A Study of the Community Development Block Grant Program (Washington, D.C.: U.S. Government Printing Office, 1982).

[2] Paul Dommel et al. Targeting Community Development (Washington, D.C.: U.S. Government Printing Office, 1980) p.210.

the local chief executive (mayor, city manager, commissioners), community development administrators, other city agencies, legislators, and citizens. Chief executives generally are responsible for supervision of city agency program delivery and in most communities, establish overall policy direction through budget formulation and control over program design. Community development agency administrators and other city agencies charged with the delivery of CDBG-funded programs typically propose budget allocations among activity categories and recommend program design elements that affect target populations and neighborhoods. They are also, of course, responsible for day-to-day program management. Legislatures in almost all jurisdictions must approve the CDBG program budget, including allocations among activities, and in some communities, actual contracts or grants that exceed a certain dollar amount. Citizens, as discussed in this chapter, are those involved at various points in the decisionmaking process, but who usually participate through formal advisory panels, hearings on CDBG policy and budget allocations, and increasingly, nonprofit organizations, principally those that participate in CDBG-funded program delivery.

Multiple decisions are required to design and manage community development programs; including those related to program design, funding allocations, assignment of agency responsibilities, management and contracting procedures, and monitoring and evaluation. Discussion in this chapter of the role of various decisionmakers primarily relates to funding "allocations" to programs and projects, and secondarily to program delivery organizations and neighborhood targeting.

Although there is no "typical" decision process for budget allocations in CDBG-funded cities, most procedures for budget priority-setting and funding allocation are variants on a basic process. Early in the budget cycle, city agencies propose the coming year's budget allocations among on-going or new programs to an agency responsible for assembling the budget "package". In some cities, delegate city agencies may include CDBG-funded programs in their overall departmental submission; in others, the "lead" agency--most often a community development department of city government--will prepare its own budget, which includes funds transfers to other agencies. In addition to reconciling proposed expenditures and projected revenues, the coordinating budget agency (typically in the chief executive's office) then reviews each agency's submission for conformance to the executive's budget priorities. The final executive budget is forwarded to Council for debate, amendment, and eventual adoption.

Formal and informal citizen participation can take place at multiple points in this process, and through various mechanisms. Citizen Advisory Committees can review and comment on initial agency budget proposals, amended budgets as presented to City Council for approval, and proposals received by city agencies from potential deliverers of community development programs (e.g., in response to a published request for proposals), which may be invited at several possible steps in budget preparation. Public hearings required by legislation, and neighborhood and citywide meetings, can be scheduled at various stages, and citizens and nonprofit organizations can, and often do, directly advocate for budget allocation changes, whether to agency staff before budget submission or after the executive's budget has been received by City Council.

Throughout, the CDBG budget can be treated as a stand-alone document, with a budget review and citizen participation process that takes place in relative isolation from those of other city departments, or it can be only an aggregation of line item allocations within the overall budgets prepared by city line agencies. In the latter instance, it is not uncommon for CDBG dollars to represent only one source among many available to pursue city development objectives. That is, within a single agency, the CDBG "budget" may represent a mere technical match-up of CDBG dollars to CDBG-eligible projects.

Researchers conducting the 1993 site visits for this study were asked to assess the current relative influence of the various participants in "annual funding decisions" through whatever process cities use to allocate CDBG funds, and to state their effect on program strategies, annual spending choices, and benefits. For purposes of this analysis, "annual funding decisions" were defined as those that, taken together, produced CDBG budget allocations to major activity categories (e.g., housing, economic development) or strategies (e.g., neighborhood redevelopment, citywide general development). Table 6.1 shows the relative importance of these participants in both the 61-city sample and the larger administrator survey of all entitlement communities.

Findings from both sources show that the chief executive and community development administrators continue to be major influences on the annual allocation process (although the larger survey of administrators shows the executive participants to be influential in a higher percentage of communities). Combining the "extremely" and "very" important categories, the 61-city survey finds that chief executives are major influences in 62 percent of communities; for the community development administrator survey the share is even higher (81 percent). The influence of the community development administrator is even greater (77 percent and 92 percent, respectively). For legislators and citizen participants, the difference between the two data sources is greater. In the 61-city sample, only 44 percent of legislative actors were found to be in the combined "extremely" and "very" important categories, compared with nearly twice that percentage (87) in the larger survey of community development agencies. For citizen groups, the comparable percentages were 29 and 52.

**TABLE 6.1**
**Relative Importance of Local Participants in Annual CDBG Allocation Decisions, Number and Percent of Communities**
**(Percentages are rounded)**

| Participant | Extremely | Very | Somewhat | Not at all | Total |
|---|---|---|---|---|---|
| Chief Executive | | | | | |
| 61-city survey | 17 (29%) | 20 (33%) | 19 (31%) | 5 (8%) | 61 (100%) |
| CDA Survey | 138 (26%) | 293 (55%) | 90 (17%) | 9 (0%) | 530 (100%) |
| CD Administrator | | | | | |
| 61-city survey | 30 (54%) | 15 (23%) | 12 (15%) | 4 (8%) | 61 (100%) |
| CDA Survey | 158 (30%) | 331 (62%) | 40 (8%) | 2 (0%) | 531 (100%) |
| Other Agencies[a] | | | | | |
| 61-city survey | 10 | 25 | 126 | 126 | 232 |
| | (1.67) | (3.8) | (20.8) | (20.7) | (47) |
| Legislators | | | | | |
| 61-city survey | 9 (15%) | 17 (29%) | 28 (44%) | 7 (12%) | 61 (100%) |
| CDA Survey | 239 (45%) | 224 (42%) | 69 (13%) | 4 (0%) | 536 (100%) |
| Citizens | | | | | |
| 61-city survey | 6 (10%) | 11 (19%) | 31 (54%) | 13 (17%) | 61 (100%) |
| CDA Survey | 62 (12%) | 212 (40%) | 96 (18%) | 158 (30%) | 528 (100%) |

a. The data for the 61-city and CDA Survey are not comparable so only the findings for the former are shown. Researchers were asked to assess the influence of 6 different categories of agencies, thus the total number exceeds the sample size. The number in parentheses is the number of agencies divided by six to give an approximate equivalence to the other participants. The total in parentheses does not equal the sample size because of missing data for some agencies. The agencies were: budget office, public works, parks and recreation, planning, housing and other.

Source: 61-city and CDA Survey

These difference are probably a function of methodology. Findings from the 61-city sample are "triangulated"; that is, field researchers interviewed a number of people playing different participant roles and on the basis of these interviews as well as diverse empirical data, assessed their *relative* influence. Data for the community development administrator survey were provided by a single person or a small number of persons within the local community development agency and thus reflect less diversity in judgment. For example, since city councils alone must approve a community's Final Statement, community development officials may tend to translate this into greater influence than is perceived by a broader set of observers.

The earlier Brookings studies had shown the relationship between executives and legislators to be the fundamental political dynamic that drove program choices. To further analyze this relationship, and relate it to the influence of other actors, this research constructed a typology of local decision-systems that matches degrees of influence of executives and legislators. This typology merges the "extremely" and "very" important ratings and the "somewhat" and "not at all" ratings, to produce categories of "major" and "minor" influence. The resulting four-celled table (Table 6.2) shows four possible combinations of legislative and executive influence: strong executive, strong executive and legislature, strong legislature, and weak executive and legislature. Executive dominance (22 communities) prevailed over legislative dominance (11) by a ratio of 2 to 1. The two sets of participants shared strong influence in 15 communities. Thus, chief executives were either dominant or shared strong influence in 37 of the 61 communities, about 62 percent.

**TABLE 6.2**
**Type of CDBG Decision Systems Showing Relative Influence of Chief Executives and Legislators, by Number of Communities**

| CDBG Decision System | Number of Communities | Percent of Communities |
|---|---|---|
| Strong executive | 22 | 36.1% |
| Strong executive/legislative | 15 | 24.6% |
| Strong legislative | 11 | 18.0% |
| Weak executive/legislative | 13 | 21.3% |
| Total | 61 | 100.0% |

Source: 61-city Survey

An example of a strong-mayor system is Baltimore. Field researchers attribute to the Baltimore mayor a strong influence over program funding decisions. The current (1994) mayor was the key actor in shifting the program's emphasis (and the emphasis of other city capital programs) in the late 1980s from downtown to the neighborhoods and shifting to a greater use of nonprofits (while reducing the size of the city's development staff). At the same time, researchers saw the city council as having very little if any influence over general program priorities.

By contrast, the city council in Phoenix is seen as playing a more significant role than the chief executive (city manager). The city shifted to a district election system in 1983, leading to a greater geographic spreading of program spending. Within that general spreading, however, key persons within the council have tended to get larger shares for their districts which they argue are the areas of the city with the highest concentrations of lower-income persons.

It is worth noting that within the 61-city sample, 64 percent of the sample had councils elected with a majority (sometimes 100 percent) based on districts, compared with only one-third where a majority was elected on an at-large basis. In the community development administrator survey the results were similar. Thus, the intuitively appealing conclusion that district-based representation would tend to produce greater legislative influence as members seek to get their share of spending is not supported. As shown in Table 6.3, in the 10 communities with legislative dominance, six are district-based while four are elected with a majority of at-large members, a ratio of 1.75 to 1. In strong executive systems, the ratio of district-based to at-large systems is more than 2 to 1.[3]

**TABLE 6.3**
**At-Large and District-based Representation on City Councils, by CDBG System Type**

| CDBG Decision System | Majority at-large | | Majority by district | | Total | |
|---|---|---|---|---|---|---|
| | N | Pct | N | Pct | N | Pct |
| Strong executive | 8 | 36.4% | 14 | 63.6% | 22 | 100% |
| Strong executive/legislative | 4 | 26.7% | 11 | 73.3% | 15 | 100% |
| Strong legislative | 4 | 33.3% | 7 | 58.3% | 12 | 100% |
| Weak executive/legislative | 6 | 46.2% | 7 | 53.8% | 13 | 100% |

Source: 61-city Survey.

The relationship between models of decisionmaking and the ultimate character of city allocation priorities for community development is not at all clear, although some tendencies can be identified based on field research. This discussion distinguishes three priorities: activities, neighborhoods (geography), and delivery organizations.

With respect to activities, almost all cities in which a dramatic shift in funding allocations occurred that were attributed to changes in political factors or development need by field researchers were strong executive or strong executive/strong legislature systems. Council-dominant systems rarely made such shifts, although in a number of cities councils have established primary influence of a portion of the program. For example, it is not uncommon for councils to drive public services funding levels above those requested in executive budgets, primarily to support the nonprofit organizations in their districts that deliver these services.

[3] Ideally, one could assess the relative influence of councilmembers in district-based versus at-large electoral systems by examining the geographic distribution of CDBG-funded activities. For budgetary reasons, this study did not conduct such an assessment.

With respect to allocations by geography, in instances where community development need is concentrated in a few city neighborhoods (and usually by implication, in a few council districts), council members who represent those neighborhoods, if they are influential, can capture funds for these neighborhoods, producing, in effect, a neighborhood-based "strategy". The typical pattern, however, is for council influence to result in greater geographic "spreading" of CDBG dollars (to as many council districts as possible) than would have occurred without such influence. This result almost certainly inhibits city staff efforts, where present, to pursue consistent development strategies, generally, and spatially targeted activities, in particular, although such barriers to consistent spatial targeting strategies can be present regardless of which participant or set of participants is the dominant influence. For example, although the mayor and community development staff dominate CDBG decisionmaking in Cleveland, the city council traditionally has carved out a portion of the annual entitlement as a discretionary fund for each of the city's 21 council members. In 1992, each member received $200,000, amounting to about 17 percent of the city's $25.1 million grant that year. San Diego's nine-member Council has earmarked an even larger share of that city's entitlement--about 60 percent--for allocation by district. Unlike Cleveland, however, which gave each district an equal amount, in San Diego, where the Council is the dominant participant in CDBG decisions, the district allocations were based on the number of low-income households in each district. (Such explicit set-asides of a portion of the annual grant for allocation to districts appears infrequently, however, according to our site visit sample.)

With respect to allocations to delivery organizations, particularly nonprofit organizations, the patterns are less clear. Field researchers detected a clear tendency toward nonprofit support among city council members, who advocate for increased spending in activity areas where nonprofits are strong--public services primarily but housing in some cities--and for increased delivery of city services through community-based organizations. Part of this is attributable to council desire to ensure that spending takes place *in* neighborhoods, as opposed to citywide (in housing programs, for example), and to fund organizations that contribute electoral support. Mayoral influence is less predictable than council influence. Although a number of field sites provide examples of mayors pushing for citywide expenditures, others contributed support to explicit policies to support nonprofits for reasons similar to those motivating council members.

The influence of the chief executive typically reinforces the influence of community development administrators, which helps explain the infrequency of deliberate strategies in council-dominant systems. That is, the community development staff in the field research sample who managed significant portions of the CDBG budget articulated a preference for physical development programs (as opposed to services spending), "strategies" for intervention (as opposed to mere distribution of dollars and projects to council districts), and at least some spatial concentration of funding. Such strategies are difficult to sustain in the face of council pressure to distribute funds broadly.

Community development administrators have relatively high influence in strong executive or strong executive/strong legislative systems. (In the systems with legislative dominance, the relative influence of community development administrators is less clear.) (Table 6.4) This may not be surprising because, in most cases, the chief executive will have appointed the top community development administrators. Further, chief executives are unlikely to maintain extensive and continuing control over CDBG policymaking and operations, leaving such oversight to the appointed administrators and their operating staffs.

**TABLE 6.4**
**Relative Influence of Community Development Staff by CDBG System Type**

| CDBG Decision System | Extremely/Very | | Somewhat/ Not at All | | Total | |
|---|---|---|---|---|---|---|
| | N | Pct | N | Pct | N | Pct |
| Strong executive | 14 | 63.6% | 8 | 36.4% | 22 | 100% |
| Strong executive/legislative | 13 | 86.7% | 2 | 13.3% | 15 | 100% |
| Strong legislative | 6 | 50.0% | 5 | 41.7% | 12 | 100% |
| Weak executive/legislative | 12 | 92.3% | 1 | 7.7% | 13 | 100% |

Source: 61-city Survey.

There are exceptions, of course. In Chicago, a city with a strong mayor CDBG system and a district-based legislature, the formal community development agency (Office of Budget and Management) has only very general oversight responsibilities and prepares reports for HUD. The city's program is highly decentralized and the dominant bureaucratic influence is exercised by several operating departments, which allocate funds among different types of activities within their departments, implement the program, and make decisions about spending through delegate agencies. In this instance, and in some others where program management has a decentralized cast, CDBG is just one component of the capital budget, which represents the principal vehicle for translating mayoral neighborhood development priorities into ultimate outlays.

It is interesting to note that in the 11 communities of the 61-city sample in which both the chief executive and legislators had low influence, community development administrators were the dominant actors (Table 6.4). For example, in Nashville, field researchers rated both the mayor and the district-based council as only "somewhat important" in CDBG decisionmaking, in contrast to the "extremely important" Metropolitan Development and

Housing Agency (MDHA). The latter has been able to sustain a geographic targeting strategy and steer annual spending decisions.

As to changes in relative influence of local participants since the Brookings studies of the late 1970s and early 1980s, field researchers did not focus on long-term changes, although the survey of community development administrators did ask about changes in the most important participant and changes in the role of that participant over the five-year period 1987-92. The overwhelming response was that there had been no changes in the most important actor over the five-year period. A similar finding was reported for the *role* played by the most important actor; 482 of 541 said there had been no role change. These relatively recent data indicate considerable stability in the participant structure of the decision system and provide support for the conclusions of the earlier studies, which found that local decisionmaking had become institutionalized; i.e. the role of actors established in the early years of the program changed little thereafter.

Nevertheless, stability, or continuity over time, does not imply that the program is static at the local level. Previous chapters have documented considerable changes in spending priorities and targeting over the 1980s. Once a group or organization is brought into the program, they typically find it easier to preserve access than new actors to gain access, but major changes did, and still do, occur at the local level.

In a number of cities in the 61-city sample, for example, political changes were found to be "extremely" or "very" important in accounting for significant programmatic changes. For example, in New Bedford, Massachusetts, researchers reported that politics is a major factor in CDBG decisionmaking and as elected officials change, so do the city's priorities. In Fort Wayne, Indiana, the current mayor is more pro-services and more aggressive in supporting a housing strategy than previous incumbents. The City Council in that city also shifted with a change in focus from capital improvements to soft services. In Seattle, a new mayor in 1989 shifted from facilities funding from traditional public works to neighborhood-based facilities.

Tampa is another example of political change leading to programmatic change. The 1985 election of a new mayor in Tampa led to a shift from an emphasis on capital projects to housing activities. According to the researchers, on coming to office, Mayor Freedman quickly re-oriented the city's program to match her own belief that CDBG funds should not support capital improvements which can be funded from other sources. More recently, one southern city moved in the opposite direction from that of Tampa with increased spending on infrastructure and decreased CDBG spending on housing. Political changes were considered to be a major factor accounting for this shift along with the coming of the HOME program, which freed up CDBG funds for capital improvements.

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| Strong legislative | 6 | 50.0% | 5 | 41.7% | 12 | 100% |
| Weak executive/legislative | 12 | 92.3% | 1 | 7.7% | 13 | 100% |

Source: 61-city Survey.

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Tampa is another example of political change leading to programmatic change. The 1985 election of a new mayor in Tampa led to a shift from an emphasis on capital projects to housing activities. According to the researchers, on coming to office, Mayor Freedman quickly re-oriented the city's program to match her own belief that CDBG funds should not support capital improvements which can be funded from other sources. More recently, one southern city moved in the opposite direction from that of Tampa with increased spending on infrastructure and decreased CDBG spending on housing. Political changes were considered to be a major factor accounting for this shift along with the coming of the HOME program, which freed up CDBG funds for capital improvements.

**Citizen participation**. Although CDBG program rules do not demand adherence to detailed, specific requirements for formal citizen participation, most communities have adopted some formal process for soliciting citizen input that is distinct from the almost universal practice of city council hearings, which are held prior to votes on the adoption of the annual budget. In most communities, the level of citizen influence, particularly as exercised through these formal participatory mechanisms is not high relative to that of other actors. Informal channels of citizen activism often are more important.

Citizen participation is generally acknowledged as a major desired feature for CDBG programs. Legislation and HUD regulations require only that the proposed annual CDBG allocation be published in a "timely" way in a local newspaper and that the city hold one public hearing on the proposed CDBG allocation -- in order to obtain citizen input. For this analysis, we did not limit our examination to annual public hearings on the CDBG fund allocation, but also considered participation at other times, and in other ways, in CDBG planning and implementation efforts. Of course, citizens also exercise influence through their elected officials (council members and mayors), and it could be argued that this is the primary vehicle for citizen participation. This analysis does not attempt to measure the role of citizens acting through elected leaders.

Overall, the role of citizen participants as an influence on annual funding allocations does not appear large, although the percentage of cities for which field researchers found citizen involvement as important is notable given the weakness of federal mandates in this area. Field researchers for the 61 cities judged that citizens had "extremely" or "very" important influence in 26 percent of the communities. (The larger CDA survey showed a much higher 52 percent, doubtless because of the tendency among respondents to rate all categories of participants as important much more frequently than on-site researchers.) Table 6.5 shows that citizen influence in the 61-city sample tends to be weakest in systems with strong executives; it is stronger, although not dominant, where both the chief executive and legislators are weak. (The implications of this finding will be discussed at the end of this section.)

In terms of formal structures for citizen participation, communities have adopted a variety of mechanisms to seek citizen involvement and channel citizen demands. These include formal citizens' advisory panels (both citywide and neighborhood-based), hearings and meetings (formal public hearings, communitywide meetings, neighborhood or target area meetings) and surveys of residents. Moreover, the objects of citizen involvement and the points in the process that this involvement occurs can vary for each of these mechanisms. Citizens may be involved at the point of planning and needs assessment, decisions on funding allocations to particular programs or projects, and monitoring and evaluation of community outcomes.

**TABLE 6.5**
**Relative Influence of Citizens by CDBG System Type**

| CDBG Decision System | Extremely/Very | | Somewhat/ Not at All | | Total | |
|---|---|---|---|---|---|---|
| | N | Pct | N | Pct | N | Pct |
| Strong executive | 2 | 9.1% | 20 | 90.9% | 22 | 100% |
| Strong executive/legislative | 5 | 33.3% | 10 | 66.7% | 15 | 100% |
| Strong legislative | 3 | 25.0% | 9 | 75.0% | 12 | 100% |
| Weak executive/legislative | 6 | 46.2% | 7 | 53.8% | 13 | 100% |

Source: 61-city Survey.

The survey of community development administrators showed that about half (51 percent) had a formal citizen advisory council (CAC). CAC members were commonly appointed, or at least recruited, by the mayor or city council (90 percent of cities). Often CDA staff helped nominate candidates for elected official selection. In only 8 percent (22 of the 256 reporting communities) were CAC members elected; and 12 percent of the CDA officials reported that members were "self-selected".

In spite of the probable upward bias in the ratings given by community development administrator survey respondents, these responses are useful in distinguishing the relative influence of various types of citizen participation mechanisms and their link to ratings of citizen influence generally. In particular, citywide advisory committees appear more influential in funding decisions than neighborhood advisory bodies. About 12 percent reported that citywide citizens' advisory committees played the "most important" role in decisions to fund particular CDBG projects; 39 percent an "important" role; 18 percent a "minor" role; and 29 percent "no" role. Corresponding percentages for neighborhood organizations/advisory committees are: most important role (2 percent); an important role (30 percent); a minor role (41 percent); and no role (24 percent).

How "representative" are these committees? Community development administrator survey results show a reasonably diverse composition. Most CACs contained representatives from business, low income neighborhood areas, and ethnic/minority groups, as well as seniors and women. (For each of these five groups, 83 percent of the 276 communities that had CACs, reported having at least one such member.) Information from the 61-city sample, tended to confirm this information; by and large, CACs contained major citizen groups of concern to the CDBG program. Groups much less often represented directly on the CACs were youth, mentally or physically disabled persons, and the homeless.[4]

The presence of a citywide advisory body appears to translate directly into citizen influence overall. Even field researchers credited citizen participation with more than trivial influence. Of the 44 percent of field research sites with formal advisory groups, field researchers deemed that citizens generally were "extremely" or "very" important in influencing annual funding decisions in about half the cases, while in the other sites, only 14 percent found citizens "extremely" or "very" important. These general conclusions are confirmed by information from the Community Development Administrators Survey. Table 6.6 shows the client groups that administrators reported had received funding increases *as a result of* concerns raised by citizens groups. First, despite relative infrequency of representation of advocates for youth, the mentally and physically disabled and homeless persons on citizens advisory panels, these groups are among those most likely to have received increased funding in the last five years as a result of citizen concerns. Second, the presence of a formal citizens advisory panel is significantly related to increases in funding for a number of client groups. Cities with citizens advisory panels are significantly more likely to report increases in funding for low-income residents (below 50 percent of median), ethnic or racial minorities, and female-headed households than are cities without such panels. The same is true for homeless persons, low-income neighborhoods, and persons with AIDs or who are HIV-positive (although confidence in this relationship, although significant statistically, is weaker).

[4] In an important sense, no group, unless elected, can be truly "representative." Its worth pointing out that some city officials made a decision at the outset of the program *not* to create formal advisory committees, because membership selection would create too many political problems in places with well-established neighborhood organizations and diverse ethnic groups. Indeed, in at least one city covered by our field research, a citywide low-income advocacy organization strongly opposed the idea of an advisory committee, for fear that the committee would become dominated by relatively few activists, even if (and perhaps because) these had strong ties in particular neighborhoods.

**Table 6.6**
**Funding Increases to Client Groups Due to Citizen Concerns**
**By Presence of Citizens Advisory Panel**
**(Percent of Cities Reporting Increase)**

| | | Citizens Advisory Panel? | | |
|---|---|---|---|---|
| Client Group | Total | Yes | No | Sig. |
| Children and Youth | 48.4 | 50.6 | 46.0 | |
| Homeless Persons | 44.1 | 48.9 | 39.0 | * |
| Low-income Neighborhoods | 43.8 | 48.3 | 39.0 | * |
| Senior Citizens | 40.2 | 42.1 | 38.1 | |
| Mentally or Physically Disabled | 39.5 | 41.8 | 37.1 | |
| Low Income Residents | 35.3 | 43.2 | 26.7 | ** |
| Ethnic or Racial Minorities | 22.1 | 27.1 | 16.7 | ** |
| Female-Headed Households | 20.7 | 27.2 | 13.8 | ** |
| Businesses | 19.7 | 19.9 | 19.5 | |
| Persons with AIDS or HIV | 14.5 | 18.1 | 10.7 | * |

Source: Community Development Administrator Survey
Note: ** = Phi significant at .01, * = .05

Further, field researchers reported whether minority groups, communitywide or neighborhood-based, were active in annual CDBG funding decisions in the 61 cities they visited. As shown in Table 6.7, in 47.5 percent of the communities, field researchers reported the groups to be active in such decisionmaking; in 52.3 percent the groups were not active. The table also presents overall general citizen influence (shown earlier on Table 6.5) and minority group activity by type of CDBG decision-system. The percentages presented are not strictly comparable; minority groups can be active, but not necessarily influential, although minority groups would not expected to be influential if they are not active.[5] However, the table does suggest that patterns of overall influence and minority group activism may differ for any given type of decision system. Although citizen influence appears depressed in strong executive systems, minority group activism in these systems appears stronger than the average for all cities. This is the result of two overlapping factors: the strong mayor cities in the sample also have large minority populations, and these also are overwhelmingly central cities. (Only 2 of the strong-mayor systems are suburban cities). Of the ten suburban cities in the 61-city sample, *none* were reported by field researchers to have active minority participation in the CDBG program.

[5] The distinction between influence and activity is in part an artifact of data collection. Field researchers reported whether citizen groups were "influential" but asked only if minority groups were "active."

**TABLE 6.7**
**Citizen Influence and Minority Group Activity by CDBG System Type**

| CDBG Decision System | Number of Cities | Citizens as Extremely/ Very Influential | | Minority Groups Rated as "Active" | |
|---|---|---|---|---|---|
| | | N | Pct | N | Pct |
| Strong executive | 22 | 2 | 9.1% | 12 | 59.1% |
| Strong executive/legislative | 15 | 5 | 33.3% | 6 | 40.0% |
| Strong legislative | 11 | 3 | 27.3% | 5 | 36.4% |
| Weak executive/legislative | 13 | 6 | 46.2% | 5 | 38.5% |
| Average | | | 26.2% | | 47.5% |

Source: 61-city Survey.

The 59 percent "no" response to minority activity may be misleading, however. It does not necessarily mean that minorities as a set of citizen participants are not active; their activity may be exercised through other mechanisms of participation. For example, in Newark, New Jersey, minority groups generally were not reported as active, but a large number of minority-headed nonprofits are active and successful in seeking annual funding. Such activism by nonprofits representing specific minority constituents was found in many of the sample communities. Moreover, "minority group" activism in Newark has an ambiguous meaning, insofar as the city population is overwhelmingly African-American. Thus, the traditional "minority group" is the majority population.

In any case, as implied by the findings in Chapter 5, there is little evidence that minorities are underserved by the CDBG program, although as the findings in Chapter 5 showed, some grantee characteristics do produce higher (or lower) black and hispanic benefit shares that would be expected based on population size alone; e.g., all things equal, a central city with a given African-American population percentage will register higher direct-benefit shares to this group than a suburban city with the same African-American population share. Nevertheless, the overall program performance in benefit to minority households is positive for a number of reasons, primarily tied to the legislative purposes of the program as a low-and-moderate income benefit program, and the considerable overlap between minority status and program eligibility in most U.S. cities. It has become common in central cities, in particular, for minorities to be represented on city councils. Further, the citizen action committees used by cities for advice on their CDBG programs appeared to have reasonable representation, by and large, of minorities (although we did not obtain specific counts of the minority representation on these CACs).

Our research also indicates that formal citizen advisory groups are not a necessary condition for citizen influence. Informal citizen influence can also be effective. Baltimore does not have a citizen advisory group, for example, but researchers found that there is extensive citizen involvement at the grass roots, neighborhood level, primarily through extensive working relationships between organized neighborhood groups and city community development staff. Citizen influence in that city was judged to be "extremely important" in annual funding decisions.

Similarly, in Cleveland, which does not have a formal advisory council, various citizen and resident groups can importantly influence decisions affecting their neighborhoods through the city's system of eight neighborhood planners. The city established a network of neighborhood planners early in the program. These planners are the contact point for groups and individuals seeking program assistance. They also serve as liaison between possible project developers and the city development department in the design and packaging of funds for projects. By contrast, Sacramento has an elaborate structure of advisory councils, organized on both a citywide and target-area level. However, they are seen as only "somewhat" important, with community development staff professionals playing the critical role in strategic and funding decisions.

More generally, another form of "citizen participation" in local CDBG decisionmaking is through nonprofit groups, often neighborhood-based, interacting with executive (chief executives and program administrators) and legislative actors as they seek funding support for specific projects or programs. These nonprofits articulate demands at multiple points: policy development, decisions on specific projects, and program/project implementation.

Almost universally in the 61 cities visited for this analysis, nonprofits have acted as lobbying groups for getting their projects funded, usually through city council members. And in most communities, private nonprofit organizations exerted considerable influence, especially on social services, through their applications for and securing of, CDBG funding support. Because it is typical for a majority of applicants in one year to receive further funding the next, these organizations became small centers of continuing influence in their communities.

In Portsmouth, New Hampshire, where the community development staff is the dominant influence, researchers reported that general citizen input was more evident in the early years of the program, but has declined as the program has become institutionalized. As part of that institutionalization, nonprofits have emerged as the primary advocacy groups as they seek funding for their programs and projects. Such nonprofits, as noted, can be a major conduit for citizen influence. To the extent that their influence becomes institutionalized, however--through the tendency we noted across cities to continually refund the same organizations--the opportunities for new organizations to get CDBG funds and to introduce innovations are reduced. (A more extensive discussion of this issue will follow in the concluding section of this chapter.)

**Perceived Utility of Participation Mechanisms.** Quite apart from the role played by various councils, target area groups, and other forms of citizen participation to afford citizens access to CDBG decision-makers, these groups can be an important part of the mechanics of program management. The community development administrator survey asked about each of four forms of citizen participation -- community-wide meetings, neighborhood/target area meetings, customer surveys, and formal public hearings -- and their use for each of three purposes -- strategic planning and needs assessment, allocating funds to particular projects or programs, and monitoring and evaluation.

As Table 6.8 shows, most agency officials in communities that use these forms of citizen participation believe that most forms have been useful. This held in all the cases shown in the table except for the use of community-wide meetings and public hearings for monitoring and evaluation purposes -- based on the ratios of the percentages of "useful" to "not useful". Neighborhood meetings and citizen panels score much more highly than citywide meetings and formal hearings, whatever the function. The latter score particularly badly for the monitoring/evaluation function, which seems a reasonable judgment given the propensity for such forums to focus on anecdotal and selective information. Community development administrators were most likely to perceive citizen panels and neighborhood meetings as "useful". The CDA survey findings are generally confirmed by field researcher assessments.

Despite the weakness of public hearings, they were the major way that participation was sought in the sites we visited. Such hearings are window-dressing in many, if not most, locations: the number of citizens attending these hearings is generally low, comments tend not to provide systematic evidence to inform allocation decisions, how representative comments are is open to question, and the hearings tend to be too late in the allocation decision cycle to have much effect. Nevertheless, how these hearings are managed convey important signals about city responsiveness to citizen concerns. Persons in a few communities expressed concern that hearings were not held at night when many more people could attend. Another city was criticized by interviewees because they failed to advertise hearings in local ethnic newspapers.

**TABLE 6.8**
**Community Development Administrator Ratings of the Utility of Citizen Participation Mechanisms by Program Function**

| Function | City-wide Meetings | Neighborhood Meetings | Citizen Panels | Formal Hearings |
|---|---|---|---|---|
| Planning & Needs Assessment | | | | |
| Useful | 50.1% | 54.5% | 58.8% | 61.1% |
| Not Useful | 22.0 | 7.4 | 4.5 | 32.7 |
| Not Used | 28.0 | 38.1 | 36.7 | 6.2 |
| Program Allocations | | | | |
| Useful | 46.6 | 48.9 | 58.4 | 69.4 |
| Not Useful | 17.2 | 5.2 | 4.0 | 26.5 |
| Not Used | 36.2 | 46.0 | 37.6 | 4.2 |
| Monitoring & Evalution | | | | |
| Useful | 14.8 | 20.5 | 38.3 | 31.5 |
| Not Useful | 17.3 | 5.2 | 7.1 | 26.8 |
| Not Used | 67.9 | 74.3 | 54.6 | 41.7 |

Source: Compiled from the Community Development Administrator (CDA) Survey

CAC involvement in funds allocation also usually occurs late in the process. As a result, some persons interviewed were concerned that these CACs had too little influence relative to city personnel and that they did not have much influence over the decisions made by the city council. Use of CACs to help the community development agency and city council to establish program priorities before the agency requests proposals from other city departments and nonprofit groups did occur, but was much rarer. For example, the citizen community development council in Fort Worth, after languishing for many years, is beginning to participate with the city council in a proactive role to help identify goals, types of projects sought, and project selection criteria -- to help the council determine priorities and direction. The Sacramento CAC has begun to advise on overall development strategy, such as the mix between economic development, housing, etc. and on the designation of target areas. San Franciseo's CAC is used to help determine CDBG strategies and set priorities.

Among the most useful chores performed by CACs is their role in ensuring some basic documentary adequacy for funding decisions. Some development agency staff noted that use of CACs to review proposals conveys some assurance that funding decisions are "non-political" (although final decisions were still made by the city council). In fact, creation of CACs in some communities helped "open" the process, as their role in proposal review has required promulgation of formal application procedures and rating criteria. (This has been done in recent years by such sites as Albany, Baltimore, and Portland.) In both St. Louis and Phoenix, CAC members told us that they did not receive adequate information on past performance of applicants for their proposal reviews. They indicated that they would like to get information on each applicant's past performance. (Most applicants had previous contracts with the CDA.)

Overall were these CACs effective citizen representatives? Or were they primarily rubber stamps for CDA staff or dominated by one or two members who held idiosyncratic views? By and large, in those sites that used CACs, they appeared to be reasonably involved and be given real opportunity to affect decisions about specific projects, at least. The CAC representatives interviewed usually felt they had a real say, though many felt that their role was limited more than they wanted. As noted above, few CACs had been involved with policy and program planning.

Neighborhood-based forms of participation appear better likely to produce useful results with respect to decisions about funding specific programs that directly affect particular neighborhoods. Some communities (such as Boston and Houston) hold hearings in neighborhoods or council districts. This appears to provide more input from disadvantaged populations than only central hearings. Such meetings are likely to be easier for neighborhood residents to attend and encourage participation because meetings are held in familiar surroundings. (These meetings might also be attended by only a small, and perhaps non-representative, portion of the neighborhood. However, if a reasonable attempt has been made to announce the meeting in advance, at least those interested should be able to attend.)

Formal neighborhood advisory committees also appear to have played a useful role in planning and needs assessment, funding allocations for neighborhoods, and even monitoring and evaluation. Some sites with target areas for which they undertook "strategic" planning used neighborhood representatives to help with the planning (e.g. Jackson, Los Angeles, Phoenix, St. Louis). Sacramento's neighborhood councils in each major target area have had considerable influence over how CDBG funds were used in these areas, and at least in some of the city's areas, residents have been polled door-to-door to help identify neighborhood needs. Boston, beginning in 1991, introduced a new partnership program in target areas, in which the city, neighborhood businesses, and residents signed agreements as to resources that would be applied to specified projects.

Some form of neighborhood citizens' council can accord members an opportunity to exert influence, often substantial, over the projects for their neighborhoods. To illustrate, in Minnesota, state law *requires* that neighborhood groups be involved in spending decisions. Minneapolis also chooses to fund these groups. The groups provided input into both the planning and implementation of projects in their neighborhood. For example, a prospective developer and community development agency staff would meet with citizens before a contract was approved; the citizens might press for redesign or even cancellation. Similarly, Nashville established neighborhood councils for each of its target areas, with members chosen in annual neighborhood elections. The councils were staffed by the community development agency. These groups played a major role in selecting the activities undertaken with the CDBG funds allocated to their target area.

Groups in both Nashville and San Antonio play what appears to be the rarely useful role of providing assistance in monitoring projects, such as reviewing monitoring reports on status and performance. For example, the local affiliates of the citywide Communities Organized for Public Services (COPS) in San Antonio hold "accountability" nights, in which city council members and responsible agency staff are "invited" to explain why promised projects have been delayed, or why they are not being completed on time.

To summarize with a statistic: when community development administrators were surveyed for their opinions on the extent to which "increased required citizen participation" would help improve their CDBG funds programming process, 31 percent indicated this would improve the process; 58 percent indicated it would have no effect; and 9 percent felt that this would harm the process.

**Strategic Planning and Program Coordination**

The discussion in Chapter 4 assigned "strategies" to communities based on self-attested or field researcher assessments of spatial and programmatic patterns of expenditures. By this method, all communities can be shown to have a "strategy" if strategy is understood to be implicit, and not necessarily intentional. This section discusses aspects of community program management that are plausible indicators of whether strategies are intentionally pursued. First, although strategies can be informal, undocumented, and not broadly communicated among program decisionmakers and citizens, certainly one indicator of the seriousness with which explicit strategies are pursued is whether it is a documented plan, and a plan that satisfies at least some of the criteria for effective strategic planning. Second, the degree to which disparate and potentially unrelated efforts are coordinated to achieve a common purpose is another indicator that a community pursues some strategy for renewal. Especially in the community development context, coordination across human services, housing, economic development, planning, public safety, and other agencies would appear to be an important component of strategy pursuit. This section does not discuss whether consistent pursuit of a deliberate strategy actually *matters* in terms of community renewal. This discussion is deferred to Chapter 7.

To summarize the discussion to follow, strategic plans that are clearly defined and consistently pursued are rare. Effective coordination across agencies is somewhat more frequent, but in the view of field researchers and community development administrators, themselves, this could be substantially improved. A host of factors conspire to prevent development and execution of genuine strategic planning and interagency and intergovernmental coordination efforts, most of which are outside the control of community development administrators.

First, strategic planning implies concentration of resources, especially where neighborhood needs are widespread and resources are scarce. But few city executives have the appetite to favor some neighborhoods over their equally deserving counterparts. Second, strategic planning and attendant inter-agency coordination implies a degree of leverage over other agencies on the part of community development administrators that few possess. Third, although planning and effective coordination pose certain costs to the parties involved, the benefits of doing this successfully (and the costs of failure) are unclear.

Nevertheless, among the most promising developments in local community development practice is the emergence of new forms of "strategic" intervention. These are tied very much to specific neighborhoods, include neighborhood residents and institutions in decisionmaking in meaningful ways, involve small-scale efforts to blend disparate efforts across city agencies, and may or may not involve formal planning.

**Strategic Planning.** Long-range, strategic planning is generally accepted as a desirable element for large private sector organizations and increasingly, public sector agencies as well. Its basic purpose is to provide a long range set of goals and basic priorities to help keep annual resource allocations directed towards an organization's mission. In the private sector, such planning proceeds through a series of steps usually including:

- assessment of needs and future environmental prospects;
- mission clarification and development of implied concrete goals;
- strategy development, rough cost-and-benefit assessment, and strategy selection;
- implementation plan development, including assignment of agency responsibility, resources, and timeframes.

Ideally, agencies will monitor progress towards the goals, objectives, and targets contained in the latest plan (on the assumption that the planning process provides for periodic review and updating).

Translating the private sector's practice of strategic planning into the public sector, and particularly the community development agency context, is difficult. Unlike corporations, community development agencies pursue multiple missions, few of which produce clear or measurable outcomes, (such as volume of goods sold, profitability, etc.). Second, agencies and executive leaders respond to citizens, who are not standard consumers; that is, citizens make claims for "equitable" distribution of benefits that consumers do not. Third, corporate planning usually covers operating divisions that derive their sole support from the corporate parent, which allows, at least in theory, complete leverage over their activities. Few city executives enjoy similar control over constituent agencies in view of the importance of intergovernmental revenues to agency budgets, and the restrictions that attend the use of these resources.

In the early years of CDBG, HUD required a Housing Assistance Plan (HAP) that detailed expected housing needs and community priorities for resolving those needs. The HAP was used in HUD monitoring in the 1970s, and on occasion, community proposals for spending were rejected by HUD in its review of city applications (no longer required) as inconsistent with the HAP. By the early 1980's, however, the HAPs became largely pro-forma exercises in data assembly, without concrete import for community spending decisions, and HUD monitors rarely reviewed HAPs for quality or spending for consistency with the HAP. The National Affordable Housing Act of 1990 replaced the HAP with a mandated Comprehensive Housing Affordability Strategy (CHAS), which in theory details community needs, resources, and strategies to meet local affordable housing needs, but which in practice is highly variable in terms of content and quality. (More will be said on the CHAS, below.) Further, legislation requires communities to certify that they have a Community Development Plan, but does not specify its content or period of coverage. HUD monitors do not examine community spending for consistency against the plan's contents.

In practice, communities "plan" for their community development spending, or at least a part of that spending, through multiple methods. All large cities and most smaller ones prepare an annual capital budget, which may include outlays for capital items funded from CDBG. These budgets may be mere accounting devices, simply recording the spending planned for the coming year, or may be more elaborate policy documents that articulate a multi-year plan for investment in community facilities, with a clear tie to city development objectives. Other plans can include those related to community development generally, specific to CDBG funds only, or like the CHAS, include only a portion of CDBG funds along with other program resources. Finally, "planning" can include documents (or processes) that are not routine, but are created in response to special circumstances or policy initiatives, including task force proposals, agency policy memoranda, consultant reports, and a variety of other types of documents.

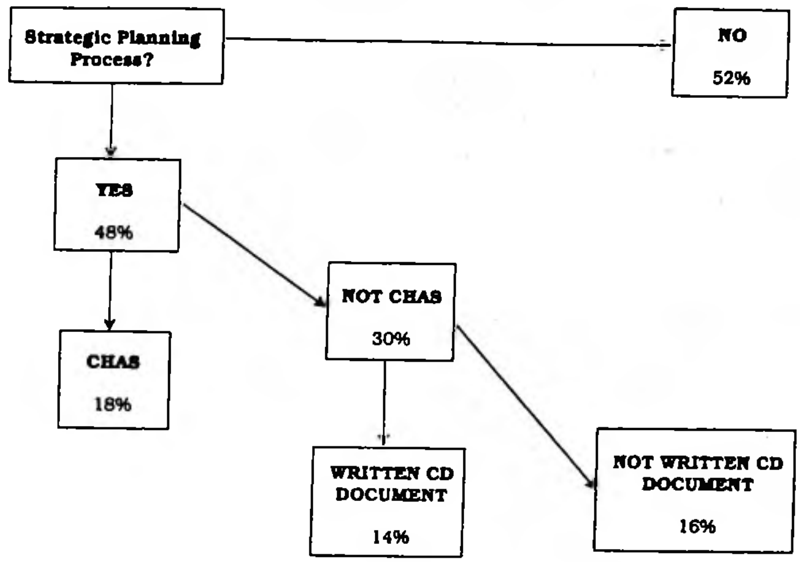
In view of the multiple definitions of strategic planning, the variety of documents that can embody the results of a planning process, whether "strategic" or not, and the difficulty in assessing the quality of the plans produced and their use in practice, the discussion to follow draws only the most general conclusions regarding the frequency of strategic planning as it relates to community development programs. Perhaps not surprisingly, compared to the assessments by field researchers, the likely tendency of respondents to the community development mail survey is to *overstate* the frequency and quality of strategic planning efforts.

Figure 6.1 maps the frequency of strategic planning in CDBG entitlement cities, using results of the community development administrators survey. Although nearly half (48 percent) report a strategic planning process, evidence shows that very few of these are likely to be substantial efforts by the definition of strategic planning introduced above. Of those who indicated that they had a strategic planning process, 62 percent (30 percent of all cities) reported that this process was different from their CHAS; 38 percent indicated that it was not different, and therefore highly likely to be limited only to housing affordability issues. Of the communities that indicated that their planning process was *not* the CHAS, over one-half (16 percent of all communities) indicated that this was not a written document. As a further indicator of the quality of these planning processes, of those officials claiming some form of strategic planning effort, 38 percent reported that the period covered was one year, indicating likely misunderstanding as to what constitutes "strategic" planning.

Most of those saying they did have a planning process reported that it contained at least some of the features commonly held to be indicative of effective planning documents (not shown). Fully 98 percent reported that their plans contained "specific goals and objectives;" 53 percent reported that their most recent strategic planning process included estimated costs for various strategies; 69 percent indicated that the plan specified the entity responsible for each goal and objective; 56 percent indicated that the plan specified the timeline for achieving each objective; 75 percent indicated that the process included a formal needs assessment activity; 92 percent indicated that the process included citizen participation.

However, field researchers almost to a person reported that formal strategic plans, while not completely absent with the 61 cities they visited, rarely satisfied the criteria for genuine strategic planning. Our field personnel found that 38 percent of our field sites had some sort of strategic plan for housing programs, 27 percent a plan for economic development programs, and 35 percent a plan covering essentially all their CDBG programs. A very small number of cities appeared to have made significant use of some form of strategic plan specifically for CDBG. For example, Waterford had a three-year plan that it updated each year. The plan was reviewed at the beginning of each planning year by the community

**FIGURE 6.1**
Frequency of Strategic Planning Process for CDBG Entitlement Cities




Source: Compiled from the Community Development Administrator (CDA) Survey.

development agency and the city's Citizens Action Committee and used to help guide the allocations for the new fiscal year. However, most plans lacked currency, were too general to provide much guidance for CDBG program planning, and lacked key elements likely to make strategic planning useful -- such as a systematic needs assessment (especially one that made an explicit attempt to examine likely future conditions), an examination of alternative strategies, and an action plan (with a schedule and identification of who needs to do what by when).

Many cities had citywide multi-year capital spending plans, e.g. capital improvement programs; a few, such as Nashville, had multi-year expenditure plans that cover other (operating) expenditures as well. However, these do not provide a substantial basis for determining strategic priorities in community development and housing. Other cities had citywide strategic plans (e.g. Minneapolis, Ponce, Seattle). For the most part, however, these were too broad to function as a useful long-range planning tool for CDBG programs, although this was not universally true. Ponce had undertaken a substantial needs assessment effort, and its plan had specific housing, economic development, and employment sections, which it had updated every few years since the mid 1980's. Seattle started a new process in 1992 that includes activities funded by CDBG in a citywide plan involving funds from all sources. Thus far, however, this is only an annual plan; the city expects to make it a multi-year planning process.

In the fall of 1993, when field research was conducted for this project, the CHAS was the only community planning document that HUD both required of cities and reviewed routinely. When the mail survey asked community development administrators the extent to which the CHAS requirement and had helped improve their CDBG funds programming process, 42 percent reported that the CHAS requirement had improved their process; 46 percent reported that it had no effect; and 11 percent reported it had harmed the process. This result was not affected by city size, central city or suburban status, or level of city distress.

Here again, community development agency respondents in on-site interviews were considerably more skeptical about whether the effort required for the CHAS plans they had done to date (one or two versions) was worth the effort. Most agency staff interviewed did not appear to relate the CHAS planning requirement to their strategic planning needs. Indeed, field researchers often found that when they asked about the CHAS, community development staff not involved in housing reported either that they did not know its contents, or felt that its recommendations were rarely used. Further, in open-ended responses to mail survey questions asking for general recommendations for program changes, a widespread and widely-stated theme was resentment, if not toward the CHAS requirement itself, at least toward changes in the requirement, once established.

Despite the general finding that genuinely useful citywide strategic planning appears infrequently, those planning efforts tied to specific target areas or neighborhoods may have proven more useful. Some communities had long-range plans for individual target areas (such as City of Los Angeles, Jackson, Phoenix, St. Louis). These often lacked important features of full long-range plans, such as a specific action plan that indicated who needed to do what, by when, at what cost, and with what intended results. Nevertheless, these represent good attempts to help make more systematic action decisions about the target areas.

Officials in a small number of cities stated that their city needed a plan to guide the city's use of housing and community development funds. For example, staff in two large northeastern cities felt that the plan, while a burden to prepare, would provide a foundation for making project decisions and would cut down on excessive political influence of project selection. Asked to rate the effects of a hypothetical "three-year community development plan requirement" on their CDBG funding allocation process, 32 percent of agency administrators reported that such a requirement would "improve their process"; 60 percent reported that it would have no effect; and 7 percent reported it would harm the process. As with assessments of the usefulness of the CHAS, city differences had no affect on this rating.

Why is effective citywide community development strategic planning by our definition seen so seldom? In addition to the difficulties of adapting private sector strategic planning to public sector circumstances, noted in the introduction to this subsection, a number of other factors emerged from the field research. First is the institutional position of planners, who tend not to be rated highly in field researcher ratings of the influence of various city agencies. Second, and more important, strategic planning implies the ability to make choices, and in particular, choices among neighborhoods. This research found that, because of the continuation of executive dominance of community development decisionmaking, cities from time to time do choose to make major changes in spending priorities. On occasion, but to a lesser extent than shifts in overall program priorities, such changes involve more spatially concentrated spending. However, decisionmaker choices also are highly constrained by both political and moral considerations. Given the severity of city deprivation, its spread across many urban neighborhoods, and budgetary constraints, concentration of funds in some neighborhoods would deny funds to equally deprived neighborhoods in many U.S. cities. Observations to this effect by city administrators are confirmed by the findings in Chapter 5. There is a clear tie between spatial concentration of funds and poverty concentration; where poverty is concentrated, funds tend to be spatially concentrated. Where need is widespread, and severe, concentration tends not to occur.

Finally, strategic planning documents appear to lose relevance rapidly, because they are not often updated in view of the difficulty of completion and the time involved in reaching consensus on program revisions. More useful are those documents that are highly specific to particular program areas, limited to particular neighborhoods, and do not require elaborate formal mechanisms for plan compilation. A number of cities in the field research sample made significant program changes based on task force memoranda or policy documents, neighborhood-specific and program-specific needs reports, and other efforts spurred by concrete policy problems and confined to a fairly narrow scope.

**Coordination of Community Development Investments.** Because of the wide range of activities that CDBG can undertake, community development agency activities almost inevitably will inter-relate with those of other city agencies and sometimes with other units of government, particularly the counties within which entitlement cities are located. What has been the character of those interactions? Have they been guided by strategic planning processes?

Strategic interventions in neighborhoods imply mutually reinforcing investments in communities, sometimes guided by published strategy documents, but in any case requiring the coordination of the efforts of multiple city agencies. This coordination implies investment in pursuit of common purposes by agents that otherwise would not (or might not) make funding decisions in concert. For example, housing rehabilitation spending in neighborhoods that is intended to stem outmigration by preserving the existing housing stock can be supplemented by commercial strip revitalization efforts to preserve the quality of retail services.[6]

Such coordination depends in part on the ability of community development agency staff to influence the actions of those agencies important to community development efforts. Of the 541 community development agency officials who responded to our mail survey (not shown), substantial percentages felt that the various other city agencies, especially planning, public works, and parks and recreation (over 80 percent of the respondents for each of these three agencies), played important roles in CDBG activities. Most (75 percent) of the CDA respondents who reported that these three agencies were important to CDBG work also reported that their agency was able to influence those other agencies with respect to their community development activities.

Our field researchers also investigated whether cities (whether community development agencies or other lead actors in community development policy-setting) coordinate CDBG activities with other public or private investments, and if so how. In 52 percent of the sites visited field researchers reported that intergovernmental and interagency cooperation had been "satisfactory"; 15 percent reported that it appeared to be unsatisfactory; the other sites gave no rating. Because CDBG sponsors a range of services (housing-related services, public services, public facilities, and economic development efforts), CDBG appears to have led to additional interactions between the lead community development agency and other city agencies, particularly between physical development and human services agencies (which usually are sub-grantees to the community development agency). However, neither intergovernmental nor interagency coordination were often mentioned as a significant effort. More often, officials felt that the level of coordination and cooperation was not as high as it should have been, even though reasonably satisfactory.

Field researchers concluded generally that coordination happened episodically--in most cities limited to occasional joint agency efforts in particular neighborhoods, most often involving public facilities investments as supplements to housing or economic development spending by community development agencies. Where housing, economic development, and public services investments were coordinated spatially, this most often resulted from overlap in target areas across programs, or delivery through nonprofit providers with strengths in particular neighborhoods. The exception to this general pattern of coincidental coordination are large redevelopment projects in city neighborhoods--for example, new subdivision

[6] "Coordination" by this definition does not mean "combination"--or leveraging of resources for a narrowly defined development initiative--which happens frequently in CDBG-funded projects or programs. See discussion in Chapter 4.

development--that require investments in social services centers, recreation, land assembly and clearance, and commercial facilities renovation. Essentially urban renewal "projects" rather than ongoing neighborhood development programs, these efforts were also most likely to proceed according to formal plans for redevelopment that guided inter-agency coordination of investments.

In a few cases there was a clear mechanism for coordinating resources on a non-project basis, in which CDBG usually played an important role as a "glue" for other program resources but overall was not the major contributor. In most cities, however, CDBG investments tended to consist of projects strung together without explicit coordination of effort. Particularly discouraging were instances in which CDBG-funded divisions within the same city department did not play mutually supportive roles. For example, in one large western city, CDBG-funded divisions responsible for direct business assistance (job creation) and job training operated in almost complete isolation from each other in spite of the obvious correspondence of interest. In only one or two cities of the site visit sample did housing and economic development divisions or agencies deliberately use business assistance funds to support large multifamily developments.

The absence of cooperation was particularly notable in the context of interactions between the community development (city) agencies and the relevant county government and with respect to human services. Turf problems and sometimes adversarial relations among city agencies also appeared to have hindered cooperative efforts. Particularly noteworthy is that, although agency staff often complained of conflicting requirements across federal programs, problems among agencies most often stemmed from city-specific factors.

In sum: Coordination efforts in community development face many of the same barriers discussed above in relation to strategic planning. First, coordination implies an ability to make programmatic and spatial choices, which may be linked to city distress: communities with large swaths of distressed areas are subject to powerful pressures across all city departments to spread resources thinly. Second, community development agencies do not possess the kind of financial leverage needed to influence other agencies to any great degree. To the extent that CDBG funds represent a rather small part of other agency budgets, community development decision-makers can exercise less influence of these agencies' funding decisions. Moreover, although field researchers did not find that conflicting federal requirements posed fundamental obstacles to coordination among agencies responsible to different federal agencies, conflicting requirements did introduce friction in the system that was a further barrier to cooperation. Finally, the administrative complexity of CDBG program delivery (noted in Chapter 4), and the management problems posed by even routine compliance monitoring and documentation, is an additional barrier to sustained interagency cooperation on matters of broad purpose.

**New strategic initiatives.** Despite local barriers to strategic interventions in neighborhoods, including those guided by strategic planning efforts and involving reasonable degrees of coordination across agencies, field researchers uncovered an impressive range of new strategic initiatives for neighborhood stabilization and renewal. Among the more interesting of the recent developments in the CDBG program are attempts in a number of communities to introduce (and in some cases, *re*introduce) coordinated and highly targeted programs that depend on special types of planning and involve new forms of citizen participation.

In 1991, for example, Boston, which does not have a formal citizen advisory structure, adopted a "partnership" approach as part of its general neighborhood-oriented strategy. Small residential and business areas were chosen for the partnership program, which blends CDBG, other public funds, and private investments with the intent of bringing about major improvements within a 2- to 3-year period. These partnerships are established through written agreements between the city and neighborhood residents and businesspersons. The agreements establish what projects will be undertaken and what resources will be committed. Through these arrangements, residents and groups within the partnership neighborhoods are more closely involved in decisions impacting on their areas. Thus, Boston's new targeting effort is linked with a new form of citizen participation.

The Phoenix CDA's emerging initiative to work with a number of city agencies to comprehensively attack problems in target areas provides another example. If it is carried out, this could achieve a major interagency coordination and cooperation. St. Louis has also taken a number of steps on interagency coordination and cooperation. It has applied considerable interagency participation to each of its target ("ConServ") areas by including representatives from various city agencies on a ConServ Council for each area, which undertakes such tasks as reviewing the area's plans. CDA staff also coordinate with other departments regarding needs in the ConServ areas. St. Louis used planning in its "ConServ" target areas. The planning identifies roles/tasks for residents and neighborhood organizations as well as city agencies, with residents in each target area heavily involved in six committees on housing, marketing, safety, education, recreation, and beautification.

As in Boston, new forms of citizen participation appear to be important in these target area planning efforts--a promising development since, as noted in the preceding section of this chapter, those citizen participation mechanisms that are tied to neighborhood were held to be the most useful of citizen participation efforts in conjunction with strategic planning.

Although not directly related to CDBG, a similar new targeting approach in Minneapolis has created a new access point for citizen groups. In 1990, Minneapolis, which does not have a CDBG citizen advisory committee, introduced the Neighborhood

Revitalization Program (NRP), an effort to coordinate all public spending in a neighborhood, including CDBG. As a catalyst to this effort, $20 million a year in tax increment financing is being made available to fill project and services gaps in the designated neighborhoods. As a precondition to becoming an NRP area, there must be an agreed-upon level of participation in decisionmaking by neighborhood organizations.

The evidence of increased citizen involvement linked to new targeting approaches supports a significant finding from the late 1970s. During the Carter Administration, HUD established regulations requiring more geographic targeting through Neighborhood Strategy Areas, which resulted in an increase in citizen influence in program decisionmaking.[7]

**Administrative Requirements**

As noted at the beginning of the chapter, studies of the CDBG program found that the decentralization objective of the 1974 legislation had been substantially achieved early in the program.[8] This decentralization was maintained even through the policy-active years of the Carter administration. The final report in that series of earlier studies, published in 1983, concluded that HUD influence on local program strategies and spending choices, never great **generally**, appeared to be declining further under the additional deregulation of 1981.[9] The emphasis on the word "generally" is important, because HUD was found to exercise influence on individual cities with particular programmatic problems, and particular categories of cities, such as well-off suburban communities, where HUD pressed for more social targeting.

The new emphasis on deregulation that began with the Reagan administration did not end HUD's involvement in overseeing local programs. The end of the formal application process in the early 1980s closed that point of entry for HUD intervention in proposed spending plans. But the Department had a continuing responsibility for program monitoring, and findings from monitoring visits have always provided the basis for HUD to deal with problems of local program management. It is important to note that HUD has almost no statutory basis for reviewing the substance of local programs. Rather, HUD's role is limited

[7] See Paul Dommel, et al. Targeting Community Development (Washington, D.C.: U.S. Government Printing Office, 1980), pp. 93-98.

[8] Paul Dommel, et al. Decentralizing Community Development (Washington, D.C.: U.S. Government Printing Office, 1978).

[9] Dommel, et al. Deregulating Community Development (Washington, D.C.: U.S. Government Printing Office, 1983), p. 39.

almost entirely to relatively easily measured compliance with quite specific program requirements, particularly those tied to benefit attribution.

To examine patterns of community interaction with HUD, identify the points of greatest friction, and assess whether the HUD role influenced the direction of local programs, field researchers were asked to determine if there had been any controversies between HUD and each city visited between 1989 and 1992, and to assess the importance of those controversies within four areas -- strategies and benefits, programmatic spending, compliance, and administrative and technical requirements. Table 6.9 shows that overall, the incidence of significant controversies was relatively small. In addition, The overall pattern was a higher incidence of controversies involving procedural issues (compliance and administrative/technical) than those concerning substantive issues (strategy/benefits and programmatic). In only one programmatic area, economic development activities, did the number of "extremely" or "very" important issues occur in more than 25 percent of the sampled communities. Issues exceeding 20 percent were housing activities and the monitoring of grant subrecipients.[10]

The "controversies" cited most frequently were:

- subrecipient monitoring (52 percent);
- economic development regulations, especially the supporting documentation requirements (42 percent);
- housing program eligibility issues (37 percent);
- record keeping by the community development agency (33 percent);
- compliance with environmental review requirements (23 percent); and
- compliance with Davis-Bacon Act labor standards requirements (19 percent) of the sites.

One expected result of the complexity of CDBG administrative arrangements (see Chapter 4 on use of delegate agencies, all of which are subrecipients)--and a subject of continuing HUD concern--are problems with city oversight of subrecipient compliance with national objectives. Field researchers found examples of these problems in most of the cities they visited. In one northeastern city, nonprofit contracts did not contain all the provisions required by HUD; the city drafted new contracts to comply. One southern city had no contracts at all with subrecipients that processed CDBG-funded loans. (HUD disallowed the

[10] Hitherto, this report usually has referred to all activities performed by agencies other than the "lead" CDBG agency as "delegate agency" activities, and avoided the term "subrecipient" because of its technical use in the program. This discussion explicitly refers to subrecipients, which include delegate agencies and also recipients of CDBG grants and loans (except for-profit business). Nonprofit housing developers, therefore, are "subrecipients" by this definition but contractors are not.

city's claim that because these subrecipients did not receive a block grant "allocation" [payment was on a fee-for-service basis], no contract was needed.)

**TABLE 6.9**
**Field Researcher Ratings of Relative Importance HUD-Local Controversies by Issue Type**
**(Number of Cities)**

| Issues | Extremely | Very | Somewhat | Not at all |
|---|---|---|---|---|
| Strategy/Benefits | | | | |
| Housing | 3 | 2 | 1 | 40 |
| Social Targeting | 0 | 1 | 0 | 45 |
| Geographic Targeting | 0 | 1 | 1 | 44 |
| Other | 2 | 4 | 1 | 38 |
| Programmatic | | | | |
| Housing | 3 | 7 | 9 | 28 |
| Social Services | 0 | 1 | 4 | 41 |
| Economic Development | 7 | 7 | 7 | 25 |
| Other | 4 | 2 | 5 | 35 |
| Compliance | | | | |
| Equal Opportunity | 0 | 3 | 6 | 37 |
| Environmental Review | 0 | 2 | 10 | 33 |
| Citizen Participation | 1 | 0 | 4 | 41 |
| Davis-Bacon | 1 | 2 | 7 | 36 |
| Other | 0 | 3 | 5 | 37 |
| Administrative/Technical | | | | |
| Recordkeeping | 4 | 3 | 10 | 28 |
| Subrecipient Monitor | 6 | 6 | 15 | 19 |
| Contracting | 3 | 4 | 9 | 29 |
| Other | 5 | 1 | 9 | 29 |

Source: See Methodological Appendix.

Particularly problematic is city monitoring of subrecipient agency monitoring (i.e., the monitoring by those agencies that, in turn, execute grants or contracts with other agencies to perform CDBG-funded services). One midwestern city, although it monitored its own contractors effectively, it did not reliably receive reports on contracts issued by an independent development authority [which implemented most of the city's redevelopment programs]. (HUD recommended that the city establish a central contracting agency for all CDBG contracts monitoring.)

Economic development requirements proved particularly troublesome, particularly on low-income job documentation by private businesses. Also reflected in the site visit interviews, city personnel generally felt the requirements to be excessive, especially for small loans and technical assistance activities (for example, small activities required as much documentation as a large one). Unaccustomed to public sector reporting requirements, many businesses resist required collection of employee income level and household size. In several sites, business resistance ultimately led to city reduction in economic development program funding. In one western city, the city's economic development loan program improperly documented job creation and failed to collect overdue loans. The city was required to repay the CDBG account with $275,000 from its general fund. (The report also criticized the HUD regional office for inadequate monitoring of the city's business loan program.)

Readers should note that HUD has proposed simplifications to its economic development regulations, and the recent (March 1994) Fiscal Year 1994 "Presidential Performance Agreement" with HUD calls for streamlining current regulations to ease the use of CDBG for job creation and retention.

In one of the few examples where benefit level *per se* and not just inadequate documentation of benefit levels was an issue, city staff in one western city and HUD staff expressed concern that a housing rehab program for elderly homeowners tended to benefit persons with substantial equity assets; CDBG regulations consider only current income and not assets in determining income eligibility. The city is considering an overhaul of the program to shift the focus to first-time homebuyers' assistance, rental rehab, or other activities that would alter the pool of participants to include more lower income persons.

Community development agencies expressing concern over Davis-Bacon prevailing wage requirements, and the wage and hour documentation this entails, identified two problems: it led to higher costs, and it discouraged some contractors, especially small and minority firms, from bidding on work. Field researchers reported that one city minimized CDBG funding for capital improvements specifically to avoid Davis Bacon requirements. HUD on occasion had problems with lack of city documentation of wage rates and underpayment of appropriate wages, but this was not commonly reported to field researchers by HUD staff.

While the overall pattern was one of a relatively low incidence of controversies between HUD and communities, there was clear dissatisfaction by local officials with the level of so-called "red tape" attached to the program. In 54 percent of the sites visited, officials perceived red tape as being "excessive" or "very excessive". Further, 65 percent indicated they believed that red tape has been increasing. This perception of increasing paperwork and regulation was also found in the responses of community development staff to the mail survey. Three-quarters (77 percent) said that the overall amount of regulation had increased over the last five years; 83 percent believed the volume of reports had increased; and 84 percent said the complexity of the required reports had also increased. Adding to this general dissatisfaction, some officials complained that HUD personnel give inconsistent interpretations or rulings of HUD regulations (particularly with turnover in HUD personnel), or demand information that is unimportant in terms of overall program performance.

The final report of the series of Brookings studies concluded in 1983 that the deregulation of the Reagan administration had created new programmatic flexibility for local administrations, but that there were early indications that the added discretion was accompanied by intensified HUD scrutiny of local CDBG management.[11] By the perceptions of local administrators in 1992 that scrutiny is now leading to excessive red tape and has been increasing.

While not particularly controversial, some program requirements were seen as obstacles to effective program implementation. Table 6.9 summarizes community development administrator ratings of various requirements as obstacles to their own program implementation. Mail survey respondents cited Davis-Bacon most frequently, with 65 percent of the respondents reporting it as a "large" or "somewhat large" obstacle. HUD reporting requirements were next, with 54 percent. Relocation and displacement requirements were next, with 40 percent. Just over a third of the respondents reported "the need to demonstrate appropriate uses of funds to assess businesses" as a "large" or "somewhat large" obstacle.

A number of communities had significant problems with misuse of funds. Most of this was due to lack of understanding of, or differences in interpretation over, what activities were eligible. Some of it was due to inadequate monitoring of subrecipients' financial record keeping. Less commonly, problems were due to "theft." (e.g. one CDBG program was shut down 1991-1993 because of corruption, and another's economic development loan program was shut down for a few years because of illegal personal use of funds.) In view of the decentralized nature of the program and the use of multiple sub-grantees to deliver programs, the number of instances of outright abuse of funds is extremely rare.

[11] (Deregulating, 152).

**TABLE 6.10**
**Community Development Administrator Ratings of Program Requirements (% Responding Large or Somewhat Large Obstacle)**

| | Requirement | | | |
|---|---|---|---|---|
| | Relocation | HUD Reporting | Davis Bacon | Business Funds Use Justification |
| Overall | 40% | 54% | 65% | 35% |
| Population | | | | |
| 250,000 and above | 63 | 69 | 71 | 43 |
| 249,999 and below | 38 | 52 | 64 | 35 |
| City Type | | | | |
| Central | 45 | 56 | 64 | 38 |
| Suburban | 29 | 47 | 67 | 28 |
| Formula Type | | | | |
| A | 41 | 56 | 62 | 28 |
| B | 40 | 52 | 67 | 44 |

Source: Compiled by The Urban Institute from the Metro City Questionnaire.

Aside from the perception that a few requirements posed especially serious obstacles, the 541 CDA officials that responded to the mail survey reported that they did not have major difficulties with most of the basic management tasks they were responsible for (listed in Table 6.11). Most difficulties for the community development agency itself [reported by those who gave a response] were: relocation requirements, historic preservation requirements, complying with labor codes and ordinances, and environmental standards (between 27 percent and 38 percent of those giving a response, representing 15 percent to 20 percent of the 541 agencies that returned questionnaires).

These community development officials were also asked to give their opinions as to the difficulty that their nonprofit agencies had with these same tasks. As Table 6.11 indicates, many more of these officials reported that the nonprofits had difficulties with these elements than did public agency program managers. In addition to difficulties with relocation, historic preservation, and labor requirements, many CDA officials reported that their nonprofits had difficulties "operating a sound financial management system" (45 percent of those giving a response on this task and 39 percent of all 541 community development agency officials that responded to the survey).

**TABLE 6.11**
**Community Development Administrator Ratings of the Difficulty of Administrative Tasks by Subrecipient Type**
**(Percent of agencies responding)**

| | Public | | Nonprofit | |
|---|---|---|---|---|
| | Very Difficult | Difficult | Very Difficult | Difficult |
| Eligibility Restrictions | 1 % | 12 % | 4 % | 21 % |
| Eligibility Determination of Beneficiaries | 1 | 12 | 4 | 22 |
| Financial Management System | 1 | 10 | 7 | 38 |
| Accomplishing Planned Outcomes | 1 | 18 | 4 | 25 |
| Reasonable Program Delivery Costs | 2 | 16 | 5 | 24 |
| Fair Housing Compliance | 3 | 9 | 3 | 8 |
| Environmental Compliance | 5 | 21 | 10 | 22 |
| Labor Code Compliance | 10 | 23 | 16 | 27 |
| Historic Preservation | 12 | 25 | 13 | 31 |
| Relocation | 16 | 22 | 22 | 25 |

Source: Compiled by The Urban Institute from the Metro City Questionnaire.

But in spite of the findings noted earlier in this chapter about increasing, and "excessive" red tape, most (74 to 93 percent depending on the task in question) of the 541 agency officials responding to the mail survey reported that HUD's monitoring of their CDBG programs was "about right." However, 20 percent rated monitoring of "environmental protection" as "excessive."

**Monitoring and Evaluation.** Both monitoring and evaluation by community development agencies entail collection and analysis of information to inform program decisionmaking. Monitoring includes activities intended to ensure contractor and subrecipient compliance with federal program requirements, but also local program requirements and conformance with locally imposed standards of performance--i.e., effectiveness and efficiency of community development program delivery. Evaluation includes similar activities intended to assess whether programs as a whole meet locally-defined performance standards.

As noted in the preceding section, monitoring of community development delegate agencies and contractors has been a significant problem for agencies, and represents the most frequently mentioned area of controversy between cities and HUD monitors. Departmental audits frequently have been quite critical of the ways cities monitor contractors: much of the criticism has related to poor record keeping by contractors (such as of expenditures, time allocations, and counts and eligibility information on clients) -- and the lack of adequate checking and follow-up by contracting agencies. And (as the findings from the immediately preceding discussion show) community development administrators attribute high degrees of difficulty to a number of basic management tasks that delegate agencies must perform.

Of much less concern to both HUD auditors and the cities themselves has been whether adequate monitoring has been done of the quality and outcomes of the services provided, and by implication, the effectiveness of community development programs generally, in meeting both narrow tests of performance (e.g., the quality of rehabilitated housing) and more general assessments of effectiveness (e.g., the relative costs of housing new construction versus rehabilitation projects). This issue may become much more of a concern given passage of the Government Performance and Results Act of 1993 and the President's September 1993 Executive Order on Setting Customer Service Standards.

This section of the chapter reviews local community development agency monitoring and evaluation practices. It finds that, although there are good examples of community efforts to obtain information on service quality, these efforts are relatively rare. And although cities claim "evaluations" of programs are conducted fairly often, few of these meet professional standards of data collection and analysis. This does not mean that city-initiated evaluations, however limited or based on impressionistic evidence, did not constitute a valid part of the decisionmaking process--most cities in our field sample made program changes in response to staff recommendations based on informal data collection methods. Many communities have taken steps in recent years to improve the quality of delegate agency monitoring. However, more routine collection of service quality information would help overcome some of the local political pressures to fund providers or programs based on "non-technical" criteria.

This research did not attempt to collect the kind of data that would be necessary for a full assessment of city performance. Self-reported practices of community development administrators form one basis for the conclusions reached in this section. Informed judgments of field researchers based on multiple interviews in 61 cities with city staff, contractors, and outside, but knowledgeable, observers are another basis.

As the discussion in Chapter 3 and 4 show, significant amounts of CDBG dollars are channeled through delegate agencies; i.e., agencies (both public and nonprofit) that are not direct recipients of CDBG funds. For example, over half of all public services spending is channeled to organizations that in turn either provide services to clients or sub-grant funds to agencies that do. This study did not obtain data on who did the monitoring of these agencies for cities, but the typical pattern we observed is for the city agency responsible for delivery of the services (whether housing, economic development, human services, or itself) to undertake the monitoring of their own contractors or sub-grantees. The community development agency was responsible for seeing that these delegate agencies provided the necessary information. Some cities used central monitoring. Louisville, for example, had moved to central monitoring to enable the overseeing city agency to act more quickly in assisting delegate agencies improve record-keeping and management practices. Houston adopted similar, central monitoring, but contracted its monitoring of human service and housing rehabilitation contractors to the local United Way. This appeared to work well. The CDA examined the work of the United Way and basic compliance of all contractors on Davis-Bacon, equal opportunities, fair housing, etc.

Over 90 percent of the community development officials that addressed the mail survey question as to what types of information was required from their delegate agencies identified numbers of clients served, demographic information on served clients, and information on outputs such as number of units rehabilitated. These findings are confirmed by results from the subrecipient survey. Of the 333 subrecipients responding to our subrecipient mail survey, the great majority reported that they provided data on the number of clients served and on client income level and race and ethnicity. Small percentages reported that they did not provide such data: 6 percent on number served, 9 percent on income, and 12 percent on race and ethnicity.

More problematic, perhaps, are city documentary requirements related to business assistance: of the 144 respondents that responded to the business assistance survey, only 34 percent indicated they had to document that they could not obtain sufficient funding from other sources, even though "necessary" assistance was a criterion for city support of for-profit business.

Community development agency monitoring of work done by other city agencies does not appear to be as rigorous as for independent contractors. Based on evidence from field interviews, field researchers concluded that most community development agencies did not have as strict monitoring procedures with their own city agencies as with contracts with the private (including nonprofit) sector. Essentially, the monitoring agencies in such cases used more informal monitoring, and presumed that other agencies would appropriately document compliance with program requirements. However, some community development agencies--e.g., Louisville and Phoenix--had developed formal performance agreements with their city delegate agencies and require regular status and performance reports. This reduced attention to monitoring the work of other city agencies may be warranted given different levels of risk: as the preceding section noted, cities expressed less concern about the difficulty of compliance with various administrative requirements on the part of city agencies than for nonprofit subrecipients or contractors.

HUD has found in the past that its own on-site monitoring is an effective means to ensure that grantees collect appropriate documentary information and that the quality of record-keeping and other program management tasks can be directly observed and evaluated. Fully 93 percent of city monitoring agencies (some cities used more than one agency to monitor) identified by our field staff reported that they conducted site visits to monitor subrecipient compliance with program requirements. (Similarly, 92 percent of the 541 respondents reported this on our mail survey of community development administrators.) These findings were confirmed by results from the survey of subrecipient agencies: 93 percent of the 333 subrecipients who responded indicated that they were subject to site visits by agency staff. However, public services contractors may be less likely than managers of other types of programs to face such on-site monitoring: of the 48 agencies that contract for CDBG-funded public services, only 75 percent used site visits to monitor contractors.

A few cities adjusted the frequency of on-site monitoring based on the extent to which the monitors found problems in previous visits. For example, the nonprofit in Boston that did all the CDBG contracting for public services tried to make 3 visits per year rather than 2 for contractors with previous problems. Phoenix also used a risk based monitoring frequency. Grand Rapids skipped site visits for contractors that had established a pattern of good performance over the years.

Beyond on-site monitoring, an additional level of information gathering to help monitor contractor performance is collection of data on service quality. Twenty-five percent of the 541 community development agency officials responding to the mail survey reported that information from clients on service quality was required by their agencies from delegate agencies. However, based on field research, even this small number is likely quite overstated in terms of agencies actually obtaining client feedback in a systematic way and on a regular basis from a representative sample of program clients. Of the 51 agencies for which data were obtained, for 32 (63 percent) of the sites, field researchers indicated that cities did not seek information on service outcomes. The remaining 19 agencies (37 percent of those from whom a response was received) usually asked site monitors to interview a small number of clients but no attempt was made to obtain representative, statistically reliable results. Even here, these informal surveys of clients usually were undertaken only of a small number of the agency's programs, usually human service programs. For example, Tampa used informal surveys for start-up programs. We found no city that surveyed clients of a large number of its programs. However, a few communities did undertake some regular systematic feedback on service quality. For example, Neighborhood Housing Services (NHS) in St. Louis, a CDBG contractor, asked each of its housing rehab clients, about a week after the rehab was completed, to fill out a questionnaire on both the quality of the work of the rehab contractor and the quality of the NHS's own office in processing homeowner applications.

Overall, 19 percent of the 61 sites were judged by field researchers to have "effective" monitoring and 65 percent "adequate" monitoring. In only 8 percent of the sites (4 sites) did the monitoring process appear "not adequate." It also appears that as of the time of field research data collection, community development agencies had made significant progress in at least implementing a basic monitoring process, and particularly in the last three years or so. Most of the 61-cities visited had underway a formal monitoring process, with reviews of financial records, periodic site visits, and reviews of programmatic/client data.

From the standpoint of the monitored agencies, how burdensome did they find the process of responding to city requests for information, whether in terms of required reports, or the demands of on-site monitors? Most of the 333 respondents to our mail survey of subrecipients felt that the monitoring requirements that the community development agency imposed were reasonable. Only 17 percent reported that they were excessive (and only 1 percent reported that "not enough" information was required). Furthermore, half (50 percent) believed that the requirements had a positive effect on their ability to carry out their work; i.e. management requirements contribute to adoption and adherence to commonly-accepted principles of effective management practice. Only 10 percent reported that the requirements had a negative effect.

As expected, private businesses assisted by CDBG funds more often characterized monitoring as burdensome. Of the 144 respondents to the survey of assisted businesses, 49 were required to provide information on documenting that other sources of funds could not be secured, 37 percent rated this requirement as "very difficult." The respective figures on borrowing a certain percentage of their investment from a private sector lender, were 42 percent reported it being required and 33 percent rating the requirement "very difficult." The figures on investing a certain percentage of their own money in the project were 58 percent required and 40 percent finding the requirement "very difficult.".

Most subrecipients also rated the quality of the CDBG agency's oversight positively. At least 70 percent of the respondents rated each of the following characteristics as either excellent or good: timeliness, fairness, helpfulness, constructive feedback, and promptness and accuracy of payments of invoices. Of the 144 respondents to our survey of assisted businesses, at least two-thirds rated each of the following characteristics of the CDBG agency's oversight of their work as either "excellent" or "good": promptness and accuracy of payments of invoices; fairness; helpfulness; and provision of constructive feedback.

Monitoring information has the immediate purpose of allowing oversight agencies to determine how well delegate agencies have complied with program requirements. In addition, monitoring findings can signal areas of weakness and guide provision of technical assistance.

A few CDBG programs that received site visits noted that their policy was to try to assist delegate agencies having difficulty by using monitoring information to determine if organizations needed technical assistance, to correct errors and stop potential problems, and to help the city determine if the organization is ready to handle more program responsibility. A number noted that many of their monitored agencies needed considerable technical assistance and hand-holding. Many were quite small, with limited capacity and experience, such as in dealing with HUD regulations and accounting requirements. There did not appear to be formalized technical assistance in terms of relevant training or handbooks available to CDBG delegate agencies (though a number of sites reported providing formal sessions for prospective applicants considering submitting proposals). An effect of this problem, along with the problems posed by HUD administrative requirements noted above, was that CDAs tended to stick with the same agencies, because working with them was much easier because they knew the ropes. And other, small organizations were discouraged from applying for support from the CDA.

In terms of the technical assistance provided, most (60 percent) subrecipient respondents rated it excellent or good, compared to less than half (46 percent) of assisted business respondents. This low figure was due in large part to the fact that 35 percent of the respondents could not rate it at all, since they reported that no such technical assistance was provided.

Despite the overall assessment by field researchers in the 61 cities that city agency monitoring is at least adequate to ensure appropriate accountability of delegate agencies and subrecipients, monitoring efforts seldom led to dropping of agencies, at least not until the violations were flagrant; political forces tended to prevent the stopping of an ongoing activity or even not giving the organization follow-up work. Part of the problem lies in city agency inability to document poor performance in terms of ultimate beneficiary satisfaction. If client outcomes/satisfaction is monitored systematically, this might provide a stronger (less politically vulnerable) basis for early terminations or at least not awarding the agency future work -- if, for example, a pattern of citizen dissatisfaction is found. Also, as indicated in the earlier discussion on mechanisms for citizen participation, better information on prior delegate agency performance would assist proposal review panels in their recommendations on city funding decisions.

In addition to monitoring the performance of individual agencies on individual projects, there are appropriate questions as to whether groups of projects have achieved desired results over the years and whether modification in program direction or procedures are desirable. Ultimately, the value of CDBG expenditures in a local government depends on the results achieved with the assistance of those funds. These questions might be asked about particular categories of services (such as housing rehabilitation), more broadly about low/mod housing availability, about economic development, about particular groupings of human service projects, and so on. These questions might also be raised about the comprehensive set of community development agency programs that have been used by the city.

The process of addressing such questions in a systematic way is usually called "program evaluation." Doing program evaluations is not a task that HUD has required, or even encouraged, community development agencies to perform. In addition, what is an evaluation in the CDBG context covers quite a wide range.

Of the 541 community development agency officials responding to our mail survey, 47 percent reported that in the past two years at least one evaluation had been conducted relating to CDBG-funded work (whether sponsored by their agency or by others). Of the 541, 33 percent reported that either an in-house or contracted evaluation had been done in the housing area; 24 percent in the public services area; 15 percent in economic development; 18 percent on public facilities/infrastructure; and 19 percent relating to "neighborhood or other target area spending." As discussed below, it seems likely that these "evaluations" did not contain the strong evidence sought in federally sponsored evaluations. As one indicator, only about 30 percent of these evaluations were conducted by third-party evaluators (more likely than insiders to apply professional evaluation standards). (Most community development agencies appear not to have in-house capacity to undertake evaluations of this kind.)

In most cases when an evaluation was done and the evaluation recommended changes, the CDA officials reported in the mail survey that changes were made to the program. This indicates that when evaluations were done they were useful. However, these officials reported that, except for housing program evaluations, the majority of evaluations did not recommend changes. Sacramento is an exception, reporting that changes in target areas and funds going to them had resulted in the past from their evaluations of impacts and needs.

Using a more rigorous standard, field researchers found that in only 17 percent of sites had there <u>ever</u> been a program evaluation. (One of these, New Bedford, was done several years ago by HUD consultants.) And we identified no city in our field work that regularly undertook full-scale program evaluations. Those evaluations that are done are few and far between and/or appear to be more what the federal government would label as program reviews--focusing more on organizational and procedural issues than on program impacts and being heavily qualitative rather than based on extensive, systemic analysis. (For example, Seattle's CDA has recently done restructuring and consolidation studies of its home repair programs, which it labeled as evaluations.)

**Conclusions and Implications**

Newly elected administrations can effectively implement innovative ideas or sweeping changes in policy. Because the executive dominates decisionmaking in most cities, major changes in policies or strategies are not unusual when a new administration takes office.

Institutional and economic factors conspire against the development of comprehensive strategic plans, which could more formally guide CDBG programs in response to changing needs. In a number of cities, widespread poverty creates enormous pressure for spreading resources thinly throughout neighborhoods, instead of concentrating resources towards priority areas in a strategic manner. Elected officials and city administrators are understandably reluctant to single-out priority neighborhoods when most communities require urgent attention. City departments have difficulties coordinating program delivery to selected areas because immediate citywide needs do not allow for extensive inter-agency planning. Finally, in those cities with highly influential legislatures, councilmembers fight to obtain resources for their constituents, thereby adding still more pressures to spread resources.

In an era of tight federal and municipal budgets and increasing poverty, it may seem that spreading resources is an unavoidable feature of a program like CDBG. In some particularly distressed cities, spreading may in fact be unavoidable. In these cities, communities may not be successfully revitalized, but individuals will undoubtedly benefit from social services or housing assistance. In other cities, however, a more strategic or targeted approach is possible, and has been used.

One often pursued objective of local CDBG programs is to direct assistance to neighborhoods with a reasonable chance of revitalization. But a fundamental tenet of the CDBG is decentralization of decisionmaking: encouragement of strategic planning should accord due recognition of the context of municipal decisionmaking, particularly cases where that process tends to result in the spreading of benefits. Any specific decisionmaking process would produce strategic planning only in those cities with favorable political and institutional circumstances.

The federal government can encourage strategic planning by positive incentives.[12] Because comprehensive planning is time-consuming and expensive, HUD could subsidize the administrative costs associated with the development of strategic plans even offering different levels of subsidies, depending on the degree or complexity of strategic planning undertaken by municipalities. Because previously mandated strategic planning requirements including HAP or CHAS have not been popular, nor particularly effective, positive incentives might be more effective in encouraging genuine strategic plans. If federal subsidies for strategic planning are not offered, HUD could produce handbooks or training manuals describing strategic planning and illustrating where it has been successful. Perhaps, leading by example could induce municipalities to imitate planning approaches that have already proven their effectiveness.

In addition to producing manuals on strategic planning, HUD could stimulate strategic planning by reforming its administrative requirements and offering technical assistance in monitoring procedures. Strategic planning is a long-range planning process that involves the development of specific objectives, identifying methods or programs for meeting those objectives, and devising an action plan indicating the public and private sector actors responsible for carrying out the objectives. To ensure that the objectives can be achieved, federal and local officials must develop effective administrative and monitoring procedures. On the administrative side, regulations must be clear and unburdensome. Otherwise, confusion and misunderstandings among federal and local officials over how activities qualify for CDBG funding needlessly delay program execution or skew the program towards meeting regulatory requirements rather than the goals of strategic plans. HUD could eliminate some regulatory bottlenecks by providing timely technical assistance during the strategic planning phase to prevent administrative requirements from interfering with well-thought out strategies meeting urgent community needs.

During the implementation phase of strategic planning, HUD should increase its technical assistance to CDAs and subrecipients to improve the quality of monitoring and

[12] One recent example of this, of course, is the Empowerment Zone/Enterprise Community Program, which awarded zone designation based in part the quality of an applicant's strategic plan.

evaluation. In a number of cities, our field research indicated that subrecipients and contractors could benefit from technical assistance on sound record-keeping procedures for financial records as well as documentation regarding client eligibility. Record-keeping is necessary not only for achieving compliance, but also measuring performance (specified in housing units or job placements, etc.) in the timely attainment of goals and objectives outlined in strategic plans. Field research documented that CDA agencies, as well, could improve their own internal monitoring through the adoption or increased use of computerization of program performance and financing. CDA agencies can more efficiently document and analyze program progress using computer databases than digging through files in cabinets that are more likely to be incomplete or misplaced. Computerization would also help CDA agencies undertake periodic evaluations of programs that would measure progress against goals and consider changes in either strategic plans or their component programs.

This chapter has discussed promising strategic planning initiatives that should be showcased by HUD. In St. Louis and Boston, for example, community development agencies have created partnerships among the public and private sectors for developing and implementing comprehensive development. Parties involved in creating the strategies include city agencies, small businesses, nonprofit housing developers and social service providers, and local residents. These mechanisms for strategic planning are actually new forms of decisionmaking involving substantial citizen input. With public and private sector representatives, neighborhood residents in St. Louis serve on committees tackling various steps of needs assessment, strategy development, program implementation and evaluation.

Although citizen participation mechanisms have not provided opportunities for substantial citizen influence in most cases, citizen advisory committees (CACs) and other mechanisms have added an important layer of accountability to the CDBG program. In a number of cities, CAC requests for documentation of subrecipient performance have led to improvements in subrecipient monitoring and selection. Citizen participation has, therefore, added the monitoring and evaluation components of strategic planning to many city programs. HUD should encourage additional evaluative techniques involving citizens. For instance, our research has found that few cities survey program beneficiaries in order to assess service quality provided by subrecipients and contractors. Such consumer surveys could be administered by local residents and neighborhood groups.

As well as bolstering the monitoring role played by citizens, HUD should promote increased citizen participation throughout the planning process. At this point, community development agencies and/or city councils usually hold public hearings after allocating funds to various activities. To provide more opportunities for citizens to shape the mix of activities, public officials should hold public hearings before and during as well as after allocation decisions. Moreover, local public officials should strive for citizen participation that is neighborhood-based.

Encouragement of strategic planning, whether by offering subsidies or through technical manuals, could improve or introduce comprehensive revitalization initiatives. Increased citizen participation at the neighborhood level, which could and has taken many forms, should also be promoted as part of the strategic planning process. If strategic planning with increased citizen input becomes more of a regular part of CDBG decisionmaking process, decisions are more likely to be concrete and implementable if grounded in neighborhood objective needs assessment and participatory strategy development.

# CHAPTER 7
# CDBG PROGRAM IMPACTS

## Introduction

No single issue in social science research is as difficult as impact assessment, and community impact research may be the most difficult of all. Neighborhoods change because of a myriad of social, economic, psychological, and political events; analysts do not agree on the relative importance of these factors, nor has occasional modeling of neighborhood change been supported by new empirical research on neighborhoods.[1] Further, analysts of metropolitan area behavior have stressed the highly dependent role neighborhoods play in the broader regional context. Research on neighborhood change no longer can ignore the web of ties among neighborhood, central city, and suburban economic, social, and political systems. Thus, it is a daunting task to distinguish the result of public sector neighborhood investments from the host of other factors that drive neighborhood change (or preserve neighborhood stability).

Conceptual difficulties aside, assessment of community impacts suffers from sheer lack of credible information on neighborhood stocks of physical, financial, social, and political resources. Although the U.S. Census is a rich store of information on neighborhood change, very few cities visited by field researchers could produce readily interpretable data on the neighborhood location of even CDBG investments, let alone other capital spending or spending on human services, whether from federal, state, or local sources. Scarcer still are credible estimates of private sector investment, excepting that tied to large publicly supported development projects. Finally, it can be argued that the most important resources for community renewal are institutional and political: the store of community leadership and delivery organizations, both public and private, that can mobilize human and financial capital for neighborhood investment. There are no satisfactory means of measuring the size and quality of this stock of human capacity.

Nevertheless, investment of several billions annually compels attention to the difference the program may have made. Would American cities now be detectably worse off without the past 20 years of CDBG-funded improvements? If public investments have produced real gains, are particular types or strategies of interventions most likely to produce

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[1]Throughout the 1970s, HUD and other agencies supported research on neighborhood dynamics, and leading scholars found urban neighborhoods interesting intellectual territory. Throughout the 1980s, however, very little high-quality research on neighborhood change was conducted, except occasional efforts linked to community advocacy. Only in the 1990s, provoked in part by William Julius Wilson's work on the urban underclass, have leading scholars returned to neighborhood analysis in any serious way.

this result? And if so, are there actions that, taken nationally, can encourage CDBG grant recipients to choose these more productive interventions from the host of choices they confront?

This chapter answers these questions through systematic accumulation of the insights of community development practitioners, neighborhood leaders, local urban researchers, and Urban Institute and consultant field research staff, supplemented by survey information and assembly of available quantitative information on public and private investment in selected neighborhoods. The first section of the chapter discusses issues in program impact analysis, including the basic conceptual problems in conducting research of this kind, the biases that tend to influence judgements about impacts, the multiple types of impact that could be expected from community development investments, and the methods used in this research to assess the results of community development spending. The second section summarizes the findings from field research and other data collection, with separate discussions on "intermediate" impacts--the changes in local "institutional capacity" most likely to have resulted from CDBG spending--and "ultimate" impacts--whether communities (both cities and neighborhoods) are better-off, or at least not worse-off, than they would have been without these investments. The final section draws some explanatory conclusions about the factors that influence success or failure, and discusses what these imply for future program directions.

**Analysis Issues and Research Methods**

**Definitional Concerns.** The opening chapter of this report discussed the multiple goals of the Community Development Block Grant program, consisting of eight national objectives ranging from the elimination of slums and blight, to reduction of isolation of income groups, to conservation of scarce energy resources, and others. In theory, research would attempt to assess impacts in each of these areas. For example, did program spending eliminate slums? Researchers would then proceed to define a slum, assemble historical figures on the extent of slums and the severity of slum conditions, collect information on spending to eradicate slums, or prevent new slums from forming, gather additional data on the many factors that promote or retard slum formation, and conclude that spending produced or did not produce measurable improvements in slum indicators, and if so, the magnitude of that improvement. Analysts could then go on to repeat the exercise for other program objectives, concluding ultimately that energy use was or was not conserved, income groups became more or less isolated, and so on.

In practice, there are several reasons why the CDBG program cannot be assessed in this manner, quite apart from the exorbitant monetary cost of doing so. First, the legislation specifies multiple objectives but does not constrain community choices in any way. Although

Congress has mandated that spending must benefit low- and moderate-income persons, and has established benefit standards over the years, local emphases on *any* of the national objectives can benefit these income groups. Because the national objectives are a menu of options, not mandates, cities can pursue community development goals through literally hundreds of combinations of these objectives, most of which are not expressly articulated. By implication, cities also can ignore certain objectives in favor of others. Therefore, what analytic rationale exists for assessing CDBG impacts on energy conservation, for example, if only a few cities, nationwide, pursue this objective in any serious way? Against what standard of community performance can results be meaningfully assessed?

Second, each of these objectives contains multiple dimensions, some of which are nearly indefinable. For example, "more rational utilization" of land is a national objective, but it certainly takes on a meaning that is unique to each community and even sub-community. (In fact, land use is among the most contested of local political issues.) The trail of urban renewal is littered with discarded project plans that passed the rational utilization test in the minds of city planners and real estate developers, but failed the same test in the minds of neighborhood citizens and their leadership. Thus, even though "cities" as federal spending agents define their own objectives, officials, investors, citizens, and politicians do not always achieve consensus on the legitimacy of these objectives, or what they mean in practice.

Finally, the boundaries of the relevant "community" are not clear. In the minds of most observers of the program, communities are neighborhoods, although these in turn can easily be construed as consisting of multiple income or ethnic sub-communities. For example, expenditures to promote reduction of the isolation of income groups through middle-class attraction can result in displacement of the community of long-term renters, usually of lower income than the new residents. Further, the "community" as a whole can be the legitimate object of community development policy. For example, rehabilitation expenditures to upgrade the quality of housing occupied by the low-income elderly can help preserve the housing stock, citywide, for a future generation of residents. Finally, local interventions can target "communities" of interest or condition; e.g., ethnic communities that may or may not be concentrated in particular neighborhoods, or the community of homeless persons.

In all these senses of the word "community," something more is implied than mere benefit to low-and moderate-income individuals. As shown throughout this report, but particularly in Chapter 5, CDBG expenditures do "benefit" lower income individuals and households, if benefit means only that some physical improvement or service paid for by block grant dollars is received by a low-income individual. However, do these benefits in turn produce "impacts"? For example, undeniably, city-funded child-care services that allow a single-parent to enter the work force benefit the newly employed worker. Does this benefit, perhaps time-limited, produce a real change in the life circumstances of the parent, or an unambiguously positive change in future life chances of the child? And if so, are there secondary impacts on the "community," e.g., the immediate neighborhood in which the newly employed parent resides? Because CDBG is a "community" development program, it is the latter, secondary impact, that is of ultimate interest in this research.

Because of the complexity of these issues, this research avoids taking on some, and accords analytic priorities among others. Specifically, although cities vary greatly in the community development objectives they pursue, most local officials publicly articulate, if not consistently pursue, "neighborhood" stabilization and revitalization goals. The general nature of this research does not allow a thorough unpacking of the multiple contributors to stabilization and revitalization, but these will be understood to be "improvements" in neighborhood physical quality, social well-being, and fiscal returns on public investment (discussed in more detail in the next section.)

In addition, the relevant "community" is considered to be the neighborhood. These "ultimate" impacts are held to be the true test of program effects, as public sector interventions produce observable changes in the physical, social, and fiscal health of low-income places. This chapter will not attempt to link, except in the most general way, benefits that accrue to individuals and the secondary benefits that communities derive from these. The discussion will not ignore the results of community expenditures on other (non-spatial) types of "community." However, given the extreme difficulty of measuring impacts across diffuse (and conceptually, even "hypothetical" communities), only the most speculative assessment of these will be made.

Finally, despite the chapter's primary attention to ultimate impacts--the effects of public sector investments in neighborhoods--"intermediate" impacts will be examined, as well. These include contributions to "institutional capacity," understood as both institution-building and resource mobilization. Institution-building includes development of leadership and organizational capacity in neighborhoods, including city capacity to plan for, and deliver, community development programs. Resource mobilization includes the role of CDBG in encouraging private sector investment, as well as encouraging spatial coordination of public sector efforts.

**Methodological Issues.** Most obvious among impact analysis issues is the counterfactual conditional: What would have happened in the absence of CDBG-funded improvements? Other social science research for which the unit of analysis is an individual--e.g., a participant in a job training program--can benefit from controlled experiments, in which separate treatment and control groups, alike in all respects except exposure the program, can be compared to assess program effects; e.g., the earnings of those who receive training compared to like individuals who do not. Similar approaches to assessing community development impacts are extremely difficult, if not impossible, to conduct. Although neighborhood "comparables" could be selected, in which neighborhoods that receive CDBG funds can be compared to those that do not, in practice, CDBG allocations are driven in part by the condition of neighborhoods and expectations about neighborhood change. Therefore, a CDBG-funded neighborhood may have improved compared to a non-CDBG funded neighborhood, but did it do so because funds were spent, or were funds spent because decision-makers saw prospects for improvement?

Another, less fundamental complication is difficulty in finding comparable neighborhoods; finding in any given city two equally blighted neighborhoods that have received very different levels of CDBG funding is unlikely. Therefore, imperfect as informed observer judgements are, these must be relied on to support estimates of the impacts of CDBG-funded improvements.

Third, conclusions regarding impact, and thereby the "worth" of CDBG-funded efforts, are decisively tied to analyst expectations concerning the probable result. That is, what level of impact would justify what level of expenditures? As the discussion in Chapter 2 noted, the real value of CDBG outlays has declined substantially over the 1980s, while at the same time, community development need has increased, particularly in the largest cities that receive the bulk of program allocations. If the result of fewer dollars in relation to greater need is that CDBG-funded efforts have produced very modest results, should national decisionmakers thereby conclude that further efforts are unwarranted? Alternatively, could one conclude that if only expenditures had kept pace with needs, significant deterioration could have been averted?[2]

Further complicating assessment of program impacts is the effect of significant "system shocks" on a number of communities. For example, one midwestern city pursued a housing stock preservation strategy in selected neighborhoods through moderate-rehabilitation grants, intended to preserve housing quality and indirectly, local property values and the attractiveness of neighborhoods for moderate-income residents. However, shutdown of a major automobile plant so eroded the local employment base that city efforts were redirected to energy assistance and weatherization programs to help newly unemployed residents cope with high utilities costs. Not only did major job loss erode purchasing power, and property values, but city efforts in long-term stock preservation were abandoned in view

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[2]It's worth noting, parenthetically, that HUD guidelines (generally accepted by city community development officials) interpreted the Neighborhood Strategy Area prescription that investments yield significant improvements in a "reasonable" period of time as five- to seven-years. How many observers of neighborhood needs in 1994 would accept this period as "reasonable"?

of immediate income-support needs. Although this shift in priorities is a tribute to the flexibility the national program affords, what should an analyst conclude from the program's failure to sustain neighborhood strength?

Finally, some impacts are "visible" and others are not, thereby introducing a bias in observer estimates of where and under what circumstances CDBG funds have produced results. Cities that pursue "redevelopment" activities such as land acquisition, clearance, and major infrastructure improvements that lead to new housing development can point readily to observable results from CDBG-funded investments. In such cities, blocks or groups of blocks in which new homes have been constructed can look dramatically different from those that have received no such attention. The same is true in cities (particularly in the South and Southwest) that have invested heavily in infrastructure in areas that previously were unpaved or without drainage facilities. In contrast, many cities in the field research sample pursue broad "preservation" activities that emphasize rehabilitation of existing structures. Although this rehabilitation often results in improvements to building exteriors that are easily observable, interior improvements that preserve the useful life of structures are not. Even researchers who are sensitive to this difference are likely to equate "redevelopment" with "impact" and accord lesser credit to preservation activities.

These issues are raised, not because this research will systematically address them, but because they shape the evaluative comments made in this chapter, and to some extent the methods used to explore program impacts. The next section examines the "intermediate" impacts of CDBG spending; i.e., the role of CDBG in supporting community capacity to undertake community development activities. It relies on information drawn from the various samples of housing and subrecipient activities, as well as the mail census of community development administrators and interviews conducted in the 61-city sample. The following section will discuss "ultimate" impacts, drawing on the sample of 250 CDBG-funded census tracts, and target area studies conducted in 16 U.S. cities.

**Intermediate Impacts: CDBG Effects on Institutional Capacity**

The actions, capabilities, and interests of diverse local institutions affect the prospects for neighborhood revitalization or stabilization. City government agencies and their respective operating divisions, local legislative bodies, business associations and financial institutions, major institutions in neighborhoods (universities, hospitals, large employers) and neighborhood-based organizations all affect--through action or *in*action--neighborhood prospects for stability or improvement. Each of these types of institutions may have very different capabilities to engage in activities that support neighborhood viability. For example, city agency staff can possess the training and experience needed to design and implement programs that respond to neighborhood needs effectively; they also can lack the qualities needed to manage even routine tasks competently. Financial institutions may or may not understand neighborhood markets and design mortgage lending products to serve these markets. Finally, interests may conflict or converge; for example, city agencies may regard community development corporations as valuable parts of the housing delivery system, or view them as competitors for scarce housing dollars.

Community "capacity" to undertake community development successfully is a composite of the actions, capabilities, and interests of local institutions. Over the life of the CDBG program, have the activities supported by program spending contributed to the involvement of multiple institutions in community development? Have the capabilities of these institutions been improved? Have CDBG-funded efforts contributed to a convergence of interest among relevant local institutions? This section discusses these issues with respect to four dimensions of community development program capacity: planning for neighborhood renewal, mobilizing community resources, delivering development programs, and evaluating the results of program spending.

*Program Planning and Evaluation Capacity.* The analysis in Chapter 6 concluded that relatively little routine community development planning takes place in entitlement cities. Most cities prepare formal capital budgets that include CDBG-funded public investments, and all entitlement cities are required to prepare Comprehensive Housing Affordability Strategies (CHAS) as a condition of grant receipt. However useful these efforts may be perceived by participants, field researchers found that few of these merited description as "strategic planning" documents. Even less frequently did city agencies routinely prepare neighborhood plans. Nevertheless, city ability to comply formally with the CHAS requirement depends very much on CDBG's support for planning activities. Although this research did not collect information on the sources of monetary support for CHAS compliance, almost certainly the bulk of CHAS preparation costs was borne by CDBG dollars. Similarly, evaluation efforts were found to be infrequent and usually driven by the desire to remedy on-going program problems. These program reviews rarely rely on systematically accumulated and analyzed information.

In contrast to CDBG requirements, comparatively elaborate planning and evaluation requirements attached to the Model Cities and Urban Renewal programs produced documents much more comprehensive in scope and specific in assignment of agency responsibilities and timetables than those funded at local option from CDBG-efforts.[3] If public agency planning "capacity" is understood as the ability to prepare detailed needs assessments, statements of objectives and methods to reach objectives, performance

[3]Arguably, these "outward signs" of quality bear little relationship to ultimate utility. Study authors are not aware of any useful previous research that would inform evaluative judgements about these efforts.

benchmarks, and monitoring and evaluation plans, then very probably CDBG's predecessor programs contributed more to this kind of capacity-building than CDBG itself. (Of course, requirements to produce plans as a condition of grant receipt, coupled with planning expenses as allowable costs, necessarily will result in the capacity to formally comply with these requirements.)

Even so, as also shown in Chapter 6, cities routinely engage in planning activities that inform program decision-making.

First, a number of large entitlement cities use CDBG dollars as a primary source of funding support for their neighborhood planners (responsible for needs assessment, citizen liaison and participation processes) and for program coordination in designated planning areas. Chicago, Cleveland, Minneapolis and other cities do this. It is highly unlikely that these staff positions are supported from general fund dollars.

Second, cities routinely use CDBG funds to pay for staff and consulting costs associated with program reviews (or "evaluations") and resulting program design (or redesign) documents. For example, Austin commissioned consultant reports that led to major changes in city housing programs, and further contracted for needs assessment and program feasibility research to identify commercial corridors in which to target economic development spending.

Third, neighborhood-based organizations that carry out planning activities supported by CDBG funds represent an addition to overall city planning capacity. As shown in Chapter 3, a high proportion of nonprofit delegate agencies report using CDBG funds to carry out community planning activities--although field research indicates that these planning activities are much less formal (but not necessarily less worthwhile) than those carried out by city agencies. Further, several communities in the field research sample allocated funds for neighborhood planning efforts based entirely on the political need to allocate funds to community-based organizations, and without any expectation that genuine planning capacity would be built. Regardless of the quality of these efforts, it is even less likely that planning support for neighborhood organizations would be extended from city general funds than is true of city agency planning efforts.

Finally, Chapter 6 discussed the emergence of new planning efforts in a number of cities that involve new citizen participation vehicles and mechanisms for city coordination of efforts across agencies. Although not necessarily tied to CDBG funds programming alone (Boston's "social compacts" cover the range of city-funded programs) CDBG funds represent an important source of support for participatory planning activities. In sum, although community development planning consists less of formal strategic planning efforts and more of ad hoc combinations of episodic program reviews, citizen participation, and community-based needs assessments, it is probable that much less of this activity would occur without support from CDBG program funds.

*Resource Mobilization.* Community development investments can come from many sources: CDBG funds, city general funds, development project equity and debt, other federal and state intergovernmental transfers, foundation and other philanthropic contributions, and others. In-kind resources in the form of contributions of labor and technical expertise, equipment, land and buildings, and other donations also represent a portion of the stock of community development resources. What effect has the CDBG program had on the mobilization of financial and human capital for community development?

In terms of CDBG-funded programs and prior to the advent of the HOME program, it is clear that cities would not pursue housing activities at anywhere near current levels without CDBG support. Further, economic development, public services and infrastructure programs depend to some degree of CDBG funding, particularly for those investments targeted to low- and moderate-income neighborhoods. Table 7.1 reports findings from the mail census of community development administrators. For each of housing, economic development, public works, and social services and facilities programs, respondents were asked to indicate whether CDBG funds were (a) a primary resource, without which "little" would be done, (b) an important, but not the most important source of support, or (c) a fairly minor resource. As the table indicates, three-quarters (75.8 percent) of officials in cities that expended CDBG funds for housing indicated that CDBG was their primary resource; only 3.4 percent of respondents reported that it was a "fairly minor" resource. One-third of officials reported that social services and facilities (31.3 percent) and economic development (32.3 percent) activities were supported primarily from block grant dollars. Relatively few (11.6 percent) reported this degree of CDBG funds importance to public works activities. This general pattern of response holds across city distress levels, population sizes, and grant sizes.

The finding that housing investments are particularly dependent on CDBG support generally confirms expectations based on a review of early program history. Prior to the introduction of CDBG, few communities without Model Cities neighborhoods operated housing rehabilitation programs. Federal multi-family and single-family insurance programs--Sections 235, 236, Section 221(d)3 and Section 221(d)4 programs--supported rehabilitation efforts, but HUD staff managed programs without the participation of local agencies. Cities did maintain code enforcement staff (building inspection divisions were a common part of public works departments) but only a few cities employed staff with housing program finance and other program management experience. The early years of the program--1975-1980--witnessed a sharp upsurge in housing program spending, as Urban Renewal projects were completed. And as noted in Chapter 3, throughout the 1980s, state and local governments increasingly devoted own-source revenues to support housing rehabilitation and development efforts. Nevertheless, however important these new sources of support were, the findings in Table 7.1 suggest that CDBG funding remains critical to city housing rehabilitation efforts.

**TABLE 7.1**
**Community Development Administrator Ratings of CDBG Importance to City Efforts by Activity Category**
**(Number and Percent of Cities)**

| CDBG Funds Are: | Housing | Economic Development | Public Works | Social Services & Facilities |
|---|---|---|---|---|
| The Primary Resource. | 402 | 111 | 57 | 156 |
| Little Done Without CDBG | 75.8% | 32.3% | 11.6% | 31.3% |
| Important, But | 110 | 106 | 221 | 195 |
| Not Most Important | 20.8% | 30.8% | 45.1% | 39.2% |
| A Fairly Minor Resource | 18 | 127 | 212 | 147 |
| | 3.4% | 36.9% | 43.3% | 29.5% |
| Total | 530 | 344 | 490 | 498 |

Source: Compiled from the Urban Institute Community Development Administrator (CDA) Survey.

Nationwide, CDBG dollars appear less critical to economic development, social services, and public works investments. Nevertheless, in a number of communities in the 61-city field research sample, CDBG-funded investments were a primary source of support for investments in low- and moderate-income neighborhoods. For example, New Bedford's investments in water and sewer system upgrade could not have taken place without support from CDBG funds; low resident incomes limit the ability of system managers to set utilities rates at levels required to cover normal system operation and replacement costs. Business loan programs in a number of cities would not have been funded without CDBG support; apart from state constitutional restrictions on use of general fund dollars to aid for-profit businesses, cities typically would not invest local-origin tax proceeds in activities not tied to core city government functions. Admittedly, these isolated examples demonstrate only that some cities, under some circumstances, find CDBG dollars the only source available to pursue certain types of community development activities. Taken together, however, they strongly suggest that CDBG dollars represent net gains in local efforts; it is highly likely that most CDBG activities would not have taken place without these dollars.

Supporting evidence for this conclusion can be found in responses to the public services and subrecipient surveys. Respondents to the telephone survey of subrecipients (or "delegate" agencies--see discussion in Chapter 3) were asked if the activities they managed were started "as a result of" CDBG funds receipt. (As indicated in Chapter 3, approximately 29 percent of all CDBG funds are channeled through subrecipients.) Table 7.2 shows that

62 percent of owner-occupied housing activities, 54 percent of rental housing activities, and 56 percent of business assistance activities were initiated as a result of CDBG funds receipt. Managers reported that somewhat less than half of community planning (48 percent) and social services (40 percent) activities were started up because of CDBG funding. Differently phrased, but conceptually similar, a question on the CDBG role in public facilities and services survey asked whether the activity would have happened "on the same scale" without CDBG support, at a smaller scale, or would not have happened at all. About three-quarters (74.8 percent) of respondents reported that the activity "would not have taken place at all." (Not shown on table.)

**TABLE 7.2**
**Number and Percent of Subrecipient Activities Initiated with CDBG Funds By Activity Type**

| Activity | Number of Agency Activities | CDBG Funds Resulted in Activity Startup: Number | Percent |
|---|---|---|---|
| Owner Occupied Housing | 1,813 | 1,130 | 62% |
| Rental Housing | 857 | 466 | 54% |
| Business Assistance | 782 | 441 | 56% |
| Social Services | 4,461 | 1,506 | 40% |
| Community Planning | 1,714 | 824 | 48% |

Source: Compiled from the Urban Institute Subrecipient Survey.

In addition to expenditures from CDBG directly, program impacts on local resource mobilization also can mean that *as a result of* CDBG investments or funded programs, other non-CDBG sources of support are "leveraged" for the same purpose. Conceptually, there are two criteria for determining whether financial leverage has occurred and two types of financial leverage.

Leverage can be said to occur any time funds from different sources are "combined" in a single project or program; this is a weak criterion of leverage. A stronger criterion further tests whether these funds have been invested *only* because CDBG dollars are invested. In practice, only the first type of leverage can be measured with confidence.

Types of leverage include "project" leverage and "program" leverage, often difficult to distinguish in practice. Project leverage refers to the combination of funds from multiple sources in individual projects, on a project-by-project basis. For example, a CDBG loan for owner-occupied housing rehabilitation that requires a certain percentage of owner equity to cover project costs is a form of project leverage. CDBG subsidies to a multifamily rental project that also includes bank loans and developer equity are another example of project leverage. Program leverage refers to "blind" commitments from multiple funding sources to invest in funded projects in advance of a commitment to any single project. For example, a homeowner rehabilitation program that relies on bank agreements to commit a stipulated volume of loan dollars, contingent on borrower ability to repay and other forms of security, constitutes program leverage. In effect, these represent loan "products," consisting of CDBG, private bank, and other sources of subsidy (e.g., state mortgage revenue bonds), that can be widely marketed. In practice, project and program leverage represent opposite ends of a spectrum defined by the strength of initial commitments and other factors.

Chapter 3 concluded that CDBG funds leveraging in housing and business assistance *projects* is common. For example, half of all housing programs support projects that include leveraged dollars, averaging $2.31 in non-CDBG funds for every CDBG dollar invested. These project funds are leveraged in the weak sense of the term; i.e., they are combined with block grant dollars. This study cannot estimate to what extent leveraged dollars would not have been invested had it not been for CDBG funding.

Despite the prevalence of project leveraging, a substantial proportion (about half) of CDBG housing programs, by design, are 100-percent CDBG-funded. In "most" cases (based on field research) full funding from CDBG dollars serves income targeting and emergency response goals. Quite common are emergency repair programs for low-income homeowners, who must replace a major building system immediately (e.g., a furnace in wintertime) but cannot afford to do so. Outright grants mean that assistance need not be delayed while applicants seek bank loans, and that repayment does not burden those with low incomes.

There remain, however, instances in which unleveraged programs are the product of weaknesses in the housing delivery system. In one southern city, for a decade CDBG dollars fully funded each new owner-occupied housing unit developed by community-based nonprofits. Most of these organizations had only part-time staff and were not equipped to take on financial packaging functions; City staff simply did not have the political leadership needed to redesign programs to produce at higher volumes. In the early 1990s, leadership change, a new community development director, and criticism from the local press prompted a complete overhaul of housing programs--which now are highly leveraged, produce at 10 times the earlier volume, and involve no nonprofit participation. In several other cities, city staff have neither the technical skills nor the political leadership required to craft programs that routinely fund projects with other funding sources. Overall, these examples appear rarely.

Although "program" leverage--in which private or other public sector institutions commit to complementary investments on a continuing basis--appears much less frequently than project leverage, field researchers did uncover a number of cases in which public sector support in the form of CDBG funding provided a vehicle for *sustained* mobilization of other funds. The best example is the Tampa Challenge Fund. The city abandoned its earlier 100 percent-grant program in favor of a highly leveraged housing rehabilitation program that relies on formal agreements with local banks to generate substantial investment sums. Doubtless, a portion of these bank dollars would have been lent to low- and moderate-income residents in the absence of fund creation. However, based on Home Mortgage Disclosure Act data, financial institutions have committed funds far in excess of their previous mortgage lending volume, indicating that the Challenge Fund is indeed having an effect.

Based on field research evaluations, program leveraging appears to be most common in housing programs. In addition to the Tampa Challenge Fund, CDBG housing investments in Pittsburgh, Boston, Cleveland, San Francisco, Los Angeles, Chicago and other medium and large cities have provided the public subsidies that helped seal community reinvestment act agreements among banks, local governments and advocacy organizations. To a lesser extent, CDBG economic development programs have relied on similar formal agreements with private sector banks. However, opportunity-driven investments in specific economic development projects in which CDBG funds are one of a number of financing sources appear more common, i.e., "leverage" as commonly understood.

These efforts to encourage predictable and sustained involvement of other financing sources depend very much on the political and institutional environment within which CDBG-funded programs are designed and delivered. The prevalence of formal agreements in cities that have forged these agreements after debate over bank performance on Community Reinvestment Act concerns is the best example of this. By themselves, city staff may not have the institutional stature needed to secure genuine commitments from private sector actors. Pressure on banks from the advocacy community, however, with support from top political leadership, can produce the convergence of interests that result in participation agreements. It seems clear from field research that a general movement on the part of private sector financial institutions toward more aggressive community lending--partly the result of CRA, partly the result of competition for new lending markets--has been supported by availability of CDBG-funded housing subsidies and housing program management capacity.

*Program Delivery.* CDBG impacts on city and other agency capacity to deliver community development programs is implied by the importance of CDBG funds to program activities (refer back to Table 7.1). Self-attested importance of CDBG dollars to various activities includes both direct investments in bricks-and-mortar or direct services costs, but as well to program delivery costs to cover staff salaries, training expenses, administrative overhead, and other indirect costs.

In addition to these CDBG impacts, CDBG can make greater or lesser contributions to the survival of delivery organizations that take on program management tasks. One indirect measure of CDBG impacts on organizational capacity is the program's share of subrecipient organizational budgets.[4] Very few subrecipient program delivery organizations receive their only source of support from block grant dollars, but substantial shares of organization directors report that CDBG funds are critical both to start up and organizational survival. Tables 7.2 and 7.3 present information from the telephone survey of subrecipient organizations.[5] For three of five types of subrecipient activity (Table 7.2) CDBG funds were used for startup in more than half the cases. For the remaining two categories the proportion was close to half. Only a small percentage of subrecipient activities (Table 7.3) are sponsored by organizations that receive their sole support from CDBG; the highest percentage (14 percent) of such activities are sponsored by citywide nonprofit corporations. Substantially larger shares of activities, however, are managed by organizations that report that they "would not survive without CDBG funding." More than half of activities sponsored by community development agencies (59 percent) and 41 percent of those managed by citywide nonprofits are channeled through organizations that critically depend on CDBG funds. Lesser percentages of activities sponsored by neighborhood nonprofits (27 percent) and other public (non-community development) agencies (22 percent) are channeled through organizations that would not survive withdrawal of block grant support.

The CDBG budget shares of agencies that deliver CDBG programs as subrecipients to local "lead" agencies provide supporting evidence. (Bear in mind that these figures report averages for activities sponsored by organizations, not the organizations directly.) Table 7.4 shows the average organizational budget, 1989 CDBG funding, and the dollar-weighted and un-weighted average percentage of CDBG dollars of total budgets. As the table shows, the average community development agency activity is sponsored by an agency that receives 76 percent of its total funding from CDBG, consistent with the reported importance of CDBG funds to this type of agency in the preceding table. The average neighborhood nonprofit-sponsored activity is implemented by an agency that receives 43 percent of total funding from CDBG. Matched against the findings in the preceding table, CDBG dollars represent a

[4]This study did not attempt to collect information on CDBG budget shares of "lead" agencies.

[5]As noted in Chapter 3 of this report, the subrecipient sample is a sample of subrecipient-provided activities; multiple activities can be performed by a single organization. The figures shown, therefore, represent national estimates of CDBG-funded activities carried out by organizations with a given characteristic.

substantial portion of nonprofit budgets, but nonprofit managers believe the organizations would survive loss of CDBG funds, albeit in weakened condition.

**TABLE 7.3**
**Effect of CDBG Fund Loss on Subrecipient Agencies**
**By Organization Type**

| | | | Without CDBG Dollars Organization Would: | | |
|---|---|---|---|---|---|
| Organization Type | Number of Agency Activities | Percent Soley Funded by CDBG | Not Survive | Survive in Weaker Condition | Survive in Good Condition |
| Community Development Agency | 32 | 5% | 59% | 41% | 0% |
| Other Public Agency | 67 | 7% | 22% | 66% | 12% |
| Citywide Nonprofit | 102 | 14% | 41% | 53% | 6% |
| Neighborhood Nonprofit | 62 | 2% | 27% | 68% | 5% |
| Other Nonprofit | 27 | 2% | 4% | 78% | 18% |
| Other | 25 | 0% | 40% | 52% | 8% |

Source: Compiled from the Urban Institute Subrecipient Survey.
Note: Unweighted Data - N=315

**TABLE 7.4**
**CDBG Share of Subrecipient Agency Budgets**
**By Agency Type**

| | | | | CDBG % of Total Budget | |
|---|---|---|---|---|---|
| Agency Type | Number of Agency Activities | Average 1989 Budget | Average 1989 CDBG Funding | Dollar-Weighted Mean | Unweighted Mean |
| Community Development Agency | 429 | 2,105,114 | 884,011 | 42% | 76% |
| Other Public Agency | 898 | 13,904,962 | 1,054,303 | 8% | 21% |
| Citywide Nonprofit | 1,952 | 1,209,593 | 256,764 | 21% | 33% |
| Neighborhood Nonprofit | 1,521 | 337,953 | 62,313 | 18% | 43% |
| Other | 287 | 3,525,318 | 112,571 | 3% | 10% |

Source: Compiled from the Urban Institute Subrecipient Survey.

Therefore, we can conclude that CDBG program investments are important, if not critical, to sustaining the built capacity of cities to deliver community development programs.

This is true almost certainly of city agencies that receive the bulk of their funding from CDBG. However, the CDBG program in a number of cities has also been a substantial source of support for capacity building at the neighborhood level, primarily through its support for nonprofit development organizations. Among cities in the 61-city field research sample with particularly strong nonprofit development networks--most notably Boston, New York, Chicago, Cleveland, Pittsburgh, San Francisco, Los Angeles, and Minneapolis (with the single exception of New York)--CDBG project investments and operating cost contributions are a vital part of the financial support for the sector as a whole. In several cities, Pittsburgh, Cleveland and Fort Worth, CDBG support has provided the bulk of public sector funding for creation of new intermediaries to provide financial and technical assistance to the local nonprofit sector in an effort to strengthen the community development delivery system.

It should be noted, however, that in several cities in the field research sample, CDBG-funded investments in nonprofit organizations produced little capacity effects. These cities funded nonprofits to deliver housing rehabilitation, social services or "community planning" tasks without monitoring quality of work or sanctioning poor performance by de-funding these organizations. For example, under mayoral and city council pressure, one Midwestern community development agency continues to fund nonprofit organizations that deliver housing programs so poorly that HUD field staff now conduct their own inspections of CDBG- and HOME-funded rehabilitation projects. Although this kind of system-wide failure to effectively use CDBG funds to build local capacity is rare, in perhaps one-quarter of all communities visited in which nonprofits are used to deliver programs, at least some nonprofits are funded regardless of performance. Viewed narrowly, these are program management, not program impact issues. However, the foregone opportunity to use CDBG funding as a lever for organizational capacity-building in these cities represents a failure to achieve impacts that would be reasonable and are expected in other cities.

The role of other city agencies in the delivery of community development programs, also a component of resource mobilization, has been discussed to some extent in Chapters 3 and 6. Chapter 3 noted the prevalence of subrecipient, or delegate, agencies in delivery of community development programs. Unlike Urban Renewal, where Redevelopment Authorities took on the bulk of management responsibility for federally funded projects, the CDBG program is marked by the diversity of agencies that carry out neighborhood improvements efforts. On the one hand, this represents a form of leverage, in which resources of other organizations can be brought to bear on neighborhood problems. Further, creation of management and monitoring procedures in lead city agencies is one element of capacity-building. On the other hand, this multiplicity of delivery organizations introduces a degree of administrative complexity that has long posed management problems in the program. Quite apart from the monitoring and compliance issues this fragmentation of program delivery poses, use of delegate agencies reduces the control community development administrators can exercise over community development investments. The discussion in Chapter 6 noted that influence over the investments made by other city agencies appears not to be as strong as community development administrators themselves would prefer, and that coordination of local programs appears not to be a strong point of the program, nationally.

## Ultimate Impacts: CDBG Effects on Neighborhood Revitalization

Before turning to an assessment of the program's impacts on neighborhoods, it's worth restating some of the issues raised at the beginning of this chapter. First, the CDBG program does not require cities to improve neighborhoods, although most cities adopt this as one among several local objectives. Second, there are no statutory or regulatory standards of performance, which are, in any event, probably impossible to define. Therefore, practitioners and researchers alike have only intuitive notions of what public sector community development expenditures can be expected to accomplish. Third, short of complete physical redevelopment and massive subsidy, no amount of public expenditure to improve neighborhoods can offset radically adverse social and economic trends. To anticipate, the following discussion concludes that CDBG-funded investments, in certain types of neighborhoods and under the right circumstances, appear to have produced real results in neighborhood stabilization and revitalization. However, in view of the issues just noted, whether on balance these positive impacts fully justify the amounts expended in cost-benefit terms is an unanswerable question.

Analysis of ultimate impacts relies primarily on interview information and the informed judgements of analysts. The primary sources of information are from interviews and limited quantitative data collection for a random sample of CDBG-funded census tracts, and from research on a purposive sample of target neighborhoods in 16 cities, conducted by local urban scholars and supported by this project. This analysis also makes use of interview information collected for the 61-city field research sample, and the census of community development administrators. The first section to follow discusses the results from the national sample of CDBG-funded census tracts. The next section the results from the purposive sample of target areas in 16 cities.

To examine questions of program impact and coordination of CDBG and other public and private investments, research staff collected information on a nationally representative sample of 250 CDBG-funded neighborhoods (census tracts) from 60 of the 61 field research sites.[6] These tracts were selected from among all those that received area-benefit expenditures in 1989, as reported on Grantee Performance Reports. To supplement automated data on area-benefit spending--primarily public facilities and infrastructure--

[6] The 61st site was selected after the 250-census-tract sample was drawn.

researchers collected information, where available, on CDBG housing and public services spending, as well, and the level of other public and private investments. Researchers also conducted interviews with city community development staff and others concerning coordination of investments and the estimated effects of community development spending. In effect, this survey is an abbreviated version of the 16-city target area analysis described above. Field researchers, due to time limitations, data limitations, or special circumstances unique to particular cities, completed data collection forms for 223 of the 250 sampled tracts, an 89 percent response rate.

Before turning to the results of this survey, it's worth noting some of the details of the method that affect their interpretation. First, the tract sample was drawn based on area-benefit expenditures, only. It is conceivable, but probably unlikely, that major investments in direct benefit activities have taken place in areas that are not the recipients of area-benefit spending. These areas would not be reflected in this sample. Second, the sample is drawn based on the census tracts reported in GPRs as those benefiting from particular expenditures. Communities often report multiple tracts that benefit from a single funded activity. In such instances, total reported CDBG dollars were evenly apportioned across the number of tracts reported as benefitting from the CDBG-funded activity. Upon further on-site data collection, some of these tracts turned out to have received no expenditures, usually because they were ineligible for CDBG area-benefit assistance. Approximately 16 of the 223 tracts displayed this characteristic; the remainder (207) are the basis for analysis in this section.[7]

**Patterns of CDBG Investment in Funded Tracts.** This analysis assumes that tract need and change in tract need are the major factors that affect the likelihood that CDBG investments will produce positive or negative changes in neighborhoods. The following analysis distinguishes between tracts that were below 20 percent poverty in 1990 (non-poverty tracts), between 20 and 40 percent poverty (poverty tracts), and over 40 percent poverty (extreme poverty tracts). Change in tract condition is defined by decreases in tract poverty percentage between 1980 and 1990 (more than 5 percentage point decrease in poverty rate), increases in poverty percentage (more than 5 percentage point increase in poverty rate) and stable tracts (no more than 5 percentage point increase or decline). Table 7.5 shows the distribution of CDBG-funded tracts by tract poverty status in 1990 and change between 1980 and 1990. As weighted data in the table shows, non-poverty tracts totalled 28.9 percent of CDBG-funded tracts, poverty tracts, 44.5 percent, and extreme-poverty tracts,

[7] Cities often group large numbers of tracts to define area-benefit for reporting purposes, often reflecting city-designated planning areas; the area as a whole may qualify as low- and moderate-income, tracts within the area may not. Although analysts and government monitors may desire more precise delineation of the area of benefit on required reports, one cannot conclude from the way tracts are reported that expenditures benefit ineligible tracts.

25.7 percent.[8] The estimated cumulative amount of funds spent in these tracts over the life of the CDBG Program roughly mirrors this overall distribution, although non-poverty tracts were under-funded relative to the share of CDBG-funded tracts they represent.[9] Non-poverty tracts received 23.6 percent of CDBG investments, poverty tracts 48.8 percent, and extreme-poverty tracts, 27.6 percent.

**TABLE 7.5**
**Poverty Rate Change 1980-1990 and 1990 Poverty Status of CDBG-funded Tracts**
**(Dollars in Millions)**

| | Number of Tracts | | Amount of Funds | |
|---|---|---|---|---|
| | (N) | (%) | ($) | (%) |
| Tract Poverty Status | | | | |
| Non-Poverty | 969 | 29.8% | $1,721 | 23.6% |
| Poverty | 1,444 | 44.5% | $3,556 | 48.8% |
| Extreme Poverty | 835 | 25.7% | $2,010 | 27.6% |
| Total | 3,248 | 100.0% | $7,287 | 100.0% |
| Tract Change | | | | |
| Improved | 503 | 15.5% | $2,038 | 28.0% |
| Stable | 1,649 | 50.8% | $4,096 | 56.2% |
| Worsened | 1,096 | 33.7% | $1,153 | 15.8% |
| Total | 3,248 | 100.0% | $7,287 | 100.0% |

Source: CDBG Census Tract Sample.
Note: Unweighted N = 207

The largest share of CDBG-funded tracts displayed stable poverty rates between 1980 and 1990 (50.8 percent of funded tracts), and these tracts captured a similar share of all CDBG dollars (56.2 percent). Interestingly, although improving tracts represented only 15.5 percent of all CDBG-funded tracts, these tracts received 28 percent of program dollars. Conversely, about one-third (33.8 percent) of CDBG-funded tracts declined, but these received only 15.8 percent of the funds. It cannot be concluded that tracts that improved did so because they received a "disproportionate" share of dollars invested; CDBG funding decisions can be made with a view toward supporting positive trends already underway in those tracts. Field interviews detected no consistent attitude on the part of local officials that

[8] These sample estimates correspond closely to the figures for all funded tracts in 1989. See the distribution of spending by tract poverty status in Chapter 5.

[9] Although Field Researchers were asked to obtain cumulative (1975-1992) CDBG expenditures, as a practical matter, only recent period expenditures (estimated 1982-1992) were reported.

would suggest that they routinely "back winners," although there are clear examples of instances in which this is the case.

What became of the non-poverty, poverty, and extreme-poverty tracts over the decade? Is there any relationship between poverty status, CDBG funding, and the tract record of improvement, decline, or stability between 1980 and 1990? Table 7.6 presents numbers of tracts and the estimated amounts of funds they received by tract poverty status in 1990 and the change in tract status over the decade. As noted in the preceding table, about 28 percent of funds were spent in tracts that improved over the decade, 16 percent in tracts that declined, and 56 percent in tracts that remained stable. (See last column of the table.) The table shows a clear relationship between CDBG level-of-effort and change in tract condition. Of all CDBG-funded non-poverty tracts, only 12 percent had improved their poverty rates over the 1980-1990 decade, but these tracts received an estimated 48 percent of all funds spent in non-poverty tracts. At the opposite extreme, 61 percent of extreme-poverty tracts declined over the decade, but received only 35 percent of the funds spent in extreme-poverty tracts. For poverty tracts, about one-fifth improved (22 percent) and captured 32 percent of CDBG investment in poverty tracts. Only 9 percent of extreme-poverty tracts improved; these received 5 percent of spending in extreme-poverty tracts.

There also appears to be a relationship between CDBG spending and stability of poverty status between 1980 and 1990. An estimated 39 percent of poverty tracts remained stable; these received 56 percent of CDBG funds. Thirty percent of extreme poverty tracts in 1990 had not improved (or declined) between 1980 and 1990; these received 60 percent of CDBG funding. To further explore the relationship between CDBG investment and tract status and change in tract poverty status, Table 7.8 presents per-tract and per-capita CDBG expenditures in tracts of each type. Overall, extreme-poverty tracts and poverty tracts received about the same amounts of CDBG investment per tract, but extreme poverty tracts received much higher amounts of per-capita investment. Comparing only the per-capita investments across all categories of tract poverty status, tracts that improved received higher levels of CDBG funding per-capita than those that remained stable, or declined. Non-poverty tracts, on average, received $749 per capita; those that improved, $1,260. Similarly, poverty tracts that improved received $900 per-capita, compared to $706 for poverty tracts overall; extreme-poverty tracts that improved received $2,634 per capita, compared to $1,343 for all extreme-poverty tracts. And except for extreme-poverty tracts, those that declined over the period received correspondingly small amounts of per-capita investment; $247 for non-poverty tracts, $395 for poverty tracts.

**TABLE 7.6**
**Number of CDBG-Funded Tracts and Estimated Cumulative Tract Spending by Poverty Rate Change 1980-1990 and 1990 Poverty Status (Dollars in Millions)**

| Tract Change | Non-Poverty (N) | Non-Poverty ($) | Poverty (N) | Poverty ($) | Extreme Poverty (N) | Extreme Poverty ($) | Total (N) | Total ($) |
|---|---|---|---|---|---|---|---|---|
| | Tract Status | | | | | | | |
| Improved | 113<br>12% | $825<br>48% | 315<br>22% | $1,120<br>32% | 75<br>9% | $92<br>5% | 503<br>15% | $2,038<br>28% |
| Stable | 831<br>86% | $885<br>51% | 568<br>39% | $2,002<br>56% | 250<br>30% | $1,210<br>60% | 1,649<br>51% | $4,096<br>56% |
| Worsened | 25<br>3% | $10<br>1% | 561<br>39% | $434<br>12% | 510<br>61% | $709<br>35% | 1,096<br>34% | $1,153<br>16% |
| Total | 969 | $1,721 | 1444 | $3,556 | 835 | $2,010 | 3,248 | $7,287 |
| Column Percent | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |

Source: CDBG Census Tract Sample.
Note: Unweighted N = 207

Again, there is no straightforward relationship between CDBG investment and resulting improvement in tract poverty rates. Although the more CDBG dollars spent per capita, the better tract performance would appear to be, local administrators may pursue explicit strategies to fund tracts that show promise of improvement. Alternatively (or perhaps additionally), tracts that improve may possess assets that make them likely to attract investment in the first place, but which also contribute to improvement in tract circumstances; e.g., presence of strong community-based organizations that deliver programs, organize communities, and are successful in local competitions for CDBG funding.

Are the estimated patterns of expenditure different in tracts that display different poverty and poverty-trend characteristics? Table 7.8 shows the estimated share of cumulative spending in each of several major activity categories by tract poverty status and change in poverty rates. The clearest differences are between tracts for which poverty rates improved and those in which rates worsened. Housing expenditures amounted to an average 59.8 percent of all expenditures in improving tracts, 34.9 percent in tracts that worsened; figures that are not materially different for tracts in each of the 1990 poverty status categories. No other category displays a similarly consistent relationship, although economic development expenditures appear not to be a large share of spending in tracts that improved relative to those that remained stable, or got worse. (This is not true, however, of extreme-poverty tracts, which as a group received lesser shares of economic development spending than the other tract types).

**TABLE 7.7**
**Per-Tract and Per-Capita Tract Expenditure**
**by Poverty Rate Change 1980-1990 and 1990 Poverty Status**
**(Per-Tract Dollars in Millions)**

| | Tract Poverty Status | | | |
|---|---|---|---|---|
| Tract Change | Non-Poverty | Poverty | Extreme Poverty | Average |
| Improved | | | | |
| Per Tract | $7.304 | $3.557 | $1.227 | $4.052 |
| Per Capita | $1,260 | $900 | $2,634 | $1,247 |
| Stable | | | | |
| Per Tract | $1.065 | $3.525 | $4.838 | $2.484 |
| Per Capita | $677 | $813 | $1,354 | $844 |
| Worsened | | | | |
| Per Tract | $0.416 | $0.773 | $1.389 | $1.052 |
| Per Capita | $247 | $395 | $1,084 | $737 |
| Average | | | | |
| Per Tract | $1.776 | $2.463 | $2.407 | $2.126 |
| Per Capita | $749 | $706 | $1,343 | $889 |

Source: CDBG Census Tract Sample.
Note: Unweighted N = 207

As a final means of establishing the neighborhood context for the discussion to follow, Table 7.9 presents information on the land use of neighborhoods by 1990 condition and changes in that condition between 1980 and 1990. As the table shows, extreme poverty tracts, and tracts that declined over the decade, contain lower percentages of residential land use, and higher percentages of industrial land use, than poverty or non-poverty tracts, and than tracts that were stable or improved. Industrial uses accounted for 18.6 percent of extreme-poverty tract land use, on average, compared to 6.9 percent for poverty tracts, and 7.4 percent for non-poverty tracts. Other uses, primarily institutional uses (e.g., hospitals) accounted for one quarter (23.1 percent) of land use in extreme-poverty areas, compared to 11.4 percent in poverty tracts, and 14.7 percent in non-poverty tracts. In contrast, less than half (45.8 percent) of extreme-poverty tract land use was residential, compared with 56.9 percent in poverty tracts, and 62.9 percent in non-poverty tracts. Similarly, industrial land use was substantially higher in declining tracts, and residential uses substantially lower, than for improving or stable tracts, a partial explanation for the CDBG spending shares presented in the preceding table.

**TABLE 7.8**
**Activity Group Shares of CDBG Tract Expenditures by Poverty Rate Change 1980-1990 and 1990 Poverty Status**

| | Tract Poverty Status | | | |
|---|---|---|---|---|
| Tract Change | Non-Poverty | Poverty | Extreme Poverty | Average |
| Improved | | | | |
| Housing | 57.0 % | 60.5 % | 60.6 % | 59.8 % |
| Public Facilities | 22.6 | 9.8 | 34.9 | 16.4 |
| Economic Development | 1.1 | 4.6 | 4.3 | 3.7 |
| Public Services | 7.8 | 13.4 | 0.3 | 10.1 |
| Stable | | | | |
| Housing | 43.6 % | 56.9 % | 63.5 % | 51.2 % |
| Public Facilities | 20.5 | 21.1 | 6.7 | 18.6 |
| Economic Development | 13.3 | 10.1 | 3.6 | 10.7 |
| Public Services | 6.5 | 7.7 | 17.4 | 8.5 |
| Worsened | | | | |
| Housing | 46.9 % | 30.7 % | 38.9 % | 34.9 % |
| Public Facilities | 7.7 | 22.3 | 19.6 | 20.7 |
| Economic Development | 19.1 | 14.0 | 5.8 | 10.3 |
| Public Services | 12.6 | 10.5 | 6.9 | 8.9 |
| Average | | | | |
| Housing | 45.3 % | 47.4 % | 48.2 % | 47.0 % |
| Public Facilities | 20.5 | 19.1 | 17.1 | 19.0 |
| Economic Development | 12.0 | 10.4 | 5.0 | 9.5 |
| Public Services | 6.8 | 10.0 | 9.5 | 8.9 |

Source: CDBG Census Tract Sample.
Note: Unweighted N = 207

These relationships between land use and tract condition and tract change suggest that the likely effects of CDBG spending will be constrained by the characteristics of the built environment. Although researchers did not collect data on the uses of industrial property, it is highly likely that given central city location and general declines in central city manufacturing employment, a substantial portion of these properties are underutilized, if not derelict. Further, industrial properties in active use produce negative neighborhood externalities (noise, pollution, etc.) that deter investment in residential and commercial properties.

**TABLE 7.9**
**Characteristics of Tract Land Use**
**by 1990 Condition and Change 1980-1990**

| Tract Status / Change | Residential | Commercial | Industrial | Open Space | Other | Total |
|---|---|---|---|---|---|---|
| All Tracts | 57% | 10% | 9% | 4% | 19% | 100% |
| Non-poverty | 63% | 10% | 7% | 3% | 16% | 100% |
| Poverty | 57% | 12% | 7% | 5% | 19% | 100% |
| Extreme Poverty | 46% | 8% | 19% | 3% | 25% | 100% |
| Improved | 57% | 10% | 7% | 3% | 23% | 100% |
| Stable | 64% | 9% | 6% | 4% | 17% | 100% |
| Declined | 46% | 13% | 18% | 6% | 18% | 100% |

Source: CDBG Census Tract Sample

**Assessments of Program Impact in Sampled Tracts.** Having established the neighborhood context for this analysis, this section now turns to the qualitative judgments of field researchers. Based on this research, is improvement or stability at all linked to the amounts or types of CDBG investment? What follows is a series of matrices that display the qualitative judgments rendered by field researchers on the role of CDBG in promoting stability or improvements in neighborhoods. Separate matrices are shown for each of non-poverty-stable, non-poverty-improved, poverty-improved, poverty-stable, and extreme-poverty-improved tracts. The intent is not to develop a nationally representative estimate of the CDBG role, but to use the information in the charts to suggest how CDBG may or may not contribute to tract stability or improvement.

The first two exhibits show sampled census tracts that were non-poverty in 1990 and had either improved or remained stable over the decade; analysis of these tracts suggests that CDBG played only a minor role in neighborhood improvement, but a major one in maintaining neighborhood stability over the decade. All exhibits show estimated amounts of CDBG investment, non-CDBG public investments in the neighborhoods, private investment, and summarizes researcher assessments of neighborhood change.

Exhibit 7.1 shows that in only two of the eight non-poverty tracts that improved over the decade--Brooklyn No. 215 and Huntington WV No. 19--did CDBG represent a major level of effort for the city. Rehabilitation of city-owned housing in the Brooklyn neighborhood improved the quality of low-income housing, which--by preventing deterioration--indirectly encouraged middle-class in-migration fueled by rising incomes citywide. Another neighborhood in a quite different urban setting--Huntington WV--benefitted from the rehabilitation of elderly owner-occupied housing, contributing to neighborhood housing stock preservation. In neither case were CDBG investments supported by other public sector efforts to any substantial degree, market demand for housing in the Brooklyn neighborhood prompted private investment in middle-income housing. All the remaining neighborhoods in this category received little CDBG or other public sector investment; researchers noted that neighborhood improvements resulted from gentrification, encouraged by a diversity of neighborhood land uses, particularly the health of commercial centers.

In all but one of the non-poverty tracts that remained stable, CDBG was found by field researchers to have played a major supporting role. (See Exhibit 7.2.) About half the tracts in this category are mixed-use neighborhoods with a combination of housing, neighborhood commercial, and industrial activities; the remainder are primarily residential. The character of CDBG investments reflected the land use of these neighborhoods; residential neighborhoods benefitted from CDBG-funded housing rehabilitation, mixed-use neighborhoods generally received a combination of CDBG funds for housing, commercial, and public works investment. For example, in Somerville (Tract Nos. 3512 and 3513) and Pittsburgh (No. 2406), city officials directed CDBG funding to both housing rehabilitation and small business assistance. Other mixed-use tracts (Union Township No. 328 and St.Charles No. 3104) benefitted from CDBG housing and infrastructure rehabilitation. As with non-poverty neighborhoods that improved, complementary investment from non-CDBG sources was not marked; where researchers could estimate the importance of other public funds, only in the Minneapolis and Pittsburgh neighborhoods were other public funds in evidence. In these same neighborhoods, private sector investment was recorded as well. In addition, the Amherst Town (No. 96) neighborhood was a location of major private investment (without supporting non-CDBG public investment). One summary impression from the experience of these neighborhoods is the role of complementary investments to sustain both neighborhood residential and commercial health.

Most of the poverty neighborhoods (those with poverty rates between 20 and 40 percent) appear to have received substantial amounts of CDBG investment. Exhibit 7.3 shows 19 poverty tracts that improved over the decade of the 1980s. Practically speaking, and as measured by poverty rate change, this improvement happens primarily in one of two ways: either the neighborhood attracts middle-income residents (most often the case) or the outmigration of poor persons through stock abandonment or other factors. In only a few instances did improvement result from increasing incomes of current residents. In both New Bedford tracts (Nos. 19 and 26), major CDBG and other federal investments supported substantial private investment in industrial facilities, producing large increases in local employment. These are the only two tracts in the entire study sample that received major attention to job-creating industrial projects. In Brooklyn (Coney Island, No. 328), CDBG contributed most of the new housing investment, but area-wide economic gains were the factor that helped increase resident incomes.

**EXHIBIT 7.1**
**Role of CDBG in Non-Poverty Tracts that Improved Between 1980-1990**

| Census Tract | Demographics | N'hood features | CDBG Investment | Non-CDBG Public Investment | Private Investment | Assessment of Change |
|---|---|---|---|---|---|---|
| **NYC, Brooklyn #215** | African-American, mostly renters | residential | Major - $15 mil. In-Rem housing | Minor - Sec. 221d4 & Sec. 312; one project each | Private rehab. DK $ amount | In-Rem housing made a significant difference in improving n'hood; city-wide increase in resident incomes during '80s complemented CDBG efforts |
| **Huntington WV, #19** | White, single-fam. owner-occupants | working class, stable but aging community | Major - $1.5 mil. Single fam. rehab, streets & lights, rec. park | None | DK | Aging residents with diminished retirement incomes - CDBG critical in enabling them to keep up with housing repair & maintenance |
| **NYC, Brooklyn #69** | White & Hispanic, but Hispanic share decreasing; median income jumps to $49 K in '90 | mostly rental housing stock, small multi-fam brownstones, near office "downtown" of Brooklyn | Minor - $600 K, mostly housing rehab. | Very little - two Sect 312 rehab projects | Housing rehab. & new construct (63 units '87-'89) | Market forces seem to be leading n'hood improvement; attractive area for middle-income in-migrants, proximity to downtown offices |
| **San Diego, #75** | White, mostly low/mod | mostly rental, residential, working-class aging pop. & students; near beach | Minor - about $3 mil., streets in business district; homeless shelter | None recorded | None recorded | N'hood experienced decline in '70's due to clashing lifestyles among residents & influx of "hippies". Revitalized in '80s with elderly & students becoming dominant pop. groups, stable business district serving residents & tourists |
| **NYC, Manhattan #42** | White, middle-income, poverty rate below 7%. | 70% rental; mixed-use, residential, n'hood commercial, entertainment, proximity to 2 universities | CDBG - very little, DK $ amt. | Some, but in 1964-66. Sec 207 new const loan guarantee, 259 unit bldg | Don't know | Viable n'hood with residential, business, university mix; doesn't need public investment to catalyze or stabilize private investment. |

**EXHIBIT 7.1**
**Role of CDBG in Non-Poverty Tracts that Improved Between 1980-1990**

| Census Tract | Demographics | N'hood features | CDBG Investment | Non-CDBG Public Investment | Private Investment | Assessment of Change |
|---|---|---|---|---|---|---|
| **Chicago, #3509** | Afr-Am; very small tract--109 persons. poverty rate: 18%. | 28% rental/10 story condo building and a row of solid townhouses. | CDBG - none | City funds for major road work on border of tract. | DK $: Responsible for replacement of older housing with condo and townhouses. | Very small tract--went through gentrification occurring ever since 70's when old housing stock was replaced. |

**Source: Census Tract Sample**

**EXHIBIT 7.2**
**Role of CDBG in Non-Poverty Tracts that Remained Stable Between 1980-1990**

| Census Tract | Demographics | N'hood features | CDBG Investment | Non-CDBG Public Investment | Private Investment | Assessment of Change |
|---|---|---|---|---|---|---|
| **Somerville, #3512** | Stable pop. - gain of 200 persons in '80s; white, small but growing Afr.-Am & Hispanic communities. 15% pov rate in '90 | 73% rental; 20% residential, 15% commercial, 65% industrial | Major - 1989 $ amt. only avail. $241K, 60% housing, 40% econ. dev. | None recorded | None recorded | N'hood has undergone successful transition from industrial towards residential & n'hood commercial; CDBG important source of investment in housing & commercial sector |
| **Sommerville, #3513** | Stable pop.; white, small but growing minority pop; pov. rate of 10% in '90 | 76% rental; 20% residential, 15% commercial, 65% industrial. | Major - '89 amt. only avail. $273K, 60% hous, 40% econ. dev. | None recorded | None recorded | Same as above |
| **Union Township, #328** | Stable pop., 70% Afr-Am, 22% white; 10% pov. rate in '90 | 57% owner-occup.; 80% residential, 14% n'hood commercial | Major - $1.5 mil., 50% housing (rehab & new construct), 40% pub. facilities | None | None | Revitalization policy to upgrade housing, infrastructure & facilities - 3 decades of sustained public sector investment has created viable n'hood; no sign. private invest. |
| **Union Township, #329** | Stable pop., 70% Afr-Am, 22% white; 2% pov rate in '90 | 87% owner-occup; residential | Major - $200K, 100% housing rehab. | None | None | CDBG only source of rehab. funding to preserve housing stock. |
| **Amherst Town, #93.01** | Pop. loss of 800 in '80s, 80% white, 11% Afr-Am; 16% pov rate in '90 | 62% owner-occup; residential | Major - $229K, 100% housing | None | $2 mil. in housing | CDBG complemented private invest. in maintaining stable housing stock. |
| **Amherst Town, #93.02** | Pop. loss of 300 in '80s. 94% white. 5% pov rate in '90 | 86% owner-occup; residential | Major - $476K, 89 units rehabed. | None | None | Was a blighted area that is now turning around; CDBG important role in housing rehab. |

**EXHIBIT 7.2**
**Role of CDBG in Non-Poverty Tracts that Remained Stable Between 1980-1990**

| Census Tract | Demographics | N'hood features | CDBG Investment | Non-CDBG Public Investment | Private Investment | Assessment of Change |
|---|---|---|---|---|---|---|
| **Amherst Town, #96** | Pop. inc. of 1,200; 96% White, 9% pov. rate in '90 | 63% owner-occup., 20% residential, 20% comm/indus; 50% rec/open space | Major - $80K, DK if this is cumulative; housing rehab. | None | $79 mil. in residential, commercial & industrial | CDBG rehab has significantly reduced numbers of substandard units. |
| **Pittsburgh, #2406** | Pop. decline of 500 in '80s, white working class (Polish & German), pov. rate of 14% | 65% owner-occup.; 50% residential, 20% industrial, 20% rec/open space | Major - $3.8 mil, 44% housing (owner rehab & weatherize), 30% pub fac (streets, water, parks), 15% bus. loans | Redevelop Auth. -home improve. loans, $1.3 mil. State - $5.1 mil. redevelop an island in river; City bonds - roads, pub. services $2.1 mil. | DK $ amt. Marina Co. - $ to redevelop the river island; private developer construct office bldg. to be leased by PA Dept. of Environment | Eventhough pop. loss, the n'hood has remained stable, thanks in part to CDBG funding that preserved housing stock & n'hood infrastructure. CDBG bus. loans created 38 jobs, the Allegheny River redevelop created more than 300 jobs. Viable mixed use area benefitting from continual pub & private investment |
| **Minneapolis #109** | White & Afr-Am; middle & upper inc. hh in-migrating; 10% pov rate in 1990 | 80% owner occup; 80% residential, single fam. homes with commercial strips along East & West n'hood boundaries | Major - $403K for homeowner rehab, 98 units | State & city - $1.8 mil. housing rehab. loans & mort assist, 177 units | DK $ amt. Banks & homeowners for rehab.; private investors in condo develop. | CDBG funded and other publicly funded programs have made substantial contribution to preserving housing stock, maintaining n'hood as a viable mixed-income n'hood. |
| **St. Charles, MO #3104** | White, 13.8% pov rate | 53% owner-occup., 72% residential; 25% comm/indust. | Significant - $300K, 15% housing (12 units), 60% streets | DK $ amts. - Fed. & state/local match for highway; local for park | private investors convert school bldg. into shopping mall | Blight removed in 1970's by extensive street, curbs, & gutter replacements. Housing rehab. helps preserve stock. Viable mixed-use n'hood also receiving private investment. |

**EXHIBIT 7.2**
**Role of CDBG in Non-Poverty Tracts that Remained Stable Between 1980-1990**

| Census Tract | Demographics | N'hood features | CDBG Investment | Non-CDBG Public Investment | Private Investment | Assessment of Change |
|---|---|---|---|---|---|---|
| **San Diego, #11** | Pop. gain of 450 in '80s; 72% white, 16% Hispanic, 7% Afr-Am. pov rate of 14% in '90 | 80% rental, residential. | Major - $3 mil., 66% pub fac (streets & parks), 33% acquis. of land for park | None recorded | None recorded | In '70s, n'hood declined as residents aged or moved to suburbs. In '80s, gentrification. Newcomers started a CDC, n'hood watch, child care services & senior center. N'hood revitalized by residents & CDBG funded infrastructure improvements. |
| **San Diego #17** | Pop. gain of 650 in '80s; 61% white, 17% Hispanic, 13% Afr.-Am. Pov. rate of 18% in '90 | 80% rental, residential | Major - $3 mil., 66% pub. facilities, 33% acquis. of land for park | None recorded | None recorded | Same story as in tract 11 above except that this n'hood has spots of blight with boarded up buildings & a higher poverty rate. |
| **Newport Beach, #636** | Pop. gain of 850 in '80s; 92% white, pov rate of 6.5% in '90 | 43% rental, 50% single fam. with trailers; 39% residential, 50% oil & wetlands. residential isolated from old business section | Major - $2.2 mil., 70% pub facilities (community center), 30% housing (land write down costs, 160 new units) | None recorded | $ amt. unknown - Private housing developer (8,759 units) & private hospital expansion | CDBG funding directly provided 160 new units, but probably made thousands of more privately built units available to low/mod households through land write down costs, density bonuses, and fee waivers. |
| **Chicago, #615** | 86% white, 9% Hispanic, 2% Afr-Am. Significant decrease in percent Hispanic since 1970. Poverty rate 4.4% | 75% rental; 85% residential (up from 65% in '80). 10% n'hood commercial. 5% industrial (down from 25% in '80). | Minor - 600K-- mostly late '70s. 30% housing, 20% public facilities, 5% econ dev; 20% public services; 15% acquisition. | None recorded. | Investment in conversions and property improvements has been strong. | Area that had strong market forces going for it, so CDBG role was at best minor. |

**Source: Census Tract Sample**

**EXHIBIT 7.3**
**Role of CDBG in Poverty Tracts that Improved Between 1980-1990**

| Census Tract | Demographics | N'hood features | CDBG Investment | Non-CDBG Public Investment | Private Investment | Assessment of Change |
|---|---|---|---|---|---|---|
| **New Bedford, #19** | previously low inc., now low-mod mix | fishing industry, mixed-use, most housing multi-fam | Major - around $2 mil., 86% of the 226 rehabbed units, leveraged investment creating 1,200 new jobs | FHWA highway link $3 mil, EDA pier & warf restoration of $10 mil. creates 1,200 new jobs | Around $50 mil., industrial construction | Private and public sector investment created new jobs in local industry and boosted resident incomes. |
| **New Bedford #26** | NA | mixed-use, multi-fam. housing & industrial | Major - 90% of the 135 rehabbed units, DK $ amt. | FHWA - extension of existing highway to serve industry | Striderite shoe takes over existing mill & creates 350 jobs, DK $ amt. | Area blighted & ignored in '70s. In '80's, highway built & replaced slums; private & public invest. improves area. |
| **Goshen, #2** | low-mod area | 68% single fam. units, most land recreation/open space | Major - about $2 mil. for sewer/water & streets; single-fam rehab of 100 units | Sect. 17, multi-fam rehab $200K, Highway funds $200K, local public works $100K | Private match for multi-fam rehab of $200K | housing rehab. stabilized n'hood; Goshen enjoyed prosperity in '80s, so CDBG successful n'hood investments in context of healthy local economy. |
| **Waterford Township #1454** | low inc. was 35.9% of pop. in 1990 | 93% single-fam.; 90% residential, 10% n'hood commercial | Major - DK $ amt; housing rehab, streets & sidewalks, and business facade improvements | FHWA funds for highway widening, $ amt. unknown | None recorded | Without CDBG, n'hood would have deteriorated. CDBG reversed decline, and halted business dis-investment. |
| **NYC, Brooklyn #403** | Poverty decreases by 13 % points, influx of mod-inc. African-Americans & Hispanics | Mostly residential, some industry; 71% rental, 2-3 story row houses, multi-fam | Major - about $2 mil. | Sect 312 housing - 3 projects DK $ amt. | Housing rehab | CDBG funded rehab. undertaken by the Partnership and Nehemiah programs retained & attracted mod. inc. pop. - vital to revitalization of n'hood. |

**EXHIBIT 7.3**
**Role of CDBG in Poverty Tracts that Improved Between 1980-1990**

| Census Tract | Demographics | N'hood features | CDBG Investment | Non-CDBG Public Investment | Private Investment | Assessment of Change |
|---|---|---|---|---|---|---|
| **Boston, #919** | African-American, poverty declines & nominal med. inc. doubles to $28 in '90 | 70% rental; mixed-use residential & n'hood commercial | Major - DK $ amt., housing rehab, leveraged private funds for econ. dev. projects | None recorded | Econ. & bus. develop., DK $ amt. | N'hood transformed from a low-inc., high crime, blighted area to a diverse residential & commercial area. CDBG housing stock revitalization attracts pop. base to support growth in n'hood businesses. Most CDBG direct assist. for mod. inc. homeowners & local businesses. |
| **Newark, #28** | African-American, pop. loss of over 1,000 from '80 to '90. Poverty rate declines from 40 to 25%. | 78% rental; half single-fam, half multi-fam.; lots of abandoned & deteriorated units; lots of vacant land | Major - over $2 mil., mostly for n'hood improve, some for housing rehab. & storefront rehab. | None recorded | None recorded | Described as the worst tract by city officials, most of the CDBG funding went towards demolition of abandoned units. Housing rehab. & storefront rehab seems to have stemmed decline of remaining bldg stock. Pop. decline due to loss of housing stock. |
| **Newark, #80** | diverse racial mix - White, African-*American, Hispanic* | 77% rental; median housing value twice *city ave.; mixed*-use, located downtown - offices, govt bldg's, small businesses | Major - $1.5 mil., homeowner & rental rehab; storefron rehab; pedestrian walkways | None recorded | None recorded | CDBG played a role in growth of commercial sector - storefront rehab. *retained* existing business & encouraged new ones; Asian community displaced by growth of commercial district; housing rehab thought to benefit mostly mod. income. households |

**EXHIBIT 7.3**
**Role of CDBG in Poverty Tracts that Improved Between 1980-1990**

| Census Tract | Demographics | N'hood features | CDBG Investment | Non-CDBG Public Investment | Private Investment | Assessment of Change |
|---|---|---|---|---|---|---|
| **NYC, Harlem, #224** | African-American, poor n'hood, nominal med. inc. $12.5K, 38% poverty rate | almost 100% rental, residential | Major - $10 mil., 90% housing, about 340 units | DK $ amt of other pub. invest. - Public housing, Sect. 312; | LISC - DK $ amt; non-CDBG pub. & private invest rehab about 400 units | City officials described area as blighted, but a visual survey indicates lots of housing rehab; persistent poverty points to lack of jobs - seems to be little public or private invest. to create new jobs for n'hood residents. |
| **NYC, Bronx, #237.01** | Hispanic & African-American; 40% poverty rate, but income mix with some middle-income | almost 100% rental, residential & n'hood commercial | Major - $8 mill., 80% housing, also public facilities & services | City capital funds for street improvements - DK $ amt. | Commercial investment on major arterial. | Racial transition from White to A-A & Hispanic during '70's, in part due to closing of NYU-Bronx campus. Housing rehab. of rental units prevented abandonment during the transitional period. |
| **NYC, Bedford Stuyvesant, #247** | African-American, pop. grows by 700 from in '80s, 26% pov. rate, mixed-income (low, mod, middle) | 91% rental; mixed-use, residential, major commercial area, industrial | Major - $1 mil. 80% housing, also pub. facilities & services | Federal - DK $ amt., Sec 8, 236 & 312 | New housing construction - DK $ amt. | CDBG & other federal housing programs have stabilized housing stock & improved n'hood. |
| **NYC, Brooklyn, #1196** - | African-American & Hispanic, pop. loss of about 400 in '80's; working class & poor | 72% rental; residential | Major - $3 mil.; 80% housing, pub. facilities & services | Section 8 rehab. - DK $ amt. | None recorded | CDBG has been the major contributor to keeping a relatively fragile n'hood stable; Major NYC program in most of sampled tracts is In-Rem (city assumes ownership of tax-delinquent bldgs, rehabs them, & then turns them over to non-profit, tenant assoc. or private investors. |

**EXHIBIT 7.3**
**Role of CDBG in Poverty Tracts that Improved Between 1980-1990**

| Census Tract | Demographics | N'hood features | CDBG Investment | Non-CDBG Public Investment | Private Investment | Assessment of Change |
|---|---|---|---|---|---|---|
| **NYC, Brooklyn, #898** | African-American; poor but dramatic income inc. in '80s - nominal med inc. from $5.6K in '80 to 32.9K in '90. | half rental; 10 acre playground consumed middle portion of tract (30% of land use) | Minor - around $100K, public facilities(park) & services for poor pop. | Sec. 221d3 - multi-fam. 77 unit rehab. DK $ amt. | None recorded | Stable poor African-American community experienced substantial income gains in '80s; little public sector or CDBG activity here. |
| **Los Angeles, #2292** | Racial transition from African-American to Hispanic; poorest of sampled LA tracts with 39% pov. rate | 75% rental, residential | Minor - $290K, historic housing preservation of hotel provides low/mod elderly housing. | Local housing agency - $745K development of 15 unit low/mod apartment | None recorded | Community based non-profits have added most of new housing units to n'hood, but great need for more public & private investment; 41% pop inc. in '80's, only 3% inc. in units, overcrowding has worsened. |
| **Los Angeles, #2326** | Racial transition from Afr-Am. to Hispanic; pop inc. by about 800 persons in '80s; majority of residents low inc (53% in '90). | 57% rental, low density residential | Minor - $255K, homeowner rehab, assistance to small business owners | None recorded | None recorded | Overall, the housing stock is deteriorating; the owner-occupied rehabbed housing was not distinguishable on a drive through (rehab funded could have been minor & hence not noticeable). |
| **Chester, #4055** | Racial mix, pop. los of 600 in '80's, pov rate of 27% in '90 | 55% owner-occupied, residential & n'hood commercial | Minor - $250K, 75% housing rehab, 25% curb & gutter work. | None | None | N'hood is deteriorating, White out-migration due to loss of job base, growth of undesirable commercial uses (liquor stores & waste dumps) being fought by n'hood. n'hood poverty declined in '80s perhaps because of out-migration of poor people, & not because of local econ. growth |

**EXHIBIT 7.3**
**Role of CDBG in Poverty Tracts that Improved Between 1980-1990**

| Census Tract | Demographics | N'hood features | CDBG Investment | Non-CDBG Public Investment | Private Investment | Assessment of Change |
|---|---|---|---|---|---|---|
| **Cleveland, #1137** | Enormous pop. loss from 1,651 in '70 to 262 in '90. Poor with nominal med inc. of $5,882 & 35% poverty rate. | about half rental and owner-occupied. Blighted - much vacant land & demolition of housing over years | Overwhelmed by larger trends - 608K, about half on housing rehab. & demo; half on youth, senior, & voc. ed. | City Public Service Maintenance Facility - DK $ amt. | None | One of the most economically distressed n'hoods in city, a steady out-migration. Most CDBG expenditures addressed social needs of poor pop. Perhaps 7% point drop in poverty in '80s due to out-migration. |
| **NYC, Coney Island, #328** | Racially diverse, mixed-income, pop. gain of 800 in '80s. Pov. rate of 36% | 71% rental, residential, low density units next to high rise public housing | Minor - DK $ amt. or funded activities | Federal - DK $ amt, Sec. 235 & much public housing | None recorded | Much of the housing due to public investment; drop in poverty and jump in income for n'hood residents seems to due to growing local economy; public invest. did not create jobs or provide job training |
| **Louisville, #24** | African-Am n'hood with pop. inc. of 1,000 persons in '80s. Low/mod n'hood, pov. rate of 37% in '90 | Blighted, but starting to turn-around | Major - $8 mil., 75% housing, 20% public facilities | EDA - storefront facade imp. DK $ amt | Housing rehab. & new construct. - $14 million | Area was blighted - in '86 city targeted n'hood for comprehensive revitaliz. with CDBG providing much of the funding. Substantial private investment has been leveraged, an early sign that targeting will revitalize n'hood. |

**Soufce: Census Tract Sample**

Middle-income attraction supported by housing investments was one route to improvement of tracts in the poverty category. Neighborhoods in Brooklyn (No 403), Boston (No. 919), Newark (No. 80) and Louisville (No. 24) all benefitted from CDBG investments of this kind. In several of these neighborhoods, CDBG-funded business assistance encouraged revitalization of commercial corridors. Other neighborhoods displayed strength because of citywide economic gains (Goshen, No. 2), relative stability of residential based coupled with housing rehabilitation investments (Harlem, No. 224), or housing investments that contributed to neighborhood stock preservation, throughout a period of ethnic change-over (Bronx, No. 237.01).

Other neighborhoods "improved" because of population declines due to housing stock loss or other changes unrelated to CDBG investments. For example, CDBG funding in Newark (No. 28) went to demolition of substandard housing units, supported by other investments in housing rehabilitation and commercial storefronts. Several neighborhoods in Los Angeles improved despite small investments of CDBG funding in housing rehabilitation, but at insufficient levels to halt stock deterioration.

Exhibit 7.4 shows the poverty tracts that remained stable between 1980 and 1990. As might be expected from the more difficult social circumstances that confront these neighborhoods (poverty rates between 20 and 40 percent) major CDBG investments appeared to produce mixed results. In four of the neighborhoods shown, CDBG investments were significant, but overwhelmed by broad social and economic trends. In all these cases, one basis for the researcher rating was lack of success in stimulating private sector investment. For example, one neighborhood in Fort Wayne (No. 19) received significant amounts of CDBG investment for housing, commercial storefronts, and infrastructure, but not enough to prevent continued out-migration of middle-class residents. Another Fort Wayne neighborhood has received sustained attention, but developmental opportunities are constrained by the presence of a major arterial highway, which limits the area's attractiveness to potential residents. (These developments are typical of tracts generally that declined, whatever their original status in 1980. Declining tracts are not discussed in the accompanying matrices.)

**EXHIBIT 7.4**
**Role of CDBG in Poverty Tracts that Remained Stable Between 1980-1990**

| Census Tract | Demographics | N'hood features | CDBG Investment | Non-CDBG Public Investment | Private Investment | Assessment of Change |
|---|---|---|---|---|---|---|
| **Newark, #65** | Substantial depopulation, racial trans. from Afr.-Am to Hispanic | Mostly rental; much demolition to reduce blight; now lots of vacant land | Major - DK total $amt. $5K for '88-89. econ. dev., rec. park, expansion of church | None recorded | None recorded | Demolition of substandard/abandoned housing units seems to have prevented the spread of blight; a stable business/commercial sector assisted by CDBG investments |
| **Albany, #1** | Racial trans. from white to Afr.-Am.; poverty rate of 21% in '90 | 61% rental; mixed use 60% residential, 30% n'hood commercial & industrial | Major - DK $ amt., 70% housing(multi- & single fam. rehab); small bus. loans; streets | DK $ amt. - rental rehab & public housing | DK $ amt. - commercial & industrial development | Mixed-use n'hood with viable business sector receiving continual invest. from private & public sector. CDBG also important in preserving & rehabbing housing stock |
| **Albany, #8** | Racial trans. from white to Afr.-Am; poverty rate of 29% in '90 | 79% rental; 80% residential, 20% n'hood commercial. | Major - DK $ amt., 72% housing rehab; some small bus. loans; streets; some social services | DK $ amt. - Rental Rehab | DK $ amt. - commercial invest.; housing rehab. | When SUNY-Albany, sold housing stock; CDBG rehab stepped in, preserving stock & preventing abandonment during racial transition. N'hood also benefits from a major commercial arterial. Also, crime & drugs, but social problems have not caused depop. or disinvestment. |
| **Houston, #531.01** | Afr.-Amer. 70%; Hispanic 27%; mixed-income | mostly single family owner-occup. homes with much open space; some n'hood commercial | Major - $1.8 mil.; 65% streets, multi-service center/lib; 20% housing rehab. loans | None recorded | Unknown. Active CDC, but funding sources unknown | CDBG has contributed to preserving housing stock, but more rehab. needs to be done. Private housing developers building new homes to take advantage of pop. growth. |

**EXHIBIT 7.4**
**Role of CDBG in Poverty Tracts that Remained Stable Between 1980-1990**

| Census Tract | Demographics | N'hood features | CDBG Investment | Non-CDBG Public Investment | Private Investment | Assessment of Change |
|---|---|---|---|---|---|---|
| **Houston, #531.03** | 6,066 persons, 95% Afr.-Am. | mostly single family homes with much open space, 20% vacancy rate; some n'hood commercial | Major - $800K; 45% streets & lights; 30% housing; 25% pub. services | None recorded | Unknown. Active CDC, but funding sources unknown. | CDBG has contributed to preserving housing stock, but more rehab. needed as half of units need repair. N'hood is growing & private sect. building new homes; must be segmented markets because with a 20% overall vacancy rate still new construct. |
| **NYC, Harlem, #229** | Hispanic & Afr.-Am., 8,446 people in '90. Pop. gain of about 1,200 in '80s; 30% pov. rate in '90 | 97% rental high density; 26% residential, 62% parking lots (prob. for City Univ.) | Major - $25 mil; 95% housing rehab. about 800 units | Fed. - DK $ amt. Sec. 221d4, Sec. 223e, and Sec. 312 | Investor housing rehab. | Deterioration of housing stock in '70s. In-Rem housing rehab. funded by CDBG and private investment restored much of the stock during 1980's |
| **NYC, #235.02, Bronx** | Hispanic 62%, Afr-Am. 27%, pop. gain of about 400 in '80s, 34% pov. rate in '90, but also significant amt. of middle-inc. | 96% rental; 60% residential, 11% n'hood commercial | Major - $6.5 mil; 80% housing rehab.; pub services & facilities 10% each | None recorded | None recorded | Racial trans. in '70s from White to minority due in part to closing of NYU Bronx campus. But during the trans., moderate housing rehab. helped prevent abandonment, disinvestment, or depopulation |
| **NYC, Manhattan, #247** | 71% Hispanic; pop. gain of about 400 in '80s, pov rate of 23% in '90; but also substantial mod. & middle inc. pop. | 94% rental; 72% residential, but also Columbia Presbyterian Hosp. significant land-use | Major - $10 mil.; 95% housing (about 400 units), 5% public services | Fed. - DK $ amt., public housing; about 50 units of Sec. 312 housing rehab. | None recorded | Columbia Presb. Hos. provides employment for mod & mid. inc. residents of n'hood. In-Rem housing rehab. played a role in keeping n'hood stable. |

**EXHIBIT 7.4**
**Role of CDBG in Poverty Tracts that Remained Stable Between 1980-1990**

| Census Tract | Demographics | N'hood features | CDBG Investment | Non-CDBG Public Investment | Private Investment | Assessment of Change |
|---|---|---|---|---|---|---|
| **San Juan, Puerto Rico #5** | Hispanic; 39% pov rate in '90, pop. of 1,425 | 80% rental; 30% residential; 70% downtown offices, museums & tourist attractions | Major - $9 mil; 95% for pub. fac. - streets, parking, transit terminal | DK $ amts. Fed. - UMTA transit, EDA - bldg rehab; State & local for street & bldg. renovations | DK $ amts. Banks, commercial investors - blg. renovation, retail; private investments in housing rehab | Neglected in '70s, "Old San Juan", received an intensive econ. develop. effort funded by CDBG to revitalize commercial & tourist businesses & build-up infrastructure. N'hood is improving, but unclear how revitalization benefits low/mod residents - almost no housing rehab. & no data on how many jobs went to residents. |
| **Los Angeles #2319** | Trans. from Afr-Am to Hispanic. Pop. gain of 1,588 in '80s. 34% pov. rate in '90. | 75% rental; 78% residential, 13% n'hood commercial | Minor - about $72K, mostly homeowner rehab. & some small bus. loans | None recorded | None recorded | N'hood is rapidly growing, but little pub. or private hous. invest. means housing stock is deteriorating & overcrowding increasing. |
| **Baltimore, #603** | 57% Afr.-Am. & 35% white in '90. Pop. loss of 400 in '80s. Pov. rate of 34% in '90 | 62% rental; 95% residential; 5% n'hood commercial | Significant but overwhelmed - $2 mil. - 75% housing (owner rehab), 18% pub. fac. (streets) | State $ for low interest mortgages and rehab. - State & foundation $ around $500K | Foundation $ for low int. mort. and rehab. | Solid stable housing stock. CDBG rehab. efforts not visible on a visual inspection. N'hood is threatened with decline as drugs & crime from other areas are starting to spill over. Local hospital trying to act as an anchor in community. N'hood is holding on, but unclear what is going to happen. |
| **Chester, #4048** | Mixed racially (White, Afr.-Am, & small Hispanic pop. growing). pop. loss of 400 in '80s. 21% pov rate in '90 | 31% rental; 80% residential, some n'hood business & industry | Significant but overwhelmed - $5.5 mil.; 95% hous (260 owner-occ. rehab); gutters & sidewalks also rehabbed. | about $1 mil. for rec. park; DK from what level of govt. funding came from. | None | CDBG has had an impact on physical preservation of n'hood. But worrisome trend of homeowners who rent out their units to Sec. renter who do not maintain their properties and have a negative impact on n'hood. |

**EXHIBIT 7.4**
**Role of CDBG in Poverty Tracts that Remained Stable Between 1980-1990**

| Census Tract | Demographics | N'hood features | CDBG Investment | Non-CDBG Public Investment | Private Investment | Assessment of Change |
|---|---|---|---|---|---|---|
| **Fort Wayne, IN #19** | White, 26% pov. rate in '90 | 64% rental, 60% residential; 30% n'hood commercial & industrial | Significant but overwhelmed - DK total $ amt, $672K for curbs & sidewalks; housing & storefront rehab | DK $ amt. Rental Rehab program rehabbed 1-4 unit structures | Minimal investment - DK $ amt. | Close to the CBD, this n'hood is nevertheless one of the poorest in Fort Wayne. Housing stock slowly declining - rehab. not on large enough scale to preserve it. Household with resources move out - area gradually becoming poorer. |
| **Fort Wayne, IN, #27** | Afr.-Am., pop. loss of 746 persons in '80s. 23% pov rate in '90. | 55% owner-occup.; 85% residential, 10% n'hood commercial | Significant but overwhelmed - DK total $ amt., $1 mil for public fac.; housing rehab also. | None | Large group medical practice & health care center - $1.2 mil. | A major arterial corridor cuts through center of tract, making it unattractive for mod/middle income residents; housing units have been deteriorating - rehab efforts have not been on large enough scale. |
| **Joplin, MO #101** | White, 28% pov rate in '90. | evenly split rental & owner occup., mixed-use; 50% residential; 40% n'hood commercial & industrial | Significant but overwhelmed - $1.7 mil, 68% streets, sewers, parks; 22% housing rehab (95 units) | Fed. - pub. hous. auth. $2.1 mil; HUD mort. subsidy of $2.5 mil. for multi-fam. dev. | Re-develop shopping mall - $10 mil. Housing - DK $ amt. | CDBG has had important role in reducing blight - all streets have been repaved, significant portion of housing stock been restored. Private invest. has equally if not more imp. role in restoring shopping mall and maintaining industrial companies |
| **NYC, Queens, #401** | Hispanic, pop. gain of 1,000 in '80s, pov. rate of 24%. | 75% rental; 66% residential, 15% n'hood commercial. | Minor - one rehab. project | Minor - tax abatement for housing rehab., DK $ amt. | Housing rehab (99 units '85-90), commercial/ industrial improvements | Moderate/middle income n'hood that is not in great need of public sec. intervention. Private sector is investing in residential & businesses. N'hood is close to Laguardia airport & Shea Stadium |

**EXHIBIT 7.4**
**Role of CDBG in Poverty Tracts that Remained Stable Between 1980-1990**

| Census Tract | Demographics | N'hood features | CDBG Investment | Non-CDBG Public Investment | Private Investment | Assessment of Change |
|---|---|---|---|---|---|---|
| **Baltimore, #2503.01** | Trans. from White to Afr.-Am., 26% pov. rate | 63% owner-occup.; 60% residential, 20% industrial | No role - no CDBG funding for tract | Fed. - HOME rehab for homeownership ($750 K fed., $250K state match); Light rail station - DK $ amt. | residential investment in owner units by private developers & realtors | Was a working class community that was depopulating & aging; little in-migration partly because adjacent public housing produced undesirable image for n'hood. But in '80s, light rail construct. going downtown & baseball stadium. N'hood became desirable & attracted considerable private invest. |
| **Louisville, #15** | Pop. loss of 1,200 in '80s, Afr.-Am. pov rate of 32% | 56% owner-occup.; mostly residential | CDBG - $200K, 100% housing | No other public sector | housing construct. - DK $ amt | Housing stock of n'hood in good condition overall; CDBG rehab. protected stock by stopping decay in its incipient stages; depopulation has not had negative impact on housing stock, |
| **Jackson, MI #13** | White & Afr.-Am., pop decline by 500 in '80s., pov. rate of 20% in '90. | 68% owner-occup.; 83% residential, 15% industrial | CDBG - $1.4 mil, 100% housing | Fed. - Sect. 312 ($421K); HOME ($158K); State & local - $420K | Bank loans - 62K; homeowner funds - $29K | Although there has been much public sector funded housing rehab., a considerable number of units in n'hood still need repair |
| **Louisville, #81** | Pop. gain of 700 in '80s., White. Pov. rate of 22% | Evenly split rental, owner. | No role | None recorded | Investors have been converting owner-occup. units to rental | The conversion of some owner-units to rental is considered a precursor to decline by some observers. On other hand, some efforts to upgrade commercial strip in n'hood. N'hood at turning pt. - hard to say which way it will go. |

**EXHIBIT 7.4**

**Role of CDBG in Poverty Tracts that Remained Stable Between 1980-1990**

| Census Tract | Demographics | N'hood features | CDBG Investment | Non-CDBG Public Investment | Private Investment | Assessment of Change |
|---|---|---|---|---|---|---|
| **Chicago, #2514** | Afr-Am; population loss of 1,800 (27%) since '80; poverty rate grew slightly to 34%. | 71% rental; 80% residential, 10% n'hood commercial, 10% recreation. | Major - $4 mill (roughly); 5% housing (rehab/single family); 90% public facilities ("model block program"), 5% public services. | $3M City Capital funds /federal Title IX for maintenance & improvement of major boundaries. | Community Investment Corporation--$383 K for rehab. | CDBG played a major role at a critical time of major racial transition in late 70's. Now this area seen as stable with less need for public funding for housing itself. Tract south of this one gets major funding for cdo's and rehab which probably has implications for stability of this one. |
| **Chicago, #4304** | Afr-Am; popn loss of 800; poverty rate 29.7% | 80% rental; 80% residential, 15% commercial, 5% industrial | Minor - $250 K--20% housing (single fam rehab); 50% street improvements; 10% public services; 20% blighted structure removal. | DK $; city funds for maintenance of a major boundary street | $1.3 M--South Shore Bank for conventional financing, multi-family apts, home imprv loans. | Minor role for CDBG--To the extent there has been revitalization, private financing and block club level organization has been primarily responsible. |
| **Chicago, #317** | racially mixed--(39% white, 30% hispanic, 20% afr-am and growing Asian). Poverty rate 39%. | 93% rental; 60% residential, 15% commercial, 15% recreational and various institutional uses. | Major- $12 Mill est.;12% housing rehab, 8% public facilities--street improvements, 5% econ dev, 75% public services (health clinic in nearby tract) | DK $--City Capital funds--street maintenance /improvement. | DK $--Private investors--this is a very active area for small rehabbers. Also, small business development. | Both CDBG assisted and privately financed rehab has been substantial. CDBG said to have played major role in stability but not clear how. |

**Source: Census Tract Sample**

More positively, a number of neighborhoods in this category received CDBG investments that supported substantial redevelopment of blighted areas, or offset potential stock deterioration from drop in effective housing demand. Substantial redevelopment in the form of major acquisition, clearance, and public improvements appears rather atypical but did occur in two neighborhoods. Extensive demolition in Newark appears to have reduced blight and CDBG support for local business has helped stabilize the commercial district. In San Juan (No. 5) CDBG public works investment, federal capital grants, and bank finance created the "Old San Juan" tourist area. In other neighborhoods, CDBG appears to have played a major role in offsetting negative market trends, primarily through housing rehabilitation investments. For example, CDBG rehabilitation investments in one Albany neighborhood (No. 2) helped preserve the housing stock during a period of racial transition; the same is true of one neighborhood in the Bronx (No. 235.02) and one in Chicago (no. 2514). In another New York neighborhood (Harlem, No. 229), substantial CDBG investments in city-owned housing upgraded a large portion of the stock that had deteriorated during the 1970s.

In about half of the poverty tracts, other public funds in addition to CDBG were invested, primarily housing investment funds from Section 312, the Rental Rehabilitation Program, and in recent years, the HOE program. Less often, private sector investors are estimated to have made major commitments to these neighborhoods.

Finally, in only four tracts in the national sample did extreme-poverty areas (40 percent poverty or greater) improve. (See Exhibit 7.5). Three of these tracts were located in Puerto Rican cities, in locations already conducive to economic development. Local decisionmakers used CDBG to stimulate market activity and business investment through infrastructure and other public facilities investments. It's worth noting that poverty rates in Puerto Rican cities, generally, dropped substantially between 1980 and 1990, while increasing in other entitlement cities. The final tract in Brooklyn, like other Brooklyn tracts in the sample, benefitted from substantial CDBG housing rehabilitation investments, as physical improvements complemented general economic improvements and consequent rising incomes in the area.

**EXHIBIT 7.5**
**Role of CDBG in Extreme Poverty Tracts that Improved Between 1980-1990**

| Census Tract | Demographics | N'hood features | CDBG Investment | Non-CDBG Public Investment | Private Investment | Assessment of Change |
|---|---|---|---|---|---|---|
| **Ponce, #706** | Hispanic, only 322 persons, 48% pov. rate | 74% rental; mixed-use, only 15% residential, 65% downtown commercial | Major - $10 mil., streets & plazas, rehab. museum, transit, develop shopping mall | Federal - UMTA $600K, Rental Rehab. & HODAG $700K; state $9 mil. for infrastruct; local $4 mil. for infrastruct. | Banks renovated commercial bldgs.; also retail investment - DK $ amt. | In '70's, depopulation due to closing of refinery; public. & private sectors devote substantial sums to develop. commercial & tourist businesses. Decline has been reversed, but tract is not yet booming w/ growth. Other pub. housing programs may have benefited poor households more in tract than CDBG. |
| **Guaynabo, #407** | Hispanic, 51% pov. rate in 1990 | 76% owner-occup., single-fam units; 75% residential, 15% n'hood commercial | Minor - $31K, 90% facilities-sewers, curbs, rec. centers. | Fed. - FmHA $200K water pipes; Local $100K roads & sewers; State $100K land acquis. & housing rehab. | more than $1 million - growth of n'hood bus. & commerce | Originally, rural land with sparse pop.; state donated land to poor families to bldg. housing; in '80's residential areas increased & land prices rose. Local-govt. used mostly non-CDBG sources to develop infrastructure, thereby catalyzing private investment |
| **Ponce, #730** | Hispanic, 62% pov. rate | 74% rental; 50% residential, 15% industrial | Significant but overwhelmed by larger trends - $1 mil., all pub. facilities - lighting, streets, & sewer, bridge. | DK $ amt. UDAG, HUD public housing 100 units; state funds for road construction | DK $ amt. - private sector housing; industrial develop. cement co. & also light industry & retail | CDBG sped up development of tract, but tract's suburban location provided market advantage for its growth. Households from central city migrated to this tract to find better housing & jobs provided by Puerto Rico's largest cement company. Light indust. & retail develop. here in '80's in response to pop growth. |

**EXHIBIT 7.5**
**Role of CDBG in Extreme Poverty Tracts that Improved Between 1980-1990**

| Census Tract | Demographics | N'hood features | CDBG Investment | Non-CDBG Public Investment | Private Investment | Assessment of Change |
|---|---|---|---|---|---|---|
| **NYC, Brooklyn, #403** | Black & Hispanic, major of n'hood poor but also pockets of mod/mid residents. | 72% rental, residential | Major - about $1 mil., 80% housing | Public housing - DK $ amt. | None recorded | N'hood lost housing & pop in the '70s., but growth in pop. in '80s plus housing rehabbed by CDBG stopped deterioration. In-migrants in '80s more affluent than n'hood residents. CDBG contributed to making n'hood a improving mixed-income area. |

**Source: Census Tract Sample**

In sum, most non-poverty tracts that improved did so without major CDBG investments, upon which non-poverty stable tracts appeared to rely more heavily. The reverse is true of poverty tracts. Those that improved did so in large part because of CDBG investments; those that remained stable typically received less attention. Accumulation of different kinds of individual city policy decisions probably accounts for this result. These decisions, in effect, amount to backing potential winners that need help, and helping actual winners that appear vulnerable. In the first case, investments in already-improving non-poverty neighborhoods are not warranted, but efforts to stabilize these same neighborhoods are. In the second instance, poverty tracts that receive large amounts of CDBG dollars tend to show signs of improvement or remain stable, although researchers expressed considerably more doubt about the prospects of this group of neighborhoods.

**Assessments of Impact in Target Neighborhoods.** The record of CDBG involvement in sampled census tracts yields insights into potential effects of CDBG spending. To further investigate the role of CDBG in U.S. neighborhoods, and to broadly characterize the possibilities and limits of public sector involvement in neighborhood change, this study examined in detail target areas in 16 cities. Although target areas could include some of the tracts in the national sample, there is no necessary relationship between the national sample of tracts, upon which the preceding discussion was based, and the purposive sample of target areas. The discussion to follow relies on most of the target area analyses conducted for this project, but features neighborhoods in four cities, in particular. These cities and neighborhoods are presented in detail because they best illustrate the general themes that emerge from a review of all target areas spanning the range of neighborhood need.

The target area studies were conducted by local university researchers in 16 cities, and form a major part of the research conducted on program impacts. The 16 cities were selected to include representatives of both large and medium-size cities, and to achieve geographic balance.[10] The "target areas" consist of a purposive sample of neighborhoods, or groups of neighborhoods, that have received substantial CDBG-funded support throughout the 1980s. (Some of these neighborhoods had also been Model Cities sites.) "Substantial" support is defined entirely by the local program context; i.e., it could consist of several million dollars in program spending annually for a large grant recipient, or much more modest levels of support for smaller grantees. Neighborhoods were not intended to be statistically representative, but to reflect a range of neighborhood types. Guidance supplied by the Urban Institute for field associate use in selecting neighborhoods asked researchers to choose areas that reflected a diversity of neighborhood conditions (from blighted to transitional (up or down) to stable) and residents (e.g., majority African-American, majority Hispanic, or majority

[10]The 16 cities are Boston, Baltimore, Tampa, Pittsburgh, Cleveland, Nashville, New Orleans, Chicago, St. Louis, Minneapolis, Austin, San Antonio, Phoenix, Los Angeles and Seattle.

white). (Native Americans constituted 24 percent of the population of one Minneapolis neighborhood in the sample.)

Field associates were asked to amass historical information on the amounts of expenditures and the types of activities CDBG funded, and to estimate other public sector investments in housing and economic development, private real estate investment, and other major public initiatives. These figures and census information on neighborhood change were then used to guide interviews with local public officials, neighborhood leaders, and other observers with an informed opinion on effects of public community development spending on neighborhood condition. (Field associates also were asked to assess benefit levels from direct and area benefit expenditures.)

To establish the context for the discussion to follow, Table 7.10 summarizes basic demographic information for the target neighborhoods in the sample, grouped by 1990 unemployment rate, which serves as a proxy for other indicators of neighborhood need. Those in the low-unemployment group had 1990 unemployment rates below 12 percent (just over double the 1990 national unemployment rate of 5.4 percent). Those in the moderate-unemployment category include neighborhoods with unemployment rates between 12 percent and 20 percent; high unemployment neighborhoods had 1990 unemployment rates above 20 percent. Neighborhoods selected for in-depth presentation are shown on the table in italics; they are located in the cities of Cleveland, St. Louis, Minneapolis, and San Antonio.

Demographic changes in the target neighborhoods listed on the table exemplify the changes in central city neighborhoods in the two decades between 1970 and 1990. The average neighborhood in the sample lost one-quarter of its population over the period, and witnessed substantial increases in unemployment rates and percentage of minority residents. The unemployment rate on average increased from 6 percent in 1970 (close to the national average of 4.8 percent) to 11 percent in 1990 (about double the national average). At the same time, employment in managerial, professional, technical, sales and administrative support positions increased from 19 percent in 1970 to 28 percent in 1990 (about half the national average of 58 percent in 1990). These data provide suggestive evidence of segmentation in central city labor markets--with rising unemployment rates for men as a result of manufacturing job loss and increasing percentages of women in administrative support positions. Ethnic and racial changes also were marked. In 1970, whites constituted 40 percent of target neighborhoods, on average, declining to 24 percent in 1990; African-American percentages rose from 41 percent to 56 percent; Hispanics from 13 percent to 16 percent.

**TABLE 7.10**

**Selected Demographic Characteristics of Target Neighborhoods**

| City | Neighborhood | Population 1970 | Population 1990 | Population Pct Ch | Professional/Clerical 1970 | Professional/Clerical 1990 | Professional/Clerical Ch | Unemployed 1970 | Unemployed 1990 | Unemployed Ch | 1970 White | 1970 Black | 1970 Hisp | 1990 White | 1990 Black | 1990 Hisp | Percent Point Change in: White | Percent Point Change in: Black | Percent Point Change in: Hisp |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Nashville | Boscobel Heights | 6,785 | 5,330 | -21.4% | 17.2 | 26.9 | 9.7 | 3.9 | 7.5 | 3.6 | 96.2 | 3.2 | 0.6 | 72.1 | 21.3 | 1.6 | -24.1 | 18.1 | 1.0 |
| Chicago | Edgewater | 61,598 | 60,703 | -1.5% | 35.7 | 42.8 | 7.1 | 2.4 | 7.7 | 5.3 | • | • | • | 52.6 | 14.5 | 18.8 | 52.8 | 14.5 | 18.8 |
| San Antonio | Kenwood North | 3,971 | 3,006 | -24.3% | 28.7 | 41.7 | 13.0 | 3.1 | 8.9 | 5.8 | 34.6 | 13.2 | 52.6 | 35.7 | 7.2 | 54.1 | 1.1 | -6.0 | 1.5 |
| Nashville | Buena Vista Park | 6,588 | 5,372 | -18.5% | 17.6 | 21.2 | 3.6 | 4.4 | 9.0 | 4.6 | 9.5 | 90.3 | 0.2 | 8.4 | 91.2 | 0.2 | -1.1 | 0.9 | 0.0 |
| Minneapolis | Whittier | 15,406 | 12,951 | -15.9% | 25.0 | 62.0 | 37.0 | 5.3 | 9.0 | 3.7 | 95.0 | 2.0 | 1.0 | 63.0 | 26.0 | 2.0 | -32.0 | 24.0 | 1.0 |
| Boston | Codman | 20,685 | 18,056 | -12.7% | 20.9 | 34.2 | 13.3 | 4.1 | 9.8 | 5.7 | 80.9 | 16.9 | 2.2 | 27.0 | 60.8 | 8.2 | -53.9 | 43.7 | 6.0 |
| Pittsburgh | Oakland | 6,135 | 5,474 | -10.8% | 28.6 | 22.2 | -6.4 | 7.9 | 11.0 | 3.1 | 93.9 | 1.8 | 1.3 | 80.5 | 5.1 | 1.6 | -13.4 | 3.3 | 0.3 |
| Austin | Guadaloupe | 5,574 | 4,423 | -20.6% | 11.4 | 17.3 | 5.9 | 5.9 | 11.3 | 5.4 | 16.3 | 3.9 | 79.6 | 8.4 | 4.1 | 87.5 | -7.9 | 0.2 | 7.7 |
| Tampa | Sulphur Springs | 4,766 | 6,223 | 30.6% | 14.4 | 18.8 | 4.4 | 4.6 | 11.5 | 6.7 | 87.0 | 8.9 | 3.5 | 49.3 | 41.1 | 3.5 | -37.7 | 32.2 | 0.0 |
| St.Louis | Shaw | 25,714 | 16,217 | -36.9% | 18.3 | 38.1 | 19.8 | 6.3 | 11.7 | 5.4 | 85.2 | 12.4 | 1.7 | 47.0 | 47.8 | 3.4 | -38.2 | 35.4 | 1.7 |
| Low 1990 Unemp. Subtotal | | 15,722 | 13,776 | -13.2% | 21.8 | 32.5 | 10.7 | 4.8 | 9.7 | 4.9 | 59.9 | 15.3 | 14.3 | 44.4 | 31.9 | 18.1 | -15.5 | 16.6 | 3.8 |
| Cleveland | Buckeye | 27,089 | 23,469 | -13.4% | 48.6 | 35.9 | -12.7 | 3.8 | 14.2 | 10.4 | 67.9 | 31.2 | 0.8 | 16.2 | 83.8 | 0.8 | -51.7 | 52.6 | 0.0 |
| Newark | University Heights | 6,931 | 2,731 | -60.6% | 37.0 | 48.4 | 11.4 | 8.1 | 14.5 | 6.4 | 9.5 | 84.1 | 2.4 | 4.5 | 90.8 | 11.5 | -5.0 | 6.7 | 9.1 |
| Boston | Franklin Field S. | 11,963 | 7,359 | -38.5% | 15.7 | 23.4 | 7.7 | 5.7 | 14.5 | 8.8 | 25.9 | 68.9 | 4.2 | 0.8 | 84.2 | 13.0 | -25.1 | 15.3 | 8.8 |
| Minneapolis | Phillips | 18,903 | 17,067 | -9.7% | 16.0 | 48.0 | 32.0 | 6.0 | 15.0 | 9.0 | 88.0 | 4.0 | 0.0 | 47.0 | 18.0 | 2.0 | -41.0 | 14.0 | 2.0 |
| Austin | Anderson | 2,024 | 1,503 | -25.7% | 12.6 | 18.0 | 5.4 | 3.7 | 16.7 | 13.0 | 1.0 | 91.0 | 8.0 | 3.0 | 81.0 | 16.0 | 2.0 | -10.0 | 8.0 |
| Boston | Dudley | 20,723 | 15,488 | -25.3% | 12.1 | 21.2 | 9.1 | 6.7 | 17.4 | 10.7 | 35.6 | 49.7 | 13.9 | 9.2 | 46.5 | 28.3 | -26.4 | -3.2 | 14.4 |
| Chicago | Austin | 127,994 | 114,079 | -10.9% | 17.9 | 20.6 | 2.7 | 3.6 | 17.5 | 13.9 | • | • | • | 9.9 | 81.5 | 6.5 | 9.9 | 81.5 | 6.5 |
| Austin | Blackshear | 2,483 | 1,768 | -28.8% | 11.5 | 17.7 | 6.2 | 5.0 | 18.5 | 13.5 | 1.8 | 77.4 | 21.1 | 3.2 | 46.2 | 50.6 | 1.4 | -31.2 | 29.5 |
| New Orleans | Lower 9th Ward | 25,853 | 16,149 | -37.5% | 11.3 | 21.0 | 9.7 | 8.1 | 19.1 | 11.0 | 3.8 | 95.4 | 0.6 | 0.6 | 98.6 | 0.4 | -3.2 | 3.2 | -0.2 |
| Pittsburgh | Homewood-Brushton | 20,266 | 11,405 | -43.7% | 7.8 | 9.5 | 1.7 | 9.3 | 19.2 | 9.9 | 4.2 | 95.3 | 0.8 | 1.5 | 97.6 | 0.3 | -2.7 | 2.3 | -0.5 |
| San Antonio | Near Westside | 10,850 | 6,400 | -41.0% | 15.4 | 16.0 | 0.6 | 5.7 | 19.3 | 13.6 | 1.6 | 0.3 | 97.9 | 2.6 | 0.2 | 97.2 | 0.8 | -0.1 | -0.7 |
| Pittsburgh | East Liberty | 8,647 | 8,062 | -6.8% | 33.5 | 18.3 | -15.2 | 5.4 | 19.3 | 13.9 | 78.8 | 20.1 | 1.2 | 38.9 | 58.1 | 1.7 | -39.9 | 38.0 | 0.5 |
| | Subtotal | 23,644 | 18,790 | -28.5% | 20.0 | 24.8 | 4.9 | 5.9 | 17.1 | 11.2 | 26.5 | 51.5 | 12.6 | 11.5 | 65.5 | 19.0 | -15.1 | 14.1 | 6.5 |
| St.Louis | Soulard | 8,808 | 5,365 | -39.1% | 9.9 | 38.7 | 28.8 | 10.9 | 20.2 | 9.3 | 97.0 | 0.0 | 1.9 | 72.3 | 22.9 | 4.0 | -24.7 | 22.9 | 2.1 |
| Newark | Central Business Dist | 4,917 | 5,074 | 3.2% | 25.2 | 39.6 | 14.4 | 8.4 | 20.4 | 12.0 | 28.5 | 67.3 | 15.0 | 16.4 | 72.6 | 20.7 | -12.1 | 5.3 | 5.7 |
| San Antonio | East Side | 8,572 | 7,037 | -17.9% | 17.2 | 20.6 | 3.4 | 4.7 | 20.8 | 16.1 | 14.9 | 38.3 | 46.3 | 7.3 | 34.6 | 57.9 | -7.6 | -3.7 | 11.6 |
| New Orleans | Florida/Desire | 24,769 | 11,219 | -54.7% | 8.9 | 25.0 | 16.1 | 12.1 | 21.7 | 9.6 | 7.4 | 91.3 | 1.7 | 5.2 | 94.0 | 1.3 | -2.2 | 2.7 | -0.4 |
| Minneapolis | Near North | 6,808 | 6,127 | -10.0% | 10.0 | 50.0 | 40.0 | 8.0 | 22.0 | 14.0 | 50.0 | 43.0 | 3.0 | 26.0 | 68.0 | 2.0 | -24.0 | 25.0 | -1.0 |
| Tampa | Tampa Heights | 5,389 | 4,994 | -7.3% | 15.6 | 12.6 | -3.0 | 6.6 | 22.7 | 16.1 | 50.0 | 28.6 | 21.2 | 18.0 | 65.2 | 15.1 | -32.0 | 36.6 | -6.1 |
| St.Louis | Hyde Park | 29,735 | 14,671 | -50.7% | 11.6 | 18.3 | 6.7 | 8.5 | 22.9 | 14.4 | 80.5 | 18.5 | 1.5 | 26.9 | 70.7 | 1.5 | -53.6 | 52.2 | 0.0 |
| Tampa | Ponce DeLeon | 4,706 | 3,425 | -27.2% | 12.3 | 12.3 | 0.0 | 9.6 | 23.1 | 13.5 | 7.8 | 64.3 | 27.9 | 5.0 | 79.2 | 15.7 | -2.8 | 14.9 | -12.2 |
| Cleveland | Ohio City | 23,256 | 12,324 | -47.0% | 23.0 | 32.4 | 9.4 | 6.6 | 23.4 | 16.8 | 93.8 | 4.7 | 17.6 | 60.2 | 21.2 | 26.9 | -33.6 | 16.5 | 9.3 |
| New Orleans | Central City | 42,412 | 23,238 | -45.2% | 10.7 | 20.3 | 9.6 | 7.7 | 23.6 | 15.9 | 8.4 | 89.5 | 2.0 | 8.1 | 89.5 | 1.7 | -0.3 | 0.0 | -0.3 |
| Cleveland | W.Glenville | 29,911 | 17,121 | -42.8% | 28.6 | 33.9 | 5.3 | 6.8 | 25.7 | 18.9 | 14.3 | 85.3 | 0.4 | 3.4 | 96.9 | 0.7 | -10.9 | 11.6 | 0.3 |
| Nashville | Trimble-Napier | 7,215 | 4,748 | -34.2% | 6.1 | 14.6 | 8.5 | 8.6 | 44.4 | 35.8 | 2.9 | 97.0 | 0.0 | 1.8 | 96.6 | 0.7 | -1.1 | -0.4 | 0.7 |
| | Subtotal | 16,375 | 9,612 | -31.1% | 14.9 | 26.5 | 11.6 | 8.2 | 24.2 | 16.0 | 38.0 | 52.3 | 11.5 | 20.9 | 67.6 | 12.4 | -17.1 | 15.3 | 0.8 |
| | GRAND AVERAGE | 18,748 | 14,076 | -24.9% | 19 | 28 | 9 | 6 | 17 | 11 | 40 | 41 | 13 | 24 | 56 | 16 | (16) | 15 | 4 |

Source: CDBG Census Tract Sample Change 1980-1990

There are of course, substantial differences among neighborhoods in the target area sample. Those in the low-unemployment group lost only 13.2 percent of population on average, almost half the population decline in moderate-unemployment neighborhoods (25.8 percent) and less than half the decline in high-unemployment neighborhoods (31.1 percent loss). Two neighborhoods gained population--Tampa's Sulphur Springs population increased 30.6 percent, fueled by African-American in-migration; Newark's Central Business District population increased 3.2 percent due to new housing construction; Chicago's (gentrifying) Edgewater neighborhood lost only 1.5 percent of population. In contrast, quite a few of the high-unemployment neighborhoods lost more than 40 percent of their population: Florida/Desire in New Orleans, Hyde Park in St. Louis, Ohio City and Glenville neighborhoods in Cleveland, among others. In terms of ethnic and racial composition, only a few neighborhoods with a substantial white population in 1970 retained it, almost all in the low-unemployment group. These include neighborhoods in Pittsburgh (Oakland), San Antonio (Kenwood North), Nashville (Boscobel Heights), and Minneapolis (Whittier). In the high-unemployment areas, only two neighborhoods in St.Louis (Soulard) and Cleveland (Ohio City) retained a majority-white population.

The following discussion profiles four cities and their study neighborhoods. Two cities exemplify large Formula B cities with an industrial past and high minority concentrations; Cleveland and St. Louis. San Antonio is a large Formula A city, majority hispanic, with high poverty rates and a large, but low-wage, industrial sector. Minneapolis is a relatively low-distress city, with a small minority population, and a strong regional economy built on services. Discussion of each city begins with a description of the overall community development policy context, followed by a discussion of each study neighborhood, including prominent social and demographic features, the role of CDBG and other public and private investments, assessment of change over time, and factors that contributed to, or inhibited, public sector revitalization efforts. General conclusions follow these four city-specific discussions.

*Cleveland.* An active participant in the spatially targeted Urban Renewal and Model Cities programs, the City of Cleveland for more than a decade exemplified the "spreading" effect of CDBG. Influential city councils in the late 1970s and early 1980s sought and obtained a broad distribution of CDBG investments throughout the city's low- and moderate-income neighborhoods. During this same period, city fiscal problems resulted in its exclusion from national municipal bond markets; CDBG became, in effect, the city capital budget. As a result, program investments were concentrated in public works--streets and sidewalks, primarily--in low-mod neighborhoods. Housing rehabilitation funds were expended citywide, with primary emphasis on elderly homeowners.

Several events in the mid-1980s led to changes in this pattern. Although the program retains its citywide emphasis, election of strong mayors in the 1980s and 1990s (Voinovich and White) led to adoption, then acceleration of a trend toward CDBG investment in housing investments, particularly in large, spatially concentrated, development projects. The rise of a strong network of neighborhood-based community development corporations (CDCs), which established some coherence to the strategies embraced by individual city council members, reinforced this tendency toward spatial targeting. Reentry into the bond market alleviated pressure to use CDBG for public works, and as grant levels declined in the 1980s, funding amounts for public services and housing were preserved (and in the latter case, increased) resulting in a sharp decline in the public works share of annual CDBG budgets. As a result, city investments in housing, most notably investments leading to new housing development, became a prominent feature of the program. A project-based focus tended to increase the role of the community development agency; neighborhood planners were particularly important as coordinators across city departments of investments in commercial and housing projects. Investments in housing rehabilitation channeled through the community development corporations also resulted in a degree of *de facto* spatial targeting.

The most visible impacts of the CDBG program, due primarily to investments made in the last 10 years, are in redevelopment areas (Hough and Glenville), which have benefitted from investments in new housing development and commercial facilities, intended to attract middle-class residents back to the central city and retain the core of middle-class residents that remain. Less visible are impacts in "preservation" areas (e.g., Buckeye), which were not defined as such by city policy but became so because funds are allocated through active CDCs. The biggest deterrent to revitalization of preservation neighborhoods was deterioration of commercial strips. In response, in 1991 the city adopted a more targeted approach to commercial renovation, to focus CDBG, foundation, and bank funds in a small number of pilot programs to renovate neighborhood commercial hubs. The city also has introduced new housing rehabilitation and new housing construction programs channeled primarily through CDCs (CDBG is a critical source of support for the highly organized Cleveland CDC sector) and including formal bank participation agreements.

Exhibit 7.6 summarizes research conducted in the Cleveland study neighborhoods, all of which reflect to varying degrees the changes in city policy just discussed. The neighborhood redevelopment approach is best reflected in *West Glenville*, a traditionally African-American working class neighborhood that suffered substantial losses of population and blue-collar employment between 1970 and 1990. The West Glenville's 1990 unemployment rate (25.7 percent) is the second highest of all neighborhoods in the study sites. As with other Cleveland neighborhoods from the mid-1970s to mid-1980s, the neighborhood received substantial amounts of public works investments. In the last decade, however, the city has adopted an essentially "Urban Renewal" approach: significant CDBG and other public investments in land acquisition, clearance, public facilities and new construction to support new housing and commercial plaza construction. These investments, including new housing construction through HUD's Urban Development Action Grant and Nehemiah programs, were concentrated in the better-off periphery of the neighborhood. By all local accounts, CDBG played a major role in catalyzing these and other private investments, and the strategy has paid off in terms of middle-class attraction. In contrast, the more deteriorated neighborhood core has received substantial housing rehabilitation funding, but these investments have not been concentrated, nor supplemented by badly needed commercial storefront rehabilitation. Thus, the benefits of redevelopment have not been distributed broadly through the neighborhood.

More successful, perhaps, are CDBG investments in the *Ohio City* neighborhood, a result of CDBG-funded commercial district investments, support for housing rehabilitation, and investments made by large neighborhood institutions. This racially mixed neighborhood also lost significant population, although the blue-collar employment base retains some strength. Sharp declines in housing stock quality, private sector disinvestment, and increases in social problems (e.g., arson) characterized the neighborhood throughout the 1970s. During this period, and into the mid-1980s, public works investments were the primary CDBG-funded activity. They did little to arrest housing quality declines or address other neighborhood problems. However, as with other Cleveland neighborhoods, Ohio City received increasing amounts of housing rehabilitation funding through the latter half of the 1980s, and benefitted as well from substantial federal spending for public housing rehabilitation and infrastructure, and federal, state, and city investments in commercial facilities. New housing construction that took advantage of Lutheran Hospital workforce demand also has taken place. Although the neighborhood has not recovered from the deterioration of the 1970s, CDBG has leveraged important new commercial district investments. And the neighborhood's location on a major commuting corridor, coupled with the presence of major cooperative institutions, represent developmental assets. Nevertheless, the neighborhood's residential core remains highly distressed.

**EXHIBIT 7.6**
**Summary of Community Development Effects in Cleveland Target Areas**

| | **Cleveland West Glenville** | **Cleveland Ohio City** | **Cleveland Buckeye** |
|---|---|---|---|
| **Reason Selected for Analysis** | Significant public & private investment; was originally a NSA target area. | Was an NSA; has CDBG funding for a mix of activities. Major institutional actors incl. PHA, hospital, and a CDC | Original NSA n'hood. Racial transition from White to African-American. Different dev. focus than other n'hoods - not new hous. construct here. |
| **Significant Demographic Features** | Afr-Am. Lost about half of its pop. from '70 to '90. Pov. rate of 40%, city rate is 25%. But pockets of mod/mid inc. Decline in % blue collar accompanied by quadruple jump in unemploy from '70 to 25% rate in '90 | Lost about half of its pop. Low income but pockets of higher inc. residents. Majority white but growing Afr-Am & Hispanic pop. makes it racially mixed. Mostly blue collar, but big jump in unemploy to 23% in '90. | Number of people remained relatively constant at 24,000. Not as poor or with as high unemploy as other 2 n'hoods here. But some middle-income Afr.-Am. leaving for suburbs. Next decade critical for n'hood |
| **Significant Physical Features** | residential, some commercial & indus., more open space due to demolitions; mostly single-fam housing, 55% rental; more blight & abandonment than ave. city n'hood, but revitalization along periphery of n'hood. | Mixed res. & commercial. Major commuting corridor also doubles as commercial arterials incl. city-owned market. But portions of commercial declining; heavy demolition in '80s. Major institutions incl. Catholic high school & Lutheran Hospital. Mostly multi-fam stock with considerable PHA units. | Residential with commercial located along major commuting arterial. Solid housing stock - units have not been lost through demo. or arson. Mixed stock - single fam., two-fam, and multi-fam units; 63% rental. |
| **CDBG-Funded Investments** | $20 mil. cumulative, housing rehab (over 500 units), public improve. - streets, sidewalks, social services. | $16 mil. total. Early yrs. on streets & sidewalks, then shift to housing rehab(200 units) & burst of storefront rehab in late '80s. Not as much new hous. construct. as Glenville but some involv. hospital | $14 mil. total; Early yrs. on streets & sidewalks, then housing rehab.(200 units), more recently commercial rehab. along Buckeye St. N'hood dev. corp used CDBG for dev. & housing rehab. |
| **Major Non-CDBG Investments** | City $5 mil (new hous construc, public market, streets), UDAG $1.7 mil (new hous construc), Nehemiah $652K (new hous), Sec 8 & 312 - $2 mil (over 500 units). Private - banks $4.3 mil. in new hous construc & $2.5 mil. in shopping plaza. | State & city $3 mil. for market; transit auth. $2.6 mil; HUD public hous rehab $8.9 mil; Fed. & state - $86 mil for bridge & highway; UDAG, city, EDA - $9 mil. Catholic school expand - $16 mil. Hosp expand - $28 mil., bus. loans/equity for dev. $23 mil. | State - road rehab. $1 mil.; other city and state for road rehab & rec. parks DK $ amt. Private financing of shopping plaza - $8.5 million. New national chains incl. McDonald's, Payless Shoes, Finast market. |

**EXHIBIT 7.6**
**Summary of Community Development Effects in Cleveland Target Areas**

| | **Cleveland West Glenville** | **Cleveland Ohio City** | **Cleveland Buckeye** |
|---|---|---|---|
| **Summary Assessment of Change** | The most revitalized areas of n'hood include the Western & Eastern edges; interior is uneven with some areas afflicted with blighted commercial & residential areas | '70s n'hood declined due to disinvestment & arson. '80s signs of turnaround due to commercial develop., housing rehab., and some new hous construct. N'hood improving but not quite revitalized yet | N'hood did not suffer an initial decay in physical quality unlike other 2 n'hoods. Some improvements to commercial strips & housing preservation efforts |
| **Role of CDBG and other Public Investments** | The periphery has benefitted from a strategy catalyzed by CDBG funding to construct new housing & commercial develop in order to attract mod/middle income back to city. Interior has received much housing rehab. loans but not much coordinated development efforts or badly needed storefront rehab loans. Interior has received CDBG funded social services for the poor | CDBG has been important catalyst for commercial dev., the most successful of these on East Side with city-owned market & mall with private businesses. CDBG & other public invest, incl. those in transportation network, leverages substantial private sector investment. | CDBG and other public have not had as much concentrated impact as in other n'hoods, except for commercial dev. along Buckeye. Housing rehab. has been scattered & not much opportunity for new hous. construct. because not much demo & good original stock. Future of n'hood depends on how well it competes with nearby suburb for Afr-Am middle class. |
| **Contributing Factors** | Private sector has invested substantially more sums in periphery than CDBG; CDBG has been important catalyst though. | Private sector invest & major institutional presence. But n'hood still not quite there in reaching revitalization & stability. | Private sector has invested in commercial mall & CDC has been active over decade. |

Source: Census Tract Sample

Finally, the *Buckeye* neighborhood has remained relatively stable throughout a period of racial transition, although it is experiencing flight by middle-class African-Americans to nearby suburbs. From the mid-1980s on, the neighborhood received CDBG-funded housing rehabilitation assistance that has helped preserve the generally good-quality housing. ore recently, CDBG funds have been used for commercial rehabilitation, and private sector investors have financed development of a new shopping plaza along the neighborhood's major commercial corridor. However, according to local researchers and other observers of Cleveland's community development policies, housing rehabilitation investments have been scattered, and without much visible effect. Critical to the future of the neighborhood is its ability to retain middle-class residents. A strong local community development corporation represents one of the neighborhood's principal assets, and can act as a vehicle for coordinated public investment over the coming decade.

In sum, the CDBG program in Cleveland can be characterized in two phases; a relatively ineffectual first-decade, in which CDBG funds were heavily concentrated in public works investments (a result of the city fiscal crisis), and a promising second decade, in which neighborhood redevelopment and preservation investments, strongly supported by powerful mayors, contributed to at least the partial turnaround of several neighborhoods. New institution building and mobilization of private sector resources through CDBG housing and commercial program development promises to increase the flow of resources to poor neighborhoods. Suggested by the experience of the three neighborhoods examined above is a recommendation to continue efforts to better coordinate housing rehabilitation and commercial area investments.

*St. Louis.* Another older industrial city, St. Louis traditionally has emphasized social services and housing rehabilitation expenditures in neighborhoods close to the central business district. Long-time mayor Vincent Schoemehl, an advocate of middle-class attraction to bolster the city's tax base, pursued an implicit strategy of targeting the "central corridor," an area of good-quality original housing stock, majority white and racially mixed neighborhoods, and home to major St. Louis medical centers and academic institutions. Public investments were expected to build on existing neighborhood strengths, a policy that excluded other neighborhoods "too far gone" to benefit from physical improvement funding. Until the federal Tax Reform Act of 1986 removed financial incentives for private sector housing development, CDBG investments in housing rehabilitation and new construction through neighborhood nonprofits built momentum for stabilization and revitalization of several central corridor neighborhoods. Other federal grants-in-aid, particularly the UDAG program, were similarly targeted to central corridor projects.

This *de facto* targeting strategy was sustained throughout most of the 1980s, although political pressure from the city council and CDBG-funded nonprofit organizations forced mayoral "side-payments" to council members that bought their acceptance of central corridor spending, but at the cost of spreading resources thinly throughout St. Louis neighborhoods. As a result, the council has succeeded in sustaining high levels of funding for social services through nonprofit organizations, and ensured that at least a part of housing rehabilitation funding has been spent citywide. Part of this pressure on the CDBG program is explained by the city's precarious fiscal position; CDBG represents the only source of discretionary money to fund neighborhood projects, or replace lost local support or intergovernmental aid, primarily for social services.

Partly in response to the drastic drop in private developer interest in central city housing development, and continued pressure for broader distribution of dollars, in 1988 the city embarked on an innovative neighborhood targeting effort, the Operation ConServ (Concentrated Services) Program. In essence a new variant of the earlier Neighborhood Strategy Areas concept, ConServ neighborhoods are designated for coordinated city investments and services delivery, with an emphasis on tightly circumscribed "transitional" areas. Each ConServ area has a neighborhood plan, developed by consultants in cooperation with neighborhood residents and city staff. Each ConServ area must form a housing corporation to acquire and rehabilitate property, funded from CDBG. City neighborhood planners (ConServ officers) help citizens articulate neighborhood improvement priorities (e.g., blighted buildings that need renovation) and track city responses to neighborhood demands. The city's ConServ Council, consisting of mid-level managers directly responsible for program implementation, meets monthly to review progress against neighborhood plans.

Exhibit 7.7 summarizes the results of field associate research in three St. Louis neighborhoods. St. Louis' *Hyde Park* neighborhood is a traditional blue collar neighborhood that "flipped" racially between 1970 and 1980; from 81 percent white in 1970 to 71 percent African-American in 1990. White flight resulted in a 50 percent population loss over the two decades, and unemployment was very high in 1990 (about 23 percent). Although the neighborhood enjoyed a brief period of optimism in the mid- to late-1980s, the lack of neighborhood assets and severe residential and industrial disinvestment offset whatever gains were made through CDBG-funded housing rehabilitation. A number of prospective development deals in the 1980s fell through with the elimination of federal real estate investment tax preferences. Contributing to the lack of redevelopment progress were substantial local job losses, a result of factory shut-downs.

**EXHIBIT 7.7**
**Summary of Community Development Effects in St. Louis Target Areas**

| | **St. Louis Hyde Park** | **St. Louis Shaw** | **St. Louis Soulard** |
|---|---|---|---|
| **Reason Selected for Analysis** | Originally a Model Cities n'hood, then received much attention from urban rehab. programs in '70s & 80's | Considered to be a key n'hood in SW St. Louis - if Shaw declines the rest of quadrant will follow. | One of most interesting n'hoods in St. Louis; mixed income; tensions among long-term residents & newcomers; but potential for remaining integrated by race & income |
| **Significant Demographic Features** | Transitioned from White working class to Afr-Am low & mod inc. N'hood loses half of its pop. from '70 to '90. Working residents still mostly blue collar but unemploy. rate doubles from '70 to '80 and remains at 23% today. | Mixed racially White & Afr.-Am. but becoming more Afr.-Am. From '70 to '90, some loss in middle & upper inc., in-migration of working poor. Unemploy rate of 12% in '90. | Was almost all White in '70; now 22% Afr-Am.; mixed income; 39% white & 51% blue collar; unemploy rate doubles to reach 20% in '90. |
| **Significant Physical Features** | 60% residential, 30% commercial, mostly multi-fam stock, 65% rental | Flora Place - an ave. with middle & upper inc. homes is center of n'hood, income decreases with distance from Flora. Mostly multi-fam, 65% renter. | Residential with significant bus. sector - farmer's market on east & Anheuser-Busch on west. Mostly multi-fam. housing, 68% rental. |
| **CDBG-Funded Investments** | $6.3 mil., 62% housing rehab (about 300 units), 23% social services for poor. | $8.7 mil., 84% hous rehab (over 300 units assist). | $11.7 mil., 60% hous. rehab (over 500 units), 18% acquis & rehab, 13% pub improv. |
| **Major Non-CDBG Investments** | Section 8 low-mod housing (163 units), other HUD (113 units), St. Louis county (42 units) | Sec 8 low-mod hous (253 units), St. Louis County (50 units), State (13 units), other HUD (30 units) | Sec. 8 low-mod (255 units), county (33 units), state (39 units), HUD other (378 units) |
| **Summary Assessment of Change** | Pockets of mod & middle income with well-maintained hous. stock. but after initial enthusiasm and CDBG invest. in late 80's, continued residential & industrial abandonment & blight. | N'hood is still desirable place to live with Flora Pl. home to many of city notables. Has been deterioration in areas away from n'hood center. | N'hood has been successfully preserved; it has experienced gentrification & in-migration; but revitalization activities have also benefitted low/mod long term residents. |
| **Role of CDBG and other Public Investments** | CDBG & other public sector rehabbed portion of housing stock, but public sector unable to catalyze private invest(deals fell through). Commercial sector marginal at best. Deteriorated n'hood with little redevelop potential. | CDBG & other public sector has played imp. role in preserving sections of stock. Strategy seems to focus on keeping blight from spreading towards n'hood center. Most of rehabbed housing for mod. inc. households. | CDBG & other public sector invest. have sought equity - spur in-migration with mod/mid inc. units but also use Sec 8 mostly for long-term poor. Public invest. has also preserved farmer's market. |

**EXHIBIT 7.7**
**Summary of Community Development Effects in St. Louis Target Areas**

| | St. Louis Hyde Park | St. Louis Shaw | St. Louis Soulard |
|---|---|---|---|
| **Contributing Factors** | Deindustrialization - significant jobs loss & plant shutdowns | Well organized n'hood with Housing Corp. & Civic Assoc. Mixed income base imp. for viability. | Good white & blue collar jobs base - brewery keeps expanding; n'hood is not completely gentrified in part due to advocacy groups for poor. |

**Source: Census Tract Sample**

More positively, the *Shaw* neighborhood successfully withstood population loss and major shifts in racial composition. This neighborhood lost about a third of its population from 1970 and 1990. The percentage of white residents declined from 85 percent in 1970 to 47 percent in 1990; African-American in-migrants were primarily working-class, and unemployment remained relatively low, at 11.7 percent in 1990. A "central corridor" neighborhood, Shaw was regarded by city decision-makers as a critical test of the viability of a large number of proximate central city neighborhoods, and laboratory for sustaining racial heterogeneity in a largely segregated city. Consisting largely of rehabilitation loans, CDBG assistance was largely successful in preserving the quality of the housing stock throughout a period of transition. Emphasis appeared to be on investments in the better-quality stock, which redounded to the benefit of moderate-income, as opposed to low-income, households, and helped retain the incumbent middle-class. City staff describe the neighborhood as well-organized, with important assets in a strong CDC and a good mix of resident incomes.

Finally, St. Louis' *Soulard* neighborhood is described by city staff as an important victory in the Central Corridor strategy. Although Soulard's unemployment rate stood at 20.2 percent in 1990, the percentage of employed professionals registered sharp increases, a product of in-migration of young professionals. Public investments from CDBG, and from other federal, state, and county sources have contributed not only to upgrading of housing units intended for moderate-income residents, but also to preserving low-income units to combat displacement from gentrification. Public investments in a neighborhood farmers' market also has contributed to the health of the local commercial sector. Finally, the Anheuser-Busch brewery has enjoyed strong national demand for its products, and has expanded local employment opportunities. These blue-collar jobs have been important to sustaining the mixed-income character of the neighborhood.

In sum, within the limits of local political realities, St.Louis has pursued a middle-class attraction and retention strategy that has produced visible results in several neighborhoods. However, successes in these neighborhoods and rehabilitation of moderate-income housing elsewhere in the city has slowed, but by no means halted the general flight of the city's middle class. Further, the well of childless professional couples, a traditional mainstay of gentrification, appears to have been tapped-out. Outside the central corridor, only a few of the city's highly distressed neighborhoods have received significant amounts of CDBG investment. The Union-Sarah neighborhood and parts of the West End--largely African-American--have captured a portion of CDBG resources, and have made gains under the sponsorship of a local CDC. In this and other neighborhoods, city staff and other local observers point to the critical role of indigenous leadership. One prominent feature of Operation ConServ is to transfer this model into hitherto unorganized St. Louis neighborhoods. Another important factor affecting revitalization prospects is whether city leaders are successful in promoting broader corporate participation in renewal efforts; apart from major investments by St. Louis and Washington Universities, local corporate and philanthropic commitment to the city's neighborhoods has been modest.

*Minneapolis.* The city of Minneapolis differs in important respects from the cities of Cleveland and St. Louis: it is neither deeply distressed nor fiscally strapped. Although Minneapolis does contain neighborhoods with concentrated poverty, most city neighborhoods are stable, compared to the other two cities. Further, CDBG is only one of a number of discretionary community development resources; state funding and local tax increment dollars have been important sources of housing and commercial project support. For example, the CDBG program accounts for only about 15-20 percent of funding for the lead community development agency.

The city's program long has placed a priority on housing investment, including both housing rehabilitation and support for new housing development. Although the city designates formal target areas based on the percentage of substandard housing stock, most program assistance is spent citywide, the result of the "spreading" influence exercised by the city council. Nevertheless, informal targeting does occur: the city's considerable rental housing investments are channeled through CDCs that are particularly strong in some neighborhoods, while other investments have followed up earlier Urban Renewal and Model Cities project area developments. Further, large project development of commercial facilities, by definition, tends to be concentrated at a limited number of sites. The CDBG allocations for economic development projects, however, declined drastically with the end of the state's Urban Revitalization Action Program in 1992, which required a local match that the city typically funded with CDBG dollars.

Just as the city of St. Louis has introduced new planning and citizen participation mechanisms that may affect concentration of block grant dollars in future, in 1990 the city introduced the Neighborhood Revitalization Program (NRP). The program's objective is to coordinate state, county and city spending in designated neighborhoods, using tax increment funds to provide "glue" money for neighborhood projects. As a condition of designation, each NRP neighborhood must prepare a Neighborhood Action Plan that articulates citizen priorities and the set of public agency responses required to address those priorities.

Exhibit 7.8 summarizes the results of Field Associate research in three Minneapolis neighborhoods. The *Near North* neighborhood is an ethnically diverse community that contains a high proportion (50 percent) of residents employed in professional and administrative occupations, as well as a high proportion of unemployed persons (22 percent); both represent large increases over the two decades between 1970 and 1990. In some respects, this neighborhood exemplifies a classic developmental pattern: Urban Renewal investments in land acquisition, clearance, and new construction were followed by early CDBG efforts to finish Urban Renewal plans and projects, after which funding shifted to housing rehabilitation. Other federally funded investments in homeowner rehabilitation were supplemented by state and local spending for new residential and commercial development. As a result, the physical conditions of the neighborhood have improved dramatically over time, and revitalization effects are most noticeable along the neighborhood's commercial strip. Despite these successes, problems of poverty and attendant social disorganization have increased; commercial investments have not materially improved job prospects for local residents. Further, private investors have not yet found the neighborhood sufficiently attractive that they have proceeded without public subsidy.

In the *Whittier* neighborhood, the city has registered similar successes in commercial revitalization through major investments in public facilities and business establishments. However, earlier (1970s) construction of poor-quality housing for moderate-income and working-class residents produced initial gains in area physical appearance, but these units have declined in quality over the last decade. The city has used CDBG funds to upgrade these units, but over time, the original residents have been replaced by lower-income persons, contributing to an neighborhood decline in household incomes. Although the local employment base remains strong in both commercial and industrial sectors (unemployment rates remain relatively low), poor physical re-design of traffic circulation has proved a barrier to further commercial development. In essence, neighborhood revitalization efforts, supported by a strong local CDC, have produced real gains in commercial strip vitality, but substantial CDBG housing investments have been needed to overcome unfortunate developmental patterns of an earlier decade.

Finally, the *Phillips* neighborhood, in the moderate-unemployment category (15 percent in 1990) is among the city's most physically deteriorated, although it has received substantial public investment dating from the Model Cities era. Here too, investments in the commercial district have produced visible physical improvements, but significant housing rehabilitation funding has not appreciably halted deterioration of the rental stock. Moreover, despite the health of the commercial corridor, the largest local economic sector is publicly-funded social services employment. The Minneapolis field researcher notes that despite sustained CDBG investment, disinvestment by existing owners of deteriorating stock, coupled with bank reluctance to lend funds in this neighborhood have rendered public sector efforts ineffectual. As a note of optimism, the neighborhood is well-organized, with a strong base of community nonprofits.

**EXHIBIT 7.8**
**Minneapolis Target Area Summary**

| | **Minneapolis Near North** | **Minneapolis Whittier** | **Minneapolis Phillips** |
|---|---|---|---|
| **Reason Selected for Analysis** | History of large-scale urban renewal and sustained CDBG follow-up investment | Strong community-based organization and area of foundation emphasis on revitalization | Among city's most deteriorated, has received significant investment dating from Model Cities. A center of urban Indian population. |
| **Significant Demographic Features** | Increasing A-A population but remains ethnically diverse; high proportion of long-term residents. | Increasing A-A population but remains majority white; high low-mod proportion but low unemployment, although significant increases in poverty rates. | Increasing Native American population (32 percent in 1990) and A-A, and large increases in unemployment and poverty rates. |
| **Significant Physical Features** | Extensive demolition and new residential, commercial, and industrial construction; significant improvement in physical appearance. | 1970's change from single-family detached to new (poor-quality) garden apartments, now deteriorating. | Long-time high-density residential area with significant stock deterioration, but extensive upgrading of commercial strip over last 20 years. |
| **CDBG-funded Investments** | Earlier support for acquisition, clearance and disposition of residential, commercial and industrial property, followed by shift to housing rehabilitation. | Significant housing rehabilitation funds, supported by land acquisition & clearance for housing. Increasing prominance of social services spending. | Significant housing rehabilitation and new construction and social services facilities/operating funding. Major commercial facilities investments. |
| **Major Non-CDBG Investments** | CDBG supplement to major Section 312 & 236, MHFA and tax increment spending from new residential and commercial development. | MHFA and foundation support for housing investment; tax increment funds for commercial revitalization. | In addition to MFHA housing rehabilitation funding, major tax increment, UDAG, and State funding for commercial corridor improvements. |
| **Summary Assessment of Change** | Significant improvements in physical conditions and health of commercial corridor, but continued increase in poverty and social disorganization. | Conversion to higher-density residential and soft rental market has contributed to lag in area incomes, but continued strength in commercial/industrial sectors. | Sustained substandard housing, overcrowding, and high poverty, but creation of new commercial corridor with concentrations of retail and social service facilities. |
| **Role of CDBG and other Public Investments** | High rate of demolition & clearance removed blight and major leveraged investments in industrial/commercial facilities revitalized commercial strip | Significant and highly leveraged CD investments in housing has slowed decline in stock quality. Assistance to private business has bolstered commercial strip. Strengthened housing and economic development CDCs. | All major projects have at least some CDBG funding, with massive investments in commercial facilities and housing renewal. Nonprofit social services, heavily funded from CDBG, is largest economic sector. |

**EXHIBIT 7.8**
**Minneapolis Target Area Summary**

| | Minneapolis Near North | Minneapolis Whittier | Minneapolis Phillips |
|---|---|---|---|
| **Contributing Factors** | Failure to generate sustained unsubsidized private investment; limited job creation for neighborhood residents, increasing crime and drug activity in neighborhood. | Poor quality of original stock and soft metropolitan rental market depresses investment returns. Redesign of commercial artery choked traffic flow through commercial strip. | Continued high absentee ownership, disinvestment, and severe credit shortage has rendered public efforts largely ineffectual. But neighborhood is well-organized with strong community-based nonprofits. |

Source: 16-city Survey

In contrast to Cleveland, Minneapolis has invested major sums in commercial corridor improvements, with major visible results in all three study neighborhoods. These investments have contributed somewhat to neighborhood-wide development. Further, in all three neighborhoods, housing rehabilitation investments have helped slow deterioration, and in one neighborhood (Near North) improved overall stock quality. Nevertheless, physical improvements have not prevented general increases in poverty rates and attendant social ills. However, with recent introduction of the Neighborhood Revitalization Program, and its emphasis on coordination of all public investments (including needed services) and the linchpin role accorded the city's strong nonprofit sector, these neighborhoods may face brighter prospects for the 1990s.

*San Antonio* The final city profiled in this chapter, San Antonio, is unique among large U.S. cities for its combined high poverty rates and strong job growth; its 23 percent poverty population is second only to Detroit among the top 15 cities, but it experienced a 27 percent employment growth between 1980 and 1990. Similar to some other Western and Southern cities, the San Antonio CDBG program has maintained an emphasis on public improvements, including streets and sidewalks, drainage, and parks and recreation facilities. Housing investments primarily have gone to new residential construction, using a blend of CDBG funding for land acquisition, clearance, and site preparation; other public funds supported new construction. These investments have been concentrated in the largely hispanic neighborhoods of the city's west side and near north side, and traditionally African-American communities of the east side. Until the inception of the CDBG program in 1974, these neighborhoods received almost no public sector investments in basic infrastructure, a function of historically unsympathetic city administrations and general use of special assessments for public improvements, an expensive option for poor neighborhoods.

San Antonio is unique among entitlement communities for the strength of the city's citizen advocacy organizations. The Communities Organized for Public Services (COPS) is a Catholic parish-based network of volunteer neighborhood "leaders" established in the early 1970s under the guidance of the Industrial Areas Foundation, which educates neighborhood groups in Saul Alinsky-style organizing and advocacy techniques. (A counterpart organization works in the city's African American neighborhoods.) Early fights over the allocation of CDBG resources resulted in the almost complete capture of the program by COPS, which not only presents the city council each year with an already-negotiated list of public improvements, but consistently monitors city performance on project progress. Because of the dearth of even basic infrastructure in the city's inner core neighborhoods (several persons died each year in flash flooding) COPS early on established a principal policy of supporting CDBG funds for public improvements only. These improvements are occasionally tied to redevelopment authority-sponsored new construction projects in the city's Select Housing Target Areas, and CDBG funds also are used for public facilities tied to public housing modernization projects.

Exhibit 7.9 summarizes Field Researcher assessments of CDBG impacts in three San Antonio neighborhoods. The historically African-American *East Side* neighborhood lost population in the 1980s, and witnessed increases in unemployment to 20.8 percent, placing it among the high-unemployment neighborhoods in the study sample. Heavy CDBG public works expenditures were complemented by bond-funded improvements in sanitary sewers and new housing construction. As a result, large portions of the neighborhood have been upgraded through street paving and drainage facilities, and newly-constructed housing has begun to stimulate private housing market activity. Episodic investments in commercial facilities have been less successful, and the lack of local jobs has meant continued high rates of poverty and unemployment.

San Antonio's *Near West Side* has received massive public investments since Model Cities days, but it too suffers from high unemployment despite CDBG-and EDA-funded commercial district improvements. The study's Field Associate finds "vast improvements" to the physical quality of the neighborhood, however, with substantial CDBG and bond-funded investments in streets, drainage, sanitary sewers, and new housing construction in Select Target Areas. Lack of local area jobs however has contributed to continued out-migration, under-cutting demand for private, unsubsidized, housing development. The neighborhood has the city's only major neighborhood-centered commercial project investment on Avenida Gaudaloupe, but the retail market for this development remains highly uncertain.

Finally, *Kenwood North* is a relatively stable, racially mixed area on the city's near north side; unemployment rates were low in 1990, 8.9 percent, and the neighborhood has one of the highest rates of professional and administrative employment shares in the city's inner core, 41.7 percent. The Kenwood North neighborhood began as an Urban Renewal area, and as well received substantial investments in public facilities. Following a developmental sequence seen elsewhere (see Minneapolis Near North, above) CDBG investments shifted to housing rehabilitation and homeownership programs after completion of Urban Renewal physical development plans. In part because of this sustained, and staged, public investment, and in part because of the good quality of the original housing stock, public sector investments have succeeded in stimulating private sector investment. Job opportunities for poor residents in adjacent middle-class neighborhoods have contributed to maintaining the mixed-income character of the neighborhood.

**EXHIBIT 7.9**
**Summary of Community Development Effects in San Antonio Target Areas**

| | **San Antonio East Side** | **San Antonio Near West Side** | **San Antonio Kenwood North** |
|---|---|---|---|
| **Reason Selected for Analysis** | Developed in '30's for Afr-Am residence, large part of n'hood lacked basic infrastructure. In late '70s a citizen's group succeeded in drawing substantial CDBG invest. to n'hood | Hispanic area developed with poor quality housing in 1920s & almost no infrastructure. Became city's Model N'hood Area '70s and also a Select Housing Target Area(SHTA). | Racially mixed area close to CBD was an urban renewal site that received subsequent CDBG investments |
| **Significant Demographic Features** | Lost about 800 residents in '80s. Historically, Afr-Am, but growing Hispanic pop.; unemployment rate doubles in '80s to 21%; decline in blue collar employment | Mex-Am., large pop. loss, about 2,000 during '80s. 65% low income. Blue collar, but unemployment rate doubling to 19% in '90. | Over half of pop. Hispanic, but one third White, under 10% Afr-Am., Mixed income with 45% middle & high inc.; mixed occupationally - white & blue collar, under 10% unemployment |
| **Significant Physical Features** | Single fam. housing, 63% homeownership, residential with some n'hood commercial. | Residential with some n'hood commercial; single fam. stock but 50% rental | Residential, mostly single fam. housing stock, 53% rental |
| **CDBG-Funded Investments** | $15.6 mil cumulative; mostly public works & infrastructure renewal, sometimes accompanied by acquis., clearance, & new hous. construct. | $29 mil. cumulative; public works & infrastruct., econ. dev.- Avenida Guadalupe plaza & shops; demo., clearance & new hous. construc., n'hood services | $3.6 mil. cumulative; park & community center; low-inc. housing loans & homeownership program; infrastruc. improvements |
| **Major Non-CDBG Investments** | City - storm drainage projects $2.9 mil., sanitary sewers $512K. Private bldg. $600K new housing. | EDA grant for Avenida Guadalupe; city bond funds $180K for street improv; city library bond $600K for literacy center. | City Dental Clinic - $500K, City street reconstruction - $903K |
| **Summary Assessment of Change** | Large portions of n'hood have been upgraded with new streets, sidewalks & drainage, with improvements in sanitation & decrease in rodents. Eastern & semi-rural parts of n'hood still have poor quality infrastruct. | Substantial improvements in physical condition with significant portions of housing & streets replaced or rehabbed. Flooding problem abated with drainage facilities. But econ. dev. efforts uncertain with Ave. Guadalupe remaining under-utilized | Substantial improvements in physical condition with clearance, new hous. construc, infrastructure improvements. N'hood able to maintain itself as stable & viable, mixed by race & income. |

**EXHIBIT 7.9**
**Summary of Community Development Effects in San Antonio Target Areas**

| | San Antonio<br>East Side | San Antonio<br>Near West Side | San Antonio<br>Kenwood North |
|---|---|---|---|
| **Role of CDBG and other Public Investments** | Infrastruct. renewal & housing new construct. has probably enhanced market for single family housing in areas of n'hood receiving sustained public investments. Econ. dev. funded by CDBG yielded few results, still low-inc. n'hood with higher unemploy. | Improvement in living conditions due to physical rehab. of housing stock and streets, drainage facilities. But even though public & CDBG invest. has been sustained, it has not catalyzed private sector invest. Area remains poor with significant pop. loss | Urban Renewal, $8.3 mil, paved way for restoration of n'hood - CDBG sustained success by finishing Urban Renewal work & rehabbing spots of deteriorated housing & infrast. Public sector invest. provides stability & stimulated new private housing construct. |
| **Contributing Factors** | A key to successful phys. rehab is regular CDBG funding over a substantial period. Still n'hood remains predominantly low-inc. - less emphasis on social services, job training, econ. dev. | From original condition of extremely poor housing & almost no infrastruc, CDBG has vastly improved phys. quality of n'hood. Lack of job creation may be more of a factor of job loss in city economy than any failure on part of CDBG program. | Sustained public sector investment key to providing healthy climate for private invest. N'hood able to maintain itself as viable, partly due to proximity to employment - many residents work as domestics in surrounding middle income n'hoods. |

**Source: Census Tract Sample**

The San Antonio experience shows the impacts and limits of single-minded support for physical improvements over time. On the one hand, the physical impacts in San Antonio of CDBG-funded infrastructure investments and new housing construction are dramatic. Under the right circumstances--traditional mixed income neighborhoods with good quality original housing stock--these investments have stimulated unsubsidized private sector investment. However, these same physical improvements in other neighborhoods have dramatically improved their physical conditions (and improved the health and safety of residents) but have not produced noticeable private investment, nor have they addressed employment problems in poor neighborhoods. Perhaps, most significantly, however, the early role of the CDBG program as a target of citizen activism established the credibility of a nascent citizens movement that went on to successfully lobby for increased general fund-supported infrastructure investments. This almost certainly would not have happened without the early successes of COPS in taking control of the CDBG program. Recent shifts in COPS policy toward increased support for employment-related investments may presage a general shift in CDBG program direction as physical improvements are completed.

The themes that emerge from the experience of the four cities just profiled appear as well in other cities investigated by Field Associates. Chicago demonstrates a contrast between neighborhoods that remain blighted after years of sporadic public investments and others that benefited from well-coordinated CDBG investments. Pittsburgh illustrates the importance of strong community-based organizations, as do other cities in the in-depth study sample, such as Boston and Austin. New Orleans exemplifies the difficulty of improving neighborhoods where there are large concentrations of public housing. Tampa illustrates the importance of going to scale with housing investments, which together with the rise of community-based delivery organizations, has successfully built on earlier infrastructure investments. Phoenix shows how strategic investments can begin a phase of sustained neighborhood improvement. Los Angeles' shows the difficulty of achieving neighborhood impacts in deeply distressed neighborhoods if programs are available citywide. Finally, both Newark and Seattle show patterns distinct from the other cities in their use of CDBG funding. Newark placed heavy emphasis on economic development that has succeeded in attracting and retaining businesses, but possibly at the expense of neighborhood housing needs. Seattle has avoided targeting neighborhoods, but the spatial distribution of community development problems and their relative tractability compared to other cities has resulted in detectable city improvements. Each of these cities are discussed in turn.

One of the most populated and oldest cities in the country, *Chicago* has a number of large neighborhoods, some plagued by decades of disinvestment and population decline, others improved because of locational advantages as well as strategic CDBG investments. As an example of the former, Woodlawn suffered twenty years of de-population and commercial abandonment, producing high unemployment of 26 percent, persistent poverty, blight, and high rates of crime. Public officials have invested CDBG funds in housing and infrastructure rehabilitation, but the activities have not been coordinated, and Woodlawn has remained blighted. In contrast, Austin has not been as devastated by social and economic trends as Woodlawn and therefore seems to stand a better chance of being revitalized by public investments. Although it experienced a racial transition, Austin did not suffer a precipitous drop in its number of residents. Sections of Austin consist of multi-family rental developments while other parts of the neighborhood contain blocks of modest and well-kept single family, owner-occupied units. A strong CDC has used CDBG funding to leverage substantial amounts of private loans, including those provided under Community Reinvestment Act agreements negotiated with local banks, for the rehabilitation of several multi-family units. These contributed to revitalization of portions of Austin, although other parts of the neighborhood still contain many blighted rental units.

If Austin renewal efforts are a partial success, redevelopment of the Edgewater neighborhood in Chicago "essentially transformed" the troubled parts of the neighborhood according to field researchers. Edgewater's comparative advantage over Woodlawn and Austin lies in its location near Lake Michigan, which has attracted several thousand middle and upper-middle income households. A "neighborhood" of over 60,000 residents, Edgewater is composed of three distinct sections: two populated predominately by middle-income professionals--the eastern- and western-most sections--and a middle section with heavy concentrations of low- and moderate-income households. In the late 1960's and throughout the 1970's, the middle section of the neighborhood experienced property abandonment and increases in crime. Concerned that blight in the mid-section of the neighborhood would spread, community organizations from the more affluent western-most part of Edgewater secured CDBG funding to launch strategic revitalization studies as well as anti-crime patrols and new youth services. The efforts of the civic associations convinced the city to work with CDCs, private funders, and landlords to undertake a major rehabilitation effort, which virtually eliminated blight and substantially improved the housing conditions in the mid-section of the neighborhood.

*Pittsburgh's* agencies do not plan their own strategic neighborhood initiatives, but instead pursue a citywide approach to housing investments, with owner-occupied and rental rehabilitation programs available throughout the city. However, community-based organizations have become the *de facto* neighborhood targeting mechanism for the city, and the prospects for particular neighborhoods appear to depend very much on the strength of the community organizations that operate there. For example, the community-based organization in the Oakland neighborhood has built on the advantages of proximity to major university and hospital employers to pursue complementary job creation and training and housing rehabilitation investments. These have helped prevent displacement of low-income residents under pressure from in-migration of higher-income persons. In all three Pittsburgh neighborhoods studied, community-based organizations have been the linchpin of renewal efforts, although proximity to economically more successful areas has helped produce noticeable results in only two of these neighborhoods.

*Boston* neighborhoods, like those in Pittsburgh, have benefitted from sustained development of CDC capacity over several years. The Codman Square neighborhood has been transformed over a twenty year period from a blighted, low-income area with high crime rates to a mixed-income neighborhood. Extensive CDC-led housing rehabilitation activities created a stable residential base that provided the customers for an emerging commercial district. In contrast to Codman Square which enjoyed neighborhood-wide revitalization, the Franklin Field neighborhood has experienced spot renewal. The city and neighborhood-based CDCs successfully reclaimed abandoned lots and engaged in housing development in sections of the neighborhood, but other portions remain blighted. Future prospects for Franklin Field are uncertain: the neighborhood no longer is a target area and appears to have experienced a decline of their neighborhood-based CDCs. In contrast, the neighborhood of Dudley appears to be at the same stage of revitalization as Franklin Field but appears to have more assurances of continued development because CDCs remain active.

In *Austin*, Texas, the CDBG program has been most successful in stabilizing or improving the housing stock in three target areas. Prior to the establishment of a CDC in the 1980's, the predominantly African-American neighborhood of Anderson did not receive much CDBG or other public sector investment. Due in part to the efforts of the CDC, Anderson received \$9.3 million in targeted housing rehabilitation and in-fill development during the 1980's. These housing development activities have significantly stabilized the housing stock in contrast to the less successful CDBG-funded economic development activities. Like Anderson, the racially-mixed neighborhood of Blackshear has a stabilized housing stock as a result of CDBG-funded housing and neighborhood improvement activities. Economic development activities including a CDBG-funded job training center have not been as successful in producing lasting impacts. In contrast to both Anderson and Blackshear, the Hispanic neighborhood of Guadalupe has enjoyed benefits from CDBG-funded housing and economic development. Led by a strong CDC, this neighborhood has received over \$20 million in CDBG investments in housing rehabilitation, public facility improvements, and economic development. Of the three target areas, Guadalupe's commercial district is the only one to attract customers from outside the neighborhood, and thus achieve a degree of viability.

The target neighborhoods in *New Orleans*, unlike those of Austin, Texas, have not benefitted from noticeable revitalization despite significant sums of CDBG and other public investments. Two of the neighborhoods, Central City and Florida/Desire, contain dense concentrations of blighted public housing projects that have been unsuccessfully rehabilitated although considerable sums of public housing modernization dollars have been expended on the projects. With its attendant social problems, public housing developments have inhibited neighborhood revitalization by deterring private sector investment. Perhaps the only lasting public sector impact has been CDBG-funded social services, which have benefitted individuals in the two neighborhoods. Like Central City and Florida/Desire, the Lower 9th Ward is characterized by high unemployment, persistent poverty, and an absence of moderate- and middle-income households. But unlike the two other target areas, the Lower 9th Ward has a sizable single-family housing stock; CDBG-funded housing activities may be partly responsible for the high level of homeownership despite the persistent poverty.

Overall, *Tampa's* revitalization efforts have produced mixed results, though generally more successful than New Orleans'. Tampa has no explicit target areas, but strong CDCs have lobbied successfully for substantial funding in three neighborhoods - Ponce DeLeon, Tampa Heights, and Sulphur Springs - which can be regarded as *de facto* target areas. Ponce De Leon, like two of the neighborhoods in New Orleans, has a concentration of public housing and high crime rates. CDBG-investments appear to have improved the public housing stock in Ponce De Leon, but it is too early to determine if these improvements can be sustained over the long-term. Tampa Heights, in contrast, has a historic housing stock which was previously inhabited by an affluent community. Now a low- and moderate-income neighborhood, Tampa Heights has benefitted from new construction and housing rehabilitation that has preserved the historic quality of the original stock. The combination of recent housing activities following previous CDBG-funded infrastructure activities seems to have catalyzed unsubsidized housing construction.

Sulphur Springs, unlike Tampa Heights, does not benefit from a historic housing stock, making the neighborhood attractive for private investment. On the contrary, Sulphur Springs was originally outside of Tampa's city limits and its housing stock therefore does not comply with city codes. As a result, its stock consists mostly of trailer homes and low-income duplexes. CDBG-housing investments seem to be improving the stock slowly, but the prospect for the neighborhood remains uncertain in marked contrast to the brighter prospects of Tampa Heights, a community whose original housing stock is aesthetically pleasing and soundly constructed.

Instead of reacting to advocacy from neighborhood-based nonprofits as Tampa officials did, *Phoenix* adopted a strategic plan targeting CDBG investments to neighborhoods considered to be in favorable locations for revitalization efforts. Its target neighborhood of Isaac, for example, benefits from its proximity to the city's central business district. Matching CDBG funds with city bond funds, Phoenix targeted Isaac for intensive and coordinated clearance and acquisition activities, infrastructure development, and housing rehabilitation. Similarly, the city selected Longview as a target area because of its proximity to the central city and relatively affluent communities. Phoenix initially concentrated its block-by-block housing rehabilitation efforts on the exterior of Longview, hoping that successful revitalization on the exterior would stimulate renewal activities in the interior of the neighborhood. Both Isaac and Longview are visibly improved, yet many residents remain poor and more revitalization work remains. The last target neighborhood, South Phoenix Village, still has considerable blight and has not been revitalized to the same extent as Isaac and Longview, partly because the private sector continues to disinvest. One of the most positive CDBG-funded investments is a community center that offers social services for the very low-income residents of South Phoenix Village. A new citizens group is also working with city officials on commercial development plans.

Strategic planning has been considerably more difficult in *Los Angeles* than Phoenix due to overwhelming social and economic needs of densely populated neighborhoods. One of the Los Angeles target areas is Watts, nationally recognized as one of the most blighted and poverty-stricken urban neighborhoods in the country. An African-American community thirty years ago, Watts now has a considerable Hispanic population. Unfortunately, the underlying constant for Watts is its serious physical, social, and economic needs. The $12.6 million in CDBG spending has been focused on housing rehabilitation, but has not been able to dramatically turn-around a community beset with an array of multi-dimensional needs exceeding available public resources. In the two other target areas, Boyle-Heights and Arleta-Pacoima, CDBG funding has been directed to the minor- to moderate-rehabilitation of owner-occupied housing. Undoubtedly, this has benefitted several hundred homeowners, but it has not had visible impacts on the two neighborhoods because of the dispersed nature of the rehabilitation activities.

While Los Angeles directed most of funding to area-wide housing needs, *Newark* choose to concentrate on leveraging private sector economic development with its CDBG investments. Newark's target neighborhoods are propitiously situated near the downtown area containing major universities and employers. Due to de-population and disinvestment, the neighborhoods had considerable tracts of abandoned and vacant land. Newark used a major portion of its CDBG allocations for land acquisition and clearance, which in turn, leveraged private sector development of the parcels. In addition, CDBG funding was directed towards facade improvements of retail establishments and the installation of security systems in commercial property. The strategic nature of Newark's CDBG investment has contributed to the revitalization of target neighborhoods by invigorating their commercial areas. Citizen groups from some other neighborhoods, however, criticize Newark's CDBG strategy as neglecting desperate housing needs throughout the city.

Although it is a city with strong neighborhood organizations, *Seattle* has chosen to focus its CDBG investments on benefiting low-income persons citywide rather than targeting neighborhoods for intensive revitalization activities. In sharp contrast to Newark, Seattle has concentrated its CDBG expenditures on human services and housing, and has spent comparatively little on economic development activities. From the inception of the CDBG program, neighborhood-based nonprofit service providers and housing developers had a large role in program design and delivery. In the early years, the city council allocated funding directly to individual nonprofit projects. More recently, during the Rice administration, city agencies developed strategic plans integrating housing and human services programs, and assumed the project allocation decisions. Although nonprofits could no longer appeal directly to city council for funding, the city still allocated the majority of human services and housing funding to nonprofits.

While community-based nonprofits are heavily used as the agents of program delivery, Seattle has a deliberate policy of dispersing projects throughout the city instead of concentrating activities in target areas. Since many of Seattle's neighborhoods enjoy an ethnic and income-mix rare among American urban communities, the city has an official policy of dispersing housing assistance. The city has specified that not more than 30 percent of housing on any individual Census block receive assistance earmarked for low-income households. The city's commitment to maintaining integrated neighborhoods, by definition, prevents a CDBG-strategy of intensive neighborhood targeting. Yet, Seattle is very committed to assisting low-income persons on a citywide basis, as evidenced by its leveraging state, local, and private resources that exceed CDBG funding for housing and human services.

**Summary**

Has the CDBG Program made a difference in American neighborhoods? This chapter, indeed this report, concludes that it has: most cities can point to built institutional capacity to deliver CDBG-funded programs, particularly in housing rehabilitation programs, of which few would have been funded if not for CDBG dollars. Further, observable neighborhood impacts have resulted from CDBG-funded investments, if they were deployed under the right circumstances, in the right neighborhoods, and over a sustained period of time.

As noted in the introduction to this section, assessment of community development impacts is hobbled by a number of conceptual and methodological difficulties. The CDBG program's flexibility implies that cities can pursue multiple objectives, some contradictory, but each with their own expected results. Further, "community" takes on multiple definitions: neighborhoods and groups within neighborhoods, communities of need, such as the low-income elderly, and the city as a whole are communities by various senses of the word. Although program effects appear most visibly at the neighborhood level, and impacts tend to be credited where they are easily observable, spending to rehabilitate the citywide housing stock produces effects on overall housing quality not easily measurable, but nonetheless important. Finally, whether the program is credited with making a difference in neighborhoods depends very much on expectations. Program resources have dwindled, neighborhood needs have broadened across more neighborhoods and deepened in some. And even the most sustained development efforts can be thwarted by major shocks to local economic systems.

Nevertheless, this chapter concludes that CDBG has very clearly produced positive results in terms of intermediate impacts--increases in the capacity of local institutions to plan for, and effectively deliver, community development programs. Although community planning efforts are highly uneven in terms of their frequency and quality, a fair number of communities have created mechanisms for neighborhood-centered planning and citizen participation, funded from CDBG, that appear to work well or hold out promise for the future. These efforts have emerged based entirely on local definitions of need and appropriate response.

Further, CDBG has contributed to the mobilization of local public and private resources for investments in urban neighborhoods. At the project level, multiple sources of finance often are used to support housing and commercial development projects. For example, most cities in the 61-city sample that fully fund housing programs from CDBG do so for explicit policy reasons--income targeting or emergency response--and not because they lack the staff capacity to design and implement leveraged programs. Less frequent is "program" leverage--mechanisms to assure sustained private sector, especially bank, commitment to community development. In a number of study cities, CDBG has been an important source of public sector leverage in negotiating community reinvestment agreements with private financial institutions.

This chapter also concluded that rather large percentages of community development delivery organizations depend heavily on CDBG funds, whether measured in terms of shares of organizational budgets, or the self-reported rating of CDBG importance to organizational strength. In a number of communities, CDBG funds are used explicitly to build this capacity system-wide; investments in local intermediary organizations and nonprofit networks are intended to bolster the otherwise isolated efforts of neighborhood-based nonprofits. These institutions also have played a role in the mobilization of private sector support for community-based initiatives.

Less easy to discern are CDBG neighborhood impacts, which as noted above, are only one of a number of "ultimate" impacts that could be expected from CDBG-funded programs. In almost all cities, community development administrators can point to at least one neighborhood that they believe has been "turned around" or "preserved" as a result of CDBG funding. In all but very few cases, these same administrators believe that even though city distress may have deepened, things would have "gotten a lot worse" without CDBG programs. Beyond these broad characterizations, the effect of CDBG spending in urban neighborhoods depends very much on both the neighborhood and city context. For example, neighborhoods in Brooklyn showed some surprising strengths, a result of New York City's economic performance throughout the 1980s. Some neighborhoods in Minneapolis, a city with comparatively strong state and local funding commitments, and low distress levels generally, did not necessarily improve even with sustained attention over time.

Both the census tract sample and the 16-city target area analysis showed that CDBG investments have contributed to neighborhood stabilization and renewal. Particularly in evidence are positive effects in low-poverty tracts that remained stable throughout the 1980s, and moderately-poor tracts that showed improvement. Some neighborhoods in St. Louis, Cleveland, Minneapolis, and San Antonio all registered gains as a result of sustained CDBG investment over time. What do the experience of these neighborhoods show? First, almost all of the neighborhoods credited with stability or improvement contained a mix of income groups, whether this mix is of long standing, as in one San Antonio neighborhood, or is a result of CDBG investments that supported in-migration of moderate- and upper-income residents. Second, mix of land uses appears important; in quite a few instances in the census tract sample, and in several neighborhoods in the 16-city target area analysis, either strong neighborhood commercial strips represented a developmental asset, or weak commercial strips acted as a brake on neighborhood renewal. But the Minneapolis experience shows that commercial investments alone cannot stimulate housing or even employment improvements, although the experience of other neighborhoods suggests that inattention to neighborhood commercial health can represent a foregone opportunity.

Third, CDBG-funded investments in neighborhood redevelopment (commercial facilities, infrastructure, and new housing construction) have resulted in dramatic and visible improvements in some cases. However, examples from both the census tract sample and the 16-city target areas show that housing rehabilitation investments, if concentrated in specific neighborhoods, can produce a developmental impact. Although the availability of this assistance to moderate income households can be contentious, locally (as in St. Louis), it can be an important aspect of middle-class attraction strategies.

Fourth, in those neighborhoods that improved over time, sustained investment appeared to be important; in some cases, this was the result of explicit city policy (e.g., the St. Louis Central Corridor strategy). However, active planning efforts with citizen participation components appeared not to have played much role in past efforts; these initiatives are of recent vintage. But built upon strong neighborhood CDCs, efforts such as those in St. Louis and Minneapolis show much promise as devices to integrate previously isolated public sector efforts. In view of the potential revitalization effects of complementary residential and commercial strip investments, and the ultimately incomplete results achievable from physical improvements alone (particularly in evidence in San Antonio), these new initiatives should be encouraged.

Finally, local political arrangements matter greatly. Once Cleveland mayors supported by community-based organizations established the broad tactical framework by which funds would be spent, and the fiscal position of the city improved, a complete change in community development emphasis resulted in demonstrably better program performance in achieving neighborhood impacts. In St. Louis, mayoral influence was critical to sustaining a targeting strategy that produced changes in some central city areas. Generally speaking, councilmanic pressure tends toward dispersal of funds (although as noted in Chapter 6, a few council-dominant systems have managed to introduce some measure of geographic targeting). Yet local political arrangements are least amenable to public policy intervention, including changes to CDBG statutes or regulations. It is conceivable that encouraging communities to target geographically by providing incentives to do so (e.g., relaxation of program requirements) could partially offset these local political pressures. Similar effects could be expected by supporting neighborhood-based planning and citizen participation arrangements. It is doubtful, however, that these kinds of arrangements could be mandated without substantial costs in terms of local capacity to respond to locally-defined community development needs.

In sum, the CDBG program has made positive contributions to the capacity of cities--both governments and community institutions--to respond to community needs. The program also has played a vital role in neighborhood stabilization and revitalization in a number of U.S. cities. Very clearly, some cities could use the program to better effect if they built on the best community practice: concentrated investments, linked housing, economic development, and social services spending, and citizen participation in neighborhood planning efforts. These results cannot be mandated--sweeping program changes are not needed--but they can be encouraged through highly-targeted program incentives, supplemental funding for neighborhood-based planning, and technical assistance that focuses on substantive program strategies and institution-building.

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