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I. Introduction

Community development organizations across the country utilize Community Development Block Grant (CDBG) funding for their various economic, housing, and social service projects. These funds are often an important portion of their organizational budgets and make their community development work possible. The U.S. Department of Housing and Development (HUD) is the federal agency responsible for dispersing these funds to local communities across the nation. Though local decision-making is an important and unique part of this federal program, decisions at all levels of government can directly impact the program. However, it may be unclear to many community-based organizations exactly what decisions are being made about CDBG and why, and how possible changes may affect them.

This document provides a general overview of the CDBG program and how it relates to the City of Detroit and its community development industry. The goal of this document is primarily educational, but it will also be helpful in informing community development advocacy efforts regarding the CDBG program.

Specifically, this document will provided an overview of the following topics: a look at the federal picture, including what CDBG is, who receives it, what formulas are used to determine how much funding is received, what the funds can be used for, how HUD monitors the funds, how HUD measures CDBG success, an overview of the roles of federal entities, and highlights of recent discussions to change the CDBG program. This document also looks at the Detroit picture using FY 2006-07 as an illustration of how much CDBG funding Detroit receives from HUD, the mechanics of how local funding decisions are made, the results of the funding process as it relates to funding for community based organizations, and how funds are administered and monitored at the local level. This document will conclude with a brief discussion of the critical elements of CDBG reform in Detroit.

II. The CDBG Program

The Community Development Block Grant (CDBG) program is a federal grant program operated by the U.S. Department of Housing and Urban Development (HUD). The Office of Community Planning and Development (CPD) is the branch of HUD that administers the CDBG program. The disbursement of these federal funds was originally authorized under the Housing and Community Development Act of 1974 (herein “The Act”). It states:

The primary objective of this title and of the community development program of each grantee under this title is the development of viable urban communities, by providing *decent housing* and a *suitable living environment* and *expanding economic opportunities*, principally for persons of low and moderate income.¹ (emphasis added)

► For general information and links regarding the CDBG program visit HUD’s website at <http://www.hud.gov/offices/cpd/communitydevelopment/programs/>.

III. Who Receives CDBG Funding

The CDBG program is designed to mostly benefit persons of low and moderate income. CDBG funds are disbursed from HUD directly to a city, county, or state. Jurisdictions may not give or receive any CDBG funds from other jurisdictions that already receive CDBG funds. For example, a state may not give CDBG funds to a county which independently receives CDBG funds (e.g. the State of Michigan cannot give funds to Wayne County). Similarly, a county may not give CDBG funds to a city that independently receives CDBG funds (e.g. Wayne County cannot give funds to the City of Detroit). CDBG funds are disbursed to two types of jurisdictions, entitlement and non-entitlement.

Entitlement Jurisdictions

Entitlement jurisdictions are communities that receive their money directly from HUD. These communities are “eligible grantees” if they are one of the following:

- 1) Principal cities of Metropolitan Statistical Areas (MSAs) (e.g. Detroit);
- 2) Other metropolitan cities with populations of at least 50,000 (e.g. Livonia); or
- 3) Qualified urban counties with populations of at least 200,000 (excluding the population of entitled cities) (e.g. Wayne County).

► For information about entitlement communities grants visit HUD’s website at <http://www.hud.gov/offices/cpd/communitydevelopment/programs/entitlement/>.

Non-Entitlement Jurisdictions

Non-entitlement jurisdictions are communities that do not fall under any one of the three categories above. Non-entitlement areas are cities with populations of less than 50,000 (except cities that are designated principal cities of Metropolitan Statistical Areas), and counties with populations of less than 200,000. These communities do NOT receive their money directly from HUD. Rather, the state which they are located in is the eligible grantee. The state receives the money and administers it to local jurisdictions. This type of CDBG funding is also called *State Administered CDBG*. In Michigan, the Michigan State Housing and Development Authority (MSHDA) distributes

¹ This act, 42 USCS 5301 et seq., was amended several times and changes were made to the CDBG program. Some of the changes are discussed in subsequent sections of this document.

► For information about the State Administered CDBG visit HUD’s website at <http://www.hud.gov/offices/cpd/communitydevelopment/programs/stateadmin/>.

IV. Determining Funding Allocation Amounts

The Allocation Formulas

Currently, HUD uses two basic formulas to determine how much money each entitlement community, such as Detroit or Wayne County, receives for a fiscal year.² This *dual formula* consists of Formula A and Formula B.³ The formulas take into account a variety of community characteristics. Specifically, Formula A allocates funds to a community based on its metropolitan shares of: 1) population, weighted at 25%, 2) poverty, weighted at 50%, and 3) overcrowding, weighted at 25%, times appropriations. Formula B allocates funds to a community based on 1) its share of growth lag⁴, weighted at 20%, and its metropolitan shares of 2) poverty, weighted at 30%, and 3) pre-1940 housing, weighted at 50%, times appropriation.

Current Formulas for Entitlement Communities

Formula A	Formula B
25% population	20% growth lag
50% poverty	30% poverty
25% overcrowding	50% pre-1940 housing

HUD calculates the amounts for each entitlement jurisdiction under *both* Formulas A and B. Jurisdictions are then assigned the *larger* of Formula A and Formula B. For example, if HUD calculates that City 1 is entitled to \$1,000,000 under Formula A and \$1,250,000 under Formula B, then City 1 is entitled to \$1,250,000, the larger of the two.

However, Congress only appropriates a certain amount of funding each year for the entire CDBG program. With this dual formula system, the total amount typically assigned to CDBG grantees exceeds the total amount available through appropriation. Therefore, HUD uses a *pro rata reduction* to bring the total grant amount down so that it is within the appropriated amount. This means that every entitlement community’s grant will be reduced so that all grants added together do not exceed the amount appropriated by Congress. Congress is supposed to adopt a budget resolution by April 15th of the calendar year but there are typically delays⁵.

► For information about the federal budget process, visit the Center on Budget and Policy Priorities (CBPP) website at <http://www.cbpp.org/3-7-03bud.htm>

Targeting Community Development Needs

Congress designed this formula to target community development needs across the nation. If the formulas are effective then communities with relatively higher community development needs should receive more grant money and vice versa. Community development need encompasses many different elements—housing quality, infrastructure, economic development, poverty, tax base, blight, isolation of income groups and others.

² The focus of this document is the City of Detroit (an entitlement community). Therefore, formula allocation for the State Administered CDBG program will not be discussed here.

³ Formula A remains the same for all entitlement communities (cities and urban counties). However, Formula B is slightly different if the entitlement community is an urban county rather than a city. Because the focus of this document is the City of Detroit, Formula B will only be in reference to the city formula.

⁴ Growth lag is the shortfall in population that a city or county has experienced when comparing its current population to the population it would have had if it grew like all metropolitan cities since 1960.

In order to assess how well the current formula is meeting these community development needs, a *needs index* was created. The core variables in the current formula have not changed since 1978. However, data from the 2000 Census indicates that the current formula may not be as effective as it once was. Two publications by HUD are playing a role in reviewing the current formula.

The *first* publication, “Redistribution Effect of Introducing Census 2000 Data Into the CDBG Formula”, is a resource for understanding the details of the current formula. The *second* publication, “Effect of Introducing Census 2000 Data Into the CDBG Formula on Targeting to Community Development Need”, analyzes the relationship between community development need and the current formula. It also provides several alternatives to the current formula. Internet links to the reports are found below.

- ▶ Redistribution Effect of Introducing Census 2000 Data Into the CDBG Formula can be found at http://www.huduser.org/publications/pdf/cdbg_report.pdf
- ▶ Effect of Introducing Census 2000 Data Into the CDBG Formula on Targeting to Community Development Need can be found at <http://www.huduser.org/publications/commdev/cdbgAssess.html>

These two publications anticipate possible changes to the formulas in the future. From an advocacy standpoint, it is important for the community development industry to closely monitor policy developments and study implications on local efforts.

V. What the Funding Can Be Used For

At the outset, CDBG funds may not be used for activities that do not meet a national objective. Specifically, grantees must give maximum feasible priority to activities which benefit low- and moderate-income persons. In general, the funds can be used for many different community development activities directed toward revitalizing neighborhoods, economic development, and providing improved community facilities and services.

Eligible Activities

CDBG funds may be used for activities which include, but are not limited to:

- Acquisition of real property;
- Relocation and demolition;
- Rehabilitation of residential and non-residential structures;
- Construction of public facilities and improvements, such as water and sewer facilities, streets, neighborhood centers, and the conversion of school buildings for eligible purposes;
- Public services, within certain limits;
- Activities relating to energy conservation and renewable energy resources; and
- Provision of assistance to profit-motivated businesses to carry out economic development and job creation/retention activities.

Not included among the eligible activities above are costs for *administration* and *public services*. An entitlement community (e.g. Detroit) may not spend more than 20% of its funding for administrative costs associated with managing the CDBG funds (i.e., funds for City staff and other administrative overhead). Also, an entitlement community is limited to spending 15% for public services. Public services are services to the general public that may include activities such as youth activities, homeless shelters, food programs, home ownership counseling, mental health services, and more.

Ineligible Activities

Generally, the following types of activities are ineligible:

- Acquisition, construction, or reconstruction of buildings for the general conduct of government;
- Political activities;
- Certain income payments; and
- Construction of new housing by units of general local government.

The guidelines for what the CDBG funds can be used for are fairly flexible. This flexibility is one reason that the CDBG program has received so much public and political acclaim (and sometimes criticism). It allows local communities to decide for themselves how to best use the funds to improve their communities

- For more information about the national objectives and eligible activities for entitlement communities, see <http://www.hud.gov/offices/cpd/communitydevelopment/library/deskguid.cfm>

VI. How HUD Monitors Grantees

Although entitlement communities have a lot of discretion in how they spend their CDBG dollars, they are accountable to HUD in several ways. HUD requires grantees to engage in a planning process that includes specific components. The planning process, which is discussed below, is marked by program years. Program years are almost completely within the discretion of the local jurisdiction. A program year establishes when a local jurisdiction fulfills its reporting requirements to HUD. It also determines when that local jurisdiction receives their annual grant from HUD. For more information, look for 24 CFR 91.10 on the HUD website.

Consolidated Plan

Grantees (i.e., jurisdictions receiving CDBG allocations from HUD) must develop and submit a Consolidated Plan. This document serves as both a planning document *and* an application for funding from HUD. This document covers a period of anywhere from 3-5 years, but most jurisdictions, such as Detroit, opt for the 5 year period. The Consolidated Plan covers three other programs as well: HOME Investment Partnership Program (HOME), Emergency Shelter Grant Program (ESG), and Housing Opportunities for Persons with AIDS Program (HOPWA). All of these programs are overseen by HUD's Office of Community Planning and Development (CPD)⁶.

The Consolidated Plan must include the following components as required by HUD.

First, the local jurisdiction must consult with public and private agencies about the planning process. Agencies specifically mentioned in the Code of Federal Regulations provide assisted housing, health services, and social and fair housing services.⁷

Second, the local jurisdiction must develop a citizen participation plan, whereby citizens, businesses, and institutions are encouraged to participate in the planning process. This requirement is especially geared toward the participation of low and moderate income persons.⁸

⁶ Because CDBG is the focus of this document, these programs will not be discussed. Please see the HUD website for more information.

⁷ 24 CFR 91.100

⁸ 24 CFR 91.105

Third, the local jurisdiction must assess the housing, homeless, and special needs of their community.⁹ Part of this process includes putting together a housing market analysis, which surveys items such as the number of vacant buildings, and the extent of homeless facilities.¹⁰

Fourth, the Consolidated Plan must include a strategic plan. The strategic plan is a roadmap for how the local jurisdiction will spend the CDBG funds over the next five years. It identifies priorities of where the money will be spent and the rationale for doing so. The strategic plan must also identify any obstacles to achieving the goals set forth. The plan must address the overall CDBG program goals: 1) decent housing, 2) a suitable living environment, and 3) expanded economic opportunities.

Fifth, the Consolidated Plan must include an action plan. This document is the one year version of the strategic plan. It sets out a more detailed description of how the jurisdiction plans to spend the money in the first program year covered by the Consolidated Plan.¹¹ For example, if the Consolidated Plan is for the program years 2005-2010, the included action plan would be for the program year 2005-2006.

Sixth, the Consolidated Plan must include certain certifications.¹² For example, the local jurisdiction must certify “that not less than 70% of the CDBG funds received...will be used for activities that benefit low- and moderate-income persons, and that the grantee will affirmatively further fair housing.”¹³

Seventh, the local jurisdiction must institute a plan for monitoring the activities in furtherance of the Consolidated Plan. The standards and procedures of the local jurisdiction must be discussed.¹⁴

In reality, a Consolidated Plan may not have drastic implications for the practices and policies of the entitlement community. It may serve merely as a general road map for the time period that it covers. HUD will almost always approve a Consolidated Plan submission unless the Plan (or some portion of it) is inconsistent with the National Objectives or if the Plan is substantially incomplete. After approval of the Consolidated Plan, a full grant is made unless the Secretary has made certain findings. Detroit’s five-year Consolidated Plan was last updated in 2004 and covers the period 2005 through 2010.

► For information about the City of Detroit’s Consolidated Plan, Annual Action Plans and CAPER, see <http://www.ci.detroit.mi.us/plandev/advplanning/conplan/default.htm>

Annual Action Plan

Every year after the Five-Year Consolidated Plan is submitted, the local jurisdiction must submit an annual action plan to HUD. This document is similar to the action plan contained in the Consolidated Plan. Because the action plan covers a one-year period, it is easier to assess needs, specific objectives, funding, and activities to be undertaken over the course of a single year. Also, because it is submitted independently each year, it recaps some of the types of information contained in the Consolidated Plan.

The Annual Action Plan includes such things as:

- Summary of citizen participation
- Summary of consultation with public and private agencies
- Summary of resources received from public and private sources
- Annual objectives and goals
- Actions and activities to be undertaken in the next year

⁹ 24 CFR 91.110

¹⁰ 24 CFR 91.205 and 24 CFR 91.210

¹¹ 24 CFR 91.220

¹² 24 CFR 91.225

¹³ See <http://www.hud.gov/offices/cpd/communitydevelopment/programs/entitlement/> for more details.

¹⁴ 24 CFR 91.230

-
- Outcome measures for the jurisdiction's activities¹⁵

Consolidated Annual Performance and Evaluation Report (CAPER)

At the end of each program year, the local jurisdiction must submit the CAPER report in order for HUD to determine what the CDBG funds were spent on and how those funds provided for the goals and objectives set out in the Consolidated Plan. This performance measurement report is transmitted in two ways.

First, there is the Integrated Disbursement and Information System (IDIS). The IDIS is a nationwide database that contains all the data-specific information about how the CDBG funds were used. Although the local jurisdiction is required to input information into IDIS once a year, they are strongly encouraged by HUD to do so more often. At their discretion, the local jurisdiction may log into IDIS everyday to input information. There are several program requirements within the IDIS, such as financial summary reports. The IDIS provides HUD with information necessary to monitor grantees.

- ▶ For more information about IDIS, visit <http://www.hud.gov/offices/cpd/systems/idis/index.cfm>

Second, there are narratives written by the local jurisdiction. These narratives provide HUD with first hand accounts as to how the local jurisdiction accomplished its goals and objectives. They are written by the local officials and describe what was done, how the goals and objectives were met, how the community was improved, and some of the problems of implementing the Consolidate Plan. The narratives help give HUD a qualitative sense of what the local jurisdiction has accomplished.

- ▶ For more information about Consolidated Planning visit <http://www.hud.gov/offices/cpd/about/conplan/>

VII. How HUD Measures Success

The success of the local jurisdictions must be measured against the goals of CDBG, as set forth in the United States Code and the Code of Federal Regulations. As stated above, the three main goals of the CDBG program are to provide decent housing, a suitable living environment and to expand economic opportunities.

The CAPER, with the included performance reports and narratives, is the most important tool for HUD to determine how well the local jurisdiction is meeting these goals. Based on the figures and statistics provided through IDIS, HUD can evaluate how effective the local jurisdiction is in implementing its goals and objectives. HUD also wants to ensure that the local jurisdiction is effective in managing the money it receives. Because of the flexibility of the CDBG program, this may be difficult to ascertain.

Nevertheless, there are recent pressures on HUD to make grantees more accountable for the money they receive. In response to these pressures, HUD has instituted new performance measurement requirements, which are integrated into the IDIS. These will be discussed later in this document.

VIII. The Role of the Federal Government

While HUD has responsibility for administering the CDBG program, other federal entities also impact CDBG in some way. The President and the Office of Management and Budget (OMB) are involved in proposing an annual federal budget, including an appropriation for the CDBG program, to Congress, and Congress

¹⁵ 24 CFR 91.220

finalizes the annual budget and monitors federal programs, largely through the Government Accountability Office (GAO). In general, the OMB, the GAO, and Congress can request reports on current program accomplishments at any time.

The Department of Housing and Urban Development

The Department of Housing and Urban Development (HUD) is responsible for administering the CDBG program. In general, HUD's mission is to increase homeownership, support community development and increase access to affordable housing free from discrimination. To accomplish these goals, the Secretary of HUD oversees all of the powers and functions of HUD, with a few exceptions.

► Go to the following website for information about HUD's mission:

<http://www.hud.gov/library/bookshelf12/hudmission.cfm>

► A full description of the Secretary's powers can be found at:

<http://www.hud.gov/about/secretary/powersec.cfm>

Most of HUD's powers and functions are dictated by law, making it fairly independent. However, HUD relies on other governmental entities for certain things such as funding. HUD is also responsible for periodic reporting to Congress.

The President and Congress

Each year in February, the President submits a budget proposal to Congress for approval. Each house of Congress has a Committee on Appropriations that revises and adjusts the President's proposed budget. There are also subcommittees that deal with specific types of funding. For example, the Senate Committee on Appropriations has a "Subcommittee on Transportation, Treasury, the Judiciary, HUD and Related Agencies". At the end of the budget process, Congress appropriates, or sets aside, a certain amount of money for HUD and the programs it administers.

The Government Accountability Office

The Government Accountability Office, formerly known as the General Accounting Office, serves as the investigative arm of Congress by continually reviewing nearly every federal program. The GAO works to ensure that the federal government is effective and responsive in spending taxpayer dollars. The GAO submits reports to Congress about particular issues.

On June 27, 2006, the GAO released a report regarding the CDBG Program and the Administration's proposed reforms. In addition to raising questions about the Administration's proposal, the report also indicates that the GAO has established an on-going review process in order to look at additional options for the CDBG formula such that assistance is most likely to target those with the greatest need and the least capacity to meet them.

► This report can be found by going to the GAO's website at <http://www.gao.gov>. Either search generally under "CDBG" or click on reports and testimonies and search under "HUD".

The Office of Management and Budget

The Office of Management and Budget's (OMB) predominant mission is to assist the President in overseeing the preparation of the federal budget and to supervise its implementation in Executive Branch agencies. The OMB evaluates the effectiveness of agency programs, policies, and procedures, such as CDBG.

► For more information about the OMB, please go to the following website:
<http://www.whitehouse.gov/omb/organization/role.html>

Recently, the OMB has put pressure on HUD regarding its programs and accountability. In the past several years, the OMB and the Administration have pushed to make significant changes to the CDBG program. In 2005, there was a push by the Administration to consolidate the CDBG program and other HUD programs into one program under the Commerce Department.¹⁶ Although this consolidation never occurred, the Administration and the OMB are still pushing for changes. For example, on June 14, 2006, the OMB released a Statement of Administration Policy. It states:

The Administration objects to funding that exceeds the request by over \$1 billion for the Community Development Block Grant (CDBG), particularly since there are no reforms to the program's outdated targeting. The Administration recommends eliminating the \$270 million in unrequested congressional earmarks and adopting a modernized, reformed means for delivering aid to needy communities.

► To see the complete document, go to the following OMB website address:
<http://www.whitehouse.gov/omb/legislative/sap/109-2/hr5576sap-h.pdf>

The new performance measurement standards referred to in Sections VI & VII and discussed more fully in Section IX are a result of this increased pressure on HUD by the Administration and the OMB.

IX. Changes to the CDBG Program

The CDBG program, created in 1974, consolidated seven categorical programs into a single block grant program (see section on "Consolidated Plan", page 5, for a list of the programs). This allowed each community to spend the funds in a way which benefited that particular community the most. Since 1974, the CDBG program has gone through some minor changes but has remained largely intact.

As stated in Section IV, one big change occurred in 1978 when the core variables in the current allocation formula were adopted. Another change occurred in 1994, when HUD began to require each grantee to submit a Consolidated Plan. Also, in February of 2005, the OMB imposed new definitions for "metropolitan areas". The effect is an increase in the number of eligible jurisdictions, which will affect the amount of money each jurisdiction receives.

A more recent change is the adoption of new performance measurement standards¹⁷. They require grantees to make more detailed reports to HUD about what the CDBG funds were used for and the effect the funds had on the community. Under these standards, grantees are expected to link every CDBG funded activity to one of the program objectives (i.e., creating suitable living environments, providing decent affordable housing, and creating economic opportunities) as well as to a specific outcome category (i.e., accessibility/availability, affordability, and sustainability). In addition, grantees are expected to provide indicators that describe in numerical terms any particular benefit that the activity produced. In Fall 2006, it will be mandatory for all grantees to enter this new performance information into IDIS for all existing and new activities budgeted or underway beginning FY2007.

¹⁶ "The Department of Housing and Urban Development (HUD): FY2006 Budget," Updated August 1, 2005, Congressional Research Service (CRS) Report for Congress.

¹⁷ Dept. of Housing and Urban Development, "Notice of Outcome Performance Measurement System for Community Planning and Development Formula Grant Programs", Federal Register, Vol. 71, No. 44, Tuesday, March 7, 2006.

The most recent changes are the result of pressure by the Bush Administration and the OMB. It is important to note that Congress refused to institute the Bush Administration's proposal to eliminate 17 programs, including CDBG, and put them under the authority of the Commerce Department. However, because this pressure is current and continual, more changes to the CDBG program are likely. The Administration and the OMB continue to advocate for three main changes: "formula reform, a \$200,000,000 Challenge Grant, and enhanced performance measurement requirements."¹⁸

As previously mentioned, the formula itself may see a change soon. There is evidence suggesting that the formula does not target funds to the neediest communities. Therefore, HUD is considering the choices available to it in revising the allocation formula. The GAO also is engaged in a process to review the CDBG program and options for formulas that will better target funding to needs and lack of capacity.

Beyond pressure by the Administration and the OMB, the 2000 Census affected CDBG allocations. A more lengthy discussion about this possible reform can be found in the two important reports mentioned in Section IV.

X. 2006-07 CDBG Allocation Details

The total amount enacted for CDBG FY 2006 is \$4,178,000,000 compared to \$4,921,000,000 in FY 2004. In FY2006, the State of Michigan received a total of \$132,843,845, of which, \$38,874,455 was allocated to the City of Detroit. (Note, Detroit also received a total of \$4.8 million in program income for FY 2006 bringing the total amount of FY 2006 CDBG funds to \$43.7 million.) Historically, Detroit has received as much as \$60 million. The population loss that Detroit experienced between 1990 and 2000 resulted in a drastic reduction in funds, and experts predict that Detroit will continue to experience gradual decreases in funding in coming years due to continued population loss and decreased allocations in the federal budget.

- For more information about allocations, please go to the following HUD website.
<http://www.hud.gov/offices/cpd/communitydevelopment/budget/>

XI. The Local Funding Process

The local process of allocating CDBG funds to organizations and projects occurs within the City's annual budget process and mirrors the federal budgetary process in that the Mayor, as the chief executive of the City, proposes a CDBG budget, and the City Council, as the City's legislative body, makes changes to the proposed budget and approves a final version. Since 1975 when the CDBG program first began, both branches of local government have evolved their own review process and criteria for CDBG funding decisions¹⁹.

Application Process

Each year in the late Fall, a Request for Proposals (RFP) is prepared by the Planning and Development Department (P&DD) and issued by the Mayor on behalf of the City. Community based organizations are encouraged to submit applications²⁰ for projects and services that will benefit their communities. Organizations are given about one month to attend a proposal writing workshop, sponsored by City Council's City Planning Commission staff, and complete the application and submit it to the Planning and

¹⁸ Written statement of Pamela Patenaude, Assistant Secretary, Office of Community Planning and Development, HUD, at Hearing entitled "Community Development Block Grants: the Case for Reform," before the Subcommittee on Federal Financial Management, Government Information and International Security, June 29, 2006.

¹⁹ Source: 2006-07 RFP and application package

²⁰ Note, there were three different applications issued in 2006-07: one for Public Service & Homeless Public Service Activities, one for Public Facility Rehabilitation Activities, and one for Home Repair & Other Development Activities.

Development Department (P&DD). Once the City receives the applications (some time between November and January), two simultaneous review processes commence, one by the legislative branch of government, and one by the executive branch of government. The process for determining funding amounts is based upon the type of expenditure requested.

Proposals are determined to be eligible based on a set of criteria that City Council adopted several years ago²¹. The criteria were written by a task force that included representatives from the community and focus on the completeness of the application and good financial and program record-keeping. Initially, the City Council criteria were the only review criteria included in the RFP. In more recent years, the executive branch has included its own set of criteria in addition to the City Council criteria for certain activities (see 2006-07 Public Service and Homeless Public Service application).

Categories of CDBG Expenditures

Generally, there are five categories of CDBG expenditures included in each annual budget²².

1) *The Neighborhood Opportunity Fund (NOF)*. There is often much confusion in the community about NOF and how it differs from CDBG. NOF is a subset of the CDBG program in Detroit. It was created by City Council under the leadership of then Council President Erma Henderson and received HUD approval. It was seen as a way to support community-based organizations working outside of an urban development area and providing services and projects with a one-year time horizon (i.e., results could be seen within a one-year period like for youth services, recreation programs, senior services, transportation, health assistance, emergency shelter, food programs, minor home repair, public facility rehabilitation projects, etc.). This does not mean that groups receiving NOF funding only receive it one year. On the contrary, many groups in the NOF program receive it annually and use it to support their organizational operations. When it was first created, HUD and the City Council agreed that the NOF program would represent 10% of the City's annual CDBG budget. Over time, the figure has grown and currently represents 22% (or \$9.5 million) of the City's FY 2006-07 CDBG budget (\$43.7 million). The biggest implication of an application being NOF designated is that it is reviewed by the Citizen Review Committee instead of the City Planning Commission staff (see "Legislative Review Process" section that follows). The NOF program is unique to Detroit.

2) *Community-based "Block Grant" projects*. These are simply applications submitted by community-based organizations for projects with longer time horizons. This means that results for these projects are not typically seen within the one-year contract period. Usually, these are physical or economic development projects like new housing construction, major residential rehabilitation, commercial strip improvement, economic development projects, etc. For 2006-07, these projects represented just 6% (\$2.5 million) of the total CDBG budget.

3) *City projects*. These are projects proposed by the City for CDBG funding. They represent either funding for general development and infrastructure activities for a specific area, or other City-administered programs, like the Senior Emergency Home Repair Program. City departments request funding for these projects through their departmental budget processes and ultimately the Mayor determines whether to include them in his budget proposal to City Council. Over time, concerned community members (as represented by the Save Our Spirit Coalition or "SOS") have noted that departments should be required to submit applications for formal review of City-initiated projects and staff. It is believed that this approach would make the competition between City departments and community-based organizations fairer. This year, City projects represented a substantial share (26% or \$11.3 million) of the total CDBG budget.

²¹ For details, please refer to the City's 2006-07 RFP and application package.

²² See the City of Detroit final CDBG/NOF budget for 2006-07 for more information.

4) *Section 108 Loan Repayments.* The Section 108 Loan Guarantee Program²³ provides loan guarantee assistance for community and economic development projects. It is a provision of the CDBG program and it offers a source of financing for housing rehabilitation, economic development, and large-scale development projects. Loans may be for terms up to 20 years. As an entitlement community, Detroit can apply directly to HUD for loan guarantee assistance. When doing so, the City is pledging its current and future CDBG funds as the principal security for the loan guarantee. In each annual CDBG budget, the City sets aside loan repayments for previously approved Section 108 projects. The individual projects are responsible for making the payments, but the City has to maintain a reserve of funding in order to cover the repayment should the project fail to make its annual payment. For 2006-07, the CDBG budget included repayments for seven (7) projects totaling just under \$1.7 million in total repayments. This represents just under 4% of the total CDBG budget. Unused loan repayment allocations are included as program income and allocated as part of the next annual CDBG budget process.

5) *City Staff.* This category of expenditures is for staff at City departments who are involved in some way with the CDBG program. Funding for City staff represents 43% (\$18.8 million) of the City's overall CDBG budget for this year. Most of this funding is for staff at the Planning and Development Department. In addition, CDBG funds are used to support staff at the Building and Safety Department that administer on the demolition program. A small amount of funding is also used to support staff at the Historic Designation Advisory Council.

Legislative Review Process

The legislative review process takes a total of 3½ months and involves four entities.

City Planning Commission Staff (CPC staff) facilitate the legislative review process and serve as staff to three legislative review bodies involved in the CDBG process: 1) the Citizen Review Committee, 2) the City Planning Commission, and 3) the City Council. CPC staff review and make recommendations on all the CDBG line item proposals either generated from the City's Administration or from community-based organizations. CPC staff do not review or make recommendations on NOF applications.

The Citizen Review Committee (CRC) is an eleven (11) member committee appointed by the City Council with recommendations by the City Planning Commission whose exclusive charge is to review every NOF application and make funding recommendations on each to the City Planning Commission. This intensive review process occurs twice weekly between the months of January and March. (A list of current Citizen Review Committee members is available at the City Planning Commission office.)

The City Planning Commission (CPC) is a board of nine (9) commissioners that functions as an advisory body to the City Council on the physical, economic and social development of the City²⁴. The Commission serves both the legislative branch and the citizens of Detroit by acting as a representative of the community, serving as a conduit for opinions from the community, and proactively initiating matters for consideration by the City Council. Consistent with this mission, the CPC participates in the review of CDBG/NOF applications by reviewing the CRC (for NOF applications) and CPC staff (for CDBG applications and City staff/projects) recommendations and using them to prepare a CPC set of funding recommendations for City Council consideration. This review process usually occurs in late March through early to middle April.

The City Council, as the legislative body of the City, is responsible for adopting the annual City's budget, including the budget for the CDBG program. It receives recommendations from the entities described above, plus the Mayor, for consideration. The City Council usually begins reviewing the CDBG budget in

²³ For information about any of HUD's programs, go to <http://www.huduser.org/whatsnew/ProgramsHUD.pdf>

²⁴ For a list of City Planning Commissioners, see http://www.ci.detroit.mi.us/legislative/BoardsCommissions/CityPlanningCommission/planning_main_frame.htm

middle to late April and must adopt a budget no later than May 17th by City Charter²⁵. Once they adopt the budget, the Mayor has an opportunity to veto it, or portions of it, and City Council has an opportunity to vote to override the Mayor's veto, which requires a vote of 2/3's of the City Council members (6 members).

Executive Review Process

In partnership with CPC staff, staff at the Grants Management section of P&DD prepare the RFP, set the CDBG schedule, and coordinate the application intake process. Once the applications are submitted, the executive branch begins its review process, which occurs simultaneous to the legislative review process described above. Grants Management staff distribute the individual proposals to the appropriate sections within P&DD. The Housing Services section reviews proposals for minor home repair; the Development section reviews proposals for new housing construction and economic development; the Neighborhood Development section reviews proposals for public service; and the Engineering section reviews proposals for public facility rehabilitation.

Initially, project managers and contract writers within each section review the proposals and make initial recommendations. These recommendations are primarily based on each organization's past performance spending CDBG/NOF funds. Key indicators of success include timely expenditures and billing, good record keeping, and accomplishments.

The initial recommendations are then submitted to each section Executive Manager for approval. Once approved by each section, the P&DD leadership (i.e., Development Director and Director of Planning) review and approve the CDBG/NOF recommendations, which are then submitted to the Budget Department for further review and inclusion into the City's annual budget. Ultimately, the Mayor's Office will review and approve the final set of executive branch CDBG/NOF recommendations.

Throughout the application review process, groups are reminded that they cannot commit any CDBG funds until they receive a notice to proceed from P&DD staff. If they do, they are taking a serious risk that they will not be reimbursed. A notice to proceed cannot be issued until HUD provides its proper approvals to the City and a contract is negotiated between the subrecipients and the City.

XII. Detroit's 2006-07 CDBG Budget

The following table provides the 2006-07 CDBG budget (which includes NOF) approved by City Council separated, first, by activities funded for community based organizations versus City projects and staff, and second, by specific activity types. Columns showing the Mayor's proposed budget and the difference between the Mayor and City Council budgets are provided for comparison.

²⁵ Note, the City Council officially moved the date to May 24th by ordinance for the past two years.

Community Based Organization Activities	Mayor's Rec	CC Final	Diff
Minor Home Repair	\$2,100,000	\$3,431,843	+\$1,331,843
Public Service	\$4,146,000	\$4,900,789	+\$754,789
Economic Development	\$440,800	\$1,000,000	+\$559,200
Commercial Matching Incentive Grants	\$0	\$300,000	+\$300,000
Homeless Public Service	\$1,233,575	\$1,399,628	+\$166,053
Rehabilitation	\$100,000	\$100,000	\$0
Technical Assistance	\$100,000	\$100,000	\$0
Public Improvements	\$450,000	\$150,000	-\$300,000
New Housing Construction	\$1,453,000	\$915,003	-\$537,997
Public Facility Rehabilitation (PFR)	\$948,929	\$180,215	-\$768,714
CBO TOTAL	\$10,972,304	\$12,477,478	+\$1,505,174

City Activities	Mayor's Rec	CC Final	Diff
Administration/Planning-P&DD Staff	\$8,097,136	\$8,325,987	+\$228,851
Technical Assistance-City Staff/Projects	\$526,531	\$691,531	+\$165,000
Demolition-B&SE Staff	\$7,243,775	\$7,243,775	\$0
Minor Home Repair-City Programs	\$4,750,000	\$4,750,000	\$0
Home Repair Technical Assistance-P&DD Staff	\$3,780,771	\$3,780,771	\$0
Acquisition-P&DD Staff	\$354,776	\$354,776	\$0
PFR Technical Assistance-P&DD Staff	\$3,458,059	\$3,456,449	-\$1,610
Economic Development-ONCR Program	\$612,771	\$568,000	-\$44,771
Public Service-P&DD Staff	\$430,462	\$201,611	-\$228,851
Public Improvements-City Projects	\$550,000	\$200,000	-\$350,000
Section 108 Loan Repayments	\$2,942,950	\$1,669,157	-\$1,273,793
CITY TOTAL	\$32,747,231	\$31,242,057	-\$1,505,174

Analysis

The final budget approved by City Council provides \$1.5 million more to community based organizations than the Mayor's proposed budget. Specifically, City Council allocated more funding to community based organizations for minor home repair, public service and economic development activities. However, City Council allocated less funding to community based organizations for public improvements, new housing construction and public facility rehabilitation compared to the Mayor.

There were also differences between the Mayor and City Council in funding for specific City projects and staff. The most pronounced differences were for Public Service staff at P&DD (i.e., the Neighborhood Development Section) and Section 108 Loan Repayments.

Specifically, the Mayor has proposed a portion of funding for contract writers and project managers working on CDBG/NOF Public Service contracts to come out of the limited Public Service category over the past few years. Aware of the intense pressure on this funding among the hundreds of community organizations that apply for it each year, the City Council tries to avoid allocating Public Service funds for City staff and instead attempts to shift that funding to Administration/Planning (which is capped at 20%) and Technical Assistance. Given the pressure on Administrative/Planning funds and the fact that only a limited set of Public Service staff activities qualify for Technical Assistance, City Council often finds itself in the position of reducing overall funding to the Neighborhood Development Section of P&DD. P&DD attributes added delays in the Public Service contracting process to decreased funding for staff and approval of too many Public Service contracts to community organizations.

As for Section 108 Loan Repayments, the Administration prefers to err on the side of safety by allocating funds to cover all the Section 108 loan repayments that need to be made over the course of the year. In order to ease pressure on the budget and allocate more funding to the community in the current year, the City Council prefers to analyze each Section 108 project and provide funding for only those projects that are at risk of not making the payment to the City. Assuming most of the payments are made by the Section 108 projects, the funds reserved in the City's budget for that purpose are counted in the following year as program income. Program income is added to the amount allocated by Congress to Detroit and is available for allocation through the City's budget process.

In conclusion, the community may find that neither budget goes far enough to more equitably distribute the funds to community based organizations. Even the City Council's final budget allocates 71.5% of the CDBG budget to City projects and staff compared to just 28.5% to community based organizations. Moreover, community-based community development does not appear to be a priority. In 2006, \$43.7 million was funded through CDBG, however of that total only \$2.6 million funded community development activities by community-based organizations in the areas of new home construction, public improvements, substantial housing rehabilitation, economic development, commercial matching incentive grants and ONCR program grants. That represents only 6% of the City's CDBG grant.

XIII. Local Administration and Monitoring

Contracting Process

Once City Council and the Mayor adopt an official City budget some time in June, the Grants Management staff at P&DD prepares an Annual Action Plan for HUD approval. As mentioned above, the Annual Action Plan serves as both a plan and an application for CDBG funds. Once HUD approves the City's Annual Action Plan, the City begins to prepare additional environmental information on relevant projects for HUD review. After reviewing the environmental information, HUD will allow the City to begin to issue notices for subrecipients to proceed with their projects. This final HUD approval usually occurs some time during the Fall season.

While the City is waiting for HUD approval, P&DD staff hosts a contract workshop, usually during the late summer months. All subrecipients are required to attend. The purpose is for P&DD staff to walk subrecipients through the contracting process and requirements. After the workshop, subrecipients are required to submit a budget and scope of services for their CDBG/NOF award, which is usually substantially less than what was requested in the application. P&DD project managers/contract writers review the proposed scopes of services and budgets and make sure that they are consistent with HUD regulations and City policies. Sometimes P&DD staff and subrecipients must negotiate a contract that satisfy both parties. In order to finish preparing the contract, P&DD contract writers must receive tax and human rights clearances from the appropriate City departments. These are required by City ordinance and often add substantial time to the contracting process²⁶.

Once a complete contract is prepared, the subrecipient's Board of Directors approves and signs the contract. P&DD then sends the contract to the Law Department for a legal review. After the Law Department signs off on the contract, it is reviewed by the Finance Department. Once the Finance Department signs off on the contract, it must be approved by City Council.

All told, the entire CDBG process, from the point at which an application is submitted for funding to when a contract is approved, can take from 9 to 12 months. At the annual CDBG/NOF proposal writing workshop

²⁶ Please see the CDBG Evaluation of the Public Services Contracting Process from 1999 for details about the process.

hosted by City Planning Commission staff, prospective applicants are told not to expect to receive funds for a full year after the funding proposal is submitted.

Performance Monitoring

P&DD project managers are responsible for monitoring the performance and contract compliance of CDBG/NOF subrecipients. This is addressed most directly when subrecipients submit performance information in their reimbursement packages, or the package of information the City requires a group to submit in order to be reimbursed. In addition, P&DD project managers conduct an annual site visit to each subrecipient in order to review project documentation in more detail. If an issue is found, a letter is sent to the subrecipient and the subrecipient is given an opportunity to correct the issue. If the issue is not resolved to the project manager's satisfaction, the subrecipient is putting at risk future reimbursements as well as future CDBG/NOF awards.

CDBG/NOF Evaluation Project.

In 1997, the City Planning Commission issued an RFP for evaluation services. The City Planning Commission was interested in a systematic evaluation of the effectiveness of the organizations receiving CDBG/NOF funds. In addition, there was interest in evaluating some of the City-wide programs, such as the minor home repair program. The goal for this information was to improve decision making processes around which projects and organizations receive CDBG/NOF funds. After reviewing proposals, CPC selected a team of evaluators from Wayne State University's College of Urban, Labor, and Metropolitan Affairs²⁷. They began working on the evaluation project in 1997 and continue to do so today.

The largest part of the evaluation project is site visits and surveys to all organizations receiving CDBG/NOF funds every year. The evaluation activities focus on documenting outputs, although there has been a move to evolve toward outcome measurement as well. This is controversial because CDBG funds organizations with varying degrees of capacity and many are not able to document outcomes at this time. In addition to the evaluation of individual organizations, the evaluation project has also produced a number of more focused reports on the CDBG/NOF Public Service Contracting Process, the Minor Home Repair Program, Youth Tutoring Programs, Affordable Housing, Needs Assessment, and more.

HUD Monitoring

On April 15, 2003, HUD issued a monitoring report highlighting general and specific concerns about the City of Detroit's CDBG program. Generally, HUD was concerned about whether there are impacts, whether the City complies with statutes and regulations, how the City administers the program, and whether funding decisions are made based on the HUD approved five-year Consolidated Plan. In addition, the HUD report identified specific concerns about some aspects of public facility rehabilitation projects and demolition activities²⁸.

Verbal comments made by HUD to City Council in May 2003 about the monitoring report included references to HUD's preference for the City to fund fewer groups and geographically target the funding^{29, 30}. HUD expressed its desire to drive through a neighborhood and see the visible difference that federal dollars

²⁷ The College of Urban, Labor and Metropolitan Affairs has since been dissolved. The Evaluation Project is now conducted within the Center for Urban Studies.

²⁸ For a more complete discussion about the HUD monitoring report, please see the City Planning Commission report dated May 11, 2003, regarding "Analysis of City Council's 2003-04 CDBG/NOF Recommendations in Relationship to the HUD Monitoring Report".

²⁹ Accordino, John, et al, "The Impacts of Targeted Public and Nonprofit Investment on Neighborhood Development (based on Richmond's Neighborhoods in Bloom Program)", project of the Federal Reserve Bank of Richmond and LISC, November 2004.

³⁰ Galster, George, et al, "Measuring the Impact of Community Development Block Grant Spending on Urban Neighborhoods", *Housing Policy Debate*, Volume 15, Issue 4, 2004.

are making. City Council and other policymakers have continued to explore the notion of geographically targeting funds, but no consensus has been reached about whether or how to do this in Detroit.

As a result of the HUD monitoring report, the City and the community became more aware of the need to improve the CDBG program in Detroit. Though it was not evident at the time, it is becoming clearer that HUD may be holding Detroit and other grantees accountable because of the increased scrutiny it faces by the President and Congress.³¹

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If you have additional questions about this issue, contact Community Legal Resources at 313/964-4130.

³¹ Refer to City Planning Commission Staff reports to City Council between May 2003 and present.